The Prospects for Japan's Trade Structure

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THE first *White Paper on International Trade* was published 55 years ago. In 1949, Japan's exports amounted to around $500 million, almost one-thousandth of the amount of this year.

Of course, at that time most Japanese industries had not recovered from the damage they suffered during World War II. Japan's international trade was severely restricted by the occupied forces. The export level was only 16.2% of the pre-war figure. The export dependency ratio (ratio of exports to gross domestic product, or GDP) at that time was only 5%.

However, even in an ordinary year, Japan's export dependency ratio has not been as high as many people might suppose. Last year, it was 12.2%, the highest percentage since 1985. This figure was much lower than the rates for such European countries as Germany (33.4%), France (29.9%), Italy (28.4%) or the United Kingdom (27.2%). The United States is well known for its low trade dependency ratio for both exports and imports. Its export dependency ratio in 1997 was 11.2%, a bit higher than Japan's (11.1% in the same year). The export dependency ratio of the United States in 1999 was 10.4%, exactly the same as Japan was. In other words, Japan's export dependency ratio has been about the same as that of the United States recently, although many people in the world may have the impression that Japan's export dependency ratio is much higher than the U.S.'s. Exports can be divided into two categories: namely, goods and services. Japan's export dependency ratio in goods has always been bigger than that of the United States. This may be the reason why many people tend to think that Japan's export dependency ratio is much higher than that of the United States. The gap between them has been expanding recently. For example, the gap between Japan's export dependency ratio in goods and that of the United States has expanded for the last 10 years, from 1994 to 2003 respectively – 0.9%, 0.3%, 0.7%, 1.3%, 1.8%, 1.6%, 1.8%, 2.1%, 3.4% and 3.9%.

However, when it comes to trade in services, the situation between Japan and the United States is the other way round. The U.S. export dependency ratio in services has always been bigger than Japan's. In this case, however, the gap between the U.S. and Japanese figures has been shrinking as follows from 1994 to 2003 respectively – 1.6%, 1.8%, 1.7%, 1.5%, 1.4%, 1.6%, 1.5 %, 1.4%, 1.1% and 1.0%.

The narrowing gap between the U.S. and Japanese figures may indicate that Japan's export dependency in services may catch up with the United States within 10 years or so.

International trade consists of three categories: namely, trade in manufactured goods, trade in primary goods, including agriculture and raw materials, and trade in services. Of these three categories, Japan only has a trade surplus for the first one, and trade deficits for the second and the third categories. In 2003, Japan had an estimated $244 billion surplus for trade in manufactured goods and $138 billion and $34 billion deficits for trade in primary goods and services respectively. Will this trade structure change in the future? In terms of trade in manufactured goods, China is catching up, and Japan's trade surplus in this category will decline. In terms of trade in primary goods, we have to monitor two items – agriculture and oil. Although Japan's agricultural import policies are expected to be relaxed rather drastically along with the progress of World Trade Organization (WTO) and free trade agreement (FTA) negotiations, a sudden surge of agricultural imports cannot be expected because rice imports would not be liberalized too drastically due to the issue of food security. Imports apart from rice are now being allowed with high tariffs, but lower tariffs would not create a lot of new demand. On the other hand, the consumption of high quality agricultural exports such as apples and pears will increase, especially for newly affluent Asians, including people in Taiwan, Hong Kong, Singapore and southern China. All in all, the agricultural trade deficit will not increase too much.

However, the dollar amount of oil imports will expand in the medium and long term. There is a strong possibility that the Chinese bubble economy may burst in the near future, thereby drastically reducing the need for oil in China. The world oil market will then be able to enjoy the glut, but this will only be short lived. The Chinese economy will keep expanding in the long run. Therefore, we have to be ready for strong competitive demand in the world oil markets keeping oil prices high. The same thing is true for other raw materials.

Regarding trade in services, Japan is world famous for the low productivity of its service sector. This is one of the reasons why Japanese prices are 40% higher than those of the United States and the United Kingdom. However, imports of services will be further liberalized through the upcoming negotiations, exposing Japan's service sector to the international competition that will reduce the cost of the services provided in Japan. Competitiveness will then be strengthened not only in Japan's service sector but also in its manufacturing sector, possibly offsetting the effects of a declining trade surplus in manufacturing due to China and the expanded deficits in oil and other raw materials. JS

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