

International Trade Problems and Japan's Role in the World Economy

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Introduction

The worldwide economic expansion that had continued throughout the 1980s began to change in the second half of 1990, with the United States, Britain, Canada, and other leading industrial economies plunging into recession.

Under these circumstances, as the world economy in the 1990s faces the challenge of reconstructing the international political order, including the Middle East in the aftermath of the Gulf Crisis, it has begun to take steps in that direction by strengthening the Uruguay Round of talks under the General Agreement of Tariffs and Trade and by the efforts of all the major industrial countries of the world, including Japan, the United States and Europe, to deal with this adjustment phase of the world economy. The issues facing the world economy at present can no longer be solved through the efforts of one country alone. Thus it is essential that all the countries of the world cooperate to reach a consensus and approach the various issues of the world economy on the basis of this consensus. It is essential that multinational cooperation be further promoted and the steady progress toward the building of a new multilateral order in the 1990s be accelerated.

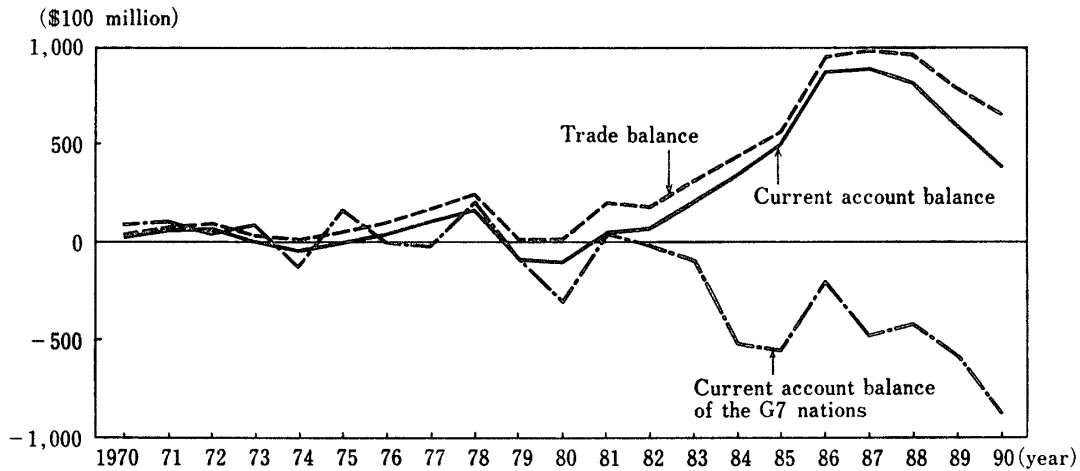
Japan must take the initiative in rolling back protectionism and defending the free trade system by seeking to achieve international harmony and making a positive contribution to the international economy and community.

This paper is composed of three sections and a conclusion. Section 1 analyzes the comparative advantage and trade structure of the Japanese economy. Section 2 analyzes advances in direct investment and changes in export and import patterns. Section 3 analyzes Japan's role in the world economy. The conclusion specifies the basic directions in which the Japanese economy has to move to secure prosperity in people's lives and to further the development of the world economy.

1. The Comparative Advantage and Trade Structure

(1) Trends of Exports and Imports¹⁾

The economic environment in which Japan finds itself has altered radically changed

Fig. 1 Current Account and Trade Balances

Sources: Bank of Japan "International Balance Statistics Monthly", Economic Planning Agency "National Economic Statistics," IMF, "International Financial Statistics".

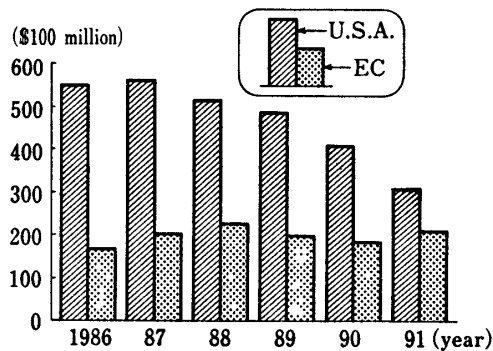
since 1970. Among these many changes the commodity composition of trade and regional shares is exhibiting new tendencies and currents leading to the "globalization" of the Japanese economy.

When we look at the composition of trade from the perspective of changes in representative items, the following changes are apparent in the period from 1970 to the present:

Japan's current account surplus declined three years in a row since 1988 (Fig. 1) Exports grew at a moderate pace due to increased production overseas and other factors, and amid this development, manufactured imports steadily increased, resulting in a diminished trade surplus.²⁾

The trade imbalance between Japan and the United States is steadily improving.³⁾ According to Japan's customs statistics, on a dollar basis U. S.-bound exports declined by \$90.3 billion, or 3.1%, in 1990 over the level recorded during the same period in the previous year, while imports from the United States during the same period increased by \$52.4 billion, or 8.5%. As a result, the trade surplus with the United States in 1990 was reduced to \$38 billion, down \$7 billion from 1989.

The statistics on the U. S. side show that, while the U. S. trade deficit was reduced from \$109.4 billion in 1989 to \$101.0 billion in 1990, its trade deficit with Japan declined from \$49.1 billion in 1989 to \$41.1 billion in 1990, or at a rate even more pronounced than the reduction of its trade deficit with the EC which showed an improvement of \$10.3 billion in 1989. The EC's trade balance with Japan improved by a much smaller margin of \$2.7 billion, but in 1990 the U. S. trade balance with the EC improved by only \$5 billion over the the previous year's level while its trade balance with Japan improved by \$8 billion. Thus, in absolute terms, the improvement in the U. S. trade balance with Japan is greater than that with the EC (Fig. 2). Although we

Fig. 2 U. S and EC Trade Deficit to Japan

Note: U. S. A. 1991=1~9 EC=1
~8 month

Source: IMF "International Financial Statistics"

can assume that changes in the exchange rate on dollar-based export prices will temporarily cause fluctuations in the trade balance between Japan and the United States, the former's trade surplus with the latter has been reduced.

The proportion of Japan's current account surplus to nominal GNP declined from 4.2% recorded in 1986 to 1.2% in 1990. This resulted because Japan maintained economic growth led by domestic demand and because the growth in imports exceeded by a large margin the growth in exports.

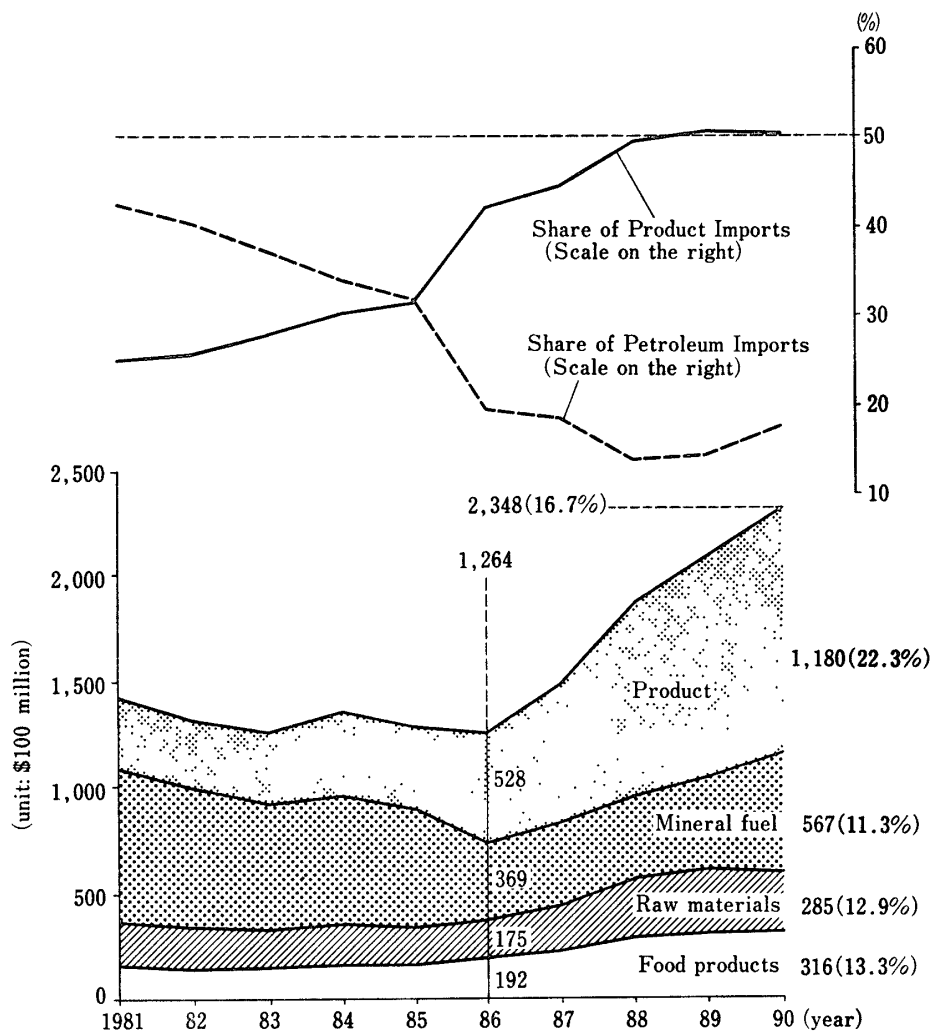
(2) Trends of Imports

In 1990, the total value of Japanese imports (on a custom clearance basis, the same hereinafter) was \$234.8 billion, up \$24 billion, or 11.4% from the previous year. Japanese imports thus recorded a double-digit increase for four consecutive years.

A look at the trend in Japanese imports from 1981 to 1990 reveals that imports of manufactured goods have increased significantly since 1986. A comparison of the average annual growth rate of various products shows that whereas mineral fuels at 11.3% recorded the lowest growth rate, the amount of imports involving manufactured goods at 22.3% showed a growth rate nearly double that of mineral fuels.⁴⁾ The annual growth rates of foodstuffs and raw materials at 13.3% and 12.3% were also at about the same level as that of mineral fuels. Moreover, a look at the amount increased reveals that while imports of manufactured goods increased \$65.2 billion over the level in 1986, foodstuffs, raw materials, and mineral fuels increased 12.4 \$ billion, \$11 billion, and \$19.8 billion respectively for a total of only \$43.2 billion. Thus the rapid increase in the amount of Japanese imports recorded in the second half of the 1980s was almost exclusively due to increases in imports of manufactured goods (Fig. 3). Looking at the year-to-year increase in the amount of imports of manufactured goods and the year-to-year rate of increase we can see that in 1990 the former was \$11.9 billion and the latter was 11.2%. Although the rate of increase is relatively low compared to those in previous years, it has continued to expand steadily.⁵⁾

There is a possibility of expanding imports despite the rapid increase of manufactured imports in the latter half of the 1980s. In the days and months to come, it is

Fig. 3 Change in the Value of Imports by Item and Growth in Product and Petroleum Imports



Notes: 1. Figure quoted in the Chart give the value of imports for 1990 and the value of imports by product. Figures in parentheses () give the average of growth for the period 1986-1990.

2. Share of Petroleum Imports

$$= \frac{\text{Crude Oil} + \text{Petroleum Products}}{\text{Total Value of Imports}} \times 100\%$$

Source: MITI "White Paper on International Trade 1991" (Summary)
Figure 19 (Ministry of Finance "Trade Statistics")

hoped that continued efforts will be made to expand imports which center on items most closely related to enriching our daily lives and lifestyles.

Turning our attention to the percentage of the amount of goods exported to Japan compared to total exports generated in the world and in major areas of the world we can see that the percentage of goods exported to Japan from various countries of the world is large, indicating that the increase in goods imported to Japan is important to the development of the world economy. The high ratio of exports to imports with

Japan is especially marked in the developing regions of the world.

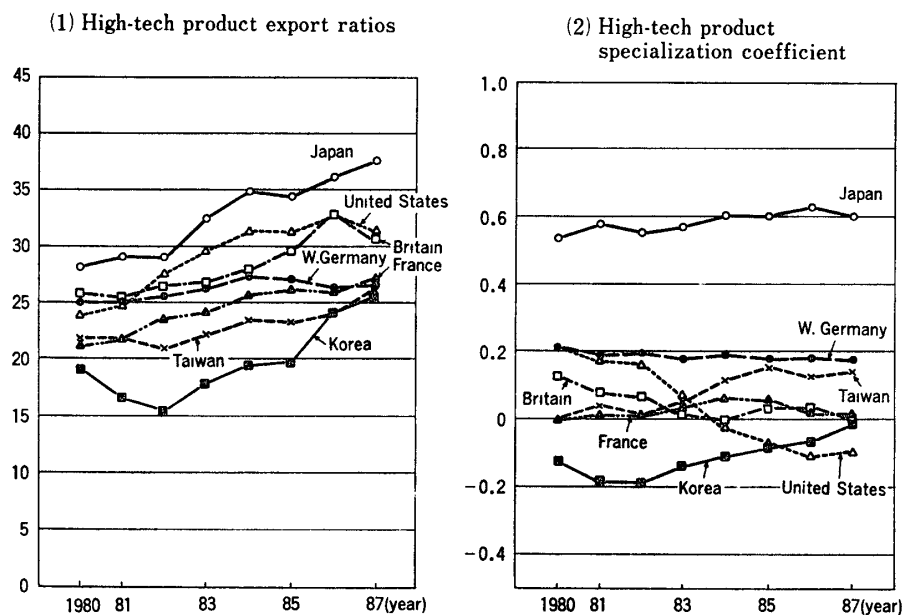
Since Japan is today one of the leading economies of the world there are expectations both at home and abroad for it to contribute to the development of the world economy. Expanding imports is an extremely important way of meeting these expectations.

(3) Changes in Japanese Trade Composition

In response to changes in the structure of industry and to technological progress, the leading commodities among Japan's export commodities have been changing one after the other. Let's consider characteristic changes by focusing on electric and electronic products, and machine tools and passenger cars.

Among electric and electronic products, a process of concentration on increasingly hightech (Fig. 4), high added value products is evident; namely, televisions→VTRs→semiconductor parts→Computers (Fig. 5). When we look at changes in the leading export commodities among electric products, we find televisions attaining rapid growth as export commodities and doubling their (dollar-based) value about every five years from

Fig. 4 International Comparison of High-Tech Trade



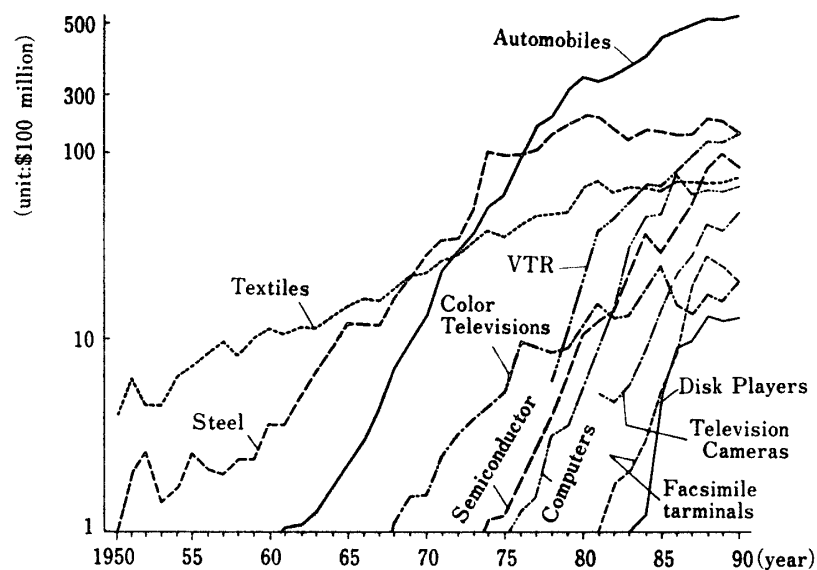
- Notes: 1. The U. S. Department of Commerce standard DOC-2 defining hightech products was applied for each country.
2. The high-tech product specialization coefficient is as follows.
coefficient = $(A - B) / (A + B)$

Where

A is the value of high-tech product exports, and B is the value of high-tech product imports.

Source: Business Intercommunications Inc.

"White Paper on Japanese Economy 1991" p. 91 (OECD: *B* Statistics)

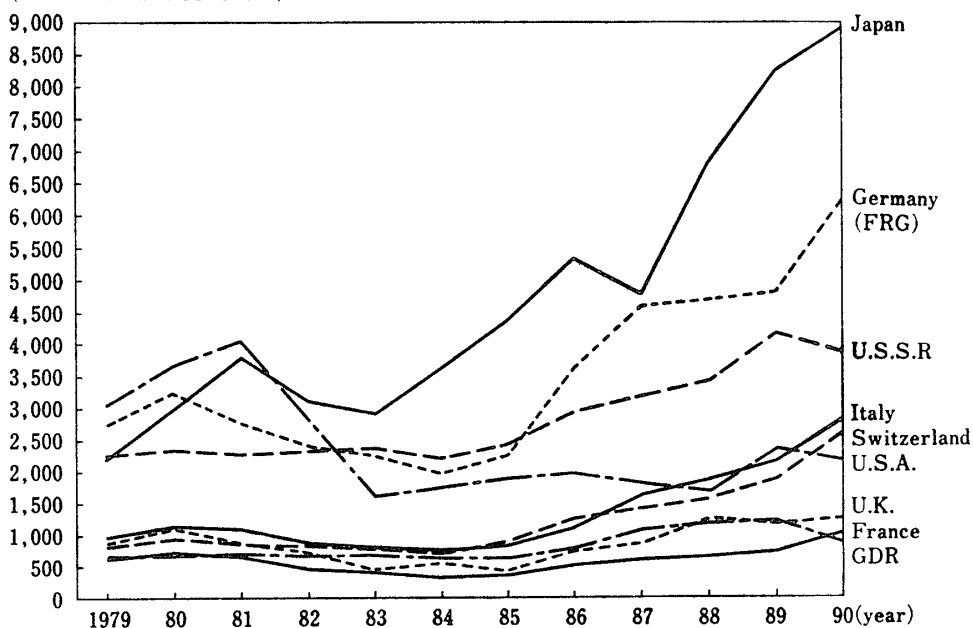
Fig. 5 Component Ratio of Japan's Export Value by Type of Goods

Source: MITI "White Paper on International Trade 1991" Japanese edition
p. 145.

1970 to 1980. After that, until 1985, they showed a slow, steady expansion compared with the earlier period, until they leveled off under the influence of the sudden rise in the yen. During this period, from 1977-78, the sharp increase in VTR export began and surpassed televisions by 1980. Later on, after showing remarkable increases up to about 1986, they began to decrease on a volume basis due to the influence of the

Fig. 6 World Machine Tool Production (Metal-Cutting Type)

(Value in Millions of US Dollars)



Source: Japan Machine Tool Builder's Association "Machine Tool Industry
Japan 1991" p. 1 (American Machinist)

high yen. In this period of the higher yen since 1985, semiconductor parts have been on the rise, becoming the leading exports. Thus, it is clear that leading products, one after the other, are becoming increasingly high-tech and high in added value.

In its annual survey of world machine tool production, *American Machinist Magazine* reported that \$35.5 billion worth of metal-cutting machine tools were produced worldwide in 1990. Japan's production value of \$9 billion accounted for 25.2 percent of global production, maintaining the position the nation has held for nine years as the world leader in production (Fig. 6) since overtaking the United States in 1982.

Japan's rise to the top position was partly due to the prolonged slump in the global economy in the 1980s, which caused considerable declines in equipment investment demand in the United States and Europe. The setback in Japan's equipment investment demand was comparatively mild, boosting the Japanese industry's relative position. Nevertheless, Japanese manufacturers' commitment to developing and supplying user-oriented machines was also a strong factor in their improved position.

The Japanese metal-cutting machine tool industry's most important demand sectors are motor vehicle and general machinery industries. Japanese exports have continued to account for more than 30 percent of total Japanese machine tool production since 1977.

Of particular note is the proliferation of NC machine tools as essential equipment for labor savings. Accounting for more than 70 percent of total machine tool production in recent years, such tools are making substantial contributions to the increased productivity and international competitiveness of Japanese industries (Table 1).

Next, let's look at passenger cars. The volume of passenger car exports showed a sudden increase starting in 1975, increasing almost four-fold in five years. In response to this, self-imposed export restraints were agreed on with the United States in 1981 and the expansion of exports to the United States dropped sharply. Since the expansion in the volume of exports from Japan to Europe was also limited to a slow rate of expansion, a slight dulling was seen in the tempo of increase for over-all exports. In the five-year period up to 1985, a slow, roughly 1.5-fold expansion continued. During this period, with the continuation of self-imposed export restraints, Japanese manufacturers adopted the two-fold strategy of carrying out direct investment in the United States while at the same time increasing the proportion of luxury cars exported from Japan. This strategy can also be discerned by the fact that the value of exports has increased more than export volume.

Summing this up, we can say that, among other things, looking at representative export commodities, we see them one after the other being replaced by commodities with high added value. In the early stages of the introduction of a new commodity, a rapid expansion was seen, and a sudden rise in market share sometimes gave rise to such things as "export restraints" (Table 2).

Table 1 World Machine Tool Production and Trade (Millions of US Dollars)

	1990 (Estimated)					1989 (Revised)				
	Production			Trade		Production			Trade	
	Total	Cutting	Form- ing	Export	Import	Total	Cutting	Form- ing	Export	Import
Japan	10,832.1	8,957.8	1,874.3	3,996.6	640.8	10,058.9	8,257.5	1,801.3	3,928.3	508.5
Germany (FRG)	8,826.5	6,215.8	2,610.6	5,159.1	2,113.4	6,867.6	4,783.5	2,084.0	4,236.7	1,479.3
U. S. S. R.	4,580.0	3,840.0	740.0	u 380.0	1,700.0	5,000.0	4,200.0	800.0	380.0	2,000.0
Italy	3,966.0	2,825.8	1,140.2	1,983.0	1,100.7	3,004.9	2,166.0	838.9	1,472.9	794.4
Switzerland	3,183.6	2,604.8	578.8	2,749.5	868.3	2,247.7	1,796.6	451.1	1,977.5	587.4
U. S. A.	3,140.0	2,200.0	940.0	1,060.0	2,340.0	3,514.2	2,428.5	1,085.7	949.8	2,406.6
U. K.	1,719.7	1,269.2	450.5	835.3	915.7	1,483.7	1,127.8	355.8	653.6	851.5
France	1,364.8	1,014.3	350.4	534.8	1,696.7	966.1	727.5	238.6	415.9	1,110.6
GDR	1,085.0	875.0	210.0	775.0	290.0	u 1,445.0	u 1,165.0	u 280.0	u 1,270.0	u 300.0
Taiwan	1,034.9	775.0	259.9	648.2	361.2	1,013.0	788.0	225.0	657.5	369.1
Spain	1,034.9	798.4	236.5	461.2	507.6	806.7	615.9	190.8	323.7	341.6
PR China	989.7	716.5	273.2	248.0	548.0	1,151.9	912.0	239.9	210.1	546.5
R. Korea	733.3	600.5	132.8	92.0	820.0	744.2	602.9	141.4	80.5	777.3
Yugoslavia	629.0	466.2	162.8	451.5	95.0	631.0	466.9	164.1	401.2	125.3
Romania	530.7	463.4	67.3	140.6	86.5	635.1	554.7	80.4	160.7	118.0
Total	43,650.2	33,622.7	10,027.3	19,514.8	14,083.9	39,570.0	30,592.8	8,977	17,118.9	12,316.1
Other Countries (20)	2,932.3	1,956.6	975.9	2,359.1	4,033.4	2,903.9	2,007.6	896.3	2,097.2	3,574.7
Grand Total	46,582.5	35,579.3	11,003.2	21,873.9	18,117.3	42,473.9	32,600.4	9,873.3	19,216.1	15,890.8

Source: Ibid. p. 2. u=unrevised

Next, let's look at trends in Japan's import commodities. When we look at the composition of the value of imports, we see large changes in composition as a result of the first and second oil crises and the later fall in the price of crude oil and primary commodity prices. The main recent characteristics can be summarized in four points. First of all, the share of imports of manufactured goods has been rising. In 1975, this share was around 20%, but after 1985, influenced by the higher yen, the strengthening of domestic demand, and the progress of horizontal specialization, it topped 40% in 1986, and has recently risen to a height of over 50%. Secondly, in areas in which there is a competitive relation with developing countries, in particular the Asian NIEs, imports have been increasing rapidly. For example, the increase of steel and textile products has been on the order of 2.5 times for the former and 2.0 times for the latter over the last two years. Thirdly, the influence of systemic changes, such as

Table 2 Main Products Covered by Current VRAs (Voluntary Restriction on Exports) and Currents Surrounding Voluntary Export-restraint Measures

	Export restraints measure	Country/region subject to restrictions
Machine tools	Minimum price restraints (Foreign Exchange Law and Export-Import Transaction Law)	EC
	Volume restraints (Foreign Exchange Law)	U. S. A.
Fork-lift trucks (fork-lift lorries)	Minimum price and volume restraints (Export-Import Transaction Law)	EC
Hydraulic shovels	Minimum price restraints (Export-Import Transaction Law)	EC, etc.
Structural iron and steel (construction)	Volume restraints (Export-Import Transaction Law)	U. S. A.
Passenger cars	Voluntary volume restraints	U. S. A.
Textiles	Consultations regarding restraints on six items (1990-91), based on Japan-U. S. textile agreement.	U. S. A.
Steel	Japan has voluntarily restrained its exports to the United States in accordance with the Voluntary Restraints Agreement concluded between Japan and the U. S. The United States has concluded similar agreements with seventeen nations and regions (including Japan), but these are scheduled to expire in March 1992. The American government is promoting autonomy for the steel trade following expiration of the agreements, and is calling on exporting nations for the abolition of export subsidies.	
Automobiles	Automobiles exported from Japan to the United States have been under the system of voluntary restraints since FY 1981. The limits for voluntary restraints in FY 1990 was 2.3 million units, but in the three years up to and including FY 1989, export sales in each year fell substantially below the limits imposed by the restraints.	
Export monitoring for EC	Japanese VCRs, color television sets, automobiles (light industrial vehicles other than passenger cars and trucks), NC lathes and other machine tools will continue to be the object of export monitoring in 1991.	
Semiconductors	Japan-U. S. Semiconductor Agreement expires in July 1991. The new agreement is concluded in June 1991.	

the amelioration of market access which goes hand in hand with the expansion of domestic demand (for example: the increase in meat imports) and the liberalization of imports (for example: increase in petroleum products imports), has been making itself felt. Fourthly, even for the high growth category of manufactured goods, the increase in consumable goods has been remarkable. In the two-year period from 1986 to 1988, these showed a high-paced increase of about 2.5 times, and their share among total imports has increased about 1.5-fold.

Looking to future trends in the increase of imports, an expansion of imports is strongly expected in the consumable goods category of manufactured goods, with their

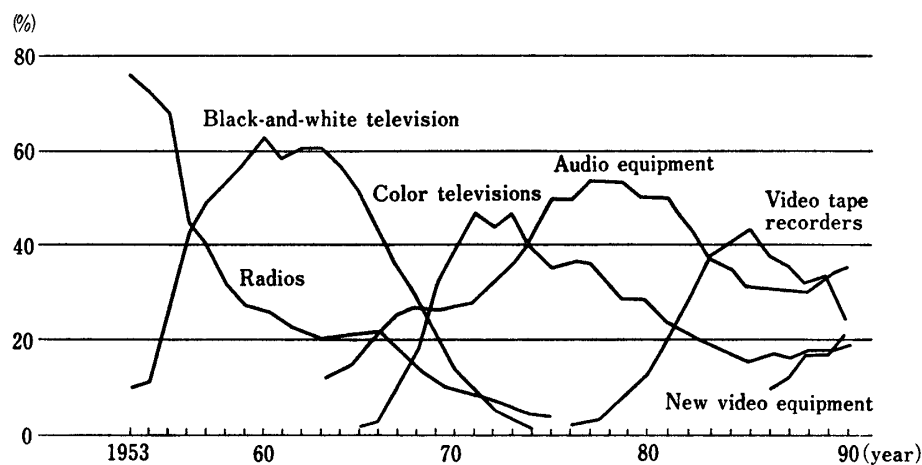
high income elasticity and high price elasticity values; however, we must bear firmly in mind the necessity of reforming Japan's domestic consumer system, with its difference between domestic prices and prices abroad, and in which import commodities reach the consumer only at prices which differ greatly from world levels. With a view to heightening the welfare of the national economy, we must ensure that the benefits of the high yen are passed on to the consumer.

(4) Structural Changes in Industry and Trade

In order to see the connections between industrial structure and changes in the structure of trade, let us look at the trade pattern at five-year intervals with an eye on its connections with the respective structures and comparative advantage to Japan and to the United States.⁶⁾ When we look at the respective trade patterns of Japan and the United States for 1970, we find them based fundamentally on the factors of comparative advantage, and can say that they were determined by certain factors of availability. Considering Japan's net exports (exports minus imports), we find that a large proportion of exports was comprised of textiles, ship-building, and household electrical appliances, which among manufactured goods are particularly labor-intensive commodities. The net exports of the United States were agricultural products and capital equipment, Japan's comparative advantage at that time was in the areas of electrical machinery, textiles, and ship-building, while that of the United States was in general machinery and chemicals, and there was thus a correspondence between domestic comparative advantage and trade. At that time, in 1970, Japan's trade surplus was beginning to take root, and this can be mentioned as an example of the fact that the existing theory of trade was still a powerful analytic tool.

Next, looking at 1975, we find that this was a time when the center of gravity of the export goods sector was shifting from materials-type to processing-type. Compared with the late sixties and early seventies, there were great changes in the cost of primary commodities, energy costs, and the cost of labor. As a result, there was a drastic drop in the profitability of manufacturing concerns which had assumed low-cost energy and labor. Against this background, the materials-type sector, given actual exchange rates, was probably operating below cost. On the other hand, in the processing-type sector, with its continuation of capital-intensive investment among other things, the export profit rate changed without greatly exceeding the actual exchange rate. By 1975, Japan's trade patterns followed the theory of comparative advantage.

In 1980, processing-type commodities like audio/video products (Fig. 7), passenger cars and machine tools became central among Japan's exports. As mentioned above, product differentiation was easy with these commodities, and it was therefore difficult to explain them on the basis of comparative advantage. In addition, although their share was low, semiconductor parts and high-tech products were on the increase for the first time. A distinctive feature of these products was that they strongly exemplified

Fig. 7 Production Composition of Principal Consumer Electronic Equipment

Source: Electronic Industries Association of Japan. "Facts & Figures on Japanese Electronic Industry '91" p. 29. (MITI-CPS)

the merits of specialization. The efficiency of mass-production by individual enterprises brought about a major lowering of costs for the industry as a whole through fabrication and assembly and their assignment to specific enterprises. These factors of product differentiation and of the change in industrial structure from materials-type to assembly-type make it difficult to explain the trade pattern on the basis of comparative advantage.

Finally, looking at the most recent period, from 1985 on, we find, among other things, the influence of the change in the terms of trade caused by the yen's appreciation, changes in the pattern of trade brought about by the increasing sophistication of industry, and the influence of globalization driven by industry itself. First of all, let's look at the influence brought about by the change in the terms of trade due to the yen's appreciation. For industry, the yen's appreciation has had the effect of stimulating domestic demand while depressing foreign demand. As a result of this, import volume has expanded rapidly for three consecutive years. The foreign procurement of parts and such is also increasing. On the other hand, the volume of exports for 1986-87 showed a leveling-off or even a slightly negative growth. Further more, looking at item composition, we find an increase in commodities with a high income elasticity value or non-price competitiveness like general machinery or semiconductor parts, but apart from this a reduction is seen for most commodities. Also affecting this situation are the slump in the price of crude oil and primary commodities and a drop in interest rates resulting from an easy-money policy, which together have made possible a lowering of costs. A remarkable improvement in export profitability has been seen and in 1988 an increase, albeit gradual, in the volume of exports was in evidence.

Let's look at the second factor for change, the changes in the trade pattern brought about by the increasing sophistication of industry. As the structure of industry has

changed, in addition to the factors of comparative advantage and product differentiation, the important role of commodities with characteristics different from those of the past has come to have an influence on changes in the patterns of trade. These characteristics are, on the supply side, the beneficial effects of specialization; namely, that the reduction in the cost of each step in the manufacturing process, through fabrication to assembly, makes possible an accumulated reduction in costs for the industry as a whole. The newer a product is, the fiercer the struggle to incorporate technological advances or to bring out a cheaper product with the same functions. A more efficient product at the same price and the quickened pace at which new products are brought to market together with the increasing sophistication of the manufacturing process exemplified by such things as computer integrated manufacturing are other beneficial effects. The raising of the level of product differentiation, seen for example in the marketing of goods incorporating designs which conform to the needs of the market, and the increasing attention to non-price competitiveness factors like quality control are evident in product specialization. On the consumer side, new products act to increase demand through the combined effects of their high income elasticity value and non-price competitiveness. With the overlapping of these factors, the presence in world trade of a country which supplies new products becomes more significant. It is in this sense that Japan's share of the world market is increasing.

As one example of products showing the merits of specialization, let's consider the industry spawned by the intensive application of IC and LSI microelectronics technology (Fig. 8, Table 3, 4). In this field, technology is progressing unceasingly, economies of industrial scale are present, and wide-ranging product differentiation is taking place. There is a process of continual development of new products and of shifting development processes for new products which are in strong demand. As a result, on the one hand, these products are increasingly complex in function and have an income elasticity value. In addition to this they are of high quality in the eyes

Fig. 8 Production, Exports and Imports of Integrated Circuits

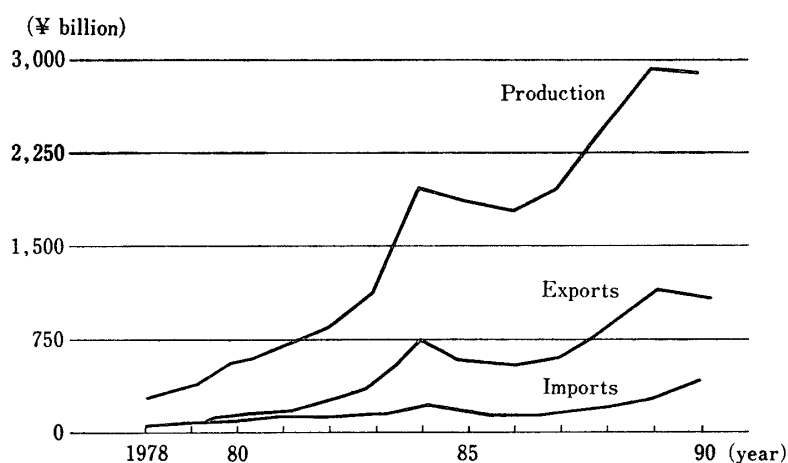


Table 3 Production, Exports and Imports of Integrated Circuits

	Production	Exports	Imports
	(millions of yen)	(millions of yen)	(millions of yen)
1978	¥ 281,406	¥ 52,221	¥ 61,303
1979	382,927	108,298	98,465
1980	570,245	183,306	108,861
1981	688,754	199,640	114,253
1982	834,883	285,112	127,382
1983	1,139,523	423,836	152,602
1984	1,973,850	776,775	222,176
1985	1,841,790	581,801	165,439
1986	1,780,235	523,131	146,075
1987	1,925,000	592,373	162,728
1988	2,489,897	845,707	225,710
1989	2,941,597	1,147,781	310,226
1990	2,913,154	1,101,296	375,424

Sources: Electronic Industries Association of Japan "Facts & Figures on Japanese Electronic Industry '91" (MITI-CPS and MOF-JTS) p. 83

Table 4 World Ranking of Semiconductor Production in 1990

(Units: million pieces, %)

Rank	Company name	Production	Growth over previous year	Share
1 (1)	NEC Corporation (Japan)	4,952	△ 1.3	8.5
2 (2)	Toshiba Corporation (Japan)	4,905	△ 0.5	8.4
3 (3)	Hitachi Ltd. (Japan)	3,927	△ 1.2	6.7
4 (4)	Motorola (U. S. A.)	3,692	11.2	6.3
5 (8)	Intel (U. S. A.)	3,135	29.0	5.4
6 (5)	Fujitsu Ltd. (Japan)	3,019	1.9	5.2
7 (6)	Texas Instruments (U. S. A.)	2,574	△ 7.6	4.4
8 (7)	Mitsubishi Electric Corporation (Japan)	2,476	△ 4.0	4.2
9 (9)	Matsushita Electronic Corporation (Japan)	1,945	3.3	3.3
10 (10)	Philips (Netherlands)	1,932	12.6	3.3

Note: Figures in parentheses indicate the rank in the previous year.

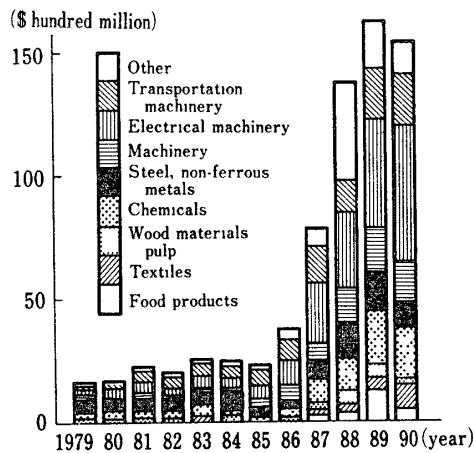
Source: January 1991 announcement by Data Quest Co. of the U. S.

of consumers, which results in a strengthening of non-price competitiveness. On the other hand, because of the effect of competition between domestic producers and the merits of specialization, even for products with increasingly complex functions, prices rise scarcely at all. The result is that the combination of these three elements (high

income elasticity value, low price, and non-price competitiveness) raises demand and leads to a larger market share for Japanese products. Whether by design or not, the share held by Japanese manufacturers in the world market for what are known as high-tech products and new products is on the rise, and in addition, the present situation is one in which there are products for which Japanese manufacturers are the sole suppliers.

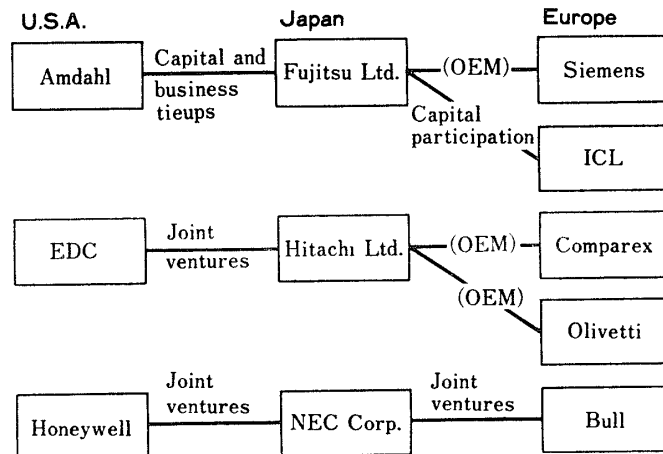
The third factor for change is the striving for globalization, which is exemplified by the world-wide perspective from which plans for marketing or the location of manufacturing are made and carried out. As the response to the high yen progresses and business recovers, it has become possible to benefit from the merits of easy-money and the high yen. Forming the background of more positive investments in plants and equipment, corporate activity is aiming at the development of manufacturing

Fig. 9 Trends in Direct Foreign Investment in Japanese Manufacturing Industries, by Industry



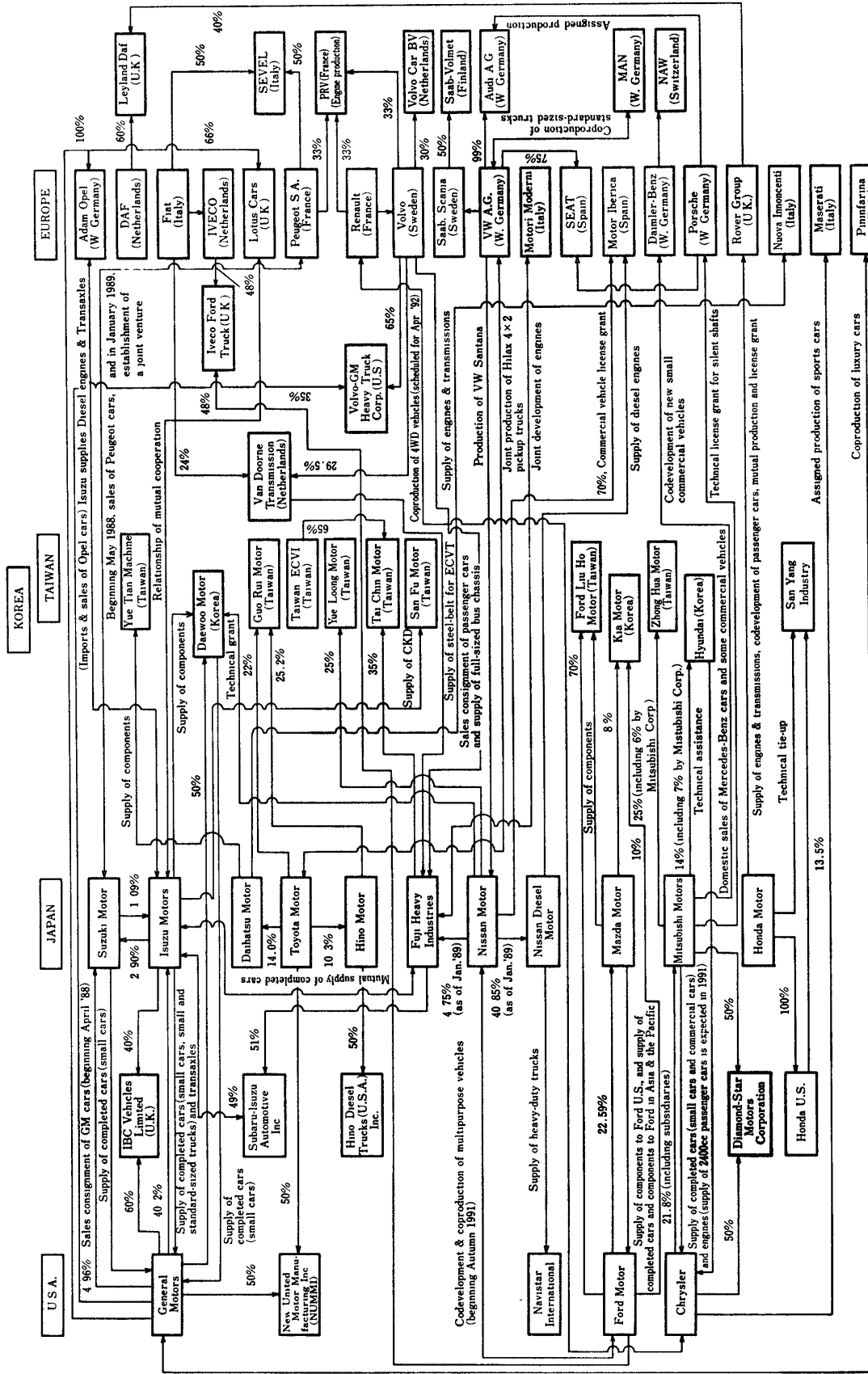
Source: Ministry of Finance "Report on the Results of Direct Investment in Foreign Countries"

Fig. 10 Tieups between Japanese Computer Manufacturers and Western Manufacturers



Source: JETRO "Business Facts & Figures NIPPON 1991" p. 41.

Fig. 11 Major Tie-Ups Among the Motor Vehicle Industries of Japan, the U. S. A., Europe, Korea and Taiwan



Notes: (1) This chart represents only the main relationships between Japanese, U.S., European, Korean and Taiwanese automakers. There are more complicated movements among manufacturers around the world, and such trends are deepening as internationalization proceeds.
 (2) Figures shown in % represent percentage of capital participation.
 Source: Japan Motor Industrial Federation, Inc. "Future of the Japanese Automotive Industry," October, p.72, 73, 1989.
 (Japanese related information was supplied by each manufacturer, while the remainder was taken from trade journals, etc.)

locations and channels of distribution not just on the basis of domestic factors but from a worldwide perspective (Fig. 9). Direct investment, which is increasing along with domestic investment in plant and equipment, can be regarded as one such policy.

From this corporate activity aiming at globalization, we can see that at the same time that they are carrying out commodity development and marketing for each market individually, they are considering locations for manufacturing or supply source on the basis of comparative advantage. In short, the basic policy is to concentrate and utilize those production factors which suit each nation's economy. As for sales, they have adopted a corporate strategy which aims at being firmly rooted in each market locale and, while taking into account short term fluctuations in exchange rates, attempts to effect a combination of source availability and local sales which maximizes profit. This sort of corporate activity can be said to be a powerful movement towards the realization of the "globalization" of the economy. This sort of economic conduct is pushing the Japanese economy in the direction of integration with the world economy.

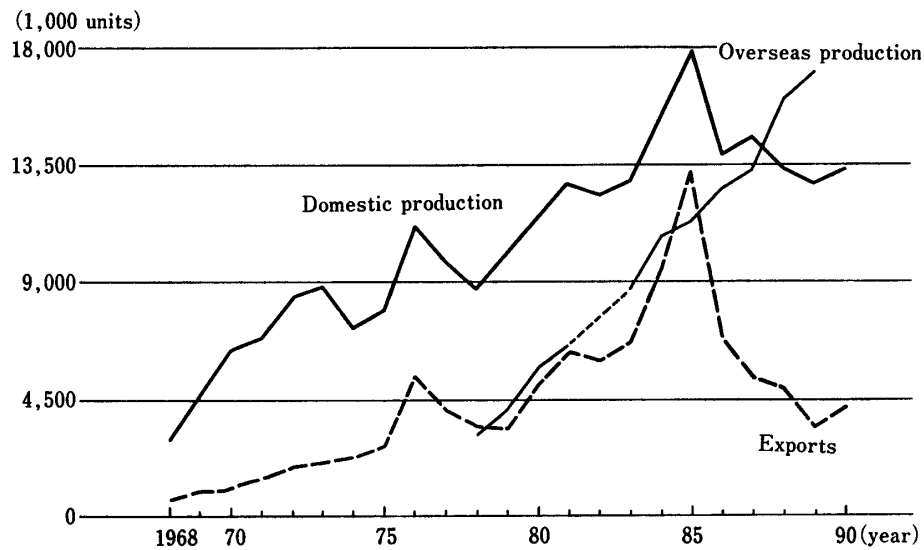
The effects of business globalization can be divided into three categories: The first is international trade, especially the effect on the international trade balance and the question of where the profits generated by trade and investment go. The second is the effect caused by developmental imports and technological transfers. Japan's unique "management resources", for example, are said to include the production process itself. Production efficiency is improved and a wide spectrum of personnel are trained for technological transfers of this type, (development of human resources). Technological transfer closely related to production can have an effect on productivity throughout the entire economy of that nation and if successful, can promote overall economic development. This second category can achieve profound effects. The third is the issue of "procession of the economy", which is caused by capital relationships created through direct investment. Through active direct investment and advancement of the horizontal division of labor, economic relationships are deepened.

Currently, fierce competition is being seen in development among Japanese and western computer and automotive manufacturers. At the same time, there has been increased international cooperation and tieups (Fig. 10, 11).

2. Direct Investment and Export and Import Pattern

(1) Influence of Direct Investment on Local Production

Foreign direct investment (entry basis) is on the increase: \$33.4 billion in FY 1987 \$47.0 billion in FY 1988 and \$67.5 billion in FY 1989.⁷⁾ The aggregate is also rising: \$139.3 billion at the end of FY 1987. \$186.4 billion at the end of FY 1988. This has been expanded greatly to \$253.9 billion at the end of FY 1989, which is approximately 3.6 times greater than the \$71.4 billion invested at the end of FY 1984.

Fig. 12 Domestic Production, Exports and Overseas Production of Color Televisions**Table 5**

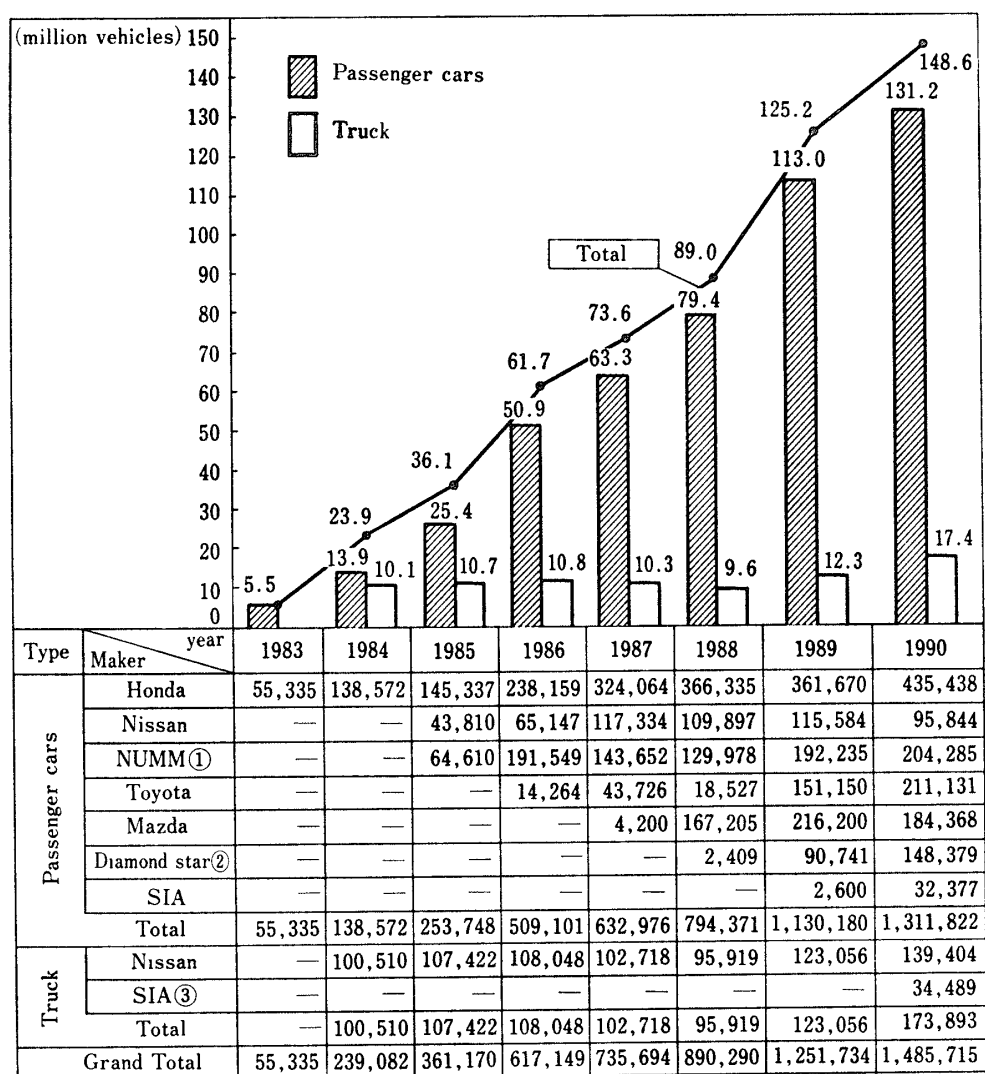
	Domestic production		Exports		Overseas production
	(millions of yen)	(1,000 units)	(millions of yen)	(1,000 units)	(1,000 units)
1968	¥278,566	2,735	¥ 42,974	769	—
1969	503,707	4,834	57,963	1,003	—
1970	681,329	6,399	57,868	1,008	—
1971	608,175	6,872	90,146	1,577	—
1972	714,950	8,388	102,772	1,849	—
1973	686,236	8,758	110,356	2,092	—
1974	615,111	7,323	137,174	2,288	—
1975	584,481	8,021	167,778	2,756	—
1976	768,066	11,148	309,615	5,251	—
1977	700,805	9,874	262,247	4,423	—
1978	617,277	8,876	189,403	3,609	3,223
1979	640,841	9,828	202,419	3,408	4,029
1980	711,909	11,661	284,927	4,652	5,744
1981	739,020	12,643	356,904	6,248	6,486
1982	683,147	12,166	333,628	5,969	—
1983	684,554	12,842	325,156	6,609	8,281
1984	755,761	14,961	428,946	9,302	10,751
1985	897,077	17,897	607,674	13,425	11,365
1986	723,771	13,809	272,491	6,729	12,351
1987	765,144	14,286	199,520	5,228	13,579
1988	814,060	13,219	177,857	4,798	15,931
1989	819,261	12,578	160,619	3,570	16,989
1990	874,628	13,243	207,112	4,312	—

Sources: Electronic Industries Association of Japan "Facts & Figures on Japanese Electronic Industry" p. 30. (MTI-CPS, MOF-JTS and EIAJ Survey).

Considering the recent movement by regions, the rates for South and Central America have fallen while those for North America and Europe have been rising. Considering the movement by industry, direct investment in the manufacturing industry has been continuously on the increase and has expanded markedly in non-manufacturing industries. Above all, rates for service industries and real estate have been rising. In analyzing manufacturing industries by type, electronics manufacturers (Fig. 12, Table 5), and the automotive industry have shown high rates of increase (Fig. 13).

This great increase in foreign direct investment is considered to be contributing to a reduction in the trade balance surplus as well as developing the horizontal division of labour in the Japanese trade structure.

Fig. 13 Japanese Automakers' Production in the U. S.



- Notes: ① —GM-Toyota joint venture
 ② —Chrysler-Mitsubishi joint venture
 ③ —Fuji-Isuzu joint venture

Source: U. S. Motor Vehicle Manufacturers Association, Inc.

On the other hand, in comparison with foreign direct investment, domestic direct investment (aggregate) expanded from \$12.8 billion for FY 1988 to \$15.7 billion for FY 1989. Though this is still a small increase, considering the recent movement by industry, the rate of investment for real estate industries has risen sharply. As a result, the non-manufacturing industries have exceeded the manufacturing industries in FY 1989 for the first time. The rate of investment by North America has been increasing.

The influence of foreign direct investment and local production upon the trade balance in the processing and assembling industries is evident in three stages. First, the export of capital goods to initiate local production has increased. Next, when local production becomes routine exports decrease in finished goods and increase in parts and intermediate goods. Finally the consolidated cooperation of forming continuous commercial contracts and efforts to meet local contents standards encourages the local procurement of parts, and increases the rate of re-importation to our own country. Foreign direct investment and local production were factors expanding the trade surplus at first and affected the differences between newly exported parts through local production and finished goods. These factors tended to reduce the surplus in the second stage.⁸⁾ In the final stage, reducing the trade surplus is expected to become a reality. The same factors also influence investment receivable gains as will be mentioned later.

Currently, changes have appeared in both exports and imports such as an increase in capital goods exported and an increase in re-imported goods. However, influences of this kind have been found to overlap in differing degrees according of the country in which the investment was made, the type of goods, or a combination of these two. Therefore it is difficult to judge clearly at this point what has finally resulted, an increase or decrease in exports. On the other hand, the effect of direct investment on reducing exports must be taken as a structural change in the coefficients of macro-export volume functions. The substitution of importing finished goods either lowers the elasticity of income, or raises the elasticity at prices within relative price limits on exports and imports and contributes to the influence. For the raising prices, the influence of rising export prices in dollar denominated amounts through an appreciation in the yen decreases exports directly, and occasionally causes a substitution of local production for the importation of goods. In the case where the appreciation of the yen makes local production more cost effective. The estimated results of elasticity of income and prices have not shown any of the changes imagined so far. This is partially because the advanced technological configuration of exported goods has caused the elasticity of income to rise and that of prices to drop.

Now, let us look at the shift to local production of passenger cars in America (Table 6). Since FY 1981 American business sluggishness and the introduction of self-imposed controls on exports to the U. S. have caused the number of passenger

Table 6 Japanese Automobile Manufacturing Operations in the U. S.

Name of manufacturer	Name of foreign affiliated firm	Capital	Number of employees	Place	Vehicle type produced	Summary of project, etc
Nissan Motor	Nissan Motor Manufacturing Corporation U.S.A.	\$ 375 million Nissan 20% U.S.A. 80%	3,088	Smyrna, Tennessee	Passenger cars [Centra (Sunny)] Small trucks	1980 Oct. Decided to establish Datsun truck plant 1983 Jul. Started production [120,000 units/year] 1984 May. Announced production plan for passenger cars 1985 Mar. Started production [passenger cars and commercial vehicle total; 240,000 units/year (projected)] 1992 summer Increased small-car production [passenger and commercial cars total, 440,000 units/year (projected)]
Honda Motor	Honda of America Manufacturing, Inc.	\$ 478 million Honda 2.93% U.S.A. 97.07%	5,657	Marysville, Ohio	Passenger cars [Accord, Civic] 2-wheeler Engines	1978 Feb. Decided to establish 2-wheeler plant 1979 Jul. Started production [60,000 units/year] 1980 Jan. Decided to establish small-car plant 1982 Nov. Started production [150,000 units/year] 1986 Sep. Started engine production [60,000 units/year] 1988 1st half Increased small-car production [360,000 units/year (projected)] 1988 Feb. Started construction of second small-car plant 1989 Aug. Started production [150,000 units/year. total 510,000 units/year (projected)] 1991 70,000 export units are expected [including 50,000 units for Japan]
Toyota Motor -GM	New United Motor Manufacturing, Inc. (NUMMI)	\$ 200 million Toyota 50% GM 50%	2,400	Fremont, California	Passenger cars [Nova (Sprinter derivative)]	1984 Apr. Acquired formal permission from FTC [Federal Trade Commission] 1984 Dec. Started passenger car production [GM brand] [200,000 units/year] 1986 Nov. Started passenger car production [Toyota brand] [500,000 units/year] 1991 spring Started truck production [Toyota brand] [total 350,000 units/year (projected)]
Toyota Motor	Toyota Motor Manufacturing U.S.A. Inc.	\$ 500 million Toyota 20% Toyota Motors U.S.A. 80%	1,866	Georgetown, Kentucky	Passenger cars [2000cc class]	1985 Jul. Decided to establish passenger car plant 1986 spring Started plant construction 1988 May Started passenger car production [200,000 units/year (projected)]
Mazda	Mazda Motor Manufacturing (USA) Corporation	¥ 25.4 billion (Mazda only)	3,414	Flintrock, Michigan	Passenger cars [Capela class]	1984 Nov. Decided to establish passenger car plant 1987 Sep. Started passenger car production [240,000 units/year (projected)]
Mitsubishi - Chrysler	Diamond-Star Motor Corp.	\$ 199.5 million Mitsubishi 50% Chrysler 50%	1,503	Bloomington-Normal, Illinois	Passenger cars [1.8L, 2.0L class]	1985 Apr. Decided to establish passenger car plant 1985 Oct. Started plant construction 1988 Sep. Started passenger car production [240,000 units/year (projected)]
Fuji - Isuzu	Subaru-Isuzu Automotive Inc.	\$ 250 million Fuji 51% Isuzu 49%	1,700	Lafayette, Indiana	Passenger cars Small trucks Jeep-type cars	1986 May Decided to establish automobile plant 1989 Nov. Started production [passenger cars and small trucks & jeeps each 60,000 units/year. total 120,000 units/year (projected)] [future - total 240,000 units (projected)]
Kawasaki	Kawasaki Motor Manufacturing Corp., U.S.A.	\$ 20 million (Kawasaki only)	449	Lincoln, Nebraska	2-wheeler	1981 Dec. Decided to establish 2-wheeler plant 1982 Jan. Started production [approx. 120,000 units/year]

Note: Production volume represents productive capacity.

Source: Japan motor Industrial Federation, Inc. "Future of the Japanese Automotive Industry" p. 74.

cars exported from Japan to decline.

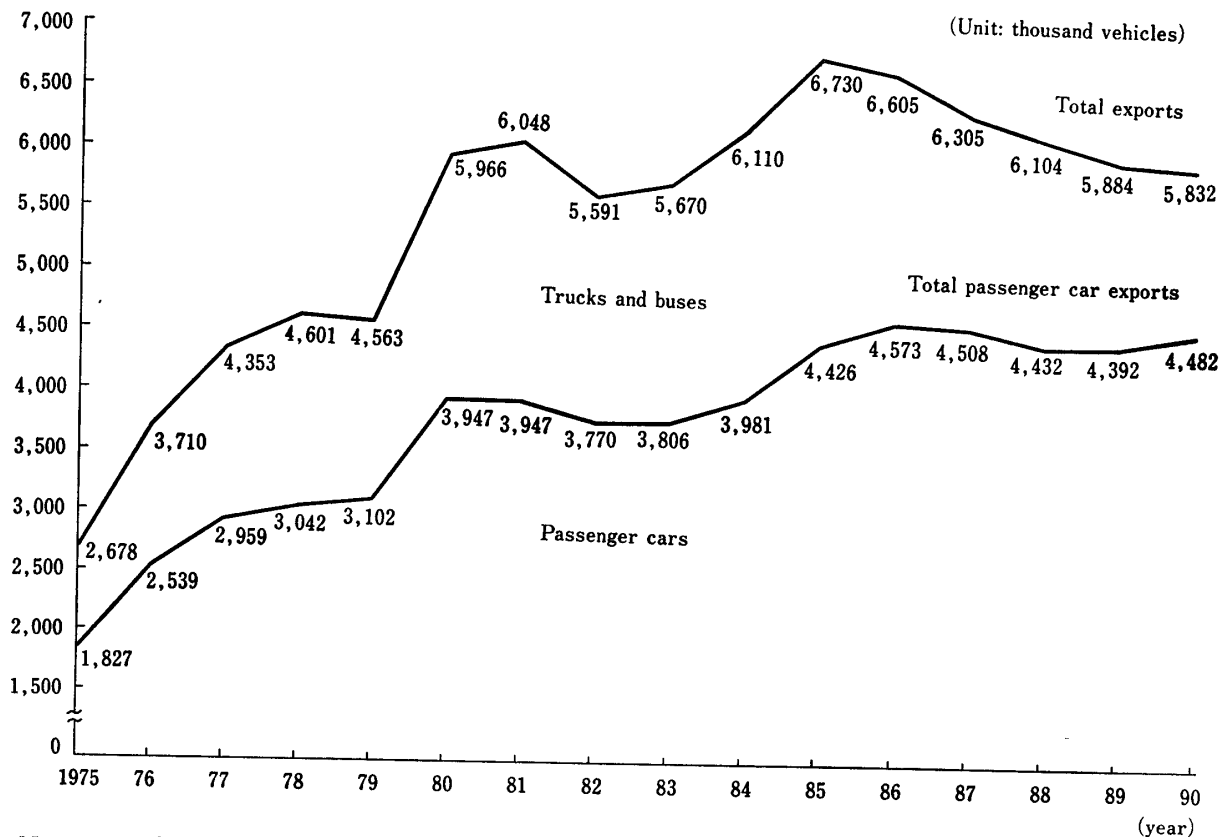
After a period of slow growth following 1981, total exports increased from 1984 to 1987 when they leveled off or decreased slightly.

In FY 1984, American automobile production began to expand due to the growth of direct investment, produced locally had reduced exports sharply. Recently, finished cars produced for export of higher quality and higher value added have risen in export price. Since FY 1984, with the progress in local production, the amount of car parts exported has been steadily increasing. However, because of the improvement in the rate of local procurement of parts, the amount of local production has grown rapidly, while the amount of parts exported gained only a little in FY 1989.

In spite of the increase in parts exported (Fig. 14, 15), compared to the case with no local production. This phenomenon has resulted from the greater profitability of local production and the steady encouragement of direct investment. It can be said that local production of passenger cars has reached the second stage of the three stated above, though the appreciation of the yen has accelerated it a little.

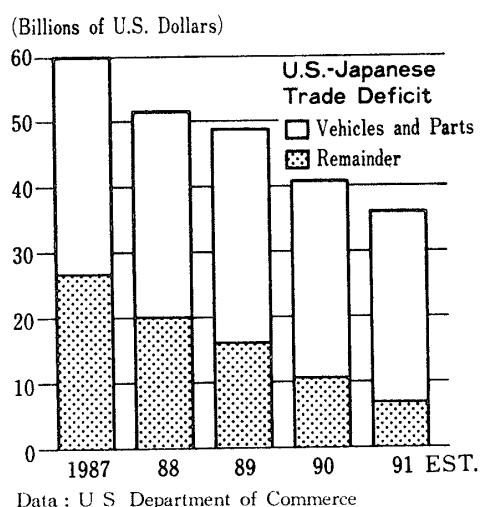
Next, we shall consider the influence of direct investment to ASEAN on the structure of trade with Japan. A look at the relation between cumulative direct investment

Fig. 14 Declining Trend Continues After 1985 Peak



Note: Excluding KD sets since 1979.

Source: Toyota Motor Corporation "The Automobile Industry Japan and Toyota" 1991 edition p. 42. (JAMA)

Fig. 15 The Trade Gap: Autos Take a Growing Bite

Source: *Business week* November 18, 1991 p. 43.

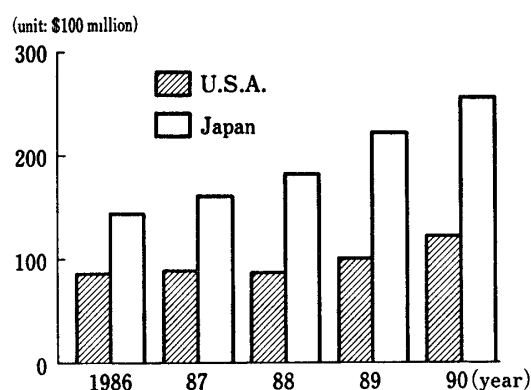
and the value of imports shows that, generally, as direct investment grows the value of imports increases. From 1980 to 1989, the textile industry exhibited a sharp increase in its "horizontal division of labor," while the chemical and metal industries remained at their previously high levels. Electric and general machines exports have increased though they are still relatively low. Food and transportation machines have been declining. With these differences from industry to industry, the general index for horizontal division of labor has developed a tendency to rise. It is difficult to separate the influence of direct investment on the horizontal division of labor clearly because of factors such as the appreciation of the yen and ASEAN's consolidated competitive position in exports, but direct investment is considered to be one of the contributing factors in the moderate rise of the index for the horizontal division of labor.

Direct investment is becoming increasingly important, and recognizing the trend in direct investment is indispensable for understanding today's trends in the world economy as a whole.

There are 3 examples of Japanese investment in European companies that become evident during the period from 1967 to 1980 s.

The first is the rapid progress in direct investment in Europe in the latter half of the 1980 s. During the first half of the 1980 s, the United States was the principal recipient of direct investment. Due to the buoyant European economy and the impending EC market integration of 1992, direct investments in Europe (particularly to Britain, Germany and the Netherlands, but excluding Eastern Europe) progressed rapidly in the second half of the 1980 s. During the period from 1984 to 1988, direct investment outstanding in the world grew at a rate of 9.2 percent. The number of European companies accepting Japanese investments grew by 4.1%, while the Japanese contribution ratio reached 43.5%.

The second example is the activation of investment between countries in Europe. European countries are actively making investments within the region, with about 50

Fig. 16 Cumulative Growth in Direct Investment in ASEAN

Source: U. S. Department of Commerce.

percent of all direct investment in Europe made by individual EC countries.

The third example involves the expansion of Japan's direct overseas investment and the progress of Asian countries in accepting Japanese investment (Fig. 16). Investments made in Asia slowed down slightly in 1985, but rebounded in the second half of the 1980s as a result of the policy of easing restrictions on foreign capital and the progress in legal and manufacturing adjustments. While U. S. investment had accounted for a large proportion of overall investment in Asia, it leveled off during the first half of the 1980s and the proportion of Asia's regional investment, including Japanese investment, reached about 40%.

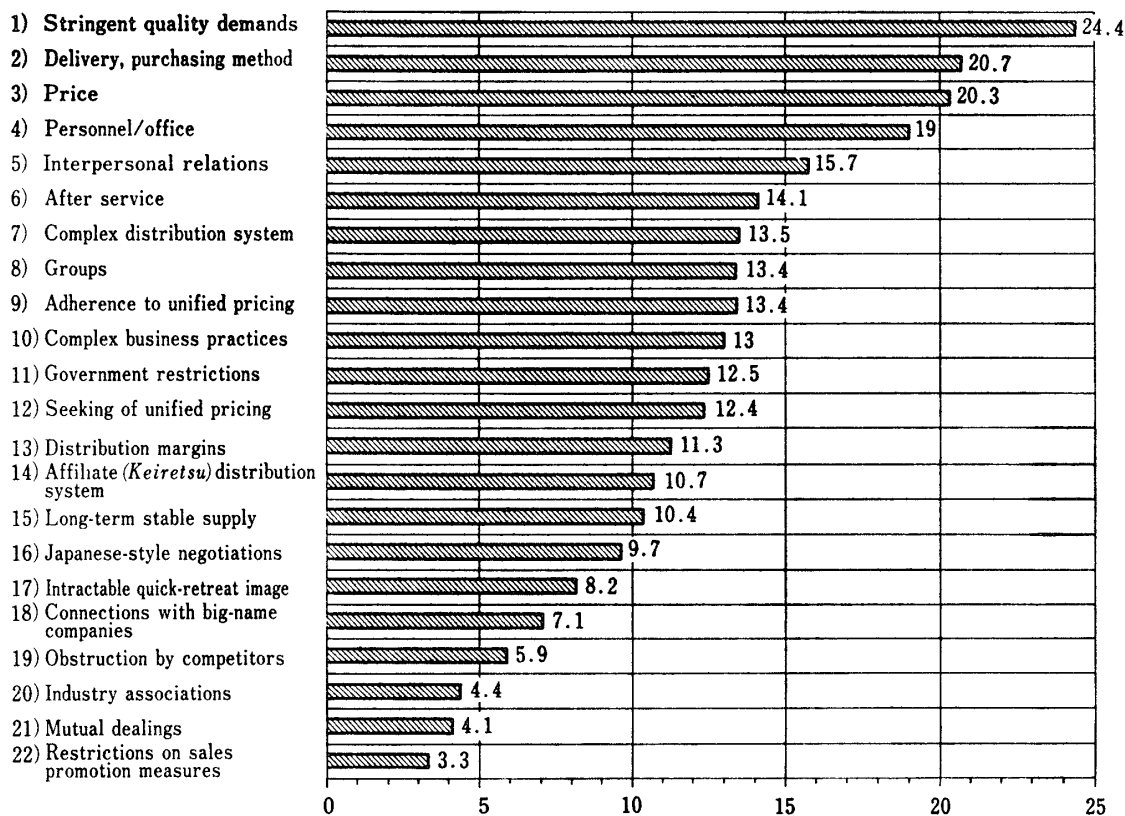
3. Japan's Role in the World Economy

International economic friction is difficult to avoid in the internationalization and globalization of the economy. As trade expands or when direct investment is made, trade profits and the merits of technological transfers are realized and at the same time there are problems generated in the host country, such as market domination by foreign enterprises and over-representation. Economic friction has a diversity of expressions, including trade friction, investment friction, technology-sharing friction and problems of market access (Fig. 17).

From the late sixties through the early eighties Japan experienced economic friction in many sectors. Around 1985 the trade imbalance between Japan and the United States widened significantly, and in addition to the friction in individual sectors already existing, new problems such as demands to improve access to the Japanese market and non-tariff trade barriers appeared in many fields⁹⁾ (Table 7). If discussion is limited to sectors where problems surfaced, the minority were resolved through one measure or another in FY 1988. There is, however, a relation between economic friction and the sudden widening of the trade imbalance, a relationship seen not only in the United States, but in Europe as well.

The development of free trade led to tension and competition in industries that had not been exposed to competition from abroad in the past. The point at which

Fig. 17 Japanese Market as Viewed by Foreign-capitalized Firms
(Specific areas of difficulties experienced with the distribution system, Japanese business practices, etc.)



Notes: 1. The figures in the chart indicate percentages of affirmative answers to the specific problem areas contained in the 1,274 valid responses to the survey returned by the foreign-capitalized firms operating in Japan.

2. Multiple answers were permitted in all cases.

Source: Business Intercommunications Inc. "White Paper on Japanese Economy" 1991, p. 116. ("The Japanese Market as Viewed by Foreign-capitalized Firms", Fair Trade Commission).

trade friction develops is when clear winners and losers emerge in competition, and when industries are forced to move factors of production such as labor and capital equipment to foreign location. These expenses are generally referred to as "adjustment costs", and while it is best to minimize these costs they are seen as unavoidable if the economy is to develop.

From the viewpoint of the economy, it can be expected that the absolute monetary value of an international trade imbalance may grow as the economic scale increases. Because of this fact, it has been suggested that we examine this relationship between trade imbalance and economic scale. An increase in the scale of the world economy leads to an increase in imports into Japan, and also in Japanese exports to other nations. To balance this increase in imports and exports, it is necessary to rectify the direct imbalance through an expansion of mutual profits as in the current case of trade between Japan and Southeast Asia.

Table 7 Measures to be Taken by Japan as Contained within the Final Report of the Structural Impediments Initiative Talks (General Framework)

Patterns of Savings and Investments	Plans for investments in public-works (FY 1991-2000) look to outlays of a total ¥ 430 trillion, with an additional ¥ 25 trillion invested in Japan Railways and other former public corporations.
	A five-year plan of concrete goals were set in eight areas of public works, including the expansion of floor space in an average family dwelling to 95m ²
	Efforts are being made to initiate revolving accounts on bank credit cards within two years.
Land Use	Creation of land-use promotion policy to stimulate optimum use of unused or underused land.
	Overall reassessment of the land taxation, with adjustments to the inheritance tax and the system of appraisal for fixed property taxation.
Distribution and Retailing System	Relaxation of the Large-Scale Retail Stores Law —Shortening of the application and preparation period required —Special exemption for increased areas devoted to imported products —Relaxation of regulations regarding closing times and holidays
	Import-promotion tax system, increased import loans, dispatch of specialists overseas in order to search for suitable products in Europe and U. S. A.
	Requests issued to industry groups for reforms of rebates and other business customs.
Exclusionary Business Customs	Increased fines for illegal cartels, submission of reformed anti-trust law bill at next normal Diet session.
	In the event that reparations are requested on the basis of Article 25 of the Anti-Trust Law, the Fair-Trade Commission is to play an active role in claims suits.
	Strict application of Anti-Trust Law with regard to collusive practices (so-called "dango"). Efforts to bolster fines for collusion.
	More efforts by national councils and research groups to accept opinions from overseas.
	Shortening of average time required for patent screening from current average of 37 months to an average of 24 months within five years.
Transactions Within So-called "keiretsu" (corporate groups)	Establish guidelines for implementation of Anti-Trust Law within the year.
	Government statement promoting foreign investment in Japan.
	Review of TOB (take-over bid) system.
	Disclosure of conditions surrounding large volumes of retained stocks, and introduction of so-called "5% rule".
	Disclosure of corporate group ("keiretsu") information based on limits of U. S. financial accounting standards.
Pricing Mechanism	Follow up of measures for bringing domestic and foreign prices into line for 52 items in 6 areas.
	Implementation of continuing domestic/foreign price monitoring, provision of information to consumers and industrial councils.

profit.

Japanese statistics on the trade imbalance between the U.S. and Japan show a difference \$51.4 billion for 1986, while according to U.S. statistics the difference is \$52.1 billion. This disparity is due to differences in freight and insurance and the time of recording. In 1988 Japanese imports from the United States were boosted by a strong surge in domestic Japanese demand (the largest such increase in the past 15 years), and grew at a rate that surpassed the growth rate of the economy itself. As a result, imports from the United States increased by \$10.5 billion for the year, primarily in finished products. Japanese exports to the United States were affected by strong American domestic demand and a stable exchange rate, and grew some \$6.0 billion for the same term. As a result, 1988 saw a rectification in the trade imbalance of about \$4.5 billion, but attention must be drawn to the Japanese import growth in finished products and the strong American import growth of the same from the second half of 1988 to the present.

The increase in imports into Japan from 1986 to the present was about \$51.7 billion, or an increase of some 22.9% in finished products. Generally beneficial effects resulted from this increase such as the direct effect on the stability of domestic prices. Improvement of market access and yen appreciation led to a rapid penetration into the Japanese market by competitive products. At present, the rapidly growing import business in finished products, (Fig. 18, Table 8) especially consumable products, is

Fig. 18 Trends in New Registrations of Imported Cars in Japan

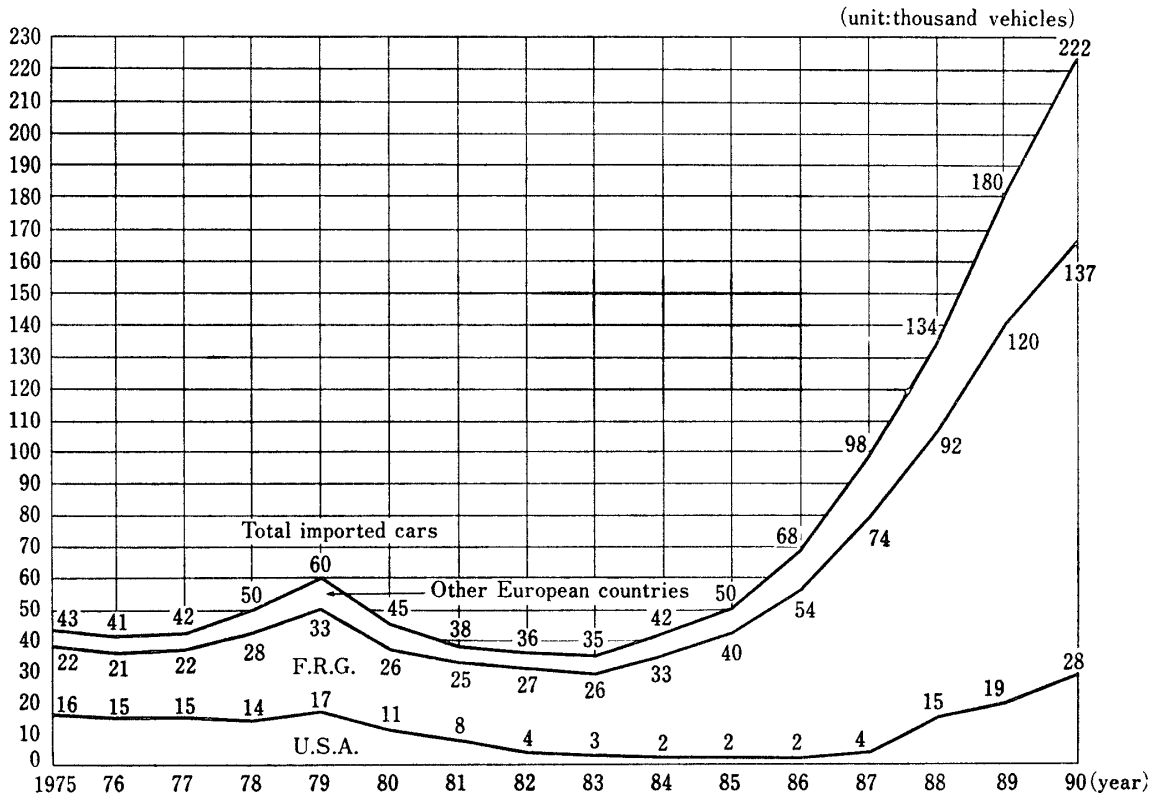


Table 8 New Registrations of Imported Cars by Country and Manufacturer

Country	Make	1986		1987		1988		1989		1990	
		Total vehicles	Share (%)	Total vehicles	Share (%)	Total vehicles	Share (%)	Total vehicles	Share (%)	Total vehicles	Share (%)
F. R. G.	VW-AUDI	23,784	34.8	32,512	33.2	39,289	29.4	48,980	27.1	53,461	24.1
	BMW	15,250	22.3	21,015	21.5	26,826	20.1	33,076	18.3	36,527	16.5
	Daimler-Benz	13,820	20.2	18,749	19.2	22,625	16.9	31,511	17.5	38,844	17.5
	Others	1,062	1.6	2,013	2.1	2,901	2.2	6,726	3.7	8,610	4.0
	Total	53,916	79.0	74,289	76.0	91,648	68.6	120,293	66.7	137,442	62.0
U. S. A.	GM	1,829	2.7	2,829	2.9	4,841	3.6	7,231	4.0	8,513	3.8
	Ford	406	0.6	863	0.9	3,809	2.9	5,967	3.3	6,030	2.7
	Others	110	0.2	313	0.3	5,861	4.4	5,886	3.3	14,059	6.4
	Total	2,345	3.4	4,005	4.1	14,511	10.9	19,084	10.6	28,602	12.9
U. K.	Total	4,033	5.9	6,771	6.9	9,784	7.3	14,519	8.0	19,653	8.9
Italy	Total	3,046	4.5	3,832	3.9	4,216	3.2	4,564	2.5	5,933	2.7
Sweden	Total	3,151	4.6	4,699	4.8	6,737	5.0	9,753	5.4	13,704	6.2
France	Total	1,729	2.5	3,933	4.0	6,153	4.6	10,487	5.8	14,018	6.3
Grand total		98,357	100.0	97,750	100.0	133,583	100.0	180,424	100.0	221,706	100.0

Note: The grand total includes units from other countries.

Source: Toyota Motor Corporation "The Automobile Industry Japan and Toyota" 1991 edition p. 41. (JAIA).

likely to continue to grow at a rapid pace because of rising incomes and dropping prices, and may emerge as an important factor in increasing the scale of the world economy. The Japanese government can be expected to support and stimulate increased imports, by maintaining expansion of a domestic-demand-oriented economy and maintaining overseas prices for consumers as long as possible.¹⁰ In general, the expansion in the importation of competitive products is extremely desirable from the viewpoint of Japanese consumers.

To identify means of expanding the world economy and to rectify existing imbalances let us examine a few concrete examples of recent trends based on expanded import and export.

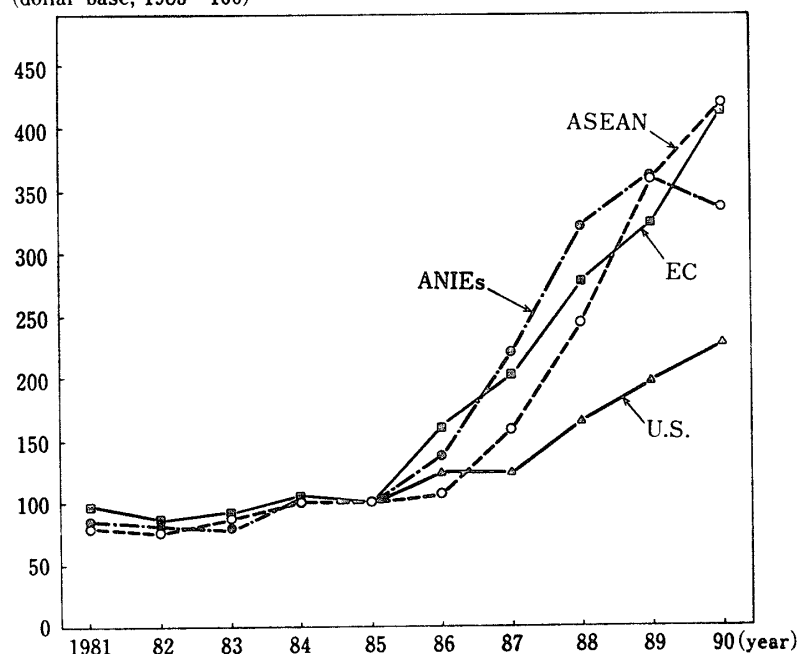
The development of the international financial market has made short-term capital management easier than before, but the capital amount of capital required for economic development is still largely dependent on the accumulation within each nation. Foreign currency used for the purchase of imported capital goods is certainly best acquired through trade, and given the difficulties of instability in the currencies of developing nations, the market shocks when exposed to international competition, and the

experiences of spiraling debt problems in the past, exportation is critical for economic development.

The nations neighboring Japan have in recent years begun to demand that Japan not only export capital goods, but also open domestic markets and increase imported products. This is evidence that these nations expect Japan to assume a critical role regarding equitable trade. The rapid increase in Japanese export of products in recent years has increased these expectations, and there is no question but that increasing foreign imports (centering on finished goods) is desirable and in line with these expectations.

Through increased bilateral trade with Southeast Asia and capital cooperation, the Japanese economy has been growing with enormous speed. In particular this growth has been due to imports from developing nations (Fig. 19), which results directly from the wellmanaged utilization of human resources (which led to technological transfers and increased employment in related industries). At the same time, there has been an increase in the export of sophisticated technical components and capital equipment. The increase in Japanese imports can be interpreted as creating new demand for products produced in Southeast Asia and other regions and leading to increased production there, rather than seen as representing a flow of demand overseas. In addition, the increase in income and production in these nations will create new

Fig. 19 Trends in Japanese Imports of Manufactured Products
(dollar base; 1985 = 100)



Notes: The ANIEs include Korea, Taiwan, Hong Kong and Singapore; ASEAN is made up of Thailand, Malaysia, Indonesia and the Philippines.

Source: Business Intercommunications Inc. "White Paper on Japanese Economy 1991" p. 104 (Ministry of Finance "International Trade Statistics".)

export demand centered on sophisticated Japanese technological items, and lead to a self-supporting cycle of interdependent expansion and balance.

Let us summarize how Japan can contribute to the resolution of problems in the world economy and help in its development.

The economic presence of Japan within the world economy is steadily expanding, and cooperation with various overseas nations is being realized in a number of fields where a Japanese contribution is expected. These include improved market access into Japan and accompanying increased imports in cooperation with the expansion of developing nations through overseas development assistance (ODA), cooperation in the resolution of spiraling debt problems, early resolution in GATT and Uruguay Round Talks, development and transfer of advanced technologies, and contribution to the resolution of global environmental issues (Fig. 20, Table 9). Each of these contributions is critical, and together they represent an expectation of Japanese assistance in essentially every field.

Fig. 20 Composition of Individual Negotiating Group at Uruguay Round

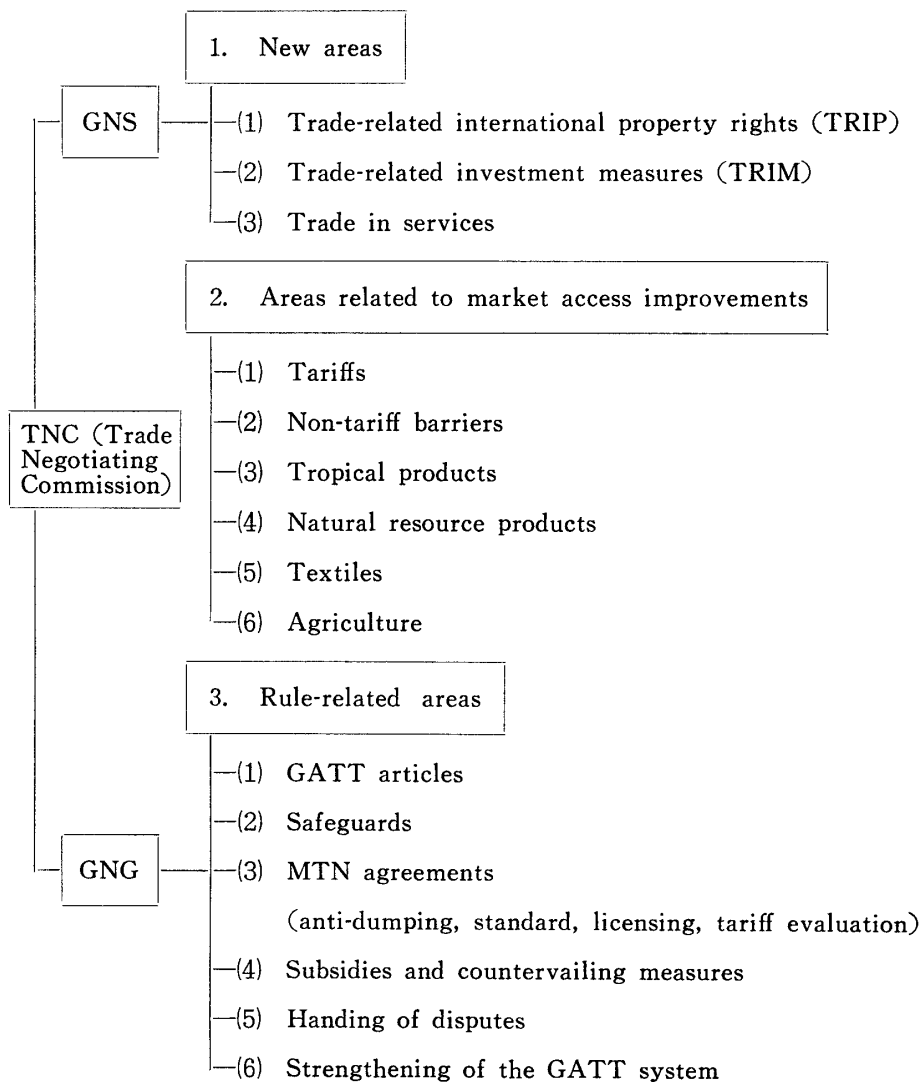


Table 9 Position of the Quad Countries to Mutual Elimination and Harmonization Proposals as seen by Japan

1991. 11

	JAPAN	U. S.	CANADA	EC
① Non-Ferrous	△ Part #	○ #	○	×
② Pharmaceuticals	○ Part #	○ #	○	○
③ Electronics	○ #	○ #	○	×
④ Construction Equipment	○ #	○ #	○	×
⑤ Paper and Pulp	○ #	○ #	○ #	×
⑥ Steel	○ #	○ #	○	○
⑦ Beer	△	○ #	△	×
⑧ Wood Products	×	○ #	○ #	×
⑨ Fish and Fishery Products	×	○ #	○ #	×
⑩ Medical Diagnostic & Other Medical Equipment, and Scientific Instrumentation	△ Part #	○ #	△	×
⑪ Fertilisers, Rubber, Films and Musical Instruments	○ #	△	△	×
⑫ Machinery and Others	○ #	×	×	×
⑬ Chemicals (Harmonization) (US Proposal)	△ Part #	○ #	△	△ Part #
⑭ Petrochemicals (Harmonization) (EC Proposal)	△	△	○	○ #
⑮ Textiles (Harmonization)	△	×	×	○ #

○: Positive △: Partly positive or under consideration ×: Negative #: Proposing country part
#: Proposing part of the sector

Source: Japanese Government

(1) Japan's Import Expansion Programs¹¹⁾**〈Tax Incentives for Manufactured Imports〉**

Manufacturers based in Japan who increase the value of qualified imports by 10% or more compared with their most recent highest year receive a tax credit equal to 5% of the increase or 10 to 20% additional depreciation on eligible machinery and equipment. Wholesalers and retailers are allowed to build reserves to fund the marketing of imported products.

Applied to duty-free manufactured items, this program covers almost half of current imports, including such capital goods as semiconductors, computers, electric motors and machinery; such intermediate goods as synthetic rubber and tires; and such consumer durables as electrical home appliances, automobiles and sporting goods.

These tax incentives will cost the Japanese government approximately \$ 1 billion a year.

〈Elimination of Tariffs〉

The list of duty-free manufactured products has been expanded, with the elimination of tariffs on 1,004 manufactured items and the reduction of tariffs on four more. Almost all machinery imported into Japan now enters duty-free. A drawback system which returns duties paid on items imported into Japan and then re-exported to importers was also set up.

In 1988, items covered by these measures accounted for imports worth approximately 1.7 trillion yen, or about \$ 13 billion.

〈Expanded Budget for Import Promotion〉

Aggressive steps to stimulate grassroots interest in imports are being taken throughout Japan.

Funding for these measures was increased from 1.9 billion yen in the original budget for fiscal 1989 to 7.5 billion yen in the fiscal 1989 supplementary budget and 7 billion yen in the fiscal 1990 budget. As a result, the budget for import expansion has jumped to a total of 14.5 billion yen (approximately \$ 100 million). Major items in the new budget include the following programs undertaken in cooperation with governmental authorities in exporting countries:

- ① A computerized information network linking local internationalization centers in every Japanese prefecture.
- ② Support for import buying missions from Japan and export sales missions from abroad.
- ③ Sending experts to exporting countries to search for products with potential in the Japanese market.
- ④ Pilot projects aimed at establishing comprehensive import promotion centers in

Japan.

〈Expansion of Import Loan Programs〉

Four major public financial institutions, including the Export-Import Bank of Japan, the Japan Development Bank, the Small Business Finance Corporation and the People's Finance Corporation now offer low-interest loans to encourage imports. Formerly restricted to companies based in Japan, some of these loans are offered to Companies based outside Japan as well.

Featuring extremely attractive rates, these loans will make available 220 billion yen (approximately US \$ 1.5 billion) to fund expanded imports.

〈Credits and Reserves Help Importers Expand Business〉

Expanding manufactured imports entails tremendous costs and risks in finding new products and developing effective sales promotion and marketing schemes. By providing tax credits for expanding businesses and permitting wholesalers and retailers to build reserves to fund the marketing of imported products, the Japanese government is substantially reducing these costs and risks, thus providing an incentive to import more. Similar measures in the 1960s played an important role in stimulating Japanese exports.

〈Tax Credits and Accelerated Depreciation of Target Manufacturers〉

For three years, starting in April 1990, manufacturers who increase the value of qualified imports by at least 10% compared to their most recent maximum will receive a tax credit equal to 5% of the increase. (Subject to a limit of 10% of corporate tax for large companies, 15% of corporate tax for small and medium-sized companies).

They will also receive accelerated depreciation on machinery and equipment imported within the taxable year for the two years previous to the taxable year. On certain categories of machinery imported after April 1990, the added depreciation will be 20%, for other machinery and equipment 10%. Both will be subject to a limit of 50% of the increase in qualified imports.

Items covered by this plan include duty-free manufactured products which generally fall between the fifth and eighth sections of the SITC classifications.

〈Wholesalers and Retailers Can Reserve Market Development Funds〉

Wholesalers and retailers are allowed to reserve funds from taxable income to develop markets for manufactured imports. Companies which qualify for this program can reserve up to 20% of the increased value of qualified imports. One-fifth of the reserves will be added to income during each of the following five years.

To qualify for this program wholesalers and retailers must satisfy the same conditions as manufacturing industries. They, too, must expand imports to the previously

largest amount imported in recent years.

Here again, items covered by this plan include duty-free manufactured products which generally fall between the fifth and eighth sections of the SITC classifications.

<Six Trillion Yen Spent on World Imports>

These programs cover almost half of all manufactured goods imported into Japan. About 60% of the items covered are capital goods such as semiconductors, computers, electric motors, miscellaneous machinery and parts. About 15% are such intermediate goods as synthetic rubber and tires. About 25% are consumer durables, including electrical home appliances, automobiles, golf clubs and other sporting goods.

In 1989, such goods were worth about 6 trillion yen, or \$ 40 billion. Consequently, these tax incentives are expected to reduce Japanese government revenues by approximately \$ 1 billion.

<Pioneering Gesture Demonstrates Commitment to Freer Trade>

The Japanese Government has acted unilaterally to eliminate or reduce tariffs on manufactured products. Following parliamentary approval, tariffs on over a thousand manufactured products were eliminated, effective April 1, 1990.

<Imports Covered By Tariff Elimination and Tax Incentive Programs>

- ① Automatic data processing machines.
- ② Electronic calculating machines.
- ③ Machine tools.
- ④ Electronic parts (such as semiconductor devices, electric integrated circuits and microassemblies).
- ⑤ Office machines.
- ⑥ Instruments and appliances for medical, surgical, dental or veterinary use.
- ⑦ Measuring or checking instruments, appliances and machines.
- ⑧ Automobiles (including auto parts).
- ⑨ Tractors, motor vehicles for transporting goods and special purpose motor vehicles, and bicycles.
- ⑩ Electric motors and generators.
- ⑪ Mechanical parts (such as valves and bearings).
- ⑫ Optical fibers and optical fiber cables.
- ⑬ Electronic home appliances (such as refrigerators, washing machines, dryers, record-players, radio broadcast receivers and televisions).
- ⑭ Magnetic tapes and phonograph records.
- ⑮ Clocks and watches.
- ⑯ Musical instruments.
- ⑰ Furniture.

- ⑱ Sports equipment (such as golf clubs and tennis rackets).
- ⑲ Certain chemical products (such as film, aromatic hydrocarbon mixtures, and mineral or chemical fertilizers).
- ⑳ Rubber tires.
- ㉑ Stone products.
- ㉒ Products made from cement or concrete.
- ㉓ Pig iron and semi-finished iron products.
- ㉔ Newsprint in rolls or sheets.
- ㉕ Paper and plastic-coated paperboard.

〈Expanded Budget for Import Promotion Programs〉

Besides setting up incentives for importers and eliminating tariff barriers, the Japanese government is also taking important steps to stimulate demand for imports. The scale of its commitment is reflected in vastly increased support for import promotion programs. In the supplementary budget for fiscal 1989, 7.5 billion yen has been allocated for this purpose. Appropriations for import promotion in fiscal 1990 have been increased to 7 billion yen. The combined total of 14.5 billion yen (approximately \$ 100 million) is eight times greater than the 1.9 billion yen originally allocated in the fiscal 1989 budget.

〈Local Internationalization Centers〉

A "Local Internationalization Center" is being established in every prefecture in Japan. These centers have as their goals (1) to study the issue of price differentials in Japan and overseas markets; (2) to stimulate grassroots interest in imports throughout Japan; and (3) to provide up-to-date information on exporting to Japan to exporters abroad as well as importers inside Japan.

To fulfill these goals, these import promotion centers will provide facilities through which both importers and consumers will be able to research products in which they are interested. They will provide information on direct import procedures and after sale service for imported products. They will also provide assistance for companies based outside Japan who wish to invest in businesses located in Japan or export to Japan.

To support these functions, a computerized network is being created to link these centers with a centralized database at the headquarters of JETRO, the Japan External Trade Organization, in Tokyo. Terminals will also be installed at 35 JETRO offices overseas, to provide information to companies wishing to export to Japan.

〈Invitations to Visit Japan〉

Funding has also been provided to invite business people and trade experts from the U. S. A., Canada, Europe and Oceania to visit Japan, to study local market condi-

tions, assess the potential for new imports, and develop the contacts they need to succeed. Current budget allocations provide funding for 260 individuals.

Three pilot projects are also underway to assess the feasibility of creating three comprehensive import promotion centers.

〈Experts and Trade Missions〉

While the programs described above stimulate demand for imported goods, other programs will be reaching out to assist overseas companies with products to sell in Japan.

In fiscal 1990, twenty-five trade experts recruited from major Japanese corporations and trade organizations will be sent abroad to spend a year looking for items with strong import potential. These experts will also offer workshops and seminars to assist and inform prospective exporters.

An additional 34 experts will be sent abroad to examine foreign products for exhibitions tailored to support the efforts of small and medium-sized firms to import into Japan.

From Japan, 26 buying missions will be sent abroad to find and purchase products with successful import potential. Funding will also be provided for 35 export promotion missions organized by overseas governments and trade organizations.

〈Additional Programs〉

MITI, the Ministry of International Trade and Industry, will expand its coverage of prepaid import insurance.

Studies of the Japanese distribution system, its distribution channels and business practices will provide information of value to exporters, trade experts and other interested parties through catalogues and samples.

“International Comprehensive Distribution Centers” in Osaka and nine other major cities will help to simplify imported product distribution.

〈Financing for Manufactured Imports: The Newly opened Export-Import Bank of Japan (EXIM JAPAN)〉

Loans for financing the importation of manufactured goods will be increased to 125 billion yen. Up to this point, eligibility for EXIM Japan's program has been limited to corporations in Japan. Now, the scope of eligible borrowers is being expanded to include foreign corporations located outside of Japan in order to increase imports.

Foreign corporations (exporters/manufacturers) planning to expand their production capacity or to promote production and/or sales as well as foreign banks lending to such corporations can apply for funding from EXIM Japan with favorable terms and conditions.

Further information concerning EXIM Japan loans can be obtained from any of the following EXIM Japan offices.

1. Head office in Tokyo.
2. Representative office in London.
3. Representative office in Paris.
4. Representative office in New York.
5. Representative office in Washington, D. C.
6. Representative office in Toronto.
7. Representative office in Sydney.

〈Loans for Import Facilities and Direct Investment in Japan¹²⁾: The Japan Development Bank〉

The Japan Development Bank provides financing for import facilities and investment in Japan by non-Japanese companies. The lending limit for fiscal 1990 is now 30 billion yen, twice that for fiscal 1989.

Under the import-facilities program, loans are provided to importers, wholesalers and retailers at an interest rate of 6.2% for a maximum term of 25 years. The maximum coverage of a loan is 40%.

Financing for direct investment in Japan by non-Japanese companies is provided at an annual rate of 6.2%, 6.7% or 6.9%, for a maximum coverage of 40% (Fig. 21, Table 10).

In the Hokkaido and Tohoku regions funds will be provided by the Hokkaido-Tohoku Development Corporation.

The Japan Development Bank has established four Centers for Promotion of Direct Investment in Japan. Located in Washington, New York, London, and Frankfurt,

Fig. 21 Foreign Company's Manufacturing Centers in Japan

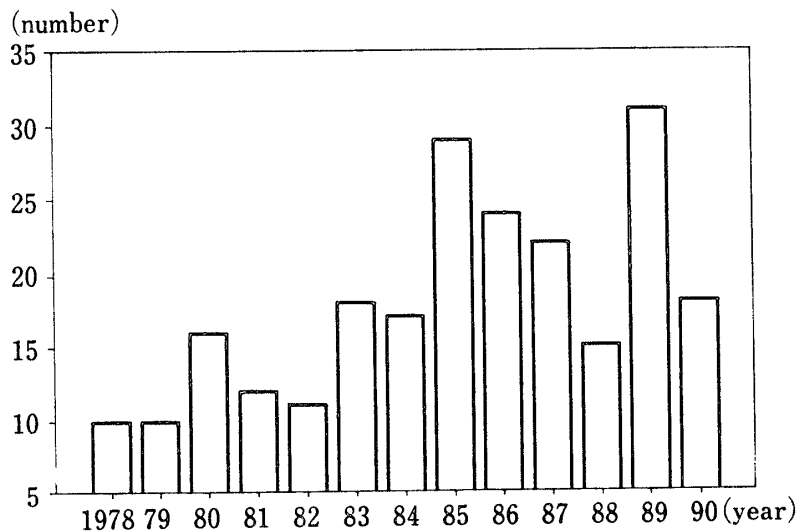
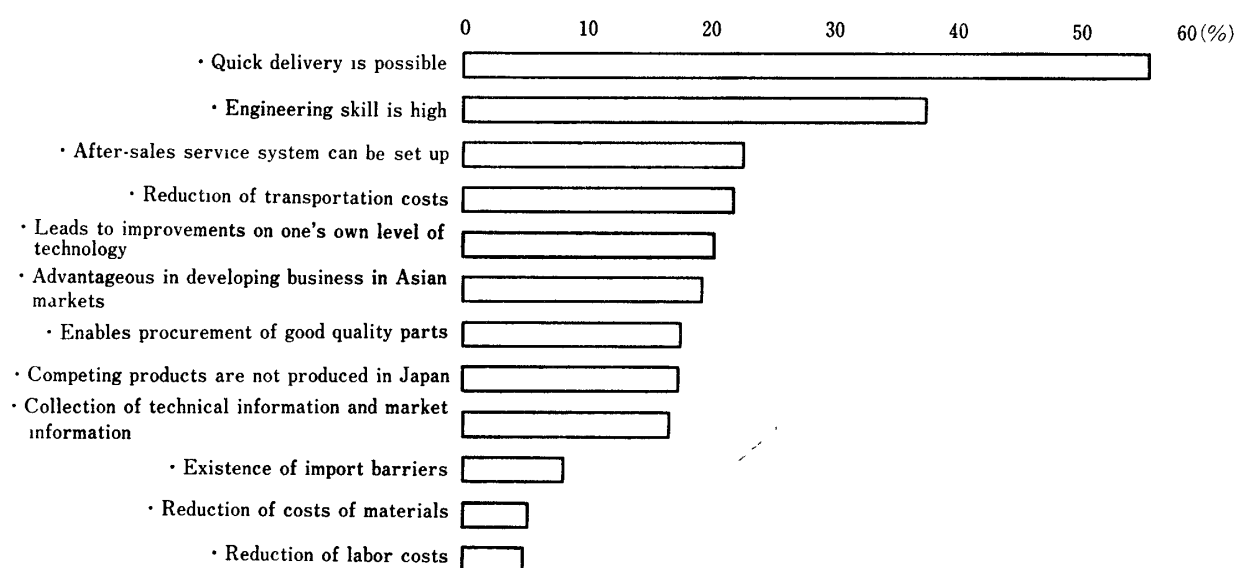


Fig. 22 Reasons Why Foreign Affiliates Establish Production Centers in Japan

Source: January 1990 Survey of MITI

Table 10 Direct Investment in Japan by Foreign Enterprises, Classified by Country and Region (based on report)

(Units: U. S. \$ million %)

	Value	FY 1989		Total for FYs 1950 to 1989	
		Distribution ratio	Change from FY 1988	Value	Distribution ratio
U. S. A.	1,642	54.7	△ 7.4	7,910	50.5
Canada	35	1.2	59.1	187	1.2
Total for North America	1,677	58.6	△ 6.6	8,097	51.7
U. K.	81	2.8	△ 27.7	599	3.8
Germany (West)	144	5.0	△ 26.2	690	4.4
France	25	0.9	△ 7.4	227	1.5
Switzerland	87	3.1	△ 68.1	1,015	6.5
Netherlands	248	8.7	58.0	730	4.7
Others	40	1.4	△ 23.1	337	2.4
Total for Europe	625	21.9	△ 23.5	3,638	23.2
Hong Kong	63	2.2	43.2	453	2.9
Japan	198	6.9	△ 35.3	1,851	11.8
Others	297	10.4	6.1	1,615	10.3
Total	2,860	100.0	△ 11.8	15,654	100.0

Notes: • The total for FYs 1950 to 1989 does not include loans.

• Direct from Japan in Japan are those made by enterprises affiliated with foreign capital.

Source: Ministry of Finance.

these centers supply market information on Japan, provide introductions to potential partners, and offer consultation on investment projects in Japan.

〈Loans for Small and Medium-sized Wholesalers and Retailers: The Small Business Finance Corporation and the People's Finance Corporation〉

The Small Business Finance Corporation and the People's Finance Corporation have also expanded programs designed to stimulate imports. Under these programs, small and medium-sized wholesalers will be eligible for low interest loans for equipment procurement and working capital. This marks a change from the past when such loans were extended only to small and medium-sized retailers.

Interest rates are 6.2% for the first three years, and 6.7% from the fourth year. Terms are limited to 15 years or less for equipment procurement and 5 years or less for working capital.

Japan has a high level of savings deposits, and is a capital exporting nation. The majority of capital movement out of Japan is into negotiable securities, followed in scale by direct investment. The most desirable capital export pattern is generally thought to be the transfer of capital to a developing nation, which is said to offer the highest capital threshold.

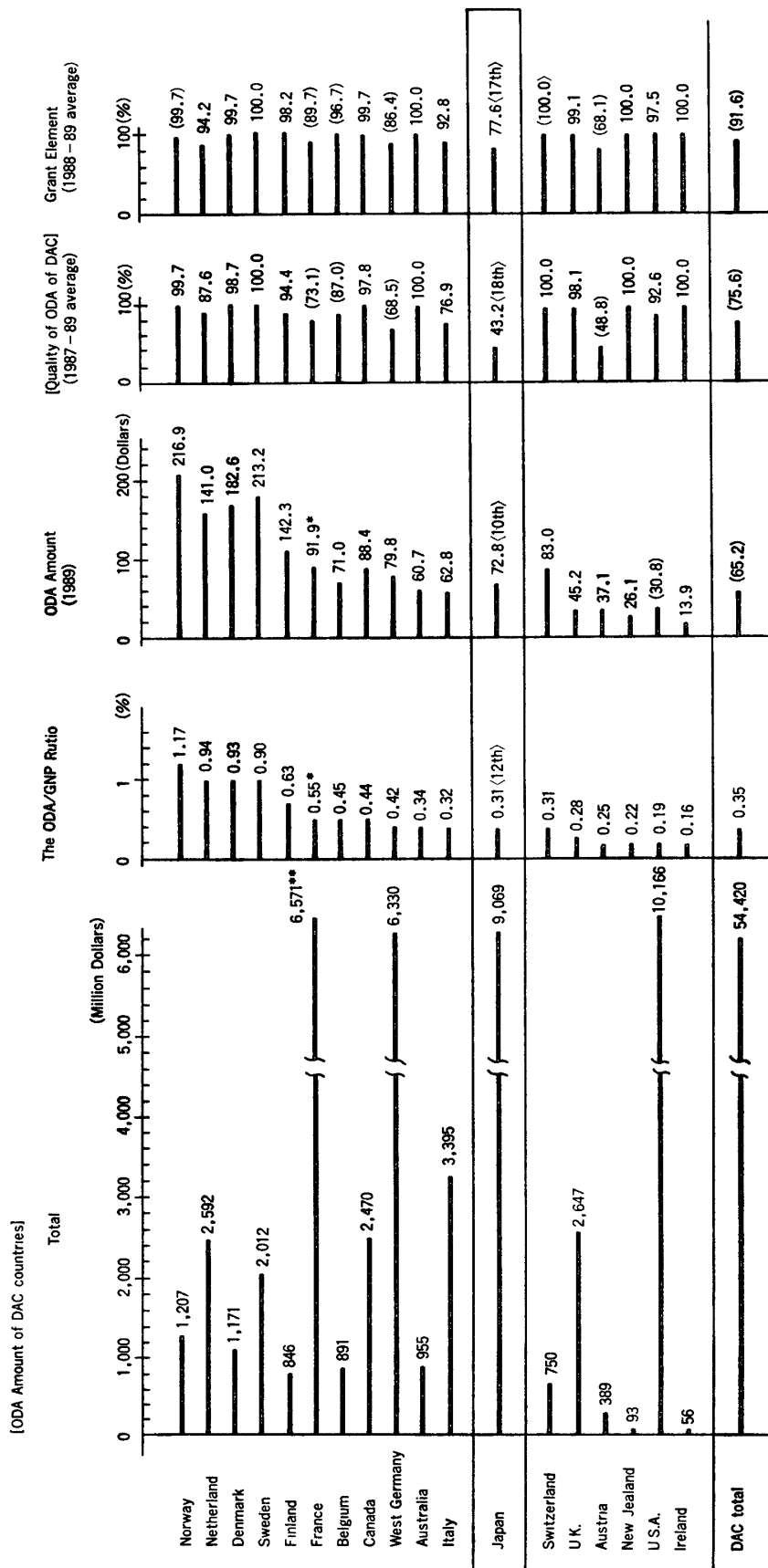
(2) Japan's ODA (Official Development Assistance)⁽¹³⁾

〈Amount of ODA〉

Calculated on a net disbursement basis, Japan's official development assistance (ODA) totaled \$ 9.222 billion in 1990, compared with \$ 7.454 billion in 1987 and \$ 9.134 billion in 1988. ODA disbursements by the United States totaled \$ 8.945 billion in 1987 and \$ 10.141 billion in 1988 but fell dramatically to \$ 7.664 billion in 1989, reflecting a concentration on payments to international financial institutions in 1988. As a result, Japan became the world's biggest donor for the first time ever in 1989. But in 1990 Japan ranked second in the world after the United States in terms of ODA Fig. 23.

The reduction in the dollar-based value of Japan's aid in 1989 was attributable to a decline of approximately 7.6% in the value of the yen against the dollar. In yen terms, there was a 5.7% increase in Japan's contribution. As a percentage of GNP, Japanese aid remains unchanged at the 1977 level of 0.32%. In 1989 contributions from DAC (Development Assistance Committee) nations declined overall to 0.33% of GNP, or 0.03% below the preceding year's level. This reflects a reduction in the contributions of individual nations to international financial institutions. Japan ranked 12th among the DAC countries in terms of its international contribution to GNP ratio. Provisional statistics for 1989 indicate that Japan's per-capita ODA contribution in 1989 amounted to \$ 72.80. A comparison with the other DAC nations, based on 1988 figures places Japan in 10th place at \$ 74.50. In addition to ODA, flows of funds from Japan

Fig. 23 DAC Countries' ODA (1990)



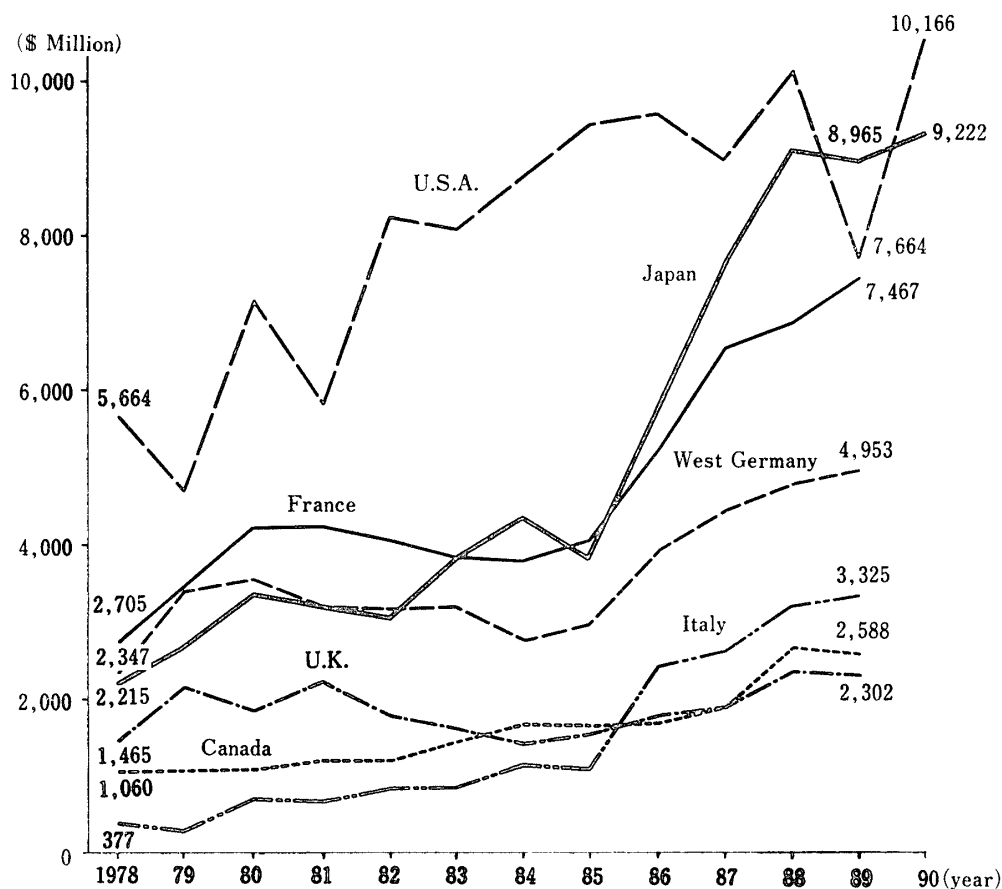
** Excluding DOM/TOM (Department/Territories d'Outre-Mer)

* Excluding DOM/TOM

** Excluding Debt Relief
() Prov figures

Source: Ministry of Foreign Affairs "Japan's ODA 1991" (White Paper on ODA) (Summary of Overview) October 4, 1991 p. 8.

Fig. 24 ODA Performance of Major DAC Countries (1978-1989)



Note: Japan and U.S.A. (1978~1990)

Source: Ministry of Foreign Affairs "Japan's ODA 1990" p. 12. (DAC reports).
others.

to developing countries also include Other Official Flows (OOF), such as loans from the Export-Import bank of Japan, and private flows (PF). The combined flow from these two categories amounted to \$24.130 billion in 1989, an increase of 12.6% over the preceding year's figure. This is equivalent to 22.1% of the overall flow of funds from developed nations, international financial institutions, and other sources into all developing countries. Since 1987, Japan appears to have been the world's largest supplier of funds to developing countries. OOF shifted from a negative flow of \$640 million in 1988 to a positive flow of \$1.540 billion in 1989, while PF showed an increase of 5.3% to \$13.5 billion.

Japan's capital-recycling program, which was first revealed in the 1987 comprehensive economic package and which was subsequently increased to more than \$65 billion at the time of the 1989 Paris Summit, has become a major source of new money for developing countries.

〈Quantitative Expansion and Qualitative Improvement of ODA〉

As for quantitative expansion, Japan must work toward the attainment of the

Fourth Medium-Term Target of ODA through measures that include the expansion of the ODA budget and improvements in the efficiency with which aid is implemented. There should be greater recognition of the utility of ODA loans. Grant aid should be provided primarily to the less-developed countries. Technical cooperation should be actively encouraged, since it contributes to human resource development and technological transfers.

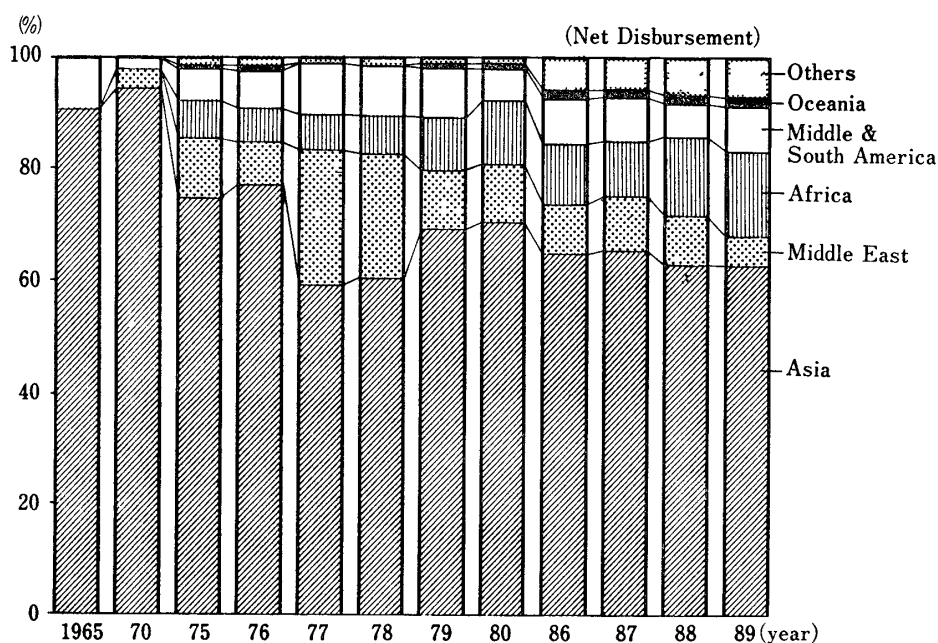
Qualitative improvements are also necessary. Japan ranks lowest by and large among the DAC nations in terms of grant share and grant element of its ODA. Grant aid to the least-developed countries (LDCs) fell from 72.4 billion yen (\$517.1 million) in fiscal 1989 to 65.4 billion yen (467.1 million dollars) in fiscal 1990. There was an improvement in the grant share of bilateral aid to the LDCs from 64.7 percent in 1989 to 66.2 percent in 1990. Continued effort is needed in this regard, and greater emphasis must also be placed on efforts to strengthen the implementation of these grants.

〈Regional Distribution of Bilateral ODA (net disbursements in 1989)〉

In 1989 Japan distributed 62.5% of its bilateral ODA to Asia (46.4% to East Asia and 16.1% to Southwest Asia), 15.3% to Africa, 5.4% to the Middle East, 8.3% to Latin America, and 1.4% to the Pacific. A comparison with 1988 shows a continuing increase in aid to Africa and a decline in aid to the Middle East, particularly in the form of government loans.

A high proportion of Japan's aid has traditionally been directed to Asia. This reflects Japan's close historical, geographical, economic, and political links with that

Fig. 25 Geographical Distribution of Japan's Bilateral ODA



Source: Ministry of Foreign Affairs "Japan's ODA 1990" p. 10.

region. At the same time, the rise of Japan's international status, its growing international role, and the expansion of its aid contributions have been accompanied by a gradual diversification in the regional distribution of its aid.

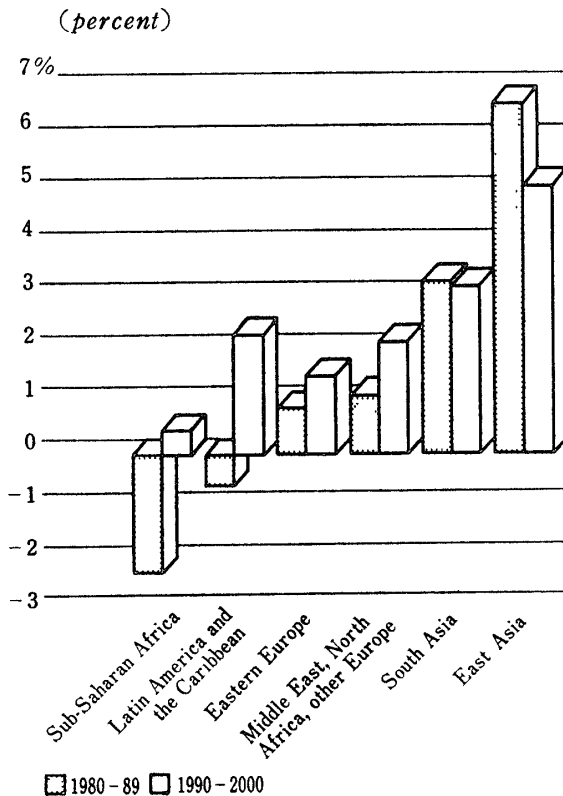
In recent years the regional distribution of Japanese aid has been characterized by an increase in aid to Africa (which receives 15.3% of Japan's bilateral ODA), reflecting the efforts that Japan has made to provide support in ways that are appropriate to the economic problems of that region including the provision of grant aid to support economic restructuring efforts. This is particularly conspicuous in the area of grant aid, of which 33.3% is now channeled to Africa (Fig. 25).

In 1989, Eastern European countries emerged as recipients. Japan's aid to Eastern Europe has included ODA loans and food aid to Poland, as well as technical assistance to Poland, and Hungary, and other countries.

In 1988 Japan was the leading donor of bilateral aid to 26 countries including twelve in Asia, four in Africa, five in the Middle East, two in Latin America, and three in the Pacific. Clearly, the scope of Japanese aid is expanding. (Fig. 24)

We can see from the above that Japan's economic cooperation has not only increased in terms of quantity, but gradual improvements in quality have also been planned. While it is evident that Japan has played a fixed role in the "economic take-off" of some developing countries, in looking at the recent changes in world conditions,

Fig. 26 Real Per-Capita Growth in Developing Countries in the 1980s and Forecast Values, 1990 to 2000



Source: The World Bank "World Development Report 1990" p. 23.

the actual situations of developing countries, and other factors, the following subjects must now be raised.

The first point is that the gap between relatively wealthy developing countries and poor developing countries is growing increasingly wider, and it is necessary that Japan undertakes an equitable distribution of assistance in suitable correspondence. Particularly pressing from a humanitarian point of view is the urgent need for measures to aid extremely poor countries suffering from famine and poverty (Fig. 26). In considering this point, it is important to continue increasing financial assistance and to improved the quality of aid.

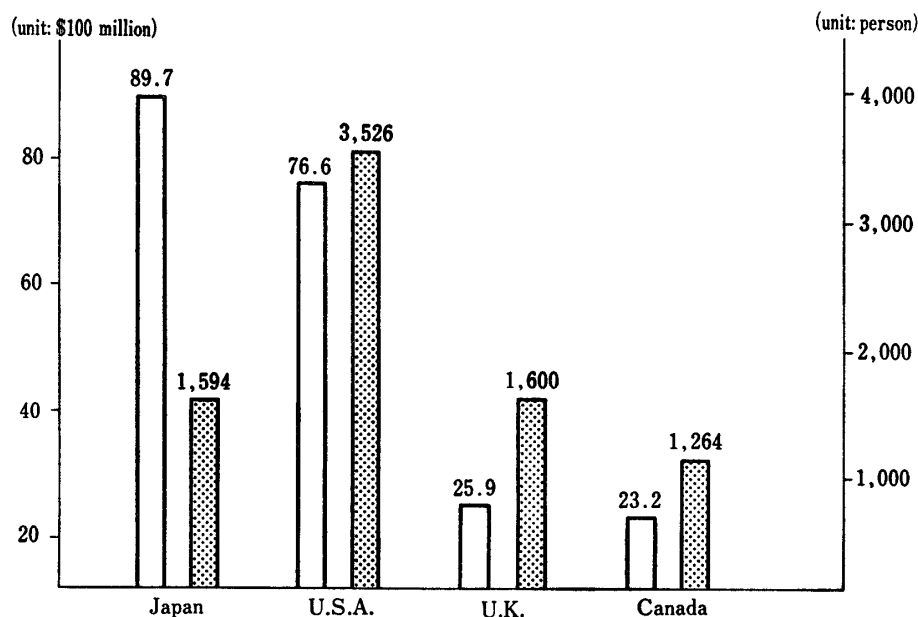
The second point is the importance of technological cooperation. In the past, there was strong criticism that, "Japan will send money, but will never send people". In response, the core of technological cooperation has focused on increasing the number of personnel sent to developing countries who share common technological goals.¹⁴⁾ In the future too, this aspect needs further amelioration (Fig. 27).

The third point is the importance of evaluating aid. It goes without saying that microeconomic evaluations based on the "before-and-after scenarios" of projects are important; however, there is a growing need for macroeconomic evaluations as well.

The fourth point is the importance of cooperation in supplying international public property. In particular, there is a need to strengthen public finance foundations of international organizations and to increase the number of Japanese personnel related to and taking part in the work of these organizations.

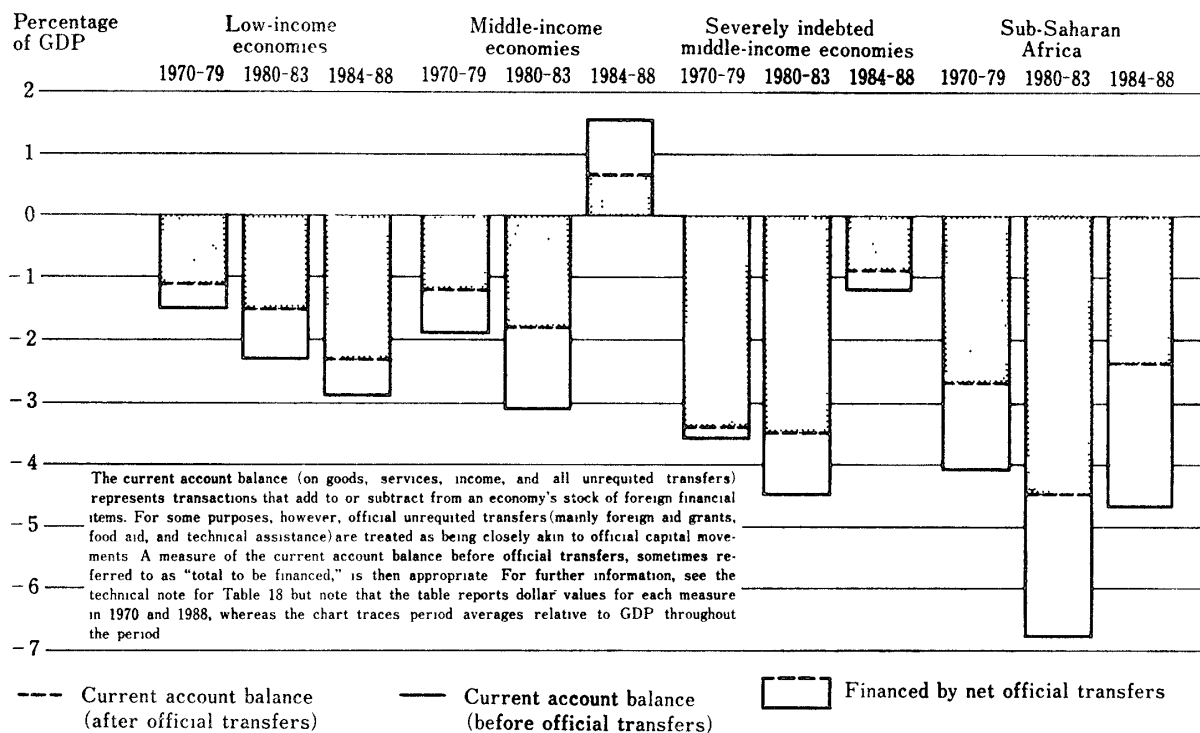
The fifth point concerns a new theme; namely, aid to Eastern bloc nations. On a bilateral basis, financing and programs have already been inaugurated for Poland and

Fig. 27 The Aid Personnel (1989)



Source: Ministry of Foreign Affairs "Japan's ODA 1991" (Summary of Overview) Japanese edition, p. 12.

Fig. 28 External Balances of Low-and Middle-income Countries



Source: The World Bank "World Development Report 1990" p. 177.

Hungary. On a multilateral basis, Japan also hopes to be able to play a positive role in the establishment of the European Rehabilitation Development Bank which will involve several nations.

The sixth point is the problem of accumulated debts. The problem of debts accumulated by Central and South America, Asia and other countries still has not been resolved (Fig. 28).

Accompanying the rapid development in the globalization (or removal of national borders) of economic activities involving goods (trade), money (transferred capital from direct investment, stock investments, etc.), and people moving between countries, the problem of Japanese economic "overpresence" has arisen. In the midst of this, the contribution to the world through trade, direct investments, and transferral of technology by the private economic sector (especially in economic cooperation with developing countries) is gaining in importance. While the government is expanding its ODA,¹⁵⁾ and seeing that public property funds have self-imposed limitations, the importance of combining ODA with this kind of private-based economic cooperation is becoming ever greater. It is hoped that Japanese private economic cooperation activities will have a double-barreled effect by expanding demand and increasing the capacity to supply in developing countries.

Conclusion

We are now witnessing a great historical change in that the world has become

united in recognizing the value of competitive market economies. The world has overcome the ideology of the Cold War. Many countries have brought about significant changes that will elevate the level of mutual economic interdependence among nations throughout the world. At the same time, among the nations that have been based on a market economy thus far, national boundaries are becoming meaningless. What may block this unification of the world economy is, of course, protectionism and regionalism. The continuation of growth led by domestic demand in Japan has great significance for preventing the emergence of these barriers.

First of all, Japan should contribute to the development of the global economy and make active efforts to fight for the solution to global problems. Japan has a role to play in resolving global issues including the rebuilding of America's economic strength, the continued development of Asia, the decrease of accumulated debts of developing countries, and the unification of the European Community. In all areas including increased export, supply of capital, transfer of technology, and economic cooperation, many countries have great expectations for Japan. There are also many opportunities for Japan to contribute to the resolving of global environmental problems.

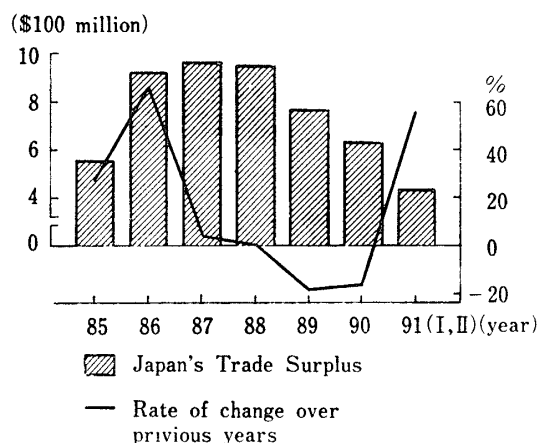
Next, Japan should narrow the gaps and correct the imbalances in her own economy. This could be achieved through internal modification: reduction of long own working hours,¹⁶⁾ reduction of differences between domestic prices and overseas prices, providing sufficient homes and providing sufficient social overhead capital are a few examples of what is meant by good overall performance at home. In other words, Japan should make efforts to close "the gap between productive ability and affluence". These are not merely issues related to the day-to-day lives of the people; these are issues that must be considered by Japanese industries.

In order to attain these goals, it will be necessary to review conventional practices and customs. In view of the new trends of "sophistication", "globalization", and "accumulation of stock", in which the diversification of lifestyles, the diversification of industries and the increase of data intensiveness are important elements, conventional systems must be reviewed. Japan's economy has entered a new phase and a new framework is required. In view of the globalization which is taking place, it is necessary for Japan to construct a more open framework.¹⁷⁾

Looking at the Japanese economy in the 21st century, there is a possibility that it will not progress as smoothly as it did in the past. But the standard of living is approaching a level where a continued high growth rate is unnecessary. It is important that our economic policy encourages a higher standard of living for all citizens. At the same time, it is also important that from this time forward our country develops better international relations, makes our policies clearer, and contributes to the international good of the world's citizens.

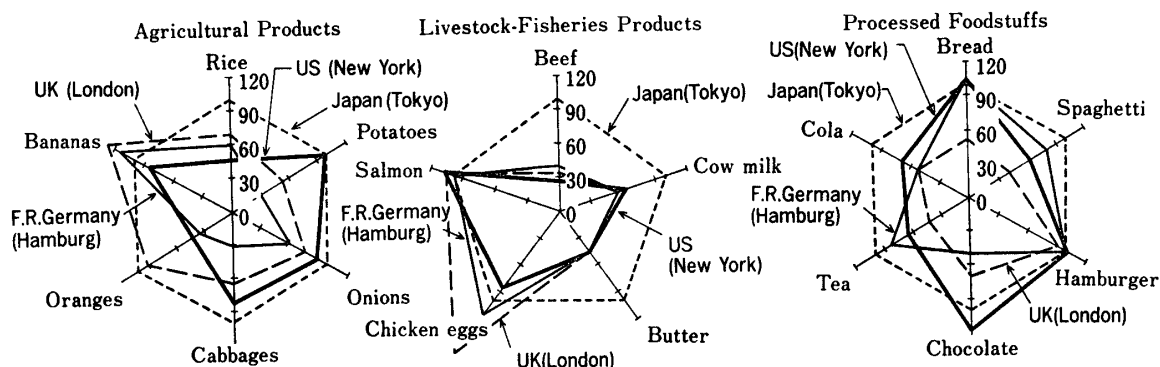
Notes

- 1) MITI "White Paper on International Trade 1991".
- 2) Due to the unprecedented boon in overseas travel, the deficit in the invisible trade balance, has increased. This is becoming a major factor in reducing the surplus in Japan's Current balance. There was a US \$ 22.59 billion deficit in the invisible trade balance in 1990 (up US \$ 7.06 billion compared with the previous year).
- 3) But now the Japanese trade surplus is increasing rapidly. '91 current account surplus \$ 90 Bil.



- 4) Japan's imports of crude oil reached US \$ 31.6 billion in 1990, an increase of 46.5 percent in value compared with the previous year, reflecting the higher oil prices. This increase in the value of oil imports slashed Japan's trade surplus by a full 80 percent. Imports of office equipment, automobiles, aircraft, and other machinery and equipment, particularly from the U. S., were strong, helping to expand Japan's imports of manufactured products.
- 5) The reasons for the good performance in imports of manufactured goods in recent years have been :
 - ① An increase in imports from overseas production centers of Japanese companies.
 - ② Good domestic demand, in particular capital investment.
 - ③ Greater sophistication of consumption.
- 6) Economic Planning Agency "Economic Survey of Japan 1988-1989" chap. 4 and "1989-1990" chap. 1. MITI "White Paper on International Trade 1991" chap. 4.
- 7) Japan's direct foreign investments in FY 1989 totaled \$ 67.5 billion, a 43.6% rise from the previous year. This represented the third year in a row that investment growth had topped the 40% mark, The growth in direct investments, however, showed signs of slowing in early FY 1990.
- 8) According to *Business Week* November 18, 1991.
 Honda Civics have 75% U. S. content, but a recent University of Michigan study, using different definitions, concluded that only 16% of the 1989 Civic is truly from American-owned suppliers. That figure would be higher, or 36%, if overhead costs and depreciation of Japanese capital equipment were included.
 Please see "Honda-is it an American car?" *Business Week* November 18, 1991.
- 9) The Structural Impediments Initiative talks were held to discuss structural problems in the two countries which could influence the balance of trade between Japan and the United States. The first meeting was held in September 1989, and a final report was issued at the fifth meeting held in June 1990. In the coming years, the two countries must implement the measures contained in that report. At the same time, a followup will be carried out between the two nations to confirm the degree to which the recommendations have been implemented.
- 10) According to government surveys conducted in February 1990, large price differences were observed for foods in Japan and New York, including rice priced at 2.1 times the New York price.

Retail Price Indexes by Commodity (Japan <Tokyo>=100)



Source: Bank of Japan "Comparative Economic and Financial Statistics Japan and Other Major Countries 1991" p. 17. (Economic Planning Agency Report '90.)

- 11) MITI "What Japan Offers—A guide to import expansion programs".
- 12) Direct investment in Japan by foreign countries is progressing steadily. The amount of foreign direct investment in Japan during fiscal 1989 fell by 11.8% on a year-to-year basis, but during the first six months of fiscal 1990 it grew by 73.1% to \$ 1.67 billion, a figure larger than all foreign investment in Japan during the 12 months of fiscal 1988.

There are also increasing instances of foreign companies establishing manufacturing centers in Japan; many represent attempts to respond more effectively to Japan's distribution system, or are meant as elements of joint technology development projects.

- 13) Ministry of Foreign Affairs "Japan's ODA 1990" and "Japan's ODA 1991" (Summary of Overview).
- 14) To ensure that aid is implemented effectively and efficiently, it will be necessary to make improvements on the "software" aspects of aid, including human resource development in developing countries, the training of development aid personnel and the establishment of a system for that purpose in Japan, and the formulation of more detailed country and sector specific aid policies. Efforts to strengthen the aid implementing capacity will need to focus on the expansion of the aid implementation work force, and the transfer of authority and work to implementation agencies and front-line personnel.
- 15) Aid Priorities in the 1990 s.
Poverty, rapid population growth, and environmental degradation are linked together in a vicious circle of low development performance. Japan announced various measures during the Arche Summit, including an undertaking to expand its bilateral and multilateral aid to 300 billion yen (2.25 billion dollars) over a three-year period. This numerical target was almost attained in the first two years. Future efforts will focus on the development of specific measures under the framework of "Japan's Assistance to Developing countries for Preserving the Global Environment", announced at the London Summit.
- 16) Working Hours per Week for the Manufacturing Sector in Various Countries.

(Unit: hour)

	U. S. A.	Japan	Korea	France	Germany (West)	U. K.
1985	40.5	41.5	53.8	38.6	40.7	41.8
1986	40.7	41.1	54.7	38.63	40.4	41.6
1987	41.0	41.3	54.0	38.65	40.1	42.2
1988	41.1	41.8	—	38.70	40.0	42.4
1989	41.0	41.4	—	38.71	39.9	42.4

Notes: U. S. A. : Paid working hours.

Japan: Actual working hours, employees only.

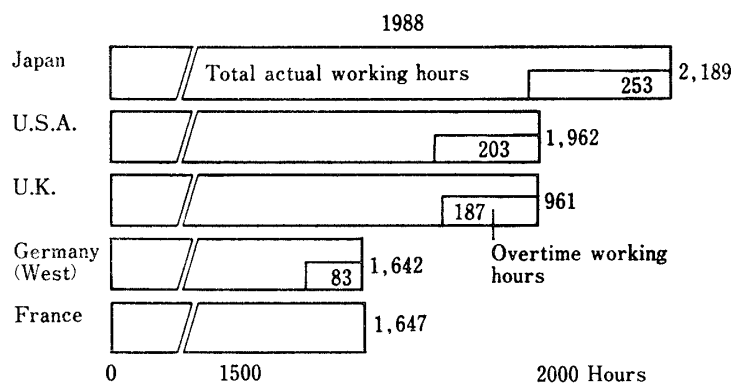
Korea: Actual working hours, employees only.

France: Actual working hours, employees only.

Germany (West): Paid working hours.

U. K. : Actual working hours, full-time workers on adult rate of pay.

International Comparison of Annual Working Hours
(estimated values for 1988, limited primarily to workers
in manufacturing and production Industrie)



Notes: ◦ Company scale: those with 5 employees or more (Japan) all companies (U. S. A.) those with 10 employees or more (others)
◦ Includes regular part-time workers.
◦ Overtime working hours in the case of France is unknown

Source: JETRO "Business Facts & Figures NIPPON 1991"

- 17) Criticisms of Japan's market have often pointed to "insufficient disclosure of information regarding corporate management and 'keiretsu' transactions", and this criticism has been linked to accusations regarding the closed nature of the Japanese market. This issue was also raised at the Structural Impediments Initiative talks held between Japan and the United States. In response, Japanese laws were revised in December 1990 in order to strengthen provisions regarding disclosure of 'keiretsu' transactions and corporate linkages. Further, the rapid increase in mergers and acquisition of Japanese corporations has prompted the adoption of a "5% rule" requiring public disclosure of stock purchases by large investors.

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