

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1855  
23 October 1962

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CONTRACTING PARTIES  
Twentieth Session  
23 October-16 November 1962

## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH

### J A P A N

1. In accordance with its terms of reference, the Committee conducted the consultation with Japan under Article XII:4(b). The Committee had before it the following documents: (a) a basic document, BOP/11, together with the current "negative list" supplied by Japan;<sup>1</sup> and (b) documents provided by the International Monetary Fund, as mentioned in paragraph 3 below.
2. In conducting the consultation, the Committee followed the Plan for Consultations recommended by the CONTRACTING PARTIES (BISD, 7/S, pages 97-98). The consultation was completed on 2 October 1962. This report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Japan. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Japan. The statement made was as follows:

"At the time of the 1961 GATT consultation with Japan the Fund transmitted to the CONTRACTING PARTIES the Executive Board Decision of September 6, 1961 relating to the last consultation with Japan under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation. The Fund has also provided a supplementary paper, dated September 10, 1962, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund is shortly to conduct its 1962 consultation with Japan and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available.

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<sup>1</sup>See document BOP/21.

"Pending the conclusion of its next consultation with Japan, the Fund has no comments on alternative measures covered in Part II of the Plan for Consultations."

Opening statement by the representative of Japan

4. In his opening statement, the full text of which is annexed, the representative of Japan gave an outline of the state of the economy and of developments affecting the balance of payments and the level of reserves. He explained that, due primarily to heavy increases in imports of investment goods and raw materials but due also to a deterioration in the export situation, the balance-of-payments position had started to deteriorate at the beginning of 1961. For the year ending 31 March 1962, the deficit on current account had amounted to \$1,003 million and the overall deficit in the balance of payments to \$436 million. In order to cope with the sudden deterioration of the balance of payments his Government had carried out a series of measures for restraining internal demand. These measures included the postponement of certain public expenditures, the tightening of credit and the discouragement of investment projects. In addition, the Bank of Japan had borrowed a total of \$325 million from commercial banks in the United States. As a result of these measures, and due to an increase in exports, Japan's external position improved and the overall balance of payments and the current account began to show surpluses in May and July of 1962 respectively. Nevertheless, the present situation warranted no optimism that balance-of-payments equilibrium could be maintained.

5. Despite the unfavourable development of the balance of payments, his Government, in September 1961, had adopted a programme for the acceleration of trade liberalization. The representative of Japan was pleased to report that, as a result of the latest liberalization which became effective on 1 October 1962, the liberalization plan had achieved, within a narrow margin of 2 per cent, its original aim of increasing the liberalization of trade by nearly 50 per cent to 90 per cent (1959 basis), over a period of only thirty months. The system of import controls had been streamlined in April 1962 with the adoption of a "negative list".

6. The representative of Japan drew the attention of the Committee to the continuing discrimination affecting Japan's exports. This discrimination was wholly unjustified and, as recognized in the Report of the Working Party on Article XXXV Review and in the conclusions of the ministerial meeting, held last autumn in Geneva, it impeded the expansion of Japan's exports and thereby seriously affected Japan's balance-of-payments position and hampered further liberalization. It was his Government's hope that countries still applying discriminatory restrictions against Japanese trade would soon abolish them.

7. In concluding, the representative of Japan said that, although he could not now predict when the remaining import controls would be removed, it continued to be the policy of his Government to proceed as rapidly as possible with the elimination of restrictions.

Balance-of-payments position and prospects

8. The Committee thanked the representative of Japan for his concise and clear opening statement and expressed appreciation of the progress in import liberalization which had been made by Japan since the last consultation.

9. The Committee noted with satisfaction the considerable improvement in Japan's balance of payments and, following a relatively moderate increase in exports in 1961, a significant renewed expansion of exports during most of 1962. They asked whether this trend was likely to continue. The representative of Japan said that in the current fiscal year ending 31 March 1963, exports were expected to reach \$4,800 million. This compared with total exports in 1961 (calendar year) of \$4,150 million. While exports had shown a marked improvement, prospects for further expansion would depend above all on business conditions abroad and, in the view of his delegation, there was little reason for optimism.

10. The representative of Japan said that imports for the year ending 31 March 1963 were expected to reach \$4,660 million. The rate of importing was expected to increase as the year progressed. There would be a surplus on trade account of \$140 million. The overall current account was, however, expected to show a deficit of \$80 million. A surplus of \$250 million was expected on capital account and, allowing for "errors and omissions" of \$78 million, the overall balance of payments was expected to show a surplus of \$92 million. If account were taken of a repayment of \$141 million on the short-term loans contracted in the United States, there would be a deficit of \$49 million.

11. In reply to a question concerning the large increase in net payments on transportation and insurance from \$284 million in 1960 to \$500 million in 1961 the representative of Japan explained that this increase was due to a very large increase in imports in 1961. The value of imports in 1961 had been approximately 28 per cent higher than in 1960. The representative of Japan also explained that the increase in net payments under the heading "long-term assets" was mainly due to a large increase in deferred payments granted by Japanese exporters.

Alternative measures to restore equilibrium

12. The Committee congratulated the representative of Japan on the effective manner in which measures had been applied to control boom conditions in the economy while at the same time maintaining economic growth.

13. Members of the Committee noted that the budget for the 1962-63 fiscal year provided for tax reductions and that the treasury cash transactions were expected to show a deficit as compared with a sizeable surplus in the 1961-62 fiscal year. They enquired what effect these developments were expected to have on prospects for an early restoration of equilibrium in the balance of payments. The representative of Japan said that the current budget was aimed at restoring equilibrium in the balance of payments and at the same time, strengthening the foundation of the economy for long-term balanced growth. He said that the tax reduction continued a series of tax reforms, designed to remove inequity in the system of taxation. The tax reduction would have little stimulating effect on internal demand. In the light of past experience tax revenue would increase along with the growth of the economy and, in fact, the treasury cash transactions for the 1962/63 fiscal year might well be in surplus although the budget indicated a deficit.

14. A member of the Committee enquired about the reasons for the divergent development of wholesale and consumer prices during the period under review. He noted that whereas wholesale prices had shown a steady decline since last autumn, consumer prices had continued to increase. The representative of Japan explained that this phenomenon was primarily a reflection of increased marketing costs and the upward adjustment of wages paid by smaller firms, in particular, in the servicing and retail trades. The Government was aware of this situation, and various measures for reducing the costs of marketing and facilitating labour mobility and, in general, stabilizing prices were under consideration. Measures to raise productivity in all sectors of the economy were basic to a solution of these problems.

15. Some members of the Committee, while welcoming the progress made in the removal of quantitative restrictions since the last consultation, noted with concern that the Japanese authorities had increased duties on certain liberalized items. This practice might have the effect of offsetting or nullifying the benefits which exporters were entitled to expect from the removal of the restrictions. The representative of Japan explained that for certain products it had been necessary to introduce tariff quotas or to apply temporary duty rates in order to reduce the disruptive effect which import liberalization was expected to have on domestic production. He pointed out that the higher temporary rates and the tariff quotas affected only a limited number of products and that the increased duties would only apply temporarily, generally not longer than two and a half years. The overall level of Japan's tariff had not been affected by the adoption of a new Customs Tariff Law. In reply to a question raised in this connexion, the representative of Japan stated that, as far as he was aware, no duty increases were envisaged for imports of kraft paper, wood pulp and raw materials for corrugated cardboard, all of which had recently been liberalized.

System and methods of the restrictions

16. The Committee expressed appreciation that, in keeping with the Committee's recommendation during the last consultation, it had been possible for the Japanese authorities to change over to a "negative list" for the administration of their restrictions. Members of the Committee asked whether the negative list included all items subject to restrictions, including the goods under State trading. The representative of Japan said that this was so.

17. Commenting on the fact that the target of 90 per cent import liberalization had been based on the 1959 level of imports and referring to the increase in imports since that time, members of the Committee enquired about the proportion of imports presently falling under the Fund Allocation System, i.e. subject to restrictions. The representative of Japan explained that the proportion of imports falling under the Fund Allocation System amounted to 26.1 per cent under the original Foreign Exchange Budget for the second half of 1962/63, as compared to 35.8 per cent in the budget for the first half of 1962/63. The percentage figures for imports under the Automatic Approval System and Automatic Fund Allocation System in the current and the preceding (figures in brackets) Foreign Exchange Budget were 61.0 (56.6) and 12.9 (7.6) respectively. He also explained that imports under State trading had not been included in calculating the target of 90 per cent import liberalization. On the other hand, the percentage of 26.1 per cent for restricted imports appearing in the current Foreign Exchange Budget included such imports.

18. In reply to questions about developments which had prevented the target of 90 per cent import liberalization (1959 basis) from being reached, the representative of Japan explained that the major reason for falling short of this target by approximately 2 per cent was that it had not been possible to liberalize imports of fuel oils (crude and heavy fuel oils only). The decision to retain restrictions on fuel oils, though dictated primarily by balance-of-payments considerations, had taken account of certain social and political factors. The liberalization of imports of fuel oils would have had an adverse impact on the coal industry, which was in a very difficult position and had in recent years experienced serious labour unrest. He pointed out that, in implementing the import liberalization programme, the Government was facing great difficulties in convincing industries of the need for proceeding with import liberalization, as long as Japanese products continued to be subject to discrimination and restrictions in foreign markets.

19. Members of the Committee recalled that in respect of three items still subject to restrictions, copper, lead and zinc, the Japanese delegation had informed the Committee at the last consultation of a plan which provided tentatively for the liberalization of these goods by September 1962. The Committee enquired about special difficulties which might have prevented the Japanese authorities from putting this plan into operation. The representative

of Japan explained that, notwithstanding the efforts of his Government to liberalize these imports, and despite measures taken, or in progress, for the modernization of these industries, it had not been possible so far to liberalize these goods for reasons similar to those referred to in connexion with the import policy for fuel oils. An Advisory Council had been established to study the problems and would eventually make recommendations to the Government. The liberalization of copper, lead and zinc, would, however, not be postponed. Some members of the Committee expressed regret that the Japanese authorities could not ensure the early removal of import restrictions on these three metals. Similar views were expressed by some members of the Committee in respect of sulphur. These members of the Committee were likewise concerned to note that there was some uncertainty as to whether the Japanese authorities could ensure that these industrial materials could be liberalized if Japan's balance-of-payments difficulties were remedied in the near future.

20. When questioned further on reasons for not liberalizing natural honey and tomato juice on 1 October 1962, as planned, and rape and mustard seed, the representative of Japan explained that proceeds from the sale of honey, rape and mustard seed formed an essential part of farm incomes, particularly for the small farmers, and that tomato juice was presently the subject of negotiations under Article XXVIII.

21. The Committee asked whether the Japanese delegation could give any indication of the Japanese Government's intentions for further relaxations of its import licensing restrictions. The representative of Japan said that it was difficult to provide information on future arrangements. The Japanese Government wished to continuously accelerate liberalization but it was necessary to modernize and rationalize Japanese industry to prepare for this. In the meantime his Government wished to gradually liberalize the items concerned.

22. Members of the Committee expressed disappointment that despite the considerable improvement in the country's foreign reserves, the increases in prior deposit rates put into effect since September 1961, designed as a temporary measure to curb import demand, had not been rescinded. They pointed out that the prior deposits, by increasing the cost to the importer, discouraged trade. It was noted in this context that raw coffee and cocoa beans were subject to a prior deposit of 35 per cent. They urged that the Japanese authorities should soon reduce or eliminate prior deposits, which, like the tariff measures referred to earlier, might have the effect of offsetting the benefits of liberalization. The representative of Japan said that the measure would be repealed as soon as the balance-of-payments position permitted. He confirmed that the prior deposit requirement applied to all private imports. He explained that whether a given product would be liberalized was not a consideration in determining the level of prior deposits.

23. In reply to questions concerning the effects of Japan's veterinary regulations on trade, the representative of Japan explained that imports of certain types of meat from South East Asia, Africa and Latin America had been prohibited since 1951 under the relevant health and veterinary regulations.

24. Replying to questions on his Government's import control system, the representative of Japan said that licences for imports under the Automatic Approval System or the Automatic Fund Allocation System were issued without limitation as to value or quantity. The fact that the Foreign Exchange Budget specified the amounts allocated for imports under the Automatic Approval System and the Automatic Fund Allocation System did not involve any limitation on licence approvals. Once the amount originally provided for in the Foreign Exchange Budget had been exhausted it was supplemented. The representative of Japan further stated that the drawing-up of the Foreign Exchange Budget was mandatory under existing law. In reply to a related question the representative of Japan said that there was no case where a product under the Automatic Fund Allocation System had been transferred back to the Fund Allocation System.

25. One member of the Committee asked about the licensing treatment applicable to imports of sugar. The representative of Japan said that bilateral quotas for sugar had been eliminated, and that all sugar imports were now under global quota.

26. In reply to questions asked regarding bilateral trade agreements, the representative of Japan assured the Committee that such agreements were not discriminatory and did not provide special quotas for bilateral partners. Trade figures contained in the agreements were "targets" only. He assured the Committee that all import licences were issued on a global basis.

27. Members of the Committee noted that although quotas for broad categories of imports were published in the Foreign Exchange Budget, detailed announcements of quotas for individual items were generally not available. They expressed the hope that such information would be published in future. The representative of Japan said that information on import opportunities was always made available to the public. Although quotas for major items of imports were established and published in the Foreign Exchange Budget, individual quotas were not established for the many smaller items falling under the "miscellaneous" category, because it would be difficult to estimate trade requirements and any quotas established would very likely be subject to constant revision.

#### Effects of the restrictions

28. Members of the Committee pointed out that the prolonged maintenance of restrictions would tend to make it more difficult for domestic industries to face foreign competition and would deny Japanese industry the advantage of purchasing industrial raw materials from the most competitive sources.

General

29. The Committee thanked the representatives of Japan for the frank and helpful manner in which they had replied to the many questions put to them. The Committee welcomed the adoption of a negative list for administering import controls, and the considerable progress which had been made in the past year in relaxing import restrictions. They welcomed the measures taken by the authorities of Japan for curbing excess demand and for restoring equilibrium in the balance of payments. The Committee felt that the continued effective use of these measures, together with the renewed expansion of exports, and the generally favourable development of the balance of payments, would permit further rapid progress in import liberalization. They urged that the Japanese authorities should soon take steps designed to achieve the target of 90 per cent import liberalization (1959 basis) and to make further rapid progress in the elimination of the remaining restrictions. They also urged the Japanese authorities to reduce and eventually eliminate the advance deposit requirement and to avoid the adoption of measures which might have the effect of offsetting the benefits to be expected from liberalization. The Committee stressed the importance of import controls being administered in a way which would minimize their incidental protective effect.

30. The representative of Japan thanked the Committee for the spirit of co-operation and understanding of the problems facing their country, shown throughout the consultation, and assured the Committee that his delegation would not fail to bring the views of the members of the Committee and their recommendations to the attention of his Government.

ANNEX

Opening Statement by the Representative of Japan.

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1. Japan's economy, which during the 1959-60 period continued its swift and steady growth, sustained by equipment investment on the part of industries, has been confronted with a sharp deterioration of the balance-of-payments position at the beginning of last year. The current account stood in the red as early as in January 1961, as did the overall balance of payments in May. The deficit rapidly piled up from month to month so that they totalled \$1,003 million on current account and \$436 million in the overall balance of payments for the fiscal year of 1961-62.

This drain on the foreign reserves is chiefly attributable to the following three factors: firstly, the heavy increase of 49 per cent over the previous year in imports of machinery, necessary for the rationalization and modernization of equipment of industries in preparation for the impending trade liberalization; secondly, the increase in imports of raw materials such as iron ore, scrap-iron and mineral fuels, to meet the brisk domestic demand; and thirdly, the slump in exports, particularly exports to the United States.

In order to cope with the sudden deterioration of the payments situation, the Japanese Government has carried out a series of measures for restraining internal demand since the middle of 1961. In September 1961 a programme for improving the balance-of-payments position was implemented, which included postponement of certain fiscal expenditures, tightening of credit and discouragement of investment projects. At the end of the same month, the official discount rate was raised on top of the raise in July, and reserve requirements were increased.

Meanwhile, with a view to tiding over immediate difficulties, the Bank of Japan concluded a short-term loan agreement in November 1961, and another one in January 1962, with commercial banks in the United States for a total sum of \$325 million.

Thanks to the subsidence of imports under the restraining measures, to the improvement in exports, in particular exports to the United States, and to the United States bank loans I have just mentioned, our external position so improved that the overall balance of payments and the current account began to show a surplus last May and last July respectively. The present situation, however, warrants no optimism as to the realization of a stabilized equilibrium.

2. As was indicated by our representative at the previous consultation, the Japanese Government, in September 1961, when the decline in the balance of payments was in progress, decided upon a plan designed to advance by more than six months the implementation of the June 1960 trade liberalization programme. The plan aimed at achieving 90 per cent liberalization on the 1959 basis by the end of September 1962, along with the improvement in the balance-of-payments position. The proposed liberalization required extraordinary efforts on the part of the Japanese Government as well as industries concerned, for the plan called for increasing the liberalization percentage from 40 per cent in March 1960, to 90 per cent over the period of only two and a half years in spite of the relatively difficult position of Japan, geographically and economically, as compared with West European countries.

The percentage of liberalization increased from 65 per cent in July 1961 to 68 per cent in October, 70 per cent in December and 73 per cent in April 1962. With the advance of liberalization, the number of restricted items decreased so much that in April 1962 a "negative list" was established, so that the simplification of the import control system, as was suggested by the Committee during the last consultation, has also made notable headway.

3. As you are well aware, Japan's economy is beset with many difficult problems: namely, shortage of natural resources, insufficiency of capital accumulation, differences in income levels between large enterprises and small and medium-sized enterprises, and between the industrial sector and the agricultural sector, over-population, and a relatively low level of per capita income compared with countries in West Europe and North America.

The efforts of the Japanese Government to solve these problems by shifting the structure of industry, towards more emphasis on heavy and chemical industries had begun to bear fruit in the country's economic growth during 1959-60. However, the balance-of-payments crisis early in 1961 made it necessary for the Government to curb temporarily the high rate of economic growth. But the raising of the level of per capita income and the improving of the industrial structure are to be achieved gradually along with the growth of the national economy. The Japanese Government, therefore, intends to continue to pursue its policy for economic growth, taking into careful consideration not only the maintenance of equilibrium in the balance of payments but also the above-mentioned weaknesses inherent in Japan's economic structure.

4. I wish at this juncture to invite the attention of the members of the Committee to a matter on which the Japanese representative spoke time and time again at previous consultations. I refer to the harsh measures of import discrimination imposed by various countries upon Japanese products. The discrimination is in our opinion wholly unjustified, but it still remains, despite Japan's strenuous efforts for its elimination. As clearly stated in the report of the Working Party for the Review of the Application of Article 35 against Japan and in the conclusion of the ministerial meeting held

last fall, such discrimination impedes the expansion of Japan's exports, seriously affects Japan's balance-of-payments position, and hampers the implementation of Japan's liberalization programme. Furthermore, such discrimination will not serve the basic cause of the GATT, namely, multi-lateral expansion of world trade, for by its very nature it is liable to lead to counteraction.

Japan has striven for effecting trade liberalization within a relatively short period and succeeded in realizing about 90 per cent liberalization on 1 October of this year. I earnestly hope all the countries now applying discriminatory import restrictions against Japanese products will take into full consideration Japan's efforts in this regard, and will abolish all such measures for the sake of equity.

5. Now only approximately 10 per cent of imports (1959 basis) still remain under import control. I regret that I am not in a position to make any prediction as to when the remaining controls will be removed, because the prospects of our international payments situation are still uncertain and because our national economy has not a few weak spots as mentioned above. I can assure you, however, that Japan's basic policy is to continue to strive for the early liberalization of imports in accordance with the principles of the General Agreement.