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Causes of the Japanese Export Boom

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Causes Of The Japanese Export Boom

Reed J. Irvine

The sharp gains in Japanese exports in 1954 and 1955 and the first part of 1956 have done much to encourage optimism about Japan's economic future. Were these gains due to temporary phenomena, or do they represent solid progress that augur well for the economic health of Japan? In 1954, the value of exports soared to a total of \$1,630 million, 28 per cent above the level of the two preceding years. In 1955, another 23 per cent increase was recorded, bringing the total to \$2,010 million, a figure which even the most optimistic observers would not have ventured to predict a few years earlier.<sup>1/</sup> In 1952, exports had declined and in 1953 they rose only a fraction of one per cent. An explanation of this remarkable expansion in 1954 and 1955 would be useful in casting light upon Japan's future prospects.

The 1954 export gains were broadly distributed by commodity, ranging from 7 per cent to 165 per cent for 20 major categories of commodities. Ships and rayon filament yarn were the only major exports to decline compared to the previous year. In 1955, the percentage gains tended to be somewhat smaller and a larger number of commodities showed declines from the previous year. These included cotton fabrics, rayon filament yarn, tea and textile machinery. Geographically, there was a somewhat more balanced distribution of the gains in 1954 than in the following year. In 1954, exports to all continents rose, the increase ranging from 7 per cent in the case of Africa to 172 per cent for South America. In 1955, sales to South America fell and exports to Japan's largest market, Asia, rose a modest 6 per cent. Especially sharp increases in shipments to North America, Europe and Africa were responsible for the continuation of the rapid rise in exports in 1955.

The expansion of exports in 1954 and 1955 represented increases in volume even more than increases in value. The value of total exports rose 58 per cent from 1953 to 1955, while volume was rising by 63.5 per cent. Falling export prices were an important factor in the dip in the value of Japanese exports in 1952 and their failure to rise appreciably in 1953, but something happened in the two following years to give a tremendous boost to Japanese sales abroad. One important factor was the rising level of prosperity throughout the world and the easing of balance of payments problems that had afflicted many of Japan's customers in 1952 and 1953. This in turn contributed to the relaxation of restrictions

<sup>1/</sup> In 1953, The Economic Counsel Board projected exports in 1957 at \$1.4 billion. Oriental Economist, January 1953.

on Japanese imports imposed by many sterling area countries. In addition, Japan's internal disinflationary policies, special export incentive schemes and bilateral trade arrangements with Brazil and Argentina have been factors of some importance in the export boom. A development whose influence in the short run is difficult to assess but which may count for a great deal in the long run is the increased efficiency of Japanese industry.

Rising world demand

No one can say precisely how much the Japanese export boom owes to the general rise in world prosperity, but its influence has doubtless been great. Total world imports, c.i.f., rose about 3 per cent in 1954 and 9 per cent in 1955. This contrasted with a decline of 4.5 per cent in 1953. However, Japan's exports as a percentage of total imports of the free world increased by nearly 22 per cent in 1954 and 13.5 per cent in 1955. In both years, Japan succeeded in capturing a significantly larger share of the world market. Japanese exports made exceptionally large inroads in the Latin American, sterling area, and U. S. and Canadian markets in 1954 and again in the U. S. and Canada in 1955.

Exports of Japan Compared to Total  
World Imports by Area<sup>1/</sup>  
(Columns A and B in millions of dollars)

	1953			1954				1955			
	Total Imports (A)	Japan's Exports (B)	B/A (C)	Total Imports (A)	Japan's Exports (B)	B/A (D)	Relative Change D/C	Total Imports (A)	Japan's Exports (B)	B/A (E)	Relative Change E/D
U. S. & Canada	16,658	249.0	1.49	15,657	303.9	1.94	30.2	18,526	502.2	2.71	39.7
Latin America	6,558	104.4	1.59	7,282	201.1	2.76	73.6	7,140	179.1	2.51	-9.1
OEEC & Dependencies	25,233	104.8	.42	27,850	126.9	.46	9.5	31,410	168.8	0.54	17.4
Sterling Area	19,978	316.1	1.58	20,646	491.3	2.38	50.6	23,294	640.9	2.75	15.5
Other	5,659	495.8	8.8	5,591	482.5	8.6	-2.3	5,977	480.3	8.0	-7.0
China & Soviet Bloc	n.a.	(4.5)		n.a.	(24.0)			n.a.	(39.4)		
Total <sup>1/</sup>	74,712	1,272.1	1.7	77,388	1,605.7	2.07	21.7	83,870	1,971.3	2.35	13.5

<sup>1/</sup> Excluding the Soviet Bloc and Mainland China

Sources: Area imports are from the International Monetary Fund's International Financial Statistics and are c.i.f.; Japanese exports

(continued at bottom of page 3)

These unusually large gains in certain areas may be explained in part by the fact that Japan occupied the position of a marginal supplier whose exports were subject to greater than average fluctuations. This is not the whole explanation, however. For example, it does not explain the increase in Japan's exports to the United States and Canada in 1954, when total imports of those two countries showed a substantial decline. Other special factors have undoubtedly played a role in Japan's export boom.

#### Relaxation of Sterling Area restrictions

Following the conclusion of a new Anglo-Japanese Payments Agreement on January 29, 1954, exports to the sterling area rose no less than 55 per cent in 1954. This led to the removal of most of the special restrictions on Japanese imports that had been in effect in 1953. Japan's exports to the sterling area had been hard hit by these restrictions. The total shipments to the sterling countries had fallen from \$539.7 million in 1952 to \$317.5 million in 1953. The elimination of the special restrictions on Japanese goods and the improved position of the sterling countries helped make the recovery to \$492.8 million in 1954 possible. Cotton textiles and yarn were the main exports that benefited in 1954. The principal sterling customers that re-opened their doors to Japanese products were Pakistan, the U. K., Australia, India, Malaya and Singapore, Hong Kong, and the British West African Colonies. In 1955, British East Africa let down the bars and there was apparently a further relaxation in the Australian attitude.

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Sources:

(continued from preceding page)

are from the Direction of International Trade and are f.o.b. This comparison was used because of the availability of 1955 data in this form. It was found that the percentage of relative gain or loss computed from the figures for 1953 and 1954 corresponded closely with computations based on the import and export figures published in the Direction of International Trade table, "Direction of Trade of the Principal Monetary Areas of the World as Measured by the Reporting Countries in Each Area", which are all f.o.b. Comparison of Japan's f.o.b. exports with the trading partners' c.i.f. imports shows Japanese exports as a smaller percentage of the total, but this is not important here since the object is to show the relative gains.

## Japan's Exports to the Sterling Area, 1952 - 1955

(In millions of dollars)

	1952	1953	1954	1955
United Kingdom	73.1	33.1	51.1	60.8
Pakistan	117.8	14.9	56.0	44.0
India	36.6	27.4	43.9	84.7
Malaya and Singapore	63.0	39.4	47.5	72.8
Hong Kong	80.7	62.2	77.3	88.1
Australia	27.7	9.0	28.2	55.1
British East Africa	23.0	0.8	3.3	20.0
British West Africa	33.6	22.8	43.4	62.8
Others	84.4	107.8	141.9	161.1
Total	539.7	317.5	492.7	649.2

Incentive systems

At one time considerable weight was given to the importance of the various export incentive schemes employed by Japan as an explanation of the upsurge in exports after 1953. It was estimated that as much as 40 per cent or 50 per cent of Japan's exports in 1954 had benefited to some extent from one or the other of the incentive plans. There were three categories of incentives that were either introduced or expanded in 1953: the link system, the retention quota system and special treatment for the financing of exports.

The link system was adopted to facilitate the export of comparatively high-cost commodities such as iron and steel, ships, raw silk, whale oil and ammonium sulphate and to induce processors of raw materials such as cotton and wool to divert a greater share of their output to export markets. In the latter case import of the needed raw material was allocated on the basis of export performance. In the case of the first category of goods, licenses for the import of very profitable commodities such as Cuban sugar and bananas were issued as a reward for exports. It is difficult to ascertain just how widespread the system became since transactions were authorized on a case by case basis. The sugar-raw silk link contributed to halting triangular transactions in raw silk that had cost Japan dollar earnings, and the sugar-ship link apparently enabled Japan to win several valuable shipbuilding contracts and aroused much criticism abroad as a result. Both of these link arrangements were terminated in 1954. The Government has periodically indicated its intention to abolish all link arrangements, but those still

known to exist cover raw cotton and cotton textiles, raw wool and woolen textiles, rayon pulp and rayon fiber, beef tallow and fat products. Since these links have not been discontinued they are presumably still of some value as export incentives. However, the importance of links as a whole has doubtless declined since 1954. For example, in March 1956 the extra allocation of raw cotton linked to textile exports was reduced to allay foreign criticism. The fact that Japanese exports have continued booming since the formal link arrangements were diminished in importance weakens the theory that the de facto devaluation effected by the links was one of the main causes of the upsurge in exports in 1954. It is probably significant also that although link arrangements for ships and iron and steel exports were available as early as 1953, exports of these items did not really soar until the last half of 1954 after substantial price cuts were made.

The retention quota system was altered in August 1953 to provide for the retention by the exporter of a uniform 10 per cent of the proceeds from exports to all currency areas. The system had previously applied only to dollar area exports and the percentage had varied from 5 per cent to 15 per cent. Under the new rules the uses to which the retained foreign exchange could be put were limited in a manner designed to reduce the value of this premium. It is not clear whether the effect of these changes was to increase the incentive to export or not. Most of the retained foreign exchange has been used for import of raw materials, and the system probably has only a marginal influence on exports.

Preferential interest rates have been provided for export financing. In August 1953, the interest rates charged by the Japan Export Import Bank were lowered from 7 per cent to 6.5 per cent for standard loans, while "urgent" loan rates were cut from 5 per cent to 4.5 per cent. However, where competing countries offered more favorable credit terms rates as low as 4 per cent were authorized. These rates have remained in effect ever since. In July 1954, commercial banks were enabled to reduce interest rates applied to export advance bills as a result of the Bank of Japan decision to give special treatment to loans and discounts to the commercial banks secured by such bills.

#### Latin American trade

About \$100 million of the \$355 million increase in Japanese exports in 1954 was accounted for by larger sales to Latin America. Of this, \$89.7 million represented the rise in exports to Brazil and Argentina, a 240 per cent increase over 1953. However, it is estimated by MITI that some \$24 million of the exports to Brazil actually went to the United States under switch arrangements. Brazil, in 1954, was anxious to work off very substantial yen credits that had accumulated under the

open account agreement and this was done by permitting switch transactions and selling substantial amounts of clearing yen through the auction system. In the case of Argentina, Japanese iron and steel could be bought at bargain prices because the greatly overvalued official rate for the peso could be used and the Japanese extended credit freely under the open account agreement. This explains the sharp increase in exports to that country. The solidity of these gains is questionable. This was demonstrated in 1955 by the sharp cut in exports to Brazil and by the accumulation of a clearing debt of about \$60 million on the part of Argentina under the open account agreement. There is some doubt in Japan that the high level of trade with Argentina can be maintained except under the protection of bilateral deals providing for artificially high prices, and Argentina is now reported to be interested in eliminating such arrangements. The open account agreement was allowed to expire on March 31, 1956, and cash sterling settlement is to be the basis of Japan's trade with Argentina henceforth. Since exports to Argentina amounted to \$79 million, 44 per cent of Japan's exports to Latin America in 1955, this part of the trade picture is clouded. However, during the first four months of 1956 a rise in exports to Brazil offset a decline in sales to Argentina. Sales to other South American countries were running at an annual rate over 30 per cent above that of 1955, indicating that a readjustment in the Argentine trade may be cushioned by expansion elsewhere in Latin America.

#### The impact of tight money

There is evidence that the failure of exports to make a better record in 1953 was due in part to heavy domestic demand, which had some tendency to dull the interest of producers in export markets. Personal consumption expenditures in 1953 rose 19 per cent over the previous year, with domestic consumption of cotton textiles rising no less than 30 per cent. Gross private investment soared 17.5 per cent above 1952. The major part of the investment increase was in producers' durables, spending for which rose by \$465 million. Government bodies also increased their expenditures very substantially. With demand rising at home and declining abroad there was a very drastic change in the relationship of Japanese domestic prices to export prices in 1952 and 1953. The relatively high level of Japanese prices made little difference as long as a seller's market prevailed throughout the world. With a change to a buyer's market, the rising level of domestic demand either worsened the price disparity or hindered any substantial adjustment of Japanese domestic prices to world market levels.

Japanese Domestic Prices as a Percentage of United States Prices -  
Selected Commodities

	March, 1953 <sup>1/</sup>	February, 1954 <sup>2/</sup>
Cotton yarn	75	102
Rayon yarn	80	89
Pig iron	133	134
Bar steel	116	122
Sheet steel	202	180
Copper	125	140
Aluminum	144	137
Caustic soda	185	169
Ammonium sulphate	127	114

<sup>1/</sup> Oriental Economist 8/53 p. 390

<sup>2/</sup> Oriental Economist 5/54 p. 228

Export prices had to be held to somewhat more competitive levels if Japan was to sell abroad. The result was the emergence of a dual price system, with exports quotations generally somewhat lower than the domestic prices.

Japanese Domestic Prices as Percentage of Export Prices -  
Selected Commodities

	12/31/51	6/30/52	12/31/52	12/31/53	3/31/54
Cotton yarn	84	100	102	117	100
Cotton fabric	89	100	101	100	108
Rayon yarn	87	106	104	126	109
Sheet steel	78	88	93	95	95
Cement	104	106	113	117	114
Ammonium sulphate	91	98	134	105	104
Steel bar	84	n.a.	98	99	96
Caustic soda	103	n.a.	58	104	105

Source: Oriental Economist, June 1954, p. 278



Under these conditions it would be rather surprising if the attractiveness of the domestic market did not dull interest in selling abroad. This fact was recognized at the time, as the following comment shows:

"There are instances in which the prevailing higher domestic prices of raw materials are putting various makers at considerable disadvantage in their export activities, and this is much in evidence among rolled non-ferrous metal goods makers, wire makers and knitted goods makers. In the iron and steel field the export price of steel bars has now been on the upswing since the end of 1952, and is now higher than the international price level. This high price situation is believed to be due to the fact that increased domestic demand for steel has enabled steel makers to dispense with an obligation to carry out the "cheaper" export of their products... As to automobiles, there is an active demand for trucks and buses... from Okinawa, Korea, Southeast Asia and South America. As matters stand today there is a growing tendency among automobile makers to give preference to meeting domestic demands in view of the fact the exportation of automobiles not only brings less profits in spite of complex specifications but also involves a constant danger of cancellation depending upon the economic situation of importing countries." 1/

By the latter part of 1953, the monetary authorities recognized that the domestic boom would have to be dampened down if the balance of payments was to be righted.

There was no question that lower prices were desirable, but the methods to be used came in for debate. The Bank of Japan acted to tighten credit and the Ministry of Finance severely restricted the amount of public funds made available for industrial investment in the 1954-55 budget. These measures were criticized in some quarters as harmful to Japan's economic progress. It was argued that the fundamental need of Japan was the reduction of costs through the modernization of industrial plant and that to curtail investment would only slow down true progress along the road to lower prices. The authorities might have given greater weight to this argument had not experience with the rationalization program pursued up to that point been somewhat disappointing as far as lowering prices was concerned. For example, the equivalent of nearly \$300 million was invested in the steel industry between 1951 and 1953. This was reported to have cut costs by 4 per cent for pig iron and 10 per cent for ingot steel, but there was some doubt that these savings were being passed on to consumers. It was noted that in 1953, iron and steel prices rose slightly

1/ Sangyo Keizai, Overseas Edition, January 1, 1954, p. 8

despite a drop of 14 per cent in the cost of the raw materials. It appeared, superficially at least, that modernization of plant did not in this case produce the expected results in terms of lower prices, probably because inflationary conditions kept demand high. It was finally decided to combat the inflationary pressure.

Neither production nor consumption was actually cut back, but the rate of increase was sharply reduced. Total industrial production rose only 7.6 per cent in 1954 compared with a 22 per cent gain the previous year. Personal consumption expenditures rose only 9 per cent as against 19 per cent in 1953. Gross private investment declined by 8.5 per cent, with the reduction in inventories accounting for the biggest part of this. Government expenditures showed an increase, but it was smaller than the 1953 rise.

The authorities desired to bring about a 10 per cent reduction in prices. They fell short of this in terms of the overall wholesale price index, which showed a maximum decline of 7 per cent in the first nine months of 1954. However, textiles fell 16 per cent in the first half and by August machinery and metals had dropped 10 per cent. Export prices declined less since they had been less inflated, but in most lines they were made more attractive to foreign buyers. The decline in the prices came at a time when prices elsewhere were stable or rising.

Japanese Export Price Index 1953 - 1955  
(December 1953 = 100)

	All commodities	Textiles	Metal & metal products	Machinery	Timber & wood products	Ceramics	Chemicals	Foodstuffs	Misc.
December 1953	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
December 1954	93.0	89.8	89.8	94.5	110.9	98.7	102.6	106.2	102.9
December 1955	97.4	86.6	120.0	91.8	103.1	97.3	93.8	87.1	98.6

Japanese and U. S. Wholesale Price Trends 1953 - 1955  
(December 1953 = 100)

	Textiles		Lumber and wood		Non-ferrous metals		Iron and steel	
	U.S. <sup>1/</sup>	Japan	U.S.	Japan	U.S.	Japan	U.S.	Japan
December 1953	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
December 1954	99.4	86.9	102.2	91.0	104.5	88.7	101.7	84.7
December 1955	99.8	84.5	106.6	82.8	127.6	106.6	110.8	104.3

<sup>1/</sup> Includes apparel

Sources: Bank of Japan, Economic Statistics of Japan and the Federal Reserve Bulletin

The cause of the price declines is quite clear. Rapidly mounting inventories forced liquidations and price cuts at the expense of profit margins. The producers' inventory index for mining and manufacturing rose from 122 in the last quarter of 1953 to 165 in the second quarter of 1954 and reached a peak of 190 in July 1954. Prices had to be cut to move the goods. There is no evidence that business operating costs were generally reduced in fiscal year 1954. In fact, most costs rose. Material costs declined, but this apparently reflected the drop in domestic prices since the cost of imported raw materials tended to rise in 1954 and 1955.

Costs of Principal Japanese Industrial Corporations  
As Percentage of Net Sales

	Fiscal Year 1953		Fiscal Year 1954		Fiscal Year 1955
	1st half	2nd half	1st half	2nd half	1st half
Total expense	97.5	97.5	98.2	99.2	99.0
General administration	7.5	7.4	7.7	7.9	7.6
Non-operating	4.5	4.8	5.6	5.7	5.4
Materials	36.9	35.3	35.3	33.8	33.6
Labor	9.9	9.1	10.0	9.5	9.0
Mfg. expense	11.5	12.3	13.0	13.0	12.8
Financial expense	3.1	2.8	3.2	3.4	3.3
Depreciation	2.4	2.6	3.0	3.4	3.4

Source: Bank of Japan, Economic Statistics of Japan, 1954, 1955

The apparent effect of the price cuts on exports was quite dramatic. Iron and steel prices were cut sharply in July, and exports for the second half more than doubled those of the first half and nearly equaled the total for all of 1953. On the surface cotton textiles do not appear to have responded so remarkably to the very sharp price reductions made in the first part of 1954, the export increase for the second half amounting to only 3 per cent. However, this picture is distorted by the fact that imports by Indonesia and Pakistan were sharply curtailed in the last half of the year for balance of payments reasons. Omitting these two countries, there was a 58 per cent increase in cotton textile exports in the second half of 1954. The great boom in cotton textile exports to the U. S. really began in this period.

Japan's Cotton Textile Exports to the U. S.

	Square Yards	Million Yen
1954 1st half	9,593,638	707.8
2nd half	39,996,800	3,070.7
<u>Total</u>	49,500,438	3,778.5
1955 1st half	44,738,312	3,410.7
2nd half	95,508,720	7,521.6
<u>Total</u>	140,247,032	10,932.3

In general, home demand tapered off and a sharply increased percentage of increased production went into the export markets.

Volume of Exports as a Percentage of Total Production -  
Selected Commodities

	1953	1954	1955
Cotton fabrics	32.9	40.0	38.0
Cotton yarn	2.3	2.9	2.8
Silk fabrics	10.5	14.1	14.4
Raw silk	25.4	29.4	30.0
Rayon fabrics	39.6	40.0	44.5
Spun rayon fabrics	28.8	46.5	59.0
Rayon staple yarn	8.6	10.6	9.5
Cement	9.1	8.4	11.4
Sewing machines	58.5	85.0	85.0
Iron and steel <sup>1/</sup>	11.0	15.0	21.1
Fertilizers	17.4	16.1	15.9

<sup>1/</sup> Exports of steel products as percentage of ingot steel production (excludes pig iron).

Source: Bank of Japan, Economic Statistics of Japan

In addition to affecting prices, the disinflationary policies of 1954 and 1955 helped bring about a change in attitude that might have even greater significance for Japanese exports in the long run. Attitudes of unconcern about export markets and their special requirements did not fit the competitive climate of 1954-55. As home demand tapered off and a substantially increased percentage of production was consigned to the export

markets, it became necessary to give attention to improvement of quality and styling. That this was being done became apparent by mid-1955, when the following observation was made.

"Quality consciousness is noticeable in many Japanese industries hitherto content with low cost production. These industries include ceramics, tableware, chinaware, toys, optical goods and certain categories of iron and steel...Japanese producers have finally gotten around to proper sizing of garments, use of more durable dyestuffs, fresher designs and better styles. Low cost is no longer the chief selling point Japan offers in the textile category." <sup>1/</sup>

This improvement in quality probably accounts for some of the upsurge of Japanese textile and clothing sales to the U. S. in 1955. For example, striking improvements in Japanese velveteens enabled Japan to capture a substantial part of the American market, formerly dominated by Italian imports. The phenomenal success of Japanese gingham and the famous "dollar" blouses probably also reflected quality improvements as well as the changing style in the U. S. which resulted in a faster rise in demand for gingham than the domestic manufacturers could meet. The attractiveness of Japanese prices, the quality of the textiles, and the ability to handle large orders promptly drew American buyers to Japan in increasing numbers.

The tariff reduction which the U. S. accorded Japanese textiles on September 10, 1955 increased the advantage enjoyed by Japanese cottons in the U. S. markets slightly, but the amount of the tariff reduction was small compared to the amount by which Japanese goods were already under-selling comparable U. S. cottons. Japanese exports to the U. S. in the first eight months of 1955 were well above the comparable period for the previous year, and it is unlikely that the small tariff cut had any important influence on the inflow.

#### The outlook for Japanese exports

Japanese exports for the first five months of 1956 exceeded the record 1955 level by 29 per cent, indicating that the expansion is still accelerating. Part of the gains recorded over the past two years have undoubtedly been the result of the achievement of greater competitive strength on the part of the Japanese. Part has been due to greater attention to exports and increased responsiveness to the changing requirements of foreign markets. It is quite significant that the Japanese have been able to find an answer to the problem of shrinking markets for cotton textiles in the developing countries of Asia by expanding their rayon textile sales to those countries and giving greater attention to quality cottons that can compete in American and European markets.

<sup>1/</sup> Journal of Commerce, June 17, 1955

However, there is reason to believe that Japan is still a marginal source of supply in many lines. Despite the price cuts effected in 1954, the prices of many products of heavy industry remained relatively expensive in Japan compared with important competing countries.

Comparison of Export Prices of Selected Commodities -  
(May 1955)

	Japanese Prices as Percentage of		
	U.S. price	U.K. price	Others
Cotton yarn (20S)	n.a.	86.9	122.5 (Hong Kong)
Rayon yarn (Viscose 120D)	n.a.	91.4	93.2 (Italy)
Cotton fabric (2003)	72.8	n.a.	n.a.
Staple fiber yarn (30S)	42.1	n.a.	n.a.
Steel bar (19 mm)	95.0	92.6	99.5 (Schuman Plan Members)
Steel plate (6 mm)	105.9	100.6	103.8 " " "
Steel sheets (1.6 mm)	155.6	113.3	100.4 " " "
Galvanized sheet (#26)	148.0	111.9	99.4 " " "
Aluminum	104.3	117.8	116.8 (Canada)
Cement	n.a.	133.3	139.3 (W. Germany)
Ammonium sulphate	114.0	n.a.	120.4 (Italy)

Source: Sangyo Keizai, Overseas Edition, June 15, 1955

There is no indication that these price relationships have become more favorable to Japan in the meantime. Indeed, recent price trends indicate that in some lines Japan may be becoming less competitive. Since the end of 1955, Japanese wholesale prices for textiles, iron and steel, non-ferrous metals and industrial chemicals have been rising appreciably faster than U. S. wholesale prices for the same commodities. Japanese metals prices bear almost the same relationship to U. S. prices as they did in December 1953. Japanese industrial chemicals are relatively higher priced than they were at that time, but textiles in April 1956 were still about 12 per cent cheaper than they were in December 1953 while U. S. textiles were down only 0.4 per cent. This trend is not true of all commodities, but the advances in price are indications that Japan is not making progress toward improving the competitiveness of its prices at the present time. If Japan remained a marginal supplier in May 1955, it is even more so today. This is a weakness which can easily be overlooked under the prosperous conditions now prevailing but which is certain to become more apparent unless action is taken to halt the steady price rise that has been underway in recent months.