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JAPAN IN UNITED STATES FOREIGN
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JAPAN IN UNITED STATES FOREIGN
ECONOMIC POLICY

By

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LETTERS OF TRANSMITTAL

NOVEMBER 20, 1961.

To the Members of the Joint Economic Committee:

Transmitted herewith for use of the Joint Economic Committee and other Members of the Congress is a study paper prepared for the Subcommittee on Foreign Economic Policy titled "Japan in U.S. Foreign Economic Policy," by Dr. Warren S. Hunsberger.

It is hoped that this paper will be especially useful to the members of the subcommittee and to the witnesses who will be testifying before the subcommittee later this year.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
November 20, 1961.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: I transmit herewith a study paper titled "Japan in U.S. and Foreign Economic Policy," which has been prepared for the subcommittee by Warren S. Hunsberger.

Dr. Hunsberger is professor of economic programing at the Johns Hopkins Institute for International Development. He was previously Chief of the Japanese Research Branch of the State Department, and at a later time Chief of the State Department's Division of Research for the Far East.

In addition to teaching economics at Princeton and at the University of Rochester, Dr. Hunsberger has also served as Far East regional economist for the ICA (International Cooperation Administration), and he has been programing officer in Brazil and Mexico for the Institute of Inter-American Affairs.

At the beginning of this Congress the Subcommittee on Foreign Economic Policy was asked to undertake a comprehensive examination of our foreign economic policy, and to assist in this undertaking I have invited a number of scholars and distinguished experts to prepare study papers.

I believe that the present study paper, which is one of this series, provides valuable information which will be useful to other Members of Congress and to the general public.

Sincerely,

HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

CONTENTS

	Page
Summary and conclusions.....	1
Some features of the Japanese economy of significance to the United States.....	5
A. Japan's basic economic problem: How can a crowded island country earn a living?.....	5
B. Recent economic performance.....	6
C. Plan for economic growth during the 1960's.....	6
D. Foreign exchange movements.....	8
E. Composition and direction of trade.....	11
F. Trade trends and prospects by area.....	12
G. Japanese-American trade and payments.....	14
How important is Japan to the United States?.....	19
Where does Japan belong in the world economy?.....	21
U.S. policy problems arising from Japanese trade.....	23
A. Japanese competition in the American market.....	23
B. Other Japanese-American economic problems.....	27

TABLES

1. Japanese economic growth targets.....	7
2. Japan's foreign trade, by continents, 1960.....	11
3. Total U.S. trade with Japan, 1945-61.....	15
4. Japan's place in U.S. foreign trade, 1951-61.....	15
5. U.S. exports to Japan, by commodity, 1956-60.....	16
6. U.S. imports from Japan, by commodity, 1956-60.....	18

CHARTS

A. Japan's foreign exchange receipts and payments: Quarterly totals.....	9
B. Japan's foreign exchange receipts and payments: Major components, by quarters.....	10

MAP

Japan's position by the transpacific great circle route.....	Facing p. 19
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SUMMARY AND CONCLUSIONS¹

Japanese exports to the United States are projected to reach nearly \$3 billion a year by 1970, according to Prime Minister Ikeda's plan for doubling Japan's national income during the 1960's. The prospect of this large flow of imports, mostly competitive with domestic American products, creates problems for the United States.

A second and closely related problem is that Japan is pressing to be accepted as one of the leading non-Communist countries. Both forms of pressure from Japan come at a time when the United States must reconsider its foreign economic policy as a result of the scheduled expiration of the Trade Agreements Act in 1962 and of developments in the European Market that are sure to have profound effects on American trade, investment, and other economic relations.

The following analysis indicates that the United States can, and in the interests of the American people should, permit something like the projected inflow of Japanese goods, under conditions that promise to minimize adverse effects in the American economy. The United States can appropriately do more than in the past to support Japan's quest for status. Japan is the most advanced industrial nation outside of North America, Europe, and the U.S.S.R. Japan belongs in some closer association with other leading industrial nations, for purposes of coordinating economic policies, of discussing trade problems, and of assisting economic development in the less developed countries.

Japan wants to be a full member of the Organization for Economic Cooperation and Development (OECD), but thus far participates on a regular basis only in the OECD's Development Assistance Committee (DAC). While it is more important that OECD become a strong and effective organization than that Japan should immediately become a full member, the United States should use its influence to bring Japan into progressively fuller association with the various activities of the OECD. It is difficult to add a Pacific power at once to this primarily Atlantic grouping, but there is no other comparable grouping of advanced countries for Japan to join. It is, however, more important that in due course Japan be effectively integrated among the leading Western countries than that the OECD preserve a particular geographical character.

Japan now stands in second place among trading partners of the United States. Climbing from 17th place as a source of imports in 1951, Japan has recently edged out West Germany and the United Kingdom, but is still far behind Canada, our greatest supplier. Japanese goods are much more competitive with domestic production than are Canada's, which consist mainly of forest and mineral products and other basic commodities. The long list of Japanese products sold here is headed by manufactures of rubber, steel, cotton, and wool.

¹ This report draws heavily on a broad study of Japanese trade and payments now nearing completion for the Council on Foreign Relations. Unattributed statements of fact come from that study or from standard sources. Statements of opinion are the responsibility of the author.

These are followed by radios, fish, plywood, ceramics, silk goods, and toys. And behind them come cameras and chemicals, pearls and paper, sewing machines, scientific instruments, and every year more products.

These Japanese goods are not just the output of tiny factories making do with antiquated machinery and much hard labor. Such plants still exist, but little shops and small farms are losing labor nowadays to large, ultramodern factories, whose trained labor force, numerous technicians, and late model machinery are managed by highly competent executives. Japan is now a different country from what it was in the 1930's or in World War II or in the days of the postwar occupation.

Japan today has a highly modern industrial economy, which is growing at a phenomenal rate. Japanese steel production exceeds that of France and this year may pass the United Kingdom, to place Japan fourth in the world, after the United States, the U.S.S.R., and West Germany. Japanese economic growth during the 1950's exceeded all expectations, and two national economic plans had to be scrapped because performance far exceeded plan targets. Total production—gross national product—is now about three times the prewar peak, which was passed in 1951. Already per capita production and income far exceeds that of other Asian countries and stands above that of the poorer countries of Europe. If Japan succeeds in doubling production during the 1960's, while European production is rising by 50 percent, Japan will have advanced still further in relation to Western countries.

Such a country would be important for the United States under any circumstances. Japan buys more U.S. agricultural exports than does any other nation and also takes great quantities of American coal, scrap iron, and machinery. Overall, Japan is now the second largest market for American exports, one that may be expected to grow in the future along with Japanese exports. Japan is also an important outlet for American technology, and American investments in Japan are now rising rapidly.

In today's world of cold war and high tension, Japan's importance for the United States is multiplied. Japan is our most important ally in Asia, with a strong private enterprise economy, a democratic form of government. At present Japan's moderate conservative government strongly supports most U.S. positions in international affairs and cooperates in defense by providing facilities for American air and naval bases in Japan and by maintaining small defense forces. If Japan should shift to a neutralist or pro-Communist policy, there would result a profound shift in the power balance in Asia, with grave results for the U.S. position in that part of the world. The Socialist opposition, which seeks a neutralist position in foreign affairs, holds a little more than a third of the seats in the National Diet (legislature).

But this important Asian neighbor of ours is the source not only of political support and profitable business, but also of difficult economic problems. The most persistent and irksome of these concern the competition of Japanese goods in the American market. These problems are far more evident to most Americans than the difficulties our Government faces in dealing with Japan's strong desire to join reluctant European nations in the OECD. Strong complaints are being made by American producers of transistor radios, men's suits,

cotton textiles, plywood, and a number of other products. The projected annual increase of 10 percent in Japanese sales to the United States may well cause injury in certain parts of the American economy.

U.S. policy needs to balance the conflicting forces and interests. Japan's interests are important enough to be met if possible. But it should not be necessary to do excessive damage to domestic interests, whether of investors, managers, workers, or communities. The volume of Japanese imports is very small in relation to the size of the American economy, and we have been given years of advance notice of Japanese targets. While the gross national product of the United States is rising from \$500 billion to \$700 to \$800 billion, at 1960 prices, during the 1960's it should be well within our capacity to absorb an additional \$1.5 to \$2 billion of imports from Japan. It may be more difficult to accept in addition the rising inflow of cheap consumer manufactured goods that can be expected from the developing countries. But these are some of the costs of living in an interdependent world. Our experience so far suggests that difficulties resulting from such imports are one of the smaller costs of our foreign relations, a cost that can be borne.

SOME FEATURES OF THE JAPANESE ECONOMY OF SIGNIFICANCE TO THE UNITED STATES

A. JAPAN'S ECONOMIC PROBLEM: HOW CAN A CROWDED ISLAND COUNTRY EARN A LIVING?

Japan's 94 million people live mostly in four mountainous islands with a total area about the same as that of California. Japan is the fifth most populous nation in the world but has a much smaller area than other leading countries. Because only about one-sixth of the land area can be cultivated, the Japanese could not support themselves by self-sufficient agriculture, and they would not want to do so even if they could. They want and must have a modern economy, but many of the basic requirements are not available in Japan. It is necessary to import sugar, soybeans, certain other foodstuffs, cotton, wool, petroleum, coking coal, iron ore, scrap iron, salt, and a long list of other commodities.

To pay for these imports Japan must sell abroad, and only a very small part of this need for exports can be met with raw silk and other products made wholly within Japan. Most Japanese exports are manufactured products which themselves embody some imports. For factory products to be competitive abroad they must be modern in design and be produced with efficient, dependable machinery. But Japan is not yet a major source of new technology. Consequently a great deal of machinery must be bought abroad, and, in addition, foreign patents must be purchased or licensed. On the average, Japanese exports contain imported materials to the extent of about 16 percent of total export value, and indirect foreign costs, like those for patents and machinery, raise this figure further. As a proportion of total goods and services produced in Japan—gross national product—total imports have recently averaged about 12 percent.

Japan's total import volume is perforce held within the total sum available for spending abroad. Tight controls have stretched available foreign exchange to cover necessary imports, but very little else. Great efforts have been made to maximize domestic production, especially of foodstuffs. As a result of these measures, Japanese imports of finished manufactures for consumption are very small, well below 5 percent of total imports. And food imports have fallen as domestic production of rice and other foodstuffs has reached record levels during recent years. Imports have been saved also by many large and small technical improvements in industry, permitting smaller and smaller inputs of imported materials per unit of product. In the steel industry, for instance, major economies have been realized during recent years in the use of coking coal, iron ore and manganese.

In the years ahead, further economies can be anticipated. But increases in total production will probably outstrip such progress, and domestic sources will provide a smaller and smaller proportion of the total consumption of fuels, ores, and certain other commodities. Consequently, total dependence on imports seems bound to rise.

gradually, with cyclical fluctuations, even if extreme economies continue to be enforced in the use of imported materials. But the pressure for such economy will be relaxed to some degree. Liberalization of Japanese import controls is taking place according to a schedule recently modified as a result of pressure from the United States and the International Monetary Fund. The plan now is to have 90 percent of imports freed from quantitative import and exchange restrictions by the end of September 1962.² In November 1961 the figure is 68 percent.

B. RECENT ECONOMIC PERFORMANCE

Japan today is extremely prosperous, despite a stockmarket slump that followed measures adopted in September to check expenditures abroad. Incomes are high. Savings have been running about 30 percent of the gross national product, a rate perhaps higher than anywhere else in the world. Investment and economic growth are extremely rapid. Gross national product has grown by more than 40 percent in real terms during the past 3 years and is expected to reach \$45 billion for the current fiscal year, almost three times the level (in real terms) of 10 years ago, the last year of the occupation. The 1951 level was close to the prewar peak. Since 1951 the average growth rate has been about 11.5 percent a year.

In 1960 Japan produced 12 million (metric) tons of pig iron and 22 million tons of crude steel, but only 1.3 million tons of iron ore. Despite severe shortages of raw material Japan was the fifth largest steel producer in the world, after the United States, the U.S.S.R., West Germany, and the United Kingdom. Electric energy production was 112 billion kilowatt-hours, placing Japan fourth in the world, after the United States, the U.S.S.R., and the United Kingdom. Japan is the world's leading shipbuilder and had a merchant fleet of 6.7 million gross tons on June 30, 1961. This fleet is smaller than those of the top maritime nations (the United States, the United Kingdom, Norway, and Liberia) but ahead of all other countries.

All in all, despite its basic deficiencies, and despite the vast destruction experienced during World War II, Japan is now one of the world's leading industrial countries and is moving ahead rapidly. Still well below the top position in most respects, especially on a per capita basis, Japan stands among the first half dozen countries in a growing number of economic indicators.

C. PLAN FOR ECONOMIC GROWTH DURING THE 1960'S

Table 1 presents some indicators of the plan approved by the Japanese Cabinet late in 1960 for doubling the national income by 1970. These projections do not reflect socialist planning, but government initiative in a country where most economic activity is private. The plan has actually stimulated so much investment as to be one cause of the severe deficit in the foreign exchange account since April 1961. Since the base year (the average of the fiscal years 1956-58) growth has been much faster than the average called for

² The base on which this percentage is calculated is imports during the Japanese fiscal year 1959 (April 1959-March 1960). Products not imported at all during the base period are not counted. To avoid what the Japanese regard as potentially excessive imports of decontrolled items, tariffs have been raised and the Japanese Government now has the power to impose emergency duties in cases where import appears excessive.

in the plan. In fact Mr. Ikeda hoped for growth at about a rate of 9 percent a year during the first part of the 1960's, as compared with a 7.2-percent rate required for doubling in 10 years. The progress already made means either that growth may slacken and still meet the target, or else that the target will be raised, just as earlier more modest plans have been superseded by this ambitious program.

TABLE 1.—*Japanese economic growth targets*

Indicator	Actual average for fiscal years 1956-58	Targets for fiscal year 1970	
		Total	Annual increase (percent)
Population.....	91, 100, 000	102, 200, 000	0.9
Gross national product.....	\$27, 100, 000, 000	\$72, 200, 000, 000	7.8
Gross national product, per capita.....	\$297	\$707	6.9
Mining and manufacturing production, index.....	100	144	11.0
Agricultural, forestry, and fishery production, index.....	100	144	2.8
Imports.....	\$3, 126, 000, 000	\$9, 891, 000, 000	9.3
Foodstuffs.....	539, 000, 000	804, 000, 000	3.1
Raw materials.....	1, 439, 000, 000	3, 789, 000, 000	7.7
Mineral fuel.....	476, 000, 000	1, 863, 000, 000	11.1
Semifinished products.....	276, 000, 000	1, 093, 000, 000	11.2
Finished products.....	393, 000, 000	2, 330, 000, 000	14.7
Machinery.....	304, 000, 000	1, 735, 000, 000	14.3
Other.....	89, 000, 000	595, 000, 000	15.7
Other.....	4, 000, 000	12, 000, 000	8.8
Exports.....	2, 701, 000, 000	9, 320, 000, 000	10.0
Heavy and chemical products.....	2, 402, 000, 000	8, 859, 000, 000	10.5
Machinery and transportation equipment.....	603, 000, 000	3, 450, 000, 000	14.3
Metals and metal products.....	292, 000, 000	1, 040, 000, 000	10.2
Medical and chemical products.....	120, 000, 000	493, 000, 000	11.5
Light industrial products.....	1, 387, 000, 000	3, 857, 000, 000	8.2
Textiles and apparel.....	879, 000, 000	1, 723, 000, 000	5.3
Food, beverages, and tobacco.....	206, 000, 000	547, 000, 000	7.8
Light machinery.....	56, 000, 000	400, 000, 000	16.3
Miscellaneous.....	246, 000, 000	1, 206, 000, 000	13.0
Other.....	299, 000, 000	461, 000, 000	3.4

NOTE.—The Japanese fiscal year begins Apr. 1 of the year indicated and runs to Mar. 31 of the following year. All values are in fiscal year 1958 prices.

Source: Japan, Economic Planning Agency, New Long-Range Economic Plan of Japan (1961-70)—Doubling National Income Plan, Tokyo: The Japan Times, 1961. pp. 11, 77, 80.

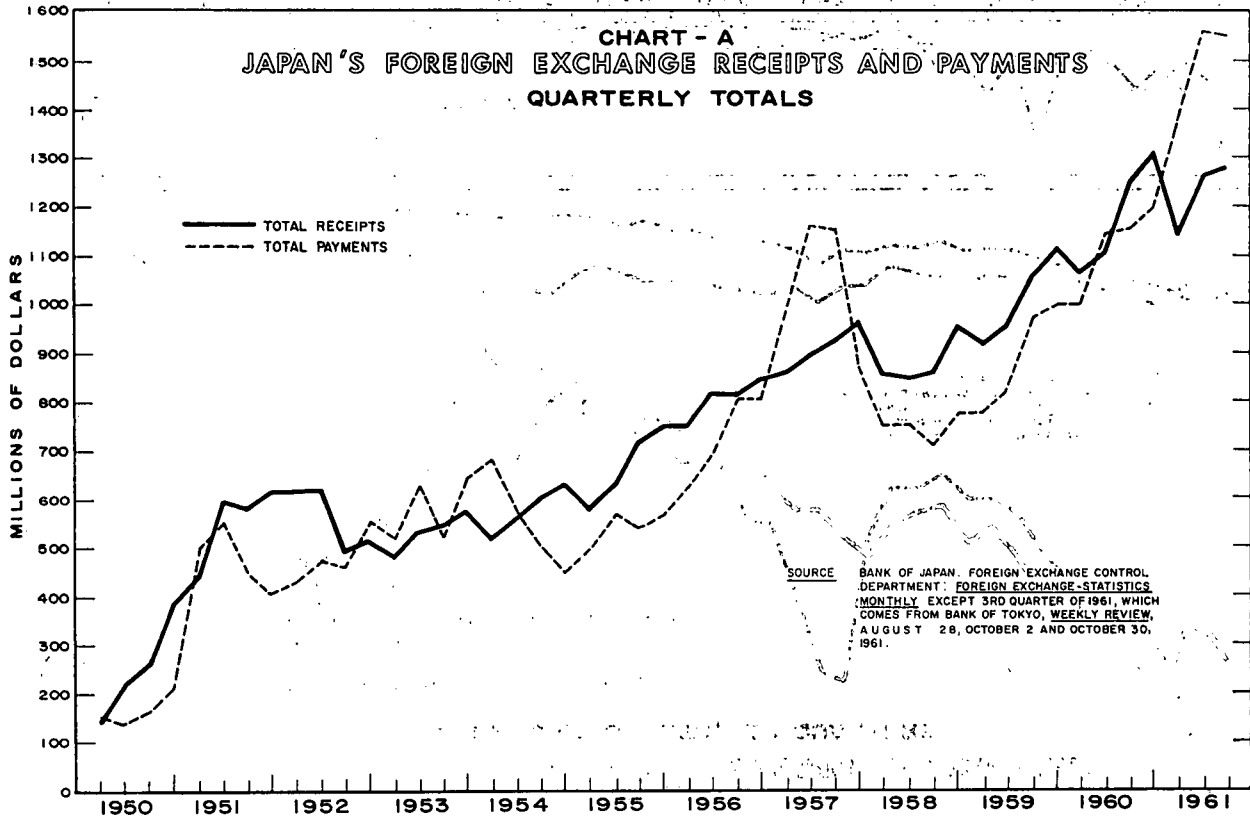
If the income-doubling plan succeeds, Japan's economy in 1970 will be very different from what it used to be. Labor surpluses will be fewer, shortages more frequent. Bottlenecks, which are already resulting from shortages of engineers and certain types of skilled workers, can be expected to multiply. Make-work policies should give way in substantial degree to new attitudes of economizing on labor. Already farmers are leaving the land in substantial numbers. Half of all farm families now receive at least some income from nonfarming activity. These trends should have gone a good deal further by 1970. Family workers, who are normally unpaid, will decline in number. But employment will rise rapidly in manufacturing and in service activities. Although total employment will rise somewhat less than the population of 15 years and older, the employment and wage situation should be much sounder. Activities requiring workers at the lowest wage levels will shrink, and with them the volume of some Japanese exports such as articles of clothing with decorations or other features requiring handwork that has heretofore been done in homes. Japan will be much less of a low-wage country than now, and the character of Japanese trade and of competition in foreign markets will change.

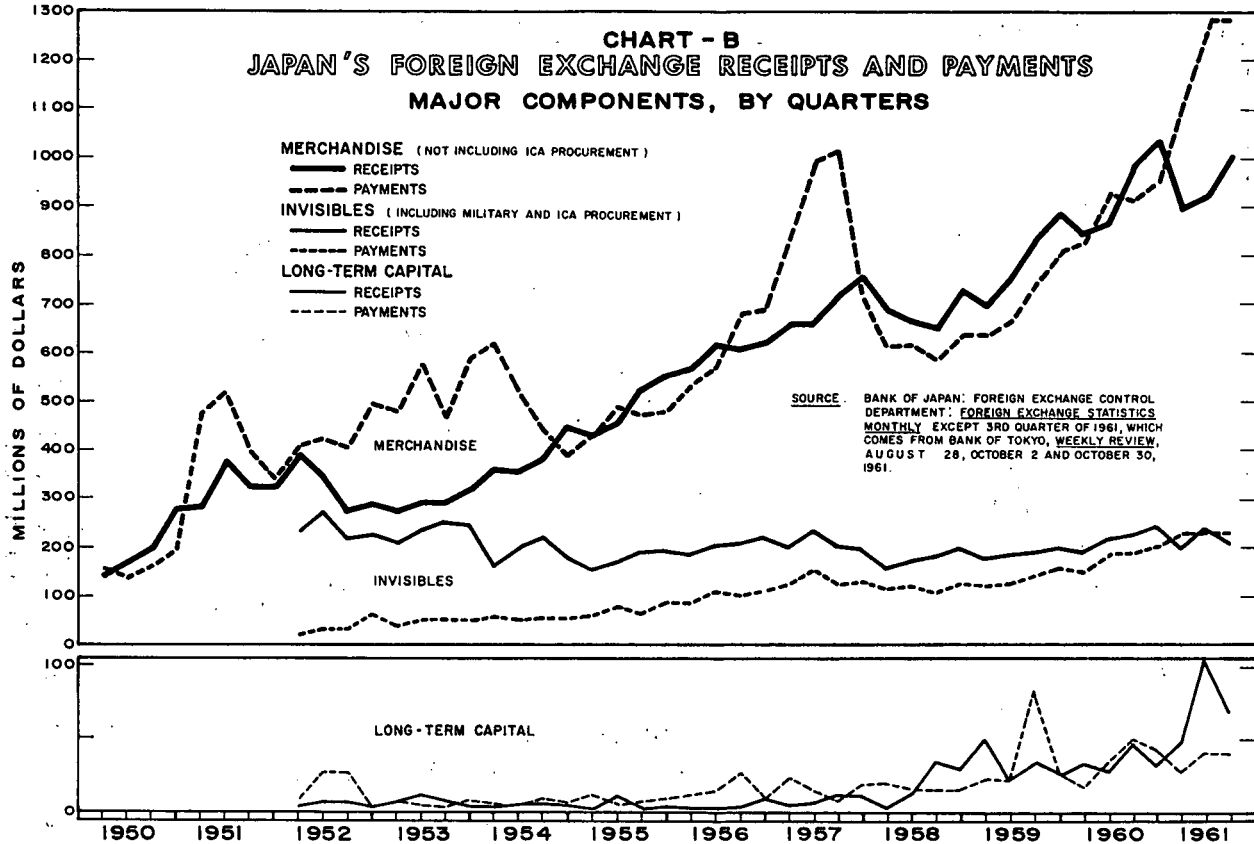
D. FOREIGN EXCHANGE MOVEMENTS

Japan's recent phenomenal growth would not have been possible without the benefit of goods, services, and technology from abroad. The rate of this inflow actually has been one of the limiting factors on the rate of economic growth, some believe the principal limitation. To pay for the inflow Japan has obtained funds from four sources: commodity exports, exports of services, U.S. military expenditures and capital imports.

The total flow of foreign exchange to and from Japan is shown by quarters in chart A. The rapid and remarkably steady growth of receipts contrasts sharply with the wide swings in payments. The latter rise very rapidly at the peak of cyclical booms, when shortages of many kinds coincide with strong domestic demand for consumption or investment purposes. By stern measures such high levels of foreign exchange payments have been cut sharply in 1954 and 1957-58; and in September 1961 a third round of restrictions was imposed to correct a new large deficit. In the two earlier cases payments quickly fell below receipts, and foreign exchange reserves were built up. Now these are at a level high enough so that Japanese authorities are being less severe than before in suppressing expenditures abroad. Liberalization of imports has reduced the possibility of achieving balance by direct import and exchange controls. The present estimate is that the net outflow of foreign exchange will disappear by the summer of 1962.

Chart B shows receipts and payments for the three major categories in which foreign exchange movements are reported. The largest, merchandise trade, looks a good deal like total movements as shown in chart A, both in general growth and in the cyclical alternation of deficits and surpluses. The smallest item is long-term capital, which has played only a minor role until recently. The item called invisibles includes both the relatively small item of services and the large but declining inflow of dollars from foreign military procurement and troop expenditures. The invisibles account was in heavy surplus in the early 1950's as a result of the tremendous military and troop expenditures in Japan resulting from the Korean war. Most of this spending was done by the United States, but small outlays were made by other countries. This source of Japanese receipts is declining, and a further drop is expected as a result of U.S. dollar-saving policies adopted late in 1960. Meanwhile Japanese expenditures for services have risen, mainly for the use of foreign ships, capital, and technology. The invisibles account, which used to contribute a large net inflow of foreign exchange, showed a deficit for the first time in the first quarter of 1961.





In sum, a tendency for Japanese imports to exceed exports has been met by strong import and exchange controls and by large foreign military expenditures, not by substantial net income from services or long-term capital. Reparations payments, mainly to Burma, Indonesia, and the Philippines, now amount to some \$75 million a year, but they are made in the form of direct deliveries of goods and services and do not involve any foreign exchange flow.

E. COMPOSITION AND DIRECTION OF TRADE

Japan's imports totaled \$4,491 million in 1960; raw materials and fuel made up 59 percent, foodstuffs 14 percent, fabricated basic materials like copper ingots 12 percent, machinery and all other finished goods 15 percent. Exports, totaling \$4,055 million, were 70 percent finished goods, 20 percent fabricated basic materials like cotton and rayon yarn and unfinished metal products, 7 percent foodstuffs, and 3 percent crude materials, including pearls not made up into finished jewelry.

The leading export group, now as in the 1930's, is textiles and textile products, including apparel. Cottons, synthetics, woolens, and silk goods are all represented but cotton goods now hold a smaller lead than before World War II. Machinery is the second export category, far more important than before World War II. Included are ships, radios, automotive equipment, textile machinery, and sewing machines, as well as many other electrical, electronic, and other things. Textiles, clothing, and machinery together account for a little more than half of 1960 exports. The remainder include iron and steel products, other metal manufactures, fish, chemicals, fertilizer, optical instruments, plywood, toys, pottery, and many other products.

The geographic distribution of Japanese trade is far different from what it was in prewar days when Japan controlled Korea, Taiwan, and large parts of China. These three countries provided 45 percent of Japan's imports in the years 1934-36 and took 42 percent of total exports, but in 1960 supplied only 2.3 percent and took 5.1 percent. On the other hand, the United States has grown far more important in Japanese trade. The U.S. share of Japan's imports has risen from 25 to 34 percent, of exports from 16 to 27 percent. Imports and exports in 1960 were distributed by continents as shown in table 2.

TABLE 2.—*Japanese foreign trade, by continents, 1960*

[in percent]

	Imports	Exports
United States and Canada.....	39.1	29.1
Asia.....	31.3	37.0
Europe.....	10.0	12.2
Australia and Oceania.....	9.0	4.9
Latin America.....	6.9	7.5
Africa.....	3.6	8.7
Total.....	100.0	100.0

Source: Bank of Japan, "Economic Statistics of Japan," 1960, pp. 245-248.

Japan has made strong efforts to expand exports and develop cheap sources of imports. The United States has proved by far the richest source of imports, especially in times of shortage. Japanese investments have been made in Middle East oil, Indian and Malayan iron ore, Alaskan pulp; and a number of projects in other countries. Some imports have been diverted away from the United States in order to conserve dollars and to promote Japanese trade with other countries. But formal discrimination against purchases in the United States has now about ended.

F. TRADE TRENDS AND PROSPECTS BY AREA

Great expansion of trade with Asia has been a Japanese goal throughout the postwar period, but disappointment has been met in nearly every Asian country. Mainland China under Communist rule has proved particularly frustrating; for when Western security controls have not impeded Japanese trade efforts, Peiping's policy has stood in the way. There remains a strong and widespread feeling in Japan that substantial China trade should be possible despite Communist rule there, although most Japanese see that present Chinese policy prevents large-scale trade. As long as Japanese trade with non-Communist areas continues to prosper, there seems only limited danger to Japan from such trade as may develop. Japan is reluctantly abiding by the security limitations of the Coordinating Committee in Paris concerning exports to China and other Communist areas.

The U.S.S.R. accounts for very little Japanese trade, now as in prewar days. But some Russian moves have been made recently toward increasing the flow in both directions. Offers of cut-price oil are tempting; petroleum has become Japan's largest single import item. And Japanese steel producers are hoping for large orders in connection with a major pipeline and other projects in the Soviet Far East. A number of other products are already flowing in both directions between Japan on the one hand, and on the other, both the Asian and European parts of the U.S.S.R. There was strong criticism in Japan of the clumsy attempts of Soviet Vice Premier Mikoyan to make political capital out of a visit to Japan in August 1961 in connection with the first Soviet trade fair held in Japan. Like China, Russia might potentially trade a great deal with Japan, but it seems doubtful that very large volume will be realized while Japan is free and these neighbors Communist.

Korea also has been very disappointing as a trade partner, except that United States aid to the Republic of Korea has gone to purchase a substantial volume of Japanese goods. Recent U.S. measures to restrict offshore procurement with aid funds are expected to reduce this trade in future. Relations between Japan and the Republic of Korea remain strained, despite repeated efforts at rapprochement. Even if such efforts should succeed, Korea would have difficulty in providing any substantial volume of exports to Japan as to other countries; and consequently would have very little means to buy from Japan, except as United States aid and military expenditures in Korea provide the funds.

Taiwan has proved a better trade partner than Korea, and Japan now carries on a substantial two-way trade with the island. Among

south and southeast Asian countries the Philippines, Malaya, and India have proved the best sources of imports to Japan, and exports in volume have been going not only to these countries but also to Hong Kong, Thailand, and Indonesia. Japan is making substantial reparations payments to Burma, Indonesia, and the Philippines. Still, trade with south and southeast Asian as well as with east Asian countries has been rather disappointing, and it seems unlikely that these areas will be able to account for a larger share of Japanese trade in the 1960's, as the total continues to rise rapidly. The hopes, both of Japanese and of some Americans, that Japan might be able to depend less on the American market for Japanese exports and concentrate more on nearby Asian areas seem doomed to failure. These areas can expand their imports only as they gradually develop more export earnings or obtain more foreign capital or aid. The sum of these three sources of potential trade increase does not promise to be very large, and Japan's share of such increase as occurs must be won in competition with the most advanced industrial countries.

With western Asia, Japan is developing an ever larger import trade in Persian Gulf oil, and Japanese exports to the area are rising slowly, although far behind imports. These trends seem likely to continue with expected further rapid growth of imports of petroleum into Japan. Altogether North America and Asia account for two-thirds of Japanese foreign trade.

Among the other markets, Europe is the largest in both imports and exports and shows the greatest potential for further expansion. Japan will continue to need machinery in large volume, and European producers are vigorous competitors of the United States, Japan's principal supplier of machinery. For Japanese exports, Europe's emerging market might potentially be almost as rich as the American market, which has been buying more than twice the value of Japanese products that Europe does. But it remains to be seen how far the European market will go in admitting Japanese goods. Opposition to competitive imports of manufactures from low-wage areas remains very strong, and there appears to be a real danger that Japan may be effectively barred from any substantial participation in the expected rapid economic and trade growth of Europe.

Australia and New Zealand are significant to Japanese trade as suppliers of wool, wheat, meat, dairy products, coal, and other commodities for which Japanese demand is growing. These two countries could afford to buy far more from Japan, and have been increasing their share of Japanese exports during recent years. But in 1960 Japan still bought twice as much as it sold there. These countries have a tradition of opposition to Japanese products, and both countries discriminate against Japan by invoking article 35 of the GATT.

Latin America and Africa are at the bottom of the list of Japanese trade partners, even with exports to Africa swollen by the statistical inclusion of all Japanese ships sold for Liberian registry. Still, both areas have larger shares of Japan's trade than in the 1930's, and the prospects appear good for further increase, as Japanese trade contacts improve, and as termination of restrictive trade arrangements, especially in former African colonies, opens more opportunities for Japan. Here, as in southeast Asia, Japan's prospects are limited by

the speed of economic growth, and that seems likely to vary sharply from one country to another.

In sum, Japan's export prospects in markets outside of Canada and the United States seem mixed. Altogether, Japanese exports to these markets may increase at upward of 10 percent a year, especially if Japanese export promotion is vigorous and skillful. But there is no basis now evident for assuming that Japan can rely on the U.S. market less in the future than in the recent past. The Japanese estimate is that the U.S. share of their exports should rise from 25 percent in the 1956-60 period to 30 percent in 1970. Like all projections, this one is based on assumptions that may not be realized, but there appears no compelling reason to reject the figure. Japan will continue to rely heavily on sales in the United States. American exports to Japan, in turn, depend heavily on United States imports from Japan.

G. JAPANESE-AMERICAN TRADE AND PAYMENTS

United States exports to Japan in the period from the surrender in 1945 through the end of 1960 totaled almost \$10 billion, imports almost \$6 billion. The \$4 billion trade deficit was increased by net outlays for shipping and other services but more than made up by over \$2 billion of U.S. aid during the occupation and over \$5.5 billion of military procurement and troop expenditures. Although detailed information is not available, it seems clear that, until recently at any rate, the United States has provided Japan all the dollars necessary to meet expenditures in the United States, with a good deal left over for building up necessary foreign exchange reserves and making expenditures in third countries.

A significant feature of this flow of trade is the gradual development of more balance, as shown in the last column of table 3. While imports from Japan amounted to only a third of exports to Japan in the first 5 years after surrender, this proportion rose to 44 percent in the first half of the 1950's and 76 percent in the latter half. There are, however, wide cyclical swings in the trade balance. When the Japanese economy is booming, as it is now, United States exports to Japan tend to rise much faster than Japanese sales in the United States, and imports were only 56 percent of exports in the first 8 months of 1961.

TABLE 3.—Total U.S. trade with Japan, 1945-61
[In million dollars]

	U.S. exports	U.S. imports	Total	Excess of exports	Imports as a percentage of exports
1945-46.....	103	81	184	22	79.1
1947.....	60	35	95	25	58.9
1948.....	325	63	387	262	19.3
1949.....	468	82	550	386	17.6
1950.....	417	182	599	235	43.7
1945-50.....	1,372	443	1,815	928	32.3
1951.....	698	205	803	393	34.3
1952.....	622	229	851	392	36.9
1953.....	671	262	932	409	39.0
1954.....	678	279	957	399	41.1
1955.....	651	432	1,083	219	66.4
1951-55.....	3,201	1,407	4,608	1,794	43.9
1956.....	905	558	1,463	347	61.7
1957.....	1,236	601	1,837	636	48.6
1958.....	845	671	1,516	173	79.4
1959.....	966	1,029	1,995	-62	106.5
1960.....	1,330	1,149	2,479	182	86.3
1956-60.....	5,283	4,007	9,290	1,275	75.8
1945-60.....	9,873	5,857	15,731	4,016	59.3
January-August 1961.....	1,184	667	1,851	517	56.3

Source: 1945-55, Statistical Abstract of the United States; 1956-61, U.S. Department of Commerce, Bureau of International Programs, Office of Regional Economics, International Trade Analysis Division.

Japan's place in United States trade has grown from virtual insignificance to great prominence during the postwar period. In the first 5 years after surrender Japan accounted for only 1.7 percent of total United States trade. The record since then is shown in table 4. By 1960 this figure had risen to 7.1 percent, and in the first 8 months of 1961 was 8 percent. Meanwhile Japan's standing among foreign trade partners of the United States rose from sixth to second between 1951 and 1960. In 1951 Japan was already as high as 5th place in foreign markets for United States exports but as a source of imports was only 17th. Today's second position is a remarkable achievement.

TABLE 4.—Japan's place in U.S. foreign trade, 1951-61

	U.S. exports		U.S. imports		Total trade	
	Japan's share (percent)	Japan's rank	Japan's share (percent)	Japan's rank	Japan's share (percent)	Japan's rank
1951.....	4.0	5	1.9	17	3.1	6
1952.....	4.1	4	2.1	13	3.3	7
1953.....	4.3	2	2.4	10	3.5	6
1954.....	4.5	3	2.7	8	3.8	6
1955.....	4.2	4	3.8	6	4.0	5
1951-55.....	4.2	4	2.6	9	3.5	6
1956.....	4.7	3	4.4	5	4.6	3
1957.....	5.9	2	4.6	6	5.4	4
1958.....	4.7	3	5.2	4	4.9	4
1959.....	5.5	2	6.8	3	6.1	3
1960.....	6.5	3	7.8	2	7.1	2
1956-60.....	5.5	2	5.9	4	5.7	3
January-August 1961.....	8.7	2	7.1	2	8.0	2

Source: U.S. Department of Commerce, Bureau of International Programs, Office of Regional Economics, International Trade Analysis Division.

Table 5 shows the composition of United States exports to Japan in the years 1956 to 1960. About a third of the total has been agricultural products in the past 2 years, and in earlier years the proportion was higher. Japan is the leading foreign market for United States agricultural exports. Raw cotton heads the list of individual export products, followed by iron and steel scrap and soybeans. Japan was the leading export market for each of these commodities in 1960, taking 43 percent of total exports of the total ironmaking and steelmaking raw materials, 22 percent of the cotton, and 15 percent of the fats, oils, and oilseeds exported. Other major export commodities are petroleum products (mainly fuel oil and lubricants), grains, copper materials and products, metalworking machinery, chemical specialties, and coal. During the years covered in table 5 there was a good deal of change in total United States exports to Japan and in the flow of certain individual items, notably cotton, iron and steel scrap, copper, and several kinds of machinery. In all years the list includes very few luxuries. Nearly everything that shows is either a foodstuff, a raw material, or machinery necessary to operate the Japanese economy. Only automobiles and tobacco appear to be possible exceptions, and they account for very small movements.

TABLE 5.—U.S. exports to Japan, by commodity, 1956-60

[In millions of dollars]

	1956	1957	1958	1959	1960
Foodstuffs.....	113.6	130.7	124.7	93.1	89.5
Grains and preparations.....	96.3	112.0	111.0	82.7	71.3
Other.....	17.3	18.7	13.7	10.4	18.2
Animal and vegetable products (inedible).....	104.7	115.8	130.2	175.6	218.0
Hides and skins.....	17.7	15.7	13.5	14.6	23.5
Tallow, inedible.....	17.5	19.4	18.8	20.0	21.6
Synthetic rubber.....	6.0	7.7	8.6	22.1	22.5
Oilseeds.....	53.9	63.0	71.9	95.5	104.8
Soybeans.....	(50.8)	(60.6)	(68.8)	(86.9)	(93.2)
Tobacco (unmanufactured).....	5.1	3.3	10.4	11.2	17.3
Other.....	4.5	6.7	7.0	12.2	28.3
Textile fibers and manufactures.....	189.0	232.9	126.3	103.4	226.1
Raw cotton (except linters).....	178.9	216.0	117.4	91.3	215.1
Other.....	10.1	16.9	8.9	12.1	11.0
Wood and paper.....	19.5	24.8	14.5	25.3	43.7
Wood (unmanufactured).....	2.5	3.7	5.5	9.2	12.3
Woodpulp.....	12.8	15.0	4.4	8.4	22.8
Other.....	4.2	6.1	4.6	7.7	8.6
Nonmetallic minerals.....	81.4	123.7	88.4	107.4	142.7
Coal.....	32.1	53.3	35.3	40.7	53.4
Petroleum and products.....	42.6	63.7	46.8	57.5	77.9
Other.....	6.7	6.7	6.3	9.2	11.4
Metals and manufactures.....	223.2	337.1	55.8	150.5	250.0
Iron and steel-making raw materials.....	136.1	176.8	24.8	112.2	131.1
Iron and steel scrap.....	(112.9)	(127.0)	(19.8)	(106.9)	(119.7)
Iron and steel-mill products.....	23.7	75.0	11.5	9.4	14.7
Copper (raw, scrap and products).....	49.0	65.0	9.2	13.4	67.5
Other.....	14.4	20.3	10.3	15.5	36.7

TABLE 5.—U.S. exports to Japan, by commodity, 1956-60—Continued

[In millions of dollars]

	1956	1957	1958	1959	1960
Machinery, vehicles and parts.....	85.8	165.3	203.9	177.2	204.7
Electrical machinery and power generating equipment.....	24.2	28.8	51.5	62.0	29.1
Construction machinery.....	4.6	10.1	10.1	7.6	9.1
Metalworking machinery.....	6.7	43.8	59.1	34.6	60.9
Textile, sewing and shoe machinery.....	5.0	6.4	3.6	3.5	5.4
Office machinery.....	8.9	11.8	11.3	19.6	27.1
Vehicles, parts and accessories.....	6.7	12.4	16.8	6.2	31.3
Aircraft.....	(2.1)	(4.3)	(13.5)	(2.9)	(25.9)
Automobiles.....	(4.6)	(8.1)	(3.3)	(3.3)	(5.4)
Other.....	29.7	52.0	51.5	43.7	41.8
Chemicals.....	70.4	84.3	80.6	112.6	126.9
Chemical specialties.....	30.7	36.7	33.4	53.5	54.6
Industrial chemicals.....	8.2	10.5	9.9	16.0	17.8
Fertilizers and fertilizer materials.....	15.5	17.8	15.4	16.3	24.8
Other.....	16.0	19.3	21.9	26.8	29.7
Miscellaneous.....	14.3	17.4	16.0	16.6	23.3
Total exports of U.S. merchandise.....	901.9	1,232.0	840.4	961.6	1,324.8
Agricultural.....	391.5	454.1	361.3	334.0	485.2
Nonagricultural.....	510.4	777.8	479.1	627.6	839.6
Reexports.....	2.9	3.9	4.3	4.7	5.6
Total exports, including reexports.....	904.8	1,235.9	844.7	966.3	1,330.4

Source: U.S. Department of Commerce, Bureau of International Programs, Office of Regional Economics, International Trade Analysis Division.

The commodity composition of United States imports from Japan is shown in table 6. Textile products are the largest group, followed by metals and machinery. These three groups made up over half of 1960 movements. Eight items had movement in excess of \$50 million each in 1960; namely, steel-mill products, rubber footwear, cotton manufactures, radios, wool manufactures, fish, plywood and clay products. If all wearing apparel were grouped together, it would make one of the larger groupings. A number of other items follow close behind. Indeed, it is striking how widely the items spread through the major United States statistical categories despite Japan's deficiencies in natural resources. Only the chemicals group could be regarded as really small. For a number of products the United States market is very important for Japan, and in some cases imports from Japan have had a sharp impact on the American market. During the years shown in table 6 very rapid increases occurred in the imports of rubber footwear, synthetic fibers and their products, steel-mill products, iron and steel manufactures, and electrical apparatus, notably radios. Total imports doubled in the 4 years between 1956 and 1960.

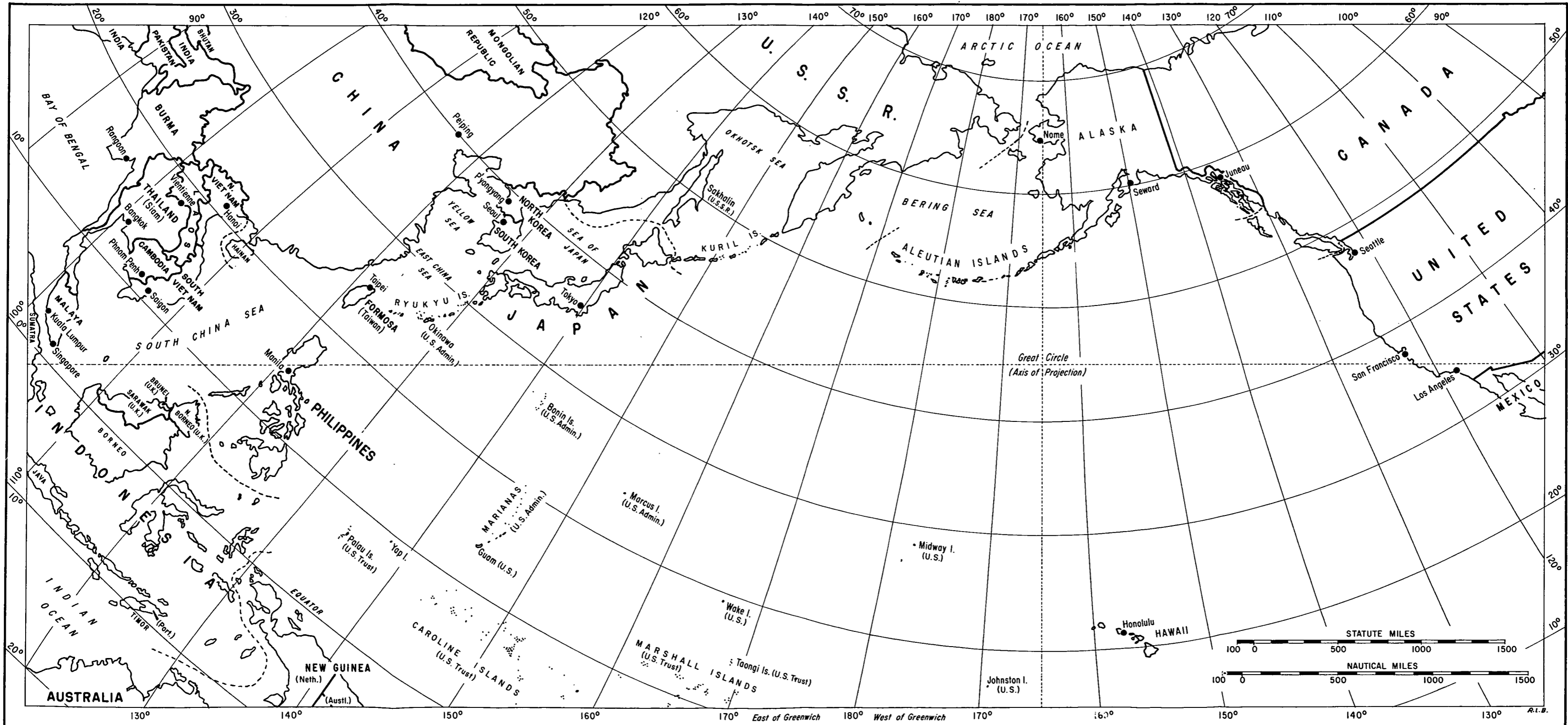
TABLE 6.—U.S. imports from Japan, by commodity, 1956-60

[In millions of dollars]

	1956	1957	1958	1959	1960
Foodstuffs.....	\$61.8	\$68.9	\$72.9	\$88.0	\$79.1
Fish and fish products.....	54.2	60.1	64.8	75.7	64.1
Mandarin oranges, canned.....	2.4	2.7	2.3	5.8	6.8
Other.....	5.2	6.1	5.8	6.5	8.2
Animal and vegetable products (inedible).....	16.7	20.8	36.0	81.8	125.0
Leather and related products.....	3.9	5.3	10.2	15.3	19.3
Rubber products.....	1.9	4.4	13.0	53.8	94.1
Rubber footwear.....	(.8)	(2.6)	(8.3)	(39.1)	(76.8)
Other.....	10.9	11.1	12.8	12.7	11.6
Textile fibers and manufactures.....	203.8	189.9	201.9	266.0	279.2
Cotton manufactures.....	84.1	65.8	71.8	76.8	74.5
Wearing apparel.....	(33.7)	(32.3)	(35.2)	(40.9)	(37.7)
Wool manufactures.....	30.5	34.4	41.6	55.6	67.6
Wearing apparel.....	(14.3)	(14.5)	(13.9)	(21.5)	(22.4)
Raw silk.....	30.2	23.0	13.5	21.8	20.5
Silk manufactures.....	29.6	33.9	40.2	53.3	48.0
Wearing apparel.....	(10.3)	(11.2)	(10.4)	(9.1)	(7.6)
Synthetic fibers and manufactures.....	7.0	8.6	11.2	28.8	32.2
Wearing apparel.....	(4.5)	(5.7)	(6.3)	(17.6)	(19.0)
Other.....	22.4	24.2	23.6	29.7	36.4
Wood and paper.....	65.9	73.5	77.7	108.7	97.3
Sawmill products.....	10.5	6.8	8.1	12.3	10.0
Wood manufactures.....	46.4	58.9	61.9	86.1	76.2
Plywood.....	(33.9)	(44.4)	(44.3)	(59.3)	(50.3)
Paper and manufactures.....	8.4	7.1	6.8	9.3	10.2
Other.....	.6	.7	.9	1.0	.9
Nonmetallic minerals.....	42.2	44.8	56.0	70.7	83.5
Glass and glass products.....	6.6	5.4	6.6	11.1	11.4
Clay and clay products.....	26.8	29.0	31.7	40.7	50.3
Pearls.....	7.9	9.4	10.3	13.0	13.8
Other.....	.9	1.0	7.4	5.9	8.0
Metals and manufactures.....	70.9	77.5	96.0	173.2	191.8
Steel mill products.....	10.0	7.8	30.7	83.5	90.8
Iron and steel manufactures.....	12.9	18.0	21.0	34.7	44.6
Ferroalloys (ores and metals).....	18.2	30.0	19.0	17.6	12.6
Jewelry, plated wear, and precious metals.....	10.0	10.2	10.8	17.2	20.7
Other.....	19.8	11.5	14.5	20.2	23.1
Machinery and vehicles.....	23.6	39.4	56.9	116.4	143.3
Electrical machinery and apparatus.....	8.1	16.0	28.3	74.0	102.1
Radio apparatus and parts.....	(2.5)	(5.6)	(16.1)	(55.2)	(71.4)
Sewing machines.....	13.5	19.7	21.9	28.3	21.8
Other machinery.....	1.3	2.4	3.8	7.8	12.4
Vehicles (automobiles and bicycles).....	.7	1.3	2.9	6.3	7.0
Chemical and related products.....	3.9	3.9	7.7	17.3	15.6
Miscellaneous.....	59.0	84.0	72.6	95.8	111.7
Photographic goods.....	5.1	8.9	8.7	10.1	14.4
Scientific and professional instruments.....	7.6	9.8	11.9	14.5	16.5
Dolls, toys, and parts.....	21.1	23.2	21.5	28.6	30.6
Athletic and sporting goods.....	2.7	4.3	6.0	11.1	15.2
Articles valued \$1 to \$250 (estimate).....	10.8	13.1	6.3	9.0	11.3
Other.....	11.7	24.7	18.2	22.5	23.7
Total, imports for consumption.....	547.8	602.8	677.6	1,018.0	1,126.5
Total, general imports.....	557.9	600.5	670.8	1,028.7	1,148.6

Source: U.S. Department of Commerce, Bureau of International Programs, Office of Regional Economics, International Trade Analysis Division.

JAPAN'S POSITION BY THE TRANS-PACIFIC GREAT CIRCLE ROUTE



HOW IMPORTANT IS JAPAN TO THE UNITED STATES?

In an age when American policy must concern itself with every country in the world, it seems almost impossible to keep a proper balance in the differing degrees of attention given to particular countries. There is a strong tendency to take for granted an individual country that is not involved in a crisis or otherwise making headlines. Japan has seldom caused great international excitement in recent years, but this fact is no reflection of insignificance.

Japan is the principal ally of the United States in Asia. Japan's role in U.S. trade is largely reflected in the statistics. Japan's great importance for the United States is recognized in the Cabinet-level United States-Japan Committee on Trade and Economic Affairs, which held its first meeting in Hakone, Japan, at the beginning of November 1961. At a time of grave international crisis, not directly related to Japan, President Kennedy dispatched across the Pacific Ocean five Cabinet members, a sub-Cabinet officer, the Chairman of the President's Council of Economic Advisers, and various assistants. Although the meeting was quiet and occasioned only limited press reporting and comment in the United States, matters of serious concern to both countries were discussed.

Basically, Japan is important because it is populated by a numerous, extremely vigorous and determined people, who have for most of the century of their modern history succeeded in making themselves felt abroad. As friends or foes, trading partners or rivals, and in other ways, the Japanese can be counted on to be impressive. They are by no means wholly predictable but they are important. The cold war multiplies their importance for the United States and the free world. Japan is strategically located off the coast of Asia on or near the most heavily traveled transpacific trade routes, and so situated as to separate a large part of east Asia from direct access to the open Pacific. (See map.) Japanese human and industrial power made the Pacific War long and costly. Today's Japan has a substantially larger population than that of two decades ago and a rebuilt, modernized, and much expanded industrial establishment. This nation would be a great prize for the Communists.

For Japan the United States is by a wide margin the most important foreign country in the world. As a consequence of American predominance in trade, investment, technology, defense, and other aspects of Japanese life, the United States has vast influence on Japan.

Politically, Japan is making its second try at democratic government, the first having failed in 1931 and thereafter. The present experiment was started under American auspices during the occupation. The constitution was drawn up in close collaboration with occupation officials, the political parties grew under the tolerant eyes of the occupation, which also removed a great many restrictions on labor unions, on the rights of women, on freedom of expression, and on personal liberty. Education was revamped, a revolutionary land

reform was successfully imposed, and many other changes made. If Japanese democracy grows and succeeds in future years, American influence and prestige in Asia will gain as a result. But if this Japanese undertaking should fail, the failure would be regarded as not alone Japanese but in large measure also American. Perhaps even more than in the Philippines, the American reputation among Asians is tied to political events and evolution in Japan.

However Japan fares in the years ahead, a great deal of American prestige and influence will be involved. If Japan prospers and if Japanese democracy grows gradually stronger, the United States will gain as a result. If, on the other hand, Japan's phenomenal postwar resurgence should be checked, the failure would inevitably be at least partly American in the eyes of other Asians, of our allies everywhere, and of our self-declared enemies. The results of a serious estrangement between Japan and the United States would be extremely serious and could be expected to have ramifications all around the world.

Japan's importance for the United States is not subject to doubt once we look at Japan. The danger is that a friendly and cooperative Japan may be taken for granted and unnecessary frustrations allowed to build up. There is very little need for this to happen. Japan can take very good care of itself and will do so, if a reasonable degree of opportunity exists. But if things go seriously wrong, the Japanese people can explode violently. In today's divided and dangerous world such an unnecessary tragedy would be far too high a price for the United States concentration on other countries and other problems.

WHERE DOES JAPAN BELONG IN THE WORLD ECONOMY?

Japanese, both leaders and the public, are keenly aware that Japan must export to pay its way in the world economy, and they are extremely conscious of foreign barriers against Japanese goods. Japanese are, in fact, generally sensitive status-conscious people, who want very much to be accepted by others, especially the world's leading nations.

Many factors underlie Japan's difficulties in gaining acceptance among the leading nations of the Western World. Per capita production, measured by the imprecise methods available, is much lower in Japan than in the most advanced countries, but higher than in nearly all others. Japanese exports, consisting mainly of competitive manufactures whose low prices result in part from the low wages that go with low per capita incomes, disturb Europeans at least as much as Americans, and Europeans are far less ready than Americans to admit the necessity of accepting such imports. The fact that Japan was recently a bitter enemy is probably of only minor significance. But it undoubtedly is important that the Japanese are relatively poor, are not European and cannot be called Atlantic.

The European members of the OECD are not ready to admit Japan to that organization, except for specific limited purposes. Japan is a member of the OECD's Development Assistance Committee (DAC) and may from time to time sit in at meetings of the trade policy committee when Japanese trade is being discussed. To Japan, admission to the committee concerned with giving but not to the full range of OECD groups and activities is a clear indication that Japan is regarded as a second-class power.

A form of discrimination that particularly arouses the Japanese is the refusal by 15 member states ("Contracting Parties") of the General Agreement on Tariffs and Trade (GATT) to grant full GATT privileges to Japan even though Japan acceded to full membership in September 1955.³ Japan is the only country against which article 35 has ever been used in this manner.

Like many countries far less developed than itself, Japan is going through profound social and economic changes. The new often clashes with the traditional, the young with the old. A strong element of Marxism in Japanese schools and universities makes many young people even more intolerant of their conservative elders than would be true otherwise.

Japan's identity problem is not just economic but many sided. Geographically near the Asian continent but not a continental nation,

³ Technically these members have invoked article 35 of the agreement which permits contracting parties to withhold most-favored-nation treatment and refrain from negotiating specific tariff concessions with a state newly admitted as a contracting party. On November 1, 1961, the following nations were invoking article 35 against Japan: Australia, Austria, Belgium, Central African Federation (Rhodesia and Nyasaland), Cuba, France, Ghana, Haiti, Luxembourg, the Netherlands, New Zealand, Nigeria, Sierra Leone, South Africa, and the United Kingdom. In addition Cambodia and Tunisia have indicated that they intend to invoke article 35 against Japan when these countries accede to full membership. There are now 39 contracting parties to the GATT.

Japan is torn between the elements in its life that are Asian and those that spring from other roots. Rejecting a military past that brought horrible ruin and defeat, Japanese are having trouble defining a proper role in today's insecure world. Emotionally leaning toward pacifism and disarmament, they realize intellectually in varying degrees the need to defend themselves against the menace of aggressive Communist neighbors. Most Japanese have a strong feeling that Japan must and can coexist, and cooperate in a number of ways, with China, even under Communist rule. A large proportion of Japanese feel their country is too dependent on the United States.

In this situation, matters of status and identity are acutely felt. But Japanese yearnings to join other nations in fruitful cooperation are frustrated in many ways. In addition to the bitter memories still held by many Asians of a "Greater East Asia Co-Prosperity Sphere" that meant Japanese aggression, control, and exploitation in other countries, Japan faces the basic fact that no close neighbor has enough in common with Japan to make for easy, let alone equal, participation in cooperative enterprises. Schemes for joint action in southeast Asia frequently meet hostility from southeast Asians, and when such schemes have been proposed for U.S. financing, the United States has declined.⁴

One encouraging, even if small, cooperative venture is the new Asian Productivity Organization (APO) which was formally inaugurated in Tokyo in May 1961. Patterned after the European Productivity Agency and the Japan Productivity Center, the APO is the first post-war international organization created at Japanese initiative. APO may well become a significant means for Japanese cooperation with other Asian countries in an area where Japan has a great deal to offer. Japan is, of course, a member of many international organizations, playing an active role, though often quietly.

Japan belongs among the world's foremost nations. Not one of the superpowers, geographically small and in some respects remote, Japan is not easy to fit into present categories in U.S. foreign relations. But the present difficulties involved in absorbing Japan into the group of leading Western nations might well look small if a rejected Japan should some day flirt seriously with the enemies of the West.

⁴ In 1954 Prime Minister Shigeru Yoshida made a proposal during a visit to Washington, as did his successor, Nobusuke Kishi, under similar circumstances in 1957, both without result. The idea in each case was that the United States should finance development projects in southeast Asia that were essentially Japanese. Instead of participating in such arrangements, the United States has preferred its own bilateral aid programs in southeast Asia, as in other parts of the world. But substantial sums provided by the United States as aid to other countries in Asia and elsewhere have been spent in Japan.

U.S. POLICY PROBLEMS ARISING FROM JAPANESE TRADE

What American problems arise out of our extensive economic relations with Japan? The Japanese side is relatively simple and fairly obvious to anyone who looks at it. But what American interests should command the attention of our policymakers when they are considering decisions about Japan?

A. JAPANESE COMPETITION IN THE AMERICAN MARKET

The most obvious, troublesome and, indeed, significant policy problem is competition of Japanese goods in the American market. Japan's target of some \$2.8 billion a year of sales here by 1970 presents something of a challenge. It is to be expected that American exports to Japan will rise in at least rough correspondence to the growth of Japanese sales here. But it is small comfort to American businessmen, workers, and communities adversely affected by imports that there is increased business for some exporting industries.

Japanese goods fall into a category widely referred to as "low wage goods", and the problems they present in our market, "low wage competition." Japanese wages certainly are much lower than American wages. This differential is unavoidable, given the wide difference between per capita production here in the United States and that in Japan. But low wages do not always mean low labor costs or low total costs. Japanese automobiles cannot match American cars. In fact, there are even large segments of the American market for cotton textiles where Japanese goods cannot compete effectively with American products. But when Japanese technical efficiency is closer to the American level than Japanese wages are, Japanese goods may be produced more cheaply than American. The trade record shows a long list of successful Japanese export products, a list that grows longer each year.

Wages are only one element in cost. But there is a very widespread feeling, both in the United States and in other countries with relatively high incomes, that the sharp difference between domestic wages and those in Japan makes Japanese competition especially dangerous. This fear is a major factor in the import barriers European countries and others maintain against Japanese goods. The same fear is frequently expressed by American producers protesting against Japanese competition.

Four factors promise to make Japanese price competition less intense during the 1960's. First, rapid economic growth is already causing shortages of particular kinds of labor in Japan, and wage rates are being pushed up more rapidly than during the 1950's. Up to now productivity has risen faster than wage rates and consequently wage costs have generally not risen but fallen. But in the activities paying the lowest wages, especially the small family factories, inability

to get workers is likely to cause the supply of certain products to shrink.

Second, as wage rates rise, they will exceed the rise in productivity in some activities that show a relatively slow rate of technical progress. Thus, labor costs and total costs will rise. In a period of extremely rapid growth like that now occurring and projected to continue in the 1960's some industries will fall behind. As a consequence, they will be less able to attract labor and to compete abroad. In Japan the most rapid growth is taking place in heavy and chemical industries and those particularly dependent on the most modern technology. Many light industries are expected to lag, including textiles and wearing apparel. In the fiscal years 1956-58, these two industries, together, accounted for 33 percent of the total Japanese exports. Because of increasing wages, shrinking foreign markets, competition from new exporting countries, and other factors, this percentage is expected to decline to about 19 percent in the fiscal year 1970.

Third, along with rapid economic growth and fuller employment than ever before, Japan will probably feel more general inflationary pressure than in recent years. Shortages and domestic demand can be expected to press prices upward. During the 1950's inflationary pressure was generally greater in the United States than in Japan. In the 1960's the situation may be reversed. This point is difficult to evaluate, especially since the general assumption is a rapid increase in Japanese sales abroad, both in the United States and in other markets.

Fourth, Japan has found ways to reduce or avoid disruptive effects in foreign markets. Both the Japanese Government and certain producer groups have undertaken to restrain exports, mainly but not solely, to the United States, in the interests of orderly market growth. It was estimated in 1959 that about 20 percent of the total value of Japanese exports to the United States was subject to export quotas. As a consequence, there is much less danger than in the past that a particular Japanese product will suddenly take over such a large part of the American market for a particular product as to cause undue damage to American producers.

Still, Japanese goods are low wage goods, according to the common phrase. Their competition in the United States will be made more severe for American producers by the rising inflow of goods from Hong Kong, India, and other newly industrializing countries. These countries, in varying degrees and at varying rates of speed, are following paths similar to the one Japan has traveled in years past. Producing things for which there already is a market and selling them at prices low enough to attract customers, new countries feel their way into markets in the United States and elsewhere. Some American production is likely to be affected by these imports. American policy concerning Japanese goods will also to a large extent concern imports from newly developing countries.

The impact of competitive imports, whether from Japan or anywhere else, will be less severe the more rapid the rate of economic growth in the United States. Change is an inseparable part of growth. In a vigorous economy it is not necessarily difficult for productive resources to shift from competitively weak sectors to others that prove stronger in the emerging conditions. Present estimates of what U.S. gross national product will be in 1970 vary generally between \$700

and \$800 billion in 1960 prices. That means an increase of between \$200 and \$300 billion over the 1960 level. It does not seem likely that widespread damage is in prospect if in the same period imports from Japan rise by \$1.5 to \$2 billion.

What American industries are affected by imports from Japan? Table 6 gives some indication of what the imports are. Actually the amount of American protest has been related to the quantity imported far less than to the rate of import increase and the inroads made by imports into a particular market during a short period of time. During the 1950's protests were usually made about individual products most of which are far too small to appear separately in a short listing like table 6. But cotton manufactures, plywood, glassware, radios, sewing machines, and toys, all of which are mentioned in table 6, have been the subject of protest. Other items of import from Japan about which American producers have complained include such things as toyo cloth caps, stainless steel flatware, clinical thermometers, umbrellas, and men's suits.

By applying to the Tariff Commission under the escape clause of trade agreements, a number of American business firms or groups have sought to restrain imports from Japan. Additional cases have been started without industry application, as a result of the workings of the peril point provisions of our trade laws. A total of 22 cases are known to have involved Japan as first, second, or third most important foreign supplier. Other cases that may have concerned Japan were not carried far enough to show which foreign countries provided most of the imports in question. In only three cases—stainless steel flatware, clinical thermometers, and cotton typewriter ribbon cloth—was action taken by the President to restrict imports.

This record shows how little provable injury to American producers has resulted from Japanese goods, even at a time when our imports from Japan have been rising at a rate twice as fast as that now projected for the 1960's. (The rate of increase of our imports from Japan averaged over 20 percent a year between 1955 and 1960, compared with the present target of about 10 percent a year during the 1960's.) Some producers have complained that Tariff Commission definitions and procedures do not fully reflect actual injury. But in general it seems fair to state that the record of Japanese competition since World War II has been one of rapid trade expansion with very limited disturbance to the American economy. The industrial sectors actually affected have been, for the most part, very small, and actual injury apparently very limited.

In the case of cotton textiles, a few small segments of the industry have been seriously affected by competition from Japan, but the industry has succeeded in getting adoption of quota systems, at first Japanese and now multilateral, that restrict the flow of imports to levels that constitute only a small fraction of the total American market for cotton textiles. It would be difficult, perhaps impossible, for actual injury to occur with the present quotas.

Nevertheless, injury as a result of imports is a real possibility, and U.S. policy must take this into account. The importance of Japan or other producing countries may be such, and their need to sell here so great, as to warrant admission of certain imports that cause injury. But the injured American interests must not be ignored. They should be helped to adjust.

The general concept behind the escape clause and several other parts of U.S. trade legislation is that imports should not be permitted to injure American producers. The President is, of course, free to reject Tariff Commission recommendations for restricting imports in cases of actual or threatened injury, but this is the only stage in the escape-clause process where foreign policy considerations may be brought to bear on the question of whether or not to restrict imports when injury has been demonstrated. Nor is there a regularized procedure for providing Federal assistance or compensation in cases where injury occurs but the President decides against limiting imports. More and more in recent years the burden has fallen on the President to justify his decision in such cases.

What is needed first is some means to balance the various considerations and interests involved—the needs of Japan and other exporting countries, the other foreign policy considerations involved, the interests of the American producers affected, the prospects of enlarged American exports, and other pertinent factors such as the state of employment or of the U.S. balance of payments.

Second, where these means lead to a decision that permits imports such as might injure an American firm, industry, worker group, or locality, measures are called for that would compensate for financial loss, minimize human distress and dislocation, and facilitate transfer and rehabilitation. While the distressed area legislation of 1961 breaks new ground in this direction, much more needs to be learned about how to preserve human values and meet the other needs that arise in such cases. It should not be necessary to have special legislation related to injury or distress resulting from imports, and it would be unfortunate if distress went unrelieved while debates occurred as to the reason for distress. The need here is for appropriate help to those that encounter trouble.

What is contemplated here has an analogy in Anglo-American law. Long ago our ancestors devised procedures by which it is possible today to decide when the public interest requires that land be made available for urban renewal, highways, or other improvements, despite damage that might result to existing private interests. Also well established by tradition are the means to compensate for such damages as result.

It is taking a long time to bring the public interest, especially the broad foreign policy interest, adequately into American trade policy. But in today's dangerous times, with the United States leading the free world, American foreign policy needs to be freed from the burden of a trade policy geared mainly to domestic considerations. The needs of the Nation and of the free world alliance must take precedence over the interests of particular segments of the American economy. Japan presents the issue today, and may be the first foreign beneficiary of a new American policy. But many other countries stand to benefit in due course, and the American Nation will be the chief gainer of all. The whole free world will be stronger if we succeed, and weaker if lagging exports should cause economic, social, and political difficulties abroad.

B. OTHER JAPANESE-AMERICAN ECONOMIC PROBLEMS

Aside from the central problems of Japanese export expansion there are as a number of others in the active economic relations of the United States and Japan. None of these, not even all of them together, matches the export issue in intrinsic importance or in broader implications. If Japan's export expansion achieves a reasonable degree of success, the other problems will probably not create acrimonious issues. These may, however, become sticky points of conflict if the Japanese feel frustrated in their objective of economic expansion in Japan, especially if the United States should seem to be responsible for a substantial part of the frustration.

The United States wants Japan to treat U.S. goods more liberally, and has been pressing Japan to reduce direct import and exchange controls, not only on American goods but generally. Japan has adopted a program of liberalization that now calls for removing by the end of September 1962 all quantitative controls on 90 percent of Japan's imports, as measured in the Japanese fiscal year 1959. While the Japanese are fearful of overexposure to foreign competition and of deficits in the balance of payments, American representatives complain that Japan is indulging in the very kind of protectionism that threatens Japanese goods in foreign markets. A case in point is automobiles, of which Japanese regulations effectively bar imports from the United States.

The economic problems that exist between Japan and the United States seem from recent experience to be soluble, if only they are not ignored and allowed to grow unnecessarily large and bitter. Japan has shown an enormous capacity to work, to produce, to save, to grow, and to adapt to new conditions. Japan does not require aid, nor even special treatment. But there is danger of trouble if Japan is not accorded the ordinary treatment we give other leading industrial countries. If American policy is reasonable, Japan will probably be so, too. In fact, Japan can and should make progressively more important contributions to larger causes, and Japanese-American economic relations should in the future be concerned more and more with world problems rather than issues between our two nations.

