

Japanese Trade Policies Towards Developing Countries

Bela Balassa*

This paper set out to examine Japan's trade policies towards developing countries by reference to actual trade flows and by utilizing information obtained from the governments of countries of the Pacific area as regards Japanese trade practices. Section I of the paper presents empirical evidence for the year 1973 on the extent of Japanese imports of manufactured goods from developing countries in relation to the imports of the other industrial nations from these countries. Section II reviews changes in Japanese imports from the developing countries during the 1973-83 period, placing it again in the context of the industrial country experience. In Section III, Japanese trade practices affecting imports from Pacific area developing countries are described, drawing largely on communications received from official sources in Hong Kong, Korea, Singapore, and Taiwan. In the conclusions, the available evidence is brought together in evaluating Japanese trade policies towards developing countries in general and towards the countries of the Pacific area in particular.

I. The Extent of Japanese Imports from Developing Countries, 1973.

In the present investigation, comparisons have been made between actual and expected imports of the industrial countries from the developing countries, including the member countries of OPEC, with expected imports having been derived in a cross-section framework for the year 1973. The investigation covers eighteen industrial countries, defined as having per capita incomes of \$2,200 or higher, and a share of manufactured goods in total imports

* Department of Political Economics, The Johns Hopkins University, U.S.A.

The author prepared this paper for delivery at the Second Conference on United States-Asia Economic Relations, sponsored by the Committee on Asian Economic Studies on September 30-October 2 in New York City, in his capacity as Visiting Fellow at the Institute for International Economics. He is indebted to Shigeru Akiyama, William Cline, Marc Noland, Bruce Scott and Gary Saxonhouse for useful discussions.

of at least 20 percent, in 1973.¹

The point of departure has been Chenery's well-known formulation (1960), which attempts to explain intercountry differences in per capita imports in terms of differences in per capita incomes and population, except that in the present case imports from developing countries rather than from all sources of supply are considered. At the same time, as in Chenery's overall equation, the data refers to the imports of all commodities.

The estimating equation utilized in the present investigation further includes the share of primary imports in total imports as an explanatory variable.² The inclusion of this variable is designed to test for the existence of an asymmetry between natural resources and reproducible factors, labor and capital, in their effect on international trade. It is hypothesized that the elasticity of substitution between natural resources and reproducible factors is low, necessitating the importation of natural resource-intensive (primary) products by countries that are poor in natural resources in exchange for manufactured goods. Such interindustry specialization is complemented by intraindustry specialization in manufactured goods that are in their great bulk differentiated products while primary commodities are standardized products subject to interindustry trade.³ Correspondingly, it may be expected that countries poorly endowed with natural resources will have higher import shares than resource-rich countries.

This hypothesis conflicts with oft-stated views, according to which the low imports of manufactured goods into Japan are explained by its poor resource endowment. Rather, it is postulated that, in addition to exchanging manufactured goods for primary products, Japan and other resource-poor countries would engage in intraindustry trade in manufactured goods. The extent of this trade will be determined by the particular characteristics of the countries concerned, including the trade policies applied. In fact, there is evidence that the extent of intraindustry trade is positively correlated with the openness of the national economy (Balassa, 1985).

The starting point for the estimation of transportation costs has been the ratio of cif to fob import values, reported by the International Monetary Fund. Owing to the fact that transportation costs are higher for primary products than for manufactured goods, the ratio has further been adjusted for differences in the product composition of imports, by taking the relative shares of primary and manufactured goods in Switzerland, a country

¹ The group includes the United States, Canada, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, Australia, and Japan.

² Primary products have been defined as SITC classes 0 to 4 plus 68 (nonferrous metals).

³ For an early statement on the origins of intraindustry specialization, see Balassa, 1966.

with the lowest cif-fob ratio as the standard in the calculations.⁴ In the case of Japan, the cif-fob price difference is 15.5 percent while the adjusted transportation costs is 11.9 percent.⁵

Equation (1) provides the empirical results for the industrial country group, using a double logarithmic form. The per capita income (Y/N) and the primary import share (M_p/M) variables are statistically significant at the 5 percent level, while the population (N) and the transportation cost (T) variables do not quite reach the 10 percent level of significance.

$$\ln \frac{M^{LDC}}{N} = -3.072 + 0.919 \ln \frac{Y}{N} - 0.139 \ln N + 2.891 \frac{M_p}{M} - 0.447 T; \quad (1)$$

(1.09) (2.83) (1.36) (2.82) (1.57)

$$R^2 = 0.376$$

The adjusted coefficient of determination is 0.38; it rises to 0.96 if total rather than per capita imports from the developing countries is used as the dependent variable. The transformation of the equation does not modify the values of the regression coefficients, and their standard errors, except for the population variable that loses its statistical significance. Thus, the inclusion of the population variable on the two sides of the equation, giving rise to multicollinearity, does not affect the values taken by the other variables we are concerned with in the present context.

In turn, using the ratio of imports to GNP rather than to population as the dependent variable does not affect either the coefficient of determination or the values and the standard errors of the regression coefficients, except for the per capita income variable that loses its statistical significance. This occurs because of multicollinearity associated with the inclusion of GNP on the two sides of the equation.

Among the industrial countries, the largest negative deviation of actual from estimated values of per capita imports is shown for Japan, with a shortfall of 27 percent. In turn,

⁴ In the case of Switzerland, the ratio of cif to fob values was 1.030 in 1973. Assuming transportation costs for manufactured goods to be 2 percent of cif import value, and utilizing information on the commodity composition of imports, one obtains transportation costs of 5.65 percent on the cif value of primary commodities imported by Switzerland. Next, for individual countries, transportation costs for primary commodities were derived from data on the cif-fob ratio for total imports and the share of primary commodities in these imports, assuming that transportation costs for manufactured goods were uniformly 2 percent of cif value. Finally, for each country, the transportation costs for primary products so obtained and the assumed 2 percent ratio for manufactured goods were averaged, by using the Swiss commodity composition of trade as weights. This was done in order to normalize the country data to a standard commodity composition.

⁵ The described procedure contrasts with that utilized to estimate expected trade flows by Saxonhouse (1983), who used distance as a proxy for transportation costs. This is inappropriate because transportation costs are several times lower by sea than by land and decline substantially with distance. In particular, the use of the distance variable involves a bias in regard to Japan that uses exclusively the sea route and has the longest distance in its trade among developed countries.

Belgium, the United Kingdom, and Switzerland show the largest positive deviations.

The statistical significance of the deviation of actual from expected values of per capita imports from developing countries has further been tested for Japan by including a dummy variable (J) in the estimating equation. The results are shown in equation (2).

$$\ln \frac{M}{N} = -5.739 + 1.166 \ln \frac{Y}{N} - 0.231 \ln N + 4.976 \frac{M^p}{M} - 0.022 T - 1.134 J \quad (2)$$

(2.06)
(3.76)
(2.31)
(3.74)
(0.79)
(2.14)

$$R^2 = 0.536$$

The introduction of a dummy variable for Japan has increased the absolute values of all the regression coefficients as well as their statistical significance, the only exception being the transportation cost variable.⁶ In the case of the population variable, the level of significance has improved from 10 to 2 percent. The dummy for Japan itself is statistically significant at the 5 percent level.

Also, the introduction of the dummy variable for Japan has increased the adjusted coefficient of determination from 0.38 to 0.54, indicating the importance of including the variable in the equation. This result reinforces the finding that Japan is an outlier among industrial countries as far as imports from developing countries are concerned.⁷

II. Changes in Japanese Imports from the Developing Countries, 1973–1983

The results of the cross-section investigation reported in Section I of the paper indicate that Japanese imports from the developing countries fell considerably short of the import value that would be expected on the basis of Japan's country characteristics in the year 1973. The present section will examine changes in Japanese imports during the subsequent decade. Since changes in primary imports are affected by the availability of natural resources in relation to the production of manufactured goods, the discussion will concern manufac-

⁶ The low significance level of the transportation cost variable is not surprising as the variable refers to transportation costs from all countries rather than from developing countries alone, which could not be estimated for lack of data. Nor is this result, or the level of significance of the Japanese dummy variable, materially affected if alternative formulations of the transportation cost variables are used. These include the cif/fob ratio in an unadjusted form and the ratio adjusted on the assumption that each country's transportation costs for primary as well as for manufactured goods are a constant multiple of costs for Switzerland, again taking the relative shares of primary and manufactured imports into Switzerland as the standard in the calculations.

⁷ While Saxonhouse (1983) reached different results in regard to total imports, his empirical investigation included only eight countries, one of which (Korea) has a very different economic structure than the rest of the group. At the same time, apart from the inappropriateness of the distance variable, in Saxonhouse's model distance becomes practically a dummy variable for Japan (and for Korea), thus giving rise to a problem of identification as to whether the statistical results pertaining to the variable reflects distance or other country characteristics, in particular trade policy.

TABLE 1 The Ratio of Imports from Developing Countries to the Apparent Consumption of Manufactured Goods in the Industrial Countries (Market Penetration Ratios) (percent)

	1973	1978	1983
<i>United States</i>			
Iron and Steel	0.6	0.9	2.3
Chemicals	0.4	0.5	0.9
Other Semi-Manufactures	0.9	1.5	1.9
Engineering Products	0.7	1.3	2.6
Textiles	1.8	1.6	2.2
Clothing	5.6	11.3	15.1
Other Consumer Goods	1.9	3.7	5.2
All Manufactures	1.1	1.8	3.0
<i>EEC</i>			
Iron and Steel	0.4	0.4	0.7
Chemicals	0.5	0.6	1.1
Other Semi-Manufactures	1.3	2.5	2.3
Engineering Products	0.3	0.9	1.4
Textiles	2.6	3.7	4.4
Clothing	5.7	11.4	16.0
Other Consumer Goods	1.1	1.6	3.1
All Manufactures	0.9	1.6	2.1
<i>Japan</i>			
Iron and Steel	0.2	0.3	1.6
Chemicals	0.3	0.5	0.9
Other Semi-Manufactures	1.0	0.9	0.9
Engineering Products	0.2	0.3	0.4
Textiles	2.2	2.3	1.9
Clothing	7.6	7.4	8.2
Other Consumer Goods	0.8	1.1	1.5
All Manufactures	0.7	0.8	1.0

Source: GATT Trade Tapes, United Nations and OECD Industry Statistics.

tured imports alone.

Table 1 provides data on the ratio of imports from developing countries to the apparent consumption of manufactured goods, derived as domestic production plus imports minus exports, for the United States, the European Common Market, and Japan. Manufactured goods have been defined as SITC classes 5 to 8 less 68 (nonferrous metals); the data have been expressed in terms of current dollar values and pertain to the years 1973, 1978, and 1983.

The data show that while in 1973 imports from the developing countries accounted for only a slightly smaller percentage of the domestic sales of manufactured goods in Japan

than in the United States and the European Common Market, the differences increased to a considerable extent in subsequent years. Thus, in 1983, the developing countries provided 1.0 percent of the apparent consumption of manufactured goods in Japan, compared to 0.7 percent in 1973. In turn, the share of imports from developing countries in domestic consumption increased from 1.1 to 3.0 percent in the United States and from 0.9 to 2.1 percent in the European Common Market.

These results conflict with *a priori* expectations based on changes in relative factor endowments. With the rapid rate of economic growth (2.8 percent a year between 1973 and 1983 in per capita terms), reflecting in part the accumulation of physical and human capital, factor endowments in Japan have become more similar to those in the United States and the European Common Market, which experienced lower per capita income growth rates (1.1 and 1.4 percent, respectively). Accordingly, one would have expected the growth of manufactured imports from the developing countries to accelerate in Japan, so as to conform to its changing resource endowment.⁸

This conclusion is strengthened if we consider that Japan liberalized the application of the General Scheme of Preferences while changes in the opposite direction occurred in the United States and the European Common Market where exceptions to GSP multiplied. In turn, the rise in the price of oil, affecting Japan to a greater extent than the United States and somewhat more than the European Common Market, tended to reduce Japan's non-oil imports relative to the other industrial countries.

It may be suggested that the expansion of US imports from the developing countries was due to the increasing overvaluation of the U.S. dollar in recent years. In fact, according to calculations of trade-weighted real effective exchange rates by John Williamson, the U.S. dollar appreciated in real terms by 26 percent between 1978 and 1983 (1985, pp. 98-99).⁹

However, no upward shift can be discerned in the trend of the ratio of imports from developing countries to the apparent consumption of manufactured goods in the United States, with a two-thirds increase shown in both the 1973-78 and the 1978-83 periods. Yet, in the first period, the U.S. dollar depreciated in real terms by 12 percent.

Furthermore, while the U.S. dollar appreciated by 11 percent in real terms over the entire 1973-83 period, the currencies of the two largest Common Market countries in terms of GNP, Germany and France, depreciated more than the Japanese yen (12 and 10 percent as against 6 percent). And although the real value of the British pound increased by 23 percent, the Italian lira depreciated to a considerable extent and the currencies of the smaller

⁸ The responsiveness of trade in manufactured goods to resource endowment is shown in Balassa, 1986.

⁹ Williamson's figures have been transformed by representing a decline in the real effective exchange rate as an appreciation of the dollar in real terms.

EEC countries generally followed the German mark. Yet, the increase in the ratio of imports from developing countries to the apparent consumption of manufactured goods was several times greater in the European Common Market than in Japan.

Table 1 further provides information on trade in manufactured goods in a disaggregated framework. It shows changes in the share of imports from the developing countries in apparent consumption for the United States, the European Common Market, and Japan in regard to seven manufactured product categories, including iron and steel, chemicals, other semimanufactures, engineering products, textiles, clothing, and other consumer goods.

Between 1973 and 1983, the share of imports from the developing countries in U.S. consumption increased the most in iron and steel (from 0.6 to 2.3 percent) and in engineering products (from 0.7 to 2.2 percent). Substantial increases were also shown for clothing (from 5.6 to 10.1 percent) and for other consumer goods (from 1.9 to 5.2 percent), where the share of the developing countries is the highest. In turn, the smallest changes occurred in textiles, from 1.8 to 2.2 percent, where automation cut into imports from developing countries.

Engineering products also lead in terms of increases in developing country market penetration ratios (from 0.3 to 1.4 percent) in the European Common Market, where smaller changes occurred in regard to steel (from 0.4 to 0.7 percent). At the same time, the extent of the increase in the case of clothing (from 5.7 to 16.0 percent) and other consumer goods (from 1.1 to 2.1 percent) was similar in the European Common Market as in the United States.

Japan, however, shows a different pattern. Apart from iron and steel and chemicals, where the share of the developing countries in apparent consumption increased to a considerable extent, the developing countries' share rose much less in Japan than in either the United States or the European Common Market, and it even declined in some commodity categories. In particular, the import penetration ratios of the developing countries in the Japanese market for clothing hardly changed over time and an absolute decline was shown for textiles and for the other semimanufactures category.

Special interest attaches to textiles and clothing that continue to provide the bulk of manufactured exports for the developing countries. Table 2 provides information on the exports and imports of these product categories in trade with the other industrial countries and with the developing countries for the United States, the European Common Market, and Japan (Lloyd, 1985).

The results show considerable intercountry differences in trends over time in the importation of textiles from the developing countries. While the dollar value of these imports

TABLE 2 Trade in Textiles and Clothing

(\$ Billion)

	Trade with Developing Countries			Extraregional Trade with Developed Countries		
	Exports	Imports	Balance	Exports	Imports	Balance
<i>United States</i>						
Textiles 1973	0.33	0.59	-0.26	0.45	0.88	-0.43
(1973 \$) 1983	0.58	0.88	-0.30	0.38	0.87	-0.48
(1983 \$) 1983	0.93	1.40	-0.47	0.61	1.38	-0.77
Clothing 1973	0.18	1.49	-1.31	0.09	0.59	-0.50
(1973 \$) 1983	0.33	5.33	-5.00	0.18	0.68	-0.50
(1983 \$) 1983	0.52	8.35	-7.83	0.28	1.06	-0.78
Together 1973	0.51	2.08	-1.57	0.54	1.47	-0.93
(1973 \$) 1983	0.91	6.21	-5.30	0.56	1.55	-0.98
(1983 \$) 1983	1.45	9.75	-8.30	0.89	2.44	-1.55
<i>EEC</i>						
Textiles 1973	1.09	0.98	0.11	0.94	0.46	0.48
(1973 \$) 1983	1.35	1.35	0.00	0.85	0.58	0.26
(1983 \$) 1983	2.15	2.14	0.01	1.35	0.93	0.42
Clothing 1973	0.23	1.18	-0.95	0.41	0.10	0.31
(1973 \$) 1983	0.66	3.05	-2.39	0.60	0.16	0.44
(1983 \$) 1983	1.03	4.78	-3.75	0.94	0.25	0.69
Together 1973	1.32	2.16	-0.84	1.35	0.56	0.79
(1973 \$) 1983	2.01	4.40	-2.39	1.46	0.74	0.70
(1983 \$) 1983	3.18	6.92	-3.74	2.29	1.18	1.11
<i>Japan</i>						
Textiles 1973	1.55	0.56	0.99	0.45	0.40	0.05
(1973 \$) 1983	2.16	0.40	1.77	0.65	0.31	0.33
(1983 \$) 1983	3.44	0.63	2.81	1.03	0.50	0.53
Clothing 1973	0.06	0.42	-0.36	0.29	0.11	0.18
(1973 \$) 1983	0.11	0.56	-0.45	0.29	0.21	0.08
(1983 \$) 1983	0.17	0.88	-0.71	0.46	0.33	0.13
Together 1973	1.61	0.98	0.63	0.74	0.52	0.41
(1973 \$) 1983	2.27	0.96	1.32	0.94	0.52	0.41
(1983 \$) 1983	3.61	1.51	2.10	1.49	0.83	0.66

Note: For the United States, imports from Canada, for the European Common Market, imports from the rest of the European free trade area in manufactured goods, have been excluded in calculating extraregional imports.

Source: Lloyd (1985) and, for the price deflator used in the calculations for textiles and clothing, U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, 1985.

more than doubled in the United States and in the European Common Market between 1973 and 1983, it increased by a little over one-tenth in Japan. Even larger differences as observed in regard to clothing imports from the developing countries, with imports nearly sextupling in the United States and more than quadrupling in the European Common

Market as against an approximate doubling in Japan.

These comparisons have been made in terms of current dollars. Data on the import prices of textiles and clothing are available for the United States. Assuming that these price changes also apply to the other industrial countries, the volume of Japanese textile imports from the developing countries appears to have fallen by over one-fourth between 1973 and 1983 while the volume of clothing imports increased by one-third. Taken together, the volume of imports of textiles and clothing originating in the developing countries remained unchanged in Japan while increasing threefold in the United States and nearly doubling in the EEC.

The results are puzzling. For one thing, imports in the United States and the European Common Market, but not to Japan, are subject to the Multifiber Arrangement. For another thing, with rising wages, one would have expected Japan to increasingly rely on imports of textiles and clothing from the developing countries.

The mystery deepens if one considers that the current dollar value of Japanese imports of clothing from the other industrial countries rose threefold between 1973 and 1983 while these imports did not quite double in the United States, with the European Common Market occupying the middle ground. In fact, Japan's imports of clothing from the industrial countries increased substantially more than its imports of these commodities from the developing countries.

The results support the explanation frequently put forward in European countries as regards the character of Japanese imports of consumer goods. According to this explanation, consumer goods imports into Japan are largely limited to luxury goods, such as brandname clothing, which do not compete with domestic production. With rising incomes, then, demand for luxury goods increased rapidly in Japan without commensurate increases taking place in the importation of competing products from developing countries.

Finally, the data belie the contention often advanced in Japan, according to which its textiles and clothing industry contracted in response to increased international competition from the developing countries following the oil crisis. In fact, as shown in Table 2, Japan's export surplus in textiles and clothing in trade with the developing countries increased from \$0.6 billion in 1973 to \$2.1 billion in 1983. In the same period, Japan's export surplus in these commodities in world trade rose from \$1.1 to \$2.9 billion.¹⁰

III. Practices Limiting Japanese Imports from Developing Countries

Nearly two-thirds of Japanese imports of manufactured goods from the developing

¹⁰ The data includes trade with the countries of the Eastern bloc as well.

countries originate in four Far Eastern newly-industrializing countries: Hong Kong, Korea, Singapore, and Taiwan. These countries also play an important role among developing nations in supplying primary commodities, such as fish and silk, which compete with domestic production in Japan. Thus, particular interest attaches to their experience with Japanese trade practices.

Inquiries made to government authorities in all four countries elicited responses as regards the restrictive measures applied to their exports in Japan. In one case, Korea, the complaints about these practices had been transmitted to the Japanese government whose replies were also communicated to the author. In the case of Singapore, use has also been made of the results of a study, based largely on interviews with businessmen (Sing, 1985). In this section of the paper, the following practices will be considered: import quotas; administrative guidance; domestic content requirements and public procurement; customs procedures, standards, testing, and certification; collusive behavior; and distribution channels. It should be added that no attempt has been made at completeness. Thus, the cases to be described should be regarded as examples of Japanese practices concerning imports from the developing countries in general and the four Far Eastern countries in particular.

Import Quotas

Permissible imports of *raw silk* and *twisted silk yarn* into Japan are determined on an annual basis. Between 1974 and 1983, imports from developing countries declined from 3596 to 2429 metric tons in the case of raw silk and from 337 to 274 metric tons in the case of silk yarn. Imports from Korea, where the restrictions appear to be the most severe, fell from 2738 to 621 metric tons and from 278 to 114 metric tons, respectively, during this period.¹¹

A request by the Korean government for the repeal of the quota was rejected by Japan on the grounds that "the circumstances surrounding the raw silk industry are extremely unfavorable." The official reply of the Japanese government further stated that "the import of twisted silk yarn has never been sanctioned by law. . . In fact, the import authorization system was introduced for the purpose of preventing the import of twisted silk yarn."¹²

Bilateral restraint agreements apply to *silk fabrics* imported from China, Korea, and Taiwan while imports from other developing countries require prior approval by the Japanese Ministry of International Trade and Industry (MITI). This so-called prior confirmation

¹¹ Trade data originate in the United Nations, *Commodity Trade Statistics*.

¹² All quotations originate from the English translation of the official report (in Korean) of the First Investment Office, Overseas Cooperation Council of the Republic of Korea, entitled "Korean Demand for Removal of Nontariff Barriers and Official Japanese Response," September 1984.

system in effect acts like a quota.

In response to an official Korean request for the deregulation of imports, the Japanese government claimed that "given the structurally depressed demand for silk in Japan," the measures currently applied cannot be modified. In the four years following the introduction of these measures in 1979, Japanese imports of silk fabrics from the developing countries declined by one-fifth in volume.

Effective May 1980, MITI has made the importation of *silk products*, such as apparel and accessories, originating in Korea and Taiwan subject to the prior confirmation system. While the Japanese government claims that "the prior confirmation system was introduced for no other purpose than to monitor the trends in these silk product imports," for the lack of separation of the imports of silk products from other clothing in the data, trends in these imports could not be established.

Following administrative guidance in the preceding five years, Korea agreed to limit the exports of *cotton yarn* and *mixed yarn* to 285,000 bales in 1983, entailing a decline by nearly one-half compared with the preceding year. A request for eliminating these limitations was rejected by the Japanese government.

Import quotas on *leather shoes* are allocated among exporting countries. While the amounts involved have not been announced, the data show that Japanese footwear imports from the developing countries fell by two-fifth in volume terms between 1979 and 1983. In the latter year, Japan's footwear imports from the developing countries were less than one-sixteenth of U.S. imports from these countries.

According to the official Japanese statement, "in view of the condition of Japanese leather goods industry and its historical background, it is not possible to remove the quantitative restrictions." It was also claimed that "the quotas are allocated among nations without bias." However, between 1979 and 1983, the imports of leather shoes from Korea declined to a greater extent, by over one-half, than from all developing countries.

A prior confirmation system applies to *tuna* imports into Japan from all sources of supply. The Japanese government declared that this "is vital for correctly monitoring the trend in tuna imports. The system, therefore, is not amenable to elimination." It was added that "it is necessary to maintain the current quantitative level from the point of view of maintaining tuna prices in Japan."

The Japanese government also rejected a request that the Korean government be authorized to issue export licenses, so that tuna boats do not have to return to Korea with their cargo to pick up the licenses provided there by Japanese authorities. The reasons given for this decision deserve full quotation:

"If Korean tuna boats are permitted without restriction to enter Japanese ports to offload their catch, to undergo repair, or to obtain a provision, it would be viewed as tantamount to offering Japanese ports as bases of operation to Korean boats. Unregulated access of Korean boats to Japanese fishing ports would have a severe impact upon the Japanese fishing industry. For the sake of preserving order in the fishing activities around Japan, foreign fishing boats may enter Japanese ports subject to prior permit; and the elimination of the system is deemed unthinkable. Besides, this restriction is applicable without bias to all foreign fishing vessels."

Finally, the Japanese government expressed unwillingness to eliminate quotas on other kinds of *fish* and *seafood* on the grounds that these "account for the principal fish types harvested by Japan's inshore and nearshore fishing entities which are generally poorly financed. For this reason, these commodities are still under the import quota allocation system and this condition is not conducive to its early removal." It was added that import quotas are allocated among importers on the basis of past performance. In fact, the volume of imports of fresh fish from the developing countries remained at the 1974 level in 1983.

Apart from the cases cited, import quotas apply in Japan to a number of commodities that are of interest to developing countries. They include beef, preserved meat, salted and dried fish, milk, processed cheese, beans and peas, oranges and tangerines, flour and flour preparations, groundnuts, edible seaweeds, sugar, processed fruit, tomato products, various food preparations, coal, and leather. According to official submissions to GATT, information on the amounts allocated for each item under the quota is not made available by the Japanese government.

Administrative Guidance

The Korean government requested that Japan eliminate administrative guidance that was said to limit the imports of several commodities (All quotations refer to the document transmitted by the Korean government to the Japanese authorities):

1. *Monosodium glutamate*. "Administrative guidance for withholding import unless recommended in advance by the import cooperative."

2. *Cotton yarn and mixed yarn*.

"Beginning in 1978 the import cooperative is subject to an administrative guidance under which the cooperative is required to report import performance to the Ministry of International Trade ("MITI"). As part of the measure for protecting structurally depressed Japanese domestic industries, the Japanese domestic cotton yarn and mixed

yarn makers have formed a depressed industry cartel with an eye to limiting Korea's share in the Japanese cotton yarn and mixed yarn market."

3. *Baseball gloves*. "The import cooperative is targeted for administrative guidance."

4. *Soluble phosphate fertilizers*. "Administrative guidance is exercised through the National Union of Agricultural Cooperatives."

5. *Steel pipes*. "Japanese steel mills, through the Japan Iron and Steel Federation, are applying pressure on general trading companies to withhold the supply of special hot coils (from which steel pipes are made) from Korea."

In its reply, the Japanese government denied that any form of administrative guidance existed in regard to these imports. At the same time, according to more recent information, the importation of carbon steel from Korea has been made subject to limitations. These limitations do not permit the exploitation of Korea's cost advantage over Japan that approached 10 percent in 1981 (Nam, 1985).

Administrative guidance is said to be extensively used to limit the imports of *petroleum products* from Singapore. "It is argued that Japan has sufficient refinery capacity to produce petroleum products, [and imports are reportedly restrained] through verbal and informal suggestions to domestic industry" (Sing, 1985, pp. 28-29).

Domestic Content Requirements and Public Procurement

The Korean government entered a complaint that only *fishing rods* containing Japanese-made color guides and casting red handles are cleared by customs in Japan and that Japanese component makers intentionally delay shipments of components to Korean fishing rod makers. In its reply, the Japanese government indicated that, "under the provision of Article 21 of the Tariff Rate Act, articles that infringe upon a patent, utility model, design, trademark, copyright, or copyright 'contiguity' right are designated as import-restricted items." It was further added that "beginning in October 1977, Fuji Industries, the holder of utility model and design rights on guides and handles, has filed applications with the Customs for discontinuation of imports of articles that infringe upon their industrial rights. On the basis of these applications, the Customs offices have not cleared articles that infringe upon those rights."¹³

The Korean government further claimed that the Japanese Self-Defense Forces require the use of Japanese-made fabrics in *military supplies* of uniforms, knapsacks, etc.

¹³ This appears to represent a broad application of copyright provisions. At the same time, according to the same communication, imports of articles containing genuine Japanese-made components are not restricted.

The Japanese government noted, however, that the items in question are not on the list of articles subject to public procurement. It further rejected Korean claims that public agencies would refuse to buy Korean steel mill products.

Procurement practices are also said to depend on the nationality of the producer abroad. Thus, it has been reported that "Japanese *electronic* subsidiaries practically do not have the following problems and complaints compared to American electronic firms exporting to Japan: Japanese procurement practices are seen as severely penalizing telecoms equipment and semi-conductor manufacturers in Singapore" (Sing, 1985, p. 28).

Customs Procedures

The Korean government requested exemption from the requirement that the importation of *medical instruments* be made contingent on approval by a Japanese pharmacist or physician and suggested using the certification provided by the Korean Export Inspection Center instead. This request was refused on the grounds that "the inspection is necessary for the point of view of public health and sanitation."

A further Korean complaint was that, for particular *fabrics*, the words "Made in Korea" have to be embroidered all around the hem, representing an additional process of manufacturing, thereby raising costs. In its reply, the Japanese government did not agree to limit marking to one end of the fabric on the grounds that the existing regulations are necessary "to protect domestic consumers."

The Korean authorities also objected to article-by-article inspection, in the event that the number of articles shipped differed from the number shown on the invoice, and to extensive audits of Korean trading firms by Japanese customs, when the inspection of all confidential papers was said to have led to leakages of trade secrets. According to the reply of the Japanese government, "efforts are being made to implement customs inspection in an efficient manner and highly selective 'need to inspect' basis." At the same time, the query concerning the inspection of Korean trading firms was not answered.

Similar complaints were raised by Singapore exporters of *PVC hoses*, *canned pineapple*, and *beer*. In the first case, a shipment was not cleared on the grounds that sufficient information on the origin of the products was not provided; in the second case, substantial delays in customs clearing were experienced and information was requested that the producers considered confidential; and in third case, difficulties were encountered at customs in cases where the date of certificate was later than the shipping date or where the crest stamp or the endorsement seal were not clear (Sing, 1985, 38-40).

The Korean government requested the removal of all customs control on imports of *cosmetics* and entered a complaint as to the lack of permission given to a Korean firm to

export cosmetics to Japan. In its reply, the Japanese government reconfirmed that cosmetics can be imported only by holders of import permits, which provide detailed information on the names, ingredients, and quantities of the cosmetics to be imported, on the physical facilities possessed by the applicant, and on the qualifications of persons in the employ of the applicant. It was added that complaints by would-be foreign exporters cannot be investigated until a competent Japanese importer is identified.

Standards, Testing and Certification

The Korean government entered several complaints as to the application of excessively rigorous standards and duplicate inspection in Japan. According to one such complaint regarding *furniture* and *electronic products*, pursuant to guidelines provided by the MITI, private sector associations are conducting excessively stringent safety tests [and] Korean products are subjected to tests that are more stringent than that applied to Japanese products." According to the official Japanese response, the "standards are minimum standards deemed necessary to protect the life and health of the consumer, and the standards are enforced by the private sector on a voluntary basis. . . Besides, all safety tests are performed without discrimination."

There is also the curious case of *socks*. The Korean government complained that "an excessively high colorfast standard is applied to socks of dark color and navy color," and the results of inspections by the Korean Export Test Center are not accepted in Japan. According to the official reply, i. "The government of Japan enforces no controls whatsoever on the fastness of color of imported socks, ii. The colorfast standard required by the Customs is deemed to be conducive to expanding Korea's market share in Japan."

Taiwanese authorities entered a complaint, according to which the system of import permission" on the excuse of quarantine problems" limits their exports of *fruits* and *vegetables* to Japan. They further claimed that Japanese customs often delay the inspection of *flowers* and *eel*, resulting in the deterioration of the merchandise.

In turn, Singapore exporters reported that "Japan has on occasion confiscated and destroyed considerable consignments of *orchids* from Singapore simply because an insect or insects have been found in one of the orchids." (Sing 1985, p. 41) Also, Japanese authorities stopped the importation of frozen beef of Australian origin from Singapore on the grounds some beef consumed in Singapore originates in Argentina where it may have been subject to foot-and-mouth disease and it may have contaminated the Australian frozen beef (Ibid, p. 34).

The Hong Kong Industry Department collected information on Japanese standards, testing, and certification requirements on *electrical products*, *toys*, *food*, *cosmetics*, and

textiles products, which are Hong Kong's principal exports. The compilation shows that the products in question are often subject to several laws, each of which sets up particular requirements. Thus, electrical products come under the Electrical Appliance and Material Control Law, the Consumer Product Safety Law, and the Industrial Standardization Law; toys under the Food Sanitation Law, the Explosive Control Law, the Electrical Appliance and Material Control Law, as well as under Safety Toys and Safety Goods standards; food products under the Food Sanitation Law and the Law Concerning Standardization and Proper Labelling of Agricultural and Forestry Products; cosmetics products under the Pharmaceutical Affairs Law; and textile products under the Industrial Standardization Law.

According to the Hong Kong Trade Department, "the Japanese testing and certification procedures are generally considered as a non-tariff barrier to exports to Japan." Singapore producers also complained about the stringent and complicated testing system in Japan.

A particular case concerns *Tiger balm oil* that is popular with Japanese tourists because of its alleged restorative properties. Requests by Japanese companies for import permits have been repeatedly refused by the government authorities in Japan. According to one report, "some [of the companies] were instructed to set up laboratories and to employ some pharmacists to examine the product's contents before applying for licenses to import the Tiger balm oil. Some felt very frustrated, others could not afford to carry such experiments, and others had been rejected because of the Japanese pharmaceutical regulations" (Sing, 1985, p. 38).

In early 1985 the Japanese government announced the implementation of measures to liberalize the procedures applied. However, according to a communication received from the Singapore Department of Trade, "our overall assessment is that while it is true that the Japanese have started to introduce measures to facilitate access to their market, in the area of standards and certification we do not seem to enjoy any significant benefits from the proposed measures so far."

Collusive Behavior

There were repeated allegations that collusion between government authorities, business, and/or trading firms limit imports into Japan. While the lack of appropriate documentation does not permit evaluating the validity of these claims, there is some evidence on the existence of collusive behavior.

It was reported that a Japanese firm, Lions Petroleum, ordered *refined petroleum* from Singapore but its bank credit was cut off while the shipment was still on the seas. It was

suspected this was the result of instructions given by MITI to Lions' banker. Mr. Matsu-mura Hiroshi, a spokesman for MITI's Petroleum Planning Division was reported to have said that "a fierce price war would probably ensure, hurting small, financially weak petrol stations" if petrol was freely imported into Japan (Sing, 1985, p. 36).

Also, Korean firms complained of not being able to export any *metal products* to Japan because of the threat of the discontinuance of supplies by the makers of machinery they utilize. At the same time, for fear of retribution, these firms did not enter official complaints, hence the lack of such cases in the official document of the Korean government.

Distribution Channels

The Korean government further raised objections to the limitations imposed on retail outlets selling imported *cigarettes* in Japan. According to the official reply, "if foreign tobacco products are distributed to these outlets without any control, it would run the risk of disrupting the existing orderly marketing system. The Japan Tobacco and Salt Public Corp. has opted for the test marketing approach not to control the import of foreign tobacco products but to ascertain the level of demand for such products."

Also, manufacturers of light industrial products in Singapore complained that "they are unable to set up subsidiaries, marketing network or distribution routes in Japan" (Sing, 1985, p. 31). More generally, it has been said that distribution channels in Japan are excessively complicated and discriminate against the sale of foreign-made goods. An expression of these complaints was given in the above communication by the Singapore Department of Trade:

"Commercial practices, many unique only to Japan, had severely inhibited the ability of companies wishing to enlarge their share of the market. For example, it is virtually impossible to sell to Japan without having an affiliate company doing the marketing and distribution. . . The structure of Japan's distribution network is a major impediment to our exporters gaining a bigger share of the market. The distribution network is so complex that the imported product becomes very expensive by the time it reaches the consumer."

Conclusions

This paper has shown that, in comparison with other industrial countries, Japan's per capita imports from developing countries in the year 1973 were substantially lower than what would have been expected on the basis of country characteristics, such as per capita incomes, population, the share of primary commodities in total imports, and transporta-

tion costs. Actual per capita imports from the developing countries were 26 percent below expected imports, estimated in a cross-section framework with the inclusion of the above explanatory variables. Also, the dummy variable subsequently introduced for Japan had a negative sign and was statistically significant while raising the explanatory power of the regression equation to a substantial extent.

Imports from developing countries accounted for only a slightly smaller proportion of the domestic sales of manufactured goods in Japan than in the United States and the European Common Market in 1973, but the differences increased to a considerable extent during the following decade. By 1983, the developing countries provided but 1 percent of the apparent consumption of manufactured goods in Japan, compared with 2 percent in the European Common Market and 3 percent in the United States.

The results are confirmed if data for individual commodity categories are considered. In particular, import penetration ratios increased much less in Japan than in the United States and the European Common Market in textiles and clothing, although Japan is not party to the Multifiber Arrangement. Correspondingly, Japan had a rising surplus in trade in textiles and clothing with the developing countries while the United States and the European Common Market have had growing deficits. At the same time, Japan's clothing imports from the developing countries increased less than its imports from the other industrial countries, lending credence to the view that Japan tends to import luxury consumer goods which do not compete with domestic production, but limits the importation of competing goods.

The relatively slow increase of Japanese imports of manufactured goods from the developing countries conflicts with expectations that these imports would have risen rapidly as Japan's resource endowment increasingly approached that of the major industrial countries. In fact, between 1973 and 1983, Japanese per capita incomes rose by 32 percent while increases of 15 percent were observed in the European Common Market and 11 percent in the United States.

The paper further provides information on Japanese trade practices, drawing on communications received from the authorities of Hong Kong, Korea, Singapore, and Taiwan, the four largest suppliers of manufactured goods to Japan among developing countries. These communications indicate the existence of Japanese barriers to the imports of a variety of commodities from the developing countries in general and from the above four countries in particular. While necessarily incomplete, the information provided on informal barriers, which are not reported to GATT, offers particular interest. The replies received also point to the obstacles Japanese distribution channels represent for would-be developing country exporters.

Emphasis should further be given to the lack of transparency of Japanese trade barriers and the existence of limited information, which create uncertainty for the would-be exporter. In fact, a substantial effort needs to be made in order to identify the existing barriers. Such an effort necessarily involves a cost that may not be undertaken because of the uncertain benefits.

These considerations may explain the conclusions of a survey of Singapore businessmen, according to which, "rightly or wrongly, Singapore exporters and manufacturers consider Japan a closed market" (Sing, 1985, p. 43). Expressed differently, access to a market is affected not only by actual but by perceived barriers to imports, when the uncertainty related to case-by-case decision making in Japan tends to discourage potential exporters.

References

- Balassa, Bela. *Trade Prospects for Developing Countries*, Homewood, Ill.: Richard D. Irwin, 1964.
- _____, "Tariff Reductions and Trade in Manufactures among the Industrial Countries," *American Economic Review*, June, 1966, 56, pp. 466-73.
- _____, "Effects of Commercial Policy on International Trade, the Location of Production and Factor Movements," in Bertil Ohlin, Per-Ove Hesselborn, and Per Magnus Wijkman, eds., *The International Allocation of Economic Activity*, London: Macmillan, 1977, pp. 230-58.
- _____, "Intra-Industry Trade among Exporters of Manufactured Goods," World Bank Development Research Department Discussion Paper No. 87. To be published in David Greenway and P.U.M. Tharakan, eds., *Imperfect Competition and International Trade: Policy Implications of Intra-Industry Trade*, Brighton, Sussex: Wheatsheaf Books, 1985.
- _____, "Comparative Advantage in Manufactured Goods: A Re-Appraisal," *Review of Economic and Statistics*, 1986, 68 (forthcoming).
- Chenery, Hollis B. "Patterns of Industrial Growth," *American Economic Review*, September, 1960, 50, 624-54.
- Lloyd, Peter J. "Structural Adjustments in the Textile and Clothing Industries," paper presented at The Fifteenth Pacific Trade and Development Conference held in Tokyo, on August 26-29, 1985, under the title "Industrial Policies for Pacific Economic Growth." To be published in the Proceedings of the Conference.
- Nam, Chong Hyun, "Changing Comparative Advantage, Trade, and Adjustment Policies in the Steel Industry," *Ibid.*
- Saxonhouse, Gary R., "The Micro- and Macroeconomics of Foreign Sales to Japan" in William R. Cline, ed. *Trade Policies in the 1980s*, Washington D.C.: Institute for International Economics, 1983, pp. 259-304.
- Sing, Lim Hua, "Singapore-Japan Trade Frictions: A Study of Japanese Non-Tariff Barriers", Occasional Paper Series, No. 1., Department of Japanese Studies, National University of Singapore, September, 1985.
- Williamson, John, *The Exchange Rate System, Policy Analyses in International Economics No. 5*, Washington, D.C.: Institute for International Economics, June 1985 (revised).