
SUMMARY

1. During the review period, Japan's economic performance remained sluggish in light of, among others, persistently low inflation and an aging and declining population. The series of natural disasters that hit the country in recent years further hampered the economy and put increased pressure on public finances. The authorities have responded with extensive policy measures with a view to boosting business and consumer confidence and consolidating public finances. The Government's three-pillar strategy of monetary easing, fiscal stimulus, and structural reforms (in areas such as agriculture, energy, and healthcare) continues to be the main strategy framework for exiting deflation and revitalizing the country's economy.

2. In 2014, real GDP contracted by 0.03%, reflecting the backlash from the consumption tax rise in the same year. Private consumption fell as purchasing power deteriorated, and business investment declined. Under these circumstances, the authorities decided to abstain from a further consumption tax rise until October 2019. Domestic consumption slightly increased in 2015, leading to an annual GDP growth of 0.5%. However, several downside risks to the growth prospects remain as consumer prices struggle to pick up. Since Japan's previous review, the structure of its economy has remained largely unchanged, with services accounting for the largest share of GDP (72%).

3. The Bank of Japan is at the forefront of the country's efforts to boost private consumption, through quantitative and qualitative monetary easing with a negative interest rate. On the fiscal front, a number of economic plans have been adopted with a view, *inter alia*, to improving the country's public finances including its debt position, and boosting the competitiveness of the economy through large-scale investments. Structural reforms including those aimed at encouraging labour force participation and improving Japan's corporate governance framework are also under way.

4. Japan is the world's fourth-largest exporter and importer of goods and services. Both merchandise imports and exports declined between 2014 and 2015, reflecting, *inter alia*, a weak global demand and falling commodity prices; as the decline was substantially larger in imports than exports, Japan's merchandise trade deficit sharply contracted. Services exports and imports also declined during the same period; as in the case of merchandise trade, services trade deficit declined. Japan's current account surplus substantially increased in 2015, amounting to 3.3% of GDP (up from 0.8% in 2014).

5. In 2015, the stock of inward foreign direct investment (FDI) remained at around 4% of GDP, which continues to be smaller than in other major developed economies. Japan maintains a general policy of attracting FDI. In March 2015, five measures to attract foreign businesses, including enhancing the educational environment for foreign children, were announced.

6. Among Japan's 15 regional trade agreements (RTAs) currently in force, two RTAs, with Australia and Mongolia, entered into force during the review period, and were notified to the WTO, and the Trans-Pacific Partnership was signed. Japan is currently negotiating RTAs with: China and the Republic of Korea, Regional Comprehensive Economic Partnership (RCEP) partners, the European Union, Canada, Colombia, and Turkey. Since Japan's last trade policy review, Turkey is the only country with which Japan has newly entered into negotiations (in December 2014).

7. The institutional framework for general trade policymaking in Japan and its trade policy objectives have remained largely unchanged since its previous review in 2015. Japan has participated in all work of the WTO, negotiating RTAs, and pursuing domestic reforms to improve its competitiveness. Japan deposited its instrument of acceptance of the Trade Facilitation Agreement (TFA) on 1 June 2015. Since 1 January 2015, Japan has not been involved in any dispute settlement cases as a respondent; it has been involved in 6 cases as a complainant.

8. The overall orientation of Japan's trade policies has remained broadly unchanged since its previous review in 2015. Japan has several systems in place to expedite the release and clearance of goods, including an Authorized Economic Operator (AEO) programme; it has mutual recognition arrangements (MRAs) on AEO programmes with some of its trading partners.

9. Japan's overall simple average applied MFN tariff rate increased from 5.8% in FY2014 to 6.1% in FY2016 due to higher average *ad valorem* equivalents of non-*ad valorem* duties. Of the 101 highest tariffs, 95 had non *ad valorem* rates. The simple average applied rate is 16.3% (up from 14.9% in FY2014) for agriculture (WTO definition), and 3.6% for non-agricultural products (down from 3.7% in FY2014). Japan has bound 98.2% of its tariff (159 lines are unbound). The difference between the average bound MFN tariff (6.2%) and the average applied MFN tariff (6.1%) continues to be negligible in FY2016; this reflects a high degree of predictability in the tariff. However, the average bound rate remains considerably higher for agricultural products (16.7%) than for non-agricultural products (3.6%). Japan makes use of tariff quotas; there are 158 tariff lines (1.7%) subject to MFN out-of-quota tariffs, of which 11 are under state trading. The quota allocation method and process remains somewhat intricate; procedures for the allocation of tariff quotas have remained unchanged since 2014.

10. Japan makes relatively little use of trade contingency measures, although the number of anti-dumping measures implemented by Japan has increased (from 2 in 2014 to 6 in 2016). It applied neither countervailing nor safeguard measures during the review period. On 30 September 2016, Japan initiated an anti-dumping investigation on highly polymerized polyethylene terephthalate from China.

11. The Japan Bank for International Cooperation (JBIC) and the Nippon Export and Investment Insurance (NEXI) remain the official export credit agencies of Japan. Most of JBIC's lending activities are for overseas investment loans, which represents more than three quarters of the total operations in value. NEXI provides trade and investment insurance, including insurance products covering different aspects of trade risks as well as investment insurance for Japanese companies.

12. In 2015, Japan took steps to grant tax incentives to innovative basic research activities. Support measures included an increase in the deduction rate, and the expansion of the scope of research and development expenses that qualify under the incentive framework. Japan continues to maintain subsidies and other assistance programmes; a significant share of the programmes is dedicated to regional development efforts for areas recovering from the tsunami and nuclear disaster.

13. Japan's competition policy framework has remained broadly unchanged since its previous review. The main changes included an amendment of the Anti-Monopoly Act (AMA), which entered into force on 1 April 2015; it introduced a new appeal procedure putting a court in charge of reviewing administrative orders. Certain industries or business practices remain exempt from the scope of the AMA. For many years now, civil administrative processes have largely remained the main methods used for enforcement.

14. During the review period, Japan notified state trading entities engaging in tobacco, opium, rice, wheat and barley, and dairy products. According to the Government, its main reasons and purposes for maintaining these entities include sound development concerns, stable provision of staple foods, and medical and scientific concerns. In addition to the notified state trading entities, several companies are wholly and partially owned by public entities. Major commercial state-owned enterprises include those engaging in international airports, telecommunications, postal services, banking, tobacco, and railways, largely unchanged since the previous review.

15. The regulatory regime for SPS and TBT measures has remained largely unchanged during the period under review. As at 31 March 2016, there were 10,542 Japanese Industrial Standards (JIS), 5,759 of which correspond to international standards, and 97% of which have been harmonized with identical or modified international standards. As regards Japan Agricultural Standards (JAS), as at 31 March 2016, there were 201 JAS, 80 of which correspond to international standards and 78% of which have been harmonized with international standards. Japan currently imposes import prohibitions on beef and poultry from various countries to prevent the spread of certain animal diseases, including BSE and avian flu.

16. The main changes in the regulatory framework for Japan's government procurement during the review period included an amendment in May 2016 to the "operational procedures for government procurement". The amendment introduced a "multiple bidding system", where two or more companies can bid on a project if one company cannot supply the full amount of the order

alone. In March 2014, Japan accepted the revised Agreement on Government Procurement (GPA), which entered into force in the country on 6 April 2014. Since early 1990s, Japan has established various "voluntary measures" implying commitments going beyond GPA in terms of thresholds, entities and sectors covered and procedural obligations. The thresholds for voluntary measures are lower than the GPA in only two instances, due to the fact that the revised GPA has "caught up" with voluntary measures as compared to the GPA 1994. According to data provided by the authorities, foreign participation in Japan's government procurement remained around 3% in value in 2014 (the latest year for which data were available).

17. As regards Japan's intellectual property rights framework, the main changes during the review period included: the implementation of stand-alone legislation on geographical indications for foods, beverages, and agricultural and marine products; the strengthening of the protection of trade secrets; and various amendments to the Patent Act, the Trademarks Act, the Design Act, and the Act on International Applications under the Patent Cooperation Treaty (PCT).

18. Agriculture remains an important sector to the domestic economy in some parts of Japan despite the fact that its share of GDP remains small. The agriculture sector remains highly protected with some of the highest import tariffs in the sector and specific market support. Japan has 18 tariff quotas covering 186 tariff lines at the HS 9-digit level; the method of administering the quotas has remained unchanged since Japan's previous review. While the level of support and protection given to agriculture in Japan declined during the review period, it remains high compared to other OECD countries. Market price support is the main component and it, along with other transfers based on outputs and inputs, is considered as potentially one of the most production- and trade-distorting forms of support. Although the average applied MFN tariff on fish and fish products was 6.2% in FY2016 (same as in FY2014), import quotas continue to apply to several fish species.

19. Japan's total energy consumption declined during the period partly due to an increase in energy efficiency and a decline in the overall energy demand. Reform in the electricity sector continued; the institutional framework was reinforced and the producer licensing scheme was reformed and de-segmented so as to allow more competition during the period. For example, the residential/individual consumer segment was further liberalized for competition in 2016. Consumers can retain regulated tariffs until 2020, and full unbundling is stipulated by law for the same year.

20. The services sector, a key component in Japan's economy, is broadly open to competition, except in selected areas such as certain broadcasting and medical services. The main changes during the review period in the regulatory framework for financial services included several amendments to the Banking Act. These amendments have partially relaxed requirements in respect of agency services and intermediary services for foreign banks, and, on the other hand, introduced a series of new and stricter rules regarding licensing standards, information obligations, maintenance of assets in Japan, and supervisory powers in case of bankruptcy or reorganization proceedings, essentially for prudential reasons.

21. The regulatory framework of telecommunication sector in Japan has remained largely unchanged since its previous review. The sector has undergone a few changes concerning measures aimed at promoting mobile virtual operators (MVNOs), consumer protection, and SIM card unlocking.

22. In all segments of Japan's film industry, foreign firms are allowed to operate on a national treatment basis. The TV industry remains dominated by one public and five commercial terrestrial networks. TV and radio broadcasting licences are subject to a relatively complex system of foreign ownership limitations depending of the type of activity (production or transmission), the type of licence (basic or general), and the means of transmission (terrestrial, satellite, or cable). Nonetheless, video-on-demand (VOD)/over-the-top (OTT) TV, a very dynamic segment, is not considered as broadcasting and is fully open.

23. Access to the medical profession in Japan is regulated through qualification and language requirements; there are a few bilateral agreements allowing easier access conditions. Nurse and care-worker examinations are accessible to foreigners; this regime is covered in some RTAs. The establishment of foreign-owned clinics is subject to the same requirements as the opening of

Japanese-owned clinics (i.e. economic needs test and quality requirements). Currently, there is only one foreign-owned clinic operating in Japan. The retirement home market is economically very significant and dynamic in Japan due to an ageing population. To cope with demand, the sector has recently been opened to the private for-profit sector (including foreign investors) notably in the form of real investment trusts combined with management contracts.