

from non-*keiretsu* sources of inputs, for the sake of the relationship of the group. This relationship offers savings from reduced transaction costs associated with imperfect knowledge. *Keiretsu* source internally, unless an externally sourced input offers savings substantial enough to offset any cost to a relationship.⁹⁶ The economics is the same. However, the weight of relationships in Japan skews corporate decision-making away from “mere” price concerns. In Japan, such in-group sourcing is actually not collusion. It is just a refusal to act on price.

Those who object to the “closed” nature of the Japanese market label the relationships between *keiretsu* groups anticompetitive. Nonetheless, not only can they allow a great deal of competition, they can be but a pre-requisite to enter the competition. Non-*keiretsu* **Japanese** firms succeed because their own relationships and longer time horizons allow them to sacrifice profits to enter the market.

Foreign companies, dominated by the short-term profit motive, cannot justify the investment necessary to stay the course, and resign themselves to non-entry. In shutting themselves out, they deny the Japanese market of what positive competitive effects their entry might bring. Since that loss is well compensated by strong domestic competition, however, some have suggested that there is little difference, for consumers, between prices resulting from a *keiretsu* “closed” market, and those resulting from a “freer” market. From the perspective of the consumer, there may be little difference between an industrial structure that fosters competition among a stable group of established firms through diversification into new product areas and one that encourages similar rivalry through easy firm entry.

Foreign companies wishing to enter the Japanese market should not automatically label the relationships they refuse to build as anticompetitive, nor necessarily join the chorus calling for increased antitrust enforcement against them. They should instead focus more on increasing their efforts to build

⁹⁶Dore, *op.cit.*, p. 372: “it would be surprising if the efficiency gains from these customer-market arrangements - stemming from increased trust, extra cooperativeness induced by expectations of loose reciprocity, savings on litigation, etc. - did not outweigh any welfare loss occasioned by sub optimal resource allocation”.