

Internal Impasse

By Shichihei Yamamoto
Writer and publisher



According to a recent *Nihon Keizai Shimbun* survey* of Japanese and American legislators, there is a surprising convergence of views regarding Japan in the two countries. The issues that the American lawmakers consider to be problems are also thought of as critical by Japanese Diet members. The only significant divergence arises in how they rank the problems in importance.

The friction between Japan and America actually stems from the domestic friction within Japan, and it is this internal impasse that lays Japan open to the charge of not doing anything until it is subjected to *gaiatsu* (external pressure). Interestingly enough, legislators on both sides of the Pacific share this assessment, and there are some Diet members who openly welcome *gaiatsu*.

How has this happened? Japan was an abjectly poor country—the equivalent of

one of today's LLDCs—in 1946. Per-capita GNP was only \$17, and there were predictions that 10 million people would die of starvation. In just four decades, Japan has become the economic power that it is today. Americans cannot imagine the depths of poverty that Japan faced in 1946, nor can they fathom the rapid changes in circumstances that soon followed. Many of the Japanese laws and institutions that legislators from both countries now agree are irrational were necessary to ensure Japan's very survival only 40 years ago.

Of course, Japan has already abolished or reformed many of the practices that have become obsolete, especially those that are actually counterproductive. But these changes have not kept pace with Japan's rapid economic growth, and there is no denying that some restrictive practices remain today.

There are many political reasons for this situation, but one cause that is often overlooked is Japanese society's underlying reluctance to rush pell-mell into the future. People are leery of too many changes happening too quickly.

Yet even this propensity to gradualism is being eroded, and young people in particular are more open to rapid flux. And because they are receptive to change, I feel confident that the many problems now existing between Japan and the United States will sooner or later cease to be problems.

Accordingly, the important thing today is to look beyond these transient concerns and to start to work now on identifying what kind of a Japan-U.S. relationship we want to build for the future. ■

* Results reported in *Nihon Keizai Shimbun*, June 6, 1988.

Risks of Exclusion

By Albert Bressand
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Seen from Europe in a traditional perspective, U.S.-Japanese relations would be analyzed, first, in terms of risks of exclusion for Europe and, second, in terms of the increased competitiveness of U.S. and Japanese companies—including joint U.S.-Japanese ones.

Risks of exclusion can actually be detected behind a number of agreements between Japan and the U.S.—such as the January 1983 security-related technology-sharing agreement and the Kansai airport market-opening agreement—that depart from multilateral practices. Bilateral agreements between the first and second economic powers in the world

cannot be considered as ordinary bilateralism and are sometimes even described as part of an emerging "Japanese-American economic condominium."

U.S.-based Japanese corporations are bound to be formidable long-term competitors for Europeans as they combine the best features of the U.S. economy with the highly effective strategic assets of Japanese corporations.

While this competitive threat cannot be dismissed, Europeans should take a broader view of the deeper process of internationalization at work. Far from being systematically excluded, they are taking part in it and could play an even

more active role in the future. According to the research and conceptual framework developed by Prométhée, this deeper process can be understood in terms of global networking strategies.

While the previous concept of internationalization was centered on exports of goods, other dimensions are now coming to the forefront. Services play a key role in today's value-creation process. Investment, once seen as a second-best tool for breaking into protected markets, is increasingly an essential part of delivering complex goods and services in a customized fashion. Non-tangible assets and activities play an essential role in corporate

competitiveness, leading to new types of corporate cooperation in such fields as R&D, distribution, intellectual property and training.

We are therefore moving beyond export-led interdependence toward networks-led interactions which Prométhée labels "interconnection." In this respect, much of today's Japan-U.S. developments stem from the need for corporations to meet the new, global challenges rather than from specific bilateral factors or macroeconomic contexts.

Seen from Europe, the recent developments in U.S.-Japanese relations—most notably corporate joint ventures and

Japanese investments in the U.S.—can be analyzed as part of a broader pattern that does not fit traditional trade theory nor multilateral practices, yet is in keeping with the new types of global dynamism.

Obviously, some practices—witness the semiconductor agreement—would call for multilateral scrutiny. But Europeans should put their faith first in their own skills at using the next strategic tools of interconnection, the more so as the "1992 internal market program" opens major opportunities for them.

Indeed, the 1992 program and other EC policies such as cooperative R&D programs offer today's most ambitious effort

at promoting not just "exports" but networks of all types (whether electronic highways or intercorporate alliances). Regional interconnection can play a similar role in making European corporations more competitive in the face of U.S.-Japan interconnection.

Hence, beyond the present emphasis on bilateralism and preferential networking, new concepts of reciprocity (concerning such matters as access to networks, rights of establishment and definition of local content) may well provide a major impetus to keep the global economy open. ■

Responsibility in Trade

By Stuart Harris
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The Japan-U.S. relationship is as important for Australia as it is for Japan and the U.S. Both countries affect Australia's economic well-being directly, and in a major way. Japan is our largest market. The U.S. is the second-largest. The U.S. is our largest supplier. Japan is a close second. Both countries are major sources of investment funds; and both have a major stake in the Australian economy. We also share important common strategic interests.

It naturally concerns all countries that trade and economic frictions have tended to dominate the Japan-U.S. relationship in recent years. Because of their "weight" in global affairs, how Japan and the U.S. resolve their trade differences has an important bearing on the economic fortunes of others. Indeed it has an important bearing on whether stability and security can be secured both for the region and the world.

Japan's large trade surplus with the U.S. is not the cause of the frictions. The surplus is the inevitable result of a combi-

nation of questionable and distortional domestic macroeconomic and industry protection policies in the major economies. To seek bilateral deals to solve those problems will simply make matters worse. Bilateral deals that exclude other countries from trade are a short-term solution that in the long term will hurt us all.

Some argue that it may be easier for the U.S. and Japan to agree on desirable market shares than it is for them to agree on procedural norms.* On this argument sector-specific agreements or market-sharing agreements are more practical and beneficial than relying on the workings of the market under multilateral rules (i.e. GATT).

That seems a dangerous view which ignores the trade-contracting effects of bilateralism. Moreover, it also ignores the effects on political and economic relationships with other countries. It is our view that the political and economic costs of a bilateralist approach considerably outweigh the apparent short-term benefits.

What is required therefore is the operation of commercial principles, and multilateral solutions that keep markets open, not closed. This is why Australia regards the current multilateral trade negotiations as critically important.

It is encouraging that the seriousness of the international trade problem and the magnitude of the measures required to be addressed are being recognized. This provides some cause for optimism.

There has been disappointingly little movement, however, in adjustment of U.S. policies and programs.

Japan has started to move in the right direction and deserves some credit for the progress it has made. It still has much to do. We hope Japan has recognized that its growing leadership role carries added responsibilities. We hope that in particular it will recognize to the full its responsibilities in the trade field. ■

* Krasner, Stephen D., "Trade Conflicts and the Common Defense: The United States and Japan," *Political Science Quarterly* 101, Number 5, 1986.