304

CHANGING PATTERN OF JAPAN'S TRADE IN 1970S

by

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ILLUSTRATIONS

CHAPTER I

Introduction

Many significant events took place in international trade relations in 1970s. There were such events as the demise of the Bretton Woods agreement, the subsequent realignment of major currencies, the OPEC cartel, the worldwide inflation and recessions, the floating of the currencies of major industrialized nations. In addition, there were also the textile, color TV, and steel industry controversies relating to Japan's trade with the United States.

These events were the major factors contributing to changes in Japan's trade in 1970s. The objective of this report is to examine the changes in Japan's trade pattern caused by such factors in 1970-1977.

Foreign trade has played a unique role in Japan's rapid economic growth in the Post-World War II period. Two related questions are asked in this respect. First, how important is foreign trade in Japan's economic activity, compared to those of other industrialized nations? Second, was Japan's rapid economic growth export-oriented? These questions are studied in Chapter II.

Japan's trade pattern in 1970-1977 is examined in detail in Chapter III. The chapter consists of two sections. The first section deals with the composition of Japan's trade by country and by product.

The second section notes the highlights of Japan's trade during two time periods; 1970-1973 and 1974-1977. Various events affecting Japan's trade are examined closely in this section. The textile, color TV, and steel controversies are noted in detail. A summary of this report follows in Chapter IV.

CHAPTER II

Role of Foreign Trade in Japan's Economic Growth

The study of the changes in Japan's trade pattern in 1970s begins with an examination of the role of trade in Japan's economic growth. There are two related questions to be considered. First, the foreign trade shares of Japan's GNP are compared with those of the other industrialized nations. The second question deals with the role of trade in Japan's economic growth in the Post-World War II period. Was Japan's economic growth export-oriented?

Japan's spectacular economic growth of the post-World War II period has attracted much attention of economists. Such rapid growth of Japan as well as those of certain countries in Western Europe have been labelled as "miracles":

> "During the period after the end of the Marshall Plan in the early 1950s, it became common to discuss various economic 'miracles' in Western Europe: the very rapid growth of West Germany, then of Italy, then of France... It was actually only a bit later that economists began to notice that the real economic 'miracle' hadn't taken place in Europe at all, but in Asia. From 1950 to 1960, Japan had the highest rate of growth of any major industrial nations in the world... Indeed, by the 1970s Japan had become the third-ranking industrial producer in the world."[1]

It is commonly thought that foreign trade is the basic factor

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[1]Richard T. Gill, Economics 2nd ed. (Pacific Palisades, Cal.: Goodyear Publishing, 1975), p. 667.

propelling Japan's rapid economic growth:

> "Japan's postwar growth has been greatly supported by an expansion of exports, running at about 15 percent per year, which is more than twice the rate of expansion of world trade... Foreign customers purchased a rising proportion of Japanese goods because these represented good buys in terms of price and quality."[2]

The cheaper price and better quality are not, however, the only factors often used to explain the increasing demand for Japanese products in the world, especially in the United States. It is often thought that the Japanese are deeply preoccupied by the desire to increase the production of exports, and often accused of dumping and of prohibitive protection against foreign competitors wishing to enter the Japanese market. In a speech to the Wharton School Alumni, the former Secretary of the Treasury stated that:

> "Many of these nations impose competitive disadvantages upon us. Japan, for instance, sets very strict quotas on United States technology products such as computers. What Japan does allow imported, they tax heavily. And Japan's restrictions on foreign investments make it all but impossible to circumvent these barriers..."[3]

According to Boltho, many of these observations regarding Japan's foreign trade seem to be misconceived, and are not based on sound economic analysis:

> "Accusations of dumping and of prohibitive visible and invisible protection have long been levelled against Japan; it is

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[2]Henry Rosovsky, "Japan's Economic Future," Challenge, Vol. 16, No. 3 (July-August, 1973), p. 8.

[3]Sidney E. Rolfe and James L. Burtle, The Great Wheel: The World's Monetary System (New York: McGraw-Hill, 1973), p. 119.

> commonly thought that production for exports is the primary occupation of most Japanese firms; and foreign trade is frequently seen as the engine which propelled the country's economic growth. But many of these arguments, especially those concerning exports, tend to stem from pressure groups in America or Europe defending particular sectors threatened by Japanese competition, rather than from economic analysis."[4]

Some of these misconceptions surrounding such industries as textile, color TV sets, and steel will be examined in the next chapter.

There are two related questions to be examined in relation to Japan's foreign trade. First, how important is foreign trade in Japan's economic activity? The importance of foreign trade can be measured in terms of the ratios of imports and exports to GNP. Has the foreign trade share of Japan's GNP been considerably higher than those of the other industrialized nations? Second, was Japan's "miracle" economic growth export-oriented? Would it not have been possible for Japan to realize such a rapid growth rate without an aggressive expansion of export market?

The first question deals with the relative importance of foreign trade on the nation's economic activity in various countries. The relative importance of trade on economic activity can be measured by the share of trade, imports and exports, in the total goods and services produced in the economy (GNP). The trade/GNP ratios between 1968-1977 for the United States, Japan, France, Italy, West Germany, and

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[4]Andrea Boltho, Japan: An Economic Survey (London: Oxford University Press, 1975), p. 139.

the United Kingdom are presented in tables 1, 2, 3, 4, 5, and 6.

The average imports to GNP ratios were 6.96 for the United States, 11.08 for Japan, 17.56 for France, 21.45 for Italy, 21.64 for West Germany, and 25.31 for the United Kingdom. The average exports to GNP ratios were, on the other hand, 6.53 for the United States, 12.14 for Japan, 17.95 for France, 20.79 for Italy, 24.24 for West Germany, and 24.27 for the United Kingdom. Japan's share of the economic activities during the period was the lowest among the industrialized nations, except the United States. Japan is, in this sense, more self-sufficient than most other industrialied nations.

The second question deals with the relationship between Japan's economic growth and export expansion. Japan's rapid growth was often said to be mainly due to its successful export expansion in the world market. Japan's export drive is so intensive, it is said, that the Japanese are often accused of disrupting the foreign market in order to maintain employment at home. The textile, color TVs, and steel controversies are case in point. These cases will be considered in detail in the next chapter.

Returning to the original question of Japan's export-led growth, most economists who have specialized in Japan's economic history reject the hypothesis that Japan's economic growth was export-oriented. Ohkawa and Rosovsky state that:

> "Japan's rate of growth of exports has been high... because the rate of growth of its economy and especially of its

Table 1

Trade/GNP Ratios, 1968-1977, Japan

(Billions of yen)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	5,353	4,763	51,677	10.4	9.2
1969	6,571	5,574	60,304	10.9	9.2
1970	7,940	6,997	70,731	11.2	9.9
1971	9,475	7,271	79,254	12.0	9.2
1972	9,796	7,672	90,320	10.8	8.5
1973	11,285	11,306	111,034	10.2	10.2
1974	19,447	20,693	135,065	14.4	15.3
1975	20,254	20,349	148,798	13.6	13.7
1976	23,839	22,660	167,295	14.2	13.5
1977	25,561	22,613	186,351	13.7	12.1
Average				12.14	11.08

Source: IMF International Financial Statistics, various issues.

Table 2

Trade/GNP Ratios, 1968-1977, the United States

(Billions of dollar)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	41.4	45.1	864.2	4.8	4.5
1969	45.1	49.0	930.3	4.8	5.3
1970	51.5	54.1	977.1	5.3	5.5
1971	55.6	60.8	1,054.9	5.3	5.8
1972	62.0	72.5	1,158.0	5.4	6.3
1973	87.0	87.7	1,294.9	6.7	6.8
1974	116.7	123.2	1,397.4	8.4	8.8
1975	129.0	119.2	1,528.8	8.4	7.8
1976	141.7	148.3	1,702.2	8.3	8.7
1977	150.6	178.3	1,899.5	7.9	9.4
Average				6.53	6.96

Source: IMF International Financial Statistics, various issues.

Table 3

Trade/GNP Ratios, 1968-1977, France

(Billions of Francs)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	86.5	85.9	630.0	13.7	13.6
1969	109.8	114.1	727.8	15.1	15.7
1970	138.5	134.5	804.4	17.2	16.7
1971	160.6	151.6	889.6	18.1	17.0
1972	180.7	171.8	997.5	18.1	17.2
1973	220.4	212.4	1,135.8	19.4	18.7
1974	261.9	280.8	1,284.4	20.4	21.9
1975	269.1	259.2	1,455.2	18.5	14.0
1976	319.5	340.2	1,677.8	19.0	20.3
1977	376.9	384.9	1,881.8	20.0	20.5
Average				17.95	17.56

Source: <u>IMF International Financial Statistics</u>, various issues.

Table 4

Trade/GNP Ratios, 1968-1977, Italy

(Billions of Lira)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	8,509	7,380	47,280	18.0	15.6
1969	9,741	8,924	52,091	18.7	17.1
1970	11,124	11,086	58,261	19.1	19.0
1971	12,528	11,884	63,127	19.8	18.8
1972	14,210	13,656	68,880	20.6	19.8
1973	16,885	18,750	80,574	21.0	23.3
1974	22,871	29,052	101,541	22.5	28.6
1975	26,313	27,832	124,836	21.1	22.3
1976	35,885	39,843	156,041	23.0	25.5
1977	45,628	46,519	189,558	24.1	24.5
Average				20.79	21.45

Source: IMF International Financial Statistics, various issues.

Table 5

Trade/GNP Ratios, 1968-1977, West Germany

(Billions of Deutsche Mark)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	119.0	100.8	540.0	22.0	18.7
1969	135.8	120.6	603.4	22.5	20.0
1970	151.1	138.6	685.7	22.0	20.2
1971	164.9	152.1	761.8	21.6	20.0
1972	180.1	164.7	834.6	21.6	19.7
1973	214.7	189.0	930.3	23.1	20.3
1974	276.2	232.8	986.9	28.0	23.6
1975	272.2	243.7	1,034.9	26.3	23.5
1976	312.1	283.4	1,125.0	27.7	25.2
1977	331.6	301.1	1,197.2	27.6	25.2
Average				24.24	21.64

Source: <u>IMF International Financial Statistics</u>, various issues.

Table 6

Trade/GNP Ratios, 1968-1977, the United Kingdom

(Billions of Pound Sterling)

Year	Exports	Imports	GNP	Exports/GNP	Imports/GNP
1968	8.81	9.12	43.58	20.2	22.7
1969	9.86	9.68	46.61	21.2	20.8
1970	11.24	10.87	51.05	22.0	21.3
1971	12.60	11.86	56.79	22.2	20.9
1972	13.26	13.44	62.98	21.1	21.3
1973	16.51	18.35	71.83	23.0	25.5
1974	23.04	27.43	83.62	27.6	32.8
1975	27.04	29.07	103.94	26.0	28.0
1976	35.30	36.85	123.79	28.5	29.8
1977	43.68	42.48	141.41	30.9	30.0
Average				24.27	25.31

Source: IMF International Financial Statistics, various issues.

industry has been high..., and <u>not vice versa</u>."[5]

The rapid growth of Japanese industry resulted mainly from two factors. First, there was the growth of a large domestic market for consumer and investment goods. The expansion in demand for consumer and producer goods stimulated the production of output in the Japanese economy. Second, there was the growth of a highly productive capital stock. More efficient production to meet the increased demand was realized through the attainment of the economies of scale. Japan's efficient production reduced the costs of production and caused the expansion of its exports:

> "The attainment of scale economies and cost reductions... permitted a successful growth of (Japan's) exports. Even in those periods of domestic recession when exports directly stimulated renewed growth, it was not foreign demand but internal supply which was the initiating force. To be sure, rapid export growth must also have encouraged investment... But the overall contribution of exports to economic growth... does not seem to have been fundamental."[6]

The importance of the rapid expansion of domestic investment rather than foreign trade in Japan's economic growth is further confirmed by Kitamura:

> "What played a leading role in Japan's economic expansion was rather the private sector's investment in productive equipment and plant. The level of exports relative to GNP remains still comparatively low for an economy of Japan's resource endowment. It should be obvious that Japan's economic growth in the post-war period was far from being foreign trade oriented, let alone export-led."[7]

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[5]K. Ohkawa and H. Rosovsky, <u>Japanese Economic Growth</u> (San Francisco, Cal.: Stanford University Press, 1973), p. 173.

[6]Andrea Boltho, <u>Japan: An Economic Survey</u> (London: Oxford University Press, 1975), p. 156.

[7]Hiroshi Kitamura, <u>Choices for the Japanese Economy</u> (London: The Royal Institute of International Affairs, 1976), p. 127.

It is now necessary to examine the trade structure, exports and imports, of Japan in 1970-1977 in detail.

CHAPTER III

Changing Pattern of Japan's Trade, 1970-1977

This chapter consists of two sections. The first section deals with the composition of Japan's trade, imports and exports, by country and by product. The second section notes the highlights of Japan's trade during two time periods: 1970-1973 and 1974-1977.

I. Japan's Trade Composition by Country and by Product

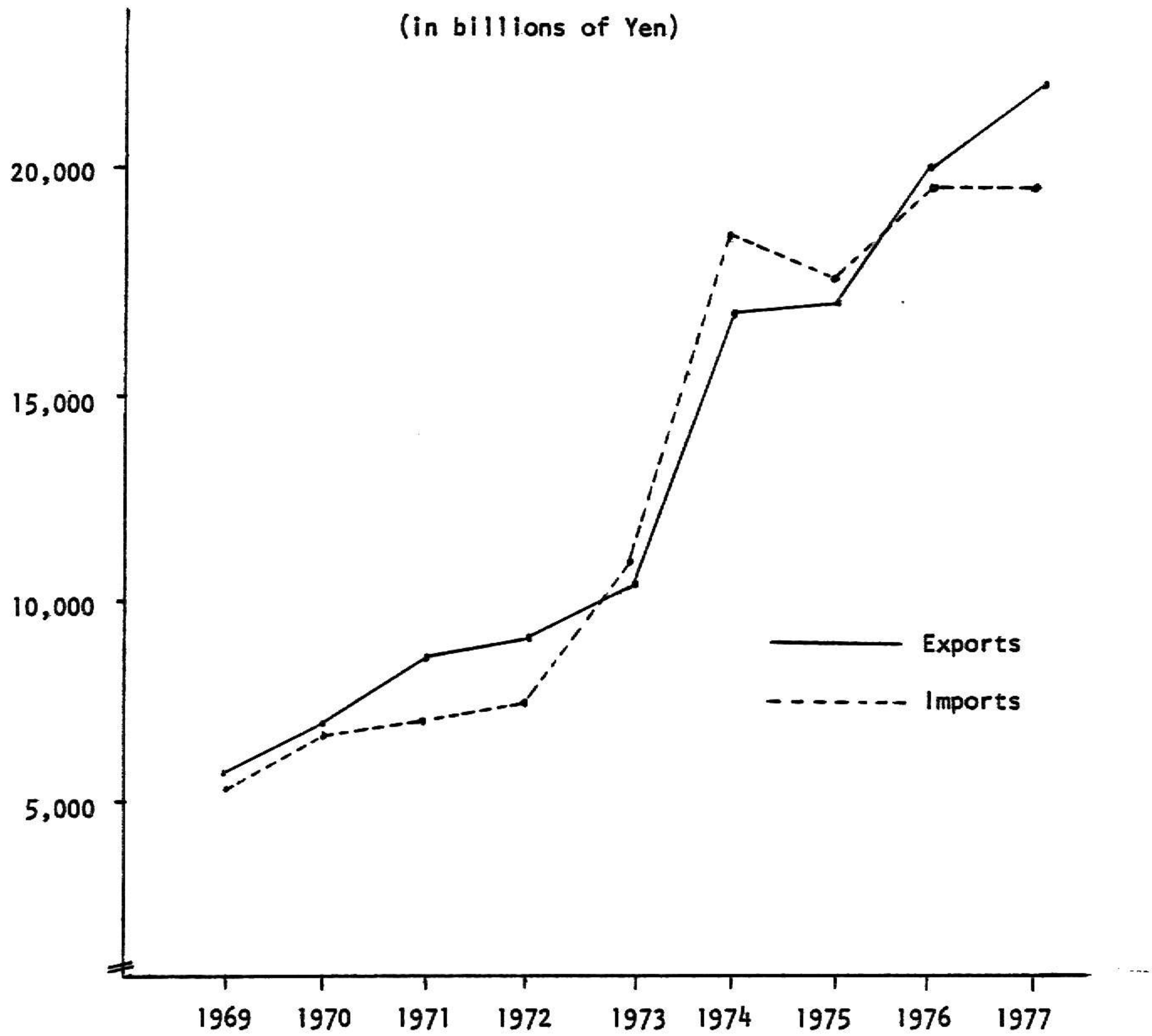
Japan's rapid economic growth was accompanied by an expansion of foreign trade. Japan's foreign trade approximately quadrupled between 1969 and 1977, as shown in figure 1. Japan's exports increased from ¥5,756 billion in 1969 to ¥21,648 billion in 1977. The imports rose, on the other hand, from ¥5,409 billion in 1969 to ¥19,132 billion in 1977. During the period, Japan's trade showed deficits in 1973, 1974, and 1975. The trade surpluses appeared in 1969, 1970, 1971, 1972, 1976, and 1977.

Japan's trade partners include almost all the countries in the world. The trade partners are divided into eight groups: the United States, the European Economic Community (EEC), Southeast Asia, Central and South America, Middle East, Africa, the People's Republic of China, the U. S. S. R., and the other. The EEC includes West Germany, France,

Figure 1

Japan's Exports and Imports: 1969-1977

(in billions of Yen)



Source: Appendix, table A1.

Italy, the Benelux countries, the United Kingdom and Denmark.[8] Southeast Asia includes Hong Kong, Taiwan, Thailand, Singapore, Malaysia, Philippines Indonesia, Burma, India, and other South Asian countries. Central and South America includes the countries between Mexico and Panama, those of Central America on the Caribian Sea, and those in South America. Middle East includes Iran, Iraq, Saudi Arabia, Kuwait, South Yemen, Lebanon, The United Arab Emirates, and northeast African countries such as Libya, Egypt, Sudan, and others.

There is a geographical bias in Japan's trade composition. The geographical distribution of Japan's trade between 1970 and 1977 is summarized in figures 2 and 3. Japan's export markets are heavily concentrated in three areas: the United States, the EEC, and the Southeast Asia, as shown in figure 2. In 1970 the three areas accounted for 63 percent of Japan's total exports; 31 percent for the United States, 25 percent for the Southeast Asia, and 7 percent for the EEC. During the same year, the three areas accounted for 51 percent of Japan's total imports, as shown in figure 3.

The geographical distribution of Japan's trade reveals a drastic change between 1970 and 1977. On the export side, the share of the three areas including the United States, the Southeast Asia, and the EEC, of Japan's trade became gradually smaller over the period. The three areas accounted for 54 percent of the total exports and 45 percent of the imports in 1977.

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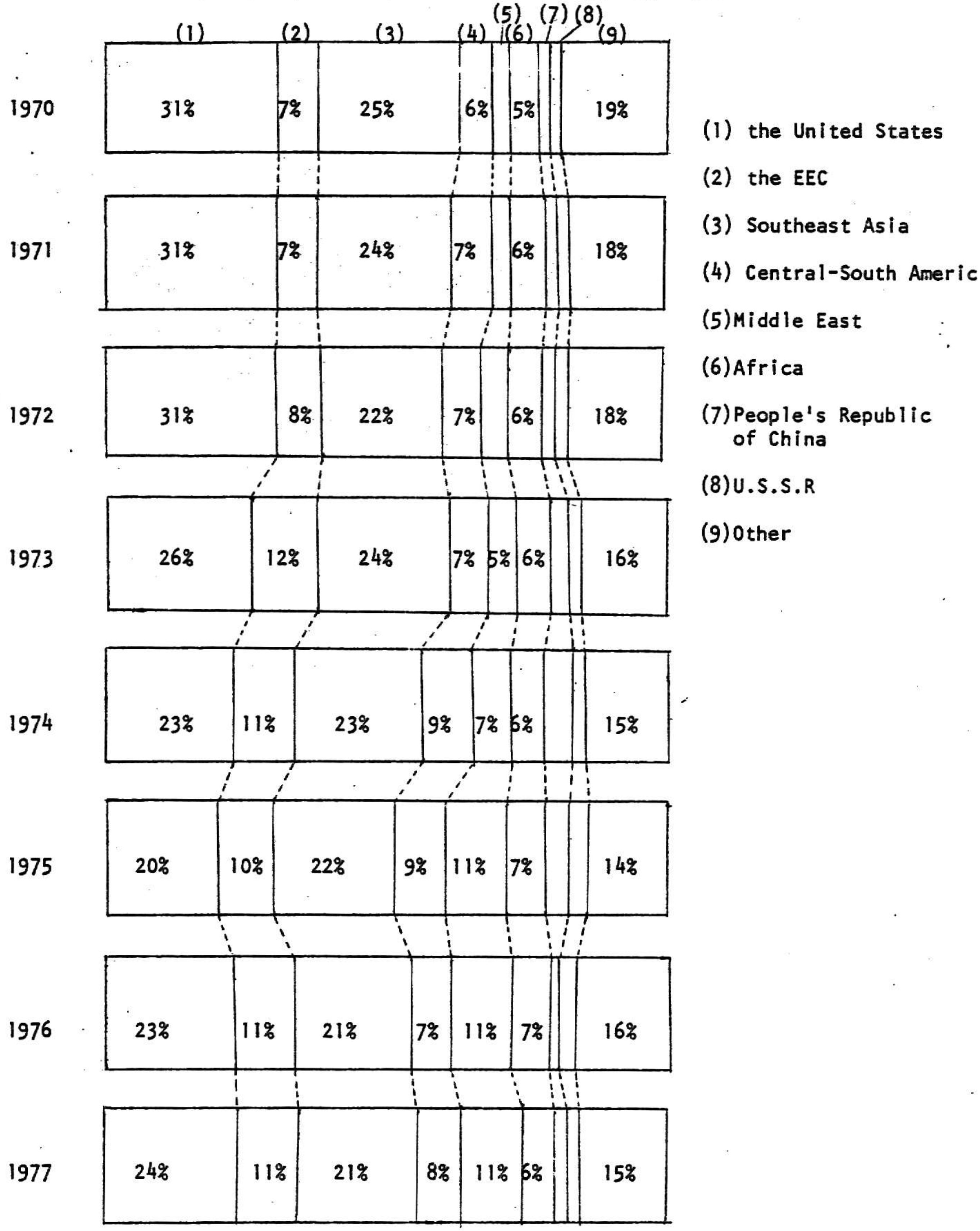
[8]Note that the United Kingdom and Denmark joined the original members of the EEC in 1973.

Figure 2

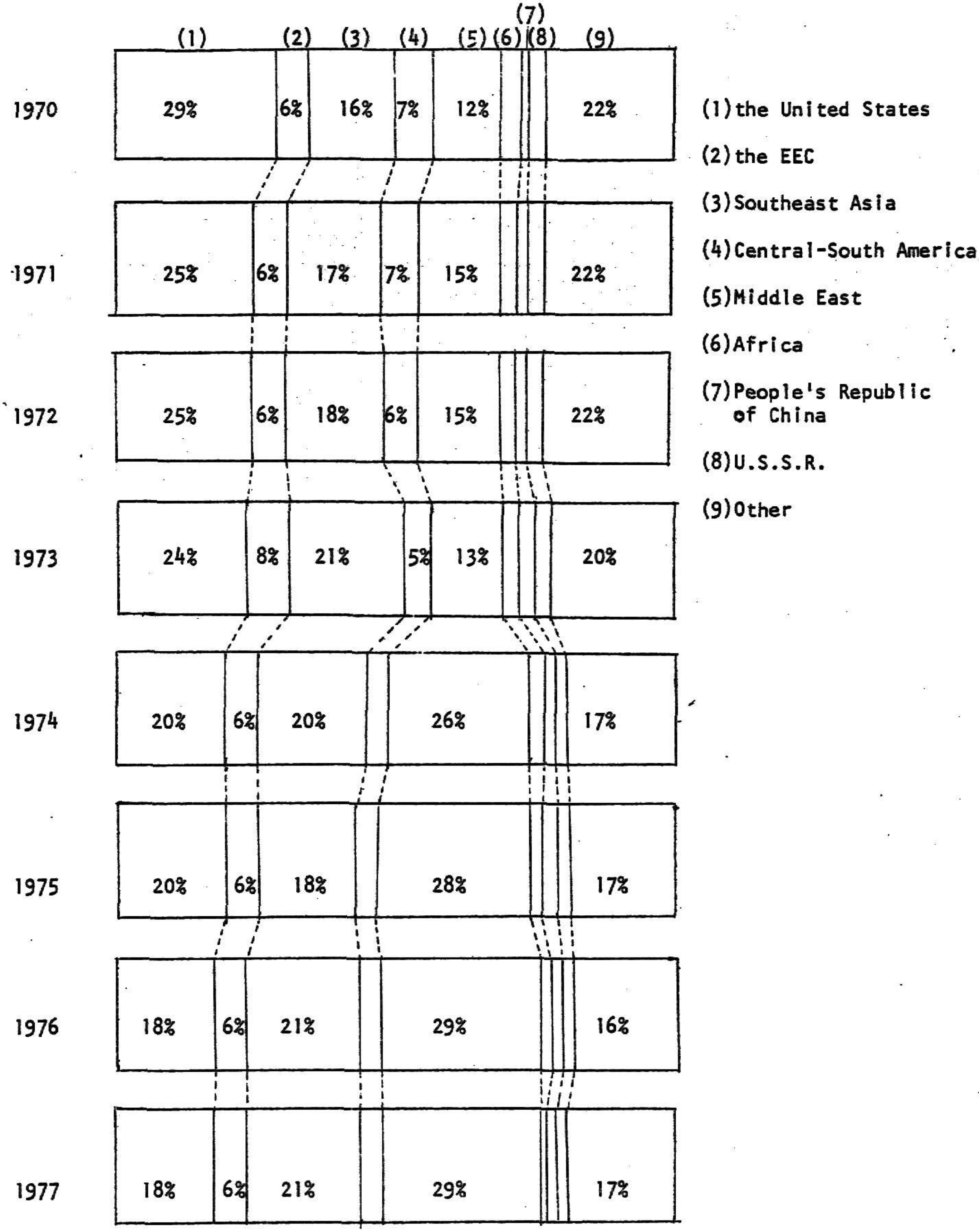
Japan's Export Composition by County, 1970-1977



Source: Appendix, table A2.

Figure 3

Japan's Import Composition by Country, 1970-1977



Source: Appendix, table A3.

The Middle East share of Japan's trade has, on the other hand, increased steadily over the years. The Middle East share of Japan's exports was only 3 percent in 1970 but was 11 percent in 1977. A significant change is seen in the Middle East share of Japan's imports. The area accounted for 12 percent of Japan's imports in 1970. In 1977 the area's share increased to 29 percent of the total imports.

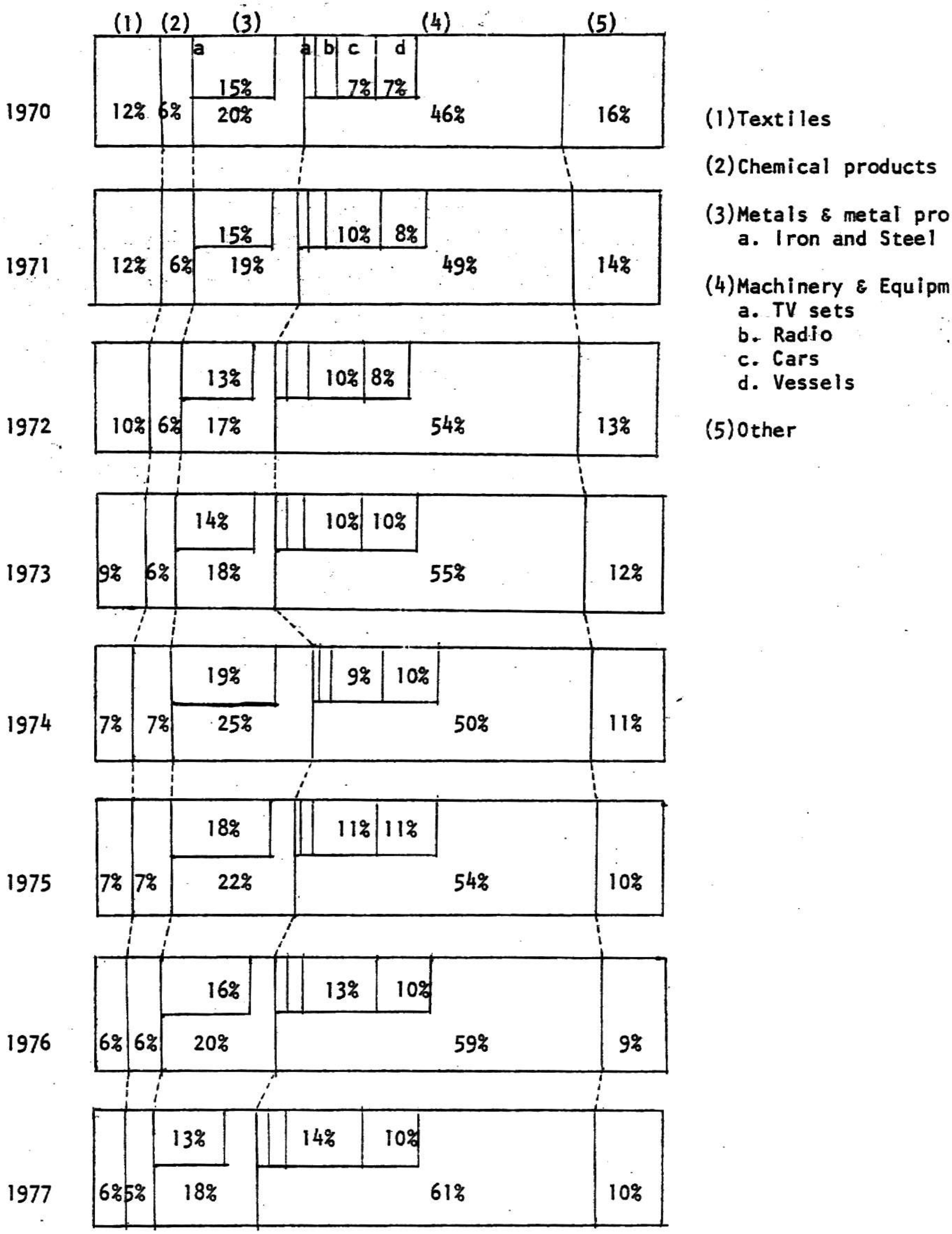
A unique characteristic of Japan's trade pattern can also be seen in its product composition, as shown in figures 4 and 5. The largest component of Japan's exports consists of machinery and equipment, as shown in figure 4. The machinery and equipment category includes TV sets, radio, cars, vessels, and others. The category's share of Japan's exports has shown an increase over the period. The machinery and equipment accounted for 46 percent in 1970 and 61 percent in 1977.

Textile share of Japan's exports shows, on the other hand, a steady decline from 12 percent in 1970 to 6 percent in 1977. The other categories showed steady shares of the total during the period.

Japan's import composition by product is shown in figure 5. A notable change is shown in Mineral Fuel, the major energy source of Japan. The mineral fuel category includes mainly crude oil, gas, and coal. The category's share approximately doubled during the period, from 21 percent in 1970 to 44 percent in 1977. The major component of the mineral fuel category is crude oil. The crude oil's share of Japan's total imports increased from 12 percent to 33 percent during the period. The other categories' shares show an overall decline between 1970 and 1977, as shown in fugure 5.

Figure 4

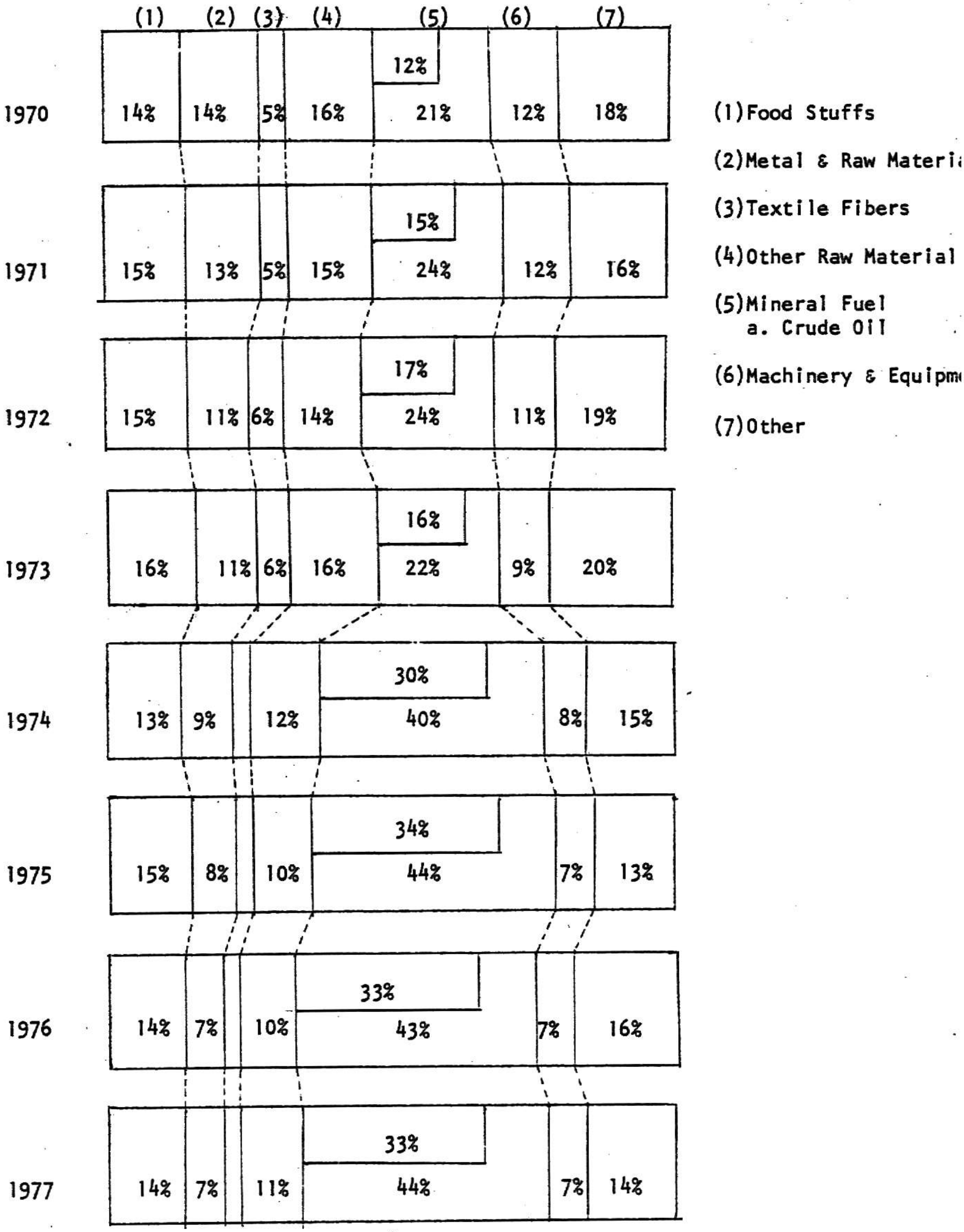
Japan's Export Composition by Product, 1970-1977



Source: Appendix, table A4.

Figure 5

Japan's Import Composition by Product, 1970-1977



Source: Appendix, table A5.

II. Some Highlights in Japan's Trade by Period

The period of study, 1970-1977, is divided into two periods to show the historical highlights of Japan's trade pattern. The two periods consist of 1970-1973 and 1974-1977.

During the first period, 1970-1973, various events occurred in international trade relations. 1970 was the last of the 20 some years during which the exchange rates were fixed under the Bretton Woods Agreement. The period represents the beginning of Japan's trade difficulty with other industrialized nations, highlighted by the textile negotiation between Japan and the United States.

There was also the "Nixon shock" of August 15, 1971, which radically disrupted the Bretton Woods System. The Smithsonian Agreement of December 1971 realigned and fixed the exchange rates of major industrialized nations. The period ends with the announcement of the Ministry of Finance of Japan to float the yen on February 13, 1973.

The second period, 1974-1977, contains various economic problems of the world affecting Japan's trade. The period is highlighted by such events as OPEC oil cartel, worldwide inflation and recessions, color TV and steel controversies.

Since the beginning of the period, the international monetary system has been characterized as managed float. Under the managed float, the changes in exchange rates have been continuous and small with some degree of government intervention.

The First Period, 1970-1973

Japan's economic growth in the post-world War II was accompanied by a rapid expansion of foreign trade. 1970 was a typical year of the period, with a great expansion of Japan's exports to the world.

There are two major reasons to note for the growth in Japan's exports in 1970. One was a large increase in its exports to the United States, the largest customer for Japan, as shown in figure 2.

Japan's exports to the United States expanded in the year in which the United States experienced a recession at home. This observation seems to be contrary to a basic economic theory that exports of a country depend mainly on the income of the importing nation. The United States being a major customer, it is expected that Japan's exports would decline whenever the United States suffers from its economic decline. The recession in the United States in 1970 did not, however, work against Japan's exports to that country. Japan's exports to the United States actually showed an increase in 1970:

> "Japan's shipments to the United States ran up to $5,954 million in 1970 or an increase of 20.1 per cent over the 1969 performance. In other words, Japan's exports to the United States were completely immune to the business slump of that country. This is a clear indication that, compared to the year of 1967, the international competitiveness of Japanese commodities has increased sharply."[9]

A surge in Japan's exports in 1970 was also caused by an increase in the demand for Japanese products in Western Europe:

"Booming business in West European nations and the resultant

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[9]"Foreign Trade", Japan Economic Yeabook 1971 (Tokyo: The Oriental Economist, 1971), p. 70.

drop in their export capabilities also worked in favor of Japan. Japan served as a substitute supplier whenever its West European counterparts failed to fill the orders from the United States."[10]

Beginning in 1970, there was a marked shift in Japan's export strategy from the traditional markets, the United States and Southeast Asia, to new export markets, Western Europe and the Communist nations:

"Up to now (1970), Japan's exports depended heavily on the United States and Southeast Asian countries. Recently, however, Japanese corporations are aggressively developing new export markets--expecially West European countries and the Communist Bloc nations--in order to circumvent the growing protectionist sentiments in the United States and the perennial foreign exchange shortages in Southeast Asian countries."[11]

The mounting protectionism in the United States was highlighted by the textile industry controversy. The problem originated in the 1968 presidential campaign in the United States when President Nixon promised to place a strict curb on Japan's textile exports to the United States. President Nixon moved quickly to deliver on his promise to the American textile industry to negotiate restraints on Japan's textile exports to the United States. The President's move was clearly mixed with economic and political considerations:

"Using the leverage of the still unresolved Okinawa issue, he won sweeping secret concessions from Sato--which Sato proved politically unable to implement in a domestic atomosphere of rising economic nationalism and resistance to 'unreasonable' American demands. Further U. S. pressure, combined with serious tactical blunders, only stiffened

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[10] Ibid.

[11] Ibid., p. 70.

> Japanese resistance, and helped generate a protectionist backlash on Capital Hill. A highly restrictive trade bill passed the House in 1970--and almost passed the Senate. The dispute poisoned bilateral relation on other issues also; it was one important cause, by several reports, of Nixon's callous treatment of Japan, and of Sato, when he announced his plans to visit Peking."[12]

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On August 15, 1971, President Nixon announced a new U.S. dollar defense program to cope with the rapid deterioration of the United States balance of payments. The program included an import surcharge of 10 percent and the suspension of the convertibility of the dollar into gold. With the program the United States demanded the realignment of the parity exchange rates of major industrialized nations. The Nixon's announcement is explained by Solomon as follows:

> "He (Nixon) announced a 10 percent 'additional tax' on imports, which he characterized as a 'temporary action' to make certain 'that American products will not be at a disadvantage because of unfair exchange rates. When the unfair treatment is ended, the import tax will end as well.' And further, 'The time has come for exchange rates to be set straight and for the major nations to compete as equals. There is no longer any need for the United States to compete with one hand tied behind her back."[13]

There followed continued efforts for a multilateral realignment of currencies at the IMF general meeing, the meeting of the Group of Ten finance ministers.[14] On December 18, 1971 the multilateral Smithsonian agreement was concluded and new standard rates were decided for the

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[12] I. M. Destler, "U.S.-Japanese Relations and the American Trade Initiative of 1977: Was This 'Trip' Necessary?" in William J. Barnds (ed.) Japan and the United States (New York: New York University Press, 1979), pp. 196-197.

[13] Robert Solomon, The International Monetary System: 1945-1976 (New York: Harper & Row, 1977), pp. 186-187.

[14] The Group of Ten includes Belgium, Canada, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom, the United States, and West Germany.

major countries. The agreement contained a revaluation of Japanese yen by some 17 percent in relation to the U.S. dollar mainly because of Japan's trade surplus:

> "A rate of ¥308 to the dollar for Japan constituted a 16.88 percent upward revaluation of the yen, the largest hike of all. The Japanese Government at first intended to hold down the scope of revaluation to below 10 percent, but the end result was a whopping 16.88 percent. Behind the fact that Japan was forced to hike the value of the yen more than any other country hiked the value of its currency was the large, basic surplus in Japan's balance of payments."[15]

Despite the revaluation of Japanese yen against the U.S. dollar and other currencies, Japan's exports increased at a faster rate than its imports in 1971 and 1972, as shown in figure 1. There are two major reasons for the sharp increase of Japan's exports during the period.

The first reason is the sharp improvement of the international competitiveness of Japanese-made heavy and chemical industrial products: automobiles, TV sets, iron and steel, and chemical products, as shown in figure 4. Japan's aggressive shipment of automobiles in 1971 is particularly noteworthy:

> "Especially active were shipments of motor vehicles because of their superb international competitiveness both in terms of quality and prices. Firm establishment of marketing and after-the-sales service networks in foreign countries also has contributed greatly toward the almost explosive exports of automobiles. The motor car export growth rate to the United States, by far the most important market for the Japanese automobile industry, increased by 2.16-fold in 1971, while the overall growth rate of exports advanced by 77.4 per cent."[16]

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[15]"Japanese Economy 1971-1972" Japan Economic Yearbook 1972 (Tokyo: The Oriental Economist, 1972), p. 18.

[16]Ibid., p. 77.

The rapid recovery of the world economy, especially that of the United States, also contributed greatly to this surge of Japan's exports of automobiles and other machinery products during the period.

Another important reason for the sharp increase in Japan's exports despite the revaluation of the Japanese yen was the steady multiplication of Japan's export markets, especially the EEC nations, as indicated by the increase in their share of Japan's total exports in 1972 and 1973, as shown in figure 2.

To encourage its imports, Japan adopted a series of import promotion measures in 1971 and 1972. The most significant of them all was a broad tariff reduction of 1972:

> "Japan reduced tariff rates in April 1972 for 238 commodities, including 63 life-related items such as soybeans, onions, passenger cars and whiskys, and followed up with an across-the-counter tariff reduction of 20 percent in October, 1972 for a great variety of products centering around manufactured goods... This figure represents 68.8 percent of Japan's entire import commodities and the reduction was by far the biggest in post-war years. The reduction, moreover, is comparable to the Kennedy Round tariff reduction carried out by the United States."[17]

Despite the revaluation of yen and the various import promotion programs, Japan continued to show the trade surpluses of ¥1,482 billion in 1971 and ¥1,577 billion in 1972. There grew a wide-spread speculation of further devaluation of the U.S. dollar:

> "...As the U.S. dollar came under renewed suspicion in February 1973, the yen, along with the German mark, became a target of bullish speculation. In the eight trading days through February 9, total intervention by the Bank of Japan amounted by $1.1 billion. The authorities then

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[17]"Foreign Trade," Japan Economic Yearbook 1973 (Tokyo: The Oriental Economist, 1973), p. 77.

closed the exchange market."[18]

With the mounting trade surpluses of Japan and speculation on the Japanese yen led to the closing of the exchange market and the subsequent announcement of the yen's float by the Ministry of Finance on February 21, 1973:

> "In order to cope with the growing shaky standing of the U.S. dollar, Japan closed down its foreign exchange markets on February 10, followed by similar actions on February 12 by various European countries. At this serious juncture, the U.S. government suddenly devalued its currency by 10 per cent... and Japan was forced to float the yen."[19]

Secretary Shultz offered the following account, somewhat different from the one above, of the dollar devaluation:

> "Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention."[20]

The determination of the Japanese government to resist the rise of the yen against the U.S. dollar is an example of a "dirty float." The dirty float refers to a floating exchange rate involving considerable government intervention in one direction. According to Kindleberger and Lindert, the Japanese government tried to hold down the dollar value of yen in order to give the Japanese industry an extra competitive

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[18]Leland B. Yeager, International Monetary Relations: Theory, History, and Policy (New York: Harper & Row, 1976), p. 534.

[19]"Foreign Trade," Japan Economic Yearbook 1973 (Tokyo: The Oriental Economist, 1973), p. 84.

[20]Gerald M. Meier, Problems of A World Monetary Order (New York: Oxford University Press, 1974), p. 191.

edge in international markets."[21]

The Second Period, 1974-1977

The second period, 1974-1977, contains the troublesome years for Japan's foreign trade; the domestic inflation, the OAPEC cartel, color TV and steel industry controversies.

The inflationary pressure in Japan grew acute following the outbreak of the Middle East War and the resultant oil embargo by OAPEC in October 1973. To cope with the situation, the Japanese government reduced electric power and petroleum supplies from November 1973. This step gave a shock wave through the Japanese economy. There grew widespread fear of an acute economic slowdown on the ground that Japan is heavily dependent on foreign energy source, in particular OAPEC's crude oil:

> "The weight of petroleum in Japan's requirements for primary energy sources stands high at 73 per cent and 80 per cent of Japan's petroleum imports come from the Middle and Near East. Japan also depends on member countries of OAPEC for 40 per cent of its petroleum imports from the Middle and Near East."[22]

The fear of the business slump caused by the OAPEC "oil crisis" spread anticipation of a production cutback and the resultant shortage of essential consumer goods. From such fear, consumers began hasty buying and dealers undertook hoarding operations. A panicky consumer spending and dealers' price speculation caused rapid inflation in Japan:

> "In speculative transactions that ensued, prices of all major commodities began to skyrocket. Against this backdrop, the wholesale price index in December 1973 registered a sharp increase of 7.1 per cent over a year ago. The rise

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[21] Charles P. Kindleberger and Peter H. Lindert, International Economic (Homewood, Illinois: Richard D. Irwin, 1978), p. 401.

[22] "Japanese Economy," Japan Economic Yearbook 1974 (Tokyo: The Oriental Economist, 1974), p. 21.

> of the consumer price was equally notable at 3.6 per cent."[23]

Japan's inflation continued to accelerate its pace following the announcement by OPEC on December 22, 1973 that the crude oil price would be about doubled to $11.60 per barrel, effective January 1, 1974.

The domestic inflation and the revaluation of the floating yen were the two major developments related to a substantial change in Japan's trade pattern during the second period, 1974-1977. These two developments were responsible for the comparatively slower growth in exports than in imports, and the resultant narrowing down and even the reversal of the differences between exports and imports. Japan experienced overall trade deficits in 1973, 1974, and 1975, as shown in figure 1.

There was another important change taking place in Japan's trade pattern in 1974. The share of Japan's largest trade partner, the United States, recorded a considerable decline in the nation's foreign trade, as shown in figure 2. The decline in the United States' share may be explained by the 1974 and 1975 recession in the United States.

Middle East and Communist Bloc countries, on the other hand, increasec their shares in Japan's exports and imports. There are three major reasons for the sharp increase in the Middle East's share of Japan's exports. First, there was the sharp increase in crude oil prices noted above, and the resultant growth in the area's foreign exchange holdings. The increase in the foreign exchange holdings enabled the countries

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[23]Ibid.

in the area to purchase a greater amount of Japanese products. The second reason is the rapid progress of various development programs in the Middle East and the resultant growth in demands for Japan's heavy and chemical industrial products. The third reason is the conclusion of the economic and technological assistance contract between Japan and Iraq in 1974.[24] The result was a sharp increase in Japan's shipments to Iraq, which boasted one of the biggest Japanese markets in the area.

The sharp increase in the Communist Bloc's share of Japan's exports in 1974 was explained by the following factors:

> "1. The improvement in the Soviet Union's foreign situation brought about by the bumper crop in that country in 1974 and the resultant declines in cereals imports, and 2. the steady progress in China's reconstruction programs and the resultant increases in demands for Japanese machinery and equipment."[25]

This trend of the decreasing United States' share and the increasing share of the Middle East and the Communist Bloc of Japan's foreign trade continued to 1977.

There are two major controversies involving Japan's trade with the United States during the period: color TV and steel controversies. Growing resistance against Japanese exports to the United States forced Japan to accept an agreement to limit voluntarily the exports of color TV sets to the American market in May 1977. Japan agreed to limit the annual exports of color TV receivers to the United States to

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[24]"Foreign Trade," Japan Economic Yearbook 1975/76 (Tokyo: The Oriental Economist, 1975), p. 35.

[25]Ibid.

1,750,000 units over a period of three years starting July 1, 1977.[26]

The quantitative control on color TV sets bound for the United States and the increasing value of the Japanese yen effectively slowed Japan's export of the item:

> "Color TV exports in 1977 registered a 15.8 per cent decrease in volume to 4,420,000 sets with an equally sizable decline of 15.3 per cent in value. In color TV exports in 1977, classified by destinations, shipments decreased by 27.8 per cent from the previous year to the United States, by 30 per cent to Australia and 15 per cent to Canada."[27]

Was Japan's color TV industry a real threat to the American market, which required the quantitative control in the United States? Did American public benefit from such control? Krauss offers the following assessment of the color TV controversy:

> "There is absolutely no evidence to suggest that Japanese firms that sell television and stereo sets in America cheaper than they do in Japan do this to put RCA and Zenith out of business to become monopolists in the American market. Charging different prices in different markets is rational profit maximizing behavior, as is well known to students of price discrimination theory... The truth of the matter is that predatory dumping by foreigners in the American market is much less of a problem than predatory protectionists who use alleged dumping by foreigners as an excuse to obtain protection in the domestic market."[28]

Steel industry controversy arising during the period, 1974-1977, is another important problem involving Japan's trade with the United States. There are large integrated firms dominating the steel industries

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[26]"Japanese Economy 1977/78," Japan Economic Yearbook 1977/78 (Tokyo: The Oriental Economist, 1977), p. 16.

[27]Ibid., p. 132.

[28]Melvyn B. Krauss, The New Protectionism (New York: New York Universi Press, 1978), pp. 70-71.

in most of the industrialized economies, including Japan and the United States:

> "In the United States, four companies produce 54 percent of the raw steel, eight companies 75 percent. In Japan, five companies account for 80 percent of total production; in Germany, eight companies for 68 percent; in Italy, three companies for 70 percent."[29]

Although oligopolistic characteristics are present in the steel industries in the domestic markets of the respective economies, prices of steel tend to be very competitive in the "world market":

> "'World market' prices are usually competitive and volatile for, in the normal situation, more than one major producing country will have excess productive capacity at any point in time. The response to market opportunities abroad has been extremely prompt..."[30]

The rapid expansion of production facilities with the newest technologies enabled the Japanese and Western European to export an increasing quantity of steel at costs that American producers could not match. Against the increasing competition from the foreign countries, American steel industry and labor union staged a fierce campaign to curb foreign imports in 1967. It was in this growing protectionist sentiments in the United States that Japanese steel producers and those of the EEC began discussions with the U.S. State Department. The discussions eventually led to the following voluntary restraints agreements:

"Spokesmen for the Japanese and EC industries stated

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[29]"World Trade and Domestic Adjustment," Tripartite Reports (Washingto D.C.: The Brookings Institution, 1973), p. 12.

[30]Ibid.

> their intention of limiting shipments of steel mill products to the United States for three years. In 1969, each would restrict exports to 5,750,000 tons, a cutback of 3 million tons from 1968. In the subsequent two years, a 5 percent annual growth factor would apply."[31]

Japanese steel producers enjoyed a competitive advantage over the American counterpart for various reasons. First, there was a declining trend in the prices of raw materials, iron ore and coal, imported to Japan:

> "In 1958, a recession year, the price of iron ore and coking coal began to decline on world markets and continued to do so for the next ten years. For the Japanese industry, which imports nearly all of its coal and iron ore, coal prices fell by 45 percent from their 1957 high... Iron ore costs fell 46 percent from 1957 through 1969."[32]

The decline in the coal and iron ore prices was mainly due to the discovery of the new cources of supply, and the resultant decline in sellers concentration in these markets. This is particularly true for the iron ore market, which was traditionally dominated by the United States and European countries:

> "In 1955, North American and European sources supplied nearly 80 percent of iron ore in the non-communist world, but by 1975 this share had declined to less than 30 percent. Australian, Indian, Brazilian, Venezuelan, and Liberian sources accounted for a larger share of supply in 1975 than all European and North American mines."[33]

Iron ore and coal contribute a substantial share to the total costs

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[31] Ibid.

[32] Robert W. Crandall, "Competition and 'Dumping' in the U.S. Steel Market," Challenge (July/August 1978), p. 14.

[33] Ibid.

of steel production--between 25 and 30 percent for current integrated producers.[34] The decline in the raw material prices had, therefore, a significant impact on the costs of Japanese and European producers, compared to those in the United States:

> "The decline in iron ore and coal prices in the world, while U.S. firms were experiencing stable to gradually rising prices, could not possibly bode well for U.S. producers. The cost of producing steel in Europe and Japan declined by between 20 and 30 percent during this period of falling raw materials prices while U.S. costs remained relatively constant."[35]

The second reason for Japan's and European's producers strong competitiveness is the newer production technology adopted by those producers than that by American producers:

> "When the new technology of the 1950s and 1960s was introduced, the Japanese and other emerging steel producers could accommodate it in a manner which allowed for balanced materials flow and large scale operation. The U.S. firms could not easily adapt to the changing technology... Their plants had been designed to accommodate the small blast furnaces and the open-hearth steel-making of pre-World War II years."[36]

The third reason deals with the wage increase for steel workers in Japan, compatible to their productivity increases. Wage gains were modest, and not exceeding the rate of productivity growth:

> "The Japanese just concluded their annual bargaining round, which resulted in an increase in steel wages of only 4.4 percent... Given the greater rate of productivity increase in Japan, relative production costs in the United States will undoubtedly rise relative

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[34] _Ibid._

[35] _Ibid._

[36] _Ibid._, pp. 14-15.

> to Japanese costs (in dollars), thus widening the U.S. cost disadvantage."[37]

Those three factors contributed to a substantial competitive advantage for the Japanese steel producers over the American producers. Differences in the average production costs between Japan, European nations, and the United States are summarized as follows:

> "The general consensus is that the Japanese have a substantial cost advantage--perhaps sufficient to offset importation costs--but that few others do, particularly in Europe... Generally, it is agreed that the Japanese may have had a $65 to $70 per ton advantage over the United States before the yen began to appreciate in 1977, but that the European costs are virtually equal to those in this country."[38]

Despite the implementation of the voluntary restraint agreements and the devaluation of the U.S. dollar against the Japanese yen, American steel producers could not gain sufficient competitiveness to curtail the imports of Japanese steel. The American industry, with the support of the steel labor union, began another campaign to slow Japanese steel exports. There were various allegations of Japanese producers' "unfair" methods of competition. An American Iron and Steel Institute report warned:

> "Excess steelmaking capacity around the world prompt foreign steel producers to dump steel in the U.S. market... Such behavior, if it were allowed to continue would produce undesirable results for the U.S. economy in the long run."[39]

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[37] Ibid., p. 15.

[38] Ibid., p. 18.

[39] The Economic Implications of Foreign Steel Pricing Practices in the U.S. Market (Washington, D.C.: American Iron and Steel Institute, 1978), p. 1.

In late 1977 and early 1978, the pressure to reduce Japan's steel exports to the United States became too intense for the U.S. government to ignore. Finally, the U.S. government adopted the "trigger prices" mechanism to cope with the problem:

> "In February 1978, the Secretary of the Treasury announced a system of 'trigger prices' based on constructed Japanese costs including transportation costs for steel shipped to the United States. Imports that came in from any source, not just Japan, at prices less than these trigger prices would result in an immediate investigation and probably increased duties..."[40]

The trigger prices can be adjusted by the Treasury Department to reflect the change in the cost estimates of the Japanese producers. For example, the trigger prices must be increased to reflect the decline in the value of the U.S. dollar relative to the Japanese yen. As a matter of fact, the trigger prices were raised by 5.5 percent on July 1, 1978, and it just happened also to equal the increase in steel prices announced by the United States steel industry during the spring of the same year.[41]

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[40] Leonard W. Weiss, Case Studies in American Industry (New York: John Wiley & Sons, 1980), p. 211.

[41] Ibid.

CHAPTER IV

A Summary

This report examined the changes in Japan's trade pattern in 1970-1977. The report began with an examination of the role of foreign trade in Japan's rapid economic growth of the Post-World War II period. With respect to the foreign trade share of the economy activity, Japan was considerably more self-sufficient than most of the industrialized nations. The trade/GNP ratios for Japan were the next lowest to the United States.

This report notes that Japan's "miracle" economic growth was not export-oriented. The rapid rate of economic growth in Japan was mainly due to a rapid expansion of private investment at home. This observation was substantiated by Boltho and Kitamura.

There were significant changes in Japan's trade pattern in 1970s. In terms of Japan's trade partners, the United States, the E.E.C., and the Southeast Asia have become less important, while Middle East has become more important. In terms of product composition, the machinery and equipment category has remained as the largest for Japan's exports and the mineral fuel category has become most important for its imports.

There were three major controversies involving Japan's trade with the United States in 1970s. Strong pressures from the United

States to reduce Japan's textile exports were successful. As an indication, the textile share of Japan's total exports steadily declined from 12 percent in 1970 to 6 percent in 1977. The color TV controversy, on the other hand, ended with the stringent quotas imposed on Japan's color TV exports to the United States.

Despite its clear competitive advantage in steel production Japan faces stronger anti-export sentiments. Because of the "dumping" allegations, the United States now employs the "trigger price" mechanism to control steel exports from Japan and elsewhere.

Table A1

Japan's Exports and Imports: 1969-1977

(in billions of yen)

Year	Exports	Imports
1969	5,756	5,408
1970	6,954	6,797
1971	8,392	6,910
1972	8,806	7,229
1973	10,031	10,404
1974	16,207	18,076
1975	16,545	17,170
1976	19,934	19,229
1977	21,648	19,131

Source: Bureau of Statistics, Japan Statistical Yearbook, various issues.

Table A2

Japan's Export Composition by Country, 1970-1977

(in billions of yen and percent)

Year	U.S.A.		E.E.C.		S.E. Asia		C.S. America	
1970	2,138	31%	469	7%	1,765	25%	427	6%
1971	2,621	31%	570	7%	2,014	24%	556	7%
1972	2,725	31%	678	8%	1,943	22%	609	7%
1973	2,568	26%	1,194	12%	2,424	24%	751	7%
1974	3,734	23%	1,741	11%	3,698	23%	1,480	9%
1975	3,312	20%	1,683	10%	3,722	22%	1,413	9%
1976	4,653	23%	2,143	11%	4,166	21%	1,484	7%
1977	5,292	24%	2,349	11%	4.592	21%	1,693	8%

Year	Middle East		Africa		P.R. of China		U.S.S.R.	
1970	228	3%	361	5%	204	2%	122	2%
1971	287	3%	535	6%	201	2%	132	2%
1972	361	4%	488	6%	187	2%	155	2%
1973	481	5%	623	6%	282	3%	131	1%
1974	1,076	7%	1,325	6%	580	4%	321	2%
1975	1,801	11%	1,212	7%	669	4%	482	3%
1976	2,156	11%	1,299	7%	496	1%	667	3%
1977	2,384	11%	1,353	6%	521	2%	526	2%

Source: Bureau of Statistics, Japan Statistical Yearbook, various issues.

Table A3

Japan's Import Composition by Country, 1970-1977

(in billions of yen and percent)

Year	U.S.A.		E.E.C.		S.E. Asia		C.S. America	
1970	2,001	29%	402	6%	1,084	16%	494	7%
1971	1,748	25%	399	6%	1,192	17%	469	7%
1972	1,802	25%	429	6%	1,284	18%	436	6%
1973	2,518	24%	862	8%	2,158	21%	530	5%
1974	3,694	20%	1,157	6%	3,632	20%	790	4%
1975	3,441	20%	999	6%	3,141	18%	748	4%
1976	3,505	18%	1,074	6%	3,978	21%	730	4%
1977	3,357	18%	1,130	6%	4,070	21%	828	4%

Year	Middle East		Africa		P.R. of China		U.S.S.R.	
1970	841	12%	249	4%	91	1%	173	3%
1971	1,056	15%	206	3%	112	2%	173	3%
1972	1,075	15%	213	3%	151	2%	182	3%
1973	1,344	13%	290	3%	263	3%	292	3%
1974	4,634	26%	460	3%	380	2%	413	2%
1975	4,891	28%	329	2%	454	3%	346	2%
1976	5,565	29%	289	2%	406	2%	346	2%
1977	5,537	29%	256	1%	415	2%	384	2%

Source: Bureau of Statistics, Japan Statistical Yearbook, various issues.

Table A4

Japan's Export Composition by Product, 1970-1977

(in billions of yen and percent)

Year	Textiles		Chemical Product		Metals		Iron & Steel	
1970	866	12%	444	6%	1,369	20%	1,023	15%
1971	968	12%	521	6%	1,599	19%	1,239	15%
1972	901	10%	549	6%	1,500	17%	1,112	13%
1973	890	9%	583	6%	1,854	18%	1,441	14%
1974	1,184	7%	1,186	7%	4,004	25%	3,149	19%
1975	1,104	7%	1,153	7%	3,711	22%	3,016	18%
1976	1,250	6%	1,112	6%	3,906	20%	3,109	16%
1977	1,261	6%	1,158	5%	3,794	18%	2,836	13%

Year	Machinery and Equipment		TV sets		Radios		Cars		Vessels	
1970	3,218	46%	138	2%	250	4%	481	7%	507	7%
1971	4,143	49%	175	2%	276	3%	825	10%	645	8%
1972	4,736	54%	174	2%	318	4%	913	10%	739	8%
1973	5,531	55%	165	2%	336	3%	983	10%	1,037	10%
1974	8,131	50%	209	1%	395	2%	1,523	9%	1,631	10%
1975	8,908	54%	232	1%	393	2%	1,839	11%	1,780	11%
1976	11,748	59%	406	2%	620	3%	2,642	13%	2,087	10%
1977	13,374	61%	358	2%	655	3%	3,099	14%	2,206	10%

Source: Bureau of Statistics, Japan Statistical Yearbook, various issues.

Note: Iron and steel are included in metals, and TV sets, radios, cars, and vessels are included in machinery and equipment.

Table A5

Japan's Import Composition by Product, 1970-1977

(in billions of yen and percent)

Year	Food Stuff		Metal Raw Material		Textile		Other Raw Materia	
1970	926	14%	970	14%	346	5%	1,086	16%
1971	1,019	15%	887	13%	336	5%	1,021	15%
1972	1,111	15%	766	11%	415	6%	1,033	14%
1973	1,629	16%	1,096	11%	594	6%	1,638	16%
1974	2,365	13%	1,550	9%	540	3%	2,088	12%
1975	2,614	15%	1,309	8%	452	3%	1,696	10%
1976	2,782	14%	1,358	7%	533	3%	2,018	10%
1977	2,728	14%	1,294	7%	545	3%	2,044	11%

Year	Mineral Fuel		Crude Oil		Machine and Equipment	
1970	1,406	21%	804	12%	827	12%
1971	1,666	24%	1,066	15%	846	12%
1972	1,760	24%	1,209	17%	798	11%
1973	2,265	22%	1.633	16%	948	9%
1974	7,254	40%	5,503	30%	1,382	8%
1975	7,611	44%	5,831	34%	1,270	7%
1976	8,399	43%	6,289	33%	1,367	7%
1977	8,412	44%	6,367	33%	1,320	7%

Source: Bureau of Statistics, Japan Statistical Yearbook, various issues.

Note: Crude oil is included in mineral fuel.

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CHANGING PATTERN OF JAPAN'S TRADE IN 1970S

by

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AN ABSTRACT OF A MASTER'S REPORT

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ABSTRACT

Foreign trade has played a unique role in Japan's economic growth in the post-World War II period. Contrary to widespread belief, Japan was considerably more self-sufficient than most of industrialized nations. In terms of the foreign trade shares of GNP, Japan was the next lowest to the United States among six countries considered in this report. This report also notes that Japan's post-World War II economic growth was not export-oriented. This observation was substantiated by Ohkawa and Rosovsky, Boltho, and Kitamura.

There were significant changes in Japan's trade pattern in 1970s. The changes were caused by such events as the demise of the Bretton Woods agreement, the subsequent realignment of major currencies, the OPEC cartel, the worldwide inflation and recessions, the floating for the currencies of major industrialized nations, and the textile, color TV, and steel industry controversies.

In terms of Japan's trade partners, the United States, the E.E.C., and the Southeast Asia have become less important, while the Middle East has become more important over the years. In terms of product composition the machinery and equipment category has remained as the largest for Japan's exports and the mineral fuel category has become increasingly dominant in its imports.

There were three major controversies involving Japan's trade with the United States in 1970s. Strong pressures from the United States resulted in the establishment of a quota for Japan's textile exports to the United States. Color TV controversy also ended with the stringent

quotas imposed on Japan's color TV exports to the United States. Japan's steel exports to the United States are now controlled by the "trigger price" mechanism, that is designed to monitor possible foreign steel dumping in the United States.