

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

J A P A N

1. In accordance with its terms of reference, the Committee conducted the consultation with Japan under Article XII:4(b). The Committee had before it the following documents: (a) a basic document (MGT(61)27), together with certain supplementary data and documentation¹; and (b) documents provided by the International Monetary Fund, as mentioned in paragraph 3 below.
2. In conducting the consultation, the Committee followed the Plan of Discussion for Consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 2 November 1961. This report summarizes the main points discussed.

Consultation with the International Monetary Fund

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

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the background material and the Executive Board Decision relating to its last consultation with Japan.²

"With respect to Parts I and III of the Plan for Consultations, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board Decision of 6 September 1961, taken at the conclusion of its recent consultation with Japan, and particularly to paragraph 4 which reads as follows:

¹Including a list of products subject to the Automatic Approval System; a description of the foreign exchange budget for the second half of 1961.

²See Annex III.

Substantial liberalization and simplification of the restrictive system have been achieved during the past year. Discrimination against the dollar area has been eliminated, and the retention quota system and the linking system have been abolished. The Fund welcomes these measures as well as the expected termination of the bilateral payments arrangement with China and the intention to abolish as soon as possible the bilateral arrangement with Korea. Current transactions are, however, still severely restricted and are to some extent discriminatory. The Fund notes with satisfaction the intention of the Japanese Government to accelerate its liberalization at a more rapid pace. Japan aims at completing 90 per cent liberalization on a 1959 basis a year from July 1961, or at the latest by September 1962, at which time the Japanese Government intends no longer to claim any balance-of-payments reasons for the remaining restrictions. The Fund urges the further extension of liberalization and the elimination of the remaining discriminatory practices.

"With respect to Part II of the Plan for Consultations, the Fund also draws attention to the Decision of 6 September 1961. The Fund has no additional alternative measures to suggest at this time."

Balance-of-payments position and prospects

4. In his opening statement the representative of Japan described developments in the Japanese economy, balance-of-payments and exchange reserves, causes of the changes and remedial measures taken, recent action in reducing restrictions, prospects for the future and certain problems and difficulties to be overcome in the implementation of Japan's present policies of economic development and trade liberalization. The full text of the statement is attached as Annex I to this report.

5. With regard to Japan's external financial position it was stated that in the wake of significant advances in the economy in the past year the balance-of-payments improved remarkably and by March 1961 the foreign exchange reserves had reached a high level of \$2 billion. Since then, however, a sudden change in the payments position had brought about a drastic fall in the reserves, to about \$1.6 billion in September and about \$1.5 billion at present. The overall balance-of-payments deficit for the whole of the fiscal year ending 31 March 1962 had been earlier estimated at \$500 million, but recent developments indicated that it might be larger. In the face of increasing imports, particularly of raw materials and machinery, a series of fiscal and monetary measures had been taken, and, in September, intensified. Despite the worsening of the payments position, trade liberalization had been pursued ahead of the time-table adopted in June 1960, and a new, accelerated, programme had been adopted aiming at achieving 90 per cent liberalization on a 1959 basis, by September 1962.

6. The representative of Japan stressed that the achievement of this level of liberalization was a much more difficult task in Japan than in many other countries; the geographical and economic environment was less favourable and the period set for it was much shorter. The lack of stable and adjacent markets, the high costs in the Japanese heavy and chemical industries and the trend of regional economic integration in Europe, all had the effect of limiting Japanese exports. Above all the prevalent discrimination against Japanese products, which was hampering efforts at expanding Japan's exports, might well become intolerable. In many cases solutions had been or could be found to the problems invoked as grounds for discrimination against Japanese products or for resorting to Article XXXV, and Japan would urge most strongly that all contracting parties accord a fair and equitable treatment to Japan, in order that its efforts to liberalize imports might not be impeded.¹

7. Members of the Committee thanked the Japanese delegation for the comprehensive documentation which it had provided and for the informative opening statement which contained important announcements on Japan's future commercial policy. The Committee, on the basis of the data available to it, discussed with the Japanese representative various aspects of the balance-of-payments and monetary reserve position of the country.

8. A member of the Committee noted that the statistical information in the IMF paper showed that Japanese exports in the first five months of 1961 were higher than in the corresponding period in 1960. He, therefore, asked for a further explanation of the Japanese representative's statement that exports were "lagging". The representative of Japan explained that exports in the first half of the fiscal year 1961/62 (1 April 1961 - 31 March 1962) amounted to \$1,965 million, representing an increase of 2.4 per cent over the corresponding period in the preceding fiscal year. An estimate of \$2,295 million had been made for the second half of the fiscal year so that the level of exports for the whole year would be 8.7 per cent higher than in the previous year, but taking account of the internal as well as the external situation there was no certainty that this estimate was realistic. Although present indications were that a more conservative estimate of a

¹In this connexion the representative of Finland announced at the consultation that Finland intended to extend multilateral import treatment to Japan as from 1 January 1962. To this end discussions between the two Governments would be held on the subject of assuring the avoidance of problems generally referred to as "market disruption" and of the application of Japan's liberalization measures. The representative of Japan expressed appreciation of the initiative on the part of Finland and welcomed the opportunity of discussing mutual problems with a view to seeking a solution for them.

5 per cent increase would be more realistic, the Japanese authorities were proceeding on the basis of an 8.7 per cent increase. Even if an increase of 8.7 or 5.0 per cent were achieved, exports would "lag" substantially behind imports which were estimated to have increased by 38.6 per cent in the first half of the current fiscal year.

9. A member of the Committee expressed the view that the present improvement in the United States economy and buoyant conditions elsewhere might be counted upon to sustain demand for Japanese products. The representative of Japan replied that experience had shown that prosperity and high levels of economic activity in the United States were sometimes slow in being reflected in its demand for imports; furthermore, despite internal measures taken by Japan to stabilize internal demand, prices and costs had risen considerably, thus hindering the expansion of exports. Members of the Committee commented that although caution might be desirable in the face of uncertainty, there were nevertheless grounds for not taking too cautious a view. They were glad that Japan was proceeding on the terms of its original estimates despite increased uncertainties.

10. In discussing the nature and pattern of the recent substantial rise in imports, the representative of Japan stated that the increases were equally evident in all sectors. According to preliminary estimates for the first half of the fiscal year 1961-62, imports of machinery had increased by 53 per cent, and imports of raw materials by 28 per cent, over the same period in the previous year. Increases in consumer goods imports were also substantial. As distinct from the situation of 1957, when considerable foreign exchange reserves were expended in accumulating inventories, there had been no noticeable movement in inventories in recent months, such as would be reflected in reduced pressure on import demand at a subsequent period, except in a few sectors such as in the iron and steel industry.

11. Members of the Committee noted in this connexion that in so far as the present high level of imports partly reflected buoyant internal demand, an improvement in the trade balance might be expected once the effects of the measures to restrain demand became felt. The Japanese representative agreed that there were indications that imports might be stabilized or even reduced in the coming year. Members of the Committee suggested that, inasmuch as a high proportion of the imports of machinery was devoted to the modernization of industry, they should eventually be reflected in increased productive capacity and increased exports. The Japanese representative acknowledged that there was some force in this, but added that the modernization of certain industries (notably the metal-working, chemical, automobile, iron and steel, and telecommunications industries) was undertaken to enable them to withstand foreign competition after the liberalization of imports. Their prospective contribution to export earnings was, therefore, limited.

12. It was suggested by a member of the Committee that given the substantial inflow of short-term capital this year (which according to data before the Committee amounted to \$508 million in the first five months of 1961, a large part of it apparently in the first few months of fiscal year 1961/62), the loss in reserves in the current fiscal year might well be substantially lower than originally expected. Asked to comment on this and more recent developments, the representative of Japan stated that according to the latest estimates there would be a net inflow of short-term capital amounting to \$219 million in the first half of the current fiscal year (April-September 1961) and an estimated net outflow of \$19 million in the second half (October 1961 - March 1962). The high level of inflow in the previous fiscal year was partly attributable to a change in usance bill regulations resulting in an increased reliance on this type of import financing. Other non-recurrent stimulants which raised the inflow of short-term funds last year were the establishment of the convertible yen account, and a considerable influx of "hot money" in the form of Euro-dollars attracted by high interest rates. Inflows on account of these factors had in this fiscal year tapered off and some funds had begun to be repatriated. Since October 1961 there has been factors accentuating the outflow of short-term capital, namely changes in regulations governing the use of export usance bills, postponing realization of export receipts, and the falling due of a large proportion of import usance bills. Consequently, the net inflow of short-term funds had been estimated at about \$200 million for the whole of 1961-62 compared with \$676 million in 1960/61.

13. A member of the Committee referred to the statistics supplied by the IMF which showed that GNP rose by 17.7 per cent in 1959-60 and 12 per cent in 1960-61. The increase was largely accounted for by heavy investment in fixed assets which was 38.4 per cent higher in 1960-61 than in the previous year. Asked to comment on the possibility of this rate of growth being sustained, the representative of Japan stressed the need for economic development in Japan in order to raise the per capita income. Great efforts were to be exerted in improving the efficiency in certain industries and in agriculture. The Ten Year Plan of Japan was aimed at doubling the national income in ten years, with an average annual increase in GNP of 7.2 per cent. The rate of growth had in fact been much higher than this. The deterioration in the balance of trade, reflecting high internal demand, had called for a lower growth rate. The average annual growth rate of 7.2 per cent must, however, be maintained, if the target set by the Ten Year Plan was to be reached.

Alternative measures to restore equilibrium

14. The representative of Japan recalled the efforts made by his Government in the past few years to redress the payments situation through monetary and fiscal measures. Particularly since last September a series of severe measures had been taken. The official discount rate had been raised on 22 July and again on 29 September so that it now stood at 7.3 per cent. The minimum reserve requirement had been raised on the latter date and commercial banks had been advised to limit their lending activities so

as to bring about the postponement of investment projects. Governmental investment and private construction projects not directly related to production had also been postponed or curtailed. Partly owing to the tightness of the money market, there had been a sharp drop of prices on the Stock Exchange. Imports had also shown signs of levelling off.

15. A member of the Committee noted that the Japanese authorities appeared to be replying primarily on monetary measures and enquired whether these were likely to be reinforced by fiscal measures. The Japanese representative pointed out that while government expenditure was being cut back budgetary revenue continued to rise in consequence of the high and rising income subject to taxation. There appeared therefore to be no need to change the present tax structure. Although the precise nature of future fiscal policies could, of course, not be predicted, it would be safe to say that the next budget was not likely to be one designed to encourage spending. Since the "over-heating" was mostly in the investment sector, the measures taken, in the monetary as well as in the fiscal fields, had been mostly directed towards regulating the rate of investment. As regards the restraining of personal consumption, capital losses caused by the recent fall in stock market prices must have had some effect. No direct measures to reduce consumption were envisaged. It was believed that the tight money situation was in itself an effective factor in limiting consumer credit and that no direct governmental intervention in the field of "hire-purchase" would be needed.

16. Asked about Japan's efforts to expand exports, the representative of Japan said that his Government was primarily relying on these measures to stabilize domestic prices and curb domestic demand, thus releasing resources for export. Apart from this, improvements were contemplated in export credit, insurance and transport facilities. The maximum normal term of export usance credits was extended from three to four months.

17. In answer to other questions, the Japanese representative stated that the Ten Year Plan was drawn up mainly to serve as a guide for maintaining the high rate of growth although it also set out certain projects which the Government was obliged to undertake. At present there was no need for any additional action on the part of the Government to ensure its fulfilment, in addition to the disinflationary measures which they were already taking.

18. The Committee also discussed with the representative of Japan the effect of the new Japanese Customs Law on the level of imports, and enquired whether the introduction of this new tariff would have any effect in expediting the removal of the remaining quantitative import restrictions. The representative of Japan explained that the revision of the Customs Law had been necessary primarily for technical reasons; the previous Customs Law, adopted in 1950, had proved inadequate to cope with the rapidly changing requirements of the Japanese economy. Under the new Law the number of tariff items had, for example, been increased from 900 to 2,200 and tariff classifications had been brought into line with the Brussels Nomenclature. While the old and the new tariffs were thus not strictly comparable, there had been no significant change in the overall level of tariff incidence. (There were increases

in rates of duty for some 250 items, and reductions for 386 items, while for the rest of the tariff there were no changes.) Thus the tariff revision was not expected to have an appreciable effect on the development of the balance-of-payments position, or the country's ability to liberalize imports.

System and method of restriction

19. At the outset of the consultation, the representative of Japan outlined the more important import liberalization measures which his Government had put into effect during the past year. Among the more important measures were the addition of 547 items, including raw cotton and raw wool, to the Automatic Approval System in April 1961. At the same time 130 items were added to the list of products importable under the Automatic Fund Allocation System. In June and July 1961, 114 items, including steel products, instant coffee, soya beans and refined lard were added to the AA or AFA lists, thus increasing liberalization, on a 1959 customs clearance basis, to 65 per cent. In September, the Japanese Government adopted a plan for advancing by six months the implementation of the June 1960 trade liberalization programme. The representative of Japan also informed the Committee that on 1 October 1961 360 items had been added to the AA list and 210 items, including watches and medical apparatus to the AFA list, thus increasing liberalization to 68 per cent. On 1 December 1961, another 40 items, including oatmeal, woollen yarn and some types of special steel, would be added to the AA list and 130 items, including certain types of machine tools, wax and home electric appliances, to the AFA list.

20. The Committee welcomed the progress which had been made by Japan during the past year in enlarging the list of imports free of restriction and the programme adopted by the Government of Japan for the acceleration of import liberalization. While welcoming the accelerated implementation of the import liberalization programme, members of the Committee urged the Japanese authorities to reconsider their present liberalization programme with a view to increasing liberalization beyond the target of 90 per cent. It was pointed out that this target would leave a significant sector of Japan's import trade, including a wide range of important internationally-traded goods, subject to restrictions after September 1962, the date on which Japan intended to disinvoke balance-of-payments justification for the main enance of import restrictions. A member of the Committee asked the Japanese representative about Japan's intentions regarding these 10 per cent of imports which would remain after September 1962. The Japanese representative explained that it was impossible to give any firm commitments at this stage. Economic and social conditions at the time would be important factors and it would be premature to make predictions at present.

21. The representative of Japan explained in this context that much as Japan desired to move ahead with import liberalization at a faster rate than envisaged in the accelerated liberalization programme, the present programme had only been adopted after a thorough review of progress which Japan could afford to

make in this regard. For reasons which had been noted in paragraph 6 above, the proposed increase from 40 per cent liberalization to 90 per cent liberalization over a period of only two and a half years, was certainly an achievement. Since his Government had first announced its intention to accelerate the process of import liberalization, there had been a significant deterioration in Japan's balance of payments, leading to a loss in reserves in recent months at a rate of approximately \$100 million per month. Notwithstanding this marked deterioration in the balance of payments, the Government of Japan had the firm intention of completing its programme of import liberalization by September 1962. This programme would have caused considerable strains on the balance of payments even in more favourable circumstances. Whether Japan would be able to disinvoke Article XII by next autumn would, of course, depend on whether the present rapid loss of foreign exchange reserves could be checked or reversed. Members of the Committee recalled that at the previous consultation with Japan, the Committee had expressed dissatisfaction with the rate of progress towards liberalization contemplated by its earlier programme and had noted that more rapid progress seemed clearly warranted. They welcomed the assurance that Japan would follow through with its accelerated programme of liberalization.

22. Commenting on the implementation of the programme of import liberalization, members of the Committee expressed the hope that items of particular trade significance would be included among those to be liberalized at an early stage of the programme. They noted that in past liberalization lists a large number of products included had often been items of relatively limited significance to overseas exporters, such as items and sub-items specified by brand-name or items in which Japan had a particularly strong competitive position on world markets. Replying to requests for information on the products which were to be included in the liberalization lists leading up to the target of 90 per cent liberalization and about the percentage level of import liberalization to be attained at various dates before September next, the representative of Japan outlined to the Committee the time-table for the liberalization of major categories of products which Japan expected to implement (see Annex II). With respect to the level of import liberalization to be attained, the representative of Japan stated that it was envisaged that, before reaching 90 per cent in September 1962, 70 per cent liberalization (1959 basis) would be attained by the end of December 1961. A level of about 75 per cent might be reached by the end of March 1962. With respect to a question concerning the comparability of certain liberalization percentages in the background documents, the representative of Japan explained that the figures of 54 per cent and 3.4 per cent appearing in Annex I of GATT document MGT(61)27, relating to imports in the first half of 1961 under the AA system and the AFA system, were the percentages of total foreign exchange allocated under the Foreign Exchange Budget for the first half of 1961. These figures were thus not directly comparable with the percentage targets established on a 1959 customs clearance basis under the liberalization programme.

23. Members of the Committee pointed out that despite the progress during the past year in reducing the scope of import restrictions, the Japanese import control system continued to be complex. Thus, pending the eventual removal of import controls by Japan, a simplification of the import control system, for example by listing restricted imports in a "negative list", as had been recommended by the Committee during the previous consultation, would be both welcome and desirable. The Committee therefore appreciated the intention of the Japanese authorities to establish such a list by next April. Members of the Committee enquired in this context how the legal conflicts with present laws and regulations arising from such a shift, which had been referred to by the representative of Japan during the last consultation, had been resolved. The representative of Japan explained that the legal question had not been finally resolved. There was a body of opinion however, which held that imports could be controlled on the basis of a "negative list" without amending the Statutes i.e. by combining all imports remaining subject to restrictions in the Exchange Fund Allocation (EFA) category. Pending a decision on the admissibility of such a procedure preparations were being made for a change-over to the negative list system by next April. The representative of Japan further stated that while such a move would undoubtedly simplify present control procedures, the present system of import controls did not appear unduly complex in the view of his authorities and was, therefore, not considered an impediment in itself to the further development of trade.

24. In reply to a question, the representative of Japan confirmed that there were no import prohibitions in Japan, apart from certain ones consistent with Articles XX or XXI of the General Agreement.

25. Members of the Committee pointed out that the inadequate publicity concerning import opportunities, for example under certain global quotas, continued to make it difficult particularly for overseas exporters to share equitably in the Japanese market. The representative of Japan explained that, in addition to the more general information contained in the published semi-annual Foreign Exchange Budget, and except for very small quotas falling under the miscellaneous category, details concerning import quotas were regularly made available to the press. Members of the Committee, in drawing attention to the provisions of Article XIII:3(b), once again urged the Japanese authorities to supply information to the trading community concerning import opportunities, regardless of the size of the quota, since even small quotas, although possibly insignificant when compared with total budget allocations or with other import quotas, could nevertheless be of considerable importance to the trading community or to individual traders.

26. In further discussion of the administration of quota imports by Japan, members of the Committee asked about the import treatment granted to countries with which trade was conducted on the basis of bilateral agreements. The representative of Japan explained that following the termination of the clearing account agreement with Taiwan in September, the only clearing arrangement still in force was that with the Republic of Korea. With respect to the latter agreement, an understanding had been reached with the Government of the Republic of Korea concerning termination of the agreement in the not too distant future. No single country licences were issued for imports from

other countries with which trade was conducted on the basis of bilateral agreements.

27. Members of the Committee asked about the recent significant increase in prior deposit rates, and invited the Japanese representative to give further details regarding this measure. The representative of Japan explained that the increase in advance deposits for imports in the AA and AFA category was strictly a temporary measure designed to check the rapid and substantial decrease in foreign exchange reserves which had been experienced in recent months. Under this measure, deposit rates had been raised from 1 per cent of the import value to 5 per cent for imports of most raw materials and machinery, to 10 per cent for imports of such items as office machines, and to 35 per cent for other categories of imports falling under the AA or AFA system. It was not intended, however, to make such prior deposits a normal feature of the Japanese system of import restrictions and every effort would therefore be made to repeal this measure as soon as the development of the balance-of-payments position permitted. The Committee welcomed the assurances by the representative of Japan that the increase in prior deposit rates was strictly a temporary measure which was to be revoked at the earliest possible time.

Effects of the restrictions

28. Members of the Committee felt that the maintenance of import restrictions on items such as copper, zinc, lead, sulphur and rayon pulp, which were not at present scheduled for import liberalization by September 1962, would have the effect, *inter alia*, of retarding or preventing local industries producing these products from establishing themselves on a competitive basis. Unimpeded imports, particularly of industrial raw materials, but also of other products such as rape-seed, ground nuts and various agricultural and fishery products, for which import restrictions were apparently also to be maintained and in respect of which productivity in Japan was still relatively low, would seem to be in the proper interest of Japan, in view of its large dependence on exports and, more generally, for increasing productivity, and thus national income, in sectors of the economy which at present were not fully competitive. The representative of Japan explained that his Government was aware of the desirability of encouraging productivity, for example, by exposing sheltered industries to an increasing degree of foreign competition. The Japanese authorities had therefore formulated a plan which provided tentatively for the liberalization of copper, lead and rayon pulp by September 1962 at the latest. On the other hand, in view of the problems which had affected the mining industry in recent years and the social and political repercussions which liberalization would have, progress in liberalizing mining industry products as early as 1962 would depend to a large extent upon the success of the Japanese Government in carrying through, often against the opposition of the labour unions, various reform measures for the industry. In these circumstances it was not possible to undertake a firm commitment at the present time concerning liberalization for these products by September 1962. Most oilseeds had already been freed from import restrictions, rape-seed presented a particular problem, however, since this was a crop which formed an essential part of farm incomes, particularly of small farms which cultivated this product as a winter crop.

29. Members of the Committee recalled that during the previous consultation, the Committee had been advised of the establishment of a Research Council for Agriculture, Forestry and Fisheries, to draw up a programme for improving productivity in those sectors of the economy. The representative of Japan stated that he was glad to inform the Committee that the recommendations drawn up by the Research Council were reflected in the Basic Law on Agriculture, which had recently been adopted by the Diet. The Law had as its basic objective the increase of farm incomes. This was primarily to be achieved through encouraging productivity and a shift towards increased production in those sectors of agriculture yielding a higher return.

General

30. The Committee thanked the delegation of Japan for the frank and co-operative manner in which they had responded to the many questions put to them. The Committee welcomed the decision by the Government of Japan to advance by six months the target of 90 per cent import liberalization, which had been adopted in June 1960, and the measures which had been taken by Japan during the past year for liberalizing imports. The Committee welcomed the assurance that the substantial increase in prior deposit rates for goods included in the Automatic Approval and Automatic Fund Allocation categories, was strictly a temporary measure which would be removed as soon as the balance-of-payments position permitted. Notwithstanding the decline in foreign exchange reserves in 1961, it was generally felt in the Committee that Japan's position was basically sound in view of the strong competitive position of most Japanese exports in international markets, the continuing high level of investment in industry generally and the fact that much of the recent increase in imports has consisted of producers' goods. Also, there appeared to be prospects for a reduction in discrimination against imports from Japan. The Committee noted that the recent monetary and fiscal measures taken by Japan appeared to have had some effect in restoring internal demand, and expressed confidence that, if required, the Japanese authorities would continue to take positive action in these fields. Viewed in the light of the overall development of Japan's economy and export trade, there should be scope for further expansion of import liberalization beyond the 90 per cent target set for September 1962. Measures by Japan for further import liberalization, for example the removal of import restrictions on certain agricultural products, raw materials and machinery would be in Japan's own interest as well as that of its trading partners. The Committee urged the Japanese authorities to consider all possibilities for the early removal of remaining import restrictions including those affecting products considered to be hard-core items.

31. The Committee expressed appreciation of the efforts by the Japanese authorities to change over to the "negative list" system and expressed the hope that this change-over would occur, as planned, in the near future. The Committee again stressed the importance of adequate information for the

trading community of import opportunities under the Japanese import control system. The Committee furthermore expressed the hope that imports of major trade significance would be included during the first stages of the liberalization programme designed to bring import liberalization to 90 per cent by September 1962.

32. The representative of Japan thanked the Committee for the spirit of understanding for his country's problems with which the consultation had been conducted, and stated that he would bring the views expressed during the consultation and the suggestions made by the Committee to the attention of his Government.

ANNEXES

- I. Opening Statement by the Representative of Japan.
- II. Proposed time-table for future liberalization.
- III. IMF Executive Board Decision relating to its last consultation with Japan.

ANNEX I

Opening Statement of the Representative of Japan

1. Japan's economy had made a significant advance throughout last year and its balance-of-payments position had so remarkably improved that the foreign exchange reserves in March 1961 reached the level of two billion dollars.

Since April 1961, however, our external reserves have taken a sudden turn for the worse and in last September they fell to little more than one billion and six hundred million dollars and are now estimated to have dropped to less than one and a half billion dollars. The following two factors have contributed to this sharp decrease.

Firstly, imports of raw materials and machinery largely increased owing to the high internal demand. In Japan, the industrial modernization and equipment investment to meet the impact of trade liberalization are in full swing.

Secondly, our exports have been lagging in recent months.

Naturally the Japanese Government has made all efforts to prevent the deterioration of our payments position through fiscal and monetary measures. Particularly since last September it has taken a series of even severer measures for restoring equilibrium including the postponement of Government expenditure and investment and the raising of the official discount rate. Our balance-of-payments position has continued to pursue the unfavourable trend since last July, when consultations with the IMF team were held in Tokyo. It was estimated early this autumn that the over-all deficit at the end of the present fiscal year would be approximately a half billion dollars but in the light of later developments we are afraid that the deficit may be even larger.

2. Despite the worsening of our balance of payments and the unfortunate position we find ourselves in the world market to which I will refer later, Japan has been implementing ahead of time the trade liberalization programme endorsed by the Cabinet in June 1960. Further, the Japanese Government adopted last September a programme for accelerating the trade liberalization with a view to achieving 90 per cent liberalization based on the customs statistics in 1959. It is true that in many countries in Europe the liberalization percentage is 90 per cent or over. But these countries were blessed with a favourable geographical and economic environment which enabled them to liberalize their trade first with their neighbour countries to measure up the impact on their industries and then proceed to global liberalization. On top of that, they were allowed a trial and error period of nearly ten years in which they could take all precautionary steps. It

is a fact that Japan which finds itself in entirely different circumstances, both geographical and economic, is lagging behind in liberalization. I hope, however, that all representatives here present will appreciate the intention of the Japanese Government to boost the percentage of the liberalization from 40 per cent in May 1960 to 90 per cent in only two and a half years.

3. I will now briefly explain to you the steps we have undertaken lately in the direction of liberalization.

In April 1961, 547 items including raw cotton and raw wool were added to the list of goods that could be imported under the AA system and 130 items to the list importable under the AFA system. In June and July 1961, 114 items including steel products, instant coffee, soybeans and refined lard were included in the AA or AFA lists, thus realizing 65 per cent liberalization. Furthermore, as I stated earlier, the Japanese Government drew up a plan for speeding up the liberalization last September aimed at advancing by six months the implementation of the June 1960 trade liberalization programme by liberalizing 90 per cent of imports by the end of September 1962 on a 1959 customs clearance basis. The Japanese Government will see to it that the plan be carried out along with the improvement of our balance of payments. I wish to add that there would be an addition of 360 items to the AA list and 210 items including watches and medical apparatus to the AFA list during the latter half of the fiscal year of 1961. On 1 December 1961, another forty items including oatmeal, woolen yarn, and some type of special steel will be added to the AA list and 130 items including certain types of machine tools, wax and home electric appliances to the AFA list. As a result, the percentage of the liberalization was enhanced to 68 per cent in October of 1961 and will be 70 per cent in December of this year. Further liberalization will be effected in April and October of next year.

Meanwhile, efforts for simplifying our import systems will be made, and in this connexion the Japanese Government is contemplating switching to the negative-list approach in next April.

I am happy to say that the linking system was removed in April 1961 and the discrimination against dollar goods ceased to exist by the liberalization of soybeans and refined lard last July. With regard to bilateral arrangements, the clearing account agreement with China was terminated last September and an agreement has been arrived at with the Republic of Korea to discontinue the existing clearing account agreement not in a distant future.

4. Notwithstanding the remarkable growth of Japan's economy, the problems arising from its special characteristics, namely, the shortage of natural resources, the inadequacy of capital accumulation, the wide difference of income levels between big enterprises and small or medium-sized enterprises and between industrial sector and agricultural sector, over-population and

the relatively low level of national income compared to many Western industrialized countries remain unsolved. Although we are hoping that the realization of our Ten-year Economic Development Programme would provide solutions for these problems, we are fully aware that they cannot be settled at once.

I should like to state that it is against this background that we are carrying the heavy burden of rapid liberalization of imports.

As I assured you repeatedly, the Japanese Government is determined to push forward the liberalization programme while striving for the improvement of our balance of payments by restraining the domestic demand through fiscal and monetary measures on one hand and by promoting our exports on the other.

Now I would like to invite the attention of the members of this committee to the situation which is not only blocking the expansion of our exports but also hindering the basic aim of the GATT which is the multilateral expansion of world trade.

As we pointed out in the last meeting of this committee, the stagnation of our exports may largely be attributed to the widespread discriminatory import restrictions against our products, apart from the lack of large and stable adjacent markets, the trend for grouping in Europe and elsewhere, and non-competitiveness of the products of our heavy and chemical industries. We have at every available opportunity emphasized that such discriminatory practices are untenable and requested for their removal. As a matter of fact, however, the number of countries applying Article XXXV of the General Agreement is no less now than six years ago when we adhered to the international organization. The discrimination against Japan is both causing an adverse effect upon our balance of payments and impeding the smooth and rapid progress of our liberalization.

The public opinion of the Japanese business circle on the eve of full trade liberalization is strongly denouncing such discrimination. We recall that the report of the working group for reviewing the application of Article XXXV against Japan which met last August indicates that the trade of third countries have also been seriously affected by the application of the said clause against Japan. With the progress of the liberalization of our trade, the existence of such an unfortunate situation may become intolerable to us. We have been always mindful of the orderly expansion of our exports and successfully effected it by means of voluntary export restraint and other appropriate measures. Actually, there have been many instances where we have reached a mutually acceptable agreement with other countries for the orderly exports of our goods to those countries. Taking this opportunity, and on behalf of the Japanese delegation, I wish to urge most strongly that all contracting parties to the General Agreement would immediately accord a fair and equitable treatment to the Japanese goods.

Mr. Chairman, I would appeal to members of this committee to be understanding and sympathetic to our position. On our part, I will assure you we are prepared fully to co-operate with you in the conduct of our consultation.

ANNEX II

Proposed Programme of Import Liberalization up to 1 October 1962¹

Date of Proposed Liberalization

Items	Items already liberalized	1 Oct. 1961	1 Dec. 1961 (scheduled)	1 April 1962 or before	1 Oct. 1962 or before
1. Iron & steel	pig iron, ordinary steel galvanized iron plates and greater part of other steel products			alloy steel, ferro-alloys	
2. Machinery	screws, toothed wheels, couplings, cocks and some types of bearings household sewing machines, cameras and binoculars some types of press machines	pocket and wrist watches	most types of valves some types of industrial sewing machines, movie cameras small-size ordinary lathes, ram-type turret lathes, small-size machine press automatic lathes of multi-spindle type	most types of bearings	special valves movie projectors, table clocks most types of other machine tools tools

¹Supplied by the authorities of Japan. See paragraph 22 of the report.

large-size
profile
milling
machines

most types of
paper and pulp
machines,
printing and
book-making
machines,
textile
machines,
wood-working
machines,
agricultural
machines,
mining,
engineering
and construction
machines

the majority of the
items listed on
the left which
have not been
liberalized

most types of
internal
combustion
engines,

most types of
water and
wind power
machines

some types
of standard
electric
motors and
transformers
rolling stocks,
ships, buses,
trucks,
motor-
tricycles and
small-size
motor-cycles

most types of
standard
electric
motors and
transformers

most types of large-
size electric motors
and transformers and
telecommunication
equipments

fork-lift
trucks,

wheeled
tractors

3. Chemical products	greater part of petro- chemical products, benzol, toluol, xylol, acetone	phenol		butanol
	greater part of water paint and synthetic resins	phenol resins	cellulose paints	greater part of organic chemical products other than those listed in left columns
	greater part of rubber products			tyres and tubes for passenger cars
	potash salt			nitrolime, super- phosphate soda and other soda products
	sulfuric acid, nitric acid, hydro- chloric acid, titanium oxide, hydrogen peroxide	tripoli sodium phosphate		bromine, chrome oxide
	some kinds of pharma- ceuticals	folic acid, sulfamines, aminopyrines		insulin, dibucaïn
				caffeine, vitamin C, prednison

4. Ceramics and Sundries	cement, ceramic products, insulators, ordinary sheet glass some kinds of sundry goods	thick ordinary sheet glass	sheet glass other than those listed in left columns fire-proof materials, graphite products leather products for industrial use other sundry goods
5. Textile Products, Pulp and Paper Products	greater part of rayon and spun rayon products, silk goods	cotton goods	greater part of woollen and synthetic textile goods, lace, embroidery, etc.
	some kinds of lined paper and printing paper	rayon pulp	paper pulp
		greater part of wrapping and writing paper	thin paper, corrugated cardboard paper, rough kraft paper
6. Minerals and Non- Ferrous Metal Products	nickel		tungsten ores, molibden ores, manganese ores, mercury
			non-ferrous metal products
7. Fuels			petroleum

8.
Agricultural
Forestry,
Fishery
Products

mandarine

vegetable
juices
(excluding
tomato
juice)

lemon,
grapefruits
canned
asparagus,
tomato juice,
banana,
canned pine-
apple

some kinds of
fruits and
processed
fruits

(a)

Agricultural
Products

Oils and
Fats

beef tallow, whale oil,
lard animal and
vegetable
oils and
fats

greater
part of
oil cakes

peanut butter

linseed oil, castor
oil, sesame oil and
other edible
vegetable oils

peanut oil
cakes

kaoliang for
fodder,
menthol
crystals,
menthol oil

pyrethrum
abstracts

oatmeal

fruits
flavour

curry

macaroni
spaghetti,
biscuits

cocoa powder

(b)

Fishery
Products

canned
salmon and
tuna

salmon,
trout,
tuna,
bonito

whale meat

(c)

Forestry
Products

logs and
greater
part of
lumber

lumber from conifer-
ous trees other than
those listed in left
columns

walnut

greater part chestnut
of special
forestry
products

(d)

Animal
Products

cattle, sheep,
eggs, natural
honey

A N N E X I I I

International Monetary Fund Executive Board Decision at
Conclusion of IMF-Japan Consultation
on 6 September 1961

1. The Government of Japan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. Japan's economy continued to grow rapidly in 1960 and the first half of 1961. The growth was primarily due to a rapid increase in private equipment investment, supported by rising private consumption and government expenditure.
3. The expansion of the Japanese economy was achieved with relatively little disturbance to price stability and the balance-of-payments until the end of 1960. However, in the first half of 1961, a substantial deficit emerged on current international transactions, due mainly to a large increase in imports and also to some slackening in the rate of increase in exports. Despite the import surplus and a large Treasury cash surplus resulting from increasing revenues, wholesale prices rose in contrast to a decline in the first half of 1960. Bank credit expanded rapidly, largely to finance private equipment investment. The Fund welcomes the steps being taken by the Japanese authorities to curb the demand expansion and also the intention of the Japanese authorities to strengthen if necessary their tight monetary and fiscal policies so as to restore a satisfactory balance-of-payments position at an early date.
4. Substantial liberalization and simplification of the restrictive system have been achieved during the past year. Discrimination against the dollar area has been eliminated, and the retention quota system and the linking system have been abolished. The Fund welcomes these measures as well as the expected termination of the bilateral payments arrangements with China and the intention to abolish as soon as possible the bilateral arrangement with Korea. Current transactions are, however, still severely restricted and are to some extent discriminatory. The Fund notes with satisfaction the intention of the Japanese Government to accelerate its liberalization at a more rapid pace. Japan aims at completing 90 per cent liberalization on a 1959 basis a year from July 1961 or at the latest by September 1962, at which time the Japanese Government intends no longer to claim any balance-of-payments reasons for the remaining restrictions. The Fund urges the further extension of liberalization and the elimination of the remaining discriminatory practices.
5. In concluding the 1961 consultations, the Fund has no further comments to make on the transitional arrangements maintained by Japan.

