The History & Significance of Japan's Trade & Industrial Policy — a Case Study of Trade Friction at the End of the 20th Century

Author Takeshi Abe

By Takeshi Abe

With the administration of President Donald Trump coming to power in 2017 in the United States, trade-related protectionism has become strikingly stronger, as seen in the US withdrawal from the Trans-Pacific Partnership (TPP) which Trump's predecessor Barack Obama had been negotiating, and the renegotiation of NAFTA, a regional free trade agreement between the US, Canada and Mexico since 1994, stemming from the strained relationship between the US and Mexico over immigration issues. Movements that prioritize national interests have also become more prominent in Europe, as seen last year with the United Kingdom's vote to leave the European Union. In Asia, while Japan, which used to be the center of trade friction 30 years ago, is seeing a continuing decline in its presence, China has established itself as a giant trade power achieving continuous and extraordinary economic growth since the 1980s. Moreover, the World Trade Organization (WTO), taking over from the GATT which played a key role in expanding world trade, has not been too active, whilst regional agreements and other FTAs and EPAs are expanding.

Analyzing this current situation will help us to understand that trade exerts great influence on our daily lives, and that it keeps transforming very rapidly. This article will look at trade friction between Japan and Western developed countries which was a major economic challenge during the period between the 1970s and the end of the 20th century when economic globalization was evident, reflect back on how the Japanese government responded, and examine what significant lessons can be drawn today from Japan's experiences. (For detailed analysis, see *The History of Japan's International Trade and Industry Policy, Volume 2, Trade Policy 1980-2000*, Takeshi Abe ed., Advisory Committee on Economy and Industry, January 2013. For Japan's postwar trade policy up until the Oil Crisis, see *The History of Japan's International Trade and Industrial Policy*, Ministry of International Trade and Industry/ Editorial Committee for the History of Trade and Industrial Policy ed., Research Institute of International Trade and Industry, 1989-1994.)

The Oil Crisis & the Bubble

The First Oil Crisis arose in the fall of 1973 as hyperinflation progressed, and high economic growth which the world's developed nations had been enjoying since the mid-1950s suddenly came to an end, and in the few years that followed the world faced three hardships: inflation, economic stagnation, and imbalance in the balance of payments. Japan, which had been heavily dependent on oil, tried to look for a breakthrough in this hardship by having the government and the private sector working together. The government strongly urged the Japanese people to save energy, and private enterprises promoted "lean management" by cutting back on human resources, goods, and money. As a result, in contrast to other developed countries which long suffered from stagflation, Japan not only quickly recovered from the recession, but despite the strong yen during the late 1970s expanded exports of household electrical appliances and automobiles to Europe and the US, and trade friction subsequently intensified. During the Second Oil Crisis at the end of the 1970s, as Japan had already greatly reduced its dependence on oil, there was no such confusion as was seen during the First Oil Crisis, and Japan quietly survived.

By the early 1980s, steady "stable economic growth" continued and Japan also experienced the Microelectronics Revolution (the burgeoning microchip industry and the increasing use of microprocessors in everyday staple goods). With it, the star industries of the high economic growth period such as steel manufacturing and shipbuilding, or the "heavy and large", were replaced by the industrial boom of the "small and light", or the electronics-related household appliances industry, and exports in this sector grew. The Plaza Accord of September 1985 resulted in a weak dollar and strong yen, and Japan suffered a strong yen recession for about a year thereafter. However, from the end of 1986, as prices began to stabilize with the strong yen, land prices and securities prices began to surge, and the "bubble economy" continued until land prices collapsed in 1990.

Trade Friction Intensifies

During the 1980s, the yen continued to remain strong, but Japanese exports of industrialized goods to the West, especially to the US, showed no signs of slowing down, and trade friction intensified. Japan's trade surplus with the US reached $10 billion in 1978, continued to expand to $60 billion in 1987, and to $81 billion in 2000. The percentage of exports to the US of total Japanese exports was a little less than 26% in the late 1970s, but rose to 35% in 1984, and stayed around the 30% level in the 1990s. On the other hand, the percentage of imports from the US of total Japanese imports remained around 20% after the 1980s, and the peak was in 1998 at a little less than 24% *(Table 1)*.

TABLE 1

Presence of US in Japan's trade

Year	Japan's Trade Surplus with US (Unit: million yen)	Percentage of US in Total Export Value A	Percentage of US in Total Import Value B	A-B
1977	1,934,824	24.4%	17.5%	6.9%
1978	2,150,306	25.6%	18.6%	7.0%
1979	1,315,897	25.6%	18.4%	7.2%
1980	1,559,956	24.2%	17.4%	6.9%
1981	2,966,483	25.5%	17.6%	7.8%
1982	3,024,634	26.2%	18.3%	7.8%
1983	4,323,246	29.2%	19.5%	9.6%
1984	7,857,636	35.3%	19.7%	15.6%
1985	9,369,335	37.1%	20.0%	17.2%
1986	8,645,809	38.4%	22.8%	15.6%
1987	7,566,095	36.5%	21.1%	15.4%
1988	6,099,125	33.8%	22.4%	11.4%
1989	6,183,550	33.9%	22.9%	11.0%
1990	5,470,694	31.5%	22.4%	9.1%
1991	5,133,282	29.1%	22.5%	6.6%
1992	5,498,902	28.2%	22.4%	5.8%
1993	5,572,546	29.2%	23.0%	6.2%
1994	5,611,396	29.7%	22.9%	6.9%
1995	4,256,548	27.3%	22.4%	4.9%
1996	3,546,143	27.2%	22.7%	4.5%
1997	5,019,659	27.8%	22.3%	5.5%
1998	6,691,887	30.5%	23.9%	6.6%
1999	6,965,805	30.7%	21.7%	9.1%
2000	7,577,006	29.7%	19.0%	10.7%

Source: Survey of Foreign Trade, Japan Tariff Association

Between Japan and the US, there was already a dispute around textiles by the period of high economic growth, and for a period after the oil crisis the dispute was mainly in heavy industries such as color televisions, steel, and automobiles. However, in these instances, when the US automobile industry began to decline, for example, that led to a decline in the regional economies around Detroit, and those involved in each of the regions lobbied heavily to the politicians elected from the local constituencies for sanctions against Japan. Policies adopted by the American government in the mid-1970s for roughly a decade against Japan included shutting out imported goods through filing of Anti-Dumping (AD) law suits, exerting political pressure on the Japanese government to have relevant industries adopt voluntary export restrictions, and having Japanese enterprises begin local production in the US. In 1985, the administration of President Ronald Reagan began the Market-Oriented Sector-Selective (MOSS) talks, and the fact that the New Trade Policy was announced after the Plaza Accord indicated a bold shift in thinking from the conventional passive policy to control Japanese imports to a more active policy to expand US exports to Japan. The MOSS talks were intended to remove trade obstacles through such measures as deregulation and tariff reduction for individual sectors in which the US was interested in entering the Japanese market such as electronic communication, medical equipment and pharmaceuticals, electronics, and forestry. The New Trade Policy also declared its intent to impose sanctions based on Section 301 of Trade Act of 1974, displaying an aggressive posture.

The policy to increase exports to Japan evolved into a policy to remove institutional obstacles to open the closed Japanese market. First, the administration of President George Bush initiated the Structural Impediments Initiative (SII) from 1989 to 1990, and Japan and the US each agreed to point out structural issues that were thought to be impediments to adjusting trade and balance of payments, and to correct these issues.

The US-Japan Framework for a New Economic Partnership initiated by the administration of President Bill Clinton after 1993 also carried on this policy to demand the opening of the Japanese market. But the Clinton administration opted for a "result-oriented" negotiation based on "objective criteria", and urged more strongly than did the Bush administration for a removal of institutional factors in the Japanese market. In past negotiations, the Japanese side would oppose US claims, but ultimately approve US demands. After 1993, however, Japan insisted on the posture of not entering negotiations with the US where Section 301 of the Trade Act of 1974 may be exercised, and strongly opposed the introduction of "objective criteria" which had the danger of becoming an approval for arbitrary judgements.

Individual negotiations by sector were also held under this framework, but the differences in understanding around numerical targets of the US-Japan Semiconductor Conflict from 1986 to 1991 fueled Japan's resistance. The settlement of the US-Japanese Conflict on Automobile and Auto Parts Trade, however, came to be greatly influenced by the announcement of a purchasing plan by a Japanese manufacturer, and also by honoring the US through additions to numerical targets. In this regard, an ambiguous settlement style seems to have been passed on in the US-Japan Framework Talks.

The trade negotiation style which the Clinton administration pursued, combining unilateralism and bilateralism to exercise Section 301 of the Trade Act of 1974, clearly contradicted the thinking of multilateralism which the US had been recommending in the Uruguay Round of GATT from 1986 to 1994. The reorganization of GATT into the WTO in 1995 shocked the US policy of utilizing unilateralism and bilateralism, but it is around this time that Japan-US trade conflicts began to cool down.

As for the Euro-Japanese trade conflicts, the large numbers of Japanese commodities that were exported to the European Communities (EC), established in 1967, in the mid-1970s resulted in strong protectionism in the European countries suffering from a serious depression, and a second trade conflict started, following the first one in the 1930s.

Trade conflicts between the EC and Japan gradually worsened from the mid-1970s, and the "Battle of Poitiers" in France and several AD problems occurred in Europe in the 1980s. It appears that the main cause of these problems was that Japan easily overcame the difficulties of the Second Oil Crisis in the late 1970s, and enjoyed the Bubble Boom in 1986-1990, while the European countries were seriously affected by the Second Oil Crisis and suffered from a long depression thereafter. Japanese exports to the European countries tended to quickly expand. These included several commodities, among which hi-tech products such as automobiles and electrical appliances were remarkable successes.

Although the trade conflicts between Europe and Japan continued in the early 1990s, they gradually lessened around the time of the reorganization of the EC into the European Union (EU) in 1993. One important cause of the change seems to be that the European economies gradually revived, while Japan became the only advanced country that experienced a long depression. However, another cause was that the EC, the Japanese government, and enterprises in Japan kept on making great efforts to improve the mutual relationship from the 1980s onwards. (Takeshi Abe, "The 'Japan' Problem: The Trade Conflict between the European Countries and Japan in the Last Quarter of the 20th Century", *Entreprises et Histoire*, No. 80, September 2015.)

Import Expansion Policy

The 1980s are noted as being a period when the Japanese government embarked on a full-scale import promotion policy to resolve trade friction. The policies can be categorized as follows: (1) import expansion policy to prepare and provide a market conducive to fair competition, consciously increase imports, and support export efforts of the partner country with the aim of increasing imports, and (2) policies to open the Japanese market by removing systematic impediments when foreign countries are exporting to Japan, such as easing of import regulations, lowering tariffs, and improving standards and the certification system.

Although the import expansion policy began with the General External Economic Policy in 1971 on the back of trade friction with Western countries, a comprehensive and concrete import promotion policy was first introduced in October 1982 in the Trade Conference Coordination Subcommittee Opinion Paper, and this policy was passed on and evolved into its succeeding policies. Promotion of overseas export expansion efforts through utilization of the Japan External Trade Organization (JETRO) and the Manufactured Imports Promotion Organization (MIPRO), established respectively in 1958 and in 1978, materialized as proposed in this paper, and the two organizations worked hard until the early 21st century in undertaking research, and hosting events and import fairs.

Next, the second Cabinet of Prime Minister Yasuhiro Nakasone formulated the "Framework for Improved Market Access Action Program" in July 1985 when trade friction was intensifying. Every year since then, the Ministry of International Trade and Industry (MITI) began to request major business enterprises to expand imports. MITI also called on the Japanese people and industries for efforts to expand imports every year after 1985, and supported convening import fairs and accommodating import financing.

During the 1989 "Summit of the Arch" in Paris, its declaration clearly indicated that countries with a trade surplus had a responsibility to expand imports, and hence the Japanese government implemented a three-year comprehensive import expansion policy in April 1990, which fundamentally strengthened the import expansion policy. The content of this policy was (1) implementation of a tax system to promote import of manufactured goods, (2) elimination of tariffs for 1,004 items of industrialized goods, (3) massive expansion of policy finance for import expansion, and (4) "$100 million Grass-roots Import Expansion Project" (sending experts overseas for both long-term and short-term periods through JETRO, and expansion of the national budget around establishment and management of economic internationalization centers in each local prefecture).

Market Opening Policy — Easing of Import Regulations

The pillar of the market opening policy, which was the other component of import promotion policy, was easing of import regulations. The Western countries' demand for the expansion of domestic demand and market opening from the late 1970s to the 1990s was motivated by the widely shared notion that the market of a large economic power like Japan was not fully accessible. However, the Japanese government, and MITI in particular, was not entirely aware of this perception, and only during the process of dealing with foreign countries did they begin to acknowledge the existence of various obstacles around imports to Japan and begin to put deregulation into practice.

In the criticisms of Japan that came from Europe about trade issues in the late 1970s, technical obstacles were pointed out as being non-tariff barriers on the Japanese side, mainly around imports of industrial goods, such as certificates of conformity for automobiles and emission control, and audits for pharmaceuticals and chemicals. In its new policy for fiscal year 1979, MITI also cited "removal of hindrance to import expansion of manufactured goods" as one challenge, and acknowledged the need for improvements in various inspection procedures, in the reclusiveness and affiliation of Japanese industries, and in the non-modern nature of distribution. At the Japan-US Senior Officials Meeting in September 1977, various programs to promote exports to Japan were presented, and the Trade Facilitation Committee (TFC) was inaugurated to deal with challenges around trade procedures and to identify prospective goods suitable for exporting from the US to Japan. The TFC was also the first institution to be dedicated to identifying complaints about trade. In addition, Japan proceeded to simplify export and import procedures through various stages from the latter 1970s.

Even during the early 1980s, however, criticism from overseas of Japan's non-tariff barriers persisted, and based on the views presented by the Trade Conference, Keidanren (Japan Business Federation), and MITI, the Ministerial Conference on Economic Measures decided on the "External Economic Policy" in December 1981, and developed concrete measures in five areas, namely, market opening measures, import promotion policies, export policies, industrial cooperation measures, and economic cooperation measures. The Ministerial Conference on Economic Measures which convened the following January set out the first round of market opening measures which set improvement measures to deal with complaints against import inspection procedures from overseas countries as its pillar. In May of that same year, the second round of measures were set out and eight import measures were implemented, including improvement of import inspection procedures, reduction of tariff rates, easing of import regulations, import expansion, improvements in distribution system and business customs, liberalization of service trade, high technologies, and others.

Such market opening policies received positive evaluation to a certain degree from the Western countries, but as Japan bashing continued, in January 1983 the Ministerial Conference on Economic Measures of the Japanese government agreed on a market opening policy which included five items of non-tariff barrier measures. In addition, the "Standards and Certification System Liaison and Coordination Office" was established with the aim of simplifying the various standards and certification systems. In light of the discussions at the Coordination Office, in March of the same year the Ministerial Conference on Economic Measures of the Japanese government collectively reformed 17 laws including the Electrical Appliance and Material Control Law so that foreign business enterprises could directly apply for import goods inspections, and also decided to apply the "correction of discriminatory system" principle. In June 1983, in a Report Paper for the Conference on Measures for Import of Goods, the Japanese government reported its view that the Japanese distribution system was reasonable as it had adapted to its national environment and unreasonable aspects were being improved, hence overseas export-related businesses should express their understanding of such a unique environment and that Japan was also ready to cooperate in promoting that understanding. In February 1984, MITI implemented easing of the standards and certification system procedures around accepting foreign inspection data. In November of the same year, out of respect to the US, Nakasone instructed the minister of trade and industry to consider market opening policies in four sectors (communication equipment, lumber, electronics, medical equipment and pharmaceuticals) where high-level talks were ongoing with the US.

The government's Advisory Committee on External Economic Problems "Report" compiled in March 1985 reflected back on the six governmental market opening policies as being reactive and *ad hoc* to overseas requests, and concluded that the basic principle of "free in general, but excluding energy and food" for overseas economic exchange should be established. This led to the official approval of the "Framework for Improved Market Access Action Program" in July of the same year. As noted previously, this was related to import expansion policies, but it was also a plan that included market opening policies, and thereafter MITI went on to further reform the standards and certification system.

During the 1990s, emphasis was shifting towards import expansion policies which added direct incentives for import expansion through such measure as utilization of JETRO as previously noted. However, because the image of the Japanese market being closed was not easily eradicated, efforts to open the market continued, and at the Trade Conference which was held in November 1995, "Guidelines for Improved Market Access to the Japanese Market" were agreed which cited further promotion of deregulation and improvements to business customs as its pillar. Moreover, in April 1999 the Cabinet of Prime Minister Keizo Obuchi approved the "Bill to Organize and Streamline Standards and Certifications Related to the Ministry of International Trade and Industry", and the law was enacted in August. Development and introduction of new technologies, and establishment of a quality management system led to improvements in the ability to ensure security for the proprietors. The purpose of this bill was to review the division of responsibilities between the government and the private sector, to build a system utilizing the capacities of the private sector, and to streamline regulations. Concretely, entry of private enterprises was approved to serve as the government's appointed acting institution to conduct inspections, certifications, etc., and further deregulation accompanied by legal amendments was enhanced in various sectors.

Conclusion

Trade friction with the West had calmed down by the end of the 20th century. The aforementioned market opening policies around import expansion policies and import deregulation contributed to a certain extent, but more fundamentally Japan had suffered a long recession unlike other developed nations and its presence in trade hence decreased, as this article notes. On the other hand, the fact that the US and EU countries managed to maintain their steady economic growth until the bankruptcy of Lehman Brothers in 2008 seems more important. And what seems more important than this is the fact that China continued to achieve extraordinary economic growth.

However, the trade friction that Japan experienced in the last quarter of the 20th century, and the policies that the Japanese government developed and implemented cannot be described as all worthless. First, China currently seems to be the center of global attention on trade friction, but the essence of it is not very different from what Japan had experienced. In the pre-war period, Japan shocked the British textile industry, and in the postwar period Japan caught up with and surpassed the US textile industry and heavy industry. China will also, one day, pass on its trade superpower status to another developing nation. It should be acknowledged that trade friction has been repeated throughout history when young nations are pushing for industrialization in order to catch up with developed nations.

Next, of the import promotion policies that Japan developed to break through trade friction, the import expansion policy was an exceptionally bold one. Market opening policies which tried to eliminate Japan's non-tariff barriers were also bold. But its pillar, deregulation, can be traced back to the liberalization policy of trade and exchange rates which the Japanese government pursued during the high economic growth period. In the Export Transaction Law which was enacted in September 1952, the Japanese government expressed its policy to prevent unfair export transactions and to establish an order in export transactions. Export promotion, however, consistently remained the national policy for Japan from the pre-war period to the 1970s, and the export regulation policy that was just touched upon was merely a passive measure with the movements to restrict Japanese imports to the West in mind. On the other hand, import expansion policies since the 1980s differed greatly from the past policies as they were carried out in a serious manner.

Last is the assessment of this import expansion policy. Japan's import expansion policy that continued until the beginning of the 21st century was globally unique, and it demonstrated to the world the commitment of the Japanese government to expand imports. However, to what extent it worked in easing the trade friction is difficult to assess just from *Table 2*, and this is a challenge that needs further empirical analysis. Incidentally, this policy may have provided an opportunity for Japanese consumers to correct the prejudice that goods from Western developed countries are expensive imported items. The late 1980s, when the policy was implemented, coincide with the bubble period, and throughout the life of the policy out-of-reach high-end designer items became more affordable for the wealthy, while cheap imported items from China and other countries prompted active use of these goods through 100-yen stores for ordinary citizens. Thus, all in all, imported goods became more affordable on a daily basis. It is very likely that in addition to the yen being continually strong, import promotion campaigns by the government changed consumers' notions of imported goods. JS

TABLE 2

Changes in Export & Import Value, & the Exchange Rate

Year	Export (100 million yen)	Change in Export (%)	Import (100 million yen)	Change in Import (%)	Exchange Rate (yen/US$)	Change in Exchange Rate (%)
1985	415,719	n.a.	286,202	n.a.	254	n.a.
1986	345,997	-16.8	194,747	-32	185	37.3
1987	325,233	-6.0	192,915	-0.9	151	22.5
1988	334,258	2.8	216,113	12.0	127	18.9
1989	373,977	11.9	263,567	22.0	130	-2.3
1990	406,879	8.8	306,350	16.2	150	-13.3
1991	414,651	1.9	285,423	-6.8	135	11.1
1992	420,816	1.5	263,055	-7.8	130	3.8
1993	391,640	-6.9	236,823	-10	118	10.2
1994	393,485	0.5	246,166	3.9	107	10.3
1995	402,596	2.3	279,153	13.4	93	15.1
1996	435,659	8.2	344,693	23.5	106	-12.3
1997	495,190	13.7	372,087	7.9	120	-11.7
1998	488,665	-1.3	328,820	-11.6	130	-7.7
1999	457,948	-6.3	317,793	-3.4	118	10.2
2000	495,257	8.1	369,622	16.3	106	11.3

Note: n.a: data is not available.

Source: The History of Japan's International Trade and Industry Policy, Volume 2, Trade Policy 1980-2000, Takeshi Abe ed., Advisory Committee on Economy and Industry, January 2013, p.225,

Takeshi Abe is a professor at the Faculty of Political Science and Economics at Kokushikan University. He teaches economic history, including Japanese trade, and is also interested in the industrial and business history of modern Japan.