

heavily in the technical education of its current and future labour force. To adapt to changing comparative advantage in global markets, it has a flexible labour market where wages and employment respond quickly. To top it all, it has responsibly managed its fiscal and monetary policies. Japan has turned in one of the lowest rates of inflation, unemployment, growth in public expenditures and national debt in the world over the last couple of decades. Japan has been an economic success because it got most of its economic fundamentals right. This is the real heart of the matter. Its lessons need more forthright recognition by Japan's trading partners.

Why is Japan not more "open" to foreigners? Japan is a capital-surplus economy that has, to a large extent, reacted as any profit maximizing economy would. The success of Japanese products was met with VERs and other trade restraints in the West. As a result, consumers in the West paid higher prices for certain Japanese exports, while, ironically, Japan got long term access to super-normal profits or rents. To divide up these rents in Japan, the banks, politicians, bureaucracy, industry and workers informally set up a mutually beneficial alliance. Outsiders, without the same degree of capital liquidity, faced by high sunk costs of investment in the expensive Japanese market, and stymied by Japanese intercorporate links (including linked sources of financing and much of the distribution system), have not generally been successful in establishing a corporate presence in Japan.

Japan bashing by the U.S. and others on a sector-by-sector basis might get a few chosen large corporations in the West to partake of these rents, but it does not create many jobs in the U.S. or Canada, nor open Japan to significant increases in foreign investment. So-called results-oriented trade management is more likely to lead to a market with more, rather than less, Japanese government and corporate control. This Paper suggests that our response to the Japanese challenge requires a more honest evaluation of how Japan's trading partners might emulate certain Japanese practices: solid, consistent monetary and fiscal management, the concerted effort to build an environment conducive to innovation, and the possible benefits of encouraging greater inter-corporate alliances (including with the financial sector) while ensuring competition between and within such alliances. The *keiretsu* system's merits, and they clearly exist, should be reviewed closely, while continuing the process of liberalizing trade and investment distorting practices on both sides of the Pacific through broadly based negotiations.

Moreover, Japan itself is changing. The Japanese economy has undergone a major adjustment in response to the strengthening of the yen since the mid 1980s. Exchange rates do affect Japanese buying patterns in a predictable way. Japanese imports of consumer goods are on the rise. Financial markets are becoming less distinctive. Given the major shifts in Japanese behaviour over the past few years, a case for an entirely new approach that emphasizes pre-established targets rather than internationally arrived at rules cannot be sustained.