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# LDCs and International Division of Labour

## Some Lessons from Japanese Experience

by Dr Benno Engels, Hamburg \*

**The following contribution represents a critical appraisal of the developing countries' demands for a reform of the existing international division of labour which may help to find a better way of improving their position in the world trade system. It is based on a detailed analysis of the Japanese experiences in West European markets.**

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On the occasion of the UN Conferences of 1974, if not earlier, it became clear that the nations of the Third World, to overcome their problems of development, are looking for fundamental structural changes in world trade<sup>1</sup>. Included in the list of demands presented by the countries of the Third World is, *inter alia*, a reform of the international division of labour, which means – in sharp contrast with theoretical concepts of “autocentric” development strategies – that LDCs want to supply, to a bigger extent, the Western industrial nations' home markets for finished products. LDCs do not only expect concessions on industrialized countries' trade policies but also measures of “anticipating structural policies”, designed to accelerate the trend of certain manufacturing industries to migrate to LDCs.

The present article intends to give, at least in their outlines, a description of a number of aspects and problems which, in the past, have hardly attracted sufficient attention. It is based on a detailed analysis of the penetration of Japanese products and enterprises into West European markets<sup>2</sup> which may help to see that the desired structural changes imply a potential for many and deep political conflicts, and how ill-founded, economically, the discussions about a

model of the desirable international division of labour have been so far.

To scotch potential misunderstandings: the enormous potential political conflicts inherent in the demands for improving the developing countries' position in international trade and economically illfounded concepts of international division of labour should not be used as pretext for rejecting justified demands of the Third World.

### Necessary Extent of Structural Shifts

The order of magnitude of Japan's trade expansion in West European markets illustrates clearly the necessary extent of structural shifts and the economic and political difficulties that would be connected with any massive incursion of Third World exports into the national markets of industrialized countries.

Remembering the innumerable complaints raised by West European industrialists against market deformations caused by imports from Japan, it seems almost unbelievable that such a clamour was caused by a mere growth of the Japanese share in West European imports from about 0.5 p.c. (in 1955) to no more than about 2.5 p.c. in the early seventies, which has, so far, remained its all-time high. Even if leaving the intra-West European trade out of account, whose volume was relatively large for reasons of geographical proximity and economic interdependence, the Japanese share amounted to 1 p.c. and 7.5 p.c., respectively.

At the Lima conference, the representatives of the Third World demanded a 25 p.c. share in total

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<sup>1</sup> For more about this subject, cf. a study about to be published. K. Khan, V. Matthies, B. Engels, *Weltwirtschaft am Wendepunkt – Konflikt oder Kooperation? Die UN-Konferenzen über Rohstoffe, Ernährung und Bevölkerung von 1974 (A Turning Point for the World Economy – Conflict or Cooperation? The UN Conferences on Raw Materials, Food, and Population of 1974)*.

<sup>2</sup> cf. *Japans Beziehungen zu Westeuropa (Japan's Economic Relations with Western Europe)*, in: A. Lempfer (ed.): *Japan in der Weltwirtschaft (Japan in the World Economy)*, Munich, 1974.

industrial production of the whole world for themselves. What has been said about Japan makes it possible to gain a clear view of the order of magnitude which the necessary adaptations or "anticipated structural policies" would assume, even though only a small part of the demanded 25 p.c. share could be put into practice since the Third World cannot build up the required industrial potential capable of filling such a tall order.

It is quite obvious that an internally consistent and economically rational model of the international division of labour does not provide a solution of the development problems, as long as the interests of the industrialized nations are in conflict with the LDCs' demands for an improvement of the international division of labour. The reactions to the Japanese advancement in West European industrial markets are clear evidence for the existence of such a conflict.

### Danger of Restrictive Reactions

At the beginning of 1970, after the authority to negotiate about external trade had already passed from national governments into the hands of the European Community, *all the member states* of the EC still maintained in their external tariff ten positions under which imports from Japan were physically controlled by quotas. Among them were synthetic fibres, synthetic woven materials, dresses and suits, household goods, china and earthenware crockery, and in three of the four EC-customs areas worsted yarns and cloths, wool, shoes, ceramic building materials, and cutlery were not yet liberalized. Through bilateral agreements quotas had also been fixed for the imports of various products. While France and Italy have still retained quantitative import restrictions over practically all equipment relating to radio and t. v., British, West German, and Benelux-operated import quotas, on the other hand, almost exclusively refer to farm produce and textiles.

As well known, the attempts to replace the bilateral agreements and protective measures by a comprehensive economic agreement between the EC and Japan have failed. Different non-tariff trade obstacles, the request of a number of interested governments for a protective clause, and the highly diverse interests of individual countries in relation to the Japanese system of "orderly marketing" have all led to an impasse in negotiations from which there seems to be no escape within a foreseeable period that would not violate the fundamental principle of a joint EC foreign trade policy, while still meeting with the different protective interests of member states in an adequately differentiating manner. The European Community did not even succeed in main-

taining the level of liberalization achieved until 1970. A particularly saddening example is the truly anarchic behaviour of EC members in the field of "entertainment electronics" (i.e. radio, t.v., record players, tape recorders and players, etc.). France, the Benelux countries, Italy, and the UK concluded bilateral agreements on limiting imports of varying kinds of products from this field, which in part committed crass violations of the Rome Treaties<sup>3</sup>.

Such experiences suggest the conclusion that, under the present political conditions, we are not ready enough for any kind of structural policy, especially for one of deliberately anticipating desirable changes; on the contrary, especially in economically weak areas, reactions are much more likely which restrict trade instead of encouraging it.

On the other hand Japan's export performance in West European markets shows that in the long run protective measures like NTB's are not suitable to prevent a resolute competitor from the market. From our experience with Japanese exports we should have learned that it is better to carry out structural shifts and to promote readiness and political conditions timely.

### Dubious Concept of Division of Labour

But quite apart from these *political* difficulties that have become evident in the case of Japanese trade advances, the *economic* criteria for arriving at a consensus about transferring certain industries to LDCs, and about the need for an "anticipating structural policy" must be regarded as highly dubious. The notion that consensus might be achieved on long-term planning for an international division of labour according to certain economic criteria, has already been exploded by the experiences gained from the development of foreign trade relations between Japan and Western Europe.

An international division of labour in the sense of a complementary structure of the exchanged product groups has existed, at most, only during an early stage of trade development. Towards the end of the very first post-war years and of Japanese reconstruction the composition of the baskets of export goods exchanged in international trade between Japan and Europe displayed a marked lack of symmetry between the structures of imports and exports, respectively. Admittedly, this lack of symmetry did not conform to the extreme differences found in relations of true complementarity (e.g. an exchange of raw materials

<sup>3</sup> cf. H. Giesler and H. Müller, Japan und die EG (Japan and the EC), Deutsch-Japanisches Wirtschaftsbüro, Hamburg, 1974.

against finished manufactured goods), but it made the exchange of goods, during that period, between Japan and Western Europe vastly different from the, mostly, horizontal structures of trade between all the other industrialized countries.

The prevailing trend dominating developments in overseas trade between Japan and Western Europe since then becomes clearly visible in a comparison of the shares of all SITC product groups in total Japanese exports to Western Europe with the respective shares of SITC goods in Japanese imports from Europe. With the reservation that the trade statistics used for this purpose — showing three-digit SITC product groups — offer only a relatively coarse breakdown, it may be stated that, mainly for those classes of goods whose exports to Europe have expanded most vigorously (machinery, transport equipment, and finished products) in the early seventies import and export profiles were largely symmetrical, which means: the relative importance of most of these types of goods have been comparable in their magnitudes, both in imports and exports. Though Japanese-West European trade is not substitutionary to that degree as it is between the OECD countries taken altogether, it is hardly possible to term it one of an international division of labour.

Regarding electrical engineering, the growth rates of Japanese imports and exports of certain products were compared on the basis of detailed statistical returns. They disclose the impossibility of speaking of typical Japanese export products, on the one hand, and of typical import goods, on the other. On the contrary, the growth rates of both imports and exports are of a similar order of magnitude, which indicates a growing trend of product diversification and of intra-industrial specialization in electrical engineering.

All this goes to show that an "international division of labour", as it might be enforced by reformed foreign trade policies and "anticipating structural policies" between LDCs and industrialized countries, would not anticipate results of the same kind as they would occur among industrialized countries in a competitive market economy. At any rate, specialization towards an increasing "division of labour" has obviously not occurred in the course of economic development, especially not in Japanese foreign trade with Western Europe.

#### Utilization of Comparative Advantages?

In spite of all this, Common Sense tends to hold on to the notion that an economically rational

model of our world ought to include the principle of an international division of labour by trade, as a matter of course. One of the main motivations for such feeling is the idea that competition in the world markets is decisively determined by the different factor equipments of different nations which again lead to firm patterns of specialization — an idea that seems inseparable from that of rational production. For the foreign trade strategy of the Third World, this implies the demand for a change in the LDCs' own specialized production structure in a way that would enable them to supply more industrial goods suitable for export to world markets and that would allow them to profit from their comparative advantages<sup>4</sup>.

That Japan's successful invasion of Western Europe's markets seems to confirm the importance of such supply-sided factors is mainly due to the fact that, for a certain period, substantially lower labour costs led to a marked preponderance of relatively cheap labour-intensive products of light industry in the pattern of Japanese exports, whereas Japan's imports consisted mostly of capital goods.

This situation has changed since, which can be shown through calculations of average price levels of individual three-digit SITC product groups for the whole of Western European imports and comparing them with average prices of Western Europe's imports from Japan. Excluding some electrical engineering products, it was possible to see clearly that, in the early sixties, price levels of most Japanese exports to Western Europe were lower than those applying to the total of EC-imports of corresponding goods. But by the early seventies this did no longer apply. For most of the product groups examined, price indices rose for Japanese deliveries to Western Europe more steeply than average prices for all the imports of the European Community.

Japan does not seem to be able any longer to remain the cheapest industrial producer of the whole civilized world — a part it had played already long before World War II, fighting successful price wars against the industries of Europe in the markets of third countries and after the war, also in West Europe, Japan's superiority through lower wages and product prices has, in part, been destroyed by its high inflation rates; on the other hand, a planned market strategy has led Japanese companies away from cheap goods to high-quality products. Especially the latter aspect

<sup>4</sup> cf., for example, G. Feils, Probleme der Arbeitsteilung zwischen Industrie- und Entwicklungsländern (Problems of the Division of Labour between Industrialized and Developing Countries), in: Die Weltwirtschaft, 1971, No. 1, p. 19.

has been of crucial importance in the typical "Japanese markets" in Western Europe: those for entertainment electronics, photographic cameras, precision engineering, optical products.

From a different point of view, too, it becomes obvious that Japanese trading successes in the markets of Western Europe have hardly been caused decisively by factors on the supply side. In almost all the cases in which Japan has been singularly successful in its deliveries to Western Europe, certain sub-groups among SITC groups of goods have been the front runners. To this day, this concentration of export successes on a few sub-groups indicates, though indirectly but clearly, that this kind of specialization may hardly be traced back to specific factors on the supply side – at least as far as it may be assumed that the manufacturing conditions within the individual SITC product groups do not differ too much from each other. Similar considerations apply to industrial products of a highly-sophisticated technology. A comparison of Japan's importance as an exporter within a selected group of industrialized countries leads to the same conclusion. Again, the explanation can hardly be found in factors on the supply side.

#### Role of Dynamic Industrial Policy

If Japan's foreign trade had stuck to advantages arising from the side of supplies the probable results can be inferred quite clearly from the large shifts in the pattern of Japan's terms of trade vis-à-vis Western Europe. If we neglect short-term changes in the structure of Japanese exports, we find there products whose importance is waning in the long term: fish, fats (whale oil), wood manufactures, silk, textiles made from cotton, and a number of products of light industries. On the other hand, steel, precision engineering and optical instruments, electronic products, the technology of measuring and remote production controls, motor vehicles, and (with certain restrictions) also chemicals display particularly big growth rates.

These shifts in the patterns of specialization demonstrate once more that there is, actually, no growing international division of labour caused by international trade. Specifically, these facts underline the finding that for any success in international markets other factors are decisive than those on the supply side, on which the model of an international division of labour is based. In practical life, it does not matter whether gaps in the market are filled by attracting new groups of buyers (e.g. to cheap cameras, or electronic desk calculators), by supplying new varieties of products e.g. mirror-reflex cameras with a TTL system,

transistor radios, portable t.v. sets), or by utilizing a special feature of the West European markets through supplying motor vehicles, cameras, and the products of numerous engineering branches for a start only to subregional markets which have no – or a relatively weak – local production.

The constant changes of the pattern of Japanese specialization are not only the results of a dynamic behaviour that is typical for Japan's export industries but also of a dynamic industrial and foreign trade policy.

When Japanese export industries concentrated, during the fifties, on labour-intensive products, they specialized in sectors of world trade that had a low growth potential. Japan's trade policies, however, discerned early on the disadvantages of this specialization and did not follow the trend towards comparative cost advantages. As Japan does not possess a raw material base of its own, it could not follow a self-centred policy of industrial development but was forced to enter the more dynamic sections of world trade and to adapt its industrial policies to this need.

In spite of this imperative need of stronger integration with the system of world trade the creation of strengthened circulation processes in the home market was not prevented by the expansion of Japanese exports. The frequently-voiced opinion that there would arise an alternative between associative and disruptive elements of development policy<sup>5</sup> was thereby proved to be purely hypothetical.

In spite of its spectacular successes in certain sectors of the world market, Japan has been wrongly dubbed as *the tycoon* among all exporters. The share of exports in Japan's total production has never reached – and is not reaching now – more than about 10 p.c.; the extreme orientation of its industries towards exports exists only in some branches reflecting the extreme concentration of Japanese exports on a few industries: about 80 p.c. of the total value of all Japanese exports to Western Europe fall to the share of only 20 p.c. of the traded product groups.

It is very likely that this extreme concentration on particularly dynamic markets within the entire system of world trade harbour the secret of Japan's successes in economic growth and exports. It shows that a successful combination of associative and dissociative elements of development strategy has to bear in mind market factors instead of a supply-oriented division of labour.

<sup>5</sup> see G. F e l s , *The Exports of the Developing World*, Kiel, 1973 (Special Reprint), pp. 305.