
THE U.S.-JAPANESE
ECONOMIC RELATIONSHIP:
CAN IT BE IMPROVED?

Edited by
KICHIRO HAYASHI

THE U.S.—JAPANESE ECONOMIC RELATIONSHIP: CAN IT BE IMPROVED?

Edited by

KICHIRO HAYASHI



NEW YORK UNIVERSITY PRESS
New York and London

Library of Congress Cataloging-in-Publication Data

The U.S.-Japanese economic relationship: can it be improved? / edited
by Kichiro Hayashi.

p. cm.

Bibliography: p.

Includes index.

ISBN 0-8147-3458-8

1. United States—Foreign economic-relations—Japan. 2. Japan—
Foreign economic relations—United States. 3. United States—
Economic policy—1981– 4. Japan—Economic policy—1945–
I. Hayashi, Kichiro, 1936– . II. Title: US-Japanese economic
relationship.

HF1456 . S .J3U5545 1989

337 . 73052—dc19

88-28722

CIP

Copyright © 1989 by New York University

All rights reserved

Manufactured in the United States of America

New York University Press books are Smyth-sewn and
printed on permanent and durable acid-free paper.

**THE U.S.—JAPANESE
ECONOMIC RELATIONSHIP:
CAN IT BE IMPROVED?**

PREFACE

The primary purpose of this book is to contribute to pragmatic knowledge for the reduction of existing as well as latent economic conflict between the United States and Japan, and for the better management of our interdependent economic systems. More specifically, we wish to produce practical implications and recommendations for business and public policy leaders through identification of similarities and differences in the behavior and process of formulating and implementing policy on three different levels in Japan and the United States. These levels are national, industrial, and corporate.

The problem—the original motivation behind our research endeavor—is that Japan and the United States have not sufficiently understood one another, particularly in the processes and behavior of objective formulation and implementation. There have been many actual instances in which a lack of mutual understanding aggravated the problem on various levels between the two countries. The result has almost always been further frustration characterized by the United States “pushing harder” and Japan “pulling wrong.”

We have identified many sources of such a lack of understanding, misunderstanding, and miscommunication between the two countries on the national, industrial, and corporate levels. We feel we have explained comparatively to American businessmen and public administrators why Japan has developed her characteristic institutions and processes, how they are rational and efficient in the Japanese context, and how their malfunctions and problems are solved. This intention has been motivated by our observation of general dissatisfaction resulting from such “explanations” that take the form “Japanese phenomena occur because they are Japanese.” Likewise, we have explained some American institutions and processes by contrasting them to the Japanese.

There is a considerable amount of literature relating to United States–Japan relations. However, little of it systematically considers the differences between the United States and Japan in the basic concepts involved in viewing micro- and macroeconomic systems

such as the firm and the economy. For instance, not enough has been done about the comparative concept of *relations*, e.g., how the two countries differ in answer to such questions as what relations basically mean, which is central in analyzing United States–Japan relations. Let us look at it a bit more here.

It has been found in our research that the two countries' managers hold a common concept of the future—that the future is to be created. The difference is that U.S. managers think that the future is to be created essentially by individuals, while Japanese managers think that the future is to be created by mutual relations. Similar research I conducted in the mid-seventies revealed that the dominant Japanese view was that the future emerges out of the unknown, beyond our control or creation. This indicates that the Japanese view has changed drastically during recent years, coming somewhere near the U.S. view. However, the difference still is clear.

Attempts to create the future involve planning. Therefore, the concept of planning implies the concept of how the future is created. We have found that there is a great deal of difference in the concept of planning between the two countries. U.S. managers understand planning in terms of informational exchange and the formulation of the skeleton, and they wish to take part in the process, while Japanese managers deem planning to be the process of formulating a blueprint of collaboration and thus a detailed program of concerted action. Half of the Japanese managers surveyed, unlike their U.S. counterparts, were willing to leave the planning of the overall framework to top management.

The individualistic view does not favor detailed programs of action in fear that they might not allow individual freedom within the overall framework. For similar reasons, this orientation prefers participation in creating the overall framework. However, the Japanese concept that the future is shared through mutual collaboration presumes that the frame is created with all members of the organization taken into account, making it unnecessary for every member to participate in creating the framework.

Collaboration holds the possibility of conflict. The concept of conflict is almost diametrically opposite in the two countries. U.S. managers seem to feel that conflict is inevitable, and to some extent

natural, and that when it does occur it is best to face it and argue for a fair solution. In contrast, Japanese managers feel that conflict is unnecessary and undesirable and that it is best to solve problems without contention or confrontation.

What differences in the concept of relations do these differences in the basic concepts create between the two countries? The U.S. view tends to conceive relations as competitive and instrumental and liable to produce zero-sum games (a gain for one party is a loss for the other), while the Japanese view sees relations as interdependent and liable to produce positive-sum games (it is possible for both parties to gain). In the latter view, relations are deemed conducive to mutual benefits, while in the former, there is no natural tendency to mutual benefit. As a result, Japanese tend to create organic organizations, while Americans tend to create mechanistic organizations.

A critical implication of the difference in the concept of relations is that the two countries diverge in their basic understanding of which international relations serve their common interests—for example, Japanese emphasize mutual spirit while Americans require mechanistic rules.

This difference in the concept of relations is more deep-rooted and significant than we might think. In fact, one of the findings from our collaborative research is that the major differences between the United States and Japan in the process of managing economic systems, from the firm level to the level of industrial policy for the economy, have roots in the different concepts of relations.

For instance, I compared intracorporate relations between American and Japanese managers among twenty-five Japanese subsidiaries in the United States and fifteen U.S. subsidiaries in Japan. Three out of every four American managers in the Japanese subsidiaries in the United States were frustrated, ultimately because of the conceptual differences that lie behind Japanese decision making and interpersonal relations. Aside from some subtle changes currently underway in Japan, the Japanese firm is communally owned by the employees, sociopsychologically speaking. This concept of the firm is connected with the concept of employee relations as the complementary and lasting relations of co-owners.

In contrast, U.S. executives deem intracorporate relations to be

instrumental for attaining objectives centering on profit making and manage them as mechanistic relations based on job descriptions.

With these differences undiscussed but subconsciously rooted in their minds, Americans who work for a Japanese organization cannot truly become part of it. As a result, they cannot participate effectively in the decision-making process. This causes frustration. The main subject for discussion in mixed organizations should be how to hybridize their differing concepts of the firm, i.e., which is it, individuals or their mutual relations that make decisions to create the future. Such discussions should lead the way to finding a common ground or context on which Americans and Japanese can collaborate better.

Minato and Roehl compared Japanese interfirm relations with those of the United States within the context of the subcontracting structure. The Japanese subcontracting structure is pyramidal with the core assembler on top. Interfirm relations in Japanese subcontracting arrangements are long-term, interdependent, and non-contractual. In contrast, the issue for the assembler in the United States is "make or buy" parts needed for assembly. If you decide to buy them, the relations between suppliers and the assembler are short-term, contractual, and arm's-length. Clearly, different concepts of relations are working in the two countries.

In the analyses, Roehl emphasized economic analysis such as technology transfer costs in Japanese subcontracting, while Minato advocated the advantage of organic interfirm relations seen in the Japanese structure. This implied that the difference in the concept of relations existed not only in economic realities but also in the mind of the researchers.

Sakurai and Haley compared intragovernmental relations between the two countries, centering on the formative processes of industrial and economic policy. In Japan, critical in the processes of policy formation are long-lasting relations, both within the ministries and between the bureaucrats and industry, based on little personnel turnover, and the resultant effectiveness in information collection. In the United States, personalities in Congress play a major role, and since personnel turnover is always high, policy making fluctuates greatly. The underlying legal culture in Japan may be highlighted by an emphasis on societal harmony, while its counterpart in the United States may be the right of the individual. The

premise behind the culture is complementary relations in Japan, while it is universal rights on the basis of zero-sum competition in the United States. Thus, the differences in the process of policy formation between the two countries cannot be separated from the differing concepts of relations.

Ishiyama and Pugel analyzed government-people relations, centering on the process of industrial-policy implementation. Americans believe in free enterprise, with competition at the base of all economic relations, and insist on small government. As a result, they are skeptical about industrial policy that is formulated largely by government. An associated thought is that industrial policy tends to be a source of inefficient allocation of resources and market-distorting.

In contrast, Japanese government, industry, and academia have collaborated to dream up the future Japanese industrial structure characterized by knowledge-intensive industries. Tax reform, considered as a form of industrial policy, has been characterized by confrontation-evading behavior in Japan, while it has created many scenes of outright confrontation in the United States, in the observation of Pugel.

Thus, the concept of relations has penetrated every level of economic systems, and its substantive differences baffled mutual understanding sometimes subtly and other times drastically. Having valued relations, Japan seeks for them seemingly almost at any cost. Without knowing of the "hidden" internal relations but knowing Japanese values through experience, the United States has tried to solve its problems with Japan by exerting pressure on Japan. This truncated version of United States-Japan relations is indicative of the superficial mutual understanding of the other country's concept of relations. In this book we are trying to suggest certain policies to overcome these problems.

Our methods of research have essentially involved crossbreeding within a binational eight-person team consisting of four pairs of Japanese and American researchers. Under a research grant from the United States-Japan Foundation and administrative support from Aoyama Gakuin University, the four pairs conducted independent, comparative research on their respective problem areas in the first year. In the second year, the eight researchers engaged in intrateam discussions of their findings in order to draw common implications

and recommendations, as well as to develop a new paradigm of United States–Japan relations into the twenty-first century.

We looked for scientific explanations through comparative-pattern models of process and behavior. Explanation may be contrasted with description as telling us not merely what happens, but why particular occurrences develop. Our main approach has not been quantitatively analytical, but data handling has been numerical in part.

In the processes of information collection and analyses through interviews and questionnaires, we used some interactive methods between the Japanese and American researchers as well as between the researchers and selected practicing interviewees developed most recently under a genre of new paradigm research. This approach was made possible by our backgrounds and experiences.

For instance, Sakurai has constantly served on numerous committees and subcommittees of the Ministry of International Trade and Industry for seventeen years and has lived three years overseas. His partner, Haley, has been involved in research and other professional tasks in Japan six times for a total of six years, besides his experience in West Germany and Australia. Ishiyama had been an official in the Japanese Ministry of Finance for sixteen years and lived overseas for six years. His partner, Pugel, was Associate Director of the Center for Japanese Business and Economics at New York University, and invested a year in Japan to do this research in close association with Ishiyama. Minato was an Economist for the Osaka Prefectural Institute of Economic Research, primarily for small business, for eight years. Roehl is known as a Japanologist with much direct involvement in Japan. Both Roehl and Haley speak Japanese fluently. Hayashi worked for a Japan-based multinational firm for four years, and has been engaged in empirical research involving numerous multinationals in Japan and overseas for the last sixteen years, including fourteen years living overseas. Hayashi's American partner withdrew from the project because of insurmountable circumstances. Cole contributed his chapter in his place.

We are fully aware, however, that familiarity does not necessarily grant an explanation, particularly a scientific explanation, though it helps us to see one. Furthermore, a scientific explanation is not necessarily a semantic explanation: if the person across the cultural divide to whom an explanation is addressed in this type of prag-

matic comparative research does not “get it,” the meaning has not been conveyed. As you have seen, our binational team is well qualified in this respect.

ACKNOWLEDGMENT

We first wish to express our deepest gratitude to those managers of the Japanese and U.S. firms, government officials, and other professionals in Japan and the United States who kindly received us for interviews and shared their experiences with us; to those managers and professionals who kindly responded to our questionnaires; and to others who collaborated with us in one way or another—all of whom together made this book possible.

Our deepest appreciation must go also to the U.S.–Japan Foundation that funded the research and the conference which resulted in this book. Particularly, Chairman William D. Eberle, former President Richard W. Petree, and Program Director Ronald Aqua of the Foundation provided us with effective moral support, for which we are grateful.

Since this research project was conceived of as a school project of the School of International Politics, Economics and Business, Aoyama Gakuin University, the whole process consisted of a number of contributions of varied form from several parties in the university. Among others, we wish to thank Chancellor and former Dean Kinjiro Ohki, former President Masakazu Uzawa, and Dean Fumio Ito for their positive support of the project. We also wish to thank Professor Shigeru Ishikawa and Professor Shinkichi Eto, former Directors of the school's Institute of Research and the other members of the Institute's Steering Committees for their administrative contributions; and the members of the school's Research Advisory Committee for their academic comments.

We also wish to express our gratitude to Professor Keiichiro Nakagawa, current Director of the Institute of Research and Professor Hiroshi Ohta of the current Steering Committee who made painstaking preparations for the successful international conference in 1987 from which this book has been developed. We must note here that the conference would not have been as successful without the support by Keidanren (Federation of Economic Organizations).

Another note of deep appreciation must go to Professor Shizuo Saito for his unique contribution throughout this project. Administrative assistance was provided by Ms. Nanako Shinagawa and her colleagues, deserving gratitude. There are many others whose names have not been included to avoid having the list become too long. In a way, the book is an example of “Japanese management and teamwork, also participated in by Americans” when it works. My hearty thanks are in order.

Kichiro Hayashi, editor

CONTRIBUTORS

CHAPTER AUTHORS

Robert E. Cole is Professor of Sociology and Business Administration at the University of Michigan. He has been an active researcher on Japan for over twenty years focusing primarily on Japanese work organization. He recently completed a book on the diffusion of small group activities in Japan, Sweden, and the United States. His current research focuses on the use of Japanese approaches to quality improvement in the United States.

John O. Haley is Director of the Henry M. Jackson School of International Studies and Professor of Law and East Asian Studies at the University of Washington in Seattle. A graduate of Princeton (A.B. 1964), the Yale Law School (LL.B. 1969) and the University of Washington (LL.M. 1971), he has also studied in Japan (Kyoto 1971–1972) and the Federal Republic of Germany (Freiburg 1980–1981). He has published widely on Japan's legal and administrative process and has taught at the University of Washington since 1974, as well as in Japan (Kobe 1983), Australia (March 1980), and most recently at the Harvard Law School (1986–1987).

Kichiro Hayashi is Professor of International and Comparative Management, School of International Politics, Economics and Business, Aoyama Gakuin University. He received his B.A. from Kobe and his M.B.A. and Ph.D. in Business and Economics from Indiana University. He taught at California State (Hayward), McMaster (Canada), and UCLA. His current interest is model building in human decision making with a human communication perspective. He received the Ohira (late Prime Minister) Memorial Prize for his book, *Crosscultural Interface Management*, 1985.

Yoshihide Ishiyama is Director of Economic Research at IBM Japan (since 1986). He had his career in the Japanese Ministry of Finance for 1969–1983 during which period he served in the IMF for three years and completed his Ph.D. in economics at Stanford University. He was Associate Professor, Aoyama Gakuin University for 1983–1986. His books include *The New World Economic Affairs* (Japanese).

Tetsuo Minato is Professor of Business Systems at Aoyama Gakuin University. He was graduated from Osaka Prefectural University and served as Industrial Analyst, Institute of Economic Research, Osaka Prefecture for 1973–1981. His fields of interest are small business and subcontracting,

particularly comparative analyses with reference to Asian countries. He is currently a Visiting Scholar at Yale University.

Thomas A. Pugel is Associate Professor of Economics and International Business at the Graduate School of Business Administration, New York University. He received his B.A. in economics from Michigan State University and his Ph.D. in economics from Harvard University. He was the co-editor of *Fragile Interdependence: Economic Issues in U.S.-Japanese Trade and Investment* (Lexington Books, 1986). He has served as research consultant for government, business, and international organizations.

Thomas Roehl is Assistant Professor of International Business at the Graduate School of Business Administration, University of Washington, Seattle. He teaches on the Japanese business system and is the director of the school's Pacific Rim Project. He received his M.A. in political science from the University of Oregon, his M.A. and Ph.D. in economics from the University of Washington. He has published many articles, including "Industrial Policy and Trade: Three Myths of Japan" in the *Journal of Contemporary Business*.

Masao Sakurai is Professor of Law, School of International Politics, Economics and Business, Aoyama Gakuin University. He received his LL.B., B.A., and S.J.D. from Keio University. He is a member of the American Society of International Law, International Law Association, Japanese Association of International Law, and Japanese Association of Private International Law. He has gained wide experience in the legal problems of international joint ventures and private foreign investment through his consultation. His books include *Country Risk: How to Cope with International Business Risks* (Japanese).

COMMENTARY AUTHORS

Martin Bronfenbrenner is Professor of International Economics, Aoyama Gakuin University and Kenan Professor of Economics Emeritus, Duke University (since 1984). He received his B.A. from Washington University (St. Louis) and his Ph.D. from the University of Chicago. His fields of interest are macroeconomics and the Japanese economy. He taught at Duke (1971–1984), Kyoto (1980), Carnegie Mellon (1962–1971), Minnesota (1958–1962), Michigan State (1957–1958), and Wisconsin (1947–1957). His other experience includes U.S. Treasury and Federal Reserve System (1940–1947), tax economist, SCAP (Tokyo, 1949–1950). He is listed in *Who's Who in America*, in the World and in Economics, and in *American Men of Science*.

Kenneth D. Butler has been an international business consultant in Tokyo since 1977, specializing in cross-cultural interactions between foreign and Japanese firms. He received his Ph.D. from Harvard University and was an assistant professor at Yale University for 1963–1967. He directed the Inter-University Center for Japanese Studies in Tokyo (administered by Stanford University) for 1967–1977.

Mikio Kawamura is General Manager, Semiconductor Department, Mitsubishi Corporation, Tokyo Head Office. He was employed by Mitsubishi Corporation in 1958 upon his graduation from Hitotsubashi University with a B.A. in Economics. He has been stationed in New York (1964–1967), Montreal (1967–1971), and London (1981–1986). While in London, he was Chairman and CEO, Triland Metals Ltd., a ring-dealing company of London Metal Exchange. He is an Individual Subscriber, LME; Adviser, Arthur Andersen, Tokyo and Kankeiren on futures trading; and a Member of the British and Japanese Associations for Canadian Studies.

Robert McIlroy is Professor at the School of International Politics, Economics and Business, Aoyama Gakuin University (since 1988). He was graduated from Phillips Academy, Princeton University, and Harvard Law School and worked for a few years each as a lawyer, CPA, and diplomat before becoming a teacher. He is also an adjunct lecturer in the Faculty of Law of Sophia University (since 1983). He was Associate Professor in the Department of International Relations, the University of Tokyo for 1986–1988.

Yoshio Sato is Vice President, Keio University and Professor of Economics at its Faculty of Business and Commerce. He received his M.A. and Ph.D. in Economics at Keio University and was Visiting Research Fellow, University of California, Berkeley for 1966–1967. He is Director of the Japan Economic Policy Association; Secretary General, Japan Association for Small Business Studies; member, Study Commission of Industrial Structure—Small and Medium-sized Business under the Japan Society for the Promotion of Science. His books include *Small Industries in the Giant City Tokyo*.

John P. Stern is the Executive Director of the U.S. Electronics Industry Japan Office and the representative in Japan of the Office's three industry sponsors, the American Electronics Association, the Electronic Industries Association, and the Scientific Apparatus Makers Association. He was the first foreigner to be elected a director of a Japanese telecommunications standardization association, the Telecommunication Technology Committee. He is a graduate of Princeton University and of the Harvard Law School.

Masato Yashiro is President, Esso Sekiyu KK, Director, Toa Nenryo Kogyo KK; Member, Board of Directors, Keidanren; Executive Member, Board of Directors, Petroleum Association of Japan; and Member, Trilateral Commission (Japan, N. America, and Europe). He was graduated from the Law Department, Kyoto University and completed post-graduate courses in International Relations at Tokyo University in 1958.

CONTENTS

<i>Preface</i>	<i>vii</i>
<i>Contributors</i>	<i>xv</i>
1. Economy and Culture: The Case of U.S.–Japan Economic Relations	1
ROBERT E. COLE	
Commentary on Chapter 1	14
MARTIN BRONFENBRENNER	
Commentary on Chapter 1	19
MASAMOTO YASHIRO	
2. A Comparative Analysis of Cross-Cultural-Interface Management: The United States and Japan	22
KICHIRO HAYASHI	
Commentary on Chapter 2	75
MIKIO KAWAMURA	
Commentary on Chapter 2	79
KENNETH D. BUTLER	
3. A Comparison of Japanese and American Interfirm Production Systems	87
TETSUO MINATO	
Commentary on Chapter 3	122
JOHN P. STERN	
4. A Comparison of U.S.–Japanese Firms' Parts-Supply Systems: What Besides Nationality Matters?	127
THOMAS ROEHL	
Commentary on Chapter 4	155
KONOSUKE ODAKA	