

July 1988

U.S.-JAPAN TRADE

Evaluation of the Market-Oriented Sector-Selective Talks



RESTRICTED—Not to be released outside the General Accounting Office except on the basis of the specific approval by the Office of Congressional Relations.

542911/136588



United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-227630

July 18, 1988

The Honorable Lloyd M. Bentsen
United States Senate

Dear Senator Bentsen:

This report responds to your request that we assess the results of the Market-Oriented Sector-Selective (MOSS) talks and, specifically, that we obtain the views of U.S. firms as to whether the MOSS agreements that were negotiated have helped them to conduct business in Japan. This report evaluates all five MOSS sectors: telecommunications, medical equipment/pharmaceuticals, electronics, forestry products, and transportation machinery.

As you requested, we did not obtain official agency comments on this report. However, we obtained the views of directly responsible officials during the course of our work and incorporated their comments where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, no further distribution of the report will be made until 30 days from its issue date. At that time, copies will be sent to appropriate congressional committees and other interested parties and made available to others upon request.

Sincerely,

A handwritten signature in cursive script that reads 'Allan I. Mendelowitz'.

Allan I. Mendelowitz
Senior Associate Director

Executive Summary

Purpose

Trade relations with Japan have been severely strained over the last decade by the growth of the U.S.-Japan trade deficit and corresponding concerns that Japan unfairly limits U.S. exporters' access to Japanese markets. Bilateral trade negotiations, such as the Market-Oriented Sector-Selective (MOSS) talks, have attempted to reduce Japanese trade barriers and to promote increased access for U.S. and other foreign exports to Japan.

Senator Lloyd M. Bentsen requested that GAO evaluate the effectiveness of the MOSS talks in opening Japanese markets and increasing the potential for U.S. exports to Japan, specifically by obtaining the views of U.S. industry representatives with experience in the Japanese marketplace. To meet this request, GAO conducted a survey of selected U.S. firms to obtain information about the MOSS talks and whether related agreements have helped them to conduct business in Japan.

Background

The United States and Japan initiated the MOSS talks in 1985 to address Japanese market access issues initially for telecommunications, electronics, medical equipment/pharmaceuticals, and forestry products. Transportation machinery/auto parts was added as a fifth sector in 1986.

The MOSS negotiating strategy focused on identifying and removing tariff and nontariff barriers in the selected Japanese sectors, and did not seek to set specific trading goals or quotas. The negotiations rested on the premise that increased access to Japanese markets would lead to a corresponding increase in export sales of competitive U.S. products to Japan.

Results in Brief

U.S. business representatives that GAO interviewed were generally positive about the outcome of the MOSS talks, even when they did not have specific examples of direct benefit derived from MOSS agreements. The structure of the MOSS talks was considered very important by many U.S. firms contacted. In particular, the use of high-level government negotiators and the on-going interaction between government and industry were considered essential to the success of these negotiations. Many of these firms, however, also reported lingering difficulties in doing business in Japan. Some stated that it is still "the most difficult market in the world to crack," and often blamed exclusionary Japanese business practices. Most firms that responded to GAO's questions felt that the MOSS agreements led to fairer treatment for their products in the Japanese market, although relatively few respondents believed that the MOSS talks

alone helped to increase their access to the Japanese market to a great extent. Firms often acknowledged that much of the responsibility for improving U.S. export sales to Japan rests on increased efforts by U.S. industry.

Although government initiatives, such as the MOSS talks, helped to reduce overt Japanese trade barriers, “intangible” barriers, including regulations and business practices, persist in many Japanese sectors and are relatively less responsive to government intervention. Many trade experts and U.S. business representatives we contacted believe that many Japanese markets remain more protected than corresponding markets in the United States. U.S. exporters assert that government pressure is still necessary not only to push Japanese markets to open further but also to monitor and sustain the advances gained thus far.

GAO’s Analysis

The MOSS talks achieved varying levels of success in reducing or eliminating Japanese trade barriers in the five selected sectors. Many trade experts GAO contacted stated that although numerous Japanese tariff and nontariff barriers were successfully removed, increased market access for U.S. products was not automatic. The degree of market access achieved largely depended on the situation surrounding each specific sector. Timing, the type of barriers present in the market, and the degree of similarity between U.S. and Japanese interests were each important influences.

Telecommunications

The Telecommunications MOSS talks helped to establish major changes in the Japanese telecommunications sector. Japan’s privatization of its once government-owned telecommunications monopoly provided a “window of opportunity” for U.S. negotiators to push for increased foreign access. These negotiations were conducted in two phases. Phase one focused on telephone or “wired” communications, while phase two involved radio or “wireless” telecommunications. U.S. industry representatives considered both phases generally successful. Agreements were reached that eliminated many restrictive Japanese regulations and made Japanese standards more comparable with U.S. standards. The success of these negotiations is generally attributed to the auspicious timing of the talks as well as to the strong domestic and foreign pressure exerted to liberalize the market. (See pp. 17-25.)

Medical Equipment/
Pharmaceuticals

Prior to the Medical Equipment/Pharmaceutical MOSS talks, U.S. exporters of these products faced significant Japanese nontariff barriers. As a result of the MOSS talks, Japan eased requirements for testing and test data, approval and licensing of products, and introduction of new products into its National Health Insurance reimbursement system. Japan's regulatory system was also made more transparent, allowing foreign firms additional opportunities to communicate with Japanese regulators. U.S. business representatives strongly supported the use of the MOSS structure with its emphasis on high-level officials' involvement during negotiations and follow up. However, they also reported continuing concerns about the barriers inherent in Japan's complex regulatory framework for its health care system. (See pp. 26-35.)

Forestry Products

The Forestry MOSS talks addressed tariffs on wood and paper products, building standards, a complex distribution system, and government-supported cartels for the paper industry. The major result of the Forestry MOSS talks was tariff reductions for several categories of wood and paper, to be phased in between January 1986 and April 1988. Japan also altered one building standard but made no significant changes to other nontariff barriers. Except for one relatively small association, industry representatives are quite satisfied with the progress made in the MOSS talks, with one association stating that reduction of tariffs was its primary aim. Industry representatives are hopeful that further discussions will open more markets in Japan. (See pp. 36-42.)

Electronics

The Electronics MOSS talks lacked the definition and momentum of the other MOSS negotiations. Two of the most important issues in the sector—semiconductors and supercomputers—although initially included, were negotiated essentially outside of the MOSS framework and took attention away from the MOSS process. The talks, however, did reduce tariffs on computer parts and telecommunications equipment and establish intellectual property protection for original semiconductor chip design and computer software, although no formal conclusion of the talks was reached. (See pp. 43-48.)

Transportation Machinery

As the fifth and last MOSS sector negotiated, Transportation Machinery MOSS talks, (referred to informally as the Auto Parts MOSS talks), addressed issues that were generally considered outside the realm of governmental trade negotiations—private business practices. These are considered the critical remaining barriers facing U.S. auto parts exports

to Japanese automakers. Negotiations were complicated by the involvement of the U.S. as well as the Japanese auto parts market. U.S. manufacturers were generally positive about the level of U.S. government attention during the talks. Because the negotiations were only completed in August 1987, it is too soon to fully judge the impact of the agreements reached. However, U.S. auto parts exports to Japan did not grow during 1987, and overall imports still account for only a small share of the multi-billion dollar Japanese auto parts market. (See pp. 49-56.)

Quantifiable Effects

The question of whether the MOSS talks increased opportunities for sales of U.S. goods to Japan cannot be adequately answered by measuring U.S. export sales figures alone. Although the trade data on U.S. exports to Japan tend to show increases in 1987 for each of the MOSS sectors except auto parts, these data are generally considered an inadequate measure of the effects of the MOSS agreements since they are the result of all factors affecting trade, including exchange rate changes. Further, trade experts disagree about whether the success of the MOSS talks should be measured in terms of export data since there is no agreement over how much is enough to prove that competitive U.S. products are now treated fairly in the Japanese marketplace.

Recommendations

This report provides GAO's evaluation of the results of the MOSS talks; it contains no recommendations.

Agency Comments

As requested, GAO did not obtain official agency comments on its report. However, the views of directly responsible officials were sought during the course of the work and were incorporated in GAO's report where appropriate.

Contents

Executive Summary		2
<hr/>		
Chapter 1		10
Introduction	Sectors Chosen	10
	Objectives, Scope, and Methodology	11
<hr/>		
Chapter 2		13
Factors Influencing U.S. Access to Japanese Markets	The MOSS Negotiating Framework	13
	Japanese Trade Barriers	14
	Exchange Rate Changes	16
	Conclusions	16
<hr/>		
Chapter 3		17
The Telecommunications Sector	Major Issues Negotiated	18
	Outstanding Issues and U.S. Follow Up	20
	Industry Evaluation: Questionnaire and Interview Data	22
	Conclusions	25
<hr/>		
Chapter 4		26
The Medical Equipment/Pharmaceutical Sector	Major Issues Negotiated	27
	Outstanding Issues and U.S. Follow Up	29
	Industry Evaluation: Questionnaire and Interview Data	30
	Conclusions	35
<hr/>		
Chapter 5		36
The Forestry Sector	Major Issues Negotiated	37
	Outstanding Issues and U.S. Follow Up	39
	Industry Evaluation	39
	Conclusions	41
<hr/>		
Chapter 6		43
The Electronics Sector	Major Issues Negotiated	43
	Outstanding Issues and U.S. Government Follow Up	47
	Industry Evaluation	47
	Conclusions	47

<hr/>		
Chapter 7		49
The Transportation Machinery Sector	Major Issues Negotiated	52
	Outstanding Issues and U.S. Follow Up	54
	Industry Evaluation	54
	Conclusions	56
<hr/>		
Chapter 8		57
Observations on the MOSS Talks as an Approach to Trade Negotiations		
<hr/>		
Appendix	Appendix I: U.S.-Japan Trade Data by MOSS Sector	60
<hr/>		
Tables	Table 3.1: Extent Provisions Helped U.S. Firms to Conduct Business in Japan	23
	Table 4.1: Importance of MOSS Strategies in Reaching Trade Agreements With Japan	31
	Table 4.2: Firms' Assessment of MOSS Agreements	31
	Table 4.3: Satisfaction With Aspects of U.S. Follow Up of MOSS	32
	Table I.1: U.S. Exports to Japan for 4 MOSS Sectors, 1984-87	60
	Table I.2: U.S. Auto Parts Purchased by Japanese Automobile Manufacturers and Their U.S. Companies	61
	Table I.3: U.S. Auto Parts Exports to Japan, 1984-87	61

Abbreviations

API	American Paper Institute
EPC	Economic Policy Council
GAO	General Accounting Office
HIMA	Health Industry Manufacturers Association
ITU	International Telecommunications Union
JAMA	Japan Automobile Manufacturers Association
JATE	Japan Approvals Institute for Telecommunications Equipment
KDD	Kokusai Denshin Denwa Company
MHW	Ministry of Health and Welfare
MITI	Ministry of International Trade and Industry
MOSS	Market-Oriented Sector-Selective
MPT	Ministry of Posts and Telecommunications
NFPA	National Forest Products Association
NTT	Nippon Telegraph and Telephone
OE	Original Equipment
PMA	Pharmaceutical Manufacturers Association
USDA	United States Department of Agriculture
VAN	Value-Added Network
VER	Voluntary Export Restraint

Introduction

The United States and Japan initiated the Market-Oriented Sector-Selective (MOSS) talks in 1985 as a unique attempt to address a broad range of U.S. trade concerns regarding Japanese trading practices. The impetus for these talks resulted from a meeting between then Prime Minister Nakasone and President Reagan in January 1985, which culminated in a joint decision to institute MOSS negotiations to begin to resolve the difficult issues surrounding the U.S.-Japan trade imbalance.

The MOSS talks were designed to provide a bilateral negotiating forum with the objective of reducing or removing all trade barriers within selected sectors, rather than negotiating specific problems on a case-by-case basis. However, there was no bilateral “bargaining,” with each side making concessions; rather, the United States was negotiating for unilateral change in Japan’s trading practices. The talks were patterned after the 1984 U.S.-Japan Yen/Dollar agreement, which contributed to the liberalization of Japanese financial markets.¹

Negotiating objectives were established through an interagency process, although each sector had a specified lead agency. The Department of Commerce was responsible for telecommunications and transportation machinery, the Office of the U.S. Trade Representative for electronics, the Department of Agriculture for forestry products, and the Department of the Treasury for medical equipment and pharmaceuticals. The Department of State provided general oversight of the entire process. Other government agencies and industry associations provided technical advice.

The MOSS bilateral negotiations were structured to be held by high-level officials—Japanese vice ministers and U.S. under secretaries were the key negotiators—to highlight the importance of the talks and to ensure that the negotiators would have the authority to reach agreement on the very complex set of issues characterizing each sector. As one U.S. official told us, “MOSS became the code word for ‘high level attention’.”

Sectors Chosen

The initial round of MOSS negotiations involved four sectors—telecommunications, electronics, medical equipment/pharmaceuticals, and forestry products—with transportation machinery (automotive parts) being added as a fifth sector in 1986.

¹For a detailed analysis of the Yen/Dollar Agreement see our report, International Finance: Implementation of the Yen/Dollar Agreement (GAO/NSIAD-86-107) June 3, 1986.

These sectors were generally selected on the basis of the following criteria.

- The sector had a history of wide-ranging trade complaints concerning either formal or informal trade barriers.
- The U.S. industry was internationally competitive.
- The products under discussion constituted a sector.
- U.S. market share in Japan was small.
- There was potential for increased U.S. sales.
- The U.S. industry was interested in the talks and willing to provide backup information.
- There were good prospects for near-term, observable results (i.e., within 3 to 5 years).

Objectives, Scope, and Methodology

Senator Lloyd M. Bentsen requested us to assess the results of the MOSS negotiations, relying in part on assessments by U.S. firms hoping to expand into the Japanese market as a consequence of the bilateral agreements reached. In addition, his office asked that we document U.S. export data, whenever possible, compared with the overall Japanese market for the products represented in each sector to determine whether the MOSS talks had any quantifiable effect on U.S. export sales to Japan.

This report provides an evaluation of all five of the MOSS talks, building on our July 1987 interim report on the telecommunications and medical equipment/pharmaceuticals sectors and our February 1988 fact sheet which provided an overview of U.S.-Japan export data and a summary of our questionnaire results. We also provided an April 1987 briefing report on the U.S.-Japan Semiconductor Arrangement.²

To obtain background information on the MOSS talks, we reviewed the negotiating records, U.S. administration files and statistics, and the public documents jointly released by the United States and Japan. We also interviewed U.S. and Japanese government officials involved in the negotiations and ongoing monitoring efforts. In the United States, we spoke with officials at the Departments of State, Commerce, Treasury, and Agriculture and the Office of the U.S. Trade Representative and the Food and Drug Administration. In Japan, we interviewed U.S. embassy

²See *U.S.-Japan Trade: Interim Report on Sector-Selective Agreements*, (GAO/NSIAD-87-186BR); *U.S.-Japan Trade: Trade Data and Industry Views on MOSS Agreements*, (GAO/NSIAD-88-120FS); and *International Trade: Observations on the U.S.-Japan Semiconductor Arrangement*, (GAO/NSIAD-87-134BR).

officials and Japanese government officials at the Ministries of International Trade and Industry, Foreign Affairs, Posts and Telecommunication, Health and Welfare, and Agriculture, Forestry and Fisheries.

To obtain the perspective of U.S. firms involved in the Japanese market, we interviewed representatives of U.S. businesses in each sector and of the principal trade associations representing these industries to determine whether the MOSS agreements helped them to conduct business in Japan. We obtained further market information in Japan from numerous discussions with both individual company representatives and industry groups, such as the American Chamber of Commerce in Japan. Additionally, we sent a questionnaire to knowledgeable representatives of selected U.S. firms to obtain their views regarding the MOSS talks and whether the agreements have helped them conduct business in Japan. Although we interviewed business representatives in each of the five MOSS sectors, we found it was useful to employ this formal questionnaire in only the telecommunications and medical equipment/ pharmaceuticals sectors³. We sent questionnaires to 42 medical equipment/pharmaceutical firms and 25 telecommunications firms from November 1987 through January 1988. We conducted our primary field work from June 1987 through March 1988 in accordance with generally accepted government auditing standards.

³We chose to conduct individual interviews and not to develop a written questionnaire for the remaining three MOSS sectors due to sampling problems—the electronics sector was ill-defined and too broad to adequately sample, the forestry sector included relatively few firms exporting to Japan, and the auto parts sector negotiations were just concluded when we conducted our study.

Factors Influencing U.S. Access to Japanese Markets

Trade between the United States and Japan has been characterized both by growing economic interdependence as well as heightened political tension. Despite the fact that Japan is the second most important U.S. foreign market, Japan exports much more than it buys from the United States, resulting in record bilateral trade deficits of \$59 billion in 1986 and \$60 billion in 1987. The sheer size of this imbalance alone has stirred protectionist sentiments and intensified concerns about restricted access for U.S. exports to Japanese markets—leading to implicit and explicit threats of retaliation by the U.S. government against Japanese exports unless Japan's markets are opened further.

Although the trade deficit is unlikely to be greatly affected by the reduction of Japanese trade barriers alone,¹ these barriers act as a catalyst for allegations that Japan pursues trading behavior inconsistent with generally accepted principles of free trade and fuels concern that a loss of U.S. industrial capacity will result. Since Japan's continued economic well being depends on the openness of world markets, the government of Japan has responded to these concerns by issuing a variety of policy statements and action plans designed to show support for multilateral free trade.² In response to U.S. pressure for Japan to exhibit greater openness to imports, the Japanese government has instituted specific tariff reductions and other market-opening initiatives—such as the MOSS talks. Whether or not these initiatives will have a long-range effect on the bilateral balance of trade is still uncertain.

The MOSS Negotiating Framework

The MOSS talks were designed to focus on eliminating specific Japanese governmental trade barriers in each of the market sectors selected. The framework for these negotiations was built on the free-trade principle that when all barriers were eliminated, market forces would prevail, resulting in fully open Japanese markets. This strategy was chosen in preference to other actions—such as initiating actions under U.S. trade law or further restricting Japanese exports to the United States—which were considered either more acrimonious or protectionist. In concert with the U.S. administration's declared free trade objectives, market access was espoused as the primary goal of the MOSS talks, as opposed to increased sales of U.S. products per se; these exports were expected to

¹For further information on this topic see: International Trade: The U.S. Trade Deficit: Causes and Policy Options for Solutions, (GAO/NSIAD-87-135) Apr. 1987.

²One important policy statement, "The Report of the Advisory Group on Economic Structural Adjustment for International Harmony," better known as "the Maekawa Report," was issued in April 1986 and calls for the overall liberalization of the Japanese market and a transformation of the export-oriented economic structure to one oriented toward international coordination.

increase as a natural consequence of further trade liberalization in Japan.

Not all U.S. trade experts agreed with this approach, however. Some thought that the MOSS talks would produce only “paper changes” in Japanese trading behavior and that agreements had “to be put into the language that the Japanese understand,” namely specific, enforceable import targets to serve as necessary “measuring sticks” of success in opening Japanese markets. Since Japanese markets would be opened to all competition, some feared that the MOSS talks, if successful, would open Japan’s market primarily to the benefit of low-cost Pacific Rim exports (e.g., Korean and Taiwanese) rather than to U.S. products.

Some trade analysts assert that a further problem with using this barrier-removal strategy is that the success of the MOSS talks depended on the United States identifying the important sectoral trade barriers rather than placing the full responsibility on the Japanese government to open its markets by whatever means necessary. As one expert asked, “how could U.S. negotiators ever hope to find, let alone eliminate, each Japanese barrier? If one is removed, another appears ... like peeling an onion.”

Both Japan and the United States agreed, however, that various Japanese tariff and nontariff barriers should be reduced to promote freer trade and technological growth, especially in Japanese sectors (e.g., telecommunications) in which competition might spur innovation.

Japanese Trade Barriers

Although Japan’s overt barriers to trade in manufactured goods generally are not considered more pervasive than those found in other nations, many Japanese markets are still widely considered as more protected than U.S. or European markets. Japan’s trade barriers date back to postwar industrial policies which supported specific industries for developmental reasons. While many, if not most, of these policies and practices have now been dismantled, their effects have had long-term consequences, not only in the establishment of highly competitive industries but also in the solidification of various financial networks and important interpersonal loyalties.³

³For a fuller discussion of these issues see particularly: Thomas A. Pugel, editor, *Fragile Interdependence*, (Lexington, MA.: D.C. Heath and Company, 1986); and Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead*, (New York, N.Y.: Basic Books, Inc., Publishers, 1988).

Even when obvious government tariff barriers and less transparent non-tariff barriers are addressed and eliminated, “intangible” barriers can still limit market access. Intangible barriers are mainly regulations and business practices that, by accident or design, work to the special disadvantage of imports. The United States and other nations have often complained about Japan’s unequal treatment of foreign imports, citing such practices as restrictive product standards, lack of transparency in government restrictions, protective regulations, and unduly complex distribution systems.

Three categories of trade barriers can be found in Japan, trade experts assert. The first and most distinguishable category consists of governmental restrictions to imports. These barriers are considered potentially responsive to political pressure exerted by foreign governments and generally can be eliminated by administrative action or legislation. However, the second category, industrial/structural barriers, encompasses various interrelationships between companies, government entities, and distribution systems, so government officials (domestic or foreign) are generally limited in actions they can take to mitigate the effects of these barriers. The third category, psychological/attitudinal barriers, is considered the most resistant to change and largely beyond governmental influence. These barriers stem from the still-ingrained Japanese concept of Japan as “a small, weak, island nation, with limited resources” that needs to export to survive.

The supply and distribution systems in Japan are generally characterized by the occurrence of fraternal organizations known as keiretsu, business groups representing a “family” of firms with strong, historical business linkages. Some keiretsu are organized horizontally around a major bank which serves as the source of capital for the “member” companies. Others are organized vertically with a major firm linked directly with supplier and/or distribution networks. The relative weakness of Japan’s antitrust laws and their enforcement makes these relationships possible.

Many Japanese market sectors continue to be dominated by this “family” approach to supply and distribution, according to numerous U.S. business and government officials. Some trade experts assert that Japanese manufacturers exhibit a tendency to “make captives” of their suppliers and distributors—overall reliability, based on loyalty and service, is considered the primary basis for this relationship. Since long-standing relationships are developed, suppliers are brought into the planning and design stages of product manufacture, and this leads to an exclusive

“in” for the chosen source of supply and increased difficulty for outside and/or foreign competition. The Japanese distribution system is generally considered one of the most difficult Japanese trading practices to fully understand and has been described as labyrinthine and incomprehensible by Western standards. Japanese manufacturers often set up exclusive distribution channels which do not sell competing firms’ products, which makes entry into Japanese markets difficult for firms not having prior distributor relationships.

Exchange Rate Changes

Until quite recently, the strong dollar posed an additional obstacle to U.S. export sales in Japan, since the prices of U.S. products were relatively higher than prices of competing Japanese products. The yen/dollar relationship has changed dramatically over the past few years—since its low in 1985, the yen has appreciated approximately 100 percent against the dollar. However, the extent to which it will lessen the bilateral trade deficit is uncertain even though this appreciation should lead to an increase in U.S. export sales and a slowing of U.S. imports of Japanese goods. The recent exchange rate changes make the effects of Japanese market-opening initiatives—such as the MOSS talks—even more difficult to measure since trade experts agree that it is virtually impossible to distinguish between U.S. export growth based on increased market access as opposed to that generated by exchange rate changes.

Conclusions

The U.S. trade deficit with Japan gave rise to the allegation that Japanese trading practices are not based on free trade principles—specifically, that Japan’s markets are relatively closed to imports whereas Japanese exports have freer access to U.S. markets. In response, Japan has undertaken certain market-opening initiatives and has participated in trade negotiations such as the MOSS talks.

The MOSS talks’ primary objective of eliminating governmental trade barriers in Japan addresses only part of the nontariff barrier problem—dealing with entrenched “intangible” barriers is also necessary to assure full market access. Removal of long-standing attitudinal biases and historical buyer preferences is a difficult task, and one that does not seem to respond well to government intervention. The extent to which any increase in U.S. exports is attributable to governmental initiatives such as the MOSS talks cannot be clearly distinguished from similar effects produced by exchange rate changes.

The Telecommunications Sector

The United States and Japan signed a bilateral telecommunications agreement, implemented in 1981, as an adjunct to the Government Procurement Agreement of the General Agreement on Tariffs and Trade. As part of this agreement, Japan's Nippon Telegraph and Telephone (NTT), then a government-owned telecommunications carrier monopoly, agreed to allow foreign telecommunications equipment suppliers to compete for some categories of its procurements. In 1983, Japanese officials began making plans for privatizing NTT as of April 1985. By January 1985, however, U.S. officials recognized that the proposed Japanese Telecommunications Business Law contained language that would strictly control Japan's domestic market and continue to limit foreign access. U.S. negotiators viewed this 4-month period (January-April), during which regulations would be developed to implement the new legislation, as "a window of opportunity" to negotiate major changes in Japanese telecommunications regulations that could increase the opportunity for sales by foreign companies and guard against the possibility that privatization would itself lead to new trade barriers or undo the progress achieved in prior agreements.

Pressure to liberalize Japan's telecommunications market had come from both foreign and domestic sources. Foreign firms wanted to eliminate barriers to market access to Japan's growing telecommunications market, while Japan wanted to gain access to foreign technology. Within Japan, there was a growing recognition of the need to modernize the telecommunications regulatory structure, and the Ministry of Posts and Telecommunications (MPT) believed that the advancement of telecommunications would play an important role in changing Japan's industrial structure and expanding the domestic economy. In the United States, government officials asserted that the lack of transparency of Japanese telecommunications regulations and standards created essentially invisible trade barriers. Further, the U.S. telecommunications industry had a competitive advantage in many products which many thought could be translated into a large market share if given fairer access. Overall, the timing and trade environment were ripe for these MOSS negotiations.

Prior to the MOSS talks, the disparity between U.S. and Japanese market access was a source of strong concern to U.S. business and government officials. The U.S. telecommunications market had been changed dramatically by the American Telephone and Telegraph divestiture, which led to extensive U.S. market opportunities for foreign companies. The Japanese market, on the other hand, was relatively closed to outside competition. However, the pending privatization of NTT presented a similar opportunity to open the Japanese market to foreign competition. U.S.

telecommunications companies are generally considered some of the strongest competitors in the world, especially in enhanced services and high-technology equipment. And since Japan's telecommunications market had become the second largest in the world, the potential for U.S. exports was considered significant by most trade experts.

The estimated value of the telecommunications equipment market in Japan reached \$5.5 billion in 1984 and is projected to reach \$8.7 billion by 1989, with an average annual growth of 9.5 percent.¹ U.S. telecommunications exports to Japan totaled \$203 million in 1985, according to Commerce Department data, and increased 33 percent in 1986, to \$269 million and to \$358 million in 1987. (See app. I for more detailed export sales data.)

Major Issues Negotiated

The Telecommunications MOSS talks were conducted in two phases. Phase one focused on telephone communications, or wired equipment and services that included basic telephone and enhanced or value-added services. Phase two focused on wireless, or radio services and equipment that involved radio frequency allocation, pagers, and cellular phones.

Phase One: Telephone Communications

Beginning in January 1985, phase one negotiations centered on the issues of standards, certification, testing of terminal equipment, and value-added network (VAN) services. The U.S. government sought greater transparency in Japan's process of rule making and standard setting process, a reduced number of standards, and a liberalized market for terminal equipment by adopting the U.S. standard of "no harm to network." This standard, used successfully in the United States for 10 years, allows any component or part to be used in a telecommunications system as long as it will not damage the system. For the certification and approval process, the United States sought an impartial approval board (that would advise MPT) and transparency of the approval process. In addition, the United States wanted Japan to accept foreign (U.S.) test data for terminal equipment.

The negotiations for phase one concluded in April 1985, when an accord was signed on wired telecommunications issues that achieved most of

¹"IMR Profile: The Telecommunications Equipment Market in Japan," prepared for the Office of Trade Information Services, International Trade Administration, U.S. Department of Commerce, by Pacific Projects, Ltd., June 11, 1986.

the U.S. objectives. The standards issue had been resolved by increasing the transparency of the standards drafting procedures and allowing foreign manufacturers to comment. The number of standards was reduced from 53 to 21, with the remaining standards to be reviewed and possibly eliminated. Most important, the standard of "no harm to network" was implemented, which made Japan and the United States the only countries to have such a liberal standard.

Phase one also simplified the application and approval procedures for terminal equipment. The Japan Approvals Institute for Telecommunications Equipment (JATE) was set up as an independent agency to determine conformity with technical standards. As in the United States, JATE's approval procedure was simplified to eliminate any additional testing requirements and thus became a process of paper examination and approval. Further, while a foreign representative still cannot be a member of the Telecommunications Advisory Council, a Japanese employee of a Japanese subsidiary of a foreign firm now can.

Effective April 1, 1985, the Japanese Telecommunications Business Law set up a legal framework to greatly liberalize the Japanese telecommunications market. This action promised not only new opportunities for foreign companies but also an incentive for the development of new and more technologically sophisticated products by Japanese companies since, for the first time, both foreign and domestic companies were allowed to compete with NTT.

Phase Two: Radio Communications

Phase two, which began in mid-1985, focused on radio telecommunications. The issues for wireless communications were generally similar to those for the wired sector, because Japanese standards and regulations for this sector were also considered outdated and tended to limit foreign access to this market. Therefore, U.S. negotiators sought to have simplified Japanese licensing and approval procedures, to broaden the opportunities for foreign companies to provide third-party services, and to promote acceptance of foreign test data. Additional issues involved the allocation of radio frequencies and government procurement of radio equipment and satellites.

During phase two, no event, such as impending legislation, occurred to help achieve quick progress in this set of negotiations. However, by November 1985 Japan had moved closer to U.S. requests for self-certification, offered greater transparency in administering rules for radio transmission (reducing the number of standards from 10 to 1 for radio

receivers and reviewing those for cellular telephones) and established the Radio Inspection Approval Institute (independent from MPT), which issues individual approvals for radio equipment. With the liberalization of the telecommunications sector, Japan permits the use and purchase of U.S. satellites by private firms but still prohibits government procurement. Phase two concluded in January 1986, and in April 1986 the Japanese government amended the Radio Wave Law to allow foreign access to radio station licenses. Further, foreign companies will be able to provide a variety of new and existing private radio services on a 100-percent equity basis. In May 1987, the Diet (Japan's legislative body) passed several further amendments to the Radio Wave Law, simplifying procedures for licensing radio stations. However, differences on standards and allocation of radio frequencies still remain.

Outstanding Issues and U.S. Follow Up

A MOSS Telecommunications Oversight Committee, including representatives from the U.S. embassy in Tokyo, MPT, and U.S. industry, was created to identify problems, monitor implementation, and develop further information. A primary objective of the Committee is to develop an exchange process to regularly acquire updated information on MPT's administrative, regulatory, and policy changes. Before this Committee was established, U.S. firms were advised infrequently, if at all, of such changes.

Unresolved Issues

The telecommunications issues that remain unresolved are generally in the wireless communications market. Since the government of Japan did not originally plan legislative changes in this sector, negotiations to liberalize the market equivalent to that achieved for the wired telecommunications sector proved more difficult. Although the MOSS agreements and changes in Japanese law increased access to Japan's telecommunications market, how this will translate into actual sales of telecommunications services and equipment remains uncertain.

Specifically, Japan's cellular telephone market has been an area of concern since allegations arose about discrimination against foreign firms. MPT had responded to competition from two competing corporations by parceling out service districts—effectively carving up the Japanese cellular communications market. One Japanese corporation, using an NTT-developed system, was granted the Tokyo to Nagoya metropolitan area, which is believed to be 65 percent of the market, whereas the other corporation, implementing a system provided by a U.S. firm, received a less

densely populated service area. However, in response to U.S. government remonstrations, MPT agreed to assign additional districts to the latter (but still not Tokyo or Nagoya) and to ensure access to the nationwide NTT ground station network.

Concern still exists over U.S. industry's ability to increase its market share for telecommunications equipment and services over the long term. The extent to which Japanese government and industry will implement the agreements reached and actually allow extensive foreign participation in one-time procurements or long-term contracts is still largely unknown. Some industry representatives believe that the Japanese will allow U.S. companies to be only marginal players in certain markets and then only if U.S. political pressure is continually brought to bear.

International Communications

One issue that has evolved from the MOSS talks is that of alternate sources for international long distance communications. Until recently, Japan had one carrier that provided international service, Kokusai Den-shin Denwa Co. (KDD), which had been a monopoly like NTT. Based on changes in the Telecommunications Business Law, Japan decided to allow some competition in international long distance service and participation of up to one-third of paid-up capital by foreign investors. However, the issue became politically charged when the first consortium to apply for a license was International Digital Communications, which included Japanese and foreign firms such as Cable and Wireless of the United Kingdom and Merrill Lynch and Pacific Telesis of the United States. When a second consortium, International Telecommunications of Japan, consisting wholly of Japanese companies, also applied for a license, MPT asked the two consortia to merge, as it asserted that the market was too small to support two rivals to KDD. But when the two were not able to reach an agreement, the Japanese consortium received approval for the license. However, due to pressure from the United States and the United Kingdom, Japan later announced that the partially foreign-owned consortium also would be licensed.

International VANS had been the subject of talks with the Japanese government for over 2 years within the MOSS context. With liberalization of the Japanese telecommunications environment, U.S. companies wanted to establish Japan-to-U.S. international VAN links. In May 1987, an amendment to the Telecommunications Business Law was passed allowing foreign participation in international VANS effective September 1987, which seemed to cement the bilateral understanding reached by

the two nations. However, in October 1987, Japan announced that proprietary protocols² would have to be phased out over the next 2 years and that adherence to protocols recommended by the International Telecommunications Union (ITU) would be required. This announcement was a "surprise and outside of the understanding," said one Commerce official. The U.S. government is continuing its discussion with MPT on maintaining the status quo of using proprietary protocols. The ITU protocols add steps to the transmission process, which add costs and eliminate the accumulated advantages of already developed proprietary protocols used by U.S. companies. Three U.S. companies have begun international VAN services and a fourth is soon to begin.

Industry Evaluation: Questionnaire and Interview Data

To obtain a sense of the U.S. telecommunications industry's assessment of the MOSS talks and whether the agreements have helped them do business in Japan, we sent out questionnaires to 25 firms identified by the American Electronics Association as doing telecommunications business in Japan before or during the MOSS talks³ and interviewed company representatives in Japan and/or the United States. We received usable responses from 11 firms which we later contacted for supplemental interviews to expand on their responses to the questionnaire.

The firms' overall experience doing business in the Japanese market varied; eight firms had conducted business in Japan from 2 to 7 years and the remaining three firms from 10 to 25 years.

General Satisfaction With MOSS Results

Over half of the questionnaire respondents indicated that the MOSS agreements helped greatly in assuring fair treatment for approving telecommunications products. However, their assessments varied greatly over how much the telecommunications MOSS talks helped in increasing access to the Japanese market. All respondents noted that the efforts by their firms in Japan were a primary factor in changing Japanese business opportunities, with more than half indicating that the MOSS talks

²Proprietary protocols are the transmission procedures that each company develops for its internal telecommunications services. The ITU protocols recommend a set of transmission procedures for all companies to follow.

³Eighteen of the 25 firms identified by the American Electronics Association as doing business in Japan responded to our survey; however, 5 did not have telecommunications business in Japan and 2 were not aware of the MOSS talks, so they were removed from the analysis. Our survey results thus are based on the 11 firms that responded to the questionnaire, indicated awareness of the MOSS talks, and were conducting business in Japan.

were beneficial. Five companies responded that congressional pressure was also a major factor.

All but one of the respondents believed that overall business opportunities had improved in the Japanese telecommunications sector since the MOSS talks concluded, and most thought their own firms' opportunities had improved. Many firms believed that the primary way to crack the Japanese market was to develop joint ventures with established Japanese firms that already know the market. A number of U.S. firms have developed such linkages with well-established Japanese trading companies.

We also asked the firms to what extent selected provisions of the MOSS talks increased their ability to do business in Japan. As shown in table 3.1, most of the firms stated that the provision to establish product approval institutes independent of the Japanese government greatly increased their ability to do business in Japan.

Table 3.1: Extent Provisions Helped U.S. Firms to Conduct Business in Japan

Provision	Great or very great extent	Moderate extent	Some extent	Little/no extent	Can't judge
Establish independent approval institutes	6	1	2	1	1
Accept manufacturers' test data for approval seals	5	2	1	2	1
Limit technical standards to "no harm to network"	4	2	4	•	1
Set standard processing time for approval of products	1	3	4	•	3

Industry sources cited a variety of factors that influenced the success of the Telecommunications MOSS talks. Business representatives commented that the U.S. telecommunications negotiating team was exceptional and should be credited with much of the success. Also, some industry sources commented that congressional pressure provided some incentive for resolving the telecommunications issues. Many business and government officials recognize that the timing of the talks had a lot to do with the success achieved; for example, one manufacturer felt that through the MOSS agreements Japan got credit for something it was planning to do anyway.

U.S. companies that have achieved a fair level of success in Japan seem to have followed one of two strategies—long term investment or joint venture relationships. Some firms entered Japan many years ago and made an investment in the market and a commitment to learn the Japanese way of doing business. These companies are now established in the Japanese market and were primed to take full advantage of the new market liberalization. The other strategy has been for U.S. companies, large or small, to establish a joint venture with a Japanese company, which will in turn provide an already existing distribution system and insight into government processes.

Continuing Concerns

Several companies stressed that the barriers that remain are predominately cultural rather than regulatory. One U.S. businessman told us that barriers presented by Japanese business practices are “now much more subtle,” and another company representative noted that decisions are still political rather than based on competitive factors, such as price. Some mentioned technical problems such as the need for items to be customized for Japan for technical interfacing with some Japanese technology.

Regarding regulatory issues, one company representative asserted that “laws say one thing, but implementation is another thing” and that although introducing new products into Japan is at least now possible, the process certainly is not streamlined. MPT still has interpretive power and uses “administrative guidance,” which some analysts believe still works to the benefit of Japanese companies. Uncertainty continues regarding protocols and allocations of radio frequencies. Whereas anything goes in the United States unless a specific law prohibits it, in Japan it is just the reverse—a service is not allowed if it is not written into or specifically permitted by regulation.

Further, U.S. companies are not sure whether increasing their sales in Japan is “just a matter of time and perseverance” or whether the Japanese are just “playing show and tell” by offering token contracts to U.S. companies in order to persuade the U.S. government that the market is open, thereby avoiding a protectionist backlash. For instance, one company official told us that he was very disheartened by the relatively small figure that NTT projected for overall foreign procurement—\$230 million for 1987—and believes that this is not nearly as much as it should be.

Need for Continued Government Action

Most of the companies we surveyed felt that continued involvement by the U.S. government was absolutely necessary. A majority of the companies we interviewed stressed their belief that the U.S. government should continue to pressure the Japanese government in order to keep the window of opportunity open. One company official stated that “without the U.S. government’s continued interest, Japan would revert to business as usual; it is the type of society that is persuaded by continued emphasis and enforcement”. Many firms believed that the government should be more involved with monitoring U.S. sales and the growth rate of U.S. exports. As one company representative suggested, the U.S. government needed to develop a “measuring stick” of Japanese compliance.

Conclusions

U.S. companies we surveyed credited the Telecommunications MOSS talks with achieving substantial success, especially in removing many Japanese regulatory barriers. U.S. government and industry officials generally considered both phases of the Telecommunications MOSS talks to have been successful because they accomplished the primary U.S. objective of bringing many Japanese standards into line with those of the United States. U.S. negotiators involved believe that this success was largely due to the coincidence of U.S. and Japanese interests in liberalizing the market.

Overall, the U.S. telecommunications companies we surveyed that are doing business in Japan are very positive about the accomplishments of the MOSS talks, particularly in assuring fairer treatment regarding regulations and standards. However, U.S. firms are less certain about how much the talks helped in assuring market access and assert that business practices and other “intangible barriers” remain which may have limited the success of companies in taking advantage of reduced Japanese government barriers.

The Medical Equipment/Pharmaceutical Sector

At the time of the MOSS talks in 1985, both the U.S. medical equipment and pharmaceutical industries faced significant barriers to trade in Japan due to the complex set of regulations imposed by Japan to implement its national goal of universal health care. The United States and Japan had previously been negotiating to open the Japanese health care market. In particular, U.S. medical equipment producers sought changes in the numerous requirements of the Ministry of Health and Welfare (MHW) which effectively reduced their ability to introduce products and to manage those products over time in the Japanese market. In addition, the U.S. pharmaceutical industry, considered highly competitive on an international basis, wanted increased access to the Japanese market. Prior to the MOSS initiative, U.S. government officials had reviewed Japanese regulations and identified major issues, so U.S. negotiators were able to develop clear objectives for the ensuing MOSS talks. The Department of the Treasury was designated the lead negotiating agency for the United States and MHW performed a similar function for Japan.

Comprehensive health care programs in Japan cover nearly 100 percent of its population. Per capita consumption of drugs in Japan is the highest in the world. According to one estimate, doctors earn more than half their incomes by prescribing and dispensing drugs.

Japan's 1986 medical equipment market was approximately \$2.6 billion with U.S. export sales of \$351 million, or 13.4 percent of total sales and 45 percent of total imports (\$778 million).¹ Based on trade data compiled by Commerce industry specialists, Japanese exports of medical equipment to the United States exceeded U.S. medical exports to Japan by \$152 million in 1987.

Japan's market for pharmaceuticals in 1986 totaled about \$19 billion, according to estimates by the U.S. Pharmaceutical Manufacturers Association (PMA). U.S. sales in 1986 were \$1.8 billion, or 9.5 percent of the estimated total Japanese market and almost 40 percent of all Japanese pharmaceutical imports. Based on Commerce trade data, U.S. exports of pharmaceuticals to Japan exceeded Japanese exports to the United States by \$280 million in 1987. (For further trade data, see app. I.)

¹Data based on Japan Exports and Imports, 1980-1986; Ministry of Finance, as reported by Pacific Projects, Ltd., in its March 1987 international market research survey draft delivered to the Department of Commerce.

Major Issues Negotiated

The MOSS talks in the medical equipment/pharmaceutical sector concentrated on nontariff barriers affecting a wide range of products. The major issues were testing and test data, the approval and licensing processes, the National Health Insurance reimbursement system, and the transparency of regulatory procedures. The United States and Japan jointly reported the agreements reached on January 9, 1986.

Testing and Test Data

Prior to the MOSS discussions, Japan required all test data submitted in support of product approval applications to be generated by clinical trials in Japan involving resident Japanese citizens. This requirement led to costly delays for U.S. and other foreign producers, who had to duplicate testing already performed in other parts of the world, even when differences between testing populations did not influence clinical results. Effective July 31, 1985, Japan agreed to accept foreign clinical test data for pharmaceuticals except for three categories in which immunological and ethnic differences exist between Japanese and foreigners (comparative clinical trials; dose finding tests; and absorption, distribution, metabolism, and excretion tests). Japan will also accept foreign clinical data involving (1) in-vitro diagnostic reagents,² except for those with new parameters (measuring a new substance as a diagnostic indicator) and (2) medical devices except implantables and those devices affecting organic tissue compatibility.³

The United States and Japan also agreed on significant improvements in Japan's regulatory testing requirements for stability and sterility tests and for biological products, including blood products.

Approval and Licensing Processes

MHW requires two separate approvals for firms and their Japanese representatives to participate in Japan's health care system. First, a firm (whether domestic or foreign) must obtain from MHW a manufacturing or import approval of the pharmaceutical product or medical device based on documentation that safety and efficacy requirements are met. Second, the Japanese manufacturer or importer must obtain a license to manufacture or import and market the approved product. Prior to the MOSS talks, the regulatory system did not provide for standard processing times for new approvals and licenses nor allow for an orderly transfer of approvals and licenses between business entities. Moreover, MHW

²Products used in outside-the-body tests, such as rabbit serum used for urine pregnancy tests.

³For example, a pacemaker must be able to regulate the heartbeat and be made of material compatible with the human tissue in which it is implanted.

required formal reapproval of all products for relatively straightforward transactions, such as relocation of facilities.

Japan agreed to make significant changes to its regulatory requirements for approvals. These changes became effective during the period July 31 through October 1, 1985, and included establishing "time clock" (standard processing time) procedures analogous to those used by the U.S. Food and Drug Administration; establishing procedures for transferring approvals to recognize changes in commercial relationships; simplifying procedures for routine business transactions (such as a change of location of facilities); and creating a separate, distinct approval review process with simplified documentation requirements for in-vitro diagnostic reagents.

Prior to the MOSS talks, the approval system did not have fully consolidated application, approval, and pricing procedures to allow combinations of previously approved drugs and devices to be packaged together in medical kits. MHW devised approval procedures, effective April 1, 1986, for medical kits, which will now be treated as drugs under the insurance reimbursement system.

The National Health Insurance Reimbursement System

After securing product approval for the drug or medical device, as well as the appropriate manufacturing or importing approval, firms apply for a price listing for the product under the National Health Insurance reimbursement system. U.S. producers were concerned about the irregular and infrequent listing of reimbursement rates and about the criteria used to set these prices. As a result of the MOSS talks, Japan agreed to provide quarterly price listings for all new drugs and for many medical devices. Thus, potential delays between approval and price listing for these products will be no more than 90 days, and MHW committed itself in principle to delays of no more than 60 days in limited circumstances. Also, effective March 1987, innovative in-vitro diagnostics can be introduced into the reimbursement system within 6 months after their approvals.

Transparency

MHW agreed that its advisory body, the Central Pharmaceutical Affairs Council, would hold educational meetings on its procedures. MHW also agreed to give both foreign and domestic firms opportunities to present their views on general reimbursement policy decisions and on particular pricing decisions before the Social Insurance Medical Affairs Council, the body within MHW that makes reimbursement decisions. MHW also

agreed to make public the formulas used for calculating new drug prices and for revising drug tariff standards. In accordance with the MOSS agreements, MHW established and announced in mid-1986 its general rules for setting and revising prices of medical devices and in-vitro diagnostics.

Outstanding Issues and U.S. Follow Up

Although the MOSS agreement included language dealing with acceptance of foreign clinical test data and improvements to the reimbursement process, it did not specify how Japan would implement these approaches. The agreement also did not resolve the issues of vitamin regulation and unfriendly transfers of approvals, i.e., transfers in which a U.S. firm and its Japanese representative disagree about who should hold the approval. On the latter, Japan and the United States committed themselves to "finding practical solutions to legitimate business problems."

The United States and Japan agreed that follow-up meetings would be important for implementing the agreed measures and held three meetings, in August 1986, March 1987, and April 1988. Japan agreed to reduce tariffs for vitamins regulated as foods from the previous 25 to 28 percent to 12.5 percent. This was acceptable to the United States, although it was higher than the 4.9 percent proposed to equalize this tariff with that of vitamins regulated as drugs.

During these meetings, Japan agreed to address three new issues. First, MHW agreed in August 1986 to provide semiannual statistical reports on those aspects of the MOSS agreements which can be quantified (e.g., the number of applications and the number of approvals meeting agreed time limits). MHW has issued three reports for data collected between July 1986 and December 1987. Second, Japan agreed to discuss with U.S. embassy personnel the issue of instituting a master file system similar to that used in the United States to cross-reference information on product applications. However, Japan declined to discuss the issue further under the MOSS structure. Third, MHW referred U.S. concerns about patent term restoration⁴ to the Patent Office at the Ministry of International Trade and Industry.

The Department of the Treasury concluded formal follow-up meetings to the medical equipment/pharmaceutical MOSS in 1987 and passed the

⁴Patent term restoration refers to the extension of the patent protection period to compensate the firm for time lost due to the lengthy regulatory approval process.

monitoring responsibilities to Commerce, with support to be provided by the U. S. Trade Representative and embassy personnel in Tokyo. To secure information about current market conditions in Japan, Commerce contracted with a consultant to monitor medical equipment/pharmaceutical sales in Japan.

Industry Evaluation: Questionnaire and Interview Data

To obtain information about whether the MOSS talks in the medical equipment/pharmaceutical sector helped U.S. firms conduct business in Japan, we sent questionnaires to 42 firms that the Health Industry Manufacturers Association (HIMA) and PMA identified as either (1) participating or expressing an interest in industry group discussions on MOSS or (2) being the most active in the Japanese market. We received responses from 31 firms; one conducted no business in Japan in 1986 and was deleted from our analysis.

Twenty-six of the 30 responding firms provided estimated annual sales data: 14 had worldwide sales in 1986 totaling from \$1 billion to \$6 billion, and 10 had worldwide sales ranging from \$100 million to less than \$1 billion. The annual sales in Japan of these firms ranged from less than \$20 million to \$600 million with the majority selling less than \$100 million. About 86 percent of the 14 firms with annual worldwide sales exceeding \$1 billion reported that their opportunities to do business had improved compared with about 18 percent of the 10 firms with worldwide sales less than \$1 billion who responded similarly.

Of the firms we surveyed, the pharmaceutical firms had greater world and Japanese sales volumes in the Japanese market than the medical equipment firms. Pharmaceutical firms reported doing business in Japan for an average of 28 years, compared with an average of 16 years for medical equipment firms.

Assessment of MOSS Structure

Firms we interviewed generally believed the structure of the MOSS talks was very important to the successful removal of trade barriers in Japan. As shown in table 4.1, the majority reported that the high-level attention afforded the MOSS talks by the United States was either very important or crucial in reaching a trade agreement with Japan. Most also believed that having the joint participation of government and private industry, considering all barriers within a sector, and setting a one-year time limit were either very important or crucial.

Table 4.1: Importance of MOSS Strategies in Reaching Trade Agreements With Japan^a

Strategy	Crucial	Very important	Moderately important	Somewhat important	Little/no importance	Not certain
Use of high-level U.S. officials	12	9	4	1	0	1
Participation of both government and private industry	8	12	4	1	0	2
Consider all barriers	7	12	3	2	0	3
Set one-year time limit	4	11	5	2	1	4

^aBased on the 27 respondents familiar with the MOSS process

Most firms reported that the MOSS talks helped to assure fair treatment for their products. However, fewer firms reported that they helped to increase access to the Japanese market. (See table 4.2.)

Table 4.2: Firms' Assessment of MOSS Agreements^a

Result	Agreements helped to					Not certain
	Very great extent	Great extent	Moderate extent	Some extent	Little/no extent	
Assured fair treatment for U.S. product applications	1	4	4	8	1	1
Increased access to the Japanese market	0	1	2	9	5	2

^aBased on responses of 19 firms who have submitted product applications since 1986.

Several firms we interviewed told us that penetrating the Japanese market is difficult and that MHW procedures need to be more transparent to facilitate the process, and one firm noted that learning how to penetrate the Japanese market “seems mysterious to us.” Nevertheless, U.S. business representatives in Japan and U.S. government officials frequently observed that firms often do not try hard enough to learn about the Japanese market. Some business representatives and trade experts noted that a long-term commitment to the Japanese market requires a substantial investment. A Commerce official noted there was a prevailing industry belief that “Japan won’t buy, no matter what effort is expended.”

General Satisfaction With MOSS Results

Firms we interviewed seemed generally satisfied with the overall MOSS results. Benefits most frequently cited included “time clock” procedures, the change in atmosphere, and the regular listing of drugs and medical devices in the National Health Insurance system. One respondent stated that MOSS created an “atmosphere that will engender change.” Another

mentioned that MOSS helped to facilitate business in Japan but hasn't expanded the market share for U.S. products in Japan.

Firms stated that they now have MHW's attention and experience less difficulty in learning where their applications are in the MHW's lengthy process for accepting a product into the Japanese market. One medical equipment supplier credited the dramatic increase in his firm's approvals to the separate process for in-vitro diagnostic reagents established by the MOSS talks; this firm's Japanese affiliate reports that MHW has been reviewing and approving product submissions within the agreed time frame of 6 months and notes that, prior to the MOSS talks, this time frame was 2 to 2-1/2 years.

Most firms were very or generally satisfied with the level of official U.S. involvement in following up on the MOSS agreements and with the actual monitoring of agreements, but they were less satisfied with the U.S. arrangements for raising new trade issues within the MOSS sector. Only 5 firms were very or generally satisfied; 10 were marginally satisfied, and 4 were very or generally dissatisfied, as table 4.3 shows.

Table 4.3: Satisfaction With Aspects of U.S. Follow Up of MOSS^a

Aspect of follow up	Very or generally satisfied	Marginally satisfied	Very or generally dissatisfied	Not certain
Level of official U.S. involvement	19	6	0	4
Monitoring agreements	17	6	2	4
Arrangements for raising new trade issues	5	10	4	10

^aBased on 29 firms responding to this question.

Continuing Concerns

Firms we interviewed continue to have concerns about the Japanese regulatory system. In particular, acceptability of foreign clinical data is still a problem despite the agreement reached under MOSS. One firm stated that although Japan treats this agreement as an advance, MHW requirements remained largely unchanged.

Japan's requirements that clinical studies be performed on native Japanese entail significant investment and increase the cost of bringing a product to market. One firm indicated that some of the firm's products already marketed in the United States and Europe "are years away from being introduced [in Japan]" due to the need to replicate data. Another

firm stated that “it should be trivial for [Japan] to accept [foreign-generated] data.” One firm suggested the possibility of self-certification of data generated according to U.S. standards.

Some firms also pointed to the complex distribution system which must be penetrated in order to make sales. One firm termed Japan’s trading network “ancient and extremely impervious to change.” Another firm also pointed to distributors as one reason that the change in the exchange rate has not yet been reflected in prices in Japan. The distributors set the prices and can choose to take profits, rather than passing on the price decrease to consumers.

Many firms acknowledged a strong performance by U.S. negotiators. However, one firm noted the absence of broad policy objectives supporting the involvement of top-level officials, stating that negotiators dealt with minor technical issues, “declared success, and folded their tents...[They] brought in battleships to deal with patrol boat issues.”

Firms strongly supported the need for continued U.S. government action to preserve and extend the benefits achieved under MOSS. One firm responded that pressure is needed because the market situation is like “Alice in Wonderland—you have to run faster to stay in the same place.” Several believe that monitoring is essential to maintaining MHW’s interest, and several noted that Japan is prone to do only what is absolutely necessary. One firm stated that the “temporary window will close” unless the United States keeps the pressure on. One firm suggested that the appropriate monitoring tool is periodic review of U.S. firms in the Japanese market. One respondent suggested the U.S. negotiate a measurement system to test whether the U.S. industry is succeeding under an affirmative Japanese program, noting that currently no baseline data exists. Yet another recommended regular technical consultations between MHW and the U.S. Food and Drug Administration.

Both PMA and HIMA are dissatisfied with the time period established for formal monitoring, stating it is too short to evaluate the actual impact of the agreements due to the relatively long product cycles in this sector. PMA pointed out that only one-eighth of a product cycle had elapsed as of May 1987.

Both PMA and HIMA state that Japan has not fully complied with all MOSS agreements. PMA raised two concerns about the manner in which MHW revises new drug prices. First, PMA believes the MHW practice of revising downward prices of new drugs based on competitors’ comparison drug

prices “raises serious questions about transparency [of MHW’s procedures]...” because the prices of comparison drugs used for reference by MHW are unavailable to U.S. firms.

Second, PMA objects to MHW revisions based on comparison drug prices rather than on surveys of actual market performance of the new drug. In its response to the U.S. complaint about new drug price revisions, Japan stated that its price-setting body is “much concerned with the balance between the price of a new drug and that of the comparative one from the viewpoint of fair competition in the market.” The United States responded that

“actual market performance serves as the best guide for fair competition in the market. Any administrative procedure which revises drug prices before adequate market data are available to justify a revision interferes with fair competition and tends to limit the full extent of market access sought in our MOSS talks by the U.S. industry and the U.S. Government.”

At the April 19, 1988, follow-up meeting, held in Tokyo, MHW agreed to continue discussions with PMA and the Japanese industry to develop a new approach for future price revisions.

HIMA, in pursuing its concerns, requested that the MOSS talks in the medical equipment/pharmaceutical sector be reopened to discuss

- the simplified process for minor product modifications,
- reimbursement pricing decisions,
- the acceptance of foreign clinical data as evidence of safety and efficacy,
- in-vitro diagnostics labeling, and
- the placement of new technologies into non-reimbursed status for one year for highly advanced medical equipment.

At this meeting, MHW agreed to meet with medical device manufacturers to improve the approval process for minor product modifications, stated it would try to promote greater understanding of its policy regarding acceptance of foreign data, and agreed to further discussions of reimbursement concerns with the American Chamber of Commerce in Japan. MHW also agreed to multi-language labeling of in-vitro diagnostic products provided that certain information is printed on the outside container or on the pamphlet insert.

Conclusions

The MOSS talks provided a useful structure for negotiating bilateral trade issues in the medical equipment/pharmaceutical sector with Japan. Firms seemed generally satisfied with the overall results of the MOSS talks and attributed much of the success to the structure of the MOSS approach. Most firms reported that MOSS was helpful in assuring fair regulatory treatment for U.S. products, but fewer firms reported it helped to increase access to the Japanese market. Some firms stated that the general climate for doing business in Japan in their respective industries has improved and attributed this, in part, to the MOSS talks. A majority of firms we interviewed was generally satisfied with U.S. follow up of the MOSS agreements. However, fewer firms reported satisfaction with the arrangements for raising new issues. Several firms strongly supported the need for continuing high-level participation by U.S. government officials.

The Forestry Sector

At the time of the MOSS talks in 1985, the forest products and paper products segments of the forestry sector faced significant tariff and nontariff barriers in Japan. The National Forest Products Association (NFPA) had been working for regulatory changes in Japan, focusing on tariff reductions for veneer, plywood, and particleboard, and lobbying Japanese officials and other interested parties. The American Paper Institute (API) had also made efforts to increase Japan's willingness to accept U.S. paper products. The U.S. Department of Agriculture (USDA) was the lead negotiating agency for this sector, with support from the Department of Commerce on paper industry issues. The Ministry of Agriculture, Forestry and Fisheries was the lead negotiating ministry for Japan, with the Ministry of International Trade and Industry providing additional input on paper and wood product standards issues.

Strong demand in the United States between 1983-87, lower costs, and a weaker dollar since 1985 have contributed to a strong economic picture for the U.S. forest products industry. The paper industry, which earned record profits on paper operations in 1987, expects demand to remain strong in 1988. Overall, pulp and paper exports increased about 27 percent in value in 1987.

Japan is the world's second largest market for forest products after the United States. According to NFPA, Japan imports about 63 percent of its wood, with 35 percent imported from the United States. Although demand for forest products declined in Japan after a general economic recession in 1981, it rebounded significantly in 1987 and 1988.

U.S. wood exports to Japan in 1987 consisted primarily of raw materials and semi-finished products; logs, wood chips, and lumber comprised almost 97 percent of the \$1.8 billion in 1987 exports. At the time of the MOSS talks, an important trend in trade for the Japanese forest products sector was the competitive challenge to its plywood industry by Southeast Asian producers and the resulting decline of logs available for the manufacture of plywood in Japan. Indonesia stopped log exports to Japan in 1985 so that it could better manage its forestry resources and develop its own plywood industry, and other Southeast Asian countries were also decreasing their log exports to Japan. Japan therefore was concerned about how tariff reductions negotiated with the United States would also affect this future competition from Indonesia and others.

Japan is the world's second largest producer and consumer of paper and paperboard. The paper sector includes wood pulp; wastepaper; kraft linerboard; bleached board; and printing, writing, and packaging-grade

papers. In the past, the Japanese government protected the paper industry with "depression" and "disposal" cartels designed to curtail capacity use and to dispose of excess capacity. However, a Commerce official stated that Japan appears to be decreasing protection of the paperboard industry, as reflected by its removal of that industry from the structural adjustment law in February 1988. In examining declining industries in Japan, including wood and paper, Commerce found that the import share of both markets was relatively low, which could be construed as an indication of Japanese government intervention in the market (declining industries typically face relatively stronger competition from imports than do competitive industries). According to API, some major segments of Japan's paper industry are not competitive due to relatively higher costs of basic inputs; API asserts that continued bank financing of inefficient producers impedes needed structural adjustment of Japan's paper industry.

A characteristic of markets in Japan is the weave of interrelationships in its supplier network. Suppliers may have part ownership of businesses they supply, thus restricting the ability of outside competitors to vie for those customers. According to a representative of the Keidanren, this keiretsu supplier network constitutes a structural barrier for non-keiretsu Japanese and foreign firms alike who would like to break into the market. While not considering this supplier network a nontariff barrier in the technical sense, the U.S. paper industry nevertheless views it as a major impediment to succeeding in the Japanese market.

According to USDA, the value of the processed forest products market in Japan was approximately \$7.3 billion in 1986, with U.S. exports of \$1.3 billion, or 17.7 percent of the total market.¹ API reports that the market in Japan for paper was 21.1 million metric tons in 1986, of which 0.4 million metric tons, or 1.9 percent, came from the United States. In addition, the market in Japan in 1986 for wood pulp was 11.3 million metric tons, of which 0.6 million metric tons, or 5.7 percent, came from the United States.

Major Issues Negotiated

Although no formal MOSS agreement was signed, the United States and Japan reached consensus on several trade issues, as publicized in their January 1986 joint report on sectoral discussions. Effective January 1,

¹Of the \$1.3 billion total wood exports, logs accounted for more than 60 percent and were not part of the MOSS talks. Excluding logs, the value of U.S. wood exports to Japan for 1986 was about \$0.5 billion.

1986, Japan agreed to reduce tariffs by 20 percent on several forest products (transom, other builders carpentry and joinery, and fiber building board). Effective April 1987, Japan reduced tariffs by 20 to 67 percent on several categories of lumber, plywood, and veneer, followed by additional tariff reductions for plywood in April 1988.

Under the MOSS understanding, Japan revised its building code for 2x4-inch construction to permit increased use of 4x8-foot panels. According to USDA, the United States expected Japan to initiate this change irrespective of the MOSS talks since Japan's own industry was also ready to produce panels of this size. Japan also agreed to exchange information with the United States about the forestry sectors in the two countries and confirmed that Japan's forestry sector restructuring plan would take into account the guidelines of both the Organization for Economic Cooperation and Development and the General Agreement on Tariffs and Trade. During the MOSS talks, the United States developed and, in cooperation with Japan, built a demonstration structure to promote the use of forest products in construction. In addition, Japan provided the criteria and procedures for permitting foreigners to participate in drafting standards. Such participation, in fact, had been called for previously in the 1983 Gotoda Report².

Japan agreed to test lodgepole pine and ponderosa pine and, despite a previous rejection of these products, Japan accepted them under Japanese Agricultural Standards in 1986, with implementation in 1987. Japan also agreed to implement the method for designating Foreign Testing Organizations.³ Technical talks since January 1986 resulted in the Japanese Agricultural Standards certification of laminated lumber and heavy timber laminated lumber for structural use in December 1986 and structural panels in March 1987.

Japan rejected the U.S. request to eliminate all paper product tariffs but agreed to reduce them by 20 percent effective January 1986 and agreed to phase in other tariff reductions on solid bleached board, kraft linerboard, and other kraft paper between April 1986 and April 1988. During the negotiations, the United States asserted that its relative lack of success in exporting paper products to Japan was due possibly to Japanese governmental intervention and noted that the Japanese paper

²An advisory report of the Chief Cabinet Secretary in Japan.

³Foreign Testing Organizations, located outside Japan, are responsible for testing products' conformity with Japanese Agricultural Standards. According to USDA, both Canada and the United States now have such organizations in operation.

industry's capacity increased between 1980-84 as a result of the paper industry cartel. Japan subsequently agreed to dispose of excess facilities for corrugated containerboard by June 30, 1987, as part of the joint action under the Structural Improvement Law and, according to the Japan Paper Association, that reduction in capacity was accomplished in September 1986. In response to U.S. concerns regarding the keiretsu supplier network, Japan also agreed to "continued examination of commercial, business, and funding practices that may affect trade in order to ensure efficient markets."

Outstanding Issues and U.S. Follow Up

Outstanding issues include U.S. concerns about standards, building and fire codes, zoning restrictions, product grading practices, and additional tariff reductions for laminated beams, lumber from other species of trees, and panel products, including plywood and medium density fiberboard.

The responsibility for monitoring the forestry sector is divided between USDA and Commerce. USDA monitors U.S. performance in the Japanese wood market and the progress of the continuing issues for forest products. USDA expects to have talks with Japan under the MOSS format to negotiate continuing issues. However, no formal talks have occurred since the conclusion of the MOSS talks in January 1986. During the U.S.-Japan consultations on agriculture held in Tokyo in November 1987 and April 1988, the United States proposed a forestry MOSS meeting to discuss further issues. The Ministry of Agriculture, Forestry and Fisheries agreed each time, but no date has been set for such a meeting.

Commerce is responsible for monitoring several MOSS sectors, including the paper segment of the forestry sector, but it did not include the paper segment in its contract with a private consultant and has no formal plans to monitor the paper sector due to funding limitations.

Industry Evaluation

According to NFPA, relatively few U.S. firms are knowledgeable about the Japanese market because most U.S. firms that export forest products to Japan operate through Japanese trading companies. NFPA told us that approximately 10 U.S. firms are major players in the Japanese market, with that number increasing to 25 when joint ventures are taken into account. We spoke to five associations representing U.S. firms in the wood and paper products industries and interviewed 11 U.S. firms referred to us by the associations.

Assessment of MOSS
Structure

Industry representatives we interviewed generally supported the MOSS concept as an approach to trade problems. In addition, one association and one firm noted the need for the involvement of high-level officials to secure Japan's willingness to negotiate trade issues. According to one firm, Japan takes trade concerns seriously only when presented by top-level officials. Several of the firms we interviewed suggested that continued pressure for follow-up discussion is needed. Indeed, some believe that MOSS should be continued to avoid a return to the status quo.

General Satisfaction With
MOSS Results

Both segments of the forestry sector expressed satisfaction with the results of the forestry MOSS talks. Both NFPA and API were satisfied with the tariff reductions, with NFPA citing tariff reductions as its primary aim.

Some industry representatives also identified the change in the business environment as a major accomplishment of the forestry MOSS talks. Two firms in the paper industry reported that Japanese customers are more willing to buy U.S. products. However, two other firms pointed out that some U.S. firms do not try hard enough to penetrate the Japanese market and may lack commitment to that market. The API representative observed that the MOSS process was "very, very useful." One forestry firm noted that one visible result of the MOSS talks was its decision to add a new veneer plant with all production dedicated for export to Japan; it had considered such a move for 5 years, but the tariff reduction made this option more economically feasible.

One official of an association representing 55 relatively small sawmills and plywood plants outlined his dissatisfaction with the relatively smaller tariff reductions negotiated for plywood compared with those negotiated for veneer. Veneer tariffs were reduced from 15 to 5 percent as of April 1987, but plywood tariffs were reduced only as of April 1988 and to a lesser extent. According to this official, this tariff structure reflects Japan's continuing protection of processed forest products while the market is opened to raw materials and intermediate inputs like veneer, which is used in the production of plywood. He characterized the MOSS results as being contrary to the interests of his membership because the differential tariffs between veneer and plywood also serve to divert U.S. veneer to Japan, possibly increasing costs of this intermediate product to his membership.

NFPA and API both believe the MOSS talks have been pivotal in opening the market in Japan for certain categories of products. For example, API

asserted that exports of wood pulp have increased significantly and noted that MOSS affected the overall business environment and that the industry continues to negotiate with Japan on pertinent issues. Determining the extent to which the MOSS talks contributed to these reported increases in exports is uncertain, however, since we were unable to isolate other macroeconomic effects, such as exchange rate changes. (See app. I for 1984-87 trade data.)

With regard to the debate over the relative contribution of exchange rate effects and MOSS effects on U.S. sales, one major U.S. firm exporting both wood and paper products noted that "the exchange rate changes may actually be temporary, but the tariff reductions are forever."

Continuing Concerns

Some firms in the forestry sector want additional tariff reductions, while others want changes in building codes and standards so that foreign value-added products will have a market in Japan. One association also noted its continuing interest in changing the network of business relationships among banks, producers, and suppliers that benefit inefficient Japanese producers at the expense of more efficient foreign suppliers. One firm told us it no longer exports at the level it once did because of the costs involved in complying with the specialized requirements of some trading partners; for example, it had converted an entire plant in order to produce forest products of the specialized dimension used in Japan, but when the product was delivered, Japanese government inspection officials prevented the unloading of the product, ostensibly because of unacceptable product quality. According to the firm involved, the criticism of the product quality was not valid.

Conclusions

The United States succeeded in negotiating tariff reductions on wood and paper products. However, it successfully negotiated only two regulatory changes—institutionalization of Foreign Testing Organizations and greater acceptance of 4x8-foot wood panels in construction. USDA believed that acceptance of the 4x8-foot panel would have occurred anyway because the Japanese forestry industry was ready to compete in it. The MOSS talks did not result in a standards change for lodgepole pine and ponderosa pine, although both of these were accepted under prevailing Japanese standards subsequent to the formal MOSS talks.

Available trade data do not clearly support the positive effects of the MOSS talks because other factors may also increase the dollar value of exports. However, representatives of major U.S. firms marketing their

products in Japan believe the business environment in Japan has improved and that Japanese customers are relatively more receptive to buying U.S. products. Except for one relatively small association, industry representatives we interviewed are quite satisfied with the progress made in the MOSS talks but hope that further discussions will open more markets in Japan.

The Electronics Sector

The MOSS negotiations on the electronics sector were marked by a general lack of focus, due primarily to the difficulty of finding a workable definition of electronics. In fact, in the early stages of these MOSS talks, Japanese trade officials noted that the "administration has not even defined what products are covered by this broad category, let alone identified the barriers it feels obstruct U.S. access to the Japanese market."¹ Since product areas ranging from semiconductors to supercomputers could be included in such a broad category, the electronics sector negotiations became a catchall for bilateral electronics trade issues. Indeed, progress was made on certain market segments only when they were essentially removed from the overall MOSS format and negotiated separately.

The Office of the United States Trade Representative, was the lead agency for the electronics MOSS talks. The Ministry of International Trade and Industry (MITI) led the negotiations for Japan, with the Ministry of Education involved in the negotiations concerning copyright protection. Seven electronics MOSS meetings were held between February 1985 and August 1986, but the negotiations have not been formally concluded.

Although many segments of the U.S. electronics industry are considered technologically competitive, the United States ran a \$13-billion deficit in overall electronics trade for 1986. In 1986 Japan overtook Europe as the second largest electronics market in the world, valued by the Electronic Industries Association of Japan at \$104 billion.² However, U.S. exports to Japan were only about \$2 billion in this sector for 1987. (See app. I.) The supercomputer market in Japan by the end of the decade is estimated at \$600 million per year; but according to a Commerce official, only 15 percent of the 57 supercomputers purchased by Japan, as of January 1988, were manufactured in the United States.

Major Issues Negotiated

The MOSS process focused on removing Japanese trade barriers which would help to provide fair access to Japanese markets. The Electronics MOSS talks were initially viewed primarily as a forum for the semiconductor trade issue, but any issue that related to electronics was eventually included if it was believed that resolution could be best achieved

¹The MOSS Talks: Success or Failure?, Congressional Research Service, Report No. 85-1129 E, Dec. 19, 1985.

²John P. Stern, "Demanding but Rewarding: The Realities of Japan's Electronics Market", *Speaking of Japan*, Vol. 8, No. 86, Feb. 1988.

through the MOSS process. The negotiations also addressed U.S. industry concerns over protection of U.S. intellectual property issues, tariffs on computer parts and electronic products, foreign exchange controls, and non-communication satellites.

Adequate protection of U.S. technology in Japan focused on two issues: the protection of U.S. semiconductor technology (particularly original chip design) and copyright protection for intellectual property; protection of computer software created and produced in the United States was of particular concern. The United States wanted the Japanese government to enact legislation similar to its own which grants copyright protection to computer software for 50 years.

Other issues raised were (1) lack of opportunities for U.S. companies to participate in government-sponsored research and development projects and the opportunity to license patents from the government of Japan that emerge from these projects, (2) reduction of tariffs on computer parts, peripherals, central processing units, electronics products, and telecommunications equipment, (3) foreign exchange controls and procedures on machinery upgrades and products re-entering Japan after being repaired abroad, and (4) Japanese government unwillingness to procure U.S. satellites for non-communication purposes, such as meteorology, geographic work, and space research.

No formal bilateral agreement was signed although consensus was reached on a number of issues as outlined in the joint U.S.-Japan press release issued January 1986. Further agreements were reached outside of the MOSS framework for semiconductors and supercomputers.

Two important intellectual property rights issues were resolved by Japanese legislation, effective January 1986, that provided 50-year copyright protection on computer software and 10-year protection on original chip design.

Specific tariff negotiations were quickly concluded. In August 1985, Japan eliminated the 3.7-percent tariff on computer parts, central processing units, and peripherals and reduced tariffs by 20 percent on electronics products. Further, the request for participation by U.S. companies in Japanese government-sponsored projects and access to patents has been met with assurances that this is possible. U.S. firms are scheduled to participate in the Sigma project, a 5-year software research and development program, and Japanese officials will now allow access

(under certain circumstances) to computer-related patents held by the government of Japan.

Discussions on foreign exchange control procedures also were resolved satisfactorily, with the Japanese government agreeing to eliminate all such procedures for machinery upgrades and products reimported after being repaired. But the issue of government procurement of non-communication satellites did not progress because the Japanese government was inflexible on this issue.

Semiconductor and Supercomputer Issues Negotiated Separately

Negotiations on two issues, semiconductors and supercomputers, began within the MOSS framework but the agreements reached were considered technically outside of the MOSS. The semiconductor issue was in the forefront when MOSS talks began in 1985. Concerns centered on three unfair trade practices: (1) the dumping of Japanese-manufactured semiconductors in the United States, (2) Japanese dumping in third country markets, and (3) trade barriers limiting access to the Japanese market. Due to the initiation of specific unfair trade complaints under U.S. trade laws, the U.S. government decided to resolve this issue outside of the MOSS framework.³

U.S. concerns regarding supercomputers (defined as computers operating at or above the speed of 100 megaflops per second) focused on (1) access to the Japanese government/academic market and (2) price discounting. Allegations arose that the public sector in Japan was not buying U.S. supercomputers—none of the 25 supercomputers in the public sector were U.S.-manufactured, despite the fact that U.S.-produced supercomputers are not only competitive but also are largely considered the fastest and most technologically advanced computers available. In January 1986, the Commerce Department decided to fully examine the supercomputer issue which was then raised to the Economic Policy Council (EPC) level for further discussion. In November 1986, the EPC recommended initiation of a section 305 investigation⁴ and that talks

³For further discussion of the semiconductor issue see our report, *International Trade: Observations on the U.S.-Japan Semiconductor Arrangement*, (GAO/NSIAD-87-134BR) Apr. 1987.

⁴Section 305 of the Trade Act of 1974 states that upon receipt of a written request from any person, the Office of the United States Trade Representative shall make available to that person any available information, except for confidential business information, concerning the nature and the extent of (1) a specific trade policy or practice of a foreign government or instrumentality with respect to particular merchandise, (2) the rights and remedies of the United States under any trade agreement, and (3) past or present domestic and international proceedings or actions with respect to the policy or practice concerned.

with the Japanese government continue on this issue within the MOSS framework. The investigation concluded with the determination that Japanese procurement obstacles did exist. However, the U.S. government decided to continue the supercomputer negotiations in the hopes that there would be a positive response rather than to file a separate trade complaint using section 301 of the Trade Act of 1974, as amended, which Japan would consider more adversarial (since retaliation could be recommended under this trade provision).

The use of price discounting was also raised, since Japanese supercomputer companies are allegedly discounting the price of their supercomputers by as much as 70 to 80 percent, particularly to academic institutions, to increase their competitive position in their own market as well as U.S. and third-country markets. U.S. supercomputer companies, which are generally small and not part of larger conglomerates, are not able to similarly discount their products.

The semiconductor trade dispute concluded with the Arrangement Between the Government of Japan and the Government of the United States of America Concerning Trade in Semiconductor Products, signed on September 2, 1986. The government of Japan agreed to facilitate increased market access for foreign semiconductor firms in Japan and to prevent dumping of semiconductors in the United States and in third-country markets. However, in early 1987 the United States determined that the third-country dumping was not curtailed and that access continued to be restricted to the Japanese market. The EPC recommended retaliation against Japan, and on April 17, 1987, \$300 million in tariffs was placed on certain Japanese goods entering the United States. Although this amount was reduced in June and November 1987 when it was determined that the Japanese had made some strides in controlling third-country dumping, retaliatory tariffs of \$164 million remain for lack of compliance with market access provisions.

The supercomputer procurement issue was concluded with an exchange of letters between the U.S. Trade Representative and the Japanese ambassador on August 7, 1987. The new procedures, effective August 1, 1987, provide for increased transparency regarding procurement and call for notifying suppliers (foreign and domestic) of Japanese procurement needs and specifications, allowing sufficient time for submitting foreign bids. This agreement, considered consistent with the Government Procurement Agreement of the General Agreement on Tariffs and Trade, includes provisions for addressing any further charges of Japanese discrimination by U.S. manufacturers.

Outstanding Issues and U.S. Government Follow Up

Certain electronics issues raised within the MOSS process remain outstanding. For instance, U.S. firms have not fully participated in Japanese government-sponsored research projects, although this may be due in part to the lack of strong U.S. interest based on economic disincentives. Discussion of Japanese procurement of non-communication satellites remains at a stalemate, and the allegation of Japanese predatory pricing of supercomputers in the United States is still an open issue.

Both the semiconductor arrangement and supercomputer agreement provide for regular monitoring by the U.S. government, and the supercomputer agreement additionally allowed for a periodic review of the implementation of the regulations. Although there are no formal arrangements for monitoring the electronics sector, the Commerce Department does regularly update bilateral trade statistics. The Electronics MOSS talks have never officially concluded nor has an official report been published.

Industry Evaluation

Because this sector did not have a clear constituency, we were unable to obtain an industrywide evaluation of the accomplishments achieved from this series of MOSS negotiations; rather, industry representatives were much more aware of the semiconductor and supercomputer negotiations. As a representative from the American Electronics Association stated, the Electronics MOSS talks did result in "a little bit of improvement in intellectual property issues and tariff cuts." The MOSS negotiations did serve as partial impetus for Japanese legislation which now provides for intellectual property protection similar to U.S. law. Further, the same industry representative told us that the MOSS talks helped to "accelerate the outcomes of agreements on semiconductors and supercomputers."

Trade experts often told us that the original negotiating team for the Telecommunications MOSS had been outstanding and had they continued to work together throughout the Electronics MOSS talks, more might have been accomplished. One suggestion voiced by a U.S. company representative was that industry should be responsible for helping the government identify unfair trade problems but the government should then be required to initiate proceedings if the problems are verified.

Conclusions

In the Electronics MOSS talks, issues such as computer parts and intellectual property protection were discussed and resolved to varying degrees, but outside of this, these MOSS negotiations did not achieve the

level of success attributed to a number of the other MOSS sectors. One high-level Commerce official described the Electronic MOSS talks as “an anomaly” suffering a lack of focus from the outset. The high level of tension provoked by the U.S.-Japan dispute over semiconductor trade made this issue grow “larger than MOSS” and, since these discussions (which were formally outside the MOSS umbrella) took precedence, the Electronics MOSS talks were essentially stalled; the loosely defined format and timeframes allowed them to be put on the sidelines until an action-producing issue such as supercomputers came along.

The Transportation Machinery Sector

Transportation Machinery was the fifth and most recently negotiated sector under the MOSS framework. Formally announced in May 1986, these MOSS negotiations commenced in August 1986 and concluded in August 1987 after three plenary and seven working-level bilateral negotiating sessions. Although a number of issues were originally considered, these negotiations centered around the automotive parts trade.¹

The Commerce Under Secretary for International Trade led the U.S. interagency delegation and MITI's Vice Minister for International Affairs headed the Japanese delegation. In Japan, the Ministry of Transportation is in charge of all Japanese automotive regulatory requirements but, since industrial policy issues were involved, the U.S. negotiators felt it important to include MITI in the negotiations as well.

The "Auto Parts MOSS," as it came to be called informally, differed from the prior MOSS negotiations in some important ways. First, no clear set of circumstances supported the normal MOSS objectives of reducing governmental barriers to free trade—the primary Japanese barriers facing U.S. companies stemmed from Japan's private industry structure rather than from governmental policy. Secondly, auto parts industry experts insisted that issues affecting both the U.S. and Japanese markets should be included in these trade discussions.

Since specific Japanese government barriers were not a primary issue, U.S. negotiators focused on the private sector barriers to foreign auto parts—namely the keiretsu supplier network. The goal of changing Japanese business practices based on the historically strong supplier linkages not only would be an extremely difficult task but also one which some questioned as being a sound basis for such government-to-government negotiations. Opposition was raised by a number of U.S. government officials who felt that auto parts trade was not "MOSS-able". Indeed, even the Commerce Department, as the lead U.S. negotiating agency, was not supportive at first, (specifically since Commerce had an existing trade initiative with MITI). But, due to the indisputably large imbalance characterizing U.S.-Japanese auto parts trade, strong pressure was exerted by industry advocates and congressional officials supportive of a new round of MOSS talks for this sector.

¹Based on the perceived success of the first series of MOSS talks, various other topics were discussed as potential candidates for a second round; however, auto parts was the only subject that proved acceptable to both the U.S. and Japanese governments.

The policy issues surrounding automotive parts trade were further complicated by the unique circumstances created with the existence and growing strength of Japanese auto manufacturing “transplants” in the United States.² These firms represent important new markets for U.S. auto parts sales, but uncertainty existed as to whether purchasing decisions were being made in the United States or back at the Japanese home office and whether U.S. parts makers were getting a fair shot at their business. Many U.S. suppliers feared that they would be closed out by these U.S.-based Japanese car makers, especially if their historically linked “family of suppliers” followed them to the United States. Japanese-affiliated suppliers have some competitive advantages over U.S. suppliers in selling to transplants. More than 160 Japanese-affiliated parts suppliers have thus far set up or announced U.S.-based businesses. Japanese-affiliated automakers generally have less U.S. domestic content in their U.S.-built vehicles than do U.S. automakers. Therefore, the U.S. parts industry pushed to include this issue under MOSS framework discussions since they were at least as concerned with maintaining market share in the United States as with increased access to the Japanese market. However, this issue would not easily fit into the MOSS negotiating format designed to address strictly Japanese market barriers.

The Japanese negotiators argued that the quality and price of U.S.-made parts and the variance in standards between U.S. and Japanese automakers made full acceptance of U.S. parts difficult. Allegations were made that U.S. parts makers were simply not as competitive as Japanese suppliers and, therefore, Japanese automakers needed to rely on their long-proven suppliers. A recent International Trade Commission report³ concerning the competitiveness of the U.S. auto parts industry stated that

“Certain U.S. auto parts makers gained in competitive strength during 1982-86. However, many U.S. firms recognize the importance of continuing to improve quality, delivery, and costs...”

Historical Perspective

In 1980, the Japanese government agreed to eliminate certain tariffs on auto parts and to support an auto parts buying mission to the United

²The term “transplants” refers to Japanese-affiliated manufacturing facilities based in the United States. Currently, there are seven such auto-producing facilities in operation or under construction. For further information on this subject, see our report: Foreign Investment: Growing Japanese Presence in the U.S. Auto Industry, (GAO/NSIAD-88-111) Mar. 1988.

³U.S. Global Competitiveness: The U.S. Automotive Parts Industry, USITC Publication 2037, Dec. 1987, p. xxi.

States in response to concern over the large imbalance in bilateral auto parts trade.⁴ Commerce had also pushed for Japanese support of across-the-board increases in U.S. auto parts sales to Japanese automakers in both Japanese and U.S. markets. Despite the elimination of tariffs on 38 auto parts categories and Japanese buying missions, few additional sales resulted. Japanese purchases were well below the \$300-million level for imports from the United States originally forecasted for 1980 by Japan.

With adoption of Japan's Voluntary Export Restraint (VER) on Japanese cars in 1981, the Japanese abandoned their agreement to support purchases of U.S. auto parts. Further, Japanese automakers responded to the VER by establishing U.S.-based manufacturing facilities and some of their Japanese suppliers followed them to the United States, so U.S. parts producers faced increased competition.

The auto parts industry is made up of two primary segments: (1) original equipment (OE) manufacturers, and (2) aftermarket suppliers, who make primarily replacement parts (such as spark plugs and mufflers) and auto accessories (such as floor mats and mirrors). Further, aftermarket products are differentiated as being "genuine" (OE parts distributed by the automakers' subsidiary sales firms) or "non-genuine" (parts generally distributed through wholesalers). Additionally, a number of major items are not considered strictly auto parts per se, (i.e., the U.S. Customs Service does not track these items by their end use as auto parts); for example electronic components, carpeting, some glass products, and chemical catalysts are not easily identified as auto parts for import/export statistical purposes.

Aftermarket sales are very different in Japan than in the United States because there is a very limited independent aftermarket in Japan. Japanese auto parts distribution channels for the aftermarket are very complicated; very few retail outlets are available to the public, although there is reportedly a strong market for auto accessories, especially foreign imports.

The Commerce Department estimated the size of the 1986 automotive parts market in Japan at \$50 billion, consisting of \$27 billion in OE and \$23 billion in aftermarket parts, including accessories. The total import

⁴The Japanese auto parts industry had received special benefits (viewed by some as "protection") since 1956 under a "Temporary Measures Law". After the early 1960s, reportedly, only small Japanese firms were given these benefits, and the law was fully curtailed in 1981.

share of this \$50-billion Japanese market is just 2 percent, or \$1 billion—the U.S. share of this amount stands at 30 to 35 percent, according to estimates by Commerce. However, U.S. parts exports have not grown appreciably over the last few years and actually fell slightly during 1987. (See app. I for further U.S. export data.)

Major Issues Negotiated

The primary objectives established by U.S. negotiators for the Auto Parts MOSS talks focused on increasing opportunities for U.S. auto parts manufacturers to become suppliers for Japanese auto companies, specifically by facilitating contacts between Japanese buyers and U.S. sellers. The elimination of impediments arising from the relationships between Japanese auto manufacturers and their traditional suppliers was seen as a major goal since these linkages were believed to limit U.S. companies' full access as suppliers both in Japan and in the United States. Of particular importance were additional opportunities for U.S. suppliers to participate in the development of parts and components for new vehicle models.

Other objectives were to identify and eliminate restrictive Japanese governmental regulations and procedures and to ensure U.S. parts manufacturers full access to the independent aftermarket by gaining access to Japanese parts specifications and performance requirements. Additionally, U.S. officials wanted to establish a monitoring system to identify and track the type and quantity of U.S. parts and accessories being purchased by Japanese firms for both OE and aftermarket use.

One major U.S. auto parts trade association believed that:

“The U.S. should ask Japan to reinstate the principles of its 1980 non-quota Orderly Market Agreement on auto parts trade. The agreement's definition of the problem—closed OE and replacement parts markets—is just as valid today: its agenda for remedial action as timely.

“...The fact that private, not government, barriers are at issue makes it especially important that the U.S. set targets and timetables for measuring progress.”⁵

As one key U.S. negotiator stated:

⁵The Commerce Department, however, disagrees that the so-called Orderly Marketing Agreement was a formal bilateral agreement and refers to the 1980 Japanese statement regarding the goal of \$300 million in U.S. auto parts sales as a figure forecasted by Japan but not part of a formal agreement.

“...the role of the U.S. government has been to turn the political spotlight of Washington on what should be commercial opportunities for U.S. auto parts companies but somehow weren't and ask why not.”

In August 1987, the United States and Japan did agree on a series of actions, as presented in the Final Report on the MOSS Talks on Transportation Machinery. The primary benefit of the agreements involved the Japanese promise to supply expanded information on the Japanese auto market. It was agreed that the Japan Automobile Manufacturers Association (JAMA) would provide data collected on a voluntary basis from Japanese auto makers on the value of purchases of U.S.-manufactured auto parts, the number of purchasing relationships between U.S. suppliers and Japanese auto makers, and the number of prototype samples ordered by Japanese vehicle makers from U.S. parts suppliers. It was agreed that data would be collected for a 5-year period. Further, JAMA prepared and submitted a list of specific purchasing department contacts at each Japanese auto maker (and any U.S. entity). Information was also provided regarding efforts by Japanese vehicle makers to expand imports and to source locally in the United States.

U.S. and Japanese negotiators exchanged information on several “case studies” which illustrated both “generic difficulties and factors for success” in U.S. suppliers’ efforts to do business with Japanese auto makers and resolved to continue to discuss such cases in the future as needed.

The two governments exchanged views on relations between vehicle makers and their parts suppliers and decided that “there are indications that the procurement policies of the U.S. and Japanese industries are converging.” Particularly emphasized was the role of parts suppliers in the design of parts, just-in-time inventory systems, and long-term, stable relationships with auto makers. However, no particular actions were taken to ensure increased U.S.-Japan supply linkages, although Japanese government officials and vehicle makers agreed to actively cooperate and participate in U.S. auto parts seminars and trade shows.

One example of a potentially restrictive Japanese government regulation was identified involving Japan’s periodic inspection system. To establish fair treatment for U.S. parts, the Japanese government undertook a campaign “to inform relevant parties that the installation of foreign-made parts does not pose any obstacle to clearing the inspection” and that the use of U.S. replacement parts would not be grounds for rejecting vehicles during safety inspections.

Outstanding Issues and U.S. Follow Up

U.S. and Japanese negotiators agreed to continue bilateral group meetings on auto parts between technical experts and high-level government officials on an as-needed basis (generally semiannually) in order to monitor and evaluate “the progress of competitive U.S. auto parts companies in achieving a degree of sales increases and long-term relationships” and to resolve any problems that might arise. The first of these meetings took place in February 1988.

Monitoring the results achieved by this set of MOSS negotiations is difficult because the data supplied by JAMA does not differentiate between the U.S. and Japanese markets but instead gives the total value of “U.S. manufactured parts purchased by Japanese vehicle makers and their U.S. entities”. Another complicating factor is that, in compliance with U.S. government investment policy, the definition of U.S. auto parts includes products of Japanese-owned suppliers in the United States. Therefore, sales to Japanese auto transplants by U.S.-based Japanese suppliers are counted as sales of U.S. auto parts to the Japanese. Further, the JAMA data gives only six categories of auto parts, which one parts association claims is less than adequate—it had pushed for at least 10 categories to be able to distinguish whether merely less costly, lower-end products were being purchased.⁶ (See table I.2 in app. I for current JAMA data.)

U.S. trade association representatives and Commerce officials both stated that an important monitoring component would entail tracking the development of long-term business relationships between U.S. suppliers and Japanese companies. Long-range tracking is particularly important since sourcing of major auto parts (such as transmissions) must often be restricted to new models and requires long lead times. Commerce officials told us that, due to regulatory difficulties involved in tracking U.S.-versus Japanese-owned U.S.-based companies, they had hoped that the auto parts associations would work together to survey their members. However, no monitoring effort on this topic has been formally initiated by the industry. Commerce has, however, contracted with a consulting firm to help monitor progress made by U.S. auto parts makers in selling to Japan and has an internal follow-up program.

Industry Evaluation

Auto parts experts we interviewed did not have great expectations that the MOSS talks would lead to dramatic changes in the general business

⁶Commerce officials assert that the industry study group reviewing this issue had considered the six categories adequate.

environment in Japan. One U.S. official summarized the results of the Auto Parts MOSS by saying that U.S. negotiators “got all they reasonably expected to get”. A representative of one major U.S. trade association told us that the association was “never under the illusion that the MOSS talks [on auto parts] would have major results,” since the problems addressed “were not the type that government could solve.” Comments about the results of the talks are generally positive, however, despite or perhaps because of limited expectations. One former high-level U.S. official who had been involved in the negotiations noted that:

“[one] result of the MOSS talks is that we now have contact points. Each Japanese vehicle manufacturer has specific people U.S. companies can go to with their questions, concerns, and search for opportunities. Now it is not only incumbent on the Japanese side to be more open, but also on the U.S. side to be more aggressive in their approach to the Japanese OEMs [original equipment manufacturers].”

Industry representatives we contacted generally believed the Auto Parts MOSS talks had been worthwhile, even if they could not claim improved access to the Japanese market as a direct result. Individual assessments ranged from very positive to very negative. One U.S. company official stated that:

“MOSS was very helpful in developing new customers... previously closed doors have opened...OEMs’ attitudes have been improved at management levels first and have gradually come down to working levels. MITI put certain objectives for buying American parts respectively to each OEM.”

Another U.S. parts manufacturer doing business in Japan claims that although the Japanese will “never accept a U.S. company as a main or sole supplier,” U.S. companies do have a chance now in Japan if judged as having a high enough level of quality and desire.

Continued pressure by the U.S. government is considered to be extremely important to assure U.S. access in Japan. The MOSS talks, if nothing else, helped to show the U.S. government’s support for the auto parts industry. Some industry experts point out, however, that U.S. governmental pressure cannot by itself make a major difference to the large U.S. trade deficit in this sector.

Some U.S. sales representatives were encouraged by the June 1987 opening of the U.S. Auto Parts Industry’s office in Japan. Designed to help U.S. parts manufacturers sell to Japanese OEMs, this office is being jointly funded by the U.S. Commerce Department and the Motor and Equipment Manufacturers Association.

The Commerce Department's Office of Automotive Industry Affairs recently contacted 100 U.S. auto parts companies to obtain their evaluation of the Auto Parts MOSS talks and any changes in sales opportunities in Japan between August 1986 and August 1987. Approximately half of the responding companies felt that conditions had improved for doing business with Japanese auto companies. About 10 percent reported that they thought conditions had become worse, while approximately 40 percent thought that no change had occurred. Companies reporting increased opportunities cited the reasons for the change as (ranked according to most often cited) exchange rate changes, the MOSS talks, congressional pressure, and increased efforts by their companies.

Conclusions

The Transportation Machinery MOSS negotiations were unique in that they addressed private business practices, issues that were thought to be outside the realm of government-to-government trade negotiations. Further, these negotiations involved not only the Japanese auto parts market but also the U.S. market. Since these topics were considered politically difficult, many U.S. business and government trade experts we contacted did not hold great hopes for success.

The Auto Parts MOSS talks cannot easily be labeled as a resounding success or failure. Because these negotiations were concluded less than a year ago and sourcing of major auto parts must often be restricted to new models and requires long lead times, a full evaluation is premature. Further, because this sector did not fit the original format for MOSS negotiations, its achievements cannot readily be compared to those of other sectors. U.S. auto parts makers are, however, generally positive about the Auto Parts MOSS talks, even though they cannot directly attribute any increased sales or specific market share gain to the specific agreements. As a partial result of high-level government attention by both the United States and Japan, increased company efforts, and the benefits of exchange rate changes, industry experts see signs that the Japanese auto parts market is beginning to open, at least to a limited extent. Few believe, however, that the Auto Parts MOSS, or indeed any government effort, alone can greatly impact the bilateral imbalance in auto parts trade.

Observations on the MOSS Talks as an Approach to Trade Negotiations

The MOSS talks heralded a new format for U.S.-Japan bilateral trade negotiations—instead of addressing issues on a case-by-case basis, a sectoral approach was developed to address all identifiable trade barriers within each of several specific Japanese industries. Although the primary U.S. goal articulated for the MOSS talks was increased market access for U.S. and other foreign exports to Japan, the underlying objective of achieving measurable growth in U.S. export sales (and reducing the U.S.-Japan trade imbalance) was, nonetheless, important. As a general policy, however, the United States does not seek to establish specific import targets in trade agreements.¹ Quantifying the results of the MOSS agreements, especially as distinguished from benefits derived from exchange rate changes, is considered virtually impossible. The U.S. Commerce and State Departments maintain trade data by MOSS category (as presented in app. I), and these data show increases in U.S. exports to Japan for 1987 in each MOSS sector except for auto parts, but U.S. export sales figures alone simply do not tell the whole story regarding the extent to which these Japanese markets have opened to foreign participation.

Whereas U.S. industry and government officials we contacted generally acknowledge that the MOSS talks were often successful in accomplishing the primary objective of eliminating or reducing Japanese governmental trade barriers and prompting market liberalization, the removal of these barriers did not lead to automatic access for U.S. products. Even when tariff and nontariff barriers are removed, “intangible” barriers can still limit market access, and they generally prove less susceptible to government intervention.

Talks Achieved Varying Levels of Success

The extent of Japanese market access achieved was highly dependent on a number of factors, particularly the types of barriers identified as present in the market, the timing of the trade negotiations, and the degree of similarity between U.S. and Japanese interests. How well the sector met the original selection criteria for initiating MOSS negotiations also was a key factor in the extent of agreements reached.

The telecommunications and medical equipment/pharmaceutical sector negotiations were generally considered the most successful of the MOSS talks. In both instances, governmental barriers to trade could be identified and either eliminated or reduced. Further, in each of these cases, a

¹The U.S.-Japan Semiconductor Arrangement did entail monitoring of the level of U.S. exports of chips to Japan but, as discussed in ch. 6, this agreement was negotiated outside of the MOSS talks.

coincidence of interest between U.S. and Japanese business concerns was present which greatly increased the potential for progress. The U.S. negotiators' combination of teamwork, skill, and ability to marshal the support of industry were also thought to have led to the success of these talks. Further, a number of large U.S. firms had already developed a strong presence in Japan and were able to take advantage of the new opportunities presented by the market-opening agreements reached during the MOSS negotiations.

The MOSS talks involving the forestry, electronics, and auto parts sectors did not lead to such major changes in the corresponding Japanese markets, although various agreements were reached for each sector. Some trade experts we contacted believe that this is because these sectors did not benefit from the same confluence of driving forces present during the telecommunications and medical equipment/ pharmaceutical MOSS talks.

Industry Response Generally Positive

A majority of U.S. industry representatives with business interests in Japan whom we contacted seemed generally positive about the MOSS talks and the results they achieved, even when they were unable to cite specific examples of direct benefit. Many firms reported overall satisfaction with the structure of the MOSS approach and acknowledged that although these negotiations might not have resolved all trade difficulties, at least MOSS served as "a code word for high level attention" which U.S. companies found essential to achieving greater liberalization of Japanese markets.

Representatives of various U.S. companies we contacted seemed to agree that the MOSS agreements reached had often led to fairer treatment for their products in the Japanese market, but there was no like agreement that these bilateral negotiations resulted in full market access overall. Certain firms in fact stressed their belief that the MOSS barrier-removal approach alone would never achieve substantial market changes and that a "measuring stick" (i.e., target) was necessary to accomplish increased Japanese acceptance of foreign products. Many firms still consider Japan "the most difficult market in the world to crack" but also acknowledge that much of the responsibility for improving U.S. market share in Japan rests on the increased efforts of U.S. firms.

Future U.S. Government
Involvement in MOSS
Talks

U.S. firms strongly stressed the need for continued monitoring efforts and on-going involvement of high-level U.S. government officials to ensure that the MOSS agreements reached are fully implemented and that further liberalization of Japan's markets is achieved. Concern remains that the United States should not "simply walk away and let Japan think that they have done enough", especially since things could "easily revert back to the way they were" prior to the MOSS negotiations. However, a new round of MOSS talks on a different series of sectors does not seem to garner the support of either U.S. government officials or industry representatives. In general, trade experts believe that these sector-selective negotiations necessitate too much expense, in terms of time, energy and money, to warrant a new round of talks unless clearly defined issues are identified which would be likely candidates for successful bilateral negotiation.

U.S.-Japan Trade Data by MOSS Sector

Table I.1: U.S. Exports to Japan for 4 MOSS Sectors^a, 1984-87

(Dollars in millions)				
	1984	1985	1986	1987
Telecommunications	\$185.3	\$202.6	\$268.9	\$358.3
Percent increase ^b	-5.7	9.3	32.7	33.2
Total Med./Pharm.	\$832.4	\$870.7	\$1,009.1	\$1,153.9
Percent increase	6.0	4.6	15.9	14.4
Medical Equipment	\$269.1	\$289.6	\$372.1	\$465.2
Percent increase	8.4	7.6	28.5	25.0
Pharmaceuticals	\$563.3	\$581.1	\$637.0	\$688.7
Percent increase	4.9	3.2	9.6	8.1
Total Forest Prod.	\$640.7	\$642.6	\$809.7	\$1,039.2
Percent increase	-0.3	0.3	26.0	28.3
Wood Products ^c	\$369.3	\$374.9	\$481.1	\$664.2
Percent increase	-0.9	1.5	28.3	38.1
Paper Products	\$271.5	\$267.7	\$328.7	\$374.9
Percent increase	0.7	-1.4	22.8	14.1
Electronics	\$1,419.7	\$1,484.5	\$1,593.2	\$2,092.6
Percent increase	30.0	4.6	7.3	31.3
Total	\$3,078.1	\$3,200.4	\$3,680.9	\$4,644.0
Percent increase	13.3	4.0	15.0	26.2

^aExcludes transportation machinery. Definitions of the original 4 MOSS sectors are based on Department of State SIC code designations as follows.

Telecommunications: SIC 3661, 3662;

Electronics: SIC 3573, 3674;

Med./Pharm.: SIC 2831, 2833, 2834, 3693, 3841, 3842, 3843;

Forest Products: SIC 2421, 2426, 2431, 2435, 2436, 2439, 2492, 2621, 2631.

^bPercent change calculated on annual data before rounding.

^cSubtotals for wood and paper sectors do not add to equal Forestry sector total due to rounding.

Source: Department of Commerce data.

Appendix I
U.S.-Japan Trade Data by MOSS Sector

Table I.2: U.S. Auto Parts Purchased by Japanese Automobile Manufacturers and Their U.S. Companies^a

Auto part	Japan Fiscal Year ^b					
	(in millions of dollars)			(in billions of yen) ^c		
	1985	1986	1987	1985	1986	1987
Engine	\$205.8	\$238.5	\$317.5	Y 45.5	Y 38.5	Y 43.6
Percent change		15.9	33.1		-15.4	13.2
Chassis	\$187.9	\$205.5	\$286.5	Y 41.5	Y 33.1	Y 39.6
Percent change		9.4	39.4		-20.2	19.6
Body	\$396.4	\$776.0	\$1,057.3	Y 87.6	Y125.2	Y145.5
Percent change		95.8	36.3		42.9	16.2
Electrical	\$684.5	\$916.2	\$999.0	Y151.3	Y147.9	Y137.9
Percent change		33.8	9.0		-2.2	-6.8
Accessories	\$76.0	\$106.5	\$88.5	Y 16.8	Y 17.3	Y 12.2
Percent change		40.1	-16.9		3.0	-29.5
Materials	\$175.9	\$246.7	\$386.6	Y 38.9	Y 39.9	Y 53.4
Percent change		40.3	56.7		2.6	33.8
Total	\$1,726.5	\$2,489.4	\$3,135.4	Y381.6	Y401.9	Y432.2
Percent Change		44.2	26.0		5.3	7.5

^aDepartment of Commerce analysis based on data reported by the Japan Automobile Manufacturers Association, Inc. (JAMA) which include sales to Japanese "transplant" facilities in the United States.

^bCovers the time period from April 1 through Mar. 31.

^cAverage exchange rates used for JFY 1985: Y221=\$1; JFY 1986: Y161.5=\$1; JFY 1987: Y138.5=\$1.

Table I.3: U.S. Auto Parts Exports to Japan, 1984-87

(Dollars in millions)				
	1984	1985	1986	1987
Auto Parts ^a	\$201	\$191	\$203	\$199
Percent change		-5.0	6.3	-2.0

^aDoes not include tires or tubes.

Source: Department of Commerce figures based on Census data.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100
