

U.S. planes and has achieved significant sales. However, after years of subsidy, Airbus production costs are substantially higher than Boeing. Airbus has taken a sizable market share, but only at the cost of continuing government financial support.<sup>33</sup>

The Airbus experience is particularly interesting as it fits well into our discussion of strategic trade policy. The economies of scale in large passenger aircraft production are so huge that there is probably room for only one or two profitable producers in the global market. The European subsidy to Airbus could be viewed as an attempt to overcome Boeing's head start and snatch some of that profitable market for Europe. Boeing has not been driven out and Airbus is still absorbing a lot of European government money.

- **Japanese Industrial Policy**

Japan is the spectacular success story of the advanced industrial world, having emerged from postwar devastation into decades of impressive growth. Japan also has had a visible industrial policy. It is necessary to distinguish two phases in Japan's industrial policy. From 1950 until the early 1970s, the Japanese economy was run as a "shortage" economy. Since the mid 1970s, the government's role has been more subtle and ambiguous.<sup>34</sup>

During the 1950s and 1960s, the price of foreign currency and the interest rate were kept low, so that foreign exchange and credit had to be rationed. Tariffs and import restrictions to protect selected "infant" industries were imposed. Government agencies, such as the Ministry of Finance (MOF) and the Ministry of International Trade and Industry (MITI), had a great deal of direct control over the allocation of resources. The ministries used this power to channel funds into heavy industries with high value added per worker and away from traditional labour intensive industries such as textiles. They tried to encourage those industries that they believed reflected Japan's future comparative advantage rather than its current trade pattern. Intermediate goods industries such as steel were special favourites.<sup>35</sup>

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<sup>33</sup> The provisions of the 1992 U.S.-EC bilateral agreement allow the Airbus 17 years to repay the first 25% of total development. See Laura D. Tyson, *op. cit.*, 1992: 207-09.

<sup>34</sup> Kozo Yamamura, "Caveat Emptor: The Industrial Policy in Japan", in Paul R. Krugman, ed., *Strategic Trade Policy and the New International Economics*, MA: MIT Press, 1986: 169-209.

<sup>35</sup> Japan's economic growth and the role of industrial policy are discussed in a companion paper to this one. See I. Prakash Sharma, "Japan Trading Corp.: Getting The Fundamentals Right", Policy Staff Paper, No. 93/16, Foreign Affairs and International Trade Canada, (December 1993).