THE TWO U.S.-JAPAN RELATIONSHIPS: PUBLIC AND PRIVATE-SECTOR RESPONSES TO THE NEW GLOBAL ECONOMY

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INTRODUCTION

Few international economic issues have generated such intense political controversy over the past decade as trade, and no area of trade has been examined and analyzed more often than the U.S.-Japan relationship. Since the 1930s, the United States has been importing such products from Japan as textiles and apparel, stainless steel flatware, transistor radios, tape recorders, steel products, televisions, etc. These imports, in their turn, triggered intense but transient political controversy. But commodity trade issues did not become a matter of national concern until the gasoline shortages in the late 1970s caused a massive shift in American consumer preference toward the purchase of smaller, more fuel-efficient cars largely imported from Japan. At the same time, U.S. media coverage began highlighting the eroding industrial leadership of the U.S. auto companies that Americans historically viewed as the core of U.S. industrial might. Thus, the public grew concerned that the nation's global economic performance was slipping while Japan was rapidly establishing itself as the world's new economic power.

As the single-digit U.S. trade deficits with Japan of the 1970s distended into double-digit bilateral deficits by the end of the decade, concern mounted in the U.S. government and in the U.S. Congress. Americans pointed to industrial targeting, restrictive agricultural policy, vexatious product standards, and buy-national policies and practices as components of the Japanese government's export-oriented micro-policies which were contributing to growing U.S. trade deficits and erosion of the U.S. industrial base.

The bilateral trade relationship moved sharply toward confrontation during the early 1980s. Countless congressional hearings and an outpouring of trade-related bills reflected growing concern and frustration in the U.S. Congress over the exacerbating bilateral trade deficit. The rapidly growing number of U.S. production facilities established by Japanese companies — now numbering 55 plants in Tennessee alone — did little to calm American concerns. Today, the trade issue is a major economic plank in the platform of at least one presidential candidate, and members of Congress routinely take potshots at both Japan and what is perceived to be the unrealistic and weak trade policy of the Reagan administration.

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But while intergovernmental relations have grown increasingly confrontational, another dimension of the U.S.-Japan relationship, obscured by adversarial rhetoric, has been marked by the increased linkages and mutually cooperative ventures. As the U.S. and Japanese economies have become more densely intertwined, reflecting the technology-driven, structural changes in the global economy, an increasing number of corporate businesses in the United States and Japan have entered into cooperative alliances. Mixed-national joint ventures, cross investments and intercorporate supply and marketing agreements, technical licensing and second-sourcing agreements form the building blocks of expanding private-sector interdependence. This changing structure of the relational dynamic is creating opportunities for American and Japanese companies to tap Japanese capital, markets, management expertise and production and product technologies.

Thus, the public sector and the private sector relationships between the United States and Japan appear to be moving in contradictory directions. But these two levels of U.S.-Japan relations are in fact intertwined; pronouncements and actions by the U.S. government or Congress, for example, can trigger or shape strategies and actions in the American and Japanese private sectors, and vice versa. The quality and effectiveness of this interaction between the U.S. and Japanese public and private sectors, in the long run, will largely determine whether U.S. as well as Japanese manufacturing industries can remain competitive in the emerging global economy. Such competitiveness can be assured only if the economic growth of the transnational private-sector relationships — to the extent consistent with national defense and national security — are encouraged by public policies of major industrial powers. As a result, the dichotomy between increasing public-sector confrontation and growing non-adversarial private-sector linkages must be understood and addressed.

THE BILATERAL PUBLIC-SECTOR RELATIONSHIP

The perception of a "crisis" in U.S.-Japan intergovernmental trade relations has grown since the late 1970s. The combination of rising Japanese share of U.S. markets, real and perceived Japanese barriers to U.S. exports, and the relentless growth in the U.S. trade deficit with Japan — which reached $50 billion last year — has led to expressions of great concern by officials in U.S. government agencies and on Capitol Hill. Many of these statements have focused on Japan's allegedly unfair trade practices.

Indeed, if any one word epitomizes the U.S. perception of U.S.-Japan intergovernmental trade relations, it is "unfair." Metaphors about the "level playing field," and "fair trade" and "Japan, Inc." aptly describe the American perception of Japan's economy as one in which industry and government work in conspiratorial lockstep to "target," "invade" and "conquer" foreign markets. Americans have also come to believe that Japan's markets are protected by an impenetrable maze of non-tariff barriers which foreclose foreign firms from gaining significant market share.

The growing criticism of Japan has been accompanied by a growing threat of protectionist legislation on Captiol Hill. Passage of a tough trade bill calling for harsh retaliatory provisions has become the top legislative priority of many in both industry and organized labor.

The Reagan adminsitration has responded to such protectionist pressure from Congress by developing a trade policy based on promoting export market access and curbing unfairly traded imports. This policy sought to reverse the growing trade deficit and defuse the intensifying protectionist political pressure from Capitol Hill by increasing sales of U.S. products abroad, particularly in Japan.

The Japanese government responded to increased U.S. pressure for market access with a series of market liberalization packages intended to boost Japan's imports from the United States. These market liberalization packages will probably result in more significant progress over time than most congressional critics of Japan are willing to acknowledge. According to Kenichi Ohmae of McKinsey and Co., for example, Japan bought a combined $69.5 billion of American imports and locally-made American goods in 1984. Americans bought nearly an identical amount, $69.9 billion, of Japanese imports and locally-made Japanese goods the same year. As Ohmae notes, however, a key difference has hidden the similarities in these figures: "The difference is that the Japanese bought more than three times the amount of goods from local American subsidiaries as Americans bought from their Japanese counterparts . . . A trade imbalance does not equal a market-penetration deficit."[1] The U.S. trade deficit with Japan has therefore kept increasing despite these market liberalization packages, and increases in U.S. exports have consequently been viewed here as "too little too late." As a result, U.S. anger toward Japan — particularly on Capitol Hill, but also within the Reagan administration — has intensified.

This rise in the U.S. anger quotient is based, in part, on the popular perception linking increased market access and improved U.S. competitiveness to a commensurate reduction in the trade deficit. This perception is, at best, of dubious validity. Complete access to Japan's market (i.e., the removal of any and all remaining barriers to imports) would produce only marginal increases in U.S. exports to Japan and reduce the $50 billion trade deficit by only $5 billion to $10 billion.[2] Indeed, the most obvious and ironic aspect of the unbridled U.S. criticism over market access in Japan is the failure of these critics to recognize that U.S. markets are also protected from foreign competition. William von Rapp, for example, estimates that in 1985 import restrictions were applied to one-half of all Japanese exports to the United States.[3]

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1. Kenichi Ohmae, "Japan's Trade Failure," *Wall Street Journal*, 1 April 1987, p. 28.
2. C. Fred Bergsten and Willian Cline, *The United States-Japan Economic Problem* (Washington: Institute for International Economics, 1985) p. 109.
3. William V. Rapp, "Japan's Invisible Barriers to Trade," *Fragile Interdependence: Economic Issues in U.S.-Japanese Trade and Investment*, ed. Thomas A. Pugel with Robert G. Hawkins (Lexington, MA: Lexington Books, 1986), p. 21.

Despite their limited validity, however, arguments which link the bilateral and overall trade deficits to Japan's trade practices have endured, largely because of the deep-seated perception of Japanese unfairness in trade. This continued belief in a causal link between market access and the skewed bilateral trade balances has in turn increased the level of tension between the U.S. and Japanese governments. And yet, proponents of this view may be pursuing a potentially counterproductive goal. As economist Rachel McCulloch has written:

> Underlying this view, which dominates both official and private U.S. thinking on trade with Japan, is a basic misunderstanding of the determinants of aggregate trade performance and of the gains from trade liberalization. The misunderstanding in turn leads to inevitable disappointment with the results of [trade] negotiations. Frictions escalate, and opportunities for mutual benefit are wasted. By doing the right thing for the wrong reason, U.S. negotiators set up unrealistic expectations and thereby fan the flames of protectionism.[4]

These market access and unfairness issues have been exacerbated by short-term crises which fueled political anger in Washington and obscured significant progress on trade: the ongoing debate on burden sharing in defense spending; the 1982 arrest of Mitsubishi Electric and Hitachi executives for allegedly stealing IBM secrets; Fujitsu's 1986 offer to acquire Fairchild Semiconductor (owned by the French oil giant Schulmberger) which generated such intense political opposition from the Reagan administration and Congress — assertedly based on fears that U.S. national security would be threatened — that Fujitsu quietly withdrew the offer; and the sale by Toshiba Machine Co. and Kongsberg Vaapenfabrikk (of Norway) of precision milling equipment to the Soviet Union. In the latter case, some members of Congress aired their anger at the Toshiba Corp. — the parent of Toshiba Machine — by smashing a Toshiba tape player before the American media.

In such a politically charged atmosphere, specific commodity problems which in themselves may not be important can become politically overblown. For example, U.S. makers of aluminum baseball bats complained in 1980 that Japanese product safety standards and testing procedures were a discriminatory trade barrier sheltering Japanese manufacturers from import competition. Although the market for aluminum baseball bats in Japan is miniscule, the less-than-decisive handling of the matter by the Japanese government combined with the mistargeted efforts of the American trade negotiators kept the issue alive for over four years, reinforcing American perception of Japanese "unfairness" and government "footdragging." In America, public perception contretemps materially eroded mutual trust between the two governments.

American bilateral trade problems, as previously noted, are not rooted primarily in Japanese trade practices, but rather in the rapidly changing global

4. Rachel McCulloch, "Comments," *Fragile Interdependence*, p. 55.

and domestic economic structure and the lagging adjustment response to these structural changes. The most important of these changes is the transformation of the United States from a *national* to an *international* economy.

The United States is now the world's largest consumer of foreign products and user of foreign capital. Such U.S. national retail outlets as Sears, J.C. Penney, Montgomery Ward, and K-Mart were, and most continue to be, major importers of foreign consumer durables and soft-good lines. U.S. manufacturers have likewise become major importers in the past decade. In 1985, for example, U.S.-based multinational corporations accounted for almost 46 percent of total U.S. imports, of which approximately 21 percent was sourced with their offshore affiliates.[5]

Globalization of component and subassembly production has accelerated the internationalization of the U.S. economy. In fact, some economists estimate that such intra-firm trade may now account for 35 to 60 percent of all U.S. imports.[6]

These changes are particularly apparent in electronics and auto production, where a part of the foundry and lower-skilled assembly work is moving abroad. As a result, direct labor as a percentage of production cost for U.S. industries is declining sharply — in electronics production, for example, the figure may be as low as two percent for some companies[7] — and U.S. industry is becoming increasingly capital- and technology-intensive.

TABLE A

U.S. Multinational Corporations (MNCs): Exports and Imports, and their percentage of Total U.S. Merchandise Export/Imports (in millions of dollars)

	U.S. MNC Exports		*U.S. MNC Imports*	
	1984	1985	1984	1985
Total, MNC	169,237	171,481	145,916	155,039
To/From Affiliates	66,343	69,441	62,975	70,103
Total U.S. Merchandise Exports-Imports	219,900	215,935	332,422	338,083
MNC % of Total	77.0	79.4	43.9	45.9
MNC Affiliate % of Total	30.2	32.2	18.9	20.9

Source: compiled from data published by the Bureau of Economic Analysis, U.S. Department of Commerce, in *Survey of Current Business*, June 1987, pp. 26-37.

5. U.S. Department of Commerce; *Survey of Current Business*, June 1987, pp. 26-37.
6. See Jane Sneddon, "Intra-Firm Trade and U.S. Protectionism," in Japan Economic Institute, *JEI Report* no. 10A, March 14, 1986; Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), pp. 218, 254.
7. "Fewer Jobs and Higher Productivity in Electronics," *Electronic Business*, 15 September 1987, p. 28.

The transformation of the United States into an international economy has been accelerated by a disparity in average growth rates, which has influenced the direction and volume of trade flow. For example, America's average annual economic growth has been in excess of three percent for the past five years. This has generated import demand. In contrast, average growth in Western Europe has been below three percent for the past five years, constraining import demand.

In contrast, the export-driven economies of such newly industrialized countries (NICs) as Hong Kong, South Korea, Singapore and Taiwan have registered rapid growth during recent years. As a result, when the higher yen made Japanese products less competitive in the United States over the past year, lower priced products from the NICs increasingly displaced Japanese and other imports in low-priced, high-volume American markets. Thus, the higher yen value has resulted largely in shifting the sourcing of U.S. imports from Japan to the NICs.

The rapidly rising transborder capital and technology flows which create discontinuities and consequent local dislocations are outpacing the ability of governments to respond. The benefits of political solutions to such trade difficulties are often short-lived and, more often than not, lead to unintended counterproductive results. Companies can become complacent while their foreign competitiors quickly adjust to new market situations.

Two recent cases demonstrate the potentially negative effects of political "solutions" to trade problems. In 1980, Ford Motor Company and the United Auto Workers (UAW) filed an "escape clause" action under Section 201 of the Trade Act of 1974 to restrict imports of smaller and more fuel-efficient cars principally from Japan. When the U.S. International Trade Commission (USITC) rejected their argument by finding that imports were not the primary cause of injury to the domestic industry, Ford and the UAW retargeted their efforts on Congress. An auto import quota bill supported by the auto makers was quickly introduced with bipartisan support by Senators John Danforth (R-Mo.) and Lloyd Bentsen (D-Texas).[8]

The Reagan administration used the legislative threat posed by this bill in negotiations with the Japanese government. These negotiations led Japan to impose a voluntary restraint agreement (VRA) limiting the export of Japanese cars to 1.68 million units for three years.

Japanese auto companies quickly adapted to the new regulatory regime by changing their export product mix toward upscale models loaded with options, thus maximizing sales dollars and profits. Rather than having the intended effect of slowing down Japanese competition, therefore, the restraint merely encouraged the Japanese automakers to move into a higher end of the auto market while, ironically, increasing their revenues. And without low-price competition from Japanese imports, domestic auto producers were able to

8. U.S. International Trade Commission, *Certain Motor Vehicles and Certain Chasis and Bodies Thereof*, USITC Pub. 1110, December, 1980.

maintain or increase prices. As a result, the burden of import restraint fell on U.S. consumers, who were forced to pay higher prices for cars. Robert W. Crandall has estimated that American consumers paid an additional $16.6 billion for U.S. cars in 1984 and 1985 and an additional $10 billion for Japanese cars as a direct result of the export controls.[9] Clearly, the political solution of the auto VRAs did little to solve the longer-term competitive problems faced by the U.S. auto industry.

The second case involved semiconductors. Faced with rapidly eroding market share, American merchant producers of dynamic random access memory chips (DRAMs) and other memory semiconductors sought legal relief in 1985 from lower-priced Japanese imports. American chip producers filed a complaint under Section 301 of the Trade Act of 1974, alleging industrial targeting, tolerance of exclusionary practices, and other unfair and predatory trade practices. Certain U.S. producers also filed an antidumping case on 64K DRAMs and erasable-programmable read-only memory chips (EPROMs), alleging that these chips were being sold at less than fair value prices in the U.S. market. The U.S. merchant producers also argued that Japan's semiconductor market was unfairly closed to them.

The Japanese responded to these allegations by charging that the U.S. merchant producers' problems were largely self-inflicted, resulting from quality and servicing problems, under-investment in research and development and capital improvements, and structural weaknesses inherent in a highly cyclical industry.

As in the automobile case, the U.S. and Japanese governments negotiated an agreement to end legal proceedings. Processing of the dumping complaints was suspended and the Section 301 action was dismissed. In return, the Japanese government and Japanese manufacturers agreed to sell at fair value in compliance with the terms of antidumping suspension agreements. In addition, the Japanese government agreed to monitor and maintain Japanese semiconductor exports to third-country markets at fair value prices, and to take steps to increase the U.S. share of the Japanese semiconductor market.

Problems quickly developed. The high fair-value prices for imported Japanese memory chips established under the agreement by the U.S. Department of Commerce created a home-market glut in Japan. Japanese manufacturers began unloading their chips in the home market at distress prices, with the result that it became even more difficult for U.S. companies to increase their market share in Japan. The discrepancy between home-market prices and the higher prices in the U.S. market established by the U.S. Department of Commerce caused a rapid growth in the gray market for these chips in other Asian markets. In addition, U.S. computer manufacturers began shifting their chip sourcing to Korea and other low-cost sources. In an effort to dry up domestic sources for third-country gray market sales, the Japanese government imposed production limits on memory chips. The European Community

9. Robert W. Crandall, "Detroit Rode Quotas to Prosperity," *Wall Street Journal*, 29 January 1986, p. 30.

immediately objected to the unfolding implementation of the semiconductor arrangement, claiming that it disrupted chip markets in Europe and discriminated against European chip makers competing in the Japanese market.

In February, 1986, the U.S. Commerce Department determined that dumping was continuing in third markets, and the U.S. Trade Representative found that market access for U.S. firms had not improved. In response, the President imposed a 100 percent retaliatory tariff on $300 million of Japanese electronics and electrical imports. The President's retaliatory action met with strong opposition from U.S. companies and organizations which relied on the targeted goods.

In the spring of 1987, such semiconductor end-users as the U.S. computer industry increased production. U.S. bookings of long-term semiconductor orders consequently increased markedly. Chip shortages began to appear as a result of the production ceilings imposed by the Japanese government. Not surprisingly, U.S. companies now demand that the Japanese government end production limits on Japanese-made chips which were originally imposed to prevent dumping.

As in the case of auto export restraints, the political remedy shaped in the government-to-government negotiations turned out to be ineffective in addressing structural problems caused by the internationalization of the U.S. economy. While the U.S. chipmakers' booking improved, it was not because of government action, but rather because of a recovery of demand in the computer industry. Indeed, actions taken in response to the government-to-government agreement possibly exacerbated the situation by disrupting the seamless ties which increasingly characterize the international semiconductor and electronics industries. Thus, the semiconductor trade dispute moved toward resolution in response to market pressures resulting from changing world markets and product-demand and not to national political policies.

THE PRIVATE SECTOR RELATIONSHIP

If the confrontational rhetoric in the U.S. Congress and the media is a reasonably accurate portrayal of U.S.-Japan relations, then our two countries may indeed be on the edge of a precipice. Fortunately this is not the case. Protectionist actions motivated by the "level playing field" rhetoric of the public sector are out of step with the private sector reality, in which firms operate in an environment of global markets and industries increasingly criss-crossed by a seamless web of transnational ties. Although some warn of dangers inherent in the growing integration and interdependence of the U.S. and Japanese economies, the fact is that this trend is technolgy-driven and not susceptible to derailment. More importantly, it has the potential of ensuring a strong, long-term bilateral relationship and continued economic growth for both countries and, in turn, the world.

This integration process has grown incrementally through supply arrangements between U.S. and Japanese companies, technology transfers, joint ventures for manufacturing and research and development, equity purchases,

and direct investment in new plant and equipment. Despite some claims of congressional critics, the presence of U.S. goods in Japanese markets has grown. More and more U.S. companies are manufacturing in and exporting to Japan. And Japanese manufacturing facilities in the United States in free-standing and in mixed-national modes are growing.

Indeed, the enormous flow of Japanese capital into this country underscores the increased integration between the U.S. and Japanese economies. Much of America's $150 billion federal deficit is being funded by foreign capital, much of it coming from Japan. Between 30 to 40 percent of the government debt issued by the Treasury to finance the deficit is bought by Japanese institutional investors, helping to stave off hikes in U.S. interest rates, keeping capital costs down, and contributing to the growth of the U.S. economy. The propensity of the Japanese to save (17 percent of income) and the huge bilateral trade imbalance create nearly $1 billion in new capital each day for Japan's giant financial corporations. The strong yen and an average price/earnings ratio of 55 to 60 for Japanese stocks — compared to a P/E ratio of 25 to 30 in the United States before "Black Monday" — have made American equity investments attractive to these Japanese firms. As a result, Japanese investors currently account for five percent of all securities traded on Wall Street, an increase from their virtually nonexistent role a few years ago. Japanese direct investments in the United States reached $23 billion in 1986.[10] An increasing amount of Japan's direct investment has gone into the U.S. manufacturing sector, helping to revive production facilities and create new jobs or save jobs that could otherwise be lost. Japanese direct investment today accounts for over 100,000 U.S. jobs.

Unlike the hostile takeovers prevalent in the United States — which can seriously weaken a target company attempting to defend itself from corporate raiders — acquisitions of U.S. companies by Japanese investors have, for the most part, been friendly (the notable exception was the acquistion of Sun Chemicals Corporation's graphic arts materials group by Dainippon Ink and Chemical in August 1986). Since 1984, Japanese investors have acquired 100 percent ownership in approximately 40 U.S. companies.[11] These figures have led to fears of a Japanese takeover of American industry. Such fears are overblown. Japan's $23 billion in 1986 direct investment is about half the Netherlands' $43 billion and 43 percent of the United Kingdom's $51 billion, for example. In addition, half of the capital inflow from Japan in 1985 consisted of reinvested earnings from Japanese direct investment in the United States. Reinvestment of earnings by Japanese investors increased from $163 million in 1977 to over $1 billion by 1985.[12]

Although this accelerating trend toward economic and industrial integration is often obscured by the adversarial rhetoric of government policymakers, many private American firms recognize the importance of their ties with their

10. *Time*, 24 September 1987, p. 52.
11. *Euromoney*, "M&A For Richer, For Poorer"(supplement) August 1987, p. 30.
12. *Journal of Japanese Trade and Industry*, No. 4, 1987, p. 10.

Japanese counterparts. For example, hundreds of American firms stepped forward when the Section 301 Committee — an interdepartmental group assembled under the auspices of the Office of the U.S. Trade Representative (USTR) — invited comments last March on a list of Japanese electronics and electrical products which could be subject to 100 percent tariffs in retaliation to Japan's alleged violation of the semiconductor agreement. The overwhelming majority of the more than 500 written responses filed with the Office of the USTR opposed the proposed action on one or more of the listed written items. Only 30 favored imposition of the retaliation or requested the addition of other items to the list. Of the 68 witnesses who testified during the three days of hearings, all but five were opposed to the retaliatory tariffs on one or more items.

Most of these American firms opposed the imposition of retaliatory tariffs because of commercially beneficial ties with Japanese firms as suppliers or customers. For example, the Computer and Business Equipment Manufacturers Association — whose membership includes such leading computer companies as IBM, DEC, Compaq, NCR, and AT&T — opposed the tariffs because its members source components, subassemblies and certain products in Japan. Many small companies and retailers which source computers, power tools or other targeted products in Japan also opposed the tariffs. One computer industry witness wondered "how many smaller companies will be harmed simply because they never understood they would be at risk and did not know enough to ask for special consideration."[13]

The extent to which U.S. and Japanese electronics firms are interlocked has been further demonstrated recently in the wake of the Kongsberg Vaapenfabrikk/Toshiba Machine Co. sale of computer-contolled milling machinery to the Soviet Union. As noted above, the response on Capitol Hill was an emotional outburst of criticism. However, the U.S. private sector reacted more cautiously.

While criticizing the sale, such major U.S. corporations as IBM, Apple Computer, Honeywell, United Technologies, General Electric and Motorola, nonetheless launched a lobbying campaign opposing retaliatory legislation which would ban Toshiba imports. Opposition to import sanctions by these American firms arose from their ties not only with Toshiba, but also with other Japanese firms which could be ensnared by the legislation. According to one computer industry spokesman, "There is no major company that would go under because of the sanctions, but we are talking about whole product lines or market areas where a company could be so hobbled that it would be forced to withdraw from the market."[14]

Business relationships between Toshiba itself and U.S. companies include the production and sale of numerous consumer electronic products under both

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13. Testimony by Edward J. Black, Vice President and General Counsel of the Computer and Communications Industry Association before the 301 Committee, Office of the U.S. Trade Representative, Washington, D.C., April 13, 1987.
14. *New York Times*, 14 September 1987, p. 1.

the Toshiba label and U.S. private labels. Many smaller American manufacturers and distributors feared they would be cut off from Toshiba components and products if sanctions were imposed, with potential losses estimated in the billions of dollars. One congressional source was quoted as saying "Toshiba has some kind of supply arrangement or sole-source deal with seemingly every company in the United States."[15]

Ironically, the U.S. merchant semiconductor manufacturers, who are currently involved in a bitter trade confrontation with Japan, are among those most inextricably intertwined with their Japanese competitors in sourcing, marketing and technology-transfer activities. Exponentially increasing capital and research and development requirements are forcing U.S. merchant semiconductor manufacturers, in particular, to merge, form joint ventures, establish research and development consortiums, or seek research and development subsidies to share capital and costs. Transnational linkages in this industry are consequently growing in the form of joint ventures for manufacturing or research and development, technology transfers, equity purchases, and various supply arrangements. Between 1975 and 1987, approximately 330 intercorporate relationships were established between semiconductor companies around the world,[16] nearly 60 percent of which involved U.S. and Japanese companies. Of the 41 biotechnology joint ventures between U.S. and foreign firms existing in 1985, 20 were with Japanese companies.[17]

These contractually-based ties form a seamless web of relationships and common interests between competitors around the globe. Toshiba, for example, is linked to Intel; Intel is linked to Fujitsu; Fujitsu is linked to Hewlett-Packard; Hewlett-Packard is linked to Hitachi and — completing the circuit — to Toshiba.

This network of corporate linkages transcends not only national boundaries, but the boundaries between industries as well. Corporations based in different countries are forging complex alliances across industrial sectors. Joint ventures, cooperative arrangements, cross-licensing and global marketing arrangements have cleaved the world not along national or industrial lines, but rather among coalitions of competing, mixed-national and internationally-based alliances.[18]

The current revitalization of the U.S. steel industry owes a great deal to the capital and technology infusion provided by Japanese steel companies. Kawasaki Steel and Nippon Kokan have taken equity positions in U.S. steel companies. Marubeni Corp., a Japanese trading company, is investing $17 million in a steel plant to be used for auto-related production in Michigan. In addition, joint ventures between five of Japan's largest steel companies and U.S. partners have led to the investment of hundreds of millions of dollars in state-of-the-art technology in one of America's most basic and vital industrial

15. Ibid.
16. Source: VLSI Research, Inc., unpublished data.
17. John M. Kline, "Inter-MNC Arrangements: Shaping the Option for U.S. Trade Policy", *The Washington Quarterly* 8 (Fall 1985):63.
18. Kenichi Ohmae, *Triad Power! The Coming Shape of Global Competition* (New York: Free Press, 1985).

sectors.[19] In the auto industry, General Motors (GM) has a 38.6 percent interest in Isuzu and a five percent interest in Suzuki of Japan. GM imports small cars from both. The 50/50 joint venture between GM and Toyota — the New United Motor Manufacturing Inc. (NUMMI) in Fremont, California — employs 2,500 workers and produces more than 200,000 Chevrolet Nova and Toyota Corolla FX16s. NUMMI is managed by Toyota and uses Toyota's manufacturing technology and participatory "team" management system, but the company purchases parts and components from over 100 U.S. suppliers. Toyota Motor Manufacturing USA is building an $800 million plant in Georgetown, Kentucky. Ford, which owns 25 percent of Mazda, will sell half of the cars produced at the new Mazda Motor Manufacturing (USA) Corp. plant in Flat Rock, Michigan, under the Ford nameplate. Chrysler, which has sold Mitsubishi cars in the United States for a number of years under the Chrysler label, has entered a joint venture with Mitsubishi to employ 2,900 workers at a new plant under construction in Illinois.

There are at least 15 joint ventures, and 10 pending joint ventures, between U.S. and Japanese partners for the production of auto parts in the United States. Honda of America Manufacturing, Inc. — which purchases from more than 70 U.S. auto parts suppliers — will employ more than 5,000 when it expands its Anna, Ohio, engine facility in the near future. Honda will soon begin *exporting* 70,000 cars annually from the United States to Japan and elsewhere.

These transnational corporate linkages are also taking place in Japan. In 1986, 308 U.S. companies invested $750 million in their Japanese operations. Production or marketing units were set up by 185 U.S. companies in 1985, an increase from 70 in 1980.[20] Today more than 50,000 U.S. products are sold in Japan, and U.S. companies have a significant product presence in 85 percent of Japan's 126 industrial sectors.[21]

The emerging alliances between U.S. and Japanese corporate interests — through investments, marketing, technology licensing and other contractual arrangements — are blurring the national and legal distinctions between "foreign" and "domestic" entities. This in turn is multiplying the complexity of shaping national economic policies to enact and enforce the trade laws that provide the legal structure for government-to-government relationships. For example, Harley-Davidson — the sole remaining U.S. motorcycle manufacturer — was frustrated in its 1976 antidumping complaint against motorcycle imports from Japan when Kawasaki Motor Corp. USA, which manufactures motorcycles in Lincoln, Nebraska, successfully argued before the USITC that its American manufacturing operations acounted for 40 percent of the domestic industry, and that its domestic sales and profits were increasing at the expense of its import operations. If anything, Kawasaki stated, its *import operations* were being injured by its domestic production and sales.

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19. *Washington Post*, 13 September 1987, p. H7.
20. *U.S. News and World Report*, 24 August 1987, p. 38.
21. Vernon R. Alden, "Who Says You Can't Crack Japanese Markets?" *Harvard Business Review*, 65 (January-February 1987).

Another example of the conflict between narrowly-conceived national public policy and the increasingly international private sector can be seen in efforts by some U.S. manufacturers to exclude foreign-owned businesses on national security grounds. In 1985, for example, New Hampshire Ball Bearings, Inc. (NHBB) — a U.S. firm supplying an estimated 50 percent of its high-precision bearings to defense contractors — offered to sell out to Minebea, a leading Japanese manufacturer of smaller precision ball bearings. Three separate U.S. government agencies reviewed the acquisition on national defense, national security and antitrust grounds. These reviews were concluded without action when it became clear that NHBB would be forced out of business without the $15 million investment in new equipment, worker retraining programs, and other steps to increase productivity and upgrade quality which would result from a Minebea acquisition. National security was better served by a modern and efficient — although foreign-owned — NHBB than by the U.S. producer closing its operations.

Clearly these growing transnational ties pose real difficulties for nationally-oriented public sector trade negotiators. But these negotiators must come to understand that corporations today must operate on a global basis if they hope to be competitve. Corporations will continue to expand their international ties even if government officials' negotiating strategies continue to be shaped by outdated perceptions of competing national economies.[22]

CONCLUSION

The accelerating pace of technological change and the continuing structural reshaping of industries and markets are driving the private sectors of the United States, Japan and other industrialized nations into increased transnational cooperation and organizational integration. These changes are evidenced by transnational and cross-sector mixed national alliances, involving research and development, production and/or marketing joint ventures and other interlocking arrangements. Many Americans fear this process, sometimes described as the "hollowing out" of the industrial core of America, a phenomenon also perceived to be in its incipient stage in Japan. But this "hollowing out" process reflects, in part, the necessary adjustment of multinational firms to the technology-driven globalization of industries and markets. These multinational and mixed-national corporations plan and operate increasingly on a global basis. National governments, however, continue to perceive the world in terms of competing national economies composed of nationally-oriented corporations.[23]

This dichotomy in perception between the public and private sectors foreshadows future trade conflicts, as national governments continue to base their actions on short-term political expediency without addressing the underlying structural change causing discontinuities confronting industries and communi-

22. C. Aho and Jonathan D. Aronson, *Trade Talks: America Better Listen!* (New York: Council on Foreign Relations, 1985).

23. Ibid., p. 31.

ties' attendant dislocation problems. The "we" vs. "they" adversarial perception of the world along national lines is out of sync with the emerging structure of global competition. Government-to-government tensions between the United States and Japan remain rooted in America's perception of Japan's unfairness. These tensions are exacerbated by such individual issues as Fujitsu/Fairchild and Toshiba/Kongsberg.

U.S.-Japan trade relations mirror this widening divergence between the globalizing private-sector and lagging public policy responses. American industries today are feeling intense competition on two fronts: they are being pressed by the NICs in traditional high-volume, low-labor-cost markets, while Japanese firms are bringing pressure to bear in markets which turn on the rapid development of new technologies and products suited to rapidly changing consumer demands. Forward-looking U.S. firms, in order to compete, have increased expenditures on capital improvements and research and development, while also increasing their sourcing of components and subassemblies from abroad. The increased costs of such efforts are being shared through linkages with companies around the globe — including many Japanese companies.

Rather than adapting to this structural transformation of the American industrial base and cushioning the country's adjustment to this change, U.S. policymakers — most notably many members of Congress — are attempting to restore the *status quo ante* through the use of remedies cast in the legal mode. Legal remedies tend to address symptoms of the change rather than dealing with its underlying causes. Capitol Hill's fixation on Japanese trade practices and American bilateral trade deficits exemplify this legally-oriented American policy aproach.

This fixation threatens counterproductive changes in U.S. trade law. For example, the President's discretionary authority to pursue selective import protection — as he has done recently for autos, semiconductors and motorcycles — may soon be constrained by a Congress bent on mandatory retaliation. Such mandatory laws would be a real danger in today's rapidly changing global economy, for they would not permit flexibility in legal remedies to adapt policymaking to longer-term economic concerns of the U.S. economy. Moreover, protective regulation, once imposed, tends to remain in place a very long time, beyond any real need. For example, the House of Representatives recently passed a textile quota bill despite current labor *shortages* in the U.S. textile industry — which is now in its second year of recovery after a long decline.

These policymakers instead should focus their energies on implementing policies which could aid U.S. industries, such as tax and investment incentives for developing new technologies and markets. Policymakers also must work to reduce the federal budget deficit, which acts like a sponge absorbing capital from abroad.

In conclusion, policymakers must realize that the notion that industrialized countries can maintain complete sovereignty over their economies is no longer valid in an increasingly interdependent world. They must bring public policy

into line with this economic reality. Unless and until the industrial nations — primarily the United States and Japan — effectively coordinate macroeconomic policies to minimize the impact of fluctuating exchange rates, huge capital flows and short-term conflicts, their growing economic interdependence will make it increasingly difficult to implement nationally oriented policies which seek to protect domestic interests.