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"American versus Japanese Style Procurement: Evidence from U.S. Trade"

Abstract: We examine U.S. trade data for evidence of American- versus Japanese-style procurement patterns. Under the American system, buyers inspect shipments to verify product quality. To minimize inspection and shipment costs, orders are large and infrequent. Under Japanese procurement, sellers are incentivized by the promise of a long-run relationship to keep quality high. This reduces inspection costs and allows buyers to order smaller shipments with higher frequency, minimizing supply chain expenses. We find that U.S. import transactions between related parties are more Japanese than American, and that changes in policy conducive to the formation of long-term relationships lead to greater adoption of the Japanese system.