This system (seen as more or less conspiratorial by the "strategic" proponents) tends particularly to close ranks when a key new technology is at stake, assuring Japanese firms a chance to capture new markets even when foreign firms have an initial lead. Consequently, the U.S. government (the same view is often heard in the European Union) must level the playing field. The Japanese must be made to play fair. Japan should be forced, through bilateral or unilateral actions, to open its market to U.S. corporations on a sector by sector basis.

Unfortunately, the Japan bashers and the proponents of strategic trade and industrial policies have walked right into the trap of U.S. economic nationalism. For countries such as Canada, who look forward to the continuation of good trade relations with the U.S., this is not a desirable development. The real economic problems in the U.S. cannot be addressed by bashing Japan or the EU or others. Nor are they resolved by implementing nationalistic strategic trade and industrial policies. In a companion study, it is argued that strategic trade and industrial policies have had very little success in practice.[3]

- **Productivity Catch Up: The Real Issue**

The real issue is the fact that people in the U.S. still have not come to terms with the fundamental economic changes that have taken place, not only for the U.S., but in the entire trading system during the last two decades. The phenomenon of catch-up by other countries has pushed the process of international specialization deeper at an accelerating pace since World War II. The world economy is now characterized by growing international specialization and product differentiation. Companies from different nations are the productivity leaders in different industries. Total factor productivity levels across industrialized countries have been converging (see section 4.1 below).

The economic nationalists in the U.S. have not come to terms with the fact that U.S. preeminence in so many manufacturing industries of the world economy was historically unique. Even when the U.K. enjoyed overall productivity leadership in the late 19th century, it was not uniformly dominant in all industries. At that time, the U.S. had major strengths in machine tools; light machinery, such as cameras and typewriters; a broad range of electrical equipment; and industrial machinery, such as boilers and printing presses. Germany was the pioneer in many chemical products.[4] The U.S. dominance in the early post War period reflected the wartime destruction of capital stock in Europe and Japan, as well as the development of major new technologies in the U.S.. Today's situation is characteristic of more normal times, with

[3] I. Prakash Sharma and Keith H. Christie, "And the Devil Take the Hindmost: The Emergence of Strategic Trade Policy", Policy Staff Paper no. 93/14, Foreign Affairs and International Trade Canada, December 1993.

[4] Nathan Rosenberg, "Technological Change in the Machine Tool Industry, 1840-1910", *Journal of Economic History*, (23) 1963: 414-43.