

Japanese Foreign Trade and Economic Development

by Tsuneo Nakauchi, Professor Emeritus
International Christian University

I. Three historical transitions experienced by Japan

i) Meiji restoration

The first big transition experienced by modern Japan was Meiji restoration(1868). After the reign of feudal Tokugawa shogunate for nearly three hundred years, Japan opened trade to Western powers.

Japan, then, was basically a primary-producing country and under an inequal tariff agreement, and the trade was virtually that of free trade with maximum tariff of 5%.

With expanding domestic demand for manufactured imports, Japanese balance of payments showed cumulative deficits. These deficits happened to be lessened by the war indemnity obtained from Japan-China war(1894-95).

To cope with this chronic deficit in the balance of payments, an increasing need was felt among Japanese leaders towards an industrialization policy with emphasis on the processing industries. Japan has poor natural resources. Processing for promoting exports was designed to obtain hard currencies for further industrialization.

It was not easy, however, to promote industrialization to the extent of raising exports smoothly to obtain continuous flow of hard currencies.

It was a sort of historical irony that the war and incidents occurred every ten years and brought a favourable effect to the deteriorating cumulative balance. Cases in the points are Japan-China war, Russo-Japanese war(1904-05) and WWI (1914-18). Each time, military group gained political power among government. Gaining power by military group meant a concomitant weakening in the civilian control and the process finally resulted in the monopoly of the government by the military force, which finally resulted in the involvement of Japan in WWII which devastated her in the war nadir in 1945.

ii) WWII

The cessation of WWII found Japan in the midst of nadir of war. Japan had to start again from scratches. There seems to be a consensus among economists that the Japanese foreign trade generally resumed the prewar

extrapolated level in 1954.

The impact of Bretton Woods Agreements brought a favourable effect on the competitiveness in the Japanese exports. It is obvious in the hindsight that under the fixed exchange rate system, Japanese productivity which was rapidly increasing in the post war periods brought de facto trade subsidy in the form of continuous exchange devaluation. It was as if Japanese economy was allowed to apply a continuous export subsidy until 1971, when so-called Nixon shock statement was issued.

When Mr. Dodge determined Japanese Yen value at ¥ 360 = \$ 1.00 in 1949, it is of interest to observe that this acceptance of rather high Yen have invited a more explicit interference by the government. There was an option whether more of the market mechanism is allowed under cheaper Yen or high Yen with stronger interference by the MITI. It is of some interests to ask what different courses were possible for Japanese economy if more liberal course of market mechanism was chosen in the post war Japanese economic development.

iii) Facing globalism

A recent trend of strong wind of world wide free market mechanism has also increased a strong pressure to the less competitive sectors of Japanese economy. Some of the banking sectors and big business which have indulged in the heavy government protection is now facing a difficulty and some are on the verge of bankruptcy.

Towards the end of the 1980's, the market value of land has been skyrocketed to the extent that by selling total territorial area of Japan, which is roughly equal to that of California, Japan could buy four of total United States of America. The bubble of Japan had to face the unavoidable results. The banks were left with astronomical amount of bad debts. The total amount of such a debt amounted to some twenty trillion Yen at the most modest estimation. Tightening the balance sheet means a tightening of lending of banks which inevitably squeezing money which could otherwise be utilized for business expansion. Small and medium industries suffered most. In present Japan, it is also true that those companies expected to earn profits are found among the categories of small and medium, rather than the big business. Thus, it is not easy for the ailing banks to finance the business which truly need finance. Solution in the ongoing deflation is not

easy to find.

The causes of the present difficulties Japan faces are not simple. It requires perhaps the same degree of effort as that she faced in previous Meiji restoration and WWII. However there is one clear difference between previous two crisis and the present one. that is the high economic standard of living which most Japanese citizens enjoy at the moment. It means that the crisis consciousness among majority of citizens is not yet urgent. Most Japanese do not yet feel they are put into catastrophe. Then where is Japan going? While each individual Japanese stays static, does not readily want to change his basic life style, the rest of the world are undergoing vast change and leave Japan in the out dated isolation.

II. Government-led growth pattern; could it be altered ?

Several times in the past, Japanese economic growth was referred to as examples of miracles. The subject has recently shifted to East Asia, above all to China. Washington consensus in enhancing the free market mechanism has been permeated to many developing countries and to the former centrally planned countries of the East.

Japanese case is obviously a government-led growth and her foreign trade has been promoted intentionally to function as an engine of the whole sector of economy. Ministry of International Trade and Industries (MITI) has played a dominant role in Japan, so efficiently for the purpose of catching up that it was ironically named by American 'notorious' MITI or ' Japan Inc '. To foster growth of industrial sectors, there was organized a correspondent division in MITI such as Automobile division for automobile industry, Chemical division for chemical industry etc.

This system of strong initiatives by the civil servants has gradually built up a self-centered bureaucracy in government and politicians have tended to rely on them for policy formulation as well as implementation. It may be useful at the early immature stage of economic development for the government to choose what industry to set up and what infra-structure to be selected and timing as to when to start projects. As economy and markets get more mature on the later stage, however, such a bureaucracy tends to function negatively rather than positively supporting the growth process.

As a matter of fact, political power inevitably spoils those who possess and use it. Lofty ideals in the early days tend to change the moral and

ethical quality into egocentric earthly ambitions.

Japan faces now a difficult transition stage. This difficult task of changing her past pattern of behaviour is unavoidable to find exit from the present trap of deflation. It requires a bold deregulation in all walks of public system of interference. The existing centralized structure of public policy formulation and implementation needs thorough check up. Clear cut decentralization is of necessity. The changing process of this once hardy but now lamented strong governmental interference should be open to the public eyes. Only when Japan succeed in this hard task of change, her economic growth in the past could provide a useful material for the late comers in the economic development.

III. Foreign trade of Japan in the regional perspective

The comparative advantage of manufacturing sector in Japan seems to lie in her long history of instinct of workmanship. Although there is a room for argument with respect to the institutional set ups, craftsmanship in Japan's medieval period has left a strong influence on the development of Japanese manufacturings. Meiji restoration brought forth an important institutional change such as modern concept of government, banking, foreign trade, defence, education etc. Japanese ways of application of branch system in banking, early realization and start of significant human resource development and training promising young persons in Western systems are all important.

The instinct of workmanship, if I were to pinpoint, has rendered the basic strength to Japan's trade oriented growth. This is also an important element to consider the future of Japanese economy.

Perhaps it is useful here to refer to Prof. K.Akamatsu and Prof.K. Kojima in their contribution of ' Wild geese flying pattern' which is often referred to explain the Japanese pattern of trade. In their empirical study of the textile growth in Japan, it was observed that Japanese textile industry had started from import, followed by the substitutive domestic production until it saturates domestic demand, thereafter the residual gradually found vent for surplus in exports. These movements reveal the chasing patterns similar to that of flying wild geese. It was later found out that the similar figure can be drawn with respect to iron and steel, and even in the advanced sector of electronics with different emerging timing of industries.

Japan's wild geese pattern seems to be repeated in NIEs and some other ASEAN countries.

The lesson to be drawn from this empirical study is that for a favourable harmonious trade and economic development in the East Asia, a dynamic division of labour is needed. Each country can pursue a trade pattern by following her comparative advantage. Trade friction in the short run will eventually be more than covered by the long run profit as a result of the regional expansion of trade. By sharing a regional vision in the long term, the negotiation by the government of the region will become feasible which could be conducive to the regional cooperation.

It is perhaps needless to add long sentence here about what policy Japan should take for adjusting her industrial structure and foreign trade to the harmonious development of the region. It will be a mutual benefit for Japan to intensify the production of science and technology intensive sectors. Biotechnology, nano technology, IT, robot manufacturing and some sophisticated craftsman's works etc, which are to be depicted in the last right hand corner of the above mentioned figures of wild geese flying patterns will preferably be increased. Realization of these policy aims will materialize if Japan is to make the same degree of efforts as previous Meiji restoration and WWII. The restructuring of the banking system may be the means but not the aim itself. (January 26, 2003)