Japan Arises with the Free Trade Policy

Yujie Wang[1,*]

[1]Department of economics, University of California, USA

*Corresponding author:yujwan@ucdavis.edu

Abstract. In the 20th century, Japan significantly transformed its trade policies. After World War II, the country faced international pressure to open its markets and reduce trade barriers. To cure the damage of the war on the country's economy, Japan adopted a series of domestic economic policies aimed at boosting competitiveness, including promoting technology and innovation and investing in human capital. However, Japan's trade policies were not without controversy, as some countries accused Japan of engaging in unfair trade practices such as dumping and currency manipulation. Despite these challenges, free trade remained important to Japan's economic growth and development in the 20th century. This paper will mains us case study to analysis the reason that Japan grew fast in the past 50 years. Case studies involve in-depth analysis of a particular case, situation, or individual. The meaning of research would be what are the advantages and disadvantages of exploring the reasons for Japan's rapid economic development.

Keywords: Free Trade, Economics, Japan Economy.

1 Introduction

Before World War II, nations attempted to raise revenue from other nations' exports by applying tariffs. Unfortunately, the exporting countries would reciprocate by imposing tariffs on their counterparts. Consequently, nations whose companies were trading would pay tariffs to every other nation they exported their products resulting in a spiraling economic woe. Nations had also discovered that conquering or grabbing land and material (including colonization) was not sustainable because they needed thousands of military powers to control labor [1]. Moreover, colonization or grabbing resulted in wars and civilian resistance, causing numerous causalities and deaths. In the aftermath of World War II, countries such as the United States, German, Britain, Japan, and others were facing serious economic turmoil caused by the devastating effect of war, international trade failure, and rising economic challenges. They wanted an economic recovery and a system to protect their companies from retaliatory tariffs.

Countries agreed to General Agreement on Tariffs and Trade (GATT) in 1947 to promote economic growth and ensure gradual recovery. GATT helped most countries, including Japan, to create a free trade system. According to Gomes, GATT enabled countries to create uniform rules for their international trade, allowing them to trade

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with minimal limitations [2]. Free trade was a timely economic system for countries such as Japan that had undergone serious economic losses caused by World War II. Some rules countries would have created and agreed upon were removing trade barriers such as tariffs, quotas, and embargoes. Most economists believe the free trade concept benefits all consumers. In this essay, we explore the theoretical foundation of free trade and how it helped Japan recover from the economic devastation of World War II. The essay will discuss how Japan employed free trade as its economic policy to achieve economic growth faster than imagined.

2 Theoretical Foundation

Free trade theory is an economic concept that suggests that nations should be free to trade goods and services with one another without any restrictions or barriers, such as tariffs or quotas. Free trade theory suggests that if nations specialize in producing goods and services with a comparative advantage and trade with each other, it will lead to greater efficiency, increased competition, and lower prices for consumers [2]. Bhagwati argued that the free trade concept is associated with classical economists, such as Adam Smith and David Ricardo, who argued that free trade leads to the maximization of global economic welfare and the efficient allocation of resources [1].

Hence, the free trade concept profoundly arises from the classical economics theory. Classical theory derived that all countries are rational actors and that markets are efficient and can self-regulate [3]. The theory also assumes that factors of production, such as labor and capital, can move freely across borders and that there are no externalities, such as environmental pollution or social costs, associated with production and trade. Fundamentally, the classical economics theory offered an account of free trade and its influence on economic growth.

3 Case Analysis: Japan and the Free Trade

World War II devastated many countries physically and economically. One of the most remembered devastations of World War II was the atomic bombing of Hiroshima and Nagasaki. On the morning of August 6, 1945, an atomic bomb shelled Hiroshima, reducing the city center to ashes and causing over 100,000 deaths [4]. Three days later, another atomic bomb destroyed Nagasaki, causing about 70,000 deaths. These bombings and other war destruction were tragic, producing horrific losses for Japan. People may have predicted that Japan may find recovery impossible [5]. Japan faced overwhelming economic challenges, including limited raw materials like rubber and oil, dilapidated transport, sea lane blockades by enemies blocking raw materials for production, rising inflation, and scarce food. Unemployment became a serious problem (Francks 90). The United States was the main source of the oil, which is among the countries that were trying to restrict Japan's growth (Asia for Educators). Japan was in an unfavorable position but recovered by employing free trade. According to Kosai, in postwar, Japan did not completely liberalize its economy but ably insinuated itself into the free trade system with many other countries, including the United States [6]. Many refer to its recovery as the Japanese Economic Miracle and attribute it to the United States financial help and the Japanese government's intervention [5]. The Japanese Economic Miracle, which was around 1945 to 1991, is a period between the end of World War II and the Cold War. During this period, Japan gained positive economic growth [5]. Sean Francis wrote a case study and described how Japan’s economy developed rapidly under free trade. The following parts will explore his points and analyze his takes.

In the case study, Francis demonstrates that Japan’s economic recovery strongly benefited from free trade between Japan and other countries. The Ministry of International Trade and Industry (MITI) was at the core of Japan's quick economic recovery. The MITI did not fully open the consumer market and did not allow local consumers to engage with other foreign economies, but it fondly found a market for its exports and source of raw materials through free trade [7]. Consequently, industries and companies in Japan started importing goods and inputs from other countries, especially from the United States. Thus, free trade allowed Japan to produce finished goods that it could utilize for economic growth through trade. Free trade allowed Japan to increase its trade surpluses. Implying that after Japan traded with the United States and other trade partners, it experienced more exports than imports. Hence, post-war, Japan sold its finished products and intermediate resources to other countries through free trade to generate profits [5]. Jung and Doroodian explained that the trade surplus in Japan during this time could be due to two explanations [8]. First, Japan was not rich in natural resources, and opening its gate to imports allowed them to exploit raw materials like oil which sped up local production. Secondly, other industrializing Asian countries, such as Taiwan, Singapore, South Korea, and Hong Kong, became reliant and dependent on Japan’s intermediate products for about two decades.

Sean Francis emphasized that Japan would not have recovered as such without the help of the United States. The case study may not be completely correct in concluding that Japan would only have recovered with the aid of the United States. Of course, financial aid from the United States helped. Their trade opened up a market that Japan exploited for economic gains. However, Japan had other fruitful economic relationships with industrializing Asian countries, allowing Japan to recover economically [8]. Sean Francis might have concluded this because the United States experienced a trade deficit. It attempted to resolve the crisis by improving trade with other countries, even those beyond its influence, including Japan [9]. Some scholars contend the central role of the United States in Japan's economic recovery following free trade. For example, Totman argued that the assumption that the United States opened Japan to free trade and civilization in 1853 is conceited [10]. He emphasized that Japan was not isolated from the external world, nor did it refuse to participate in foreign trade with countries within its sphere of influence. There were restrictions to control the dealings, but Japan already was interacting with China, Korea, South Asian, and Southeast Asian countries.

Nevertheless, the case study correctly stated that Japan recovered because it obtained key resources when it opened to free trade. In an increasingly globalized market, Japan would have suffered more if it did not exploit the available resources that other trading countries had to offer. Japan needed more oil and rubber to become self-sufficient. It needed other countries to recover. Otherwise, Japan would have continued suffering the losses of the war and the subsequent economic recession, unemployment, and starvation [11]. A more lenient free trade with other countries, including those with necessary resources, benefited Japan. It is still arguable to claim that Japan would only have recovered with the aid of the United States since other countries would have possibly traded with Japan. Moreover, Japan was not the only country that benefited from open trade among developed countries. The United States and other countries also experienced advantages when Japan opened itself for trade.

Additionally, Japan was truly open in terms of trade in 1853. After World War II, Japan only opened up more through free trade and Western influence. Sean Francis made good points in his case study. Francis postulated that the recovery of Japan was rather remarkable because the country suffered much destruction during the development of warfare technologies. Importantly, Japan's ability to bounce back after such horrific events shows that some methods and strategies, such as free trade, work for economic recovery. However, Francis's case has some inaccuracies, as evidenced by other scholars.

4 Discussion

After World War II, Japan experienced a remarkable period of economic growth, which is often referred to as the "Japanese economic miracle." This period of growth began in the 1950s and continued through the 1980s. During this time, Japan's gross domestic product (GDP) grew at an average annual rate of more than 10% (Fig.1).

Japan's rapid economic growth was driven by a number of factors, including government policies that promoted export-oriented industries, investment in infrastructure, and cooperation between government, business, and labor. The country's highly skilled workforce, advanced technology, and strong work ethic also contributed to its economic success.

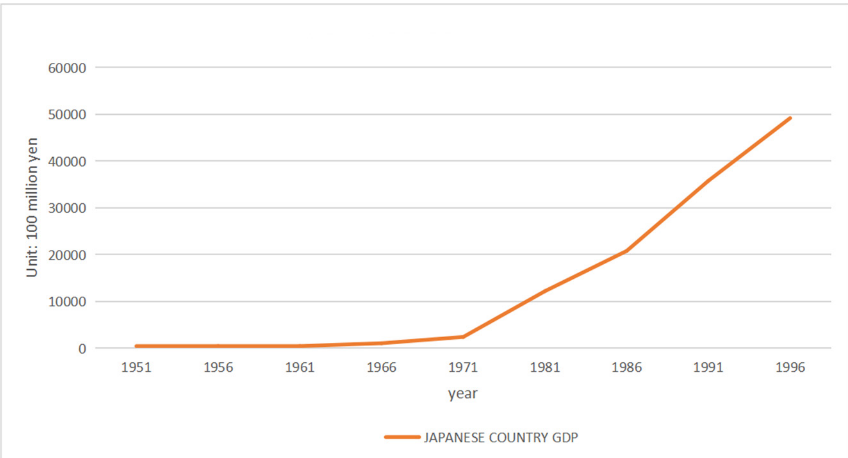

Fig. 1. Japanese GDP after WWII until end of 20th [12]

From the case above, we can see that the free trade policy brought Japan many advantages. The first one is Greater efficiency and lower prices: When nations specialize in producing goods and services in which they have a comparative advantage and trade with each other, it can lead to greater efficiency, increased competition, and lower prices for consumers [2, 12-13]. That is because each country can focus on producing the most efficient goods and services while importing goods and services they cannot produce as efficiently from other countries.

Second is increased economic growth and job creation: Free trade can stimulate economic growth and job creation by creating new markets for goods and services and allowing businesses to access new customers and suppliers [12]. That can lead to increased investment, productivity, and innovation.

Third is access to a wider range of goods and services: When countries engage in free trade, they can access a wider range of goods and services than they could produce domestically [6]. That can lead to greater consumer choice, higher quality products, and increased competition.

Lastly, free trade lowers business costs: Free trade can lead to lower costs for businesses by allowing them to access lower-priced inputs and raw materials from other countries [3]. That can help them reduce production costs, increase competitiveness, and ultimately lower consumer prices.

However, critics of free trade theory argue that it can lead to labor exploitation in developing countries, the loss of jobs and industries in developed countries, and the widening of income inequality [14]. They also argue that the theory does not consider the social and environmental costs associated with production and trade, which can lead to negative externalities [1]. As a result, some countries choose to protect their domestic industries through tariffs, quotas, and other trade barriers, which can lead to trade disputes and tensions between nations.

5 Conclusion

In conclusion, Japan has been a strong proponent of free trade for much of the 20th century. After World War II, Japan was keen to open its markets to the rest of the world and increase its international trade. In 1949, Japan became a member of the GATT, the predecessor to the World Trade Organization (WTO). Throughout the latter half of the 20th century, Japan actively participated in several international trade negotiations and agreements. One of the most significant of these was the Uruguay Round of GATT negotiations, which concluded in 1994 with the creation of the WTO. Japan was one of the leading players in these negotiations and played a key role in creating the WTO. In addition to participating in international trade negotiations, Japan has strongly advocated for free trade in its domestic policies. It has implemented policies to open up its markets and reduce trade barriers, such as reducing tariffs and other trade restrictions on various goods and services.

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