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TRADE FRICITION WITH JAPAN AND THE AMERICAN POLICY RESPONSE†

Thomas J. Schoenbaum*

In Tokyo recently I called upon an official of the Ministry of International Trade and Industry (MITI) to discuss trade frictions between the United States and Japan. On the way to my appointment I passed by Hibiya Park in the center of the city. About 10,000 people were gathered in a peaceful demonstration against any lifting of Japan's quotas on imports of agricultural products. Inside the MITI building I asked the official whether the quotas on beef and oranges would be abolished soon. He told me they would eventually be liberalized or abolished to please the United States, but that political pressures were forcing the government to proceed very slowly.

The situation seems unique. In an age when the policy of retaliatory protectionism is being officially embraced in countries around the world and the free trade ideal is under severe intellectual and political attack, Japan is moving to decrease protectionist barriers and to open its markets to foreign imports. Several questions naturally arise from this state of affairs: Why has Japan adopted this trade-liberalization stance? What measures are being adopted? Will the new policy really succeed in increasing access to Japanese markets for goods, sources, and investments from the United States and other countries? Finally, what larger lessons are there to be learned from our trade frictions with Japan?

† My first exposure to the world of the General Agreement on Tariffs and Trade (the GATT) and the law concerning international trade was in 1963 in a course with Professor Eric Stein. His masterful exposition and quiet enthusiasm for the subject made a deep impression upon me. Even now I can recall the details of individual classes. I am glad to pay tribute to this most remarkable scholar and teacher who has given me so much over the years it has been my pleasure to know him.

This Article was written as of December 1983. While this Article was in press, in April 1984, the United States and Japan reached an agreement to (1) expand significantly the quotas on beef and agricultural products; (2) increase the import quotas on fruit puree, peanuts, tomato juice, and several other items; and (3) lower tariffs on 36 products including pork and tomato juice. See Japan, U.S. Reach Trade Compromise, The Japan Times, Apr. 26, 1984, at 1, col. 1 (intl. ed.).

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1. Several joint study groups, drawn from the private sector in both Japan and the United States, have been formed to consider trade problems between the two countries. The United States-Japan Trade Study Group (TSG), organized in 1977, consists of members of the American business community in Japan and Japanese businessmen and government people. Their excellent report, JAPAN BUSINESS: OBSTACLES AND OPPORTUNITIES (1983) [hereinafter cited as JAPAN BUSINESS], provides a great deal of insight into Japanese markets. The Japan-U.S. Businessmen's Conference is comprised of the Advisory Council on Japan-U.S. Economic Relations. Their report, AGENDA FOR ACTION (July 1983), is also very helpful.
The new policy of trade liberalization in Japan is largely the result of external pressures brought to bear by the United States and, to a lesser extent, Western Europe. The large, increasing, and highly visible trade deficit between these countries and Japan has coincided with the recent worldwide economic recession that has caused unemployment and decreasing profits in basic industries such as steel, autos, textiles, electronics and machine tools. Despite the manifest unfairness of ascribing these woes to a single cause, Japan has often been singled out by politicians and affected interest groups as the culprit responsible for this economic decline. As a result, two sorts of measures have been taken against Japan. First, protectionist actions have been taken under the large body of U.S. trade laws as alleged retaliatory measures with the object of limiting Japanese imports in various sectors. Many of these protectionist actions are not compatible with the international law framework of the General Agreement on Tariffs and Trade (the GATT) and have thus tended to erode confidence in the entire world-wide trading system. Second, political and diplomatic pressure has been brought to bear on Japan to increase access to the Japanese market for foreign goods, services, and investment, to correct a perception that the Japanese market has been artificially closed to foreign competition.

An interesting facet of this situation is that this double strategy of action against Japan has been endorsed in the United States not only by traditionally protectionist interest groups, but also, to a large extent, by private and governmental entities that have supported free trade values in the past. The free-trade groups concentrate on access to the Japanese market and justify protectionist measures as temporary punishments taken reluctantly to chastise the Japanese Goliath into following the desired path of action. The vision behind this type of thinking is that once Japan liberalizes its markets, Yankee traders will swarm into the country selling American products. The streets of Tokyo will be clogged with Chevrolets and the traditional love for sashimi and eel will crumble in favor of a taste for American beef and potatoes. The traditional U.S. economic base will rise like a Phoenix from the ashes and we will return to the halcyon days of unquestioned U.S. economic leadership.

This ideal, which I exaggerate for emphasis, is obviously wrong-headed. Structural changes in the world's economy are occurring rapidly, and we cannot expect a return to an earlier status quo. Nevertheless, opportunities do exist for progress in reviving U.S. business and for making it more able to compete in international markets, including Japan. Unfortunately, our current policy of adopting protectionist measures (primarily against Japan) and railing against the closed nature of the Japanese market is not sufficient to allow us to take advantage of the opportunities presented. Our misguided strategy vis-à-vis Japan is an example in microcosm of the bankrupt nature of our current policy.

Today the economies of Japan and the United States are intertwined to a degree unthought of even ten or fifteen years ago. The two-way trade in goods alone is expected to exceed $65 billion in 1984. Japan is by far the
United States’ largest overseas trading partner, and is the major reason that the volume of our trans-Pacific trade now exceeds that of our trans-Atlantic trade. Japan takes ten percent of U.S. exports and we take twenty-five percent of Japanese exports. Trade in services with Japan is also important and is not reflected in the balance of trade statistics. In 1980, U.S. exports of services totaled $8.05 billion, while imports amounted to $6.17 billion.\(^2\) Of the 1,986 foreign affiliated companies operating in Japan in 1982, 671 were American.\(^3\) In the chemicals, aircraft, pharmaceuticals, photographic supplies, wood products, electric measuring instruments, semiconductors, data processing, and coal products industries, U.S. companies hold at least a ten percent share of the Japanese market.\(^4\)

The success Japan has enjoyed in penetrating the American market is well known. Key examples include textiles, automobiles, steel, machine tools, cameras, television, and, recently, electronics. In virtually every industrial sector affected by Japanese imports, protectionist measures have been applied. In the case of automobiles, the Japanese have been forced to limit their exports to 1.68 million units per year (1.85 million in 1984-1985). This quota was adopted as a “voluntary export restraint” agreement outside the framework of the GATT after the U.S. International Trade Commission had, by a three-to-two vote, rejected an escape clause petition filed under section 201 of the Trade Act of 1974.\(^5\) In 1977, Japan and the United States negotiated a marketing agreement limiting the number of television sets exported into the United States.\(^6\) The U.S. steel industry has received the benefit of a whole series of protectionist measures. “Voluntary” export restraints were followed by the “trigger price” mechanism imposed in 1978

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2. JAPAN BUSINESS, supra note 1, at 5.
3. A “foreign affiliated company” is defined by MITI as one with at least 25% foreign participation. See JAPAN BUSINESS, supra note 1, at 7.
5. Under the escape clause, 19 U.S.C. § 2251 (1982), any entity that is representative of a domestic industry can petition for relief from competition from imports. Petitions are submitted to the International Trade Commission (ITC), which initiates investigations and holds public hearings to determine whether increased quantities of imports are a substantial cause of serious injury, or pose a threat of serious injury, to a domestic producer of a product similar or competitive with the imported product. If the ITC makes an affirmative finding, it submits a report to the President with recommendations for import restrictions. 19 U.S.C. § 2251(d). At this point in the process, the President has a considerable degree of discretion as to what remedial measures to apply. See 19 U.S.C. § 2252 (1982). Such measures can be unilateral, such as the imposition or increase of duties, tariff-rate quotas and quantitative restrictions; or the measures can be bilateral, such as orderly marketing agreements and trade negotiations. 19 U.S.C. § 2253(a) (1982).
to bar imported steel at any price below a computed cost of products plus profit by Japan's most efficient producer. This "trigger price" was raised twelve percent in 1980, and in 1983 the section 201 escape clause was used by President Reagan to increase tariffs on stainless steel sheet, strip, and plate and to apply import tonnage quotas on stainless steel bar and rod and alloy steel. Pressure is now being brought to bear on the Japanese to limit exports of electronic equipment and semiconductors. U.S. industries and trade associations have in recent years used dumping and countervailing duty petitions to combat increased Japanese export competition.

7. The trigger price mechanism (TPM) was instituted in 1978 as an alternative to the imposition of duties or quotas in order to protect the economically distressed U.S. steel industry. When an imported steel product is sold at a price below the reference price established by the TPM, it "triggers" an antidumping investigation. See "Trigger Prices" for Imported Steel Mill Products, 43 Fed. Reg. 1464 (1978). The basic data used to establish the reference prices were provided by MITI, which used data from six major Japanese steel companies and some small companies using electric furnaces. Id. MITI's figures were questioned by domestic producers and revised by a Treasury Department task force sent to Japan. See Revisions by Treasury Steel Trigger Price Task Force, 43 Fed. Reg. 32,710 (1978).

The TPM was criticized for maintaining and encouraging higher prices while not contributing to the resuscitation of the U.S. steel industry. See Steel Imports and the Administration of the Antidumping Laws: Hearings Before a Subcomm. of the House Comm. on Government Operations, 96th Cong., 1st Sess. 26, 32-36 (1980) (statement by Robert W. Crandall, Senior Fellow, Brookings Institution); Note, Protecting Steel: Time for a New Approach, 96 HARV. L. REV. 866 (1983). In January 1982, as unmollified steel producers were preparing to file unfair trade practice complaints against eleven countries, not including Japan, the Administration decided that the TPM was ineffective and would be immediately suspended. See Statement by Secretary of Commerce Malcolm Baldrige on the Steel Trigger Price Mechanism, Jan. 8, 1982, reprinted in U.S. IMPORT WEEKLY (BNA) No. 110, at 351 (Jan. 13, 1982). It is interesting to note that for the first eight months of 1983, steel imports from developing countries have far exceeded imports from both Japan and the European Community. See LDC Imports in August Rise to Record Level as U.S. Firms Plan to File Cases, 9 U.S. IMPORT WEEKLY (BNA) 5 (Oct. 5, 1983).

8. The ITC recommended three years of import relief; the President, however, pressured by domestic industry leaders seeking a five-year period of relief, imposed a combination of quotas and tariffs over four years. See USTR and White House Statement on Specialty Steel Relief, 8 U.S. IMPORT WEEKLY (BNA) 550 (July 6, 1983).

9. In 1983, the Semiconductor Industry Association released a report entitled THE EFFECT OF GOVERNMENT TARGETING ON WORLD SEMICONDUCTOR COMPETITION accusing the Japanese of targeting the semiconductor industry, utilizing unfair tax subsidies, and limiting domestic market access.

MITI responded to these allegations by explaining that the theory of Japanese industrial policy is to encourage the development of private industry by lessening future uncertainty through the preparation of industrial forecasts, and when necessary, through incentives and regulation. MITI argues that Japanese policy is consistent with policies agreed upon within the Organization of Economic Cooperation and Development (OECD) and that all states practice some form of industrial policy. It pointed out that the United States Department of Defense and NASA alone in 1982 spent greater than 5.04 trillion yen more on research than the Japanese government in 1980. See MITI's Yamanka Defends Japanese Government's Role in Industrial Policy, 8 U.S. IMPORT WEEKLY (BNA) 97 (Apr. 20, 1983).

10. Antidumping and countervailing duty petitions initiate a process that is designed to identify unfair trade practices of dumping and subsidization and to remedy the effects of such practices on domestic competition. Dumping occurs when a domestic industry is injured by foreign products sold in the United States at "less than fair market value" (LTFV). The appropriate remedy is the imposition of an antidumping duty to offset the difference between the imported value and the "fair value." 19 U.S.C. §§ 1673-1673i (1982). Subsidization occurs when a domestic industry is injured by imported goods that, with respect to manufacture or exportation, have been subsidized by the exporting country. The appropriate remedy is the
The cumulative effect of these protectionist actions, combined with similar measures adopted by European and other countries, is to short-change consumers who are denied the benefit of lower prices or the products they desire, to prop up declining industries artificially, to preserve existing inefficiencies, to retard innovation and necessary new investment, and to retard desirable structural changes in the world economy. They also wreak havoc on the institutions and principles of free trade upon which the postwar economic prosperity was built and increase the threat of a 1930s-style trade war of mutual retaliation. The GATT agreements and machinery are totally insufficient to settle really important issues; nations use the GATT only to claim their “rights”, never to fulfill their obligations.

III

It may be objected, however, that these protectionist measures, while regrettable, are necessary counters to Japan, in particular, which engages in a concerted policy to close her domestic markets to foreign products while subsidizing and “targeting” exports. In this view “free trade” must give way to the principle of “fair trade.” The brief carried against Japan consists of several points: (1) that high tariff barriers are maintained in key industries; (2) that investments in and acquisitions of Japanese companies are controlled; (3) that quotas are maintained on certain products such as agricultural goods; (4) that certification and testing of imported products is capricious and cumbersome; (5) that government procurement discriminates in favor of domestic firms; (6) that trade in services is restricted; and (7) that government subsidies and the refusal to apply antitrust laws against Japanese companies allow “targeting” of exports in certain important industries.

In recent months Japan has responded in meaningful ways to virtually all these issues. With regard to tariffs, Japan began a liberalization program in 1978 and in the past six years has gone from being a high tariff country to having the lowest tariff rate of any industrial country in the world. This process started in 1978, when Japan unilaterally made tariff imposition of a countervailing duty equal to the amount of the net subsidy. 19 U.S.C. §§ 1671-1671f (1982).

Many of the petitions in recent years have been specifically directed at products that are imported primarily from Japan. Investigations have been initiated against such imported Japanese products as television sets, see 41 Fed. Reg. 14,949 (1976), where the investigation was suspended without determination, 41 Fed. Reg. 55,949 (1976), probably due to the orderly marketing agreement, supra note 6; automobiles, see 40 Fed. Reg. 33,756 (1975), where the investigation was discontinued after a finding that neither Honda, Nissan, nor Toyota imported their automobiles at less than fair value, 41 Fed. Reg. 34,986 (1976); steel products, see 42 Fed. Reg. 56,403-05 (1977), where the petitions initiating the investigations were withdrawn in response to the institution of the trigger price mechanism, see 43 Fed. Reg. 9212 (1978); and industrial fasteners, 41 Fed. Reg. 23,732 (1976), which led to the imposition of countervailing duties after a determination that promotional assistance by JETRO and tax deferrals through the Overseas Market Development Reserve constituted grants by the Japanese government, 42 Fed. Reg. 23,146 (1977). In addition, an industry can turn to the escape clause; for example, when Harley-Davidson lost its antidumping case in 1978, 43 Fed. Reg. 52,295 (1978), it initiated and won a section 201 case. See Heavyweight Motorcycles, and Engines and Power Train Subassemblies Therefor, Report to the President on Investigation No. TA-201-47 under Section 201 of the Trade Act of 1974, UNITED STATES INTL. TRADE COMMISSION PUBLICATION 1342 (Feb. 1983), reprinted in 4 INTL. TRADE REP. DECISIONS (BNA) 2469.
concessions on 2,600 industrial products and 200 agricultural products. Further concessions were made in connection with the Tokyo Round in 1979.\textsuperscript{11} In 1982, as a result of a new negotiation, tariffs were again reduced thirty-five percent on 1,635 items, including computers, plywood, heavy electrical machinery, automotive tires, medical and diagnostic instruments, steel, cosmetics, drugs, and televisions. In 1983 another round of tariff reductions was implemented by the government.\textsuperscript{12}

In 1980, Japan took significant steps to allow foreign companies to take investment positions in Japan or acquire Japanese companies. Wholly-owned foreign subsidiaries may now be more easily formed in Japan, and the approval system for foreign investment was changed to a prior notification system under the Foreign Exchange and Foreign Trade Control Law.\textsuperscript{13}

Japan also reduced the number of agricultural products subject to quotas, although twenty-two agricultural products are still restricted, including some as to which the United States has a competitive advantage — e.g., beef, peanuts, and citrus fruits.\textsuperscript{14} However, rising deficits incurred to support prices and consumer demand are now forcing Japan to rationalize and modernize its agricultural system. This is likely to involve increasing supplies, lowering prices and raising import quotas.

Japan is particularly concerned about charges that her customs clearance, testing, and certification procedures inhibit the entry of foreign goods. U.S. exporters have complained of arbitrariness in valuing many commodities for customs purposes.\textsuperscript{15} In 1979, Japan accepted the Customs Valuation

\begin{itemize}
\item \textsuperscript{12} Decree of the Ministerial Conference for Economic Measures: On the Promotion of External Economic Policies, Jan. 13, 1983. Affected items totaled 323, including some sensitive agricultural and manufactured products. Some of the tariffs are still relatively high. The tariff on cigarettes was decreased from 35% to 10% plus 342 yen/thousand units. In addition, the number of Japanese retailers that are allowed to handle imported tobacco was to be expanded from 20,000 to 50,000 in 1983, and all restrictions are to be lifted by 1985.
\item \textsuperscript{13} Gaikokukawase oyobi gaikokuboeki kanri ho (Foreign Exchange and Foreign Trade Control Law), Law No. 228 of 1949 (as amended by Law No. 65 of 1979, art. 52). Certain key areas such as agriculture and fisheries, oil, mining, and leather products are still restricted.
\item \textsuperscript{14} The U.S. position is that these quotas are illegal under article XI of the GATT since they are not implemented as a measure complementing regulations limiting domestic production. The Japanese admit this is technically correct, but argue that the United States has done the same thing with the benefit of a GATT waiver for § 22 of the Agricultural Adjustment Act, 7 U.S.C. § 624 (1982). This section requires the administration to impose quantitative restrictions or special fees on imports that interfere with a farm program or substantially reduce the amount of product subject to such a farm program. 7 U.S.C. § 624 (1982). Article XI of the GATT provides for the general elimination of quotas; therefore, § 22 of the Act is inconsistent with GATT obligations. However, the U.S. obtained from the Contracting Parties an exceptionally broad waiver with no time limit and only an annual reporting requirement. The waiver was granted under article XI, which allows quotas on agricultural products in certain circumstances. The Contracting Parties to the General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents 32 (3d Supp. 1955).
\end{itemize}
Code of the Tokyo Round, and in 1981 amended the Customs Tariff Law to replace its former valuation principle, under which a product was valued at the price of importation assuming perfect competition, with the GATT code principles, under which primary reliance is placed upon the actual transaction value of an imported commodity.

Perhaps Japan’s most important effort toward liberalizing trade has been to revise the procedures for and facilitate the testing and certification of imported products. This occurred in response to complaints by foreign business that inspection and certification standards were arbitrary, cumbersome, and not based on international norms. After ratification of the Tokyo Round Standards Code, the government undertook a study of thirty laws on product standards and certification. On March 26, 1983, a Cabinet Decree was adopted requiring MITI, and other concerned ministries, to simplify testing, and proposing omnibus legislation to amend sixteen laws concerning standards. On May 19, 1983, the National Diet passed the omnibus bill.

As a result of these actions, technical barriers to exporting into Japan should be greatly reduced. The decree and omnibus law (1) enable foreign suppliers to apply for and obtain certification directly (formerly only the Japanese importer could do this); (2) require that foreign products and supplies be treated equally with their domestic counterparts; (3) provide for the publication of all standards and for a comment period of nine weeks before they are declared effective; (4) provide for compliance with international norms in such items as electrical appliances, motor vehicles, and food additives; and (5) simplify the testing process by accepting foreign test results and allowing the testing of samples.

16. Kanzei teiritsu ho (Customs Tariff Law), Law No. 54 of 1910 (as amended).
17. Kanzei teiritsu ho no kaisei nikansuru horitsu (Law to Amend the Customs Tariff Law), Law No. 5 of 1981. The transaction value is the actual price paid or payable by the purchaser of the imported goods. There are other methods of obtaining customs valuation if the transaction value cannot be determined. See Matsushita, supra note 11, at 322.
18. Professor Matsushita maintains that the standards and requirements are designed to meet domestic needs, not to discriminate against foreign products. He states that simple changes in administrative practices can remedy most of the complaints. Matsushita, supra note 11, at 325-26.
21. The Law to Amend a Part of the Related Laws to Facilitate the Obtaining of Type of Approval, etc., by Foreign Manufacturers, May 19, 1983.
In order to provide a mechanism to deal with complaints concerning the administration of trade standards and laws, the Japanese government established an Office of Trade Ombudsman (O.T.O.) in 1982. The O.T.O. is composed of Vice Ministers of concerned governmental agencies and is headed by the Vice Minister of the Cabinet Secretariat. An Advisory Committee drawn from the private sector oversees its operation. Complaints concerning trade matters may be filed at any concerned ministry, Japanese consulates and embassies abroad, and with JETRO (the Japan External Trade Organization). The O.T.O. can take an affirmative action to remedy the situation, clear up misunderstandings or refuse to take any action. As of August 1, 1983, 122 complaints had been received by the O.T.O. and 106 cases were completed. Relief was granted in 32 cases and misunderstandings were answered in 57 cases; in 17 cases no action was taken. The O.T.O. is proving to be an important vehicle for dealing with trade difficulties, and its informal, extra-legal character conforms with the “Japanese way” of settling disputes. 23

Government procurement procedures have also been greatly liberalized in Japan to allow foreign participation in the bidding process. Cabinet Order No. 300 of 1980 and the related Ministerial Ordinance stipulating special procedures for government procurement of goods24 provide that open bidding, open to both domestic and foreign persons, shall be required except in exceptional cases. In those cases the Ministry of Finance must be notified beforehand. In 1980, when American firms did not participate in the bidding to supply telecommunication equipment to the Nippon Telephone and Telegraph Company (NTT), the President of NTT requested the Department of Commerce to send a special notification to U.S. suppliers. A three-year Japan-U.S. intergovernmental agreement on NTT procurement was concluded in December 1980.25 As a result, purchases by NTT from U.S. firms in fiscal year 1983-1984 are expected to reach $140

23. See Office of Trade Ombudsman, Progress Report on O.T.O. Complaints Processing (July 29, 1983). The O.T.O. complaint process is a typical example of Japanese dispute settlement procedures. After a complaint is filed, O.T.O. officials consult by telephone or in person with responsible officials. There are no formal hearings and it is not expected that parties will be represented by attorneys. Most of the disputes so far have involved testing and certification and customs valuation and classification. An illustrative complaint concerning testing was submitted by a U.S. producer of aerosol products who wished to have its products tested by a private independent facility to meet Japanese import standards. MITI responded to the complaint by allowing for the selection of a private test facility. Id. at 12 (O.T.O. Complaint No. 94). Another example involved silicone dioxide, a common filtering agent for beer, which was not an approved food additive. This simple health regulation denied import certification for beer imports; however, in response to a complaint, the Ministry of Health and Welfare approved the substance, which in turn facilitated the importation of beer. Id. at 13 (O.T.O. Complaint No. 107). A complaint about the length of time required for the approval of imports of cosmetics prompted the Ministry of Health and Welfare to shorten the period. Id. at 16 (O.T.O. Complaint No. 100). Complaints have also obtained changes in customs classification and valuation; for example, the Ministry of Finance reclassified paint roller covers, previously classified as “knitted goods” (16.8% duty rate), to “paint rollers” (10% duty rate). Id. at 13 (O.T.O. Complaint No. 103).

Of the complaints received, 39 were from the United States, while 15 more complaints were filed by Japanese interests but involved products originating in the United States. Id. at 7.

24. Minister of Finance Order No. 45 (Nov. 18, 1980).

The Japanese market for services also appears open to foreign business. Foreign entities engaged in the banking, insurance, and securities businesses are expanding and capital restrictions are being liberalized. The United States-Japan Trade Study Group found that opportunities exist for entry into service markets in Japan, particularly in the areas of medical management, financial management, computer software, and truck leasing. A problem in this regard is lawyers' services; liberalization of this sector is being discussed by representatives of the American Bar Association and the Japan Federated Bar Association.

A charge frequently made against Japan is that of "targeting" exports in certain industrial sectors with the aim of market domination. This label, chosen for its emotional impact, refers to the idea that Japan favors certain industries with subsidies and tax advantages. The charge of "targeting" has proven political appeal; in the last year more than thirty bills were introduced in Congress to retaliate in some fashion against foreign trade barriers and subsidies. In December 1982, the Senate, at the behest of Houdaille Industries, Inc., adopted a resolution asking President Reagan to deny investment tax credits to U.S. companies that purchase Japanese computerized machine tools. The U.S. is threatening the Japanese with countervailing duty proceedings over alleged targeting.

The charge of targeting by Japan is most often heard in connection with high technology and microelectronics industries. Nevertheless, a U.S.
Embassy (Tokyo) study in 1982 concluded that computer hardware and software, electronic components, and bio-technology all have “good sales prospects” in the Japanese market. On October 6, 1983, Intel Corporation, a U.S. company that is the world's largest microprocessor maker, announced that its output capacity will be raised by about sixty percent over the next two years and, through its subsidiary Intel Japan, shipments will increase to a level of twenty percent of its total sales by the end of 1983. Cano Sales Company recently announced that it has contracted with Apple Computer, Inc., to begin marketing Apple's personal computers in Japan. Japan and the United States have established a High Technology Work Group and a Data Collection System to keep each other informed of the current market situation in each nation. The two countries have agreed to eliminate tariffs on semiconductor products.

The issue of targeting involves a pointless debate over antitrust, tax, and subsidy policies in both countries. The antitrust laws may be stronger in the United States, but the decision to bring enforcement proceedings is highly discretionary in both countries. Japan may have more direct subsidies of research and development, but U.S. subsidies may be even greater, although “hidden” in the budgets of NASA and the Department of Defense.

This unique and powerful system of industrial policy, that included assured financing, cooperative research and development, Government encouragement and subsidy, and controlled, but vigorous internal competition, helped Japanese companies achieve mass production scale. A brilliant ability for production innovation led to world-scale quality and competitiveness. Assured financing and domestic competition in a protected home market led inexorably to overcapacity and the famous export drives, or as the Japanese call them, “a concentrated downpouring of exports.” American pioneers of innovative technologies like solid-state television and numerically controlled machine tools found themselves out-produced in world markets almost before they recognized what was hitting them.

31. JAPAN BUSINESS, supra note 1, at 49-50.
34. Japan, U.S. Agree to Eliminate Semiconductor Import Duties, Japan Times, Nov. 9, 1983, at 7, col. 6 (Intl. ed.).
35. See United States International Trade Commission, Foreign Industrial Targeting and Its Effect on U.S. Industries, Phase I: Japan, Report to the Subcomm. on Trade of the House Comm. on Ways & Means on Investigation No. 332-162 Under Section 332b of the Tariff Act of 1930, UNITED STATES INTL. TRADE COMMISSION PUBLICATION 1437 (Oct. 1983). This report, which is very well done and contains comprehensive data on the topic, does not come to any clear-cut policy conclusions.

“Targeting,” in the sense of government support for particular industries that have potential for development and success in international markets, is very similar to the concept “national insurance policy” which is proposed by many for the United States. Legislation to combat “targeting” would be counterproductive. “Targeting” is not one policy but a diffuse group of often ad hoc decisions involving subsidies, antimonopoly law exemptions, and an almost limitless variety of other government aids. Any decision to retaliate against “targeting” would be political rather than legal because the concept defies legal definition. It would also be “overkill” since the U.S. already has legislation to combat elements of “targeting” such as subsidies which are subject to countervailing duties. Furthermore, the charge of “targeting” could easily be raised by other countries against the United States, provoking retaliatory legislation and protectionism.
Three conclusions are manifest from the foregoing discussion. First, the Japanese market is open to foreign goods, services, and investments to a remarkable degree, insofar as formal and legal barriers are concerned. Second, American penetration of the Japanese market is much greater than is commonly supposed. Third, there is a great deal of cooperative effort between the United States and Japan to work on and solve common problems.

Yet the trade frictions between Japan and the United States remain. Will they substantially diminish once the important measures Japan has taken to open markets and facilitate imports have had time to take effect? These measures will certainly make a difference and recent Japanese actions represent new opportunities for American business with the skill and determination to take advantage of them — but the opening of the Japanese market alone will not be a panacea to solve the economic problems in the United States.

Elementary analysis should tell us why this is so. The U.S. deficit with Japan is now over $20 billion and has been steadily increasing despite the fact that Japanese tariff barriers have been relatively low since 1978. Improvements in testing, standards, and certification, and in foreign access to government procurement contracts are not likely to make the massive difference needed in order to lower substantially the trade imbalance between the two countries. Even total elimination of all quotas on agricultural products will not turn the tide. It is estimated that if Japan abolished all such quotas the result would be to increase American sales of agricultural products to Japan by about $1 billion per year. Other countries such as Australia would provide powerful competition with the United States for a share of the Japanese agricultural market.

By the same token, present U.S. policies dealing with the trade imbalance with Japan are largely wrong and self-defeating. The retaliatory protectionist moves aimed at bilateral trade imbalances, in the form of requests for orderly marketing agreements and voluntary restraints, impede world economic progress, penalize the American consumer, and hurt the multilateral trading system. They should be used, if at all, only as temporary adjustment devices. They should also be rationalized within the GATT system as safeguard measures and not allowed to proliferate independently of internationally recognized norms of conduct. The U.S. trade laws concerning dumping, countervailing duties, and the escape clause should be carefully reexamined in view of their use for protectionist purposes in recent years. Legitimate applications to combat direct subsidies of exports and unfair pricing should be preserved, but new criteria should be formulated to eliminate protectionist uses.

Another faulty American policy is to object to all Japanese governmental interventions — whether in the form of administrative guidance, subsidies, tax advantages, or permission for groups of companies to pool their

36. About 50,000 U.S.-made products are currently available in Japan. JAPAN BUSINESS, supra note 1, at 1
37. AGENDA FOR ACTION, supra note 1, at 92.
efforts to develop new technologies — as somehow illegitimate. Japan’s continued economic strength is the direct result of her ability to ride the crest of the wave of structural changes in the world economy and to adjust by moving into higher quality, improved, value-added products and services. Both business and government have participated in making these necessary adjustments, a process of continued adaptation to social and industrial change. The Seiko Group, for example, is successfully making the transition from watches and clocks to integrated circuits and computers. The competitive advantage for watches and clocks has moved to other countries, but the company is still strong. Another company, Toray Industries, was originally a manufacturer of synthetic textiles. This industry, once one of Japan’s main export industries, has moved to other countries like Taiwan, Hong Kong, and Korea. Toray has moved into plastics and specialized chemical products; its textile operations have been narrowed and modernized, centering in high-quality long synthetic fibers.

These changes have been facilitated by government interventions in the form of tax advantages and administrative guidance. We should not object to such government measures when they are for the purpose of structural modernization. We should condemn them only when they are for the purpose of artificially preserving a declining industry whose competitive advantage is elsewhere. We should recognize that government intervention is sometimes necessary as an alternative to protectionism. Declining basic industries, on the other hand, should be exposed to the crucible of international competition. They will not disappear, but they will be forced to modernize and compete.

The key fact that we must realize is that the trade frictions between the United States and Japan are not caused by formal barriers to the Japanese market alone. More significantly, we must recognize and adapt our policies to structural changes sweeping over the world economy. These changes are the result of many complex factors: the interdependence of national economies due to the communications revolution and the success of the post-war trading system; new technological developments in computers and other areas; the rise of the developing nations; and the change in the price of oil and energy.

The United States economy, still the world’s most advanced and productive, has felt the shock of these structural changes. Traditionally strong basic industries such as steel, autos, textiles, and chemicals have languished while growth has occurred in the service sector of the economy and in a wide variety of newer high technology industries. In Western Europe the process has been much the same. Japan has been the major heir to primacy in the basic industries sector of the world economy. Its success in steel and autos is well known. In 1983, Japan also took over world leadership in the machine tools industry, a basic standard for measuring economic success since machine tools are a basic driving price in the economy, ultimately responsible for every other manufactured product. Japan also became the world’s number one appliance exporter in 1983, and its production ranks second to the United States.

The Japanese economy has matured, however, and there are signs that it will follow the path of the United States and Europe. Already services are becoming more important, and over half the employed population is now in
the service industries. The number of agricultural workers is decreasing; as people come into the cities from the rural areas, Japan faces problems of unemployment and job creation. Many basic industries are now languishing in Japan. In textiles, watches, shipbuilding, chemicals, and nonferrous metals there is increasing competition from abroad, particularly by the leading edge of the developing countries of the world. Even the vaunted Japanese steel industry has been hard-hit by the competition from South Korea, Brazil, and Venezuela. Not only have exports decreased but foreign steel has captured a significant share of the Japanese market, causing steel industry executives to call for quotas and marketing agreements directed at major competitors. In addition, there are calls in Japan to begin dumping and countervailing duty proceedings against steel imports and commodities from Pakistan and other countries. Budgetary deficits are also a problem in Japan, raising the spectre of inflation; there are calls for reducing governmental expenditures as in the United States.

Our problems with Japan and our larger economic difficulties can be dealt with only if business and government in the United States understand and accommodate the structural changes occurring in the world's economy. There are several points to consider here. First, we must recognize that traditional reliance upon demand management through fiscal and monetary policies will not be sufficient alone to the task we face. Because of continuing budgetary deficits in the United States and other countries, there is little room for use of fiscal policy to support demand. Similarly, continuing inflationary pressures place constraints on such a use of monetary policies. The United States should therefore adopt, and encourage other countries to take affirmative steps to promote, smooth structural adjustment based upon the market mechanism. This need not be anything so grandiose as “industrial policy,” which implies detailed governmental intervention in every sector of the economy. Rather, we may adopt new economic policies aimed at fine tuning and structural adaptation, such as worker retraining, a coordinated strategy for all federal research and development funding, a rationalization of existing tax benefits and subsidies, rethinking antitrust policy in terms of the necessity to reduce market rigidities and structural imbalances, and export promotion assistance.

Second, we must work to reaffirm and reinvigorate the international free trading system. Using protectionist instruments to retard structural change is a destructive and, in the long run, futile effort to preserve the status quo. Our trade policies have been aimed in the wrong direction, discouraging needed economic adjustments.

Third, both government and business must strive to design their strategies and policies in an international perspective. We can no longer think in terms of the domestic market alone but must consciously participate in the international economy on every level, as do other countries such as Japan. Our huge trade deficit is primarily due to the high value of the dollar in relation to other currencies and the cut-backs on imports by countries struggling with large international debts. In formulating our monetary and fiscal

38. Although Japan accepted the Subsidies Code of the Tokyo Round under the GATT, it has never used dumping or countervailing duty concepts against imported products. Matsushita, supra note 11, at 322-23.
policies, therefore, we should give more consideration to the fact that high interest rates tend to overvalue the dollar in currency trading, inhibiting exports and causing higher unemployment. We should also give more attention to the economic problems of the developing world and not hesitate to increase contributions to the International Monetary Fund and the World Bank where needed to sustain the world economy.

American business too should internationalize its product development and marketing strategies. Exporting is no longer an exotic business activity but is necessary to the economic health of our nation. Exports will be a major source of business profits and job creation in the future. An example of this is the new opportunity for selling in Japan.

Japan is now the largest market for consumer goods in the world next to the United States. Surveys have shown that the Japanese are highly sophisticated about their choice of goods to buy, but that seventy percent do not discriminate between foreign goods and domestic goods during shopping. Now that Japan has reduced the formal and legal barriers to her markets, American companies should strive to overcome the remaining barrier — the different business and legal cultural milieu of Japan.

The Japanese market poses a challenge to American business because of the immense difference in culture between the two countries. This produces both a gap in communication and misunderstandings. It is the responsibility of the American business community, as well as Japan, to move to understand and overcome these problems. We should train a new corps of business and legal specialists with knowledge of Japanese language and culture. We may ask the Japanese to change their attitudes where appropriate, but more importantly, it is our responsibility to understand and adapt to the "Japanese way" of doing business.

The Japanese often act very slowly and cautiously in a business relationship. This fact is often a source of frustration. We should recognize, however, that this stems to some degree from the Japanese style of internal decisionmaking, which is a "bottom-top," consensus approach. It is also the result of the Japanese emphasis on establishing good human relations and a fundamental bond of trust and sincerity before entering into a business relationship. They are repelled by the more legalistic, adversarial way of dealing Americans are used to. American firms will find that the Japanese are slow to come to a decision, but no one is more reliable and prompt in implementing and adhering to a decision once taken.

Another problem Americans find in Japan is that the distribution system is, by our standards, complex and lengthy. This makes marketing in Japan difficult and expensive. Foreign companies that have had success in Japan have overcome this obstacle in one of two ways: they have found reliable Japanese partners and concluded sole distributorship agreements or they have invested the time and resources into creating their own distribution network, often operating outside of the usual Japanese channels. It is inevitable that, as the Japanese economy matures, distribution channels will

become more streamlined and more efficient. This process is already at work.

American and European business is at the threshold of a great opportunity to be successful in the large and lucrative Japanese market. A combination of the process of modernization and government import promotion campaigns are changing Japanese buying habits and attitudes. In the future Japan will be receptive to products tailored to Japanese demand for performance, style, and quality. As in the United States and Europe, the Japanese are developing a taste for imported products. Foreign companies will be successful if they have the patience to make the investment of money and time necessary to take advantage of this.

Finally, it is important in our dealings with Japan to recognize that the notion of "Japan, Inc.," perpetrator of a giant conspiracy to take advantage of the world trading system in order to dominate world markets while closing its own doors, is unequivocally and demonstrably false. The Japanese are indeed formidable competitors, but they are acting fairly and responsibly as part of the international business community. In a very real sense, we are indebted to Japan and her enormous productivity and vitality. The Japanese challenge has in large measure shaken us out of our economic lethargy. We are reshaping and rethinking our own economic future in basic ways that will contribute to the future growth and productivity of our society. We must continue on this path and resist calls for action that, in the long run, would be destructive to our own well-being.
## Abbreviation List

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Title</th>
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<tbody>
<tr>
<td>AG</td>
<td>DIE AKTIENGESELLSCHAFT</td>
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<tr>
<td>A.J.D.A. DOCTR.</td>
<td>L'actualité juridique. Droit administratif — doctrine</td>
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<tr>
<td>A.J.D.A. Jur.</td>
<td>L'actualité juridique. Droit administratif — jurisprudence</td>
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<tr>
<td>AM. SLAVIC &amp; E. EUR. REV.</td>
<td>The American Slavic and East European Review</td>
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<tr>
<td>AM. SOCY. INTL. L. PROC.</td>
<td>American Society of International Law — Proceedings</td>
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<tr>
<td>ANN. FR. DR. INT.</td>
<td>Annuaire français de droit international</td>
</tr>
<tr>
<td>ANN. INST. DR. INT.</td>
<td>Annuaire de l’Institut de droit international</td>
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<tr>
<td>AöR</td>
<td>Archiv des öffentlichen Rechts</td>
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<tr>
<td>ASIA Q.</td>
<td>Asia Quarterly</td>
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<tr>
<td>AWD</td>
<td>Aussenwirtschaftsdienst des Betriebs-Beraters</td>
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<tr>
<td>BGB</td>
<td>Bürgerliches Gesetzbuch</td>
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<tr>
<td>BGBI</td>
<td>Bundesgesetzblatt</td>
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<tr>
<td>BGHZ</td>
<td>Entscheidungen des Bundesgerichtshofes in Strafsachen</td>
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<tr>
<td>Brit. Y.B. Intl. L.</td>
<td>The British Yearbook of International Law</td>
</tr>
<tr>
<td>Bull. COMM. EUR.</td>
<td>Bulletin des Communautés européennes</td>
</tr>
<tr>
<td>B.VERF., CONST., COST. FED.</td>
<td>Bundesverfassung, Constitution fédérale, Costituzione federale</td>
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<tr>
<td>BVerFG</td>
<td>Entscheidungen des Bundesverfassungsgericht</td>
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<td>B.W.</td>
<td>Burgerlijk Wetboek</td>
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<tr>
<td>CAMBRIDGE J. ECON.</td>
<td>Cambridge Journal of Economics</td>
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<tr>
<td>CAH. DR. EUR.</td>
<td>Cahiers de droit européen</td>
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<tr>
<td>C.C.</td>
<td>Codice civile</td>
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<tr>
<td>Chron. Polit. Étrang.</td>
<td>Chronique de politique étrangère</td>
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Abbreviation List

C.J. Comm. E. Rec.  Cour de Justice des Communautés européennes — recueil de la jurisprudence de la Cour
CLUNET  Journal du droit international
COLUM. J. TRANSN. L.  Columbia Journal of Transnational Law
Common Mkt. L.Reps.  Common Market Law Reports
COMMON Mkt. L. REV.  Common Market Law Review
COMMON Mkt. REP. (CCH)  Common Market Reporter (CCH)
COMMON Mkt. REPS.  Common Market Reports (CCH)
C.P.C.  Codice di procedura civile
COPYRIGHT BULL.  Copyright Bulletin
CTC Reporter  The Centre on Transnational Corporations Reporter
CT. J. EUR. COMM. JUDG. OP.  Court of Justice of the European Communities — Judgments and Opinions
DALLOZ  Recueil Dalloz-Sirey
DÖV  Die Öffentliche Verwaltung
D.S.L.  Recueil Dalloz-Sirey — législation
D.S. Jur.  Recueil Dalloz-Sirey — jurisprudence
DVBL  Deutsches Verwaltungsblatt
EA  Europa-Archiv
E. Comm. Ct. J. Rep.  Court of Justice of the European Communities — Reports of Cases before the Court
ECON. GEOGRAPHY  Economic Geography
ECJR  European Court of Justice Reporter
E.H.R.R.  European Human Rights Reports
EUR  Europarecht
EUR. L. REV.  European Law Review
Europ. T.S.  European Treaty Series
FED. B. ASSN. PROC.  Federal Bar Association — Proceedings
GAZ. PAL. DOCTR. & CHRON.  Gazette du Palais — doctrine et chronique
GG  Grundgesetz
GRUR INT.  Gewerblicher Rechtsschutz und Urheberrecht, internationaler Teil
GYIL  German Yearbook of International Law
HAGUE ACAD. INTL. L. COLLECTED COURSES  Hague Academy of International Law — Collected Courses
HAGUE ACAD. INTL. L. COLLOQUIUM  Hague Academy of International Law — Colloquium
IIC
International Review of Industrial Property and Copyright Law

I.L.R.
International Law Reports

INDIAN, J. PUB. AD.
Indian Journal of Public Administration

INTL. BUS. LAW.
International Business Lawyer

INTL. & COMP. L.Q.
International and Comparative Law Quarterly

INTL. J. SOC. L.
International Journal of the Sociology of Law

INTL. LEGAL MATERIALS
International Legal Materials

INTL. ORG.
International Organization

IPRAX
Praxis des internationalen Privat- und Verfahrensrechts

ITAL. Y.B. INTL. L.
The Italian Yearbook of International Law

JAHRBUCH FÜR INTL. RECHT
Jahrbuch für internationales Recht

J. COMMON MKT. STUD.
Journal of Common Market Studies

J. COMP. BUS. & CAP. MKT. L.
Journal of Comparative Business and Capital Market Law

J. COMP. CORP. L. & SEC. REG.
Journal of Comparative Corporate Law and Securities Regulation

J.C.P.
Juris — classeur périodique

J. ECON. LIT.
Journal of Economic Literature

J. INTL. AFF.
Journal of International Affairs

J. LEGAL EDUC.
Journal of Legal Education

J.O.
Journal officiel de la République française

J.O. EUR. COMM.
Journal official des Communautés européennes

J. SOC. ISSUES
Journal of Social Issues

JEW. Y.B. INTL. L.
The Jewish Yearbook of International Law

JT
Journal des tribunaux

J.W.T.L.
Journal of World Trade Law

JZ
Juristenzeitung

LAW QUAD. NOTES
Law Quadrangle Notes

LIEI
Legal Issues of European Integration

NW. J. INTL. L. & BUS.
Northwestern Journal of International Law and Business

NJW
Neue juristische Wochenschrift

O.J. EUR. COMM.
Official Journal of the European Communities

PROC. CT. J. EUR. COMM.
Proceedings of the Court of Justice of the European Committees

RABELSZ
Rabels Zeitschrift für ausländisches und internationales Privatrecht

R.B.D.I.
Revue belge de droit international

R.C.D.I.P.
Revue critique de droit international privé
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<th>Abbreviation</th>
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<tr>
<td>REV. CRIT. JURIS. BELGE</td>
<td>Revue critique de jurisprudence belge</td>
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<td>REV. DR. INT.</td>
<td>Revue de droit international</td>
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<td>REV. GEN. DR. INT. PUBL.</td>
<td>Revue générale de droit international public</td>
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<td>REV. JUR. U.P.R.</td>
<td>Revista jurídica de la universidad de Puerto Rico</td>
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<td>REV. MARCHÉ COMM.</td>
<td>Revue du marché commun</td>
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<tr>
<td>REV. TRI. DR. COMP.</td>
<td>Revue trimestrielle de droit comparé</td>
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<td>RDIDC</td>
<td>Revue de droit international et de droit comparé</td>
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<td>RGBI</td>
<td>Reichsgesetzblatt</td>
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<td>R. SUISSE DR. INT. CONC.</td>
<td>Revue suisse du droit international de la concurrence</td>
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<td>RIV. DIR. INTERN.</td>
<td>Rivista di diritto internazionale</td>
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<td>RIW</td>
<td>Recht der internationalen Wirtschaft</td>
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<td>RIW/AWD</td>
<td>Recht der internationalen Wirtschaft — Aussenwirtschaftsdienst des Betriebs-Beraters</td>
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<td>RTDE</td>
<td>Revue trimestrielle de droit européen</td>
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<td>SCHW. AG</td>
<td>Schweizerische Aktiengesellschaft</td>
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<td>SEW</td>
<td>Sociaal-economische wetgeving</td>
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<td>TEL AVIV U. STUD. L.</td>
<td>Tel Aviv University Studies in Law</td>
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<td>VA. J. INTL. L.</td>
<td>Virginia Journal of International Law</td>
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<td>VAND. J. TRANSNATL. L.</td>
<td>Vanderbilt Journal of Transnational Law</td>
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<td>VVDStRL</td>
<td>Veröffentlichungen der Vereinigung der Deutschen Staatsrechtslehrer</td>
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<td>WUW</td>
<td>Wirtschaft und Wettbewerb</td>
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<td>Y.B. EUR. CONV. HUM. RTS.</td>
<td>Yearbook of the European Convention on Human Rights</td>
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<td>Y.B. EUR. L.</td>
<td>Yearbook of European Law</td>
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<td>ZAÖRV</td>
<td>Zeitschrift für ausländisches öffentliches Recht und Völkerrecht</td>
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<td>ZFA</td>
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<td>ZfRV</td>
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<td>ZfSR</td>
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<td>ZGR</td>
<td>Zeitschrift für Unternehmens- und Gesellschaftsrecht</td>
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<td>ZHR</td>
<td>Zeitschrift für das gesamte Handelsrecht und Wirtschaftsrecht</td>
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Michigan Law Review

ZPO
Zivilprozessordnung

ZVGLRWiss
Zeitschrift für vergleichende Rechtswissenschaft