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**JAPAN EXPANDS EFFORTS TO CONTROL
MOUNTING TRADE SURPLUS**

Largely in response to pressures from major trading partners, Japan continues to improve foreign access to its market - especially for industrial products - in an effort to help reduce its persistent and growing merchandise trade surplus, according to the GATT Secretariat's new report on Japan's trade policies and practices.

Japan continues to attach high priority to reducing trade friction and has recently taken further market-opening measures which may lead to an additional US\$5 billion worth of imports over the next 18 months. Many of the recent market-opening measures stem from commitments announced prior to the previous (1990) TPRM review. Japan has also introduced and recently strengthened financial and tax incentives aimed at promoting imports. However, the Secretariat's report questions the economic rationale for the latter measures, stating that just as import restrictions ultimately tax a country's efficient exporters, import incentives could in the end subsidize exporters, and may even help to increase Japan's trade surplus to the extent that access to lower-cost imports contributes to stimulating exports.

"Such measures are likely to be inconsistent with maximizing resource allocation in Japan", continues the report. "The best policy on

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resource-efficiency grounds would be to expand foreign competition by removing existing impediments to imports." The report emphasises, moreover, that greater trade liberalization "should be pursued by Japan for its own benefit, including long-run economic competitiveness, rather than seen as a fix for bilateral imbalances."

Japan's agricultural sector continued in 1991 to be one of the most highly assisted among industrialized countries. "By retaining scarce resources in internationally uncompetitive farming activities, Japan's agricultural assistance policies tax the rest of the economy. The annual cost to Japan's economy of these policies has been put at more than one per cent of GNP," says the report.

The report also draws attention to Japan's readiness to enter bilateral trade agreements instigated by its major trading partners with a view to reducing Japan's current account surplus. Most such bilateral agreements covering Japanese imports of sensitive products - such as the 1991 semiconductor arrangement with the United States which refers to expectations that a "foreign" market share of 20 per cent can be achieved by the end of 1992 - carefully avoid discrimination. However, recent arrangements in the automobile sector appear to go further by giving government endorsement to specific bilateral objectives, set in the framework of voluntary industry-to-industry agreements, covering purchases by Japanese firms of automotive parts from US suppliers.

Japan has also demonstrated its continued willingness to manage sensitive exports through maintaining "voluntary" export restraints and export monitoring arrangements on products where Japan is highly competitive. While Japan continues to criticize regional and bilateral approaches to trade as undermining the multilateral trading system, its readiness to accept bilateral voluntary export constraints and market-opening agreements, says the report, "gives the impression of a country which, while seeking to reduce frictions with all trading partners, favours the growth of grey-area measures and of managed trade in certain sensitive areas."

The report urges Japan's trading partners, facing competitive pressures at home, to seek multilateral import relief through internationally-accepted safeguard procedures, rather than through "voluntary" bilateral undertakings. Correspondingly, the report states that a more active reliance on multilateral rules and a greater readiness to make use of the GATT framework, 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 importance in world trade.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Japanese Government, will be discussed by the GATT Council on 12-13 October 1992. This is the second review of Japan since the

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launching of the Trade Policy Review Mechanism (TPRM) in December 1989. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The current reports, therefore, mainly cover developments during the last two years in all aspects of Japan's trade policies, including domestic laws and regulations; the institutional framework; and trade-related aspects of the foreign exchange régime. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.
3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Spring 1993 as the complete trade policy review of Japan and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.
4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990), Korea, Rep. of (1992), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW
JAPAN

Report by the GATT Secretariat - Summary Observations

Japan in World Trade

Japan remains the world's third largest trading entity both in terms of imports and exports, next to the European Communities and the United States. Japan's share in world merchandise exports and imports remained largely unchanged in 1991 at 8.9 and 6.5 per cent, respectively.

Japan's recent trade performance, particularly as regards imports, has been adversely affected by the domestic economic downturn that followed the collapse in 1991 of the "bubble economy". In 1991, the value of imports grew by less than 1 per cent, while import volume grew by only 2.5 per cent, partly in response to the domestic recession and the lagged impact of the real effective depreciation of the yen from 1988-90. At the same time, growth in the U.S. dollar value of Japanese exports more than doubled, while the volume of exports slowed from 5.6 per cent in 1990 to under 3 per cent in 1991. In the first half of 1992, the value of imports declined, partly reflecting price factors and partly the domestic recession. Exports, by contrast, rose sharply, leading to a considerable increase in the overall merchandise trade surplus.

In August 1992, the Japanese authorities introduced an economic stimulation package comprising, inter alia, public investment, tax concessions and measures relating to the financial sector. It is reported that total expenditure under the package is equal to some 2.3 per cent of GDP and that import-related measures may lead to an additional US\$5 billion of imports over the next 18 months.

Lacking fuels and many raw materials, the Japanese economy remains highly import-dependent, and manufactured exports continue to be an important driving force behind the country's economic growth. Japan's merchandise trade to GDP ratio increased marginally from 17 to over 17.5 per cent in the period 1989-91, remaining comparable to those of other major developed economies.

Largely reflecting the capacity of the Japanese economy to adjust to structural change and external shocks, Japan's commodity pattern of trade has continued to show rapid change. For example, Japan's energy demands have been reduced following a successful shift towards energy-saving products and manufacturing techniques. In 1991, manufactured goods accounted for over half of total imports, compared with under one-third in 1985. Exports of consumer goods have declined in relative importance to those of capital and intermediate goods, partly in response to demand by overseas subsidiaries of Japanese companies. These developments are reflected in a steady increase in Japan's intra-industry trade ratio from 1985 to 1990, albeit from a relatively low base.

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Japan's merchandise export base remains concentrated in broad areas where it possesses strong comparative advantage. Motor vehicles, machinery, office equipment and telecommunications apparatus account for half of the value of exports. Office equipment and machinery (both electrical and non-electrical) continue to be the most dynamic export categories.

South-east Asia, the United States and the European Communities remain Japan's largest trading partners, both for exports and imports. But the regional pattern of Japan's merchandise exports has changed, with South-east Asian markets accounting for 31 per cent, overtaking the United States (29 per cent) in 1991, for the first time, as the major destination, followed by the EC (19 per cent). The surge of exports to South-east Asia reflected not only strong economic growth in regional markets, but also demand created by Japanese overseas investment.

Japan's current account surplus increased from a low of US\$35.8 billion in 1990 to US\$72.9 billion in 1991, equivalent to just over 2 per cent of GNP. In the first half of 1992, the current account surplus again increased strongly, reaching a level believed to be around 2.8 per cent of GNP. As a share of GDP, this level of surplus does not appear to be uncharacteristically high, being slightly above the Japanese average since 1977, when surpluses first began to consistently emerge, and well down on the peak level in 1986 of 4.1 per cent.

Since 1989, the outward flow of foreign direct investment from Japan has fallen sharply by well over one-third, to US\$41.6 billion in 1991. The bulk of this investment was in the areas of finance, insurance and real estate; about one-fifth of the stock of Japanese overseas assets in 1991, estimated at US\$310 billion, was in manufacturing, especially machinery, transportation equipment and chemicals. Much of this was accumulated during the 1980s, partly in response to import barriers or pressures in foreign markets, and partly in an effort to restructure towards lower-cost production in the face of rapid appreciation of the yen between 1985 and 1988.

Institutional Framework

The institutional and legal framework for Japanese trade policies is largely unchanged since the last Trade Policy Review. However, Japan has taken institutional steps to encourage import promotion. These include the establishment, in 1990, of the Import Board and the impending creation of "foreign access zones" to improve Japan's import-related infrastructure around major airports and ports. The 29-member Board reports to the Trade Conference, chaired by the Prime Minister, on general matters related to import expansion and facilitation. It comprises both Government and industry representatives, including ten from foreign-affiliated companies in Japan, and has met three times to date.

The Government continues to consult closely on trade issues with the private sector through a large number of advisory bodies. Interactions between these advisory bodies and the Government remain largely informal.

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and not generally subject to public scrutiny, thereby strengthening the discretionary powers available to the Government. Japanese producers, including farmers' representatives, are much more strongly represented in the advisory bodies than are consumers.

The Customs Tariff Council, attached to the Ministry of Finance, is responsible for advising on all customs matters, including tariffs and import quotas, as well as the imposition of anti-dumping and countervailing duties. Members are appointed by the Finance Minister.

There remains no independent statutory or official body responsible for public review of the provision of government assistance to sectors and the overall economic cost of such policies.

Trade Policy Features and Trends

Recent evolution

Japan continues to express keen interest in completing the Uruguay Round. During the past two years, dispute settlement, together with rule-making areas such as anti-dumping, countervailing duties, subsidies, intellectual property and services, has continued to receive priority attention from the Japanese Government.

In March 1992, Japan submitted a comprehensive draft list of market access commitments, which included offers to reduce bound tariffs on a wide range of manufactured and agricultural products. The tariff offer would reduce bound tariff levels substantially more than applied rates since, for many products, bindings currently exceed the rates actually in force. The list also reaffirmed Japan's position that rice, as a basic food, and products under the purview of Article XI:2(c)(i) should be exempted from tariffication.

Japan continues its strong support for the m.f.n. principle. It extends m.f.n. tariff treatment to all except two contracting parties to the GATT. The only tariff preferences provided by Japan are those accorded to developing countries under the GSP scheme which was extended, essentially unchanged, for 10 years from 1 April 1991.

While continuing to pursue closer regional cooperation with its Asian and Pacific neighbours, for example through the Asia-Pacific Economic Council (APEC), Japan remains critical of preferential trading arrangements on the grounds that they may create exclusive economic and trading blocs. It does not belong to any customs union, free-trade area or other preferential trade agreement.

The Japanese government continues to attach high priority to reducing trade frictions, particularly with its major trading partners, the United States and the European Communities. Such frictions have again intensified recently in line with Japan's increasing bilateral current account surpluses with these economies. Confronted with bilateral pressures, especially from the United States, the Japanese Government has responded by

taking additional market-opening measures, most of which follow commitments announced prior to the previous Trade Policy Review of Japan.

Moreover, Japan has strengthened the financial incentives provided under its import promotion measures for a three-year period in an attempt to meet external criticisms and encourage Japanese firms to increase imports of a wide range of capital and intermediate goods that are duty free. Such incentives may succeed in the objective of reducing general trade frictions by promoting imports; however, they may also have resource allocation implications for the domestic economy and may also assist in increasing exports by reducing costs of production.

In this connection, Japan has been a ready partner to enter bilateral agreements with the United States concerning Japanese imports of certain sensitive products. Most such bilateral agreements, even where relating to products in which U.S. firms might have a comparative advantage, carefully avoid discriminatory treatment: thus, the 1991 semiconductor arrangement, for example, refers to expectations that a "foreign" market share of 20 per cent can be achieved by the end of 1992. However, recent arrangements in the automobile sector appear to go further by giving Government endorsement to specific bilateral objectives, set in the framework of voluntary industry-to-industry agreements, covering purchases by Japanese firms of automotive parts from U.S. suppliers.

The Japanese Government has also demonstrated its continued willingness to manage sensitive exports through maintaining "voluntary" export restraints and export monitoring arrangements on products where Japan is highly competitive. Since the last review, while the restraint arrangements on machine tools and voluntary export restraints on automobiles exported to the United States have been extended, the voluntary export controls on steel exports to the United States have been terminated. This has reduced the share of Japanese exports covered by export restraints from 12.5 per cent in 1989 to 7.7 per cent; however, Japan faces new anti-dumping actions on steel in the United States. A new consensus on exports of passenger motor vehicles has been concluded with the European Communities. Maintenance of export restraint arrangements, like any other trade-restrictive measure, prevents resources from being used most efficiently by reducing competitive pressures for industrial restructuring in the importing country and inhibiting the growth of efficient exports.

The tendency for major trading partners to press for, and Japan's readiness to agree to, management of specific trade problems as a means of addressing bilateral imbalances could, if left unchecked, subject the multilateral system to potentially damaging pressures. Even the perception by other Governments that such trends may be occurring risks undermining confidence in the trading system, as third countries increasingly feel that their trading opportunities are being adversely affected. A number of Governments have publicly claimed that recent bilateral arrangements between Japan and the United States have already harmed their export interests.

Type and incidence of trade policy instruments

The trend towards opening of the Japanese market for industrial products has continued in the past two years. Tariffs are low, averaging 5.2 per cent on manufactured goods; rates have recently been reduced on 1,004 tariff lines bearing relatively low duties. Most import quotas on manufactured products have long been removed, and those remaining, mainly in the areas of chemicals, pharmaceuticals, firearms and explosives, are predominantly for non-protective reasons. Import quotas on coal were removed in March 1992.

Relatively high tariffs, however, remain in some important areas of domestic production. Tariff peaks of up to 60 per cent exist as above-quota rates on certain treated leather and leather footwear, and up to 20 per cent in other areas, including leather and wood products, and items of textiles and clothing. Japan does not make use of the provisions of the Multifibre Arrangement.

Concentrating "temporary" tariff reductions on manufactured goods with relatively low rates has, according to Secretariat estimates, reduced the average tariff by about one-fifth, but increased overall tariff dispersion by one-quarter. Numerous tariff concessions, especially end-use provisions, increase tariff dispersion and escalation.

Some 90 per cent of all Japanese tariff lines are bound. The scope of tariff bindings is higher for manufactured products than for agricultural items; less than two-thirds (59 per cent) of agricultural tariffs are bound, compared with 97 per cent of industrial tariff lines.

Ad valorem tariffs are in force on agricultural products such as certain dairy products and beef. However, differential duties apply on imported pigmeats; levies on sugar; and alternate duties on a number of products. Seasonal tariffs, ranging up to 60 per cent, affect certain fruits. Pursuant to its GATT undertakings, Japan has terminated a number of import quotas, including those affecting beef, fresh oranges and orange juice. Tariffication of certain quotas, most notably beef, represents a positive change in trade policy direction, although the measured level of assistance may have increased in the short-term.

The main assistance to agriculture and fishing is, however, still delivered through a range of non-tariff measures. These include a comprehensive, and at times complex array of administered domestic prices, covering over two-thirds of agricultural production, supported by deficiency payments and import controls. Non-tariff measures, such as exclusive State-trading rights for major cereals and import quotas, restrict imports to the level necessary to meet shortfalls in domestic production, including an effective prohibition on rice imports. Japan also maintains strict health and quarantine regulations on most agricultural commodities.

Liberalization of most import quotas on agricultural products by Japan has been made in accordance with commitments announced prior to the last

review. Japan has also complied with most of the recommendations of the 1988 GATT Panel by removing import quotas on most foodstuffs covered by the decision. However, import quotas remain on a number of products, especially dairy products and starches, where Japan does not agree with the interpretations made by the Panel: in this connection, Japan has stated that measures to be taken will depend on the outcome of the Uruguay Round.

Both central and prefectural governments continue to provide adjustment assistance to industry under various legislative arrangements. These include payments under the general structural adjustment law, as well as industry-specific schemes, such as for textiles and coal where production has fallen by almost half since 1987. In the case of coal, the Government has indicated that the current extension to the scheme, to run until the year 2000, represents the last structural assistance for the industry; the combination of this with the abolition of the import quota represents a significant reduction in barriers to trade.

Substantial assistance is provided for research and development, as well as through special schemes designed to help mainly small and medium-sized firms. Some eighty per cent of R&D expenditure in Japan is financed by the private sector; Government support is given through taxation concessions, such as tax credits and accelerated depreciation.

Agricultural sectors, including fishing and forestry, benefit from infrastructure facilities and services provided at subsidized prices. Agricultural production is also assisted directly by various deficiency and other official payments under the various stabilization schemes. The balance of budgetary payments has shifted towards infrastructure.

Temporary measures

Japan is currently conducting its first ever anti-dumping investigation, to determine whether imports of ferro-silico-manganese from China, Norway and South Africa are entering Japan at "dumped" prices. The Government has until 29 November 1992 to make its decision.

Japan has never imposed countervailing duties nor taken Article XIX safeguard action.

Sectoral trade policies

The main sectoral assistance policies pursued in Japan relate to agriculture. Despite the recent and significant termination of import quotas, inward-looking trade policies in certain important areas of agriculture still contrast with Japan's progressive and successful liberalization of trade in manufactures.

Japan remains overall the world's largest food importer, and share of output and employment in agriculture continues to decline. However, Japan's agricultural policies continue to concentrate on food security in selected areas, in particular, through achieving self-sufficiency of rice, and to maintain parity between farm and non-farm income. Japan's

agricultural sector continued in 1991 to be one of the most highly assisted among industrialized countries.

Japanese farm assistance policies raise domestic food prices well above international levels. Prices were, on average, double world levels, ranging up to between four and five times the border price for rice and milk products, and well over three times for sugar. Through such higher prices, consumer transfers to farmers were estimated by OECD at some ¥3.5 trillion in 1991: an implicit tax on food consumption of around 11 per cent. The transfers, combined with Government payments, raised incomes of Japanese farmers in 1991 by ¥4.2 trillion, equivalent to some ¥1.2 million per farm household.

As formal barriers to trade have fallen in manufacturing, international concern in recent years has shifted to the impact of other measures, including possible informal barriers. Trading partners continue to focus on Japan's Government procurement practices, regulations on standards and testing requirements, customs procedures, administrative guidance, antimonopoly legislation, the distribution system, keiretsu and other business practices. Considerable improvements appear to have been made in a number of these areas.

The extent to which practices such as keiretsu and the distribution system inhibit imports is difficult to ascertain. Available evidence suggests that the restrictive impact of these arrangements may be less important than often claimed. One recent survey by the American Chamber of Commerce in Japan, for example, ranked these matters well behind other factors such as high fixed costs and staffing difficulties.

Trade Policies and Foreign Trading Partners

Japan has continued to open its markets in industrial products. However, despite recent liberalization in significant areas of agricultural markets, Japanese farming remains highly protected from international competition, reflecting various domestic objectives including food security and revitalization of the rural economy. By retaining scarce resources in internationally uncompetitive farming activities, Japan's agricultural assistance policies tax the rest of the economy; the annual cost to Japan's economy of these policies has been put at more than one per cent of GNP. Continuing agricultural reforms should benefit the Japanese economy through improved resource-use efficiency, reduced inflationary pressures and higher disposable incomes for households.

Outside agriculture, a hard core of protection continues to exist in certain industrial sectors, especially leather and leather footwear, textiles and clothing. Trade liberalization in these areas would also promote structural adjustment in Japan and benefit trading partners, especially developing countries.

Japan's market-opening measures have been partly taken in response to external pressures to reduce the trade and current account surpluses accumulated by Japan during the 1980s. Further trade liberalization, while

it will alter considerably the structure and levels of Japanese imports, should be pursued by the Japanese Government for its own benefit, including long-run economic competitiveness rather than seen as a fix for bilateral imbalances. Beyond the short run, developments in the trade and current account will be largely determined by more fundamental factors, such as the balance between the traditionally high, but declining, level of savings in Japan and its investment performance, as well as macro-economic policies and structural policies followed by major trading partners.

Japan continues to stand outside, and to criticize regional and bilateral approaches to trade as undermining the multilateral trading system. However, its readiness, when confronted by such pressures, to accept bilateral solutions for trade problems, including voluntary export constraints and market-opening agreements, continues to give the impression of a country which, while seeking to reduce frictions with all trading partners, favours the growth of grey-area measures and of managed trade in certain sensitive areas. Such bilateral solutions to trade problems, unless fully consistent with the principles of the multilateral trading system, including non-discrimination, contribute to the erosion of confidence in the system and of the system itself. Correspondingly, Japan's trading partners facing competitive pressures at home should seek multilateral import relief through internationally-accepted safeguard procedures, rather than seeking "voluntary" bilateral undertakings.

Japan, as an efficient exporter in many product areas, has been one of the major beneficiaries from the the multilateral trading system. In view of its status as one of the leading trading nations, Japan has a major responsibility for the health of the multilateral trading system. Japan would benefit further under a successful Uruguay Round, to which it could make a considerable contribution by introducing further market-opening measures, especially in hitherto largely untouched areas of agriculture.

Moreover, more active reliance on multilateral rules and a greater readiness to make use of the GATT framework, including the use of international 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 importance in world trade.

TRADE POLICY REVIEW
JAPAN

Report by the Government of Japan - Summary Extracts

Recent trends in external economic policies

Japan since the Plaza Accords of September 1985 has focused on increasing social capital with a view toward redressing the nation's large trade surplus and improving the quality of national economic life. The rapid globalization of Japan's economy has served to expand and promote trade - in services as well as goods - and the movement of capital. As a result, Japan's current account surplus declined each year from 1988 through 1990, falling from 87 billion dollars in 1987 to 35.8 billion dollars in 1990. Also during this period, Japan's manufactured import ratio increased enormously from 31.0 per cent in 1985 to 50.8 per cent in 1991. Such drastic changes as these took place against a background of an expanding world economy and an appreciating yen, and were made possible by the high level of vitality and adaptability of the Japanese economy.

To promote import expansion during this time, Japan has carried out, since April 1990, a comprehensive program of import expansion built around measures including the suspension of the customs duties on a broad range of products, the institution of a tax system designed to promote manufactured imports, and import promotion schemes funded by a special budget provided for that purpose. To further improve access to its markets, Japan established an import council, strengthened the function of the Office of Trade and Investment Ombudsman (OTO), and announced in June 1990, a Declaration on the Openness of Direct Investment Policy, as a means of further promoting the policies which had been implemented so far. In April 1991, Japan revised the Foreign Exchange and Foreign Trade Control Law in order to make procedures relating to direct investments more open and transparent. Since the world's business entered a decelerating phase in 1991, the shrinkage in Japan's trade surplus has shown signs of reversing course. But on the basis of its experiences since 1985 and its firm commitment to free trade, and mindful of the position of its economy in the world economic community, Japan continues to implement market liberalization policies. In March 1992, the Diet passed the Temporary Law for the Promotion and for the Facilitation of Foreign Investment in Japan which included measures designed to prepare specific regions for import promotion efforts. The law went into effect in July. Moreover, in June of this year, Japan formulated the "Five-Year Economic Plan: Sharing a Better Quality of Life Around the Globe" to serve as a guideline for future external as well as domestic economic policies. The plan sets forth Japan's determination to further expand its contribution to world economic development.

Recent developments in trade

(1) Mining and industrial sector

As a result of a series of steps to reduce or eliminate customs duties, Japan's average tariff rate for mined and industrial products

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stands at 3.6 per cent (1988; GATT rate basis), lower than the 5.5 per cent rate for the United States and the 5.6 per cent rate for the European Community. At the Uruguay Round, Japan has proposed a further lowering of the average tariff rate to 1.9 per cent. With Japan's liberalization of imports, on coal in April 1992, no mined and industrial goods are currently under Import Quota System, making Japan's market one of the most open in the world. Thanks to such efforts, "water-edge measures" in Japan, such as customs duties and quantitative import restrictions, are at the lowest level in the world today. Nevertheless, Japan is promoting further improvements while also taking steps to expand imports. Efforts are being made as well to promote the smooth progress of industrial structural adjustment so that the Japanese economy may be brought into greater harmony with the economy of the world at large. With a view toward promoting a balanced expansion of trade, Japan does not impose such "border measures" as import restrictions, even in connection with industries that have suffered a decline in relative competitiveness due to changes in the economic environment. Rather, following the market mechanism, Japan has attempted in such cases to encourage the movement of labor and capital to more highly competitive industries.

Japan has achieved important results over the past ten years from measures designed to promote the opening of its markets and the expansion of imports. These included results produced by the 1985 Action Program for Improved Market Access, the introduction in 1990 of a taxation system designed to promote manufactured imports, and a comprehensive import expansion program, unequalled in other developed countries, which eliminated tariffs on over one thousand items. From 1985 to 1991, Japan's imports of merchandise goods increased dramatically from 40.2 billion dollars to 120.3 billion dollars (both customs clearance basis). As a result, the percentage of merchandise goods in Japan's total imports jumped from 31.0 per cent to 50.8 per cent over the same period.

With international trade being affected by protectionist movements, Japan seeks to avert the imposition of unilateral import restrictions by importing countries, and ultimately to restore free trade, by implementing minimal voluntary export restraints in regard to automobiles, textiles, machine tools and other products. Such restraints are considered emergency and unavoidable measures and are based on the request, agreement, or some form of consent of the importing country.

(2) Agriculture, forestry and fisheries sectors

As the internationalization of the Japanese economy progresses, Japan has made every possible effort to improve market access for agricultural, forestry and fishery products in spite of the difficulties surrounding domestic industries of these fields. As a result, the number of items subject to import restriction was reduced from 103 in 1962 to 12 in 1992 (22 items according to the Harmonized System tariff line basis).

Japan's food self-sufficiency ratio on a calorie basis has dropped to 47 per cent in 1990, the lowest level among developed nations. Due to such

a situation, concerns of Japanese nationals on food security are quite high.

Along with the above-stated efforts for the improvement of market access for agricultural, forestry and fishery products, Japan is also making efforts for import expansion. Japan's import of agricultural, forestry, and fishery products in 1991 amounted to US\$52.7 billion, while export of these products was US\$2.6 billion. The balance was therefore a US\$50.1 billion deficit, making Japan the world's biggest net importer of agricultural, forestry, and fishery products. Moreover, Japan has been making domestic policy efforts to control production of certain agricultural products which tend to be over-produced, avoiding confusion in the world market by the exportation of over-produced agricultural products.

Japan has thus been endeavouring to seek solutions to agricultural problems through both its domestic and trade policies.

GATT and Japan's trade policies

In this year's report, Japan reaffirms that the idea of maintaining and developing free trade on the basis of the GATT is manifest in the principle of "freedom in principle and restrictions only as exceptions," which forms the foundation of the various laws and ordinances stipulated to implement Japan's trade policies, including the Foreign Exchange and Foreign Trade Control Law. The report also points out that to further promote free trade, Japan is implementing a series of tariff-reduction measures prior to the conclusion of the GATT negotiations and, in accordance with the GATT agreements and in anticipation of the outcome of the negotiations, is promoting market liberalization measures, involving matters such as government procurement and standard. It goes without saying that Japan's series of market liberalization measures, beginning with the first Action Program for Improved Market Access in 1985, was aimed first and foremost at reducing the nation's trade surplus. It should be emphasized, however, that each of these measures was intended to firmly maintain and further promote free and open-trade system in ways which conformed with the rules and principles of the GATT. Through these market-opening measures Japan has succeeded in further expanding its imports and also making its trade policies more transparent. All these indicate that the basis of Japan's trade policies is trust in the GATT.

One particularly noticeable aspect of Japan's recent trade policy has been the Government's attempt to solve trade issues through the GATT's fair trade rules and dispute settlement procedures. The importance to solve trade problems in accordance with GATT rules is becoming widely recognized for promoting free and fair trade. Emphasis will be placed on this idea in the formulation of Japan's trade policies.

Japan understands that its trade policies will only be possible through the maintenance, strengthening and development of the GATT, which is the pivot of the multilateral free trade system. From this point of view, Japan has been an active participant in the Uruguay Round, and has just announced, in the current "Five-year Plan," its commitment to the

multilateral free trade system based on the GATT and to the early, successful conclusion of the ongoing Uruguay Round of multilateral trade negotiations.

Cooperation with trading partners and Japan's trade policies

In addition to this basic policy, Japan continues to regard international cooperation with its trading partners as one of the cornerstones of its external economic policy. In this regard, Japan has engaged since September 1989 in a series of structural consultations with the United States. These bilateral initiatives are viewed with caution in some quarters, much as was the case with a series of voluntary export restraints, on the grounds that they represent bilateralism. Actually, structural consultations are a new type of initiative, undertaken for the purpose of promoting dialogue between countries whose economies have grown deeply interdependent. Pursued with a view toward achieving a further expansion of free trade and economic interchange, they function as a supplement to free trade. Such consultations should be seen as making a positive contribution to the free economy, since their results are applied without discrimination. To assist in the accurate assessment of the Structural Impediment Initiative talks held with the United States, it was decided to include herein, in addition to a summary of the series of talks, a report on the recent enforcement of Japan's Antimonopoly Act, which was one of the major subjects discussed. Japan regards the appropriate enforcement of competition policy, along with international cooperation, as essential for the further strengthening and development of free trade, and believes that its most recent series of reinforcement measures will do much toward that end.

From a similar point of view, important trends in trade relations with Japan's recent major trading partners are also included in this report. Special attention is given to explaining Japan's basic position on today's accelerating moves toward regional economic cooperation in the Asia-Pacific region. While Japan supports the strengthening of regional economic ties, regarding it as a natural development, it views regional economic cooperation as a supplement to free trade which must always remain open to third countries.