

# Why Should Japan Buy More From Abroad?

What follows is a dialogue between Osamu Watanabe, director general of the International Trade Administration Bureau, Ministry of International Trade and Industry, and Robert McIlroy, professor of international economic law at Aoyama Gakuin University since April 1988. The two met exclusively for the *Journal* to discuss matters relating to Japan's massive trade surplus, and some countermeasures centering on the enhanced import promotion programs of MITI.

Incidentally, the government has designated every October as "Import Promotion Month," featuring campaign projects and events.

**McIlroy:** *The Japanese trade surplus tended to follow a downward trend in recent years. Now it is growing again. First, let's analyze why this has happened.*

**Watanabe:** The Japanese trade surplus hit a new record in fiscal 1986, when the surplus on the current account reached \$94.1 billion. The current account surplus dropped steadily in subsequent years thanks to the yen's sharp appreciation and the ¥6 trillion (\$43 billion) economic stimulus package that the government implemented in 1987. As a result, that surplus decreased to \$33.7 billion in fiscal 1990. In fiscal 1991, however, it increased to \$90.1 billion, thus resuming its upward trend.

## J-curve effect

Let me compare fiscal 1990 and 1991. In Japan's case, if the price of crude oil drops by a dollar per barrel, imports will fall about \$2.3 billion a year. In fiscal 1990 the average price of oil was \$23 per barrel, and it dropped to \$18 in 1991. Therefore, imports declined by about \$11.7 billion.

In addition, imports of gold for investment dropped by about \$10.7 billion and imports of art objects by about \$4 billion, for a combined decrease of about \$15 billion. Including the decrease stemming from the lower oil price, the total decline in imports for fiscal 1991 was about \$27 billion.

On the other hand, exports increased in dollar terms because of the yen's rise, but did not increase in volume terms. I am talking about the so-called J-curve effect. This effect pushed up export value by about \$18 billion from fiscal 1990 to fiscal 1991. Because of these factors, the trade surplus increased by about \$44 billion. This is the major reason why the current account surplus expanded in fiscal 1991.

**M:** *If the J-curve effect pushed up export value, does it follow that the surplus will automatically begin to shrink in fiscal 1992 as that effect corrects itself?*

**W:** I don't think exports will increase as they did in fiscal 1991, provided that the exchange rate remains more or less unchanged. The difference between fiscal 1990 and 1991 can be explained largely by the factors I just described.

The problem is that aside from these factors, the domestic economic situation

has deteriorated since the middle of fiscal 1991. This has had a considerable impact on imports of capital goods, raw materials and crude oil. In other words, imports have been decreasing because of the economic slowdown, beginning in the second half of fiscal 1991.

**M:** *The Uruguay Round is not making much progress, so it is likely that Japan will come under greater pressure from abroad. One way to cut the surplus could be to hold down the growth of exports. What is really important, however, is to expand imports.*

*There is no way that imports of art objects, petroleum, gold bullion and the like can be increased. So far various measures have been taken to promote imports of manufactured goods, and I think much more should be done in this direction. What measures do you have in mind in order to expand imports?*

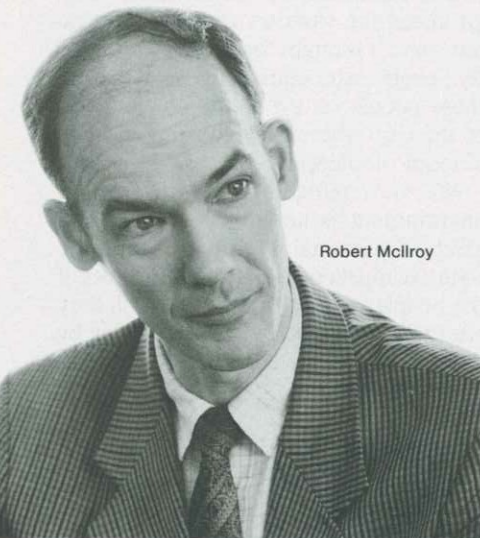
**W:** When I was director of the Americas Division for two years from 1985, I visited the United States 18 times for various bilateral negotiations, such as the semiconductor talks and MOSS (market-oriented sector-specific) talks. I had a lot of discussions with Americans, and I made the point that 70% to 80% of the trade surplus comes from problems in macroeconomic management in the two countries.

That is, the United States had then, as now, a growing budget deficit. Also, imports were on the rise. In other words, the U.S. had a shortage of savings and an excess of investment. In contrast, Japan had an excess of savings and a shortage of investment. This notion was well acknowledged by my American counterparts.

**M:** *The notion is acceptable to me, too.*

**W:** From this point of view, I believe the steady decline in the surplus from 1987 to 1990 was due largely to the fact that Japan's economic growth in that period was led by domestic demand, thanks to the ¥6 trillion pump-priming package of 1987.

However, the economic situation has deteriorated rapidly since the second



Robert McIlroy

half of 1991. So Prime Minister Kiichi Miyazawa announced the ¥10.7 trillion (\$86 billion) economic stimulus package at the end of August. I think it is most important to implement the measures proposed in the package as soon as and wherever possible. And while these may not have an immediate effect, I believe that imports will begin to increase in a time frame of one to two years, and that the macroeconomic factors I have cited as contributing to the surplus will be adjusted in due course.

### The new pump-priming package

As for the current account surplus, the figure for fiscal 1991—\$90.1 billion—is about the same as for fiscal 1986. However, the ratio to GNP has dropped sharply from about 4.6% in fiscal 1986 to 2.5% in fiscal 1991, when GNP was larger than in fiscal 1986. So the GNP ratio is down to nearly half the level of 1986. That is a big improvement. I hope people abroad will appreciate this. The recent surplus is clearly different from the 1986 surplus, which was abnormal in terms of its proportion to GNP.

**M:** *If macroeconomic measures succeed and if the domestic economy maintains a high rate of growth, it may not be necessary to take additional measures. But it is also possible to imagine a worse scenario. Since it is particularly important to prevent protectionism from gathering force abroad, it may be necessary, in addition to expanding the economy, to take measures directly related to trade, such as increasing imports on an emergency basis. There is also a need to remove barriers in specific sectors, as happened during the MOSS talks. I think such efforts should be sustained on a long-term basis.*

**W:** I agree. I am not saying that the surplus is not a serious problem. What I am saying is that the magnitude of the surplus as a percentage of GNP has markedly diminished. But certainly the surplus is growing again because of the deteriorating economy and we must do something about it.

The government's new pump-priming package includes, among various mea-

asures to stimulate domestic demand, such special measures for import expansion as the following.

First is the strengthening of import infrastructure from a long-range standpoint. Air cargoes are handled mostly at Narita, while most of the goods imported by sea enter through a few ports such as Tokyo, Yokohama and Kobe. It is necessary to strengthen the infrastructure, particularly airports and seaports, so that foreign goods can have more access points throughout the country.

Now we have a special law under which special import promotion areas will be created across the country (see p.26). These areas, called Foreign Access Zones, or FAZs for short, will have an assortment of facilities for distribution of imports, such as warehouses and delivery centers. And importers and import-supporting businesses will be brought together in these areas, which will be designated as bonded areas. Also, legislative revisions have been made at the initiative of the Ministry of Finance to make each FAZ an integrated bonded area.

In addition, JETRO (Japan External Trade Organization) will set up an exhibition hall in each of these zones so that consumers as well as distributors can have a firsthand look at a wide variety of imported products.

In financial terms, support will be provided by the central government and the local governments involved.

The law was enacted in late March this year and implemented on July 16. More than 20 local governments have now stepped forward. MITI intends to designate five areas this year so that FAZ construction work can get under way. It is our intention to designate about five areas each year over the next four years or so. We will have a nationwide network of import access points that also takes the country's entire physical distribution system into account.

The second measure calls for substantial improvement in financing programs for import purchases, such as lower interest rates and relaxed lending terms. Specifically, the Japan Development Bank will lower the rate of its low-interest

loans from 5.6% to 5.1% for upgrading facilities for imports, and expand the scale of such loans.

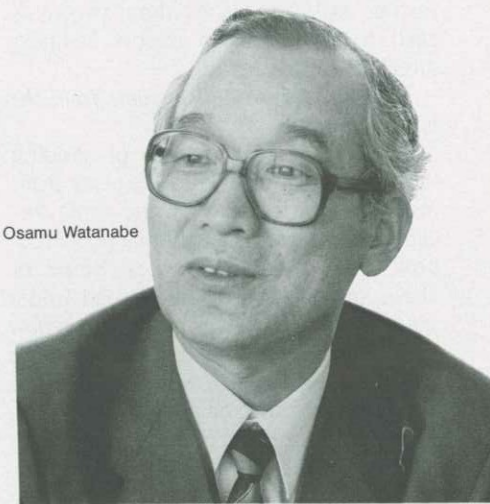
In addition, the rate for low-interest loans by the Export-Import Bank of Japan will be lowered from 5.3% to 5.1% for imports of manufactured products. In the case of automobiles, auto parts, semiconductors and several other items, the Export-Import Bank will extend loans to importers to cover the entire import value in the current fiscal year. Up to now, loans have covered only the value of the increase over the previous year.

The third is a drastic reinforcement of the import promotion functions of JETRO.

### Tax incentive system

In April 1990, we established a tax incentive system for manufactured imports. This system was adopted as part of the import expansion measures announced in 1989 to address the large trade surplus.

Specifically, such privileges are available to importers and manufacturers who have increased imports by 10% or more over the preceding year. This system contributed substantially to expanding imports in 1990, but its application period of three years expires at the end of this fiscal year. In light of the current situation, we



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intend to expand this system and make it more effective so that it can contribute more to import expansion.

The new package calls for the establishment of a business supporting center, as one of JETRO's activities, aimed at providing temporary office space and various services for foreign companies in their efforts to get their products into Japanese distribution channels. The center can be a base for the activities of foreign businesspeople in Japan.

The fourth point calls for government procurement of foreign imports worth about \$250 million, mainly equipment for experiments and research as well as medical equipment.

These import promotion measures are expected to help expand imports by \$4 billion to \$5 billion by the end of fiscal 1993. Of the total, \$2 billion will accrue from direct measures such as the expansion of government procurement and the Export-Import Bank loans, and the rest from other measures which have indirect effects. Furthermore, full implementation of the ¥10.7 trillion package will have a considerable effect on the expansion of imports.

**M:** I think that the new package shows the Japanese government's firm commitment to a domestic demand-led recovery.

**W:** Imports into Japan do not increase, even if we want them to, unless foreign countries export competitive and appealing products. So Japanese specialists are being posted in the United States, Europe and Oceania for about two years each to help develop export business directed toward Japan.

**M:** Do these specialists come from the business community?

**W:** JETRO is in charge of sending these people, who include experts from major trading companies and other foreign trade specialists, including people retired from these companies. Some of these specialists are sent abroad under contract with JETRO. This system is now two years old, and I understand that it has achieved success. We want to see more specialists of this kind assigned overseas. We want to see more of them assigned for shorter periods of three or six months.

We also want to invite foreign trade



Imported products arrive at Narita airport. The government is establishing Foreign Access Zones across the nation to strengthen Japan's import infrastructure.

Photo: Nihon Keizai Shinbun

missions to Japan through the activities of these specialists to facilitate understanding of Japan and promote communication. In these and other ways, we intend to develop an effective import promotion package.

**M:** That is an excellent plan. Aside from this, I wonder if there is something Japan can do, such as improving the GATT framework or developing some other multilateral system.

## Spirit of GATT

**W:** In terms of GATT rules, I don't think the Japanese market system compares that unfavorably with the U.S. or the EC system.

**M:** I agree. However, precisely for this reason I think that Japan should take the initiative to establish the direction in which GATT should be improved, by taking the kind of action that other countries cannot or do not want to take.

In my view, GATT is riddled with exceptions and loopholes. For example, GATT approves of customs unions and free trade areas as exceptions to the rule. Now, how-

ever, all countries are moving in that direction. Also, GATT provides for safeguards, or emergency import restrictions, under Article 17, although such measures are clearly undesirable in the light of the spirit of GATT. Yet every country reserves the right to take such measures. I wish some country would speak up and declare that such measures are not necessary.

**W:** Talks are under way as part of the Uruguay Round to impart greater feasibility to GATT safeguards or relief schemes. And Japan actively supports this. Also, it is a fact that the United States is moving to form trade blocs such as the North American Free Trade Agreement. Furthermore, the EC is moving toward integration.

These moves, as you said, are loaded with many factors that call for caution. But they also merit a certain degree of positive evaluation as long as they lead to free trade associations conducive to the freest possible flow of goods and services. In fact, both the United States and the EC are saying that they promise to make their emerging trade associations nondiscriminatory against third countries.

**M:** *Criteria for that are stated in Article 24. The question is, who will stand by Article 24 when everybody else is running toward a customs union or free trade area? I think that is where Japan should demonstrate its leadership. For example, the Tokyo summit next year could take up a strengthening of Article 24 as one of its items of discussion.*

## Mail order market

*I also want to say something about FAZs. It seems to me that the direct marketing industry would be one of the sectors most interested in this scheme. If direct marketing businesses set up bases in a FAZ, which will be a bonded area, they will be able to take orders and mail out products there. In other words, they ought to be able to do good business. I think this kind of direct marketing is going to be a growth industry.*

**W:** By direct marketing do you mean, for instance, consumers buying directly from abroad, the way customers of Seven-Eleven Japan are doing now?

**M:** *That is correct. I refer to the mail order industry.*

**W:** It seems imports by catalog are increasing rapidly. More and more consumers are purchasing directly from abroad by way of catalogs, without going through regular distribution channels. This should be further encouraged.

**M:** *Are such imports counted in the trade statistics?*

**W:** Yes.

**M:** *That's good. By the way, according to foreign businesses trying to enter the Japanese mail-order marketing field, there seems to be one practical problem—specifically, the postal rate for catalog mail. Two years ago the Ministry of Posts and Telecommunications introduced a preferential ¥150 rate for catalogs weighing up to 250 grams apiece in order to encourage individual imports. However, catalogs published by businesses trying to get into the Japanese market weigh far less than 250 grams. They say only existing major businesses stand to gain from this discount rate.*

**W:** Regrettably I don't know enough about this particular case to comment on it, but it seems that the current system

works to the disadvantage of more than a few newcomers. Such problems must be thoroughly checked out on a case-by-case basis. The Import Board created about two years ago within the Trade Conference, which is chaired by the prime minister, is designed to address such problems (see p.28).

The latest session of the board, the third so far, was held on July 15. It was attended, besides regular members, by a number of officials from other ministries and agencies at the director general level. One view presented was that customs procedures take too long. A similar issue had been raised at the previous session. We welcome such views and if there are any misunderstandings we are ready to explain and correct them. If there are points that need improving, we will do our best to consider them positively.

As for grievances from abroad, there is the Office of the Trade and Investment Ombudsman within the Economic Planning Agency, from which foreign grievances are channeled to other government departments for detailed examination. Follow-up action is essential to ensure proper functioning of the grievance settlement process, and in the case of the Import Board, the International Trade Administration Bureau is in charge.

**M:** *It is quite heartening to know that a staff of specialists are dealing with these problems on a routine basis.*

## Advice for foreigners

**W:** When I was serving my stint at the Small and Medium Enterprise Agency, a representative of a foreign company in Japan visited me, and he told me that there was a dispute involving his company and MITI. He asked me whether he should report the trouble to the head office back home, or whether it was just a wrong evaluation on his part.

I suggested that he seek advice not from a high-ranking official at MITI, but rather from a junior official at the deputy director level. I myself contacted the deputy director in charge and told him to take care of the case. I hope that foreign businesspeople, either executives or managers, will visit MITI sections more

often and try to promote communication with officials in charge.

**M:** *That is a very important thing to do.*

**W:** People from Japanese companies visit MITI all the time to seek advice on various problems, but few foreign businesspeople ever come. I would like to see many more foreigners visit us. If it is inconvenient to make such visits, U.S. companies, for instance, can bring their problems to the American Chamber of Commerce in Japan. Then someone in a responsible position from it can hold discussions with MITI on a regular basis. That is another way of handling problems.

**M:** *I suggest that MITI plan something like a "Know Your MITI Day" so that foreign businesspeople can get to know more about MITI and promote communication with it. Such an event would certainly help foreign businesspeople to get acquainted with MITI and its activities, organization and officials in charge.*

**W:** Regarding the relationship between MITI and Japanese business, I want to make it clear that MITI does not exercise any particular power, nor does it protect private enterprises. The relationship that exists is characterized by constant communication between business and MITI at all levels of authority.

Given this kind of communication, whenever we try to formulate a new policy we ask ourselves what businesses would think of it, and whether they would follow us. Even when we have to work out something rather unfavorable to business, they understand that it is unavoidable because close communication is maintained at all times.

It is regrettable that there is no such communication between MITI and foreign businesspeople in Japan. Only through active communication can we understand what problems foreign businesses have, or what they hope for in the future. We do not discriminate against foreign businesses in Japan. I know Japanese businesspeople abroad try hard to promote communication. Whenever there is a problem that must be resolved, good communication is surely the most effective approach. ■