PHASE II: JAPAN'S DISTRIBUTION SYSTEM AND OPTIONS FOR IMPROVING U.S. ACCESS

Report to the House Committee on Ways and Means on Investigation No. 332-283 Under Section 332(g) of the Tariff Act of 1930

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PREFACE

On October 23, 1989, the United States International Trade Commission (USITC) received a letter from the House Committee on Ways and Means (Appendix A) requesting that the Commission conduct an investigation, in two phases, under section 332(g) of the Tariff Act of 1930 with respect to Japan's distribution system and options for improving U.S. access to that system. In response to the request from the House Ways and Means Committee, the Commission instituted investigation No. 332-283 on November 13, 1989. The first phase of the report was submitted on June 22, 1990 and phase II of the report was to be submitted by October 23, 1990.

The Committee requested that the second phase of the report provide a summary of experts' views on options for improving U.S. access to Japan's distribution system, including the experiences of U.S. and foreign businesses with Japan's distribution system. The report was to include information on forces most likely to promote or oppose reform of the distribution system, products or services that would most likely benefit from improved access, and areas of the distribution system that would be most beneficial to export interests.

Notice of phase II of this investigation was given by publishing notice of the investigation in the *Federal Register* (55 F.R. 31247, August 1, 1990) (Appendix B).

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EXECUTIVE SUMMARY

U.S. Business Experience with Japan's Distribution System

Despite initially having "cracked the market" many leading U.S. firms appear to be competing in Japan with "their hands tied behind their back."

- Most firms interviewed faced an uphill battle to achieve their current level of sales and seemed to be "performing a high wire act" to maintain their position in the market. Except for a few "special cases" such as IBM, the majority of U.S. firms interviewed had eventually run up against a "glass ceiling" on market share, had lower market shares in Japan compared to other countries, or had experienced serious limits on their ability to sell.

- Nearly all U.S. companies were forced to enter the market through a Japanese partner in order to access the networks of business relationships that permeate Japan's market. Even representatives of the most well-established firms conveyed the impression that they constantly had to "look over their shoulder" for fear of upsetting the delicate balance they had achieved between maintaining vital business relationships, heading off the Japanese competition and meeting the expectations of shareholders back home. Nevertheless, companies who had failed many times in the past and prospective newcomers seemed to believe that they would eventually crack the market, if they only followed the "formula" of these so-called "successes."

Those U.S. companies operating in Japan for a number of years expressed a sense of resignation or acceptance about how business is conducted in Japan.

- Most U.S. companies faced powerful entrenched interests and were hamstrung by a web of unwritten rules and practices. A number of firms had achieved a level of sales and profits in Japan. However, an overwhelming majority of these companies spoke of the constant "headaches" they faced in dealing with the Japanese bureaucracy and regulations, staying on friendly terms with Japanese companies, coping with the coercive tactics of Japanese competitors, or in meeting the rigorous "demands of the market."

Even U.S. firms known as "major players" in other markets have limited ability to influence the rules of the game in Japan.

- Participants in this study gave the impression that many large companies with considerable sales records in the United States and other key markets did not have much influence over their competitive environment in Japan. Even companies that had maintained local offices and staff over over a long period of time did not seem to be truly synthesized into the Japanese economy or society. Instead these large foreign companies seemed to be operating alongside the Japanese "system" that was already in place.

There is a general perception that Japan's market is "stacked against outsiders" and designed to protect Japanese firms already entrenched in the system.

- The business and legal environment in Japan lowers the risks for those already in the market and raises them for those who are outside, according to participants. Almost any type of corporate or government behavior that supports the "economic good" of the country occurs without reproof, often at the expense of foreign suppliers and Japanese consumers, said many participants.

Certain characteristics of U.S. corporate and government behavior were also seen as undermining U.S. success in Japan's market.

- U.S. companies' preoccupation with short-term profit considerations, complacency or satisfaction with the U.S. domestic market, and "naivete" about how to do business in Japan are among the most commonly cited factors that limit participation in Japan's market. In addition, many companies claim that there are many "battles to be won" on the U.S. political front before the U.S. can hope to succeed in Japan. Interagency squabbles and fights between

Congress and the Executive Branch over trade policy are just examples of the contentious climate in which U.S. trade policy is made, according to some. The lack of a coherent U.S. trade and industrial strategy was seen as another major hindrance.

The most frequently cited problem faced by U.S. exporters to Japan is breaking into the tight interlocking web of business relationships and overcoming "anti-outside" attitudes that permeate the Japanese economy.

- Although there are some legal restrictions that make it difficult for U.S. exporters to operate in Japan, participants agreed that the most difficult problems are those associated with the "mindset" of Japanese purchasers and unwillingness of Japanese purchasers to switch to new suppliers outside of their long-term network of relations. The "clubbiness" of Japanese society with its extensive ties and communication networks among government and business were seen as creating a maze of relationships among Japanese firms that are difficult for even large U.S. companies to negotiate or penetrate.

According to many study participants, the most important factor in developing a strategy for entering the Japanese market is choosing the appropriate business partner.

- The majority of policymakers and businessmen indicated that a Japanese partner is essential in order to break into existing distribution channels. Virtually no one believed that the establishment of an independent distribution network was an option for U.S. firms. The most commonly cited mistake made by U.S. companies in entering Japan's market is choosing the wrong partner. Trading companies, in particular, were cited as overpromising their sales efforts. It is very important to find out as much as possible about the Japanese partner's relations with other firms or products and to monitor, through a local presence, the sales activities of the Japanese firm. Even so, some U.S. firms have found it necessary to sever ties with their Japanese partner or take other actions to gain greater control over the distribution of their products.

The advice given by firms who have achieved some degree of success is to become "as Japanese as possible".

- In order to have any chance of operating within the established distribution networks in Japan, it is essential for U.S. firms to adapt to the local business and social environment as much as possible. Designing a suitable high-quality product, finding an appropriate Japanese partner, hiring local staff who are fluent in Japanese, establishing an on-site presence in Japan, winning CEO support, and using personal contacts to develop long-term relations with Japanese firms are among the most common advice offered by experienced U.S. and foreign businessmen.

Most participants claimed that it is simply too expensive to enter the Japanese market unless a company has "deep pockets."

- The high cost of land, office space, and warehousing were cited as being a major hindrance for many companies. The need to hire a large sales force (sometimes 2 to 5 times that in the United States) or to establish extensive outlets to meet the "demands of the market" for fast, small lot deliveries, personalized service, and prompt after sales service add to the expenses associated with selling in Japan. High television and print advertising costs make it all the more difficult and costly to introduce new products or update the image of existing products.

- Foreign firms also must be able to withstand losses if a price war erupts with their Japanese competitors, who in many cases may have more resources to draw upon. U.S. businessmen in numerous industries report that they are competing against one or two large Japanese firms who account for a large share of the market in Japan.

There are other factors that add to the costs of doing business in Japan or limit entry into the market.

- For the chocolate, film, cigarette, and processed food industries, in particular, restrictions on premiums and sales promotions and complex rebate practices were seen by participants as making it difficult to introduce or sell new products.

Other problems cited were delays in entry procedures, product standards and testing procedures, restrictions on entry of large retailers, and difficulties in conducting mergers and acquisitions.

Structural Impediments Initiative (SII) and Implementation

Most participants said that it is unlikely that there will be substantial short-term gains from SII in terms of increased U.S. exports to Japan or changes in Japanese corporate behavior. However, participants said that there could be some long-term benefits.

- While few participants predicted that SII would provide an immediate boost to U.S. exports, some participants said that SII's focus on systemic barriers represented a welcome change in the U.S. approach to dealing with Japan. Already, according to some observers, SII has been beneficial in holding off political pressures for action under section 301 during 1989 and in "buying time." The initiative was also seen as playing an important role in educating the two sides about each others' economies. Over the long-term, some participants said a potential benefit from SII could be in raising the consciousness of Japanese consumers and corporations about the benefits of increasing imports and of greater competition in the market.
- Many of the agreed upon changes under SII were directed at strengthening enforcement of existing laws and regulations, which U.S. negotiators hoped would alter corporate behavior over the long-term. Participants overwhelmingly agreed that formal policies and practices were not at the heart of U.S. market access problems in Japan. However, a fundamental reorientation of corporate behavior was considered to be highly unlikely in the short term.
- Most interviewees indicated that the United States has relatively fewer competitive consumer goods to sell in Japan compared to Europe or the NIEs and were dubious about whether the United States would benefit from Japan's SII commitments to accelerate the opening of large stores or to front-load the application process for liquor licenses. On the other hand, a number of participants said that the United States stood to gain from a more open retail sector in Japan, even if it was not the primary beneficiary.

Numerous participants warned that while the SII commitments "look good on paper", there may be difficulties associated with implementation.

- Japanese government officials stated that their country is officially committed to carrying out the promises laid down under SII. However, some skepticism exists both in the United States and by the Japanese themselves about prospects for implementation. Groups in Japan that have an interest in maintaining the status quo, such as small shopkeepers, farmers and big business, are already voicing their opposition to the agreed upon changes in the Large Scale Retail Store Law and closer scrutiny of business practices by the Japan Fair Trade Commission (JFTC).
- Participants were skeptical that the JFTC's traditionally weak role in antitrust enforcement will change, barring any major shifts in political support by the Liberal Democratic Party (LDP). Some informal business attitudes and practices perceived as inhibiting U.S. sales are not susceptible to change through tougher scrutiny by the JFTC, participants cautioned. This is particularly the case for long-standing ties among firms, which some participants said were often a fairly efficient means of sharing information, pooling risks and improving market responsiveness. Finally, some businessmen and policymakers point to previous examples of agreements given "lip service only" by the Government of Japan and questioned why SII should be any different.

The majority of the specific topics discussed under SII do not address fundamental problems faced by U.S. exporters, such as corporate and consumer attitudes.

- Businesspersons from numerous industries argued that although the goals of negotiators may have been to initiate long-term changes in Japan's regulatory system and to "shake-up" elements of the distribution system, it is unlikely that the changes under SII, even if fully implemented, will lead to widespread receptivity towards imports. Moreover, other aspects of Japanese policy, notably the targeting of high tech industries and protection of certain sectors, were seen as making it difficult for foreign suppliers to successfully compete in the Japanese market. Foreign business and government representatives were more skeptical than those in the United States about the prospects for fundamental change in Japan as a result of SII.

Of the SII topics discussed, reform of the Large Scale Retail Store Law and stricter enforcement of the Antimonopoly Law appear to hold the most promise for opening up Japan's market to imports.

- Most businessmen and policymakers interviewed were pleased that U.S. negotiators had chosen to address these issues. They noted that for Japanese consumers there was a more obvious connection between the Large Scale Retail Store Law and high prices than there was for other SII topics. If major obstacles to reform such as restrictive local regulations and opposition groups are overcome, there could be increased prospects for more imports. Even so, it is doubtful that the United States will be the first-round beneficiary of such changes, participants said. Many businessmen are optimistic that the revised JFTC guidelines on business practices will lead to improved access over the long-term. However, they also noted that more effective private enforcement action, which was not a major focus of SII, could be even more important to U.S. interests.

U.S. products or services that could benefit from increased access

"Niche products" hold the most likely prospect for increased U.S. exports to Japan, participants said. There could also be a limited increase in consumer goods exports.

- Virtually all participants stated that U.S. companies stand the best chance of exporting products that have a technological lead over the Japanese, have not been developed by the Japanese, or carry some level of "prestige" with them. Certain medical devices, telecommunications equipment, well-known designer products, leisure equipment, crafts, wine, furniture, sporting goods and processed foods were mentioned as good sales prospects by U.S. and Japanese government officials.

- However, some U.S. businessmen in Tokyo and business consultants in other countries were more skeptical. For example, there appears to be little interest by U.S. business in the "import corners" which are being set up to handle products such as wine. In addition, some U.S. businesspersons noted that increased exports of processed foods and beef, two areas that the U.S. is considered to be competitive in, reportedly are being limited by such problems as unreasonable requirements on grocery store delivery times and collusive activities by beef importers in Japan. Market access for capital goods seemed to be especially difficult.

Forces in favor of or opposed to change in Japan's distribution system

Participants observed that some groups in Japan such as Keidanren and study groups for the Government of Japan have supported U.S. aims on distribution in the past and may be of assistance in the future.

- Keidanren (Japan Federation of Economic Organizations) was mentioned by both SII negotiators and U.S. business as having supported many of the proposals discussed under SII, except those relating to stricter enforcement of the Antimonopoly Law. Large department or chain stores in Japan could be expected to favor increased consumer awareness. Furthermore, press reports on price differentials between the U.S. and Japan were generally felt to be useful and some participants said that there appears to be an untapped consumer political force in Japan. The skyrocketing price of land was seen as a growing concern for Japanese households and business alike. Real estate speculators, however, might be in favor of efforts to make sales of real estate easier.

Most participants predicted continuing opposition from groups in Japan interested in maintaining their current position in Japan's economy.

- Participants said that the strongest opposition to changes in implementation of the Large Scale Retail Store Law will come from local shopkeepers who continue to view the influx of large stores as a threat to their existence. Local authorities, concerned with dislocation, can be expected to side with them. The Japan Socialist Party will be the main opposition to passage of legislation to further streamline the administration of the law. Business interests closely aligned with the LDP could be expected to lobby against increased antimonopoly law enforcement by the JFTC. Any efforts to reform land taxation policies could encounter opposition from such politically powerful groups as farmers, big business and small shops. The majority of participants said that the Japanese economy remains oriented towards serving producer interests, and expressed skepticism that recent changes presaged a shift towards a more consumer-driven economy.

Options for Improving U.S. Access to Japan's Distribution Channels and Market

The majority of U.S. businessmen did not recommend a radical change in U.S. policy direction, but suggest greater government-business cooperation, more trade promotion efforts, and increased information dissemination to U.S. business about how to market in Japan.

- Many businessmen pointed to the "war" between government and business or between various government agencies in the United States. They claimed that it was difficult to succeed overseas without a united front at home. In addition, the low level of funding available for export promotion activities compared to those of other countries was cited as a major hindrance in the ability of U.S. exporters to compete in Japan. The need to increase the level of awareness among U.S. business about Japan's economy and appropriate marketing strategies was also mentioned, particularly by those companies which have sold products successfully in Japan.

Most participants believed that the United States should continually push Japan to open its markets, but few felt that any one strategy, including SII, would be sufficient to improve U.S. sales.

- Approaches that focus on underlying or systemic barriers, such as SII, or agreement on intellectual property protection were seen as necessary complements to more sectorally-oriented approaches. Businessmen in the medical equipment, pharmaceutical and electronics industries appeared convinced of the success of the MOSS talks and indicated this type of detailed approach to negotiations could be a model for future talks. Most said that the United States should brace itself for a long-term struggle. Few U.S. policymakers professed a belief that they had succeeded thus far in fully opening the Japanese market to U.S. firms.

A few former government officials, heads of trade associations and businessmen called for some form of managed trade with Japan.

- Some observers claimed that Japan does not have a free market economy and that the only way to ensure some U.S. market share is to negotiate results for particular product categories. Such a quid pro quo approach is necessary because the Japanese "can think of a million excuses" not to buy, according to one former negotiator. The United States has not used all of its "cards" according to these observers, including cutting off access to the U.S. market for Japanese goods.

A few former government officials and businessmen say there is "nothing" that can be done until the Japanese decide it is in their own interest to change.

- These observers, many of whom have lived in Tokyo for years, claimed that until it is in the financial interests of Japanese corporations to change their behavior, the United States will not be successful in its negotiations that are aimed at fundamental cultural aspects of Japan's economy or its legal and political systems.

INTRODUCTION

On October 23, 1989, the United States International Trade Commission received a letter from the House Committee on Ways and Means requesting that the Commission conduct an investigation in two phases on Japan's distribution system and options for improving U.S. access. On June 22, 1990, the first phase of the Commission's report was submitted to the House Committee on Ways and Means.

Phase I of the Commission's report concluded that certain aspects of Japan's distribution system appear to impede access to existing distribution channels for new entrants, including foreign firms. Widespread ties between Japanese purchasers and suppliers, cemented by certain social customs and attitudes, were cited as being a major factor in limiting the number of "noncaptive channels" available to new entrants. The report also noted that establishing an independent distribution system appears to be a very difficult and expensive alternative for most firms given the high costs of land, rent, warehousing, transportation and operating in Japan.

In Phase II of the study, the Commission was requested by the House Ways and Means Committee to seek experts' views on options for improving U.S. access to Japan's distribution system. Specifically, the Commission was asked to solicit views on the following questions: What has been the experience of U.S. and foreign businesses with Japan's distribution system? What forces are most likely to promote or oppose reform of the system? What products or services are most likely to benefit from improved access to the distribution system? In which areas of the distribution system would change be most beneficial to these export interests? The Committee also indicated that it was interested in the views of experts on the prospects for improved U.S. access as a result of the recently concluded U.S.-Japan Structural Impediments Initiative (SII) and other policy options.

Japan's distribution system was defined in this study as including all economic activities associated with bringing goods or services from the point of entry or manufacturer in Japan to the final consumer. However, any discussion of distribution in Japan inevitably led to broader issues of market access and the nature of Japan's economy and political system. Thus, experts interviewed for this report discussed such wide-ranging subjects as customs procedures, language, foreign immigrants, drinking sake and the changing roles of women in Japan.[1]

Methodology

During its investigation, the Commission sought the views of recognized authorities and businessmen with direct experience with marketing in Japan or with extensive knowledge of U.S.-Japan trade issues. Participants included government officials, former government officials, business and industry association representatives, and academics from the United States, Japan, Taiwan, Hong Kong and Korea.

The Commission obtained information for the study through 73 personal interviews and 2 formal written submissions. The primary method of research used during the study was confidential personal interviews conducted in Washington, D.C., Tokyo, and Hong Kong. Teleconference interviews were also conducted with experts in various locations around the United States.[2]

Participants were generally requested to provide candid and personal opinions rather than official or formal positions of the organizations by which they were employed. The views of participants were obtained and are summarized in the report on a

[1] "Distribution system" in this report includes not only the physical distribution channels for consumer and capital goods, but is broadened to include other features of the Japanese economy that indirectly affect the distribution of products and services. These encompass government policies, customs procedures, transportation, business practices, and consumer and corporate behavior. For a detailed explanation of the features and operations of Japan's distribution system, see *Phase I: Japan's Distribution System and Options for Improving U.S. Access,* USITC publication 2291.

[2] The number of interviews categorized by position is as follows: U.S.-government officials, 8; former U.S. trade negotiators, 3; foreign government officials, 7; U.S. businesspersons, 25; Japanese businesspersons, 4; U.S. trade association representatives, 7; U.S. state representatives, 3; business consultants, 4; U.S. nongovernmental experts, 4; U.S. academics, 8.

nonattribution basis for the purposes of ensuring confidentiality of proprietary business information and of the personal views offered. Therefore, only a minimal level of attribution is contained in this report. Occasionally, specific company or product names are used when publicly available information was reported to Commission staff by participants. In addition, identification of participants is provided according to profession or industry and nationality when such descriptions are possible and meaningful.

A standard USITC questionnaire was not used during this investigation. In general participants were asked a number of "core" questions tailored slightly to each individual's background. The responses to these questions and other general comments by participants served as the basis for the summary of views provided in this report. It should be emphasized that the report is not an independent assessment by the Commission of U.S. business experience with Japan's distribution system or of the SII negotiations, but rather a summary of the views of experts collected during the investigation.

Organization of the Report

This report is organized into several parts: Executive Summary, Summary of Major Themes, Japan's Distribution System and Market Access Issues, U.S. Business Experience with Japan's Distribution System, SII and Implementation, and Options for Improving U.S. Access. The summary of major themes section highlights the key findings of the study. The background section of the report provides contextual information on Japan's distribution system and a summary of the major market access issues reported by participants in the study. The section on business experience with the distribution system describes in greater detail the successes and failures of U.S. and foreign companies in entering Japan's distribution system. The next section summarizes the views of the participants on the SII negotiations, including the process of negotiation and the prospects for implementation of the agreement. In addition, the views of experts on those forces in Japan that are likely to promote or oppose changes to the distribution system are discussed. A summary of the views of experts on those countries and products or services that would most likely benefit from increased access follows. Finally, the report provides a summary of options offered by participants for improving U.S. access to Japan's distribution system and market.

Chapter 1
Summary of Major Themes

"Success Stories?"

The most surprising theme that emerged during the course of the study was that even firms that were reported to be "models of success" in Japan have limited options, face constraints on their freedom to act in the market, and have little leverage to influence the "system".

In conducting its research, the Commission attempted to develop a balanced interview sample of both "success" and "failure" cases based on a review of literature on U.S.-Japan trade relations. Several well-known U.S. multinationals were frequently cited by the Government of Japan and in U.S. trade publications as being "successful" companies in Japan. Of this group, five or six were consistently referred to by participants as "success stories" and it was frequently suggested that the Commission interview these firms.

After conducting interviews with many of these companies and numerous others, it became apparent that while a number of large companies had made substantial investments and were selling products in Japan, few had achieved the market shares they initially had expected based on previous experiences in the United States or other markets. A majority of representatives proudly spoke of their sales efforts in Japan, but at the same time admitted to having a smaller market share than their Japanese competitors. Most participants said that they were dependent on Japanese partners for the distribution and sales of their product to sustain their current level of sales. However, they also indicated that their original sales expectations had not been achieved. Indeed many expressed the view that their sales were limited in some fashion. There was a general perception among participants that while it was entirely possible to achieve some level of sales, eventually the company would run up against a "glass ceiling" on their market share.

There was a slight reluctance on the part of those companies with Japanese partners to be totally forthcoming about the problems that they had encountered in Japan's market. However, after numerous interviews it became apparent that there were varying degrees of discontent by many so-called "successful" U.S. companies about their performance in Japan. One trade association official expressed the feelings of other businessmen interviewed when he compared breaking into the Japanese market to "the mythical southern town speed trap mentality." He noted, "The whole of Japan is a speed trap for foreign businessmen."

Although during interviews many businesspersons initially indicated that they were doing well in Japan or had "cracked the market," the majority of the discussions were spent explaining their dissatisfaction with joint venture partners, limited market shares as a result of relying on trading companies or the restraining effects of ties among Japanese firms, complaints about convincing Japanese companies to switch from a domestic to foreign product or in getting retailers to carry an imported product, and numerous other hindrances. While obviously these observations are based on a selected sample, it is apparent after numerous interviews with well-known firms that there is some contradiction between the typical view of "success" in Japan and the "real life" experiences of U.S. companies operating there today.

There were few references made to unacceptable profit levels, investment or sales margins, but the underlying message articulated by many businessmen, some former U.S. government officials, and others experienced in the market was that of diminished expectations and resignation about having to operate in an environment over which they had little control. Even U.S. firms with records of success in other markets appeared shell-shocked from their efforts to secure entry into Japan. Those who had made some headway into the market seemed content to accept "half a loaf" on others' terms. While enjoying a degree of success in the market, most companies expressed a sense of frustration at their inherent limitations and powerlessness to influence a "system" that seemed "stacked against them" and where dominant Japanese companies frequently called the shots.

One of the most specific comments heard from U.S. business was "the return on investment has not been up to standards that are expected in the United States" or companies are generally "not as successful as would be expected in Europe." IBM was about the only company that the majority of participants believed to be truly successful in having sustained a high market share over a long period of time (60 years in this case). However, some participants dismissed this saying "IBM is not really an American company" in that it has established production facilities in Japan and employs 23,000 Japanese workers. One former negotiator actually said, "There are no successful companies in Japan. Even IBM may not have enough money to stay in the market."

A U.S.-Japan trade expert who formerly headed a subcontracting firm in Japan attempted to explain the apparent contradiction between the typical view of successful companies operating in Japan and the picture that was being presented by these firms in the Commission's interviews. He said:

> There is a success story industry in Japan. JETRO and Keidanren are constantly coming up with success stories. They ask officials of U.S. companies to appear in their publications. The officials then send the stories back to their headquarters in the U.S. and it

> makes them look like they're representing their company well in Japan. . . There is a whole bunch of American businessmen who have woven out a place for themselves in Tokyo. They have become gurus on how to do business in Japan.

He went on to talk about the "three to five year success curve" saying that "most U.S. companies disappear from the success list within a few years . . . they get a quarter of the market and then the Japanese companies come up with rip-off products and their market shares fall."

Nevertheless, such stories have apparently succeeded in creating an impression of access for the uninitiated and serve as "role models" for companies who are considering entering Japan's market. Many government officials, companies and consultants indicated that if a company designs a high-quality product suitable for the Japanese market and develops an appropriate marketing strategy, it can succeed in Japan. Indeed, many companies have been selling in Japan for a number of years by following such a strategy. Many participants seemed to believe that if only they adopted the same "formula" as other well-known companies operating in Japan, "they too would succeed." However, some doubts were raised about how many competitive products the United States actually has to sell in Japan.

Major Market Access Issues

U.S. companies that maintained local offices and staff over a long period did not seem to be truly synthesized into the Japanese economy or completely accepted by Japanese society. Rather, foreign companies seemed to be operating under some type of artificial constraints or contrived circumstances alongside the "system" that was already in place. The general impression of Japan's market that was created by the compilation of interviews was an environment that was not accessible to outside companies except through a "filter" or "handler", such as a trading company or other Japanese partner. Some large U.S. companies have managed to get "inside" the system by establishing a relationship with a Japanese firm and hiring local employees, i.e., by becoming as "Japanized" as possible.

The overwhelming majority of U.S. companies interviewed seemed to believe that they were not operating as freely or independently in Japan's market because of the need to have Japanese connections, to have a Japanese partner or to behave like a Japanese company. Even in a 50-50 joint venture arrangement, according to one expert, "the Japanese own you, they run you." He added that frequently the amount of stocks held by a company is not necessarily a good indication of who is exercising the most control in the business relationship.

Partnerships with Japanese firms appeared to present a catch-22 situation for all but the largest of U.S. firms. On the one hand, a majority of participants seemed to agree with the statement of a well-known former negotiator, "A U.S. company has to have a Japanese partner to enter the market." A Japanese partner, through its own connections, can assist with customs procedures, legal restrictions, warehousing and distribution efforts and help the foreign company "fit in". On the other hand, participants suggested that after linking up with a partner through a joint venture, for example, the U.S. firm often becomes disenchanted with how its partner handles sales and promotions of the product. The Japanese partner may be more enthusiastic in selling its own line of products or those of another Japanese firm with which it has long-standing relations and to which it is loyal.

The most commonly cited rationale for having a partner in Japan was to gain entree to the extensive networks of business relationships in Japan. A frequently echoed theme was that "everything is networks and relationships in Japan. . . It's very much a cultural thing and there's not much you can do about it." Relationships were discussed in terms of their endurance, exclusiveness, efficiency or inefficiency and pervasiveness throughout the economy. The extensiveness of relationships in Japan was described by numerous participants who noted the networks provided a link between businesses and consumers in all regions of the country. Business-to-business, business-to-government, consumer-to-business, and press-to-government were among the types of relationships described. The structure and strength of relationships ranged from formal corporate groupings such as the keiretsu to individual consumer loyalties towards particular department stores. Preferences for Japanese products or dealing with other Japanese companies seemed to be a common characteristic of the relationships and were seen as adding to the difficulties of foreigners in breaking into the linkages or finding independent buyers.

Moreover, there was a general sense that the relationships serve as a buffer between the Japanese economy and the outside, providing those on the "inside" with a protective veil behind which they could conduct business in a less risky environment. The relationships and practices within them were almost undetectable or difficult to pinpoint for all but the very seasoned observers. This behavior assumed a variety of forms and ranged from the relatively innocuous or productive (long-range planning and heavy investment in research and development) to collusive activies, price gouging, intimidation, and overt discrimination.

For many U.S. companies the keiretsu were the most prominent symbol of the all encompassing nature of relationships in Japan. According to one expert, "You can't do anything in Japan without bumping into them" and "it's difficult to get into Japan unless you have relations with them." A U.S. scholar provided a graphic example of the coordination and integration of keiretsu within the fish industry when he noted, ". . . in virtually every port and virtually every market, whether large or small, there are firms that are identified as part of the . . .group."

Other issues raised by businesses operating in Japan were difficulties in acquiring Japanese companies, high land costs, high advertising costs and limits on print advertisements, restrictions on sales promotions, and for financial services, restrictions on offering travelers checks, credit cards, and tapping into automated teller machine (ATM) networks. Many businessmen and government officials said that Japan's import processing and facilities have not kept pace with the rise in the volume of Japan's imports. They pointed to delays in processing, problems with documentation, inadequate quarantine space and requirements for continual recertification of the same product. For some companies, government procurement policies and discretionary enforcement of entry and testing procedures seemed directly aimed at keeping foreigners "out."

Japan's Market From an Outsider's Perspective

In the eyes of foreigners or Japanese "newcomers", interviews in the United States and Japan revealed an overwhelming perception that "everything is set up to protect the status quo" and that the Japanese economy operates to ensure that "everyone gets a piece of the pie". Many of the legal regulations, preconditions, and informal business practices currently operating in Japan may have been established or developed to protect certain domestic interests or to maintain order among Japanese companies, consumers, or even the government itself, according to participants. The Large Scale Retail Store Law, for example, was established to allow smaller stores to survive in the face of competition from larger ones. Restrictions on sales promotions and premiums were originally designed to ensure that there was not "excessive competition" in certain industries. It appeared to many participants, however, that whether or not such restrictions were intended to make it more difficult for new companies, the effect was exactly that.

There was a sense among the participants in this study that there are certain aspects of corporate and consumer behavior in Japan that are very much directed at "outsiders" or "foreigners" or "Westerners". Attitudes and mindsets that favor Japanese products, services and even personal relationships were seen by many U.S. businessmen to be the factor that tips the scale and prevents the U.S. firm from "making the sale," even when their product is lower-priced, of competitive quality, or even unique. "Attitudes", "anti-foreign mentality" or "racism" were words used to describe why Japanese companies, consumers or even the government might be reluctant to accept foreign companies or their products.

The Government of Japan has contributed to the perpetuation of certain practices or restrictions and to the nontransparency of the system, according to several participants. One said, "There is an entrenched system of power in Japan between the Liberal Democratic Party (LDP) and the companies." There was a general feeling among participants that the close lines of communication and revolving doors among the ministries and the industries they regulate served to favor Japanese companies and to contain foreign competition. Some participants linked policies and practices in domestic distribution to the other economic goals of the government. One U.S. negotiator stated, "The Japanese government still has its fingers in the market, more than it should through administrative guidance and visions." Another industry association representative was much more blunt in saying:

> The Japanese government has practiced an egregious form of anticonsumerism. Japan Inc., has used the pockets of its consumers to pay for its advancement. In Japan, people with tight incomes are unable to get goods that are available in other countries because of Japan Inc.'s ability to control the flow of price information. In the computer age, control of vital information is becoming increasingly more difficult. Eastern Europe is a prime example. As in all countries with totalitarian or fascist roots, the system collapses when good price information is available.

Japan's long-term economic and industrial goals were of concern to U.S. businessmen and foreign business and government representatives. Some commented on the increasing investment by Japan in Southeast Asia and its impact on the composition and level of Japanese imports. Others echoed a theme by one businessman who said: "Japan has no foreign policy. Its only goal is to dominate market share in every market it enters. They only see dominance as a goal."

The end-result of the overt legal restrictions, the bureaucratic stalling, the relationships that could be stretched but not broken, and the preference for dealing with other Japanese persons or things is to reduce the risks for Japanese firms and make it nearly impossible for all but the largest and wealthiest firms to compete, according to most participants.

U.S. Government and Corporate Behavior

Businessmen and government officials (especially those in Tokyo and Hong Kong) pointed to certain characteristics of U.S. corporate behavior and government behavior that may limit U.S. participation in Japan's market regardless of any barriers. In particular, a large number of participants noted that U.S. companies' preoccupation with short-term profits, apparent satisfaction with a large domestic market share, lack of knowledge about the Japanese economy and society, and unwillingness to take advantage of market-opening steps may all contribute to a low success rate in Japan. As one former U.S. negotiator described U.S. understanding of Japan's market, "U.S. executives are playing like ostriches with their heads in the sand." According to participants, the most common mistakes that U.S. companies make are trying to sell products that are inappropriate for the market [agricultural combines bigger than the average plot of farm land in Japan], not making high-quality products and failing to provide after sales service. Trying to run businesses in Japan through the "fax machine" (instead of staffing an office locally), not hiring Japanese nationals or Japanese-speaking employees to run an office, and pulling out of the market the minute sales start slipping or domestic balance sheets worsen were seen as other frequent missteps by U.S. business. Demonstrating "a commitment to the market" and taking time to develop relationships with Japanese companies were often-expressed pieces of advice.

The U.S. government's role in trade negotiations, trade promotion or interaction with industry was raised by a number of participants. Many businessmen expressed concern about the lack of U.S. business-government cooperation, constant infighting among agencies concerned with trade issues, and the low level of export assistance available to U.S. companies. A few questioned the level of Japanese expertise in the U.S. government and pointed to the revolving door for government employees in the United States. One participant commented, "What do you think Carla Hills is going to do when she leaves USTR—become a school teacher? No, she'll become a lobbyist!"

Macroeconomic issues were raised by many participants in attempting to provide some context for discussing impediments in the distribution system and market access issues in Japan. Many businessmen and government officials stated that the real focus of attention for the U.S. government ought to be getting its own economic house in order by reducing the budget deficit, increasing the U.S. savings rate and improving the competitiveness of U.S. firms. At the same time, one former U.S. negotiator said:

> Trade is done on a micro level, not a macro level. No [businessman] talks in billions of dollars. A company that wants to have a relationship with another company is interested in negotiating a transfer price. This is nitty, gritty, small stuff, but it's important. Business people deal with day-to-day issues, not general issues.

SII

There were divided views among participants as to whether SII was useful in terms of increasing U.S. exports to Japan or for other reasons. A majority of U.S. businesspersons and Japanese officials and some U.S. negotiators indicated that although SII might not lead to an immediate increase in sales, there could be some long-term benefits for some consumer goods if more large stores opened and if there were tighter enforcement of the antimonopoly law in Japan. They also thought that over the long term SII might raise the level of consumer and corporate awareness of distribution-related issues and market-access problems and even lead to structural reform. However, many said that SII did not adequately address such central, but underlying issues as "buy Japan" attitudes or long-term relationships among purchasers and suppliers. Many said that SII had relieved political pressures to name Japan as a Super 301 candidate or as a target for retaliation. In addition, some said that the "systemic" rather than sectoral approach of SII was beneficial in focusing attention on issues such as over-regulation of the Japanese economy. One former U.S. negotiator described SII by saying he would not "characterize the final report as the document that will recast U.S.-Japan bilateral relations until the end of time. . . but that the things agreed to were more than water dripping on a stone."

However, a group of long-time Japan experts, several of whom are or were U.S. negotiators, used such phrases as "tokenism," "nothing," or even "the biggest bunch of bull that ever came down the road" to describe the SII process. One former trade negotiator said: "SII was a charade and a fraud. Not only didn't it solve any problems, but it may have made them worse." Several participants said that SII commitments such as improving Japan's infrastructure would only help that country become more competitive. In general, this group of participants believed that SII was based on the presumption that Japan's economy and political system operate on the same principles as those of the United States. However, from their viewpoint, Japan is not a market economy, and words like "access", "open" or "closed" "have no meaning in Japan." Therefore, they argued that the United States should be pursuing quid-pro-quo negotiations with the Japanese or taking a more results-oriented approach.

"Implementation" was the key word used when experts discussed any results that could be expected on specific SII issues. Many business representatives in the United States were optimistic about the upcoming JFTC guidelines on business practices to be issued in April 1991 and said that if there was a crackdown on antitrust enforcement in Japan it could help U.S. business penetrate Japan's market. Some experts were more skeptical. They said that as long as there is no incentive on the part of Japanese companies to change their behavior, no political will by the LDP to enforce laws against their biggest financial contributors, and no change in the national attitude that Japan's companies should be "Number One", there would be little change in current business practices in Japan.

On another SII topic, the Large Scale Retail Store Law, the majority of those interviewed said that changes in implementation or abolishing the law could have some positive benefits for the United States, but not necessarily in terms of increased exports of consumer goods. It was generally felt that the opening of more large stores, if it occurs, could lead to other changes in distribution such as a gradual reduction of the number of smaller stores, increased negotiating power of retailers vis-a-vis manufacturers and wholesalers, more competition among retailers, or more receptivity by retailers and consumers to imports. Most participants said that European countries or the NIEs would benefit the most from the expected increase in sales of consumer goods. Some participants were skeptical about other changes occurring in the composition of Japan's retail sector, citing continued opposition from localities to large stores, increasing numbers of retirees who are likely to work in small stores, and limits on building associated with high land costs and limited usable land in Japan.

Options for Improving U.S. Access

As described by most participants in the study, the main problems faced by U.S. exporters touch on the very fibers of Japan's economic, social and political systems. Major structural changes in Japan's distribution system might conflict with important political interests in Japan and would require major shifts in corporate and consumer behavior and attitudes. As such, improvements in U.S. exports could only be expected over the long-term under most policy options discussed by participants in this study.

The majority of businessmen and government officials interviewed were not entirely satisfied with the current U.S. approach for increasing access. Nonetheless, few called for a radical shift in policy direction such as closing off U.S. markets or moving towards a more results-oriented approach. As one former U.S. negotiator described the options available, "No one has the silver bullet because there isn't one."

The single-mindedness with which Japan has developed new technologies, exported its products to the rest of the world, and in recent years has brought its corporate networks to other countries was cited as a reason to continue to push Japan on opening its market at home. Most participants believed that the most desirable approach is a combination of efforts such as SII or some type of systemic approach, other sectoral bilateral negotiations, and continued efforts on the multilateral front. Some businessmen and former negotiators said that more frequent use of section 301 would be beneficial, while representatives of the electronics and medical device industry called for more sector-specific talks in accordance with the MOSS framework. A small number of former negotiators believe that there is really nothing the United States can do to increase market access until it is in the financial interests of Japanese companies to change their behavior. While a sizeable majority seemed to believe that continued U.S. pressure on Japan was necessary and desirable, a handful also cautioned against pushing Japan too hard on sensitive issues, warning of a political backlash.

There were divided views on whether the U.S. has actually lost negotiating leverage with the Japanese. On the one hand, some observers said that the United States is negotiating with Japan based on its economic power in the 1950's or 1960's. They claimed that the U.S. government has failed to perceive the shift in Japan's economic position and the corresponding increase in Japan's bargaining strength at the negotiating table. One former negotiator said, "Japan will not much longer be beholden to us for anything. It has gotten increasingly strong. It is almost as self-sufficient as we are." According to this view, the United States' bargaining power in trade negotiations vis-a-vis Japan has declined. Contrary to this view, one former government official, for example has said, "in 1952, Japan's hand was all deuces. They played them all at once. . . We still have cards to play," referring to U.S. market access and the U.S. military umbrella. As some participants pointed out, however, playing these cards could be a risky strategy for the United States.

Most participants seemed to believe that prospects for increased exports are in: 1) goods that the Japanese don't produce; 2) goods or services in which the United States has clear technological superiority; 3) "niche products"; or 4) well-known name brand items. For consumer goods, many participants seemed to agree with the statement made by the head of a research institute "As far as U.S.-Japan trade goes, we are never going to be a powerhouse for consumer goods." Although the Japanese and U.S. government officials and some U.S. businessmen mentioned a few products as having potential for increased sales—including wine, furniture, sporting goods, woodworking equipment, crafts, medical devices, leisure equipment and processed foods—most participants were skeptical. This skepticism may have been based in part on the fact that some U.S. suppliers for these products are small or medium-sized firms who rely on direct exports rather than direct investment to serve Japan's market. Such suppliers were seen as more likely to run into difficulties associated wtih entry procedures, nontransparent regulations, and standards and product approval requirements. These firms were viewed as having fewer resources and being generally less experienced and knowledgeable about export activities.

Regarding capital goods, it was noted that although the United States might have more competitive products to offer, market access in this area was affected by business relations and collusive activities of manufacturers, behavior that most participants believed would be difficult, if not impossible, to change. According to one expert, "It's not a question of abolishing a law [to improve access for capital goods]. It has to do with relations between manufacturers in Japan."

Chapter 2
Japan's Distribution System And Market Access Issues

"The Japanese distribution system is clumsy, but it serves the preponderance of the Japanese people in a reasonably satisfactory way." These words were spoken by a former U.S. negotiator and seem to reflect the views of many with experience in Japan's market. Most U.S. businessmen and negotiators seemed resigned to accepting certain characteristics of Japan's distribution system and economy as part of "the price of doing business in Japan" and believed that "if you can't beat them, you might as well join them." There was a feeling, however, that the costs and risks associated with entering Japan's market are very high. In the words of a former negotiator: "All of the major companies—the Fortune 500 companies—anyone who has a chance of selling in Japan is already in Japan." Despite high start-up costs and numerous obstacles to entry, many participants indicated that the United States cannot afford to ignore Japan's market, from both an economic and strategic viewpoint. Aside from the fact that Japan's market for many products ranks among the world's largest, U.S. companies thought that it was important to keep an eye on the Japanese competition and to make it more difficult for Japanese industry to go unchallenged in a secure domestic market and thereby become a major export force.

Background

Phase I of the Commission's report provided extensive information on how Japan's distribution system can be characterized as interlocking networks of manufacturers, distributors, retailers and even consumers that in some way affect how goods and services move to the end-user or purchaser.[1] The report noted that there is a great diversity of channels through which goods are distributed in Japan that frequently involve more middlemen for consumer rather than capital goods. The retail sector is characterized by a large number of small stores (in 1982, about 1.5 million retail stores had less than 10 employees) co-existing with about 2,000 chain stores, supermarkets, and department stores.

The wholesale sector is also characterized by numerous wholesalers (436,502 in 1988). Most products must pass through more than one layer of wholesalers on the way from the manufacturer to the retailer, and many pass through several layers. The ratio of the value of wholesale to retail sales in Japan was 3.9:1 in 1988 compared to 1.7:1 for the United States.

[1] For a complete discussion of the definition, features and functions of distribution in Japan, see *Phase I: Japan's Distribution System and Options for Improving U.S. Access*, USITC publication no. 2291, June 1990.

A few businessmen interviewed during this phase of the study attributed the higher retail prices of their products in Japan to the mark-ups that occur by each distributor in the distribution chain. One businessman gave a graphic example of this phenomenon:

> Movement from the port of entry to the warehouse of the primary distributor is considered one transaction. The primary wholesaler stores the merchandise on the first floor of his warehouse. The products are then sold to two secondary wholesalers, wholly owed by the primary wholesaler, who each charge a fee and move the merchandise to the second floor of the same warehouse. The two secondary wholesalers each have different networks and service different customers: one deals with retailers for the consumer market and the other deals with end-users in government and business. Each sell the merchandise to smaller wholesalers whose networks are based on geographic location or customer size. Every time the product passes through a distributor's hands, he gets a cut.

Others told of being required to go through a number of designated and sometimes superfluous middlemen, with "everyone getting a piece of the action," including relatives, former employees, and firms with formal or informal links with their Japanese partner. It was not uncommon for a U.S. firm to have a contract with a firm belonging to a particular keiretsu, and for its Japanese partner to specify that the U.S. firm use the group's bank, insurance company, realtor, etc. A few large U.S. companies who have operated in Japan for a number of years have been successful in consolidating the number of their distributors, but this usually was seen as difficult unless the company had achieved a stable market share, established a long-term presence, or was in a strong negotiating position vis-a-vis the wholesalers.

Many businessmen, however, believed that in general the additional mark-ups associated with multiple numbers of distributors actually reflected bona fide costs of providing superior service to customers and retailers. For example, a number of U.S. firms currently selling in Japan said that Japanese wholesalers fulfill many more financing and inventory functions compared to U.S. wholesalers and they are required to make daily, small lot deliveries. Wholesalers usually serve as the "back room" for the smaller retailers that are largely dependent on them to provide inventory space, marketing information, financing, returns, and even sales personnel. In some cases, U.S. suppliers appeared to have initially balked at the phenomenon of relying on secondary Japanese wholesalers to facilitate regional and small-store distribution of U.S. goods. However, many eventually found that the multi-layered distribution system was actually more efficient than the streamlined channels typical in the United States. Moreover, several U.S. firms said that they found it preferable to deal with numerous Japanese wholesalers rather than to distribute their products solely through large outlets, such as superstores, because they could achieve wider geographic coverage through the wholesalers.

A number of U.S. firms with successful operations in Japan said that they had achieved delivery times ranging from several hours to one day in Japan, compared to the two to three week, "it'll get there when it gets there" delivery practice in the United States. Comments by participants suggested that this was achieved by a high degree of coordination among suppliers, distributors, and purchasers. One U.S. government official remarked that "the assumption that the system is inefficient is questionable. Any standardized product can be shipped from Hokkaido [in the far north] to Kyushu [in the south] in eight hours." A business consultant in Tokyo reported that "In the United States, delivery managers boast when they have a 98 percent 'on time' delivery record. In Japan, if the firm gets an order by 1 p.m., it is delivered by the next morning." According to a market consultant in Hong Kong, "the distribution system in Japan is physically a very well advanced system. Product turnovers are very fast and it is an efficient system from the perspective of getting the product on the shelf. However, the complexity of the system is very high."

As noted in Phase I of the Commission's study, the importance of non-price factors in Japan such as demands for high quality, extensive before and after service, and prompt delivery may mean that purchasers are more willing to pay higher prices for the goods or services provided.

Power Relationships Within the Distribution Channels

According to one participant: "In Japan's distribution system, everything operates from the top down instead of from the retailers or consumers up." As noted in Phase I of the Commission's report, frequently manufacturers in Japan are able to exert control over or influence the distribution of products through various business practices. Direct loans, "easy" credit, rebates, returns policies and exclusive dealings were seen as creating a degree of financial dependence among firms with ongoing business relations in Japan. The relative strength of manufacturers, wholesalers, and retailers varies within distribution channels. However, except in the case of a few major chain stores or department stores in Japan that have more negotiating leverage, there appears to be only a limited countervailing force to manufacturers and their distributors. In the most extreme situation, according to one U.S. firm, "ultimately, the manufacturer owns the retailer, who mortgages his soul." Participants had divided views as to whether the emergence of more large, independent retailers would help or hurt U.S. firms. Some U.S. firms selling consumer products in Japan suggested that relatively powerful chain and superstores might actually close off options for U.S. suppliers, who tend to specialize in niche products which compete on features rather than on more standardized products that compete on price.

Manufacturers and wholesalers employ various "carrots and sticks," reinforced by certain Japanese social or cultural characteristics, that affect purchasing decisions of retailers. Consumers, without political clout, were reported to have relatively little influence over the purchasing decisions of retailers or the production of goods. One Japanese company said that "importers and manufacturers 'handle' consumer attitudes through advertising and image-creation of products." While some participants believed that larger retailers may be growing more independent of manufacturers through increased purchases of OEM goods, parallel imports or the introduction of computer systems, most warned that this will be a long-term process.

Changes in the Distribution System

Most observers said that significant changes are underway in Japan with regard to structural reform of the distribution system and other aspects of society that affect the distribution of goods. One long-time Tokyo resident said, "Things have changed more here in the past 5 years than in the past 17." Japanese trading companies, retailers and other businesses said that there was a rationalization underway in the distribution system, noting that the numbers of wholesalers have declined and that those remaining are becoming more specialized. At the same time the trading companies are reportedly being squeezed by purchases outside of traditional channels through original equipment manufacture (OEM) contracts and direct imports by large retailers. To cope with this trend, the trading companies are seeking to change their role in distribution by gaining more control over their wholesalers and implementing computerized inventory and sales tracking systems. The increasing usage of point-of-sales (POS) systems in Japan is expected to further rationalize distribution and affect power relationships among participants in distribution channels. As one trading company official described the situation, "Whoever owns the data or software can be a tyrant." U.S. companies will be affected by battles among Japanese companies for control over distribution channels, changes in consumer lifestyles, demographic changes in Japan, and a gradual rationalization of the distribution system. For most U.S. companies, the main question will be whether events taking place within Japan's distribution system lead to improvements in those areas described below that currently limit their access to Japan's market.

Major Distribution Access Issues

The majority of participants thought that many of the market-access problems in Japan were similar to those found in such countries as Korea or France in "name only." Many U.S. company representatives said that there was "more of everything" or that the degree of the problems was greater in Japan. That is, there are more relationships, more regulations, more layers of distributors, and more personal contacts necessary to reach the end-user. As a result more time, effort, and resources are required on the part of the foreign firm to sell their products or services. For example, in one industry, salesmen make calls on retail outlets once per day in Japan to accept returns compared to once per month in the United States. Businessmen reported that generally 2 to 5 times as many sales personnel were required to serve the market in Japan as in the United States.

The foremost issues on the minds of many businessmen were how to penetrate or cope with the existing structure of business relationships and practices in Japan. Bureaucratic "hoops to jump through" and the physical distribution of products were secondary concerns. While corporate participants in Tokyo were more familiar with the day-to-day operations of their company in Japan, a surprisingly large number of representatives from the largest companies interviewed were not even familiar with how their products moved from the port of entry in Japan to the final purchaser. Few delved into particulars such as how many distributors handled their product, returns policies, the size of the lots delivered, or how often and where their goods were stored in Japan. When specific problems were mentioned by U.S. companies, these included difficulties associated with operating in Japan's legal environment, informal coercive business practices, land costs, warehousing, advertising and labor costs, and customs and entry procedures. In addition, issues were raised that affect specific industries or products. These topics are covered in the pages that follow.

Business Relationships

"Relationships are everything in Japan," "the real problems are historical relations between companies, or longstanding relations no matter how they are organized," "the biggest problem is still business relationships, strong loyalties and patterns of doing business," "it's a network," were typical of the comments offered by participants on the pivotal role of long-term ties among businesses in determining the accessibility of the Japanese market to foreign goods. Participants agreed that strong relations among suppliers and purchasers and political connections in the right places open doors, even for foreign firms, but said that without them selling in Japan a virtual dead end for new entrants.

Alternatively described as "incestuous," and "rational," participants were of two minds about whether such relations were simply "part of the price of playing poker," or so efficient and vital that they should be emulated in the United States. Many participants suggested that strong relations among suppliers and purchasers in Japan are a key ingredient in the country's economic success. Nevertheless, most felt that they were exclusionary and that they posed a problem to foreigners in particular. Many participants seemed to share the sense that business in Japan is conducted in a "closed club atmosphere." The result, many claimed, was an uphill battle for "outsiders." As one foreign business consultant put it, "It is difficult to get into the network of companies if you don't already belong."

There was general agreement that the Japanese government formally encourages or "winks at" such behavior, particularly to prevent "excessive competition," to promote strategic industries, and to ensure a smooth "descent from heaven" of bureaucrats upon retirement. Virtually all participants said that there was little hope for a loosening of the hold of such relationships on Japan's distribution system, a prospect that most said bodes ill for future U.S. sales.

Structure and scope

It was difficult at times to pinpoint specifically what participants were referring to when they used the term "relationships." Some appeared to be describing formal relationships such as the keiretsu, characterized by cross-ownership of stock or transference of personnel and other formal relations among Japanese firms. These relations could involve banks, trading companies, insurance companies, manufacturers and subcontractors. However, the majority seemed to use the term "relationships" to describe a web of long-term ties among suppliers and purchasers, often outside of the keiretsu, that affected both capital and consumer goods sales in Japan. These supplier-purchaser relations were often described as informal and driven by economic considerations, but further solidified through cultural or social behavior emphasizing personal contact, mutual obligation, loyalty, trust, a tendency to favor group over individual interests and "anti-outsider" attitudes.

The importance of business relations spanned the whole of the distribution chain, from the port of entry in Japan, where a personal touch was often needed to smooth the way for imported goods; to the multiple wholesalers, retailers, and end-users in Japan that are the lifeblood of Japan's distribution system; to government regulators who were seen as being at the nerve center for crucial business information and controlling the regulatory spigot for products ranging from processed foods to pharmaceuticals. There were also references to cozy relations between the press and the agencies they cover, between trade associations and the LDP and between consumers and retailers.

Several participants suggested that the relationships are particularly a problem in the distribution of capital goods, which a number of participants said were the United States' source of competitive strength. Among the industries specifically mentioned by participants as influenced by such ties were autos, machine tools, chemicals, electronics, and ball bearings.

The scale at which those networks have been built in Japan was viewed as being unparalleled in the West. As one former U.S. negotiator put it, "other countries do not have the crystalline linkages from the banks to the retail outlets. They do not have the ingrained sense of loyalty that causes people or companies to help each other when one of them is down." This could be attributed in part to the geographic and demographic make-up of Japan which includes one-quarter of the entire country's population living within a 30-mile radius of the Imperial Palace. Modern communications and transportation systems, a history of isolation, and a cultural tradition of social "networking" make it all the more likely that networks in Japan would extend to every realm of government and society. Relationships in Japan were described by participants as being both regional and national. While a small store in Osaka might identify with its local small retailers federation, it was also likely to have ties to a major Japanese manufacturer in another part of Japan.

The nontransparent nature of Japan's government administration, as well as the significant role of the government in areas ranging from product regulation to industrial policy, have fostered a high degree of interaction among government and business in Japan, participants believed. There appeared to be a consensus that the links among Japanese firms and between government and business were a key variable affecting a product's ultimate success in Japan. Examples were provided of retired government officials joining the companies they had regulated, of government and industry officials meeting under informal circumstances to exchange information and solidify their friendships, and of financial support at the local and national level for government officials.

Economic considerations, business practices and efficiencies

Though seemingly irrational to an outsider at times, business relationships in Japan were described as being based to a large degree on the profit motives, long-term financial interests of the participants and efficiency considerations. Reliability of supplies, the provision of timely and quality service to customers, "insurance" against economic downturns, and making sure that everyone gets at least something were considered to be incentives for the maintenance of relations among manufacturers, distributors and retailers. Information networks linking up producers or customs brokers, wholesalers, and retailers were cited by a number of participants as improving flexibility and market responsiveness. In many industries, as noted in Phase I, a high degree of interdependence and vertical control of distribution channels by manufacturers was created by practices such as extended use of promissory notes, rebates, returns policies, and assorted pressure tactics by existing Japanese producers.

Within the keiretsu especially, a number of participants said that there appeared to be sound economic reasons why Japanese firms tend to foster long-term vertical relationships with suppliers. Indeed, a MITI official said that "many of the [business] practices are valuable and practicable." Among the most commonly cited examples of efficiency were cases where purchasers worked closely with suppliers to design products, monitor and change the production process, and facilitate just-in-time delivery. The rationality of such procedures was particularly evident, they said, in industries characterized by substantial investments in research and development and for components such as semiconductors and auto parts that are "designed in" to the final product.

The fact that U.S. firms such as General Motors are emulating the process was cited by several participants as evidence that Japan's system of stable relationships was the way to go for the future. Indeed, one academic characterized the Japanese system of long-term supplier relations as a "more flexible form of vertical integration." One consultant noted that the trend in the United States is already increasingly toward long term relationships among businesses. Some carried the logic further, saying that the general tendency of business-labor, supplier-purchaser, and government-business relations in the United States to be "adversarial" and "uncoordinated", hurts the United States, both in terms of U.S. corporate competitiveness and in its dealings with Japan.

Characteristics of corporate and consumer behavior

At the individual corporate and consumer level, relationships between buyers and sellers were said to be based on mutual understanding, loyalty, obligation, personal contact, and history more than legal documents. Japanese firms were therefore frequently willing to sacrifice short-term gains for the long-term maintenance of the relationship. People even take turns taking the loss because they "know that it will be equitable," said a U.S. government researcher. The researcher explained that often, if something changes in the course of the contract such as the price of crude oil rising dramatically, the firms would get together and renegotiate the terms so that one firm ends up absorbing the loss. The next time something like this happens, the other firm would take the loss. This way, they remain friends and each wins or loses equally. But newcomers have no historical relationship to fall back on and therefore find it difficult to break into this system. A U.S. firm in the capital goods industry stated that in contrast to the U.S. system, the Japanese system "is built on trust."

Loyalty was cited as being critical in forming and maintaining relations. If one is tied to a particular company, one does not go to another, according to participants. One U.S. businessperson in Japan noted that employees identify themselves not by their profession, such as chauffeur or executive. Instead they say, "I work for Sony. . . Their soul belongs to the corporation." Another businessman stated, "at a stockholder's meeting in Japan, the President says, 'I'm pleased to relate to you your company's performance', while in the U.S. the head of the company says 'I'm pleased to relate to you my company's performance.'" Another reported that Japanese businessmen typically will shy away from consuming products produced by a competitor or companies affiliated with a competitor. It is considered disloyal, for example, for an employee of a company with relations to one Japanese brewery to order beer produced by a competitor.

The importance of personal contacts in building relationships was raised by many businesspersons. As one U.S. participant observed, "Lots of business partners or people working in the same firm or ministry are classmates from the same university. There are also close relationships among people who entered the company during the same year." References to salesmen bringing autos or other products to customers' houses and the practice of calling on customers daily were offered as examples of the personalized nature of selling in Japan.

Sometimes the personal connections can be utilized to the advantage of outsiders. According to a U.S. government official in Tokyo, a T-shirt manufacturer went to a large department store and was told his shirts would not sell and his design would not be attractive to Japanese consumers. He was advised that the quality was too low and the price too high. But the manufacturer took his problem to a Japanese friend with contacts at another part of the department store, who took the shirts to their contacts, who bought them. The company is now selling $1.5 million worth of merchandise per year. The government official concluded: "If you can get to the right person and get him to support you, you can sell anything at any price. If you don't get to the right person, you can't sell anything at any price."

Exclusionary or discriminatory nature of the relationships

Many participants stated that relationships among Japanese firms were not anticompetitive, nor necessarily discriminatory per se—since "outsiders" in Japan also faced the same invisible wall as foreign firms. However, most participants who expressed a view on the matter believed that foreign suppliers faced a more difficult problem overcoming existing relations than Japanese firms often because of discriminatory attitudes embedded in Japanese socitey. One U.S. trade association official remarked that "long term relationships are favored in Japan, but U.S. companies expect to be kicked out of such relationships at any time, especially as soon as there is a new Japanese supplier."

There was a general agreement with the statement of a businessperson who said "There is exclusivity in distribution chains." In this case the participant appeared to be referring to business practices which provide leverage by manufacturers or distributors within the distribution channels. Examples were provided for products such as ball bearings, autos, and cigarettes where Japanese firms simply don't carry lines of competing products. The combined effects of these types of business practices within distribution channels were seen to discriminate against outsiders.

Breaking into the relationships

Breaking into the long-term business or purchaser-supplier relationships was seen by most participants as nearly impossible. While many participants speculated that these ties might ultimately yield if there were a sufficiently high price advantage by the new entrant, the system was seen as largely impenetrable by economic means alone, both because of the importance of nonprice factors that contribute to the formation of the relationship and because of the tendency for Japanese businesses to calculate their business interests over a longer-time horizon. One U.S. industry representative lamented that "there is no way to undermine the locked up distribution system. There is no way to break the hold." A fairly common statement was that imported products would need to be "30 to 40 percent cheaper" than a domestically produced good before a Japanese customer would switch suppliers. This was contrasted with the 10 to 15 percent price differential that would not only make U.S. purchasers "think twice," but drop existing suppliers "like a hot potato." As one U.S. business person put it, "Foreign companies need to have a phenomenal advantage to sell to them [Japanese auto companies.]" Moreover, participants were of the view that the potential customer would likely offer existing suppliers an opportunity to meet the newcomers' price and reported that the existing supplier would "consider it a matter of honor" to do so. In addition, competing on the basis of price was generally considered a highly risky and unproductive strategy for foreign firms, partly because Japanese producers were seen by participants as often having "deeper pockets" and numerous avenues for "making life difficult." As one U.S. electronics industry representative put it, "Once you cut your price you're lost."

One of the most often expressed concerns of American businesspersons was the difficulty of breaking into keiretsu relationships. A U.S. trade association official stated that the keiretsu system was largely responsible for "blocked channels and limited market access." Several participants went so far as compare Japan's current day keiretsu to the pre-war zaibatsu, or family conglomerates controlled through holding companies. One U.S. businessman in Tokyo remarked that "The Japanese are very oligopolistic in every category. It could happen in the United States except there are more restrictions and regulations. There were the pre-war zaibatsu and there are the post-war zaibatsu." One representative of a foreign government characterized keiretsu and restrictive business practices as "the major barriers affecting foreign businesses," explaining that many foreign companies can't find the correct channel to enter the market and can't find the right person to deal with. He said that unless a company manages to find its way into the structure, it will not be able to do business in Japan. A U.S. private sector trade association official reported that "Many U.S. companies operating in Japan are habitually fearful of asserting themselves for fear of offending the keiretsu. Companies are often at the mercy and suffering of the keiretsu," the interviewee claimed.

An American advertising representative in Tokyo commented that "you can do business with the keiretsu, but it's hard. They attempt to restrain trade from Japanese companies too, not just foreign companies." A U.S. business person reported that, "If you try to break into the keiretsu system, for example, by trying to sell to Toyota who owns 5 percent of the bearing producer, it's like trying to take business away from your brother-in-law." A representative of a foreign pharmaceutical firm stated that "the keiretsu are becoming more powerful" and worried that this "may hurt" in the future. Being "affiliated with a large Japanese pharmaceutical firm" has "helped" his firm weather this trend, the participant believed.

A few participants were slightly skeptical view of the strength of the ties between firms. As one participant from a private sector research institute put it, "the corporate groups in Japan have a natural market, not a given market." A U.S. electronics firm currently selling in Japan said that for some products it carries, "Japanese customers are more fickle than for other products and are more willing to change suppliers quickly." At least one U.S. government official believed that vertical business practices by Japanese firms provided a window of opportunity for U.S. suppliers to enter the market on the basis of price, arguing that the reason the United States did not focus on resale price maintenance in Japan was that "higher prices on Japanese products could help U.S. companies."

For most participants, the only way to access existing distribution channels, and the relationships within them, was to find an appropriate partner. While this strategy, too was not without its pitfalls,[2] some major U.S. corporations within Japan said that by finding the right Japanese partner they had been able to tap into, and benefit from, the relationships of their Japanese subsidiary or distributor. As one U.S. businessperson put it, keiretsu are "not a problem for them" because their Japanese partner is "strong with Toyota and they use their relationship to promote U.S. products well." In other cases, U.S. suppliers appeared to have initially balked at the phenomenon, but found that the right connections, "made things happen." Several partici- pants went on record as saying that their joint venture relationships in Japan were "an ideal marriage, "successful," and "fairly good."

Some participants were of the view that other foreign suppliers, notably those from Europe and other Asian countries, might be at somewhat of an advantage in forming the kinds of business relations needed to succeed in Japan. European firms were seen as more willing to adapt to local cultures, more long-term oriented, and more willing to assign staff to the Japanese market for significant time periods. Other Asian suppliers were seen as sharing similar cultural backgrounds and having a history of dealing with the Japanese.

"Buy Japan" Attitudes

According to the vast majority of participants in the study, the "buy Japan" preference that seems to permeate Japanese corporate and consumer behavior strengthens the tightly woven fabric of business relationships described above. This tendency to choose Japanese products when they are available, often even at a higher price, and to consider imported products only as a last resort makes it even more difficult to sell successfully in Japan—even if "all of the right things are done." Some participants went so far as to call this cultural, social or attitudinal characteristic "discriminatory" or "racist". One participant expressed very frankly and bluntly what many observers implied:

[2] For further information on choosing an appropriate Japanese partner, see discussion under "Business-to-business advice".

> The bottom line is a matter of relationships—in the best light. . . . The reason we can't get into Japan is not because the system is complex, it's the relationships. It's the closed nature of Japanese society. . . It doesn't have to do with the structure of the economy or distribution system, it's what's in peoples' minds. In a harsher light—it's racism. They're still fingerprinting Koreans after 4 generations. Anything that's exclusionary is something called racism. There needs to be a public commentary on that point.

These comments were generally accompanied by a broader discussion of the "xenophobic", "paranoic" or extremely "nationalistic" nature of the Japanese population. One participant commented, "Japan is the most homogeneous, xenophobic, racial hierarchical structure in the world." Another U.S. manufacturer said, "There is a natural xenophobia among the Japanese. They will always choose Japanese products over a competing foreign product."

Some also referred to what was perceived by many U.S. and foreign businessmen as an economy where "everything is set up to protect the status quo". This includes government officials according to a representative of the financial services sector who said,

> The bureaucrats' attitude is to make sure the system is not threatened. It's a mindset. In areas where the Japanese are not competitive the bureaucrats slow things down for the foreigners. Instead of strictly forbidding certain things, they simply set up preconditions to funnel the foreign company through a Japanese one. For example, to receive an investment trust license in Japan a company has to show that it already has a complete distribution network. Foreign companies typically can't comply.

One private research institute said, "The Japanese market discriminates against any outsider—Japanese or American. It's harder for foreign companies than Japanese." Another industry association representative described the situation this way:

> When a foreigner tries to sell a product in Japan he starts out with a negative credibility balance. In order to achieve a zero balance he has to work very hard at developing a relationship. Japanese suppliers, by contrast, start out with a zero credibility balance. In the United States, any new seller or product is initially judged on "face value" and its credibility goes up or down from there.

According to a U.S. academic "Japanese firms may be more likely to switch to another domestic supplier before they will switch to a foreign supplier." One academic said:

> There is a cultural phenomenon in Japan of extreme risk averse behavior which leads to strong brand preference. This makes it difficult for foreign brands (unless they have some established luxury niche as do European imports) or gray market imports to succeed. There is a mistrust of something not coming through Japanese firms.

Japanese consumers reportedly are not opposed to buying imports of standardized goods, in particular. However, their demands for fancy wrapping, high quality image products and impeccable service frequently mean that Japanese goods are more likely to appeal to them than foreign goods that they may be less familiar with. They may be more willing to purchase certain consumer goods with well-known brand reputations and "prestige" or luxury goods from Europe. One reason cited for low levels of imports of U.S. clothing in Japan, for example, is that "U.S. designers don't have the cachet that is attached to other European products." Consumers also prefer to shop in department stores which are equated with high-quality goods, packaging and service.

Operating in Japan's Legal Environment

The general perception among participants was that the legal environment for business in Japan is significantly different than that in the United States. One primary difference, they believed, lies in the less formal nature of legal regulations governing business. Lack of procedural clarity, consistency of application, and transparency of regulations in Japan make it difficult for outsiders to know what regulations are applicable and how to operate within the requirements of the law. Several businesspersons expressed the view that there is a subtle process of informal regulation and reciprocal consent between government and business, achieved through communication between interlocking networks, which tends to result in a lack of clarity of regulations and restrictions on business operations. As one business representative put it, interaction between the government and the private sector is an "incessant process that factors in lots of information" resulting in consensus building through extensive communication. She noted that a company which is not connected to these networks has difficulty in knowing the restrictions which may apply to its operations. One analyst questioned whether Japan is "a country of regulations or relations?"

In addition, there is a perception that existing regulations are often not enforced, or selectively enforced. A representative of a trade association commented that local Japanese businesses are aware of which laws will and will not be enforced, which results in a tremendous disadvantage for foreign businessmen, who are often the first to be hit with enforcement actions.

Moreover, formal legal processes were perceived by participants as infrequently used to resolve business issues. One business representative commented that the Japanese compromise all of the time, in order not to disturb things, while "in the United States there are lots of courts and lawyers - it's an adversarial system. In Japan, they think this is terrible." Many participants indicated that, in Japan, litigation is perceived to be disharmonious and not in keeping with traditional Japanese ways. A representative of a private sector association said:

> The Japanese system is one of forced conformity. The court system is fixed. It is a hierarchical order where judges are tied to the political system. The Japanese political system treats people like a gardener treats a hedge, anything that sticks out is lopped off. The Japanese word for different is the same word as wrong.

The Japanese legal system reflects this by imposing procedural barriers to legal actions, for instance significant filing fees.

However, some participants said that it is public policy, and not a matter of culture, that restricts litigation in Japan, suggesting that whenever possible, the Japanese will stand up for their rights. One academic similarly indicated the belief that Japan is a very litigious society, but that the government has restricted the number of lawyers. In the view of this academic, the infrequency of resort to formal legal process for dispute resolution is reflective of a deliberate set of government policies, and if there were a doubling of the number of judges and lawyers, there would be a doubling of the number of lawsuits. However, an American businessman working in Tokyo indicated that the Japanese have an almost "psychological aversion" to legal proceedings, unlike Americans. He noted further that there are a lot of people in Japan who don't take the bar exam, but have studied law, so it is wrong to say there are no lawyers in Japan.

In the same general vein, a great deal of business is conducted in Japan based on "handshake" deals, without specification of details in a written contract. Coupled with the emphasis on compromise and consensus for resolving disputes in the context of long-standing relationships, this can be an obstacle for businessmen accustomed to contracts which specify the parties' rights and obligations. However, one American businessman in Tokyo noted that "It's more of a cultural difference than a business practice" to rely on verbal agreements and consensus rather than written contracts. He also noted that in Japanese, the character for the word "trust" is a person with words coming out of his mouth. Several businessmen reported that major contracts with Japanese companies involving joint ventures and distribution agreements were short and did not incorporate the details of the matter in question. One businessman commented that senior people shake hands, and junior people work out the details. The emphasis is on trust, and establishing a long-term relationship, within the context of which specific issues can be resolved by the participants.

The Japan Federal Trade Commission is entrusted with enforcement of the Japanese Antimonopoly Law, and also issues guidelines on business practices and sales promotions and premiums. A U.S. government representative commented that the JFTC has been a "weak reed" until now, and needs "beefing up." The general perception among the participants was that the JFTC has not been an effective force in Japan, reflecting social and economic customs which did not favor enforcement of the antimonopoly law.

Informal Business Practices

Participants made numerous references to both formal and informal coercive tactics that affect their ability to distribute in Japan. These were in addition to business practices or vertical practices within distribution channels or keiretsu relationships. Refusals to deal were cited as a commonly used pressure tactic. A U.S. government official in Tokyo remarked that he was "surprised by the effectiveness of intimidation in the system. Manufacturers intimidate retailers not to carry foreign products." As an extreme example, a U.S. telecommunications company that thought it had concluded a gentleman's agreement with a Japanese retailer to sell its product, later received a call saying that a large Japanese competitor had threatened to "break his arms and legs" if he carried the U.S. product. The U.S. firm later went to MITI with its story and within a day, the dealer was willing to carry the product. In another example, a state export promotion official located in Tokyo said that mom and pop stores want to carry California wines, but are intimidated by the big Japanese producers not to, or risk losing local brands. Sometimes the threats are more general: "Japanese companies will have someone tear down your advertising", according to a business consultant. As one U.S. government official put it, "There are direct overt exclusions and boycotts" which contribute to "fears in entering the market." One U.S. businessperson said that "Retailers must sell at a fixed price, or Matsushita will pull its line."

Land Costs and Warehousing

Almost all businesspersons in one way or another referred to high land costs as contributing to the high cost of doing business in Japan. Many consultants, academics and businessmen agreed with this statement, "The land tax policy is the single most important issue. As long as those rules exist, the costs of competing are high." This consultant noted that the issue of land reform, however, is tied closely to powerful political interests in Japan. Land costs were mentioned in conjunction with setting up businesses, renting space, and establishing or finding warehousing. One business association representative said:

> In terms of economic theory everyone faces the same costs, but the high cost of land in Japan is a real barrier to new entrants because it adds to the cost of setting up a business. The cost of setting up your own distribution warehouse is prohibitive.

A businessperson in Hong Kong said "Everything in Japan is governed by the high cost of real estate." She went on to provide an example: "The deposit on a shop in the Ginza of 1,000 square feet is $1.5 million." A financial services representative in the United States indicated that it is too expensive for major U.S. banks to buy branch offices in Tokyo.

Another business consultant noted that "Lowering the cost of land would ease burdens on new entrants, foreign and domestic. The problem is that there aren't many ways to lower land prices. Japan is a wealthy country with massive savings which makes it very expensive. Lots of money is spent on real estate." Some participants also noted that Japanese are reluctant to sell their land because "much of the land has been in the family for years—maybe several hundred years."

Advertising

Almost all of the large companies with a market share in Japan indicated that advertising costs in Japan were relatively high and that demand for print media, in particular, outpaced supply. A representative for a major U.S. corporation who has sold in Japan for years said, "The costs associated with advertising are so high—it has a limiting effect. T.V. time is prohibitive." He noted that his company considers television advertising every couple of years, but always decides that it is too expensive. An advertising executive in Japan, however, said that the absolute costs of advertising in Japan are high, but on a per head basis television advertising is actually lower than in the United States. Whereas in the United States you have to buy ad space on several channels, in Japan, NHK reaches most of the population.

For newspaper advertising there are 5 major dailies that are delivered to subscribers before they leave for work. The largest, the Nomuri Shimbun, has 9 million subscribers. A U.S. business consultant provided the following comparative costs of a full-page consumer product advertisement: USA Today, $55,000; Washington Post, $39,000; New York Times, $30,000; and major dailies in Japan, $95,000-$100,000. There is also an over demand for print advertising space because the length of newspapers in Japan is not news or ad driven. Each paper prints 24 pages per day and devotes 40 to 45 percent of that space for advertising. Magazines follow the same pattern as newspapers for advertising space. Recently one paper increased its length to 32 pages, but this has been very unpopular with the other papers.

The effects of the limited ad space means that "you can't just call up and run an ad." One company indicated that the prime advertising space on the front and back of the newspaper is usually booked at between 100 and 120 percent. As a result, even though his company would like to run 12 ads per year, he can only run 4 to 6 ads. One time the company wanted to run a full page ad, but it took 4 months to place the order. The only way they were finally able to run the ad was to accept two pages of ads from Dentsu that it did not want.

Several companies noted that there are a few major companies that dominate the air and print media. According to one representative of a major U.S. corporation in Japan, "There is a lot of monopoly and cartel-like behavior in the publishing industry." Several businessmen referred to the dominant position of Dentsu in the advertising business. One advertising representative said:

> Dentsu has tremendous political clout. It's the world's largest ad agency. The top 10 agencies in Japan do 70 to 80 percent of the business. Dentsu's sales went up 13 percent last year. This increase was greater than the total billings of the number 5 company. Dentsu is a great white shark in heat feeding on everything all of the time.

Labor Shortage and Costs

Many interviewees spoke of the impact of Japan's aging society and labor shortages on their ability to distribute their products in Japan. As Japan's society ages, the need to employ immigrant labor, especially for lower paying jobs, is expected to increase. One U.S. government official said that although he hasn't seen official projections on how many foreign workers will be needed in Japan over the next 20 years, there is one study that predicts there will be 10 million. U.S. businesses predict that it will become harder to hire labor for menial tasks or for high risk occupations such as underwater construction.

Increasing numbers of women are expected to be drawn into the workforce as Japan's younger labor pool shrinks. Some U.S. firms are planning to take advantage of this by hiring women to work for them. However, at least one direct marketing firm is being hurt because their primary sales force was traditionally composed of women who sold products through catalogs out of their homes. Many of these women are now working in offices which are generally not receptive to catalog sales.

Thus, the direct marketing firm is experiencing difficulties in reaching its customer base.

One company official noted that it was hard to find "top quality people in Japan because there is a labor shortage and the Japanese prefer to work for companies like IBM or Toyota, so these companies get all of the top graduates." Contrary to this view, a few U.S. businessmen said that the Japanese aversion to working for a foreign company has been "overplayed." One noted that there are "a number of qualified, young MBAs that have been through U.S. schools and are willing to work for U.S. firms."

U.S. businesses also complained about the high salaries commanded by Japanese workers. Some indicated that paying sales representatives or other employees was their greatest expense, aside from leasing office space. One executive noted that salaries of even the lowest billing clerks were $20,000 and up.

Customs and Entry Procedures

The majority of those companies who are in a joint venture with a Japanese partner seem to have few problems with entry and customs procedures. Most said they have "knowledgeable people in Japan who know what is needed to clear customs" or that they rely on their partner to help smooth the way through customs. However, some U.S. companies continue to report problems with customs and entry procedures. According to a U.S. consultant in Tokyo responsible for a variety of wine and food products, "getting things through customs is a nightmare." He noted that there is a lack of warehouse space (cold and regular), staff problems, and problems with freight companies. In one case, a shipment of spices arrived in March 1990 but did not clear customs until June 12 due to "ineptness." There was a Japanese holiday when the shipment arrived, then there was not enough warehouse space, so the spices sat in the container, and finally the spices had to pass an aflatoxin test (because one previous spice shipment had been rejected). This businessperson suggested that there is a need for a data bank so that a manufacturer who ships consistently from the same source could certify all of its products when it changed importers instead of having to requalify and retest each product. The Ministry of Health and Welfare refuses to accept U.S. certification for aflatoxin inspection for food products containing peanuts. Currently every other shipment of food with peanuts must be tested for aflatoxin. U.S. industry representatives say that blanket permits covering all of a manufacturers' plants in the same country would facilitate imports.

A U.S. businessperson said that "mixed loads are a problem for customs—if one item needs testing, it holds up the entire load. However, U.S. importers need to bring in mixed loads because small buyers can't bring in an entire containerful of one product." He added that his company has only had one load rejected in three and one-half years.

A state government representative said that a manufacturer of ice chests was told to have his products recertified each time the items were imported. He has also heard complaints about inadequate quarantine facilities for imports of live beef and hogs. One company wanted to import two prize hogs but was told that a shipment of 1000 head was coming in and that there wasn't enough customs clearance space. The company decided to ship the two hogs with the 1000 coming in and clear them together.

It was also reported that "paperwork takes forever to clear customs". One participant said that computer software manuals and course papers for seminars are checked thoroughly for obscene materials before they are cleared.

There are apparently some problems associated with customs documentation as well. One company noted that they were forced to change the word "caulking gun" on a customs form to the words "caulking application". He said that the use of the term gun "used to throw a monkey wrench in the process. The Japanese Customs officials went off when they saw the word gun."

Industry Specific Access Issues

Grocery Store Delivery Times

Several businesspersons in the food industry commented on a recent requirement by Japan's largest supermarket chain that products (both perishable and non-perishable) be delivered to the stores within a certain time after production. Although only one Japanese chain initially started the policy, allegedly as a campaign to attract customers through "freshness" advertising, most other chains in Japan followed suit. Since it can take two months just to get the product to the shelf in Japan from the production date, the requirement poses a special problem for U.S. companies. For example, in the case of soap, the product must be sold within 60 days of manufacture. If the product doesn't make it to the wholesaler in time to be delivered to the retailer, the wholesaler is reluctant or unwilling to accept the product because it doesn't want to have a surplus of unsold goods. U.S. businesses claim that this requirement has affected U.S. sales of everything from canned goods such as soup to cereal or other food products.

Direct Mail

One participant in the direct mail industry in Tokyo indicated that the major problems for that industry are high postage rates (25–27 cents in Japan for bulk mail compared to 17 cents in the United States) and high printing costs. The most hopeful possibility for bringing postage rates down is if large Japanese department stores decide to enter the direct mail business. According to this businessman, "They might bring pressure on the government to bring mail rates down." In addition, "outside lists" of potential direct mail customers aren't bought and sold in Japan because of concerns about privacy. This makes it difficult for direct mail companies to find new customers.

Representatives of the financial services and direct mail business indicated that the costs of 1-800 calls are higher in Japan compared to other countries. As a result, a major U.S. direct mail company does not use this method to sell in Japan.

Cigarette Distribution

For the cigarette industry the main issue is "the battle for the vending machine", in the words of a businessman in Tokyo. Although importer access has improved, there are difficulties in gaining access to vending machines. The Ministry of Finance is responsible for issuing licenses to sell in vending machines, but Japan Tobacco Institute, the major Japanese competitor to imported brands, administers the licensing process. JTI also controls most of the vending machines and its sales force of 2,500 has better access to retailers than U.S. companies. JTI is able to employ blocking strategies to limit the number of vending machines on a particular block. Other problems cited by the cigarette industry were the lack of tax collection centers for the excise tax and difficulties in providing telephone ordering services.

Pharmaceuticals and Health Care Industry

For the pharmaceutical industry, many problems were solved during the MOSS talks. There are, however, difficulties relating to the pharmaceutical and medical devices reimbursement system: "If your product is not approved for reimbursement in Japan, you don't sell. It's absolutely critical to be reimbursed." Doctors in Japan are reimbursed for the costs of drugs and are paid fees based on prices established by the Ministry of Health and Welfare. Doctors earn a percent on the amount of prescriptions they dispense, so there is incentive to prescribe large quantities of reimbursable drugs. Another problem relating to health care is the amount of resources required to reach the customer:

> Any foreign company that wants to can set up a distribution network. However, the cost of distribution is very high. The Japanese doctors are very difficult to sell to. You need an incredibly large sales force. In the U.S., the typical sales force is 500 and 1,000 is a big sales force. In Japan, the large companies have 2,000 people. They have tremendous influence. They have more people to sell directly. . . With a sales force of 2,000 these companies can see the doctors daily compared to once a month in the United States.

Chapter 3
U.S. Business Experience With Japan's Distribution System

As noted in the summary, participants reported that it is difficult for even the largest of companies with experience in foreign markets to access Japan's market and its distribution channels. The primary motivation of many U.S. and foreign companies operating in Japan was to tap what was believed to be the huge sales potential of the market. Firms in industries such as electronics and telecommunications indicated that it was necessary to have a presence in Japan to monitor the Japanese competition and technology development. Some business consultants and industry representatives also pointed to a broader goal than strict profit motivations. A former negotiator articulated these feelings: "We can't leave the Japanese in a protected home environment so that they can threaten our market and third country markets." Consultants and government officials, and particularly businesses with experience in Japan, offered prospective entrants advice on how to improve their chances for selling in Japan.

Business-to-Business Advice

There does not appear to be a unique model or approach that can be followed in accessing Japan's distribution channels. Many participants offered advice such as: "In order to get any recognition, a foreign company needs to have a 30 percent price advantage, offer a technologically superior product, or have a niche product to sell." A former negotiator provided the following advice to prospective new entrants to Japan's market:

> If you have a proprietary technology that is defendable and you are in a strong patent position and if you are in a strong process position that can't be duplicated or knocked-off, you should go in. You should not enter into a licensing agreement or a joint venture. You should start from scratch and try to avoid making your product in Japan if it can be made in the U.S. If you do a joint venture, you should not use a trading company or a company in the same industry. You should find a partner with no [conflicting] interests or technology. The key to success is not the partner, but the person who runs the Japan operations—an American who speaks Japanese and knows Japan or a Japanese national. Even then you may not be successful unless you know someone in the government and can call them in to help or to insulate you from "the things the Japanese could do to you."

There were other common factors cited by businessmen as being important to developing a successful business strategy: choosing a suitable Japanese partner, designing a high-quality product appropriate for the Japanese market; setting the right price; providing after-sales service; establishing an on-site presence; hiring local personnel; ensuring CEO and U.S. government support; and building up relationships.

It was made quite clear from the interviews that the option of setting up an independent distribution network was virtually out of reach for almost any company. Almost all participants agreed that, "The costs of setting up in Japan are prohibitive unless the company is very big." Some participants pointed to IBM or BMW as having succeeded in this approach, but no one seemed to believe that they could emulate it, given the high costs of land and warehousing and the large sales forces required to service the Japanese market. One U.S. government official flatly declared, "The United States doesn't have the money to be in Japan."

Choosing an Appropriate Japanese Partner

The most commonly offered advice by negotiators and academics was "a U.S. company has to have a partner." A corollary to this theme was "not just any partner, but an appropriate partner." Most businessmen seemed to believe that although this might entail a loss of control, this strategy would at least result in some sales in Japan rather than none. Japanese partners were viewed to be important because of their relationships with other firms in the market. They were also thought to be helpful to the U.S. firm in sorting through the maze of regulations, in providing "ready made" distribution networks, and in guiding them through other potential minefields of Japan's market. In choosing the appropriate partner one U.S. government official said, "You try to find a distributor of related or similar-use products. You can also go to the distributor of a product not currently selling and get them to pick up your product." A U.S. government official in Tokyo said:

> About 90 percent of the firms who try to get into this market fail because they choose the wrong partner. They don't do the necessary research. They haven't consulted enough people. They don't want to spend the money. Even the biggest firms don't want to, but you have to spend a lot of money to make money.

In general there seemed to be a type of "love-hate" relationship between U.S. firms and their joint venture partners in Japan. To illustrate, one businessperson noted that although his company's products compete with those carried by their Japanese agent, they have decided that it would be difficult to sell in Japan without the partner due to the intensity of competition among Japanese companies in the market. Many comments were heard from companies who had become dissatisfied with their joint venture partner, who had switched partners or who were thinking about switching partners. One U.S.-Japan trade expert described this trend:

> The reasons that joint ventures eventually fall apart in Japan are either because the U.S. company feels like it is getting "milked" or that the Japanese get the technology that they want and then get out of the partnership.

He also noted that there are risks associated with joint ventures in any country. One U.S. firm, typically thought of as a success story, said it is actually in a no-win situation with its Japanese joint venture partner. The firm said it was trying to "dance with an elephant" and getting little in the way of cooperation or sales efforts. However, the Japanese partner is so well connected that the U.S. firm now has two options in Japan: continue with an unsatisfactory joint-venture relationship, but pay a higher commission for the privilege; or sell out its Japanese operations to the partner at fire-sale prices, and abandon forever its privilege to sell in the Japanese market under its own brand name. Finding another distributor or going it alone was "not an option," the participant said. In other words, the firm could "take the money and run," or keep investing in a relationship that for reasons not entirely clear just didn't seem to be tapping the U.S. firm's sales potential in Japan.

By contrast there were at least a few company officials who said that their firms had enough leverage over their joint venture partner to protect their interests in matters relating to the joint venture agreement itself. One U.S. retailer believed that distribution of his firm's Japanese partner's products in the United States would help to ensure that his company would not be "taken advantage of" in Japan's market. The participant indicated that its emphasis on "long term associations, not temporary, solely cost-based ties" would also help promote good relations with its partner.

Studied ignorance appeared to be one fallout from a dependence on Japanese partners. More than one U.S. firm reported that "they don't have to deal with distribution" of their product because the joint venture partner "takes care of it."

Using Trading Companies

In choosing a partner in Japan, almost all participants cautioned against using the services of trading companies. One academic claimed he doesn't think he's "ever met a firm who liked trading companies." He further explained that trading companies are not generally geared to handling imported manufactured goods because they traditionally have handled raw material imports. Although trading companies were urged by MITI to increase their imports after the 1985 Action program, in his view "trading companies do not handle the types of things that will benefit the United States." He believes that trading firms could fulfill some sort of "consulting" role to link U.S. sellers with potential buyers. However, he cautioned that the trading companies may be reluctant to promote products that would compete with the ones they already handle or those produced by companies with whom they have a long-term relationship. One trade association official stated:

> They often take on a foreign companies' product with no intention of vigorously promoting it. For example, in the case of Time Magazine, one trading company basically said, 'so sue us.' Foreign companies often cannot get a refund from the trading companies. The fix is in.

A businessperson in Tokyo importing U.S. food products said that it got out of an exclusive contract with one trading company because it didn't have a sales organization to make the calls on supermarket chains. He noted that, "Trading companies do business for control, not to build up your business." He also noted that if they are supporting other brands, "your company will get nowhere."

Some Japanese trading companies indicated that with their extensive distribution networks they provide distribution services "at low cost and very efficiently" for many foreign companies. They provide warehousing, physical distribution, sales promotions, financing and a host of other services to companies that otherwise could not afford to enter the market because of the high land costs or because they lack the necessary connections in Japan. For most products, it takes 3-5 years to make a profit, according to one trading company. Another trading company stated that they don't usually guarantee any market share and they assume the risks of selling the products. If a product is sent back or is not selling, they often can't write it off as a loss. Another problem that this trading company mentioned with regard to exclusive sales contracts was that sometimes the trading companies allocate personnel and resources to an account, but then the foreign firm pulls out of the market. The trading company loses its investments, hurts its relationships with other firms and has to move personnel around.

In general, although some U.S. firms continue to rely on trading companies for distribution of their products, it is usually because the alternative of setting up an independent distribution channel is expensive and finding an "unattached" Japanese partner is very difficult.

Long-Term Commitment to the Market

In this case "commitment" means not simply setting up an office, hiring local Japanese, or changing the design of a product, it also means being a sincere, serious and reliable supplier for a long time. Many businesspersons and government officials in Tokyo cited the short-term stays of U.S. company representatives in Tokyo, lasting from 3 to 5 years. They explained that from a Japanese company's viewpoint, this does not transmit a sense of predictability or seriousness. One participant suggested that overseas employees of U.S. companies should be required to sign long-term contracts in Japan to show that they were not going to "disappear tomorrow." A U.S. government official provided this illustration of the short-term emphasis of U.S. companies by saying:

> The average stay for a foreign businessman in a Tokyo hotel is 1.2 nights. Over 10 years ago it was 3 nights. No one is doing business in one night. The first thing the Japanese ask when you get off the plane is "when are you leaving?" If they know you are only staying a short while, they know you're not serious about negotiating and that you will accept anything.

A Japanese trading company compared the differences in outlook among various countries by saying that the U.S. companies only look ahead for a short period, while Europe has a little longer view. He said that in general if U.S. firms are dissatisfied with their market share after 2 years they will switch partners or strategies.

A key factor in being able to support a long-term presence in the market is to have the support and backing of the top company officials in the United States: "It is important to have CEO support when entering the Japanese market." Several companies who have been in and out of Japan's market noted that it was not until a turnover in leadership at the top of the company occurred that there was any chance of being successful in Japan. In some cases, the CEO recognized the significance of operating in one of the world's most important markets and took an active role in defining a long-term strategy for selling in Japan. For a few well-known companies, part of this strategy involved "constantly pressing their issue with the U.S. government and getting them to pound the Japanese."

One business consultant in Tokyo stated that in recent years U.S. companies have been withdrawing from the Japanese market because they are losing money in the United Sates. He noted, "This clearly sends the wrong signal to the Japanese," implying that such actions might create an impression of lack of commitment by U.S. companies in general and cause Japanese firms to become more reluctant to do business with other newcomers. Getting out of the market may be just as costly and difficult as getting in, however. One private sector association reported on a company that was required to leave a significant sales force behind in Japan to service the products it had already sold. If not, the company had to guarantee that all products could be returned for a refund.

On-Site Presence and Hiring Locals in Japan

Just as important as having a formal company vision was dedicating on-site resources to the market, "You have to have a physical presence in Japan and you have to hire people who have connections." If a firm establishes a subsidiary in Japan, it should try to "make themselves look as much like a Japanese company as possible". This may require hiring Japanese management and personnel. Many participants pointed out the difficulties that firms encounter in trying to run their Japan operations from the United States. According to many businessmen, "A local sales staff is totally necessary." This includes Japanese-speaking individuals who can assist the company in sorting through regulations and building up its relationships with other Japanese companies or individuals. There seemed to be divided views on just how difficult it is for foreign firms to attract highly qualified Japanese employees. For the well-known U.S. multinationals it does not seem to be as much of a problem as it is for smaller firms. Japanese are sometimes unwilling to risk working for a relatively unknown firm without the lifetime employment assurances that a Japanese firm can offer.

A U.S. government official in Tokyo who advises U.S. business said that there are 5 criteria that a company must follow to maximize success: 1) print promotional materials in Japanese; 2) send the senior executives of the company to visit Japan at least 4 times per year; 3) appear at one trade show per year; 4) adjust the product to suit the Japanese market; and 5) enter into an alliance with Japanese companies to provide after-sales service and maintenance. He said that 95 percent of U.S. companies would be eliminated because they would not fulfill the first 3 criteria.

Establishing Personal Contacts and Relationships

Participants suggested it is a virtual requirement for new suppliers to establish ongoing personal relations with numerous potential distributors, customers, and Government officials. This sometimes makes it difficult, time-consuming, and costly for foreign firms to enter the Japanese market. "It takes years of wining and dining," "countless sales calls" and "visits by the CEO" to establish "determination and sincerity," a.k.a. "sincerity and commitment" participants said. One firm currently selling in Japan through a joint venture complained that "It's very costly to market in Japan because they're so 'eyeball to eyeball' in sales. Personal contact is very important and requires a lot of effort." At all junctures, it was seen as necessary to display a sensitivity to Japanese culture and business protocol, a proficiency in the Japanese language, and an abundant supply of Japan's ultimate weapon, "patience."

One U.S. businessperson said that "a 5 to 10 year commitment is not unusual to break through." In the words of one U.S. government official involved in export promotion, "you build up a relationship before you build a deal." Moreover, a penchant for "playing golf," "drinking sake," and "attending weddings and funerals" is part of the job description for the foreign representative seeking to cement the ties that bind in Japan, participants believed. One of the primary reasons that many U.S. companies have failed to sustain market shares in Japan is that they have not demonstrated a willingness to develop the long-term relationships that are crucial to success in the market.

Product Design or Choice

Many participants indicated that those products with the greatest likelihood of success are products not being produced in Japan, products with a technological lead over a Japanese product, or "niche" products.[1] One businessperson described these as situations "where there is a difference in the product" and noted that his company sells a special machine tool bearing in Japan that the major Japanese producers do not carry. Even having a new or unique product may not guarantee sustained sales in Japan. Some companies noted that Japanese manufacturers are quick to come out with their own versions of successful products. Another trade association official lamented, "You supply something they don't have and as soon as they have a Japanese supplier, you don't have a market."

A few examples of products that allegedly did not sell in Japan because of their unsuitability follow: left-hand drive cars, large appliances and electrical devices that did not operate on Japan's 100 volt current. According to a U.S. business consultant in Tokyo:

> American auto companies have not done well at all. It is their fault. They did not try to make their cars applicable to the Japanese market. The appliance makers had the same problem.

[1] The term "niche" seemed to be used to refer to those products that were of slightly different design than others on the market or those that filled a particular end of the market.

Several businessmen noted that if a company "makes a mistake" in marketing in Japan that it is very difficult to correct an image problem. As one foreign businessperson noted, "Once you make the wrong move, they close the doors, but no one tells you. Japan is not a communicative nation. The consumers remember everything."

With regard to product design, about 99 percent of those interviewed noted that developing a quality product was extremely important. In the words of one academic, "The Japanese are wedded to quality, more so than American" and think that "Japanese products are best." Numerous examples were provided about companies that had upgraded the quality or image of their product to suit Japanese end-user specifications or consumer tastes. For example, two companies (one foreign and one U.S.) that sell costume jewelry products throughout the world found that it was necessary to use real gems in their products sold in Japan. One also noted that in Japan it uses glass rather than plastic containers, which are perceived as being cheap.

Packaging and wrapping of products must also be modified or developed to suit the Japanese market. This may mean making smaller packages or upgrading the image of the packaging. For example, a U.S. cereal company packages its product in foil rather than wax paper in Japan to ensure freshness. Some companies have even gone further in tailoring their product or service to the Japanese market. For example, a wood products company who wanted to sell newspaper material first identified and produced the quality of newsprint that the Japanese press demanded. Then it restructured a freighter to carry the newsprint on and even purchased special forklifts to deliver the shipments.

Coupled with Japanese consumer demands for high-quality products, is an emphasis on wide selection and unique products. Both domestic and foreign producers must constantly work at sustaining consumer interest by offering new models, colors, variations, etc. Many participants noted that Japanese manufacturers constantly come up with new or revised products for which they carry out massive promotional campaigns to convince consumers of what they "need". Participants said that it was difficult for foreign companies in particular to keep their product's name before Japanese consumers due to restrictions on premiums and sales promotions and the high costs of advertising.

Pricing Strategy

Many companies commented on the role of price in entering the market and in sustaining purchaser or consumer demand. Several companies noted that a substantially lower price than the Japanese competitor could encourage purchasers to switch to an imported product. However, for consumer goods, in particular, once an imported product had achieved a reputation associated with high quality, a reduction in price was likely to lead to a decline in sales, according to numerous businessmen. According to numerous businesses selling consumer products in Japan, "low price equates with low quality". A cosmetics producer said that when it first entered the market their products were priced at the same level as in the United States. They eventually changed their pricing policy and started charging $20 for a tube of lipstick which was comparable to department store prices in Japan and their sales began to rise. One U.S. businessperson said, "[name of company] made the mistake 9 years ago of entering the Japanese market with an aggressive pricing policy, and did not succeed, because the Japanese consumer equates low price with low quality." This participant believes that this attitude will change over time, but said that "it will be a number of years before it becomes possible to compete in the Japanese market on the basis of price." A camera producer described this phenomenon as follows:

> The firm initially sought to use price as a marketing strategy, but realized that they were 'trashing their line' because they were destroying the product's prestige image. There is a certain psychology among Japanese consumers that a good camera must cost a minimum of 10,000 yen. When the U.S. firm tried to introduce the first product below that price, people became suspicious that the quality was low.

A manufacturer of pre-fabricated houses says that "if the company sold its houses on the basis of price alone it would fail." Instead, he said the company relies on quality and the "uniqueness" of its product design.

Some participants believed that for standardized products, Japanese consumers are likely to look for a bargain if they can get the same level of quality as at a higher price. There is still some stigma attached to buying items such as clothes or gifts at discount stores that do not provide the same quality of service as a department store in Japan. Some negotiators and association representatives suggested that over time Japanese consumers will become more receptive to discount stores.

In some cases U.S. companies were fearful of starting a pricing war with their Japanese competitors, believing that they were sure to lose since the Japanese firms generally had deeper pockets. In other instances, companies did not want to offend their "Japanese friends."

Chapter 4
Views On The Structural Impediments Initiative

The commitments reached by the United States and Japan under the recently concluded Structural Impediments Initiative (SII), particularly those relating to Japan's distribution system, were a subject of discussion by many participants. The following sections provide background information and a summary of the views of participants on those SII topics that were raised during interviews.

Background

SII was formally launched on July 14, 1989 and its purpose was "to identify and solve structural problems that stand as impediments to trade and to balance of payments adjustment, with the goal of contributing to the reduction of payments imbalances."[1] The ambitious negotiating agenda included Japan's infrastructure, land policy, distribution system, exclusionary business practices, and keiretsu relationships. The United States' budget deficit, private savings shortfall, investment in productive plant and equipment, and worker education and training also came under scrutiny during the intensive bilateral negotiating effort. When the final joint report was issued one year later, the U.S.-Japan Working Group stated that they believed it:[2]

> contains significant, extensive efforts and actions by both governments that should contribute to further reductions in external payments imbalances. These actions should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

Among the measures Japan committed to undertake were:[3]

- Expanding investment in social overhead capital (e.g., water supply, sewers, housing, parks), transportation infrastructure, international ports and airports, and cargo and customs processing facilities.
- Reviewing Japan's land policies, including taxes, use restrictions, and zoning laws, and more fully utilizing public lands.
- Reviewing standards, testing, and certification requirements and introducing greater transparency in the issuance of official administrative guidance and in the operations of industry advisory committees and government study groups.
- Improving import procedures and relaxing laws and regulations impeding foreign direct investment, and restricting entry by large retailers, liquor stores, truck operators, and pharmacies.
- Examining and revising as necessary Japan Fair Trade Commission and other government policies towards premium offers and advertisements, vertical business practices affecting consumer goods (e.g., resale price maintenance, "suggested prices," exclusive dealerships or territories, rebates, and returns), and trade restrictive or anticompetitive practices such as group boycotts, bidrigging, and preferential transactions among keiretsu member companies.

The two governments also agreed to hold follow-up meetings over the ensuing three years to review progress on implementing agreed changes and to discuss additional matters associated with issues already identified in the SII process. The follow-up talks are to take place "outside Section 301 of the U.S. Trade Act."[4]

Views on SII in General

Most of the discussions about SII focused on the negotiating process itself and implementation of commitments. The two questions that were raised most often were whether SII would lead to a reduction in the trade imbalance or to long-term structural reform in Japan. The majority of participants, including businessmen and even some negotiators, did not expect short-term gains in exports from the U.S. to Japan as a result of SII. However, they spoke favorably of the negotiating process itself and believed there could be long-term benefits from the agreement. At the same time, many of these participants were skeptical about implementation of the SII agreement. In addition, many long-time Japan experts and some foreign businesspersons saw few benefits in the SII process, either with regard to increased openness of Japan's market, changing the structure of Japan's distribution system or in alleviating pressures from Congress to take a tougher stance towards Japan. A former U.S. negotiator described the SII process as "quixotic"[5] and a non-starter. He also said:

> It was either incredibly naive or clever depending on how you look at it. If the thought was an attempt to change Japan's system, it was naive. If it was to diffuse political tension, it was brilliant.

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[1] "Joint Statement by President Bush and Prime Minister Uno on Economic Issues," Paris, July 14, 1989, p. 1.

[2] U.S.-Japan Working Group on the Structural Impediments Initiative, "Introduction," *Joint Report*, June 28, 1990, p. I.

[3] U.S.-Japan Working Group on the Structural Impediments Initiative, "Introduction," *Joint Report*, June 28, 1990.

[4] Ibid. p. 2.

[5] Webster's dictionary defines quixotic as "idealistic and utterly impractical; especially: marked by rash lofty romantic ideas or chivalrous action doomed to fail." *Webster's Third New International Dictionary*, unabridged, (Springfield, MA: Merriam-Webster, Inc., 1981).

A business representative in Hong Kong called SII a "waste of time" saying she didn't see how it would make the Japanese people change. She said that the only positive aspect of SII was that it "educated Americans about the culture of Japan."

One U.S. business consultant in Tokyo articulated what many businessmen implied, that is, SII might have some potential long-term benefits, but it doesn't address the day-to-day problems faced by businessmen in Japan:

> The Japanese economy is one of the strongest in the world, and SII will help it become stronger—why is the U.S. doing this? Most businessmen view SII as something good in the long-term, but it won't do much tomorrow. No one says "because of SII, we can now do X, Y, or Z."

One former U.S. negotiator said he "sees nothing under SII that will lead to increased sales by U.S. retailers or to a substantial increase in U.S. exports." A representative for companies already operating in Japan noted that the introduction of more competition in Japan could be detrimental to U.S. firms who are already operating in the market. One industry association representative in Hong Kong believed that SII could build up anti-U.S. sentiment in Japan and give certain groups in Japan an opportunity to distort nationalistic sentiments.

In addition, many U.S. businessmen and officials expressed views similar to that of a business association representative who said that implementation of Japan's list of policy changes by the U.S. would be more important than Japan's implementation of commitments made in response to U.S. demands. Numerous participants pointed to the importance of bringing the U.S budget deficit down or increasing savings rates in the United States in order to rectify the imbalance in macroeconomic conditions. A critic of SII said that the negotiating process was like the "sound of one hand clapping" and noted that while Japan was asked to do a number of things, the United States was not committed to addressing its budget deficit problems.

The majority of the comments on the SII were directed at the negotiating process itself or the prospects for implementation of the agreement, and countries or products most likely to benefit from increased access. The following paragraphs summarize the views on these topics.

The Negotiating Process

There were divided views as to whether Japan was a willing participant in the negotiations or they were forced on the Government of Japan. According to one former U.S. negotiator, "It was a diplomatic compromise that Japan was dragged into except for some like-minded people in Japan. The theory was that no one would be worse off as a result of SII and it would delay the 301 process." A business association representative said that "the Japanese are acrimonious about SII" and that they would prefer business-to-business discussions rather than political talks such as SII.

However, many Japanese government officials and U.S. negotiators pointed out that the Japanese had actually initiated many of the ideas incorporated into the SII negotiations through the Maekawa report, the Administrative Reform Council report and numerous study group reports. The U.S. "piggybacked" onto the interests that were advocating change. One of the main differences between SII and other negotiations, according to many former and current negotiators was that "our interests dove-tailed with those of the business community, retailers (particularly supermarkets), and consumers." There has been a gradual movement in the direction of deregulation or reform of distribution since the early 1980's. According to one research institute representative:

> There was a steady diet of reports coming out [from Japan on reform]. So there is public perception in Japan that change is necessary. This has been gradual. SII woke the Japanese up to change in certain areas. If the U.S. had tried SII 10 years ago, we might not have been as successful.

Another difference was that the U.S. worked through the media to reach the Japanese public directly and to circumvent the bureaucracy. According to one negotiator, "they went over the heads of the bureaucrats and straight to the consumers. They built public support so that even the government couldn't ignore it." Several academics believed that publicizing the Department of Commerce-Ministry of International Trade and Industry (DOC-MITI) price surveys and attempting to educate consumers about differences in price levels was "more [important] than the actual [SII] concessions themselves."

On the other hand, one U.S. businessman went so far as to suggest that the agreement on LSRSL liberalization was the fig leaf used by SII negotiators to cover up what would otherwise be a largely worthless agreement. After initially billing the negotiations as addressing broad issues associated with "the structure of the Japanese economy. . . the SII negotiators got desperate, so we got the Large Scale Retail Store Law. The negotiations became trivialized," he complained.

Implementation

Although most participants thought that the Japanese responded to U.S. requests "on paper", many echoed the sentiments of a research institute representative who said, "The real issue is whether the Japanese are going to follow-up. . .

the jury is still out." Many participants noted that it was important to monitor implementation of the SII agreement during the followup process. One observer said that "Congress ought to have nasty aggressive oversight hearings on SII." Another participant said that "the Japanese are afraid of being presented with a new list of complaints." Some trade associations said they planned to be very active in communicating their views to negotiators during the followup process. Some observers were optimistic about the process for changes in Japan's distribution system, noting that once a consensus is made to move forward in Japan, it usually happens. Many participants pointed to the Government of Japan's commitment to the SII agreement and steps it has taken so far towards implementation, reflected for example by the sharp rise in the number of applications received under the Large Scale Retail Store Law.

However, the head of a business association in Hong Kong said that they were skeptical about Japan's implementation of SII commitments because "it's all right in their culture to lie to a foreigner" and that unless some of the U.S. negotiators are monitoring the Japanese press, the U.S. won't know what the Japanese are planning to do. Another business consultant said he thought the LDP would do as little as it could to implement SII without constant pressure.

Several trade associations indicated that it was important for the United States to continue to pressure the Japanese during SII followup or otherwise the Japanese "will hide behind the language". One former government official argued that there should be a way of measuring progress under SII by looking at how the antimonopoly is enforced and by looking for real changes in the Large Scale Retail Store Law, for example. He said "it will take a lot of hammering away to get the Japanese to keep their commitments" and this may mean going to them "day-after-day and week-after-week". He indicated that it would be a long-term process of pushing for the issues agreed to under SII.

In sharp contrast, the head of a research institute was in the minority in warning against pushing the Japanese too hard:

> The Japanese have been pushed by us as far as they can be pushed. Anymore will backfire. A more effective means would be quiet diplomacy. The risk of backlash is even greater now than a year ago. . . We have to decide our priorities, i.e., semiconductors, amorphous metals, super 301. We can't look at SII in isolation. . . . Do we want to push the Japanese on SII issues and then force them to take a harder position on other non-SII issues? From the Japanese perspective, these all fall under the heading of 'forcing Japan to change.'. . . Hopefully those negotiating with the Japanese are savvy enough to realize that unless they are bruising for another fight they shouldn't press on SII.

U.S. government officials and trade association representatives indicated that the United States will have to continue to keep SII issues before the Japanese consumer and to continue publicizing the price differential in Japan. However, one business consultant said it would be "ridiculous to say that a consumer movement would be a major factor in implementing SII." Others also noted that the strength of the consumer movement in Japan may have been overplayed.

Although most participants agreed that SII was useful in deflecting some of the pressures to retaliate against Japan under "Super 301", some questioned how long it would be before Congress demands to see concrete results towards improving the trade imbalance. One negotiator said, "Nothing will happen [to the deficit] in the short term and holding off the critics will take some real effort. The U.S. Congress is short-term oriented." He also said that the topics discussed under SII are so closely integrated that if one of them is not implemented that rest will fail.

Several participants pointed to other agreements signed by the Japanese but not fully implemented. One head of a research institute said that if Japan doesn't measure up it will be "one more nail in the coffin of Japan not following up" on agreements, in the eyes of some critics. Several participants mentioned agreements on public works projects and telecommunications as being examples of promises for market opening that were not completely kept. Some representatives of U.S. state economic development offices in Tokyo reported they have not seen any increase in inquiries as a result of MITI's most recent "import improvement program" in late 1989.

Countries and Products that Could Benefit from Implementation of SII or Increased Access

The majority of participants, the principal exception being Japanese government officials, said that the United States would not be the primary beneficiary of changes under SII. A few SII negotiators admitted that SII might benefit other countries in the short-term, but said that they hope it will help the United States over the long-term. Many participants said that if more large stores opened as a result of streamlining the notification process under the Large-Scale Retail Store Law, the United States might eventually sell more consumer goods.

Most participants were more skeptical about whether the SII agreement, even if implemented, would result in any significant changes in exclusionary business practices or keiretsu relationships that may effect market access for capital goods. In discussing the rise of Japan's imports from Southeast Asia, one academic noted that for four sectors—capital goods, autos, electronics and scientific instruments—"there is almost a lock by Japanese companies." Imports of these products have accounted for a small proportion of the growth in Japan's non-oil imports since 1985. He also added that at the moment "U.S. manufacturing firms don't sell diddly squat in Japan."

This economist suggested that the United States' poor export performance of capital goods in Japan could be partly explained by Japan's business cycle. He noted that during the early stages of business expansion it is "common for consumer goods purchases to increase more than capital goods. As the cycle matures, however, the level of capital goods purchases rise." He noted that during 1988–89 there were improvements in the United States export performance relative to the EC and NICs, including an increase in Japan's imports of capital goods, an area where the U.S. is generally considered to be competitive globally.

Participants mentioned numerous other specific products that could benefit from increased access to Japan's market, either as a result of SII or other market opening measures. These products included: baby food, machine tools, medical equipment, wood products, processed foods, furniture, sporting goods, and auto parts. Many participants pointed out that the United States is competitive in service industries such as financial services and is a leader in the fast food industry. One U.S. government official described how the environmental movement in Japan is growing and resulting in increased demand for environmental impact statements by municipalities and prefectures. He suggested that there could be opportunities for U.S. companies producing waste management equipment or for those offering services in the environmental clean-up sector. Participants mentioned goods that the United States would probably not be successful selling to Japan such as appliances or farm equipment.

For one representative of the financial services industry, the most important aspect of SII was the agreement that foreign affiliates will be able to offer revolving credit in 2 years. In addition the implementation of 1-800 telephone numbers will be helpful. For the semiconductor industry, one businessman said that "SII probably won't make much difference in the short-term." The only important aspect of SII would be stricter enforcement of the antimonopoly law he said.

Views on Selected SII Negotiating Topics

U.S. and Japanese negotiators were optimistic about implementation and improved access for U.S. exports as a result of agreed upon measures relating to specific topics addressed by SII.[8] However, there were mixed reviews by U.S. and foreign businessmen, former government officials and academics on many of the SII topics. The two SII topics raised most frequently were Japan's distribution system (primarily those measures relating to the Large Scale Retail Store Law) and issues relating to antitrust enforcement in Japan. Other topics such as savings and investment patterns, pricing mechanisms and increased spending on infrastructure were not discussed as often. One business consultant said "Business people can look to changes in the Large Scale Retail Store Law, customs procedures and antimonopoly law enforcement and base decisions on them, whereas, they can't [make decisions] based on increased public spending, infrastructure, etc."

A majority of participants were optimistic about increased access for consumer goods under the changes in administration of the Large Scale Retail Store Law. However, while they were convinced of the need for action, they were more skeptical about measures relating to "enhanced enforcement" of the antimonopoly law or measures to increase transparency in keiretsu relationships. Land reform policies or changing Japan's land taxation system were cited by many participants as being the most important measures that could lead to lower land prices and improved access for U.S. firms. This was also an area where those participants who discussed the issue believed that changes would only occur slowly and after considerable political opposition in Japan. Few people commented on the issues of savings and investment as an SII topic, but those who did seemed to agree with these words, "Arguing that Japan should save less and spend more is a very roundabout way to impact foreign companies opportunities in the market. . . It seems unfair to demand that Japan save less, when the society is built on such savings. " This participant said that the demand struck him as an attempt to cover up an American weakness, lack of savings.

The following paragraphs provide a summary of the views of participants on the SII issues raised most frequently, including measures that could lead to stricter enforcement of the antimonopoly law, implementation of changes to administration of the Large Scale Retail Store Law, and increased spending for infrastructure.

Antimonopoly Law and Enforcement

As a consequence of the SII process, the JFTC has undertaken several studies preparatory

[8] Issues raised under SII by the U.S. delegation included: Japanese saving and investment patterns, land policy, distribution system, exclusionary business practices, keiretsu relationships and pricing mechanisms. The Japanese delegation raised the following issues: U.S. saving and investment patterns, corporate investment activities and supply capacity, corporate behavior, government regulation, research and development, export promotion and workforce education and training.

to issuing guidelines on exclusionary business practices and keiretsu, relaxing codes on sales promotions and premiums in certain industries, and increasing enforcement of the Antimonopoly Law, including possibly raising surcharges for Antimonopoly Law violations. A number of participants in the Commission's study questioned whether the JFTC actions will have any significant effect, and suggested that the real issue is not how many laws there are but rather "who is in control." One American businessman in Tokyo commented that "no matter how many regulations there are on the books, they won't be enforced."

Japanese government officials, however, emphasized their commitment to fulfill the agreements set forth in the SII final report. One U.S. government official noted that the desire for deregulation expressed by Keidanren may make industry willing to trade off increased antimonopoly enforcement. He emphasized the importance for follow up of the SII agreements, and the need to energize bureaucrats to take action. However, one business consultant expressed a common concern that increased Antimonopoly Law enforcement will be felt disproportionately by foreign companies in Japan, noting that of 270 investigations by the JFTC last year, only two, involving U.S. companies, were extensively reported in the press. He opined that the "JFTC is America bashing." One government negotiator said that changes in antimonopoly law enforcement will take a long time, and it will be difficult to pinpoint results. The thrust of the effort has been to persuade the Japanese to adopt rules and enforce them.

A number of participants in the Commission's study were of the view that stricter enforcement of the Antimonopoly Law could be of significant benefit to foreign businesses seeking to operate in Japan's market. However, some skepticism was expressed concerning whether there was sufficient political will to increase enforcement. One analyst commented "so what if the JFTC gets more people or gets a larger budget. If the Japanese philosophy of antitrust is different from ours, will SII really change that?"

There has historically been strong opposition to antitrust enforcement in Japan. One U.S. businessman commented "the problem with the Japanese Antimonopoly law is getting enforcement—the Japanese don't want to enforce the law." The general perception appears to be that collusive business practices that are currently tolerated restrict new entrants, particularly foreign firms, from access to Japan's market. Consequently, a number of businessmen and government representatives expressed the opinion that if the Japanese government follows through and increases antimonopoly law enforcement, this could be a boon for foreign businesses. One U.S. government representative noted, however, that it is important to remember that 50 percent of the Japanese economy is exempt from the antimonopoly law - the primary (agricultural) and service sectors are largely exempt. Since it is primarily the manufacturing sector that is subject to the antimonopoly law, gaining support from Keidanren would be important to implement stricter enforcement of the law. One representative of a private sector association suggested that foreign companies are invariably the first to be "clamped down on" when enforcement is undertaken.

One factor which may contribute, at least indirectly, to increased antimonopoly law enforcement is the possibility of Japanese companies instituting antimonopoly law compliance programs. In the United States, there are strong antitrust compliance departments in companies because of fears of being prosecuted. A U.S. government representative indicated that this is not the case in Japan. However, in the SII process, the Government of Japan has agreed to recommend that companies improve their law departments in this regard, and institute compliance programs. A Japanese government representative viewed the notion of a "compliance manual" on antitrust as desireable for companies, but indicated that companies should formulate such manuals for themselves.

There is a private right of action under Japan's Antimonopoly Law, but it has been little used by either Japanese or foreign parties, and the complainants have lost in the 15 cases so far undertaken. As one foreign consultant put it, the problem with private actions in Japan is that they "take forever and are used only as a last resort." In the SII negotiations, the United States sought changes in the court system in order to make private actions more effective. Under the SII agreements, Japan agreed to have the JFTC keep evidence of antimonopoly law violations, make it available to private parties, and submit it to courts in private antimonopoly law actions. The difficulty is that in the past, the courts have rejected JFTC findings as inadequate to prove cases of damages arising from antimonopoly law violations. Moreover, in light of the generally non-litigation oriented Japanese business ethic, a number of participants questioned the efficacy of private actions. One U.S. government representative indicated that he considered that antimonopoly law actions would have only small effects. He indicated that he thought it unlikely that small retailers would file complaints with the government against large distributors or wholesalers, because there is an "inherent reluctance to make waves, especially with the government." It was also suggested that, while the Japanese were not likely to avail themselves of any private right of action under the antimonopoly law, foreign companies would. In addition, one analyst noted that there is little incentive to seek redress under the

Japanese antimonopoly law, since likely awards of damages are low.

Business representatives generally perceived restrictions on premiums and sales promotions as a significant limitation on foreign business' efforts to introduce new products to consumers or to expand consumer demand. One businessman in Tokyo suggested that the "primary focus [of these restrictions] is Japanese society and to maintain harmony and an orderly market." He said that the current restrictions are imposed by the Japanese government based on the view that consumers are "children and the government is the parent who protects them." By contrast, in the United States, consumers are believed to be capable of making judgements about products despite the freer use of sales promotions and premiums, he indicated. Another U.S. business consultant noted that in the United States, restrictions on sales promotions are aimed primarily at those things that mislead the public.

Most participants believed that the Japanese restrictions discriminate against foreigners, "The laws are written by Japanese companies, enforced by Japanese companies and the companies accused [of violating the codes] are accused by Japanese companies. They have the most effect on imported products." While this marketing technique might not be used by every industry, premiums and giveaways were cited as being particularly useful marketing tools for potential U.S. exports such as chocolates, cereal, film and pet food, for example. A few participants indicated that some of the competition codes liberalized under SII would be of limited use to U.S. exporters.

One U.S. business consultant said that the JFTC has a "neanderthal" and "duplicitous" attitude on the issue of premiums and sales promotions: "the JFTC called the Board of Directors of the major companies in one industry and pressured them not to abandon the industry code on premiums and promotions, so they didn't." The same participant said that "the JFTC's raison d'etre is monitoring the codes" and that the reason it hasn't liberalized them is that it was "afraid the codes would break down" and that the JFTC would "lose control."

The JFTC is currently conducting a study on keiretsu. A Japanese government representative commented that some of the practices under examination are economically rational, and that others, which tend to exclude companies in violation of the antimonopoly law, should be eliminated. However, a number of participants expressed skepticism as to whether any changes in the operation of keiretsu were likely. One business consultant noted that while keiretsu relationships are a problem for foreign business, he saw no real reason why such relationships should change, since they are efficient from the company's point of view, and hold out competition. In his view, it is unrealistic and unfair to expect the Japanese to change an efficient system. In the words of one U.S. business person, "It's like going to a successful business and saying, 'you're doing it all wrong, this isn't the way.' They may agree to be polite and maintain good relations, but when you go home, they laugh and keep doing it the same way because it works."

At least one expert believed that long-term relations and obligations were just an "excuse" to explain how keiretsu firms were tied together. Instead he believed that firms behaved in certain ways through the exercise of power and that relations are cemented by cross shareholding and personnel, with larger companies dominating the smaller ones. While he noted that during SII the U.S. insisted that banks reduce their shares in other companies from 10 percent to 5 percent, he said the relationships would not change, since someone who owns 5 percent of a company can run it. In this expert's view, Japan's political system is dominated by big groups and big companies who don't want their positions "spoiled," and if the United States "waits until [its] interests and those of the government or business coincide" changes in corporate behavior will never happen. In addition, one U.S. business consultant in Tokyo stated that he believes the JFTC study on keiretsu is "window dressing," since it does not deal with the second and third tier of purchaser/supplier relations.

A U.S. government expert stated that any changes in the openness of the keiretsu will depend on whether corporate consciousness is raised by the JFTC and MITI. Small and mid-sized firms in Japan could use information publicized by the JFTC to bring any wrongdoings to the attention of the shareholders. There could also be increased consumer attention focused on the keiretsu over the long-term.

Large Scale Retail Store Law

As part of the SII process, Japan agreed to changes in the administration of its national law restricting the opening or expansion of large retailers such as supermarkets and department stores. Critics had charged that, by requiring such stores to obtain the prior approval of existing shopowners, the rules gave local merchants a virtual veto power over the opening of new stores. This resulted in lengthy delays and diminished competition in the retail sector. Under the agreed changes, Japan will immediately shorten the length of time for prior notification of and consultation with local interests to 18 months and exempt certain activities from the coordination requirement. The government also said it would reduce the likelihood that more restrictive regulations would be imposed by local authorities. A revision of the Law, which would further reduce the notification period to one year, is to be submitted in the next regular Diet session.[7]

Many participants welcomed these changes as one element of a multi-pronged effort to move the Japanese economy in the direction of greater openness. However, few believed the United States would gain much by the steps, warning that the beneficiaries would be foreign suppliers and Japanese retailers. Although most participants predicted that there would be an increase in the variety of consumer goods available as a result of proposed changes in the Large Scale Retail Store Law, they were less optimistic about increased imports through the "Import Corners" that will be established in department stores. Both suppliers and purchasers of prospective products such as processed foods and wine were not very optimistic about increased sales.

A U.S. government official pointed to changes in the LSRSL as providing more opportunities for entry in the retail field, a phenomenon that he thought "may be generally good for distribution." "We are trying to make Japan more market-oriented. We are trying to make it more open. We are hoping it has resounding effects. We are saying 'adopt rules.'" On the other hand, the official said that "he never felt that this was an issue U.S. suppliers could directly benefit from," since he was "not sure how strong the United States is in retail products." But "even if it helps other countries in the short term, we hope it will help the United States in the long term," he said. As one U.S. academic said, "the market should work."

Some participants noted that currently the EC and NIEs were the primary sources of consumer products for Japan and several questioned the wisdom of expending valuable negotiating chips on an issue of such marginal relevance to U.S. suppliers. A businessperson in Tokyo said he "doesn't understand why the United States pushed so hard for changes in the LSRSL. Logically big stores will carry more imports, but only if there are quality products to sell." When asked who would benefit from SII, one trade association representative flatly said, "our trading partners. . . The only thing we have to sell Japan is grain and beef and citrus. . . It's great that we go out on the limb so that the Germans and French can benefit." Indeed, during USITC interviews with Taiwanese, Korean and Hong Kong representatives, all were supportive of U.S. efforts to open Japan's retail market, presumably because they expect to increase their exports.

[7] These changes are described in USITC, *Japan's Distribution System and Options for Improving U.S. Access: Phase I*, USITC Publication 2291, June 1990, p. 76 as reported in the Apr. 5, 1990 interim report of the Japanese delegation to the Japan-U.S. Structural Impediments Initiative, pp. 13-16. These promises were essentially repeated in the final SII report issued on June 28, 1990, pp. III-5 to III-9.

Others were skeptical that even U.S. retailers would gain. One academic asked half-jokingly, "Have you ever shopped at Toys R Us? It's horrible!" He suggested that the reason Japanese retailers had not built larger stores and engaged in discounting was the insulated operating environment created by the LSRSL, and said that if the law's administration is liberalized, "there will be large stores opening all over Japan," but "they won't have to go to New Jersey [headquarters of Toys R Us] to find out how it's done." A U.S. government official in Tokyo said, "To say that deregulation is going to mean more opportunities for foreign firms is not true. . .It's like sitting across from a 5,000 pound gorilla in Las Vegas who can afford to lose some weight. We'll see what happens with deregulation." One U.S. government official in Tokyo warned that the emergence of large retailers may not always be beneficial to foreign firms. "Ito Yokado (Japan's largest supermarket chain) is so big and powerful, they won't change their policies for anyone," the official complained. A private sector consultant in Tokyo said "there are getting to be more and more retailers deciding what the consumers will get."

Many participants predicted that small shopkeepers and local politicians can be expected to rail against real reform. Absent a counterveiling push, some warned that MITI might drag its feet on liberalization and that localities could obstruct large stores through other means. "All things being equal, the Japanese government will follow the path of least resistance," one American academic predicted. He and others questioned the likelihood of real change.

According to MITI the reduction in the coordination period to one and one-half years for opening large stores is being implemented and since the end of late May there has been an increase in the number of applications for large stores. Some stores have been filing applications for space larger than what they actually need so that following negotiations with the localities they will end up with what they originally wanted. This "game playing" is expected to drop off. There have also been 8 applications for import corners in Tokyo. There is some debate going on as to how retailers should best handle imports—that is whether to mix the imported products in with domestic ones or sell most of them separately through the import corners for example. There has been some opposition to MITI's plans to further reduce the notification or consultative process to one year. On the subject of implementing the agreed upon changes in the LSRSL, there appeared to be some backpedalling. One official said, "If this process is completed [reducing the consultative period to 1 1/2 years] then MITI will discuss reducing the period to one year. MITI has to wait until the 1 1/2 year period takes deep root in society." Despite the United States' calls for greater transparency in the consultative process, he said that MITI believes that this "persuasive" approach is more "amenable to Japan's social mores" and that going to a more direct, potentially confrontational approach "would be difficult." One U.S. government official implied that the specific number of large stores that will be permitted to open had already been agreed to "long before SII." A representative of a Japanese department store said that the one beneficial element of MITI's proposed changes in administration of the LSRSL is the reduction in time between notification and approval, but the content of the law is still very much like a licensing system, something the store is "not very happy about," he said.

While overcoming local opposition is expected to be difficult, there have also been several cases where local governments have "taken measures to improve their laws relating to the regulation of large stores," MITI said. There appear to be divisions among communities regarding their receptivity to large stores. In some areas where there is cooperation, the communities believe that the large stores can operate as magnets for business development and that smaller stores might even benefit from their presence. A Japanese department store representative said that local communities are starting to engage in "a sort of competition to attract large stores in their areas" because they realize that a larger store can draw in more customers for small and medium sized stores in the area. The current slogan for these regions is "coexistence under competition." In other areas, there is a "crisis mentality" as the smaller stores disappear and it is "creating much political noise." MITI is trying to determine the best way to consult with the localities and alleviate the pressures. Nevertheless, one academic said that the corruption and intimidation associated with the law can be expected to continue at the grass roots level, saying such "direct democracy" actions such as "throwing cans of paint and urine" at officials and shopkeepers sympathetic to large stores and "hiring gangsters" to intimidate landowners considering selling out to big retailers would likely still have more impact than cosmetic changes in government rules.

Infrastructure

Japan promised to take numerous steps to improve distribution-related infrastructure as part of the SII process. Among other things, it agreed to significantly expand investments in social overhead capital such as parks, roads, and sewers, and to expand port facilities and airport cargo-handling capacity. Moreover, Japan's cargo processing system is to be physically improved and expanded.

According to the majority of participants, the agreement by the Japanese to spend 430 trillion yen during FY 1991 through 2000 is likely to benefit the Japanese consumer and corporate interests more than those of the United States. One business consultant said, "Business people can't make decisions based on the possibility of increased public works spending in Japan—the effects are too diffuse and hard to judge." According to a major trade association official, "U.S. manufacturers don't hold out much hope for any benefits from SII in improving the Japanese infrastructure. Our own infrastructure is falling apart—pushing the Japanese to improve theirs will only make them stronger." Although a few businessmen, particularly in construction equipment or related industries, believed there could be some increase in sales or in winning contracts for projects, most participants felt that there was little to be gained by the United States. One businessperson noted that there was no specification under SII as to who would be awarded any new construction projects and that they would probably serve as "pork barrel projects" for Japanese politicians. Some negotiators and academics pointed out that the importance of including this topic under the SII discussions was to encourage the Ministry of Finance, known for its tight fiscal policies, to allocate more money for domestic spending. It was hoped that this would have some effect on Japan's external balance. According to a well-known U.S.-Japan trade expert, "In real terms, the gains under SII in this area are not important, but symbolically they are important in encouraging the Ministry of Finance to spend more on the domestic economy."

Customs Procedures

In the June 1990 final report on SII, the Government of Japan set a goal of clearing imports within 24 hours from the presentation of import declaration to the issuance of an import permit, by 1991. Automated processing of sea cargo is to be introduced, clearance procedures rationalized, and pre-arrival processing expanded.

During interviews, both U.S. and Japanese officials reported progress and cooperation in implementing the agreed upon changes under SII, including the 24 hour clearance process, extending the period for advance rulings, increasing communications with other ministries to improve enforcement of their regulations and in introducing a computer system. However, one Japanese industry association representative pointed out that there could be difficulties facilitating cargo processing because retired government officials have close relations with the companies involved in cargo processing. Any changes in procedures might introduce more competition and disturb existing business/government relationships.

Chapter 5
Options For Improving U.S. Access

The majority of businessmen, government officials and academics did not call for major shifts in U.S. policy towards Japan. This did not mean that they were satisfied with current policy, but it appeared that few had specific new policy proposals. Most participants had more to say about things that the United States should not do, such as closing off U.S. markets, than about what should be done.

A number of participants said that the problems facing the United States may not be solvable by changing current laws in Japan or by creating new ones. Japan is already a highly-regulated society, some pointed out, and the main problem is enforcement of those laws on the books. For example, many participants said that if there were greater enforcement of antitrust statutes and more investigations of unfair business practices by the JFTC, the bonds between companies would loosen, allowing greater opportunities for U.S. business. Although only one participant, a consultant, actually articulated it, many seemed to imply that the government might not be in a position to solve the problems of market access in Japan:

> There are a lot of people waiting for the government to battle it out for them. The problem is no longer government regulations—government can't solve the remaining problems. There are still problems. American management has to get off its duff, notice there is a market and go for it.

The majority of participants seemed to believe that the United States should only be attempting to negotiate market access where there are remaining legal restrictions or regulations, saying that attempts to change social or behavioral features of Japan's economy would probably not succeed. As previously noted, some of the main issues facing U.S. exporters are breaking into longstanding purchaser-supplier relationships or breaking through the "buy domestic" attitudes among purchasers and consumers. Yet, when asked what policy measures might have an effect on these relations, there were few suggestions for broad policy changes by U.S. business or negotiators. Most businesspersons referred to specific company-by-company actions that could be taken, most centering on the development of an appropriate business strategy for the Japanese market. As noted previously, the majority of businessmen seemed resigned to accepting that "when you sell in Japan you have to play by their rules" just like in any other country. This apparently means that U.S. companies have to learn to deal with the existing business relationships, attitudes, etc. With reference to these types of so-called invisible barriers in Japan's market, one foreign government official noted the difficulties that all countries have in dealing with Japan:

> Foreigners can't find restrictive regulations governing international trade. You can't criticize them because nothing is written down. It's difficult to deal with something you cannot see.

One of the only clearcut examples of a policy recommendation by participants was the need for greater business/government cooperation or even an industrial policy. Commenting on the current state of affairs, one U.S. businessman said:

> The lack of government and business working together in the United States is abysmal. There is no trust between them. The Conference Board [composed of CEOs from the largest companies] pontificates about things and on the other side the U.S. government reps pontificate. Where is it that they come together? . . . The Japanese system, by contrast is built on trust. It is the very structure of their economy. . . There is a war out there and it is between U.S. government and industry.

While this statement may represent an exaggerated version of other participants' views, except for those in the government, there was a general expression of dismay at the level of meaningful interaction between government and industry in the United States, and at industry priorities being translated into policy. Some sectors, such as electronics, actually favored greater government involvement in developing new technologies. One business association representative suggested that the government "gather information, identify problems, help the private sector resolve them, and provide initiatives for dialogue." He, along with numerous businessmen, said that providing export promotion assistance was an important role for the government to help U.S. companies in entering the Japanese market. One businessman said, "The U.S. government should be doing more for export trade promotion. We need better tax laws to encourage U.S. companies to export." Another business representative said he would "prefer to see Congress pass permanent R&D tax credits. Companies have to base their investment decisions on the law and if they don't know what is going to be passed it's not easy to make those decisions."

An electronics association representative called for an industry cooperation program similar to that carried out by the wood products association in conjunction with the Department of Agriculture. Under such an arrangement, there would be someone stationed in Japan to coordinate with the industry and someone at the embassy to go to the Government of Japan with complaints. If the Government did not respond the United States would retaliate. He also suggested an incubator program for small and medium sized firms who would be provided space so that the companies could afford to send a person to Japan for a year.

Some former negotiators and businessmen believe that the MOSS process was very successful for U.S. exporters even though it required "tremendous resources in terms of manpower and time." Some pointed to the importance of negotiating on specific regulations and details. One current government official in Tokyo described the process as "surgically sustained efforts over a 2–3 year period" and said that the Japanese government has to be "bothered every day" to respond to U.S. demands. Some U.S. trade association and industry officials suggested that the SII negotiations should have focused more on specific sectors. The same government official indicated that the case-by-case approach was preferable arguing that "The gestalt, generic neutron bomb approach doesn't work."

Some participants called for greater use of section 301. One said that when the U.S. passes laws such as the Omnibus Trade and Competitiveness Act of 1988, "we should use it. Otherwise the United States looks like a paper tiger." He went on to note, however, that now might not be the best time given the ongoing Uruguay Round. A former trade official said that during the telecommunications negotiations in 1980, 1985 and 1990, the Japanese promised to open their market each time, but they didn't. He said that if the United States had threatened to retaliate the first time they would have. He said, that, in general:

> The U.S. needs a trade policy. . . We have to make it clear that we will retaliate and that it will happen. Right now the U.S. does it backwards. We use a lot of rude, harsh rhetoric, but we don't do anything. We should learn to deal with the Japanese through politeness, but firmness.

Many participants pointed to the dangers of closing off the U.S. market. One representative of a trade association said:

> Restricting Japanese products in the U.S. market will only damage the United States. Americans have to sell more in the Japanese market. We have to keep knocking on doors and finding new handles to pull. If Congress runs out of patience, it could do things that hurt American manufacturers a lot. [If restrictions are placed on U.S. imports] the Japanese will cut back those things that hurt competitiveness in the United States.

Much of the discussion about options for improving U.S. access to Japan's distribution system and market centered on general questions about the nature of Japan's economic policies. According to one businessman in the machine tool industry, "The U.S. should realize that we are in a global economic war with the Japanese and that they will hold no prisoners. This is built into their system." Some participants commented on the need to stay in the Japanese market so that Japan does not become isolated and one said that "the U.S. has a responsibility to bring Japan into line with other market economies."

The implication behind the statements of such participants was that the United States needs to have a coherent trade strategy for dealing with Japan. First, these participants suggested there should be more emphasis on trade issues over defense issues. Secondly, many businessmen suggested a need for a better prioritization of trade issues, citing cases where the United States focused more time and money on opening the market for "small ticket items" that will never balance the U.S. trade deficit. One former negotiator asked, "Are we going to make Japan open for pop tarts?" A U.S. state government representative commented, "You've got to sell a lot of lipstick to make up for one automobile."

Several trade association representatives, businessmen and former negotiators pointed to the need for a major change in the U.S. approach to dealing with Japan, arguing that the Japanese market is not a free market economy and does not operate on the same principles as that in the United States. One former negotiator who first said "there are no options for dealing with Japan" commented:

> We should realize that there are some areas where we aren't going to get free markets. For example, semiconductors, supercomputers and telecommunications—anywhere Japan has an industrial policy, it is at odds with a free market policy. So far we've been trying to ignore their industrial policy. We should accept that in some areas there is not a free market in Japan.

Another former U.S. negotiator noted that the trade imbalance, "is not a self-correcting problem" and that "We need to recognize that Japan is different." One current negotiator said that indeed, "We (the negotiators) have taken the position that Japan's market has a different structure, but we've held back in saying that."

Although most participants spoke against managed trade, a representative of the semiconductor industry said, "Let's face it we already have managed trade. . . In the absence of specific measures of progress on an agreement, it's not a good deal. An individual company would never make a deal without such measurements."

However, a consultant in Hong Kong argued that "The U.S. approach on semiconductor trade issues may not be the right one. Managed trade, the notion that the United States should be as successful in Japan as in other countries is protectionist. Besides, it doesn't fit well with U.S. corporate culture to manage trade. . . He who works hard and saves, in any country or in any industry, will do better."

An electronics industry association representative summed up the more pragmatic views of some businessmen:

> Neither free trade nor protectionism is the answer, but the debate is part of the problem. One of these days we have to come up with a responsible approach. [He said he feels like he] is playing the Redskins [Japanese] with a sandlot team and some of the guys [negotiators] don't know what a TD is.

Other U.S. businessmen criticized the revolving door of U.S. trade negotiators, noting that they did not remain in their jobs nearly as long as their Japanese counterparts and that many went to work for the Japanese. One former negotiator said he thought that this was detrimental because these short-term "bureaucrats" were more concerned with "leaving their mark" than with long-term policy considerations.

Some participants suggested that the United States work through groups in Japan that favor reform of the distribution system or business practices. Keidanren, representing mostly large Japanese business, was frequently mentioned as a group that had supported the U.S. viewpoint on many SII topics and one that the United States should work with in the future. One former U.S. negotiator said "we should get them (Keidanren) committed to what we want, but that this will only happen if it's in their economic interest. Otherwise, they won't do it." Another negotiator held the opposite view and said that Keidanren is not on the U.S. side. He also cautioned that there is no reason to think that forces within Japan will eventually turn it into an open society.

Many other participants share the view that foreign pressure will not result in increased market access and that the impetus for change will have to come from within Japan. One business representative in Hong Kong said, "There's no way to speed up changes in Japan unless it is in their own interest." A U.S. government official said, "They're changing as fast as they can without creating pandemonium."

Some participants indicated that the actions and policies of the United States may not reflect Japan's relative strengthened economic position compared to the United States. According to one participant, "We're dealing with Japan like it was 10 to 15 years ago." According to this viewpoint, the United States should realize that its bargaining power or leverage may not be as strong as it once was and adjust its demands or expectations accordingly. At least one negotiator and some of the businessmen indicated that when the U.S. trade deficit with Japan was one-half the size it is today, there was much greater hope for bringing it down by removing sectoral barriers. Now, however, with the deficit at over $50 billion, it will be difficult to "make a dent in it" through piecemeal efforts. A few former negotiators and businessmen disagree with the notion that the U.S. has lost leverage and claim that the U.S. can still wield its influence by threatening to close off its markets or by linking security to trade issues. A few observers echoed this theme, "Japan will never become a world leader." Generally, they seemed to be referring to Japan's ability to assume the role of the primary leader in economic and political affairs. Most participants said that although Japan will continue to assume top posts in international economic and political organizations, the United States will retain its premier role on defense issues and as an international powerbroker.

Forces in Japan that Favor or May Work Against Change

Participants in Washington, Tokyo and Hong Kong discussed the possibilities for, and the pace of, change in social attitudes or culture in Japan that could lead to greater receptivity to imports or changes in the structure of Japan's distribution system. Many businessmen in the United States and some Japanese government officials pointed to the high standard of living of Japanese consumers, the increasing numbers of tourists traveling abroad, the influx of greater numbers of foreign workers, and the fact that more women are entering the workforce as factors that could lead to greater openness in Japan's economy or society. They noted that during the SII process the media consistently reported on price differentials between Japan and the rest of the world and other distribution related issues. As a result there was greater awareness on the part of Japanese consumers of how their pocketbooks and their choices of goods might be affected by various regulations and business practices in Japan.

However, many of these participants said that there was currently no formal mechanism to translate any consumer dissatisfaction into a political force to lobby for imports or push for greater openness in the distribution system. Commenting on the existence of a consumer movement in Japan, one long-time Tokyo resident said, "There is none yet. It will take a long time to develop." One research institute representative noted that although SII made consumers more aware of higher prices in Japan, they do not "parade in front of MITI for lower prices." A few other participants were even more pessimistic, pointing to historical predictions of consumer activism that have never been realized. Although there are a few official consumer organizations in Japan such as the Housewives Organization, none of them currently has the political clout to push a pro-consumer agenda. Some participants, however, said that it is important for the United States to continue to carry out a dialogue with existing consumer groups and to try to "give them more ammunition to balance their influence with the rest of the political interests in Japan." One advocate of such efforts admitted that "it's a daunting task" and that it may be difficult to translate consumer dissatisfaction into political power "because the LDP depends so much on industrial associations."

One major business association in Japan said that the strongest resistance to changes in distribution will come from those industries that rely on "grandfather rights" such as rice, tobacco and pharmaceuticals. One well-known academic said that the Japanese government would have to find some way to compensate the losers if land tax changes or land reform were carried out. He noted that the farmers, large corporations and land investors (unless the changes made it easier to buy and sell land) would be the three groups most likely to oppose changes. The farmers are currently assessed relatively low tax rates and Japanese corporations use land as collateral. The current ratio of net worth to total assets in Japan is 12 percent, as compared with 55 to 60 percent in Europe or the United States. He predicted that if there were tax reform, the ratio would go up to 40 percent. One research institute representative was more optimistic saying that the LDP plans to introduce legislation for land reform this fall and that there may be enough constituent pressure in Japan, by those wanting affordable housing, in particular, to keep the movement going.

Certain characteristics of Japan's corporate and consumer behavior may also be difficult to break down or change. One businessperson in Hong Kong noted, "The Japanese culture is extremely homogeneous and materialistic. It will take a generation to break this down." Another representative for a business association gave an example of how difficult it is to change attitudes, "If you tell the old ones [Japanese people] to work 5 days, on the sixth day they will get a part time job. It will take 40 years to break down such attitudes."

Although most participants said that certain sections of the Government of Japan may favor stricter enforcement of antitrust statutes and encourage changes in corporate behavior, they warned that these bureaucrats may not have enough influence over business to carry out their agenda. In the words of an association representative, "Only a small percentage of Japan's leadership sees a need to change. However, the leaders of the keiretsu or 'keiretsu bosses' don't think so."

Few participants believed that there was much that could be done to change the "system." According to one academic, "Japanese firms have been enormously successful" and these companies are "skeptical that changes in business behavior are needed or beneficial." Many Japanese "think that the practices being attacked are responsible for the success of Japanese firms." He therefore predicted that such practices "are unlikely to change" and that fundamental improvements in access to Japan's market for U.S. firms "will take a long time." Another U.S. researcher stated that she is "very cynical about whether actual behavior of companies will change."

Others were skeptical because of the sheer force of habit and cultural preferences for group over individual efforts, saying "there is very little the Japanese government can do" about interlinking relationships such as those within keiretsu groups. A private sector consultant in Tokyo asked rhetorically, "What can be done to break up something like the Sumitomo Group, with sales near 100 trillion yen, touching 10 percent of the Japanese economy?" Saying that the Mitsubishi Group touches about one-fifth of the Japanese economy, he questioned why a businessman would want to break up the groups. After all, "they work," he said.

In the retail sector, many participants said that change has already begun, but predicted that social values and entrenched interests will modulate and shape the direction of change in the future. Japan's largest chain stores are reportedly developing their own name brand products and buying directly from abroad. However, many cautioned that major changes to the distribution system may come slowly because mom and pop stores serve as a source of employment in Japan where the social security system is inadequate. According to a U.S. businessperson, "The distribu- tion system serves as a source of employment, specifically the mom and pop stores. There is an emphasis on neighborhoods, stability and keeping people on the job." One Japanese trading company official had this to say about the changes taking place in Japan:

> Japan's distribution system will be changed, but not necessarily improved. The changes could be worse off for some people, whether consumers or suppliers, than for others. In 10–15 years, many small stores will close. If large stores are built there will be parking lots and traffic jams. Very old people in Japan are supposed to live alone. This won't change. Who will drive the old people to the large stores if they are built? . . . Some of the Japanese are missing the good old days [which aren't gone yet].

APPENDIX A
LETTER OF REQUEST FROM COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

OFFICE OF THE CHAIRMAN
OCT 23 P4:14
RECEIVED

October 12, 1989

The Honorable Anne E. Brunsdale
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Madam Chairman:

In recent years, the United States Government has conducted a variety of negotiations with the Government of Japan to reduce or eliminate trade barriers in that country and to encourage Japan to play a greater role in shouldering the responsibilities of the international trading system, in light of the tremendous benefits which that country has realized from the system. As you know, the Administration recently launched a Structural Impediments Initiative (SII) with Japan, which is designed to focus on systemic barriers to trade, rather than sectorial or border measures which may affect imports into Japan.

One of the central elements of the SII effort is a discussion of Japan's distribution system, which has been characterized by many observers as a complex, multilayered collection of large and small wholesalers, retailers, and other middlemen. It often is cited as one factor in the difficulty experienced by foreign exporters in penetrating the Japanese market, in part due to its inefficiency and inflexibility.

As you know, the Committee on Ways and Means has primary jurisdiction in the House of Representatives over U.S. international trade policy. An important element of the Committee's responsibilities is active oversight of the activities of the Administration in this area. As part of that oversight effort, it is important that Committee members have an in-depth understanding of the issues being pursued in international negotiations and consultations. I, therefore, am requesting, on behalf of the Committee on Ways and Means, a fact-finding study and analysis of the Japanese distribution system, to be conducted by you under authority of section 332(g) of the Tariff Act of 1930.

We would like the study to provide an overview of the Japanese distribution system, including discussion of its structural features; official policies and practices affecting it; and business practices. The study also should analyze the composition of Japanese imports from United States and other countries (e.g., capital goods, consumer goods), with a view to determining the sorts of changes in Japan's distribution system which are most likely to benefit U.S. exporters. We would appreciate receiving this phase of the study within eight months of receipt of this letter.

The second phase of the study should seek experts' views on options for improving U.S. access to the Japanese distribution system. What has been the experience of U.S. and foreign businesses with the distribution system (both successes and failures)? What forces are most likely to promote or oppose reform of the system -- e.g., political forces; industry groups; and consumers? What products or services do these experts feel are most likely to benefit from improved access to the distribution system, and why? In which areas of the distribution system would change be most beneficial to these export interests? The Committee would like to receive the second phase of the study no later than twelve months after receipt of this letter.

Thank you for your consideration of this request. Please let me know if my staff or I can be of any assistance.

Sincerely yours,

Dan Rostenkowski
Chairman

cc: The Honorable Bill Archer

APPENDIX B
FEDERAL REGISTER NOTICE
AND LIST OF WRITTEN SUBMISSIONS

[Investigation No. 332-283]

Japan's Distribution System and Options for Improving U.S. Access

AGENCY: United States International Trade Commission.

ACTION: Deadline for submissions of statements on Phase II of the study.

EFFECTIVE DATE: July 13, 1990

FOR FURTHER INFORMATION CONTACT: Diane Manifold, Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436, (202) 252-1271.

BACKGROUND: The Commission instituted investigation No. 332-283 following receipt of a letter on October 23, 1989 from the House Committee on Ways and Means, requesting that the Commission conduct an investigation, in two phases, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) with respect to Japan's distribution system and options for improving U.S. access to that system. The Commission submitted phase I of the report on June 22, 1990. The Committee has requested Phase II of the report by October 23, 1990.

Phase I of the Commission's study provided an overview of the Japanese distribution system, including a discussion of its structural features, official policies and practices affecting it, and business practices. The first phase of the study also analyzed the composition of Japanese imports from the United States and other countries (e.g., capital goods, consumer goods), with a view to determining which types of changes in Japan's distribution system are most likely to benefit U.S. exporters.

Phase II of the study will seek experts' views on options for improving U.S. access to the Japanese distribution system, including, but not limited to: (1) Experiences of U.S. and foreign businesses with the distribution system; (2) political, industry, or consumer forces likely to promote or oppose reform of the distribution system; (3) products or services most likely to benefit from improved access to the distribution systems; and (4) prospects for increased access to Japan's distribution system as a result of the recent Structural Impediments Initiative (SII).

WRITTEN SUBMISSIONS: Interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than August 31, 1990. All submissions should be addressed to the Secretary to the Commission at the Commission's office, 500 E Street, SW., Washington, DC 20436. Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on 202-252-1107.

Issued: July 23, 1990.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-17928 Filed 7-31-90; 8:45 am]

BILLING CODE 7020-02-M

WRITTEN SUBMISSIONS FOR THE RECORD
INVESTIGATION NO. 332-283

Steven M. Lovett, Vice President
National Forest Products Association

F.A. Meister, President/CEO
Distilled Spirits Council of the United States, Inc.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

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