
SUMMARY

1. Since December 2012, Japan has been implementing an ambitious reform programme to overcome deflation and revitalize its economy after more than a decade of sluggish performance. The programme consists of a "three arrows strategy": monetary easing (2% inflation target to be achieved at the earliest possible time mainly through the expansion of the monetary base); fiscal stimulus (about US\$100 billion in January 2013 and an extra US\$53 billion in December 2013 in an attempt to boost growth); and structural reforms in areas such as agriculture, energy and healthcare which will take longer to be implemented, not least because the reforms require legislative and administrative changes that take time to prepare.

2. The expansionary monetary and fiscal policy measures adopted since the last review have supported Japan's economy but have been insufficient to achieve strong economic growth. Indeed, Japan's real GDP growth is estimated at 0.9% for 2014 (down from 1.5% both in 2012 and 2013). The authorities recognize that far-reaching structural reforms are necessary to address long-standing structural problems and achieve sustainable growth in the future. While some steps have been taken in this regard, more is needed including further trade and investment liberalization measures so as to encourage private investment, increase productivity, and enhance competitiveness.

3. Since 2011, Japan has had a persistent trade deficit, the longest since comparable records began. In 2013, Japan had its biggest annual trade deficit (US\$118 billion), although exports increased in U.S. dollar terms while imports grew to their highest-ever level. Increased imports of fossil fuels were a major factor in the rise in imports as they replaced energy from nuclear power following the accident at the Fukushima nuclear plant in 2011 and the subsequent shut-down of other nuclear power plants.

4. Japan's FDI inflows continue to be lower than in other major developed economies and the Japan Revitalization Strategy sets a target of doubling FDI by 2020. To achieve this, Japan is to expand the use of public-private partnerships, while private finance initiatives in infrastructure projects are envisaged over the next ten years. Japan is the second-largest outward direct investor in the world, particularly in certain ASEAN countries where subsidiaries of Japanese companies often play a leading role in sectors such as autos and electronics.

5. Japan's current network of 13 regional trade agreements (RTAs) in force is the same as at the time of its previous review. Under these agreements, Japan has excluded some sensitive agricultural and related products, notably certain tariff lines for meat and meat products, fish and fish products, dairy products, rice, products of the milling industry, plywood, leather and products thereof, and footwear. Some of these products are also excluded from Japan's Generalized System of Preferences (GSP) scheme.

6. During the review period, an RTA with Australia was signed, and another was reached in principle with Mongolia. In addition, Japan is in negotiations with: Canada; Colombia; China; the European Union; the Gulf Cooperation Council (GCC); the Republic of Korea; and Turkey. Moreover, Japan is part of the Trans-Pacific Partnership (TPP) negotiations and the Comprehensive Regional Economic Partnership Agreement. Japan aims to increase its trade under RTAs from around 19% in 2013 to 70% by 2018.

7. In general, Japan's trade policies during the review period have remained relatively stable while it has been actively negotiating RTAs, pursuing domestic reforms to improve its competitiveness, and participating in work in the WTO.

8. Japan's overall simple average applied MFN tariff rate declined from 6.3% in FY2012 to 5.8% in FY2014 due to higher unit prices for many agricultural products which reduced the *ad valorem* equivalents (AVEs). Thus, the simple average for agriculture (WTO definition) is 14.9% (down from 17.5% in FY2012), and 3.7% for non-agricultural products (the same as in FY2012).

9. Japan has bound 98.3% of its tariff (159 lines are unbound). The difference between the average bound MFN tariff (5.9%) and the average applied MFN tariff (5.8%) in FY2014 was negligible, which reflects a high degree of predictability in the tariff. However, the average bound

rate remains considerably higher for agricultural products (15.2%) than for non-agricultural products (3.7%).

10. Japan makes relatively little use of contingency trade remedies. It applied neither countervailing or safeguard measures during the review period and has only one anti-dumping duty in force on electrolytic manganese dioxide originating from China, South Africa, and Spain. The period of imposition was extended by five years and will expire on 5 March 2019. In 2014, Japan initiated an anti-dumping investigation on toluenediisocyanate from China.

11. For a variety of reasons, Japan's SPS and TBT requirements are often more strict than international standards and the cost of meeting its quality and safety standards can be high. As at 31 March 2014, there were 10,525 Japanese Industrial Standards (JIS), 5,823 of which correspond with international standards, and 97% of JIS had been harmonized with identical or modified international standards. Japan currently imposes import prohibitions on beef and poultry from various countries to prevent the spread of some animal diseases, including BSE and avian flu.

12. Japan made some changes to its government procurement framework, basically to preclude from participation in open tendering parties who, *inter alia*, intentionally execute construction works or services with poor workmanship, or overcharge by false reporting contracts. Japan also recently lowered some of its thresholds for goods and services under the GPA.

13. The Anti-Monopoly Act was amended in December 2013, *inter alia*, to abolish the hearing procedure of the Japan Fair Trade Commission (JFTC) for administrative appeals. Once the Act comes into force, any appeal regarding decisions of the JFTC will be subject to the exclusive jurisdiction of the Tokyo District Court with a view to ensuring expertise and enhancing procedural fairness.

14. The main developments regarding Japan's Intellectual Property Rights (IPR) framework were the strengthening of copyright protection in the digital environment, introducing trademark protection for non-traditional marks, improving the efficiency of the patent system, and an important judicial decision on the protection of standard essential patents. Japan remains an active participant in multilateral fora regarding harmonization of regimes protecting IPRs.

15. Despite changes in agricultural programmes over the past few years, support and protection given to agriculture in Japan remains high compared to other countries and is provided by a comprehensive set of policies. While the government has continued to move toward income support, market price support is the main component and it, along with other transfers based on output and inputs, is potentially one of the most production and trade-distorting forms of support.

16. As one of the biggest consumers of fish and seafood in the world, Japan provides a range of support measures to fisheries. The budget support to the sector increased after the extensive damage caused by the 2011 tsunami with the aim of completing the recovery of fishing port facilities by end-FY2015. Although the average applied MFN tariff on fish and fish products was 6.2% in FY2014 (same as in FY2012), import quotas apply to several species of fish.

17. The shutdown of nuclear power plants following the accident in Fukushima in 2011 has provoked a major reconstruction programme. Although the electricity sector has been gradually reformed over the past twenty years, the regional utilities are still the main producers, transmitters, distributors, and retailers, while interchange between some of the regions remains limited. Recent amendments to the Electricity Business Act aim to secure a stable supply of electricity, suppressing electricity rates to the maximum extent possible, and expanding consumer choice and business opportunities.

18. In the financial services sector, the Financial Services Agency (FSA) of Japan has amended rules on large exposures in line with international standards, with effect from December 2014. Through supervisory guidelines and related measures, the FSA revised the minimum capital requirements for internationally active banks and intends to introduce other capital buffers and liquidity measures in accordance with Basel III. On telecommunications and transport sectors, Japan's legislation and policies have remained largely unchanged.

19. Overall, despite a long period of relatively weak economic performance and some severe shocks to the economy over the past few years, Japan remains an open transparent economy – although support and protection in some areas, particularly agriculture, remain high. Japan has many unique characteristics, some of which have helped it become the third richest country in the world, but others add to the cost of importing, exporting, investing, and doing business. Addressing many of these impediments to growth is the target of the third arrow of the current reform programme and necessary if growth is to accelerate to a higher and sustainable level.