

January 1993

Discussion after the Speech of S. Linn Williams

Discussion

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Recommended Citation

Discussion, *Discussion after the Speech of S. Linn Williams*, 19 Can.-U.S. L.J. 93 (1993)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol19/iss/13>

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Discussion After the Speech of S. Linn Williams

QUESTION, *Professor King*: Curiosity has consumed me about the experience in the machine tool industry. I recently read about the plight of an upstate New York machine tool manufacturer that had given its technology to a Japanese company and then were subsequently targeted out of existence.

What about targeting as a device for Japanese industrial policy? Is that old hat or does it still continue to be important? What about the machine tool producers?

ANSWER, *Mr. Williams*: Machine tools have been one of the success stories in Japanese sectoral policy. Targeting is still a practice that is followed, not only by MITI, but also by the Ministry of Transportation and other ministries. Again, the success rate is not high. Machine tools is one where it has been.

QUESTION, *Mr. Elliott*: My question has to do with the advisory committee that you mentioned in MITI. We often interpret other structures in other countries in terms of our own cultural assumptions, and I think Americans generally regard MITI sectoral policies as the government directing industry.

My question is to what extent is it really the other way around? To what extent, through the institutions of these industrial advisory committees, are the Japanese industrial companies participating cooperatively with the government in defining policies on the one hand and, on the other hand, to what extent is the government independently directing industry?

ANSWER, *Mr. Williams*: The advisory committees have worked much more to assert the influence of the private sector on the government rather than the other way around. This comes up often. As a relatively recent example, we negotiated an agreement on telecommunications in 1990 which had various components to it. The Japanese Government proceeded to form an advisory committee made up entirely of Japanese companies, including the regulated companies. They then proceeded to develop a regulation that was completely wrong, because the industry put its stamp on the government. That is a large part of the function of an advisory committee. It is not the purpose of this talk to discuss American industrial policy, which, I think, can be an intellectually interesting subject. However, when one looks to what an American industrial policy might be, I think there are great risks in borrowing what one sees in Japan. It has not been terribly successful on the whole, as my talk has indicated. Even in areas which I did not cover in the paper that have been successful in Japan — the closure of markets, cooperation and consensus building — I think reasonable

people can wonder whether it would work very well in this environment. It seems to me that a much better indicator of how industrial policy might work for America is Europe. While that is also not a subject of my talk, I would submit that European industrial policy has produced not one single world-class good — with the exception of airplanes, which was a monopolistic market.

QUESTION, *Mr. Rosenthal*: I had the impression that in recent years MITI has become much more free trade oriented in the manufacturing sector. In December it was MITI which lobbied through the new stiffer penalties of the competition law in Japan much more effectively than the Japan Fair Trade Commission. My impression is that the protected sectors are the sectors that MITI does not have control over, and that the problem is more with the Ministry of Finance.

You talked about the guidance, the cartelization of the Japanese financial markets, the Transportation Ministry, the Agricultural Ministry, the Structural Ministry, and telecommunications. These are the ministries that are still playing much more by the traditional ideas that do not have MITI's incentives to open the Japanese market because, unlike MITI, they are not so concerned about exports and the tradeoff between the two.

Would you say that is a fair perception?

ANSWER, *Mr. Williams*: I would. Actually, since I have been in the private sector helping private companies get into the Japanese market I have gone more than once to people I know at MITI in order to get into the market. For those of you to whom this does not make sense, go back to something I said in the speech. In order to understand what a Japanese bureaucracy does, you have to interpret it in light of its relationship to other Japanese bureaucracies. If you are a young intelligent official of MITI, nobody needs you to export anymore. In fact, in the semiconductor agreement we gave MITI more authority over the electronics companies than it had in twenty years as a way to implement the semiconductor agreement. If you are a MITI official, your power within the government is on the import side because that is where you are needed; and, therefore, it is MITI that has led the way on many of these imports. The Large Retail Store Act was a MITI-administered law, but it is also MITI that made the major changes.

It is not in the Japanese way of doing things to change without influence from someone; and, unfortunately, that has tended to come from outside and from us. But once influenced, it is MITI that is probably the most open part of the Japanese Government now in my experience.

QUESTION, *Mr. Rosenthal*: If you will just permit me a follow-up question to build on what you just said. I then find it fascinating, if that is your perception, too, that MITI seems to be so hostile to Canter's proposal for managed trade as the long-term solution to U.S.-

Japan trade problems in the future. It would seem to me that managed trade would give MITI the very control over the sectors, which it is not likely to have otherwise, and that the MITI bureaucracy ought to be seizing on it. It would seem almost as if it is now our success in exporting our free trade orientation that makes MITI weary about managed trade much more so than, at the moment, our U.S. trade representatives.

ANSWER, *Mr. Williams*: I think they would probably appreciate the power, but they would probably also appreciate the sort of lunacy of the suggestion.

How do you start managed trade and where do you stop it? If the Japanese concede that we are entitled to percentages of their markets, much like nineteenth century China, the Europeans will not be far behind. Nor will the Canadians or the Koreans. It is a very slippery slope. Focusing on ways in which these systems can be more like one another is more constructive. If most people believe that there are three kinds of capitalism, and that they are competing and incompatible, then the only logical solution is managed markets. Therefore, in order to keep the system from doing something truly foolish like managing markets, it is extremely important that the systems begin to look more like one another, especially in areas like competition policy, investment and so on. Again, Japan has the most catching up to do.

QUESTION, *Mr. Erdilek*: I wanted to ask you about direct quote investment. You indicated that the Japanese have not only restricted market access to foreign exporters, but they also restricted direct quote investment. You also indicated that the U.S., and to a large extent Europe, have been open to direct quote investment. However, I wanted to observe that much of direct quote investment by the Japanese in the United States has been stimulated, to a large extent, by the restrictions that we have put on their exports to the U.S. market.

To what extent have the direct quote investment restrictions in Japan been beneficial in terms of the industrial policy? It is said that they emphasize importing foreign technology through licensing agreements as opposed to direct quote investment. However, much of their direct quote investment literature says that direct quote investment brings in new technology, which is beneficial to the economy. In the case of Japan, it would seem to me that by restricting their direct quote investment they actually suffer the cost of not having that kind of involved technology. What is your judgment on that?

ANSWER, *Mr. Williams*: On the inflows, there are some industries, for example, that are looking for investment; machine tools being one. If you did not like Japanese investment and wanted to pick two areas where they would do the least harm to the economy, you would probably pick real estate and movies, which is exactly where the Japanese moved in. There is an over-reaction to a lot of the investment.

I am not sure I agree with you that it is a fear of restrictions on their imports that have moved Japanese into investing here. I would tend to think it is more an assessment of cost, or at least as much an assessment of cost, because Japanese manufacturing is generally moving overseas at a faster pace now than ours is.

On Japanese investment, I agree with you that Japanese restrictions on foreign policy ultimately hurt them. However, the fact that Japanese restrictions on investment have been bad for Japan should not lead one to be any less assertive to get rid of their restrictions, because somewhere between twenty to seventy percent of trade follows investment, depending on the sector and other factors.

One of the things that people do not talk about much in Japan is investment, but unless American companies are investors in the Japanese market they will not be major players there. Unless they are major players in the world's second biggest market, globalization will not work in their favor.

Investment is a big element of diversification of the 1990s. And, again, Japan has the most catching up to do.