

International Trade Policies of Japan

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The trade balance of Japan

The total picture of Japan's trade balance in recent years explains the relationships of Japanese trade with other countries.

It is easy to understand the structure of Japanese trade by looking at 1993. It shows that the total amount of exports was \$360 billion and imports was \$240 billion. The balance was \$120 billion. These figures—120, 240, 360—are easy to remember. That was the structure of Japanese trade in the year 1993. It has undergone change in the past two years. In 1995 exports increased, but imports increased more rapidly, with the balance decreasing for the first time in five years. In the year 1995, although the balance decreased over the previous year, Japan still had more than a \$100 billion surplus. In the chart we can see a lot of black ink, meaning there was a decrease over the previous year, indicating that Japan's trade balance with various nations has been improving.

In 1993, Japanese exports to the U.S. were around \$100 billion and imports around \$50 billion, a balance of \$50 billion. That means globally in 1993, we exported more than 50% over imports and with the U.S., we exported nearly double what we imported. That caused a lot of trouble between these two countries. But the amount of surplus with the U.S. has been decreasing slightly in recent years.

The EU trade imbalance with Japan had been nearly \$20 billion, but, it too, increased, causing tension between the two. But in 1993 and 1994 the trade imbalance began to decrease. And last year it returned to its former level of around \$20 billion.

Regarding trade with Southeast Asia,

the surplus in 1991 was nearly the same as that with the U.S. But from that year on, the surplus with Southeast Asia exceeded the imbalance with the U.S. Export and import figures show that trade relations between Japan and Southeast Asia was rapidly increasing in these years. That means Japanese trade relationships with Southeast Asian nations is increasing year by year.

The cause of the current account imbalance

According to the theory of macroeconomics, the current global account imbalance is equal to the imbalance of savings and investment in a particular country. In the case of Japan, savings exceed investment, so we have a surplus. In the case of the U.S., investment exceeds savings, so the U.S. has a deficit. To address this surplus, Japan should increase investment or decrease savings. The U.S. should proceed to the contrary, by reducing the fiscal deficit. Now the Clinton administration and the Republican Party are discussing how to reduce or minimize this current fiscal deficit in seven years. I hope that it will be realized. If they reduce the fiscal deficit, it means a reduction in investment, and a decrease in the current account deficit.

The international trade policies of Japan

International trade policies or trade-related policies are often discussed or coordinated through multilateral organs such as the G-7 industrialized nations' leaders meeting, WTO or APEC. To follow these processes is very important.

Multilateral phase

The G-7 summit started in 1975. During the first five years, the main issue was how to address the oil crisis, and the depressing economic situation caused by it. To this end, macroeco-

nomics policies, monetary policy and trade matters (ex. how to promote the Tokyo Round negotiations which were going on at that time) were topics discussed at the G-7 meeting.

The second phase

The second phase began in 1980. In November 1979, the former Soviet Union invaded Afghanistan resulting in the impairment of the so-called détente, or "peaceful existence" between Communist and non-Communist nations. From 1980, political issues had to be discussed, the Soviet problem in particular. During that period, the energy crisis calmed down and the Tokyo Round trade negotiations finished. So members began looking for a way to begin the next round of trade negotiations. And during the second half of the 1980s, with the Soviet issue less urgent, the G-7 summit returned to its original purpose of discussing global economic affairs. Then they began to consider how to start new negotiations. That was the beginning of the Uruguay Round negotiations. During that period, global environmental problems became a point of concern. At the famous "Arch Summit" meeting in July 1989, global environmental policies such as the depletion of the ozone layer, global warming issues, the rain forests, acid rain and so on were brought up for the first time.

The third phase

The third phase started after the end of the Cold War. The topics discussed at the G-7 summit meetings had changed. "Sustainable development" and "growth and unemployment" became the main subjects because in all of the G-7 countries there were 17 million unemployed workers at the end of the 1980's. This figure increased to 22 million in 1992, and by July 1993 it had reached 23 million. Gradually, unemployment became a major concern for G-7 nations. During that period, how to support

reforming countries, including Russia, became a major issue. Mikhail Gorbachev, then president of Russia, was invited for the first time to the summit in 1991. After that, the head of Russia was invited to join the meeting, but Russia was not formally allowed to join the G-7.

At the end of every summit meeting a communique is always disclosed. Looking at it, one can see the current world economic problems. Global unemployment was the main subject of the Halifax Summit in 1995. The second subject was "meeting the challenges of the 21st century." Strengthening the global economy, or addressing the sluggishness of the economy or growing unemployment, the participants spoke about trade creating opportunity through open markets. To meet these ends, they agreed to full implementation of the Uruguay Round agreement, reaffirmation of a commitment to resist protectionism in all its forms, confirmation of the WTO as an effective institution and a commitment to implementing the efficient functioning of this mechanism. In short, the WTO is the only existing body that possesses international trade rules. So how to define the WTO is the most important task to discuss in regard to international trade policies.

The WTO

The WTO was established at the beginning of 1995 as a result of the Uruguay Round negotiations. Before that there were the Kennedy and Tokyo Rounds, but the Uruguay Round was the most important of the three. The number of participants was bigger than ever before and more than seven years were spent in concluding it and, to some extent, it is still going on. The coverage of the Uruguay Round far exceeds that for either the Kennedy and Tokyo Rounds.

There are five major points to be made of the results of the Uruguay Round. 1) The establishment of the WTO and strengthening the dispute settlement process. 2) The rules to govern in new areas. In GATT, only the trade of goods was covered, whereas the

Uruguay Round includes coverage of trade in services, intellectual property rights and so on. 3) The inclusion of areas not included by GATT, namely, the trade of agriculture and textiles. 4) The strengthening of existing rules. Under GATT, there are numerous clauses to protect a nation from an imported product invasion, such as anti-dumping, countervailing duties, or emergency import restrictions. But how these systems were to be used was not clear, so there was a lot of trouble. During the Uruguay Round negotiations, many new restrictions and new qualifications about these clauses were agreed upon. 5) The participation of developing countries increased compared to that in GATT. That is natural because the share of developing economies participating in world trade is increasing so rapidly. Developing economies are very important members of the new WTO.

So, what is the basic objective of the WTO? The answer, in one word, is how to make the free market mechanisms to work in the world trade. The principle rules of the WTO are: most favored nation status, national treatment, the elimination of quantitative restrictions, and tariffication is to be accepted as the only measure to restrict imports and lowering the existing tariffs as far as possible. Those are the basic rules of the trade policies which cover world trade.

There are still lot of matters remaining to be discussed. Among them, I think, the following four points are the most important: "trade and labor standards," "trade and investment," "trade and competition policy" and "trade and the environment."

Regional trade policies—APEC, ASEM

APEC (Asian-Pacific Economic Cooperation)'s share in the world economy is as follows: GNP—50%, energy consumption—50%, trade—45%, population—40% and land size—30%. Interdependence within the region is increasing. In the APEC countries, 70% of trade is interregional trade.

For what purpose was APEC estab-

lished? It is valuable to understand the background that led up to the formation of APEC (discussions from 1987 to 1989 at MITI (Ministry of International Trade and Industry), which played a central role in the creation of APEC). These discussions considered the following factors: The Asia-Pacific region was rapidly becoming the center of world economic growth; ties of economic interdependence were rapidly strengthening within the region; Asia-Pacific nations shared concerns about regionalism with the creation of the EU and NAFTA; the economic development of the Asia-Pacific region would contribute to peace and stability in the region and, in turn, to world peace (This was not clearly stated, however). For these reasons, creating a forum for discussions regarding the region was deemed necessary and significant. Open regional cooperation is the main objective of APEC. Within the concept of APEC, we should always have in our mind the expression "D & D." That means "dynamism and diversity." "Diversity" represents the feature of this region in various ways, and not only in terms of per capita GDP. There are three main pillars in the purpose of APEC—to promote "liberalization", "cooperation" and "facilitation." These three pillars should be well balanced in the process. The most epoch-making event that has ever happened during the APEC process was so called "Bogol Declaration" in November 1994. In that declaration, it was agreed upon to liberalize trade and investment by the year 2010, or, in the case of developing economies, by 2020. The Osaka meeting provided a platform for discussing how to proceed with this declaration. Last year, the APEC moved "from vision to action." To set up the action agenda, demonstrations were made in the Asian-Pacific way, combining voluntary initiatives with action. Although it is voluntary, I am sure the liberalization process will go further.

The Asia-Europe Meeting (ASEM) was held in Bangkok March 1 & 2 of this year. It was epoch-making and started successfully. Representatives of 10 Asian nations, 15 European nations,

and the president of the European Commission took part in that meeting. The key concept of ASEM was a "new comprehensive Asian-European Partnership for Great Growth." They referred to political affairs, economic affairs and cultural ones. These broad subjects were discussed. The issue is how this meeting is to be managed in the future. The Japanese government supports this meeting. To make it a success, bilateral issues between two countries, such as human rights or democracy, should be eliminated from topics presented at this meeting. Liberalization, cooperation and facilitation, like APEC, were mentioned. Another important point in meetings like APEC or ASEM, is to take into account countries which do not attend the meetings. When the Quad (U.S., Canada, EU and Japan's trade ministers) meeting is held, we always think about developing countries, so when the ASEM meeting is held we have to think about the economies outside of this formula. There are lot of areas covered in this meeting. So how ASEM should be managed from now is very important. I was pleased to hear that they agreed to have the next meeting in England in 1998 and South Korea in 2000. The continuation of this forum is essential.

These are the multilateral fora, or systems, or regions surrounding Japan and affecting Japanese trade policies. The Japanese government is fully committed to playing a key role in these fora.

Bilateral issues

As for bilateral issues, the U.S.-Japan trade problem is one of the most important ones. When the Clinton administration began, they wanted to set a new negotiation scheme. The so-called framework agreements between Japan and the U.S. cover the whole of economic activities between the U.S. and Japan. There are three main parts, namely, "the basic objectives," "the sectoral and structural consultations and negotiations" and "a common agenda for cooperation in global perspectives." In the third sector we discussed environmental policy, technology, development of

human resources, AIDS and others. We have three major principles in this agreement: (1) the principle of two-way dialogue; (2) the benefit of this framework will be transferred to third parties on a most-favored nation basis; and (3) the consultation will be limited to matters within the scope and responsibility of the respective government. Through the negotiations, I found that we could not agree to the major notions of the U.S. administration, specifically, (1) Japan's \$130 billion surplus and bilateral surplus of \$60 billion are proof of the closed nature of the Japanese market; (2) some U.S. products have a smaller share in the Japanese market than in the EU. That is also the proof of closed nature of the Japanese market; (3) the 30 existing trade agreements between Japan and the U.S., except for the agreement on semiconductors, were not working well; (4) to penetrate into the Japanese market, the agreement should have some concrete target, namely, numerical targets.

We could not agree on these notions. Let me explain why, one by one. (1) I have mentioned this in my explanation on statistics. (2) That is the result of a market structure or the supply side structure. In the case of autos, U.S. auto makers did not begin to make right-hand-drive cars until very recently. (3) We also checked the 30 agreements but found that they were, in fact, working well. For example, deregulation on the import of beef and citrus fruit was increasing. In some sectors of government procurement we have already changed our system as agreed. (4) We could not accept the idea of numerical targets because it was, essentially, managed trade which is incompatible with the free trade mechanism. When we negotiated in the auto and auto parts sectors, we could not accept their proposals based on that notion. During the negotiations, we mentioned that successful penetration into the Japanese market would entail "QCDDs" ("Q" is quality, "C" stands for cost, "D" is development—to develop products to fit into certain markets, such as the right-hand-drive car, the

second "D" stand for delivery—accurate delivery is very important for penetrating the Japanese market, and "S" is after-sales service). So, if U.S. products meet these requirements, they can penetrate into the Japanese market. The reason that U.S. products cannot get into Japanese market is not because the Japanese market is closed but because efforts of U.S. exporters have not been sufficient enough for the Japanese market. The number of cars imported in each of the past consecutive 29 months has exceeded imports for previous years. I think those figures show that they can penetrate into Japanese market if they develop the right product.

Upon the start of WTO, I think, bilateral trade talks should be handled based on the international trade rules to which WTO member countries are committed.

The role of the Japanese government

As the one of the major developed countries, Japan should recognize her role in the world community. To reduce the still existing trade surplus, we should try to reduce the imbalance between savings and investment. To this end, we must spend a lot of money to stimulate the Japanese economy by using the budget debt if deemed appropriate. However, our savings rate is quite high, so our trade surplus remains high and will stay that way for the time being. Using trade surpluses, we have to cooperate with international activities. We must also deal with the deregulation of our economy. Deregulation is an important policy that would stimulate the economy or meet the demands of other countries. The Japanese government has decided to promote deregulation in three years with a review of the plan each year. But, frankly speaking, the deregulation process is very slow, so we must push it forward in Japan. The promotion of competition policy is also very important.

Through these processes, I am sure Japan, in fulfilling its role to the world economy, can cooperate with other developed countries in various fields. ■

Japan's Trade Statistics

[In \$100 million, year-on-year (%) changes. Figures in parentheses represent shares (%) in total trade]

	EXPORTS							IMPORTS						
	1990	1991	1992	1993	1994	1995	1996.1	1990	1991	1992	1993	1994	1995	1996.1
TOTAL	2,869 4.3	3,145 9.6	3,396 8.0	3,609 6.3	3,956 9.6	4,429 12.0	290 6.8	2,348 11.4	2,367 0.8	2,330 ▲1.6	2,407 3.3	2,747 14.2	3,361 22.3	285 16.9
U.S.	903 ▲3.1 (31.5)	915 1.3 (29.1)	958 4.6 (28.2)	1,054 10.0 (29.2)	1,176 11.5 (29.7)	1,209 2.8 (27.3)	80 ▲2.9 (27.5)	524 8.5 (22.3)	533 1.8 (22.5)	522 ▲2.0 (22.4)	552 5.8 (23.0)	627 13.4 (22.8)	754 20.3 (22.4)	64 27.5 (22.6)
EU	535 11.7 (18.7)	592 10.5 (18.8)	625 5.6 (18.4)	564 ▲9.7 (15.6)	575 1.9 (14.5)	703 14.8 (15.9)	47 7.1 (16.3)	350 24.5 (14.9)	318 ▲9.2 (13.4)	313 ▲1.6 (13.4)	301 ▲3.6 (12.5)	355 17.7 (12.9)	488 25.9 (14.5)	41 15.3 (14.2)
Southeast Asia	827 12.5 (28.8)	962 16.3 (30.6)	1,044 8.5 (30.7)	1,174 12.5 (32.5)	1,384 17.9 (35.0)	1,698 22.7 (38.3)	110 19.5 (38.7)	546 3.2 (23.3)	558 7.7 (24.8)	575 ▲2.2 (24.7)	606 5.3 (25.2)	679 12.0 (24.7)	850 25.3 (25.3)	75 20.5 (26.2)
Middle East	99 15.4 (3.4)	123 24.7 (3.9)	152 23.5 (4.5)	133 ▲12.8 (3.7)	110 ▲16.9 (2.8)	101 ▲8.3 (2.3)	7 5.4 (2.5)	313 35.9 (13.3)	293 ▲6.4 (12.4)	292 ▲0.3 (12.6)	272 ▲6.9 (11.3)	280 2.8 (10.2)	317 13.4 (9.4)	29 3.9 (10.2)
China	61 ▲28.0 (2.1)	89 40.2 (2.7)	119 39.1 (3.5)	173 44.6 (4.8)	187 8.2 (4.7)	219 17.4 (5.0)	12 32.0 (4.3)	121 8.1 (5.1)	142 17.9 (6.0)	170 19.3 (7.3)	206 21.3 (8.5)	276 34.0 (10.0)	359 30.3 (10.7)	32 36.8 (11.2)

	BALANCE						
	1990	1991	1992	1993	1994	1995	1996.1
TOTAL	521 ▲18.9	778 49.2	1,066 37.1	1,202 12.8	1,209 0.5	1,608 ▲11.6	5 ▲82.7
U.S.	380 ▲15.6	382 0.7	436 14.0	502 15.2	549 9.4	455 ▲17.2	15 ▲51.3
EU	185 ▲6.4	274 48.0	312 14.0	263 ▲15.8	220 ▲16.2	215 ▲2.4	7 ▲25.0
Southeast Asia	281 36.4	374 32.9	469 25.4	568 21.3	705 24.1	848 20.2	36 17.7
Middle East	▲215 48.0	▲170 ▲20.7	▲140 ▲17.5	▲140 ▲0.4	▲170 21.5	▲216 27.5	▲22 3.5
China	▲59 125.3	▲56 ▲5.1	▲50 ▲11.0	▲33 ▲34.2	▲89 169.9	▲140 57.5	▲20 40.0

Okamatsu Sozaburo, during his service at the Ministry of International Trade and Industry from 1960 to 1994, served at various positions including director-general at the International Trade Policy Bureau and vice-minister for international affairs.

Note: Figures for 1995 and January 1996 are preliminary