EARLY POSTWAR JAPAN'S COMMERCIAL POLICY AND ITS IMPLICATIONS FOR INDUSTRIALIZING LDC'S TODAY*

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I. INTRODUCTION

The vital role that a government has played in shaping and directing Japan's foreign trade is widely discussed. Government's pervasive power and influence over business activities have resulted in rapid internal economic development associated with foreign trade expansion. However, despite this, the Japanese economy has never been subject to a total planning of the socialist type, but is rather the outstanding Asian example of successful private enterprise.

Postwar Japan has skillfully striven to extend her participation in most world trade organizations and has sought, through those organizations, to adapt her foreign trade and to eliminate or at least relax trade barriers while executing her intensive industrialization. Moreover, to improve her

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trade imbalance Japan's economic diplomacy has admirably performed an extremely difficult job, leading to trade expansion coordinated with her industrial restructuring. Scrutiny of Japan's commercial policy provides important lessons for trade policy of certain developing countries today. Even the problems of the potential trade barriers which industrial countries are likely to impose against competitive industrial products of developing countries(1) may be resolved, since Japan's export expansion has been implemented despite various trade barriers. So Japan's past performance is worthy of close examination by industrializing less-developed countries today which have displayed a potential for industrial growth.

Just after World War II the Supreme Command for the Allied Powers (SCAP) took full charge of commercial policy, negotiating on behalf of the Japanese government with all countries concerned with Japanese trade. Even though Japan referred to SCAP's management of its foreign trade as a "blind policy," implying its unhappy feelings, the objective of the SCA P Authority was mainly to establish a "peace-oriented economy"(2) with a reasonable trade balance, allowing for Japan's economic constraints such as overpopulation and poor resource endowment.

In most of the early postwar years Japan operated continuously under trade deficits, burdening the United States whose aid of $3 billion in the period 1945–1950 reduced Japan's trade imbalance. SCAP's trade policy was aimed at reducing the trade imbalance through encouraging exports and restricting imports, thus relieving the United States' burden. "Our economy [Japan] is sustained by the great amount of U.S. Aid funds. We must secure the balance of international income and outgo through promotion of foreign trade on the one hand and prevention of flight abroad of capital on the other hand, and in order to contribute to the recovery and development of the national economy so that U.S. Aid may be employed more effectively."(3) To meet this objective, SCAP's policy was to promote Japanese exports.

Since Japan, once she became independent of SCAP, has in general

(1) See *The Final Acts of* 1964 *UNCTAD*.
(2) K. Yamamura, Economic Policy in Postwar Japan (Berkeley: University of California Press, 1967), Chapter I, II.
(3) Japan, Ministry of Finance, *Guide to Economic Laws of Japan* (Tokyo: Ministry of Finance, 1950), p. 13.

continued SCAP's export policy with some revisions and innovations, it is reasonable to conclude that SCAP's external policy shaped the basic structure of the subsequent trade policy of Japan. That is, SCAP's foreign trade policy became the seedbed of Japan's commercial policy in terms of export expansion and import control, after the Peace Treaty of April 1952. "Foreign trade and exchange controls were more stringent than any the Japanese had maintained in the years before surrender."(4)

For example, the Foreign Trade Control Law and the Foreign Exchange Law, passed in 1949 under the sponsorship of the SCAP, were designed to establish a reasonable trade balance and to induce foreign investment, by encouraging exports and to restricting imports. The Foreign Trade Control Law subjected all imports to licensing, and specified that residents of Japan were obliged to transfer their foreign exchange holdings to the Ministry of Finance which was given complete control over foreign currency.(5) Overall control of Japan's foreign trade and foreign exchange was already instituted prior to 1952.

Since postwar measures for export expansion along with SCAP's trade policy setting were established, emphasis has been on the level of world imports, offer prices, the quality of Japan's trading commodities, and the trade barriers of partner countries. In view of the reality of world trade, and especially in view of protective and discriminatory trade policy on the part of developed and developing countries, Japan in most postwar years except the very early ones, maintained a remarkably high rate of increase in her foreign trade. This indicates that Japan's trade negotiations, coupled with economic diplomacy, have contributed to enlargement of foreign trade.

Following Peace Treaty of 1952, when Japan resumed her complete independence, the Japanese government engaged in reducing the country's cumulative trade deficit. The policies of the SCAP period were amended with strong accent placed on maximizing exports and minimizing imports.(6)

(4) W. Hunsberger, *Japan and the United States in World Trade* (New York: Praeger, 1966), pp. 22—23.

(5) *Guide to Economic Laws of Japan*, p. 124.

(6) U.S. Department of Commerce, *Overseas Business Reports: Basic Data on the Economy of Japan, Part I*, No. 55—83 (Washing, D.C.: U.S. Government Printing Office, 1955), pp. 17—18; and also refer to U.S. Department of Commerce, *Overseas Business Report: Import Tariff System* of Japan, Part II, No. 55—21 (Washington, D.C.: 1955).

In line with the genuine effort of the Occupational Authority to make Japan a self-sufficient economy with improving trade balance, Japan was suddenly confronted by a turning point which accelerated the speed of the U.S.'s policy of strengthening Japan's economy. The Korean War, which lasted from 1950 to 1953, provided Japan not only an economic impetus for recovery, but more importantly a political alignment with U.S. foreign policy, in coping with both Communist China and the U.S.S.R. under the rapidly changing world political situation ignited by the Korean War. In 1954, U.S. Secretary of State, John Foster Dulles, stated that "from a political standpoint it requires little imagination to visualize what would happen if Russia, China, and Japan became a united hostile group in the Pacific. The free world must consider these responsibilities in their trade policy."(7) In accordance with the United States' positive policy, Japan's commercial policy has been conducted on the theory that Japan would have better political and trade advantage by being associated with U.S. foreign policy which tended to promote Japan's economic interests.

The commercial policy for export expansion has been the crux of Japan's trade policy since 1952. Trade strategy has been continuously designed so as to facilitate her exports by accommodating to the changing trade pattern of world import demands by area and by commodity composition. "This has been achieved by tremendous transformation, diversification and modernization of the Japanese economy within a short period. In this sense, there is no trade policy other than the development policies of the entire economy."(8)

Thus Japan's postwar trade policy in the context of her economic development was coupled with the structural transformation of industries, area recomposition, protective tariffs and activity in world trade organizations. Japan's strategy in association with economic diplomacy had contributed to the implementation of the above policy.

In summary, her solutions have been positive ones resulting in rapid growth, through the process of transformation and diversification of her

(7) J.F. Dulles, "Security in the Pacific," Speech made before the Los Angels World Affairs Council, June 11, 1954, *U.S. Department of State Bulletin*, 30 : 971—3 (Washington, D.C.: June 28, 1954); see also J. Cohen, *The Political Process and Foreign Policy: The Making of the Japanese Peace Settlement* (Princeton: Princeton University Press, 1957), Chapter 3.
(8) K. Kojima, "Japan's Trade Policy," *Economic Record* (March 1965), p. 54.

trading partners and commodities. These positive solutions to be discussed below, may serve as demonstrations for those developing countries, which today may take the path of industrialization accompanied by growing foreign trade.

II. COMMERCIAL POLICY FOR FURTHER INDUSTRIALIZING JAPAN

The Japanese government has exercised stringent controls over foreign trade and foreign exchange transactions in order to minimize any malfunctioning in the process of industrialization. As stated above, imports were subjected to licensing, and all foreign payments were under strict control in order to allocate properly scarce resources, namely foreign exchange. Biannual foreign exchange budget and import licenses were enforced to facilitate Japan's industrialization.

The controls originating from domestic requirements were skillfully transmitted to various trade transactions, effecting industrial restructuring toward progressive products which have been called forth by the changing world economy. The characteristics of Japan's trade transactions in this context are discussed here because her industrialization and trade transactions are intertwined in adapting to the changing pattern of world trade. Japan's industrial promotion of progressive commodities whose demand is growing in world markets was accompanied by trade promotion directed at the markets of the developed-nations group.

In trading with developed nations, Japan was favored by specializing in the production of labor intensive industries in exchange for capital and technology-intensive commodities of developed countries. In reality, however, such a premise lived only for a short duration and has not been characteristic of imports in the long run, owing largely to Japan's quick adaptation to the production of progressive commodities. That is, while Japan benefited from trading her labor intensive products with developed countries in the early postwar years, more recently the direction of industrialization and trade commodities have been toward progressive industry, which generated trade expansion in later years, even though these industries were relatively disadvantageous in the early and mid 1950s.

In contrast to the cost advantage enjoyed by the textile industry, for example, high-cost products such as iron and steel, metal and machinery industries were encouraged to expand, if necessary at the expense of traditional industries which operated under conditions of comparative advantage. The Japanese Planning Board estimated that Japan required twice as many manhours as Britain to turn out one ton of pig iron or of steel in the mid 1950s.(9) Also, the labor cost per ton was, after allowing for Japan's low wage, substantially greater for the above commodities than in Britain.(10) Nevertheless, pigiron and steel production were expanded.

Yet, since the heavy and chemical industries were considered to be the progressive industries, the economic policy of the Japanese government during all but the early postwar years has been designed to expand them. Japan's trade position regarding the above commodities was of a marginal nature in the sense that Japan's market share and size were limited. The freedom of opportunity that Japan had in expanding exports without disturbing the import market was capitalized within the context that the degree of trade barriers in the importing market varied inversely with the size of her share.

As costs were high relative to producing in these progressive commodities, Japan employed a protective policy based on the infant industry argument, which encouraged the heavy and chemical industries, through indirect and direct subsidies, tax relief, favorable credit terms, etc. In order to make the products of those industries exportable, additional government assistance to exporters was granted in the way of supporting trade-promotional activities such as participation in trade fairs, foreign market research, establishment of trade centers, advertising, and government-sponsored insurance to compensate for export losses.(11)

The conclusion seems inevitable that the infant industry policy was...... employed in realizing Japan's postwar econcmic development and her associated trade expansion.

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(9) J.B. Cohen, "International Aspects of Japan's Economic Situation," *Japan Between East and West* (New York: Council on Foreign Relations, 1957), p.119.
(10) Committee for Economic Development, Japan in the Free World Economy (New York: 1963), p.6.
(11) U.S., Tariff Commission, *Postwar Development in Japan's Foreign Trade* (Washington, D.C.: 1958), Mimeographed, p.49.

III. IMPORT POLICY

All commercial imports into Japan were subject to exchange controls in the period 1949-1964. The license authorized the right to obtain the necessary foreign exchange and to bring in imported merchandise. The application for import licenses had to be filed with the Ministry of International Trade and Industry (MITI) as a formal procedure. The government announced the amounts of foreign exchange to be available for particular uses in a semiannual foreign exchange budget, which determined the liberality or stringency of import licenses issued.(12) The government informed importers through import announcements, of the available amounts of foreign exchange in the various currencies, with provisions applying to specific uses.(13)

The foreign-exchange budget system was operated under two types of exchange allocation: (1) prior allocation criteria; (2) automatic approval. Under the prior allocation criteria "the budget usually specifies the maximum value of each commodity that may be imported,"(14) with the provision of import sources. These items were under strict controls. However, the automatic approval system was relatively less stringent. "Under the automatic-approval system, licenses for designated commodities were issued without restriction as long as the amount of exchange appropriated in the budget for automatic approval items has not been exhausted."(15) Since the foreign exchange budget determined the types and quantities of import commodities and imports sources based on currency, the trade transaction is largely characterized by bilateral settlement, both encouraging Japan's imports from her export surplus partners and discouraging Japan's imports from her import surplus countries. This could be thought of as a "sophisticated barter trade" linking exports and imports.(16)

Japan, when in April 1964 assumed the status of a nation operating

(12) *Ibid.*, p. 33. 13. *Ibid.*
(14) *Ibid.*, p. 35.
(15) Ibid.
(16) The term "sophisticated barter trade" is used because the exchange budget determines the types and qualities of commodities to be imported and the sources where imports come from, in order to maintain a bilateral trade balance.

under the International Monetary Fund's Article 8, with fully convertible currency became obligated to a revision of her import system and of her foreign exchange budget system in particular. J.D. Blackwood stated in 1965: "Under the new status in the IMF, Japan is no longer free to maintain this form of control. Accordingly, the system of foreign exchange budget for imports has been abolished. In its place, an import licensing system has been introduced."(17)

Under the new policy (after 1964) there were three different licensing practices for importers requiring payments in foreign currencies. Non-liberalized commodities were subject to an import quota system (IQ), the most restrictive system of the three, which required that the importer get an import quota allocation certification from MITI. If the certification was granted, the importer automatically received the import license which authorized the usage of foreign exchange. The second licensing practice was called the Automatic Import Quota System (AI). Again, the importer had to apply for an import quota allocation certification from MITI, but the AI system was much less restrictive than the IQ system. After being granted the certification, the importer could obtain the import license. The third licensing practice was called the Automatic Approval System (AA). The importer was free of quantitative restrictions, and thus did not require the prior approval of MITI. The import license within the AA system was issued rather freely by the authorized foreign exchange banks upon the application of importers.

Through the above license systems the government could control the allocation of the limited amounts of foreign exchange according to the priority order of imports, while honoring her obligations to IMF. In addition, "Japan obtained authority from the Fund to maintain some other restrictions, notably a limitation of $500.00 on the cash that Japanese tourists may take out of the country, in addition to paying for their transportation."(18)

It turned out that the effective allocation of foreign exchange as well as the effective import controls enforced by the Japanese government served Japan most efficiently in developing those industries which produced

(17) J.D. Blackwood, "Japan's Import Policy," *Foregn Trade* (Canada), March 6, 1965, p. 17.
(18) *Ibid.*

progressive commodities. Japan has been slow "to surrender the controls which she found so useful."(19) Nevertheless, under intensive pressure of other trading countries in the General Agreement on Tariffs and Trade (GATT) Japan has been gradually liberalizing her quantitative controls in accordance with GATT's Article ii, according to which she must refrain from imposing quantitative restrictions on imports.(20)

IV. EXPORT POLICY

Especially favorable treatment was accorded to export industries. The link system provides a case in point. There are two types of "link trading."(21) "Exports of specified products have been linked to either (1) imports of other products that could be sold profitably in the domestic market or (2) imports of raw materials required in the manufacture of designated export commodity."(22) The second form of link trading employed was the raw-material link system which permitted the import of raw materials used in processing exports commodities as a form of export incentive.

Nevertheless, the drawbacks of link trading emerged in the following manner. The system tended to encourage importing more than the amount of raw materials needed for the exports involved, "so much so that exporters or manufacturers of export goods were at times willing to cut prices drastically in order to increase the volume sold abroad."(23) Another drawback in terms of the import privilege of high-cost Japanese industry in the period 1953-1954 was the intensive pressures placed on her trading partners which caused bitter complaints. As a result, following the IMF's recommendation, Japan abolished this type of link at the end of 1954.(24) As an export promoting measure, the foreign-exchange retention system established in 1953 was somewhat comparable to the direct linking referred

(19) G.C. Allen, *Japan as a Market and Source of Supply* (London: Pergamon Press, 1967), p. 56. As of September 1971 Japan's import restrictions are 12 items non-agricultural goods such as electronic computers and integrated circuits and 28 items of agricultural products.
(20) *Ibid.*
(21) *Ibid.*
(22) U.S., Tariff Commission, *op. cit.*, p. 40.
(23) Hunsberger, *op. cit.*, p. 171.
(24) *Ibid.*

to above.(25) Overtime, the application and importance of the foreign exchange retention system have declined, along with the discontinuance direct link trading, as a result of the increased availability of foreign exchange. For example, "between 1953 and 1957, the part of the total exchange earnings an exporter was allowed to retain was reduced from 10 to 3 percent, and the period of time in which the exporter had to use the retained exchange was reduced from seven to three months."(26)

These promotional measures should be viewed as a limited formula for encouraging exports, since foreign pressures and complaints tended to focus on these measures regardless of how much justification could be attached to them.

Regarding taxation measures to promote exports the export industries were exempt from the commodity tax, which was a single-stage tax levied generally at the manufacturing stage. If a product was exported after being taxed, the tax paid was refunded accordingly. This system of tax examption and tax refund applied only to export commodities.(27)

There was another promotional tax for encouraging exports. Trading companies were allowed to deduct from their taxable income one percent of their sales contracts abroad, and producers were allowed three percent deductions on their sales contracts for export commodities.(28) Export industries were also allowed special depreciation allowances on fixed assets. The allowance was determined by the rise in the proportion of exports to total sales in the particular accounting period as compared with the previous period. A maximum limit was however set: not more than 50 percent of the normal depreciation was allowed.(29) Moreover, in the tax structure of the corporate sector, a tax exemption of 50 percent for profits earned from exports was granted in order to encourage industry to initiate export enlargement.(30)

In terms of export financing, the Bank of Japan and its agencies advanced

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(25) U.S., Tariff Commission,*op. cit.*, p. 41.
(26) *Ibid.*, pp. 41—42.
(27) United Nations Conference on Trade and Development, Incentives for Industrial Exports (New York: UN, 1970), p. 34.
(28) *Ibid.*, p. 38.
(29) *Ibid.*
(30) *Ibid.*

funds to the export industries at relatively low rates of interest. Since cheap credit for exports has been commonly used in the international competition to promote exports, Japan's practice in terms of cheap capital cost deserves careful assessment by those countries seeking lessons from her experience.

"The Bank of Japan has established the system of treating export advance bills favorably. It will extend loan facilities at low ra tes of interest to exchange banks which finance exports in advance on certain specified terms. The Central Bank attaches favorable conditions to export advance bills in case the exchange banks receive letters of credit relative to these bills."(31) In other words, the export advance bill system was established in order to provide funds for exporters by discounting their export advance bills. An exporter could obtain the funds based on his bill at an especially low rate.For example, the commercial bill's rate might be 6.25 percent while the exchange banks provided short-term credits at interest rates some two to three percent below normal, e.g., for loans secured by export usuance bills the interest rate might be four percent.(32) Credits for the export of capital goods were financed jointly by both commercial banks and the Export-Import Bank of Japan. The rate of interest for such loans was about three percent below the normal rate and the maximum duration of loans was usually ten years.(33)

Furthermore, the Japanese Export-Import Bank operated in-conjunction with the government to support the latter's policy objective of encouraging export and discouraging imports through its credit procedures. For example, it offered credit to customers buying Japanese commodities, while discriminating in its lending policies to customers buying foreign commodities. Export loans were processed liberally and import loans were screened making use of strict commercial criteria.(34)

V. PROMOTION OF LARGE FIRMS

The Japanese government encouraged the formation of large firms under

(31) Bank of Tokyo, *Semi-Annual Report* (Tokyo: December 1960), pp. 42—43.
(32) UNCTAD, *op, cit.*, p. 40.
(33) *Ibid.*
(34) L. Hollerman, *Japan's Dependence on the World Economy* (Princeton: Princeton University Press, 1967), pp. 199—202.

the so-called rationalization program. Modern technology for progressive industries required heavy investment which only large firms were able to finance, and large firms could most easily take the risk involved in the application of recent technology, and in involvement in world commerce in new products. Large size could make it possible to achieve the economies of scale needed in modern industrialization. Government adoption of the above reasoning has resulted in accelerating the formation of large firms since the mid 1950s by leaps and bounds. "The concentration movement reveals a contradictory element in government policy, for on the one hand the government purports to justify its resistance to foreign equity investment in Japan on the ground that such investment threatens the existence of small Japanese firms; but on the other hand it systematically sacrifices these same firms in favor of the interests of domestic oligopolies. Increased concentration in Japanese industry is paralleled by increased concentration in the conduct of Japan's foreign trade. Trading companies are becoming larger and fewer."(35)

VI. TRADE NEGOTIATIONS

In comparison with the prewar period many developed countries of the free world have liberalized their trade policy. There continue to exist, however, various trade barriers of all kinds and forms. In this context, some clarification is required concerning different degrees of trade barriers from country to country, since liberalization of trade policy has been made by different countries at different rates. Because of the conflict of trade interests, every country has compromised her desire to export in general with her desire to protect certain domestic industries in particular. Trade expansion has tended to proceed farthest where the political interest seemed strongest and where the probable domestic industries were least disturbed. We have observed Japan's trade expansion with her partner countries and it is important also to discuss the bilateral negotiations of Japan and the United States, Japan and the United Kingdom, Japan and the Australia and Japan and the Open Account areas, and to

(35) *Ibid.*, p. 157; I. Hoshii, *Japan's Business Concentration* (Philadelphia: Orient/West, Publishers, 1969) Chapter 2.

comment on Japan's negotiations. This may shed some light on trade strategy useful to other countries seeking lessons from Japan's experience.

Since her colonies, which had provided export markets and import sources, were gone, postwar Japan was forced to enlarge her trade under most unfavorable circumstances. Japan's trading organizations and foreign connections had been wiped out,in the course of the war and her defeat, and there was widespread discrimination against Japan's trading commodities. If there was any favorable element, it was United States' aid and U.S. special procurement expenditures. Without this factor Japan's economic development would doubtless have been different, and less successful.

However, postwar Japan made progress adjusting to the new situation by retreating from her former trading set-up. Also her partnr countries modified or abandoned their discrimination against Japan's trading commodities. The emerging favorable trend was in many cases due to Japan's trade negotiations with partner countries, which took the form of bilateral trade negotiations.

1. United States-Japan Trade Negotiations

The Treaty of Friendship, Navigation and Commerce Agreement between the United States and Japan in 1952 included measures for promoting trade, and stipulated most-favored-nation status (mfn) and equal treatment of both countries' citizens in their business practices.[36] The commercial treaty with the United States was the most significant treaty for Japan, because this treaty influenced Japan's subsequent treaties with other trading partners, and even more because Japan's dependence on the U.S. economy in the postwar years has been so extensive. The United States has been the principle source of Japan's imports and the most important market for her exports. Japanese trade has not been important to the United States to a similar degree; only five percent of United States exports and four percent of United States imports in 1956 were, for example, concerned with Japanese trade.[37] Under this situation Japan laboriously strove to export

(36) Overseas Business Reports: Part I, *op. cit.*, p. 20.
(37) U.S., Tariff Commission, *op. cit.*, p. 123.

her products to the U.S. market, but she did not fully succeed, and this resulted in trade imbalance in favor of the United States.

Although in the early postwar years the United States viewed Japan as a burden as well as a poor economic prospect and questioned her chances to build a self-supporting economy, the United States had been very sympathetic in engaging in bilateral trade negotiations.(38) Furthermore, "in addition to concluding a new trade agreement with Japan, the United States also used its bargaining power to bolster Japan's export trade by granting concessions to a number of other countries so that they in turn would grant additional concessions to Japan. Reciprocally, Japan made compensatory concessions to the United States in return for those which the latter extended to third countries."(39)

2. Anglo-Japanese Trade Negatiations

The Anglo-Japanese Payments Agreement of 1951 was designed to promote trade between the sterling area and Japan.(40) The Agreement stipulated that payments between Japan and the sterling area were to be settled in sterling. If Japan ran up a balance surplus of sterling because of an excess of exports over imports, sush a surplus would not be converted by Japan into gold or dollars. If an imbalance developed it would be corrected by a change in import controls. In other words, "the intention was that a broad bilateral balance should be maintained between Japanese payments to the sterling area or sterling area to Japan.(41)

As compared with the comparable U.S.-Japanese trade negotiation, Anglo-Japanese trade negotiations were strictly business-like in establishing a balanced bilateral trade between the two countries. In the negotiations, Britain had an advantage at the time, setting terms of trading commodities and foreign exchange. Japan's motivation, however, was more than the promotion of Anglo-Japanese trade. In concluding trade agreements with

(38) U.S., Tariff Commission, *op. cit.*
(39) Cohen, *op. cit.*, p. 145.
(40) The sterling area consists of all British Commonwealth countries except Canada, but includes Iceland and the Irish Republic.
(41) J.E. Meade, "Japan and the General Agreement on Tariffs and Trade," *The Three Banks Review* (London: June 1957), p. 19.

Britain she felt other European countries would follow suit.

The 1963 Anglo-Japanese Commerce and Navigation Treaty, which developed from the 1951 agreement, resulted in the rapid growth of trade between Japan and England (and the sterling area as a whole). For example, Japan sold $198 million to England and bought $198 million of English products in 1964, representing a gain of 27 percent and 24 percent respectively over the previous year.[42]

The implicit advantage to Japan of the Anglo-Japanese Treaty was its influence over other European countries. By this treaty England gave up her right to protect its manufacturing industry, granted by Article 35 of GATT, which meant ending most of her trade restriction against Japan and vice versa. Similar action was taken by a number of Western European countries such a France and the Benelux countries.

There was a further implication of the Anglo-Japanese trade negotiations. In entering into commercial rivalry with Britain in the field of traditional trading commodities such as textiles and ceramics, Japan tended to soften her terms in negotiation with the British in order to promote trade coperation. However, Japan's emphasis in her trade negotiations has been on her group of progressive commodities, while the British clung on to the established traditional commodities.[43] On this matter, Drucker sums up by saying: "The Japanese have never bought time for an old industry by concession in respect to a new one. They have never offered to limit their electronic export, for instance to gain greater access to a market for their cotton textiles, their bicycles, or their sneakers."[44]

3. Australian-Japanese Trade Negotiations

Australia's bitterness toward Japan resulted from her World War II experience, and her economic antagonism, derived from the fear of cheap import competition, had reinforced political prejudices. It had been supposed

(42) *Oriental Economist* (Tokyo: November 1965), p. 629; JETRO, *Foreign Trade of Japan*, 1965 (Tokyo: JETRO, 1965), p. 145.
(43) W.J. Jorden, "Japan's Diplomacy Between East and West," *Japan Between East and West* (New York: Council of Foreign Relations, 1957), p. 254.
(44) P. Drucker, *The Age of Discontinuity* (New York: Harper and Row, 1969), p. 68.

that friendly relations between the two countries would require years in which to develop. But "prejudices and fears alike subsided surprisingly quickly in the next five years, thanks largely to the skill and goodwill with which issues arising under the agreements were handled on both sides."(45)

It was true for Australia that she would be benefited by trade with Japan, since Japan, with economic recovery under way, had become one of her most important export markets. The growing economic interests dictated overcoming prejudices against Japan which took the form of trade barriers and other forms of discrimination. The Australian-Japanese Trade Agreement of 1957 was considered a new dimension in trade relations between the two countries. "In 1957 Japan and Australia signed a commercial treaty which accorded Japan 'most favored nation' treatment although even then the Australian government retained the right (under Article 35 of GATT) to impose quota restrictions, and the Japanese were required to introduce 'voluntary' limitations on certain exports."(46) That is, the Australian government exercised the right under Article 35 of GATT to protect her manufacturing industry if threatened seriously, and the Japanese government engaged in voluntary restraints on her exports for the same purpose, in a spirit of cooperation. The agreement was implemented by frequent consultation between the two countries.

From the frequent contacts and mutual cooperation both sides promoted trade and fostered close relations. "Japan-Australian Business Co-operating Committee have held conferences, alternatively in Australia and Japan, to discuss outstanding problems in trade between the two countries. Ministers, tycoons, academics, journalists have exchanged visits. Trade fairs, trade journals, special supplements to newspapers have exhibited each country's wares in the other. It is probably not unfair to say that initiatives have come more often and more forcibly from the Japanese side. But Australian response has certainly not lacked in warmth and kindness."(47)

Australia was further persuaded to revise her import regulations in

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(45) H.W. Ardnt, "Australia and Japan: Trade Partners," *The Three Banks Review* (London: December 1965), p. 6.

(46) Allen, *op. cit.*, p. 97.

(47) Ardnt, *op. cit.*, p. 7.

Japan's favor. In 1963 the agreement was revised and Australia agreed to withdraw her rights under Article 35 of GATT. This revision in effect implied that Japan would get non-discriminatory treatment in any future emergency action to safeguard Australian industries. In return, Japan also made significant concessions in her import policy toward wool and wheat. As aresult, in 1964 Japan supplied about seven percent of Australian imports. Although the chief item still consisted of textile products, there was a wide range of industrial commodities with a growing share of chemical industrial products, machinery, motor cars and scientific instruments which were increasingly demanded. From Japan's point of view, Australia had by 1964 become Japan's second largest supplier or imports and third largest single market for exports.[48]

The significant implication here is that Japan, importing more from Australia, took the trade imbalance position as her bargaining basis for promoting her exports through "give-and-take" diplomacy. In other words, the application of government and personal diplomacy has been extensively employed in promoting the objectives of commercial policy. The Japanese-Australian Business Cooperation Committee, for example, was an outgrowth of personal diplomacy, from which mutual advantages have been reaped.

This experience has value for certain developing countries, many of which are trading with developed countries under import imbalances. It might be feasible to establish a bargaining basis for their export expansion through public and private initiative, regardless how limited this might be.

4. Open Account Area-Japanese Trade Negotiations

In the open account payments area Japan had traded on the basis of a bilateral clearing mechanism under open account agreements facilitating a "two-way trade flow" outside the international payments system. The bulk of Japan's export and import trade in the mid-1950s other than that with the United States was transacted on such terms.

Japan's open account agreements had two parts: a trade plan and a clearing arrangement.[49] Through this mechanism Japan was able to

(48) Allen, *op. cit.*, p..98.
(49) U.S., Tariff Commission, *op. cit.*, p. 26.

expand her export credits up to the "swing ceiling" in order to enlarge her exports, provided that any balance exceeding the swing ceiling be settled periodically in dollars or gold. This system served its purpose until the recovery of the international payments system made it no longer necessary.

The import and export transactions offset one another in bilateral payments, with the provision that the system provided the ceiling amount of a net debit and periodical settlement. More specifically, a shortage of hard currencies or gold would not impede a bilateral trade transaction, i.e., the mechanism made two-way trade expansion possible even where normal patterns of trade were blocked.

In connection with the above "trade-and-payments" agreements, Japan also employed barter transactions but only if and when little or no trade would otherwise be possible. Barter deals were arranged largely with Communist-dominated countries. The trend of barter transactions declined throughout postwar years totalling, for example, only $94 million in 1956.

VII. JAPAN'S POLICY STRATEGY AGAINST TRADE BARRIERS

Throughout the postwar years a most pressing problem in relation to Japan's exports has been trade barriers and discrimination directed especially against her exports. The discussion here will focus on non-tariff trade barriers, and Japanese policy strategies to offset them.

The causes of trade barriers erected by other countries were rooted in the allegations that Japan had conducted "unfair competition" in the past and that she would probably do so in the future. The unfair competitive practices of Japan took the form of dumping, exploiting labor, violating copy and patent rights, using false marks of origin, and market invasion aiming to destroy competition.(50)

During the decade of the thirties, and again after 1952, charges were frequently made that Japanese goods were being dumped in foreign markets; that irregularities in prices of Japanese merchandise were unduly

(50) G. Patterson, *Discrimination in International Trade: The Policy Issues* 1945—1965 (Princeton, Princeton University Press, 1966), p. 277.

injurious to producers in the countries of destination; that Japanese producers infringed foreign designs and trademarks; that Japanese merchandise was exported in quantities in excess of what could be absorbed without causing severe market disturbances.[51]

In general, trade barriers against Japan were defended on the above grounds. In the postwar years, in order to forestall restrictions against Japan's trading commodities, the Japanese government had taken various policy measures with the cooperation of exporters, such as voluntary export control.

Both the government and the exporters set export controls limiting foreign sales of particular classes of commodities in response to severe complaints in foreign countries against Japan's export commodities. The complaints were primarily based on a sudden invasion of significantly growing amounts of Japan's cheap commodities turned out by low-wage industries. In the early postwar period Japan's exports were dominated by a few trading commodities associated with a high degree of area concentration focused on the United States. Accordingly, Japan was facing formidable discrimination as she passed her industrial recovery and reconstruction in the period 1945–1954.

Even though the United States was, at that time, considered as the leading country advocating the principle of free trade,[52] the Japanese government was under pressure to limit sales of certain commodities by means of "voluntary" export quotas to the United States. The American arguments were more distinct ones, viz., disturbances in her market, and injury to her domestic industries. In response to these charges, Japan imposed export quotas:

> Export quotas on a variety of products since 1954 include: frozen albacore, canned tuna in brine; spun rayon fabrics; articles of cotton cloth, such as tablecloths, pillowcases, dish towels, handkerchiefs, blouses, shirts, shorts, trousers; and gloves and mittens; sewing machines; Toyo cloth caps; chinaware.[53]

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(51) U.S. Tariff Commission, *op. cit.*, p. 44.
(52) *Semi-Annual Report* (June 1959), *op. cit.*, p. 34.
(53) U.S. Tariff Commission, *op. cit.*, p. 44.

Traditionally, of course, Japan's major exports to the United States had been cotton textiles. During 1955, Japanese exports had increased sharply. For this reason producers of certain cotton products, including gingham, velveteen, pillowcases, and blouses, requested the U.S. Tariff Commission for "escape clause" investigations. To this Japan responded with export quotas of cotton fabrics and women's blouses in January 1956; and the quota for fabrics was placed at 150 million square yards, for blouses at 2.5 million dozen.(54) Japan's action on export quotas was highly praised by American authorities who held that it was preferable to handle the problem by means of a "voluntry" export quota than by unilateral protective action by the United States.

The further implication of voluntary export restrictions was their widespread application in subsequent trade, as witnessed in various cases of the mid-1960s. For example, Japan was reported to have such agreements with at least 20 countries, including the Benelux countries, Canada, Switzerland, Germany, Denmark, Australia, and New Zealand.(55) In November 1964 there were 67 items under voluntary quotas in the U.S., 28 in Canada, 65 in the United Kingdom, 24 in Denmark, 7 in Switzerland, 5 in West Germany, and 1 item in both France and Norway.(56)

Since most commodities subjected to quantitative restrictions were in the nature of light manufacturing products (e.g., textiles, tableware, cotton clohtes, gloves, chinaware, etc.) Japan's strategy toward promoting progressive commodities was further justified by the trade restrictions and voluntary export controls, in regard to the long run adjustment process. Japan's efforts under voluntary export control inevitably led her to exert herself in now dimension emphasizing product quality and further sophistication, viz., production of high value commodities.

VIII. FAIR PRACTION STRATEGY

In order to respond to foreign complaints and to forestall further trade barriers from abroad, Japan took policy action to protect foreign trademarks

(54) *Ibid.*, p. 45.

(55) Patterson, *op. cit.*, p. 296.

(56) K. Kojima, *Japan and a Pacific Free Trade Area* (Berkeley: University of California Press, 1971), p. 46.

and patents along with improving her product quality.

The Export Control Law of 1949 specifically authorized the government to supervise the export of commodities which did not imitate designs or trademarks registered as the propoerty of another party in the country of destination. Since Japan was known to be discriminated against by other countries owing in part to the unfair competition of violating property rights, the government had been pursuing the forceful implementation of the law with various measures to alleviate foreign criticism and to forestall reprisals from abroad.

To put the above policy into effect the government worked closely with the export industries. For example, the Japanese export industries, such as those producing textiles, pottery, and sundry commodities, established a design registration center with government support, preventing unauthorized copying of designs. The export industries (or export associations) coordinated their actions with the Export Control Law to prevent unfair competition in foreign markets.(57)

In fact, the Japanese government considered the operation of this law as an opportunity to create a new image of Japan's foreign trade, and therefore as a concrete bargaining advantage. In accordance with the law the government has been supervising export commodities prior to shipment so as to respect foreign patents and trademarks. MITI in cooperation with custom officials, has been attempting to check such unfair practices, even though the difficulties in doing so are substantial.(58)

As a counter-measure to prevent imitations of foreign designs, the government promoted "home-grown" design by encouraging "design centers" and coordination among these organizations. In 1955 such agreements, which included provisions binding the signatories to refrain from exporting copied designs, were implemented with the framework of MITI control. The export associations of manufactures, textiles, chemical fibre textiles, pottery, velvet, tiles, ornamental illuminations and artificial pearls were subject to the supervision of MITI, while at the same time being encouraged to create indigenous product designs. The Japan Textile Center, the Japan Pottery

(57) Japan, Ministry of International Trade and Industry (MITI), *Sengo Nihom Boeki no* 20 *Nensi* (*Postwar Japan's* 20 *Years Foreign Trade*) (Tokyo; 1967), p. 465.

(58) *Ibid.*

Design Center, the Export General Merchandise Center of Japan (i.e., the Sundry Goods Design Center), and the Japan Machinery Design Center were representative of associations which promoted new designs to counter imitations of patents of foreign origin.[59]

Because the export association centers were encouraged and sponsord by the government, each member of an association felt obliged to follow the decision of the center. Accordingly, MITI's supervision over export commodities made possible the improvement standards of fair practices along with improving the image of Japan's trading commodities.

We comment here only on JETRO's role in respect to designs. One of the important functions of JETRO was to encourage and promote indigenous industrial designs. JETRO was actively involved with every design center of the export associations, securing and providing samples of new products for exports and related industries as a device promoting product design and product quality.

As to product quality, Japan, under her export inspection law, has required inspection of selected export commodities to assure minimum quality standards. Export associations positively committed themselves to implement the inspection law, by conducting quality controls of export commodities. But government intervened in this self-policing. "In May 1957, the government revised its export inspection law, providing for a system of independent inspectors to operate under the supervision of MITI."[60]

Since unfair price practices had been criticized by foreign countries, Japan took action on this matter through the "check price" system which was aimed at maintaining minimum export-price level. Because competition among Japanese small-and medium-size export industries pushed commodity prices up to the minimum level, at times the export industry as a whole was handicapped owing to both the high level of the floor price and the charge of dumping in foreign markets. Export associations took into account such problems and initiated minimum export prices high enough to cover costs of production. In short, the prices pressed by export associations

(59) U.S. Department of Commerce, *Oversea Business Reports: Patent, Trademark, Industrial Design and Copyright Protection in Japan*, OBR 65—54 (Washington, D.C., Government Printing Office, July 1965), pp. 5—6.
(60) U.S. Tariff Commission, *op, cit.*, p. 48.

tended to be higher than those that would have prevailed in a competitive market.

In summary, the Japanese government has played a crucial role in setting the pace of foreign trade. Japan's commerical policy was designed to promote exports expansion in order to minimize trade imbalance, while implementing production restructuring. The government shrewdly approached its policy objective by employing every possible means available. Its economic diplomacy deserves a high mark in realizing Japan's trade normalization and establishing further trade relationships with partner countries undermost difficult circumstances. In short, the persistent efforts and skillful diplomacy bore the fruit allowing major export expansion and restructuring of industry.

Today's developing countries, insofar as they show any industrial potential, might benefit from close examination of this case of government-business cooperation and the Japanese type of economic diplomacy.

IX. SUMMARY AND RECOMMENDATION

During half-developed economy, Japan applied most stringent measures controlling her trade in order to regulate the use of her limited foreign exchange reserves. Since Japan had a cumulative import deficit with developed countries, she had exercised the strict import and exchange controls.

Also, there was redirection of trade partners in order to solve the problems of foreign exchange and the shortage of hard currency. Bilateral trade agreements were made with her trading partners, specifying the currency to be used. The purpose was to encourage mutual trade between Japan and her trade partners. The implication here for industrializing LDCs is that even those countries classified as having soft currencies could initiate mutual trade by bilateral trade agreements and thereby extricate themselves from some of their trade difficulties.

The recommendations which may be summed up as suggesting that developing countries take heed of the formidable example of Japan do not imply that in every respect each one is competent to do so. There is a great and economically significant difference in the size, economic potential, and bargaining strength of Japan as a developing country. *There are many developing countries.* For those which are undertaking industrialization, the postwar example of Japan provides options in regard to trade development which should be given serious consideration.