CHAPTER - 4

Importance of Japan's overseas trade: its trade partners and the traded items
Japan's industrialized and free-market economy is the second-largest in the world which is also highly efficient and competitive in areas linked to international trade, but its productivity is far lower in certain areas like in agriculture and lumbering sectors. Japan's industrial leadership, technicians, well-educated and industrious work force, high savings and investment rates, promotion of industrial development and foreign trade produced a mature industrial economy. Japan has few natural resources, and its trade helped to earn the foreign exchange needed to purchase raw materials for its economy. Japan eventually recovered from its worst period of economic stagnation since World War II and become one of the major economic powers in the world today. Economic growth has raised the standard of living of the Japanese people to that of the United States. Its economy has moved from manufacturing towards services, since its domestic companies have successfully used the countries of Southeast Asia as pools of low cost labour. The goods that Japan has exported have changed over time, from agricultural products to manufactured goods like textiles, steel, and cars. Japan is no longer competitive in agriculture because it has little farmland. Today simple manufacturing is too expensive because of the high wages paid to Japanese workers and it is also less competitive in energy-intensive industries such as in petrochemicals and aluminum as the country has few domestic energy resources. Japan purchases oil from the Middle East when the price of oil rose in 1973, it has spent more money on oil than any other imported product. Japan buys coal and other raw materials from Australia and uses these resources to make high technology items.

4.1. Evolution of Japanese Trade

Cullen has argued that, 'the emperor Meiji who reigned from 1868 until 1912, a time period called the Meiji Period or the Meiji Restoration, was able to convert the entire country of Japan from a feudal state into an industrialized world power in less than half a century'(Cullen, 1982: 67). Jansen is of the opinion that, 'policies such as the formation of a centralized beauracracy replacing the balance of power between autonomous domains and the Tokugawa and the military authority of the Samurai being replaced with a conscripted modern army were both assumed under Meiji's reign'. He further argued that 'Meiji was able to accomplish what would have otherwise been thought of as
impossible’, he elaborated his ideas of how Meiji has constructed a modern state, ‘overhauled the social systems, forged an overseas empire and created a new economic structure’ in the world community has assumed a key role (Jansen, 1980: 72).

Hane has argued that, ‘until July 1937, political and economic penetration into China proceeded against little resistance when the Second Sino-Japanese War began at the Marco Polo Bridge near Peking’ (Hane, 1991: 89). Sansom is of the opinion that ‘by 1940 Japan controlled Eastern China and had established a puppet court in Nanking and allied with the axis powers of Italy and Germany’ which were already at war in Europe. When Japanese troops move into the Southern Indochina in 1941, Sansom elaborated the fact that United States and Great Britain has imposed ‘a complete trade embargo upon Japan’ (Sansom, 1976: 23). In 1941, Japan launched simultaneous attacks on Pearl Harbor, the Philippines Islands, Hong Kong and Malaya. Author Allen has argued that ‘the United States of America immediately declared war on Japan and World War II entered its global stage’(Allen, 1971: 90). Japanese forces succeeded at first during 1941 but got defeated in 1942 when when the US Navy defeated a Japanese fleet at the battle of Midway Island. Author Inada described, ‘with the dropping of the atom bombs at Hiroshima and Nagasaki on August sixth and ninth and the Soviet declaration of war on August 8 1945, Emperor Hirohito ordered the army to surrender unconditionally thus ending the war’. (Inada, 2003: 67). This is how Japanese got defeated in the World War II which has forced its people to rethink about their national goals and policies for future development.

The author Kosaka argued that during this time the government was democratized and ‘the constitution with a bill of rights was put into effect and Japan renounced the right to use force in foreign policy’ (Kosaka, 1980: 30). Akao has expressed that ‘civil liberties were restored and the education system was liberalized’ at the same time adult suffrage was created and the old practice of feudal land tenure was dropped. He further argued that ‘in 1951 Japan signed a mutual defense and peace treaty with the United States’. (Akao, 1983: 78).
Akimoto argued that ‘Japan was faced with the challenge of rebuilding its economy and this recovery was aided by the outbreak of the Korean War in 1950 through 1953’. He further argued that ‘this forced the country to focus on industrialization and the increasing amount of export’ (Akimoto, 2001: 67). Throughout the sixties and seventies Japan’s economy continued to expand and grow at an almost alarming rate as compared to the rest of the world. According to the author Alatas, ‘while the average exports in the world grew at a rate of approximately 8 percent annually, the Japanese recorded a growth of nearly 16 percent’ which was greater than that of any other industrialized nation in the world during that time (Alatas, 1986: 45). Arkin stressed on the fact that Japan started its trade expansion in the field of textile, where there were cheap labour available if compared to the already developed Western countries and it helped Japanese to capture foreign markets. He further argued that ‘the markets for other products were then taken from their traditional manufactures and became specialties of the Japanese’ (Arkin, 1987: 34). By the early 1970s Japan was the world’s largest producer of ships and a leader in the production of steel, cars, and electronic equipment. Since 1985 Japan has been the world’s leading exporter of manufactured goods and the world’s largest provider of developmental aid. This did not happen over night however, the reasons for this spectacular export performance are the variety of Japan’s industrial output, the shift to products with a relatively high added value and higher export competitiveness and advanced sales and advertising techniques have all helped.

4.2. Japan’s Export

Japan is often viewed as a heavily export-dependent nation because of the success of certain exports. As a percentage of Gross National Product (GNP), the country exports less than many other major trading countries of the world. According to the data available from the Japan Statistical Year Book (2000), in 1991 the country exported 9.3 percent of its GNP compared with 14.9 percent for Italy, 18.2 percent for France, 18.2 percent for Britain, 22.1 percent for Canada, 24.8 percent for Germany, and 47.0 percent for the Netherlands. The data also tells that ‘United States exported a smaller share of its GNP at 7.4 percent which was less than that of Japan.’ (Japan Statistical Year Book, 2000: 40). Japan was therefore, less dependent on foreign trade than many other industrialized
countries of the world. In certain industries, however, export dependence was high. In 1991, only just under half of all automobiles produced in Japan were exported. The composition of exports shifted through technological progression during 1980s onwards. Primary products, light manufactures, and crude items, which predominated during the 1950s, were gradually eclipsed by heavy industrial goods, complex machinery and equipment, and consumer durables, which required large capital investments and advanced technology to produce. According to the Japanese Trade and Investment Statistics (2000), ‘this process was illustrated vividly in case of textiles which composed of more than 30 percent of Japanese exports in 1960 but less than 3 percent by 1988’ (Japanese Trade and Investment Statistics, 2000: 21). The report also says that iron and steel products which had grown rapidly in the 1960s to become nearly 15 percent of exports by 1970 declined to less than 6 percent of exports by 1988. Over the same period exports of motor vehicles rose from under 2 percent to over 18 percent of the total. The statistical data also reveals that ‘in 1991 Japan’s major exports were motor vehicles, office machinery, scientific and optical equipment and semiconductors and other electronic components’ (Japanese Trade and Investment Statistics, 2000: 21).

4.3. Japan’s Imports

During the 1960s and 1970s, imports grew in tandem with exports, at an average annual rate of 15.4 percent during the 1960s and 22.2 percent during the 1970s. (East Asia Update, 2006: 140). In a sense, import growth over much of this period was constrained by exports, because exports generated the foreign exchange to purchase the imports. During the 1980s, however, import growth lagged far behind exports, at an average annual rate of only 2.9 percent from 1981 to 1988 (Trade Statistics of Japan, 2000: 12). This low level of import growth led to the large trade surpluses that emerged in the 1980s. The long-term growth in imports was facilitated by several major factors. The most important was general growth in the Japanese economy and income levels. Rising real incomes increased demand for imports, both those consumed directly and those entering into production. Another factor was the shift in the economy toward greater reliance on imported raw materials. Primary energy sources in the late 1940s, for example were domestic coal and charcoal. The shift to imported oil and coal as major
energy sources did not come until the late 1950s and 1960s. The small size and poor quality of many of the mineral deposits in Japan, combined with innovations in ocean transportation, such as bulk ore carriers, meant that as the economy grew, demand outstripped domestic supply and cheaper imports were utilized. Rapid economic growth combined with stable import prices and the shift toward imported raw materials brought high import growth in the 1960s. The big jump in raw material prices in the 1970s kept import growth high despite lower economic growth. In the 1980s, falling raw material prices, a relatively weak yen and continued modest economic growth kept import growth low in the first half of the decade. Import growth finally accelerated in the second half of the 1980s, when raw material prices stopped falling and as the rise in the value of the yen encouraged manufactured imports. East Asia Update Report (2006) says ‘Japan imported a wide range of products, although energy sources, raw materials, and food were the major items’ (East Asia Update, 2006: 67). The report also says that during 1960s mineral fuels rose from 17 percent of all imports to a high of nearly 50 percent in 1980. According to the Statistical Bureau of Japan (2008), the percentage of mineral fuel import fell from 50 to 21 percent that is less than half; again a small increase was experienced by 1991 when mineral fuel imports increased to 23 percent. The report says ‘these shifts show the enormous impact of price changes on imports. Swings in imports of other raw materials were far less dramatic, and many declined over time as a share of total imports’ (Trade Statistics of Japan, 2008: 56).

According to Economic Planning Agency (2005), metal ores and scrap declined steadily from 15 percent in 1960 to less than 5 percent in 1988 and less than 4 percent in 1991, reflecting the changing structure of the economy, which moved away from basic metal manufactures to higher value added industries. Textile materials also dropped from 17 percent of total imports in 1960 to just fewer than 2 percent in 1988 and just over 1 percent in 1991, as the textile industry became less important and imports of finished textiles increased. ‘Foodstuffs, however, were relatively steady as a share of imports, raising from just over 12 percent in 1960 to 15.5 percent in 1988 and by 1991 a slight decline, 14.5 percent, was experienced’ (Economic Planning Agency, 2005: 27).
Figure 4.1: Value of Japan Exports by Principal Country, 1965-1980.
Unit in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.

Figure 4.2: Value of Japan Exports by Principal Country, 1981-1990
Unit: in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.
Figure 4.3: Value of Japan Exports by Principal Country, 1991-2004
Unit in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.

Figure 4.4: Value of Japan Imports by Principal Country, 1965-1980
Unit in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.
Figure: 4.5 Value of Japan Imports by Principal Country, 1981-1990
Unit: in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.

Figure: 4.6 Value of Japan Imports by Principal Country, 1991-2004
Unit: in Million Yens

Source: Japan Tariff Association, Tokyo Japan 2005.
4.4. Phase-wise Analysis of Japan’s Export and Imports

The above six set of line graphs shows phase wise analysis of Japan’s exports and imports. The whole data has been divided into three phases to understand the trend analysis of Japan’s exports and imports. The first phase deals with the time period from 1965 to 1980 that is when Japan started reshaping its economy after WWII and became one of the most developed countries of the world. The time period for the second periods is from 1981 to 1990, when there were many fluctuations in international trade, till the occurrence of Gulf War in 1991. The third period is from 1991 to 2004, indicates the present status of exports and imports of Japan. Figure 4.1, 4.2 and 4.3 shows the value of exports to its major trading partners- Asia, Republic of Korea, China, U.S.A, Europe, Australia, Kuwait and Saudi Arabia. Figure 4.1 shows that from 1965 Japanese exports for all the above mentioned countries raised till 1975-76, but there was a sudden fall in 1977, due to world-wide oil crisis.

4.4.1. Export Trend Analysis

The figure 4.2 shows a rising trend in Japanese exports from 1981 to 1990. Exports towards Europe increased, but towards U.S.A it decreased. With other countries Japanese exports were more or less steady. Figure 4.3 shows the present trend of Japanese exports from 1991 to 2004. China became the major trading partners of Japan, since the export of Japan’s goods for China and Korea increased where as for U.S.A, the line graph showing a declining trend. Trade with Kuwait, Australia and Saudi Arabia shows more or less steady.

4.4.2. Import Trend Analysis

The figure 4.4 shows value of Japan’s imports from 1965 to 1980. Japanese imports were high till 1975 -76 for all the countries but suddenly there was a fall in1977 due to oil crisis which took place between 1977-78, this disrupted the overseas trade of Japan. In figure 4.5 Japanese import towards Europe, Asian countries and U.S.A. increased but in case of Saudi Arabia it decreased due to Gulf War in 1991. Figure 4.6 shows that Japanese imports towards China increased than that of U.S.A for the first time in 2003-
04, replacing U.S.A. as its major trade partners. Elaborate explanations of Japanese major trade partners are as follows.

4.5. Japan's Trade with China

Japan's trade with China both in exports and imports has been growing overwhelmingly over the past few years. During the year 2004 China substituted the United States of America as one of the major trading partner of Japan. The economic experts are of the opinion that macro-economic scenario in the two countries looks to be good enough for the economic relations between the two countries prosper. One of the major factors in this case is the reduction in the difference between the import and export of the country. Domestic demand in China has grown rapidly in recent years for household electronics, mobile phones, automobiles, and visual devices, video players, cameras and recorders and Japanese companies have comparative advantages on these products. Recent East-Asian regional economic cooperation has witnessed certain progress, but there also exist some distinct defects, lagging far behind the progress of European and North-American regional economic cooperation. European and North-American experiences indicate that big countries and coordination among them are crucial to the smooth progress of regional economic cooperation. Similarly, without the hand-in-hand advancement of China and Japan, it would be difficult for East-Asian economic cooperation to achieve smooth progress.

According to Sasaki and Kago, China is now even called the 'factory of the world'. They further argued that 'among all other exports of Japan for China in 2002, exports of capital and electronic goods contributed significantly to the overall increase' (Sasaki and Kago, 2003:1). Increase and change of composition in Japan's imports from China are very closely related to the changes in China's trade structure. Many manufacturing firms, including those producing personal computers in Japan and also in other East Asian Countries have transferred their plants to China. China is the second largest economy in East Asia after Japan. China is seeking closer economic and political relation with South East Asia. Resource abundant ASEAN member states would be major supplier to China of energy, raw materials and food. China & ASEAN countries have similar export
structures in labour intensive manufacturers. China in fact has lower production costs and it is a challenge for ASEAN countries to compete with China.

In fact, the economic status of China and Japan in East Asia is much higher than the economic status of France and Germany in Europe. China and Japan that occupy significant positions have failed to play a leading role in jointly promoting East-Asian economic cooperation through cooperation and coordination for lack of sufficient mutual trust in the political aspect, and have thus hindered the smooth progress of East-Asian economic cooperation. This situation has found expression in the main aspects of financial cooperation and in the liberalization of regional trade in East-Asian economic cooperation.


According to the Economic Survey of Japan (2010), 'the share of Japan's exports to China out of overall exports, at 18.9%, also set a record, making the country Japan's largest export destination and pushing it ahead of the US for the first time' (Economic Survey of Japan, 2010: 54). The survey report also pointed out that 'Japan's exports to China posted negative growth for 10 consecutive months, from November 2008 to August 2009. This slowdown reflects a decline in Japan's exports of electronic parts and raw materials to China, as Chinese exports of finished goods to markets in Japan, the US and Europe slowed. Japan's exports to China saw a gradual recovery in the second half of the year, however, as production for China's domestic market increased and the Japanese, US and European economies bottomed out. The report further states that 'this contraction, however, was smaller than the drop in Japan's overall trade, giving Japan-China trade a record 20.5% share of Japan's total trade in 2009'.

Exports of motor vehicle parts showed high growth in the second half of the year, due to increased demand for parts through expansion of automobile production in China. Exports of organic chemicals also increased rapidly in the second half of the year, owing to China's buoyant demand for automobiles and home appliances as well as construction industry-related exports, due to growth in infrastructure projects. Exports of integrated
circuits, iron & steel products, nonferrous metals, electrical apparatus, textile yarn & fabrics, computer parts, metalworking machinery and mechanical handling equipment increased in the second half of the year, although posting double-digit negative growth for the year as a whole. Exports of gas oils and other mineral fuels were down for the year, due to China's own increased crude oil refining capacity.

Imports of foodstuffs remained at the same level, with demand for Chinese low-cost food items recovering, reflecting a still weakened Japanese economy. Imports of clothing also remained at about the same level, thanks to steady demand for inexpensive Chinese-made clothing items. Imports of computers, semiconductors among other parts, and materials such as iron & steel products and chemicals were down, due to Japan's weakened economy and a reduction in the country's industrial production.

### 4.5.2. Future Export Trend Analysis of Japan-China

Japan's trade with China will likely to grow in 2010, depending on how import fares, Japan's trade with China could either turn into a surplus or set another record high. Economic growth in Japan, the US and Europe is expected to remain at low levels. This could delay a full-fledged recovery of Chinese exports to these markets and also keep exports of Japanese high-value added raw materials and parts to China stagnant. Increased exports to China are also expected due to new demand for infrastructure projects as a result of the government's stimulus plan. In addition, domestic demand in China for consumer goods such as automobiles and home appliances is expected to grow, which would lead to growth in exports of items used in these products.

### 4.5.3. Future Imports Trend Analysis of Japan-China

Japan's imports from China are expected to grow in 2010, but without a recovery in Japan's domestic demand, the record set in 2008 may be difficult to top. Japan has continued to produce a trade surplus since 1981. According to the Trade Statistics of Japan (2009) Japan's international trade on a customs clearance basis in 2008, exports showed an annual decrease of 3.5 percent to 81.0 trillion yen, the first
decrease in seven years. The Trade Statistics of Japan has also pointed out that ‘imports grew by 8.0 percent to 79.0 trillion yen, thus increasing for the sixth consecutive year. As a result, Japan's trade surplus decreased for the first time in two years, falling by 80.9 percent from the previous year to 2.1 trillion yen’ (Trade Statistics of Japan, 2009: 67).

4.5.4. Shortest Route between China and Japan for Trading

China has finally found a direct trade outlet to the Sea of Japan by making an agreement to lease a pier at North Korea's Rajin Port for at least 10 years. It is the country's first access to the maritime space in its northeast since it was blocked over a century ago. North Korea's willingness to lease China a pier at the port as well as one for Russia has brought speculation that the country will further open up to the outside world. According to Li Longxi, head of the Yanbian Korean Autonomous Prefecture in China's northeastern Jilin Province, a private company in China had obtained the right to use Pier No. 1 at Rajin Port for 10 years, and its infrastructure renovation is currently underway. Statistics shows that, Rajin Port, which does not freeze over in winter, includes three wharfs in use, covers 380,000 square meters and has a freight transit capacity of 4 million tons. It became a free trade port when Rajin-Sonbong City was declared a free trade zone in 1991, the first in the North. The zone was later renamed Rason. China lost access to the Sea of Japan in the 19th century during the Qing Dynasty when it was forced to sign a series of unequal treaties with Russia and Japan in the region. The provinces of Jilin and Heilongjiang have been landlocked ever since. In fact, the southeast border of Jilin is only 15 kilometers from the mouth of the Tumen River, with access to the Sea of Japan blocked by Russia and North Korea. Yang Bojiang, an expert on Northeast Asia issues at the China Institutes of Contemporary International Relations, said the lock of ports to the Sea of Japan has restricted the development of the three northeastern provinces- Jilin, Liaoning and Heilongjiang which are abundant in natural resources.

According to Yang, Rajin port will become a logistics hub and a bridgehead of international routes for the area, especially for Jilin, which is at the center of northeast Asia. Freight in Hunchun city in Yanbian is usually transported to Dandong Port or Dalian Port in Liaoning Province before being exported to Japan, which takes three to four days. But if it goes via Rajin Port, which is only 48 kilometers from Hunchun, it will
take just over 10 hours to reach Japan's Niigata Port, according to Xia Kejun, a trade manager in Hunchun. In terms of the regional economy, cooperation between Japan and China, both major economies in Asia, will promote stability and prosperity in the region. In this sense, cooperation between Japan and China in APEC, the ASEAN-plus-three forum and the ASEAN Regional Forum will be good for the stability and prosperity in East Asia. Over the long run, Japan and China could perhaps explore the possibility of setting up an East Asia Free Trade Area and broaden the sphere of economic cooperation in the region. One possibility is to form a cooperative framework among countries adjoining the Sea of Japan, which one day, could even encompass a unified Korea and Russia's Far Eastern Region. Japan and China, therefore, should avoid binding themselves to the narrow confines of a bilateral relationship. The two countries should map out a broad-based strategy of cooperation and build a bilateral relationship in a multilateral setting encompassing Asia and the world as a whole.

In the military sphere, as a country with nuclear weapons, China has a big presence in Asia. China's participation in the regional security dialogue through the ASEAN Regional Forum has great meaning for countries and territories in Asia. China also has strong influence in the stability and economic cooperation in Northeast Asia, from the Korean Peninsula to Russia Far East. China's participation would be essential for the establishment of a six-nation framework in northern Pacific encompassing Japan, the United States, China, Russia, North and South Korea.

4.5.5. Japan-China Trade Relationship after World War II

After World War II, the world plunged into the Cold War, and until 1972 Japan and China had no diplomatic relations. Bradford has argued that 'in 1962, the two countries signed a semi-governmental trade memorandum, and after 1964 bilateral trade grew rapidly through the so-called L-T Trade channel, named after the initials of the two men, Liao Chengzhi and Tatsunosuke Takasaki, who set up the mechanism'(Bradford, 2004: 89). According to Devison 'the two countries normalized their diplomatic relations in September 1972 when Prime Minister Kakuei Tanaka visited China, and concluded a long-term trade agreement and a treaty of peace and friendship in 1978' (Devison, 1980:
Auer has argued that the present state-to-state relationship between Japan and China is based on two documents, one is 'the 1972 Joint Communique, which formed the basis of diplomatic relations between the two countries' and the other is the '1978 Treaty of Peace and Friendship' which committed the signatories to develop relations of perpetual peace and friendship between the two countries on the basis of the principles of 'mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence'(Auer, 1993: 78). It can be said that it was due to the enthusiasm and hard work of the people involved in Japan-China relations that the two countries were able to normalize their diplomatic relations and conclude a treaty of peace and friendship.

4.5.6. Current Japan-China Relations

In the economic arena, the amount of bilateral trade rose to an all time high of over 85 billion dollars in 2000. Blechman has analysed that 'from China's perspective Japan has been its largest trade partner for eight years in a row and from Japan's viewpoint, China became its second largest trade partner after the United States' (Blechman, 1991: 29). Cohen says 'Japan's direct investment in China soared after 1990, with the amount of investment already implemented totaling 24.88 billion dollars at the end of 1999' (Cohen, 1999: 67). Japan became China's second largest source of investment after the United States at present, as many as 20,000 Japanese businesses are said to be operating in China, providing job opportunities to more than 1 million people. Apart from expanding bilateral trade, Japanese investments have also played a role in transferring high-tech industries to China. Japan is now the largest aid donor country to China far ahead of any other country while China is the second largest recipient of Japanese Official Development Assistance (ODA) after Indonesia in terms of the accumulated amount of aid. In addition to the ODA program, China has also obtained approximately 21 billion dollars in untying government-financed loan from the Import-Export Bank of Japan.
4.6. Japan-Asia Trade Ties

According to Japan Statistical Year Book (2004), Japan has recorded a surplus continuously in recent years in its trade with Asia, U.S. and also with the E.U. Japan has recorded a deficit continuously in its trade with the Middle East and Oceania. This Statistical Handbook says ‘in 2003, Japan’s expanding trade deficit with China dropped by a considerable 23.7% due to a sharp rise in exports’ (Japan Statistical Yearbook, 2004:32). Japanese exports to Asia increased by 12.8 percent annually to 25.32 trillion yen in 2003, mainly due to an increase in exports of electrical machinery, non electrical machinery and transport equipment making the record consecutive increase in two years. Japanese export to US decreased in 2003 marking the first decline in two years. Exports decreased in all categories including transport equipment, non-electrical machinery and electrical machinery. Japanese exports to China have seen a steady increase in the past few years, even accelerating in 2003. Japanese exports to the EU increased by 9% annually to 8.35 trillion yen in 2003.

4.6.1. Trade by Commodity: Japan and Asia

According to Trade Statistics of Japan (2009), ‘Japan's 2008 exports totaled 81.0 trillion yen’ (Trade Statistics of Japan, 2009: 34). This government documents also provides that by item category, transport equipment accounted for 24.8 percent of the total export value, followed by 19.7 percent in general machinery and 19.0 percent in electrical machinery. Motor vehicles, which are in the transport equipment category, constituted 17.0 percent of the total export value. One characteristic of Japan's exports is that there is an increasing proportion of high value-added products manufactured with advanced technology, such as motor vehicles, steel and integrated circuits. The Statistical Year Book (2009) says ‘the total value of Japan's 2008 imports was 79.0 trillion yen’ (Statistical Year Book, 2009: 23). By item category, mineral fuels accounted for 35.0 percent of the total import value, followed by 10.9 percent in electrical machinery, and 9.3 percent in manufactured goods. According to the Trade Statistics of Japan (2009), ‘Energy resource imports increased greatly in value in 2008, with crude oil being the foremost example (Trade Statistics of Japan, 2009:36). Japan's chief imports used to be
energy resources and raw materials, though the proportion of product imports is gradually on the rise due to the further industrialization of the Asian region and overseas production relocations by Japanese companies.

4.6.2. Japan's Import by Region

Japan's import from the U.S. declined in all categories including machinery, equipments, textiles, and metal manufacturers recording textiles, and metal manufacturers recording a decline for three straight years. Result, Japan’s trade surplus with U.S. decreased by 13.7% to 6.59 trillion yen, marking the fifth straight year of increase, driven by rises in imports of machinery, equipments and mineral fuels. As a result, Japan’s trade surplus with Asia increased by 37% to 5.6 trillion yen, recording a second year of significant growth. In recent years, there has been a dramatic increase in imports from China to replace the U.S. as Japan’s leading trade partner since 2002.

Regionalism in South East Asia began with the formation of ASEAN in 1967 more as a political co-operation grouping team as a trade bloc. During 1990s ASEAN took initiatives to establish the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA). The Asian financial crisis in late 1990s has developed financial cooperation among ASEAN + 3 (China, Japan and South Korea) to focus on monetary and financial cooperation. Trade focus forums are the ASEAN – China Comprehensive Economic Cooperation (CEC) proposed by China in 2001, ASEAN – Japan Comprehensive Economic Partnership (CEP) proposed by Japan in 2002 and ASEAN South Korea Free Trade Agreement being proposed by South Korea.

The environment for economic cooperation in East Asia has been improving, since 1990s the region experienced miracles in economic growth and intra-regional trade and investment grew rapidly. The unilateral trade and investment liberalization of several of the region’s economies boosted intra regional trade and investment. Asian financial crisis during 1997-98 brought South East Asia and North East Asia closer together under the ASEAN + 3. Japan and Singapore share many economic and strategic interests and work closely in several regional and international fronts. The Japan-Singapore Economic
Partnership Agreement (JSEPA) was signed in 2002. It includes trade and investment facilitation, for both countries to cooperate in trade and investment activities through cooperation between JETRO and International Enterprise Singapore and between Nippon Export and Investment Insurance (NEXI) and Export Credit Insurance (ECICS). It facilitates the movement of business visitors, intra-corporation, transferees, investors, and engineers. In human resource development Japan and Singapore has developed Joint Trading University Exchange Programme.

Less developed ASEAN economies are reluctant to prematurely open up their service sectors to Japanese competition and would seem to be in greater need of Japanese development assistance rather than joining market trading competition. ASEAN-Japan Closer Economic Partnership Expert Group was established and submitted recommending immediate steps to realize a framework for the AJCEP. ASEAN-Japan Framework Agreement for Comprehensive Economic Partnership was signed at ASEAN Japan Summit in October 2003. This is parallel to ongoing bilateral negotiations on economic partnership Agreements between Japan, Thailand, Malaysia and the Philippines. Objectives of the AJCEP are to strengthen ASEAN-Japan Economic Integration enhancing their mutual competitiveness in the world market facilitates trade in goods and services. Japan is also the largest provider of technical and development assistance to the less developed members of ASEAN. According to World Bank (2009), ‘in 2001 ASEAN exported goods and services to the value of US $48.3 billion to Japan and imported US $53.3 billion worth from Japan accounting for 13.0% of ASEAN total exports and 17.1% of ASEAN total imports’. (Global Economic Prospect, 2009: 88).

Yue argued that ‘ASEAN is entering into Free Trade Agreements with its major trading partners in order to improve market access for its exports, attract FDI and promote infrastructure development, human resources and private enterprises’(Yue, 2003: 1). He also explains the fact that ‘it must remain committed to its own internal integration as well as to the multilateral trading system embedded in the World Trade Organization. (Yue, 2003: 4). Yue is of the opinion that ‘countries are searching for an appropriate policy wise that enables them to maximize the gains derived from globalization’ (Yue, 2003:75).
Regionalism is well developed in Europe, because EU has progressively developed and its membership extends to the countries of Central and Easter Europe. For America, there is North American Free Trade Area (NAFTA) and various groupings in Latin America. In contrast to these grouping, the concept of regionalism is relatively a recent development in East Asia. In recent years East Asia has seen a growing number of regional, sub regional and bilateral regional economic agreements. Till 1990s the regionalization of East Asian economies was entirely depended on market driven forces like investors, importers and exporters. This has led to rapid growth of intra regional trade and investment, Japan’s strong involvement with U.S. as a major trading partner and China’s recent economic development has propelled East Asia to have a strong regionalization in recent past. The ASEAN countries are facing tough economic challenges and they need to find a way of ensuring that the ASEAN economies experience a robust and sustainable recovery. There is a need to manage the emerging economies like India and China.

The sudden rise in Chinese economy is forcing ASEAN to become more competitive in terms of production, exports and attracting Foreign Direct Investments. ASEAN countries should deepen their International Cooperation through economic competition by product innovation and low costs of production. Most ASEAN economies have faced in achieving sufficient product innovation and low costs of production. Most ASEAN economies have faced in achieving sufficient product innovation to capture regional or global markets. Only Singapore, Malaysia and to some extent Thailand have capital and human resources to shift to a knowledge based economy. ASEAN countries recently improved production efficiency and costs through economies of scale and by improving factory production. By freeing up trade in goods and services, Japan hopes to energize, its economy, as well as to better compete with China for influence in Asia and to support U.S.’s interest. FTA for Japan is expected that it would be favourable for bilateral trade ties with other Asian Trade partners.

Japan’s trade policy has historically centered on multilateral negotiations and dispute resolution mechanisms. The rules of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization have provided Tokyo on ability to interact
with its trade partners on an equal basis. Pekhanen has argued that ‘given its global trade interests, a contentious bilateral pact with U.S. and historic legacy, with Asian countries, particularly Korea and China reliance on the multilateral system has helped promote Japan’s trade interest’ (Pekhanen, 2004: 135). The purpose for developing an FTA program was driven by Asian economic trends and opportunities. METI officials are of the opinion that East Asia has emerged as the fastest growing region in the World and a region that is increasingly vital to Japan’s economic future. FTA’s is viewed as one way to deepen economic ties with East Asia and facilitate a new division of labour and production sharing.

4.7. The U.S.–Japan Trade Ties

The U.S.–Japan alliance is the cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity. There occurred lots of changes during Cold War Era, still the U.S. Japan alliance continues to be based on shared vital interests and values. These include stability in the Asia–Pacific region, the preservation and promotion of political and economic freedom, support for human rights, democratic institutions and securing of prosperity for the people of both countries and the international community as a whole.

U.S. economic policy toward Japan is aimed at increasing access to Japan’s market and two-way investment, stimulating domestic demand led economic growth, promoting economic restructuring, improving the climate for U.S. investors and raising the standard of living in both U.S. and Japan. The bilateral relationship between them is based on enormous flows of trade, investment, and finance. It is reflected through regional economic growth, political stability, market driven economies and democratic system of government, but these relationships are very complex encompassing many factors.

Japan is a major market for many U.S. products including chemicals, pharmaceuticals, films, commercial aircrafts, non ferrous metals, plastics and medical goods. For many years, the U.S. was Japan’s largest export market but became the second longest in 2009, next to China. The U.S. was second longest source of imports as of the end of 009. The emergence of China and other East Asian countries as played a role in the decline of the

Japan's international economic relations in the first three decades after World War II were shaped largely by two factors—a relative lack of domestic raw materials and a determination to catch up with industrial nations of the West. These factors encouraged, policies to move away from simple labor-intensive exports toward more sophisticated export products and to pursue protectionist policies to limit foreign competition for domestic industries. In 1980s, Japan reached the stage of an advanced industrial nation and faced new changes in its economy on both domestic and international fronts, including demands to supply more foreign aid and to open its market for imports. During this period, trade and direct foreign investment were liberalized, tariff and non-tariff trade barriers were lowered & the economies of the advanced nations became more integrated as a result of the growth of international trade and co-operations. By the late 1990s and beyond the U.S.-Japan relationship has been improved and strengthened. The major cause of friction in the relationship, trade disputes became less problematic as China replaced Japan as the greatest perceived economic threat to the U.S. The U.S. economic policy toward Japan is aimed at increasing access to Japan's market and two-way investment stimulating domestic demand led economic growth, promoting economic restructuring and improving the climate for U.S. investors. In addition to bilateral economic ties, the U.S. and Japan co-operate closely in multilateral forum such as the WTO, the G20, the organization for Economic Co-operation and Development; the World Bank and the International Monetary Fund and regionally in the Asia-Pacific Economic Co-operation Forum (APEC).

The commodity composition of international trade is determined by the interaction of two broad forces. One consist, of economic fundamentals such as technology, quantity, quality of factors of production and institutional organization and the second one is the public policy and government’s decision. Japan is the third largest U.S. trade partner
accounting for less than 10 percent of U.S. trade in recent years. Both countries trade has increased more rapidly with faster growing regions such as the rest of Asia & trade between U.S. and its immediate neighbours has expanded quickly as a result of regional integration through NAFTA.

**Table 4.1: Japan’s Trade with Main Partners, 2008**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Partner</th>
<th>%</th>
<th>Rank</th>
<th>Partner</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>17.8</td>
<td>6</td>
<td>Thailand</td>
<td>3.4</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>17.0</td>
<td>7</td>
<td>Hong Kong</td>
<td>3.4</td>
</tr>
<tr>
<td>3</td>
<td>EU</td>
<td>13.1</td>
<td>8</td>
<td>Australia</td>
<td>3.3</td>
</tr>
<tr>
<td>4</td>
<td>Korea</td>
<td>6.4</td>
<td>9</td>
<td>Saudi Arabia</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Taiwan</td>
<td>5.5</td>
<td>10</td>
<td>U.A.E.</td>
<td>2.7</td>
</tr>
</tbody>
</table>


The above table shows Japan’s major trade partners rank-wise and their respective percentages of their volume of trade for the year 2008. It is seen that USA is at the top most position, followed by China, European Union, Korea and Taiwan. Other equal important trading nations are Thailand from Southeast Asia, Hong-Kong, Australia and Saudi Arabia.

**Table 4.2: Japan’s Global Trade by Commodity, 2008**

<table>
<thead>
<tr>
<th>Imports</th>
<th>Percentage Value</th>
<th>Exports</th>
<th>Percentage Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and Equipment</td>
<td>26.5</td>
<td>Electrical Machinery</td>
<td>22.2</td>
</tr>
<tr>
<td>Mineral Fuels</td>
<td>25.6</td>
<td>Machinery other than Electrical</td>
<td>20.3</td>
</tr>
<tr>
<td>Foodstuff</td>
<td>9.8</td>
<td>Transport Equipment</td>
<td>23.1</td>
</tr>
<tr>
<td>Chemicals</td>
<td>7.6</td>
<td>Chemicals</td>
<td>8.9</td>
</tr>
<tr>
<td>Others</td>
<td>30.5</td>
<td>Others</td>
<td>25.5</td>
</tr>
</tbody>
</table>


The above table shows Japan’s global trade by commodity for the year 2008. It is seen that the major imported items are machinery and equipment, mineral fuels and chemicals. In the exported items the major commodities are chemicals, transport equipments and electrical machinery.
4.8. Japan’s Trade with European Union (EU)

Over the past four decades, Europe and Japan have emerged together as leading world economic powers. According to Japanese Trade and Investment Statistics (2000), ‘with a combined population of 620 million, the EU and Japan comprise less than 10% of the world's population but over 40% of its GDP’. (Japanese Trade and Investment Statistics, 2000:7). This prominence has brought a concomitant increase in global responsibilities with regard to promoting and maintaining stability and security, both regional and global. Japan and the EU are committed to reinforcing ties and building a true cooperative global partnership in areas that go beyond their mutual trade and economic relationship. Japan is Europe's most important partner in the Asian region, for Japan also the EU is a centre of stability and growth in a turbulent economic world. The successful changeover to the euro in 2002 and its economic and political impact on Japan have further strengthened the importance of the EU-Japan dialogue and presents opportunities to build an even stronger relationship. Both the EU and Japan share the values of freedom, democracy and the rule of law and are committed to an open international economic system based on market principles. These common interests make the EU and Japan natural allies in their efforts to develop a stable multilateral political and economic system.

Achieving this goal has never been more important than in the period of post-Cold War political instability and in the wake of the recent, devastating economic crisis in Asia. The EU and Japan have both played their part in helping to meet demands created by these and other problems. Fortunately, the political and economic interdependence between Japan and the EU places both sides in a strong position to shape developments in a mutually beneficial way. The ability of the EU and Japan to carry on developing broader ties will be enhanced if trade and economic relations are stable. This is one of the principal reasons why the EU places emphasis on ensuring improved and effective market access in Japan. In particular deregulation of the Japanese economy such as the removal of unnecessary and obstructive regulations has a vital role to play in removing barriers to trade and foreign investment. This process is of mutual benefit, since it will also help boost the Japanese economy and further integrate it into the world economic
system. Structural and regulatory reform is the key to securing Japan’s return to sustainable economic growth in the longer term. In 2006, Japan was the EU's fifth major trade partner after the U.S.A., China, Russia and Switzerland. Japan is the fifth largest import partner of the EU and its sixth largest export partner. On the other side, the EU is Japan's third major trade partner after the U.S.A. and China. The EU was Japan's third major importer and second largest export partner in 2006.

According to Japanese Trade and Investment Statistics (2009), ‘Japan's exports to the EU over the last five years have been stable at around 74 billion euros per year’. This government document also pointed out that ‘there was a slight increase to 75.63 billion euros in 2006 and this represents 5.61% of the share of total EU imports’. Exports from the EU to Japan have been stable at around 43 billion euros per year, with a slight increase in 2006 to 44.59 billion euros. The report says ‘this is 3.83% of total EU exports’. The balance is thus around 30 billion euros in favour of Japan. (Japanese Trade and Investment Statistics, 2009: 12).

Three quarters of the EU's imports from Japan consist of machinery and motor vehicles, particularly motor vehicle parts and digital cameras. The import of primary products like agriculture and energy was minimal. One third of Japan's imports from the EU were machinery and vehicles, and 30% were other manufactured articles. Other major imports were pharmaceuticals and pork. Japan also imports a considerable amount of agricultural products from the EU amounting to 4.7 billion euros. Among the EU Member States, Germany was by far the largest exporter to Japan in 2006, with 13.6 billion euros or 31% of the total, followed by the United Kingdom, France and Italy. Germany was also the largest importer from Japan out of total goods imported from Japan to EU and its share was 23 percent, followed by the United Kingdom (16 percent) and the Netherlands (13 percent).

The EU has been the largest investor in Japan for many years, in terms of inward FDI flows. Although EU-Japan investment relations are in relatively good shape, Japan's general inward FDI figures show a more worrying trend. The EU’s inward FDI stock into Japan has been increasing steadily in recent years, with 40 percent of inward FDI stock
into Japan coming from the EU in 2004. Although Japan’s inward FDI stock has increased steadily during the last seven years, Japan’s inward FDI flow, both from the rest of the world and from Europe has been declining recently. Japan is a very important actor in Science and Technology. The European Commission recognizes the importance of cooperation with Japan in these fields and aims to strengthen relations with Japan.

4.9. Japan’s Trade with Middle East

Since the end of World War II, Japanese dependency on crude oil as its main energy source has been enormous. According to Economic Survey of Japan (2009), ‘in 1973, the year of the first oil crisis, crude oil and petroleum products accounted for 77.4 percent of the total energy consumption’. The survey report pointed that ‘in 1990, they represented over half the energy needs, i.e., 58.3 percent, a figure that is expected to drop to 47.7 percent by 2010’. In spite of the gradual decline since the 1970s, crude oil accounts for a large portion of the total energy consumption in Japan. In addition, Japan is totally dependent upon foreign sources for its oil needs, currently it imports 99 percent of its oil. The agency is in the opinion that ‘in 1995, the Middle East accounted for about 78.6 percent of its total oil imports, thereby underlining the region’s vital importance to Japan’.


The emergence of regional and international circumstances in the early 1980s, such as structural changes in the international oil market, the fall of oil prices since 1986, economic difficulties within major oil producing countries, and Japanese reduced oil vulnerability, created a new more balanced mutual dependency relationship between Japan and the oil-producing countries in the region. Although Japan’s dependency upon Middle East oil has been declining for the last 15 years, ensuring a cheap and stable oil supply has remained one of the most important goals of Japanese foreign policy. Likewise, Japanese exports to the Middle East, although not accounting for a significant segment of total Japanese exports, are still important with regard to reducing Japan’s trade deficit with the area.
Although 1982 is regarded as one of the high trade deficit years of 1973-1993, at the same time in this year Japanese exports to Middle East countries was highest. As such, political and economic stability in the Middle East continues to be crucial for Japan. Both countries have a common interest in promoting political and economic stability in the Middle East, not only to protect the uninterrupted flow of oil, especially to Japan but also to enable greater access to local economic markets.

Although there are some common goals between Japan and China, there is no actual cooperation towards the realization of these objectives. This can partly be explained by their different political approach to the region. While Chinese influence is based primarily on strategic goods such as arms transfer and technology, Japan seeks influence through trade and commercial interests and its role as a potential bridge between the region and the United States. According to Facts and Figure of Japan (2005), 'Crude oil regional production in Asia for 1994 was about seven million barrels per day (b/d), while 9.3 million b/d of crude and oil products were imported from Middle East. (Facts and Figure of Japan, 2005: 16). According to Japan External Trade Organization (2001), 'future crude production, for the ten future years is expected to remain at 7.1-7.2 million b/d'. The report also pointed out that 'the regional demand for oil consumption would increase significantly without any corresponding improvement in the regional production. As a result, the Asian dependency on Middle East oil would grow significantly' (Japan External Trade Organization, 2001:34). Japanese involvement in the region still occurs only when there seems to be no potential danger as a result of Japan’s political activities and is still based mostly on its economic contribution. However, the continuation of a relative economic recession in Japan, together with the perceived political and economic instability of the Middle East could prevent any significant change in Japanese direct investment in the region.

4.10. Australia - Japan Trade Relations

According to Economic Survey of Japan (2005), 'from Japan’s perspective, the importance of the Australia-Japan trade relationship is enormous. Two-way trade between Australia and Japan topped $US 44 billion in 2004 with Australia’s exports to Japan worth $US 26 billion'. (Economic Survey of Japan, 2005:11). According to
Ahearn, 'Australia supplies some 60 percent of Japan’s coal and non ore needs and 13 percent of its LNQ requirements'. (Ahearn, 2005: 16). Japan has long been by far Australia’s most important export market. A fifth of Australia’s export goes to Japan, a quarter bigger than either ASEAN or the EU. In the post war period, Australia-Japan relationship has been founded on a powerful complementary trading relationship. Japan required the primary products that Australia produced efficiently while Australia required the top-class manufactured goods produced in Japan. The strategic economic relationship also has a deep regional dimension founded in Australia and Japan’s common interest in a prosperous, stable and economically developed region. The countries have committed for an open multilateral trading system, this will strengthen both countries strategic dimension, engagements and links with the region and it will be a practical way to advance both countries commitments.

The bilateral trade and investment relationship between Japan and Australia differs from many developed nations. Australia is a resource rich country while Japan is known for its ability to produce high technical goods and services. Australia exports Japan mainly the primary and raw commodities while Japan in return gives manufacturing goods to Australia. According to JETRO (2001), 'Japan is Australia’s third largest source of imports with 11 percent of its total imports' (JETRO, 2001:23). World Trade has been increasing fast since the introduction of the multilateral trade system, the General Agreements on Tariffs and Trade (GATT) first signed in 1947. Nam has pointed out that 'according to WTO (2003), total volume of world merchandise exports has increased about 23.4 times or equivalently has grown at an annual average rate of 6.3 percent between 1950 and 2002'. He further argued that 'in contrast, World Production in volume and the World GDP have increased about 7.1 times and 6.8 times during the same period'. It means that World merchandise trade volume has increased faster since 1950 than the world GDP. Western Europe and Asia experienced increase in exports from 1960s and onwards. Nam is of the opinion that 'intra-regional trade share among the three North East Asian Countries in terms of the share in each country's aggregate imports and exports has increased significantly during the last two decades even with their fast growing trade' (Nam, 2004:9).
4.11. Japan – East Asia Trade Relations

Japan saw an increase in its export from 8.1% in 1980 to 16.5% in 2002 and import from 5.2% in 1980 to 22.9% in 2002. Korea also saw its export and import share with NE Asian countries, increased from 17.4% and 26.6% in 1980 to 24.1% and 31.1% in 2002. Korea has the highest integration with N.E. Asian countries in terms of both its import and export share in 2002. China’s trade share with Korea has increased significantly and relatively faster in its imports than exports. Japan’s trade share with China has been increasing fast and relatively much faster in its imports than exports. Electrical machinery and equipment are among the most actively traded goods between Japan and the rest of East Asia. Japan produced a global trade surplus of U.S. $65.15 billion in 2004 including exports of US $ 122.85 billion and imports of U.S. $ 57.69 billion. Electrical equipments was the largest export, accounting for 21.7 percent of total exports and the second largest import ranking second to mineral fuels and accounting for a 12.7% share.

In trade with East Asia, exports totaled US $ 72.08 billion, up 18% year billion up 25.5% making this the largest trade category between Japan and East Asia. Rapidly increasing imports From China have been the most striking development in Japan East Asia trade over the past 10 years. The gains have continued in an upward line since 1995 and have accounted for more than 30% of Japan’s imports from East Asia since 2002. Imports from Indonesia and the Philippines although proportionately small have also grown quickly.

The future of ASEAN – Japan economic relationship needs to be assessed in the context of two factors – emergence of China as an important economy, flows of FDI from Japan to ASEAN members, competition from China is growing, if economic rivalry happens, it would be disastrous for regional peace, stability and prosperity for the whole East Asia. The rise of East Asian regionalism is both an opportunity and challenge for ASEAN members and Japan. World Trade relationships are changing; there is considerable progress in multilateral trade and liberalizations as well. The three East Asian countries, China, Japan and Korea have been experiencing significant changes and progress in their economic relationships in trade, they have a very high complementary in their trade structure especially in trade flows.

According to the Encyclopedia of Japan (2008), ‘Japan's Ministry of International Trade and Industry (MITI) was formed in 1949 from the Union of the Trade Agency’ and ‘the Ministry of Commerce and Industry in an effort to curb postwar inflation and provide government leadership and assistance for the restoration of industrial productivity and employment’. (Encyclopedia of Japan, 2008: 67). MITI has held primary responsibility for formulating and implementing international trade policy, although it has done so by seeking a consensus among interested parties, including the Ministry of Foreign Affairs and the Ministry of Finance. MITI has also coordinated trade policies on issues affecting their interests with the Economic Planning Agency, the Bank of Japan and the ministries of agriculture, construction, forestry and fisheries, health and welfare, posts and telecommunications, and transportation. As trade issues broadened in scope, these other ministries became more important in international negotiating, so that in the late 1980s MITI had less control in formulating international trade policy than it had had in the 1950s and 1960s.

MITI has been responsible not only in the areas of exports and imports but also for all domestic industries and businesses not specifically covered by other ministries in the areas of investment in plant and equipment, pollution control, energy and power, some aspects of foreign economic assistance, and consumer complaints. This span has allowed MITI to integrate conflicting policies, such as those on pollution control and export competitiveness, to minimize damage to export industries. MITI has served as an architect of industrial policies on industrial problems and disputes. A major objective of the ministry has been to strengthen the country's industrial base. It has not managed Japanese trade and industry along the lines of a centrally planned economy, but it has provided industries with administrative guidance and other direction, both formal and informal on modernization, technology, investments in new plants and equipment and domestic and foreign competition.
The close relationship between MITI and Japanese industry has led to foreign trade policy that often complements the ministry's efforts to strengthen domestic manufacturing interests. MITI facilitated the early development of nearly all major industries by providing protection from import competition, technological intelligence, help in licensing foreign technology, access to foreign exchange, and assistance in mergers. These policies to promote domestic industry and to protect it from international competition were strongest in the 1950s and 1960s. As industry became stronger and as MITI lost some of its policy tools, such as control over allocation of foreign exchange, MITI's policies also changed. The success of Japanese exports and the tension it has caused in other countries led MITI to provide guidance on limiting exports of particular products to various countries. Similarly, MITI was forced to liberalize import policies, despite its traditional protectionist focus. During the 1980s, the ministry helped to craft a number of market-opening and import promoting measures, including the creation of an import promotion office within the ministry. The close relationship between MITI and industry allowed the ministry to play such a role in fostering more open markets, but conflict remained between the need to open markets and the desire to continue promoting new and growing domestic industries.

Japan is a member of the United Nations (UN), the IMF, the Organization for Economic Co-operation and Development (OECD), and the General Agreement on Tariffs and Trade (GATT). It also participates in the international organizations focusing on economic development, including the World Bank (WB) and the Asian Development Bank (ADB). As a member of the IMF and WB Japan played a role in the effort during the 1980s to address the international debt crisis brought on by the inability of certain developing countries to service their foreign debts as raw material prices fell and their economies stagnated. The international organization with the strongest Japanese presence has been the ADB. As Japan became a major international financial power in the 1980s, its role in financing these trade and development institutions grew. Previously, the government had been a quiet participant in these organizations, but as its financial role

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26 The multilateral lending agency established in 1966 that made soft loans to developing Asian countries.
increased pressure to expand its voting rights and to play a more active policy role and Japan started to influence World Bank and IMF since 1990s.


For many years, export promotion was a large issue in Japanese government policy. Government officials recognized that Japan needed to import to grow and develop and at the same time it needed to generate exports to pay for those imports. After WW II, Japan had difficulty in exporting enough to pay for its imports until the mid 1960s and this happened mainly because there was no encouragement on export promotion programs and import restrictions. A processing nation must import raw materials but should be able to pay for the imports at the same time by adding value to them and exporting some of the output. Nations grow stronger economically by moving up the industrial ladder to produce products with greater value added to the basic inputs. Rather than letting markets accomplish this movement on their own, the Japanese government feels the economy should be guided in this direction through industrial policy.

Japan's methods of promoting exports have taken two paths. The first was to develop world-class industries that can initially substitute for imports and then compete in international markets. The second was to provide incentives for firms to export. During the first two decades after WW II, export incentives took the form of a combination of tax relief and government assistance to build export industries. After joining the IMF in 1964, Japan however had to drop its major export incentive, the total exemption of export income from taxes to comply with IMF procedures. It did maintain into the 1970s, however, special tax treatment of costs for market development and export promotion.


Japan began the postwar period with heavy import barriers. Virtually all products were subject to government quotas, many faced high tariffs, and MITI had authority over the allocation of the foreign exchange that companies needed to pay for any import. These policies were justified at the time by the weakened position of Japanese industry and the country's chronic trade deficits. By the late 1950s, Japan's international trade had
regained its prewar level, and its balance of payments displayed sufficient strength for its rigid protectionism to be increasingly difficult to justify. The IMF and GATT strongly pressured Japan to free its commerce and international payments system. Beginning in the 1960s, the government adopted a policy of gradual trade liberalization, easing import quotas, reducing tariff rates, freeing transactions in foreign exchange and admitting foreign capital into Japanese industries, which continued through the 1980s.

The main impetus for change throughout has been international obligation that is, response to foreign, rather than domestic pressure. The result has been a prolonged, reluctant process of reducing barriers, which has frustrated many of Japan's trading partners. Allen argued that, 'Japan has been a participant in the major rounds of tariff cutting negotiations under the GATT framework—the Kennedy Round completed in 1967, the Tokyo Round completed in 1979, and the Uruguay Round completed in 1993'. As a result of these agreements tariffs in Japan fell to a low level on average. He also pointed out that, 'upon complete implementation of the Tokyo Round Agreement, Japan had the lowest average tariff level among industrial countries 2.5 percent, compared with 4.2 percent for the United States and 4.6 percent for the European Union' (Allen, 2005: 12).

Despite Japan's rather good record on tariffs and quotas, it continued to be the target of complaints and pressure from its trading partners during the 1980s. Many complaints revolved around non tariff barriers other than quotas standards, testing procedures, government procurement, and other policy that could be used to restrain imports. These barriers, by their very nature, were often difficult to document, but complaints were frequent. In 1984 the United States government initiated intensive talks with Japan on four product areas—forest products, telecommunications equipment and services, electronics, and pharmaceuticals and medical equipment. The Market Oriented Sector Selective (MOSS) talks were aimed at routing out all overt and informal barriers to imports in these areas. The negotiations lasted throughout 1985 and achieved modest success. Japan's remarkable success in the 1960s has made it one of the world's most developed nations. It is one of the world's most important trading nations after United States. The country is likely to face many new players in its international trading system.
and it may need to negotiate in economic terms with them otherwise it can hamper its bilateral relationships in the long run.

The bilateral trade between Japan and Korea in terms of shares in one country’s aggregate imports and exports is relatively weak or has been weakening. For example both Japan’s export and import with Korea are relatively low, even though it is increasing at 6.9 percent and 4.6 percent in 2002 respectively. Therefore to enhance regional integration in NE Asia as a whole, the industrial linkages through trade between Japan and Korea are to be developed. The U.S. dominated the economic relationship with Japan for many years after World War II. The U.S. was by far the largest economy in the world and Japan was dependent on US for national security. Economic ties are affected by immense geographical distances, lack of cultural links, absence of political alliances, and rigidity of the centrally planned economics. Australia and Japan enjoy one of the most significant economic and trade partnerships in East Asian region. The Australia-Japan economic relationship has developed on the basis of strong complementary interests and cooperation in a wide range of areas. Over the decades, Australia has been a stable secure source of raw materials for Japan benefiting both economies.