
SUMMARY

1. Since Japan's previous Trade Policy Review in 2011, there has been little change in its trade and related policies. Nonetheless, the simple average MFN applied tariff rate has increased, due partly to a rise in the average *ad valorem* equivalents of non-*ad valorem* duties. Also, Japan has adopted more international standards.
 2. The Japanese economy contracted in 2011. Its trade account recorded a deficit for the first time since 1980, and its current account surplus narrowed to 2% of GDP (from 2.9% in 2009).
 3. In response to the earthquake and tsunami, the national and local governments implemented supplementary budgets amounting to about 3.6% of GDP. Reconstruction is expected to be around 4% of GDP and continue till the end of March 2016. Consequently, the fiscal deficit was in excess of 10% and gross government debt rose to nearly 230% of GDP in 2011.
 4. The supplementary budgets were complemented by accommodative monetary policy, including a move towards "inflation targeting", adopted against the backdrop of a persistent deflationary environment in Japan. In addition, the yen continued to appreciate against all major currencies. If sustained, this will tend to further reduce the international competitiveness of Japan's exporters, unless their productivity can be substantially improved.
 5. These more expansionary macroeconomic policies have supported Japan's economy. A rebound in GDP growth is expected in 2012, mainly due to construction spending, consumer spending, and inventory building in the wake of supply chain disruptions. However, these policies do not address Japan's long-standing structural problems (including the rapid aging of its population), which have resulted in Japan's sluggish growth during the past decade or so. These problems can be addressed more effectively by far-reaching structural reforms, of which trade liberalization (and the resulting stimulus to competition) is an integral part.
 6. The authorities recognize the need for structural reform and have made some changes. For example, in April 2012, the Government cut the statutory corporation tax rate to improve incentives to invest, including inward foreign direct investment (FDI), which is a much smaller percentage of GDP than in other large OECD economies.
 7. Japan grants at least MFN treatment to all countries and economies except Andorra, the Republic of Equatorial Guinea, Eritrea, Lebanon, North Korea, the Republic of South Sudan, and Timor-Leste.
 8. Since 2011, Japan has notified the entry into force of two economic partnership agreements (EPAs), with India and Peru; currently Japan has 12 bilateral agreements and one regional agreement in force. Japan considers that its regional and bilateral trade agreements complement the multilateral system, while acknowledging that the level of complication increases as entry into force of such agreements progresses. The EPAs that Japan has adopted also involve, *inter alia*, trade facilitation, investment, movement of natural persons, and competition policy. However, the agreements with countries that are significant exporters of agricultural products tend to exclude many of these products. They also exclude certain industrial goods, such as leather products and footwear, which the authorities consider to be particularly sensitive.
 9. These products are also largely excluded from the Generalized System of Preferences (GSP) scheme, under which Japan grants preferential treatment to products from certain developing and least
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developed countries. In 2011, Japan abolished all ceiling-based schemes in its GSP. There has been no change to Japan's duty-free and quota-free treatment for LDCs since its previous Review.

10. The tariff continues to be Japan's main border restriction. In fiscal year (FY) 2012, the simple average applied MFN tariff rate was 6.3%, up slightly from 5.8% in FY2010, reflecting a change in nomenclature (to the HS 2012 edition), and an increase in the average *ad valorem* equivalents (AVEs) of non-*ad valorem* duties. Non-*ad valorem* duties, which account for 6.6% of Japan's tariff lines, tend to involve high AVEs, and are an important feature of Japan's tariff, particularly for agricultural products. The simple average tariff rate is 5.3% under the GSP (up from 4.6% in FY2010), and 0.5% for LDCs (the same as in FY2010). Japan's simple average tariff rates under RTAs range from 2.3% to 3.9%.

11. Japan's non-tariff border measures include import prohibitions as well as quantitative import restrictions (for example, import quotas on some fish). State trading covers leaf tobacco, opium, rice, wheat and barley, and milk products (unchanged since 2011).

12. In October 2011, the Authorized Economic Operator (AEO) programme was amended so that import cargo declared by AEO customs brokers or produced by AEO manufacturers may be released before the customs duty declaration is filed.

13. Japan makes little use of contingency measures. It has continued to apply anti-dumping measures on electrolytic manganese dioxide originating from the Republic of South Africa, Australia, China, and Spain. In June 2012, Japan terminated anti-dumping duties imposed on certain polyester staple fibre from the Republic of Korea and Chinese Taipei. Japan has not applied either countervailing or safeguard measures since its previous Review.

14. Japan maintains export controls on grounds of national security and public safety and to preserve natural resources in accordance with international agreements (such as CITES). Export finance, insurance, and guarantees are available. Duty drawback schemes are available on selected inputs for certain manufacturing, but they do not necessarily refund 100% of duties paid.

15. About 54% of Japanese Industrial Standards (JIS) were aligned to international standards in 2011 (up from 46% in 2009). Although Japan maintains that its SPS measures are based on scientific assessment of risks, it has apparently not conducted cost-benefit analyses in this connection.

16. Various laws on intellectual property rights (IPRs) have been amended since Japan's previous Review with a view to, *inter alia*, improving the convenience and effectiveness of patent and design systems. Japan remains an active participant in multinational and regional discussions on agreements to promote international harmonization of regimes protecting IPRs.

17. The authorities intend to continue to strengthen competition policy. In this regard, a bill to amend the Anti-monopoly Act has been submitted to the Diet.

18. With regard to agriculture, the Government has continued to move away from price support toward income support. However, the changes have been relatively minor and the sector continues to receive substantial government support involving, *inter alia*, a relatively higher average applied MFN tariff rate compared with other sectors, tariff quotas, income support, and, in some subsectors, production controls.

19. Japan is a big net importer of fisheries products and the Government has historically provided a range of support to the fisheries sector, as set out in its annual budgets. In its 2011 subsidy

notification to the WTO, Japan notified subsidies for advanced equipment and modernization of management of fisheries and related sectors, and subsidies for comprehensive programmes, implemented by non-governmental organizations, aimed at the stable, safe, and efficient supply of food.

20. The Electricity Business Act and the Gas Business Law were amended in 2012 with a view to relaxing regulation on tariffs in order to, *inter alia*, incorporate a feed-in-tariff system for certain renewable energy. Against the background of the severe accidents at nuclear power plants in north-eastern Japan in March 2011, the Government is reviewing whether to adopt any regulatory reform in the energy and utilities sector.

21. The major regulatory change regarding financial services since Japan's last TPR is the revised Postal Service Privatization Act (passed by the Diet in April 2012). Under the revised Act, Japan Post Group will have to provide universal postal services and fair access all over Japan to savings and insurance services. Also, the sale by Japan Post Holdings of all of its shares in its two financial subsidiaries is to be conducted "as soon as possible", instead of "between 2007 and 2017" as stipulated prior to the revision. On insurance, the main recent changes relate to the relaxation of the regulation of insurance solicitation by banks.

22. In June 2011, Japan announced that the maritime antitrust exemption under the Maritime Transportation Act would be maintained, with its scope unchanged, and that Japan planned to review the maritime exemption in FY2015.

23. Japan's policy on international air transportation has moved significantly towards liberalization and open skies, through, *inter alia*, the relaxation of pricing clauses (towards free pricing) and capacity clauses (towards free determination) in its recently concluded bilateral arrangements, subject to qualification regarding reciprocity and congestion.
