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### Why Was Trade Protective in Japan?

by Professor Tsutomu Nakamura, Nagoya \*

Japanese restrictive trade policy has been frequently condemned by the advanced countries since its reopening of postwar private foreign trade. But they usually forget the historical background which has led to restrictive trade policy. At the end of 1949, trade administered by the Allied Forces was transferred to private hands, and the Act on the Administration of Foreign Exchange and Foreign Trade came into effect. Private business could not import goods beyond the allotted foreign currency. Government's chief means of import restriction was this foreign currency allotment system. The reasons for the enforcement of the foreign currency allotment system were the following:

#### **Foreign Currency Allotment System**

□ As a result of the defeat in World War II, Japan suffered from deficiency of supply since the country lost its assets and resources. Worsening of the balance of payments position seemed unavoidable through the increase of import demand, if imports would have been left unrestricted. And Japan had not enough strength to keep a balance through a rapid increase of export, because industries had not yet recovered.

□ Foreign currency allotment was used as an instrument for carrying out postwar restoration and for increasing domestic productive power as signalled by the Government. By this means the Government had the chance to give priority to the import of raw materials and equipments which met this purpose.

□ The restriction of imports was enforced for the protection of industries whose competitive position was inferior to the one in the more advanced countries. But it was believed that domestic industries could only exist and expand if imports were restricted and domestic prices were kept high.

Since 1955 Japan has entered the stage of high economic growth. The liberalisation of imports went on in accordance with the recovering convertibility of western currencies at the end of 1958. It was not appropriate to attempt to shut off domestic industries from foreign pressure in this developed stage notwithstanding that free trade was the internationally recognised basis of peacefully developing world economy. Furthermore Japan accepted OECD's rules on the liberalisation of current non-trade transactions and of the movement of capital when it participated in OECD in 1964. It started the first liberalisation of domestic investments in July 1967, and initiated the second liberalisation in March 1969. The third liberalisation has been put into effect in autumn 1970. As a result, liberalised industries numbered 204 by the second liberalisation and 524 by the third one. The rate of import liberalisation was 94 p.c. in April 1970, though it had been only 41 p.c. in April 1960. The items of remaining import restriction were reduced from 460 in April 1962 to 98 at present, and they are to decline to less than 40 by September 1971.

Japan's liberalisation of trade and capital has been going on rapidly in this manner recently. But the items of the remaining import restriction are still numerous, compared with 5 of them in the USA, 25 in England and 39 in Germany. Though automobiles will be liberalised at last in April 1971, computers are not yet the object of liberalisation. The investment ratio of Japanese and foreign firms is 50 versus 50. Thus other advanced countries still condemn Japanese trade policy as being too protective.

#### **Historical Background**

This condemnation of the country's consistent protective trade policy from the resumption of private trade to the present is quite justified. The

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reasons for protectionism at the stage of revival of private trade were stated at the outset, i.e. the Government's strong leadership and intervention in industry. And this was the attitude that continued consistently from the Meiji Restoration up to the present. For, when Japan joined the capitalistic countries by the Meiji Restoration, western advanced countries had already become highly industrialised. For this reason there was a wide development gap between Japan and them, and there was even the peril of colonisation if not properly handled. Furthermore, tariffs were fixed at 5 p.c. at the maximum by the agreement with the western powers and due to specific duties the actual rate remarkably dropped even. These low tariffs continued till 1911 when Japan could have an independent customs system.

Japan had to suffer extremely to achieve industrialisation in such a situation. It could not wait for the classical development of free economy for its industrialisation, and therefore the Government adopted the intervention policy for the development of industry. That is, the Government itself established major industries, such as armaments, railroads, communications, mining, ship-building, machinery, chemicals, cotton and silk industries, and later transferred them to private ownership on favourable conditions. It also provided industrial funds and gave subsidies to private enterprises. This intervention was very effective for the development of Japan's capitalistic order. The controlled economy was enforced during the War, which strengthened the tradition of government interference. After the abolition of the controlled economy government interference was still stronger than in other advanced countries, fiscal, monetary and foreign currency allotment policies being used. Even after a liberalisa-

tion policy for trade and capital was introduced, this traditional protection of infant industries did not easily disappear. And Japanese economic development since 1955 was so rapid that its protectionism traditional since the Meiji period could not adapt itself to it. This shortcoming seems to be the cause of the condemnation by other advanced countries, since Japan did not give up protectionism in spite of the fact that it has become a major economic power.

### US and EEC Protectionism

Free trade based on the international division of labour makes the world economy develop, enabling the optimum distribution of resources. But it is the permanent preoccupation of advancing countries with their primitive industries, impeding their development, to see the international division of labour under short-term aspects and statically. We cannot ignore that strategic industries, even if they are in an unfavourable position compared with those of advanced countries from the standpoint of a short-term and static international division of labour, might gradually develop favourably if adequately promoted. It is reasonable in this respect to call free trade the logic of the strong. Considering the way the development of advancing countries is taking, we think it necessary that advancing countries adopt a protective policy to a certain extent.

Japan started the liberalisation policy in accordance with the request of advanced countries in a certain development stage. This policy was very effective for the rationalisation and strengthening of the constitution of industries, exposing them to international competition. Japan has grown to become the third biggest country as

consolidated group membership — joint holdings  
foreign interests — capital stock — liquid  
reserves — world turnover — export contingent  
reserve fund — tangible assets — investments  
share earnings — dividend — balance sheet total  
financial year — number of employees  
product lines — manufacturing plant  
business classification — address — management  
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regards GNP through this clever combination of protectionist and free policies. Other advanced countries should not ignore that Japan is now very enthusiastic about its liberalisation policy. The schedule of liberalisation above mentioned is to be hastened, and thus the gap between economic development and traditional protectionism is going to be narrowed promptly. Therefore we are sure that the condemnation by other advanced countries of Japan's protectionism will weaken in one or two years.

On the contrary, the USA is going to be converted from the leader of free trade to a protectionist power due to price increases and the decline of its international competitiveness. The weakening

of the strong can be seen there. The USA, though weakening, is still the strongest economic power in the world. To pull down the flag of free trade must seriously influence the development of the world trade. And this development is accompanied by EEC's area protectionism. The adverse proceeding of international trade from free trade to protectionism seems to be unavoidable to a certain extent in contrast with Japan's recent favourable attitude toward liberalisation. American protectionism is particularly directed against Japan. However, if it is realised that World War II was caused by the dissolution of the world economy and the shrinkage of world trade owing to raising of tariffs, the expectation should be justified that protectionism will soon be checked.

## Change in the German Foreign Trade Climate

by Dr Wiebke Jensen and Günter Großer, Hamburg

For several months now a growing number of signs have been pointing to a slackening in economic activity in the Federal Republic of Germany. Foreign trade has not remained unaffected by this change of climate. Since the beginning of the boom period at the end of 1967, the flow of foreign trade has increased considerably. In the first half of 1970, the nominal GNP, adjusted for seasonal variation, was roughly a third larger than what it had been during the second half of 1967, while in the same period exports of goods rose by 40 p.c. and commercial imports (government-imported goods excluded) by as much as 50 p.c. In terms of 1962 prices, the import increase amounted even to 54 p.c.; in other words, imports rose 2½ times as much as the GNP in real terms, which increased by "only" about 19 p.c.

### Strong Growth of Commodity Imports

The GNP of 1970 is expected to exceed that of 1969 by 13 p.c. nominally or by 5.5 p.c. at constant prices. Commodity imports during January/September of this year rose by 14 p.c. (at constant prices) compared with the first nine months of 1969; they have thus been maintaining the strong growth rates of the last few years. It is

however true to say that already in the second quarter and particularly in the third quarter of 1970 the import expansion was to a large extent due to strong increases in the imports of fully finished products (about one third of total imports). On the other hand, foreign supplies of semi-finished products and goods for further processing showed, when seasonally adjusted, a considerable drop in the second quarter. This reflected the drying up of the flow of new orders since the beginning of the year as well as the fact that industrial production has practically ceased to grow. In the third quarter this type of imports actually declined. During the final phase of the preceding boom, in 1965 until the beginning of 1966, imports of fully finished goods had also continued to increase strongly, whereas imports of semi-finished goods and products for further processing had stagnated.

At constant prices, the import growth rate for the year should reach an average 12.0 p.c. Average import values, which reflect price trends, should on the whole show a recovery for the fourth quarter from the decline they registered early in summer. Their total for this year is nevertheless expected to be about 1.5 p.c. lower in DM terms than in 1969.