Transnational corporations, Japan-United States economic relations, and economic policy: the uncomfortable reality

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This study examines the performance of Japanese transnational corporations in the United States and United States transnational corporations in Japan, with the aim of ascertaining why sales of the former in the United States are much higher than sales of the latter in Japan. Contrary to arguments put forth in much of the recent literature, it is argued that Japanese restrictions on United States transnational corporations are not a major factor. Rather, the sales imbalance results primarily from asymmetries in corporate priorities and organization. Further, contrary to the recent literature, *keiretsu* relationships are shown, on balance, to benefit United States firms in Japan, with the implication that stricter Japanese anti-trust policy seeking to break up those relationships could hurt a number of United States firms already there. High fixed costs, notably high land prices caused, in part, by Japanese land policy, do deter new entry, but this distortion affects both Japanese and United States firms. Moreover, although there are numerous policy measures that could reduce distortions adversely affecting firm performance in both countries, these policy measures are not likely to have large effects on the asymmetries in corporate priorities and organization that lead Japanese affiliates in the United States to sell more than United States affiliates in Japan.

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Introduction

The contrast between the relatively low level of foreign direct investment (FDI) by United States transnational corporations (TNCs) in Japan and the increasingly high level of Japanese FDI in the United States has gained considerable attention in recent years (Encarnation, 1992, 1993; Lawrence, 1991, 1992; Mason, 1992). Studies emphasizing that contrast have made important contributions by pointing out that the behaviour of Japanese and United States TNCs is a central element of Japan-United States economic relations. However, those studies are incorrect in blaming bilateral imbalances in TNC activities on Japanese-side restrictions on foreign TNCs and in implying that the removal of the Japanese-side restrictions would redress those imbalances. Correspondingly, the major purpose of this article is to show that those imbalances have their roots in asymmetric business practices and corporate strategies that are not easily influenced by Government policies.

Before proceeding it needs to be emphasized that bilateral imbalances in trade or TNC activities are not in and of themselves important economic phenomena.[1] On the other hand, there is no doubt that bilateral imbalances, in particular the persistent Japanese trade surpluses with the United States, are politically important and influence economic policies. In this respect, the relationship between TNC behaviour and trade is important because it provides an opportunity to look at the corporate dimension of Japan-United States economic imbalances and how economic policies have affected the firms involved.

Sales and international trade of Japanese and United States transnational corporations

One of the most important points about Japan-United States investment relations is that FDI imbalances in favour of Japan are a relatively recent phenomenon; Japanese FDI stock in the United States was smaller than United States FDI stock in Japan as late as 1980.[2] Correspondingly, in 1977, the sales of non-bank affiliates of non-bank United States parent firms in Japan (hereafter referred to as United States affiliates in Japan) were slightly larger than the sales of non-bank affiliates of Japanese parent firms in the United States (hereafter

[1] For example, multilateral current account imbalances are important but they are not necessarily correlated with bilateral current account imbalances and multilateral imbalances are primarily caused by macroeconomic factors.

[2] Japan's FDI stock (position) in the United States was $4.3 billion in 1980 and $81.8 billion in 1990 while the stock (position) of United States FDI in Japan was $6.2 billion in 1980 and $21.0 billion in 1990 (United States, Department of Commerce, 1985a, 1986c, 1992a, 1992e).

referred to as Japanese affiliates in the United States): $52 billion versus $51 billion (table 1).[3] However, by 1990, sales of Japanese affiliates in the United States had increased about six-fold to $313 billion, while sales of United States affiliates in Japan increased about three-fold to $165 billion.[4] Although Japanese affiliates in the United States have grown relatively rapidly, United States affiliates in Japan have grown much more rapidly than both United States affiliates in other countries and their non-bank United States parent firms. As a result, sales by United States affiliates increased as a share of all affiliates' sales world-wide from 8 per cent in 1977 to 11 per cent in 1990, with sales growing faster in only nine other host economies world-wide.[5] In short, the emergence of the sales imbalance between Japanese affiliates in the United States and United States affiliates in Japan in 1977-1990 is best viewed as a result of extraordinarily rapid growth in Japanese affiliates, not slow growth in United States affiliates.

In this respect, there are two important asymmetries in the marketing patterns of Japanese TNCs and United States TNCs. The first is that Japanese TNCs depend far more heavily on the United States market than United States TNCs depend on Japan. For example, despite a marked decline in the share of Japanese affiliates in the United States in sales by all affiliates world-wide after the mid-1980s (due mainly to the rapid growth of Japanese affiliates in Europe),[6] this share still stood at 40 per cent in 1990 (table 1). In contrast, despite rising markedly, the share of United States affiliates in Japan in total United States

[3] Since our focus is on the market-access question, sales figures are more relevant than FDI stocks. Foreign-direct-investment stocks are not necessarily a good measure of market penetration because they refer to cumulative capital flows (which in turn consist of equity, intercompany debt and reinvested earnings) and valuation adjustments, both of which may have little correlation with the sales of TNCs. Moreover, since these are historical-cost series, the older United States FDI stocks in Japan tend to be understated relative to the newer Japanese FDI stocks in the United States, a problem not encountered in the sales data which are in current prices.

[4] Note that the relative differential is much larger in terms of FDI stock, $75.8 billion versus approximately $20.6 billion (United States, Department of Commerce, 1992a, 1992d, 1992e).

[5] The average annual growth rate of affiliate sales was 20 per cent in Singapore, followed by 17 per cent in Taiwan Province of China, 16 per cent in Thailand, 14 per cent in Malaysia, 11 per cent in Chile, Italy, and Hong Kong, 10 per cent in the Republic of Korea and Australia, and 9 per cent in Japan, the United Kingdom, Israel, Mexico, and France. Note, that the growth of affiliate sales in Japan accelerated after the appreciation of the yen, reaching an annual rate of 13.4 per cent in 1987-1990. Sales were $113 billion in 1987 (United States, Department of Commerce, 1990b). The yearly average exchange rate was 144.64 yen per dollar in 1987 and 144.79 in 1990 (International Monetary Fund, 1992).

[6] During 1983-1990, the share of Japanese affiliates in Europe in world-wide sales by Japanese affiliates rose from 12 per cent to 33 per cent (Japan Ministry of International Trade and Industry, 1986, 1992).

affiliates' sales was almost four times smaller in the same year. (If affiliates' sales are taken as a ratio to parent firms' sales, this asymmetry is smaller, but still significant.) The asymmetry in market dependence can be viewed as a reflection of an asymmetry in corporate priorities. Japanese TNCs have generally accorded much higher priority to the United States market than United States TNCs have accorded the Japanese market. Differences in corporate priorities have many causes, but three stand out:

- Historically, Japan has been a much smaller economy than the United States and, thus, the United States market has offered more opportunities to Japanese TNCs than the Japanese market has offered to United States TNCs.[7]
- In the post-World War II period, Japan's foreign relations, economic and otherwise, have been dominated by relations with the United States, while relations with Japan have generally been of much less importance for the United States. As a result, Japanese firms have been much better informed about opportunities in the United States market than United States firms about opportunities in Japan.
- Historically, it has been much easier for Japanese TNCs to operate in the United States than for United States TNCs to operate in Japan.

Another asymmetry between the United States and Japan can be found in their industrial structures. Trading firms are much larger relative to firms in manufacturing and other industries for Japanese TNCs than for United States TNCs. Sales of trading firms (including retail trade) accounted for some 50 per cent of all sales by Japanese parent firms in 1977 and 1983 and 44 per cent in 1990, as well as 69 to 83 per cent of sales by all affiliates world-wide in these years (table 1). In contrast, trading firms accounted for only 12 to 14 per cent of sales by United States parent firms and 17 to 19 per cent of sales by all United States affiliates abroad.[8] For Japanese TNCs, in particular, the larger importance

[7] In 1977, Japan's gross domestic product (GDP) was only about one third the size of the United States GDP (35 per cent in United States dollars and 34 per cent when adjusted for purchasing power differences). By 1989, Japanese GDP rose to 57 per cent of United States GDP if measured in United States dollars, but to only 38 per cent when adjusted for purchasing power differences (Summers and Heston, 1988; World Bank 1991, 1992).

[8] For parent firms, the contrast is likely to be even greater if the comparison is limited to wholesale trade. This is because the share of retail trade in all trade sales is rather large for United States parent firms (58 per cent in 1977 and 1983 and 46 per cent in 1990), but is likely to be much smaller in Japan. This is indicated by the fact that the ratio of wholesale-trade sales to retail trade sales for all firms is much higher in Japan (e.g., 3.4-3.5 versus 1.0-1.1 in 1982 and 1985; Ito and Maruyama, 1991, p. 155).

of wholesale trade firms reflects a fundamental difference in the way those TNCs organize transactions compared to their United States counterparts. For Japanese affiliates in the United States, wholesale trade firms are even more dominant, accounting for 88 per cent of all sales in 1977 and 1983 and 70 per cent in 1990 (table 1). In contrast, corresponding shares were only 9 to 20 per cent for United States affiliates in Japan.

As a result of the second asymmetry, the growth of one group of firms, namely, Japanese wholesale trade affiliates in the United States, is almost single-handedly responsible for the sales imbalance that has emerged since 1977 (table 1). Those firms are by far the largest group of affiliates in either country and their sales alone have exceeded sales by all United States affiliates in Japan since the early 1980s. Among wholesale trade firms, those in metals and minerals and in motor vehicles and equipment have been the largest, each group accounting for approximately one-third of all sales by Japanese wholesale trade firms in 1977-1990. Firms in machinery and equipment and in electrical goods have also grown rapidly in the late 1980s and accounted for 12 per cent and 14 per cent, respectively, of Japanese wholesale trade firm sales in 1990. Thus, wholesale trade firms are concentrated in the marketing of manufactures, primarily products of the metals and machinery (non-electric, electric and transport), which account for the vast majority of Japan's merchandise exports.[9] In manufacturing itself, United States affiliates in Japan have been significantly larger than Japanese affiliates in the United States throughout the 1977-1990 period, though Japanese affiliate sales have grown relatively rapidly since 1987.[10]

A distinguishing feature of United States firms in Japanese manufacturing is that majority-owned affiliates account for a small portion of sales (24 per cent in 1990), this share being particularly low in transport machinery (0.3 per cent)

[9] According to ISIC-based classification of merchandise exports, basic metals (ISIC 371 and 372), metal products (ISIC 381), non-electric machinery (ISIC 382), electric machinery (ISIC 383) and transport machinery (ISIC 384) combined account for 74 per cent of Japan's - - $286 billion in merchandise exports in 1990 (Australian National University, 1993; International Monetary Fund, 1992). The concentration of sales by wholesale trade affiliates in these industries also suggests that a large portion of this activity is in the trading arms of firms that are also manufacturers, and possibly reflects that several firms, normally considered to be manufacturing, earn most of their revenues from trading activities. Hence the large share of wholesale trade reflects not only the activities of general trading firms, but also the tendency for Japanese manufacturers to rely heavily on their trading arms for marketing or to be primarily occupied with trading activities themselves. What is significant, however, is the fact that such wholesale traders account for a much larger portion of the transactions by Japanese TNCs, both parent firms in Japan and Japanese affiliates operating abroad, than by United States TNCs.

[10] In 1987, Japanese manufacturing affiliate sales were still only $15 billion, or 8 per cent of total affiliate sales (United States, Department of Commerce, 1990a).

Table 1. Sales of non-bank Japanese affiliates in the United States and non-bank United States affiliates in Japan (Billions of dollars and percentage)

Firm type, industry	Sales[a] (Billion dollars)			Share of all foreign affiliates sales[b] (Percentage)			Share of all parents' sales[b] (Percentage)		
	1977	1983	1990	1977	1983	1990	1977	1983	1990
Affiliates of Japanese TNCs in the United States									
All industries	***51***	***113***	***313***	***46.0***	***54.9***	***40.1***	***7.5***	***12.5***	***11.0***
Non-oil manufacturing	2	7	59	22.8	33.3	42.8	1.6	2.8	7.8
Food and food products	0	1	3	30.0	57.0	56.3	2.7	3.8	2.9
Chemicals and chemical products	0	1	6	14.6	22.3	43.7	0.6	1.1	5.3
Metals and metal products	1	2	12	..	..	..	..	..	..
Basic metals	..	2	11	23.5	17.7	45.0	2.0	1.3	4.8
Metal products	..	0	1	..	..	..	..	..	..
Non-electric machinery	0	1	12	24.2	36.4	48.2	1.5	1.4	18.7
Electric machinery	0	1	5	38.3	57.6	40.7	5.1	7.1	8.8
Transport machinery	..	..	11	19.6	22.6	39.5	0.8	1.6	7.6
Other manufacturing	..	..	11	9.1	18.4	45.1	1.1	4.7	14.4
Trade	45	100	221	54.7	59.7	39.7	13.5	22.1	17.1
Wholesale trade	44	100	219	..	..	..	..	..	..
Metals and minerals	13	36	60	..	..	..	..	..	..
Machinery and equipment	..	..	27	..	..	..	..	..	..
Electrical goods	..	..	30	..	..	..	..	..	..
Motor vehicles and equipment	12	32	70	..	..	..	..	..	..
Other wholesale trade	..	..	11	..	..	..	..	..	..
Retail trade	0	1	2	..	..	..	..	..	..
Other industries	4	6	33	6.2	23.8	31.7	0.8	1.5	2.4

(Table 1, cont'd)

Firm type, industry	Sales[a] (Billion dollars)			Share of all foreign affiliates sales[b] (Percentage)			Share of all parents' sales[b] (Percentage)		
	1977	1983	1990	1977	1983	1990	1977	1983	1990
Affiliates of United States TNCs in Japan									
All industries	***52***	***78***	***165***	***8.0***	***8.8***	***11.2***	***3.7***	***3.3***	***5.0***
Non-oil manufacturing	17	33	96	6.7	9.5	13.0	2.2	3.1	6.1
Food and food products	2	3	3	5.9	7.3	4.2	1.6	2.3	1.5
Chemicals and chemical products	4	6	11	8.6	8.9	8.2	4.0	3.5	4.2
Metals and metal products	1	1	1	3.3	4.9	3.0	0.8	1.1	0.9
Non-electric machinery	3	4	16	7.7	9.0	12.8	4.1	3.5	8.8
Electric machinery	1	2	5	3.8	5.7	7.0	0.5	1.3	3.3
Transport machinery	4	13	51	7.5	15.5	26.8	2.8	6.1	14.5
Other manufacturing	3	4	10	6.7	6.6	7.9	3.6	1.8	2.8
Trade	11	..	26	10.1	..	9.3	6.2	..	5.9
Wholesale trade	10	7	24	10.1	6.1	9.9	13.5	6.1	10.0
Retail trade	1	..	2	9.7	..	6.0	0.9	..	1.3
Other industries	24	..	43	8.3	..	9.4	4.9	..	3.4

Sources: United States, Department of Commerce, 1981, 1986a, 1986b, 1992c, 1992f; Japan, Ministry of International Trade and Industry, 1980, 1986, 1992.

[a] Based on United States sources.

[b] Based on sales data from Japanese sources. Since Japanese sales data differ from those of the United States owing to differences in definitions and survey coverage, the shares reported here are not comparable to those based on sales data from United States sources.

Table 2. Ratios of merchandise trade flows to total sales of non-bank Japanese affiliates in the United States and non-bank United States affiliates in Japan (Percentage of total sales)

Firm type, industry	Total imports		Intra-firm imports		Total exports		Intra-firm exports	
	1980-1982	1987-1989	1980-1982	1987-1989	1980-1982	1987-1989	1980-1982	1987-1989
Japanese affiliates in the United States, all trade[a]								
All industries	*32.8*	*38.8*	*26.0*	*30.7*	*22.7*	*10.9*	*16.8*	*5.8*
Non-oil manufacturing	16.1	27.1	13.2	24.9	19.1	7.3	..	3.69
Food and food products	1.3	5.2	0.7	4.2	42.6	25.8	20.9	20.4
Chemicals and chemical products	..	3.5	..	2.0	25.2	11.0	..	5.3
Metals and metal products	8.0	9.3	..	..	..	0.8	..	0.2
Non-electric machinery	..	30.6	..	28.6	6.1	9.1	..	0.6
Electric machinery	..	56.7	..	54.6	1.9	3.7	..	2.8
Transport machinery	..	..	..	..	..	..	..	..
Other manufacturing	..	..	..	..	..	..	..	..
Trade	35.8	45.0	28.4	35.2	42.3	12.7	18.2	6.8
Wholesale trade	35.9	45.1	28.4	35.3	24.4	12.7	18.2	6.8
Metals and minerals	20.9	23.2	14.0	8.3	27.6	21.9	20.2	9.7
Machinery and equipment	..	57.8	..	57.0	..	10.3	..	7.5
Electrical goods	..	70.0	..	69.8	..	2.4	..	1.4
Motor vehicles and equipment	51.7	54.9	..	43.4	..	..	..	..
Other wholesale trade	..	40.6	..	37.1	..	..	..	..
Retail trade	25.8	19.9	25.8	19.2	1.6	7.2	1.1	3.9
Other industries	1.3	0.4	0.9	0.3	2.0	0.2	..	0.1

(Table 2, cont'd)

Firm type, industry	Total imports		Intra-firm imports		Total		Intra-firm exports	
	1980-1982	1987-1989	1980-1982	1987-1989	1980-1982	1987-1989	1980-1982	1987-1989
United States affiliates in Japan, trade with the United States[b]								
All industries	***3.1***	***5.8***	***2.9***	***5.4***	***4.8***	***7.6***	***3.4***	***3.8***
Non-oil manufacturing	3.6	4.0	3.4	3.7	10.2	12.2	6.7	5.8
Food and food products	0.7	1.0	0.6	0.7	0.1	0.1	0.1	0.1
Chemicals and chemical products	4.9	4.9	4.4	4.6	..	..	..	..
Metals and metal products	2.4	..	2.4	..	..	..	..	..
Non-electric machinery	12.6	8.1	12.3	8.1	..	..	..	..
Electric machinery	6.6	..	6.5	..	2.1	3.9	1.8	3.6
Transport machinery	0.2	0.8	0.0	0.5	20.5	21.1	12.4	7.3
Other manufacturing	5.4	7.1	5.0	6.4	..	..	..	..
Trade	..	..	..	..	0.0	0.0	0.0	0.0
Wholesale trade	17.6	22.3	..	21.6	..	3.7	..	..
Retail trade	..	..	..	..	0.0	0.0	0.0	0.0
Other industries	..	..	..	..	..	0.0	..	..

Sources: United States, Department of Commerce (1985b, 1985d, 1990a, 1992d).

[a] For Japanese affiliates in the United States, 1980-1982 refers to 1980 and 1987-1989 refers to 1987.

[b] For United States affiliates in Japan, 1980-1982 refers to 1982 and 1987-1989 refers to 1989.

(United States Department of Commerce, 1992d). The low share of sales by majority-owned United States affiliates in Japanese manufacturing contrasts with much higher shares for United States affiliates in manufacturing world-wide (78 per cent), as well as in wholesale trade in Japan (78 per cent) and world-wide (92 per cent). It also contrasts with the large share of majority-owned affiliates in sales by Japanese affiliates in United States manufacturing (85 per cent; Japan, Ministry of International Trade and Industry, 1992). Yet, despite having relatively small equity holdings, United States parent firms earned far more income from their manufacturing affiliates in Japan than Japanese parent firms did from their United States manufacturing affiliates.[11]

The preoccupation of Japanese affiliates in the United States with selling in the United States market is further reflected by the fact that imports accounted for a large portion of sales, with imports of the parent firms in Japan accounting for the majority of those imports (table 2). Wholesale trade firms are particularly import intensive and about three-fourths of these imports (77 per cent in 1980 and 72 per cent in 1987) are simply resales of imported goods (United States, Department of Commerce, 1983, 1990a). As might be expected, imports for resale are concentrated in wholesale trade, accounting for 85 per cent of all imports and 41 per cent of all sales in 1987. Among individual wholesale trade industries, imports for resale accounted for half or more of sales in machinery and equipment (51 per cent), motor vehicles and equipment (50 per cent) and electrical goods (65 per cent). In short, the resale of imports by wholesale trade firms — most of which apparently are from the parent group in Japan — accounts for a substantial portion of sales and the vast majority of imports of non-bank Japanese affiliates in the United States. In 1987-1990, however, there was a notable decline in import-to-sales ratios to 24 per cent in manufacturing and 33 per cent in wholesale trade (United States, Department of Commerce, 1992c).

In contrast, imports from the United States by United States affiliates in Japan were relatively small (table 2). Patterns of imports were similar to those observed for Japanese affiliates in the United States in several other respects, however. First, import-to-sales ratios were relatively high in wholesale trade. Second, intra-firm imports accounted for the vast majority of imports. Third, imports for resale accounted for the vast majority of imports from the United

[11] For example, income from United States FDI in Japanese manufacturing, as reported in balance-of-payments statistics, was $1.105 billion in 1990, only $0.021 billion of which was reinvested earnings. On the other hand, total income from Japanese FDI in United States manufacturing was $-1.366, of which $-1.536 billion was reinvested earnings (United States, Department of Commerce, 1992a, 1992e).

States by wholesale trade affiliates.[12] Yet, here again, the most conspicuous contrast is the relatively low absolute levels of sales and imports by United States wholesale trade affiliates in Japan as compared to their Japanese counterparts in the United States.

Ratios of trade with the home economy to sales were also significantly higher in terms of exports for Japanese affiliates in the United States than for United States affiliates in Japan in the early 1980s, but this gap all but disappeared by the late 1980s (table 2). For Japanese affiliates in the United States, exports to Japan accounted for the vast majority of all exports (77 per cent in 1980 and 1987), but there is some indication that export sales to non-United States markets are more important for United States affiliates in Japan.[13] In addition, Japanese wholesale trade affiliates in the United States were more export dependent than other affiliates, but in Japan, United States manufacturing affiliates, especially minority-owned transport machinery affiliates, were much more export dependent than United States wholesale trade affiliates.

The tendency for Japanese TNCs to be more dependent on international trade than United States TNCs is also observed when parent firms are compared (table 3). In the case of parent firms, the difference is largest on the export side, though Japanese export to sales ratios generally fell in 1983-1990, while United States ratios generally rose somewhat. Japanese import-to-sales ratios did rise, but United States ratios have risen faster. For Japanese parent firms, export-to-sales ratios have tended to be higher in manufacturing, especially in the machinery industries, than in trade, while the reverse is true for import-to-sales ratios. For United States parent firms, both export- and import-to-sales ratios were higher in wholesale trade than in manufacturing, but export to sales ratios are higher in manufacturing than in all trade, if retail trade is included.[14] Intra-firm trade-sales ratios have risen somewhat for United States parent firms and fallen somewhat for Japanese parent firms, though the decline observed on the Japanese import side in

[12] In 1989, imports from the United States for resale by majority-owned United States wholesale trade affiliates in Japan amounted to $3.6 billion. This compares to total imports from the United States of $4.0 billion for majority-owned wholesale trade affiliates and $4.9 billion for all wholesale trade affiliates (United States, Department of Commerce, 1992d).

[13] For majority-owned non-bank United States affiliates in Japan, sales to non-United States markets were some 60 per cent of all export sales in 1982 and 1989, but majority owned affiliates accounted for only 20 to 23 per cent of exports to the United States by United States affiliates in Japan (United States, Department of Commerce, 1985c, 1992d).

[14] In 1989, for example, export-to-sales ratios were 12 per cent in manufacturing and 7 per cent in trade (United States, Department of Commerce, 1992d). Differences between ratios in trade and wholesale trade are not likely to be as large for Japanese parent firms, because retail parent firms are, usually, relatively small (see footnote 8 above).

Table 3. Ratios of trade flows to total sales of parent firms in Japan and the United States, 1983-1990 (Percentage)

Firm type, industry	Exports/sales		Intra-firm exports/ sales		Imports/sales		Intra-firm imports/ sales	
	1983	1990	1983	1990	1983	1990	1983	1990
All Japanese parent firms								
All industries	***21.0***	***14.4***	***5.0***	***4.4***	***8.3***	***8.9***	***2.3***	***0.9***
Non-oil manufacturing	27.8	22.7	8.2	9.8	3.2	4.5	0.5	0.7
Food and food products	0.6	0.8	0.1	0.1	8.1	5.1	0.2	0.5
Chemicals and chemical products	9.0	10.5	1.8	2.4	4.1	4.1	0.3	0.3
Metals and metal products	27.6	16.6	0.6	0.7	7.2	8.1	0.8	0.3
Non-electric machinery	30.9	25.4	3.9	8.8	1.5	1.2	0.3	0.4
Electric machinery	34.6	28.3	8.6	13.9	1.9	4.6	0.8	1.4
Transport machinery	45.3	33.6	20.5	16.1	0.3	2.7	0.1	0.4
Other manufacturing	16.4	29.8	4.6	15.1	4.4	10.4	0.6	1.8
Trade	19.0	11.6	3.5	1.2	11.5	13.5	3.5	0.8
Other industries	6.9	1.9	0.6	0.1	11.4	7.0	3.1	1.8

(Table 3, cont'd)

Firm type, industry	Exports/sales		Intra-firm exports[a] sales		Imports/sales		Intra-firm imports[a] sales	
	1983	1990	1983	1990	1983	1990	1983	1990
Non-bank United States parent firms								
All industries	***6.1***	***7.0***	***2.1***	***2.8***	***4.8***	***5.9***	***1.8***	***2.4***
Non-oil manufacturing	9.5	11.9	4.1	5.3	4.7	7.0	2.8	4.1
Food and food products	4.2	5.1	0.9	1.0	2.2	1.7	0.3	0.4
Chemicals and chemical products	8.6	10.6	3.5	5.2	3.1	5.2	1.1	1.7
Metals and metal products	5.2	7.9	1.2	2.0	3.1	5.4	1.4	1.7
Non-electric machinery	13.9	17.8	8.5	12.8	3.6	10.7	2.7	7.2
Electric machinery	12.3	13.9	4.0	5.2	6.6	9.1	3.6	4.1
Transport machinery	13.7	17.5	6.8	7.3	8.8	12.2	7.5	9.3
Other manufacturing	6.5	8.1	2.4	2.9	3.2	3.6	1.3	1.6
Trade	..	..	0.8	..	..	9.3	0.4	1.0
Wholesale trade	17.9	12.4	1.7	1.0	10.7	14.2	0.7	1.2
Retail trade	..	..	0.1	..	..	3.6	0.3	0.7
Other industries	..	..	0.3	..	..	3.2	1.2	0.9

Sources: Japan, Ministry of International Trade and Industry, 1986, 1991; Department of Commerce, 1986a, 1992d.

[a] United States parent firms' trade with affiliates, as reported by parent firms,

1990 may be an isolated phenomenon, as the ratio was over three times as high in 1989.[15] Moreover, although intra-firm trade tended to be relatively large compared to sales for Japanese parent firms, intra-firm trade accounted for larger shares of parent firms' exports (39 per cent versus 31 per cent in 1990; 34 per cent versus 24 per cent in 1983) and imports (42 per cent versus 11 per cent in 1990; 38 per cent versus 28 per cent in 1983) for United States firms than for Japanese firms. Thus, Japanese parent firms have depended somewhat more on arm's-length markets when conducting international trade than United States parent firms.

The patterns observed above are important because TNCs clearly account for the vast majority of United States and Japanese trade. For example, United States parent firms accounted for 61 per cent of United States merchandise exports and 37 per cent of United States merchandise imports in 1989, both of these ratios being sharply lower than in 1977 and 1982 (table 4).[16] Japanese affiliates in the United States, as well as other foreign affiliates in the United States, are also significant traders, with the result that the vast majority of United States trade is accounted for by TNCs. It is important to note, however, that a significant portion of the TNC-related trade is conducted by firms that are both United States parent firms, as well as foreign affiliates in the United States.[17] This leads to a double- counting problem and an associated underestimation of the share of non-TNCs in United States trade. This double-counting can be quite significant, as illustrated by the fact that United States parent firms accounted for 74 to 94 per cent of United States exports to Japan in 1977, 1982, and 1989, while Japanese affiliates in the United States accounted for 56 to 71 per cent of the same exports in 1980 and 1987. Nonetheless, it is clear that TNCs dominate multilateral trade flows in Japan and the United States, as well as bilateral trade flows between Japan and the United States.

[15] The intra-firm import-to-sales ratio was 3.5 per cent in all industries in 1989, 1.5 per cent in manufacturing, 5.1 per cent in trade, and 3.3. per cent in other industries (Japan, Ministry of International Trade and Industry, 1991).

[16] The downward trend continued in 1990 as the United States parent firms' share of exports dropped to 59 per cent and the share of imports fell to 38 per cent (United States, Department of Commerce, 1992f; International Monetary Fund, various years). Due to double counting in the Japanese sales data, ratios of Japanese parent firms' exports to total Japanese exports were greater than 100 per cent in 1983, 1986, 1988, and 1990 and 97 per cent in 1989, even with merchandise and non-investment income services is included in total exports. On the import side, similar ratios fluctuated widely from 56 per cent in 1983 to 76-77 per cent in 1986 and 1990 and 92-97 per cent in 1988-1989 (International Monetary Fund, 1992; Japan, Ministry of International Trade and Industry, 1986, 1989, 1990, 1991, 1992). Note that fluctuations over time for Japan probably reflect fluctuations in Japanese survey coverage, as much as they reflect actual fluctuations in parent firm activity.

[17] This is possible when a firm owns over 10 per cent of another firm located abroad and, at the same time, has more than 10 per cent of its equity held by a foreign firm.

Table 4. United States international trade by type of United States trader, 1977-1989 (Millions of dollars and percentage)

Trade flow (Millions of dollars) Type of trader (Percentage share)	1977	1980	1982	1987	1989
Total imports	**160,432**	**256,959**	**254,882**	**424,068**	**493,324**
United States TNC parent firms	50.8	..	42.6	35.6	36.7
From United States affiliates abroad	22.6	..	15.4	14.2	15.7
From non-affiliated foreign firms	28.2	..	27.2	21.3	21.0
Japanese affiliates in the United States	**10.2**	**10.8**	**14.1**	**17.1**	**17.1**
From parent firms	8.6	8.5	10.6	13.5	14.4
From others	1.6	2.2	3.5	3.6	2.8
Other foreign affiliates in the United States	**17.2**	**18.7**	**19.0**	**16.7**	**17.7**
From parent firms	10.7	9.8	9.8	12.0	12.0
From others	6.5	9.0	9.2	4.8	5.7
Imports from Japan	**20,203**	**32,973**	**39,931**	**88,074**	**97,100**
United States TNC parent firms	..	..	..	..	..
From United States affiliates abroad	4.4	..	7.0	..	5.6
From non-affiliated foreign firms	..	..	..	13.0	..
Japanese affiliates in the United States	..	**73.2**	..	**76.7**	..
From parent group	..	..	..	63.7	..
From others	..	..	..	13.0	..
Other foreign affiliates in the United States	..	**2.5**	..	**1.9**	..
From parent group	..	..	..	0.3	..
From others	..	..	..	1.6	..
Total exports	**121,306**	**220,781**	**212,274**	**252,884**	**363,807**
United States TNC parent firms	76.2	..	72.4	65.8	61.4
To United States affiliates abroad	25.8	..	22.2	26.3	24.6
To non-affiliated foreign firms	50.3	..	50.2	39.5	36.8
Japanese affiliates in the United States	**8.6**	**8.7**	**10.1**	**8.1**	**9.4**
To parent firms	6.1	6.4	6.5	4.3	5.2
To others	8.7	14.1	12.9	7.7	10.1
Other foreign affiliates in the United States	**11.9**	**15.0**	**18.2**	**10.9**	**14.4**
To parent firms	3.6	9.5	5.3	3.3	4.2
To others	8.7	14.1	12.9	7.7	10.1

(Table 4, cont'd)

Trade flow (Millions of dollars) Type of trader (Percentage share)	1977	1980	1982	1987	1989
Exports to Japan	10,532	28,790	20,966	28,249	44,584
United States TNC parent firms	81.5	..	94.4	..	73.6
To United States affiliates abroad	11.0	..	11.1	..	55.9
Japanese affiliates in the United States	..	70.7	..	55.8	..
To parent firms	..	63.4	..	36.1	..
To others	..	7.3	..	19.7	..
Other foreign affiliates in the United States	..	18.6	..	11.4	..
To parent firms	..	1.2	..	0.7	..
To others	..	17.5	..	10.7	..

Sources: United States, Department of Commerce, 1981, 1985b, 1985c, 1985d, 1990a, 1990b, 1992b, 1992d; International Monetary Fund, various years.

Constraints faced by United States affiliates in Japan

There can be no doubt that the Government of Japan severely restricted the access of United States and other foreign TNCs to the Japanese market through the early 1970s and that those restrictions were largely responsible for keeping FDI by United States TNCs at a much lower level than that observed in most other developed economies during this period (Mason, 1992). Moreover, restrictions on imports, inward FDI and other foreign exchange transactions were among the most conspicuous elements of Japanese economic policy in the 1950s and 1960s (Itoh and Kiyono, 1988). The principal means was simply to forbid FDI or to severely restrict foreign-equity shares. Moreover, even when FDI was allowed, other restrictions, such as limiting imports of foreign affiliates, were imposed.

Beginning in the late 1960s, all of these restrictions were gradually loosened. By 1973, most direct Government restrictions on inward FDI and international trade had been removed, though inward FDI was still subject to (generally, automatic) approval procedures. With the enactment of the Foreign Exchange and Foreign Trade Control Law of 1980, approval procedures were replaced with simple notification procedures and Government restrictions on foreign exchange transactions, including FDI, were completely liberalized in all industries outside of agriculture, forestry, fisheries, mining, petroleum, leather,

transport (maritime and air), broadcasting, telecommunications, banking and securities and insurance. A comparison with restrictions in other countries clearly reveals that Japan now has one of the more liberal inward investment codes among industrial economies (OECD, 1987).

The timing of the liberalization is significant because, as has been shown above, the sales imbalance between Japanese affiliates in the United States and United States affiliates in Japan emerged after the liberalization of restrictions on inward FDI. Hence it is clearly illogical to view Japanese public restrictions on foreign TNCs as a cause of this relatively new imbalance. Moreover, there are indications that the effectiveness of Japanese restrictions on United States TNCs in Japan were quite limited as early as 1977. For example, despite the fact that majority-owned affiliates accounted for only 26 per cent of the sales of non-bank United States affiliates in Japan in 1977 and 32 per cent in 1982, only 7.2 per cent of those affiliates reported binding foreign-equity limits in 1977, this figure falling to 2.7 per cent in 1982 (United States, Department of Commerce, 1981, 1985d). Those data also reveal that even smaller percentages of these United States affiliates were affected by Japanese restrictions on imports (1.0 per cent in 1977 and 0.4 per cent in 1982). In marked contrast to case studies of high-profile manufacturing industries such as automobiles, integrated circuits, and computers (Anchordoguy, 1989; Encarnation, 1992; Mason, 1992; Prestowitz, 1988; Tyson, 1992), the data suggest that Japanese restrictions on foreign ownership and imports were relatively unimportant to the vast majority of United States affiliates in Japan.[18]

Moreover, even those who view Japanese restrictions as a major problem have increasingly acknowledged that formal barriers to market access in Japan have been very limited since the mid-1970s (Encarnation, 1992; Lawrence, 1991; Mason, 1992). Rather, these studies have argued that private firms, usually acting in groups, have been able to limit the access of foreign TNCs to the Japanese market through a set of informal restrictions. As in most industrial democracies, firms constitute relatively powerful lobbies in Japan, and it is clear that public policy is influenced by Japanese firms, though the extent of that influence is a subject of debate.[19] In this respect, recent work on TNCs in Japan

[18] Note, however, that these results do not reflect the problems encountered by United States firms that were discouraged from entering the Japanese market.

[19] Those who argue that a strong industrial policy was central to Japan's success (e.g., Johnson, 1982) tend to emphasize that the Government played a central role in the planning and implementation of policy. Others view the Government's role as being much more reactive and emphasize that the Government continually revised its policy goals to ensure that its targets were attainable and to appease various pressure groups (Komiya, 1990, ch. 7).

(Encarnation, 1992; Mason, 1992) has emphasized the influence of Japanese firms on government policy and their ability to restrict the activities of foreign TNCs, even in the absence of public restrictions.[20]

This argument implies that the Japanese firms imposing informal restrictions to FDI exercised some form of oligopolistic market power (Encarnation, 1992). The frequency of oligopolistic behavior is not so much an issue as is its form, especially the perceived tendency of Japanese firms to collude in their efforts to restrict foreign competition. Yet, collusion in the form of intra-industry cartels has, apparently, been relatively rare in Japan.[21] Rather, the most controversial issue is the role of *keiretsu*[22] in Japan. Critics of keiretsu networks argue that they are a barrier to foreign firms attempting to penetrate the Japanese market. Japan's relatively weak anti-trust policy has also been blamed for fostering the existence of *keiretsu* (Gerlach, 1989). The cross-shareholdings that are common among *keiretsu* members have also been argued to impede acquisitions of Japanese firms by foreign firms wanting to invest in Japan (Lawrence, 1992).

An important policy implication of the above arguments is that a stricter anti-trust policy could improve market access for foreign firms. However, this is not clear for three reasons:

- First, *keiretsu* relationships have been argued to foster better quality control, lower production costs, reduced risks and information costs (Aoki, 1988). To the extent that this is true, the weakening of these relationships could increase production costs and prices.

[20] According to Dennis Encarnation (1992, p. 8), this influence is the primary factor in Japan's "strategic investment policies" or, in other words, "bilateral asymmetries in both government policies and industrial structures" of Japan and the United States. Although asymmetries in industrial structures and related corporate practices are major factors (see above), the term "strategic investment policies" is misleading because it contuses public policies and corporate strategies.

[21] This is illustrated by the fact that, even during the heyday of industrial policy in the 1960s, the Ministry of International Trade and Industry often failed to convince firms to cooperate with its efforts to limit excess competition through coordination of pricing and output (see, Miwa, 1988, on this poirtt).

[22] A *keiretsu* is a group of related firms that is often centred around a bank and a trading firm. Firms in the group often conduct the majority of their inter-firm transactions within the group and relationships in the group tend to be long term in nature.

- Second, it has been argued that the existence of *keiretsu* may intensify competition in some respects.[23] Hence, the dismantling of *keiretsu* might actually lead to less competition.

- Third, the efficiency of foreign affiliates would be affected because a large number of these firms benefit from *keiretsu* ties.

In a 1991 survey conducted for the American Chamber of Commerce in Japan, more United States firms in Japan reported that *keiretsu* relationships have a positive or very positive effect on trade and investment (32 per cent) than reported negative or very negative effects (23 per cent); an even larger number (44 per cent) reported no effect (Kearney, 1991, p. 55). Moreover, when asked to identify reasons for being unable to penetrate the Japanese market (table 5), less than one fifth of the respondents identified barriers instigated by Japanese firms as a major reason, while five other factors (see below) were more often identified. On the other hand, when limited to Japan-side issues, *keiretsu* relationships and exclusionary business practices were the third and fourth most frequently identified factors, with 23 per cent and 18 per cent of the respondents, respectively, citing these as major issues. Thus, *keiretsu* relationships can and do constitute barriers to foreign firms, but the fact that more United States firms benefit from such relationships than are hurt by them is inconsistent with the notion that *keiretsu* ties, in an by themselves, lead to the exclusion of foreigners. On the other hand, an alternative view, namely, that *keiretsu* ties constitute a barrier to new entry affecting both new foreign firms and new Japanese firms, is not inconsistent with the above data.

In the above-mentioned survey, by far the most often-mentioned constraint on greater investment and on greater market penetration by United States firms was the high (fixed) cost of doing business in Japan (table 5). High land costs and high rents were the principal constraints to FDI. Like the existence of the *keiretsu* groups, high fixed costs can contribute to high start-up costs and, thus, act as a barrier to new entrants.[24] In this case, however, there is a much clearer

[23] Michael Porter (1990, p. 152) argued that *keiretsu* are examples of, what he termed, clustering and "the exchange and flow of information about needs, techniques, and technology among buyers, suppliers, and related industries." He went on to state that "at the same time that these mechanisms to promote interchange among linked industries are present, rivalry within each individual industry remains intense" and "hard bargaining also occurs between buyers and sellers" (p. 154).

[24] As with *keiretsu* relationships, this barrier does not discriminate between foreigners and Japanese, except to the extent that foreigners have a lower probability of having purchased land before the late-1980s when prices accelerated rapidly. Note that there is relatively little discrimination against foreigners purchasing land or renting long-term.

Japan-side policy issue involved: Japanese tax codes limit the supply of commercial and residential land by giving preferential tax treatment to owners of agricultural land and imposing large penalties for the conversion of agricultural land to other purposes.[25] Rectifying this distortion could, therefore, have a disproportionately beneficial effect on potential new entrants into the Japanese market. Unfortunately, in addition to being a political "Pandora's box" that no Japanese politician wishes to touch, this problem is related closely to the substantial difficulties being experienced by Japan's financial sector. Partially due to the recognition of the complex problems involved, there is little visible pressure from the United States or other countries on this point as yet.

The second most often identified constraint, personnel issues, has much less to do with economic policies and more to do with the difficulty of finding and keeping qualified workers in the tight Japanese labour market (table 5). The frequent mention of this constraint may also reflect the difficulty of adapting employment practices to fit the expectations of Japanese workers. The difficulty United States firms have in adapting to Japanese business practices and in generating satisfactory performances from their affiliates in Japan is also reflected in problems related to the complexity of doing business in Japan, as well as the time it takes to reach desired corporate profit levels, as well as plain mistakes. In short, there do appear to be very real and important costs of adaptation which many United States firms incur when investing in Japan.[26]

The fifth most commonly identified constraint on greater investment and market penetration, lack of understanding of Japan and United States business not trying, respectively, indicate that much of the problem may lie in United States firms themselves (table 5). This is further reflected in the most commonly identified United States-side issue, namely, short-term management outlook. Interestingly, in the two more general questions, these negative United States-side factors were ranked above most Japan-side factors, and no Japan-side factor was viewed as a major factor by over one-fifth of the respondents. These responses are indicative of the relatively low priority that Japanese operations have traditionally been accorded by United States TNCs and the corresponding difficulties a number of United States affiliates have experienced in the Japanese market.

[25] See, Balassa and Noland (1988) for more on how the land-price distortion encourages savings and thus contributes to Japan's tendency to run a current account surplus.

[26] Problems related to *keiretsu* relationships (see above) can also be viewed as costs of adaptation to the Japanese market.

Table 5. Results of a survey on factors impeding access of United States firms to the Japanese market, 1991 (Percentage of all firms responding)

Item	Total[a]	Major factor	Minor factor
1. What factors inhibit greater investment in Japan by the parent company?			
High cost of doing business	55	32	23
Staffing problems	45	17	28
Complexity of doing business in Japan	44	16	28
Time required to reach corporate profit levels	34	16	18
Lack of corporate management understanding of Japan	33	13	20
Japanese Government regulations	31	12	19
Lack of market opportunities	25	12	13
Non-tariff barriers	22	7	15
Unable to acquire Japanese companies	22	8	14
Lack of financing	17	7	10
Other	7	5	2
2. Which of the following are reasons for companies being unable to better penetrate the Japanese market?			
High fixed costs	65	32	33
Difficulty in locating/keeping personnel	62	29	33
General complexity of doing business	61	24	37
United States business making mistakes	51	22	29
United States business not trying	44	19	25
Complex distribution	40	14	26
Japanese business blocking competition	35	17	18
Japanese Government not encouraging trade (passive)	25	5	20
Japanese Government restricting trade (active)	24	8	16
United States Government not encouraging trade (passive)	23	5	18
3. For applicable Japan-side issues, which affect your company's ability to do business in Japan?			
Short-term management outlook	55	24	31
Product quality requirements	50	25	25
Product modification requirements	46	22	24
Lack of experience in Japan	39	16	23
Currency fluctuation	38	11	27
Accelerated product development needs	34	17	17
Frequent personnel changes	27	10	17
Frequent strategy changes	26	11	15
Tax issues	22	4	18
Other	5	4	1

(Table 5, cont'd)

Item	Total[a]	Major factor	Minor factor
4. For applicable United States-side issues, which affect your company's ability to do business in Japan?			
Short-term management outlook	55	24	31
Product quality requirements	50	25	25
Product modification requirements	46	22	24
Lack of experience in Japan	39	16	23
Currency fluctuation	38	11	27
Accelerated product development needs	34	17	17
Frequent personnel changes	27	10	17
Frequent strategy changes	26	11	15
Tax issues	22	4	18
Other	5	4	1

Source: A.T. Kearney, 1991, pp. 53, 56.

[a] Multiple answers were allowed.

The rapid growth of Japanese affiliates in the United States

Although most of the debate to date has focused on the relatively low penetration by United States TNCs of the Japanese market, it needs to be reemphasized that it is the particularly rapid growth of Japanese affiliates in the United States and not the slow growth of United States affiliates in Japan that explains the emergence of the sales imbalances between Japanese affiliates in the United States and United States affiliates in Japan. Thus, the important question appears to be why have Japanese affiliates, especially trade affiliates in the United States, grown even faster than their United States counterparts in Japan?

The first step to answering this question is to reiterate the fact that Japanese TNCs grew rapidly in the 1980s and that Japanese affiliates in other countries have, generally, grown more rapidly than Japanese affiliates in the United States (table 1). In short, Japanese TNCs have probably been among the fastest growing firms in the world in the past decade or two, and the rapid growth of Japanese affiliates in the United States is, thus, a result of business strategies that have helped Japanese TNCs to be successful in Japan and in other countries.

One of the most important strategies in this respect is the tendency for Japanese manufacturers to rely on wholesale trade firms to market their products, whereas United States manufacturers, apparently, have a greater tendency

to market their goods directly. Moreover, when investing abroad, Japanese traders have been the first to invest on a large scale, with manufacturing investments following later. There is undoubtably significant coordination among the manufacturers and traders because, as noted above, a large number of the traders are simply marketing arms of manufacturers, while the general trading firms (or *sogo shosha*) are related to manufacturers through *keiretsu* relationships and other ties. Unfortunately, the data on TNCs do not allow us to distinguish the extent to which wholesale trade investments are dominated by each of these types of wholesale traders.

Japanese investors have generally viewed the establishment of marketing networks as the key to success in foreign markets, including the United States. The high turnover of Japanese traders also indicates that they have been successful in intermediating in trade between United States firms, as well as serving Japanese firms. Indeed, it is likely that the lack of general trading firms in the United States and the relatively small size of United States parent firms in wholesale trade have contributed to the Japanese perception of investment opportunities in the United States wholesale trade industry. Conversely, United States investors probably saw little opportunity in the multi-layered Japanese wholesale trade sector, partly due to perceived inefficiencies and partly due to the importance of long-term inter-firm relationships in that industry.[27] As has been emphasized throughout this article, Japanese wholesale trade firms are by far the biggest corporate actors in Japan-United States economic relations, making these considerations of paramount importance.

As might be expected, the most commonly cited motive for Japanese firms investing in the United States was to expand sales in its domestic market, with 90 per cent of trade firms and 82 per cent of manufacturing firms reporting this as a motive for investment in 1989 (table 6).[28] The second most commonly reported motive was gathering information, though this motive was cited much more often by trade firms than by manufacturing firms. The high ranking of this motive further illustrates the high priority Japanese firms have accorded to

[27] The perception of inefficiency may be incorrect. Takatoshi Ito and Masayoshi Marvyama (1991, pp. 160-165) showed that the Japanese distribution system is as efficient as its United States and German counterparts by a number of measures. Moreover, as was emphasized in the discussion of *keiretsu* relationships above, Motoshige Itoh (1991, pp. 184-186) pointed out that, while long-term inter-firm relationships can act as a barrier to new entry (both foreign and local), there may be conflicts between allocative efficiency and new entry in the trade sector as well.

[28] Expanding sales in the United States or other non-Japanese markets was also the most commonly cited motive in 1986 by far; in this respect, the United States market was, probably, the most important market.

Table 6. Motives for Japanese investment in the United States and problems encountered by Japanese firms in the United States (Percentage of all firms responding)

Motive/problem	1986			1989		
	Total[a]	Manufacturing	Trade[b]	Total[a]	Manufacturing	Trade[b]
Motives for Japanese investment in the United States						
Expand sales in the United States/other countries	75.0	75.6	89.3	..	..	..
Expand sales in the United States	..	..	..	70.7	81.6	89.7
Gather information	38.3	25.5	48.9	41.7	27.3	55.5
Secure profits	12.2	8.0	11.1	15.9	9.9	9.4
Expand sales in other countries	..	..	..	12.6	12.3	17.9
Export to Japan	..	..	..	8.1	9.8	11.1
Lower labour costs/use domestic labour	4.0	6.2	1.1	7.9	14.6	4.7
Respond to trade friction concerns	4.9	9.8	1.9	7.6	17.4	1.7
Reduce trade – related exchange risk	4.7	7.3	3.8	6.6	13.9	2.1
Secure raw materials	6.8	4.7	8.4	4.9	5.1	6.0
Benefit from United States incentives	3.5	8.4	0.0	4.8	8.7	0.6
Utilize abundant natural resources	2.9	4.0	2.3	4.4	8.5	1.5
Other non-specified motives	9.6	9.1	3.1	23.6	19.0	8.8

(Table 6, con't)

Motive/problem	1986			1989		
	Total[a]	Manufacturing	Trade[b]	Total[a]	Manufacturing	Trade[b]
Problems encountered by Japanese firms in the United States						
Increased sales competition	76.0	74.9	83.8	57.3	66.7	66.8
Increased taxation and enforcement	..	..	..	40.9	34.4	39.6
Securing adequate labour	33.3	39.2	22.5	37.0	48.9	28.8
Labour regulations	15.7	14.6	15.6	20.0	18.1	21.2
Lack of subcontracting firms	9.3	14.6	4.0	14.5	28.6	5.6
Lack of harmony with United States partners	7.6	9.4	2.3	8.6	11.6	3.6
Local content restrictions	2.9	4.1	1.7	6.2	13.4	1.6
Acceleration or inflation	5.4	2.9	7.5	5.5	5.8	6.4
Import content restrictions	9.8	9.4	12.1	4.6	7.2	4.4
Restricted access to United States capital	2.0	2.3	1.2	4.0	3.6	4.0
Restricted Japanese ownership shares	0.7	0.0	1.2	3.2	2.9	0.8
Public demonstrations near firm	0.7	0.6	0.0	3.2	4.7	0.8
Underdeveloped distribution system	2.0	2.9	0.6	2.8	4.0	3.2
Labour disputes	4.2	4.7	2.9	2.6	5.8	0.4
Political instability	1.5	1.2	1.2	2.6	2.5	1.2
Other policy restrictions/requirements	1.5	1.2	1.7	2.2	4.0	0.8
Underdeveloped infrastructure	1.0	0.6	0.6	1.9	3.3	1.2
Restricted profit repatriation	0.7	0.0	0.6	0.8	1.1	0.0
Technology transfer requirements	0.5	0.6	0.6	0.8	2.2	0.0
Export requirements	0.7	0.6	0.6	0.4	0.7	0.4
Other non-specified problems	16.9	17.0	12.1	10.8	13.0	9.2

Sources: Japan, Ministry of International Trade and Industry, 1986, 1991.

[a] Multiple answers were allowed.

[b] Wholesale and retail trade.

searching out opportunities in the United States market. For trade firms, in 1989, these motives were followed by expansion of sales in other countries and exports to Japan, but no other specific motive was reported by more than 10 per cent of the firms. Manufacturing firms contrasted in that they were somewhat more concerned with trade frictions, lowering labour costs and reducing trade-related exchange-rate risk.

The problems encountered by these Japanese firms in the United States reflect similar concerns, with increased sales competition being the most often cited problem in both trade and manufacturing (table 6). There was a decline in these concerns in 1986-1989, perhaps reflecting reduced concern after a period of adjustment to the yen's appreciation. Similar to United States firms in Japan, the second most common problem was securing adequate labour supplies; labour regulations were also of concern to a significant portion of firms, both in manufacturing and trade. Thus, adaptation to different human resource-management practices are apparently one of the larger adjustment costs experienced by both Japanese investors in the United States and United States investors in Japan. For traders, import restrictions were the next most commonly cited problem in 1986, but this problem was much less frequently cited in 1989 and no other specific problem was cited by more than 10 per cent of trade firms in either year. Among manufacturers, however, the lack of subcontracting firms became a concern for over one-fourth of the firms by 1989, up dramatically since 1986; similar concerns with business relationships were also reflected in the increasing citation of lack of harmony with United States partners. These difficulties can be regarded as the other side of the *keiretsu* issue because Japanese firms that depend heavily on long-term relationships with subcontractors may incur large adjustment costs when investing in countries where such networks need to be created more or less from scratch.

On balance, these observations suggest that a major cause of the rapid growth of Japanese TNCs in the United States is the desire to expand sales and to compete in the United States market. There is some indication that the United States operations are becoming more important in efforts to expand access to other markets and to expand sales in Japan and that the information generated by operations in the United States is important for trade firm operations world-wide. Indeed, as stressed above, the United States market and activities in that market have been of paramount importance for Japanese TNCs and when these firms grow rapidly, as they did in the 1980s, it is only natural that affiliates in the United States grow rapidly as well.

Conclusions and policy implications

In sum, sales of Japanese affiliates in the United States did not exceed sales of United States affiliates in Japan until relatively recently. This phenomenon resulted primarily from the growth of Japan's wholesale trade affiliates in the United States, a large portion of the sales by those affiliates being resales of imports from Japan. Notably, this imbalance was not the result of slow growth of United States affiliates in Japan, which grew significantly faster than United States affiliates elsewhere. As it is emphasized here, Japanese TNCs depend much more on the United States market than United States TNCs depend on the Japanese market and trading firms, especially wholesale trade firms, account for a much larger portion of sales for Japanese TNCs, both parent firms and foreign affiliates, than for United States TNCs. These asymmetries reflect differences in corporate priorities and organization and have large implications for United States-Japan relations because Japanese and United States TNCs dominate bilateral trade and account for large shares of multilateral trade.

The causes of the observed patterns were then analyzed. It was shown that restrictions by the Government of Japan on foreign TNCs have had a relatively minor effect on most United States affiliates in Japan since the mid-1970s. In contrast to the emphasis of several recent studies (Encarnation, 1992, 1993; Lawrence, 1991, 1992; Mason, 1992), it was also argued that informal, private restrictions on these TNCs have been relatively unimportant to most United States affiliates in Japan, and it was shown that more United States firms benefit from *keiretsu* relationships than are hurt by them. Rather, an alternative view to these long-term relationships being the most important constraint on United States affiliates in Japan was proposed, namely, that high fixed costs act as barriers to all new entrants and, generally, do not discriminate between foreign TNCs and Japanese firms. Both United States affiliates in Japan and Japanese affiliates in the United States have experienced problems in securing an adequate labour force and in adapting their respective business practices to their respective host economies.

These characteristics suggest that asymmetries in corporate priorities and organization are the primary causes of Japanese TNCs seeking a much larger presence in the United States than United States TNCs seek in Japan. Furthermore, in that these asymmetries are often economically rational, Government policies can do little to redress them short of massive intervention. There are some indications that the Government of the United States is beginning to apply pressure for increased intervention by the Government of Japan to guarantee United States firms, both TNCs and non-TNCs, specified shares of

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