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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Japan
(Spec(82)6/Add.1)

1. Introducing his country's submission the representative of Japan said in the view of his government structural adjustment should take place through market mechanisms, i.e. industries responding positively to new emerging situations. Japan did not subscribe to the principle of anticipatory or regulatory adjustment. Structural adjustment policy should be only a supplementary instrument to the market mechanism. Most adjustment measures by the Japanese authorities were undertaken with this principle in mind. Japanese industry had so far undergone two stages of structural transformation and had presently reached a research and development and high technology intensive level. This transformation was also reflected in Japan's foreign trade structure. It was often over-emphasized that the Japanese trade structure was characterized by a predominant share of industrial products in exports and a high rate of raw materials and energy in imports. In this connection he pointed out that Japan was poorly endowed with natural and energy resources, furthermore that Japan had a large domestic market and had no neighbouring countries which had reached the same level of industrial development and could engage in full industrial division of labour with Japan.
2. As to a number of questions raised by a member of the Working Party the representative of Japan pointed out that some of these questions touched on important issues on which differences of views existed and which were the subject of consultations with that member in another context in the GATT. Therefore the Japanese replies had to be considered to be of a preliminary nature and could not have any bearing as concerned the final Japanese position on these issues.
3. The member mentioned above, referring to sections I and II of the Japanese submission wanted to know what steps the Japanese government was taking to correct the imbalance in imports of raw materials compared with manufactured goods and to loosen the close link of the import structure to domestic production. The representative of Japan made reference to his introductory statement and reiterated that his country for geographical reasons did not have the same opportunities of international division of labour as other countries.
4. In reply to a question by the same member the representative of Japan provided the following statistical information on the basis of 1980

figures: total imports per capita in Japan amounted to US\$1,198, the respective figure for the EEC excluding intra-Community trade was US\$1,374, and for the United States US\$1,099; per capita imports of manufactures for Japan amounted to US\$252, for the EEC excluding intra-Community trade to US\$611, and for the United States US\$580; for energy these figures were for Japan US\$815, for the EEC US\$610, and for the United States US\$411; for food the figures were for Japan US\$136, for the EEC US\$135, and for the United States US\$88.

5. The same member commented that whilst Japan had benefited fully from GATT accession, other contracting parties had not enjoyed corresponding benefits with regard to Japan. He wondered whether more progress could be made towards increasing Japan's imports, thus providing an additional stimulus to the adjustment process and a greater degree of international economic co-operation in difficult world conditions. The representative of Japan stated that it depended on the efforts of the individual countries to what extent they could benefit from their accession to the GATT. Japan had expanded its exports and imports. Japan was also among the few countries that had implemented most of the results of the Tokyo Round. On top of this, Japan had undertaken the series of advanced implementation of tariff reductions agreed in the MTN and other measures aimed at increasing imports from abroad.

6. The same member asked with reference to page 5 of the Japanese submission whether the reduction of inter-company competition by the government could be regarded as structural adjustment. The representative of Japan said that in the view of his authorities the situation was not as it was presented in the question. The Japanese government provided only certain guidelines for private enterprises which in turn worked out their own strategies in order to meet new developments.

7. The response to a request by the same member whether Japan could be more specific about the ways in which industrial adjustment policies were applied to assist particular growth sectors, the representative of Japan stated that his government promoted and facilitated changes necessary to restructure inefficient industries.

8. Referring to page 6 of the Japanese submission where it was stated that a step was taken towards an open economy during the 1960's, the same member wondered whether the protection afforded to Japanese industries prior to, and sometimes continuing in that period, had had a harmful effect on world trade. The representative of Japan replied that before 1960 his country was just recovering from the damages inflicted on it in World War II and had had to take certain steps to achieve economic recovery. Under Article XII of the GATT Japan was entitled to pursue such policies.

9. Referring to the small differences in the per capita imports between the European Community and Japan of raw materials, foodstuffs and energy on the one hand and the large difference of imports of manufactured goods on the other hand the same member asked what particular structural adjustment policies had been aimed at increasing exports, furthermore whether the export-led growth implicit in the Japanese submission had created

difficulties in world trade, and whether there were any particular adjustment measures aimed at increasing imports of manufactured goods. The representative of Japan referred to his previous remarks and added that the changes that had taken place in various industries were also reflected in Japan's trade structure.

10. The same member wondered whether there was a contradiction between the assertion at the beginning of the Japanese submission that its industrial policy was of an indirect nature and the subsequent description of positive governmental intervention. The representative of Japan did not think that there was a contradiction. Japan had not nationalized any industries nor was there any direct government intervention as regards price formation. Structural adjustment depended entirely on market mechanisms and initiatives undertaken by the private sectors. The government assisted or supplemented such initiatives.

11. The same member asked what part MITI's administrative guidance had played in bringing about structural adjustment. The representative of Japan stated that the idea behind the administrative guidance was to provide visions for the future industrial structures. The private enterprises themselves did, however, take the appropriate decisions in accordance with their assessment of the prevailing situation.

12. The same member wanted to know whether the statement in Section III of the Japanese submission that "financial and tax measures became more or less symbolic" was a reference to the very close relationship between the private Japanese banking system and trading houses. The representative of Japan said that the tendency was to increase the capital formation in the private sector while at the same time to decrease financial and tax measures.

13. In reply to the question by the same member to what extent the environmental and population factors were taken into account in the formulation of structural adjustment policies, the representative of Japan stated that the main purpose of structural adjustment policy was to enhance the welfare of the Japanese people. Environmental and population factors were therefore fully taken into account.

14. The same member asked for more details concerning the measures in the machinery and electronic industries referred to on page 6 of the Japanese submission. The representative of Japan said that in 1951 and 1957 when as a consequence of the war the two industries mentioned were in very poor condition his government had enacted two laws to establish uniform production standards for electronic components and machinery parts. In 1971 the two laws were replaced by another law which aimed at overcoming the difficulties arising from labour shortage and environmental and safety problems. After the two oil shocks a new law was enacted aimed at increasing the level of sophistication of machinery and information industries through the development of new technology in making a positive response to mounting energy constraints.

15. In reply to a request by the same member for details of the research and development provided by the government, the representative of Japan

said that in 1979 the proportion of R and D in GNP was 1.82 per cent; the share of governmental expenditure in total R and D was 27.4 per cent. The comparable figures in the United States were 2.25 per cent and 49.3 per cent.

16. Replying to the question by the same member what particular results were being referred to in the last paragraph of the Japanese submission, the representative of Japan said that significant progress in particular sectors of industry could provide positive incentives to other industries not only in Japan but also elsewhere in the world.

17. The same member noted that he considered the replies given to the questions posed to be of a preliminary nature and without prejudice to discussions going on elsewhere on similar problems. He hoped that more detailed replies in particular also statistical material would be forthcoming at a later stage. He wanted also to have more information on how the long term governmental visions evolved, on labour shortages and environmental problems in important industries, and on a recently proposed special draft law for restructuring of industry. In response the Japanese delegation provided information which is annexed (Annexes 1 and 2) to this report.

18. Another member of the Working Party wanted to know how the Japanese government adapted its trade policy to the visions established in the administrative guidances for future industrial structures. He was also interested to know how Japan in general used trade policies to achieve structural adjustment. He referred, in this context, to a GATT study of 1970 which had shown that Japan's policy was to maximize export growth by highly selective export promotion efforts and he wondered whether there was now a government policy which targeted specific industries for export aid. The representative of Japan replied that his government tried to provide only viable economic structures for its enterprises to work in. It was up to the enterprises to take advantage of the given circumstances. Structural adjustment policy in Japan aimed at facilitating transformation in order to provide favourable structures for Japanese industries. This included the maintenance and strengthening of an open international trading system.

19. Another member of the Working Party said that he noticed in the Japanese submission a strong emphasis on the industrial sector and a certain lack of information on agriculture. He wondered whether a comparable presentation on agricultural structural adjustment in Japan could be provided, e.g. whether visions and projections existed also for agriculture, what policies were pursued to achieve structural changes, how adaptation to international competition was achieved, and what role trade policies had played in this respect. The representative of Japan replied that for agriculture the same prospects applied for future structural development as in the industrial sector.

20. The same member was also interested to hear whether the Japanese government had found that voluntary export restraints accepted on the part of Japan had any negative effects on the structural adjustment process of the Japanese economy.

21. Another member of the Working Party was interested to hear more about the relation of structural changes in the three main economic sectors manufactures, services and agriculture. Referring to a comment made earlier by the Japanese representative on comparative advantage and international division of labour, he pointed out that his country had a comparative advantage in the production of agricultural products in the Pacific region which compensated for higher transportation costs. He wondered whether Japan had any comparative advantage in any sector of agricultural production and what steps had been taken to align the agricultural sector with world market forces, in particular what impact trading considerations had on structural adjustment in that sector. He was also interested in an assessment whether the adjustment process in the Japanese economy had achieved so far the desired effects and if that was not the case what had hampered the process. The representative of Japan said that the Japanese government had never disregarded the concept of comparative advantage in the production of agricultural products, while at the same time firmly believing that the agricultural policy should seek to harmonize the particular conditions and characteristics inherent in this sector with the benefit of agricultural trade.

22. Another member of the Working Party pointed out that, while he recognized the liberalization measures undertaken by the Japanese government since the Tokyo Round, such measures involved mainly products in which the Japanese industry due to early concentration on special product lines had achieved such a predominant position that the products concerned were not really exposed to any serious foreign competition. The representative of Japan stated that the predominant position of certain Japanese industries resulted from efforts undertaken by these industries and were not a consequence of governmental measures.

23. In response to another question the representative of Japan stated that the visions for long-term prospects of the Japanese industry were developed by the Council on Industrial Structural Policy composed by representatives of academic, government and private circles. The guidelines worked out were presented to the government which passed it on to the individual enterprises. The latter were free as to whether or not to follow these guidelines.

24. Another member of the Working Party asked whether any governmental assistance was given in the context of adjustment policies in the agricultural sector. He wondered also whether information could be given on Japanese government policies concerning import pricing. The representative of Japan stated that after World War II Japan had carried out a large-scale land reform programme and had abolished the system of peasantry. In the 1960s when Japan had experienced a period of rapid growth in the industrial sector a large discrepancy had emerged between the income in the agricultural and manufacture sectors. A law was enacted in 1960 laying down the basic features for agricultural development in Japan. One of the main objectives was to encourage the selective expansion of production of agricultural goods in which there existed increasing demand. Structural change was also achieved by rationalizing agricultural management, by enlarging the size of the farms and by introducing machinery into agricultural production to increase productivity. Prices for agricultural

products were raised in order to provide a more stable income for the rural population. In 1980 a new agricultural policy was introduced which provided for a stable growth rate of agricultural production, for adaptation of the production to changing food habits in the population brought about by higher income, and for an improvement of the agricultural structure in general.

25.. Another member of the Working Party wanted to know how the Japanese government could obtain the cooperation of individual enterprises when a reduction of production capacities was foreseen in the visions for future industrial structures.

ANNEX 1

ESTABLISHMENT OF VISIONS OF INDUSTRIAL
STRUCTURE OF JAPAN AND SUBSEQUENT
DEVELOPMENT AND CHANGES THEREOF

At every turning point of age, the Ministry of International Trade and Industry has continued to present visions of future industrial structure corresponding to technological progress and changes in needs of Japanese people and their society. The visions have laid out, as clearly as possible, prospects for circumstances in which Japanese industries will find themselves in future, thus facilitating to stimulate and enhance the vitality of Japanese private industries.

The following are the main features of the industrial visions thus far presented:

1. Industrial and Trade Vision for the 1960's

The most important policy objective was, among others, to overcome the balance of payments difficulties which were the fundamental constraining factor to the economic growth of Japan in the process of advancing toward the open economic system through liberalizing trade and investment.

In order to achieve the above-mentioned policy objective, specialization of Japanese industries in heavy and chemical sectors was presented as the desirable direction in which Japanese private industries would proceed. Such specialization was governed by the following two criteria:

(a) Income elasticity criterion.

Shift to such industrial sectors as will foresee rapid growth of demand for their products in response to increase in national incomes.

(b) Productivity increase rate criterion.

A shift to industrial sectors which has the high potentiality of increasing productivity and gaining international comparable advantage.

2. Industrial and Trade Vision for the 1970's

In the latter half of the 1960's in parallel with progress in specialization in heavy and chemical industries, excessive concentration in the specific areas of industries and popu-

lation occurred together with the worsening of pollution and environment problems. In the light of this new situation, specialization in knowledge intensive industries was pursued with a view to realizing the society which would utilize the benefit of economic growth to enhance in particular welfare and international cooperation.

Such specialization was governed by the following criteria:

- (a) Income elasticity.
- (b) Growth rate of productivity.
- (c) Excessive concentration and environment (shift to such industries as can contribute to mitigating excessive concentration and environment problems).
- (d) Quality of work (shift to such industries as can provide workers more jobs which are safe and comfortable, while at the same time enjoying the sense of satisfaction with their jobs).

3. Industrial and Trade Vision for the 1980's

Entering into the 1980's, Japan has been faced with various problems both at home and abroad.

At home, Japan has to deal with the problems arising out of change in the demographic structure with increased shares of the aged, diversified senses of values and cumulative budgetary deficits.

In its external economic relations, Japan has also found itself in the increasingly difficult circumstances such as the current unstable energy situation entailing the second oil crises and the erosion of the principles of free trade. Against this background, the course of specializing in creative knowledge intensive industries has been pursued to achieve the following three targets:

- (a) Contribution to the international community as a big economic power which shares 10% of the

world economic activities.

- (b) The overcoming of constraints peculiar to Japan as a nation scarcely endowed with natural resources as exemplified by very high foreign dependence: 90% in energy and 50% in food.
- (c) Compatability of economic viability and the improved quality of life.

The specialization of industries in creative knowledge intensive sectors is governed by the following criteria:

- (a) Dynamic comparative advantages (harmonization of Japanese economy with the world economy and contribution to the latter's development expansion).
- (b) The satisfaction of the needs of Japanese people (positive response to their needs for enhancing the quality of their life).
- (c) Energy and resources saving (the overcoming of energy vulnerability).
- (d) The securing of economic security (development and utilization of alternative energies and maintenance of bargaining power by developing high technology)

ANNEX 2

ADJUSTMENT OF THE BASIC MATERIALS INDUSTRIES AND THE
TEMPORARY MEASURES LAW FOR THE STRUCTURAL ADJUSTMENT
OF SPECIFIC INDUSTRIES

I. Hard Hit Seven Industries

Given the heavy reliance on imported oil and raw materials, increases in the price of these goods in the wake of the second oil crisis had dealt a serious blow to the industry of Japan. Particularly hard hit were the seven basic materials industries, namely, petrochemicals, chemical fertilizers, aluminum smelting, ferroalloys, electric furnace steel-making, chemical fibers and paper. The sharp increases in the cost of raw materials and energy have driven them into structural difficulties, depressing employment, related small businesses, and local economies. Such developments call for a positive industrial adjustment policy designed to encourage these industries to adjust to the changed market conditions and recover their viability and cushion the damaging effect on employment and local economies.

The Temporary Measures Law was introduced with a view to smoothly and systematically accelerating adjustment of these basic materials industries and to stabilize specific depressed industries which had played an important role in facilitating the industrial adjustment after the first oil crisis.

II. Philosophy and Ideas of the Temporary Measures Law
for the Structural Adjustment of Specific Industries

(1) Retreatment and Revitalization

The law is in no way intended to protect the industries from the adjustment forces, including overseas competitors, but to encourage private enterprises to retreat - i.e. to dispose of the inefficient and obsolete

facilities with no prospect of recovering economic viability. Under this law around 30% of present facilities are expected to be curtailed. At the same time, it purports to revitalize the remaining portion through innovative activities of businesses such as fuel conversion, sophistication of the products, R and D and cooperation or consolidation of businesses. In this sense, the law embodies the idea of positive adjustment policy.

(2) Adherence to the Free and Multilateral Trade System

Policies that restrict free trade, even if capable of relieving the problems of a specific industry, are inevitably harmful to the national economy as a whole. The law and its measures reflect this strong adherence to the free and multilateral trade system, and aims at the industrial adjustment under international competition. All competitive foreign firms have free access to the Japanese market to the mutual benefit of the parties involved.

Moreover, imports usually increase by a considerable degree as a result of the adjustment. For example, imports of aluminum ingot and ferro-silicon sharply increased as capacity reduction proceeded under the current Stabilization Law.

	Aluminum Ingot	Ferro-Silicon
Increase in Import (81/77 FY)	225%	462%
Import Ratio in Terms of Domestic Demand (Apr.-Dec., 82)	81%	61%

(3) Emphasis on Competition

The principle of industrial policy is to optimize the performance of private enterprises by making the best use of market mechanism. This principle penetrates the law, not only maintaining the international competition to the full but also encouraging competition between groups at home.

(a) The exemptions of the Anti-Monopoly Law are confined only to the joint action of capacity reduction, which is internationally approved as an important policy tool for positive adjustment, and does not in any way restrict competition in the product market.

(b) The provisions of the law relating to business tie-up such as joint production or marketing and merger of operations, are designed to help them improve the efficiency of their operations and achieve economies of scale, while, within the framework of Anti-Monopoly Law, fair competition between business groups is maintained.

(4) Limited Duration of Measures

The law is to be terminated within five years, and the structural adjustment should be completed in this period.

(5) Respect for Private Initiative

It is a basic rule that self-support efforts of private companies should be made to the fullest extent, and indulgence should not be allowed under any circumstance.

(6) Alleviation of the Adverse Impacts on Employment and Regional Economies

In order to avoid abrupt and sharp impact upon the employment and the regional economies, excessive facilities should be reduced and disposed of according to schedule. Also, smooth and gradual adjustment of employment should be ensured by revitalization and conversion of business.

III. Positive Adjustment Policy

As outlined above, the law embodies a positive industrial adjustment policy in that it does not intend to protect and preserve industries as they are but to encourage the affected industries to curtail obsolete facilities, which are no longer economically viable, and to facilitate their self-help efforts to recover their viability under the free and multilateral trade system. In pursuing these measures, it is important that they are implemented systematically along the lines of the long- and medium-term visions, that measures are worked out through public debate on such open fora as the Industrial Structure Council, an advisory panel to the Minister of International Trade and Industry, and thus formulate the consensus of the related groups. Such an approach is in accordance with the ideas of Positive Adjustment Policy (PAP) agreed upon by the OECD Ministerial Conference in 1982, and will contribute not only to the steady growth of the economy but also to the maintenance and development of the free trade system.

IV. Outline of the Law

(1) The law covers electric-furnace steel-making, aluminum smelting, chemical fibers, chemical fertilizers, ferroalloys, paper, petrochemicals, and such other industries as the government may designate by the end of 1984.

In order to ensure the initiatives of private enterprises, no industry will be designated without their requests.

(2) As guidelines for the structural adjustment of the industry, the competent Minister will formulate a basic plan for structural adjustment which will include (a) goals of structural adjustment, (b) matters relating to the disposal of excessive facilities, and (c) those relating to business tie-up, equipment investment, and development of technology.

(3) The same provision of the old law is retained, that permits exemption from Anti-Monopoly Law of those joint actions taken for the purpose of disposal of excessive facilities under instructions of the competent Minister.

(4) With a view to facilitating cooperation or consolidation of businesses without violating the Anti-Monopoly Law, the new Law provides coordination of views between the competent Minister and the Fair Trade Commission (unlike the disposal of excessive facilities, cooperation or consolidation of businesses is not exempted from the Anti-Monopoly Law).

(5) The law provides certain tax incentives, such as carry-forward deduction of losses incurred by the disposal of excessive facilities and reductions in the licensing tax payable upon registration of a corporate merger. It also includes provisions for the stabilization of employment and related small businesses.