# JAPAN'S UNEQUAL TRADE

EDWARD I. LINCOLN

THE BROOKINGS INSTITUTION WASHINGTON

# Contents

| I. | INTRODUCTION   | I  |
|----|--|----|
| 2. | PECULIAR TRADE PATTERNS  Cataloging Japanese Trade Barriers / 13  A Low Level of Manufactured Imports / 18  Japanese Views / 25  Export Concentration / 29  Conclusions / 37   | 12 |
| 3. | INTRA-INDUSTRY TRADE Why Intra-Industry Trade! / 40 Some Hypotheses about Japan / 44 The Evidence on Japan / 46 Conclusions / 59   | 39 |
| 4. | JAPAN THE OUTSIDER  A Small Island Nation / 62  Distorted Institutions and Policies / 68  A Belief in One-Sided Comparative Advantage / 72  A Gullible Public / 80  Bias in Business Relationships / 87  Conclusions / 92                | 61 |
| 5. | A CHANGING JAPAN Why Should Japan Change? / 96 Rising Imports / 102 Changing Government Attitudes / 114 The Private Sector / 120 The Distribution Sector / 123 Discovering Asia's Newly Industrializing Countries / 130 Assessment / 132 | 95 |

#### CONTENTS

| 6. | AN AMERICAN POLICY AGENDA               | 135 |
|----|---|-----|
|    | Assessing Japan's Posture / 137         | ,   |
|    | The Reagan Legacy / 142                 |     |
|    | A Bargaining Strategy / 153             |     |
|    | APPENDIXES                              |     |
|    | A. Measuring Intra-Industry Trade / 165 |     |
|    | B. Tables / 171                         |     |
| •  | NOTES                                   | 183 |
|    | INDEX                                   | 215 |

### **Tables**

| 2-1.         | Informal Barriers to Imports, Japan, 1980s   | 15  |
|--------------|--|-----|
| 2-2.         | Imports of Manufactured Goods, Selected Countries,<br>Selected Years, 1970–87                                      | 19  |
| 2-3.         | Export Concentration, Four Industrialized Countries,<br>Selected Years, 1970–85                                    | 32  |
| 2-4.         | Summary Statistics on Export Concentration, Selected Countries, 1970 and 1984                                      | 33  |
| 3-1.         | Intra-Industry Trade Levels, Selected Countries, 1980  | 40  |
| 3-2.         | Average Intra-Industry Trade, Five Countries, Selected Years, 1959–85  | 47  |
| 3-3-         | Bilateral Intra-Industry Trade in Manufactured Products,<br>Four Industrialized Countries, Selected Years, 1970–85 | şc  |
| 3-4-         | Bilateral Intra-Industry Trade between the United States and Four Countries, 1970 and 1985                         | 54  |
| 3-5.         | Intra-Industry Trade in Top 10 U.S. Export Categories (Manufactured Goods), Four Industrialized Countries, 1985    | 56  |
| <b>3-6</b> . | Foreign Direct Investment in Manufacturing, United States and Japan, Selected Years, 1970–85                       | 57  |
| <b>4-</b> I. | Raw Material Self-Sufficiency, Five Industrialized Countries, 1987   | 66  |
| 4-2.         | Comparative Imports of Metals, Five Countries, 1985  | 78  |
| 5-1.         | Japan's Trade in Manufactured Goods, 1980–88   | 103 |
| 5-2.         | Japan's Intra-Industry Trade in Major Export Products, 1987 and 1988   | 108 |
| 5-3.         | Japan's Tariffs on Metals, 1970 and 1989   | 112 |
| 5-4.         | Import Penetration in Selected Japanese Markets, 1980, 1985, 1987  | 113 |
| 5-5.         | Japanese Foreign Direct Investment, 1980, 1985, 1989   | 121 |
| 5-6.         | Structure of Retailing in Japan, 1982, 1985, 1988  | 127 |

XII TABLES

| 6-1. | Reagan Administration Trade Negotiations with Japan, 1981–88  | 145 |
|------|---|-----|
| 6-2. | Exports to Japan in the Market-Oriented Sector Selective (MOSS) Categories, 1984–87                           | 152 |
| 6-3. | Unresolved Market-Access Problems Identified by the Office of the U.S. Trade Representative, 1989             | 154 |
| А-1. | Global Merchandise Trade Balances, Five Countries,<br>Selected Years, 1970–85                                 | 168 |
| A-2. | Bilateral Merchandise Trade Balances between the United<br>States and Four Countries, Selected Years, 1970–85 | 169 |
| В-1. | Japan's Imports of Wood and Wood Products, Selected Years, 1970–88  | 172 |
| B-2. | Japan's Imports of Iron and Steel Products, Selected Years, 1970–88   | 174 |
| В-3. | Japan's Imports of Copper and Copper Products, Selected<br>Years, 1970–88                                     | 176 |
| B-4. | Japan's Imports of Nickel and Nickel Products, Selected<br>Years, 1970–88                                     | 178 |
| B-5. | Japan's Imports of Aluminum and Aluminum Products,<br>Selected Years, 1970–88                                 | 180 |

## Figures

| 2-1. | Top 15 Exports as Share of Total Country Exports, Four Industrialized Countries, 1970 and 1985                                      | 34  |
|------|---|-----|
| 2-2. | Top 15 Exports as Share of Total Country Exports to the United States, Three Industrialized Countries, 1970 and 1985                | 35  |
| 3-1. | Distribution of Manufactured Exports across IIT Index<br>Intervals, Five Countries, 1985  | 51  |
| 3-2. | Distribution of Manufactured Exports Excluding Motor<br>Vehicles across IIT Index Intervals, Four Industrialized<br>Countries, 1985 | 53  |
| 5-1. | Distribution of Japan's Manufactured Exports across Intra-<br>Industry Trade Levels, 1985 and 1988                                  | 107 |