# Trade Strategist Japan and Its Implications for Industrializing Less-developed Countries

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This paper focuses on searching the options for solving the critical problem (foreign trade) of developing countries, namely, to improve their export dimension.

To achieve this goal this paper contends that such developing countries as Korea, Taiwan, Brazil and Mexico should adapt their trade policy to the framework of dynamic world trade patterns which result from changing income levels among nations and changing commodity structures of trading countries. Thus, a developing country should reorganize and continuously alter its export commodities in accordance with the changing world economy. despite the differing and even conflicting principles of comparative cost advantage and factor endowments. Shifting its emphasis from one to another group of exports as consumption patterns change in industrial countries, a developing country should expand growth industries characterized by export potentials in the high-income markets of developed countries. These industries are mostly light manufacturing industries, which either are already established or may be established without great difficulty.

To facilitate this policy a developing country must push far beyond the traditional trading bargains. For example, it should take into account the implications of both the growth potential of its industries and the growth industries of those countries with which it trades. Since improved access to the markets of advanced countries is unlikely by itself to be available for manufactured exports from low-income countries, developing countries should initiate this crucial requirement by trade policy which would avoid excessive

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competition and smooth the way for acceptance of their exports.

As the world's third industrial power Japan cannot, of course, be compared with developing countries, yet Japan's strategy to overcome her economic collapse following World War II, and to regain her international trade has great significance for those developing countries which are trapped in traditional export patterns. Japan effectively solved her intricate postwar trade problems by employing various trade strategies and tactics. Most important, Japan's production restructuring in adaptation to changing world economy may serve as an example for certain developing countries. This paper examines Japan as a trade strategist—not Japan as an industrial nation—with a view to discovering trading practices which may be helpful to developing countries.

Japan's trade strategies are discussed on progressive commodities in changing world income level, and in the areas of nonprice competition, the trading company, fair trading practices, trade fairs, and improvement engineering. In carrying out her reorganization of exports Japan has been facilitated by product cycle process taking every advantage of available foreign technologies.

Furthermore, Japan's trade experience reveals that she has not followed the prescription of conventional trade theory. The implication for developing countries is that the comparative cost doctrine and conventional allocation criteria cannot be applied to their economies without taking into account the dynamic setting that changing patterns of world trade have created.

## I. Japan's Adaptation to Changing World Demand

Economic theory tells us that the higher the incomes the larger the mutual trade created, and the faster the economic growth is, the greater is the inducement of demand. Japan's trade direction toward the market of developed countries may be largely viewed from the position that the growing and large trade share of developed countries in world trade has been accompanied by rapid economic growth and high income levels, which provide an effective market for Japan's export expansion.

The commodity reorganization of Japan's foreign trade has been toward the effective world demand for industrial products. According to the Economic Planning Agency (EPA), world demand has greatly contributed for Japan's export expansion. "If the factors contributing to increase exports are divided into three major categories, namely, overseas demand, price competition and export pressure, those factors can be given as 80 : 14 : 6 in that order."(1)

Since the economic growth and rising incomes of the developed countries have been accompanied with growing trade, the changing commidity composition of world trade has been accompanied with the growth industries, whose products have been mostly identified with progressive commodities such as heavy and chemical industiral commodities. As has been stressed, in order to enlarge her exports to the markets of the developed countries. Japan undertook restructuring her industries toward the export and production structure of advanced countries.

Japan's commodity reorganization was accompanied by her industrial adjustment in cooperation with the government. Export industries with stagnant markets were bound to diminish while other industries have been more active. "This process might be quite natural with a developing economy, and to squeeze less advantageous sectors for the development of more prosperous sectors might be the way to extinguish differences in productivities and wage levels among various industries and firms. A considerable portion of the small and medium firms is in danger of falling into this extreme (in the late 1950's). In Japan, where the economy is half developed, it is doubtful whether a high rate of growth could achieve this end without a great deal of conflict."(2) The harder producers in stagnant product lines tried, the less rewards they have obtained, due largely to the

(1) Japan, Economic Planning Agency, *Economic Survey of Japan* (*1965–1966*) (Tokyo: The Japan Times, Ltd.) p. 8 as follow.

$$X_t = -215.8 + 1.39P_{t-1} \quad -0.657R_{t-1} \quad +2.37\,M_{ut}$$
$$(0.892) \qquad (0.372) \qquad (0.314)$$

(competitiveness in price)　(pressure to export)　(overseas demand)

$R=0.975$ $d=1.36$ ($d$ is Durbin-Watson's $d$ statistical quantity to determine presence of self-correlation.)

$X$=Quantity of exports (manufactured goods)

$P$=Selected foreign countries' manufactured goods export price/Japanese manufactured goods export price

$R$=Rate of operations (manufacturing industry)

$M_u$=Value of world imports (all goods; Japanese imports excluded) 1960=100

(2) S. Fujii, "Structure of Japan's Export Trade and Its Problems," *The Pakistan Development Review*, II (Winter 1962), p. 624.

inelastic nature of the demand for their products. This phenomenon has had direct relevance for Japan's export industries where the small and medium size firms have been dominant suppliers.

The small and medium export firms were subjected to slow-growth markets for their products at home and abroad, causing a declining profit level. But the heavy and chemical industries producing progressive commodities which were protected and subsidized by the government, have been expanding along with the growing markets at home initially and abroad subsequently.

The reallocation of resources has been the objective of Japan's trade policy. Although painful, this policy resulted in her industrial readjustment, viz., production restructuring. Fujii says:

> It is hoped that the investment for improvement and rationalization will increase productivity, and that the high rate of growth of one sector will increase the demand for another's products, but this will not be so in all industries and all enterprises. The plan lays much greater emphasis on the heavy and chemical industries than on the light industries. The high rate of growth in one industry will surely have repercussions on another market. The rapid increase of demand for labours in growing industries pushes up wages, and the industries which cannot afford to offer the same level of wages are experiencing a shortage of laborers. Similarly, large scale firms are in a more advantageous position in the labor market and also in the money market than the small- and medium-scale ones.(3)

The government engages in promoting investment for the progressive commodity industries so as to compete with other advanced countries in world markets. For example, Japan's fiscal policy has favored larger producers, which enjoys the greater share of special tax deductions and exemptions.(4) The rationale of the government's policy was that the nation's improved capacity to export within the context of trade equilibrium would enhance Japan's long-term welfare. The stagnant export industries which were associated largely with the small- and medium-size firms became an expense of Japan's industrial rationalization. A distinct advantage is seen in large

(3) *Ibid.*

(4) K. Yamamura, *Economic Policy in Postwar Japan* (Berkeley, University of California, 1967), pp 131-148.

size producers who realize internal economies of scale along with adopting advanced techology. Fujii further states: "The reasons why Japan has a comparative disadvantage in these goods (heavy and chemical industrial commodites) are just the reverse of why she has a comparative advantage in light industrial manufactures. They are more capital-intensive and, therefore, require more capital and higher technique. They are usually subject to the economies of large scale."(5)

Along with the industrial rationalization policy, the market outlet of these industries became a crucial factor. In other words, a growing and stable market is required for establishing the big-scale plants. However, Japan had a serious constraint: "The implications put by the market may be most decisive in some kinds of chemicals and machines. Japan has neither such a large domestic market as the United States nor such stable integrated markets as European countries."(6) Thus the rationale for progressive commodities has been further enhanced as a crucial factor associated with Japan's export expansion.

In short, both supply conditions associated with the government's trade policy and demand conditions discussed above have encouraged the heavy and chemical industries which were largely identified with progressive commodities. These conditions had an accelerating effect upon each other, resulting in the spurt of production and export.

## II. Japan's Product Cycle Version

Product cycle theory contends that there is a commodity life cycle in the manner of: (1) new product, (2) maturing product, (3) standardized product. This contention has been applied broadly in the scheme explaining partially the changing flow of industrial commodities in the world trade mechanism. The theory includes the causal effects of technological innovation associated with commodities recomposition of world trade, along with the influences of profit search efforts and market stimulation.

This section intends to evaluate Japan's commodity recomposition in light

(5) Fujii, *op cit*, p. 622.
(6) *Ibid*, p 623

of the product cycle version. For example, "Japan (a follower) usually benefits from the economic condition presented in the United States (a leader). In general the United States has higher wage rates and higher prices than Japan. As growth in a particular industry within the framework of product cycle slows, productivity increases also slow so that higher wages are not offset to the same degree that they were in earlier stage of industry development. At the same time, as the U.S. industry begins to mature, its domestic market becomes increasingly price sensitive and vulnerable to low-priced imports. In spite of U.S. protectionist policy, these economic forces constantly push U.S. industry towards the development of newer and more sophisticated products, with Japan following behind."[7]

Japan's catch-up industries have been established on the premise that there are growing demands for their products at home and abroad. The process regarding the new products was that production increased at a fast rate (during the stage of maturing), and then the exports expand accordingly (the stage of standardization). Production and exports of commodities such as tape recorders, television sets, synthetic textiles, stereo systems, and transistor radios could be explained in the context of Japan's catch-up industrialization within the framework of the product cycle version. In other words, "after being introduced in the United States, new products and processes generally diffused abroad, at first to other advanced countries, such as Japan, which have the technical capability and resources to identify and imitate the required technology."[8]

Abegglen argues the importance of Japan's trade association with the United States market so as to be able to expand exports, and make these new commodities competitive in world markets. "It is essential for Japan to have access to this huge U.S. market if she is to maintain cost advantage and continue to grow after her own market becomes saturated. Her alternative overseas markets are limited, at least in the near future. These markets are growing fast but they cannot provide the quantitative amount of growth required to add to Japan's increasing larger experience base at a rate which will continue to lower costs significantly."[9] That is, in order to realize

(7) J C. Abegglen, "Dynamics of Japanese Competition", *United States International Economic Policy in an Interdependent World. Paper II* (Washington, D.C.: July 1971), p. 161.

(8) *Ibid.*, p. 157.

(9) *Ibid.*, p. 165.

substantial economies of scale and to expand along a long run declining cost curve, Japan had to be able to enlarge her export markets for these new products.

The share of new products in total exports of Japan's manufacturing industries has increased from 5.6 percent in 1955 to 28 percent in 1965.[10] The export items have built a favorable market image in world markets with their fresh quality and reliability, and with the Japanese version of "improvement engineering." Regarding the improvement engineering approach of Japan, Resovsky contends that "it was also cheap because the purchase and use of foreign processes financed expensive and hazardous R & D efforts since the cost of pioneering were borne by others. Japanese enterprise raised the adaptation of foreign methods to a fine art through the development of what might be called improvement engineering."[11]

What Japan had done in improving some of the industrial products invented abroad was to engineer products innovation in accordance with the taste of the high-income market, by redesigning, restyling and adding a few more devices. As compared with U.S. merchants who played the important role of initiating the innovation of light manufacturing products for American markets in the early postwar yearts, the Japanese entrepreneurs themselves undertook improving and engineering manufacturing products salable in the high-income markets of advanced countries since 1955.

It has been generally assumed that the new products which emerged in a series of international product cycles were derived from Japan's shrewd procurement of technologies available for sale in advanced countries. "Technological contracts have been made on a strictly commercial basis; the foreign interest concerned are being paid in full for what they provide. Without foreign technology the postwar improvement in quality of many Japanese products could have taken place only slowly and to a limited degree. Japanese exports could not have fared so well, and Japan would be far less prosperous than now."[12] Based on the contention that the fundamental

(10) Japan, Ministry of International Trade and Industry (MITI), *Foreign Trade White Paper 1966* (*Tsusan Hakusho*) (Tokyo 1966), p. 71

(11) H. Rosovsky, "The Economic Position of Japan: Past, Present and Future," *United States International Economic Policy in an Interdependent World. Paper II* (Washington, D.C. 1971), p. 113.

(12) W. Hunsberger, *Japan and the United States in World Trade* (New York: Praeger, 1966), p. 82.

impulse for Japan's export expansion in postwar years came from advanced foreign technologies acquired through licensing, Ozawa concluded from his empirical investigation that the acquisition of advanced foreign technology through licensing made a fundamental contribution to the post-war growth of Japan's exports of manufacturing industries.(13) In short, Japan's successful adaptation to an international product cycle resulted in the production and export spurt of new catch-up items. The imported technology had reduced the cost of production, allowing Japan's products to be competitive in world markets.

The implication here is that Japan took advantage of foreign technologies available, by selecting the proper industries. Japan's important criterion in selecting was the effective demand for products under consideration, so that her production of these new commodities would have growing markets at home as well as abroad.

There has been a clear distinction of commercial policy of developed countries in regard to trading commodities between stagnant demand items and growing market demand items. For example, the United States has applied severe trade restrictions to the items characterized by stagnant demand such as cotton textile, chinaware, table cloths, during the period 1954-1958. By contrast, the commodities whose markets have been growing are largely characterized as being progressive commodities, with high income elasticity and market elasticity. U.S. commercial policies on importing these products have been much more lenient: no trade barriers are put on the progressive commodities whereas stiff trade barriers are placed on the stagnant commodities.(14)

It is interesting to note that the United States has put trade barriers on items which are in stagnant demand and on the other hand has not applied the same policy for items subject to growing demand. This has no doubt helped Japan to achieve a dominant position for her new export commodities in later years.

In addition, the new export commodities have not only contributed to Japan's export expansion in the high-income markets of developed coun-

(13) T. Ozawa, "Imitation, Innovation, and Japanese Exports," in P.B. Kenen and R. Lawrence, *The Open Economy* (New York, Columbia University Press, 1968), pp. 193-199.

(14) Youn S. Kim, *Postwar Japan's Foreign Trade 1945-1965 and Its Lessons for Developing Countries* (unpublished Ph D. Dissertation, 1973), Chapter V.

tries but also have created a new product image for the "made in Japan" commodities. That is, the product acceptance having the new image have greatly contributed to Japan's export expansion in the world market ever since 1955.

## III. Nonprice Competition

"With the writings of Edward Chamberlin, one other sales device was considered explicitly in demand theory, specifically, promotional efforts were discussed frankly, and the concept of 'promotional elasticity of demand' made its appearance. Then the concept of income elasticity of demand was formulated. Demand theory largely revolves about three determinants: price, promotional outlays and level of national income."(15) Thus policies of export promotion should be a strategic mix of price and non-price competition. The most common practices of nonprice competition are advertising, fast delivery, exclusive contracts with distribution, style, quality and design changes.

Postwar world trade has been dominated by the intratrade among developed countries, so that the rules of world trade have been dictated accordingly. As a matter of fact, a country desiring to advance her position in world trade had to respect and learn various rules and transactions within the system. For example, the high-income markets of developed countries have been encountering nonprice competition at every turn in business and in every market place, along with price competition. Television, radio, and other advertising media and sales promotion measures are extensively practiced in the markets of developed countries in order to attract buyers. Price appeal is only one of various promotional tools. Furthermore, although nonprice competition is largely practiced by the industries of monopolistic competition and oligoply, it became a strategic tool in international trade where market elasticity has been positive in response to changing style, quality, and service.

However, Japan had been hesitant to involve herself in nonprice competition for her export expansion. "One reason for Japanese reluctance to invest in marketing activities abroad has been the fear that too much success would be attended by a change in the rules of game as a counter-

(15) A.R. Oxenfelt, "From Price Elasticity to the Marketing Mix and Beyond," *Business Quarterly* (Winter 1965), pp 23-24.

measure by the importing country. Another reason is the general practice of exporting through trading companies."[16]

Since 1955 Japan's export industries have introduced a series of nonprice competition measures, in regard to the new export commodities. The durable consumer goods such as cameras, television sets, tape recorders, apparel, and motor bicyles are cases in point. In consumer goods markets, buyers emphasize the intangible elements of quality, style, and design. Flavor, style, and attractive containers are important selling devices. For example, dress buyers tend not to emphasize the fiber content. In contrast, in capital goods markets, buyers stress such features as operating economy, tensile strength, durability and product performance.

As to quality aspect, the Japanese government has established tight quality standards over export commodities: "Japan's strict and extensive officially controlled export inspection system exposes (yet does achieve a limited success) a regular export reject rate of up to 25 or 30 percent in some products such as electrical consumer goods," where small and medium producing sector has prevailed.[17]

In order to promote nonprice competition the Japanese government set up in 1954 the Japan External Trade Organization (JETRO). By acting as the central organization of nonprice competition authorized by the government, JETRO's agents have been spread out in key trading areas of the world and they have disseminated valuable market information to Japan's export industries and to Japan's markets abroad. As the central market researcher, JETRO has been analyzing the trend of world trade, the market pattern of each export commodity, and also collects data on other countries' foreign trade regulations and systems.

Besides, in 1959 MITI set up the Department of Design in order to promote improved product style and design and to supervise the private activities related to these. In the postwar period Japan has been importing a great variety of technologies from industrial countries, and thus there has been

(16) L. Holleman, *Japan's Dependence on the World Economy* (Princeton: Princeton University Press, 1967), pp. 72-73.

(17) The Financial Times (London), *Japan* (New York: American Heritage Press, 1970), p. 95. The implication to developing countries is that the exports of light manufacturing products require adequate degree of standardization and adequate level of quality control. This policy can be implemented by the effective system of government supervision.

a tendency to imitate the product design and style of other developed countries. In 1960 the government sponsored an exhibition of Japanese crafts abroad, in order to encourage Japan's creative activity of designs and styles.

Another important activity of JETRO regarding nonprice competition has been to carry out the role of a "trade center". In 1954 JETRO's foreign activities were initiated by establishing its New York Trade Center, and later it expanded through additional trade centers in San Francisco, Toronto, Hamburg, London, Paris, Chicago, Los Angeles, Hong Kong, etc.

## IV. The Trading Company

The trading company is an export distributor. "Especially for producers whose export sales are below the threshold volume making an export effort economic, the trading company offers an efficient and inexpensive way of arranging transport, establishing inventory, and reaching customers."[18] The trading company is a unique institution serving Japan's exports by realizing economies of scale in transportation, warehousing, and other processes related to physical distribution and marketing. The most basic function of Japanese trading companies is that of marketing: to facilitate the export of goods from Japan and collect day-to-day information on trends in demand possibilities for new export fields."[19]

Nevertheless, in the early postwar years there was an argument that as Japan's industry recovered and developed, trading companies would become less important. This has been the case in most advanced countries, where production and distribution are joint economic activities. In 1947 the largest trading companies (Mitsui & Co., Ltd. and Mitsubishi Corporation) were dissimilated into numerous companies under an ordinance of SCAP. There were 6000 or so trading companies in Japan and most of them were quite small. In the early 1950's, however, the weakness of smaller trading companies and the need for large trading companies had emerged from the upswing and downswing of world imports. A boom induced the entry of too many trading companies and a recession bankrupted many companies.

(18) Abegglen, *op. cit.*, p. 172.

(19) Japan External Trade Organization (JETRO), *Using Trade Companies in Exporting to Japan* (Tokyo, JETRO, 1972), p. 8.

As a result, by the mid-1950's the larger trading companies had been again organized.

Besides its function as an export vehicle, there is another important implication in relation to the trading company. Japan's history shows that the trading company was established from fear of foreign economic domination. "To prevent ultimate domination of all trade by foreign trading firms, the government called upon several of the major industrial groups, to set up trading companies to handle the functions being performed by overseas tradging firms.[20]

It is a matter of fact, morever, that the trading company has played important roles in facilitating the transformation on foreign technology, while not allowing foreign firms to dominate progressive industries. In forming technical or financial ties betweent Japanese and foreign firms, trading companies participated by settling up joint ventures. For example, the trading company played an importan role in the General Motors-Isuzu tie-up, in order to handle products which showed excellent market opportunities. Another example is Mitsui trading company which participated in various joint ventures: among them are Nippon Remington, Univac, Mitsui Petrochemical, Mitsui Fuller and Far East Oil, etc.

Contributing to Japanese competitiveness in international markets, the trading companies have primarily been interested in rapid turnover at relatively low margin, driving for volume rather than profit. Their huge sales volume allows them to operate on a small margin. In other words, the greater the volume of trade the more revenue to the trading company has resulted, so that export expansion becomes a driving goal of the companies.

Another export aspect of the trading company is seen in the context of "barter trading." Countries exercising export-import linkage, communist countries or countries without foreign exchange could establish trade rela-

(20) *Ibid.*, p. 6, in which the text discusses that Japan aimed to avoid the problems experienced by China: "At this time all Chinese trade was conducted by a number of foreign trading companies. Thus Chinese sellers and buyers were not in a position to set the terms on which trade was to be conducted, even in their own land. A similar situation developed in Japan in the 1870's and foreign trading companies came to handle 95 percent of Japan's imports and exports for a period of several years. This happened because Japanese firms of the period were unable to carry out transactions without the assistance of firms which negotiate with buyers and sellers in overseas markets, handle documents in foreign languages and comprehend the subtleties of foreign exchange transactions."

tionships in terms of commodities without using foreign exchange. The trading company could facilitate these transactions.

All in all, the trading companies have done significant services for Japan's export expansion. This, in turn, implies that postwar Japan's economic growth has been greatly enhanced by the service of the trading company. The working arrangement between the trading companies and various size producers was established because the trading companies brought export orders to the small and medium manufacaturing firms. Thus the small and medium export manufactūring firms are dependent upon the services of the trading company for a market as well as for product information such as specification, standardization, design, and product regulation. The result is access to a worldwide export market for Japan's small and medium manufacturing firms.

The internal make-up of these companies is diverse. They include private commercial attaches, exporters, salesmen, shippers, ·market researchers, expediters, importers, joint venture experts, and the like. The implication of the Japanese trading company for today's developing countries seems significant. The export producers of developing countries are mostly small- and medium-size operations. They have difficulties in exporting their products, and have suffered from poor market information and product information. Therefore, where government does not handle these services, the Japanese-type trading company could be a positive lesson for the sense that a trading company could facilitate the small and medium-size manufacturing firms in overcoming their export difficulties.

As to the export market problems of developing countries, UNCTAD's study highlights its implication by stating "as long as local entrepreneurs are not aware of their market opportunities abroad, and as long as the prospective marketers abroad know nothing of the producing potentialities of the less-developed countries, an indispensable link in the export-import chain is missing."(21) What many developing countries need at this stage are export vehicles such as the trading company linking their existing and prospective producers and markets abroad.

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(21) R. Vernon, "Problems and Prospects in the Export of Manufacturing Goods from the Less-Developed Countries," *Proceedings of the UNCTAD* 1964, Vol. IV (New York UN, 1964), p 208.

## V. Summary of Postwar Japan's Trade Strategy

The Japanese experience can be summed up as follows:

1. In order to cope with inelastic demand, unfavorable terms of trade and trade barriers, Japan undertook production restructuring, namely the gradual transformation of exports from light manufacturing commodities to heavy and chemical manufacturing commodities. In engaging in production restructuring Japan has selectively established growth industries associated with progressive commodities. The progressive commodities are largely identified with heavy and chemical industrial products which were selected on the basis of changing patterns of world trade.
2. Since there are enormous numbers of heavy and chemical industrial products, Japan had to select export products based on both demand prospect and her resources. Through the implementation of Japan's production restructuring the importation of technology and advanced machinery had facilitated export expansion.
3. Japan strove to follow the export commodity structure of more developed countries such as the United States, Great Britain and West Germany. Japan's export commodity recomposition was characterized by promoting more trade with the high-income markets of developed countries. With her active participation in the world trade, Japan's strategy was a unique one. As soon as her major export commodities became subject to stagnant markets, Japan's response was to involve herself with progressive commodities.
4. A trade lubricating mechanism has been coordinated with the above through utilizing various marketing schemes for promoting Japan's trading commodities in world markets. Outstanding elements in this mechanism are nonprice competition and trading companies. These have greatly contributed to the process of commodity diversification, as promising new commodities have emerged along with product cycle.

## VI. Developing Countries and Postwar Japan as an Example

In broad terms the major recommendation that emerges from this paper is that if at all possible developing countries should re-orient their exports. by as rapid transformation as possible toward light manufacturing industries. The direction of export markets should be toward the high-income markets of developed countries.

This transformation is recommended along the line of selecting progressive commodities within the light manufacturing products for which the demand is growing in world markets and also which are suitable to the input factor mix of each developing country. For example. components should be stressed, not finished goods like textiles. Unless a country continuously adapts to shifting patterns of the world demand for imports, the forward drive necessary for economic development will lose its force. The history of international trade is full of examples of falling demand for certain commodities, e.g., Japanese silk. English cotton cloth. Chilian nitrates. and Indonesian natural rubber.(22) The above recommendation is made in recognition of the importance of the international product cycle process. New products introduced in high-income markets should be scrutinized by developing countries undertaking industrial expansion and their production. or at least production of their components, should be promoted. In its selection of specific lines of production for export the developing country should concentrate not alone on current price-cost relations, but on the dynamic quality (that is. the growth potential) of its export products in high-income markets.

In practice a new product is usually adapted by the developing country by being first imported from a developed country. This product substitution is first oriented on the domestic market. but later on it could result in exportable commodities. What is urged here is immediate consideration of the export market. Japanese type improvement engineering should be adapted for making product improvement in accordance with foreign market preferences during the maturing stage. In order to make certain that a product goes through the third stage of a standardized product for being exported to the high-incomes markets of developed countries, export promotion is necessary. This includes market information, product information, product regulation, and product display. The Japanese experience of nonprice com-

(22) R S Ozaki, "Postwar Expansion of Japanese Exports," *Western Economic Journal*, No. 2 (1963), p 152.

petition and trading company practice offers many valuable lessons for facilitating this.

To facilitate export promotion or light manufacturing products of developing countries, it may be desirable to create Japanese type trading companies which would be able to smooth the way for modern technology and to achieve economies of scale in the process of marketing. Trading companies, as the Japanese experience shows, are particularly appropriate to attracting to export industries the small producers who abound in developing countries.

The creation of a trading company may also prevent foreign firms from dominating a nation's progressive commodities industries. Yet at the same time foreign technology may be introduced, as the Japanese experience shows. The Japanese government's encouragement of joint ventures with foreign firms was for the deliberate purpose of importing technology.(23) This has important implication to developing countries as a means of obtaining foreign technology and necessary capital, while avoiding domination by foreign interests.

That headway may be made along these lines is shown by the recent record of certain developing countries which are already engaged in penetrating the high-income markets. South Korea, Taiwan, Hong Kong and Mexico are cases in point. South Korean major export items to high-income markets include semimanufactures like veneer sheets, plywood, textiles, as well as clothing, wigs, footwear. It has been argued that the largest part of the South Korean success in export performance is due to the structural shift toward light manufacturing products and toward high-income markets. South Korea today has even further diversified her export commodities so as to include electronic tubes, transistors, simple machinery, transport equipment and parts, radio receivers and parts, as shown in U.S. import statistics from Korea.

Where developing countries consider import substitution and infant indu-

(23) According to Okita and Miki, the Japanese rationale of promoting joint venture is that "(1) the export of industrial technology alone is not so profitable and, on the contrary, may strengthen the competitive power of the importing country; (2) exports of technology often take the form of the supply of know-how rather than on a patent royalty basis, and unless the exporter participates in the management of the importing firm, the benefits of the exporting firm are not guaranteed; and (3) the joint venture approach has the advantage in securing future markets in Japan." S. Okita and T. Miki, "Treatment of Foreign Capital—A Case Study for Japan," in *Capital Movement and Economic Development*, edited by J.H. Adler (New York: St. Martin's Press, 1967), p. 164.

stry protection they should be extremely cautious in selecting specific industries. Since misdirected industrialization neglecting the progressive commodity implication was once established following blindly the static comparative advantage theory, a country might be easily trapped in the vested interests of industrial groups which might prevent any change in industrial priority. Thus developing countries must look at infant industry protection as well as import substitution not on an industry-by-industry basis, but as part of a much larger picture of overall industrialization for internal and foreign markets.

For, of course, there is a close relation between implementing industrialization toward export expansion and domestic industry expansion. The product cycle process actually begins in the domestic market by the new product being imported and the home consumption of it being enlarged. by imports increasing to the point when the developing country begins to engage in home production. If industrial catch-up has been occurring. it is reasonable to believe that it can continue as long as proper direction of industrialization is being established. A two-headed industrialization program can take place in the manner of aiming on the one hand at the export markets and at the other hand at the domestic market. We may foresee new products being imported from developed countries to the extent that it becomes feasible that certain light manufacturing commodities will be produced only for home consumption in the developing countries, while other more sophisticated products, such as electric and electronic components, would be aimed at the high-income markets of developed countries.

Generally, in developing countries capital accumulation and modern knowhow and entrepreneurship are in short supply. The export-oriented industrialization would result in some degree of dualism, i.e., in one export-oriented industrial sector and a second domestic-oriented industrial sector. To put it differently, development may not proceed evenly in all sectors at once, rather it may have to move in an unbalanced manner. The sector associated with the domestic market should be the suitable place for employing second-hand equipment which is cheap to buy, and the use of which is relatively labor intensive. This equipment can be used in the small scale sector where wages are low and quality standards less essential.

The idea of such a dual industrial structure may be a most useful approach for the production restructuring process of developing countries. It is from this point of view that the Japanese experience of dual industrial structure may be reinterpreted. Japanese small scale industry contributed to the export-oriented sector in the fashion that large-scale industry made full use of the small-scale firms through the subcontracting system and thereby realized efficient division of production. Developing countries may more appropriately use reconditioned equipment and plants which have become obsolete in the high wage economies of developed countries for production for home markets. Such plants and equipment would be extremely valuable for domestic purposes in the early stage of industrialization, and would reduce balance of payments difficulties by checking imports.

Regarding commercial policy, in the period of 1948–1954, Japan applied most stringent measures controlling her trade in order to regulate the use of her limited foreign exchange reserves, dollars in particular. Since Japan had a cumulative import deficit with developed countries and with the United States especially, she had exercised the strict import and exchange controls, such as the import license system, the link system, the import quota system and export-import linkage.

Furthermore, the import requirements of developing countries from developed countries can play an important role promoting their exports. That is, trade negotiations could make a case out of the mutual trade flow between partner countries; this was an important element in negotiating Japan's agreements with its trade surplus partner country in the early postwar years. In other words, the imports of developing countries could lay the ground for exporting their products over time through commerical negotiations.

These recommendations which may be summed up as suggesting that developing countries take heed of the formidable example of Japan do not imply that in every respect each one is competent to do so. There is a great and economically significant difference in the size, economic potential and bargaining strength of Japan and a developing country. There are many developing countries which must devote their entire development effort for the foreseeable future to controlling the crises imposed by rapid population growth and food shortages. Other countries may, for one reason or another, be unable to apply consistent, well formulated, and far-sighted policy to development problems. But for those which can do so, and which have a potential for industrialization, the postwar example of Japan provides options in regard to trade development which should be given the most serious consideration.