Japan is destined to be the most developed Asian nation for many years to come. Although the economic gap between it and that continent's LDC's can be expected to widen further, its potential adverse effect on international relations will be reduced if Japan amends its policies of economic and inward-looking nationalism of the last decade. An economic symbiosis between Japan and the rest of Asia is not only desirable, but inevitable. Japan, more than any other country, can accomplish a great deal by its constructive assimilation into the world trade and monetary communities. This objective is well served by the progressing liberalization and internationalization of the nation's economy as well as by the greater geographical diversification of its exports.

Trade Relations with the Communist Countries

by Bernd Kunze, Hamburg *

After the Federal Republic of Germany, Japan is the second largest trade partner of the Communist countries as a whole and of the Soviet Union and the largest partner of the People's Republic of China. It has only been in recent years that Japan gained this formidable position in the trade with the East.

Japan's exports to the Communist countries went up in 1972 by 25.5 p.c. against the previous year, to $1,441.3 mn. The imports from the countries of the Eastern bloc increased in the same year by 29.9 p.c. to $1,225.1 mn. This means that 5 p.c. of Japan's total exports (1971: 4.8 p.c.) and 5.2 p.c. of its total imports (1971: 4.8 p.c.) went to, and respectively, came from the Communist states. In 1960 Japan's importance as a trading partner for the Eastern bloc had still equalled only that of Belgium/Luxembourg, Denmark or The Netherlands. But in the beginning of the sixties Japan made great efforts for an expansion of its trade with the Communist countries. While the Japanese government especially strengthened its contacts with the COMECON-states, it also modified the export restriction valid in the COCOM-orbit in 1960 and, on April 26, 1961, lifted the stipulations for barter transactions in the trade with most state-monopoly countries, and allowed cash transactions. The result was an increase of Japan's imports from the Socialist states by 79 p.c. in 1961 and by 114.4 p.c. in the following year. Ever since, there has been a permanent growth of the exchange of goods between Japan and the state-monopoly countries. Only in 1969 Japan curtailed its imports from the Soviet Union temporarily because of the exports not having been considered adequate in 1967 and 1968. Japan's trade balance with the People's Republic of China has been showing a surplus since 1965 whereas the trade with the COMECON-states resulted during the period under review in a deficit with the exception of the years 1962 and 1972 (see Table 1).

There was, during the last 10 years, simultaneously a relatively big change in the regional structure of Japan's trade with the East: in the early sixties the Soviet Union had clearly been Japan's biggest trade partner, but since 1965 the People's Republic of China has — interrupted only during the Cultural Revolution — been occupying this
leading position. But there has also been a relatively marked upward trend in the exchange of goods between Japan and the remainder of the state-monopoly states with the exception of North-Vietnam — although the level of the exchange of goods with those countries is extremely low.

As regards the structure of the goods, the same applies to Japan as does to the East-trade of Western Europe's industrial countries: whilst the imports are predominantly commodities and raw materials (groups 0-4 of the UN nomenclature), Japan on its part supplies foremostly industrial goods (groups 5-8) to all Socialist countries without exception (see Table 2). In detail, Japan exports mainly machines, textiles, chemicals (especially fertilizers), iron and steel, transport equipment, tubes and pipes, and metalprocessing and electrical engines. On the import side, Japan primarily takes raw silk and raw cotton, timber, fruit and vegetables, fish, soya beans, coal, non-ferrous metals, platinum, minerals and chemical products.

Export-Import Policy

The legal basis of the Japanese foreign trade is the "Foreign Exchange and Foreign Trade Control Law" of December 1, 1949, which has meanwhile been altered several times.

The Japanese exports to the Eastern bloc are affected according to COCOM-rules. All goods enumerated in the Japanese export-control-list require an export licence, which is given in accordance with the "Export Trade Control Order" by the Ministry of International Trade and Industry (MITI) after rigid scrutiny. The control list contains all items and groups of goods subjected to international embargo control. As Japan undertook major revisions of the embargo list already in 1960 and 1965, the list did after the 1969 COCOM-meeting contain 167 positions. In the wake of the new American Eastern policy and the economic embargo conditions coupled to it, the Japanese government has, with effect from January 1, 1973, shortened or relaxed the embargo list for the export to Eastern countries including China by a further 88 industrial goods.

The Japanese imports are affected either according to the "Import Quota System" (IQ-System) or the "Automatic Approval System" (AA-System). The IQ-System embraces all goods which there is a quota and whose import must be permitted by the MITI. All other goods fall under the AA-System, the import banks automatically granting the import licences. Since the last round of import liberalisation of March 31, 1972, only 33 trade positions have been still subjected to import controls. As a rule there is no discrimination against the Socialist countries, the Japanese restrictions being solely orientated on categories of goods and merchandise, and not countrywise. Trade obstacles of a tariff or a non-tariff nature exist solely for countries not diplomatically recognised. A particularity is the so-called "L-T-trade" or, since 1968, the "Memorandum-trade" in the business with China in which the various items are contracted direct between the business partners. But the "Memorandum-trade" covers scarcely 10 p.c. of the total Sino-Japanese trade.

Japan's Interest in the COMECON-Trade

Already in the early sixties Japan endeavoured to establish closer economic relations also with the East-European satellites. But there was no marked expansion of the trade volume with all countries of the Eastern bloc prior to 1969/70. It has to be added, though, that Tokyo did sign long-term trade and payments agreements with the COMECON-countries following the establishing of diplomatic relations with the Soviet Union in 1956, with Poland in 1958, Czechoslovakia in 1959, Roumania in 1960 and Hungary and Bulgaria in 1961. But the actual activities scarcely went beyond visits of delegations and the participation in fairs and exhibitions. They were however partly the forerunners of an exchange of goods.

It has only been since the mid-sixties that the Japanese economy incorporated the East-European states in its foreign trade conception to a greater extent. So, it was an arrangement of June 9, 1965, about the coastal trade and the conclusion, in 1966, of a long-term agreement that more distinctly formalised the trade with the Soviet Union. Ever since, there have been three channels for the Soviet-Japanese trade: the Japanese Association for the trade with the Soviet Union and Eastern Europe, with which several hundred Japanese firms are affiliated and whose counterpart are the official Soviet foreign trade organs; the mixed board for economic cooperation; and, thirdly, the "Coastal Trade" between the Japanese associations on the coast of the Sea of Japan and the Soviet authorities in the Far East.

2 It must however be mentioned that the Sino-Japanese trade suffered severe setbacks during 1959-1963 on account of the "Flag Incident" of Nagasaki on May 2, 1958.
4 See Foreign Exchange Study Association (publisher): Japan Laws, Ordinances and other Regulations concerning Foreign Exchange and Foreign Trade, October 1, 1965, page (A) - 1 ff.
5 The "Automatic Import Quota System" (AIG-System) was abolished in February, 1972.
6 Called after Liao Ch'eng-Chi and T. Takasaki, who concluded a long-term agreement between Japan and the People's Republic of China, which was valid from 1963 to 1967.