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The Foreign Trade Policy of Japan

by Bernhard Klinner, Berlin *

The article offers an analysis of the changes, during the past decade, in Japan's foreign trade pattern. Special regard is given to the effects of the wave of price increases in the world commodity markets which, owing to the large share of raw materials and food in the country's imports, has hit Japan particularly severely.

With a little under 8 p.c. of total world trade Japan ranked third among the major trading nations in 1974 (1965: about 5 p.c.) after the USA with a good 13 p.c. and the Federal Republic of Germany with over 12 p.c. In the ten years from 1965 to 1974 Japan's imports and exports advanced at an annual average of nearly 24 p.c. while the world trade as a whole increased over the same period at a rate of 12.5 p.c. (Table 1).

Great Importance for the National Economy

The importance of the foreign trade for the national economy of a country corresponds to the degree of integration with external economies. It is in general gauged from the ratio of foreign trade (imports + exports) to the national product. According to this criterion Japan's total foreign trade ratio rose from about 16 p.c. in 1965 to over 26 p.c. in 1974 (compared with the Federal Republic's 31 and 41 p.c.). Another important indicator is the amount of foreign trade per inhabitant which in 1974 amounted in Japan to \$ 1,070 (in the Federal Republic \$ 2,555).

Japan's production of goods and services was in 1974 for the first time since the end of the war – in real terms – slightly retrogressive. The country's imports and exports showed in the year under review the highest growth rates since 1945 (+ 62.1 p.c. and + 50.4 p.c. over 1973), but owing to the deterioration of the terms of trade resulting from the big price rise for imported oil the imports in 1974 were really smaller than in the preceding year. In consequence Japan last year recorded the largest adverse foreign trade balance in its history. The trade deficit of nearly \$ 6.6 bn followed on one of approximately \$ 1.4 bn in 1973 whereas in 1972 the largest post-World War II surplus – \$ 5.1 bn – had been recorded. The back-

ground of this development will have to be discussed later.

It can be seen from Table 2 that Japan's foreign trade turnover expanded more than sevenfold in the 1965–1974 period – from \$ 16.6 bn to \$ 117.6 bn. Japan's trade exchanges with the states of Asia increased most (+ 766 p.c.) during this decade; Europe (+ 648 p.c.) and South America (+ 625 p.c.) came next. If the average annual change is used as a reference basis, the average growth rate comes out at about 24 p.c. Only Japan's trade with North America (+ 21 p.c.) lagged behind this average.

As a result of the economic downturn especially in the USA – and the consequent weakening of the demand for foreign goods – the North American share of Japan's foreign trade has been decreasing since 1971 (35.6 p.c.); by 1974 it was down to 28 p.c. The average of 33 p.c. during the 1965–1974 decade has not been equalled by the USA and Canada since 1973.

With trade expanding at rates of 57 p.c. in 1973 and 87 p.c. in the following year the countries of the Asian region have been occupying the first place in Japan's foreign commerce for the past two years: in 1974 goods to the value of \$ 47.5 bn were exchanged in both directions; Asia thereby accounted for 40.3 p.c. (1965: 33 p.c.) of all Japanese imports and exports.

The following brief table shows that the importance of the developing countries has greatly increased in the last five years:

Share (in p.c.)	1970	1974
Industrialized countries	55	44
Developing countries	40	50
Socialist countries *	5	6

* Head of the Economic and Statistics Section of Berliner Industriebank AG.

* People's Republic of China, Soviet Union, Mongolia, North Korea, North Vietnam, Eastern Europe.

FOREIGN TRADE

Table 1
Japan's Foreign Trade

Item	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Annual average or growth 1965-1974
Imports (\$ mn)	8,169	9,523	11,663	12,987	15,024	18,881	19,712	23,471	38,314	62,110	21,985
Exports (\$ mn)	8,452	9,776	10,442	12,972	15,990	19,318	24,019	28,591	36,930	55,536	22,202
Imports + exports (\$ mn)	16,621	19,299	22,105	25,959	31,014	38,199	43,731	52,062	75,244	117,646	44,187
Balance (\$ mn)	283	254	-1,222	-16	966	437	4,307	5,120	-1,384	-6,574	+217
Exports in p.c. of imports	103	103	90	100	106	102	122	122	96	89	101
Growth rate (change from preceding year)											
Imports (p.c.)	2.9	16.6	22.5	11.4	15.7	25.7	4.4	19.1	63.2	62.1	24.3
Exports (p.c.)	26.7	15.7	6.8	24.2	23.3	20.8	24.3	19.0	29.2	50.4	24.0
Imports + Exports (p.c.)	13.8	16.1	14.6	17.4	19.5	23.2	14.5	19.0	44.5	56.4	23.9
For comparison:											
World trade ¹ (p.c.)	8.5	9.7	5.1	11.5	12.5	6.5	6.7	8.7	14.7	40.8	12.5
Share in world trade ¹											
Imports (p.c.)	4.7	4.9	5.8	5.8	5.9	6.4	6.0	6.1	7.3	8.1	6.1
Exports (p.c.)	5.1	5.4	5.5	6.1	6.5	6.9	7.6	7.6	7.1	7.2	6.5
Imports + Exports (p.c.)	4.9	5.2	5.6	5.9	6.2	6.6	6.8	6.8	7.2	7.7	6.3

¹ Without Eastern Bloc countries.

Sources: Ministry of Finance, Tokyo; International Monetary Fund, Washington; Federal Statistical Office, Wiesbaden; author's own calculations.

The increase of Japan's imports from developing countries was particularly marked; they expanded nearly three and a half times so that the share of this group of countries rose from 40 to 53 p.c., i.e. by 13 percentage points. Japan's imports from industrialized countries rose over the same period only one and a half times, so that their share fell from 55 to 42 p.c., i.e. by 13 percentage points. The share of Third World countries in Japan's exports rose by 5 percentage points, from 40 p.c. in 1970 to 45 p.c. in 1974, whereas the share of the industrialized states declined by 6 percentage points, from 54 to 48 p.c.

The European Community is still playing only a minor role in Japan's foreign trade: in 1974 the EC accounted for no more than 6 p.c. (1970: 8 p.c.) of the country's imports and 11 (10) p.c. of its exports. Of Japan's total foreign trade with industrialized states in 1974 19 p.c. (1970: 16 p.c.) were transacted with the EC.

The tabulation shows Japan's goods exchanges with communist countries to be small: 5 (5) p.c. of the imports and 7 (6) p.c. of exports in 1974 (1970) were attributable to socialist states. The Soviet Union's share of Japan's trade with the

Table 2
Japan's Foreign Trade by Groups of Countries

Groups of Countries	1965	1970	1971	1972	1973	1974	Change (p.c.) 1974:1965	Annual average	Annual growth (p.c.)
								1965-1974	
Imports + exports (\$ mn)	16,621	38,199	43,731	52,062	75,244	117,646	607.8	44,187	23.9
of which from or to:									
Asia	5,478	11,586	13,767	16,146	25,374	47,461	766.4	15,179	29.0
North America	5,973	13,981	15,576	18,503	23,716	32,890	450.6	14,581	21.1
Europe	2,299	5,918	6,586	8,676	12,674	17,206	648.4	6,782	25.5
Africa	1,171	2,522	3,057	3,260	4,889	7,865	571.6	2,933	24.9
Oceania	1,056	2,614	3,024	3,624	5,854	7,577	617.5	3,017	25.1
South America	639	1,572	1,709	1,847	2,733	4,634	625.2	1,686	26.0
Share in total (p.c.):									
Asia	33.0	30.3	31.5	31.0	33.7	40.3		34.4	
North America	35.9	36.6	35.6	35.5	31.5	28.0		33.0	
Europe	13.8	15.5	15.1	16.7	16.8	14.6		15.3	
Africa	7.0	6.6	7.0	6.3	6.5	6.7		6.6	
Oceania	6.4	6.8	6.9	7.0	7.8	6.4		6.8	
South America	3.8	4.1	3.9	3.5	3.6	3.9		3.8	

Sources: Ministry of Finance, Tokyo; author's own calculations. Note: Deviations are due to rounding of figures.

FOREIGN TRADE

Table 3
Japan's Foreign Trade by Groups of Merchandise

SITC Groups of Merchandise *	1965	1970	1971	1972	1973	1974	Change (p.c.) 1965-1974	Annual average (p.c.)		Annual growth (p.c.)
								1965-1974		
Imports (\$ mn)										
0 + 1	1,470	2,574	2,917	3,607	6,009	8,122	452.5	3,220	14.6	20.4
2 + 4	3,221	6,676	6,400	7,191	12,258	14,379	346.4	6,875	31.3	17.9
3	1,626	3,905	4,751	5,715	8,327	24,895	1,431.1	5,898	26.8	39.8
5	408	1,000	999	1,148	1,865	2,668	553.9	1,066	4.8	20.8
7	711	2,132	2,235	2,376	3,143	4,290	503.4	1,934	8.8	19.1
6 + 8	715	2,501	2,265	3,265	6,548	7,582	960.4	2,895	13.2	29.6
Exports (\$ mn)										
0 + 1	344	648	679	666	841	846	145.9	578	2.6	10.6
2 + 4	252	353	456	504	716	1,187	371.0	450	2.0	20.2
3	30	48	62	74	92	248	726.7	70	0.3	32.8
5	547	1,234	1,486	1,784	2,147	4,059	642.0	1,443	6.5	28.2
7	2,643	7,834	10,606	13,654	18,193	25,261	855.8	9,640	43.4	29.3
6 + 8	4,588	9,048	10,542	11,652	14,550	23,123	404.0	9,807	44.2	20.7

* SITC groups: 0 = living animals and food; 1 = beverages and tobacco; 2 = raw materials except mineral fuels; 4 = animal and vegetable fats and oils; 3 = mineral fuels, etc.; 5 = chemicals; 7 = machinery and transport equipment; 8 = manufactured goods classified chiefly by materials; 6 = miscellaneous manufactured articles.

Sources: Ministry of Finance, Tokyo; Bureau of Statistics, Tokyo; author's own calculations.

East declined in the last five years from 43 to 36 p.c.; that of the People's Republic of China rose from 43 to 47 p.c.¹

Major Trading Partners

An analysis of the *origin of imports by countries* is worth undertaking in order to evince the growing importance of Japan's oil imports. For this commodity the country depends almost entirely on imports. In 1965 Japan obtained close on 62 p.c. of all imports from ten major countries, amongst them three oil suppliers: Kuwait (3.7 p.c.), Iran (3.0 p.c.) and Saudi Arabia (2.8 p.c.). A decade later ten countries supplied two-thirds of Japan's imports, and oil supplies accounted for 22.9 p.c. (1965: 9.5 p.c.) of the total. Major suppliers in 1974 were Saudi Arabia (8.4 p.c.), Iran (7.7 p.c.), Kuwait (3.4 p.c.), United Arab Emirates (3.4 p.c.).

Two oil producers – Saudi Arabia and Iran – in 1974 ranked second and third in the list of important trading partners (for imports). With, together, well over 16 p.c. they were surpassed only by the USA (20.4 p.c.). The Federal Republic supplied 2.3 p.c. of Japan's imports in 1974 and ranked tenth. In 1965 the Federal Republic had not yet featured among the "big ten".

An analysis of the *distribution of exports by countries* shows that in 1965 approximately 57 p.c. and in 1974 nearly 54 p.c. of all Japanese exports went to ten countries. The USA also ranks first in Japan's export trade although its share has de-

clined from 29 p.c. in 1965 to 23 p.c. in 1974. South Korea (4.8 p.c.) was second in 1974, followed by Liberia (4.2 p.c.) and Taiwan (3.6 p.c.). As in 1965, the Federal Republic in 1974 ranked ninth, with an unchanged 2.7 p.c. of total exports.

Large Deficit in Trade with Asia

Japan in 1974 recorded with \$ 11.1 bn an inordinately high import surplus in the trade with Asian countries. Imports of \$ 29.3 bn compared with exports of \$ 18.2 bn, leaving a deficit five times as high as in the preceding year. As late as 1971 the trade with Asia had still yielded an export surplus of \$ 375 mn. The trade with Oceania has been in deficit for more than ten years (1965: – \$ 248 mn; 1974: – \$ 2,199 mn).

Japan's trade with the North American region in 1974 again showed a surplus of \$ 266 mn (1973: – \$ 138 mn), but the big surpluses earned in 1971 and 1972 (\$ 2.7 bn and \$ 3.4 bn) are unlikely to be equalled for some time. The trade with Canada has been in deficit for years (1974: – \$ 1.1 bn) so that the surplus in Japan's North American business is entirely due to the trade exchanges with the USA.

Japan's foreign trade is also yielding increasing surpluses in the goods exchanges with the European region (1974: + \$ 3.35 bn), Africa (+ \$ 2 bn) and South America (+ \$ 1.1 bn). While Japan has for some ten years supplied more goods to Europe and to Africa than it imported from these regions, the trade with the states of Latin America moved into surplus only in 1972. It is remarkable that this surplus in 1974 showed a more than ten-fold increase over the preceding year.

¹ Bernd Kunzø dealt with this subject extensively in INTER-ECONOMICS, October 1973, under the heading "Japan's Trade Relations with the Communist Countries".

Foreign Trade Composition by Commodities

The changes in the distribution of Japan's foreign trade over the various categories of goods are shown in Table 3. They clearly reflect the huge increase in the import prices of mineral fuels (SITC group 3) which in 1974 alone amounted to nearly 200 p.c. compared with the 1973 prices. No less than 30 p.c. (\$ 18.9 bn) of Japan's total imports in 1974 served to meet the country's mineral oil requirements although the volume of imports was curtailed by about 4 p.c. compared with 1973. In 1972 approximately one-sixth of total imports (\$ 3.9 bn) had been on account of this raw material. While Japan's total imports rose between 1972 and 1974 by 165 p.c., those of SITC group 33 (mineral oils) went up by 381 p.c. (!).

It is a reflection of Japan's progressive industrialization that the exports of machinery and vehicles increased almost tenfold in the analysed decade – from \$ 2.6 bn to \$ 25.3 bn. In 1974 this product group (SITC group 7) accounted for about 45 p.c. (1965: 31 p.c.) of total exports. Even greater gains were scored in the sales to foreign countries of manufactured goods. Well over two-fifths (\$ 23.1 bn) of the total exports belonged to the SITC groups 6 and 8. 87 p.c. (1965: 86 p.c.) of Japan's

exports thus consisted of goods included in the three SITC groups 6–8.

It has been possible almost to quintuple the exports of motor vehicles and cycles in the past five years (1974: \$ 6.6 bn); but at 12 p.c. (1970: 9 p.c.) their contribution to the export total in the year under review was still relatively small.

Future Developments

That the external economic relations will be of growing importance for the Japanese economy is shown by the country's increasing share in world trade (1974: 7.7 p.c.) and the rising foreign trade ratio (imports and exports as a proportion of gross national product) which in 1974 exceeded 26 p.c. Another important indicator, the foreign trade turnover per inhabitant (1974: \$ 1,070) however is still only a little over 40 p.c. of the figure for the Federal Republic.

Valued in dollars the exports increased quite considerably in 1973 and 1974, which suggests a dynamism of exports that since 1971 has no longer been at work. Most of this increase is due to the substantial devaluation of the dollar compared with the yen. Besides, price influences have helped to hide the realities of the situation in the export trade.

As regards imports on the other hand, the revaluation of the yen has not led to the anticipated cost reduction because the big price increases in the world commodity markets outweighed this factor by far. Owing to the large share of raw materials and food in Japan's imports (about 76 p.c.) the wave of price rises in the commodity markets has contributed greatly to the increase of expenditure on imports, especially in the last two years.

To go by the available data for 1975, it may be assumed that Japan's imports will be about 9 p.c., and exports some 3 p.c., lower than in 1974. The exports to the USA – where however an economic recovery seems to be under way – and to the states of South-east Asia in particular will be lower. Japan's exports to the Near and Middle East on the other hand are likely to more than double in 1975 while the exports to the socialist countries will probably come out at one and a half to twice the 1974 level.

It remains to be seen what conclusions the Japanese Government will draw from these changes in the balance of trade, for the need for exports to pay for the raw material and food imports required by the national economy is greater than ever. It was because of Japan's great dependence upon imports that the economic growth of this Far Eastern country was contingent on a rise in exports. This will still be the situation in future.

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