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Gunther Schnabl *

Balance of Trade and Government Intervention - Japan as a Role Model?

Japan's industrial and trade policies are often seen as the reason for high Japanese balance of trade surpluses. Does this theory stand up to a close examination of the relationships between balance of trade, trade policy and structural change?

The Federal Republic of Germany, often called the "world's export champion", has had a negative trade balance with Japan since 1969. In 1995, despite the considerable success of German automobile exporters in Japan, the trade deficit was DM 16.6 billion. This fact appears all the more dramatic when considering the development of currency exchange rates between these two countries in this context. Since the end of the Bretton Woods system, the Japanese Yen has continuously appreciated against the Mark, making Japanese exports more expensive and lowering the price of Japan's imports. As a result, one would have expected a reduction in Germany's balance of trade deficit with Japan. Since the balance of trade with Japan has remained apparently unaffected, however, the question is raised time and again as to the causes of this trade imbalance between the two countries.

The role of the state in the Japanese economy is often quoted in answer to this question: it is claimed that by promoting and coordinating research, investment and exports in particular key industries, the Ministry for International Trade and Industry (MITI) has provided Japanese companies with a competitive advantage in world markets. It is hard for European and American competitors to offset this advantage, and the result is Japan's trade imbalances with the major industrial nations. This allusion to Japan as an economic enterprise ("Japan Inc.") under strict MITI management originated in the 1960s when the state played a significant role in all areas of the economy and at the same time double-figure GNP and export growth rates were achieved. Since then, this image

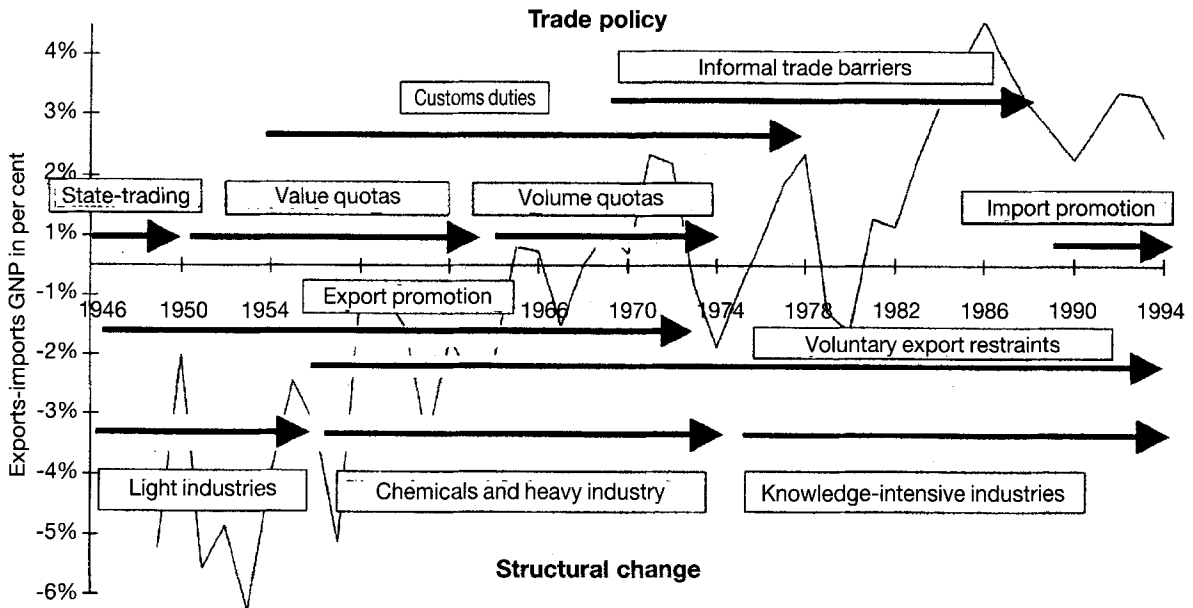
has been redrawn many times over, even though the role of MITI has changed.

In the following, a different approach is presented as an alternative to this line of argument. The author examines whether Japan's trade policy after World War II was successful in steering Japan's trade flows in the desired direction. In order to do this, individual instruments of trade policy are presented and conclusions drawn regarding their influence on the balance of trade. It is demonstrated that trade policy cannot be regarded as an explanation for Japanese export success. MITI intervention in the country's trade flows is interpreted not as a successful export promotion strategy, but as a reaction to short or medium-term structural problems which, from this point of view, have no bearing on long-term trends in the balance of trade. Thus at the same time it is made clear that there is no long-term strategy behind Japanese trade policy, but that trade policy merely adapts to the changing economic and political environment.

The development of relevant parameters is summarised in Figure 1 which shows the various instruments of trade policy, balance of trade developments and the evolution of structural change. It should be noted that, as the industrial structure moves from light industry via heavy industry to the knowledge-intensive industries, the balance of trade shows a constant upward trend. As the balance of trade improves, the restrictiveness of trade policy intervention diminishes. In the following, the development of these three components is demonstrated in more detail and the relationships between the individual developments are made clear. Finally, conclusions will be drawn regarding the

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Figure 1
Balance of Trade, Trade Policy and Structural Change, 1946-1994



efficiency of Japan's trade policy. The period of observation is divided into three phases according to the country's economic development: reconstruction (1946-1954), high growth (1955-1973) and maturity (1973-1994).

Trade Policy and Reconstruction

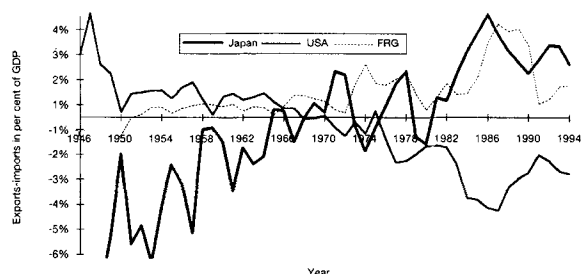
Japan's period of reconstruction following World War II was a time of unstable economic development, high rates of inflation and large balance of trade deficits. In the main, Japan's export industries, such as textiles (43% of total exports in 1950)¹ and ceramics, were to be found in the light industry sector. Large import requirements for agricultural goods and raw materials (80%-90% of all imports) and the excessively high dollar parity (360 ¥ = 1 \$) led to substantial balance of trade deficits (see Fig. 2). In the existing system of fixed exchange rates these deficits, combined with low levels of capital influx, would have led to international insolvency or devaluation in the long term. In order to avoid this, Japan tried to reduce its balance of trade deficit by means of an active trade policy.

¹ Source of macroeconomic data unless otherwise stated IMF: International Financial Statistics (various years) and Bureau of Statistics, Office of the Prime Minister: Japan Statistical Yearbook, Tokyo 1961.

² C. Johnson: MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975, p. 193.

The question is, however, why the Japanese government chose industrial and trade policy as a means of redressing its balance of payments rather than a restrictive fiscal policy or devaluation of the Yen. In a period of unstable growth and high unemployment, fear of contractive effects can justify the decision not to implement a restrictive fiscal policy. The aim of securing cheap raw materials and technology imports can explain Japanese reluctance to devalue the Yen. Johnson cites MITI's belief in the "utmost priority of trade promotion" (*tsusho daiichi shugi*)² as a further argument for the Japanese tendency to prefer trade policy measures as a means of redressing international trade imbalances. This interpretation again appears reasonable since it was

Figure 2
Balance of Trade: Japan, USA, FR Germany, 1946-1994



the very need for industrial and trade policy which justified MITI's existence and significance as the Ministry for Trade in the first place.

The main focus of trade policy measures lay on constructing import trade barriers and promoting exports. At the same time, investments in advanced technologies were to increase the competitiveness of domestic industries and so create a long-term basis for improving the balance of trade. Since modernising domestic industries depended on importing foreign technologies and raw materials, trade barriers were restricted to consumer goods.³

State Trading and Foreign Exchange Control

Up to 1949, the Japanese tried to redress the balance of trade by operating a state-trading system. However, direct state import controls and export subsidies failed to have the desired effect (see Fig. 2). In 1949, therefore, a transition took place towards indirect import regulation by means of foreign exchange controls. On the basis of the Foreign Exchange and Foreign Trade Control Law of 1949 (*gaikoku kawase oyobi gaikoku boeki kanri ho*), MITI controlled all foreign exchange movements and allocated foreign exchange quotas to individual categories of import goods within the framework of a foreign exchange budget scheme (*gaika yosan seido*). This meant that the total import level could be limited and the import structure influenced in favour of raw materials and technologies. An import deposit scheme (*yu'nyu tanpokin seido*) worked in similar

fashion: when applying for the foreign exchange necessary for imports, various deposits were required according to the category of goods in question; low deposits were required for raw materials and investment goods, high deposits for consumer goods.⁴ Since the control of foreign exchange movements gave MITI extensive influence on the level and structure of imports, customs duties remained relatively insignificant as a trade policy instrument. Fig. 3 shows the scant importance of customs duties measured as a share of total imports in the late 1940s and early 1950s.

Export Promotion Through Fiscal Policy

While import policy was aimed at limiting outflows of foreign exchange, export policy was intended to increase the influx of foreign exchange. In 1949, costly export subsidies were abandoned and indirect instruments of fiscal policy were implemented as a means of promoting exports. Export companies were granted tax benefits on export profits and were provided with reduced-cost loans via the Export Bank of Japan (Export-Import Bank as from 1952) which was founded in 1950. Thus export companies'

³ Cf. Y. Kosai: The Reconstruction Period, p. 30 ff., in: R. Komiya et al. (eds.): *Industrial Policy of Japan*, San Diego 1987, pp. 25-48.

⁴ Cf. R. S. Ozaki: The Control of Imports and Foreign Capital in Japan, New York 1972, p. 5 ff.; L. B. Krause, S. Sekiguchi: Japan and the World Economy, in: H. T. Patrick, H. Rosovski (eds.): *Asia's New Giant*, Washington 1976, pp. 383-458, here pp. 410 ff.

Erhard Kantzenbach/Elke Kottmann/Reinald Krüger

Kollektive Marktbeherrschung: Neue Industrieökonomik und Erfahrungen aus der Europäischen Fusionskontrolle

■ in German with an English summary

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investments were greatly encouraged in times of extreme capital shortages.⁵

In addition to financial benefits for export companies, a significant role was played by measures for improving "export consciousness". To this end, the Japan External Trade Organisation (JETRO) was founded in 1951 and placed, as a public institution, under direct MITI control. Its aim was to improve Japanese companies' awareness of export opportunities.⁶ It made Japanese products known abroad and gathered information on international sales markets.⁷ A further body involved in export promotion was the Export Conference (*yushutsu kaigi*) which was founded in 1954 and whose members included inter alia the prime minister as well as leading representatives of MITI, the Ministry of Finance, the central bank and Japanese industry. The Conference served the "non-committal" exchange of ideas on possible export strategies; export targets were published twice yearly. The high rank of Conference members bears witness to the great importance accorded to exports at that time.⁸

There were thus two main thrusts to trade policy in the reconstruction period. Firstly, the provision of information was aimed at reducing knowledge deficits and encouraging the export activities of Japanese companies. Measures concerning the conveyance of information offset market imperfections and are in keeping with the principles of a market economy. Influencing external trade by means of foreign exchange controls, on the other hand, has a strongly distorting effect on international factor allocation. Since the choice of imported goods is governed not by the market but by the state, the resulting import

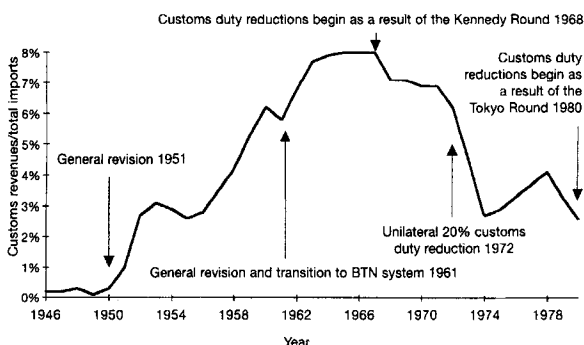
structure is inefficient. Furthermore, trade barriers can render domestic companies' adjustment processes superfluous and thus delay industrial development. In spite of highly restrictive government intervention, the aim of redressing the balance of trade had not been reached by the mid-1950s.

Trade Policy and High Growth

In the mid-1950s, Japanese economic growth accelerated. With real growth rates in double figures, Japan caught up with the leading industrialised nations.⁹ Thanks to strong export expansion (real average 13.4%), the balance of trade improved continuously and a surplus was achieved for the first time in 1965. Thereafter, too, the trend continued its unbroken upward path (see Fig. 2). It was also in this period that the structural transition from light to heavy industry was made, a fact that was reflected in the country's export structure. The main emphasis shifted from textiles, ceramics and wood products to goods manufactured in the chemicals and heavy industries such as machines, chemical and metal products (see Fig. 4).¹⁰

The aim of Japan's trade policy was still to make good the balance of trade deficit, and a strategy of export promotion and import substitution was continued to this end. However, since the desired high economic and export growth rates could be expected to lead to increased imports of raw materials and technology, these imports were to be offset by import substitution in the field of consumer goods.¹¹ Japan's accession to the IMF as from 1952 and GATT as from

Figure 3
Customs Revenues as a Proportion of Imports,
1946-1980



Sources: I. Yamazawa and Y. Yamamoto: *Choki keizai tokei: boeki to kokuhaishushi* (Historical Economic Statistics: Trade and Balance of Payments), Tokyo 1979.

⁵ As the Ministry of Finance kept interest rates artificially low, there was excessive demand for capital. This gave MITI the opportunity to steer loans into the sectors it favoured (cf. C. Johnson, *op. cit.*, p. 200 ff.).

⁶ Founding JETRO was intended to counter so-called "blind trade", a term used to describe the fact that many companies produced goods without any detailed information about sales opportunities abroad. Furthermore, there were no agencies abroad which could provide information on changes in market conditions and support marketing activities (cf. C. Johnson, *op. cit.*, p. 230).

⁷ Cf. R. Komiya: *Three Stages of Japan's Industrial Policy after World War II*, p. 977, in: *Rivista Internazionale di Scienze Economiche e Commerciali* 40 (1993), pp. 969-995.

⁸ Cf. L. B. Krause, S. Sekiguchi, *op. cit.*, p. 453.

⁹ Cf. R. Komiya, *op. cit.*, p. 970. Between 1955 and 1973, real GNP growth rates averaged 10.6% (USA: 4.5%, West Germany: 6%). In 1968, Japan's GNP topped that of West Germany for the first time. In terms of GNP, Japan became the world's second largest industrial nation.

¹⁰ Cf. R. Komiya, M. Itoh: *Japan's International Trade and Trade Policy, 1955-1984*, p. 186 ff., in: T. Inoguchi, D. I. Okimoto (eds.): *The Political Economy of Japan: Volume 2, The Changing International Context*, Stanford 1988, pp. 173-224.

¹¹ Cf. R. Komiya, M. Itoh, *op. cit.*, p. 177.

1955 – which was considered a necessary condition for securing export markets – meant that existing trade restrictions had to be reduced.¹² For this reason, it was announced in 1960 in the so-called Plan for Trade and Foreign Exchange Liberalisation (boeki kawase jikuya keikaku taiko) that 80% of all import restrictions would be lifted by 1963. This meant that foreign exchange requirements for imports were no longer subject to MITI examination but were granted automatic approval. The selection of products subject to liberalisation was geared to their international competitiveness and so reflected the structural change taking place. Imports from industries whose exports were already established on the world markets were to be liberalised immediately or as soon as possible. Backward industries, on the other hand, were to be protected for as long as it took for them to become competitive in relation to foreign rivals. Application of the Liberalisation Plan – according to the Japanese government – led to the achievement of a liberalisation quota (liberalised imports/total imports) of 93% by 1964.¹³

Customs Duty Instead of Volume Restrictions

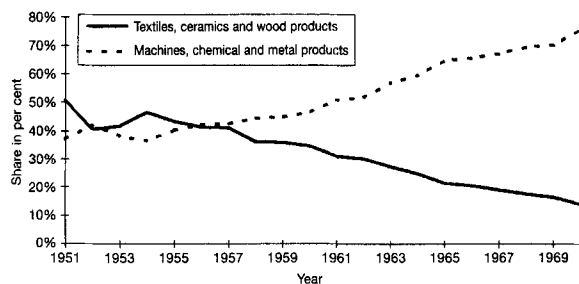
When she acceded to Art. 8 of the IMF in 1964, Japan was compelled to introduce further liberalisation measures. Since this accession required the immediate abolition of all value quotas, Japan turned all its value quotas into volume quotas which were compatible with the IMF but not with GATT. The volume quotas which were not compatible with GATT were maintained and gradually reduced in line with the growing competitiveness of the relevant industries. The large degree to which volume quotas on industrial goods were removed led to volume policies

being concentrated on the agricultural market, a particularly sensitive area in Japan (see Fig. 5).¹⁴

By way of compensation for the volume quota reduction, however, the Plan for Trade and Foreign Exchange Liberalisation provided for the erection of customs barriers, since at that time customs duties for the protection of fledgling industries were compatible with the rules of GATT, the IMF and the OECD.¹⁵ Fig. 6 shows how customs duties compensated for quota reductions.

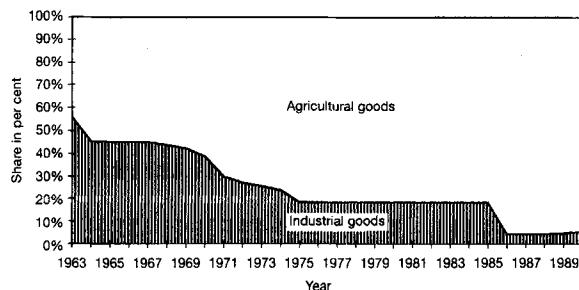
The increase in customs duties continued up to the start of customs duty reductions which resulted from the Kennedy Round (1964-1967; see Fig. 3). Only in the course of these negotiations was there a change in direction in Japan's customs duty policy. As the upward trend in the balance of trade continued and Japanese opinion regarding the competitiveness of domestic industries changed, hopes of enhanced export opportunities within a free trade system led to a swift reduction in customs duties after the Kennedy Round.¹⁶

Figure 4
Export Share of Light and Heavy Industry,
1951-1970



Sources: I. Yamazawa, Y. Yamamoto, op. cit.; author's own calculations.

Figure 5
Structure of Import Quotas by Sectors, 1963-1990



Sources: Nihon boeki kyokai (Japanese Tariff Association), cited in T. Tsurata: *The Rapid Growth Era*, p. 55, in R. Komiya et al. (eds.): *Industrial Policy of Japan*, San Diego, p. 46-87; GATT: *Trade Policy Review: Japan*, Geneva 1990, p. 187; author's own calculations.

¹² As a rule, free access to foreign markets, which is necessary for the promotion of exports, also demands that domestic markets are opened up on a quid pro quo basis. The reduction of import restrictions is hereby both directly and indirectly in the interests of the developing country: directly, because reducing import restrictions lowers import prices for raw materials, intermediate inputs and investment goods; indirectly, because by importing the international level of competition, positive impulses are given to the domestic economy (cf. V. Timmermann: *Entwicklungstheorie und Entwicklungspolitik*, Göttingen 1982, p. 202).

¹³ Cf. R. S. Ozaki, op. cit., p. 39 ff.

¹⁴ Cf. W. S. Hunsberger: *Japan and the United States in World Trade*, New York 1964, p. 135 and R. S. Ozaki, op. cit., p. 46 f. On the politically explosive nature of the protection of agriculture by the ruling LDP in the context of the uneven distribution of electoral constituencies in Japan, see also K. v. Wolfen: *The Enigma of Japanese Power*, New York 1990, p. 60 ff.

¹⁵ Cf. L. Hollerman: *Japan's Dependence on the World Economy: the Approach toward Economic Liberalization*, Princeton 1967, p. 244.

¹⁶ Cf. R. Komiya, M. Itoh, op. cit., p. 181.

The export promotion policy of the early 1950s was also upheld in the 1960s. A turning point was marked by recognition of GATT Article 16 (subsidies), by which Japan committed itself to removing tax-based export subsidies by 1964. Consequently, tax allowances were replaced by indirect tax benefits such as special provisions and special depreciations which were not covered by GATT. The Export Conference and JETRO even made efforts to improve "export consciousness" during the rapid growth period. Furthermore, the Export Inspection Act of 1958 represented an attempt to use state controls to ensure the quality of Japanese export products and thus safeguard the international reputation of Japanese goods.¹⁷

Implementation of Voluntary Export Restraints

In the late 1950s, a new element was added to Japanese trade policy. New industries were entering the export phase, triggering off an increasing number of trade conflicts with western industrial countries, and taking the heat out of these conflicts became a task for Japan's trade policy. The industries first affected were the textile and ceramics industries. Under the auspices of MITI, the first voluntary export restrictions (VERs) were negotiated with the USA and Canada for knitted gloves and porcelain as early as 1954.¹⁸ In 1957, VERs were established for cotton exports to the USA, with quotas being allocated via export cartels. The trade conflicts began in the light industries and spread to heavy industry in the late 1960s. In 1969, VERs were introduced for steel for the first time (see Fig. 7).¹⁹

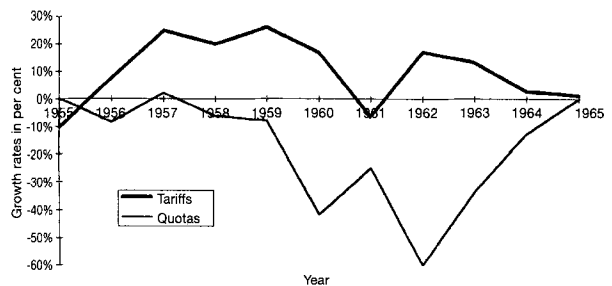
Trade policy in the late 1950s and the 1960s was thus characterised in the main by the transition from value to volume quotas and later to customs duties, as well as by the introduction of VERs to assuage trade conflicts. On the one hand, import barriers were dismantled and on the other hand voluntary export restraints were introduced. Customs duties have a less restrictive effect than volume limits as they influence only the price and not the volume of imports. Market mechanisms remain intact. Voluntary export restraints offered Japan the chance to avoid more restrictive trade barriers such as volume restrictions and trade wars. At the same time,

exporters can cream off the higher prices which result from voluntary export restraints, while higher profits from higher prices in the case of customs duties and quotas usually remain in the importing country.

Trade Policy and Economic Maturity

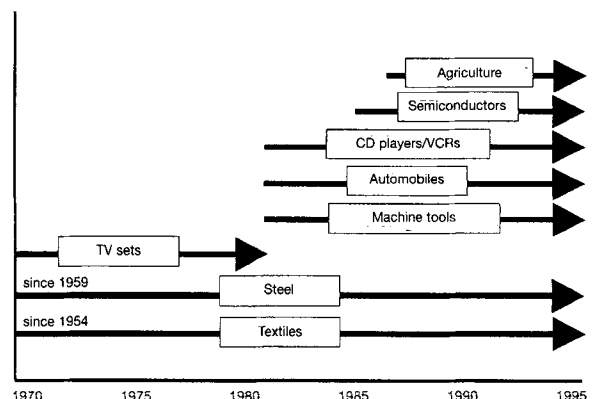
Having caught up with the USA and Europe to a great extent in economic and technological terms, economic development in the 1970s entered the phase of maturity. Real GNP growth rates came into alignment with those of other industrial nations; the average real GNP growth rate between 1974 and 1994 was 2.72% (USA: 2.07%, FRG: 2.35%). As a sign of the process of reaching economic maturity, knowledge-intensive industries such as computers and semiconductors now too reached the export

Figure 6
The Development of Customs Duties and Volume Policy, 1955-1965



Sources: I. Yamazawa, Y. Yamamoto, op. cit.; R. S. Ozaki, op. cit. p. 48; L. Hollerman, op. cit., p. 238; I. Yamazawa: *Economic Development and International Trade: the Japanese Model*, Honolulu 1990, p. 174; author's own calculations (basis customs duties/total imports and categories of import goods subject to quotas/total imports).

Figure 7
Japan's Trade Conflicts by Branches of Industry



Sources: After R. Komiya, K. Yokobori, op. cit., p. 99 ff.; GATT: *Trade Policy Review: Japan*, Geneva 1992, pp. 118-120; JETRO: *Nippon 1994: Business Facts and Figures*, Tokyo 1994, p. 72 f.

¹⁷ Cf. S. Fukukawa: *Japanese Industrial Policy and Trade Policy in the High-Growth Era*, Tokyo 1990, p. 18 ff.

¹⁸ Cf. L. Hollerman, op. cit., p. 205 f.

¹⁹ Cf. R. Komiya, K. Yokobori: *Japan's Industrial Policies in the 1980s*, Tokyo 1991, p. 99.

phase. As exports were still growing faster than imports, Japan's balance of trade surpluses continued to increase; in 1986, the highest level to date was reached at 4.1% of GNP (see Fig. 2). As Japanese companies became increasingly competitive internationally, and the balance of trade surpluses rose, government influence on the economy also receded. The continuing rise in balance of trade surpluses, which was interrupted only by the two oil crises (see Fig. 2), led to considerable pressure from western industrial nations towards deregulation and a further reduction of trade barriers.

Reduction of Customs Duties and Quotas

For this reason it was the most important aim of trade policy to defuse political pressure from abroad by introducing measures to open up domestic markets. The reduction of import quotas seen in the 1960s was thus continued in the following decades. In the mid-1970s, volume restrictions in the computer and semiconductor industry were lifted.²⁰ The remaining volume restrictions which were not compatible with GATT stemmed in the main from the agricultural sector, such that negotiations shifted increasingly towards agricultural goods (see Fig. 5).²¹ One of the last significant volume restrictions – that on rice (import prohibition) – was partially lifted on conclusion of the Uruguay Round in 1994.

Quota reductions were accompanied by a continuous decrease in customs duties. Following the Kennedy Round, Japan had reached a level of customs duties which corresponded approximately to that of the USA and the EC.²² Further reductions of tariffs – especially within GATT – were realised in the 1970s and 1980s. According to the Uruguay Round resolutions, the weighted average customs duty on industrial goods is to be lowered to 1.7% by 1999. Customs duties on agricultural products, however, are on a significantly higher level with a weighted average duty of 13.3%.²³

Informal Obstacles to Trade and Import Promotion

As the reduction of formal trade barriers progressed and the instruments of trade policy were greatly limited by GATT, Japan's trading partners focussed their criticism increasingly on informal obstacles to trade²⁴ such as customs clearance procedures, test and certification requirements and product standards.²⁵ In 1982, the Japanese government bowed down to international pressure and

declared its willingness to negotiate. In accordance with the agreement on technical trade obstacles reached at the Tokyo Round (1973-1979), a framework law was passed promising to reform the 17 individual laws on standardisation and authorisation procedures according to the principles of transparency, non-discrimination and internationalisation.²⁶ Japan's efforts to make its standardisation and certification system simpler and more transparent for foreign companies are reflected in the founding of an Office of Trade and Investment Ombudsman (OTO) in 1990 to which complaints may be addressed on this subject.²⁷

As Japan's balance of trade surpluses continued to increase despite the successive reduction of formal and informal trade obstacles, and since foreign pressure to open up domestic markets grew, the Japanese government began a series of campaigns in the mid-1980s to promote imports: tax benefits were granted for imports of industrial goods, Export-Import Bank loans for imports of industrial goods and Japan Development Bank loans for foreign direct investments were extended. In addition, public funds were allocated to inform foreign companies about export opportunities to Japan. The JETRO infrastructure was utilised for this purpose.²⁸

Mounting export success meant that export promotion became largely insignificant. Indirect promotion by means of special provisions and

²⁰ Cf. R. Komiya: *The Japanese Economy: Trade, Industry, and Government*, Tokyo 1988, p. 192.

²¹ Cf. GATT, *Trade Policy Review: Japan 1992*, pp. 85 f. and 226 ff.

²² Cf. R. Komiya, M. Itoh, *op. cit.*, p. 193.

²³ Cf. GATT, *op. cit.*, 1990, p. 174 f.

²⁴ The word informal in this context is defined for the interpretation of norms and standards, customs clearance procedures and how government contracts are awarded. Informal trade barriers are often difficult to recognise as and/or prove to be such. Consequently there was no ruling as part of GATT.

²⁵ Cf. W. R. Rapp: *Japan's Invisible Barriers to Trade*, in: T. Pugel and R. G. Hawkins (eds.): *Fragile Interdependence*, New York 1986, p. 33. A case of product norms as trade obstacles which attracted particular attention occurred in the mid-1980s when a Japanese ski norm, which differed from internationally recognised DIN and ISO norms, was introduced by a MITI-financed association for product safety. The official English name "Consumer Product Safety Organisation" was intended to suggest a consumer association, although the organisation mainly consisted of MITI officials and industrial representatives. The new norm was said to take account of the "different snow" in Japan (cf. W. Pape: *Nichttarifäre Handelshemmnisse in Japan (Teil I)*, p. 16 ff., in: *Japaninfo*, No. 16, 26.11.1990, pp. 13-16).

²⁶ Cf. W. Pape, *op. cit.*, p. 16.

²⁷ Cf. GATT, *op. cit.* 1992, p. 90 ff.

²⁸ Cf. MITI: *Newly-Adopted Import Promotion Measures*, Tokyo 1993, pp. 24-27 and 31-33.

depreciation was discontinued in the early 1970s. The activities of JETRO and the Export-Import Bank shifted to imports. Under pressure from anti-dumping charges and punitive customs duties (e.g. on televisions, CD players/video recorders and semi-conductors), export policy was restricted in the main to establishing VERs with North American and European trading partners (see Fig. 7). According to MITI, 7.7% of Japanese exports were subject to voluntary export restraints in 1989.²⁹

In Japan's phase of economic maturity, the formal and informal trade barriers which still existed were thus further reduced. Mediation in trade conflicts became the most important task of trade policy, with MITI often undertaking the administration of VERs. Japan's efforts to promote imports represent a new element of trade policy which, in analogy to export promotion, is only efficient if it deals with information conveyance and the availability of an import infrastructure.

Conclusions

The preceding analysis demonstrates the close association between balance of trade, trade policy and structural change. Structural change plays a substantial role in the development of the balance of trade. Japan, which at the end of World War II still had the industrial structure of a developing country, has completed its transformation into a modern industrial nation quickly and rigorously. Numerous new industries were constructed, and export industries became concentrated on knowledge-intensive branches with high levels of value added such as automobiles, electronics or data processing. Old export industries such as textiles or steel became increasingly insignificant (see Fig. 8).

It was shown that trade barriers were primarily erected to protect industries which were not yet fit

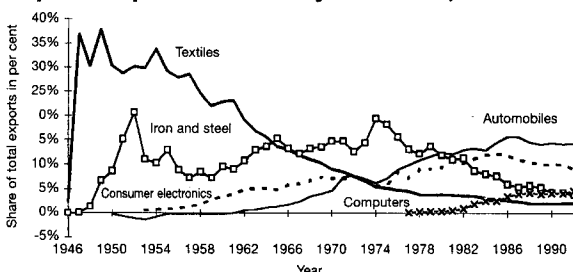
enough to face international competition. Import barriers can thus be regarded as a reaction to short and medium-term structural problems. Under pressure from western trading partners, however, and thus in the interests of Japanese export industries, these barriers had to be reduced. Since trade barriers delay the adaptation of protected industries to international competition, their removal increases pressure to adapt and so improves competitiveness. It can thus be argued that it was the very pressure placed on Japan to open up its markets which forced Japanese companies to press ahead in their adaptation to international competition and thus made them even more competitive in export markets.

However, there has been very little protection of uncompetitive industries in Japan. Thus it was that the light and heavy industries contracted in favour of new branches (see Fig. 8). With the greater value added of export products this involved, dependency on raw materials imports declined at the same time. The rapid structural change which Japan has completed in the last 50 years can be regarded as an indicator of Japanese companies' high levels of innovation and competitiveness with a corresponding influence on the balance of trade.

The positive influence of trade policy on the balance of trade must be questioned, however. Fig. 1 makes it very clear that the balance of trade development trend was independent of the various trade policy instruments used. It was demonstrated that highly rigid trade barriers were introduced as a reaction to large balance of trade deficits. First Japanese export successes in global markets led to trading partners forcing trade barriers to be dismantled. Since there was no reduction in trade surpluses despite this liberalisation, and since the western industrial nations continued to push for a reduction in the balance of trade surplus, the Japanese government switched to import promotion measures. However, the balance of trade development trend appears to be independent of the constantly changing aims and instruments of trade policy. This trend progressed in constant fashion during a period of highly restrictive government intervention (1946-1954), hesitant liberalisation (1955-1973), and even in a phase of extensive free trade and import promotion (1974-1994). Japan's trade policy therefore appears to be based on political rather than economic considerations. Its effectiveness is by no means beyond question.

Figure 8

Japan's Export Structure by Industries, 1946-1992



Sources: United Nations (various years); International Trade Statistics Yearbook, Vol. 2, Trade by Commodity, New York; author's own calculations.

²⁹ Cf. GATT, op. cit., 1992, p. 115 ff.