

# Japanese Trade Policy and Structural Adjustment

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## I.

The strong competitive power of Japan's export products is attracting world-wide attention. This is mainly due to the favourable trade balance and the recent sharp increase in Japan's foreign exchange reserves, tendencies being particularly remarkable in relation to Japan's trade with the U.S. and the ECAFE areas. In view of this situation, it is expected that Japan's future trade policy, both with respect to horizontal trade with industrialized countries and to vertical trade with developing countries, should clearly be focused on opening the Japanese market and increasing imports.

The so-called eight-point economic and trade policy of June, 1971, is noteworthy for both its domestic and its overseas aspects, even though the Japanese government was rather late in declaring its intention to support these measures. It cannot be denied that the government's reasons for designing this policy had much to do with its desire to avoid an upward revaluation of the yen, which it nevertheless was obliged to hastily adopt later, being confronted with mounting pressure from other countries. Nonetheless, even today, after Nixon's economic announcement (August, 1971) and the ensuing upward revaluation of the yen (December, 1971) the necessity of carrying out these measures has not at all been diminished.

The eight points are (1) reduction of residual import restrictions, (2) enforcement of an overall preferential tariff system, (3) promotion of the lowering of tariff rates, (4) acceleration of the liberalization of capital transactions, (5) taking measures for removing non-tariff barriers, (6) promotion of overseas economic cooperation, (7) establishing "orderly exports", and (8) taking flexible and timely fiscal and economic measures.

Of these, the eighth point aims to decrease export pressure and to increase import demand by accelerating the recovery tempo of the domestic business situation. The remaining seven points aim to adjust the overseas economic relations directly. These seven points can be further classified into 3 categories, namely, (1) those which aim to increase imports (liberalization of imports, preferential tariff, lowering of tariffs, removal of non-tariff barriers), (2) those which aim to keep the expansion of exports to an appropriate level ("orderly export"), and (3) those which aim to promote outflow of Japanese capital overseas, at the same time opening the door to foreign capital (liberalization of capital transactions, economic cooperation). The latter two are important subjects for the Japanese economy in the future.

## II.

It was about 10 years ago, in the days of the Ikeda cabinet, that the objective of import liberalization progressed at a considerable pace and the percentage of liberalization, which was only 41% in April, 1960, reached 93% in October, 1965. However since then, a period of slackening has taken place at times incurring strong international criticism. In December, 1968, a new cabinet decision towards liberalization was made. Since then, liberalization measures were enforced eight times — in February, April, and September of 1970, in January, June, and October of 1971, and in February, and April of 1972. As a result, Japan's residual import restriction items, which rose to 120 at the beginning of that period, were reduced to the current 33 items. From the international viewpoint this is roughly the level of West European industrialized countries (such as West Germany).

The residual 33 import restriction items can be classified into 24 agricultural, forest, and marine products (livestock products such as beef, milk, some fruits such as oranges), 8 industrial products (electric calculating machines accounting for 4, leather products accounting for 4) and 1 mining product. In addition to the above, there are 46 items for which the obligation to liberalize is exempted, such as weapons, drugs, controlled food stuffs, monopoly items, etc. If these items are added, the number of non-liberalized items amounts to 79.

It is necessary to make strong efforts to liberalize even these remaining import restriction items. This point is stressed even in the afore mentioned eight-point economic and trade policy. As for the "state trade items" for which the obligation of liberalization is exempted (based on GATT regulations), it is considered that suitable items should be transferred to private handling and imported freely. Of course, it will be impossible to transfer those whose trade is handled by the state for reasons of health and hygiene to private handling. However, it is inappropriate that some items are treated as objects for import liberalization for their being residual import restriction items, while others are controlled because they are treated as "state trade items".

## III.

In order to increase imports, several important steps must be adopted in addition to simply liberalizing imports. Namely, it will be necessary that the import quotas for items not liberalized be raised as much as possible, that "development import" from developing countries be further promoted and that non-tariff barriers be further pushed down. Such non-tariff restrictions as the AIQ (Automatic Import Quota) system and the pre-import quota sanction system are presently in effect. Though it is true that they impose no great restrictions, there is strong criticism from various countries that these are in fact non-tariff barriers, and it will be necessary to adjust and/or abolish these in so far as possible.

Regarding reduction of customs tariffs, an overall tariff reduction based on the Kennedy Round was carried out in 1971, earlier than scheduled, and at the same time a considerable large scale reduction of tariff burdens was realized, applying mainly to items closely related to people's daily life (such as color films, bananas,

mutton, meat, kerosene oil, etc). However, it cannot be denied that the tariff level of Japan is still high compared with those of the U.S., U.K., or E.E.C. Moreover, the present tariff system of Japan was established in 1962 and constructed on the basis of two concepts, namely (1) the process trade principle, according to which tariffs on raw materials are low, with rates set proportionately higher for products closer to final consumption; and (2) the protection principle, according to which tariffs are fixed higher for items which are produced by industries with a possibility of future progress but needing protection for a certain period, and for items which are produced by stagnant or weak industries for which a smooth industrial transfer is needed. Therefore, in view of the current economic situation, it will be necessary to overhaul this tariff system: first, to modify the process trade principle and second, to keep the tariff level in ordinary times low, making use only of emergency and dumping tariffs, even if protection is required.

A preferential tariff-system was established for 96 developing countries on August 1, 1971. One consequence of this tariff — that more and more Japanese export items (for example, textiles and miscellaneous goods) will be taken over and supplied by developing countries on the markets of third countries — may be more effective than the other consequence that many products of developing countries are being imported to Japan, taking over a share of the former market of domestic products. To some extent it will be necessary to adopt proper assistance measures for domestic industries which are hurt by the preferential tariffs; they should be treated as a part of the inevitable structural adjustment of the Japanese industry as a whole.

#### IV.

The principle of "orderly exports" proposed in the eight-point economic and trade policy is a kind of export control measure. It allows problems to be dealt with case by case, based on the industries' own discretion, and not be handled through direct government control in the form of an export duty. However, Japan's exports continued to expand on a large scale even after the upward revaluation of the yen in last December. The economic prospect published by the government at the end of last year calculates the surplus trade balance of 1972 as \$7,150,000,000. As a result, strong criticism is converging domestically as well as from abroad against the tendency towards such a large-scale surplus in the Japanese trade balance. Some experts in Japan think that there will be no choice but to levy an export duty (or surcharge) on the fast-growing export items in order to decrease the surplus. Such a duty need not be applied unilaterally, but only selectively against certain items going to certain countries in which they threaten to damage local industries. In any event, it is now reported that the government is studying the advisability of preparing special urgent legislation aimed at suppressing exports. However, it is felt by some that this problem could develop into a discussion of another upward revaluation of the yen. On the other hand, it must be pointed out that there are experts who feel that even without any such measures the level of Japan's exports will drop in the latter half of 1972.

Along with the above-mentioned tendency towards a large-scale surplus in the trade balance, the balance of payments also continues to show a large-scale surplus, and

the foreign exchange reserve continues to grow. For this reason the necessity for some counter-measure for decreasing foreign exchange reserve is mounting. It is expected that the flow of financial resources from Japan will probably increase at a considerable rate in the future. In that case it would be desirable for the counter-measures to take the form of official development assistance to developing countries and easing of the conditions for such assistance. However, private overseas investment will also increase. It is important to give sufficient consideration to the latter, so that it does not take the form of "economic invasions" of developing countries. In particular, orderly enterprise behaviour, such as local reinvestment of earned profit, will be stressed as Japanese private capital advances into developing countries.

## V.

As stated above, the important point of Japan's current trade policy is that increase of imports and restriction of exports can no longer be postponed. To ensure a smooth implementation of the policy required, it will to some extent be necessary to adopt relief plans for domestic industries and their employees who may suffer as a result. This problem has been handled in Japan as "adjustment assistance" accompanying the structural adjustment of the economy, and various measures have been put into effect.

There is an increasing necessity for such measures in order to meet with export self-control requested by other countries, such as in the case of the recent Japan-U.S. textile agreement. These adjustment assistance measures and any new trade policies should definitely be such as to promote the efficiency of the Japanese economy, rather than to maintain the old industrial structure. In this sense, the problem of industrial relief assistance is understood usually as an effort towards industrial rationalization. However, since rapid changes tend to cause social and political problems, it is possible that in the transitional stages steps will be adopted which may appear to aim at the maintenance of old structures.

Examples of "adjustment assistance" adopted in the past may be summarized as follows:

- (1) Assistance to the textile industries, effected for the purpose of drastic elimination of surplus equipment in the textile industries in 1971.  
Y48,800,000,000 were paid (from the national treasury) to purchase and dispose of surplus equipment, Y1,071,000,000 to pay lump sum allowances to discharged employees, and Y641,100,000 to find new employment.
- (2) Assistance to the coal industries, in effect since some time ago for the purpose of promoting adjustment of inefficient coal mines (stoppage of mining). In 1971 a subsidy of Y 18,074,000,000 (90% of the subsidy rate) was paid.
- (3) Assistance to medium and small enterprises suffering damage due to the implementation of adjustment measures for reasons of the international economy (imposition of import surcharge in U.S., upward revaluation of the yen, preferential tariff for developing countries, etc.).

In addition to such relief measures urgent measures will separately be required to stop possible rapid flood of imports "at the beach", as internationally allowed by Article 19 of GATT. In this respect, legislative measures are provided in Japan for

the time being by the import regulation based on the foreign exchange control law concerning volume restriction of imports and by the tariff law concerning increase of custom duties.

As stated above, detailed measures are already provided in Japan as "adjustment assistance". However, it will be necessary to change the focus from past efforts for "industrial rationalization" to efforts for "industrial transfer", and to tackle problems with more aggressive structural adjustment in the future. For this purpose it is desirable to restudy the adjustment assistance measures which have been carried out independently and separately and to provide a more organic system.

In conclusion, it can be said that one big problem of the Japanese economy in the future lies in the transition from the past industrial structure based on exports and on the principle of priority for heavy and chemical industries, to a new structure of so-called "information-intensive" industries, placing importance on the promotion of human well-being. This is an indispensable move, not only for the sake of deepening harmonious economic relations with industrialized countries as well as with developing countries, but also for the sake of coping with the domestic problems of environmental pollution, labour shortage, and the difficulty in finding suitable industrial sites.

## Postscript

After this manuscript was completed, there has been a new development in respect of the 8-point program. The Japanese Government decided on May 20, 1972, on a Seven-point emergency economic plan to avert another yen revaluation. This new 7-point program is meant to supplement the 8-point program of July, 1971. The Government says that the program has two broad aims: first, to speed up business recovery, and second, to bring the international payments position, now running a heavy surplus, into better balance. However, in the writer's opinion, these measures of the 7-point program are too vague to be effective.

The 7-points in the plan are:

1. Fiscal and monetary policy: Outlays for public works projects will be disbursed in advance in Fiscal 1972. Loan interest rates will be further reduced. At the same time, interest rates on bank deposits and postal savings will be slashed.
2. Expansion of imports: Import quotas will be expanded while domestic distribution systems will be streamlined.
3. Orderly exporting: The Government will operate pertinent laws and regulations more effectively to help industry's voluntary efforts to establish order in export trade.
4. Use of foreign reserves: Government-held dollars will be deposited in Japanese foreign exchange banks so that their debts to foreign banks could be reduced. Part of the reserves will also be used for overseas investment aimed at the development of natural resources. Monetary contributions to international organizations will be increased. Untied loans will be advanced through the Export-Import Bank for import financing as well as for overseas investment financing. For this purpose, loans will be made to foreign banks.
5. Capital export: Acquisition of nonlisted foreign securities by residents will be liberalized. At the same time, efforts will be made to make it possible to issue yen-based bonds through improvement of the bond market.
6. Economic cooperation: The current system will be revised in order to make possible the "untying" of Government loans to developing countries.
7. Emergency legislative measures: The Government will take legislative action, as required, in order to implement these measures.