

institutions and non-financial firms, and their effects on international trade, which are based entirely on locally accepted business practices.

If, in addressing only the trade effects of inter-corporate relations, the goal of trade policy is to increase exports to Japan, it can either press for changes so that Japanese business practices more closely resemble our own, or encourage domestic firms to adapt to the Japanese way.

- Pressing the Japanese

The current U.S. approach to correcting its trade deficit with Japan, and to managing Japan-U.S. trade relations in general, is one that emphasizes the "measurability" of progress.¹²¹ The U.S. wants to use a variety of quantitative indicators to determine whether Japanese markets are sufficiently open, or become sufficiently open over a predetermined period of time, to international competition. It is a sector-specific approach, the professed goal of which is to increase trading opportunities for all exporters to Japan.

From a Canadian (or any other third country) perspective, the primary concern with the U.S. proposal is that it could divert trade.¹²² Bhagwati claims that it is nothing more than "export protectionism", working to guarantee U.S. firms a specific share of the Japanese market. In such an environment, Japan will have a powerful incentive to divert imports from other countries to the U.S. in order to meet U.S. market share goals. If the U.S. insists on such a quantitative strategy, and Japan concedes, the Canadian response should be to urge both sides to consider the market share held by all foreign firms as the appropriate measure of Japan's openness. That way, Japanese imports will not be diverted to the U.S..

A more fundamental problem with the U.S. approach is that it does not address the real issue -- that of different business practices and inter-corporate relations in Japan. The changes trade policy makers could press for in Japan so as to further loosen the current relationships between financial institutions and non-financial firms are only limited by the imagination, and could include: limiting the amount of debt

¹²¹ The views of the Clinton administration are articulated in a recent article by Roger C. Altman, Deputy Secretary of the Treasury, in *Foreign Affairs*. See R.C. Altman, "Why Pressure Tokyo?", in *Foreign Affairs*, Vol. 73, No. 3, Council on Foreign Relations, New York, NY, May-June 1994, pp. 1-6. See also U.S. International Trade Commission, *op. cit.*, pp. 16-22.

¹²² See J. Bhagwati, "Samurais No More", in *Foreign Affairs*, Vol. 73, No. 3, Council on Foreign Relations, New York, NY, May/June 1994, pp. 7-12.