

While a results-oriented approach might raise the volume of imports going into Japan, it is not clear that it will provide spillover benefits to the U.S. economy and well paying jobs for U.S. workers. In a world in which multinational corporations dominate trade, there is no such *necessary* linkage. If U.S.-owned firms gain entry in Japan, they may decide to produce more locally or may supply to Japan from their subsidiaries elsewhere. For example, the major U.S. initiative to open the Tokyo market for cellular telephone sales by Motorola will increase the sales of telephones designed and manufactured by Motorola in Malaysia. The proponents of managed trade probably considered this a "successful" trade arrangement. However, increased Motorola sales did nothing to improve the U.S. trade balance with Japan. The devil hidden in these kinds of specifics would disappoint the Japan bashers. Moreover, agreements must be verified and monitored. No country, not even the U.S., is well equipped to deal with a system that requires the detailed micro management of the international economy.

It is tempting for the U.S. to try to solve its trade problems with Japan on a bilateral basis. As the world's largest economy, the U.S. appears in a particularly strong position when it confronts smaller economies one-on-one. Unilateralism or bilateralism allows the U.S. to present its case forcefully. But this approach, as argued above, has many disadvantages. Limiting imports with VERs from Japan translates into a tax on U.S. consumers, and results in rents for Japanese corporations and the cartelization of the Japanese market. VIEs and numerical targets would enable only a chosen few U.S. corporations to dip into the rents of cartelized Japanese markets. It will not make the Japanese market more truly open to foreign competition.

5. CONCLUSIONS

Trade among advanced countries is increasingly concentrated in high technology areas in which R&D is important. Trade frictions between the U.S. and Japan often occur in high technology industries. All OECD countries have the financial and human resources to conduct sophisticated R&D. Consequently, it makes sense that each country should be the home for firms that are leaders in their fields. It is mutually advantageous for all the rich countries that their firms specialize in different sub-industries and product lines, and that there is a large volume of trade among these countries.

● High Tech Trade Conflicts

Governments everywhere recognize that R&D and new knowledge production have important beneficial spillovers. The high technology industries are also characterized by high productivity and high real wages. But large sunk investment in R&D has to be made upfront