

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES  
Fifteenth SessionREPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS  
RESTRICTIONS ON THE CONSULTATION WITH JAPAN

1. In accordance with its terms of reference the Committee has conducted the consultations with Japan under paragraph 4(b) of Article XII. The Committee had before it: (a) the "basic document" prepared by the secretariat and (b) documents provided by the International Monetary Fund. In conducting the consultations the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultations were completed on 20 October 1959. The present report summarizes the main points discussed during the consultations.

Consultation with the International Monetary Fund

2. 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. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results<sup>1</sup> and the background material from its most recent consultation with Japan. In accordance with the agreed procedure the representatives of the Fund were invited to make a statement supplementing the Fund's documentation concerning the position of Japan. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Japan under Article XIV of the Fund Agreement, which consultation was concluded on September 18, 1959.

"With respect to Part I of the Plan for Consultation, relating to balance of payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Japan under Article XIV of the Fund Agreement, and particularly to paragraph 4 which reads as follows:

'The Fund welcomes the progress made by Japan in relaxing restrictions and reducing discrimination, including the termination of three of its remaining bilateral payments agreements. Some progress has also been made in reducing the scope of minor restrictive practices such as the retention quota, the linking system, and barter trade. However, the Japanese exchange system,

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<sup>1</sup> See Annex I.

involving a rigid exchange budget, still has a considerable restrictive effect on import demand, discrimination still exists, and the minor restrictive practices have not been removed. The Fund believes that, especially in the light of Japan's improved balance of payments and reserve position and of the action taken by Western European countries in making their currencies externally convertible, further progress in all these respects is possible and desirable.'

"With respect to Part II of the Plan for Consultation relating to alternative measures to restore equilibrium, the Fund draws attention to the results of its last consultation with Japan. The Fund has no additional alternative measures to suggest at this time."

#### Opening Statement by the Japanese Representative

3. The full text of the opening statement of the representative of Japan is attached to this report as Annex I. The following is a brief summary of the statement:
4. In 1957 when Japan last consulted under Article XII, the CONTRACTING PARTIES were informed that Japan was attempting to overcome a crisis in its international balance of payments through monetary and fiscal policies. During the following year, the foreign trade of Japan was in a state of stagnation with total exports barely managing to reach the level of the preceding year. Imports continued at a low level during 1958 which, together with the lower prices for imported raw materials, resulted in an improvement in the external payments position. From the beginning of 1959, Japan's economic situation began to improve steadily. This was accompanied by an improvement in the international balance-of-payments position. By the end of September 1959, gold and foreign exchange reserves reached a total of \$1,209 million.
5. In a serious effort to liberalize trade and to eliminate discrimination, Japan has increased the Foreign Exchange Budget, widened the application of the Automatic Approval System, enlarged global quotas, abolished several clearing account agreements and simplified procedures for both visible and invisible trade. In view of the improved position of Japan's international balance-of-payments position during the past year, it was the intention of Japan to advance as quickly and as steadily as possible towards the liberalization of trade. The advance had to be gradual however, in view of Japan's inadequate foreign exchange reserves which were not sufficient to warrant liberalization on a large scale. Japan could not be very optimistic about her future reserve position because of the expected substantial increase in imports associated with the expanding economy. The representative of Japan pointed out that the favourable economic conditions in which Japan found itself were partly due to an improvement in the terms of trade. It was not certain that these favourable conditions would continue.
6. Internal problems such as over-population, scarcity of national resources and low capital accumulation, as well as vulnerability to fluctuations in world business conditions had a serious effect on Japan's economy. The social problems arising out of the co-existence of some highly and some little developed sectors in the Japanese economy required that all liberalization took account of social as well as economic considerations. The international trade environment of Japan did not enable her to benefit like many western European countries under

the OEEC, EEC, etc., from regional measures of trade liberalization. In addition to these problems, Japan's exports were subjected to discriminatory treatment by a large number of countries.

7. The representative of Japan emphasized that international trade could only be developed on the basis of mutual co-operation and reciprocity. Therefore Japan was asking the CONTRACTING PARTIES to give special consideration to the creation of a favourable trade environment. Despite these many difficulties, Japan had no intention, however, of delaying trade liberalization and every effort in the movement towards freer trade would be made.

#### Balance-of-Payments Position and Prospects

8. The Committee congratulated the Japanese representative on the remarkable improvement in his country's balance-of-payments position which had occurred since the last consultation in 1957. One member of the Committee remarked that Japan's foreign exchange reserves were at present equivalent to the value of five months' imports, and this ratio of reserves to imports was more favourable in Japan than in many western European countries. He added that many of these countries, even when they had a less favourable reserve position, had liberalized a large sector of their trade and that on the other hand the level of trade liberalization attained by Japan under the current foreign exchange budget was only about 30 per cent of its total imports. In view of these considerations it was suggested that the retention of import restrictions by Japan reflected an over-cautious approach to trade liberalization. Reference was made to the results of the last consultations with the International Monetary Fund which deemed further progress in the elimination of restrictions and discrimination possible and desirable. In this context, it was stated that Japan should have due regard to the improved opportunities to relieve temporary balance-of-payments difficulties through the possibility of recourse to the enlarged resources of the International Monetary Fund, accompanied by a substantial increase in Japan's quota.

9. The representative of Japan explained his Government's import policy by directing the attention of the Committee to the situation in which Japan had found itself in 1957. In that year, Japan had lost \$500 million or almost half of her foreign exchange reserves. This experience had led Japan to be cautious in her import policy. The rapid loss of reserves at that time was to a large extent the result of depressed business conditions abroad. This experience showed the vulnerability of Japan to the vicissitudes of fluctuations in the international economy. The present export boom should also be interpreted in the light of the high level of economic activity in the major industrial countries.

10. With regard to future prospects, the representative of Japan explained that an increase in Japan's foreign exchange reserves was expected for the current exchange budget period. Export earnings for the year April 1959 to March 1960 were estimated to run at \$3,250 million, income from Special Procurement Programmes at \$450 million and income from invisibles at \$300 million; or a total of \$4,000 million. The payments for imports would amount to \$3,150 million and payments for invisibles to approximately \$650 million; or a total of \$3,800 million. The total surplus in the current fiscal year would be much less, however, than the amount of \$464 million which had been attained in the previous fiscal year. A decline in the surplus was expected because income from Special Procurement Programmes was decreasing, while at the

same time interest payments and royalties for foreign production processes were on the increase. These figures were tentative, however. A long-term prediction of the development of Japan's foreign reserve position did not seem possible now. No definite answer could be given to the question what the Japanese Government considered to be a satisfactory level of reserves. Past experience had shown that any economic expansion was accompanied by a relatively larger increase in import demand. In view of past violent fluctuations in the level of Japan's foreign reserves, a reserve of \$1,200 million did not seem sufficient to permit full liberalization.

11. Some members of the Committee, while expressing sympathy with Japan's concern over the influence of a possible stagnation in the world economy on her balance-of-payments position, still felt that Japan's present external financial position and her prospects for the future did not seem to justify the present level of restrictions. At the present time, Japan was enjoying an export boom. Foreign exchange reserves were at an all-time high. The competitive position of Japan in the expanding markets in many parts of the world was very strong. Some members pointed to the development of Japanese exports in their markets. Exports of Japanese goods to the United States, for example, had increased by nearly 50 per cent during the first half of 1959 as compared to the corresponding period in 1958. In that year they were 14 per cent higher than in the first half-year of 1957. During the first half-year of 1959, Japan had for the first time attained a slight surplus on merchandise account in her trade with the United States. In the case of Australia, for example, where total imports had remained fairly constant during the last few years, imports from Japan had been increasing. These imports had amounted to \$A12.9 million in 1956/57, \$A22 million in 1957/58 and \$A30 million in 1958/59. While it was realized that the recent large increases in Japanese exports to Australia were due partly to a greater liberalization of the licensing system, it was also a sign of the strong competitive position of Japanese products. The representative of Japan pointed out that these figures were not representative of Japan's export in general; Japan's total export earnings in the first half of 1959 had increased only by 12 per cent. He added that exports to some countries had actually decreased. Some members of the Committee noted with appreciation the progress made in the reduction of import restrictions over the last two years, and the decreased reliance on discrimination. Nevertheless, they considered that Japan should proceed immediately to effect a significant relaxation of her import controls and to abolish discrimination. A member of the Committee pointed out that during the transitional period, discrimination against dollar goods had been met with a great deal of patience. There was a growing public impatience now in the dollar countries over the continued application of discriminatory restrictions by Japan after her foreign exchange reserves had shown a substantial increase. The maintenance of such restrictions nullified the benefit from the tariff concessions which had been exchanged with dollar countries. The representative of Japan indicated that at present discrimination against dollar goods under the Automatic Approval System was reduced to ten items and that it was contemplated to remove the remaining dollar discrimination under that system at the latest by March 1961. However, several members of the Committee considered that discrimination should be abolished in the immediate future rather than by March 1961, and furthermore, it would be in the interest of promoting liberal trading policies, in Japan's own interest and for the very meaningfulness of GATT. These members asked Japan to announce the elimination of all discrimination and sweeping

relaxations of its restrictions in general. In his reply the representative of Japan pointed to the measures which had already been taken in the relaxation of discriminatory restrictions. The latest exchange budget showed an increase over the previous exchange budget of 6 per cent in the Automatic Approval System and of 24 per cent under the Fund Allocation System. The Japanese Government was trying to move towards freer trade, further measures of liberalization possibly to be announced during the coming GATT session were presently under consideration.

#### Alternative Measures to Restore Equilibrium

12. Several members of the Committee commented on the effective way in which the Japanese authorities had used fiscal and monetary policies to restrain excessive internal demand and to redress the adverse balance-of-payments position in 1957 and early 1958. They congratulated Japan on the very remarkable success of these policies which, without resort to a substantial intensification of quantitative restrictions, had led to an improvement in Japan's foreign reserves and an improvement in general economic conditions. The success of these internal policies was most reassuring and demonstrated Japan's ability to combat possible future drains on her foreign reserves through the use of suitable internal measures to restrain excessive internal demand and the pressure on imports. This was an added reason why Japan should move speedily in the progressive removal of direct import restrictions. At the present time, the Japanese economy was characterized by a high level of employment, stable prices and a balanced budget. Industrial production was up 24 per cent and gross national product for the 1959 fiscal year was expected to be 13 per cent larger than in 1958. The representative of Japan explained that these measures had been so successful because they had coincided with world economic recovery.

13. One member of the Committee felt that, having regard to the stable internal situation and the relatively favourable development in Japan's balance-of-payments position, the fiscal and monetary policies which had been pursued by Japan during the past two years might have been too restrictive. He asked the representative of Japan whether some of the decline in 1957 could be attributed to these restrictive policies. The representative of Japan explained that the decline in business activity in 1957, insofar as it was induced domestically, was mainly due to fiscal and monetary policies designed to curb excessive investment supported by over-expansion of credit. He stated that in Japan, fiscal and monetary measures were particularly effective because of the low level of private capital formation. Business firms were to a large extent dependent on bank capital both for their investment needs and for their working balances. This tended to give considerable weight to the monetary policies of the Bank of Japan. In present circumstances, it was the policy of the Government to pursue a neutral fiscal policy.

14. One member of the Committee enquired about the long-term policies of the Government of Japan to eliminate structural rigidities in the economy. The representative of Japan explained that the Government was sponsoring several programmes, such as the amalgamation of small and inefficient

enterprises, the establishing of co-operatives, etc., in the hope that these programmes would lead to a rationalization of backward industries and agriculture. There was also a long-term programme to reduce the number of people employed in agriculture. The recent introduction of the Minimum Wage Law was another measure which would tend to eventually eliminate the so-called "plural structure" of the Japanese economy.

#### System and Methods of Restrictions

15. From a discussion of the general aspects of the Japanese import controls, it appeared that many members regarded the system of import control as very complex, and - in the words of one member - as highly restrictive. It was pointed out that for all practical purposes, no imports were permitted without a licence. The rather considerable degree of administrative discretion in the licensing system resulted in a lack of certainty for the trade and might possibly lead to discriminatory treatment. The amount of goods admitted under the Automatic Approval System was in the neighbourhood of only 30 per cent of total imports and there remained doubts as to the automaticity of import licensing. Some members felt that the very fact that import licences were required tended to restrict the free flow of trade. A member urged Japan to consider the complete abolition of licensing requirements for a large proportion of its imports. Some members, pointing to the fact that in the past items had been shifted from the Automatic Approval to the Fund Allocation System, were of the opinion that this and other aspects of the licensing system created uncertainty for foreign exporters as regards the continuity of their exports to Japan. On the other hand the member felt that the inability of importers to import some variety of goods under a licence led to too much rigidity in the system itself. The element of discrimination remaining in the Fund Allocation System was discussed. The use of bilateral agreements which distorted normal patterns of trade was also noted with concern. Last but not least, it was asked that all discriminatory aspects of the import control system be eliminated rapidly.

16. With regard to the present degree of relaxation of the import restrictions, the representative of Japan reported that the Foreign Exchange Budget for the second half of 1959 amounted to \$2,328 million. This figure included the contingency reserve. The number of items under the Automatic Approval System had been increased to 786 and the value of the allocations under this system to \$670 million. This figure was equivalent to about 31.5 per cent of the foreign exchange budget. Import allocations under the Fund Allocation System amounted to \$1,458 million or about 68.5 per cent of the total foreign exchange budget. In general, imports into Japan tended to be somewhat higher in the second half-year period. The large proportion of total imports which fell under the Fund Allocation System was due to the seasonal increase in imports of such imported raw materials as cotton and wool. Attempts had been made, however, as indicated earlier in this report, to increase the proportion of goods imported under the Automatic Approval System as compared to the Fund Allocation System.

17. One member of the Committee enquired why the unused import budget provisions under the Automatic Approval System were not transferred to the Fund Allocation System. The representative of Japan explained that in the first half of 1959 the Fund Allocation System had provided for imports to the amount of \$1,217 million. Of this amount, only \$1,044 million had actually been used. On the other hand, imports under the Automatic Approval System had exceeded the original budget of \$580 million by \$15 million. The budget for the Automatic Approval System was increased to \$630 million in the middle of the half-year budget period.

18. One member of the Committee suggested that unused portions of import quotas under the Exchange Allocation System be made available, as was the case under the system of certain other countries for the importation of other goods also falling under this licensing category. This flexibility would permit a larger volume of imports without exceeding the total amount of foreign exchange which had previously been determined to be available for imports. This member of the Committee also suggested that flexibility in the import control system was necessary to prevent discrimination as the Japanese commodity specifications were very narrow. In the chemicals field, to cite an extreme example, certain products specified in the Automatic Approval List were given in such detail that they applied only to a specific brand of products. The representative of Japan stated that discrimination which resulted from this kind of operation of the control system was completely unintentional. He felt that import opportunities for raw materials would not significantly be increased by a widening of the range of permissible imports under the Fund Allocation System, for these items were not interchangeable in nature and the amounts of these imports were dependent on domestic demand. He stated, however, that his country was prepared to study more flexible licensing arrangements for manufactured products.

19. Several members of the Committee enquired about the reasons for the retention quota and the export-import link system. It was felt that there was little justification for these types of import controls. The representative of Japan explained that these procedures had been adopted to meet some objectives which could not easily be achieved under either the Automatic Approval of the Fund Allocation System. The export-import link procedure had originally been introduced to enable the Government to assess the import demands for textile raw materials. Whatever encouragement this system had given to exports was purely incidental. Now that other means for the assessment of the import demands had become available, the elimination of this system was under serious consideration. Under the retention scheme exporters were entitled to retain a percentage of their foreign exchange earnings for the importation of a number of specified goods. This system had been progressively reduced with a view to its ultimate elimination. The number of goods covered by this programme amounted at present to about 500. Incidentally, no sources of supply were specified under this system. A member of the Committee mentioned that these arrangements appeared to be no longer required and that they were soon to be terminated; at which time, it was hoped, these products would be placed on the Automatic Approval List. The representative of Japan assured the members of the Committee that these requests would be given serious consideration.

20. A number of other questions pertained to the implementation of the Automatic Approval System. In addition to the ten items, the import of which was restricted from the dollar area, there appeared to be a number of other exceptions. Cattle hides, sheep skins and beef tallow could not be imported from some non-dollar countries, namely the Benelux countries and Denmark. The representatives of Japan admitted that there was some discrimination in the importation of cattle hides and sheep skins from the Benelux countries. On the other hand, Japan and the Benelux countries had not yet exchanged most-favoured-nation treatment under GATT and Japan was therefore not acting contrary to her GATT obligations. Controls applied under the Automatic Approval System were presently being studied and it was hoped that any discrimination could be eliminated at the latest by March 1961. In the case of beef tallow it was hoped that this unintentional discrimination could be also eliminated by March 1961. The representative of Japan assured the members of the Committee that the utmost attention would be given to safeguard the interests of foreign exporters. The Committee was told that licences under the Automatic Approval System were normally issued within twenty-four hours after the application had been made. It was assured that continuity in the licensing system would be maintained. In general, items which had been licensed under the Automatic Approval System in one year would fall again in this category in the following licensing period. There were certain exceptions to this rule, depending, for example, on the available domestic supply of certain foodstuffs. The publication of import notices was usually so timed as to give sufficient time to importers to negotiate their contracts. Deviations from this practice were made at times when a delay in the publication of the import notices was in the interest of newcomers or when large stocks were on hand.

21. Some members of the Committee expressed their sympathy for the special circumstances which had led Japan to conclude some of its bilateral arrangements. They felt concern nevertheless about the discriminatory aspects of some bilateral agreements. Barter transactions and other forms of bilateralism tended to defeat the benefits to be derived from the multilateral trade policies pursued under the GATT. Japan was urged therefore to reduce its reliance and progressively to eliminate those bilateral arrangements which tended to divert trade from its normal patterns. In the case of coffee, for example, over 60 per cent of total imports during 1958 had been admitted into Japan under a bilateral arrangement. The rest had had to be imported under the Special Foreign Exchange Allocation System. It was asked that coffee be placed under the Automatic Approval System. A further enquiry related to the share of barter exchanges in Japan's total foreign trade.

22. The representative of Japan emphasized that Japan did not enjoy normal trade relations with a number of countries; therefore bilateral arrangements had in many cases been necessary. Japan however was not encouraging barter transactions and only made use of this method of exchange when it was required by the trading system or the payments position of the trade partner. The question by one member of the Committee whether barter transactions were also entered into with convertible currency countries, was answered in the affirmative. There was for example a barter transaction involving the exchange of tuna and some items on the one hand and rice on the other between Japan and Italy. Japan had consented to this arrangement because Italy

exchanged all her rice under barter arrangements. Concerning the import of coffee under barter agreements, the representative for Japan informed the Committee that Japan had been asked by a number of countries to liberalize these imports. At present serious consideration was given to place coffee under the Automatic Approval System. The volume of barter transactions in relation to total exports excluding mainland China had amounted to 1.6 per cent in 1958. Japan had at the present time Open Account Agreements with three countries, Agreements on Commerce with four, and Trade and Payments Arrangements with seventeen countries. However, the number of agreements containing single country quotas was very small.

23. It was noted that in the case of some of these goods (rice, wheat, barley) importers were required to sell the imported goods to a monopoly agency, and the question was asked about the considerations on which importers' bids were accepted by the agency and in particular whether the competitiveness of the bids was given due consideration. The representative of Japan replied that the Government purchases were effected under open general tender. With the exception of rice, no specification of the sources of supply was made. Another member of the Committee enquired in this context about the treatment of salt imports by the State agency. The representative of Japan said that, although there were still some country quotas, global quotas for the import of salt had been increasing from year to year. During the second half-period of 1959, out of an import volume of one million tons of salt, 300,000 tons would be licensed on a global basis. The Government of Japan had every intention of widening the application of these global quotas.

24. One member of the Committee invited comments from the representative of Japan on the implementation of certain measures designed to promote Japanese exports, such as financial facilities, export insurance and tax exemption. The representative of Japan told the Committee that the Japan Export-Import Bank, established in 1950, undertook the long-term financing of capital equipment exports. The establishment of this bank had been necessary because of the low level of capital which was privately available. The Government under the Export Insurance Law, had established an insurance account. Export risks were insured in much the same way as under similar arrangements in other countries. Referring to tax exemption the representative of Japan stated that there was a system of tax exemptions in force which applied to a part of the income from exports in order to strengthen the financial stability of export industries. This system was expected to be abolished by March 1961. One member of the Committee, in commenting on these tax exemptions, directed the attention of the Government of Japan to the provisions of Article XVI of the General Agreement.

25. Referring to some of the points made earlier during the discussion, the representative of Japan stated that the Foreign Exchange Law was under study and that it would be revised in the near future. The provisions of this law should be understood in the light of the difficult position in which Japan had found herself at the time when this law was drafted. He also stated that Japan would pursue to the utmost further trade liberalization through a conversion of single quotas into global quotas and through a subsequent enlargement of these quotas.

Effects of the Restrictions

26. Going back to a point which he had introduced earlier during the discussion, one member of the Committee enquired about the percentage of Japanese production which was exposed to competition from abroad. He felt that if such a figure could be provided, one might get a clearer indication of the degree of incidental protection than could be obtained from a calculation of liberalization percentages. The representative of Japan pointed to the difficulty in correctly assessing this percentage. The amount of the foreign exchange budget which could be allocated to the import of finished products which were in competition with domestically produced goods could only be small. Japan was highly dependent on the importation of essential foodstuffs and raw materials. For example, Japan had to import 100 per cent of her requirements of cotton, wool, bauxite and nickel, 90 per cent of her requirements of oil and iron ore and 65 per cent of her wheat. Out of total imports of \$2,900 million, \$2,300 million had had to be allocated to the import of raw materials and foodstuffs. With only \$600 million remaining for the import of manufactured products, a strict selection was absolutely necessary. Imports of non-essentials had therefore been held to a rather low level. The import of essential items had on the other hand been treated in a very liberal manner. Japanese machinery manufactures had definitely been subject to foreign competition. This foreign competition had been the more severe as it has often been coupled with long-term financing.

27. In response to a question by a member of the Committee, the representative of Japan explained that his Government had no intention of going back on the degree of liberalization already attained in order to protect domestic industries. This applied also to the particular cases which were the object of that enquiry, namely rayon pulp and synthetic rubber.

General

28. The Chairman thanked the representative of Japan and the members of his delegation for the excellent spirit which they had shown throughout the consultation and for the clear manner in which the complex aspects of Japan's import policy had been explained to the Committee.

29. The Chairman, in summing up the discussion, said how much members of the Committee had been impressed by the problems which Japan had to face. Members of the Committee had however been glad to observe Japan's remarkable recovery and economic progress, not only since the war, but also since the recession of 1957. Reserves appeared to have increased substantially and the balance of payments was favourable; exports were expanding and Japanese industry was clearly competitive. Some members had been particularly struck by Japan's ability to meet her balance-of-payments problems by alternative internal measures.

30. For these reasons, a number of members of the Committee had felt that Japan's approach towards liberalization was over-cautious. The Automatic Approval System covered only 30-35 per cent of Japan's imports and doubts had been expressed if this system could be considered as offering the trade the same possibilities and security as the liberalizations now commonly applied by other industrial countries. Article XII of GATT required complete elimination of quantitative restrictions on imports not required to protect a country's balance of payments.

31. The restrictive system, where it applied, appeared to several members of the Committee to be complicated and restrictive. Concern had also been expressed by some members on the fact that the deadline for the elimination of discrimination in the Automatic Approval System was no earlier than March 1961. Some members had mentioned bilateralism as applied by Japan, and the Japanese delegate had explained the reasons which made it necessary for Japan to have bilateral agreements.

32. As for the effects of the restrictions, several members had received the impression that the Japanese control of imports did not allow any real competition with Japanese industries in the home market. In a personal remark, the Chairman added that as Japan wanted certain countries to be more liberal in admitting Japanese competition in their markets, the Japanese Government might perhaps consider the advantage of permitting foreign competition in the Japanese market.

33. Members of the Committee welcomed the announcement that Japan was going to relax import restrictions but they expressed the hope that this would be done by liberalizing more imports in the same way as had been done by other industrial countries.

34. The representative of Japan assured the Committee that his delegation was aware of the sense of impatience with which the Committee had considered the restrictions maintained by Japan. This was a stimulus to proceed, in co-operation with other countries, towards the speedy removal of the remaining barriers to trade.

ANNEX I: Opening Statement by the Representative of Japan

At the time of the previous Consultation with the CONTRACTING PARTIES in 1957, Japan was facing a crisis in her international balance of payments; her foreign exchange reserves having shown a decrease of 430 million dollars during the period of January - June 1957. At the time, Japan tried to overcome this crisis through monetary and fiscal policies rather than by tightening direct import restrictions.

As to subsequent economic developments in Japan, the paper prepared by the International Monetary Fund for the CONTRACTING PARTIES contains excellent and detailed information. It might be useful to refer briefly to some of the more salient points contained in this document.

During 1958 the foreign trade of Japan was in a state of stagnation, due in a large measure to unfavourable economic conditions both at home and abroad. Contrary to our wishes, there was no perceptible increase in exports until the autumn of 1958 and, although a slight improvement was marked at the end of the year, the total exports for 1958 which amounted to 2,876 million dollars, barely managed to attain the level of the preceding year. On the other hand, imports, which showed an extraordinary increase in the early part of 1957, started to decline in the latter part of the same year and continued to stay at a low level for the whole of the year 1958; the total annual figure of 3,032 million dollars for that year was 29% less than the import figure for 1957. This was due to a decrease in the volume but, to no less an extent, was a result of the decline in the prices of raw materials. This resulted in an improvement in the external payments position which attained a favourable balance of 861 million dollars at the end of 1958. This was a considerable improvement over the figure of 455 million dollars in September 1957 which marked the worst period.

With the recovery of the world economy, Japan's recession has come to an end, and from the beginning of 1959 her economic situation began to improve steadily. Our exports have increased during the first eight months of 1959 by 11.2% compared with the corresponding period of 1958. Despite the increase in imports which was stimulated by the recovery of industrial production in the fourth quarter of 1958 and thereafter, the international balance of payments position improved and, at the end of last month, Japan's gold and foreign exchange reserves reached a total of 1,209 million dollars.

It is the basic economic policy of Japan to promote the liberalization of imports in accordance with a similar trend in world economy and Japan, supported by the favourable economic conditions referred to above, has been making serious efforts towards trade liberalization and elimination of discriminatory measures. The practical measures Japan has taken along these lines are: an increase of the Foreign Exchange Budget; a wider application of what is known as the Automatic Approval System; an enlargement of global quotas; an abolition of several clearing account agreements; and finally, a simplification of control procedures for both visible and invisible trade. These steps have been accelerated greatly since the rehabilitation of the convertibility of European currencies.

Japan's half-yearly Foreign Exchange Budget, which was established at the very low figure of 1,628 million dollars for the period April - September 1958, was increased to 1,757 million dollars for the period October 1958 - March 1959, and amounted to a total of 2,328 million dollars for the present period (October 1959 - March 1960). Japan intends to maintain this trend, and also to enlarge quotas for finished products and non-essential goods, so long as her balance of payments position allows it.

The amount of foreign exchange made available for the Automatic Approval System was increased to 670 million dollars for the period of October 1959 - March 1960, as compared with 470 million dollars for the corresponding period of 1958 - 1959. The number of A.A. items has been increased to 786, as a result of the transfer from the F.A. category to the A.A. category of 24 items last April and 149 items again this month. Furthermore, 217 out of the 230 items under this system for which importations were not permitted from the Dollar Area were freed from this discrimination last January, and in April, 3 items out of the remaining 13 were also liberalized. It has already been decided that the discrimination on the last 10 items should be removed by March 1961 at the latest.

Furthermore, it should be pointed out that the number of bilateral agreements entered into by Japan has decreased considerably. Of the 16 clearing account agreements which Japan maintained some years ago only 3 still remain in force, and that is only because the other parties, in spite of Japan's repeated proposals to terminate them, have not yet agreed to their abolition.

As I mentioned at the beginning, Japan's international balance of payments position has improved considerably since three years ago. In view of this and also in pursuance of the world-wide trend towards the liberalization of trade, it is the intention of Japan to advance as quickly and as steadily as possible in alignment with such a trend. However, due to certain special circumstances which I would like to explain now, the tempo of liberalization of Japan's trade must necessarily be gradual.

The first factor which Japan is obliged to consider is her inadequate foreign exchange reserves. Her present holdings do not appear to warrant an immediate liberalization of her imports on a very large scale. When we take into account a very substantial increase in import demands for raw materials, which is likely to occur as Japan's economy expands, Japan cannot be very optimistic on the future of her foreign exchange reserves.

In the second place, the Japanese economy itself is intrinsically based on a precarious foundation, due to such unfavourable factors as over-population, scarcity of natural resources and low capital accumulation. It is on the one hand highly vulnerable to fluctuations of world business conditions; moreover, Japan could easily invite difficulties in her international balance of payments if and when her internal economy gets overheated as shown by past experience. Besides, since the Japanese economy is highly dependent on foreign sources of supply for most of the raw materials it requires, fluctuations in the terms of trade tend to have a serious effect on her balance of payments position. The favourable economic conditions which we have been enjoying since the year before last were brought about mainly by an improvement in our terms of trade, so that there is no predicting, in this connexion, what will come hereafter. Furthermore, on one scale of the Japanese economy, there is a group of highly developed industries, while on the

other scale there is a large group of small industries which are far from becoming competitive in international trade. There is also a group of very small and backward farming units. This is our so-called "Plural Structure", which is often referred to and which is a peculiar characteristic of the Japanese economy. What is more, these latter sectors play an important role as a source of absorbing the surplus labour force and also as a bulwark of the social order; so much so that the situation does not permit a rapid liberalization of trade by only taking into consideration the brighter aspects of the developed industries in Japan.

Thirdly, we must consider the problem of Japan's international trade environment. I would like to pay due tribute to the efforts which have been made so far and are still being made by some of the European countries in an attempt to attain the high ideal of liberalization of trade through their organizations such as OEEC, the European Economic Community, the Free Trade Area etc. It is to be hoped, however, that these efforts towards economic integration will be in accordance with the aims of the GATT and will not discriminate against countries outside these regional integrations.

Japan is not favoured with an environment which enabled the Western European countries, whose economic structures are more or less homogeneous, to exchange the benefits of trade liberalization with each other and thus proceed speedily towards their mutual goal.

While there has been a marked increase in Japan's exports to certain free trading countries, movements against imports of the Japanese goods have also become very active in these countries. It is a fact also that a large number of countries, including the more industrially advanced countries, still apply, or reserve the right to apply, trade discriminations against Japan. Specifically, this takes the form of discriminatory tariff treatment and discriminatory import restrictions against Japanese goods. In addition thereto, as far as Japan is concerned there is a constant fear that arbitrary import restrictions on an unpredictable scale might be applied at any moment by these countries. It must be pointed out also that economic stagnation in the less developed countries causes considerable disadvantage to a country like Japan which directs approximately half of her exports to these countries.

In conclusion, I should like to call your attention once more to the fact that the economic circumstances in which Japan finds herself do not permit too optimistic a view of her future balance-of-payments position. However, we have no intention of delaying trade liberalization by pleading these unfavourable circumstances. We willingly recognize that in some cases liberalization of trade should precede, rather than follow in the wake of a strengthening of the economic basis of the country or the improvement of the international trade environment for which Japan is striving at present. We are aware of the fact that, only on a basis of mutual cooperation and reciprocity can international trade be developed smoothly. I should like therefore to reiterate my request that the CONTRACTING PARTIES give special consideration to the creation of a favourable trade environment for Japan, while we in turn, in spite of the many difficulties, assure you of our readiness to make every effort towards the liberalization of trade.