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U.S. STATEMENT ON JAPANESE MARKET ACCESS

Introduction

The issue of access to the Japanese market is one of deep concern to the United States. Layers of regulatory control, together with the ability of many industrial associations to exert considerable control over activity in their sectors, makes the Japanese market one of the most difficult to penetrate. This assessment of the Japanese market is held not only by American businessmen, but by businessmen from around the world. It is reflected in the low levels of manufactures imports in the Japanese market.

The problem of market access in Japan has come to be symbolized by the large bilateral trade deficit that could approach $50 billion this year. The deficit has become the focal point for protectionist pressures in Congress that threaten to disrupt our bilateral trade relationship. We recognize that the U.S. bilateral trade deficit with Japan *per se* is partly the product of macroeconomic forces. Nonetheless, it is also due to the fact that Japan's imports of manufactures remain very low, as data on import penetration illustrate. While some special factors -- poor resource endowment and cultural characteristics -- help explain the low levels of manufactures imports by Japan, it is the view of the United States Government that there are systematic governmental and government-sanctioned private practices which severely restrict market access in Japan.

It is clear from the data, as well as from views expressed by other countries, that this is not an exclusive U.S.-Japan problem. Both Japan's neighbors and its trading partners around the world find it equally difficult to overcome the systemic Japanese practices that bar access to the market. It is essential that these practices be addressed. The trading system cannot survive if one of the largest exporters and major beneficiaries of the system is not open to the trade of others.

The United States very much appreciates the efforts that have been made by the Government of Japan to open its market to imports by lowering explicit barriers at the border and reducing the complexity and administrative control inherent in many of its regulations. What is needed at this time, however, is not a scattering of concessions, but a systematic reform of the administrative process in Japan, and a reduction in the level of government-sanctioned regulatory controls exercised by industrial associations. We applaud the leadership shown by Prime Minister Nakasone and business organizations, such as the Industrial Bank of Japan and the Keidanren, in making concrete and far reaching proposals that could go a long way toward increasing the openness of the Japanese economy.

At the Bonn Summit, both Japan and the United States recognized the need to implement policies to _inter alia_ sustain non-inflationary growth and higher employment, to strengthen their ability to respond to new developments, and to correct persistent economic imbalances. The United States considers it essential to achieve a rapid and appreciable cut in public expenditures and thus a substantial reduction in the budget deficit. The Government of Japan considers it essential to persevere with its policy of budgetary discipline and strengthening market functions and to achieve further progress in deregulating financial markets, promoting the international role of the yen, facilitating access to markets and encouraging growth in imports.

The analysis below systematically examines the macroeconomic factors accounting for the large U.S.- Japan trade deficit. It also looks at Japan's role in the trading system -- in particular its low propensity to import manufactures -- and the range of trade restrictions that continue to limit the entry of foreign imports into the Japanese market.

Macroeconomic Factors

Japan's trade surplus with the United States was $37 billion in 1984, and is expected to reach $50 billion this year. The U.S. Government recognizes that these balances, as against the low level of Japanese manufactured imports, are partly influenced by macroeconomic conditions in both countries.

Japan's global current account surplus has risen from $7 billion in 1982 to $21 billion in 1983 and $35 billion in 1984. Similarly, its merchandise trade surplus has grown from $18 billion in 1982 to $32 billion in 1983 to $44 billion in 1984. The OECD estimates that in 1985, Japan's global current account surplus will reach $40 billion and its merchandise trade surplus will reach $48.5 billion. The corresponding net capital outflows from Japan have risen in tandem. Much of the growth in Japanese capital outflows has been associated with the relatively more attractive investment opportunities and the rapid growth of demand abroad. From time to time real interest rates outside Japan, particularly in the United States, have attracted Japanese capital. But in the past year or so, interest rate differentials have moved in favor of yen-denominated assets. The growth of the Japanese current account surplus with the world (and growth of net capital outflows) has closely tracked the growth in Japan's bilateral current account surplus with the United States: $15.8 billion in 1982, $18.3 billion in 1983; and $35.2 billion in 1984 (as measured by U.S. balance of payments data).

The Japanese gross domestic saving rate has exceeded gross domestic investment requirements for some time. This is partly due to incentives in the Japanese tax system which encourage savings. This has provided additional capital resources for the rest of the world economy and contributed to the large Japanese current account surplus. The United States, on the other hand, has been a substantial net borrower in international capital markets, as reflected in our current account deficit.

The large net capital outflows from Japan are the result of the high Japanese propensity to save. Gross saving (roughly the sum of household saving, retained corporate earnings, and consolidated government budget balances) equaled an average of 32.6 percent of Japanese GDP from 1974 to 1981, according to OECD data. Comparable figures are 22.2 percent for all of OECD and 18.9 percent for the United States. Differences in household saving performance alone account for roughly all the difference in overall gross national saving rates: as a share of GDP Japanese households saved 21.4 percent on average from 1974 to 1981 while U.S. households saved 7.4 percent and households throughout the OECD an average of 12.0 percent.

The slowdown of domestic growth and investment rates in Japan over the last decade, without a compensating change in savings rate, also contributed to high levels of capital outflows. In the 1960s and early 1970s, Japanese real GDP grew at an average compound growth rate of roughly 10 percent (compared to roughly 5 percent for OECD and roughly 4 percent for the United States). During this period of extremely high growth, the Japanese economy absorbed its high rate of gross domestic saving (35.3 percent of GDP during this earlier period). Japan's real growth rate dropped to just under 4 percent during the period 1973 to 1984, but there was little corresponding drop in the gross domestic saving rate. Sustained net foreign lending and large current account surpluses have been the inevitable result.

While Japan has, with few exceptions, run current account surpluses and corresponding capital outflows since the early 1970s, in the last two years Japanese net capital outflows have reached all time highs. At the same time, the U.S. is experiencing a significant gap between domestic savings and investment. In searching for solutions to the macroeconomic dimension of the current trade problems, we recognize that there are responsibilities on both sides. Current efforts to reduce U.S. Government spending and deficits, together with a package of tax reforms designed in part to raise the U.S. saving rate are significant U.S. contributions to easing the bilateral deficit with Japan.

On the Japanese side, the gap between domestic saving and investment suggests unrealized opportunities for domestic investment. For example, social infrastructure in Japan remains behind that of other industrialized countries. Japan's standards of housing also lag behind other industrialized countries. Investment and credit policy in Japan is essentially a matter of Japan's internal policy management. Nevertheless, these types of issues must be addressed in any discussion of the convergence of macroeconomic policies to reduce global payments imbalances.

However, these are not just concerns of government officials in Tokyo and Washington. They are major issues for business and industry groups in both countries. One can readily understand growing pressures in America to address the large trade deficit. Even in Japan there is growing concern about the implications of the current trade surpluses and net capital outflows on the domestic economy, as well as on Japan's international trade relations.

As an illustration of Japanese concern over macroeconomic policy, we cite the Industrial Bank of Japan, which devoted its Quarterly Survey of January-March, 1984 (number 57) to this matter. The Survey discusses two scenarios for Japan's trade performance in the 1983-1990 period. The first projects an annual export growth rate of 5 to 6 percent per year which, while lower than the 9 to 10 percent per year average annual growth rate in the 1970's, is still high by world standards. Imports are projected to hover around an annual growth rate of 4.5 percent. This would result in a current account surplus as high as $80 billion in 1990, or close to $400 billion total in the 1983-1990 period. This is approximately the same as the combined surplus recorded by the OPEC countries in the period 1974-1981. The report observes:

> If we fail to devise some appropriate measures to cope with the situation, this might have a destructive effect on the

> structure of the world economy. It is extremely unwise to build up a gigantic current account surplus and it therefore seems inevitable that the Japanese economy will undergo a structural change in the years to come.
>
> If Japan succeeds in taking proper measures, it will necessarily follow that Japan's trade structure also undergoes significant change. (page 26)

Assuming Japan actually takes such "proper measures," the second scenario shows exports growing at an annual rate of about 4.8 percent, and imports around 5 percent, in the 1983-1990 period. The current account surplus will amount to $50 billion in 1990. The increasing ratio between the size of the surplus and the size of the economy will be reversed in the 1987-1988 period and will then start to diminish. This projection is based on the premise that export growth will gradually decline in the latter half of the 1980's as a result of direct investment and replacement of domestically manufactured products by imports. The report pays considerable attention to the potential role played by investment in residential construction and in social overhead capital. In addition, under this scenario, imports of finished goods will account for 40 percent of total imports as opposed to the current level of 25 percent.

Clearly, the fact that the Industrial Bank of Japan is expressing concern over the current growth trends of Japanese trade and current account surpluses, indicates a need for macroeconomic adjustments by both trading partners. It also may suggest a willingness on the part of the Japanese private sector to encourage the Japanese Government to take a stronger leadership role in the management of the international trading system.

There is no doubt that macroeconomic policy factors must be addressed by both sides. The fundamental trade policy issue, however, lies with Japan's restrictive import policy measures. Even if the aggregate imbalances were greatly reduced or disappeared altogether, the problems of Japanese import restrictions would still be of serious concern to the U.S. Government. No where is this concern greater than in the area of trade in manufactures.

Japan's Role in the Trading System

In recent months there has been considerable international discussion about Japan's imports of manufactured goods relative to the economy. The United States has taken a close look at recent U.N. trade statistics on aggregate imports of manufactures by Japan, and Japanese imports of manufactures from developing countries. We also compared these data for Japan with data for the U.S. and EC. We used annual figures for SITC categories 5 through 9 for the years 1975 through 1983 as, unfortunately, 1984 statistics are not yet available. All figures for the EC exclude intra-EC trade and consider the EC as an entity. (Attached to this paper are the compiled data along with some graphs that display certain key comparisons.)

As the first table indicates, from 1975 to 1983, total Japanese imports of manufactures from the world and from less developed countries (LDCs) increased substantially over the eight-year period -- at rates faster than those of the EC, but not so fast as the U.S. The total value of Japan's imports of manufactures increased by 282 percent, while U.S. imports increased by 325 percent, and EC imports increased by 226 percent. Imports of manufactures from LDCs for the same period increased by the following amounts: Japan's imports increased by 319 percent; U.S. imports increased by 483 percent; and the EC's imports increased by 259 percent.

However, Japan imported only $11.7 billion of manufactures in 1975, and its total imports in 1983 were only $33 billion -- despite the large percentage increase over that period. This compares with 1983 total imports of manufactures by the U.S. of $177.5 billion and by the EC of $141.6 billion. Due to the smaller absolute amounts involved, however, by 1983, Japan's total imports of manufactures were only 18.6 percent of those of the U.S. and 23.3 percent of those of the EC. The situation is similar for imports of manufactures from LDCs: in 1983, Japan imported $8.3 billion, whereas the U.S. imported $49.7 billion and the EC imported $24.9 billion. Japan's imports of manufactures from developing countries were only 16.7 percent of those of the U.S. and 33.3 percent of those of the EC.

These figures are perhaps more relevant when considered relative to Gross Domestic Product (GDP). Table 2 shows that in 1983, Japan's total import of manufactures as a percentage of GDP was 2.9. In contrast, in 1983 the percentage was 5.0 for the U.S. and 6.2 for the EC. For manufactured imports from developing countries as a percent of GDP, the 1983 figure for Japan was 0.7. The 1983 figures for the U.S. and the EC were higher, 1.4 and 1.1 percent, respectively.

The openness of industrial country markets to the manufactured exports of developing countries is worth particular attention because of the importance of manufactures production and export to the development process. We turn to data provided by the GATT in its annual volume entitled, International Trade, to calculate the market shares of various industrial countries in the total manufactured exports of developing countries to all industrial countries. (The GATT definition of manufactures is the same as used above except for the exclusion of category 68, non-ferrous metals.) These data contained in table 3 indicate that the U.S. share of LDC manufactured exports to the industrial country group has risen from 45 percent in 1979 to 58 percent in 1983. When the data are available, they will undoubtedly show a U.S. share above 60 percent in 1984, due to the sharp rise in U.S. imports of manufactures from LDCs last year. Shares for the EC and Japan from 1979 to 1983 fell by similar proportions (26 percent and 28 percent, respectively), but in absolute terms the EC imported four times the amount of LDC manufactured products than Japan. For the developing countries, Japan is a minor export market. Japan accepted 10.7 percent of all LDC exports of manufactures to industrial countries in 1979, but only 7.7 percent in 1983.

Japan has often made the argument that its domestic resource base necessitates the importation of raw materials and the exportation of manufactured goods. We recognize that Japan has a resource distribution pattern distinct from that of the U.S. or the EC, and we adjusted the Japanese figures to take account of this distinction. We assumed that Japan has been provided with a supply of resources such that the need to import non-manufacturers decreased, as a percentage of GDP, to the U.S. level and, separately, to the EC level. We then recalculated the figures for Japan for total manufactured imports as a percentage of GDP. See tables 4 and 5 and the accompanying technical note for an explanation of the adjustment calculations.

Taking into account the adjustment for resource allocation, in

1983 the U.S.-adjusted Japanese figure is 3.3 percent, while the U.S. figure, of course, remains at 5.0 percent. The 1983 EC-adjusted figure for Japan is 3.0 percent, while the EC's figure remains at 6.2 percent.

While the resource adjustment does reduce the margin between the Japanese ratio and the ratios of the U.S. and EC, a considerable gap remains. Thus, it appears that Japan's need to import relatively large amounts of non-manufactures accounts for only a small part of its low propensity to import manufactures, compared to those of the U.S. and the EC.

Another useful measure of Japan's role in the trading system is total imports of manufactures and of manufactures from developing countries on a per-capita basis. See table 6. In 1983, Japan's per-capita imports of manufactures were $277, while the figure for the U.S. was $757 and that for the EC $520. 1983 per-capita imports of manufactures from developing countries were $70 for Japan, $212 for the U.S. and $92 for the EC. Regional proximity would argue for larger imports by Japan from its developing country neighbors. In fact, this has not taken place.

Statistical analysis is always subject to interpretation. These data do not take into account such factors as proximity to exporting countries and transportation costs, consumer tastes, and efforts by exporters to sell in a market. It is not clear to us what kind of adjustments would be required to correct for these factors. For example, the proximity of Japan to the advanced developing country markets of South Korea, Singapore and Hong Kong would seem to lead to higher levels of manufactured imports from these countries in a free market situation. However, it is evident that Japan's imports of manufactured goods have been increasing only very slowly in recent years. The data also show striking differences in import penetration of manufactured products in Japan, as compared with the U.S. and EC. These differences occur in both aggregate and per-capita figures for total imports of manufactures and imports of manufactures from LDCs. Even when adjusted for resource allocation, a considerable gap remains.

Japanese Trade Restrictions

We are less concerned with the macroeconomic factors, trade statistics, and the balance of Japan's trade with the United States and the rest of the world than we are with reciprocal access to the Japanese market for foreign manufactures. Our fundamental objective is to encourage reform and liberalization of the systemic governmental measures and government-sanctioned private practices that restrict the entry of foreign imports into the Japanese market.

Systemic Japanese governmental measures include formal measures, such as tariffs and quotas. While some of these explicit restrictions have been reduced over the years, tariffs and quotas continue to severely restrict imports of certain products of interest to Japan's trading partners. High tariffs effectively limit imports of wood, paper, some fisheries, aluminum and various petrochemicals, for example. Import quotas continue to restrict imports of fisheries, leather and leather goods, and an extensive list of agricultural products. Such formal governmental measures limit trade opportunities for both developed and developing countries, even though foreign supplies are frequently cheaper and of higher quality due to lower material and/or energy costs or natural endowment.

Formal government measures that restrict foreign access to the Japanese market are not limited to high import tariffs or quotas. The Japanese Government often directly intervenes in the market to ensure that Japanese suppliers have a dominant position. New foreign manufactured products are often prevented from entering Japan's market until domestic producers have developed competitive technology. In addition, when allowed to enter, imports are sometimes penalized. As an example of this systematic Japanese Government action, we cite the case of an American company which, until recently, was the sole supplier to Japan of a certain type of aluminum sheet for use on aircraft (aluminum aircraft skin). During the time that this special product could not be produced in Japan, the import tariff on its entry was suspended. On April 1 of this year, after two Japanese firms began producing the aluminum product, the Japanese Government restored the 11.5 percent tariff. Now, in addition to meeting the new competition of the two Japanese suppliers, the U.S. firm must overcome the tariff to remain competitive in Japan.

Unlike tariffs, many other forms of formal Japanese Government intervention in the market are not explicit and transparent. Foreign firms attempting to do business in Japan complain they are confronted with an endless source of barriers and delays in processing documentation and gaining approval to compete. In one case, a patent application for optical fiber filed in Japan by a foreign firm was pending for ten years, during which time a similar domestic product became available.

Japan's regulatory policy structure is a significant source of non-tariff barriers. Although most of the regulations were not intended to protect the domestic market, they have ended up obstructing imports because they have not been reformed to keep pace with Japan's growing role in international trade. In some cases, the policy objectives for which the measures were to serve have changed, but the implementation of the measures continues and is treated by the Japanese bureaucracy as ends in themselves. In other cases, measures do not comply with internationally accepted practices or standards, thereby impeding imports in terms of cost, time and trouble. Still in other cases, overlapping regulations and excessively detailed documentation requirements limit import growth.

The trade-distortive effect of Japanese regulatory policy is clearly seen in the area of standards, testing and certification procedures. Although some improvements have been made in the last few years, Japanese standards, testing and certification procedures remain a major barrier to imports. Even though Japan is a signatory to the GATT Agreement on Technical Barriers to Trade (the "Standards Code"), it has not fully lived up to the spirit or the obligations of the Code in the important areas of acceptance of certain foreign test data and transparency in standards-setting and approval systems. Moreover, some Japanese ministries have not allowed factory inspections and product type approvals to be performed by competent foreign testing entities. In the view of many foreign competitors, it is inequitable for Japanese importers to reject manufactured products on the grounds that they do not meet certain standards, without telling suppliers what the standards and testing procedures are and how the products can be certified.

Japan's informal measures to restrict imports are less apparent, but are sometimes more restrictive than formal barriers. A frequent complaint of foreign suppliers is that opportunities for trade are limited by the operation of informal industry groups. In many areas of commerce, the Japanese Government has acceded direct regulatory responsibility to industry groupings or associations that then collude to limit foreign participation in the market.

While Japanese law provides for the formation of structural cartels for the purpose of rationalizing production in designated sectors, the practical effect is to restrain imports. This is seen quite clearly in the Japanese paper industry, where cartels have existed for some time because of difficulties due to high energy and raw material costs. Despite denials by Japan that the paper industry cartels restrain imports, the growth of low-cost imports has been small and import penetration ratios are artificially low.

The operation of the Japanese distribution system is another informal means by which imports are kept under strict control. The distribution system is a closely-knit network of financial and other mutual arrangements that link suppliers, distributors and customers. Entry into the system is virtually closed to foreign suppliers, and new Japanese entrants are barred. While it is theoretically possible to operate outside the distribution system, it is not a practical solution because of discrimination and prohibitive costs -- even for a Japanese newcomer. Despite the restrictive nature of this system, Japanese officials have concentrated more on defending it than on creating a more open distribution system.

Other practices, attitudes, and institutions in Japan also inhibit imports. A common practice in Japan, which foreign firms consider discriminatory, is the mutual assistance efforts among companies known as the _keiretsu_. A _keiretsu_ usually consists of companies in diverse fields, such as manufacturing, banking and foreign trading, that support one another's activities and, in effect, indirectly preclude opportunities in these areas for others. For example, the trading company in the group would be reluctant to handle a product similar to one sold by another company in the _keiretsu_.

Formal and informal restrictions on access to the Japanese market are not limited to the goods sector. Numerous restrictions limit the opportunity for foreign service companies to effectively compete in Japan. One example is the privately-formed Japanese bar association that effectively denies foreign lawyers the opportunity to practice in Japan. Another example is the association of credit card companies that, until only recently, excluded foreign membership, and still exclude foreign participation on the decision-making board.

Japanese trade restrictions -- whether formal or informal in nature -- are stifling to international commerce. Foreign concern over these measures cannot be satisfied simply by further reductions in explicit tariffs and quotas. Concerted action is needed to reform the panoply of governmental and government-sanctioned private trade practices that lead to discriminatory and inequitable treatment of foreign firms in the Japanese market.

Japanese Domestic Commentary on the Trade Situation

Opening up the domestic market to imports is of concern not only to Japan's trading partners. Increasingly, domestic business groups and the public are calling for fundamental reforms in the structure of Japan's foreign economic relations. These arguments are based on the benefits a truly open market can provide to Japanese consumers as well as to the maintenance of the international trading system.

The most influential business organization in Japan, the Keidanren (Japan Federation of Economic Organizations), recently published a proposal for a comprehensive overhaul of Japan's trade regulatory system. The Keidanren statement, published February 4, 1985, under the title, "Smoothing the Way for Imports: Keidanren Presses for Regulatory Reform", notes that "faced as [Japan is] with a mounting surplus in the balance of trade... it is necessary, for the maintenance and growth of free trade, to make repeated and unstinting efforts to remove every sort of barrier that may impede imports."

According to the statement of this prestigious Japanese business organization, "major obstructions to trade exist in the systems of authorization, inspection and paperwork processing". The group urges the Japanese Government to take "prompt legislative action to adjust to changes in economic realities", and sets out seven guidelines for the improvement of Japanese import laws and implementing regulations. These are:

1) Grouping of regulated items into categories: Procedures for regulation should be better matched to the items subject to regulation, so that categories of items can be exempted and procedures simplified across the board.

2) Regulation suited to the flow of goods: In order to minimize clearance processes, regulatory procedures should be conducted at the most appropriate time and place.

3) Internationalization and simplification of standards: While recognizing that improvements are underway, Japanese standards should be reassessed in light of international practice, and should be made more explicit and less burdensome.

4) Coordination among different laws and administrative bodies: Overlapping regulations among various laws and difference enforcement agencies should be eliminated and abbreviated pro-

cedures made standard practice, so as to facilitate the flow of goods.

5) Simplification of documentation: Some documentation is necessary, but the submission of unnecessary forms, the filing of irrelevant items, and elaborate procedures to effect trifling amendments should not be required.

6) Promotion of communication among all concerned parties: A dialogue should be established between the government and the private sector, both foreign and domestic, concerning authorization formalities.

7) Formation of special teams to clear up backlogs: Measures should be taken to eliminate backlogs in paperwork.

These sets of measures, if implemented, would constitute significant progress in the effort to make Japan's market more accessible to foreign products and services. The fact that the most influential business organization in Japan would advocate such changes indicates the growing consensus within Japan that concrete steps should be taken to allow free entry and open competition in the Japanese market.

In addition to advocating major administrative and regulatory reforms, the Keidanren also has addressed Japan's role, as a major participant in the world economy, in keeping trade free. In its statement made public on February 26, 1985, the Keidanren noted Japan's "duty to respond to the frustrations felt by [Japan's] trading partners and to strive to meet the expectations of the developing countries." The statement, entitled, "Toward Rebuilding and Strengthening the Free-Trade System", urges a set of specific proposals for both the short and long term.

For immediate action, the Keidanren proposes: a) the reduction and elimination of tariffs; b) the reform of trade-related regulatory procedures; c) the promotion of manufactured imports; d) increased dialogue with industrial counterparts abroad; and e) the promotion of personal exchanges, including the right of foreign attorneys to set up offices and offer their services in Japan.

As issues for longer-range concern, the following measures are proposed: a) a new round of multilateral trade negotiations; b) an elimination of restraints outside the GATT framework; c) liberalization of residual import quotas; d) the promotion of direct investment overseas; e) increased cooperation with developing countries; and f) greater transparency in administrative policy.

We consider it significant that the Keidanren is advocating that:

> Japan must now assume a major role in rebuilding and strengthening the free-trade system. We must work even harder than other countries to open our domestic market wider still, and we should be ready to shoulder our share of the costs. At the same time, we must redouble our efforts to carry forward the administrative reform program and put a stop to excessive government intervention. And administrative policy must be made more transparent.

The Keidanren is not alone in calling for a more open trade policy for Japan. As mentioned earlier, the Industrial Bank of Japan shares this view. It is also noteworthy that a sizeable share of the Japanese public is aware of the serious economic implications of continued restrictions on market access in Japan.

Over the past several years, the Japanese public has consistently tended to see Japan following a policy of restrictions as opposed to free trade. In March 1985, the U.S. Information Agency (USIA) released the results of the annual Japanese public opinion survey on economic issues conducted among a representative sample of 1,006 adults. According to this survey, the current margin of belief in Japanese protectionism stands at 53 to 31 percent, showing an increase in this perception over last year when the figures were 44 to 37 percent. Protectionism appears to be an important concern among the Japanese public.

Another recent survey, this one conducted by a major Japanese newspaper, Asahi Shimbun, asked the Japanese public to translate the perception of protectionist Japanese policy into a suggested course of action. The Asahi Shimbun conducted its survey among 3,000 persons in May, 1985. The poll shows that 46 percent of the sample surveyed felt that the Japanese Government should take drastic action to reduce Japan's massive trade surpluses. In addition, 42 percent said that the import of good and inexpensive products should be allowed freely into the country. Japan's trading partners would contend that this indication of Japanese public opinion of Japan's role in the trading system is a significant development. Public opinion alone is not enough, however; it must be followed by concrete market-opening measures.

Conclusion

The current imbalance in the Japanese current and trade accounts is placing undue strain on the bilateral trade relationship between the United States and Japan. The U.S. Government recognizes that the trade deficit *per se* is partly the product of macroeconomic forces. These large deficits would not create such strong pressures for protectionist responses, were the Japanese market more open to imports -- both in fact and in perception. The

Administration has resisted pressures in Congress for protectionist actions against Japan, but will find it increasingly difficult to do so without concerted steps on the part of Japan to open its market.

We laud Prime Minister Nakasone's "New Economic Initiative" of April 9, 1985, and his personal efforts to increase foreign imports. We note with great interest the recommendations to the Japanese Government put forward by the Advisory Committee for External Economic Issues, under the chairmanship of Saburo Okita, former Minister for Foreign Affairs. The report, known as the Okita Report, calls for action in the following areas of significance to Japan's trading partners:

o tariffs (maximum efforts should be made to abolish or drastically reduce tariffs);

o standards, certification and import processes (they should be rationalized on the basis of the principles of simplicity and transparency);

o government procurement (procurement of foreign products should be expanded); and

o services (further liberalization is needed).

We note that these recommendations echo many of the concerns expressed by the Industrial Bank of Japan and the Keidanren by calling for greater "autonomy and positiveness", "internationalism", and "effectiveness and transparency" in Japan's trade policy. Over the coming months and years, we will be closely following Japan's efforts to open its market to foreign goods and services, reduce or eliminate administrative and regulatory barriers, and liberalize residual import quotas.

It is imperative that Japan take these steps to keep up its end of the bilateral trade relationship and to shoulder its responsibilities for the multilateral trading system. Japan's trade imbalance, low levels of imports of manufactures from both developed and developing countries, and continuing limitations on market access are seriously straining the international trading system. As an island nation with few natural resources, Japan is one of the major beneficiaries of open international trade. Yet, many of its trading partners believe that it is not moving with determination to open its domestic market and to accept greater responsibility for maintaining and strengthening the trading system.

Japan's support for new multilateral trade negotiations is one step in the right direction. However, it must be complemented with significant market-opening measures to restore a sense of equity to the trading system. Only then will Japan be playing a leadership role in steering a trading liberalizing course for the global economy. As the Okita Report to Prime Minister Nakasone concludes, "the time has come for Japan to courageously pay the price of internationalization and to contribute positively to the betterment of the international community."

Table 1

Imports of Manufactures
($ billions)

Year	From all Countries Japan	US	EC	From LDC's Japan	US	EC
1975	11.7	54.6	62.6	2.6	10.3	9.6
1976	13.7	68.7	73.2	3.8	14.7	12.1
1977	15.0	81.3	85.6	4.0	17.8	14.3
1978	20.6	110.6	108.5	5.8	25.1	18.1
1979	28.2	123.0	139.8	8.5	29.2	25.1
1980	31.5	137.1	171.4	8.3	33.2	31.0
1981	32.3	155.2	145.8	9.1	38.9	25.9
1982	31.2	157.2	140.2	8.4	40.1	24.4
1983	33.0	177.5	141.6	8.3	49.7	24.9

Table 2

Manufactures Imports as Percent of GDP

Year	From all Countries Japan	US	EC	From LDC's Japan	US	EC
1975	2.4	3.6	4.5	0.5	0.7	0.7
1976	2.4	4.0	5.1	0.7	0.9	0.8
1977	2.2	4.3	5.2	0.6	0.9	0.9
1978	2.1	5.2	5.3	0.6	1.2	0.9
1979	2.8	5.2	5.7	0.9	1.2	1.0
1980	3.0	5.3	6.1	0.8	1.3	1.1
1981	2.8	5.3	5.9	0.8	1.3	1.0
1982	2.9	5.2	5.9	0.8	1.3	1.0
1983	2.9	5.0	6.2	0.7	1.4	1.1

Table 3

Share of Total Industrial Country Imports of Manufactures from LDCs
(percent)

Year	U.S.	Japan	E.C.	Canada
1979	45.33	10.65	36.60	3.02
1980	44.93	8.86	38.42	2.70
1981	50.81	9.34	31.93	3.32
1982	52.80	8.86	30.39	3.16
1983	57.58	7.71	27.09	3.68

Sources:

Table 3 - GATT data, U.S. government calculations
All other tables - U.N. data, U.S. government calculations

Table 4

US and Japanese Imports of Manufactures as Proportion of GDP with and without Resource Adjustment[1/]

Year	US Imports of Manufactures as % of GDP	Japanese Imports of Manufactures as % of GDP	Adjusted Japanese Percentage[1/]
1975	3.6	2.4	2.9
1976	4.0	2.4	3.0
1977	4.3	2.2	2.6
1978	5.2	2.1	2.4
1979	5.2	2.8	3.3
1980	5.3	3.0	3.6
1981	5.3	2.8	3.3
1982	5.2	2.9	3.5
1983	5.0	2.9	3.3

Table 5

EC and Japanese Imports of Manufactures as Proportion of GDP with and without Resource Adjustment[1/]

Year	EC Imports of Manufactures as % of GDP	Japanese Imports of Manufactures as % of GDP	Adjusted Japanese Percentage[1/]
1975	4.5	2.4	2.8
1976	5.1	2.4	2.6
1977	5.2	2.2	2.3
1978	5.3	2.1	2.2
1979	5.7	2.8	3.0
1980	6.1	3.0	3.3
1981	5.9	2.8	3.0
1982	5.9	2.9	3.1
1983	6.2	2.9	3.0

1/ For explanation of adjustment procedure, see the technical note following tables.

Table 6

Per-Capita Imports of Manufactures
(dollars)

Year	From all Countries Japan	US	EC	From LDC's Japan	US	EC
1975	105	253	235	23	48	36
1976	121	315	274	33	68	45
1977	131	369	320	35	81	54
1978	179	497	405	50	113	67
1979	243	547	520	73	130	93
1980	270	602	635	71	146	115
1981	275	675	538	77	169	95
1982	264	677	517	71	173	90
1983	277	757	520	70	212	92

Technical Note to Tables 4 and 5

One possible reason for Japan not to import more manufactures is that, with few natural resources, Japan must import the bulk of its industrial raw materials and fuel. This need implies that a trade surplus on manufactured goods is required to balance its overall accounts. In other words, Japan of necessity must have a comparative advantage in manufactured goods to offset its comparative disadvantage in manufactured goods could be expected to lower its import propensity for those goods.

Tables 4 and 5 present results from an attempt to adjust for the resource-endowment factor with respect to comparisons to the U.S. and the EC. The adjustments are carried out as follows:

We assume that Japan is provided by Providence with a new supply of natural resources such that its need to import non-manufactures is reduced as a percent of its GDP to the U.S. (or EC) level. Then we calculate the resulting reduction in non-manufactures imports.

This reduction in import requirements would reduce the surplus on manufactured-goods trade needed to achieve the same overall external balance. The mechanism through which this adjustment would occur would presumably be real appreciation of the yen, which would simultaneously reduce exports of manufactures and increase imports of manufactures (other imports being held constant at the new proportion of GDP). The adjustment would proceed until the size of the reduction in the surplus of manufactures equaled that of the reduction in imports of non-manufactures.

The extent to which this adjustment process would be reflected in higher imports of manufactures can be calculated on the basis of assumptions about the relative sensitivity of imports and exports (of manufactures) to changes in the exchange rate. That is, the higher the price elasticity of demand for Japanese exports of manufactures relative to the price elasticity of Japanese demand for imports of such goods, the greater the proportion of the adjustment that will occur on the export -- rather than the import -- side of the trade balance.

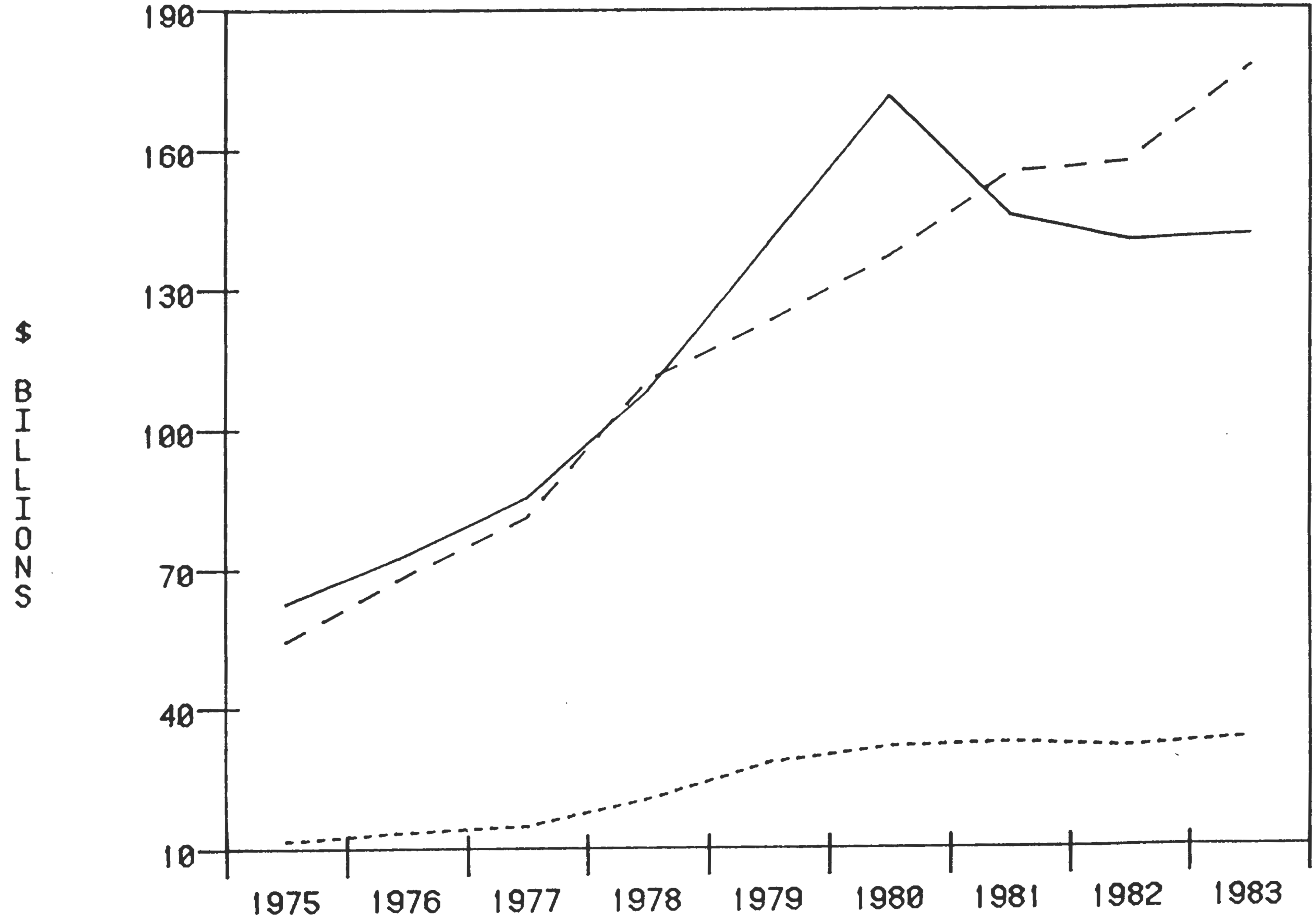
Another factor which influences the extent to which the trade-balance adjustment occurs in exports rather than in imports is the pre-adjustment balance of trade in manufactures. The higher the ratio of imports to exports of these goods, the greater the portion of the adjustment that will occur on the import side of the ledger.

Based on econometric estimates furnished by Data Resources Inc., we have adopted assumptions which we believe to be conservative about the magnitudes of these elasticities. Taking these assumptions, we calculated adjusted levels of manufactures imports corresponding to two hypothetical resource-rich Japans. In Table 4, ratios of manufactures imports to GDP for Japan are given on an unadjusted basis and adjusted on the assumption that Japan's dependence on non-manufactures imports relative to GDP were equal to that of the United States. In Table 5, the unadjusted Japanese manufactures-imports rations are presented together with ratios which have been adjusted on the assumption that Japan's dependence on non-manufactures imports relative to GDP were equal to that of the EC.

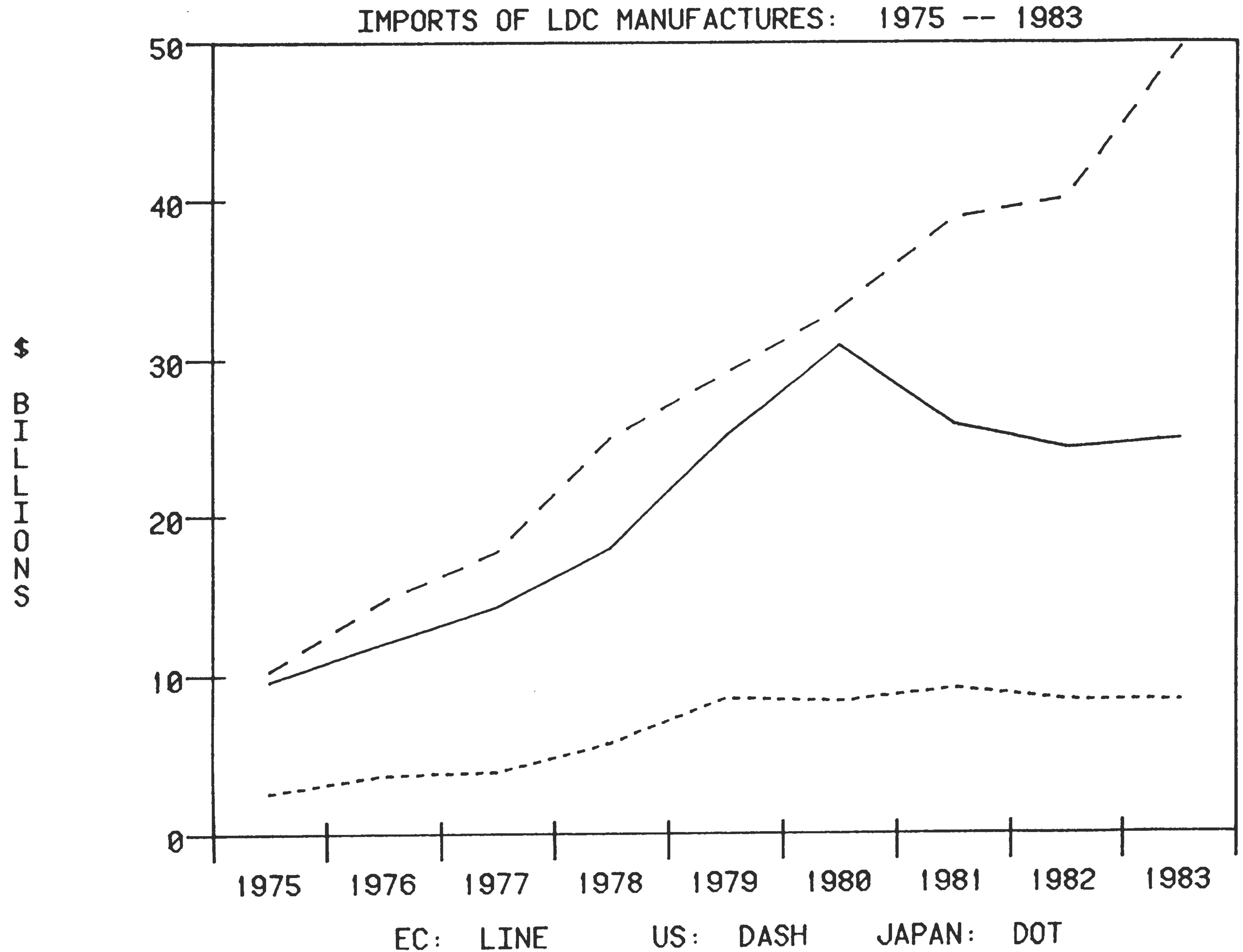
The data of Tables 4 and 5 show that, while the adjustment procedures does reduce the gap between the U.S. and EC ratios on one hand, and the corresponding Japanese ratios on the other, a considerable gap remains.

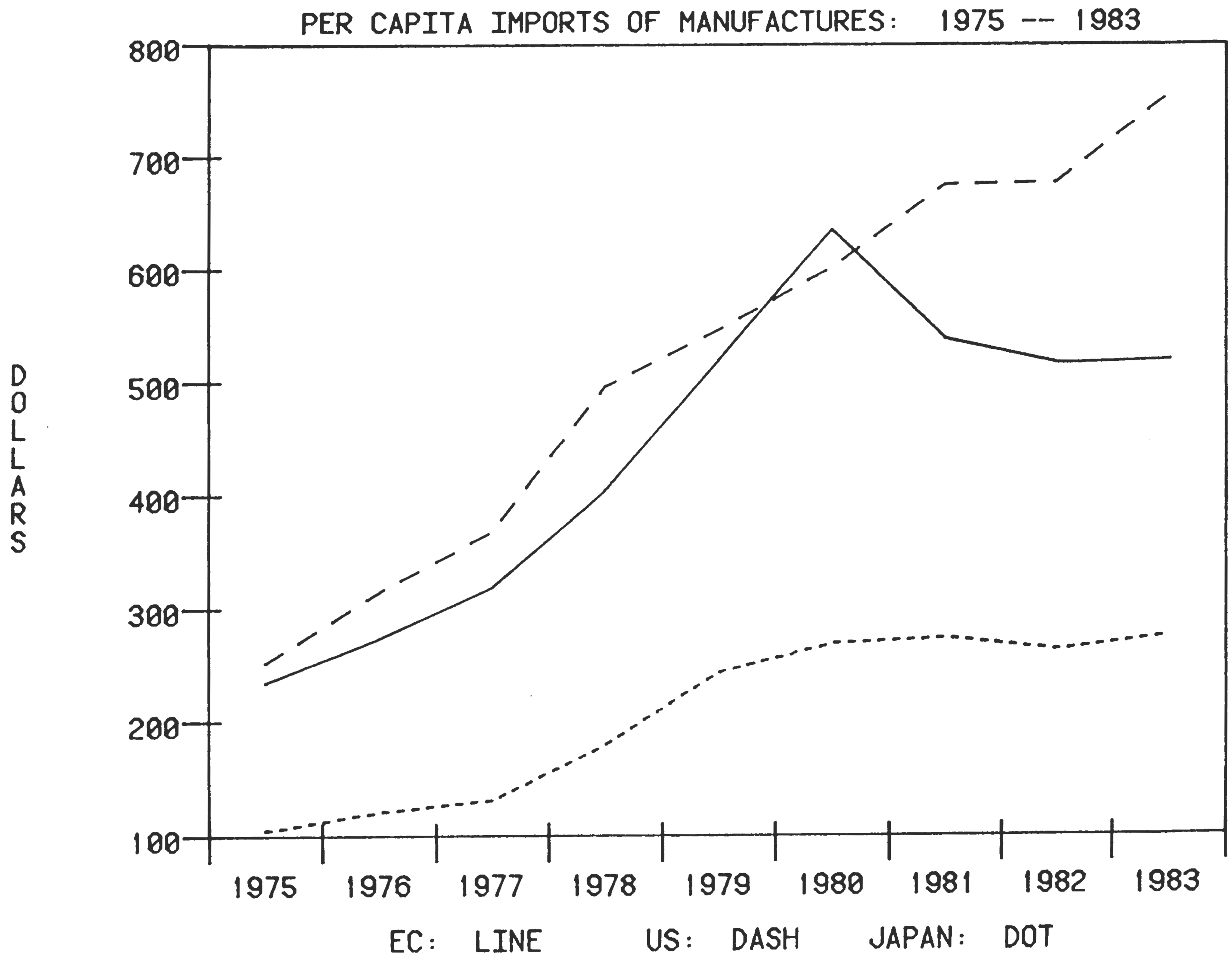
Thus, we tentatively conclude that Japan's need to import relatively large amounts of non-manufactures accounts for only a small part of its low propensity to import manufactures (compared to those of the United States and the Community).

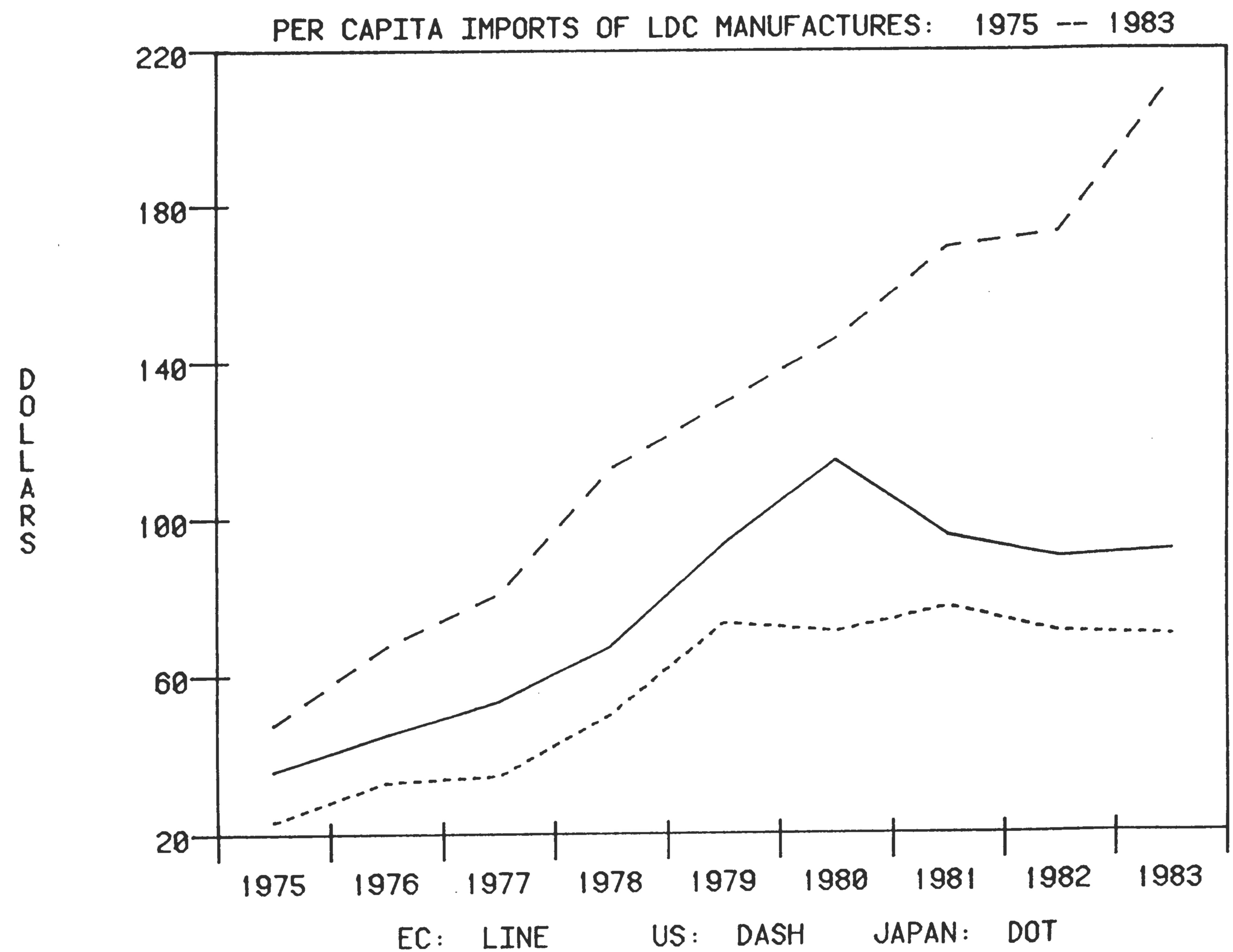
IMPORTS OF MANUFACTURES: 1975 -- 1983

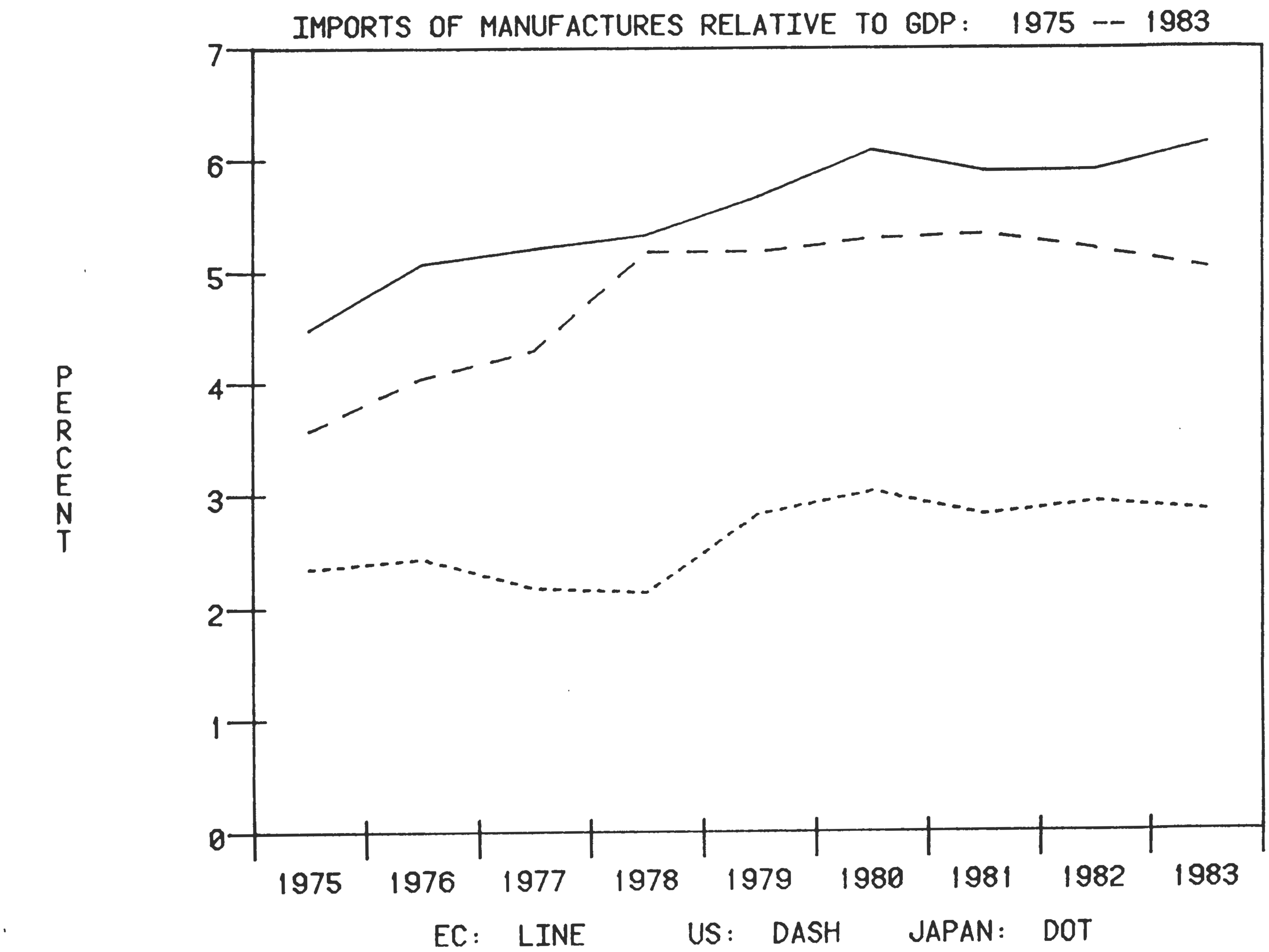


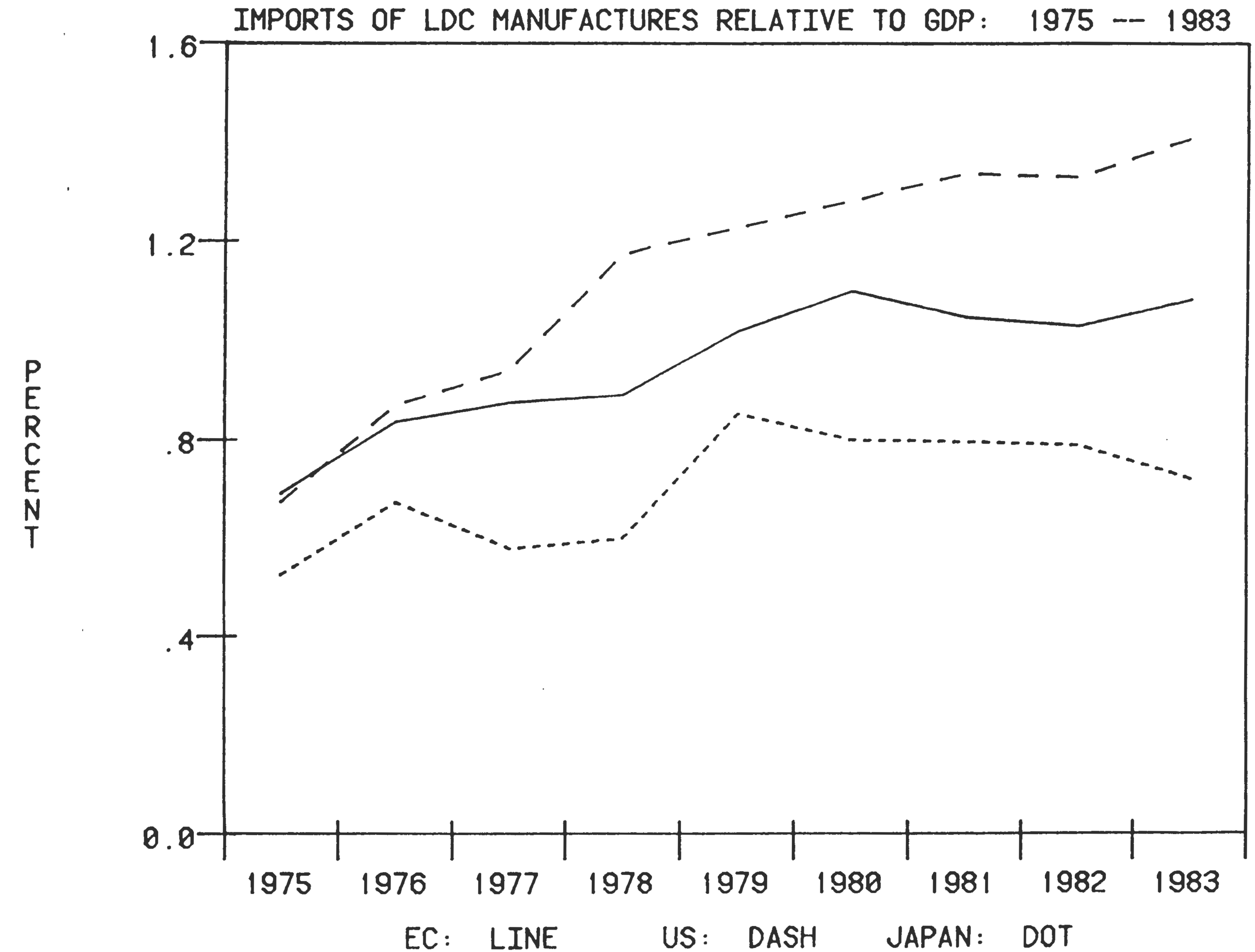
EC: LINE US: DASH JAPAN: DOT


IMPORTS OF LDC MANUFACTURES: 1975 -- 1983
$ BILLIONS
0
10
20
30
40
50
1975
1976
1977
1978
1979
1980
1981
1982
1983
EC: LINE
US: DASH
JAPAN: DOT


PER CAPITA IMPORTS OF MANUFACTURES: 1975 -- 1983
DOLLARS
800
700
600
500
400
300
200
100
1975
1976
1977
1978
1979
1980
1981
1982
1983
EC: LINE
US: DASH
JAPAN: DOT


PER CAPITA IMPORTS OF LDC MANUFACTURES: 1975 -- 1983
DOLLARS
220
180
140
100
60
20
1975
1976
1977
1978
1979
1980
1981
1982
1983
EC: LINE
US: DASH
JAPAN: DOT


IMPORTS OF MANUFACTURES RELATIVE TO GDP: 1975 -- 1983
PERCENT
0
1
2
3
4
5
6
7
1975
1976
1977
1978
1979
1980
1981
1982
1983
EC: LINE
US: DASH
JAPAN: DOT


IMPORTS OF LDC MANUFACTURES RELATIVE TO GDP: 1975 -- 1983
PERCENT
1.6
1.2
.8
.4
0.0
1975
1976
1977
1978
1979
1980
1981
1982
1983
EC: LINE
US: DASH
JAPAN: DOT