Liberal Trade and Japan

Contributions to Economics

Albrecht Ritschl

Prices and Production

- Elements of a System - Theoretic
Perspective -

1989. 159pp. Softcover DM 59,-

ISBN 3-7908-0429-0

Arnulf Grübler

The Rise and Fall of Infrastructures

- Dynamics of Evolution and
Technological Change in Transport -

1990. 305pp. Softcover DM 85,-

ISBN 3-7908-0479-7

Peter R. Haiss

Cultural Influences on Strategic Planning

1990. 188pp. Softcover DM 65,-

ISBN 3-7908-0481-9

Manfred Kremer/Marion Weber (Eds.)

Transforming Economic Systems:

The Case of Poland

1992. 179pp. Softcover DM 69,-

ISBN 3-7908-91415-3

Marcel F. van Marion

Liberal Trade and Japan

The Incompatibility Issue

With 31 Figures

Physica-Verlag

A Springer-Verlag Company

Series Editors

Werner A. Müller

Peter Schuster

Editor

Dr. Drs. Marcel F. van Marion

Johan de Wittlaan 5

NL-5631 AP Eindhoven / The Netherlands

ISBN-13: 978-3-7908-0699-1 e-ISBN-13: 978-3-642-46942-8

DOI: 10.1007/978-3-642-46942-8

CIP-Titelaufnahme der Deutschen Bibliothek

Marion, Marcel F. van:

Liberal trade and Japan : the incompatibility issue / Marcel F.

van Marion. – Heidelberg : Physica-Verl., 1993

(Contributions to economics)

ISBN-13: 978-3-7908-0699-1

This work is subject to copyright. All rights are reserved, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustration, recitation, broadcasting, reproduction on microfilms or in other ways, and storage in data banks. Duplication of this publication or parts thereof is only permitted under the provisions of the German Copyright Law of September 9, 1965, in its version of June 24, 1985, and a copyright fee must always be paid. Violations fall under the prosecution act of the German Copyright Law.

© Physica-Verlag Heidelberg 1993

Softcover reprint of the hardcover 1st edition 1993

The use of registered names, trademarks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

7100/7130-543210 – Printed on acid-free paper

ACKNOWLEDGEMENTS

The writing of this book may well not even have been attempted without Frits Bolkestein, whose intellectually persuasive force stimulated an exciting period of great personal and professional significance. I hope that the result has not disappointed him.

That the book has been completed is primarily attributable to professors Henk de Haan and Catrinus Jepma. They have not only been extremely encouraging and inspirational, but have also given their admirable capacity to create enthusiasm for economics, in general, and for practically applicable theoretical tools, in particular, through which they significantly contributed to the satisfaction of working on the subject. They appear to be naturally gifted as economists and stimulating persons.

That it has been written in a shorter period than was originally planned is due to Ton Weegels. He not only installed the computer in the attic and taught me how to use it, he also had a steadying influence when texts seemed to have perished forever, reviving them with innumerable interventions. He has demonstrated natural gifts in economics when, as usually good natured, drawing diagrams in lunch hours, his quick mind preventing starvation.

Many data on trade in electronics have been made available by Henry Anus, that invaluable companion in arms, whom I have known since we founded the European Association of Consumer Electronics Manufacturers. Working with him and such other outstanding persons from the electronics industry as Claude Bonnet, Jean Caillot, Keld Harder, Karl-Heinz Kotter, Hermann Moessner, Dicky Norman, and Riccardo Viziale - to mention just a few - has been an extraordinary experience.

Two people have had a decisive influence on the career that allowed the gaining of practical knowledge and experience in the subjects described. The first is Coen Ramaer, who offered a job and plenty of scope of action and an example of an inquisitive mind. The other is Henk Bodt, who demonstrated that a combination of motivation, trust, sensible discipline and businesslike accountability can give people satisfaction in their work and, I hope, increase their efficiency. He taught that even in external relations, planning is indispensable, because it fixes responsibilities and establishes weak spots.

The English of this book would have remained unintelligible in parts, had not Stephen Atkinson elaborated on it, so that I sometimes hardly recognised my own writing. Also it would have remained illegible had not Diny Molemans intelligently and diligently sacrificed so many a lunch hour, creating order where chaos existed and meticulously processing the text into what may be hoped to be a reasonably well-ordered whole.

The tolerance of colleagues should be mentioned. Their positive and very cooperative spirit was a great asset. It is impossible to mention all those competent people in the Commission of the European Communities and the member states, who have contributed so expertly to effectively liberal trade.

My wife's love, patience and understanding as well as agreement with the allocation of resources and scarce leisure time to the project, ensured that the papers on which this book is based were not thrown away prematurely and that enjoyable economic literature has been procured. If she had not stimulated me to persevere, I would have missed this exceptional experience.

Eindhoven, March, 1993.

CONTENTS

LIST OF TABLES	IX
LIST OF DIAGRAMS	X
LIST OF GRAPHS	XI
INTRODUCTION	1
PART A. LIBERAL ECONOMY: CONCEPTION, CONCEPTS AND CONFLICTS	5
I. Ideology and the Multilateral Trade System	7
II. Trade Theory and Ideology: Some Basic Issues	19
III. Japan, as a Trade Issue	35
PART B. JAPAN AND TRADE: CARTELS, COHERENCE AND COMPETITION	53
IV. Power and Trade: The Family Economy	55
V. Harmony or Economic Power: Japan's Trade Cohesion	77
VI. Cementing the Structure: People, Power and Policies	109
VII. Economics of the Japanese System and the International Trade Model	135
PART C. TENSIONS: CURRENTS IN ELECTRONICS DUMPING	155
VIII. The Bleak Image of Colour Television	157
IX. Video Recorders: A Standard War	183
X. Own Brand Laser Beaming: Compact Disc Players	207
XI. Big Battle, Micro-Electronics	225

VIII

PART D. JAPAN'S SYSTEMATIC DUMPING: AN APPROACH TO THE PROBLEM	253
XII. An Isolated Cartel Economy in World Trade	255
XIII. Epilogue	277
 REFERENCES	 285

LIST OF TABLES

I.1.	Average tariff levels 1913 and 1925	9
III.1.	Ratio of manufactured imports to GNP	36
III.2.	Korean exports (1990) according to destination	36
III.3.	Average and minimum Korean VCR prices compared with Japanese	39
IV.1.	Electronics companies in gurupu	63
IV.2.	Share holders in Honda and Yamaha	65
IV.3.	Cross-share holdership	66
V.1.	Captive retail shops, exports and domestic share in turnover	78
V.2.	Market share of electrical appliances manufacturers in Japan (1989)	79
V.3.	Gross margin of distribution in relation to total turnover	82
V.4.	Some price comparisons	83
V.5.	Japanese CTV sets recalled for inspection in Japan	86
V.6.	Korean export performance in Japan	95
V.7.	Six products and and protective effect of captive trade	98
V.8.	Tariff quota effect of captive distribution	99
VI.1.	Wage differentiation according to firm size in the car and allied industries	112
VI.2.	Product range in the West and Japan compared	116
VII.1.	Battle of the Sexes	140
VIII.1.	Original Equipment Manufacturers' and Stencil Brand CTV Supplies	162
IX.1.	VHS Original Equipment Manufacturers' Supplies	186
IX.2.	The non-written quantitative VCR agreement	192
X.1.	Japanese CD players market forecast	213
XI.1.	Japanese producers of computers and "strategic alliances"	226
XI.2.	Personal Computers and their content	227
XI.3.	Ranking of Worldwide Semiconductor and Computer Sales, 1990	228
XI.4.	Relative positions of semiconductor firms	229
XI.5.	Non-agricultural goods under residual Japanese import restrictions	230
XI.6.	Japanese market of computer and ICs and import growth and shares	232
XI.7.	Managed integrated circuits trade	241
XII.1.	Anti-Dumping Duties for Japanese majors	256
XII.2.	Prisoner's Dilemma	266
XII.3.	Prisoner's Dilemma and free rider	268

LIST OF DIAGRAMS

II.1.	Free choice, perfect competition	23
IV.1.	The nine groupings	60
IV.2.	The Nimomu-kai (Second Thursday Club)	61
IV.3.	Gurupu preference and efficiency	70
V.1.	Distribution in consumer electrical appliances	80
V.2.	The small and the big in Japan	92
V.3.	Learning curve and scale of production	93
VII.1.	Bertrand behaviour	137
VII.2.	Bertrand behaviour and keiretsu trade	139
VII.3.	Cournot conduct	141
VII.4.	Keiretsu trade and export dumping	143
VII.5.	Dumping and "trade reversal"	146
VII.6.	Forward pricing and dumping	149
XII.1.	Profit and dumping of the great and the smaller	258

LIST OF GRAPHS

III.1.	Comparative advantage in microwave ovens?	38
III.2.	Japanese and Korean VCRs in the USA and Japan	40
VIII.1.	Penetration rate of CTV in Japan and market shocks in USA	161
VIII.2.	Japanese average ex-factory production and export price and sales	163
VIII.3.	Japanese imports into U.S. and market share, inclusive of stencil brand supplies in U.S.	166
VIII.4.	American ex-factory prices compared with Japanese domestic and export prices	168
VIII.5.	Continued defensive	171
IX.1.	Average shipment prices in 1,000 Yen	187
IX.2.	The quantitative blow in Europe	188
IX.3.	Japan's presence in the EEC	194
IX.4.	Japan's and Korea's VCR shipments	196
X.1.	Price havoc in Europe	214
X.2.	Fall in prices since 1984	218
X.3.	Circumvention by trade deflection	219
XI.1.	Computer and IC trade of Japan	234
XI.2.	Managed trade	239
XI.3.	Prices and costs of 1M DRAM	242