

# The Heritage Foundation **Background**

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## **IN JAPAN'S CONSTRUCTION INDUSTRY, THE STRATEGY STILL IS: DON'T DO BUSINESS WITH THE YANKS**

(Updating Executive Memorandum No. 129, "The Kansai Airport Project: Tokyo Slams A \$6 Billion Door in America's Face," August 1, 1986.)

The most expensive airport construction project ever is underway in Japan. The \$8 billion Kansai International Airport is being built on reclaimed land in Osaka Harbor 300 miles south of Tokyo. While American and other foreign companies are interested in bidding on the massive project, non-Japanese firms have been told that they need not apply for the job's \$3.6 billion initial phase.

Trade frictions between the U.S. and Japan are already approaching a flashpoint owing to the \$50 billion annual bilateral trade imbalance in Japan's favor and the slow progress toward broader U.S. access to Japanese markets. The Kansai Airport project is fast becoming a focal point for U.S. frustrations toward Japan and will likely add momentum to the push for retaliatory American actions against Japanese companies doing business in the U.S.

Another victim of Japan's barriers to foreign participation in the Kansai construction bidding process is the Japanese consumer. Because competition for Kansai projects is strictly limited to a tiny domestic club, there are strong suspicions that quality control, design planning, and cost effectiveness will suffer as a result. Since Kansai is a public works project involving government expenditures, Japanese taxpayers stand much to lose in the deal. So do Japanese and foreign travelers who will use Kansai.

Earlier this year, Japanese Prime Minister Yosuihiro Nakasone reacted to U.S. complaints about the Kansai issue by pledging to encourage a "fully open, transparent and nondiscriminatory" bidding process. In October, a U.S. Presidential Trade delegation visited Japan to assess the progress toward this goal. The group was led by Assistant Secretary of Commerce H.P. Goldfield and included senior U.S. construction industry executives. Among other things, the

American businessmen were frustrated by their Japanese counterparts' continuing reluctance to engage in detailed discussions about construction plans. Given very little information, the U.S. executives have not formally commented on such issues as cost projections and design efficiency. Privately, however, some delegation members believe that the \$8 billion price tag is exorbitant. They criticize the planned layout of airport facilities and, based on erosion problems associated with other land reclamation projects in Japan, question the long-term stability of the proposed man-made island upon which the airport will be built. And there is strong reason to suspect that, since the construction is not being subjected to the rigors of an open and competitive bidding process, the Japanese people will not get the most for their yen.

After the visit, the U.S. delegation reported that it was "unable to point to any discernible changes in the traditional 'designated bidding system,'" which is explicitly rigged to preclude foreign competition. It requires competing construction firms to have a proven track record in Japan--a glaring "Catch-22" since foreign companies have not been allowed significant access to the construction market there and thus cannot compile a track record.

The Japanese construction industry's experience in the U.S. offers a stark contrast. Last year, Japanese firms secured American construction contracts worth nearly \$2 billion, making the U.S. the largest export market for Japanese construction services; this figure is expected to double this year. Incredibly, U.S. companies have not been awarded a major Japanese construction project since 1965.

The unsuccessful attempts of American companies to break into the Japanese construction market are not due to a lack of U.S. competitiveness. On the contrary: the U.S. is highly competitive in this field. Between 1980 and 1985, the U.S. was the world's number one exporter of construction services, with contracts and sales worth over \$225 billion. Japanese construction exports for that period totalled about \$50 billion. Furthermore, in sharp contrast to Japan, the U.S. construction industry has been quite successful in countries such as Korea and the Republic of China on Taiwan, which have their own competitive domestic construction industries. Clearly, the problem stems from Japan's discriminatory bidding process.

On December 7, an ominous day, Assistant Secretary Goldfield will return to Japan to continue discussions on the Kansai issue. If the Japanese do not act swiftly to offer reciprocal access to their construction market, the U.S. government should consider the advice of the Presidential Trade Delegation's industry representatives and "be prepared to impose immediate restrictions on Japanese participation in the U.S. market."

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