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**SUMMARY**

1. Japan's economy is characterized by high development, diversification, and income levels as well as by strong market orientation. During the period under review (January 2020 to October 2022), its macro-economic policies continued to be guided by a bold monetary policy based on quantitative and qualitative easing, a flexible fiscal policy, and structural reforms. Real GDP growth rates remained moderate in most years; in 2021, the growth rate stood at 1.7%.

2. Against the background of the COVID-19 pandemic, the Government adopted several large supplementary budgets in 2020 and 2021, leading to a jump in the overall fiscal deficit to 9.0% of GDP in 2020 and 7.6% of GDP in 2021. Japan has the highest ratio of public debt to GDP among developed countries, at some 263% of GDP. In addition to the pandemic, population ageing has a major impact on Japan's fiscal situation. Japan's population stood at 125.7 million in 2021. Its economy faces considerable challenges posed by an ageing and declining population; 28% of the population is older than 65 years, compared with an OECD average of 17%.

3. Inflation rates did not exceed 1% during the period under review and were negative in 2021. However, since then inflation rates picked up, following rising international energy prices and the depreciation of the yen, to reach 2.6% in July 2022. Interest rates remained at very low levels during the review period, reflecting ongoing accommodative financing conditions, and confidence in Japan's ability to meet its debt obligations, as it holds a significant stock of external assets. The Government acknowledges that rising global interest rates could put mounting pressure on the budget and deteriorate the credibility of Japan's fiscal management.

4. Japan maintains a free-floating exchange rate regime. The Bank of Japan may only intervene as an agent of the Ministry of Finance in the foreign exchange market. Japan's real effective exchange rate continuously appreciated between 2017 and 2020, but has been depreciating since 2021. As at 20 October 2022, the yen stood at nearly 150 to the US dollar, its weakest level since 1998. The principal reason for the yen's recent depreciation is the increasing divergence in monetary policies of Japan and the United States, along with the growing expectation that the spread in interest rates between the two countries is about to widen. In September 2022, the Bank of Japan intervened for the first time since 2011 with a view to reducing the speed of the depreciation.

5. With a view to addressing its demographic challenges, Japan has undertaken various reforms to increase labour supply, productivity, and wages over the recent years. These labour market reforms have successfully raised employment, more than offsetting ageing's impact on the size of the labour force. A pension system reform undertaken in 2021 expanded the coverage of the system by including more part-time workers. Other structural reforms aim at increasing Japan's productivity, notably by accelerating digitalization, expanding investment, and increasing R&D expenditure.

6. Japan's balance of payments featured a current account surplus during the period under review, although with a declining trend; expressed as a share of GDP, the surplus fell from 4.1% in 2017 to 2.9% in 2021. The strong surplus in Japan's primary income balance was a major contributor to this surplus. The surplus in merchandise trade narrowed during the review period, whereas the deficit in the services balance widened. Total reserves, excluding gold, stood at around USD 1.36 trillion in 2021.

7. Both merchandise exports and imports grew robustly in 2017 and 2018, but fell in 2019 and 2020, due to the pandemic, before strongly recovering in 2021 and exceeding pre-pandemic levels. The combined value of merchandise exports and imports exceeded the equivalent of 30% of GDP in 2021, for the first time since 2014. Japan's merchandise trade continues to be dominated by manufactures, which make up over 85% of exports and some 60% of imports. Agricultural goods make up between 11% and 12% of imports and less than 2% of exports. Mining products make up less than 5% of exports, but up to 30% of imports, largely due to the importance of oil imports. Japan's service exports and imports grew continuously between 2017 and 2019, but sharply fell in 2020 due to the global pandemic, before slightly recovering in 2021. The deficit in Japan's services trade widened, from 0.1% of GDP in 2017 to 0.8% of GDP in 2021.

8. China has retained its position as the largest destination for Japan's merchandise exports since 2018, with a share of nearly 22% of exports in 2021, followed in importance by the United States

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and the European Union. China supplies nearly one quarter of imported goods in most years, followed by the European Union and the United States, respectively.

9. Japan remains one of the major global sources of foreign investment. The stock of Japanese investment abroad grew considerably between 2017 and 2021, when it reached close to USD 2 trillion. Between 2017 and 2020, the inward stock of FDI grew from USD 257 billion to just under USD 389 billion but fell to USD 352 billion in 2021. The United States remains the most important source country for foreign investment in Japan, and the most important destination for Japanese investment abroad.

10. Japan's overall economic policy agenda is centred on sustainable and inclusive growth; under the current administration, a stronger emphasis is placed on income distribution. Japan's policy objectives also place great emphasis on national and economic security issues. The new Act for the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures, adopted in May 2022, provides a framework for ensuring a stable supply of key products and essential infrastructure services, enhancing development of advanced critical technologies, and preventing disclosure or divulgence of inventions that might be detrimental to national security through patent procedures.

11. In October 2020, Japan announced its plans to achieve net zero greenhouse gas emissions by 2050. Moreover, in April 2021, it announced the goal of reducing emissions by 2030 to 46% from its 2013 levels. To this end, a long-term strategy under the Paris Agreement was elaborated in 2019 and revised in 2021 to promote green innovations and finance, and an Environment Innovation Strategy in 2020, with action plans for each technology area. Also in 2020, a new Green Growth Strategy was published.

12. Japan grants at least MFN treatment to all WTO Members with exception to the Russian Federation and a few other countries and territories. MFN treatment to the Russian Federation was suspended on 21 April 2022 following the start of the war in Ukraine. Japan is a signatory to the 1979 Agreement on Trade in Civil Aircraft, and a party to the plurilateral Agreement on Government Procurement. It is also a signatory to the Information Technology Agreement (ITA), and participated in the ITA expansion negotiations. The authorities indicate that the WTO Agreement on Fisheries Subsidies is in the ratification process. Japan is a participant in the Joint Statement Initiatives on e-commerce, investment facilitation for development, the establishment of a WTO informal working group for MSMEs, and services domestic regulation. Japan also supported the Buenos Aires Joint Declaration on Trade and Women's Economic Empowerment. Since January 2020, Japan has been involved in two new WTO dispute settlement cases as a complainant, and in one case as respondent. Japan has regularly submitted its notifications to the WTO.

13. Expanding trade and growth through economic partnerships remains central to Japan's overall economic strategy. In particular, Japan considers that tapping into the Asia-Pacific region's growth and large markets by creating a global web of economic partnerships is essential to the country's economic growth. The major new development over the review period was the entry into force of the agreement with the United Kingdom and the Regional Comprehensive Economic Partnership Agreement. Japan has 19 FTAs involving 23 trading partners (counting the EU as one).

14. Japan offers preferential tariff treatment to 131 developing economies under its GSP scheme. The GSP scheme is revised every 10 years; the last revision took place in March 2021, when the scheme was extended until 2031. Imports under Japan's GSP scheme have sharply fallen during the past years, most notably due to the graduation of important former beneficiaries. In 2020 and 2021, Bangladesh, Cambodia, and Myanmar were the main beneficiaries.

15. The Foreign Exchange and Foreign Trade Act (FEFTA) and its implementing regulations remain the main legal instrument that governs foreign investment in Japan. The FDI framework is liberal, with only few sectoral restrictions (e.g. broadcasting, radio, and telecommunications), but a screening requirement for foreign investment is in place. Prior notification is required for industrial sectors in national security, public order, or other specifically designated industries. An amendment to the FEFTA, which entered into force in 2020, lowered the screening threshold from 10% in company shares to 1%. The amendment also introduced various exemptions from the prior notification required for stock purchases. An exemption from the prior notification filings is available for foreign financial institutions and accredited general investors, including sovereign wealth funds.

16. During the review period, there were no changes to the authorities responsible for all customs matters including policy formulation and the administration and enforcement of customs legislation; there were no changes in registration requirements for importers, or documents needed for customs clearance. In June 2020, a Smart Customs Plan 2020 was issued with a view to promoting digitalization of customs procedures and automation of customs inspection. In 2021, the Customs Act was amended to simplify the procedures and ease the requirements of preserving books and documents relating to customs duty by electromagnetic records, and enable importers to pay customs duty by credit card.

17. Japan's MFN applied tariff structure remains complex. With a total of 272 tariff rates, there are 136 different ad valorem rates, 75 different specific rates, 29 different alternate rates, and 24 different compound rates, as well as some other types of duties (4 differential duties and 4 sliding duties). In FY2022, Japan's overall simple average MFN applied tariff rate is 6.3% (the same as in FY2019); the simple average MFN applied tariff rate for agriculture (WTO definition) is 18.0% (17.9% in FY2019), compared with 3.4% for non-agricultural products (3.5% in FY2019). Of all tariff lines, 92.7% involve ad valorem rates (including duty-free lines, which represent 40.9% of all lines). The remaining 7.3% (i.e. 689 lines) are non-ad valorem rates. All the 100 highest tariffs have non-ad valorem rates. Japan has bound 98.0% of lines; the overall gap between the simple averages of MFN applied and bound rates is around 0.1 percentage point. The percentage of duty-free rates under RTAs was around twice as much as that of the MFN tariff. Customs duties amounted to 1.2% of central government tax revenue in FY2021.

18. In 2022, Japan imposed an import ban on certain goods from the Russian Federation (e.g. machines, alcoholic beverages, and wood). During the review period, no issues were raised about Japan's import licensing regime by Members in the WTO's Committee on Import Licensing.

19. Japan is not a frequent user of trade remedies. It maintains eight anti-dumping measures, applying to two trading partners. Japan did not apply any safeguard or countervailing measures during the review period, nor did it initiate any investigations in these areas.

20. Japan does not levy any export taxes, nor does it maintain any export quotas or operate export subsidy programmes. In April 2021, Japan extended a prohibition, until 2023, on all exports to (and imports from) the Democratic People's Republic of Korea. In 2022, Japan imposed export prohibitions measures against the Russian Federation and Belarus in the context of the war in Ukraine.

21. Domestic support to production and trade is offered to foreign and domestic companies through grants, tax incentives, and loan schemes. The objective of the support is to encourage wage hikes, capital investments, and research and development, as well as to support SMEs and the agriculture and fisheries sectors. In June 2021, Japan notified a list of 53 specific subsidy programmes to the WTO's Committee on Subsidies and Countervailing Measures; the list includes both old and new schemes with different objectives mainly to support industry, finance, and agriculture, and to strengthen and stimulate the domestic economy.

22. During the review period, Japan took measures regarding regulations on vehicle safety and environmental protection; a few amendments were also made to some of laws and regulations governing labelling requirements concerning, *inter alia*, food, genetically modified products, household goods, and tobacco. The Food Sanitation Act, amended in 2018, partially entered into force in June 2020 and fully entered into force in June 2021 to, *inter alia*, increase hygiene control. During the review period, some elements of the Agricultural Chemicals Control Act, amended in 2018 to enhance the safe use of pesticides, entered into force. Japan submitted regular TBT and SPS notifications (including few addendum notifications); In either the TBT Committee or the SPS committee, no specific trade concerns were raised by Members regarding TBT or SPS measures maintained or planned by Japan.

23. During the review period, amendments to the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (AMA), which introduced a new leniency system, entered into force in several stages. In response to the COVID-19 pandemic, the JFTC took a number of actions related to competition policy; for example, in 2020, it issued a press release stating that necessary and temporary coordination between competitors to ensure supply and distribution of related goods and services would not violate the AMA. In June 2021, the revised Corporate Governance Code,

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implemented by the Tokyo Stock Exchange, entered into force; the Code requires certain listed companies to provide an explanation for non-compliance with any principle of the Code.

24. During the review period, Japan notified a list of four state trading enterprises remaining operational. State participation continues to be spread over few activities including leaf tobacco, rice, wheat, barley, energy, financial services, telecommunications, international airports, and railways.

25. Japan is a party to the WTO Agreement on Government Procurement. During the review period, the basic rules on government procurement remained unchanged. Japan promotes green procurement and participation of SMEs in the market. Despite the principle of non-discrimination in all procurement activities, foreign companies continue to retain a low share in the public procurement market. In response to the COVID-19 outbreak, Japan adopted several policies relating to government procurement to provide flexibility concerning the government procurement process, including modification of delivery times and contract amounts, the quick disbursement to contractors, and a revision of the reference price for upcoming tenders.

26. Intellectual Property continues to be of vital importance to the Japanese economy. The Japan Patent Office found a strong correlation between patent possession and operating profits on sales for SMEs, which account for 99.7% of all businesses in Japan. Although IP revenue, as shown in the balance of payments statistics, dropped with the emergence of the COVID-19 pandemic in 2020, it recovered in 2021, where it stood at over JPY 5.2 trillion. During the review period, Japan amended the Science, Technology, and Innovation Basic Law to add "innovation" as a key pillar. The 6th Basic Plan, promulgated under the Act, aims for, *inter alia*, government R&D investments of approximately JPY 30 trillion and public and private R&D investment of JPY 120 trillion.

27. Japan has a substantial trade deficit in agricultural goods, with imports of USD 74.8 billion and exports of USD 9.2 billion in 2021. The main policy developments during the review period included revision to the Food, Agriculture and Rural Basic Plan in 2020; the adoption of the Strategy to Realize Export Expansion of Agricultural, Forestry and Fishery and Food Products in 2020, and its revision in 2022; and the entry into force of the Act on Facilitating the Export of Agricultural, Forestry and Fishery Products and Food in 2020 and its revision in 2022. According to the OECD, Japan gradually reduced its support to agriculture during the past 10 years; however, the level of support plateaued more recently. The simple average MFN tariff on agricultural products (18.0%) is higher than that on non-agricultural products (3.4%). Japan applies 20 tariff quotas covering 112 tariff lines at the HS six-digit level. Fill rates ranged from 6.4% to 100%. During the review period, Japan applied either the volume- or price-based agricultural special safeguards (SSGs) several times to out-of-quota imports of a variety of products.

28. Japan's latest overall strategy on fisheries is defined by the revised Basic Plan for Fisheries, which was issued on 25 March 2022; the revised plan also aims to achieve a set of self-sufficiency targets by 2032. In FY2022, the average applied MFN tariff rate on the 546 lines (528 in FY2019) (at HS nine-digit level) covering fish and fish products was 6.2% (6.1% in FY2019) and the range was between zero and 15% (same in FY2019). The structure of Japan's subsidy schemes for fisheries has remained largely unchanged. On 4 June 2021, Japan adopted a Protocol to Amend the International Convention for the Conservation of Atlantic Tuna. Japan withdrew from the General Fisheries Commission for the Mediterranean on 31 October 2020.

29. Mining accounts for a very small share of Japan's economy: 0.1 % of GDP in 2020 and 0.03% of employment in 2020. The main policy development in the energy sector during the review period included the adoption, in October 2021, of the sixth Strategic Energy Plan (SEP), replacing the 2018 SEP. The main objectives of the 2021 SEP include to show the path of energy policy towards the realization of "2050 Carbon Neutral" announced in October 2020 and the new greenhouse gas emission reduction targets announced in April 2021 (to cut greenhouse gas emissions by 46%). In January 2022, the Government introduced an emergency subsidy to mitigate the impact of a sharp increase of oil price. In April 2022, the Act on Special Measures Concerning Promotion of Use of Renewable Energy Electricity, which introduced a feed-in premium system, entered into force.

30. In 2021, manufactured products accounted for about 85.6% of Japan's total merchandise exports and 57.9% of imports in value. Although the import content of exports varies across manufacturing industries, it remains higher for some top exports, illustrating the role that imports

have been playing for exports in Japan and underpinning the degree of Global Value Chain integration of these industries. The average MFN applied tariff for manufacturing products (HS 25-97) remained unchanged at 3.3% in FY2022. Tariff quotas continued to apply to 62 manufactured items (at HS nine-digit level), including raw hides and skins, and leather, silk, and footwear. In FY2020, the METI launched a subsidy programme that aimed at helping manufacturing firms to invest domestically in building production bases for critical products and materials. In order to secure the stable domestic production of semiconductors in Japan and incentivize such investments, on 1 March 2022, the Government implemented a new legal instrument that provided grants to advanced chip manufacturers under certain conditions.

31. Japan's financial service sector is relatively open and has withstood the pandemic shock relatively well. No banking services are reserved for domestic suppliers. No regulatory changes have taken place during the review period with regard to licensing procedures and requirements for banks. New regulations for virtual currencies came into effect in May 2020. In an amendment to the Insurance Business Act adopted in March 2022, the Government announced that it would extend its financial support to the Life Insurance Policyholders Protection Corporation of Japan by five years, until end-2027.

32. The regulatory regime regarding telecommunications did not undergo any significant changes during the review period. A newly established Digital Agency is empowered to develop a priority programme on the formation of a digital society. In relation to telecommunications, the Agency aims at advancing developments in IT infrastructure, supporting research and development of technologies that are necessary for a digital society, and improving the education of digital human resources. The Act on the Protection of Personal Information was amended in June 2020 and entered into force in April 2022.

33. Regarding maritime services, in 2020, Japan extended the "roll-over relief system" until the end of FY2022: it defers taxation of capital gains resulting from the sales of old vessels replaced by new and environmentally friendly ones. Japan also extended the application of deduced rate of registration and licence tax until the end of FY2023, with a view to increasing Japanese-flagged overseas vessels.

34. The 2020 amendments to the Civil Aeronautics Act established a new registration system for unmanned aircraft (drones) with a view to ensuring the safety of drone flights. The 2022 amendment to the Airport Act requires that airport managers make airport decarbonization promotion plans and have them authorized by the Minister of Land, Infrastructure, Transport, and Tourism. During the review period, Japan implemented several measures to support the aviation industry, especially considering the impact of the COVID 19 pandemic. Japan has bilateral air transport agreements with 60 trading partners; it currently has "open sky" agreements with 36 trading partners.