

numerical share of the domestic (regulated) market. The major thrust of this Paper is that vertical business arrangements should develop among firms in a natural process as determined in a competitive marketplace. If the authority of a foreign government is used to dictate that domestic firms have to do their distribution business with specific foreign corporations, the process of deregulation is pushed back and competitive markets recede further on the horizon.

## 6.6 Vertical Practices in Japan: How Not to Open Up the Distribution System

The importance of a transparent national distribution system in maintaining open access to national markets is well illustrated by the ongoing saga of Japan-U.S. trade frictions, where the U.S. position appears to be the claim that U.S. companies are shut out of the Japanese market on account of the relatively closed distribution network in Japan. Another manifestation of this problem exists in the context of market access to the European Union. As the potential in the newly industrializing countries to absorb a wide variety of imports expands with economic growth, concerns about limited access to their national distribution systems from advanced countries could surface as well.

In order to explore fully the distribution system in Japan, a detailed analysis of vertical relations within and without the *keiretsu* network is required, which is outside the scope of this Paper. However, two points seem obvious.

First, exemptions for some vertical restraints, such as RPM, are not based on efficiency arguments judged on a rule of reason basis; rather, blanket exceptions are extended to specific industries. A rule of reason approach would be consistent with the view that Japan's market should be cleared of vertical or horizontal cartel arrangements that block entry, including foreigners, to the market. Enforcement should be reinforced. This, however, is not to endorse a wholesale dismantling of the *keiretsu* system in Japan. We need a better understanding of the various components and features of the *keiretsu* before we pass such a judgement.

Second, the current U.S. practice appears to rely on picking specific Japanese practices and then demanding either tightening of competition laws or proper enforcement of the existing ones. A process that relies on dismantling collusive practices in bits and pieces is most likely to run into difficulties. The only logical strategy is to deal with the entire package of vertical practices. Consequently, this Paper does not endorse the strategy of picking and targetting specific vertical restraints for negotiations with Japan.