Japan and the United States: Differing Perceptions

by Roger L. Reinoos

Introduction

Although the US-Japan relationship is considered by both sides to be the most important bilateral relationship, the recent escalation in name calling and finger-pointing on both sides of the Pacific give evidence to the lack of mutual understanding that still persists. The misunderstandings go far deeper than simply language, as some would believe. Last year, because of his supposed fluency in English, there were great hopes for improved communication and relations between the US and Japan after current Prime Minister Miyazawa gained his post[1]. It was assumed by many that the January discussions between President Bush and Prime Minister Miyazawa would progress more smoothly because of the improved communication. The resultant "agreement" and the widespread misunderstanding about whether or not Japan had promised to, or merely set a goal to purchase more American automobile parts shows that there is more than language difficulties at work here. It is the very different values, needs and narrow view that both countries bring to the bilateral trade arena that has created an almost insurmountable divergence in each country's perception of the other, and of the reasons for the current and persistent trade friction.

The abundance of biased, incomplete, misinformed and outright incorrect reporting by the media in both countries has done nothing to alleviate the tensions and vitriol, and at times has served to intensify the frustration and underlying anger that is often present in US-Japan negotiations[2]. Thirty seconds of Americans smashing a Toyota with a sledge hammer, or Japanese protesting import liberalization, leaves viewers with the impression that these views represent those of the majority. The continued use of the meaningless phrases 'Japan-bashing' and 'America bashing' reduce thoughts to child-like simplicity and only inhibit serious discussion of the issues involved. Politicians who use foreign trade and policy issues as smoke screens for a lack of genuine domestic agendas must also shoulder the blame for the continuing problems.

It is unlikely that there will be a convergence of views any time soon, but it is important that the US and Japan fully understand that their opposite views are the result of perceived truths. In this brief paper I will attempt to show how each side sees the other, and present some of the evidence that is used to support each sides arguments. I will first present the Japanese viewpoint, followed by the US view. It will become evident that although the two parties are looking at the same problems and are often using the same data, the conclusions arrived at are totally dissimilar. The arguments presented in this paper are not assumed to be fair, accurate or consistent with the available evidence, nor what the author considers to be true.

Japan's View: The End of Pax-Americana?

Although Japan, through hard work and creativity, has accomplished great successes in the international industrial arena it has failed to dislodge its age-old feelings of vulnerability to, and isolation from foreign influence[3]. The Japanese culture and economy are very fragile. As a country, it lacks critical basic natural resources and is subject to severe and continuous natural disasters such as floods, typhoons, earthquakes and volcanic activity. Although its ties with the ASEAN countries are continually strengthening, it is not yet part of any regional grouping of countries, as are its major competitors the US and EEC. It's small crowded islands are especially vulnerable to military threats, and it still struggles to preserve its uniquely different culture from undesirable foreign influences.

Foreigners, especially Americans, simply do not appreciate the true level of Japans accomplishments. It is widely perceived that the actions of foreign countries greatly influence the economic destiny of Japan. This sense of vulnerability to other countries has made the Japanese excessively sensitive to actions by foreigners that may be seen as harmful to the interests of Japan.

The continuing growth of Japan's trade surpluses has been the direct result of a well-organized government and society that has made a conscious decision to pursue economic prosperity and security for the country in place of personal gain. The dramatic yen appreciation, rising foreign protectionism, the elimination of most formal barriers to imports, and constant demands by foreigners to change traditional business and cultural practices, make the economic successes of Japan all the more phenomenal. Because of its "economic miracle," Japan should be held in high esteem as a role model for developing countries and other industrialized countries whose economies are stagnating.

Although the Japanese are proud of their achievements, they have refrained from becoming braggarts, but the continual accusations by the US and other trade partners that Japan's successes are based on anything other than fair trade are irritating to say the least. The average Japanese has come to believe that they are the victims of the frustrations of their international trading partners. The US's inability to understand the unique social, political and industrial system of Japan is a direct result of the paucity of research they have done in these areas[4]. Japan's foreign trade system of importing raw materials, adding value to them and exporting them as high value-added products is a direct result of its abundance of dedicated managers and workers combined with its almost complete lack of natural resources. The US's superficial knowledge, growing jealousy, and inability to understand Japan has led to accusations that Japan's economic successes are part of a sinister plan whose ultimate goal is the domination of world markets and the economic colonization of the other industrialized countries[5], and whose tools are an exploited workaholic work force, and collusive government-business relations that allow and even encourage cartels, price fixing, rigged bidding, industrial targeting, and intentional exclusion of foreign goods; rather than simply the reward of hard work, sacrifice and higher intelligence.

It is true that Japan was slow in reducing tariff and non-tariff barriers to imports, but it now has one of the lowest import tariff rates of any industrialized country. If one walks through any large department store, it soon becomes evident from the multitude of imported goods that the Japanese market is as open as that of any other country. Americans refuse to understand that the Japanese market is so highly competitive, and the Japanese consumer so difficult to please, that even domestic companies must resort to cut-throat pricing and customer services unheard of in other countries just to survive.

The US refusal the see its declining market share, slowing productivity level, growing trade deficit and uncompetitiveness as anything other than its own internal weaknesses that need immediate and urgent responses does nothing to win the hearts of the Japanese. It is apparently easier for Americans to complain about the "closed" Japanese market, and unfair or illegal trade practices of a sinister trading partner, than to do the research and hard work that is required to succeed in Japan. The blame lies at the door of countries who's political and business leaders stood idly by as Japanese hard work, dedication, and superior skills took over and dominated one industry after another. It is the Americans that work too little, spend too little on educating a competitive work force[6], refuse to learn superior manufacturing and management skills from Japan, and allow foreign competitors to increase market share and influence in key domestic industries. The US has spent far too much energy complaining and whining about Japan's successes and not enough on putting its own house in order. The Japanese will have little sympathy for the US until it is perceived to be investing the same research, financial resources and long term engagement strategies that are required of domestic companies for survival in Japan.

Japan has done its share to help the ailing US economy. In 1991, Japan became the largest foreign investor in the US with $20.5 billion, or 31.8% of all foreign capital investment[7]. Trade statistics show that Japan's imports of manufactured goods from the US almost doubled from $17.5 billion in 1986 to $32.4 billion in 1990. In 1990, 27% of all imported manufactured goods came from the US[8]. This direct investment has resulted in over 400, 000 jobs in 1, 500 plants in the US nationwide[9]. Japan's change from an export to a consumption driven economy, yen appreciation, and strong domestic growth are the basis for these dramatic increases in investment and imports.

Japanese corporations have not only made capital investments in the US, but have also become involved in American community life by making generous philanthropic donations to many nonprofit organizations[10]. Yet, despite their corporation's contribution to, and involvement in the US economy and community, Japanese corporations have not been as readily accepted as those of European investors in the US[11].

Hidden Racism

Years of criticisms, accusations and trade negotiations that are often other than friendly have led the Japanese to wonder why they are seemingly being penalized for working so hard and being so successful. Why is it that few voices, if any, are raised in protest when European imports reach a high penetration level in the US, or European conglomerates take over US companies? Why are similar European trade disputes settled in a friendlier manner?

For many Japanese the answer lies in the area of race. An increasing number of Japanese are voicing the long hidden but deep seated feeling that unfair criticism of Japan is caused by the white Western nations' feelings of superiority being threatened by the unequaled success of non-white Japan. The best known spokesman for this view outside Japan is probably Shintaro Ishihara. Ishihara, a former transport minister and right wing member of the Diet, and Akio Morita, president of SONY corporation, wrote the best selling and controversial *The Japan That Can Say No*[12]. This book, which was originally written for Japanese domestic consumption only, was so controversial outside of Japan that Morita refused to have the chapters he contributed or his name included in the foreign authorized edition. According to Ishihara, the pride of white western countries stops them from learning from non-white societies, and their tenacious clinging to outmoded political and economic systems keeps the former from admitting to the superiority of the new political-industrial societies of the East.

During the last twenty years, US political and business leaders have continually underestimated the will of the Japanese people and overestimated their own ability to correct the mistakes that have led to their current recession. The traditional American values of hard work and self sacrifice have been replaced by a culture of leisure and self-gratification. Criticisms of Japan as a nation of workaholics represents American resentment for practicing these lost values. Some Americans even complain that Japanese "cultural traditions" have contributed to Japan's trade surpluses, as though the Japanese characteristics of thrift, hard work, and development of long term business relationships are undesirable rather than desirable characteristics that should be emulated by less competitive cultures[13].

Until quite recently, Japan's security dependence on the US and the perception of US superior economic strength made Japan especially sensitive to demands. But the demise of the Soviet Union and Americas current recession, combined with the continued growth of Japan's economy have put the two countries on equal footing if not given Japan the upper hand. Although external pressure has at times allowed the Japanese government to make unpopular but desirable trade liberalization changes[14], many of the US demands have begun to intrude too far into Japanese internal affairs.

The Failures of US Domestic Policies

To many in Japan, the constant rise in violent crime rates, the drug epidemic, a deteriorating infrastructure, increasing illiteracy, and racial tensions in the US are incontrovertible signs of a government unable to solve its own problems and of a nation in decline.

Instead of creating a strong base for growth and wealth through increased R&D spending[15], capital expenditures, and employee training, the limitless greed of US managers[16] and financial institutions to make money through acquisitions, mergers, and the juggling of financial assets throughout the 1970's and 80's has hastened America's decline.

The US government's antipathy towards industrial targeting, and policies that are at best ambivalent towards industry, play a large role in the decline of US competitiveness. Actions that will reduce the federal deficit, increase personal savings, reduce capital costs to industry, ease restrictions on exports, provide incentives for increased corporate investment in equipment and employee training, and longer time horizons for managers have been needed for many years. But US politicians held captive by the various labor, industry and consumer influence groups have been unable to act. The US has also failed to upgrade science, mathematics, and foreign language education.

The US current trade problems are independent of any conditions in Japan. They are the result of actions or lack of actions taken by US government and industry. Any changes to the few remaining structural impediments in Japan would be useless, since the trade imbalance cannot be solved without major changes in the US. Therefore, it is up to the US to correct its own faults, and begin to produce goods that can compete in the Japanese market.

Many Japanese economists and industrialists believe that many companies in the US industrial sector are simply too small to compete in the international arena. These companies lack the capital reserves to absorb even short term losses or to make the capital investments necessary to create economies of scale that lead to competitive production costs. Although small US companies have been renowned for their inventiveness, it is nearly impossible for them to compete with a Japanese keiretsu on the scale required in today's internationally competitive world.

The US Market: Free and Open?

The US contention that it has the most open market in the world is generally greeted in Japan with disbelief. To US trade partners, and especially to the Japanese, the US market is open only until foreign competition cause problems. A significant portion of Japanese exports to the US are limited either by 'voluntary' export restraints demanded of and agreed to by the Japanese, or by still existing US import duties. Japanese goods have often been the target of efforts to reduce imports into the US. The US escape clause provision, antidumping statutes, the threat of antitrust actions, and the constant intimidation of action under the Super 301 provision of the 1988 US trade bill are major barriers to the Japanese ability to compete in the US.

The inconsistant and seemingly whimsical use of these statutes and provisions are also barriers to trade. Japanese, who have little experience with their own legal system much less that of the US, can find just the threat of legal action intimidating, and the extensive cost of legal proceedings in time and money is well known.

Just the initiation of the antidumping clause is in itself a barrier to trade. Even if the accusation is found to be groundless, upon a preliminary finding of dumping, the accused company must post bonds or cash that will cover potential duties that may be retroactively assessed in the future.

Other actions taken by the US government are not those of a country that says it is the foremost defender of a free market system. For example; although in 1981 the Japanese computer manufacturer Fujitsu was the low bidder on a contract to link major cities in the northeast US with fiber optic telephone service, Congress pressured AT&T to reject the bid for reasons of national security and the contract was finally awarded to the lowest domestic bidder; in 1987, then Commerce Secretary Malcolm Baldrige and the Defense Department caused enough outcry in the press and the public that Fujitsu withdrew its offer to buy the financially troubled Fairchild Semiconductor Company, even though the offer was solicited by Fairchild which was then owned by the French company Schlumberger[17].

At times the Japanese are caught in a Catch-22 such as in the following case between the US Department of Trade and the Justice Department. US semiconductor manufactures of random access memory chips (RAMS), in 1982, accused the Japanese of selling at excessively low prices in order to become dominant in the world market for 64k RAMS. Simultaneously, defense officials in the US, citing national security, were worried about dependence on Japanese producers for an important computer memory device. As a result of earlier price cutting, an unexpected surge in demand from Japanese makers of data-processing equipment and US computer manufacturers created a shortage of supply which caused prices to suddenly rise and exports to the US decrease. As US trade officials assumed the Japanese producers were deliberately limiting the exports of these 64k chips to the US in order to quiet industry fears of unfair or excessive competition, the Justice Department announced that it was investigating Japanese semiconductor producers to determine whether the Japanese had conspired to fix prices or supply restrictions on 64k RAMS exported to the US. This was at the same time the US was worried about predatory pricing. Although market forces were responsible for these developing conditions, the Justice Department was not convinced. The investigation by the Justice Department was eventually closed in 1984 due to lack of evidence that price fixing or export restrictions had been enacted by Japanese manufacturers.

Take the case where, in the same breath, US trade negotiators complain of Japan's supposed "managed trade" practices headed by MITI and then ask for "voluntary export restraints" on everything from computers and semiconductors to automobiles. Cartel-like agreements then become necessary as Japanese exporters must divide market share among themselves for products covered by export restraints. This in effect makes the US the proponent of Japanese industrial policy[18].

A Changing Domestic Economy

The gradual, but continuing, reductions in Japan's multilateral trade surpluses are the results of market opening strategies at home, investments abroad, and normalization of the yen exchange rate. Recent and proposed changes to the Large-Scale Retail Stores Law and distribution system[19], stronger enforcement of antimonopoly laws[20], and the current agreement between US and Japanese auto makers to increase auto parts imports, are but a few of the steps being taken in Japan to stimulate consumption and encourage foreign investment. Add to this the growing popularity of catalogue shopping and franchised retail outlets, the increasing sales in Japan by US controlled companies such as IBM, Johnson & Johnson, Toys "R" Us, SmithKline Beecham, Warner-Lambent, and General Mills, and the bilateral trade surpluses will continue to decline.

Japan View: Summary

In short, Japan has made more consistent, intelligent use of it's limited natural resources and highly trained work force than its American counterparts. Japan has made concessions in trade, opened its markets, and offered advice, and technical and financial help to its ailing allay. In return, instead of using its time and resources to improve its competitive position, the US has taken to criticisms and threats of trade retaliation in an effort to reduce the widening trade deficit, and resorted to unflattering cultural and racial characterizations of the Japanese people.

It has become nearly impossible for the Japanese to hide their growing disdain for the US's inability to halt the decline of its society and economy. The multitude of social ills that affect the US makes it impotent against cultures that still value work and family values above self-gratification. The long standing feeling of partnership and obligation the Japanese have felt towards the US have begun to be replaced by contempt.

America's View: Closed Market/Closed Society

The US view of the continuing trade problem is very different form that of Japan. Japan's expanding export surpluses and the current world-wide recession, combined with the continued difficulty the US, as well as European and Asian countries have in penetrating the Japanese market justifies an aggressive reaction to Japan's trade practices. It is widely believed that US goods cannot enter the Japanese market nearly as easily as Japanese goods enter the US market. The current "buy American" drive in the US and recent calls in congress for establishing quotas and tariffs on imported and even domestically produced Japanese goods reflect the growing impatience and frustrations with Japan.

Although Japan has achieved economic power equivalent to that of its western allies, and has recently been seeking more influence with the United Nations, and in the policy making of it's southeast Asian neighbors, it has shown no interest in assuming the risks that accompany global responsibilities. To some Americans, not limited to the so called "revisionists", the Japanese are a mercantilist society lacking any exportable philosophy, whose only goal is the pursuit of global dominance in trade and exports[21]. "All of Japan's interactions with the rest of the world in trade, investment, aid, and defense can be interpreted as those of a country acting purely in self-interest, and with regard only to consequences for itself. Japan seems to change its international policies only in response to threats, and thus appears to the rest of the world to act in a defensive and ungenerous manner[22]."

This is very different from the US experience, when in the 1940's it abandoned its isolationist foreign policies and used its great material and human resources in favor of global responsibility and assumed unprecedented financial burdens in rebuilding the devastated post-war world. The Japanese see their responsibility limited to their own country, which is reflected in protectionist trade policies.

Japan's barriers to imports and investment could be placed into three broad categories: formal barriers to imports and investment, indirect but very effective informal barriers consisting of traditional business relationships and practices that exclude foreigners, and finally, attitudinal barriers that make foreign companies the last resort for imports and investment capital. Though Japan is constantly citing improved balance in its trade statistics and tariff reductions, these three types of barriers are so effective that the market share of foreigners in technologically advanced areas remain at low rates and often become insignificant when Japanese made equivalent goods come on the market.

Formal Barriers

For the most part, formal barriers to importing and investment in Japan are similar to those of other countries. These barriers protect agricultural and industrial sectors that are considered to be important for national security or are politically sensitive. The difference is that the sectors Japan considers to be of national importance go far beyond those of its trading partners.

In 1989, after tariff negotiations with the US, Japan eliminated tariffs on 1,004 manufactured products. Its tariff rates on industrial products now average just 2%, while tariffs on agricultural products are 12.1%. These tariff and quota reductions have done little to improve the foreign competitive position in Japan because they have invariably come after, not before, Japanese producers became internationally competitive. These reductions have mainly been a public relations effort by the Japanese government to calm US anger over lack of market access. So many formal trade barriers still remain that Japan consistently has the most pages devoted to it in the Office of the US Trade Representative's annual survey of foreign trade barriers. In 1991, the trade issues of concern to the US were grouped into seven major sectors: import policies; standards, testing, labeling and certification; government procurement; lack of intellectual property protection; services barriers; investment barriers; and other barriers[23].

The differences in patent protection are a major hindrance to investment by foreign companies in Japan. "The goal of Western 'patent' systems is to protect and reward individual entrepreneurs and innovative businesses, to encourage invention and the advancement of practical knowledge. The intent of the Japanese system is to share technology, not to protect it[24]." A patent application in Japan, which requires precise technical data, is open to the public. Any competitor may inspect, copy, and even produce goods that may be based on data in the patent application before it is granted, thus inhibiting foreign companies from even contemplating filing. Japanese companies also regularly apply a tactic referred to as "patent flooding": the filing of numerous unworthy patents that surround the core technology of another inventor. The purpose of this is to make the original applicants' defense of the patent so costly in time, money and manpower, that the Japanese company can gain virtually free access to the technology by extracting cross-licensing agreements.

Barriers to foreign capital investment are equally formidable. Investing in the Japanese stock market often requires actions such as kickbacks, bribes and refunds on lost investments that are unavailable to foreign investors, and can be both illegal and unethical in foreign markets[25]. The Japanese government also continues to regulate foreign investment in the following sectors: aircraft, space development, agriculture, fishing and forestry, oil and gas, mining, leather and leather product manufacturing, and tobacco manufacturing. Table 1 shows just a few of the firms where foreign ownership is restricted[26].

Indirect Barriers

The second barrier to foreign participation consists of historical

Table 1

	Maximum % of foreign ownership allowed.
Arabian Oil	25
NTT	0
KDD	0
Mainichi Broadcasting	20
Arabian Oil	25
Nippon Air Systems	33.3
General Oil	49
Showa Shell	50
Hitachi	25

business and social practices and interactions. These barriers include the costly and inefficient distribution system, long standing business relationships among industrial groupings that inhibit purchasing cheaper goods from new domestic or foreign suppliers, the pursuit of market share over profit, trading companies more intent on exporting than importing goods that compete with domestic production, and legal cartels[27], to mention just a few. These informal barriers make it very difficult for domestic companies to enter a new market, and nearly impossible for foreign companies to do so.

Japan's many layered distribution system, price supports and manufacturer rebates increase the costs of imported and domestically produced goods to the point where it becomes difficult to compete on price. Japan's unique price structure creates a situation whereby even Japanese made goods often cost less in the US and other foreign markets than at home. In December of 1991, the author purchased a Japanese-made laptop computer in the US for 20% less than it would have cost in Hiroshima two weeks earlier. Japanese prices for most consumer products are the highest among the industrial countries. Many surveys have confirmed what everyone knows who has shopped in Japan: prices are usually 50 to 500 percent more expensive than they are in the US. This makes it very difficult for imported goods to compete on the basis of price. For example, the price of a US made computer printer bought in the US and shipped air freight to Japan including US sales tax of 8%, Japanese sales tax of 3%, import tax of 3.7%, and air freight costs would still be about 20% less, or $150, than if bought in Japan through the normal distribution system.

Japan's industrial groupings, or keiretsu, and their almost feudalistic control of suppliers, create a major barrier to foreign entry into the Japanese market. The practice of mutual share holding and the existence of stable shareholders who hold company stock but never trade it, at best, limits foreign investment in Japanese companies to joint ventures. These interlocking relationships make it all but impossible for one branch of a keiretsu to switch its supplier to a US exporter even if the product in question is considerably cheaper and of higher quality. The most likely response to a cheaper and higher quality foreign product on the market is not to make purchases from a foreign vender, but to require its suppliers to squeeze costs and, if necessary, employees, in order to meet the foreign competition and produce the product domestically.

Attitude

The third barrier to entry into the Japanese market is attitudinal. The majority of Japanese businessmen and government bureaucrats still have a deep seated aversion to importing goods that could otherwise be made in Japan at anything near the same price or quality. This attitude may very well be the result of the Japanese not wanting to be dependent on foreigners for goods and thus vulnerable to outside influences.

This attitude also enables business and the bureaucracy to justify the exploitation of the Japanese people through higher domestic prices and subsides to US and other foreign consumers in order to protect Japanese manufacturers. Higher profit margins in the Japanese home markets enable Japanese corporations to compensate for lower export prices, allowing them to gain a potentially devastating foreign market share and to protect themselves from the price competitive export drive of the newly industrialized economies of Hong Kong, Singapore, Korea and Taiwan. The failure of yen appreciation to have the expected effect of raising export prices and lowering domestic consumer prices on imported goods illustrates this propensity to exploit the Japanese consumer in favor of industry[28].

It must be said that these attitudinal barriers exist mainly on the government and corporate level. Given the choice, the average consumer will buy cheaper, high quality foreign goods. If this were not true there would be no need for the many barriers to foreign competition.

The Case of Computers

To illustrate how these formal, informal, and attitudinal barriers work to restrict foreign imports and investments we can examine some of the case history of the computer and supercomputer industry in Japan[29]. There is not enough space to review all the points in detail but the major impediments to US competition in Japan will be reviewed. The same case could be made for the electronics, automobile, steel and semiconductor industries in Japan.

In 1957 the Japanese government passed the Extraordinary Measures

Law for Promotion of the Electronics Industry. This law and others allowed subsidies and tax benefits to the industry as well as exempting the industry from antitrust law, and encouraged companies in the industry to cooperate on price, production, investment and R&D. In the late 1950's IBM, which had been present in Japan since 1925 and had long wanted to set up a subsidiary in Japan but had been prohibited by the Japanese government, started to complain about Japanese infringement on IBM patents. MITI, realizing that access to IBM technology was necessary for the future success of the domestic computer industry, finally allowed IBM to set up a wholly owned subsidiary in exchange for license agreements on its patents. MITI required IBM to negotiate with it instead of individual companies and thus won licenses' agreements at much lower rates than if IBM had been allowed to negotiate with each company. MITI also controlled the quantity and models of computers that IBM could produce and sell in Japan as well as which specific parts IBM could import for production. MITI also decided how much IBM was required to export, and limited the amount of profit Japan-IBM could repatriate to its parent company. All of these limitations had the desired effect of keeping IBM on the defensive until domestic companies gained competitive experience and strength.

IBM was able to avoid being forced onto making a joint venture under the Foreign Investment Law of 1950, but others were not so fortunate. US firms that wanted subsidiaries in Japan were held at bay for years, and when finally allowed to enter the market they were forced to make joint ventures rather than wholly owned subsidiaries, and were obliged to transfer technologies as part of the deal. Sperry Rand was required to take on a Japanese partner who had majority ownership in the late 1950's when it wanted to sell computers in Japan, and again in the early 1960's when it warned to start production in Japan. Hewlett Packard was allowed into Japan only after it was forced to take on a Japanese joint partner who again controlled 51% of the shares.

The example of Texas Instruments (TI) shows how government-industry collusion took advantage of those companies less powerful than IBM. TI applied for 14 patents in Japan in 1960 and asked for permission to establish a wholly owned subsidiary in 1964. By refusing to act on either application the government allowed Japanese companies to copy all of TI's technology for years without paying for it. TI won approval for some patents in 1977 and combined others into one application. TI was finally approved a patent in October 1989, twenty nine years after the original application (the US patent process takes, on average, 18 months). TI was finally allowed to establish a subsidiary in Japan, but was forced to enter into a 50-50 joint venture with a relatively small, inexperienced partner.

The recent development of the supercomputer industry is another example of the difficulties US company's have had in penetrating the Japanese market. There are four major supercomputer companies in the world: Cray Research of the US, and Fujitsu, Hitachi, and NEC of Japan.

In 1980 Cray and CDC/ETA (a US supercomputer company that has since withdrawn from the industry) controlled the world market for supercomputers with a 90% and 10% market share respectively. By 1986, with NEC, Hitachi and Fujitsu now in the market and after CDC/ETA had dropped out, Cray's world market share fell to 60.7%, and then to 53.1% in 1989. This fall in market share is a reasonable development given the extremely high cost and rapid advancement in the supercomputer industry, and as a reaction to competitive forces. What is not a reasonable result of competition within the industry is that Cray's 1989 world market share of 53.1%, and European share of 83% differs markedly from the 10.1% share it had in Japan. Something other than market forces is at work here. Since the three Japanese supercomputer companies are members of industrial groups, it is very difficult for those within the group to purchase competitors' products even though they may be superior.

The Japanese governments purchasing statistics lean even more heavily towards the domestic market. In 1984 and 1989, 90% of computers used by the Japanese government were Japanese made while only 59% of the private sector used domestic machines. When the Japanese government started buying supercomputers in 1983, there was no public notification of procurement, and the Japanese producers gave discounts of up to 80 or 90%. By 1986 the Japanese government had purchased 22 supercomputers only 1 of which was foreign made even though it was acknowledged in the industry that, at that time, US computers were far superior in speed, function and availability of software.

In October of 1987 MITI had two public institutions purchase one supercomputer each from Cray and CDC/ETA. Although the bidding was open there was no chance for Japanese companies to win. With these two purchases the Japanese government was trying to alleviate trade friction in the computer industry and thought that it had fulfilled its promise to buy supercomputers which was negotiated in 1987. The US side saw it as two token purchases instead of a free and open market. The final 1990 agreement required Japan to give full public notice of their intentions to purchase supercomputers. Bids were open in the future, but because of the heavy discounts offered by Japanese companies the US companies could not compete on their superior performance.

All Encompassing Impediments

The legal and structural barriers to US entry is not limited to the high-tech industries. Until 1983, foreign entrants to the pharmaceutical industry were required to have the support of a Japanese firm to receive the necessary permit to manufacture or import drugs, which in effect made it necessary for foreign firms to license their technologies and establish sales agreements with established Japanese firms. Also, all clinical testing had to be conducted in Japan on Japanese citizens (on the grounds that Japanese are racially different), requiring costly test duplication and time delays[30]. Japanese distributors or wholesalers interested in adding imports to their sales lines or discounting prices to below the manufactures suggested retail price, are often threatened with a shutoff of supply or with demands by Japanese manufacturers and distributors for immediate payment[31].

Global Trade Imbalance

US complaints of restricted access to Japanese markets are remarkably similar to those of European countries and the developing countries in Asia. How is it that the US, Europe and Asia are wrong and Japan is right?

When rejecting US accusations of unfair trade practices, Japan often cites US internal problems and lack of 'hard work' as the main reasons for the US's inability to penetrate the Japanese market. It's 1991 record world trade surplus of $72.23 billion indicates that Japan doesn't have a US-Japan trade problem, but a Japan-world trade problem. The 1991 trade surpluses with the US, EC and Asian countries rose 1.3%, 48.1%, and 43.2% respectively[32]. Japan's closest neighbor, Korea, has long standing and continuing complaints about trade imbalances and barriers, especially in the transfer of technology[33]. Despite citing statistics that purport to show an evening out of imports of manufactured goods, Japan's ratio of imports to gross domestic product has, alone among major industrial countries, declined since 1956[34]. It is obvious that it is Japan who is out of step with international trade practices, not the opposite.

Japanese officials again and again point to the same handful of successful subsidiaries of foreign companies that have managed to carve out a respectable share of the Japanese market. But sales by foreign subsidiaries in Japan are not the same as an open door to manufactured imports.

Japan's Foreign Investment: New Colonialism?

Japanese officials often note the increasing number of yen laden tourists headed for the US, and rising investment in the US industrial and financial sectors as two factors that offset the trade imbalance. It is true that some capital may be entering the economy through increased service industry employment, but these types of jobs do not build the high-tech and industrial base needed to be competitive in the international market. Making beds and flipping hamburgers is no substitute for building an industrial base in preparation for the next generation of advanced technology. Japanese companies that invest in the US in order to circumvent import barriers, that are promised tax breaks, union free shops, and other favorable investment opportunities, are doing little to support the US economy or increase employment if their new state-of-the-art factories rely largely on imported Japanese made parts and transplanted suppliers, and force existing American plants to close[35]. The recent surge in Japanese direct investment may prove even more detrimental to surviving US industries than Japanese exports.

Racism

Japanese accusations that racism plays a role in US demands and dissatisfaction in trade disputes is the pot calling the kettle black. The familiar and increasing complaints and law suits by American employees in Japanese corporations in the US that there is a 'glass ceiling' to promotions that only Japanese Nationals can rise above[36]; the fact that Japanese corporations seeking to build in the US obtain detailed racial demographic data and then locate their plants in areas with fewer minorities[37]; the restrictive and discriminatory employment policies in Japan itself[38]; and the constant string of racially derogatory statements made by Japanese politicians show where the racial biases really lie. South Korea, Singapore, Taiwan, and Hong Kong have some of the same difficulties in exporting to Japan as the US. Surely their complaints of Japan's import practices cannot be dismissed as racism, lack of hard work, or inability to understand the Japanese business mentality.

US View: Summary

Despite yen revaluation, numerous import liberalization programs, and the hard work of knowledgeable and dedicated US businesses, market access for many US made goods has improved only slightly. The excessive export zeal Japan exhibits, and the ability of Japanese companies to forgo profit in their quest of ever increasing market share has resulted in the failure of key US domestic industries. It matters little whether or not Japan intentionally set out to destroy the US economically, the results are the same.

Given the combination of cultural factors, industrial policies, aversion to importing, unprecedented export zeal, and the continuing exploitation of US markets by Japanese businesses without regard to the long term consequences, bitter and emotional criticism must be expected. Although some complaints may be the result of biases, the evidence that Japan's business practices and trade objectives are different from the rest of the international community are undeniable. Until Japan brings its policies more into line with its trading partners, it must be prepared to be the object of criticism.

Concluding Remarks

Some extremists on both sides of the Pacific will accept the above arguments in their entirety, but for most of us the truth lies somewhere in the middle. Differing perceptions will continue to evoke nationalism in both countries. This is a natural reaction in democratic societies when external economic forces seem to present a threat to ones independence.

But it has become clear that economic and political policies of nations have become so interdependent that a nation's domestic policies directly effect other countries, and therefore are of legitimate concern to a much greater extent than in the past. Future trade issues will go beyond tariff and sector-specific issues to a discussion of general administrative and structural barriers and to a more open trade and investment system. Inevitably this will reach into highly sensitive areas, raising the charge of interference in a country's internal affairs. That is the price to be paid for interdependence because the past pattern of patron-client relations is changing toward one of multi-lateral partnerships, with greater flexibility and independence on the part of all parties.

Problems of perception will continue to be a factor in international relations especially as the economies of individual countries merge into an international economy. The inevitability of the one-economy world requires us to search for increased understanding and tolerance of opposing views.

1 For just one example of the kind of optimism that was prevalent see: "President Bush's Visit to Japan", The Daily Yomiuri, January 8, 1992, page 9.

2 For example, the publics frustrations and disappointments with President Bush's recent trip to Japan were intensified when the press of both countries reported that an "agreement" was reached concerning the purchase of US auto parts. Trade representatives of each country had to quickly reiterate that there was no firm agreement, but only a 'target' value for total purchases.

3 For a detailed discussion of Japanese self-perception see: Karel van Wolferen, The Enigma of Japanese Power, New York: Vintage Books, esp. chpt. 10; Clyde V. Prestowiz Jr., Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It, New York: Basic Books, 1988, esp. chpt. 3.

4 Kuniyasu Sakai, "The Feudal World of Japanese Manufacturing", Harvard Business Review, November-December 1990.

5 Robert Stempel, chairman of General Motors, quoted in The Japan Times, January 12, 1992.

6 For example, newly hired workers in Japanese automobile plants receive on

average 300 hours of training in their first 6 months, while their American counterparts have less than 50 hours of training. Source: *Worker Training: Competing in the New International Economy*, Congress of the US, Office of Technology Assessment, September 1990, p 15.

7 "Japan Becomes Largest Investor in US", The Japan Times, June 7, 1991.

8 Japan External Trade Organization, Facts On US-Japan Economic Relations, JETRO, 1991.

9 Source: 1990 Survey of Current Business, US Department of Commerce.

10 "Japanese Philanthropy on the Rise in the US", The Japan Times, October 6, 1991.

11 "Nissan Chief hits US 'Bias' ", The Japan Times, November 9, 1991.

12 Shintaro Ishihara, The Japan That Can Say No, (English language edition) New York: Simon & Schuster, 1991.

13 In addition, the US criticism of Japan's industrial groups, or keiretsu, and informal business relations and transactions as practiced in Japan, are a direct attack on the very structures that enabled Japan develop its economy so quickly. Also, informal contacts are not restricted to business relationships, but permeate all relationships. Also see: Karel van Wolferen, "The Japan Problem Revisited", Foreign Affairs, Fall 1990.

14 "At Hand: Japan's Next Retail Revolution", Daily Yomiuri, January 8, 1992.

15 In 1988 Japanese expenditures on R&D were a world leading 2.8% of GNP compared with 2.7% for the US. This is even more significant when one considers that the US spends a good portion of this on military projects whereas Japan spends virtually its entire budget on commercial R&D. Kenneth J. Dillon, "Worlds in Collusion: The US and Japan beyond the year 2000", Center for the Study of Foreign Affairs, US Department of State, No. 2, 1989. Even though Japan dominates many high-tech industries and the US government and corporations lack funds to increase spending on R&D, there are calls for the Japanese government to double R&D funding in basic research. "Double R&D funds, council recommends," The Japan Times, January 25, 1992.

16 In 1990, while United Airlines profits fell by 71%, CEO Stephen Wolf earned $18.3 million in salary and stock options. Numerous studies show that US executives are overpaid by Japanese and European standards. One study found that top executives of US corporations "were paid 53 times the

average pay of the company's work force, while Japanese executives earned only 17 times the average wage of their employees." "Pay Packages for top US execs Blasted", The Japan Times, February 3, 1992.

17 David C. Mowery, "New Developments in US Technology and Trade Policies: Declining Hegemon, Wounded Giant, of Ambivalent Gulliver?", Consortium on Competitiveness & Cooperation, University of California at Berkeley, April 1990.

18 B. Bosworth and R. Z. Lawrence, "America's Global Role: From Dominance to Interdependence", in J. D. Steinbruner, ed., Restructuring American Foreign Policy, Washington, D. C.: Brookings Institution, 1989.

19 Sei Kuribayashi, "Present Situation and Future Prospect of Japan's Distribution System", Japan and the World Economy 3, 1991.

20 "Glass Industry Transparency Urged", The Japan Times, January 25, 1992.

21 R. Taggart Murphy, "Power Without Purpose: The Crisis of Japan's Global Financial Dominance", Harvard Business Review, March-April 1989.

22 James C. Abegglen, "Narrow Self-Interest: Japan's Ultimate Vulnerability?" in Diane Task, ed., U. S.-Japanese Economic Relations: Cooperation, Competition and Confrontation, (New York: Pergamon, 1980), p.27.

23 Source: 1991 National Trade Estimate Report on Foreign Trade Barriers, Office of the United States Trade Representative, 1991.

24 Donald M. Spero, "Patent Protection or Piracy-A CEO Views Japan", Harvard Business Review, September-October 1990.

25 'Hidden Japan: The scandals start to reveal how the system really works', Business Week, August 26, 1991.

26 Robert Zielinski, Nigel Holloway, Unequal Equities: Power and Risk in Japan's Stock Market, (Kodansha International: Japan, 1991).

27 David Flath, "Vertical Restraints in Japan", Japan and the World Economy 1, 1989.

28 Joint Economic Committee, "Restoring International Balance: Japan's Trade and Investment Patterns", Staff study, July 1988.

29 Source: Competing Economies: America, Europe, and the Pacific Rim, Congress of the US, Office of Technology Assessment, October 1991.

30 Aki Yoshikawa, "The Other Drug War: US-Japan Trade in Pharmaceuticals", California Management Review, Winter 1989.

31 Hitoshi Takahashi, "Making Child's Play: Toys 'R' Us, a 'no frills' approach to Japan", Japan Update, March 1992.

32 "Nation's trade surplus soared 50% to $78.23 billion in 1991", The Japan Times, January 23, 1992.

33 "South Korea angry over growing trade imbalance", The Japan Times, November 5, 1991.

34 Source: International Financial Statistics Supplement on Trade Statistics, International Monetary Fund, 1988.

35 "Honda: is it an American car?", Business Week, November 18, 1991.

36 "No room at the top", ABC News 20/20, September 27, 1991.

37 Robert E. Cole, Donald R. Deskins, Jr. "Racial Factors in Site Location and Employment Patterns of Japanese Auto Firms in America", California Management Review, Fall 1988.

38 "Foreign teachers to get pay adjusted", "Osaka drops plan allowing city to employ foreigners", The Japan Times, July 7, 1991.