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GATT TRADE POLICY REVIEW

**JAPAN**

On 1-2 August 1990, the GATT Council will consider reports on the trade policies of Japan, prepared by the Japanese Government and the GATT Secretariat. The reports will form the basis of a comprehensive examination of the trade policies of Japan.

The reports cover all aspects of Japan's trade policy, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and wider economic questions.

The trade policy review mechanism was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT council of the full range of trade policies of individual GATT members.

Attached are summary sections of the reports prepared respectively by the GATT Secretariat and the Japanese Government. Full reports are available for journalists from the GATT Secretariat on request.

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The complete trade policy review of Japan, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, is expected to be published in October 1990, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

Since December 1989, reviews of the following countries have been completed and are available from the GATT Secretariat: Australia, Morocco and the United States.

GATT TRADE POLICY REVIEW

JAPAN

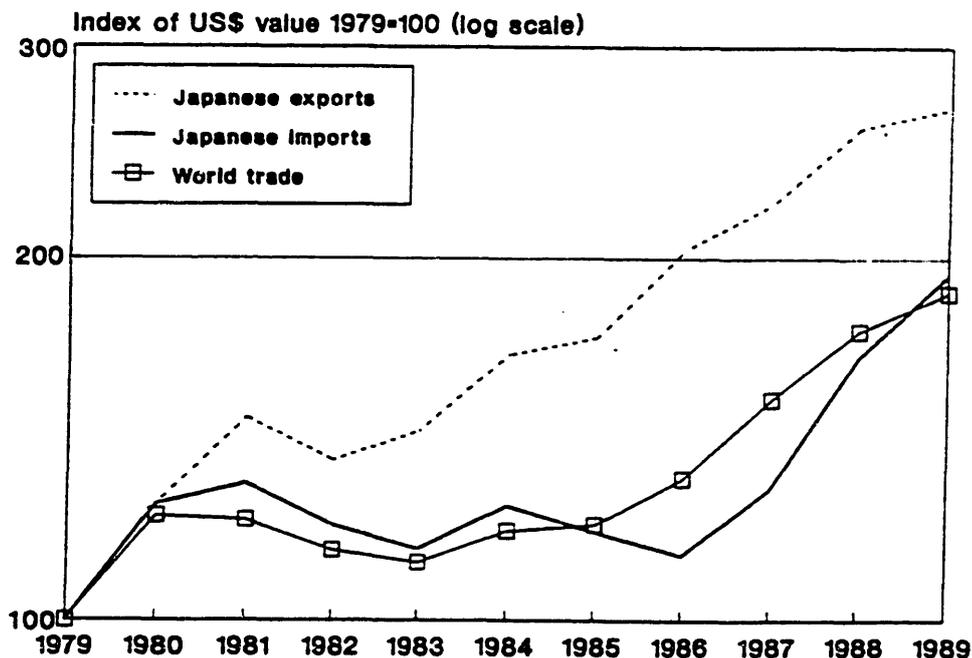
Report by the GATT Secretariat - Summary Observations

(1) Japan in World Trade

Japan ranks third among trading nations in both world merchandise exports and imports. Since 1986, Japan's imports have expanded more rapidly than the dollar value of world merchandise trade, a reversal of earlier trends (Chart VII). Despite this development, Japan's share in world merchandise imports has remained substantially smaller than that in world merchandise exports (6½ versus 9 per cent in 1989).

Chart VII

Japanese and world merchandise trade, 1979-89



Source: IMF, International Financial Statistics, 1989; GATT International Trade, 1988-89.

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Japan's merchandise trade to GDP ratio, equivalent to 17 per cent in 1989 (7½ per cent for imports and 9.7 per cent for exports), is one of the smallest among all GATT member countries. No developed country has a lower merchandise import to GDP ratio, and all developed countries but the United States have a higher merchandise export to GDP ratio. These facts reflect a variety of factors which include the large domestic market in Japan, its geographical distance from major trading partners, language barriers, and border and non-border measures at home and abroad. However, trade is more important for Japan's economic prosperity than the ratios of trade to GDP suggest. Lacking fuels and many raw materials, the Japanese economy is highly import-dependent, and exports of manufactures were, until recently, a driving force behind Japan's relatively rapid economic growth.

Manufactures make up 96 per cent of Japanese exports of merchandise and are largely sold in the United States (34 per cent of the total), Southeast Asia (26½ per cent) and the EC (17½ per cent). Dynamic export items include office and telecommunication equipment, road motor vehicles and machinery. Combined, these products accounted for two-thirds of total exports of merchandise in 1988, as compared to an average share of about 40 per cent for the developed countries as a whole. The shares of more mature industries, such as steel, ships and textiles, have substantially declined in Japan's export basket over the past one or two decades. Despite the changes in the export mix, a relatively high product concentration has remained a key feature of Japan's export patterns.

During the 1980s, Japan accumulated huge trade and current account surpluses, peaking in 1987 at world record levels of 96½ and 87 billion US dollars, respectively. This development resulted from a variety of factors, including the success in eliminating a net public borrowing requirement of 5½ per cent of GNP in 1978 by the mid-1980s. This was an important element behind the increasing excess savings over investment which was reflected in the growing current account surplus.

Reducing the external imbalances has been a top priority of Japan's economic policy since the mid-1980s. The balance-of-payments adjustment process was promoted by domestic demand-led economic growth, stimulated by fiscal policy, market opening measures and a substantial nominal and real effective appreciation of the yen between 1985 and 1988. In 1989, the current account surplus had dropped to 2 per cent of GDP, down from 4½ per cent in 1986. Throughout 1989 and the first months of 1990, the yen tended to depreciate and in April 1990 was nominally about 28½ per cent down from its peak in November 1988. This development is likely to have contributed to the fact that the growth in the value of Japanese merchandise exports accelerated sharply in the first three months of 1990 (increase of about 39 per cent in terms of yen and 21 per cent in terms of US dollars, on annual basis), while the growth of merchandise imports slowed markedly down (on annual basis, increase of about 8 per cent in terms of yen and stagnation in terms of US dollars).

From 1986 to 1989, merchandise imports expanded more rapidly than final domestic demand. Imports of manufactures grew particularly strongly. While Japan remained the biggest (net) importer of agricultural products in

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the world, the share of manufactures in total imports grew from about 30 per cent in 1986 to more than 40 per cent in 1989 (compared to an average of around 70 per cent for the developed countries as a group). Fast-growing import items included passenger cars, precious metals, steel, electrical machinery and tobacco products. In the course of this development, Southeast Asia has remained Japan's most important source of imports of merchandise (25 per cent of the total in 1989), followed by the United States (23 per cent) and the EC (13½ per cent).

The Japanese economy has been further interlinked with the world economy through rapidly growing foreign direct investment flows into and out of Japan. Japanese firms have been particularly active in establishing machinery, electronics or transport equipment plants in North America, Asia, and the EC, not least in response to protectionist barriers or pressures abroad.

## (2) Institutional Framework

Japanese trade policies are formulated and implemented through close co-operation between the Cabinet and the Diet (Parliament). The Cabinet exercises its executive power under the Constitution on the basis of laws enacted by the Diet. Within the broad framework of policy objectives and instruments set out by these laws, the Cabinet is given a high degree of discretionary power for the formulation and implementation of trade policies. However, in recent years, it has become frequent practice for the Cabinet and the ruling political party to form "joint headquarters" to deal with major trade issues.

The Government consults closely on trade issues with the private sector through a large number of advisory bodies. Japanese producers and traders are much more strongly represented in the advisory bodies than Japanese consumers. Most of the interaction between the advisory bodies and the Government tends to be informal and not a matter of public discussion with the result that it is not possible to make an assessment of the rôle and actual working of these bodies. There are also many informal contacts outside the context of the advisory bodies with a view to achieving consensus on trade-related policy issues between private business and the Government.

There is no official independent body in charge of periodically carrying out comprehensive reviews of trade policies, or assessments of the costs and benefits involved.

## (3) Trade Policy Features and Trends

Japan acceded to the GATT in 1955. The GATT is deemed to constitute a treaty which, under the Japanese Constitution, supersedes domestic laws. Following its accession to the GATT, Japan has participated in all multilateral trade negotiations. It is a party to all MTN Codes. Japan is a strong supporter of the m.f.n. principle. It extends m.f.n. treatment to

all contracting parties to the GATT, except for Botswana and Lesotho. Japan does not belong to any customs union, free-trade area or other preferential trade agreement.

Since 1971, Japan has accorded preferential tariff treatment to developing countries. Special preferences exist for least developed countries. The GSP scheme is reviewed annually in the context of the general review of tariffs. Currently, the Japanese GSP scheme covers most industrial products, but about two-thirds of agricultural products are excluded. Complexity is added by ceiling quotas for preferential imports of many items and escape clauses.

(i) Recent evolution

In the process of becoming the second largest industrial power of the world, Japan has shown remarkable flexibility and success in adapting to changes in the external environment. A number of manufactures have proved highly competitive in export, beginning with textiles in the 1950s and including, over the decades, steel, photographic and optical equipment, consumer electronics, automobiles, machine tools and semi-conductors. In an effort to cope with trade frictions related to the rapid penetration of foreign markets, Japan has resorted, in an increasing number of cases, to the use of voluntary export restraints or export monitoring. The VERs have helped Japan to retain the rents from protection. However, overall, this system of restraints has also tended to create vested interests at home in arrangements for managed trade.

One of the principal problems in Japan's trade relations has been the trade frictions with the United States and, to a lesser degree, with the EC. In recent years, these frictions have been compounded by a perception on the part of the United States and the EC that their exports do not enjoy the same effective access to Japanese markets as is extended to Japanese exports to their own markets. Thus the focus has tended to shift from the pressures created by Japanese exports to the difficulties foreign firms are facing in their attempts to compete on the Japanese market.

Reflecting this situation, Japan's trade policies over the past five years have been marked by a series of market-opening initiatives. A number of import liberalization measures related to leather, alcoholic beverages and some dairy products, vegetables, meat products, fruit and other food items were taken in pursuance of GATT Panel recommendations. Other steps, such as liberalization measures for beef, citrus, some forestry products, auto-parts, pharmaceuticals, medical equipment and telecommunication equipment, were the result of bilateral consultations with trading partners, particularly the United States. In addition, several rounds of External Economic Measures, the "Action Programme", and other import expansion initiatives focused on reducing tariff rates, streamlining standard and certification systems, deregulating import procedures and the distribution system, and widening access to Government procurement in Japan.

(ii) Current trade policy instruments

Japan actively uses a wide range of measures affecting trade. As a result of the recent evolution of Japan's trade policies, there has been some increase in the rôle of the tariff as an instrument to regulate the level and structure of imports.

Most tariffs in Japan are ad valorem. Seasonal tariffs apply to bananas, oranges, grapefruit and grapes. Specific tariffs are in place for several products, including live horses, gas and petroleum oils, sugar and certain alcoholic beverages.

The level of tariff bindings is high for industrial products, but relatively low for agricultural products (97 versus 63 per cent of all tariff lines). Bindings are particularly valuable for Japan's trading partners because, given the place of the GATT in Japanese law, there is no possibility for the Government of Japan to increase tariffs beyond bound rates without prior negotiations with trading partners.

In agriculture, the tariff provides protection for some items, but for many products import quotas, trade monopolies and non-border measures are more important in this respect. The simple average tariff rate for agricultural products is 12.1 per cent. High tariffs apply to sugar and other foodstuffs, beverages and spirits, and dairy products. Considerable tariff escalation is present between primary and semi-processed agricultural products.

For a number of products, including certain dairy products and some fish products, import quotas (partly in the context of State trading) remain binding import constraints. Furthermore, it has been Government policy to maintain a virtual prohibition of rice imports on grounds of the need for self-sufficiency. This policy is reflected in the fact that, in 1989, the Government purchase price of rice was 660 per cent higher than the corresponding target price in the United States (for wheat, this factor was 780 per cent).

Quantitative import restrictions have been recently removed for beef, citrus fruits and several other agricultural products. In 1988, wholesale prices of beef were estimated to have been 3½ times higher in Japan than in the United States. The removal of quantitative restrictions will reduce this price differential but not eliminate it because beef imports will be facing normal tariffs of initially 70 per cent (1991) and later 50 per cent (1993). For tomato products, certain pineapples and some other items, the quantitative restrictions have been replaced by tariff quotas.

Public financial assistance to agriculture is provided for a variety of objectives, ranging from the promotion of productivity growth in this sector to disaster relief. For example, substantial subsidies are granted for improving the agricultural infrastructure, encouraging greater

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flexibility in the use of farm land and diffusing new agricultural techniques. Similar programmes are extended to forestry and fisheries. For several agricultural products, such as rice, sugar and milk and milk products, price support programmes are in place. The share of expenditure for price support within the national agricultural budget is currently 13 per cent, down from 25 per cent in 1982.

According to the Government of Japan, the total Aggregate Measurement of Support in agriculture declined from 5 trillion yen in fiscal year 1986 to 4 trillion yen in fiscal year 1989. However, this still corresponds to well above 40 per cent of gross domestic product of agriculture. Japan continues to have a highly protected agricultural sector.

In industry, tariffs are generally low (simple average rate of 5.3 per cent in 1989). High tariffs apply to products such as leather, wood-based panels, jute and hard fibre fabrics, clothing and clothing accessories and footwear, with tariff peaks reaching 60 per cent.

An import quota on coal is in place and there are quotas on a variety of other products for health and security reasons. Japan is a signatory to the Multifibre Agreement (MFA), but to date has not concluded any MFA arrangements to restrict imports of textiles and clothing into Japan. Silk fabrics are subject to a prior confirmation system, and an cartel controls imports of these products from China. Quantitative restrictions on leather and leather footwear have recently been replaced by tariff quotas, with ceiling tariffs of 60 per cent or possible even higher specific duties in the case of footwear.

In industry, Government subsidies are provided for research and development and assistance to small and medium scale enterprises. Specific programmes for depressed industries had been largely phased out by 1989, continuing assistance to coal mining being an exception. The emphasis in assistance has shifted from promoting the modernization of depressed industries to promoting the movement of resources into other businesses. Support is granted for firms that replace machinery and equipment for certain productions, such as steel, textiles, non-ferrous metals, liquid oxygen and cement, by machinery and equipment for business activities outside these areas. Japan spends relatively little on defence-related R and D, and, overall the share of Government finance in total R&D is considerably lower than in other developed countries. Government assistance is concentrated on covering the risks and costs involved in developing advanced technology. In addition to direct financial assistance, substantial assistance to R and D is provided in the form of tax concessions.

Imports of many agricultural and industrial products are subject to a wide and complex range of standards, certification and other import procedures, including health and sanitary regulations. Furthermore, there are extensive public provisions to regulate the distribution of goods and



various services in Japan. Several of these measures have been called into question by trading partners as well as Japanese business representatives as working to stifle the vitality of the private sector, impede the entry of newcomers, and restrict foreign competition.

A series of steps has recently been taken by the Government to simplify import procedures, to bring Japan's standards in conformity with international standards, and to reduce the extent of its intervention into foreign trade. The Office of the Trade and Investment Ombudsman (OTO), established in 1982, reports that it initiated improvements, or clarified misunderstandings, in about two-thirds of the 400 complaints it received up to February 1990. The record of the OTO shows that there is still a considerable lack of transparency in administering trade-related regulations, partly resulting from the high degree of discretion given to individual Government offices within their jurisdiction.

Overall, international price comparisons suggest that Japanese retail prices for a substantial range of food items and some industrial products such as certain clothing are much higher than in other developed countries. However, partly because of their intransparency, it is difficult to assess the rôle of individual trade-related measures in Japan in contributing to these price differentials.

As for Government procurement, data on the total value of purchases is not available. A signatory to the GATT Government Procurement Code, Japan extends its procedures for procurement under the Code to both Code members and non-members. In 1988, about 15 per cent of the total of 2 billion SDRs of Government procurement above the threshold of the Code was procured from outside Japan. In recent years, Japan undertook to improve contract procedures as part of the Action Programme, and through bilateral agreements with the United States regarding telecommunications, super-computers and satellites. The coverage of these measures goes beyond the scope of the GATT Code.

On Japan's export side, voluntary restraint measures are in place, mainly for certain manufactures exported to the United States and the European Communities. The items include certain textiles and clothing (in addition to the restraints under the MFA), pottery and chinaware, steel and steel products, passenger cars, machine tools, semi-conductors, metal flatware, forklift trucks and ball-bearings. The number of items has grown since the mid-1980s.

The export restraints were originally meant to be temporary measures. However, with few exceptions (such as the Orderly Marketing Agreement on colour televisions with the United States for 1977-80), the restraints have remained in force for many years, and in some cases for several decades (e.g. metal flatware, pottery and chinaware since the early 1960s). Voluntary export restraints on passenger cars to the United States were implemented in 1981 as a three-year temporary measure, but have been repeatedly prolonged even though since 1985 the United States has ceased to request the restraints.

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Export cartels by private firms are permitted under the Export and Import Transaction Law for preventing unfair practices ensuring that exports take place in an orderly manner. The Government has often advised firms to form such cartels for implementing voluntary export restraints. In 1990, 42 export cartels have been in place, down from 70 in 1979.

Under the Foreign Exchange and Foreign Trade Control Law, export licensing is applied to 209 industrial items for security reasons (mostly COCOM-related) and to a number of mineral and agricultural items for economic reasons (including short domestic supply). For some textiles and certain machine tools, export licensing is used to administer voluntary restraint arrangements.

While the formal legal regulations for the conduct of international trade are contained in laws such as the Export and Import Transactions Law and the Foreign Exchange and Foreign Trade Control Law, the use of administrative guidance as a means of ensuring the achievement of sector-specific and overall trade policy objectives is common. In practice, administrative guidance has proved to be an effective alternative to measures of a stringent legal character, even though such guidance, by itself, does not carry any legal sanctions. Since administrative guidance may not necessarily take the form of published guidelines, it has often lacked transparency.

(iii) Temporary measures

Japan has never taken any anti-dumping action, although anti-dumping petitions were filed in three cases. Japan initiated a countervailing duty investigation only once, in 1983, but no further action was taken. Japan has also never taken recourse to Article XIX safeguard action. Japan's invocation of balance-of-payments provisions upon its accession to GATT was terminated nearly three decades ago.

This record with respect to GATT-approved temporary measures is in striking contrast to the practices of Japan's major trading partners. In part, the reason may be a lack of requests for such action from the private sector in the context of rapid growth of the Japanese economy and of Japanese exports. The Government of Japan regards this record also as evidence of its strong determination to resist protectionist pressures from domestic industries.

However, in some instances, Japan requested trading partners to restrain exports to the Japanese market where these were seen to be creating problems for domestic producers. For example, the latest anti-dumping petition, in 1988, was withdrawn when Korean exporters agreed to restrain their shipments of knitwear products. Upon request from Japan, China and Pakistan have also restrained their exports of certain textile products to Japan.

(iv) New initiatives

In March and April 1990, Japan implemented "Comprehensive Import Expansion Measures", including the elimination or reduction of tariffs on 1,008 products. The Measures also encompass tax incentives and loans to promote imports. In addition, the Japanese Government has urged major private firms to boost imports. Where successful, the approaches made to private firms could suggest that the level of imports can be effectively managed by the Government, a notion to which the Japanese Government does not subscribe. There is also the risk that this approach to import promotion could result in trade distortions, for example by favouring import growth from a particular source.

As a result of the Structural Impediments Initiatives talks with the United States which started in September 1989, Japan is addressing a number of import-related and foreign investment-related issues. They include the deregulation of the distribution system, the elimination of exclusionary business practices, more transparency in business group relations (Keiretsu), and other measures to promote fair and free competition in Japan. The final report of the talks is scheduled to be issued by July 1990.

(4) Trade Policies and Foreign Trading Partners

In recent years, Japan has made tangible progress in improving access to its markets. The series of market-opening measures - taken at the border and inside the country - has produced impressive results as evident from very rapid growth in imports of items such as cigarettes, wines and other alcoholic beverages, fruits, beef, passenger cars and semi-conductors. However, a hard core of high protection has remained, covering a broad range of agricultural products - rice being the most deep-rooted example - and several industrial products, including many items of particular export interest to developing countries. Changes in import policies in these areas could clearly promote structural adjustment in the Japanese economy and substantially reduce costs to Japanese consumers.

The market-opening measures have been partly taken in response to pressures from outside, in particular the United States, to reduce the huge trade and current account surpluses that Japan accumulated during the 1980s. While a further opening up of the Japanese economy will affect the level and structure of imports into Japan, it is also likely to increase the export competitiveness of the country. Beyond the short-run, developments in the trade and current account will be largely determined by more fundamental factors influencing the balance between the traditionally high level of savings in Japan and its investment performance, including macro-economic policies and structural policies outside the trade area.

Japan has consistently criticized regional, bilateral, or unilateral approaches to trade as undermining the multilateral trading system. However, its strong support for multilateralism has co-existed with a

readiness to seek solutions for trade problems within a bilateral framework so as to avert the threat of unilateral action. In this context, it has also entered into several bilateral arrangements such as voluntary export restraints. By resorting to such "pragmatic" solutions to trade problems, Japan has, in effect, encouraged the use of bilateral pressures in trade relations, and contributed to the proliferation of "grey-area" measures.

In a few cases, Japan has asked certain developing countries to restrain their exports so as to avoid the use of temporary import relief measures in Japan. As exports from developing economies become more diversified and competitive, it is likely that the Japanese economy will come under increasing adjustment pressure from these sources of supply. There are evident dangers for the multilateral trading system if the use of such bilateral measures becomes common in the handling of future adjustment problems.

In the light of its importance in world trade, Japan has a major responsibility for the health of the multilateral trading system. In the Uruguay Round, Japan has been particularly keen on strengthening rules in many areas such as anti-dumping, safeguards or dispute settlement procedures, and on creating rules in new areas. Japan has also asserted its willingness to make an important contribution to the success of the negotiations by providing improved access to its market. More active reliance on multilateral rules and a greater readiness to make use of the GATT framework, including the use of GATT dispute settlement procedures, would help Japan to resolve trade problems in an appropriate multilateral context, and to make a contribution to the functioning of the international trading system which is commensurate with its size in world trade.

TRADE POLICY REVIEWJAPANExecutive SummaryObjectives of trade policy

Japan's foreign trade rapidly expanded under the GATT system after World War II and thus played an important rôle in supporting Japan's post-war economic development and sustaining its people's life. This historical experience has made Japan realize that maintaining and strengthening the GATT system is not only for its own interest, but also its responsibility as a major trading nation in the world. Thus, commitment to free trade and the forestallment of protectionism through maintaining and strengthening the multilateral trading system are the cardinal principles of Japan's trade policy.

These principles are reflected in domestic systems, where Japan allows free import/export transactions in principle and limits government control over such transactions to the necessary minimum. At the same time, Japan has been implementing various packages, including the Action Programme for Improved Market Access, which are intended to achieve a level of openness exceeding the international standard. On the international stage, Japan has, since its accession to GATT in 1955, contributed to the liberalization of world trade through active participation in each of the Round negotiations, and is currently engaged in the Uruguay Round negotiations, which are regarded as the top priority issue of Japan's foreign policy.

Redressing of trade imbalances is one of the most important tasks in Japan's external economic policy. To this end, Japan has firmly committed itself to economic policy co-ordination with major developed countries. With an aim to transforming its economic structure into a domestic demand-led pattern which would be more harmonious internationally, Japan also makes it the basic principle of policy implementation to conduct an overall review of the systems and mechanisms of the national economy and the society and to carry out extensive reforms for the promotion of economic structural adjustment. In addition to these endeavours, the Government of Japan is continuously making policy efforts, including ones to improve market access and to expand imports. As a result, the nations' imports, especially of manufactured goods, have significantly increased in recent years, and Japan has become the biggest net importer of agricultural products in the world. The contribution of external demand to Japan's economic growth has been also consistently negative since 1986, suggesting that a domestic demand-led economic growth has been realized. Japan is determined to continue these efforts in spite of domestic difficulties.

Export/import systems and domestic laws and regulations governing foreign trade

The Japanese system of controlling foreign exchange and foreign trade is based on the principle of free external transactions and is intended to promote sound development of external transactions and the national economy

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by limiting control or adjustment to the necessary minimum. This philosophy is manifested in the Foreign Exchange and Foreign Trade Control Law, and the specific ways in which the philosophy is put into action are prescribed in laws and regulations including the Import Trade Control Order and the Export Trade Control Order. Laws intended to foster sound development of foreign trade include the Export and Import Transaction Law, whose purpose is to establish order in export and import by preventing unfair export and import transactions; and the International Trade Insurance Law, which is designed to establish a system to ensure external transactions against restrictions on foreign exchange deals and other risks that cannot be covered by ordinary insurance.

The laws and regulations concerning customs tariffs consist of three principal laws. The Customs Law provides for, among other things, determination, payment and collection of customs duties and the procedure of customs clearance. The Customs Tariff Law prescribes the tariff rates, the basis for its assessment, and the system for reduction, exemption and drawback of customs duties. The Temporary Tariff Measures Law stipulates exception to the Customs Tariff Law concerning tariff rate and the system of reduction, exemption and refund of customs duties, so as to deal with short-term changes in industrial and economic conditions. The Temporary Tariff Measures Law also provides for the Generalized System of Preferences. Japanese customs duties have generally been reduced to the lowest level among developed countries through GATT negotiations for tariff reductions and unilateral reductions in the framework of the series of market-opening packages, including the Action Programme for Improved Market Access. Japan's tariff imposition ratio (ratio of the total tariff revenue to the gross value of imports) stood at 3.4 per cent in FY 1988.

#### Process of trade policy formulation and review

Foreign trade policies of the Government of Japan are formulated by such national administrative organs (Office, Ministry, Agency and Commission) functioning under the control and jurisdiction of the Cabinet. The administrative organs keep liaison between one another so that they may consummate their administrative functions as an organic whole. Consultations for policy formulation among the concerned administrative organs are carried out in a decision-making process based on consensus. Under the Cabinet, conferences are instituted, including the Trade Conference, which reviews and discusses important trade matters that require liaison and co-ordination among the administrative organs concerned, and the Ministerial Conference for Economic Measures, which is responsible for decision-making on fundamentally important matters including various comprehensive economic measures.

The Cabinet is collectively responsible to the Diet (the national legislature) and is authorized by the Constitution to perform such functions as general administrative functions, enforcement of the law and management of foreign affairs. Trade affairs are also handled in the same mechanism.

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The Government-Ruling Parties Joint Headquarters for the Promotion of Economic Structural Adjustment was instituted to handle issues on economic structural adjustment. It is made up of the Cabinet Ministers concerned and executive members of the ruling Liberal Democratic Party.

#### Bilateral, multilateral, regional and preferential agreements

Regarding international agreements on trade, Japan adheres to the multilateral trading system based on GATT and is party to the agreements concluded during the Tokyo Round negotiations. The Constitution of Japan prescribes that "the treaties concluded by Japan and established laws of nations shall be faithfully observed", and this principle is applied to the General Agreement and the Tokyo Round agreements. In addition to these multilateral agreements, Japan also has bilateral treaties of commerce and navigation and/or trade agreements. Japan has not formed a free-trade zone nor a customs union with any country. Furthermore, it does not provide any preferential tariff to any country or region except under the Generalized System of Preferences.

#### Trade policy measures

Japan has been implementing trade policy measures in accordance with the principle of free trade. Such measures as licensing, customs valuation, government procurement, standards, anti-dumping actions, subsidies and countervailing duties are all carried out in conformity with the respective pertinent codes concluded during the Tokyo Round. However, Japan has never actually invoked safeguard, anti-dumping, or countervailing duty actions. As for government subsidies, Japan grants no export subsidies of whatever kind. Subsidies available to manufacturing industries are at a considerably lower level than those of other developed countries in terms of ratio to GDP. Subsidies to the agricultural, forestry and fisheries industries have also been substantially adjusted and rationalized.

Based on the principle of free export, Japan takes only minimal necessary regulatory measures from the viewpoints of maintenance of international peace and security, maintenance of orderly export trade, conservation of the natural environment, etc. Concerning voluntary restraints designed to avoid trade friction, actions are taken to the minimal necessary extent as emergency and unavoidable measures. Such restraints are intended to avert the unilateral imposition of import restrictions by importing countries in face of protectionist moves in international trade, and to eventually restore free trade. The restraints are based on request, agreement, or some form of consent, of the importing country.

#### Programmes for improvement in market access and structural adjustment

With the recognition that redressing of external imbalances is one of its top priority tasks, Japan is making every effort to steer the economy in such a way to depend on domestic demand and to promote economic

structural adjustment through, among others, easing government regulations. In addition, actions have been taken to improve market access and expand imports. For the improvement in market access, various packages, including the series of the External Economic Measures and the Action Programme for Improved Market Access, have been implemented to eliminate or reduce customs duties, relax import restrictions, and improve the standards and certification systems and import procedures. With regard to import expansion efforts, measures are being implemented from FY 1990 with the following four main features: (1) introduction of comprehensive tax incentives for the import of manufactured products; (2) suspension of tariffs on more than 1,000 items of industrial products; (3) a substantial increase in the budget designed to promote imports; and (4) expansion of import promotion loan schemes. Furthermore, concerning importation of agricultural products, measures for improvement of market access are being taken despite domestic difficulties for the so-called twelve agricultural products (e.g. processed cheese) and for citrus fruit and beef.

Japan actively encourages the process of industrial structural adjustment in which the market mechanism functions to transfer labour and capital from the sectors that have lost competitiveness in relative terms to the more productive sectors. As a result, Japan has been able to successfully deal with major changes in the economic environment such as the two oil crises and the appreciation of the yen; without relying on protectionist measures. Specific measures taken by the Government include the encouragement of competition in the market by, for example, deregulations and the enactment of the Law on Temporary Measures for Facilitating Industrial Structural Adjustment. The Law was instituted in 1987 to cope with the retrenchment of industries as well as problems concerning employment and regional economies affected by the drastic and sharp appreciation of the yen. In accordance with the Law, the Government extends assistance to facilitate and promote industrial structural adjustment and supports the localities where employment is adversely affected. The Government sees to it that these assistance measures will not produce side effects such as promotion of exports.

Further, since 1989, Japan has been engaged in the Structural Impediments Initiative (SII) talks with the United States with a view to complementing the endeavours made in the framework of economic policy co-ordination and identifying and solving structural problems that are posing impediments to the adjustment of trade and balance of payments between the two countries.

#### Wider economic needs and policies

Japan formulated in 1988 the "Five-Year Economic Management Programme - Economic Management within a Global Context", which outlines the basic direction of future economic policy. The Programme is mainly intended to step up the structural adjustments aimed at transformation to, and establishment of, a domestic demand-led economic structure, and identifies three major tasks facing Japan: (i) redressing of external imbalances and

contributions to the world; (ii) realization of a diversified lifestyle which could give people a real sense of affluence; and (iii) smooth industrial structural adjustment and balanced development of regional economies. The Programme further sets forth the following basic directions of economic management to accomplish these tasks; (a) promotion of economic structural adjustment, etc.; (b) policy implementation from the standpoint of "Economic Management in a Global Context", which is based on the recognition that Japan's development and global prosperity are inseparable; and (c) opening a new frontier for industrial development by utilizing the results of reforms in social and economic systems and mechanisms as well as those of technological innovation, so as to cope with the hollowing-out and devitalization of the economy caused by changes in industrial structure.

#### External economic environments

The adjustment of Japan's export/import balance has been progressing along with the rapid appreciation of the yen following the Plaza Accord in 1985 and the sustained economic growth mainly led by domestic demand. The growth of imports is particularly notable, as it surpassed that of exports for three years from 1987 to 1989 and achieved an average annual growth rate of 18.6 per cent over the three-year period (against 9.6 per cent for exports). In these developments, Japan's external imbalance has been diminishing, with the ordinary account surplus dropping to US\$57 billion in 1989 after reaching a peak of US\$87 billion in 1987 and its ratio to GNP also dropping from 4.3 per cent in 1986 to 2.0 per cent in 1989.

#### Problems in the external markets

Problems in the external markets include the implementation of measures under Section 301 and Super 301 of the United States Omnibus Trade Act, which are based on the unilateral condemnation of the trading partners' system and practices as being unfair. These measures are highly likely to have protectionist impacts and may undermine the multilateral free-trading system.

The arbitrary institution and administration of standards in determining countries of origin, dumping rules and customs classifications, as well as the existence of discriminatory quantitative restrictions against Japan (having no ground in GATT) and other non-tariff barriers, tend to give enormously negative effects on the expansion of trade and adversely affect the development of world trade.

There have been moves towards regional economic integration represented by the scheduled market integration of the European Community and the United States-Canada Free Trade Agreement. Japan considers it indispensable that these integrated economies be open to nations outside the regions, and that the integration will not have a significant adverse impact on the interests of third countries, in view of maintenance and further development of the GATT system which is based upon the principle of the most-favoured-nation treatment.