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14	D/OLL				
15	D/PAO				
16	SA/IA				
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	SUSPENSE				

Remarks

IPM

Executive Secretary

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Date

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

Executive Registry
84- 10026

December 3, 1984

UNCLASSIFIED
(With ~~Confidential~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Wednesday, December 5, 3:00 p.m., in the Roosevelt Room.

The agenda is as follows:

1. Strategies to Address U.S.-Japan Economic Issues.

A discussion paper on U.S.-Japan economic issues is attached. Attendance will be principal, plus one.

DTR

Donald T. Regan

Attachment

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INTRODUCTION

Japan has become a key player in the international economy. However, its participation has not been balanced -- the Japanese economy has not opened up to foreign goods to a degree commensurate with its size and strength despite continued efforts by the U.S. extending back nearly two decades. Intensified efforts by the Reagan Administration have produced some improvement, but the pace and degree of progress toward opening the Japanese economy remain inadequate.

The time has come to consider a fresh approach, specifically tailored to the nature and severity of the problem. The time for decision is short. The severity of the problem demands attention at the highest level. We need to decide on a cohesive strategy for addressing this problem to present to the President prior to his upcoming meeting with Prime Minister Nakasone, which represents a perfect launching-pad for a fresh effort on trade. This paper sets out two alternative approaches:

-- a market-oriented, sector-selective (MOSS) approach which aims at reorienting the Japanese economy through intense talks to make manufactured imports in beachhead sectors fully responsive to market forces; and

-- an import target approach which sets target levels for manufactured imports and leaves it to the Japanese to decide how to meet them.

We believe these alternatives provide a good basis for deciding on a course of action in timely fashion.

THE SETTING

In recent years Japan has consistently run large trade and current account surpluses. These surpluses are viewed by others as a source of severe pressure on the system -- in part due simply to their size, but also to the perception that Japan is an "outsider" rather than a full participant in the system. Its markets remain relatively closed, it does not import products which displace its workers, it does not invest and produce in its principal foreign markets, it plays the system for its own narrow advantage.

However, closer analysis shows that Japan's surplus is much more than a simple reflection of its "outsider" role. Japan is a rich industrial country which has become a substantial net creditor. Domestic savings exceed domestic consumption by a substantial margin, and Japan is therefore a net lender abroad. It has long been accepted as "good" that rich nations run trade and current account surpluses in order to finance net flows of real resources to poorer countries. It should also be recognized that the composition of Japan's trade reflects its resource base; an island poor in raw materials will not, logically, have the same export/import mix as a resource-rich country. Broadly speaking, the basic structure of Japan's trade is not inconsistent with the principle of comparative advantage, which forms the intellectual basis for the open, liberal trade and payments system.

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Thus some portion of the Japanese trade surplus is structural in this very fundamental sense; Japan's Economic Planning Agency (EPA) has estimated the "structural" component accounts for roughly one-half of the surplus. The portion which is not "structural" reflects other, in principle policy-related, factors such as exchange rate movements, market imperfections, and purely cyclical factors.

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A significant reduction in the Japanese surplus -- and, in turn, a substantial reduction in pressures on the system -- could result from actions which attack the non-structural component of the Japanese trade surplus. insular? behavior

Such a program would constitute a direct response to the current high-level U.S. Government -- and private -- frustration with Japan's autarkic trade, industrial, and financial policies, which represents a dangerous situation for both countries. It would respond in ways which remove the root causes of the frustration; the alternative is a conflict so serious as to threaten our overall relations as well as the entire postwar framework of international economic cooperation.

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At Prime Minister Nakasone's request, President Reagan will meet with him in Los Angeles in January. We suspect the GOJ request reflects a similar concern on the part of the Japanese; such concerns usually take the form of a desire to defuse or otherwise deflect demands that would force Japan to alter the status quo in ways they dislike. We need a sharply focused trade strategy which the President would "kick-off" in his January meeting.

OBJECTIVES: WHAT DO WE WANT?

Our real trade problem with Japan centers on the failure of the international adjustment process to work in the Japanese case. The problem is a complex one -- it includes social as well as economic institutions, selective government intervention in the economy, parochialism, and simple inertia. But Japan must assume its fair share of the costs of adjustment of a dynamic international economy. This means that Japan's economy should be more open to foreign goods, especially manufactures, even where there is domestic production.

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In terms of our bilateral economic relationship, the problem can be analyzed in three broad areas -- financial, traditional trade policy and structural. The financial aspect has been addressed in the Yen/Dollar Agreement. That Agreement, when fully implemented, will yield a system on which relative prices -- interest rates, the value of the yen -- will give accurate market-determined signals for resource allocation in Japan and the rest of the world. Over time, the yen should strengthen; Japanese trade and current account surplus should adjust; and the non-structural portion of the net capital outflow from Japan should decrease. In this way, the Agreement will make a contribution to the adjustment process which transcends the bilateral U.S.-Japan relationship; it will reinforce the global open, liberal trade and payments system, influencing Japanese exports to U.S. and third-country markets as well as foreign competitiveness in Japanese markets. Continued follow-up to ensure full implementation at the highest level is a major element in our overall strategy.

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The second broad area is "traditional" trade policy. Even while we pursue more systemic approaches such as the Yen/Dollar Agreement, there will be particular sectors (e.g., steel, autos) which will be so sensitive as to require special, individual attention on a priority basis.

The third broad area affecting U.S.-Japan economic relationships is institutional -- the apparent failure of the Japanese economy to respond to trade liberalization with a change in the level and composition of its imports. The primary symptom of this unresponsiveness -- and a major source of frustration -- is a lack of market penetration by foreign suppliers to Japan. Several indicators of this lack of openness are shown in an attachment.

Up to now, our efforts to deal with the trade composition aspect of the problem have had only fragmentary success. Often, talks have focussed on lists of specific items rather than on the underlying problem. There was a lack of clear-cut, consistent ranking in terms of priorities, in part reflecting the multiple criteria -- political, economic, game-strategic -- being applied. A fundamental aspect of preparation for the approach set out below would be the establishment of priorities -- based on criteria for areas where substantial and lasting gains can be made. At the top of the list would come products with strategic importance in reorienting the Japanese economy toward greater acceptance of manufactured imports.

PROPOSED ALTERNATIVE APPROACHES

What is needed is a systematic change in the way the Japanese economy works in its interaction with the rest of the world. Central to this would be a program to make growing imports of manufactures a normal part of Japan's evolving trade pattern. Removal of barriers to market access for foreign manufactures, over time, would be expected to strengthen market forces within the Japanese market, and generate self-sustaining consumer pressure for access to a wider variety of goods. Such a process on the structural adjustment side would complement the Yen/Dollar Agreement on the financial side. In addition, however, there needs to be a fundamental change in Japanese attitudes toward foreign products. In Japan, such changes are reflected down from the highest levels -- hence the need to start at the top.

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Two quite different approaches have been suggested: the Market-Oriented, Sector-Selective (MOSS) approach, and the Import Target approach.

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THE MARKET-ORIENTED SECTOR-SELECTIVE APPROACH

The "MOSS" approach uses a framework similar to that found effective in negotiating the Yen/Dollar Agreement, and in subsequent follow-up talks. Those talks were based on a unifying principle or theme -- liberalization of capital markets and internationalizing the yen. With this theme in mind, the structure and operation of Japanese financial markets were analyzed in detail to reveal exactly how and where the observed results deviated from a market-determined outcome. In turn, negotiations were held on a detailed program to adjust the structure and operation of the financial market to produce a market response. Each detailed point was dovetailed to the overall objective of market liberalization/yen liberalization. Specific quantitative outcomes -- e.g., how much interest rates must change by, or the volume of issues for the Euroyen bond market -- were not discussed.

Specific features of the MOSS approach:

1. Obtain Prime Minister's commitment to basic objective of market access in key industrial sectors.

2. Focus on a coherent industry/product group. Point to how individual negotiating demands work jointly towards mutually agreed objective.

3. One negotiating team, headed by Under Secretary or above, for each key sector; team stays together throughout the talks. No delegation of detail to staff negotiations. Keep Vice-Minister at table, do not negotiate with Director General of International Bureau; include domestic Director General as well.

4. Only relevant players in the room. Yen/dollar was strictly Treasury/MOF. Where possible isolate to one-on-one Ministry talks. (If agricultural products then only include Agricultural Ministries.)

5. Detailed analysis of industry needed to isolate specifics of necessary Japanese actions and to draw on in actual conduct of negotiations.

6. Same team for follow-up and monitoring.

This approach is extremely time- and manpower-intensive. It requires large amounts of time for very senior officials; the detailed analysis takes considerable staff time and knowledge of specific industries.

In view of this, and the sheer magnitude of industries and products potentially involved, the MOSS approach would need to be selective -- priority targets would be identified and a short list of, say, five industries or product groups would be selected for an initial effort over the course of the next 12-18 months.

Selection criteria for the key sectors to be negotiating targets might include the following:

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-- market size in Japan (not in U.S.)

-- Japanese market growth potential

-- U.S. has world-class capability

-- sector has high visibility in Japan

-- coherence. Component products have generalizable, identifiable characteristics (eg. "telecommunications"); not specific ("receivers") or meaninglessly broad ("agricultural products"). Sector operates within an identifiable domain -- regulatory framework; responsible ministry/ministries; industry structure.

These criteria would ensure that negotiations in a selected set of industries would have (a) maximum potential for direct dollar impact; (b) maximum demonstration or precendential effect; (c) maximum "spillover". Examples which would be immediate candidates would be telecommunications, forest products; non-examples would be autos, consumer electronics, walnuts.

This approach is open-ended in the sense that we are limited only by resource availability. The resource-intensive nature of the "MOSS" approach is its major drawback by contrast with the "target" approach. In addition, it offers less immediate gratification than the target approach (at least at first blush). But it has several major advantages:

-- It establishes "beachheads" in the Japanese market for products with potential ripple effects.

-- It's philosophically consistent with our overall commitment to free markets, reduced government intervention, and an open liberal trade and payments system.

-- It offers the most direct attack on the Japanese "system," which we suspect is a major part of the problem we are trying to solve; therefore offers better prospect for lasting gains.

-- It works in the direction of co-opting Japan into the world-wide trading system and adjustment process, rather than accepting their "outsider" stance and developing a separate set of rules for dealing with Japan.

THE IMPORT TARGETS APPROACH

The central feature of this option is the setting of target figures for Japan's imports of manufactures, leaving it to the Japanese to use their system to meet those targets. In addition, some general barriers would be addressed and rules for industrial policy would be negotiated. Specifically:

1. Japan should adopt as a national goal a scenario of rising target figures for imports of manufactured goods as a proportion of total output of manufactures. The target would be decreed as an objective by the Prime Minister; the formal powers of government would be dedicated to that goal.

2. Specific targets would be set for key sectors such as telecommunications, forest products, cigarettes, and space equipment.

3. Japan must end the excessive barriers caused by its system of product standards. Japan has made promises and not carried them out. We should again insist that all standards-setting bodies should be required to admit foreign producers; test data generated by foreign labs should be accepted; and border procedures should be simplified.

4. Some minor irritants (such as tariffs on specific products) also need to be removed.

5. Japan should reform its industrial policies by agreeing, in writing, to: full transparency of policies, objectives, and methods; treatment for foreign firms equal to that given to the "most favored" domestic firms; and import targets for "sunrise" and "sunset" sectors.

The main advantage of this approach is that rather than engaging in a confrontational effort to transform the unique Japanese economic, social, and cultural system into one like ours, it tries to use that system to obtain our objective --- increasing participation in the Japanese market. It thus is likely to be acceptable to Japan and to produce real results quickly.

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This approach avoids the frustration of past negotiations -- negotiating away a barrier only to find another one behind -- by going straight to the final objective, increased sales. It also skirts what we have found in many instances to be a fundamental cultural barrier to imports in Japan: the sense of social responsibility. Japanese consumers and industrial buyers often do not buy imports if it would displace a Japanese-made product, especially if domestic producers and workers would be hurt as a result. In a sense the proposal turns this sense of social cohesion to our advantage by making increased imports a national priority.

On the other hand, the import target approach has several major drawbacks:

1. The target approach explicitly recognizes a continuing, central role for MITI and the whole GOJ apparatus in setting import priorities, rather than increasing scope for market forces to determine import (and export) patterns. Under the quota approach, MITI could continue to implement industrial policy -- directing structural change, picking import growth sectors that are least meaningful in terms of breaking down structural rigidities or fostering adjustment of Japanese industry. Indeed, the Japanese have always preferred non-market schemes for "adjustment" of trade problems, since these leave their basic system intact (and allow maximum scope for gimmickry such as stockpiling and leased aircraft). The MOSS approach alters the system.

2. We have no basis for establishing what the target should be (except "higher"); any specific number would be totally arbitrary. Indeed, it could be very difficult to select a target which is credible to both U.S. and Japanese audiences, given the vast differences between Japan and other countries' import structure.

3. Psychologically, a target approach probably reduces the pressure. The Japanese greatly dislike uncertainty -- they want to know specifically what they need to do to "get off the hook." The MOSS approach, by not providing a finite measure of "success" and thereby keeping the pressure on, may actually produce more lasting, fundamental change. (As an aside, it might be worth noting that adopting the basic framework and philosophy of the MOSS approach is not at all inconsistent with the idea of monitoring progress in terms of quantitative results.)

IMPLEMENTATION

Whichever approach (or combination of approaches) is adopted, the common purpose is to bring about fundamental re-orientation of major sectors of the Japanese economy, including deep-seated consumer and government attitudes toward foreign products. These would not be traditional trade talks. To be effective, the U.S. will have to commit itself to:

1. high-level involvement on a continuing basis, including the follow-up process; and

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2. an extraordinary degree of internal cooperation, with each agency's interests subordinated to the general effort.

3. recognize the extraordinary nature of the exercise, and essential need for coordination, by the formation of a Cabinet-level group to manage U.S. strategy. Key members should include the Secretaries of State,

Treasury, Commerce, and Agriculture and the U.S. Trade Representatives. Others could be added when specific issues are taken up. Operating under the overall aegis of this group, would be individual negotiating teams, each headed by an Under Secretary.

<u>Assuming these basic commitments</u>, the formal process would begin with the President informing Prime Minister Nakasone that the present situation is not acceptable, and that Japan must make fundamental changes in the reception it gives to foreign products. This is in Japan's interest as well as ours; if far-reaching changes are not made, Japan risks facing an anti-Japan drive which would close its export markets and leave it increasingly 25X1
isolated. We want to embark on a series of talks, open-ended in duration, which will produce dramatic change sufficient to lay to rest the complaint that the Japanese market is less open than the markets in which it sells.

Given the very short time left before the January Reagan/Nakasone meeting, preparatory work needs to begin immediately. The four top-priority tasks are:

1. Decide on the modalities of our approach, i.e., MOSS or Import Targets (or some combination).

2. Set up a Cabinet-level group to manage the approach.

3. Begin work on priorities-setting exercise to back-stop actual talks. We should have a pretty clear general outline of what we want -- for example, in which sectors we think it is most important that meaningful liberalization occur -- before the first meeting after the President's January demarche.

4. Begin work on development of carrots and sticks to be used as needed to sustain forward movement and break the inevitable log-jams. Our experience with yen/dollar talks sugests we should have something major to offer (or threaten) early in the process, to secure agreement on the overall theme of the talks. (A discussion of leverage and retaliation is included as an appendix.)

APPENDIX

LEVERAGE AND RETALIATION

The U.S. Government has considerable leverage to use in obtaining our trade objectives, provided that (a) we organize ourselves to use it effectively, and (b) we are prepared to be bloody-minded about using it. Before moving to specifics, some general points are in order.

1. The use of leverage and/or retaliation should focus on changing Japanese behavior in clearly defined ways. It must not succumb to the obvious temptations to:

   -- react in anger or frustration; or

   -- use it as a justification for a protectionist action.

2. Real rules must govern.

   -- Exercise of muscle should always be accompanied by a clear explanation of what behavior we want changed.

   -- Consistency and determination are essential; it must be clear to Japan that we can and will inflict pain until it changes the policy we want changed.

   -- Reversibility rule: any barriers we impose will be removed when Japan responds appropriately.

3. Because our entire focus is on market access to Japan, we have an advantage. Japan presently has more access to U.S. markets than foreigners have to Japanese markets. Japan has more to lose from U.S. retaliation or use of leverage. Moreover, it has fewer opportunities for counter-retaliation and a built-in incentive not to counter-retaliate lest it [redacted] lose even more.

4. Generally, retaliatory or leverage measures should [redacted] chosen in other areas of trade than that covered by the Japanese practice we want changed (e.g., close the borders to bicycles if we want wine duties lowered). This has two purposes: 25X1

   -- to create conflict among Japanese domestic interest lobbies.

   -- to generate interagency conflict within the GOJ so that issues are elevated to political levels.

[redacted]

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5. An extraordinary, higher degree of cooperation within the U.S. Government is essential. Agencies tend only reluctantly to put their particular areas of negotiation on the block for use as leverage in other areas. This must stop. Every agency's interests should be subordinated to the general effort.

Specifics on leverage and retaliation will tend to develop over time as we move into negotiation. However, we should not start out in January without the most careful planning and development of retaliatory and leverage options that we can manage in the interim. Interagency staff work on this should begin immediately. Some items are listed and described below. The list is not intended to be exhaustive but rather to demonstrate that opportunities for the U.S. Government to exercise leverage and/or retaliation do exist and do make sense.

1. We have allies and should use them. Korea, Taiwan, and the ASEANs all have the same kinds of problems with Japan as we do. Moreover, the Japanese are extremely touchy about their relations with the rest of Asia and thus have real vulnerabilities here. The U.S. Government should:

-- consult with the ASEANs about proper approaches to take with regard to Japan's closed markets and excessive export drives -- and make sure Japan hears about it;

-- at a second stage, if necessary, try actually to coordinate with the ASEANs on joint approaches to the Japanese, perhaps even negotiate on the ASEANs' behalf -- and make sure, again, that Japan knows our game.

2. Self-initiate Section 301 cases (President's retaliatory authority against unreasonable, unjustifiable, or discriminatory trade practices). Japanese standards policies might be a good place to start. Ultimate retaliatory action we are contemplating should be made known to the Japanese at the outset. It should take the form of trade barriers against goods which Japan considers important. The pain we threaten (and inflict if necessary) should be real.

3. Hit the Japanese on leather imports by imposing a tariff on, say, personal computers and just let them go to GATT to complain. World opinion is uniformly against the Japanese regarding their egregious leather quotas.

4. Play Japan's request for gateway landing rights for a new Japanese all-cargo airline (it's owned by Japanese freight forwarders and has a cozy, GOJ-sanctioned agreement not to "disrupt" JAL's cargo business) for all it's worth. This issue is perfect leverage not only in the civil air field,

but also in related areas such as the hi-cube container dispute and the tobacco shipping question. If the Japanese want it badly enough, we can use it over and over again, to get action on other trade issues as well.

5. Make Japan's participation in U.S. space station project contingent on Japan being responsive on trade issues. Participation in the station would provide major benefits to Japan as partners who make significant investments in space station hardware will most likely retain ownership of those elements and will have a role in management of the station commensurate with their investment share. Exclusion would be costly to Japan for commercial and prestige reasons.

6. Use textile and similar sectoral market access negotiations not primarily to limit Japanese exports to the U.S. market, but to gain Japan's commitment, with numbers, to open its markets to third-country suppliers. That will help to take import pressure off U.S. markets and at the same time gain support for U.S. objectives from third countries.

7. Mount a major USIS effort to tap the enormous latent consumer pressure in Japan for more cheap, high-quality imports of foods and consumer goods. The Japanese press is an ally here.

8. The issue of renewing the U.S.-Japan auto VRA is usually seen as a problem. It may be an opportunity, if subtly played. The Japanese seem ambivalent on whether they want it renewed (with higher limits). Different firms within the Japanese auto industry have different interests. In this context, we can create maximum leverage on other issues by creating maximum uncertainty on this one. The Japanese will abhor uncertainty, especially if we transmit signals that create dissension within the Japanese industry, erode the GOJ's control over the issue, and create the impression that <u>anything</u> we do will hurt them. In any event, we should put off resolving this question as long as possible. Then, a decision on whether to seek an extension can be taken in light of the overall results of the 1985 effort on all fronts.

No one measure can show that an economy is open or closed. Nonetheless, under a variety of measures, Japan seems to import fewer products that displace domestic production than do other industrialized economies.

1. Compared to its counterparts in Western Europe and North America, Japan's imports are a low percentage of GNP.

RATIO OF MERCHANDISE IMPORTS TO GNP[1]
(percent)

	1970	1983
Japan	9.2	10.9
United States	4.3	8.2
Canada[2]	16.3	20.1
France[3]	13.5	20.3
FRG	16.1	23.4
Italy[3]	16.1	22.9
Netherlands	n.a.	47.3
United Kingdom	17.7	21.9

[1]Source: ITA, U.S. Department of Commerce. C.i.f. values.
[2]F.o.b. values.
[3]Ratio of imports to GDP.

2. While Japan's lack of raw materials logically results in a low proportion of its imports being manufactured products, Japan's ratio of imports of manufactured goods to total merchandise imports is much lower than that of other resource-poor, industrialized countries.

RATIO OF IMPORTS OF MANUFACTURED GOODS
TO TOTAL MERCHANDISE IMPORTS (1983)[1]

Japan	.25	Canada[2]	.76
		France	.59
United States	.63	FRG	.57
		Italy	.44
		Netherlands	.55
		United Kingdom	.68

[1]Source: ITA, U.S. Department of Commerce. C.i.f. values.
[2]F.o.b. values.

3. Japan's imports of manufactured pro[illegible] per capita basis and as a percentage of GNP as well.

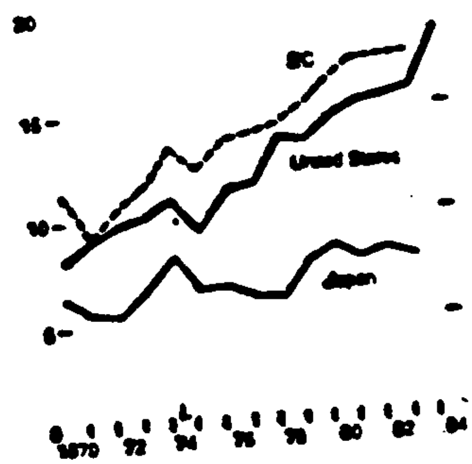
IMPORTS OF MANUFACTURED GOODS[1]

	Per Capita		% of GNP	
	1970	1983	1970	1983
Japan	$ 144	$ 267	0.8	2.8
United States	353	728	1.3	5.2
Canada	1,347	1,936	5.8	14.7
France[2]	634	1,135	3.0	12.1
FRG	768	1,428	3.3	13.3
Italy[2]	384	616	3.5	9.9
Netherlands	1,815	2,347	2.1	25.4
United Kingdom	541	1,218	2.7	15.2

[1]Source: CIA; ITA, U.S. Department of Commerce; USTR.
[2]Based on GDP figures.

4. It is generally agreed--even by the Japanese--that Japan was protectionist through 1970. Despite the many specific liberalizing measures implemented by Japan since then, imports of manufactured items as a percent of the domestic market have grown very little--and have grown much less than they have in EC (excluding intra-EC trade) or the United States.

IMPORT PENETRATION IN MANUFACTURES[1]
(by value in percent)



[1]Source: Morgan Guaranty Trust Company of New York. Values indicate imports as percent of domestic market measured by the sum of domestic value added and imports. EC data excludes imports from within the Community.

natural for a resource-poor country, is much larger than for most other countries.

SURPLUS IN MANUFACTURED GOODS (1983)[1]
($US billion)

	Surplus[2]	% of GNP
Japan	$110.3	9.5
United States	-38.2	1.2
Canada	- 5.7	1.7
France	6.4	1.2
FRG	58.7	8.9
Italy	26.7	7.5
Netherlands	- 0.7	0.5
United Kingdom	- 7.7	1.7

[1]Source: CIA; ITA, U.S. Department of Commerce.
[2]Surplus based on exports f.o.b., except U.S. f.a.s.; and imports c.i.f., except Canada f.o.b.

6. Japan's import elasticity (percent growth in total imports related to one percent growth in domestic real income) is low compared to other industrial countries.

IMPORT ELASTICITY (1984)[1]

Japan	.742	Canada	1.194
United States	2.258	France	2.316
		FRG	2.034
		Italy	1.943
		Netherlands	n.a.
		United Kingdom	2.268

[1]Source: Ministry of International Trade and Industry (MITI).

7. In the area of manufacturing activity, foreign-owned firms produce a low percentage of Japan's total output and employ an even lower percentage of its workforce.

SHARE OF FOREIGN-OWNED FIRMS IN MANUFACTURING ACTIVITY[1]

	Cut-off point	Year	% of persons employed	% of production
Japan	≥25%	1978	1.8	4.2
United States	≥10%	1974	3.0	3.0
Canada	≥50%	1975	44.3	56.2
France[2]	>20%	1975	19.0	27.8
FRG	25%	1976	16.8	21.7
Italy	>50%	1977	18.3	23.8
United Kingdom	≥50%	1977	13.9	21.2

[1]Source: OECD, U.S. Department of Commerce.
[2]Excluding natural gas and food industries.

8. In contrast, since the mid-1970s, Japan has been expanding its overseas direct investment.

COMPARISON OF OVERSEAS DIRECT INVESTMENT[1]

(a) Comparison of Overseas Direct Investment Balance (Stock)

	Overseas Direct Investment Balance ($US billion)			1971-76 average annual growth rate	1976-82 average annual growth rate
	1971	1976	1982		
Japan	$ 1.9	10.3	29.0	40.2%	18.8%
United States	82.8	137.2	221.3	10.6	8.3
France	7.3	11.9	24.8	10.3	13.0
FRG	7.3	19.9	39.5	22.2	12.1
United Kingdom	23.7	32.1	79.6	6.3	16.3

(b) Share in Global Overseas Direct Investment (FLOW)

	1971-73	1974-76	1977-79	1980-82
Japan	5.7%	7.5%	6.2%	10.6%
United States	53.1	47.0	47.9	21.2
France	3.8	5.4	4.4	9.3
FRG	8.5	8.6	9.3	10.4
United Kingdom	14.5	13.6	13.0	20.0

[1]Source: Ministry of International Trade and Industry (MITI).

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