4.4 The Political Economy of Japan-U.S. Trade Policy: Ineffective Bilateral Bashing

The experience of Japan-U.S. trade relations shows that trade measures get captured by special interests. Subsequent attempts to dismantle these trade distortions often run up against well organized lobbies and economic nationalists. The U.S. response to shifts in dynamic comparative advantage vis-à-vis Japan, beginning with textiles in 1950s, has been to follow up voluntary export restraints (VERs), by voluntary import expansion (VIEs) and quantitative targets. The politics of pressure groups in the U.S. have been able to get protection in one sector after the other. Japan has captured rents as a result.

For more than 30 years, the Liberal Democratic party (LDP) controlled the Japanese Diet. Within the LDP, there are political factions. Since there was no changeover of political power, there developed an intricate nexus of vested interests, known as *zoku* or "tribes", in dividing up political rents. The LDP looked after each industry, such as manufacturing, agriculture, finance, telecommunications and so on by assigning it a separate policy research division (PRAC). Members of the Diet got to sit on PRAC committees. PRACs, in turn, paralleled each ministry within the Japanese bureaucracy.[91] Thus, the political and bureaucratic set-up renders industry-specific interests more effective than consumer interests.

To implement quotas and VERs imposed by the U.S. authorities, the government in Japan had to intervene in the marketplace. The bureaucrats in MITI/MOF exercised a great deal of power in regulating and allocating scarce resources in the 1950s and 1960s, as has been discussed in chapter 3. To these same ministries now came the job of allocating the U.S. market. Export quotas had to be translated into production quotas for Japanese producers. To maximize profits for the Japanese companies in the U.S. (and European) market, the bureaucrats devised cartel type arrangements that divided up the export market. This cartel solution creates rents for those industries (comprising stockholders, managers and workers). Thus, U.S. trade policy, ironically, has encouraged cartelization in parts of the Japanese economy. On this view, what is commonly perceived as the planning function of MITI/MOF would be a natural feature of the process of reacting to U.S. (and, to a lesser degree, European) trade pressures.

[91] Masahiro Okuno-Fujiwara, "Industrial Policy in Japan: A Political Economy View", in Paul Krugman, ed., *Trade with Japan, Has the Door Opened Wider?*, Chicago: University of Chicago Press, 1991: 271-96. Moreover, interministry disputes sometimes went to the LDP and the *zoku*. The most powerful groups, such as the agriculture *zoku*, the construction *zoku* and the small business *zoku*, are those least interested in trade liberalization. Farmers may be only 6% of the population, but through unequal apportionment of Diet districts, the strength of the farm vote is inflated to 18% of the whole, and it actually elects 25% of the Diet. See Amelia Porges, "U.S.-Japan Trade Negotiations: Paradigms Lost", in Paul Krugman, ed., *op. cit.*, 1991: 305-27.