

INSTITUTE OF CURRENT WORLD AFFAIRS

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"Voluntary" Controls -
A Policy of Persuasion?

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Dear Dick:

Very few Japanese outside the Foreign Office recognize the name Goldwater. But then very few Americans know that Jotaro Kawakami, Chairman of the Japanese Socialist Party, is leader of the opposition to Prime Minister Ikeda and his conservative, Liberal-Democratic government. Both Goldwater and Kawakami are names which may become more familiar in the months ahead. The names of living American political figures readily recognized in Japan are Kennedy (Jack and Bobby), Udall (he climbed Mt. Fuji), and Hodges.

Secretary of Commerce Hodges is a name to be conjured with in Japan because the fate of post-war recovery and of a promised doubling of the national income by 1970 is dependent upon trade between Japan and the United States. While the economic health of the United States concerns much of the free world, it is a matter of life or death to the Japanese. Trade is the key to the domestic political stability and international influence of Japan.

In 1961 the United States supplied over 35 percent of Japan's imports and purchased almost 25 percent of her exports. For the five years from 1957-1961, the United States sold Japan about \$1.7 billion more merchandise than it purchased from Japan. And in the single year of 1961, the United States sold over \$1.7 billion of merchandise to Japan in contrast to purchases valued at about \$1 billion.

Even though Japan ranks second only to Canada as a customer for United States products, the political impact of Japanese sales in the United States overshadows such facts as that in 1961: the United States sold Japan \$408 million of metals and manufactures; \$302 million of machinery and vehicles; \$219 million of raw cotton; \$153 million of foodstuffs (including \$98 million of grains); \$108 million of oil seeds; and lesser amounts of a wide variety of other items.

With Japan's growth rate (GNP) having averaged 9 percent annually over the past decade and with one-fourth of her exports flowing to the United States, it is small wonder that American business and commercial practices personalized in the figure of the Secretary of Commerce are of vital concern to Japanese, whether they be businessmen, laborers, farmers, bureaucrats, or politicians.

While the Washington press reports every move in the "chicken war", the Japanese press is concerned with so-called "voluntary" controls - the device by which Japanese business and Government cooperate to control, and thereby maintain and increase, their exports to the outside world, principally the United States. Export Controls, Their Origin and Impact, would be a long and to-f-tuous tale of United States-Japanese relations; a fit subject for a Ph.D. dissertation or a Foundation grant, but one upon which I propose to touch lightly in the broad setting of United States foreign policy.

In my first letter I wrote of foreign policy, defining it as the sum total of our national effort to influence nations beyond our control. Two techniques of influence, power and persuasion, were suggested - each technique with its own visceral school of supporters. The role of the United States in attempting to influence the export policies of the Japanese is an example of a specific attempt to influence the conduct of a nation beyond the definitive control of the United States by the technique of persuasion, backed by the ever-present economic threat of retaliation. It is also an example of a specific foreign policy tailored to placate clearly defined groups of business and labor citizens of the United States which would suffer serious economic deprivation if Japanese exports were to flow in unrestricted volume to the American market.

Japan's system of "voluntary" export controls started during the depression of the thirties. At that time market research organizations in the United States advised the chinaware industry of Japan that their United States Market could only be preserved if quality, quantity, and price controls were imposed on their exports. The Noritake Chinaware Company led the way and a reluctant industry followed. "Gentlemen's Agreements" limiting Japanese exports were developed in a number of other industries.

After the war, conscious of pre-war anti-Japanese sentiment provoked by unrestricted exports and charges of shoddy goods, the Japanese textile industry, followed soon thereafter by the chinaware industry, began to apply controls to limit the quantity and quality of their exports to the United States and elsewhere. Imposition of "voluntary" controls was stimulated by an increasing volume of industry complaints from the United States. There was fear in Japan that severe formal restrictions might be applied to Japanese exports unless the initiative to limit exports was taken by Japan.

Export controls of three general types have been developed in Japan. First are quantity limitations on the volume of exports. These quotas are primarily for the benefit of the United States, which is protected from excessive Japanese imports on all but two of the 31 items subject to export quotas. Put in general terms, these controls in Japan would be similar to a voluntary agreement between General Motors, the Ford Company, and American Motors not

to sell more than say 100,000 automobiles to Western Europe because unrestricted sales might offend the Europeans. It is this type of "voluntary" control with which this letter is principally concerned.

A second type of control was designed by the occupation forces and is called the check-price system. Its purpose is to prevent Japanese exports at prices which might be viewed as dumping and hence lead to retaliation against Japan.

The third type of control relates to the quality standards of export products. As many as 180 individual export items have been subjected to this type control. As of 1962, about 145 important export items ranging from pearls to plywood to paper hats were subject to inspection to assure the quality of the export item.

Referring now to the first type of "voluntary" control, the export quotas, the Japanese claim that these controls are applicable to about 30 per cent of the value of all Japanese exports to the United States. American authorities believe this figure is somewhat exaggerated.

Statistics prepared by the Japanese Ministry of International Trade and Industry (MITI) indicate that in 1961, total Japanese exports to the United States were valued at \$1,050,965,000. Of this amount, \$320,451,000 were subject to export quotas. Included were such items as woolen suits (\$528,000); baseball gloves and mitts (\$4,780,000); porcelain ware (\$22,374,000); transistor radios (\$48,153,000); plywood (\$44,877,000); and sewing machines and parts (\$23,434,000).

In 1961, of 31 items subject to export quotas, only two were applicable to nations other than the United States, six were applicable only to exports to the United States, and eleven were applicable exclusively to the United States and Canada. It is apparent that Japan's "voluntary" controls are principally for the purpose of controlling the flow of exports to the United States.

So much for the figures which exist in such profusion, but which are always suspect when prepared by interested parties. The basic questions are why the Japanese apply these "voluntary" controls and whether, in fact, they are "voluntary".

Examination of the Japanese Government's own listing of items restricted for export leaves little doubt that "voluntary" restrictions are imposed to avoid something less pleasant. Take the case of woolen suits. Since 1960 there has been a "voluntary" limit on the quantity exported to the United States. In that year the International Ladies Garment Workers Union threatened to boycott Japanese exports to the United States. The two Senators from

Pennsylvania, an area hit hard by a flood of high-quality, low-priced men's suits, made personal visits to Japan to urge establishment of voluntary controls on the export of woolen suits to the United States. The controls were established. Although I invited (discreetly, I hope) Japanese textile representatives to complain about pressure, they were quick and I believe frank to say that (with respect to the Senators, at least) there had been mutual understanding on both sides. The export quotas had been fairly agreed upon and there was no residue of hard feeling.

Pressure to influence the imposition of "voluntary" controls has taken a variety of forms, ranging from informal United States industry representations, to those relayed through foreign office channels, to investigations under the Tariff Act. Reasons for "voluntary" restrictions, according to Japanese Government sources, include the following: paper caps have been restricted for export since 1957 because of a United States Escape Clause Investigation which was dismissed in 1958; umbrellas have been restricted since 1959 because of an Escape Clause investigation which was dismissed in 1961. Other items subject to export restrictions because of United States escape clause investigations, subsequently dismissed, include silk fabrics (restricted since 1957); hooked rugs (1957); vinyl raincoats (1954); tiles (1961); wood screws (1957); and frozen tuna (1956).

The advantages to the United States of a system of "voluntary" controls are apparent. Japanese competition with American enterprise, whether it is effective because of wage differentials or other efficiencies, is restricted without reliance on the coercive power of the United States tariff or any other governmental device. The United States can talk about free trade, and have protection. It can have its cake and eat it too.

The advantages to the Japanese of voluntarily controlling their own exports are several. For one thing, a Japanese industry which takes the initiative in self control of exports continues at least nominally to be in charge of its own destiny. Psychologically it is important for the Japanese to avoid restrictions against a particular industry. Furthermore, as long as the Japanese control their own exports they avoid boycotts and development of anti-Japanese attitudes which, even in the absence of United States governmental restrictions, might lead to discrimination in the United States against a variety of products.

Orderly marketing is an advantage. Brand names can be maintained, reliable dealerships and servicing arrangements made, inventories controlled. Moreover, by "voluntary" control, uncertainty of market can be avoided during lengthy periods when exports are under scrutiny by the Tariff Commission. In cases in which the Japanese industry is operating on a slim budget, periods of market uncertainty can be disastrous.

Another advantage to the Japanese of the "voluntary" control system is that, to the degree it is successful, it discourages competition which might otherwise originate in Asian low-cost manufacturing areas. If Japanese exports lead to discrimination against products originating in Japan, other areas such as Hong Kong may attempt to penetrate the American market.

In every instance when a Japanese industry develops a "voluntary" export control it takes a calculated risk. It must estimate what the American market will bear before reacting adversely. If the export figure is fixed too high, there may be restrictions. But if the figure is too low, potential sales are lost. And no matter what the quota may be, there is no guarantee that there may not be restrictive American action at a later time.

The enforcement of "voluntary" controls is not always simple. I called on officials of the R. K. Mizuno Sporting Goods Company in Osaka to find out how a "voluntary" control system looks to the manufacturer. It was an appropriate time for a visit to a baseball glove manufacturer since the Japanese world series was in full swing. These small businessmen, however, were not as interested in the world series as in a speech by Senator Keating. He had called attention to the "appalling record" of the Japanese in applying "voluntary" controls to the export of baseball gloves to the United States. A well-thumbed clipping (with translation to the Japanese) from the Japan Times of September 28 described the Senator's complaint. Although the number of baseball gloves to be sold in the United States during the year in question was to be 2.1 million, United States figures showed that 3,276,269 gloves of Japanese manufacture had been imported.

Much to my surprise, the Japanese manufacturers did not seem particularly offended at the Senator's remarks. They were anxious to explain why the actual imports into the United States had exceeded the quota figure. One explanation offered was that some of the United States imports included so-called "toy gloves" - those selling under \$1.00. The more likely explanation, however, was that some American discount house and chain store buyers had persuaded Japanese exporters to sell Japanese gloves to American buyers through third countries. Thus, last year Canada imported some 700,000 gloves. There was a strong suspicion that many of these items found their way into the American market. There were similar shipments to Central America, Colombia, Hong Kong, and Okinawa.

Steps have been taken to prevent similar diversions next year. On November 15 a new system will go into effect requiring all buyers to register. Sales will be prohibited to buyers who purchase for the American market through third countries. The hope is that the Senator and his indignant constituents will be partially placated and that there will be no move to impose United States governmental controls on the import of baseball gloves. Somewhat diffidently the point was made that practically all the rawhide used in Japan in the manufacture of baseball gloves comes from the United States!

On more than one occasion I heard the remark that the Japanese people are governed by big business and the bureaucrats. Certainly "voluntary" controls on exports represent a wedding of such interests. While the initiative to establish controls on the export of particular items may come from an industry desirous of orderly marketing of its products or seeking to avoid the application of restraints from external sources, on occasion the initiative comes from the Japanese Foreign Office, ever sensitive to the image of Japan abroad. Actually some of the "voluntary" controls are government imposed, while others consist of voluntary agreements reached by members of a trade association, subject only to registration with MITI. Even the enforcement of controls may be handled by the trade association, although in other instances MITI may control exports by licensing them.

One rather disturbing question raised by the total system of "voluntary" controls is the extent to which they destroy free enterprise by promoting monopoly and encouraging price-fixing and agreements to divide the market. Whenever Americans complain about Japanese imports the Japanese industry is tempted to react by creating cartel-type industry organizations. Furthermore, since the apportionment of production of a controlled item depends often on last year's sales, it is difficult for newcomers to break into the market. Also, when the share of the market is determined by past performance, there is a tendency for ruinous competition within the industry itself, thus encouraging price-fixing agreements.

Under the anti-trust statutes of the United States (if my weak memory is correct), the very act of consorting among business competitors (except for limited arrangements related to exports) is prima facie evidence of conspiracy to restrain trade. The Japanese anti-trust legislation is modeled on that of the United States. Yet encouragement of "voluntary" control of exports tends to promote the cartelization of Japanese industry. There is some evidence that this confuses the Japanese as much as it confuses me. Perhaps the answer is to be found in anti-monopoly legislation modeled somewhat on the EEC pattern which, I understand, permits a limited amount of industry cooperation for purposes of orderly marketing, but authorizes government intervention if the public good is endangered.

Throughout discussions in Japan of the subject of "voluntary" controls there runs a thread of United States-Japanese controversy. Most interested Japanese are cynical at use of the word "voluntary" to describe their export controls. The word is usually bracketed with quotation marks. The Japanese feel these controls are imposed by the United States, if not officially, then by the unofficial threat of boycott, escape clause applications, or increased tariffs.

Some Americans and a few Japanese, however, take the view that "voluntary" controls are simply good business for the Japanese. If the United States were to withdraw completely from any suggestion that these controls are good or bad and let nature take its course, it is maintained that the Japanese would in their own self interest continue the system.

The truth is probably somewhere between the extremes. As one forthright Japanese exporter remarked: "Voluntary controls are the illegitimate offspring of unwilling lovers. They continue to be of some discomfort to both parties." His prescription was to get rid of these voluntary controls and use legitimate, recognized techniques to control trade between the two countries.

A more moderate Japanese view was put forth by Osamu Yabe, editorial writer for DIAMOND (July 23, 1962): "...any sudden increase in U. S. bound exports will be apt to incur the antipathy of United States manufacturers. Therefore, Japan should be cautious...Any export drive should be based on a full study of the domestic circumstances of the importing countries. Only with such an attitude can any new market be created on a lasting basis....We must not forget that trouble invariably occurred each time exports to the U. S. sharply increase. Only a moderate increase ensures the maintenance of a market on a lasting basis. It has apparently become necessary to forestall any regrettable trouble by orderly exports."

As a matter of fact there are now pressures at work which may induce both the Japanese and Americans to reconsider the feasibility of continued reliance on "voluntary" controls.

Preparation for the Kennedy round of tariff negotiations is causing reexamination of the voluntary control technique by both Americans and Japanese. The Japanese are reasonably sure that American exporters would not have submitted to voluntary control of their exports with as little fuss as have the Japanese. Furthermore, when former Secretary of State Christian Herter visited Japan some months ago for conversations preliminary to the Kennedy round, the Japanese were disturbed that he (and the United States) did not seem to be properly appreciative of the "voluntary" control program and the lengths to which the Japanese have gone in efforts to control exports to the United States. Since Japan already permits a substantial proportion of its imports to enter without restriction (there are some shocking restrictions, however), it feels there is little bargaining power left to induce the United States to lower its tariffs. The main weapon of the Japanese may be to move in the direction of curtailing its voluntary export control program, thus exposing United States industry and labor to the threat of unrestrained competition.

It is hard to predict what the American reaction might be. Clearly such a move by the Japanese would have a most disconcerting effect in the United States. Whether Japanese trade interests would be promoted by permitting unrestricted exports is a hard question. The consensus seems to be that it would hurt the Japanese economy more than it would help.

It would indeed be a strange turn of events if American efforts to persuade Japanese exporters to limit their exports to the United States and thus protect American industry and labor, should, in the end, be accepted by the Japanese as an action which is in their interests as well as in the interests of the United States. What more could one ask of a foreign policy?

Very truly yours,


Carl Marcy