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### III. ECONOMY AND FOREIGN TRADE

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#### General

Japan's post-war economy grew at unprecedented rates with the GNP from 1961 to 1970 increasing at an average of more than 10 per cent per year in real terms. This unparalleled performance, surpassing all other major industrial countries, ended abruptly in late 1973 as inflationary pressures and heavy deficits in the balance of payments caused Japan's most severe recession since World War II. The tripling of oil prices created particular difficulties for a country that depends on imports for 99.7 per cent of its oil requirements.

Growth since the first oil crisis has been more moderate, but still strong compared with other Organization for Economic Co-operation and Development (OECD) countries. Growth in the 1970s averaged 5 per cent. In the 1980s, growth rates have been lower (2.5 per cent in 1986) with the forecast for 1987-88 being around 2.75 per cent. Unemployment is moderate by world standards. With the world recession affecting Japan, there has been a slight increase in unemployment, moving from 2 per cent in 1980 to 2.9 per cent in 1986.

#### Trade and Economic Policy

Japanese industry is among the world's leaders in such industries as automotive, steel, electronics and chemicals. To earn the foreign exchange necessary to pay for raw materials and foodstuffs, Japanese industry must export and remain competitive.

However, the Japanese surge in exports has resulted in a large and growing balance-of-trade surplus (the 1986 merchandise trade surplus was \$128.3 (Cdn) billion). The concentration of Japan's exports to the U.S. and the European Economic Community (EEC) in sensitive sectors (steel, automotive products, electronic goods) has caused serious dislocations and provoked strong criticisms and threats of protectionism.

In early 1982, the Japanese government introduced measures to stimulate imports, such as tariff and non-tariff barrier liberalization, advance purchases of mate-