

to produce state-of-the-art know-how. Ideally, government intervention is justifiable if markets fail to equate roughly private benefits and benefits to society from a project. Nevertheless, whether there exist measurable market failures or not, governments in most countries have taken to subsidizing high technology industries. Each government supports its national corporations with the aim of being the first mover in the global market. The aim is to capture rents in a newly emerging line of business. When so many national governments are targetting the same thing, trade disputes arrive before long. The situation becomes messy as the politics of special interests in each country puts pressure on trade policy. The experience of U.S.-Japan trade conflicts, discussed in this Paper, is a testimony to this outcome.

The U.S.-Japan trade conflict is more than an economic issue. The U.S. trade deficit with Japan, though perceived to be a problem, is not central to the conflict. Japan bashers and economic nationalists in the U.S. believe that the erosion of U.S. domination in a number of industries is due to Japan Inc.'s "cheating". There is the fear of a large scale deindustrialization in the U.S.. The conventional wisdom holds that Japan does not play fair in global markets, that Japan's government has successfully targetted and captured profitable industries that were previously dominated by the U.S., and that Japan has deliberately made its market inaccessible to U.S. corporations. The solution, they argue, is to open up Japan (often bilaterally, in practice) and for the U.S. to pursue an active industrial policy.

This Paper argues that unilateral or bilateral trade measures in this conflict may open up the Japanese market to a few large U.S. corporations, but not to all potential foreign (and Japanese) competitors. Such a limited sharing of the Japanese market between U.S. and Japanese companies will freeze out efficient firms from other countries, such as Canada. The most beneficial policy is a multilateral approach aimed at further liberalizing Japanese market access. The consumers in Japan also stand to gain the most from the multilateral approach. Equally, further market liberalization is needed in the U.S. and Europe.

● The Lessons From Japan's Economic Growth and The Implications For Canada

The evidence discussed in this Paper indicates that countries cannot be characterized to be specializing in high value added versus low value added industries. There is a wide range of high productivity activities, and they are dispersed across all the manufacturing and nonmanufacturing (services) industries. In a companion paper, it has been argued that there is no one magic sector or industry that is better than the other and there is no reliable method of picking winners. Countries generally tend to specialize in industries where they achieve economies of scale and flexible manufacturing to cater to demands by people in the global market.