

TRADE RELATIONS BETWEEN JAPAN AND THE UNITED STATES.

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INTRODUCTION

The importance of foreign trade to the Japan economy can not be exaggerated. The industries of Japan depend major part of their raw materials, on imports from foreign countries for about 90 percent of iron ore.¹ Japan has to depend on foreign markets for her manufactured articles to a greater extend than any other industrially advanced country. The cotton goods, produced in Japan afford the best example. Above all the ever-increasing pressure of population and consequence of food have tended to increase the relationship of Japanese foreign trade with the United States.

This article firstly attempts to evaluate the progress of foreign trade between Japan and USA, secondly causes for the proportionate decline of imports from the United States, thirdly causes for the declining U.S. share of Japanese exports and lastly conclusion.

PROGRESS OF TRADE

The United States has been an important trade partner of Japan since 1868, when the Meiji rulers opened the country to trade with the West.² As shown in table 1, Japan's exports to the United States accounted for 30 percent of its total exports until 1920. In the year 1920, when Japan increased raw silk exports, the proportion exceeded 40 percent. Japan's imports from the around 10 percent of its total imports. As Japan's cotton industry made progress, however, the nation's imports of raw cotton grew; consequently, from 1910 to 1920 imports from the United States expanded to 30 percent of Japan's total. Until around World War 1, Japan has a large export surplus in

trade with the United States. Gradually, imports from the United States increased bringing the trade into balance with both exports and imports in trade with United States accounting for 30 percent of their respective totals by 1920.

After World War 1, Japan's raw silk exports increase, raising the share of exports to the United States above 40 percent, thus opening an era in which exports from Japan to the United States increased, and imports from United States also exceeded.³ As raw silk exports subsequently declined, the share of exports to the United States exceeded, Japanese exports to the United States decreased. Generally speaking, the pre-war pattern of Japan's trade with the United States was marked by an alternation of export and import surpluses.

TABLE # 1

THE UNITED STATES' SHARE OF JAPANESE TRADE,
1873 TO 1977.

Period	Exports	(IN PERCENT)
		Imports
1873 - 1880	30.3	6.6
1881 - 1890	30.0	9.0
1891 - 1900	27.0	13.8
1901 - 1910	32.5	17.2
1911 - 1920	29.0	30.7
1921 - 1930	41.6	30.0
1931 - 1940	28.8	33.4
1951 - 1960	23.1	34.3
1961 - 1970	29.8	29.0
1970 - 1977	24.4	21.6

Sources: Toyokeizai Shimposha, *Nihon Boeki Seiran* (A Detailed view of Japan's Foreign Trade) for figures until 1940; Ministry of Finance, Clearance Statistics for post war figures.

For the long time after post war II, Japan continued to import more from the United States than it exported to that country. In the period from the 1950's to 1960's the percentage of export to the United States rose rapidly while that of imports United States fell, bringing exports and imports into balance in first half 1960's.⁴ At this time, exports and imports in trade with the United States again constituted 30 percent of total Japanese exports and imports, respectively. Subsequently, however, the proportion of imports from the United States dropped sharply until the problem of excess exports to the United States came to the surface in the 1970's. Thus in the post war period, in contrast to the pre-war era, the pattern has been for Japan to export more to the United States than it imported. After 1973, however, the percentage of exports to the United States began to decline as well with the result that in 1977 Japan's imports from the United States accounted for 17.5 percent of total imports and its exports to the United States 24.5 percent of total exports.⁵ In the past one-hundred year history of Japan United States trade, both in the pre-war period (1900s) and the post war period (1960s), exports and imports in Japan's trade with the United States continued 30 percent of Japan's total exports and imports, respectively.⁶ It has been rare phenomenon for both the proportions of imports and exports to decline and for a Japanese export excess to become a serious issue as in recent years. The following analysis of the causes of those developments will, shed some light on further Japan - United States trade relations.

CAUSES FOR THE PROPORTIONATE DECLINE OF IMPORTS FROM THE UNITED STATES

The proportionate decline of Japan's imports from the United States by no means implies that Japan United States trade has dwindled. Japan maintained rapid economic growth of around 10 percent annually until the oil crises of 1973.⁷ Even after the oil crisis, though the rate of growth fell to zero in 1974, it was subsequently restored to a rate of 5 to 6 percent.⁸ Thus the rate of

growth has dropped to half that of the period before the crises. Japan has nevertheless, sustained the highest growth rate among advanced countries. This resulted in a gradual rise in imports from the United States. As it is shown in table 2, Japan's imports from the United States amounted to \$ 1.6 billion in 1960, \$ 5.6 billion in 1970, and \$ 12.4 billion in 1977. This represents a large increase even when we take the depreciation of the dollar into the consideration. Nevertheless, a decline in the U.S. share of Japan's total imports may be worthy of note. That share has been rapidly diminishing from about 35 percent in 1960 to 29 percent in 1970 and about 18 percent in 1977.⁹ If the U.S. share Japan's total imports during 1977 had been equal to the share in 1960, imports from the United States would have been nearly twice as large as the actual figure and the problem of excessive U.S. imports from Japan would not have existed what has caused the fall in the U.S. Japan's total imports? There are three primary explanations for this decline.

TABLE # 2

JAPAN'S IMPORTS DURING SELECTED YEARS, 1960 TO 1977 (BILLIONS OF DOLLARS)			
YEAR (A)	TOTAL (B)	FROM UNITED STATES (PERCENT)	A/B
1960	4.5	1.6	34.6
1965	8.2	2.4	29.0
1970	18.9	5.6	29.4
1975	57.9	11.6	20.1
1977	70.8	12.4	17.5

Sources: Ministry of Finance, clearance statistics.

(I) Increased Oil Imports.

The first and foremost cause of the shrinking U.S. share in recent years in Japan's increased oil imports. The commodity that occupies an overwhelmingly large proportion of Japanese import is petroleum. Its price quadrupled in 1973. This resulted in a sharp rise in the share of Japan's

total imports with Middle and Near East (West Asia) and a decline in that of the United States. An examination of the regional distribution of Japanese imports (table 3) reveals a reversal in the position of the United States and West Asia in the year 1970-1977, with West Asia accounting for approximately 30 percent of Japan's total imports in 1977, about the same relative weight that the United States had in 1965. The oil crisis of 1973 was a turning point marking a fairly important change in the relative importance of the U.S. position in the Japanese economy.

II) The Expansion of the Japanese Economy.

The fall in the relative weight of the United States in Japan's trade, however, has not been caused by the oil crisis alone. It is also the result of long term tendency beginning around 1960 as seen in the figures given previously. (Even when mineral fuels are excluded, the U.S. share Japan's imports has been gradually shrinking from 36.5 percent in 1960 to 32.0 percent in 1970 and further to 27.8 percent in 1977.)

TABLE # 3

REGIONAL DISTRIBUTION OF JAPAN'S
IMPORTS 1965, 1970 AND 1977.
(IN PERCENT)

Region	1965	1970	1977
Total	100.0	100.0	100.0
North America	33.3	34.4	21.6
United States	29.0	29.4	17.5
Western Europe	8.9	10.2	7.8
South East Asia	17.2	16.0	21.3
West Asia	13.1	12.0	28.6
Latin America	8.7	7.3	4.3
Africa	4.3	5.8	3.0
Oceania	8.0	9.6	8.7
Communist bloc	6.4	4.7	4.7

Source: Ministry of Finance, Clearance Statistics.

As its economy has expanded, Japan has been compelled to rely, not only on the United States, but on whole world for the supplies of raw materials, fuels and food that are necessary to sustain its economy. Japan was a small country in 1960, became the world's second largest economic power in 1970, and almost ranked alongside the United States in per capita GNP in 1978,¹⁰ Japan has been forced to diversify its source of food and raw materials globally in order to maintain such a large economy.¹¹ As table 4 shows, in the period 1960-1970 there was a decline in the relative weight of imports from the United States of raw materials and mineral fuels. In the years '1970-1977' imports of food fell in relative importance. Among Japanese imports from the United States of raw materials and fuels, important commodities are lumber, soybeans, cooking coal, raw cotton, petroleum products, scarp steel, and non-ferrous ores. Table 5 gives the U.S. shares of Japanese imports of these commodities. A comparison between 1960 and 1977 shows that there have been declines in all commodities except lumber; while commodities other than soybeans and raw cotton have registered fall when the figure for 1970 and 1977 are compared.

Among animal feed and food crops, overwhelmingly important are corn and sorghum for animals, followed by wheat, fhnits, seafood, meat, and leaf-tobacco. As Japan increased imports of animal feed, the U.S. share in Japan's imports of food and animal feed expanded over the years 1960-1970 (see table 6). In the subsequent period, however, the U.S. share of Japanese imports dropped as Japan increased imports of seafood (such as tuna and shrimp) and coffee, a small proportion of which Japan imports from the United States.

TABLE 4.

JAPAN'S IMPORTS FROM THE UNITED STATES 1960,
1970 AND 1977.

Commodity	Japan's Imports from U.S (Million of Dollars)			U.S. Shares in Japan's Total imports (Percent)		
	1960	1970	1977	1960	1970	1977
Total	1,545	5,560	12,396	34.4	29.4	17.5
Foods	122	812	2,733	22.3	31.5	27.1
Raw Materials	732	1,649	3,602	33.7	24.7	25.1
Mineral Fuels	178	761	1,351	24.0	19.5	4.3
Chemicals	148	401	1,166	55.8	42.1	48.5
Machinery and Equipment	267	1,411	2,377	66.3	61.4	48.5
Other manufactures	101	491	1,090	27.7	20.2	24.3
Others	n.a.	34	77	n.a	n.a	13.5

Details may not add to totals because of rounding.

Source: Ministry of Finance, Clearance Statistics.

TABLE 5

JAPAN'S IMPORTS OF PRINCIPAL RAW MATERIALS
FROM THE UNITED STATES, 1960, 1970 AND 1977

Commodity	Japan's Imports from U.S (Million of Dollars)			U.S. Shares in Japan's Total imports (Percent)		
	1960	1970	1977	1960	1970	1977
Lumber	24	518	1,240	14.1	33.0	32.6
Soybeans	103	330	1,035	96.3	78.4	94.7
Coal	92	623	1,094	65.2	61.7	30.8
Raw Cotton	215	80	347	51.2	17.0	30.7
Petroleum Products	70	110	150	51.9	20.0	6.8
Scrap Steel	155	270	79	67.4	79.2	63.7
Nonferrous metal ores	10	64	50	6.4	6.0	2.6
Iron Ores	13	49	0	6.1	4.1	0

Source: Ministry of Finance, Clearance Statistics.

III) Declining U.S. Competitiveness in International Markets.

A third explanation for the diminishing U.S. share of Japanese trade can be found in the relative decline in the competitiveness of the United States. This has been reflected in a decrease in the U.S. share of Japan's total machinery imports (Table 7). Japan's machinery imports from the United States amounted to 52.4 billion in 1977 and ranked next to its raw material and food imports. The U.S. of total Japanese machinery imports, however, has been diminishing rapidly from 66 percent in 1960 to 61 percent in 1970, and further to 49 percent in 1977.

Declines in the U.S. shares are noticeable in many kinds of commodities, including metalworking machinery, telecommunications equipment, semiconductors, passenger cars, and precision instruments.

As analysis of the sources of Japanese machinery imports shows that the decline in the U.S. share has been caused by in roads made not only by advanced countries (such as West Germany and the United Kingdom) but also by the Republic of Korea and Taiwan (see table 8). Especially significant is an increase in U.S. imports from the Republic of Korea of electrical machinery, such as semiconductors.

The decline in U.S. competitiveness in machinery may be attributed to many causes, including inflation in the United States, a deficiency in export-mindedness of U.S. enterprises, and the overvaluation of the dollar.

TABLE 6

JAPAN'S IMPORTS OF FOOD AND ANIMAL FEED
FROM THE UNITED STATES 1960, 1970 AND 1977.

Commodity	Japan's Imports from U.S (Million of Dollars)			U.S. Shares in Japan's Total imports (Percent)		
	1960	1970	1977	1960	1970	1977
Total Food and animal feed	122	812	2,733	22.3	31.5	27.1
Meat	n.a	15	201	n.a	7.3	21.0
Wheat	63	174	375	35.6	54.7	64.0
Citrus Fruits	n.a	25	134	n.a	100.0	95.7
Corn	11	218	706	13.6	74.1	89.5
Sorghum	n.a	133	246	n.a	57.8	47.6
Leaf Tobacco	12	45	187	91.5	68.2	65.0

Total include items not separately specified.

Source: Ministry of Finance, Clearance Statistics.

TABLE 7

Japan's Machinery imports from United States
1960 - 1970 and 1977.

Commodity	Japan's Imports from U.S (Million of Dollars)			U.S. Shares in Japan's Total imports (Percent)		
	1960	1970	1977	1960	1970	1977
Total Machinery	267	1,411	2,377	66.3	61.4	48.5
Aircraft internal combustion piston engines	11	63	133	77.2	81.8	86.4
Office Machines	31	201	358	57.8	62.4	59.4
Metal Working Machinery	22	69	23	74.3	41.1	25.3
Nuclear Reactor	n.a	31	97	n.a	91.2	93.3
Heavy Electrical Machinery	6	64	91	79.0	68.8	37.4
Telecomm. Equipment	8	40	91	84.7	75.5	43.1

Electrical Measuring instruments	n.a	68	145	n.a	78.2	72.1
Semi-Conductor	n.a	75	149	n.a	81.5	51.9
Passenger Cars	7	23	99	74.5	42.6	34.7
Aircraft	41	245	196	93.4	98.4	98.0
Precision Instruments	20	78	237	62.5	51.7	37.4

Source: Ministry of Finance, Clearance Statistics

TABLE 8

JAPAN'S EXPORTS OF MACHINERY BY SPECIFIED
COUNTRY OF ORIGIN, 1970 AND 1977

Country	1977	(Percent of Total)	1970	(Percent of Total)
	(Million of Dollars)		(Million of Dollar)	
Total	4,904	100.0	2,298	100.0
United States	2,377	48.5	1,411	61.4
West Germany	414	14.6	344	14.5
United Kingdom	344	7.0	128	5.6
Rep. of Korea	256	5.2	6	0.3
Switzerland	160	1.3	87	3.8
Taiwan	134	2.7	20	0.9
France	127	2.6	60	2.6
Sweden	116	2.4	59	2.6
Netherlands	104	2.1	22	1.0
Italy	94	1.9	59	2.6

Source: Ministry of Finance, Clearance Statistics

**CAUSES FOR THE DECLINING U.S.
SHARE OF JAPANESE EXPORTS.**

Next, why has the U.S. share of Japanese exports, which had been growing proportionately large after World War-II, assumed a downward tendency recently (see table 9). As seen in Table 1, the U.S. share of Japan's exports reached its post-war peak in 1968 when it stood at 31.5 percent of total exports; the percentage remained unchanged for some time but then fell substantially after 1973. The decline may be attributed to three causes.

TABLE 9

JAPAN'S EXPORTS, TOTAL AND TO THE UNITED STATES, DURING SELECTED YEARS, 1960 TO 1977
(BILLIONS OF DOLLARS)

YEARS	TOTAL (A)	TO UNITED STATES (B)	A/B (PERCENT)
1960	4.1	1.1	27.2
1965	8.5	2.5	29.3
1970	19.3	5.9	30.7
1975	55.8	11.1	23.0
1977	80.5	19.7	24.5

Source: Ministry of Finance, clearance statistics.

(i) The Oil Crisis

The fall in the relative weight of Japanese exports to the United States after 1973 was partly caused by the oil crisis. The oil crisis caused a decline in the U.S. share of Japanese foreign trade with respect to both imports and exports. After the oil crisis, Japan depend its economic relations with Middle Eastern and Near Eastern countries and boosted its exports (such as industrial plants) with a view to securing a stable supply of petroleum. An increase in the import capabilities of Middle and Near Eastern countries owing to their increased oil incomes has also enabled Japan to increase exports to these countries. As shown in table 10, in the years 1970-1977 Japanese exports of the Middle and Near East (West Asia) grow from 3 percent to 10 percent of the nation's total exports, while the U.S. share declined by almost the same proportion.

(ii) Expansion of the Japanese Economy.

Another important cause for the declining U.S. share of Japanese exports is that the Japanese economy has become so large that the nation is now compelled to diversify its export markets globally.

TABLE 10

REGIONAL DISTRIBUTION OF JAPAN'S
EXPORTS, 1968, 1970 AND 1977 (IN PERCENT)

REGION	1968	1970	1977
Total	100.0	100.0	100.0
North America	31.9	33.7	26.6
United States	29.3	30.7	24.5
Western Europe	12.8	15.0	16.0
Southeast Asia	26.0	25.4	21.3
West Asia	3.4	2.8	10.2
Latin America	5.8	6.1	7.8
Africa	9.7	7.4	8.3
Oceania	4.7	4.2	3.8
Communist Bloc	5.7	5.4	6.1

Source: Ministry of Finance, clearance statistics.

In the period from the 1960s to the early 1970s, sharp rises in Japanese exports often caused trouble in the U.S. market. These sharp increases were mostly of light-industry products, such as textile or sundry goods. During the 1970s, however the cause of the trouble has been the exportation of TV sets, iron and steel, automobiles, or heavy-industry product.¹² Table 11 gives the U.S. shares of Japanese total exports. It shows that exports to the United States of metal and machinery, which rose rapidly in relative weight over the years 1960-1970, declined sharply subsequently. These two items, which had accounted for an overwhelmingly large proportion of Japanese exports to the United States, reached a saturation

point and began to decrease in relative weight. There decrease it the most important cause for the proportional decline of Japanese exports to the United States.

TABLE # 11

JAPAN'S EXPORTS TO THE UNITED STATES,
1960, 1970 AND 1977*

Commodity Group	Japan's Exports to U.S (Million of Dollars)			U.S. Shares in Japan's Total imports (Percent)		
	1960	1970	1977	1960	1970	1977
Total	1,083	5,940	19,717	26.7	30.7	24.5
Food	73	135	199	27.2	20.8	22.9
Crude Materials and Fuels	22	31	50	37.3	15.6	7.4
Textile Products	288	597	659	23.5	27.4	14.1
Non-metallic mineral manufactures	57	148	348	39.3	39.8	29.1
Other light-industry products	289	664	1,032	41.3	42.6	25.4
Chemical Products	17	160	513	10.1	13.0	11.6
Metal Manufactures	150	1,296	3,308	26.7	34.1	23.4
Machinery and equipment	187	2,840	13,351	20.1	31.8	26.8
Others	n.a	73	257	n.a	38.4	34.5

*Details may not add to total because of rounding.

Source: Ministry of Finance, Clearance Statistics.

The fact that Japanese per capita GNP has approached that of the United States, with a resultant reduction of Japan's comparative advantage in labour-intensive commodities, has also been responsible for a proportionate decrease of Japanese exports to the United States of textile goods and other light-industry products. As shown in table - 12, the Japanese share has been reduced significantly in the U.S. market due to the competition from less developed countries (LDCs) in light industrial goods.

TABLE 12

SHARE OF JAPAN AND OF LESS DEVELOPED
COUNTRIES IN THE UNITED STATES LIGHT INDUSTRY
PRODUCT MARKET, 1965 & 1977
(in percent)

Product	Japan's Share		LDCs Share	
	1965	1977	1965	1977
Gloves and mitts for baseball	98	5	2	94
European umbrellas & Parasols	74	2	18	94
Rubbers and Plastic footwear	87	8	9	92
Rackets for badminton	95	7	3	86
Dolls and toy animals	68	9	24	85
Wooden Table goods	56	6	21	85
Candles	60	16	13	67
Plastic table goods	42	14	33	56
Guitars	64	48	10	48

Source: Japan External Trade Organisation, White Paper overseas Markets, 1978.

An Enlarged Imbalance of Japan - United States trade. An increase in the imbalance of Japan - United States trade has constituted another factor inhibiting the growth of Japanese exports to the United States.

As shown in table-13 and 1, the postwar history of Japan United States trade may be divided into three period; a period of Japan's import excess until 1965, a period of equilibrium in the years 1965-1970 and a period of Japan's export excess from 1970 upto the present. The balance of trade was restored to equilibrium temporarily in the years 1973-1975 due in part to business fluctuations, but the general tendency has been for Japan to move from a position of import excess to one of export excess.

In 1971 and 1977, Japan's excess of exports to the United States caused a particularly serious problem. Japan was asked to increase imports from the United States in order to correct the imbalance and it promised to do so.

The result, however, has tended to be a slowdown of Japanese exports to the United States, rather than an increase of Japanese imports. This leveling-off in the exports of Japanese textiles, TV sets, steel products, and so on is blamed on both direct and indirect import restrictions on the part of the United States. We cannot, however, overlook the huge imbalance of Japan-United States trade in the background. Had this huge imbalance not existed in Japan-United States trade as a whole, Japanese opposition would have been much stronger to the particular import restrictions imposed by the United States. In 1978 the Japanese government enforced 'voluntary restraints' on exports of automobiles and other products through administrative guidance, with a view to keeping the nation's trade surplus from getting larger. From the above discussion, it is pointed out that there has been accelerated growth in Japan's foreign trade with the United States and has brought stability in the economy of the country.

TABLE 13

THE BALANCE OF JAPAN'S TRADE WITH
THE UNITED STATES, 1960-1977
(BILLIONS OF DOLLARS)

Years	Japan's Exports to U.S.A	Japan's Imports from U.S.A	Balance
1960	n.a	n.a	n.a
1961	1.1	2.1	1.0
1962	1.4	1.8	(-) 0.4
1963	1.5	2.1	(-) 0.6
1964	1.8	2.3	(-) 0.5
1965	2.4	2.4	n.a
1966	3.0	2.7	0.3
1967	3.0	3.2	(-) 0.2
1968	4.1	3.5	0.6
1969	5.0	4.1	0.9
1970	5.9	5.6	0.3
1971	7.5	5.0	2.5

1972	8.8	5.9	2.9
1973	9.4	9.3	0.1
1974	12.8	12.7	0.1
1975	11.1	11.6	(-) 0.5
1976	15.7	11.8	3.9
1977	19.7	12.4	7.3

Source: Ministry of Finance, Clearance Statistics.

CONCLUSION

Japan Started trade with the United States since 1868, when the Meiji rulers opened the country to trade with the West. In the initial stage agricultural commodities like raw silk and cotton were exported by Japan to the United States and the terms of trade were in favour of Japan as shown in table - 1. Such trend continued upto 1930. But after the Second World War the economy of Japan Shattered and the Japanese Government prepared a strategy for the economic development of the country by exporting manufactured goods in place of agricultural commodities. This brought positive results and Japan was able to expand its exports of manufactures.

Looking at table 13, it may be observed that there has been continuous rise in balance of trade since 1968. Japan's excess of exports to the United States caused a particularly serious problem. In this regard Japan was asked to increase imports from the United States in order to correct the inbalance of trade. However, the balance of trade still continued in favour of Japan because of less price of imported raw goods as compared to exported goods. In this way the stability was maintained in the economy of the country.

END NOTES:

1. Ali A. Zaman, A and Baset, A. Economic Development of Japan, Dacea, 1967, First Edition, p.70
2. Klein, Law Rence and Ohkawa, Kazushi Economic Growth the Japanese Experience since the Meiji Era, United States of America, 1968, p, 162.
3. Hollerman, Leon Japan & the United States Economic & Political Adversaries, West View Press/Boulder, Colorado, 1980, p.111
4. Ibid p.112
5. Ibid p.113
6. Ibid
7. Ibid
8. Ibid
9. Japan's share of U.S. trade increased until 1970 but declined subsequently. In 1970, U.S. export to Japan accounted for 10.7 percent of all U.S. exports and U.S. imports from Japan accounted from 14.7 percent of all U.S. imports. By 1977, these shares had dropped to 8.8 percent and 12.7 percent respectively.

10. Hollerman, Loen Japan and the United
 States: Ibid, p.115
11. For a statement emphasizing this point, see, S. Okita,
 'Natural Resources Dependency and Japanese
 Foreign Policy, Foreign Affairs, July 1974.
12. In May 1977, the Japanese government agreed that
 it would restrict exports of colour TV sets to the
 United States in the three years beginning July 1977
 to 1,750,000 sets of which 1,560,000 sets would be
 finished products and 90,000 sets unfinished in
 exchange for the U.S. government promise that it
 would no restrictive measures against imports of
 colour TV sets from Japan. As regards steel products,
 the U.S. government adopted in February 1978 a
 trigger price system in an attempt to restrict their
 imports below standard price.