
SUMMARY

1. Since the previous Trade Policy Review in 2017, the Government continued to support growth by easing financial conditions, reducing the fiscal deficit, and raising employment and female labour force participation, thus ensuring Japan's longest economic expansion of the post-war era. Annual GDP growth peaked at 1.9% in 2017, and its annual average rate stood at 1.1% (2016-18), a minor slowdown compared to previous performance (averaging 1.2% over 2013-15). Monetary and fiscal stimulus measures are being used to spur economic recovery. Japan has maintained its position as the world's third largest and fifth most competitive economy (2018). According to latest available data, income inequality and a poverty gap remained virtually unchanged. Inflation dropped considerably below the Bank of Japan's target before picking up (1% in 2018), whereas the relatively low unemployment rate continued to decline (2.4% in 2018).

2. During the review period, trade-related structural reforms (e.g. in the areas of taxation, competition policy, corporate governance, and labour market policies) were undertaken. Both multi factor and labour productivity registered positive growth, and targets were set for the latter; SMEs' productivity in manufacturing remains relatively low compared to large firms. Monetary policy, involving, among others, Quantitative and Qualitative Monetary Easing (QQE) with negative interest rate, continued to provide a monetary stimulus to growth and help building a stable financial environment.

3. Japan maintains a free-floating exchange rate regime; no foreign exchange intervention took place during the review period. Heightened global uncertainty contributed to a slight appreciation in the JPY/USD exchange rate. The current account registered a larger overall surplus, that peaked at 4.1% of GDP in 2017, *inter alia*, due to a rising primary income surplus deriving mainly from investment income, and shrank in 2018 to 3.5% of GDP, reflecting smaller goods trade and income balances; this ratio was estimated to remain virtually unchanged in 2019. Foreign exchange reserves (excluding gold) increased steadily. Gross external debt also rose steadily over the review period (81% of GDP in 2018). The fiscal deficit, often financed through supplementary budgets to the annual budget, declined slightly (3.2% of GDP in 2017 and 2018) but the gross financial liabilities of general government rose (224.2% of GDP in 2018). The authorities envisaged taking temporary and special offsetting/mitigating fiscal measures in the initial budgets for FY 2019 and FY 2020 to address concerns related to the increase in the consumption tax rate from 8% to 10% on 1 October 2019.

4. The relative importance of international trade in Japan's economy, its degree of openness, and its integration into the world economy and global value chains continued to be reflected by the ratio of its trade (exports plus imports) in goods and services to GDP; despite a drop from its 2014 peak to a 2016 trough, this ratio increased to 36.7% in 2018. Notwithstanding some minor fluctuations in trade shares, Japan's main trading partners remain China, the United States and the European Union, whereas its main inbound/outbound foreign direct investment (FDI) partners were virtually the same, i.e. the United States, the British Cayman Islands, the European Union and the Republic of Korea. The FDI inbound stock continued to rise steadily and was largely held by European Union investors. Government initiatives to attract FDI have been focused on providing matching and advisory services. Over the review period, the main law governing FDI, the Foreign Exchange and Foreign Trade Act, was amended for reasons of security protection, by: expanding the scope of prior checking of unlisted stock transfers between foreign investors; and introducing a provision that unregistered foreign investors may be subject to executive orders, including orders to sell their holding stocks. Prior notification and approval requirements are in place for investments where there could be significant adverse effects on the smooth management of the national economy or on the grounds of public order, public safety or national security. FDI restrictions remain in place in the telecommunications, broadcasting and radio sectors.

5. Japan aims to develop "free, fair and high-level trade rules" domestically, with key trading partners and in international fora (including the WTO), as well as to make progress in reinforcing economic ties and cooperation with emerging economies. Its 2018 White Paper on International Economy and Trade includes promoting exports and the use of Economic Partnership Agreements (EPAs). Trade-related policy objectives are also contained in various other strategies also being implemented, including: the evolving Abenomics programme; the 2016 Japan Revitalization Strategy; the Future Investment Strategy; the New Economic Policy Package; and the 2019 Growth Strategy. Over the review period, Japan was involved in three new dispute settlement cases as complainant, and reserved its third-party rights in 34 cases. Japan maintained a strong record of

notifications to the WTO, although up-to-date notifications on domestic support in agriculture and government procurement are outstanding. Since 2017, new regional trade agreements that have entered into force for Japan are: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Japan EPA. Japan also signed the First Protocol to Amend the Agreement on ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which includes chapters on trade in services and on investment, as well as a trade agreement with the United States. Changes were made to the framework for graduation from Japan's GSP scheme, with a view to granting preferences to the economies that need them most. Key initiatives to improve the business environment include: introducing labour force reforms; improving corporate governance; and lowering corporate tax. Regulatory reform pilot schemes continue to be undertaken through the National Strategic Special Zone initiative.

6. The general thrust of Japan's trade policy remained relatively unchanged during the period under review. The tariff remains one of the main trade policy instruments and a minor source of tax revenue (1.65% of total tax revenue in FY2019). The structure of the MFN applied tariff remains complex, with a total of 272 tariff rates (same as in FY2016); there are 136 different *ad valorem* rates, 75 different specific rates, 29 different alternate rates and 24 different compound rates, as well as 8 different other types of duty. In FY2019, Japan's overall simple average applied MFN tariff rate rose slightly to 6.3% (up from 6.1% in FY2016), mainly due to higher AVEs and, to a much lesser extent, to a HS nomenclature change. The simple average tariff rate for agricultural products (WTO definition) is 17.9% compared with 3.5% for non-agricultural products. Duty-free lines represent 40.5% of all lines. 7.1% of Japan's tariff lines are non-*ad valorem*, and all the highest tariffs have non-*ad valorem* rates. Japan bound 98.1% of tariff lines, and the overall gap between the simple averages of MFN applied and bound rates remains minimal, at 0.05 percentage points, thus conferring a high level of predictability. Under Japan's RTAs, preferential tariffs have significantly increased market access for these trading partners by around doubling the number of duty-free tariff lines.

7. Since 2017, there have only been minor changes to Japan's customs procedures. These include the introduction of: tougher penalties for failure to obtain the required import/export permissions; a new principle on cargo reporting; and flexibility to authorized economic operators to lodge their import/export declarations at any customs office, not just the one where their imports/exports are stored.

8. During the review period, changes to Japan's import licensing regime related to the removal of import restrictions on whales and their preparations, due to Japan's withdrawal from the International Whaling Commission, and the lifting of restrictions in line with the removal of United Nations sanctions. Import quotas continue to be applied to various marine products, with the aim of conserving exhaustible natural resources and enforcing government measures to restrict quantities of the like domestic products; quota fill rates in 2017 ranged from 2.7% to 98.4%.

9. Amendments to the legislation on anti-dumping and countervailing measures aimed to ease the conditions for applicants requesting the imposition of these measures. Japan maintains seven anti-dumping measures, relating to four products and applying to two trading partners. Definitive duties were imposed for the first time during the review period on polyethylene terephthalate from China and carbon steel butt-welding fittings from China and the Republic of Korea; they were removed on electrolytic manganese dioxide from South Africa and Spain. Japan did not apply any safeguard or countervailing measures during the review period, nor did it initiate any investigations in these areas.

10. Over the review period, there were various changes to Japan's export control regime with respect to goods and destinations. Japan does not levy any export taxes, nor does it maintain any export quotas or operate export subsidy programmes. The Nippon Export and Investment Insurance, one of Japan's official export credit agencies, was transformed from an incorporated administrative agency to a wholly government owned special stock company, in order to, *inter alia*, better reflect in its business practices the Government's priority areas.

11. Domestic support to production and trade remains in place. It is available to foreign and domestic companies through tax incentives, grants and loan schemes. New programmes launched over the review period were aimed at: promoting business investment by local SMEs, assisting the business succession of SMEs, and spurring wage hikes and productivity. Activity-specific support was provided by central or local governments.

12. During the review period, various amendments were made to standards legislation, *inter alia*, to expand the scope of Japanese Industrial Standards to encompass services, programmes and other electronic records and business management systems, as well as to allow standards to be drafted by accredited private-sector associations. The scope of Japanese Agricultural Standards was enlarged to include production processes, handling methods (related to services) and testing methods. Amendments to food labelling standards, *inter alia*, require the place of origin of the product's heaviest ingredient to be labelled, and introduce stricter requirements for the use of "non-GM" labels.

13. Concerning SPS, the Food Sanitation Act was amended in order to reflect changing dietary patterns and the environment surrounding food in Japan, as well as to increase hygiene controls; with respect to imports, control processes applied to the competent authorities in the country of export have been strengthened. The Agricultural Chemicals Control Act was also amended, with a view to improving pesticide safety and contribute to more efficient agriculture. Japan sets some standards on food additives and maximum residue limits (MRLs) that are different from Codex standards and MRLs; these are apparently based on scientific evidence. Over the review period, Japan expanded the scope of animal quarantine for raw milk to also include milk products.

14. State participation in certain activities persists. State trading entities engaging in leaf tobacco, opium, rice, wheat, barley, and milk products remained in place. Major commercial state-owned enterprises include those engaging in energy, financial services, telecommunications and some transport-related activities. Market monopolies are retained in the domestic manufacturing of tobacco and in the importation of leaf tobacco. During the review period, the basic rules on government procurement remained virtually unchanged. Japan, a WTO Government Procurement Agreement signatory, promotes Green procurement and the participation of SMEs in the market. Despite no origin-based restrictions, foreign companies continue to retain a low share in the public procurement market.

15. Since the last Review, the legal framework governing competition policy was updated to, *inter alia*, introduce procedural undertakings under the CPTPP. The number of cease-and-desist orders, as well as the surcharge payment amounts, dropped. Price surveys remain in place on certain pharmaceutical products based on a drug price standard. Action was taken to improve corporate governance by amending the main regulatory framework in this area.

16. Intellectual property (IP) remains of vital importance to the economy, and revenue from IP rights grew exponentially in recent years. A new IP Strategy Vision was released in 2018 to offer a medium- to long-term perspective on the evolution of society and the IP system. Recent amendments to legislation were linked to this Strategy, and related to: patents, trademarks and geographical indications; expansions in the scope and length of protection for designs; new data protections; new copyright restrictions; and measures to facilitate IP right enforcement. An Integrated Innovation Strategy was adopted in 2018 and an Integrated Innovation Strategy Promotion Council was set up.

17. The agricultural sector accounts for a small share of GDP (1.2% in 2017) and employment (3.8% in the same year), and continues to be characterized by small farm holdings, most of which are run as side-businesses. While agricultural output and exports were on a growing trend over the review period, Japan continues to run a significant trade deficit in agricultural goods. Agricultural policy goals, *inter alia*, include making agriculture a growth industry, with greater private-sector participation, increasing exports, and reaching certain self-sufficiency targets. Support to the agricultural sector (0.84% of GDP in 2018) remains relatively high, and was estimated to be over double the OECD average. Tariffs vary considerably among agricultural products, with just below one quarter duty-free and a maximum tariff (AVE, out of quota) of 499.7%. Japan applies 18 tariff rate quotas, covering 101 tariff lines (HS six-digit level); fill rates ranged from 23.4% to 305.6%. Over the review period, Japan applied either volume- or price-based special safeguards several times to out-of-quota imports of a variety of products. Key developments over the review period were: the abolition of direct payments for rice and rice production volume targets (although direct payments to rice farmers remain in place for optimizing the use of paddy fields); the introduction of a new revenue insurance programme applicable to almost all farm products; a review of the Agricultural Mutual Aid system; the abolition of administered prices for beef and pig meat; increased support for domestic beef and pork producers; and the introduction of a modified support system for milk.

18. During the review period, the fisheries production, fishing fleet, number of fishermen and fish consumption all declined. Japan amended its Fisheries Act in 2018 to adopt the system of individual quotas, transferrable under certain conditions, within a Total Allowable Catch system, and to open the sector to private investors in addition to cooperatives by reforming the allocation of fishing rights. For FY2019, the average MFN tariff applied on fish and fish products was 6.1%, and rates ranged from zero to 15% (same in FY2016). Programmes to support fisheries totalled JPY 68.7 billion in FY2017. Various measures against illegal, unreported and unregulated fishing were taken. In December 2018, Japan withdrew from the International Convention for the Regulation of Whaling, with effect from June 2019, in order to resume commercial whaling.

19. The mining and quarrying sector continued to contribute a small share to GDP and employment (0.1% in 2017). Mineral resource exploitation is undertaken under concession agreements. Japan continues to import nearly 92% of its energy supplies and, as such, remains vulnerable to global commodity price movements. A 2018 Strategic Energy Plan is aimed, *inter alia*, at increasing the share of locally produced renewable energy (including nuclear) in the total energy mix, from 12% in 2017 to 24% in 2030, restoring nuclear capacity, meeting national objectives for the reduction of greenhouse gas emissions, developing electric and hydrogen vehicles, and promoting energetically autonomous housing, and raising energy efficiency. During the review period, Japan pursued the liberalization and reform of its electricity and gas sectors. For both sectors, entry to the retail market was completely liberalized, and the next phase, i.e. the unbundling of vertically integrated regional utility, is underway. Electricity retail prices remain regulated.

20. Manufacturing (20.8% of GDP in 2018) accounts for the majority of merchandise exports, and remains driven by the transport equipment, machinery (general purpose, production and business-oriented), food products, chemical, and basic metals activities. During the review period, certain manufacturing policy developments, including artificial intelligence, robotics and related plans interlinked with services activities, were undertaken. Since the previous review, the average MFN applied tariff for manufactured products dropped, and TRQs continued to apply on 62 manufactured items; peak rates (AVEs) affect footwear (219.4%) and silk (97.9%). A few more industrial items, were subject to anti-dumping duties. Domestic support continued under several non-industry-specific schemes, involving tax and non-tax incentives; activity-specific incentives were available, *inter alia*, to the bekko (tortoiseshell) and ivory crafts industries, the leather and leather goods industries, the manufacture of traditional craft products, R&D for care robot equipment, sochu manufacture, and fuel-cell vehicles and connected industries

21. The share of services in GDP and total employment stood at 69.5% and 72.7%, respectively, in 2017; in 2018, services represented 7.2% of total merchandise and services exports. During the review period, the financial services regime remained basically unchanged. The Financial Services Authority was reorganized to be less sanction-oriented and to encourage financial services stakeholders to develop and consolidate their position in the market. Basel IV principles and anti-money laundering measures were progressively implemented. Japan is in the process of developing a safe regulatory framework for e-payments and crypto currencies. High-speed trading of securities was further regulated.

22. During the period under review, changes to the telecommunications services regulatory framework involved the protection of consumers and their ability to change operators without excessive penalties and keep the same number. The prices of telecom services remain relatively high by international standards. Modern networks and equipment, such as LTE, 5G and IoT, are being actively deployed.

23. The regime governing the postal, courier and express regimes remained stable during the period. The Japan Post Holdings privatization process was relaunched in 2017, with the sale of 23.6% of government shares, and a further sale is scheduled. The universal service encompasses the totality of postal items and services. "General correspondence services" and "special correspondence services" were liberalized in 2002, but no licences were awarded to private operators for general correspondence services, and the 532 special correspondence services operators are all Japanese despite a non-discriminatory regime. Some foreign express carriers operate in Japan and receive national treatment except air cabotage rights.

24. The air transport regime remains basically unchanged, except for the concession process of airports which was accelerated. Japan signed several air services agreements, liberalizing additional frequencies and capacities, during the review period. Regarding maritime transport, the ports

concession process was also accelerated, and support for the Japanese merchant fleet was prolonged and extended. Japan imposes no restrictions on foreign carriers, except for access to the flag and cabotage. The port sector remains open to foreign investment.

25. During the review period, the regime of distribution services remained unchanged. There are no economic needs tests for large stores, and several major foreign distributors are present in the market. The share of e-commerce in the distribution of physical goods is progressing smoothly but at a faster pace in the Business to Business than in the Business to Consumers segment.

26. Network environmental services, such as distribution of water, sewage and waste disposal, remain open to the private sector, including foreign operators and investors, via various PPP formulas. However, no foreign operators are present in these segments. National treatment applies across the board to all environmental services.

27. The practice of legal services is not reserved for nationals but, with respect to the practice of Japanese law, a Japanese qualification is required. Foreign firms can establish and employ Japanese lawyers to practice Japanese law.