

Business Negotiations with the Japanese

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Preface

Over the past several years, U.S. business people, concerned with problems of declining productivity in their own industries, have been impressed with Japan's phenomenal success in various sectors of its economy. This has led to a proliferation of literature on why Japanese management styles and practices are conducive to higher productivity, and how U.S. businesses can emulate the Japanese success story.

One aspect of U.S.-Japan trade relations has remained largely unresearched, however—namely, business negotiations between entities from the two countries. A desire to share in the Japanese economic miracle, coupled with Japan's attempts to ease its remaining restrictions on foreign imports and investment, has made more and more U.S. firms eager to enter into cooperative arrangements, such as joint ventures, with Japanese entities. To secure favorable terms in such joint ventures and to benefit fully from them, U.S. business people must become familiar with the Japanese approach to business negotiations. Given the vast sociocultural differences between the two nations, a U.S. businessman could not approach a business negotiation with a Japanese partner with the same attitude and perspective he would assume for a domestic or West European counterpart. The Japanese businessman benefits from being better versed in U.S. business practices than vice versa. This familiarity has been acquired through assiduous study of U.S. industry by the Japanese since World War II. U.S. businessmen, on the other hand, have only recently discovered the Japanese way of doing business.

◀ This book will examine Japanese attitudes and values with respect to business negotiations, and will provide guidelines for practitioners preparing for business negotiations with the Japanese. The information presented has application also for firms in other countries that trade with Japan. Even companies that have had previous business relationships with the Japanese will benefit from the information presented here. This is important in light of the dismal finding of a 1981 survey conducted by the Japanese Ministry of International Trade and Industry—namely, that one out of every seven foreign companies “retrenched and eventually pulled out of Japan” (*Foreign Companies*, 1982, p. 8).

This book should also be of interest to researchers in international business. Little research has been done on factors that could affect the success or failure of international business negotiations. This book does not develop a theoretical model of international business negotiations, but its analysis of the dynamics of the relationships between certain variables may be useful in such a theoretical effort. Such a theoretical model in turn can help improve the quality of future international business negotiations.

The book examines the processes involved in U.S.-Japan business negotiations and the general problems of doing business in Japan. Specifically, the book studies and identifies: (1) the mechanics of such business negotiations; (2) how U.S. companies prepare for the negotiations; (3) the factors that contribute to success or failure of such negotiations; (4) how U.S. companies organize for trade with Japan; and (5) how a select number of U.S. firms from different industries have negotiated with Japanese companies to establish joint-venture arrangements or other forms of economic cooperation. The information provided is based on a survey of 114 U.S. firms that have entered into various types of business negotiations with the Japanese: for import and export agreements; to establish manufacturing facilities in Japan; to establish manufacturing facilities in the United States; for cooperative contracts such as joint ventures, licensing agreements, and commercial and service contractual arrangements; for change of equity position in existing joint ventures; and to terminate joint-venture agreements. In addition, in-depth interviews were conducted with a select sample of U.S. firms on their preparation for such negotiations, their experiences, and the outcomes. These are presented as case studies. They include firms that have entered into negotiations on such matters as joint ventures for the manufacture of main-frame computers, production and distribution of ethical drugs in both the United States and Japan; production of automotive chemicals; the dissolution of a joint venture producing industrial equipment and instruments as a result of irreconcilable differences between the parties; and a joint program to manufacture components used in the production of commercial aircraft.

I would like to thank all those individuals who have given their time willingly and generously toward the successful completion of this project. Because respondents to the questionnaire survey were not required to disclose the names of their organizations, I cannot cite them here by name.

I am particularly grateful to those individuals who gave their time generously by taking part in the interviews to provide a more comprehensive picture of their companies' business negotiations with the Japanese. Specifically, I would like to thank Mr. Thomas Bacher, director, International Business, Boeing Commercial Airplane Company; Mr. Louis J. Casanova, vice-president, joint ventures-Japan, Sperry Univac; Mr. William M. Kinch, executive vice-president-operations, Pacific-Interamerican Division, W.R. Grace and Company; Mr. P. Reed Maurer, vice-president, Merck, Sharp and Dohme International; Mr. Shiro Omata, former president of Nippon Univac Kaisha, Ltd., who is now retired; Mr. Peter Sears, vice-president, corporate development, SmithKline Beckman Corporation; Mr. Gary L. Snable, vice-president and chief operating officer, Fujisawa Smith-Kline Corporation; and Mr. Quincy N. Williams, vice-president, planning and development, Smith Kline & French Laboratories. Interviews for the book were also conducted with Mr. W.F. Corkran, vice-president, inter-

national operations, Preformed Line Products Co.; and Mr. Stanley Epstein, president, Anglo American Aviation Company.

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1

An Overview of U.S.-Japan Trade

Ever since July 8, 1853, when four warships under the command of Commodore Perry of the U.S. Navy steamed into the bay at Uraga, Japan, the issue of trade has been an important subject of contention and hence of bilateral negotiations between the United States and Japan.

In 1853 Commodore Perry hand-delivered a letter from the president of the United States to the governor of Uraga, requesting the opening of certain Japanese ports to U.S. trade. In February 1854 Commodore Perry again entered Edo Bay, accompanied by a larger and more formidable squadron to demonstrate U.S. might and determination (Sadler, 1963). After a month of negotiations, a treaty was signed at Kanagawa with vague provisions for limited trading activities (Gubbins, 1911). Nothing substantive relating to the actual conduct of trade was achieved until a later mission headed by Townsend Harris. Under Harris, the United States finally obtained a treaty of commerce with the Bakufu government, one provision being the opening of Yokohama to trade in 1858. After that trade between the two nations flourished and expanded.

December 1982 represented another milestone in U.S.-Japan trade relations. A high-ranking official of the U.S. government stated that trade between the two countries had become a "political issue" (*Wall Street Journal*, 3 December 1982, p. 36).

What prompted this U.S. official to remark that "for the first time" trade tensions between the two countries have taken on political dimensions? (This statement should actually read "for the first time since 1853.") This chapter examines trade between the United States and Japan since the late 1950s, and discusses the problems and prospects of future trade relations between the two countries. This review will provide a backdrop for discussion of the specific issues of U.S.-Japan business negotiations in subsequent chapters.

Table 1-1 presents statistics on two-way trade between the United States and Japan for selected years prior to 1956 and for the period from 1956 to the first eight months of 1982. Specifically, the statistics for three selected years prior to 1956 were included: 1938, shortly before the outbreak of hostilities between the two countries in World War II; 1948, during the U.S. Occupation; and 1953, the first year after the formal ending of Allied Occupation. Tables 1-2 and 1-3 provide a breakdown of the composition of Japanese exports to and imports from the United States between 1972 and 1980.

Table 1-1
Japan's Exports to and Imports from the United States, 1938-1982
(In millions of U.S. dollars)

Year	Japan's Exports to United States	Percentage Change	Japan's Imports from United States	Percentage Change	Balance of Trade in Japan's Favor ^a
1938	124	—	261.1	—	-137.1
1948	65.7	-47.0	441.4	69.1	-375.7
1953	233.9	256.0	757.5	71.6	-523.6
1956	511.4	118.6	1,067.3	40.9	555.9
1957	606.5	18.59	1,626.2	52.4	-1,019.7
1958	692.5	14.0	1,057.7	-34.9	-365.2
1959	1,051.3	51.8	1,116.1	5.5	-64.8
1960	1,107.0	5.3	1,554.2	39.3	-447.2
1961	1,073.0	-3.1	2,096.7	34.9	-1,023.7
1962	1,410.6	31.5	1,809.1	-13.7	-389.5
1963	1,522.4	7.9	2,078.7	14.9	-556.3
1964	1,866.3	22.6	2,336.9	12.4	-470.6
1965	2,517.1	34.9	2,364.3	1.0	+152.8
1966	3,009.8	19.6	2,658.1	12.4	+351.7
1967	3,048.8	1.3	3,212.7	20.9	-163.9
1968	4,132.7	35.6	3,526.6	9.8	+606.1
1969	5,017.1	21.4	4,094.1	16.1	+923.0
1970	6,015.0	19.9	5,564.3	35.9	+450.7
1971	7,616.0	26.6	4,983.0	-10.5	+2,633
1972	8,847.7	16.2	5,851.6	17.4	+2,996.1
1973	9,448.7	6.8	9,269.5	58.4	+179.1
1974	12,799.5	35.6	12,682.2	36.8	+117.3
1975	11,148.6	-12.8	11,608.0	-8.4	-459.4
1976	15,689.6	40.0	11,809.3	1.7	+3,880.3
1977	19,716.9	26.4	12,396.1	4.9	+7,320.8
1978	24,914.7	26.4	14,790.4	19.3	+10,124.3
1979	26,402.5	6.0	20,430.8	38.1	+5,971.7
1980	31,367.3	18.8	24,408.0	19.5	+6,959.3
1981	37,922.0	20.9	25,057.0	2.7	+12,865.0
1982 ^b	24,521.0	—	16,535.0	—	7,986.0

Sources: (1938-1971, 1981): Statistics Bureau, International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade*; (1972-1980): Japan External Trade Organization (JETRO), 2-5, Toranomon 2-Chome, Minato-Ku, Tokyo 105, Japan, *White Paper on International Trade, Japan*, 1972-1981.

^aDue to differences in accounting for shipping costs, the trade-balance figures reported by U.S. and Japanese sources may vary.

^bOnly the 8-month trade figures for 1982 were available.

On the basis of two-way trade statistics over the years, several observations could be made about trade between the United States and Japan:

1. Before 1968—except for two years, 1965 and 1966—the United States enjoyed a balance-of-trade surplus over Japan. The specter of a chronic U.S. balance-of-trade deficit with Japan did not emerge until the 1970s. The gloomy picture of huge trade deficits has sometimes been exacerbated by the different standards employed by the two nations in accounting for shipping costs. For example, U.S. sources of information are generally measured on a *fast-along-ship* (f.a.s.) basis for both imports and exports, whereas Japanese sources are generally based on a customs-clearance basis (*White Paper*, 1981). Thus for 1980 Japanese sources recorded a trade surplus of approximately \$6.96 billion over the United States, but the latter reported a \$9.9-billion trade deficit with Japan—a difference of nearly \$2.94 billion. Furthermore, the size of the trade imbalances may have been dramatized through inconsistent accounting practices on the part of the United States. Although U.S. sources of information are generally measured on a f.a.s. basis for both imports and exports, this practice was abandoned in 1981. In that year U.S. sources measured exports on a f.a.s. basis, but imports were calculated on a *cost-insurance-freight* (c.i.f.) basis. Based on these different standards, the balance-of-trade deficit with Japan was calculated at \$18.0 billion. Had the usual f.a.s. basis been applied to both imports and exports, the balance-of-trade deficit would have been only \$15.8 billion (Lincoln 1982, p. 29).

2. Trade tensions between the two nations may have been exacerbated by an undue focus on import and export statistics, with insufficient attention to those areas in which the United States excels. A study conducted by the U.S.-Japan Trade Study Group, which includes representatives of government agencies and the private sectors of both countries, found that the goods and services sold by subsidiaries of U.S. multinationals in Japan were valued at \$20 billion a year, compared with \$5 billion in sales of goods and services by subsidiaries of Japanese multinationals in the United States. Furthermore, oil produced by U.S. petroleum firms outside the United States and sold to Japan was not reflected in the merchandise trade statistics. In 1980, for instance, it was estimated that U.S. petroleum companies sold \$21 billion worth of crude oil to Japan via third countries (*Wall Street Journal*, 16 February 1983, p. 35). These statistics were nowhere reflected in the balance-of-payments figures. Consequently, the performance of the United States vis-à-vis Japan may not be as dismal as the balance-of-payments figures suggest.

3. The volume of two-way trade between the United States and Japan has grown dramatically since the formal end of the Allied Occupation in April 1952. Except for five years—1958, 1961, 1962, 1971, and 1975—in which Japanese exports to and imports from the United States declined by

Table 1-2
Japan's Exports to the United States
(in millions of U.S. dollars)

	1972	1973	Percentage Change	1974	Percentage Change	1975	Percentage Change	1976	Percentage Change	1977	Percentage Change	1978	Percentage Change	1979	Percentage Change	1980	Percentage Change
Foodstuffs	222	254	14	242	-0.4	165	-32	236	43	200	-15	218	9	119	-45	245	30
Raw materials and fuels	38	51	34	54	6.0	30	-44	30	0	48	60	68	42	137	101	78	-43
Light industrial products	1,580	1,424	-10	1,344	-6	1,161	-14	1,639	41	2,095	28	2,343	12	2,201	-6	2,664	21
Textile products	618	605	-2	523	-14	489	-7	576	18	669	16	710	6	522	-26	593	14
Textile fabrics	235	188	-20	189	0	191	1	237	24	254	7	289	14	229	-21	256	12
Synthetic fabrics	N/A	83	N/A	86	3.6	122	42	156	28	168	8	202	20	152	-25	161	6
Polyester fabrics	N/A	75	N/A	66	-12.0	N/A	N/A	N/A	N/A	107	N/A	154	44	N/A	N/A	N/A	N/A
Textile secondary products	337	291	-13	228	-22	204	-11	288	41	325	13	354	9	242	-32	292	21
Clothing	N/A	234	N/A	180	-23	157	-13	218	39	246	13	274	11	165	-40	209	27
Knits and attachment	N/A	97	N/A	82	-16	N/A	N/A	N/A	N/A	109	N/A	101	-7	55	453	70	26
Nonmetallic mineral products	186	206	11	202	-2	180	-11	257	42	337	31	403	20	437	9	464	6
Pottery	116	131	13	131	0	126	-4	177	41	234	32	247	6	239	-4	282	18
Other light industrial products	776	695	-10	653	-6	548	-16	806	47	1,088	35	1,230	13	1,240	.8	1,606	30
Tire and tubes	N/A	65	N/A	67	3	58	-14	118	103	142	20	171	21	173	1	237	37
Wood products and cork products	N/A	79	N/A	69	-12	54	-22	77	43	98	27	88	-11	73	-16	54	26
Musical instruments	N/A	60	N/A	64	7	52	-19	65	25	87	34	103	18	77	-25	83	.8
Heavy industrial and chemical products	6,099	7,585	24	10,898	44	9,508	-13	13,524	42	17,146	27	22,054	28	23,601	7	27,956	19
Chemicals	246	239	-3	574	140	346	-40	413	20	488	18	592	21	653	10	767	18
Organic compounds	N/A	110	N/A	326	198	181	-45	194	8	218	12	263	21	270	2	299	11
Metal products	1,568	1,572	.2	1,572	0	3,240	106	3,618	12	4,155	15	4,397	6	4,850	10	4,950	2
Plastic materials and resins	-	50	-	113	126	N/A	N/A	N/A	N/A	105	N/A	139	33	147	5	170	16
Machinery and equipment	5,100	5,773	13	7,084	23	6,663	-6	10,212	53	13,353	31	17,955	35	19,008	6	23,021	21
General machinery	603	829	37	957	15	953	-0.4	1,273	34	1,776	40	2,695	52	2,993	11	3,369	13
Electrical machinery	1,903	2,053	8	2,089	2	1,992	-5	3,739	88	4,048	8	4,721	17	4,393	-7	5,135	17
Television	298	265	-11	212	-20	256	20	617	141	506	-18	465	-8	232	-50	196	-16
Radio	556	577	3	485	-16	389	-20	700	80	821	17	1,005	23	786	-22	783	-1
Tape recorders	351	567	61	827	46	465	-44	518	-11	822	59	1,144	39	924	-19	1,142	24
Household electrical appliances	N/A	120	N/A	138	15	133	-4	209	57	289	38	324	12	265	-18	290	9
Cameras	N/A	100	N/A	111	11	98	-12	141	44	217	54	356	64	296	-17	339	-4

Table 1-2 (continued)

	1972	1973	Percentage Change	1974	Percentage Change	1975	Percentage Change	1976	Percentage Change	1977	Percentage Change	1978	Percentage Change	1979	Percentage Change	1980	Percentage Change
Precision instruments	322	383	19	441	15	494	12	725	47	1,069	47	1,486	39	1,516	2	1,698	12
Watches and clocks	N/A	100	N/A	111	10	N/A	N/A	N/A	N/A	169	N/A	231	37	188	-18	254	35
Railway vehicles	N/A	74	N/A	108	46	77	-29	89	16	186	106	330	77	257	-22	402	156
Telecommunication equipment	N/A	1,166	N/A	1,141	-3	1,168	2	2,496	114	2,285	-04	2,415	6	1,906	-21	2,035	8
Transportation	2,247	2,508	12	3,544	41	3,239	-7	4,474	38	6,461	44	9,053	40	10,107	12	12,821	27
Buses and trucks	227	289	27	460	59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Motorcycles	589	488	-17	840	72	577	-31	435	-25	650	49	785	21	N/A	N/A	N/A	N/A
Motor vehicles (excluding parts)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,530	N/A	4,935	31	7,030	43	8,245	17	10,118	23
Passenger cars	N/A	1,315	N/A	1,713	30	1,918	12	2,890	49	4,123	72	5,737	39	6,722	17	8,271	23
(including chassis)																	
Passenger cars (1,000cc-2,000cc)	N/A	1,090	N/A	1,379	27	N/A	N/A	N/A	N/A	2,724	N/A	3,812	40	4,793	25	6,525	36
Passenger cars (2,000cc)	N/A	222	N/A	333	50	N/A	N/A	N/A	N/A	1,391	N/A	1,911	38	1,927	0.8	1,742	-0.5
Motor-vehicle parts	N/A	120	N/A	169	40	167	-1	231	38	339	47	471	39	472	0.2	484	3
Reexports, commodity and transaction not classified according to kind	98	136	39	262	93	286	9	261	-8	229	-12	232	1	425	83	425	54
Total	8,848	9,449	7	12,800	36	11,149	-13	15,690	40	19,717	25	24,915	27	26,403	6	31,367	19

Source: White Paper on International Trade Japan, 1972-1980, Japan External Trade Organization.

Table 1-3
Japan's Imports from the United States
(in millions of U.S. dollars)

	1972	1973	Percentage Change	1974	Percentage Change	1975	Percentage Change	1976	Percentage Change	1977	Percentage Change	1978	Percentage Change	1979	Percentage Change	1980	Percentage Change
Foodstuffs	868	1,979	128	2,606	32	2,489	-5	2,684	4.8	3,430	28	4,357	27	4,423	2	5,171	17
Meats	N/A	132	N/A	57	-57	155	171	246	-58	201	-18	331	65	432	31	432	0
Wheat (excl. feeds)	156	380	144	594	56	544	-8	524	-4	428	-18	481	13	613	27	701	15
Maize (for feeds)	190	501	164	725	45	727	-0.3	676	-7	706	4	844	20	1,019	21	1,470	45
Kaoliang (feeds)	114	218	91	325	49	263	-19	256	-2	246	-4	220	-11	259	18	539	108
Wheat (feeds)	N/A	63	N/A	71	13	N/A	N/A	N/A	N/A	120	N/A	105	-13	N/A	N/A	N/A	N/A
Cereals (excellent feeds)	N/A	534	N/A	867	62	698	-20	704	0.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Grains and grain preparations	N/A	20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,293	N/A	1,746	35	2,184	25	3,135	44
Fruits	107	132	23	170	28	159	-7	185	16	211	14	300	42	N/A	N/A	N/A	N/A
Raw materials	1,712	2,977	74	3,992	34	3,144	-21	3,150	0.2	3,600	14	4,185	16	6,012	44	6,383	6
Leaf tobacco	N/A	90	N/A	123	37	185	50	217	18	187	-14	254	36	315	24	267	-15
Textile materials	124	217	75	330	52	282	-15	268	-5	357	33	389	9	540	39	601	11
Raw cotton	111	197	78	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	509	N/A	583	15
Ginned cotton	N/A	N/A	N/A	270	N/A	270	N/A	254	-6	347	36	363	5	501	38	572	15
Soybeans	434	667	54	793	19	854	8	770	-10	1,040	35	1,103	6	1,169	6	1,250	7
Iron and steel scrap	81	302	273	352	16	278	-21	114	-59	80	-31	272	242	365	41	415	8
Wood and lumber	634	1,140	80	1,040	-9	1,061	2	1,170	10.3	1,503	28	1,641	10	1,979	21	1,843	-7
Mineral fuels	570	621	8.9	1,815	192	1,909	5	1,447	-24	2,034	41	1,588	-23	1,357	-15	2,098	55
Coal	470	509	8	1,635	221	1,687	3	1,218	-28	1,737	43	1,279	-27	1,031	-20	1,581	53
Manufactured products	2,658	3,648	37	4,821	32	4,011	-17	4,466	11	4,889	10	6,431	32	8,506	32	10,607	25
Chemical products	411	716	74	1,017	42	775	-24	1,084	40	1,226	13	1,499	22	2,053	37	2,536	24
General machinery	663	929	41	1,103	19	986	-11	1,051	7	1,160	10	1,261	9	1,617	32	2,031	26
Machinery and equipment	1,499	1,866	25	2,550	37	2,195	-14	2,252	2	2,406	7	3,100	29	4,310	39	5,015	16
Transportation equipment	430	323	-25	649	101	500	-23	358	-28	348	-3	610	75	986	62	1,091	11
Aircraft	373	228	-39	524	129	964	84	232	-76	134	-42	309	131	716	132	890	24
Precision instruments	94.9	127	34	174	37	158	-9	176	12	200	14	253	26	358	42	405	13
Passenger cars	27.9	65	133	84.2	29	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	170	N/A	98	-42
Other products	749	1,070	43	1,253	18	1,041	-17	1,130	9	1,118	-1	1,552	39	2,142	38	5,056	43
Reimports, commodity and transaction not classified according to kind.	43	44	2	48	9	55	15	62	13	78	26	119	53	133	12	149	12
Total	5,852	9,270	58	12,682	37	11,608	-8.4	11,809	2	12,396	5	14,790	19	20,431	38	24,408	20

Source: *White Paper on International Trade Japan, 1972-1980*, Japan External Trade Organization

several percentage points, the volume of trade between the two countries has expanded steadily, from a mere \$233.9 million in Japanese exports in 1953 to a staggering \$1.367 billion in 1980. Japanese imports from the United States increased from \$757.5 million in 1953 to \$24.408 billion in 1980.

4. Over the years the value of Japanese exports of textile products has declined, and that of its exports of automobiles and sophisticated electronic goods and equipments has increased. In 1980 the United States was the largest importer of Japanese products and services, accounting for 24.2 percent of Japan's total exports (*Nippon*, 1982, p. 111). This shift in export patterns has accompanied the changing focus of Japanese industrial policy. Immediately after World War II Japan relied on the export of textiles and other light-industrial products that used a fairly low level of technology. In the 1980s the government's emphasis is on the export of high-quality products with a higher added value per unit that would use Japan's own "original technology" (*White Paper*, 1981, p. 40). In the coming decades Japanese exports will compete more directly with U.S. products both in the United States and elsewhere.

5. Conversely, Japanese imports of manufactured products and machinery from the United States have declined over the years, and its imports of foodstuffs and other raw materials have increased. This reflects Japan's continued dependence on raw materials from abroad to fuel its industrial growth, and the need to import foodstuffs and other agricultural products to feed its 117 million people. The latter area offers prospects for U.S. exporters. In 1980 the United States was the major supplier of products and services to Japan, accounting for 17.3 percent of total Japanese imports for the year (*Nippon*, 1982, p. 111).

Problems and Prospects for U.S.-Japan Trade

This cursory review of trade between the United States and Japan indicates that since the early 1970s Japan has enjoyed a growing balance-of-trade surplus with the United States at a time the latter's economy has been faltering in various sectors. This has led to trade tensions between the two nations, centered around two broad categories. First, the United States alleges that the Japanese market is closed to U.S. imports and foreign investment because of high tariffs and restrictive nontariff barriers. Second, Japan's policy of industrial targeting (government protection and incentives to Japanese exporters and manufacturers) places their U.S. counterparts at a distinct disadvantage in both the Japanese and the world markets.

These allegations will be examined through discussion of the following subjects: (1) Japan's efforts to liberalize trade since the 1950s—what has