U.S.-JAPAN TRADE RELATIONS IN THE POST-COLD WAR PERIOD: THE PROBLEMS AND PROSPECTS

Altaf Hussain Ansari

Introduction

United States and Japan s economies are two largest economies of the world. Both combined together constitute 30 to 40 percent of global economy. The post-cold war period witnessed frictions between two economic giants, as formerly both these economies were connected for geopolitical reasons. The logic of economic interests was dominated by security compulsion during cold war period.

Collapse of Soviet Union 1991

After Second World War all US government head applied the theory of absolute gains in economic relationship with its allies. The absence of Cold War put American policy makers at liberty to follow the theory of relative gains in economic affairs with other states, receded the ideological threat to American primacy. In fact, in late 1980s, American looked upon economic threat posed by Japan. The manufacturing rivalry between two states starting from 1960 and onwards had created a wider gap in the exchange of trade between United States and Japan. The aftermath of Soviet decline brought a paradigm shift in US economic policy.

This paper attempts to explore what methodological tools applied by US government to narrow the trade imbalance with Japan. This paper will study that how the geo-economic consideration of Clinton government dictated the terms of trade with Japan during 1990s. What factor interests have motivated the present US government to apply the traditional policy to brighten the prospects of trade relations with Japan?

U.S. Japan trade relations are intertwined in the web of global security scenario in general and geo-politics of East Asia in particular. In the aftermath of Second World War, the United States helped Japan by design. During American occupation period the foundation of Japanese economy was laid through reconstruction. The phase came in 1952 when Mutual security Assistance pact, it extended the US nuclear umbrella over Japan and made Japan the Asian cornerstone of the cold war contentment strategy. Japan became vital to the defense of Pacific sea-lanes and hosts the largest US military base in the region. Although trade issues were steadily emerging, they remained secondary to security interests.[1]

The last phase of trade relations cashiered from the early 1970s until the end of cold war which was dominated by Japan s trade surplus between two countries. Aided by massive domestic saving and an undervalued yen, Japan enjoyed a huge trade surplus with the United States. The gap became so wide that many American people felt economic challenge from Japan.

The Bubble Economy

The boom of Japanese bubble economy in late 1980s became a major concern of American policy makers. In the 1970s and 80s, a series of large and prominent US industries found themselves under competitive assault by Japanese companies. These industries included consumer electronics, automobiles, and semi-conductors; in fact, Japan was experiencing continuing high growth and rapid advancement because it was playing technological catch-up with the West. Japan adopted a business friendly policy environment of low taxes and low government spending. [2] The trade deficit with Japan, as conceived by American, was result of Japan s protectionist policy.

In the United States, the debate was raised whether military threats from the Soviet Union or the economic threat from Japan, be considered on prime priority of policy making. In a series of polls in 1989 and 1990, most respondents considered the challenge from Japan a more serious. On the other hand Japanese opinion was showing greater confidence in Japan s orbital to handle its own affairs without much reliance on Washington.

US government insisted upon Japan to open its markets to American goods and companies. Japan s export surplus with US created a tension in their relationship. American looked upon Japan an economic threat responsible for US trade deficit.

The Burst of Bubble Economy

The turning point in U.S. Japan relations came with burst of Japanese economy in 1990. The recession of Japanese economy after stock market shock in Japan brought a decade long stagnation in its economic growth. The 1990s is labeled as lost decade for Japanese economy. The crony capitalism paralyzed the Japanese competitive edge in world trade. The poor financial management created a bad debt problem in Japan. It ultimately created friction and uncertainty in their trade relations.

U.S. Response

In the absence of Cold War lessened the strategic significance to the centrality of US containment policy. After assuming Presidency, Clinton adopted aggressive unilateralism in trade policy. The United States became more inward looking in its economic growth. There came a paradigm shift in US economic policy from absolute gains to relative gains for development purposes. The cooperation of allies on security issues lost much significance. This radical change in US policy to put emphasis on

economics than on security matters undermined the importance of geopolitical factors in inter-state relations.

The Clinton Administration insisted Japan for Liberalization of trade and a managed trade. It demanded Japan government s guarantee of market shares for US companies.[3] U.S. government applied pressure on Japan to strengthen the Yen. They hoped that the stronger yen would encourage Japanese imports and discourage exports to reduce the trade deficit. The Clinton government had negotiated 20 trade negotiations with Japan including Uruguay Round Frame Work and other bilateral agreements with Japan such as automobile, apples and US services such as insurance and construction.[4] The July 1993 Frame work agreement became the cornerstone of Washington s trade policy with Japan. US export to Japan rose to 120 percent in subsequent years. Another agreement of auto and auto parts was signed in 1995. The rapid appreciation of Japanese yen in 1995 increased the level of US export, which reached a record $64 in 1995. Moreover the US anti-dumping measures in the same years antagonized Japan.

Japan did not overtly challenge the US anti-dumping policy against it, but handled this discontent strictly on bilateral level. Since the establishment of the WTO, Japan actions concern the US more directly. [5] Meanwhile, after the yen ducked below 80, (in a one US$) in April 1995, the Washington shows the possible financial collapse of Japan. The outbreak of financial crises in Southeast Asia in 1997 made US policy makers apprehensive of capacity of Japanese financial institutions to meet the challenge for merely it. Americans were scaled of Japanese export drive but now they became concerned about the weakness of Japanese economic stability. The economic stagnation of Japan was seen as a problem potentially causing a global recession. [6]

Reflection of Trade Balance of Japan U.S.A

In 2003, Japan s trade surplus expanded 3.1 percent from the year 2002 to 10.19 trillion yen, the second consecutive annual increase, it excided 10 trillion yen for the first time in the three years.

Exports to the European Union increased 9 percent to 8.35 trillion yens, backed by exports of mini-cars and digital cameras to the region. The trade surplus also rose to the three percent to 2.68 trillion yens for the first time annual rise in the five years. Mean while exports to the United States dropped by 9.8 percent to 1.34 trillion yen because Japanese companies moved their manufacturing to the United States and other nations. The trade surplus with the United State also slipped 13.7 percent to 6.59 trillion yen for the first time in two years. [7]

In the year 2002 the total value of exports to United States was 14,873,326 million yen. Major commodities were transport equipments, chemical product, electrical machinery general machinery, metal and metallic product and textile etc. and the total value of imports from U.S.A during the same year were 7,237,176 million yen. Major commodities were food stuffs, chemical product raw material fuel machinery and equipment, iron steel and textile.

Japan s trade surplus grew to its highest level in almost five years during January June, 2004 period. As a record surplus with Asia Made up for Lackluster growth in the surplus with the U.S.A. Japan s trade surplus in the first six months of the year 2004 rose to 42.4% from the year earlier corresponding year to ¥ 6.18 trillion (US$ 56.2 billion) i.e. topped the ¥ 6 trillion mark for first time since the second half of 1999.[8]

Japan s trade surplus further jumped in May 2004. The Value of Japan s exports exceeded against its imports by ¥ 934 billion (US$ 8.6 billion) in May, 2004 i.e. 35% a year. Because of recovery of world economy, Japan got its trade surplus increased for eleven months.[9]

The following tables reflect the position of Japanese exports, imports and position of balance of payment, during different years.

Table No.1

Value of Japan s Exports by Destination and Commodity, 2002 (¥ Million)

		Major categories						
	Total	Textiles	Chemical products	Metal and metal products	General machinery	Electrical machinery	Transport equipment	Precision instruments
USA	14,873,326	70,021	727,209	394,349	3,171,942	2,584,050	5,812,843	451,869
China	4,979,796	349,116	621,732	523,749	1,041,434	1,334,944	301,222	202,554
Korea (ROK)	3,572,439	59,270	540,152	493,307	626,439	1,045,222	113,734	204,166
Taiwan	3,281,188	39,463	512,156	290,331	700,319	880,370	136,824	283,324
Hong Kong	3,176,359	108,395	266,441	174,961	475,809	1,198,409	191,510	260,484
Singapore	1,774,536	9,544	108,211	109,167	347,008	617,773	193,052	57,387
Germany	1,765,886	18,142	109,125	34,568	323,814	565,189	329,925	99,769
Thailand	1,648,577	26,716	149,388	236,734	406,281	462,431	162,093	34,730
UK	1,497,843	10,044	77,839	61,135	323,367	369,159	439,906	39,812
Malaysia	1,377,609	11,777	113,499	159,519	219,226	502,984	174,620	47,683
Netherlands	1,323,142	7,072	102,046	16,211	664,796	228,317	105,812	52,883
Philippines	1,057,668	17,914	61,085	68,834	232,135	405,974	77,526	38,622
Australia	1,038,754	5,168	36,039	47,006	170,089	93,519	562,428	17,147
Canada	917,851	4,338	18,630	38,077	146,015	109,609	508,466	14,293
Indonesia	779,818	21,849	83,500	102,469	203,570	157,920	118,873	10,912
World total	**52,108,956**	**917,979**	**4,173,674**	**3,227,445**	**10,598,833**	**11,924,196**	**12,999,722**	**2,019,379**

Source: Ministry of Economy, Trade and Industry.

Table No.2

Value of Japan s Imports by Destination and Commodity, 2002. (¥ Million)

		Major categories						
	Total	Food-stuffs	Raw materials	Mineral fuels	Chemical products	Machinery and equipment	Textiles	Iron and steel
China	7,727,793	734,846	156,497	252,232	220,564	2,592,038	1,980,472	56,489
USA	7,237,176	1,525,539	390,897	94,871	805,094	3,459,206	66,125	13,636
Korea (ROK)	1,936,787	168,237	24,953	269,141	145,181	882,717	87,223	87,906
Indonesia	1,773,997	128,881	209,002	826,795	48,215	201,860	55,575	3,271
Australia	1,753,351	333,787	338,879	762,332	22,728	26,117	1,022	2,668
Taiwan	1,698,926	123,581	40,690	8,679	93,925	1,065,127	31,365	34,629
Germany	1,552,758	36,926	11,400	1,817	341,014	969,388	13,837	5,125
Saudi Arabia	1,454,772	96	2,012	1,420,178	27,452	77	84	0
United Arab Emirates	1,450,256	130	650	1,431,208	23	203	288	0
Malaysia	1,401,350	18,131	89,679	381,235	65,613	626,094	23,068	789
Thailand	1,314,594	285,164	72,073	4,623	58,219	568,084	43,063	5,129
Canada	895,043	267,883	306,425	60,689	40,547	112,277	3,335	1,004
France	816,757	136,310	12,897	2,385	199,189	236,402	36,608	1,569
Philippines	818,014	88,201	38,360	4,559	5,311	583,052	16,341	260
Italy	678,596	54,747	15,275	172	86,118	148,263	156,713	533
World total	**42,227,506**	**5,282,336**	**2,521,804**	**8,173,925**	**3,239,486**	**13,434,300**	**2,752,090**	**304,792**

Source: Ministry of Economy, Trade and Industry.

Table No.3

Total Exports and Imports
(¥ Billion)

	Exports		Imports		Balance (¥ billion)
	Value (¥ billion)	Annual growth (%)	Value (¥ billion)	Annual growth (%)	
1995	41,531	2.6	31,549	12.3	9,982
1996	44,731	7.7	37,993	20.4	6,738
1997	50,938	13.9	40,956	7.8	9,982
1998	50,645	-0.6	36,654	-10.5	13,991
1999	47,654	-6.1	35,268	-3.8	12,280
2000	51,654	8.6	40,938	16.1	10,716
2001	48,979	-5.2	42,416	3.6	6,564
2002	52,109	6.4	42,228	-0.4	9,881
2003	54,548	4.7	44,362	5.1	10,186

Source: Ministry of Finance.

Table No.4

Imports and Exports of Major Countries 2002

Exports and Imports of Major Countries, 2002 (US$ million)

	Exports	Imports
Germany	612,598	491,904
France	309,840	308,298
UK	276,299	335,438
USA	694,000	1,202,000
Japan	416,726	337,194

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook 2003.*

Table No. 5

Balance of Payments

Japan's Balance of Payments

(¥ billion)

	Current account			Financial account	Capital balance
	Total	Trade	Services		
1996	7,158	9,097	-6,779	-14,606	-354
1997	11,436	12,310	-6,542	-35,187	-488
1998	15,758	15,984	-6,455	-12,552	-1,931
1999	12,174	14,016	-6,151	10,347	-1,909
2000	12,876	12,563	-5,134	-1,452	-955
2001	10,652	8,527	-5,315	343	-346
2002	14,140	11,733	-5,264	322	-422

Source: Ministry of Finance.

Balance of Payments of Major Countries, 2002

(US$ billion)

	Current account					Capital and financial account
	Total	Goods	Services	Income	Current transfers	
Japan	112.45	93.83	-42.23	65.77	-4.92	-112.84
France	25.74	8.99	17.79	12.82	-13.87	-29.57
UK	-14.41	-53.05	21.21	31.25	-13.83	14.02
Germany	46.59	122.18	-44.49	-6.00	-25.11	-75.33
USA	-480.86	-479.38	61.34	-3.97	-58.85	526.70

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook 2003*.

Table No.6

United States Trading Partners 2003
(US$ Million)

Country/Region	Total Trade	Exports	Imports
Canada	393,647	169,481	224,166
Mexico	235,530	97,457	138,073
Chinas	176,797	24,418	152,379
Japan	170,093	52,064	118,029
Germany	88,895	28,848	60,047
United Kingdom	76,562	33,895	42,667
South Korea	61,062	24,099	36,963
Taiwan	49,088	17,488	31,600

Source: U.S. Bureau of the Census.

Table No.7

Japan s Imports Exports With U.S.A 2002

Year	Exports to U.S.A		Imports from U.S.A	
	(¥ Million)	(US$)	(¥ Million)	(US$)
2002	14,873,326	124,598.52	7,237,176	60628.097

The Japanese economy is one of the strongest in the world, but the USA is the only country which has a higher GNP, comparatively.

Exports: Japan's main export goods are cars, electronic devices and computers. Most important single trade partner is the USA which imports more than one quarter of all Japanese exports. Other major export countries are Taiwan, Hong Kong, South Korea, China and Singapore.

Imports: Japan has a large surplus in its export/import balance. The most important import goods are raw materials such as oil, foodstuffs, and wood. Major suppliers are the USA, China, Indonesia, South Korea, and Australia.

Industries: Manufacturing, construction, distribution, real estate, services, and communication are Japan's major industries today. Agriculture makes up only about 2% of the GNP. Most important agricultural product is rice.[10] Resources of raw materials are very limited and the mining industry rather small.

The global economic expansion appears to have been on a reasonably firm path though the summer month the recent prices undoubtedly be a drag from now on .[11]

In the United States, Japan and elsewhere, the effect on growth would have been greater had it not declined in importance as an input to world economic activity since 1970s .[12] The impact of high prices on economic growth and inflection was likely to the less severe then during the 1970s oil price spikes.

Foreign Trade and Investment

Japan s exports totaled 417 billion US dollars in the year 2002, the third largest figure after United States and Germany. Its imports totaled 338 billion US dollars. As a share of total world trade Japanese exports accounted for 7.8 percent of global exports and 6.5% of global imports in 1996[13] as percentage of the country s GDP, exports accounted to 8.9 percent and imports 7.6 percent. United States purchase 27 percent of Japan s total export and supplied 23 percent of its imports.

Japan is exporter of manufactured goods and importer of raw materials.

Japan s main trading partners are the United State, East & South East Asian countries, and the countries of the European Union (particularly Germany and the United Kingdom).[14] In 1996 the United States purchased 27 percent of Japan s exports and supplied 23 percent of its imports.

U.S. direct investment in Japan since 1950 totaled dollars 15.6 billion as of March 1996. From FY 1988 through FY 1995 U.S. inward investment averaged $1.4 billion year. A total of 463 transactions involving American capital were reported in 1995.[15]

The typical investment was more then $4million, up substantially from the $50,000 average of 1980. This growth indicates in expending scale of business activity in Japan. One method of investment is the acquisition of existing firms. Japan is notable for its low level of mergers and acquisition, both by domestic and foreign firms. A deliberate government policy in the postwar period removed restrictions on mutual shareholding among Japanese companies, expressly for the purpose of warding off foreign acquisitions. A large proportion of company own shares

kept significant amounts of stock off the market making it difficult for unrelated entries to acquire a controlling interest. The policy worked as planned not only were acquisition-minded foreign companies frozen out of the market but domestic transaction also were held to low levels. Hostile takeovers were virtually unknown. Domestic acquisition of domestic firms totaled only 392 in 1996, according to Nomura Research Institute; the latest figure however, was almost six times higher than the number just 10 years ago. The low share price of recent years and the serious financial predicament of many Japanese have mad acquisition more likely than in the past.

The same phenomenon has developed for acquisition by foreign companies. Whereas only five accorded in 1986 and but a single entry was recorded the following year, more than 30 foreign takeovers of Japanese firms have transpired in each of the last four years. American companies account for about half of these. While not a very of the takeover field is a noticeable trend in Japan. From 1986 through last year 226 Japanese companies become foreign-owned.

Japanese firms used the trade surpluses to invest heavily in overseas stocks, bonds, bank, loans, real state, and business ventures. Beginning in the 1980s, many Japanese companies established production facilities overseas, due to both the increased value of the yen and growing resistance to Japanese exports from Japan s trading partners.[16]

In general Japanese exports are consisted of manufactured goods and imports of raw materials, food, and manufactured goods; manufactures accounted for 93 percent of exports of compared with 57 percent of imports in 2002 Japan s leading exports include general and electrical machinery, automobiles, chemicals, steel, and textiles. Chief imports include machinery and equipment,

food, fuels, chemicals, ores and metals, and agricultural raw materials.

As of the late 1990s, Japan had run a trade surplus (meaning its exports exceeded its imports) every year since 1965, with the exception of the oil shock years. In the 1980s and 1990s the size of the surplus fluctuated up and down depending on the yen exchange rate and the relative growth rates of Japan and its trading partners.[17]

The highest surplus was 4 percent of Japan s GDP in 1986; the lowest was 0.5 percent in 1996. In 1998 it was about 2 percent of GDP. Japanese firms now produce more cars and consumer electronics outside Japan than in Japan.

Foreign direct investment in Japan in 2002 registered as the second highest on record next to 1999, jumping 48.1% from the previous year to $92.5 billion. Investment from North America decreased by 26.4% to $3.1 billion. This was due to the investment recovery from Japanese subsidiary reorganization carried out by US firms in December 2002.

U.S.A invested 657million yen in Japan in year 1999, and in the year 2000, investment was 976million yen. In 2001 the amount of investment of U.S.A was highest as compared to last few years i.e. 3,495 million yen and 2,564 million yen, respectively.

Meanwhile, Japan invested in U.S.A, 7094 US million dollars, in the year 1999 proceeding year Japan s investment in U.S.A was the highest i.e. 14,112 million dollars.[18] In the year 2001 Japan invested 7,081 million dollars and in the years 2002, Japan invested 7,592 million dollars in United States of America.

Conclusion

While concluding it may be reflected that U.S. direct investment in certain industries in Japan has been growing very rapidly. America s innovative strength in software is reflected in the area tallying the largest number of U.S. investment activities in the last year or so. (1997) liberalization of regulations restricting retail trade has a positive effect in attracting American retailers and merchandisers; they have been as innovative as software developers in pioneering new approaches to marketing. If deregulations continue as proposed by official rhetoric and in political platforms, the prospects for profitable American direct investment in Japan could be quite significant in areas as diverse as finance, transportation, retailing and telecommunication.

Manufacturing of assembling goods at facilities in foreign countries gave Japanese companies several advantages. The companies were able to meet the foreign countries domestic content requirements (which mandate that a certain percentage of an item be produce within the foreign country), avoid quotas and other restrictions, and in some cases, save money on land or labor costs. Japanese firms now produce more cars and consumer electronics outside Japan than in Japan.

In 1972 value of several Southeast Asian currencies fell sharply, triggering an economic crisis in the region that affected Japan s trade balance. Japan s exports to Southeast Asian countries fell significantly, while its imports from these countries fell less dramatically. Furthermore, as the Asian crisis developed, many of Japan s overseas investments proved unprofitable. Even though Japan s exports to other destinations continued to grow, the fall in exports to Asia meant that, on a global, price-adjusted basis, Japan s exports in the fall of 1998 were down 2 percent from the year before. At the same time, Japan s ongoing recession caused its

imports to drop by 7 percent. The net result was that Japan s global trade surplus rose, but only because imports were even faster than exports.[19] Therefore, the rising trade surplus did not add any new economic vigor, it simply reflected economic weakness.

Japan is an active member of the International Monetary Fund (IMF), the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), and the Asia Pacific Economic Co-operation (APEC).

Population, and economic prosperity, the United States economy can provide a higher quality of life for consumers and more opportunity for business by trading with other nations. Foreign or International trade enables the United States to specialize in producing those goods that it is best suited to make ovens its available resources. It then imports productions that other nations can make more effectively, lowering prices of these goods for U.S. consumers.

Non-agricultural products usually account about for 10 percent, Machinery and transportation equipment make up leading categories of exports. Other leading exports include electrical equipments, Chemicals, precision instruments, and food products. Beginning in the mid-1970s the nation s imports of petroleum from the Middle East and manufactured goods from Canada and Asia (especially Japan) created a trade imbalance.

According to the views of US Federal Reserve chairman Alan Greenspan one may understand that the world would have to learn to live with high oil prices and their negative impact on economic growth for some time to come . He said the recent shutdown of US oil production and refinery facilities battered by hurricanes was an accident waiting to happen . Although the

global economic expansion appears to have been on a reasonably firm path through the summer months, the recent surge in energy prices will undoubtedly be a drag from now on. [20]

Greenspan told business leaders here. In the United States, Japan and elsewhere, the effect on growth would have been greater had oil not declined in importance as an input to world economic activity since the 1970s, he said in a speech devoted to energy issues.

We and the rest of the world doubtless will have to live with the geopolitical and other uncertainties of the oil markets for some time to come. Greenspan also said the impact of high oil prices on economic growth and inflation was likely to be less severe than during the 1970s oil price spikes. Taking into account inflation, the average price of crude oil was still below the peak of February 1981 in the wake of the Iranian Revolution, when oil hit the equivalent of $75 a barrel in today s prices.[21] Oil is also only two-thirds as important as an input in world gross domestic product now as it was three decades ago, he noted. This meant the recent surge in prices is likely to prove significantly less consequential to economic growth and inflation than the surge in the 1970s .[22] There would be increases in oil efficiency in the rapidly growing economies of East Asia along the lines of those seen in Japan, the United States and Europe, he said. But as China s economy grows, its rising oil consumption would offset energy efficiency savings elsewhere in the world, Greenspan said, noting China uses roughly twice as much, oil per dollar of output as the United States. The price of crude hit an all-time record of $70.85 at the end of August after Hurricane Katrina devastated production and refining capacity in the Gulf of Mexico. Greenspan said that even before this year s hurricanes, world oil markets had been subject to a degree of strain not experienced for a generation. Rising demand and production constraints had wiped out significant

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