TRADE POLICY REVIEW MECHANISM

JAPAN

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the initial full report by Japan is herewith submitted.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
CONTENTS

Executive summary

PART A. TRADE POLICIES AND PRACTICES

I. OBJECTIVES OF TRADE POLICY
   1. General description
   2. Mining and the industrial sector
   3. Agricultural, forestry and fisheries sectors

II. DESCRIPTION OF THE IMPORT AND EXPORT SYSTEM
   1. Import system
   2. Export system

III. THE TRADE POLICY FRAMEWORK
   A. DOMESTIC LAWS AND REGULATIONS GOVERNING THE
      APPLICATION OF TRADE POLICIES
      1. Foreign Exchange and Foreign Trade Control Law
      2. Import Trade Control Order
      3. Export Trade Control Order
      4. Export and Import Transaction Law
      5. International Trade Insurance Law
      6. Laws and regulations relating to customs tariffs
         (Customs Law, Customs Tariff Law, Temporary Tariff
         Measures Law)
   B. SUMMARY DESCRIPTION OF THE PROCESS OF TRADE
      POLICY FORMULATION AND REVIEW
      1. General description
      2. Trade Conference
3. Ministerial Conference for Economic Measures 22
4. Office of Trade and Investment Ombudsman (OTO) 23
5. Government-Ruling Parties Joint Headquarters for the Promotion of Economic Structural Adjustment 23
6. Councillors' Office on External Affairs, Prime Minister's Secretariat 23
7. Economic Planning Agency and Economic Council 24
8. Ministry of Foreign Affairs 25
10. Ministry of Agriculture, Forestry and Fisheries 26
11. Ministry of International Trade and Industry 26

C. BILATERAL, MULTILATERAL, REGIONAL AND PREFERENTIAL AGREEMENT 27

IV. THE IMPLEMENTATION OF TRADE POLICIES 31

A. Tariff policy measures 31
1. Tariffs 31
2. Generalized System of Preference 32
3. Tariff quotas 36
4. Quantitative restrictions 37
5. Licensing 37
6. Customs valuation 38
7. Rules of origin 38
8. Government procurement 39
9. Technical barriers 40
10. Safeguard, anti-dumping and countervailing actions 42
11. Export tax 45
12. Commodity tax 45
13. Export subsidies, tax exemptions and concessionary export financing 46
14. Hozei system - including OKINAWA Free Trade Zone 46
15. Export restrictions 47
16. Government assistance 56
17. Rôle of State-trading enterprises 58
18. Foreign exchange controls related to imports and exports 61

B. PROGRAMMES FOR IMPROVEMENT OF MARKET ACCESS - INCLUDING ECONOMIC STRUCTURAL ADJUSTMENT 62
1. A series of programmes for improvement in market access 62
2. Import expansion measures 66
3. Measures for smooth adjustment of industrial structure 70
4. Recent measures for improvement of market access relating to agricultural products 73
5. Japan-United States Structural Impediments Initiative 75

PART B. BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES WILL BE CARRIED OUT: WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, EXTERNAL ENVIRONMENT 77

I. WIDER ECONOMIC NEEDS AND POLICIES 79

II. THE EXTERNAL ECONOMIC ENVIRONMENTS 84
A. Major trend in imports and exports 84
B. Developments in the terms of trade and commodity prices 85
| C. Important trends in the balance of payments, reserves, exchange rates and other such issues | 86 |
| D. International macro-economic situation affecting the external sector of Japan | 87 |

### III. PROBLEMS IN EXTERNAL MARKETS

88

**APPENDICES: statistical information**

| A. Trade flows by product and country/geographic area | 97 |
| B. Macro-economic indicators and other information | 100 |
| C. Japan's external trade organization and its activities | 108 |
Executive Summary

Objectives of trade policy

Japan's foreign trade rapidly expanded under the GATT system after World War II and thus played an important role 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
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.
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.
PART A:

TRADE POLICIES AND PRACTICES
I. OBJECTIVES OF TRADE POLICY

1. General description

1) Firm commitment to free trade

Japan's foreign trade rapidly expanded after World War II along with the country's economic development. From 1955, when Japan acceded to GATT, to 1988, world trade expanded about 4.5 times in real terms and over the same period Japan's share in it swelled from 3 per cent to 9.2 per cent. There is no doubt that this rapid increase in trade provided the basis for Japan's post-war economic development and played a major role in sustaining national life of Japan. At the same time, it should not be overlooked that the liberalization of world trade, with GATT as its core, and the vitalization of world trade were the major factors that made possible this expansion of Japan's trade. Japan perceives that the maintenance and strengthening of the GATT system, which has played an indispensable role in bringing about the post-war economic development of Japan and the world is not only for its own interest but is also its responsibility as a major trading nation in the world. It is therefore the cardinal principle of Japan's trade policy to be firmly committed to free trade and to forestall protectionism by maintaining and strengthening the multilateral trading system.

This principle is reflected in domestic systems upholding Japan's established principle of free trade in import/export transactions and in the implementation of a series of measures for improvement in market access. On the international stage, it is reflected in Japan's commitment to the GATT system.

Government laws and regulations on trade are based on the above principle of free trade. Accordingly, under these laws and regulations, import/export transactions are free in principle and government control is guaranteed to be limited to the necessary minimum. With regard to the efforts for improvement of market access, a succession of external economic measures and packages, including the "Action Program for Improved Market Access" (adopted in 1985 and almost fully implemented by July 1988), have been carried out to achieve a level of openness exceeding the international standard.

Reflecting its commitment to the GATT system, Japan has, since its accession to GATT in 1955, been making a number of contributions to liberalization of world trade through GATT negotiations, etc. Japan regards the Uruguay Round negotiations, which will determine the direction 1

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1 For instance, Japan depended on imports for 81 per cent of its energy supply in 1987.

2 For more details on the economic restructuring efforts, see page 79, "Wider Economic Needs and Policies".
for the multilateral trading system toward the 21st century, as a top priority issue of Japan's foreign policy and is actively participating in the negotiations in order to contribute to their success. The determination to do so was expressed by the top leaders of the Government; Prime Minister Kaifu, addressing the Informal Ministerial Meeting of the Uruguay Round held in Tokyo in November 1989, stated that Japan, though it has many difficult problems as other nations do, is prepared to share the pains with others and strive for the greatest possible success of the Uruguay Round.

(2) Task for external economic policy - redressing external imbalances

Sustained and substantial external imbalances not only constitute a destabilizing factor for the international economic system, but also may induce protectionism. For Japan, which has sought economic development through international trade and has consistently adhered to the fundamental foreign policy principle of harmonious international co-operation, redressing such imbalances is one of the top priority objectives of external economic policy. Based on such a perception, Japan desires to firmly commit itself to economic policy co-ordination with major developed countries, and at the same time to restructure the Japanese economy into a domestic demand-oriented pattern that would be more harmonious internationally. To this end, the Government in 1988 formulated the "Five-Year Economic Management - Economic Management within a Global Context". This programme presented the basic direction for policy implementation for the future with a view to making an overall review of the systems and mechanisms of the economy as well as of the society and carry out extensive reforms for the promotion of the economic structural adjustment.

In addition to these endeavours from the viewpoint of economic structure, the Japanese Government is continuously making policy efforts for the improvement of market access as well as initiatives for import expansion (starting in 1990) which consist of the following four-pillar measures: (i) introduction of comprehensive tax incentives to import manufactured products; (ii) suspension of tariffs on more than 1,000 industrial products; (iii) drastic increase of budget designed to promote imports, including an allocation for provision of information on imported goods to Japanese consumers and others, and (iv) expansion of import promotion loan schemes.

For more information on the programme for the improvement in market access, see Chapter IV.B.1 "A series of Programs for Improvement in Market Access". For more on the efforts made to liberalize the market for agricultural products trade, Chapter IV.B.4 "Recent Measures for Improvement in Market Access Relating to Agricultural Products".

For more details on the steps taken to boost imports, see Chapter IV.B.2 "Import expansion measures".
Reflecting these endeavours, Japan's imports, especially of manufactured goods, have been growing remarkably since 1987, and its trade surplus has continued shrinking after reaching a peak of US$82.7 billion in 1986 (on a customs clearance basis). In 1989 in particular, while the nation's imports expanded by 13 per cent over the preceding year, exports increased by only 4 per cent, resulting in a US$13.2 billion decrease in trade surplus (on a customs clearance basis) to an overall surplus of US$64.3 billion. The ratio of the current account surplus to GNP, after registering a peak level of 4.3 per cent in 1986, has also been falling off, reaching 2 per cent in 1989. The contribution of external demand to Japan's economic growth, too, has been consistently negative since 1986, suggesting that the domestic demand-led economic growth has now been realized. Japan is determined to continue its efforts to redress its external imbalances in spite of domestic difficulties.

2. Mining and industrial sector

In the mining and industrial sector, the market access has been improved in accordance with the aforementioned policies. Although Japan's border measures, including customs duties and quantitative restrictions, are now among the lowest in the world, Japan is continuing its efforts for further improvement of market access, along with the implementation of the import expansion measures.

In addition to these endeavours, Japan has been making efforts for the smooth progress of industrial restructuring to fit the Japanese economy into a pattern more harmonious with the world economy. In order to achieve balanced expansion of trade, Japan has not taken any border measures, such as import restrictions, to protect those industries whose relative competitiveness has weakened as a consequence of changes in the economic environment. On the contrary, active steps are taken to let the market mechanism re-channel the labour and capital of those industries into more competitive sectors. As a result of these efforts, (with further appreciation of the yen) Japan's imports of manufactured goods rapidly grew from US$40.2 billion (on a customs clearance basis) in 1985 to US$106.1 billion in 1989. Along with that, the proportion of manufactured goods to Japan's total imports also rose quickly from 31.0 per cent to 50.3 per cent over the same period.

In the presence of protectionist moves in international trade, and in order to avert unilateral import restrictions by the importing countries and eventually return to free trade, voluntary export restraints are exercised at the necessary minimum as emergency and inevitable measures. These restraints, currently on the exports of motor vehicles, steel, textiles, and machine tools, among others, are based on each importing country's request, agreement or some form of consent.

3. 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 22 in 1975. With the lifting of the quantitative restrictions on such items as beef and oranges in 1992, the number of items subject to import restriction will be reduced to 13 (23 items according to the Harmonized System tariff line basis).

Japan's food self-sufficiency ratio on a calorie basis has dropped to below 50 per cent, 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 1988 amounted to US$47.3 billion, while export of these products was as US$2.5 billion. The balance was therefore a US$44.9 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. Japan sees to it that world markets will not be confused 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.
Trend of Imports of Agricultural, Forestry and Fishery Products

Source: Ministry of Agriculture, Forestry and Fisheries
Trend of Food Self-Sufficiency in Japan

Source: Food Balance Sheet
(Ministry of Agriculture, Forestry and Fisheries)
II. DESCRIPTION OF THE IMPORT AND EXPORT SYSTEM

1. Import system

(1) Principle

The principle of Japan's import system is, as stipulated in the Foreign Exchange and Foreign Trade Control Law, freedom of external transactions. The aim of Japan's import control, therefore, is to promote the steady growth of external transactions and the sound development of the economy by limiting import control and/or adjustment to the minimum necessary. The import of some specific items, however, are subject to approval in order to secure the development of foreign trade and the national economy.

(2) Objectives of import control

Import controls are imposed for the following objectives:

(i) Fulfillment of international obligations

- Import restrictions undertaken in the context of obligations imposed on Parties to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (the Washington Convention), the Montreal Protocol on Substances that Deplete the Ozone Layer (specifically relating to CFCs), international commodity agreements, etc.
- Measures taken in consultation with other countries to regulate imports of pig-iron and ordinary steel from the Republic of South Africa.

(ii) Maintenance and establishment of order in import transactions

- e.g. Regulation concerning terms of payment for the elimination of unfair terms of settlement.

(iii) Implementation of domestic production control

- Restriction necessary for the implementation of domestic production controls of certain agricultural and fishery products.

(iv) Stabilization of supply-demand situation and prices conducted by State-trading enterprises

(v) Others: National security, protection of public morals, and protection of human, animal or plant life or health.
(3) Legal system for import control

In order to achieve the above-mentioned objectives, Japan's import control is enforced on the basis of the following laws and regulations:

(i) Laws and regulations relating to the Foreign Exchange and Foreign Trade Control Law, which impose the minimum control or adjustment required for import transactions.

(ii) The Customs Law and other customs-related laws and regulations, which stipulate the assessment and collection of customs duties, and customs clearance procedures for the import of goods.

(iii) The Export and Import Transaction Law, which aims at establishing order in import transactions.

(iv) The Food Control Law, the Alcohol Monopoly Law, the Salt Monopoly Law, and others that regulate the imports of State trade commodities (see page 58, "Rôles of State-trading enterprises").

(v) The Narcotics Control Law, the Animal Infectious Disease Control Law, the Plant Protection Law, the Food Sanitation Law, and other laws and regulations that restrict imports for, among other reasons, the maintenance of health and sanitation.

2. Export system

(1) Principle: principle of free trade

Following the principle of free trade, Japan limits its export control to the necessary minimum. The principle of free export is specifically expressed by the Foreign Exchange and Foreign Trade Control Law, which stipulates general provisions concerning Japan's export control: "The objective of this Law shall be, on the basis of the freedom of foreign exchange, foreign trade, and other external transactions, with necessary but minimum control or adjustment, to enable proper expansion of our external transactions - (Article 1); and "Export of goods shall be permitted with a minimum of restrictions, in so far as it is consistent with the objective of this Law" (Article 47).

(2) Objectives of export control

As aforementioned, Japan's export system is based on the principle of free trade. However, in certain exceptional cases, exports may be subject to control in order to achieve the following objectives:

(i) maintenance of international peace and security (control measures based on COCOM, Japan's Three Principles on Arms Export, and others);
(ii) maintenance of order in export transactions;

(iii) avoidance of tight domestic supply-and-demand situations;

(iv) fulfillment of international obligations (such as treaties, international trade agreements);

(v) restriction of exports of banned items, such as goods that may be detrimental to public order and morals.

(3) Legal system for export control

(i) The Foreign Exchange and Trade Control Law which stipulates general provisions concerning export control.

(ii) The Export and Import Transaction Law which prevents unfair export transactions and aims at establishing order in export transactions.

(iii) The Customs Law, and the Customs Tariff Law and other customs-related laws and regulations which aim at regulating exported and re-exported goods at Customs.

(iv) The Export Inspection Law and the Export Commodities Design Law, which both aim at maintaining and improving the quality of exported goods.

(v) The Narcotic Control Law, the Cannabis Control Law, the Law for the Protection of Cultural Properties, and others that restrict exports in order to serve their respective purposes such as improvement in health and sanitation, maintenance of social order, and protection of cultural assets.

(4) Control of arms export

Japan, in view of its commitment to peace, has been dealing with export of arms and their components with extreme strictness, based on such principles as the so-called "Three Principles on Arms Export" and the "Policy Guideline on Arms Export".
III. THE TRADE POLICY FRAMEWORK

A. DOMESTIC LAWS AND REGULATIONS GOVERNING THE APPLICATION OF TRADE POLICIES

1. Foreign Exchange and Foreign Trade Control Law

(1) Objectives

The objective of the Foreign Exchange and Foreign Trade Control Law, enacted in December 1949, is to control foreign exchange and foreign trade comprehensively under a single act. By nature, it serves as the basic legal framework for transactions with foreign countries. At the time of its enactment, reflecting Japan's economic situation, the Law either restricted or prohibited all external transactions in principle, while providing for the subsequent removal of such restrictions or prohibitions by Governmental and/or Ministerial ordinances.

In December 1980, a complete revision of the framework of the Law was undertaken in the light of the following factors:

(i) the Law had become a cause of external economic frictions because its official position had been to prohibit external transactions in principle;

(ii) the Law also did not suit Japan's policy of basically promoting an open economic system either from the internal point of view;

(iii) the structure of the Law had become too complex as a result of, among others, repeated partial revisions through Government ordinances and other measures.

As a result of the revision, the initial objective of the Law, which was to "contribute to the reconstruction and development of the national economy through control of external transactions", was altered. The Law now clearly stipulates that external transactions shall be, in principle, conducted freely by stating: "The Law, founded on the principle of freely conducted foreign exchange, foreign trade and other external transactions, through necessary minimum control or adjustment on external transactions, shall thereby contribute to the sound development of the national economy."

(2) Characteristics and features

Main characteristics and features of the revised Foreign Exchange and Foreign Trade Control Law, which is in force now, are the following:

(i) The Law provides a system for comprehensive and unified control of external transactions and serves as the basic legal framework for such transactions.
(ii) The Law is international in nature, incorporating the principle of free and multilateral trade embodied in the trade liberalization agreements or codes of the IMF and OECD, as well as the GATT.

(iii) Under normal conditions, the Law provides necessary minimum control and adjustment of transactions based on the principle of free international transactions. Only in case of emergency such as a sudden deterioration in the international balance of payments, it would allow for the imposition of a licensing system on transactions normally exempt from restraint.

(iv) It entrusts certain responsibilities such as confirming the legality of individual transactions or keeping close track of the actual situation of the transactions, to banks which deal with international financial settlements.

Furthermore, in order to promptly and adequately cope with and adjust to changes in international conditions surrounding Japan as well as trends in its domestic economy, the Law leaves details of the regulations for various external transactions to Governmental and Ministerial ordinances such as the Foreign Exchange Control Order, the Export Trade Control Order, and the Import Trade Control Order.

The Law allows free purchase and sale of foreign currencies through foreign exchange banks in Japan in amounts necessary for trade, instead of introducing such systems as the foreign exchange holding restriction system or the foreign exchange allocation system. In addition, the Law places no restrictions whatsoever on the holding of foreign currencies in the private sector.

(3) Recent modification

In 1987, after several modifications, the Law was partially amended with regard to trade-related transactions. It was mainly to strengthen its stipulated penalties and sanctions against illegal transactions relating to exports of goods and provision of technologies, which are regarded impedimental in maintaining international peace and security. With this modification, the deterrent against the infringement of regulations for foreign trade transactions has been further strengthened.

2. Import Trade Control Order

The Import Trade Control Order is a Governmental ordinance which provides the procedures for the control of imports within the framework of the Foreign Exchange and Foreign Trade Control Law. It contains the provisions for Japan's import approval system, import quota system, and liberalized import items that may be freely imported without import approval.
(1) **Import approval system**

The principle underlying Japan's control of imports is, as defined in the Foreign Exchange and Foreign Trade Control Law, the freedom to import. Based on this principle, import control is applied only when necessary and at the absolute minimum in order to promote sound development of foreign trade and the Japanese economy. Specifically, an import approval from the Ministry of International Trade and Industry is required in order to import any of these goods: (i) items subject to import quotas; (ii) goods which are imported from officially designated places of origin or places of shipment; (iii) goods whose payments are to be done by special methods of settlement, such as an agreement to set off payments for the imported goods; and (iv) goods subject to import requirements defined in the Import Notice (issued by the Minister of International Trade and Industry).

Import approval for goods in items (i) and (iv) can be applied for and obtained through an authorized foreign exchange bank. This requirement, however, is waived for goods in item (iv) above when confirmation for import is obtained from the Minister of International Trade and Industry (prior confirmation), or when specified documents are submitted to the customs authorities (customs confirmation).

As for the goods mentioned in items (i), (ii) and (iv), the goods and the system by which they can be imported, are published in the Import Notice.

(2) **Import quota system**

The import quota system is applied to implement import restrictions and other measures on the goods designated in the Import Notice. Quotas of the designated goods are allocated either by quantity or by value, to the importers and the users based on such criteria as the domestic supply-demand situation. The import approval, which is necessary for the importation of goods subject to import quotas (as mentioned in the above (1)), is granted only after an importer receives the allocation of quotas from the Minister of International Trade and Industry. The procedure for applying for an import quota of designated goods is defined in the Import Announcement each time an import quota is allocated. All relevant matters for the application of a quota such as where and when to file quota applications as well as the criteria for the allocation of quotas will be clearly published by item or item group in the announcement. (See page 37, "Licensing".)

3. **Export Trade Control Order**

The Export Trade Control Order is a Governmental ordinance which provides the procedures for the control of exports, based on the Foreign Exchange and Foreign Trade Control Law. It contains the provisions concerning the export licensing system and export approval system.
(1) Principle

The principle underlying Japan's export control, as defined in the Foreign Exchange and Foreign Trade Control Law, is the freedom of export. Based on this principle, export control is applied only when necessary and at the absolute minimum in order to promote sound development of foreign trade and national economy. The Order stipulates specific cases where an export licence or approval from the Minister of International Trade and Industry is required, according to: (1) the type of goods, (2) the form of contract, and (3) the method of settlement.

(2) Regulations based on the type of goods

(i) For the purpose of maintaining international peace and security, (a) to prevent the outflow of strategic goods and technology, and (b) to avoid contributing to international conflict, restrictions are placed on export of strategic materials, arms, and raw materials for chemical weapons. In the case of such exports, a licence from the Minister of International Trade and Industry is required.

(ii) Also, approval by the Minister of International Trade and Industry is required for the export of: (a) goods whose uncontrolled export would induce such problems as a tightening of domestic supply and demand as well as depletion in domestic natural resources, which need to be avoided; (b) goods required to maintain order in their export transactions; (c) goods that are controlled under the provisions of international agreements; and (d) goods prohibited for export as being detrimental to public order and morals.

(3) Regulations based on the forms of contract

Approval by the Minister of International Trade and Industry is required in order to export certain textile and leather products as processed materials under the processing deal contract, which consign processing abroad to the persons abroad.

(4) Regulations based on the methods of settlement

Approval by the Minister of International Trade and Industry is required when goods are exported with certain special methods of settlement: i.e. methods of settlement by debit/credit accounts and those under the special methods of settlement stipulated by the ordinance of the Ministry of Finance concerning the special methods of settlement.

4. Export and Import Transaction Law

(1) Objectives

With the resumption of foreign trade activities by Japan's private sector after World War II, unfair export transactions were practised due to excessive competition among exporters. This apparently prompted a move by
the countries of destination to limit imports from Japan. The Export and Import Transaction Law was hence instituted in 1952 to prevent unfair export transactions and establish orderly export and import transactions, thereby promoting sound development of foreign trade.

The Law specifically stipulates that:

(i) Unfair export transactions such as infringement of industrial property rights of the countries of destination, false indication of country of origin, and noticeable absence of important matters in contracts should be specifically prohibited.

In addition, to establish orderly exports and imports:

(ii) As for export, permits may be issued to allow traders to conclude agreements on such matters as quantity, price, and terms of export transaction of specified goods to specified countries of destination.

(iii) As for import, approval may be granted to allow traders to conclude agreements on such matters as price, quantity and terms of import transaction of specific goods, in order to eliminate excessive import competition in Japan, maintain fair and orderly imports, and promote sound development of imports. The approval can be issued, in cases where Japanese importers are deemed to suffer extremely disadvantageous transaction terms compared with those enjoyed by foreign importers due to, for instance, virtual restriction of transactions by a trading partner through its unified export channel, or excessive competition in import into Japan.

The Law also authorizes the Minister of International Trade and Industry to issue a control order of outsiders when an agreement among traders or an agreement of the association alone may not prevent the serious disruption of the establishment of orderly import and export, or the serious undermining of the sound development of import/export trade. Once the order is issued, each import/export transaction is subjected to approval by the Minister.

(2) Import/export cartels in operation

As of 1 April 1990, the following import/export cartels are in operation in accordance with the Export and Import Transaction Law:

(i) Twenty-eight export cartels exist for export of specified goods to specified countries of destination, nine of which are subject to control orders of outsiders.

(ii) There is only one import cartel, which is for silk fabrics from China. A control order of outsiders has been issued for this cartel based on Article 30, paragraph 2 of the Law.
5. **International Trade Insurance Law**

(1) **Outline**

The International Trade Insurance Law is intended to facilitate sound development of foreign trade and other external transactions by establishing a trade insurance system to ensure against risks resulting from restrictions on foreign exchange transactions and other risks involving foreign trade and other external transactions, which cannot be covered by ordinary insurances. The Law covers (i) political risks including restriction on foreign exchange transactions, and (ii) losses incurred by commercial risks, such as the bankruptcy of the trading partner, which arise in the course of external transactions including export, import, intermediary trade, and overseas investment. The Law stipulates, with respect to each of the eight types of insurance instituted thereunder, basic matters relating to the kinds of losses covered, conclusion of the insurance contract, collection of the premium, and payment of the insurance. Whereas the types of insurance have varied over time, the revision of the Law in March 1987 added two new types (the Prepayment Import Insurance and the Intermediary Trade Insurance). As a result, the Law now covers a wide spectrum of external transactions including not only export but also overseas investment, import, and intermediary trade. The trade insurance system is operated by the Ministry of International Trade and Industry, and its revenue and expenditure account is independent of the ordinary account of the Government for the implementation of its general policies. At present, the Law provides for the following eight types of insurance.

(2) **Eight types of insurance and coverage of losses**

(i) **Export**

(a) General Export Insurance: mainly for inability to export before shipment.

(b) Export Proceeds Insurance: for inability to collect payment for the export of a plant, etc., after shipment.

(c) Export Bill Insurance: for banks' loss due to bank bills and letters of credit being dishonoured after shipment.

(d) Export Bond Insurance: for commercial bank losses incurred through a foreign government's unjust confiscation of bonds concerning the export of a plant, etc.

(e) Exchange Risks Insurance: for exporters' foreign exchange losses concerning the export of a plant, etc.

(ii) **Import**

(f) Prepayment Import Insurance: for inability to recover the prepaid amount for an import cargo failing to arrive.
(iii) **Intermediary trade**

(g) **Intermediary Trade Insurance**: for inability to collect payment for an intermediate trade transaction involving the movement of a cargo between foreign countries, resulting from, for example, a restriction imposed by the Government of a country of destination on foreign currency remittance, or bankruptcy of the importer.

(iv) **Overseas investment**

(h) **Overseas Investment Insurance**: for investors' loss due to political risks (war, revolution, requisition, etc.) and commercial risks (bankruptcy of the company in which the investment is made) affecting overseas investment (equity investment, financing, etc.).

6. **Laws and regulations relating to customs tariffs**

(1) **Outline of Japan's legal framework relating to customs tariffs**

Japan's laws and regulations relating to customs tariffs consist primarily of the Customs Law, the Customs Tariff Law, and the Temporary Tariff Measures Law.

The Customs Law principally covers the determination and collection of duties, customs procedures, and other related matters. The Customs Tariff Law stipulates tariff rates; basis for assessment; and reduction, exemption, and drawback of customs duties. The Temporary Tariff Measures Law stipulates temporary exceptions to the Customs Tariff Law with respect to relatively short-term adjustments of tariff rates.

Any treaty provision concerning customs tariffs shall take precedence over laws and regulations relating to customs tariffs including the aforementioned three laws.

(2) **The Customs Law**

The Customs Law is the basic law on customs administration. It covers the determination and payment of customs duties and matters relating to import or export customs clearance. In addition, in order that imposition of these duties and customs clearance may be carried out appropriately and smoothly, it also covers matters relating to formalities for vessels' entry into or departure from ports and the Hozei system, as well as penalties, etc. for law infringement.

In regard to the imposition of duties, the Customs Law stipulates the persons to be charged, when to decide on the objects to be assessed and the applicable tariff rates. It also stipulates formalities pertaining to the assessment, payment and collection of duties. However, the method for
determining the customs value, the rates to be applied, and the reduction and exemption of customs duties are stipulated by the Customs Tariff Law and the Temporary Tariff Measures Law.

(3) The Customs Tariff Law

The Customs Tariff Law stipulates the basis for assessment, the system for reduction, exemption and drawback of customs duties, anti-dumping duties, import prohibition, the Customs Tariff Council, etc. The tariff schedule which is annexed to the Law provides tariff rates on all import commodities, which are classified into 5,549 products in accordance with the International Convention on the Harmonized Commodity Description and Coding System (HS Convention) of the Customs Co-operation Council. This schedule forms the principal part of the Customs Tariff Law. The tariff rates set in the schedule are referred to as "general rates".

The list of simplified duty rates, which is attached to the said tariff schedule, gives the "simplified rates" applicable to accompanied and unaccompanied baggage of travellers, etc. ⁵

(4) The Temporary Tariff Measures Law

The Temporary Tariff Measures Law primarily stipulates exceptions to the Customs Tariff Law concerning tariff rates 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 Law also provides for the Generalized System of Preferences, etc. created in accordance with international agreements.

The tariff rates are actually shown in the attached Table 1(A) and Table 1(B). Table 1(A) and Table 1(B), rates, which are, in principle, set lower (higher in exceptional cases) than the general rates, are given for 3,435 products and 2,359 products respectively as of 1990, which are classified according to the tariff schedule annexed to the Customs Tariff

⁵ Matters relating to decisions on the amount of customs duty levied, such as the method of determining the basis for assessment and customs value as well as matters concerning countervailing duties, anti-dumping duties, etc. are all based on the General Agreement, the Customs Valuation Code, the Subsidies Code and the Anti-Dumping Code.
Law. These set rates are called "temporary rates", and are given precedence over general rates for all countries. The temporary rates are normally applied for a period of one year.

The rates applied under the Generalized System of Preferences are referred to as "preferential rates".

(5) Precedence in application of tariff rates

In addition to the above-mentioned general rates, temporary rates, and preferential rates (all of which are termed "statutory rates"), the tariff rates that are currently applied in Japan include "conventional rates" (also called "bound rates") which are bound under agreements with other nations.

Regarding conventional rates, the only rates currently in effect are the rates bound in the GATT (GATT rates). The GATT rates apply not only to GATT members but also to other countries that have most-favoured-nation provisions under bilateral treaties, and to countries to which beneficial duties are applied.

The following gives the order of precedence in the application of these different rates.

- The conventional rates take precedence over the statutory rates when the former is set lower than the latter. The statutory rates are applied to imports from countries other than those for which conventional rates are applied.

- The statutory rates are applied when they are lower than the conventional rates or where no conventional rates are set.

- Among statutory rates, the temporary rates take precedence over general rates.

- The preferential rates always take precedence over other rates for imports qualifying for application of preferential rates.

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6 In Table 1(B), tariff rates are shown for products for which a 20 per cent cut, temporarily, was made across the board under the Action Program for Improved Market Access (see Chapter IV.B). (However, products for which there was a further reduction in tariff rates, among others, have been transferred to (A).) Table 1(A) carries the tariff rates of all the other products, such as those not subject to the 20 per cent cut, for which individual reductions were made. For the products listed in Table 1(B), there is a provision stipulating restoration of the tariff rates prior to the 20 per cent cut in cases where the domestic industry is adversely affected by a sharp rise in imports.
B. SUMMARY DESCRIPTION OF THE PROCESS OF TRADE POLICY FORMULATION AND REVIEW

1. General description

(1) Process of policy formulation by the Administrative Branch

In Japan, the administrative authority rests with the Cabinet, consisting of the Prime Minister and other Ministers of State. Policies regarding foreign trade, like other policies, are formulated by the national administrative organs (Office on the Ministerial Level, Ministry, Commission, and Agency) which function under the control and jurisdiction of the Cabinet. All administrative organs keep liaison between one another so that they may consummate their administrative functions as an organic whole (according to the National Government Organization Law). Consultations for policy formulation among the concerned administrative organizations are carried out in a decision-making process based on consensus.

(2) Relationship of the Administrative Branch to the Legislature

According to the constitution of Japan, the Cabinet is collectively responsible to the Diet and is authorized to perform, in addition to other general administrative functions, such functions as the administration of the law, management of foreign affairs, conclusion of treaties (subject to prior or, depending on circumstances, subsequent approval of the Diet), and preparation of the fiscal budget. The Prime Minister, representing the Cabinet, is empowered to submit bills regarding laws, budgets and other matters proposed by the Cabinet and to report on general national affairs and foreign affairs to the Diet. Likewise, concerning foreign trade policies, the Cabinet and administrative organs under its control perform their duties in relation to the Diet in accordance with the provisions of the Constitution. The Prime Minister and other Ministers of State may, at any time, attend any deliberation at the Diet to speak on a proposed bill and are obliged to be present to answer questions or give explanations when required by the Diet.

Apart from bills submitted by the Cabinet, bills proposed by Diet members are also discussed in the Diet in accordance with the provisions of the Diet Law.

2. Trade Conference

The Trade Conference was established in 1970 for the purpose of investigating and discussing important trade-related matters requiring liaison and co-ordination between the administrative bodies involved. The growth of imports has been on the agenda since the meeting of 1982.

Chaired by the Prime Minister, the Conference is composed of (1) the Cabinet Members charged with economic matters, such as the Minister for Foreign Affairs, the Minister of Finance, the Minister of Agriculture, Forestry and Fisheries, the Minister of International Trade and Industry, the Chief Cabinet Secretary, and Minister of State, the Director-General of the Economic Planning Agency; and (2) other persons appointed by the Prime Minister who are well-experienced in trade matters.
Recently, the Conference has dealt with the following issues:

Eighth Conference Meeting (1986) Views and opinions on the policy for promotion of the import of manufactured products

Ninth Conference Meeting (1987) Recent trends in trade and on redressing the external imbalances

Tenth Conference Meeting (1988) Recent trends in trade and future trade policy (mainly measures to cope with the accumulated debt problem)

Eleventh Conference Meeting (1989) Recent trends in trade and measures for import growth

3. Ministerial Conference for Economic Measures

The top decision-making body of the Japanese Government is the Cabinet. Akin to this are various ministerial conferences.

For the purpose of comprehensive co-ordination of economic measures, the Ministerial Conference for Economic Measures was set up within the Cabinet in November 1977. It carries on the work of the former ministerial conference of the same name that had been established in December 1974 and held irregularly, in providing effective and dynamic economic management for coping with the volatile economic conditions both at home and abroad. Currently, the Ministerial Conference decides on basic matters of importance in the management of economic policies, such as the annual "Economic Outlook and Basic Policy Stance of Economic Management" or various comprehensive economic measures.

To date, the Ministerial Conference has made decisions on a number of comprehensive economic measures and external economic measures containing various programmes, for the purpose of, inter alia, sustaining economic growth primarily through domestic demand and improving external imbalances. Its recent decisions have been on: comprehensive economic measures (decided on 19 September 1986) including the securing of funds for projects worth a total of ¥ 5 trillion as public investment; emergency economic measures (decided on 29 May 1987) including the securing of funds for projects worth a total of ¥ 5 trillion as public investment; importing foreign goods totalling US$1 billion as government procurement; and advancing the mid-term target of official development assistance. The Ministerial Conference must approve the Outlook and Basic Policy Stance of Economic Management, prepared each year along with the budget compilation for the next fiscal year, before the Cabinet gives its endorsement.

The Ministerial Conference is composed of all Cabinet members and is chaired by Minister of State, the Director-General of the Economic Planning Agency.
4. **Office of Trade and Investment Ombudsman**

The Office of Trade and Investment Ombudsman (OTO) was established in accordance with the January 1982 decision at the Ministerial Conference for Economic Measures to receive and take appropriate measures on grievances filed by foreign corporations and importers with respect to opening the Japanese market. The head of the office is the Deputy Chief Cabinet Secretary. This office works closely with fifteen related ministries and agencies to handle such grievances with the Economy Planning Agency acting as the Secretariat.

The OTO receives grievances in areas such as services, formalities concerning import inspection, direct investments in Japan, and government procurement.

The OTO, though being an entity belonging to the Government of Japan, has established an Advisory Council and a Special Grievance Resolution Meeting (both of which are composed of people from the private sector) to enhance the function of its rôle as a third-party organization. The former deliberates on the operation policy of the OTO and the latter on ways to deal with individual cases. The OTO handles grievances while giving due considerations to the opinions of the council and the meeting.

5. **Government-Ruling Parties Joint Headquarters for the Promotion of Economic Structural Adjustment**

The Government-Ruling Parties Joint Headquarters for the Promotion of Economic Structural Adjustment was established in August 1986 in order to actively promote the economic structural adjustment and realize an economic structure in harmony with the international community based upon the May 1986 "Outline for the Promotion of Economic Structural Adjustment". This "Outline", in line with the Maekawa Report, incorporates varied economic structural adjustment measures that Japan should undertake over medium and long terms. In June 1988, the headquarters decided on a revision of the said "Outline" and has to date been engaged in its implementation and promotion.

The president of the Headquarters is the Prime Minister and the vice-presidents are Minister of State, the Director-General of the Economic Planning Agency, the Chief Cabinet Secretary, and the chairman of the Policy Research Council of the Liberal-Democratic party. Its members consist of cabinet ministers concerned and executive officials of the Liberal-Democratic Party.

6. **Councillors’ Office on External Affairs, Prime Minister’s Secretariat**

The Councillors’ Office on External Affairs, under the Order for the organization of the Cabinet Secretariat and the Order for the Organization of the Prime Minister’s Office, deals mainly with those matters relating to external affairs, including external economic issues, from among the matters outlined below.
(1) Matters concerning overall co-ordination on important issues with respect to Cabinet meetings; and other overall co-ordination necessary for the maintenance of unity with respect to measures undertaken by each administrative branch of the Government;

   (the foregoing under the jurisdiction of the Cabinet Secretariat)

(2) Matters concerning liaison on the work of each administrative organ; and

(3) Matters concerning research, planning and formulation of policies that do not come under the scope of responsibilities of other administrative organs.

   (the foregoing under the jurisdiction of the Prime Minister’s Office).

7. Economic Planning Agency and Economic Council

The Economic Planning Agency was instituted under the Law for the Establishment of the Economic Planning Agency to be responsible for matters dealing with: (1) formulation and promotion of long-term economic plan; formulation of the basic management policy of the overall economy and the Basic Policy Stance of Economic Management of each fiscal year; and planning and formulation of overall basic policies concerning economic measures involving two or more administrative bodies of the Government; (2) overall co-ordination of basic policies and plans pertaining to trade, foreign exchange and international balance of payments; overall co-ordination of basic economic policies including overall co-ordination with regard to formulation and implementation of important policies and plans of related administrative bodies of the Government vis-à-vis long-term economic plan; and (3) research and analysis concerning internal and external economic trends, national income, and other subjects.

For the purpose of carrying out the responsibilities of the foregoing, the Economic Planning Agency has the power, among others: (1) to formulate long-term economic plan and conduct overall co-ordination of relevant administrative organs work with respect to important policies and programmes concerning long-term economic plans; (2) to formulate the basic policy of overall economic management and the Basic Policy Stance of Economic Management of each fiscal year and to plan and formulate overall basic policies pertaining to economic measures that concern two or more administrative organs; and (3) to conduct overall co-ordination of relevant administrative organs work with respect to basic economic policies and plans.

The Economic Planning Agency has established, under the Order for the Order for the Organization of the Economic Planning Agency, the Economic Council, which acts as an advisory body to the Prime Minister, conducts research and deliberates on matters with respect to formulation of long-term economic plans as well as important economic policies and plans. The Council is also in a position to express its views to the Prime Minister on the aforementioned matters when necessary.
8. **Ministry of Foreign Affairs**

The Ministry of Foreign Affairs is responsible under the Law for the Establishment of the Ministry of Foreign Affairs for the integrated administration of planning, formulating and implementing foreign policies; research concerning foreign countries; protection and promotion of Japanese interests relating to foreign commerce and navigation; protection of Japanese interests relating to overseas investments; conclusion of treaties and other international agreements including those relating to commerce and economy; co-operation with international organizations and participation in international conferences; and management and overall administration of other matters relating to foreign affairs. For the purpose of carrying out these responsibilities, the Ministry of Foreign Affairs has the authority, among others: (1) to protect and promote Japanese interests in commerce and navigation by providing assistance in commercial transactions and negotiations with foreign authorities; (2) to take necessary measures to protect Japanese interests relating to overseas investments; (3) to represent the Japanese Government in negotiations with foreign governments and to participate in international organizations and conferences; (4) to conclude, interpret and execute treaties and other international agreements and to deal with legal matters concerning foreign relations.

9. **Ministry of Finance and the Customs Tariff Council**

(1) **The Ministry of Finance and the Customs Tariff Council**

The Customs and Tariff Bureau of the Ministry of Finance is responsible for research, planning and drafting of administrative systems concerning customs and tariffs (including agreements on customs and tariffs with foreign countries); assessment, imposition and collection of tariffs; supervision and control of export and import cargoes; administration of the Hozei system; compilation of statistics on trade; and other matters. (Article 4 of the Law for the Establishment of the Ministry of Finance.)

The Customs and Tariff Council is an organ created under Article 22 of the Customs Tariff Law to research and deliberate on important matters concerning tariff rates at the request of the Minister of Finance. The Council consists of a maximum of forty-five members (currently thirty-five) and is appointed by the Minister of Finance from among academic experts on finance, industry, trade and other fields. The following groups are created within the Council:

<table>
<thead>
<tr>
<th>Groups</th>
<th>Responsibilities</th>
</tr>
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<tbody>
<tr>
<td>Planning Group:</td>
<td>Research and deliberation of customs and tariff policies;</td>
</tr>
<tr>
<td>Research Group:</td>
<td>Research and deliberation of tariff rates, etc., of individual items;</td>
</tr>
</tbody>
</table>
Tariff Quota Group: Research and deliberation of tariff quota quantities;

Special Customs Duty Group: Research and deliberation of emergency duties, anti-dumping duties, countervailing duties, etc.

10. Ministry of Agriculture, Forestry and Fisheries

The Ministry of Agriculture, Forestry and Fisheries was instituted in accordance with the Law for the Establishment of the Ministry of Agriculture, Forestry and Fisheries in order to secure a stable supply of food for the nation; and to bring about sound development of the domestic agriculture, forestry, and fisheries industries and harmonious relations in foreign trade concerning agriculture, forestry and fisheries. The Ministry is responsible for the following:

(1) matters relating to exports and imports of agricultural, forestry and fisheries products; and

(2) matters relating to tariffs and international agreements concerning agricultural, forestry and fisheries products.

11. Ministry of International Trade and Industry

The Ministry of International Trade and Industry (MITI), under the Law for the Establishment of the Ministry of International Trade and Industry, is responsible for the integrated execution of administrative affairs and undertakings concerning, among other things, the promotion and co-ordination of international trade, the control of foreign exchange in connection with international trade, and the furtherance of international co-operation in trade and economic affairs. Matters under its jurisdiction include: (1) the drafting of policies, programmes and procedures concerning international trade, and the overall co-ordination for their implementation; (2) the implementation of agreements concerning international trade; (3) the conducting of surveys, preparation of statistics, and supply of information concerning international trade; (4) international co-operation in trade and economic affairs; (5) promotion, improvement, and co-ordination of international trade; (6) administrative matters concerning customs tariffs as they relate to international trade policies; (7) the control of foreign exchange in connection with international trade; (8) trade insurance.

In order to fulfil these responsibilities, MITI is authorized, among others, to take necessary measures for the implementation of agreements concerning international trade; take necessary measures for international co-operation in trade and economic affairs; restrict exports and imports, restrict transactions concerning foreign exchange in connection with international trade, and implement trade insurance.
(1) Treaties on Commerce and Navigation

Japan has a bilateral treaty concerning commerce and navigation with each of the following countries. Each treaty provides for such basic matters as entry, sojourn, business activities, protection of property, access to the court of justice of the nationals of each signatory country, as well as for most-favoured-nation treatment of the signatory country's products and navigation.

- Greece
- Spain
- Sweden
- Switzerland
- Denmark
- Netherlands
- Finland
- Federal Republic of Germany
- Turkey
- Uruguay
- United States of America
- Canada
- Norway
- Australia
- USSR
- India
- New Zealand
- Haiti
- Yugoslavia
- Czech and Slovak Federal Republic
- Cuba
- Malaysia
- Benelux
- Pakistan
- Peru
- Indonesia
- Argentina
- United Kingdom
- France
- El Salvador
- Mexico
- Romania
- Bulgaria
- Hungary
- Philippines
- Poland
- German Democratic Republic
(2) **Trade Agreements**

Japan has bilateral agreements concerning trade with the following countries. These agreements, usually in the form of an administrative arrangement, provide for general principles on trade including the duties and charges, clearance through customs, payments, and so on.

- Sweden
- Sri Lanka
- Syria
- Thailand
- Egypt
- Cambodia
- Jordan
- Tunisia
- Federal Republic of Germany
- Romania
- Hungary
- Morocco
- Cameroon
- Niger
- Benin
- Ghana
- Guinea
- Madagascar
- Togo
- Iraq
- Mali
- Chad
- Zambia
- Costa Rica
- Korea
- Ethiopia
- Central African Republic
- Malta
- Côte d'Ivoire
- Malawi
- Zaire
- People's Republic of China
- Congo
- Senegal
- USSR
- Albania
- Mongolia

(3) **The General Agreement on Tariffs and Trade**

Japan, acceding to the General Agreement on Tariffs and Trade (GATT) in 1955 in accordance with the Protocol of Terms of Accession of Japan to the GATT, is also party to the following agreements concluded in the Tokyo Round negotiations, i.e. Agreement on Implementation of Article VI of the GATT; Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT; Agreement on Implementation of Article VII of the GATT; Agreement on Technical Barriers to Trade; Agreement on Import Licensing Procedures; Agreement on Trade in Civil Aircraft; Agreement on Government Procurement; International Dairy Arrangement; and Arrangement regarding Bovine Meat.
The mode of application of the GATT to Japan is a provisional application through the Protocol of Terms of Accession to the GATT, signed in 1955 (the accession was approved by the Diet in the same year); and the protocols of amendment including the Protocol Amending the General Agreement on Tariffs and Trade to Introduce a Part IV on Trade and Development accepted in 1965 with the approval of the Diet. The schedules of concessions are applied in accordance with the 1987 Geneva Protocol, etc., (also approved by the Diet).

The implementation of the agreements concluded during the Tokyo Round negotiations is secured domestically by legislation.

(4) Japan's legal framework for international trade

(i) Japan, while adhering to the multilateral free trading system based on the GATT, has been expanding a network for broader international trade by entering into bilateral treaties on commerce and navigation and bilateral trade arrangements.

(ii) Treaties on commerce and navigation as well as trade arrangements usually prescribe basic principles concerning such aspects of trade as duties and charges and customs clearance procedures on a reciprocal basis. Treaties on commerce and navigation often further provide for mutual granting of most-favoured-nation treatment, protection and security of signatories nationals and of their property, and the free port entry of signatories' vessels, thereby filling in some cases a supplementary rôle in relation to the GATT.

(iii) Japan has not formed a free-trade zone nor a customs union with any other country. Japan offers no preferential tariff to any country or region except under the Generalized System of Preferences.

The Protocol of Terms of Accession, under which Japan acceded to the GATT, provides that the provisional application of Part II of the GATT is applied to the fullest extent not inconsistent with its (Japan's) domestic legislation existing on the date of the Protocol (7 June 1955). There is an established interpretation that the domestic legislation referred to in this provision is limited to legislation of a mandatory character, as is the case with regard to the other contracting parties, and Japan has notified the GATT secretariat that it has no such mandatory legislation affected by the provision.

Article 98 of the Constitution of Japan provides that "the treaties concluded by Japan and established laws of nations shall be faithfully observed." It is customary, however, that conclusion of international agreements by Japan is conducted after domestic legislations necessary for implementation of the agreements are completed in order to avoid any discrepancies between Japan's international rights and obligations and its internal legal structure.
(5) **Trade with Communist Bloc countries**

(i) Japan has a "Trade Agreement" with China and a "Treaty on Commerce and Navigation" and a "Payment Arrangement" with the Soviet Union. Its trade relations with these countries are maintained on the basis of the said treaty, agreement and arrangement. Concerning payments, the trade agreement with China provides that payments shall be made in Japanese yen, the Chinese yuan, or any other exchangeable currency acceptable to both parties; and the payment arrangement with the Soviet Union prescribes the use of any exchangeable currency acceptable to both.

(ii) The trade between Japan and the Soviet Union in 1989 totalled about US$6.1 billion both ways, and accounted for a little less than 1.3 per cent of Japan's total foreign trade. Exports and imports are almost balanced. Major items of export to the Soviet Union include steel, which has traditionally accounted for a large proportion; general machinery; electric appliances; chemicals; and transport equipment and textiles; while major items of import from the Soviet Union include non-ferrous metals; lumber and mineral fuels, which constitute the largest in volume; fish and shellfish; and gold for non-minting use.

The Japan-China trade in 1989 amounted to US$19.66 billion both ways, representing approximately 4 per cent of Japan's total foreign trade. Exports to China totalled about US$8.5 billion and imports from China, about US$11.1 billion, resulting in Japan's deficit of about US$2.6 billion (Japan's deficit in 1988 had been US$380 million). The trade pattern between the two countries is undergoing a major change, from the traditional trend of Japan's importing raw materials and exporting manufactured goods towards a new tendency of its increase in the import of manufactured goods from China.

(iii) Japan has treaties on commerce and navigation with Yugoslavia, the Czech and Slovak Republic, Romania, Bulgaria, Hungary, Poland and the German Democratic Republic. Each one of these treaties contains a clause which stipulates that the treaty shall not be construed as prejudicing the rights and obligations under the GATT. Japan's trade with these countries of Eastern Europe (including Albania) in 1989 totalled about US$1.6 billion, accounting for about 0.33 per cent of Japan's overall foreign trade.
IV. **THE IMPLEMENTATION OF TRADE POLICIES**

A. **Tariff policy measures**

1. **Tariffs**

   (1) **Principles of the tariff policy**

   It is considered important to carry on with further promotion of improved access to the Japanese market in order to uphold and strengthen the free-trade system and to contribute to the formation of harmonious economic relations with other nations.

   From this point of view, Japan has successively lowered its tariff rates through active participation in the GATT Round negotiations as well as such measures as the Action Programmes for Improved Market Access.

   Consequently, Japan's tariff level in general is the lowest among the industrialized countries. Still, in order to continue improving market access from the tariff side, Japan intends to promote further reduction in tariff rates through active participation in the GATT Uruguay Round negotiations, while maintaining adequate consideration for domestic industries.

   (2) **Procedure for modification of tariffs**

   The Customs and Tariff Bureau of the Ministry of Finance is responsible for research, planning and drafting of the tariff system. The Bureau examines each item in regard to the differences in price in the domestic market and abroad; the supply and demand situation; the outlook for production streamlining; and other aspects, taking into account views expressed by relevant Ministries and Agencies. The results of the examination are referred to the Customs Tariff Council (see page 25).

   In the Customs Tariff Council, the Research Group deliberates on these items, and its conclusions are reported at the general meeting of the Council. After a decision has been reached in the Council, the conclusions are reported to the Minister of Finance.

   Respecting the report submitted by the Customs Tariff Council, the Customs and Tariff Bureau of the Ministry of Finance draws up modification plans of the Customs Tariff Law and the Temporary Tariff Measures Law, and the Government subsequently submits the plans to the Diet. Upon deliberations and voting by the Diet, the amended laws will be put into force.

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9Japan's tariff imposition ratio (the ratio of the total tariff revenue to the gross value of imports) stood at 3.4 per cent in FY 1988, down from 7.3 per cent in FY 1967, which was before the tariff reductions of the Kennedy Round.
Since the application period for temporary rates is normally one year, tariff modifications are normally conducted once a year, and modified rates take effect on 1 April, the start of the fiscal year.

(3) Recent measures in tariff policy

(i) January 1986 (Implementation of the Action Programme, see page 63)

Reduction or suspension of tariffs on 1,849 products, including an overall 20 per cent cut in tariffs on 1,792 products.

(ii) April 1986

Reduction or suspension of tariffs on 101 products, including a 20 per cent reduction in the tariffs on four items of wine of fresh grapes.

(iii) April 1987

Reduction or suspension of tariffs on 94 products including suspension of tariffs on cigarettes; an overall 30 per cent reduction in tariffs on 18 products of alcoholic beverages; and reduction in tariffs on 10 products of lumber products.

(iv) April 1988

Reduction or suspension of tariffs on 120 products including reduction in tariffs on chocolate confectionery.

(v) April 1989

Tariff reduction and other measures taken on 175 products including reduction or suspension of tariffs on 123 products of tropical products such as bananas and coconut oil following negotiations on tropical products in the Uruguay Round.

(vi) April 1990

Suspension (1,004 items or reduction in tariffs on 1,008 products of industrial products (mainly machinery).

2. Generalized system of preferences

Since 1971, Japan, with a view to augmenting exports and export incomes of developing countries and promoting their industrialization and economic development, has implemented the Generalized System of Preferences. Under this system, lower tariff rates (preferential rates) are imposed on products imported from developing countries than on products from industrialized nations.
(1) **GSP beneficiary countries and regions**

As of April 1990, 130 countries and 25 regions.

(2) **Items subject to the GSP and preferential rates**

(i) **Agricultural and fishery products (HS Chapter 1-24)**

A total of 77 items (HS 4-digit basis) such as fish and crustaceans are subject to the GSP. The preferential rates of these are 10 per cent to 100 per cent lower than the tariff rates normally applied.

(ii) **Mining and industrial products (HS Chapter 25-97)**

All but 27 items (HS 4-digit basis) are subject to the GSP. The preferential rates on 67 items (HS 4-digit basis) are exceptionally one half of the tariff rates normally applied, while the preferential rates on other items are 0 per cent.

(3) **GSP application methods**

(i) **Agricultural and fishery products (HS Chapter 1-24)**

The escape clause system is applied, under which Government orders may be issued to suspend the GSP to specified products or countries, when its application leads to such an emergency situation as one damaging to domestic industries.

(ii) **Mining and industrial products (HS Chapter 25-97)**

The escape clause system is applied in principle. However, for 143 items, the ceiling quota system is applied, under which the GSP is, in principle, suspended when the quota set for each item is exceeded.

(4) **Special treatment for imported goods from the LLDC's Japan applies**

Japan applies special measures on products imported from GSP beneficiary nations that are designated as LLDC's by United Nations General Assembly resolution, for which Japan considers special benefits to be appropriate. On those products, any remaining tariffs at preferential rates are suspended (i.e. 0 per cent), and where a ceiling quota is set, the escape clause is applied instead.
(5) **Import procedure for products subject to the GSP**

When products are to be imported under the GSP, a Certificate of Origin Form A issued by the customs authority (or an institution performing comparable functions) of the country of origin must be submitted to the customs authority along with the import declaration.

(6) **Imports performance of products subject to the GSP (FY 1988)**

Of the value of imports from all GSP beneficiary countries, the amount of imports subject to the GSP was ¥1,809.3 billion.
### Japan's Imports Eligible for GSP Treatment by Country (Region)

**(FY 1988)**

<table>
<thead>
<tr>
<th>Country Region</th>
<th>Agricultural products (Note 1)</th>
<th>Industrial and mining products (Note 2)</th>
<th>Total</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Korea</td>
<td>557</td>
<td>3,831</td>
<td>4,388</td>
<td>24</td>
</tr>
<tr>
<td>Taiwan</td>
<td>686</td>
<td>3,011</td>
<td>3,697</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>249</td>
<td>1,420</td>
<td>1,669</td>
<td>9</td>
</tr>
<tr>
<td>Brazil</td>
<td>118</td>
<td>973</td>
<td>1,091</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>46</td>
<td>737</td>
<td>783</td>
<td>4</td>
</tr>
<tr>
<td>Singapore</td>
<td>22</td>
<td>753</td>
<td>775</td>
<td>4</td>
</tr>
<tr>
<td>Philippines</td>
<td>520</td>
<td>247</td>
<td>767</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>80</td>
<td>430</td>
<td>510</td>
<td>3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-</td>
<td>456</td>
<td>456</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>178</td>
<td>266</td>
<td>444</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>799</td>
<td>2,714</td>
<td>3,513</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,255</strong></td>
<td><strong>14,838</strong></td>
<td><strong>18,093</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Note 1:** HS Chapters 1-24  
**Note 2:** HS Chapters 25-97  
**Source:** Ministry of Finance
3. **Tariff quotas**

Japan currently applies tariff quotas on 13 products under the Temporary Tariff Measures Law.

The items and the respective base rates and upper rates are as follows:

<table>
<thead>
<tr>
<th>(1)</th>
<th>Live bovine animals (intended) to be raised as beef cattle</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>¥ 45,000/each</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2)</th>
<th>Cheese and curd (intended for use as materials for processed cheese)</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3)</th>
<th>Oats</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(4)</th>
<th>Maize (corn)</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%, etc.</td>
<td>60% or ¥ 13/kg., whichever is greater</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(5)</th>
<th>Malt</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>¥ 25/kg.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(6)</th>
<th>Molasses (including hi-test molasses) intended for manufacturing alcohol</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>25%, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(7)</th>
<th>Food preparations containing cocoa for manufacture of chocolate</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(8)</th>
<th>Tomato purée and tomato paste for manufacture of tomato ketchup and other tomato sauces</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(9)</th>
<th>Canned pineapple</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(10)</th>
<th>Roughly distilled alcohol for beverages</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>17.9%, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(11)</th>
<th>Heavy fuel oil and raw oil</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>¥ 2,540kl., etc.</td>
<td>¥ 3,780/kl.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(12)</th>
<th>Leather</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>15%, etc.</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(13)</th>
<th>Footwear containing leather in part</th>
<th>Base rate</th>
<th>Upper rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>21.6%, etc.</td>
<td>60% or ¥ 4,800/pair, whichever is greater</td>
</tr>
</tbody>
</table>
4. Quantitative restrictions

(1) Objectives

In accordance with the Import Quota System provided in the Import Trade Control Order, Japan is enforcing quantitative restrictions to regulate some State-trading items, and to attain the following objectives; to ensure national security; protect the life or health of people, animals, and plants; restrict domestic production of agricultural and fishery products; and preserve limited natural resources.

(2) Steps for liberalization

Over the years, Japan has been actively promoting import liberalization. Quantitative restrictions on the following products have been abolished during the past few years or are scheduled to be abolished in the future. (Figures in parenthesis are HS 4-digit heading numbers.)

April 1986: 4 items including leather and leather footwear

October 1988: pasta mainly consisting of natural milk constituents such as spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, and cannelloni; or stuffed pasta mainly consisting of meat or offals of bovine animals or pigs (excluding those not containing meat or offals of bovine animals) (19.02)

April 1989: processed cheese (04.06)

July 1989: tomato ketchup and tomato sauce (21.03)

April 1990: prepared beef (16.02), prepared or preserved pineapple and fruit pulp (20.08), fruit purée and fruit paste (20.07), ice-cream (21.05), grape juice and grape must of an alcoholic strength more than 0.5 per cent but less than 1 per cent by volume (22.04), grape extract of an alcoholic strength of more than 0.5 per cent but less than 1 per cent by volume (22.05)

April 1991: beef (02.01, 02.02, 02.06), oranges (08.05, 08.12)

April 1992: orange juice (20.09, 22.06, 22.08)

5. Licensing

Japan's import licensing system is enforced in accordance with the Import Trade Control Order and other laws and ordinances. The system is operated in a way that is in accord with the provision of the GATT Agreement on Import Licensing Procedures which guarantees, among other things, notification of import quotas and bidding procedures as well as fair and prompt import licensing procedures.
In order to ensure prompt import procedures, in accordance with the recommendations adopted by the GATT Licensing Committee in May 1987, the following actions have been taken concerning import quotas based on the Import Trade Control Order since the latter half of 1988; (1) In the case of the first-come, first-served method, import licences are issued within twenty-one days after receipt of application; and (2) In the case of the collective handling method, import licences are issued within sixty days after the application deadline. Efforts are thus being made to ensure greater speed, efficiency, and fairness in import licensing procedures.

6. Customs valuation

The customs value of imported goods is determined according to the provisions of the Customs Tariff Law. The provisions were revised to conform with the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, upon Japan's acceptance of the Agreement on 25 April 1980. Customs valuation is based as far as possible on the transaction value of the commodities.

Under the Agreement on Implementation of Article VII of the GATT, it is stipulated that each Party to the Agreement may decide, through its domestic laws and regulations, whether or not the customs value of imported goods should include the cost of transport to the port of importation or to the place of importation, the cost incurred in relation to transport, such as loading, unloading and other costs required for handling, and the cost of insurance. In Japan, these costs of transport to the port of importation are included in the customs value.

7. Rules of origin

Japan levies four types of tariff rates on imported goods: general rates, temporary rates, conventional rates, and preferential rates (see page 18). Since the application of conventional rates and preferential rates are limited to the goods of certain countries, criteria have been set to determine the country of origin of a product.

(1) Criteria for the determination of country of origin in applying conventional tariff rates

The country of origin of a product is defined as: (i) the country in which the whole production took place; or, (ii) where production of a product takes place in two or more countries, the country in which last substantial transformation was made and new characteristics were added to the product.

"Substantial transformation was made and new characteristics were added to the product" is defined as instances when (a) the heading number of the product in the tariff schedule is different from those of the raw materials used in the manufacture or processing of the product, (however, minor processing (such as bottling; drying or freezing for transport or
preservation; or mere assembly of parts) is excluded.); and (b), in the case that (a) does not apply, certain manufacturing or processing defined by the administrative orders issued by the Director-General of the Customs and Tariff Bureau of the Ministry of Finance (e.g., dyeing or resinating of textiles, etc., and processing of unwrought material from waste and scrap) takes place.

(2) Criteria for the determination of country of origin in applying Generalized System of Preference (GSP) Rates

In applying the GSP rates, the criteria for determining the country of origin of a product are, in principle, the same of those used in applying the conventional rates. However, when necessary, special criteria are specifically provided for each case by an ordinance of the Ministry of Finance.

Goods subject to the Donor Country Content Rule are regarded as wholly obtained in the preference-receiving country. Products manufactured jointly by some of the ASEAN member nations are treated as the product originating from one country.

(3) Other matters

In principle, the criteria for conventional rates (above (1)) are applied in preparing trade statistics and in determining false indications of origin in importing products.

8. Government procurement

(1) Laws and Regulations relating to government procurement

The 1947 Accounting Law serves as the basis for regulations concerning government purchase and sale, lease and rental, contract, etc. Procedural details are provided by a Cabinet Order issued the same year concerning budget, auditing, and accounting. Furthermore, Japan is party to the GATT Government Procurement Code (hereinafter in this section referred to as the Code) which entered into effect in 1981. Domestic laws and regulations such as "the Cabinet Order Stipulating Special Procedures for Government Procurement of Goods" were formulated in order to ensure the smooth implementation of the Code. The objective of these laws and regulations is to establish the principle of competitive bidding in government procurement, and to ensure that procurement is effectuated without discrimination between domestic and foreign sources. Furthermore, in connection with government procurement, Japan has the Arrangements on the Procurement of Nippon Telegraph and Telephone Corporation (NTT) with the United States also applicable to NTT's procurement of goods from other countries on a m.f.n. basis as well as the procedures for the introduction of supercomputers, which are consistent with the Code.
(2) The present state of government procurement

Japan is party to the Code, and also extends the outcome of the Code to non-signatory countries. Subject to the Code are thirty institutions covering all governmental institutions, the House of Representatives, the House of Councillors, and the Supreme Court, as well as twenty-one government-affiliated institutions. Among the government-affiliated institutions subject to the Code are Nippon Telegraph and Telephone Corp., formerly Nippon Telegraph and Telephone Public Corporation, which was privatized in 1985 to form a stock company; Japan Tobacco Inc., which was privatized in 1985 to form a stock company from Japan Tobacco and Salt Public Corp.; and the seven independent railroad companies which were formed by the privatization of Japan National Railways in 1987. The procurement subject to the Code made by these entities covered by the Code amounted to SDR 1.99 billion in 1988, of which SDR 0.31 billion were from overseas sources.

(3) Recent developments

As seen above, Japan has been taking legal steps to secure non-discriminatory government procurement from both domestic and overseas sources. In addition, Japan implemented "the Action Programme for Improved Market Access" for a three-year period from 1985, which drastically improved contract formalities in a voluntary and active manner, so that foreign suppliers may easily gain market access through increased opportunities for even fairer competition. Specifically, appropriate steps were taken, (for all the institutions subject to the Code and a further sixteen government-affiliated entities), with respect to thorough adherence to the principle of competitive contracts, extension of the application period, disclosure of information on single tendering and contract awards, and improvement in the process of qualifying foreign suppliers. In carrying out the Action Programme, local governments were also called upon to co-operate.

9. Technical barriers (standards)

(1) TBT Agreement

Japan became a party to the Agreement on Technical Barriers to Trade (TBT Agreement) in 1980. With this, Japan's standards and certification systems were adjusted to conform with the TBT Agreement; for example with respect to the principle on non-discriminatory treatment for domestic and foreign sources.

In conformity with the TBT Agreement, prior notifications of the introduction of standards or technical regulations and certification systems, which may have a significant influence on international trade, are published in the Tsusho Koho (Trade Bulletin), issued by the Japan External Trade Organization (JETRO). All decisions made on standards and certification systems are then published (mainly in the Kampo "Official Government Gazette").
Since joining the TBT Agreement, Japan made 372 notifications to the GATT by the end of 1989. Japan is endeavouring to allow nine weeks for the comment period following prior notification, which is longer than the sixty days recommended by the Committee on Technical Barriers to Trade. The average comment period for the notifications in the past three years was sixty-six days.

In conformity with the Agreement, two national enquiry points have been set up and are responding to enquiries from foreign countries on the standards plan or the existing standard certification systems. Their responsibilities are divided as follows:

(a) First International Organizations Division, Economic Affairs Bureau, Ministry of Foreign Affairs

Consideres enquiries mainly concerning pharmaceutical products, cosmetics, medical equipment, food, food additives, communications equipment, automobiles, vessels, aircraft, and railway rolling stock.

(Enquiries concerning JIS (Japanese Industrial Standards) are handled by JETRO.)

(b) Information Service Department, JETRO

Considers enquiries mainly concerning electric goods, gas equipment, measuring instruments, food, and food additives. JIS enquiries on medical equipment, automobiles, vessels, aircraft, and railway rolling stock are also handled by JETRO.

(2) Promotion of market opening

A revision package of laws relating to standards and certifications - In 1983, a self-initiated comprehensive review of the domestic standards and certification systems was conducted so as to further facilitate market opening. A revision package of seventeen laws relating to standards and certifications, such as the Industrial Standardization Law, was carried out, thereby establishing, among other things, a direct application system for suppliers of foreign-made goods.

Action programme for market opening - Based on requests from foreign countries pertaining to the standards and certification systems under Japan's laws and regulations, as many as ninety measures were implemented by July 1988, in accordance with the "Framework of the Action Programme for Improved Market Access" of July 1985. The measures included: reduction in the number of items covered by the standards and certification systems; replacement of government certification by self-certification; elimination or relaxation of standards; acceptance of overseas inspection data for JIS (Japanese Industrial Standards) and JAS (Japan Agricultural Standards); active utilization of foreign inspection organizations; ensuring transparency regarding establishment and revision of standards by allowing representatives of foreign interests to participate in the relevant councils; and simplification and speeding up of certification procedures.
(3) Participation in International Activities for Standardization

The Japanese Industrial Standards Committee, which undertakes research and deliberations on JIS, joined the International Organization for Standardization (ISO) in 1952 and the International Electrotechnical Commission (IEC) in 1953. Through these organizations, Japan is actively engaged in the formulation of international standards. In FY 1988, Japanese officials took part in 196 ISO conferences (726 Japanese participants) and ninety-four IEC conferences (282 participants).

(4) Involvement in the GATT Uruguay Round

Japan has been actively engaged in the revision of the TBT Agreement in the GATT Uruguay Round, with a view to expanding and strengthening the provisions of the Agreement. In the negotiations, Japan has submitted proposals to expedite the handling of certification systems and to ensure transparency in its implementation.

10. Safeguard, anti-dumping and countervailing actions

(1) Safeguards

The following are the laws and regulations in Japan which particularly give specific provisions for safeguard actions.

(i) Japan's Customs Tariff Law provides for an emergency duty as a safeguard measure.

Article 9 of the Law stipulates that the following steps may be taken when it is deemed urgently necessary for the sake of the national economy. These steps may be considered when, as a result of unexpected changes such as a drop in prices overseas, a surge in imports occurs so as to cause or threaten to cause serious injury to domestic producers of like or directly competitive goods.

(a) To levy a customs duty equal to or lower than the amount that is obtained by deducting the customs duty levied according to the normal rate given in the Tariff Schedule on the product from the difference between the customs value of the said product and the appropriate domestic wholesale price of like or similar goods;

(b) To withdraw or modify a concession in conformity with GATT Article 19:1, when the product in question is bound under the GATT;

(c) To apply a new tariff rate, when an action under paragraph (b) above is being or has been taken and if considered necessary upon consultation under GATT Article 19:2, by offering a new concession for products other than the product in question or, if they are already bound, by modifying the concession (offer of compensation).
(ii) The Customs Tariff Law provides for the "Cabinet Order relating to Emergency Duty" that specifies the procedure for taking measures under Article 9, paragraph 2 of the said Law.

This Cabinet Order stipulates that the Customs Tariff Council be consulted promptly when the Minister of Finance deems it necessary to take steps under Article 9, paragraph 2 of the Customs Tariff Law, or when the Minister in charge of the industry in question or the Minister of International Trade and Industry so requests to the Minister of Finance. In such a case, it is stipulated that the Minister of Finance is to submit to the Council materials on the following matters:

(a) the customs value and the import trend of the imported product in question;

(b) trends of wholesale price, output, turnover, and inventory of products of like or directly competitive products;

(c) trends of domestic demand of the product in question;

(d) the price, production, and the import situation of products that should be subject to compensation;

(e) the employment situation of the domestic producer of the products mentioned in (b) above (or products that should be subject to compensation in the case of (1)(c) above);

(f) other references.

(2) Anti-dumping actions

Japan's anti-dumping system has its legal basis in the Customs Tariff Law. To supplement the Law, the "Cabinet Order relating to Anti-Dumping Duty" is also in force. A full scale revision of both the Law and the Order was undertaken in 1980 in order to bring them into conformity with the new "Anti-Dumping Code" concluded at the Tokyo Round. The Law and the Order are applied when (i) a dumped product is being imported; (ii) import of the product in question causes or threatens to cause material injury to the domestic producer of like products, or materially retards the establishment of a domestic industry; and (iii) it is found necessary in order to protect a domestic industry. Anti-dumping actions are carried out by a Cabinet Order, after the Minister of Finance conducts investigation in consultation with the Minister in charge of the industry in question as

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The Customs Tariff Council was established to conduct research and deliberations on important matters vis-à-vis customs tariffs. It is an advisory body to the Minister of Finance, composed of academic experts on finance, industry, trade, etc.
well as the Minister of International Trade and Industry, and refers the matter to the Customs Tariff Council. In order to clarify the application procedure, the "Guideline for Procedures Relating to Countervailing Duties and Anti-Dumping Duties" was established in 1986.

If, as a result of anti-dumping investigations conducted on the basis of the law and regulations, anti-dumping actions are to be taken, an additional duty lower than or equal to the difference between the dumped price and the normal value will be levied. Procedures for provisional measures and acceptance of undertakings are also provided for in the Law and regulations.

(3) Countervailing actions

Japan's countervailing duty system has its legal basis in the Customs Tariff Law. To supplement the Law, the "Cabinet Order Relating to Countervailing Duties" is in force. A full scale revision of both the Law and the Order was undertaken in 1980 in order to bring them into conformity with the "Subsidies Code" concluded at the Tokyo Round. The Law and the Order are applied when (i) a foreign product subsidized for production or for exportation is being imported; (ii) import of the product in question causes or threatens to cause material injury to the domestic producer of like products, or materially retards the establishment of a domestic industry; and (iii) it is found necessary in order to protect a domestic industry. These laws and regulations are implemented by a Cabinet Order after the Minister of Finance conducts investigations in consultation with the Minister in charge of the industry in question as well as the Minister of International Trade and Industry, and refers the matter to the Customs Tariff Council. As was the case with the anti-dumping actions, the "Guideline for Procedures Relating to Countervailing Duties and Anti-Dumping Duties" was established in 1986, in order to clarify the procedure for invoking the Law and the Order. When the countervailing measure is invoked under these laws and regulations, an additional duty lower than or equal to the amount of the subsidy will be levied. Procedures for provisional measures and acceptance of undertakings are also provided for in the above laws and regulations.

(4) No invocation of measures to date

Japan has not invoked safeguard, anti-dumping, or countervailing measures so far, but the following petitions have been filed concerning the latter two cases:

(i) Anti-dumping actions:

(a) The case of South Korean cotton yarn

The Japan Spinners Association filed a petition on 27 December 1982, but withdrew it on 11 July 1983. The case was closed before legal investigations were initiated.
(b) The case of Norwegian and French ferrosilicon

The Japan Ferroalloy Association filed a petition on 6 March 1984, but withdrew it on 14 June of the same year. The case was closed before legal investigations were initiated.

(c) The case of South Korean knitwear products

The Federation of Japan Knitting Industry Associations filed a petition on 21 October 1988, but withdrew it on 29 March 1989. The matter was closed before legal investigations were initiated.

(ii) Countervailing actions:

(a) The case of Pakistani cotton yarn

The Japan Spinners Association filed a petition on 27 December 1982, and legal investigations were launched on 20 April 1983. However, as the Pakistani Government decided to abolish part of the subsidies, the case was closed on 28 February 1984, with no countervailing duty levied.

(b) The case of Brazilian ferro-silicon

The Japan Ferro-Alloy Association filed a petition on 6 March 1984 but withdrew it on 14 June of the same year. The case was closed before legal investigations were initiated.

11. Export tax

Japan does not have any export tax.

12. Commodity tax

The commodity tax was abolished on 1 April 1989, following a major revision in the tax system which included the introduction of a consumption tax.

The commodity tax was a tax levied on the domestic consumption of certain products, whether they be domestically produced or imported. However, as it was levied selectively on certain products, and used high taxation rates (5 per cent-30 per cent), it has not necessarily enjoyed the understanding of other countries as the economy is being increasingly internationalized.

The mechanism of the newly introduced consumption tax is the same as that of value-added taxes levied in many other countries, including European Community countries. In principle, the tax is levied on all foreign goods coming out of a bonded area, and the taxation rate is a mere
3 per cent (a provisional rate of 6 per cent is in force for certain types of passenger cars until 31 March 1992).

13. Export subsidies, tax exemptions and concessionary export financing

Japan does not have any export subsidies.

The system of tax exemption for exports exempts products exported from Japan from the domestic consumption tax. This system was established because the domestic consumption tax is meant to be levied on products consumed within Japan.

Although export financing by the Government of Japan is conducted through the Export-Import Bank of Japan, the interest rate charged by the Bank does not fall below the interest rates charged for capital procurement, and this financing is therefore not concessional.

14. Hozei System (including the Okinawa Free-Trade Zone)

(1) The Hozei System

The Hozei System is set up to simplify and expedite customs clearance procedures as well as to facilitate international trade by allowing such actions as loading and unloading, transport, storage, processing and manufacture, display of imported goods without paying import duty.

Imported goods pending entry procedure for home use are defined as foreign goods, and the area in which they can be stored, etc., is called the Hozei Area. There are five types of Hozei Area, each differing in its function.

(i) The Designated Hozei Area is a public facility in a customs port or airport designated by the Minister of Finance for loading and unloading, conveyance, temporary storage, etc., of foreign goods in order to facilitate and expedite customs clearance procedures.

(ii) The Hozei Shed is an area permitted by the Director-General of Customs for functions similar to those of the Designated Hozei Area.

(iii) The Hozei Warehouse is an area permitted by the Director-General of Customs for long-term storage of foreign goods in order to facilitate transit trade and to promote imports by providing opportunities to importers for more easily grasping business chances.

(iv) The Hozei Manufacturing Warehouse is an area permitted by the Director-General of Customs for facilitating a pattern of trade which consists of processing imported raw materials and exporting manufactured products.
(v) The Hozei Display Area is an area permitted by the Director-General of Customs for displaying foreign goods on such occasions as international expositions, international trade fairs, so as to promote trade, and international cultural and technological exchanges.

(2) [Okinawa Free-Trade Zone established under the Okinawa Promotion and Development Special Treatment Act]

The Okinawa Free-Trade Zone System was established in accordance with Okinawa Promotion and Development Special Treatment Act as part of industrial promotion policies for the Okinawa Prefecture, in order to promote implantation of enterprises in Okinawa and to encourage trade. This System is a combination of the Hozei System and favourable financial and taxation measures for enterprises. The Zone is designated by the Minister of State, the Director-General of the Okinawa Development Agency, upon request by the Governor of Okinawa Prefecture. Warehouses, plants, exhibition halls, and administrative facilities have been set up within the Zone in order to store, remodel, assort, manufacture, and process raw and semi-finished products, which are brought into the Zone from foreign countries.

The Zone was designated in December 1987, and twenty-seven firms are currently in operation there.

15. Export restrictions

Japan, committing itself to free trade, is not in favour of imposing any restrictive measure that is inconsistent with the fundamental principles of the GATT. As is stated below, only minimal necessary regulatory measures are taken for each category of restrictions.

(1) Control under COCOM

In accordance with the arrangement among the seventeen countries of the Western Bloc, the export of strategic goods and technologies is regulated under the Foreign Exchange and Foreign Trade Control Law. Specifically, the items subjected to regulation are listed in annexed Table 1 of the Export Trade Control Order for strategic goods and in the Annex of the Foreign Exchange Control Order for strategic technologies, and their export and transactions are subject to permission by the Minister of International Trade and Industry.

(2) Control of export of arms and equipment related to arms production

In view of Japan's commitment to peace, the export of arms including equipment related to arms production has been very strictly regulated in accordance with the so-called "Three Principles on Arms Export" and the "Policy Guideline on Arms Export". The "Three Principles on Arms Export" permit no export of arms to (a) the Communist Bloc countries, (b) countries subject to embargoes on the export of arms under United Nations resolutions and (c) countries which are involved in, or are likely to be involved in,
international conflicts. The Policy Guideline further stipulates that the Government shall not promote "arms export": i.e. (a) "arms" export to areas subject to the above-mentioned Three Principles shall not be permitted, (b) "arms" export to other areas shall be restrained in conformity with the spirit of the Constitution and the Foreign Exchange and Foreign Trade Control Law, and (c) export of equipment related to "arms" production shall be treated in the same manner as "arms".

(3) Control of missiles, missile-related equipment and technologies to missiles

In accordance with the guideline of the MTCR, missiles and missile-related equipment are listed in Annex 1 of the Export Trade Control Order and missile-related technologies are listed in the Annex of the Foreign Exchange Control Order. Their export and transactions are subject to permission by the Minister of International Trade and Industry.

(4) Control of raw materials for chemical weapons

In accordance with the understanding of the Australia Group, chemical substances that can be used as raw materials for chemical weapons are listed in Annex 1 of the Export Trade Control Order, and their export is subject to permission by the Minister of International Trade and Industry.

(5) Control of nuclear power-related materials

In accordance with the Non-Proliferation Treaty, materials related to nuclear power are listed in the annexed Table 1 of the Export Trade Control Order, and their export is subject to permission by the Minister of International Trade and Industry.

(6) Control of exports to the Republic of South Africa

In view of apartheid in the Republic of South Africa, export of computers, arms, and so forth to the Republic's apartheid-enforcing authorities including armed forces and police, is prohibited.

(7) Control to secure adequate domestic supply

With a view to conserving natural resources and avoiding domestic shortages, those domestic resources in short supply are listed in the Annex 2 of the Export Trade Control Order, and their export is subject to approval by the Minister of International Trade and Industry.

(8) Goods under export prohibition

The Export Trade Control Order lists, in its Annex 2, certain animals and plants covered by the Washington Treaty for conservation of nature, and certain other items from the viewpoints of preventing or controlling criminal acts and preserving cultural heritage, thereby prohibiting their export in principle.
(9) **Voluntary export restraint to avoid trade friction**

It is Japan's basic position that the maintenance and strengthening of the free-trading system is essential for the expansion of world trade. However, in view of protectionist movements in international trade, and in order to avert the unilateral imposition of import restrictions by importing countries and to eventually restore free trade, voluntary restraints on exports are introduced to the minimum required extent as urgent and unavoidable measures. Such restraints are based on request, agreement, or some form of consent, of the importing country.

Domestic legal grounds for these regulatory actions include the Export Trade Control Order, which is based on the Foreign Exchange and Foreign Trade Control Law that provides for the basic principles of the minimum required trade control, and the Export and Import Transaction Law, which is intended to prevent unfair export transactions and to establish orderly export transactions.

The circumstances which led to the introduction of voluntary export restraint for various items, specific details of the restraint, and their recent trade volumes are stated below.

**Steel**

In response to a request made by the United States Government, Japan concluded the Arrangement Concerning Trade in Certain Steel Products between the Government of Japan and the Government of the United States of America in May 1985. Under the Arrangement, Japan had restricted the volume of export of steel and fabricated structures bound for the United States for a period of five years in order to allow time for the United States steel industry to promote structural adjustments and modernization.

In February 1990, Japan and the United States concluded an arrangement to extend the aforementioned Arrangement for another two and a half years. Under this arrangement, Japan continues to apply voluntary restraint on the quantity of steel exports, which requires the issuance of approval from the Minister of International Trade and Industry in accordance with the Export and Import Transaction Law. Stainless bars, wire rods, and alloy tool steel, which had been subject to United States' import restriction enforced from 1983 through 30 September 1989 (based on the OMA concluded between the United States and Japan), were included in the Arrangement as of 1 October 1989.

Along with the agreement on the extension of the Arrangement, both nations concluded a bilateral agreement on the framework to further liberalize the international steel trade environment. This agreement is effective till 31 March 1992, or till the date of termination of the Arrangement as a whole, should it occur earlier than 31 March 1992.
Passenger cars and vans

In 1981, in order to cope with difficulties facing the United States auto industry, the Government of Japan and the Government of the United States came to an agreement to set a quantitative ceiling for the export of passenger cars and vans from Japan to the United States on condition that the United States auto industry continues its efforts for structural adjustment. Under this agreement, Japan enforced voluntary restraint on its United States-bound auto exports for a maximum period of three years.

Since 1985, Japan has, at its own discretion, continued to renew the said voluntary export restraint on an annual basis.

Volume of export of passenger cars from Japan to the United States has not reached the annual ceiling since 1987. The restraint is intended to be removed if this downtrend in exports is confirmed to remain unchanged.

Fork-lift trucks

With a sense of impending crisis in the face of the shrinking fork-lift truck market and the progress of restructuring in the Japanese fork-lift truck industry since 1980, the Prime Minister of the United Kingdom raised the issue with the Japanese Government in September 1982. Subsequently in March 1983, the European Community Commission designated fork-lift trucks as an item subject to European Community surveillance.

From 1984 to 1985, the export of Japanese fork-lift trucks (including second-hand vehicles) increased drastically, due to resurging demand in European markets, along with foreign exchange factors such as the weakening of the yen. As a result, the issue raised alarm in Europe. The upward export trend continued in 1986, creating amounting dissatisfaction among European fork-lift truck manufacturers who moved to file a case against Japanese dumping. This led to rapid deterioration of the trading environment.

Japan, in an effort to maintain order in the export of fork-lift trucks to the European Community, has instituted floor export prices and a quantitative ceiling since 1987 in accordance with the Export and Import Transaction Law.

Machine tools (to the United States)

In May 1986, the President of the United States issued a statement calling upon four nations, including Japan, to adopt voluntary restraint on exports of machine tools to the United States. In response to this, Japan and the United States concluded a voluntary restraint arrangement in December 1986. Under the Arrangement, Japan agreed to support efforts by the United States Government to revitalize the domestic machine tool industry and imposed voluntary restraint on the export of certain machine tools to the United States for a period of five years, from January 1987 to December 1991.
Specifically, exports of three items - machining centres, numerically-controlled lathes, and numerically-controlled punching and shearing machines - are subject to export approval by the Minister of International Trade and Industry in accordance with the Export Trade Control Order. The volume of export of these items are controlled so that it should not exceed United States market share levels of 1981 (i.e. 51.54 per cent for machining centres, 57.47 per cent for numerically-controlled lathes, and 19.25 per cent for numerically-controlled punching and shearing machines).

Machine tools (to the European Community)

In response to the rising concern within the European Community Commission over the increasing import of Japanese machine tools, (numerically-controlled lathes and machining centres), Japan instituted a floor pricing system for its export of the said machine tools to sixteen European nations in January 1981 in order to avoid letting the issue become an anti-dumping case. In the same year, the European Community Commission introduced an import monitoring system on Japanese machine tools. In 1982, the Commission included the said machine tools in the "Japan-EC Export Moderation Items". Furthermore, in 1986, the European Community Commission identified Japanese machine tools as "monitored items" and began to monitor their import trends, for reason that the import from Japan increased again between 1985 and 1986.

Under the floor pricing system for the export of machining centres and numerically-controlled lathes to Europe, standards for prices depending on specifications of machine tools (i.e. working space, power of spindle motor, machine weight, and floor export price) have been established since 1981 in accordance with the Export and Import Transaction Law. Each export is to be approved only after it is confirmed that it satisfies the said standards.

VTRs

In October 1982, the Government of France announced through its official gazette that customs clearance of imported VTRs would be performed exclusively in the inland city of Poitiers. In December of the same year, an anti-dumping petition was filed against Japanese VTRs.

Efforts were made in order to avert this kind of unilateral import restriction by European Community member nations. As a result, at the Ministerial Consultation between Japan and the European Community in February 1983, the European Community agreed to lift such regulatory measures and to drop the anti-dumping petition against Japan; in return, Japan agreed to enforce voluntary export restraint for a period of three years starting from 1983. Japan, from March 1983, implemented a floor export pricing system in accordance with the Export and Import Transaction Law and periodically released export forecasts. These measures, however, were terminated in December 1985.
Semiconductors

In June 1985, a United States corporation filed an anti-dumping petition against five Japanese manufacturers on their exports of 64-kilobyte Dynamic Random Access Memories (DRAMs). In September 1986, the "Arrangement between the Government of Japan and the Government of the United States of America Concerning Trade in Semiconductor Products" was concluded. Under the Arrangement, Japan agreed to monitor the prices of semiconductors exported to the United States and to third countries.

Alleging that the price monitoring of semiconductors exported to third countries under the aforementioned Arrangement constitutes a violation of the GATT, the European Community requested establishment of a GATT panel in March 1987. In May 1988, a report by the panel was adopted by the GATT Council in which it stated that measures related to the third country monitoring, as a whole, constituted a coherent system to restrict exports, and thus a violation of Article 11 of the GATT.

In order to make the third country monitoring consistent with the GATT, in June 1989, Japan changed the notification requirement for export prices, as required by the Export Trade Control Order, from advance notification (i.e. before export) to ex post facto notification (i.e. after export). Moreover, Japan abolished the Semiconductor Supply and Demand Forecast Committee and instead assigned the Ministry of International Trade and Industry to compile supply-demand forecast.

Cotton, wool, man-made fibre yarns, fabrics, apparel and other made-up goods

Since signing the Japan-United States Agreements on Cotton Products in the 1950s, Japan had entered a number of bilateral arrangements on textile trade until the conclusion of the "Arrangement between the Government of Japan and the Government of the United States of America concerning Trade in Cotton, Wool, Man-made Fibre Textiles between Japan and the United States of America". Thus far, Japan has been implementing voluntary restraints on the export of those items covered by the said Arrangement in order to assure strict observance of the Arrangement and maintain orderly Japan-United States trade relations. (The aforementioned Arrangement, however, expired at the end of 1989. Terms of an agreement after 1989 is currently under negotiation between the two governments.)

Specifically, in accordance with the Export Trade Control Order, Japan now sets an export ceiling and has instituted an approval system for the export of cotton, wool, man-made fibre yarns, fabrics, apparel and other made-up goods to the United States.

Polyester filament fabrics, knitted or crocheted fabrics, apparel, etc.

From 1960 to 1981, Japan implemented voluntary restraint on the export of textile products to Canada, in accordance with the Japan-Canada Textile Agreements. Even after the expiration of the bilateral Agreements, Canada
remained extremely sensitive to import of textile products, as was shown by the anti-dumping petition filed against Japanese exporters of polyester filament fabrics (the conclusion was no dumping). Under the circumstances, Japan decided to resume voluntary restraint on export of textiles to Canada, with a view to maintaining orderly Japan-Canada trade relations.

Specifically, in accordance with the Export Trade Control Order, Japan now sets an export ceiling and has instituted an approval system for export of knitted or crocheted fabrics, cotton, spun rayon, rayon or synthetic apparel and polyester filament fabrics to Canada.

Synthetic filament fabrics, cotton fabrics, cotton outer garments, etc.

The European Community imposed restrictions on imports of Japanese textile products in the 1960s. Following the Japan-European Community Textile Agreement concluded in 1975, textile trade between Japan and the European Community was liberalized in 1978. The liberalization of the market was not unconditional, however; import restrictions could be resumed in the event that the import from Japan increased sharply. Textile trade thus remains a highly sensitive issue to the European Community.

For the purpose of maintaining orderly trade relations between Japan and the European Community, Japan, in accordance with the Export Trade Control Order, now sets an export ceiling and has instituted an approval system for the export of synthetic filament fabrics, cotton fabrics, cotton outer garments, handkerchiefs, shawls, scarves, and mufflers woven for the European Community.

Pottery

Since pottery is regarded as a product of traditional, local industries in the United States, the United Kingdom, and Canada, it has been treated as a sensitive trade item in these countries. Accordingly, measures have been taken to protect their domestic pottery industries. For example, in the United States, a petition was filed to ITC against Japanese pottery exporters in 1971 and 1976. In Canada and the United Kingdom, there has been concern over possible imposition by these countries of high tariffs, import restrictions, and other measures on pottery imports from Japan.

For the purpose of maintaining orderly trade relations with the United States, the United Kingdom and Canada, Japan imposes quantitative restrictions on the export of pottery to these three nations in accordance with the Export and Import Transaction Law.

Metal flatware

There has been a series of protectionist moves in the United States against the import of metal flatware, including import restrictions in 1959 and a petition filed to ITC in 1973. In the European Community, on the
other hand, import quotas have been allocated among the member countries of the European Community since 1981. Metal flatware is therefore regarded as an extremely sensitive trade item in the United States and the European Community markets. It is, therefore, very important to avoid the imposition of unilateral trade restrictions and to maintain orderly trade relations with these countries.

For this purpose, Japan currently imposes quantitative restrictions on the export of metal flatware in accordance with the Export and Import Transaction Law.
Japanese Export of Items under Voluntary Export Restraints

<table>
<thead>
<tr>
<th>Item</th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles (to the US)</td>
<td>(20,953)</td>
<td>(20,444)</td>
<td>(20,357)</td>
</tr>
<tr>
<td>Fork-lift trucks (to the EC)</td>
<td>151</td>
<td>159</td>
<td>175</td>
</tr>
<tr>
<td>Machine tools (to the US)</td>
<td>512</td>
<td>606</td>
<td>705</td>
</tr>
<tr>
<td>Machine tools (to the EC)</td>
<td>375</td>
<td>455</td>
<td>594</td>
</tr>
<tr>
<td>Semiconductors (to the US)</td>
<td>1,347</td>
<td>2,275</td>
<td>3,161</td>
</tr>
<tr>
<td>Semiconductors (to third countries)</td>
<td>3,581</td>
<td>4,042</td>
<td>4,871</td>
</tr>
<tr>
<td>Cotton, wool, man-made fibre yarns, fabrics, and made-up goods (to the US)</td>
<td>870</td>
<td>770</td>
<td>690</td>
</tr>
<tr>
<td>Knitted or crocheted fabrics, apparel and clothing accessories (to Canada)</td>
<td>43</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>Synthetic filament fabrics, cotton fabrics and cotton outer garments (to the EC)</td>
<td>370</td>
<td>400</td>
<td>390</td>
</tr>
<tr>
<td>Pottery (to the US, Canada and the UK)</td>
<td>420</td>
<td>370</td>
<td>356</td>
</tr>
<tr>
<td>Metal flatware (to the world)</td>
<td>--</td>
<td>199</td>
<td>187</td>
</tr>
</tbody>
</table>

Note: As export restraints on automobiles are being imposed according to the volume of new cars for each fiscal year, they do not coincide with the actual value of exported automobiles listed above.

Source: Compiled from Trade Statistics
16. **Government assistance**

(1) **Subsidies available to manufacturing industries**

Government subsidies (including tax privileges) available to Japanese manufacturers are restricted to a minimal range of areas, and their ratio to the GDP is considerably lower than those of other member nations of the OECD. With respect to the forms of policy implementation, tax privileges account for about 40 per cent, and other types of subsidies, about 60 per cent. Specific details of this assistance are described below.

(i) **Generally available subsidies**

The Government of Japan generally makes available, without specifying any particular sector of industry, assistance measures to encourage, among others, energy saving, environmental conservation, and to help small and medium enterprises.

(ii) **Specific subsidies**

(a) **Research and development subsidies (including expenditures for commissioned R&D projects)**

The Government of Japan provides subsidies for the following two types of research and development with a view to realizing an affluent economy and society while contributing to the harmonious development of the world economy.

- Subsidies designed to extensively and generally promote research and development in all sectors of industry: the most typical one is a taxation system which offers corporate tax credits for the part of R&D expenditures of corporations, which have exceeded the highest of preceding years.

- Subsidies intended to promote research and development projects (including expenditures for commissioned R&D projects) in the fields of technology. These subsidies are granted to projects which may have little or no feasibility for general utilization but nonetheless is socio-economically significant, and may not be smoothly accomplished by leaving them solely to initiatives by private sector, since they require long periods of time for development, or involve high technical risks.

Efforts have been made to open such subsidized projects to both Japanese and foreign enterprises alike by, for instance, encouraging joint development with overseas corporations. The benefits of R&D are available for both domestic and foreign enterprises without discrimination. Typical examples include large-scale industrial projects.
(b) Regional development subsidy

The Government of Japan is implementing a policy to steer industrial districts away from the Tokyo area to less-developed regions in order to reduce gaps in economic growth among different regions. The Government is taking taxation measures to serve this purpose.

(c) Subsidies for structural adjustment

See Chapter IV.B.3.

(2) Subsidies available to agriculture, forestry and fisheries

Government subsidies available to Japanese agriculture, forestry and fisheries are limited to the minimum required for securing a steady supply of food and other goods to meet people's demand and ensuring the sound development of these industries. Such subsidies have been significantly adjusted and rationalized by reducing both their total sum and the number of grants by about 20 per cent since FY 1982. (It should be noted that, Japan's agricultural budget is smaller than those of the United States and the European Community.)

The policy objectives of agricultural subsidies can be broadly classified into those that concern (a) the promotion of structural strengthening through productivity improvement, (b) price stabilization, (c) rationalization of distribution and assistance of consumers, and (d) disaster relief-related measures, etc. Subsidies to forestry and fisheries are also provided to promote the development of these sectors.

Most agricultural subsidies are designed for the promotion of structural strengthening through productivity improvement; those for price stabilization account for only a very small proportion. In this respect, Japanese agricultural subsidies are distinct from those of the European Community and the United States, in which price and income supporting expenditures hold large shares.

Most of the recipients of these subsidies are local public entities and related bodies. Subsidies granted directly to individual private entities in agriculture, forestry or fisheries are quite exceptional.

(i) Agriculture

(a) Promotion of structural strengthening through productivity improvement

With a view to strengthening the structure of agricultural industry through productivity improvement, subsidies are granted to facilitate the improvement infrastructures for production, improvement of the living environment in rural
areas, and improvement of farm management modernization facilities; as well as to provide for greater flexibility for the use of farm land; to foster successors in agriculture; to encourage development and dissemination of new techniques; and to facilitate financing, etc.

(b) **Price stabilization**

Subsidies are granted to help stabilize the prices of livestock products, vegetables, soybeans, fruits, etc.

(c) **Rationalization of distribution and assistance of consumers**

Subsidies are granted to promote the food industry, rationalize the distribution of food products and to assist consumers.

(d) **Disaster relief-related measures, etc.**

Subsidies are granted to facilitate the operation of agricultural insurance, disaster rehabilitation activities, and international co-operation.

(ii) **Forestry**

In order to vitalize the forestry industry and mountain villages, subsidies are granted to facilitate the improvement of infrastructures for forestry production; the improvement of the living environment in mountain villages; the structural strengthening of the lumber industry; the conservation of forests and the fostering of successors in the forestry industry.

(iii) **Fisheries**

With a view to promoting fisheries, subsidies are granted to facilitate the improvement of infrastructures for fishery production, improvement of the living environment in fishing villages, the promotion of fisheries in the waters around Japan, the securing of fishing grounds overseas and the improvement of the distribution and processing of marine products, etc.

17. **Rôle of State-trading enterprises**

(1) **Rice, wheat and barley**

The Japanese Government, under the Food Control Law, adjusts the prices and supply and demand of rice, wheat and barley which are foodstuffs of pivotal importance to Japan, in order to secure a food supply for the nation and stabilize the national economy. The Government thus contributes to the producer's effort at securing the continual production of these foodstuffs and the consumer's endeavour to stabilize the household budget.
In order to ensure the smooth operation of this system, the export and import of rice, wheat and barley are placed under the control of the Government. Normally the Government does not directly conduct operations relating to export and import. It is rather the trading agencies registered with the Government who conduct export and import operation with the permission of, or in the name of the Government.

The amount of rice, wheat and barley which needs to be imported is determined on the basis of such factors as demand and the quantity of the domestically-produced products purchased by the Government. The method of importation is as follows:

- The Government contracts in advance with a trading agency for the necessary amount of import determined according to the supply and demand programme, and issues an import permit to enable the agent to carry out import work. The Government then purchases, at the port of entry, the entire amount imported.

As for rice, it is not imported except for special purposes, (such as raw material for rice wine produced in some regions), since there is sufficient domestic supply.

The Government resale prices of imported rice, wheat and barley are determined on the basis of import costs, the consumer price of milled rice and other economic conditions, in consideration for the stabilization of the consumer's household budget.

(2) Beef and dairy products

The Livestock Industry Promotion Corporation, a State-trading enterprise, undertakes the centralized import of beef under the Law Concerning Price Stabilization, etc. of Livestock Products. This system ensures the stabilization of supply and demand and prices, thereby contributing to the stabilization of consumption.

With the abolition of beef import restrictions in April 1991, the Livestock Industry Promotion Corporation will no longer handle the importation of beef. Beef will, therefore, be excluded from the list of State-trading items.

The Livestock Industry Promotion Corporation also undertakes the centralized import of designated dairy products under the Law Concerning Temporary Measures on Deficiency Payment for Manufacturing Milk, thus ensuring the stabilization of supply and demand and prices, which in turn contributes to the stabilization of consumption.

Importation of designated dairy products is conducted either by the Livestock Industry Promotion Corporation or by an agent entrusted by the Corporation, except for the dairy products for special uses, such as school lunches, which are specified by Government Ordinances.
The Livestock Industry Promotion Corporation is authorized to import designated dairy products when the domestic market prices of such products have risen or are likely to rise higher than the stabilization indicative prices determined by the Minister of Agriculture, Forestry and Fisheries. Furthermore, the Corporation is to release the imported products on the market when domestic prices of these designated dairy products have risen or are likely to rise higher than the prices obtained by multiplying the stabilization indicative prices by a certain fixed percentage.

(3) Raw silk

The Japan Raw Silk and Sugar Price Stabilization Agency, a State-trading enterprise, has been undertaking the centralized import of raw silk since 1974, on the basis of the Cocoon and Raw Silk Price Stabilization Law thus ensuring the stabilization of supply and demand and prices of cocoons and raw silk, which, in turn, contributes to the growth in demand of raw silk.

Importation, except for that of bonded raw silk, etc., is carried out for the time being by the Japan Raw Silk and Sugar Price Stabilization Agency or an agent consigned by the Agency.

The Japan Raw Silk and Sugar Price Stabilization Agency is to release the imported raw silk on the market when prices of domestically-produced raw silk have risen or are likely to rise higher than the stabilization ceiling prices determined by the Minister of Agriculture, Forestry and Fisheries.

(4) Alcohol

Ethyl alcohol of 90° or more (hereinafter referred to as alcohol) is an important basic material for the chemical and various other industries. From the point of view of promoting sound development of these industries, it is necessary to supply reasonably priced alcohol which is exempt from the liquor tax. At the same time, from the point of view of securing liquor tax revenue, it is necessary to make sure that such reasonably priced industrial alcohol will not be used in the production of alcoholic beverages. The alcohol monopoly is an enterprise run by the Government in order to meet such needs.

Under the Alcohol Monopoly Law, the Government undertakes the entire operations of the manufacture, inventory, sales, etc., of alcohol. Appropriate control measures, such as denaturation according to the type of industrial use, are taken in order to prevent industrial alcohol from being used in the production of alcoholic beverages.

(5) Leaf tobacco

Importation of manufactured tobacco and leaf tobacco has been liberalized since 1 April 1985. However, since only Japan Tobacco Incorporated (JTI) is authorized to undertake production of manufactured tobacco, importation of leaf tobacco is virtually monopolized by JTI.
JTI contracts in advance with domestic leaf tobacco growers with respect to the area under cultivation and prices. Leaf tobacco produced under such contracts is to be purchased entirely, except for those leaves unfit as raw material for manufactured tobacco.

(6) Salt

Under the Salt Monopoly Law, the manufacture of salt may be undertaken only by Japan Tobacco Incorporated (JTI) or agents designated by JTI. Importing, recrystallizing, packing and crushing of salt may likewise only be undertaken by JTI or agents entrusted by JTI.

JTI purchases all the salt manufactured, and sells it through salt wholesalers or salt retailers which it designates. The determination of prices requires the approval of the Minister of Finance.

18. Foreign-exchange controls related to imports and exports

There are in principle no restrictions on the settlement of payments for exported and imported goods. Some methods of settlement, however, may (a) greatly affect the foreign exchange market through so-called leads and lags, (b) pose a problem from the viewpoint of maintaining orderly transacting practices, or (c) involve a payment which does not go through an authorized foreign exchange bank, whose confirmation is legally required. In view of these potential problems, when a specified method of settlement for export or import of goods is intended to be used, the export or import is subject to official approval unless the goods fall under the category of exceptions, such as goods of not more than ¥ 5 million.

These special methods of settlement subject to approval are specified as follows:

(1) the method of settlement by credit or debit entry to account;

(2) the method of settlement more than two years earlier counting from the day of import or export declaration of the goods;

(3) the method of settlement more than two years later counting from the day of shipment or customs clearance of the goods;

(4) the method of settlement involving export or import by Japanese currency, a check expressed in Japanese currency, or a promissory note;

(5) the method to set off credit concerned with the price of export goods with debit to the counter party of the export concerned under the contract concluded between both parties, and the method to set off debit concerned with the price of import goods with credit to the counter party of the import concerned under the contract concluded between both parties, (including those to be considered as set off practically).
(6) The method of receiving any payment made by another resident for the non-resident who is the counter party to the export of the goods concerned, and the method of making any payment to another resident for the non-resident who is the counter party to the import of the goods concerned.

(7) Where textiles, textile goods and sundry goods are exported for destination to any of the officially specified countries or areas and the settlement is to be made later than the day of shipment of the goods, the methods other than receiving irrevocable letters of credit (inclusive of documents of similar purport) earlier than the day of the export declaration of the goods and receiving payment on the basis of that letter of credit not later than one year counting from the shipment of the goods.

B. PROGRAMMES FOR IMPROVEMENT OF MARKET ACCESS - INCLUDING ECONOMIC STRUCTURAL ADJUSTMENT

1. Series of programmes for improvement in market access

(1) External economic measures decided by the Ministerial Conference for Economic Measures

The following external economic measures, concerning import growth, improvement in market access, and expansion of ODA, were decided by the Ministerial Conference for Economic Measures and are being implemented for the purpose of redressing external imbalance, and forming harmonious external economic relations.

[External economic measures decided during the 1980s]

- Under the External Economic Measures of December 1981, it was decided to improve import testing procedures, relax import restrictions, lower tariff rates, provide emergency foreign currency loans for imports, dispatch export promotion missions, hold product exhibitions, and other actions.

- Under the Improvement in Import Testing Procedures of January 1982, the Official of Trade and Investment Ombudsman (OTO) was set up. For OTO, refer to the section on OTO in Chapter III, and (3) below.

- Under the Open Market Measures of May 1982, it was decided to improve further import testing procedures, lower tariff rates, relax import restrictions, increase imports, and in addition to improve the distribution system and business practices.

- Under the External Economic Measures of January 1983, it was decided to lower tariff rates, relax import restrictions, and promote imports.
Under the Comprehensive Economic Measures of October 1983, it was decided to lower tariff rates; promote imports, capital inflow, and international transactions in yen; and improve financial and capital market environment.

Under the External Economic Measures of April 1984, it was decided to lower tariff rates, relax import restrictions, improve the standards and certification systems, promote importation of manufactured products, open markets in the high-technology area, liberalize financial and capital markets, promote internationalization of yen and promote investment to and from foreign countries.

Under the External Economic Measures of December 1984, it was decided to suspend or reduce tariff rates and improve the Generalized System of Preferences.

Under the External Economic Measures of April 1985, it was decided to lower tariff rates, improve standards, certifications and import testing procedures; promote importation of manufactured products; improve market access in the high-technology area; liberalize financial and capital markets; promote internationalization of yen; and promote investment to and from foreign countries.

Under the Emergency Economic Measures of May 1987, it was decided to expand imports (including government procurement totalling US$1 billion), liberalize and internationalize financial and capital markets, expand ODA, and other measures.

(2) Action programme for improved market access

The outline of the action programme for improved market access was decided on by the Government-Ruling Party headquarters for the Promotion of External Economic Measures (headed by the Prime Minister) in July 1985. This programme was formulated from the basic standpoint of "freedom in principle and restrictions only as exceptions" for the purpose of achieving a higher degree of openness of Japanese markets than the international standard.

(i) Details of the Action Programme:

(a) The basic principle of the Action Programme

- Government intervention should be reduced to minimum on the basic standpoint of "freedom in principle and restrictions only as exceptions" so as to leave the choice and responsibility to consumers.

- Positiveness, as befitting Japan's own position in promoting the New Round (later known as the Uruguay Round) shall be pursued.
Special considerations shall be given so that the Programme can help promote the economic development of developing nations.

(b) Contents

- Tariffs

Suspension and reduction of tariffs, improvement of the Generalized System of Preferences, etc.

- Import restrictions

Agricultural and fishery products:

Based upon consultations and negotiations at GATT and other fora among the interested countries, Japan should make efforts to improve its market access, so that it will conform with the international trend, while giving considerations to the actual situations of the domestic agriculture and fishery industries.

Minerals and industrial products:

Japan should take appropriate actions at GATT.

- Standards, certifications and import processes

Reduction of items subject to the standards and certification systems; switching from government-certification to a self-certification system; reduction or relaxation of standards; acceptance of foreign test data; ensuring transparency in the formulation process of standards; adjustment to international standards; simplification and facilitation of certification procedures; reduction in items of application as well as simplification and speeding-up of import procedures; etc.

- Government procurement

Thorough review of single tendering; improvement of the operation of competitive tendering; improvement of qualification procedure; increased procurement of foreign products; etc.

- Financial and capital markets

Liberalization of interest rates on bank deposits; establishment of bond futures market; improvement of the domestic bond issue market; permission to security houses to handle the circulation of yen-denominated BA; etc.
Promotion of imports in services

Market access improvement measures for the benefit of foreign-national attorneys, the transportation industry, the insurance industry, data distribution, and other areas; request to private companies to make greater efforts to increase imports; promotion of sales of imported products by the distribution industry; increase in import financing to manufactured products; government procurement of imported goods; promotion of overseas travel; promotion of investment exchanges; etc.

(c) Implementation of the Action Programme

On 4 August 1988, the Action Programme Promotion Committee confirmed that the measures stipulated above in each area were being implemented almost in their entirety in the three-year implementation period. It also confirmed that efforts will be made to further improve market access through active participation in the Uruguay Round negotiations and deregulation and, in order to effectively achieve improvement, the functions of the Office of Trade and Investment Ombudsman will be further utilized.

(3) Office of Trade and Investment Ombudsman (OTO)

Complaints concerning market opening problems such as import testing procedures may be filed with the OTO Secretariat (within the Economic Planning Agency) or the OTO offices set up at relevant ministries, agencies and embassies. In handling complaints, OTO pursued the following principles: i.e. (1) reduction of government interventions; (2) adjustment of Japanese standards to international standards; (3) acceptance of foreign test data; (4) further specification and quantification of standards; (5) simplification and speeding-up of testing procedures, and (6) ensuring transparency of other domestic systems. OTO reviews existing laws and regulations and their administration in the light of these principles and, when necessary, OTO is actively involved in, among other things, the improvement of the systems concerned.

Since its inception, OTO received 399 complaints by March 1990, and 384 of these have already been processed. Of the processed complaints, improvement measures (including change in systems) have been taken for 116 and, for 99, steps have been taken to effectively promote imports by eliminating misunderstandings concerning Japanese systems.
2. Import expansion measures

(1) Introduction

Japan regards redressing external imbalances as one of the most important issues. In this light, various efforts have been made to reduce Japan's current account surplus: promotion of structural adjustment through, for example, relaxing governmental regulations and improvement of market access, as well as promotion of the domestic-demand-oriented economy.

Japan intends to pursue its macroeconomic policies and to continue its effort in maintaining and strengthening the free trade system as a "leading importing country". In addition, Japan seeks to create harmonious economic relations with other nations and to promote the transition towards a globally-harmonious economic structure through balanced expansion of trade. For this purpose, Japan has decided to implement fundamental and comprehensive measures for import expansion in FY 1990, concerning budget, taxation and import expansion loan schemes, on a scale unprecedented both historically and internationally.

The main contents of the import expansion measures are: (i) the introduction of comprehensive tax incentives to import manufactured products; (ii) the suspension of tariffs on more than 1,000 industrial products; (iii) the phenomenal increase in budget related to the promotion of imports, and (iv) the expansion of import expansion loan schemes.

(2) Content of import expansion measures

(i) The introduction of tax incentives for import of manufactured products

In increasing imports of manufactured goods, additional costs are incurred in order to find goods suited for the Japanese market and arrange for sales promotion, market development etc. The established tax system aims to grant incentives for import expansion to importers through the compensation of these costs, thus eliminating this financial handicap and creating a more competitive market.

(a) Outline of the tax incentives:

- provides manufacturers with a tax credit of 5 per cent of the increase in the value of qualified imported products, or allows additional depreciation (10 per cent, or 20 per cent for qualified products imported on and after 1 April 1990);

Japan effected an across-the-board reduction or suspension of tariffs on 1,853 items in 1986.
allows wholesalers and retailers to establish a tax-free reserve fund in order to encourage them to pioneer new domestic markets for imported manufactured goods.

These tax measures shall be applicable over a period of three years.

(b) Target products

In principle, target products are those with zero tariffs. These items account for roughly 50 per cent of all the manufactured products imported to Japan and totalled about ¥ 5 trillion (approximately US$40 billion) in 1988.

(ii) Suspension or reduction of tariffs on industrial products

(a) As part of an effort to improve market access, Japan suspended tariffs on 1,004 industrial products. (Tariffs on four additional items were reduced.)

(b) The import value (in 1988) of these items was about ¥ 1.7 trillion (approximately US$13 billion).

(c) As a result of this tariff suspension, the ratio of the value of non-tariff imported manufactured goods to the total value of all imported industrial products will rise from 49 per cent to 57 per cent (based on 1988 figures).

(d) To further facilitate the access to the Japanese market, the "Drawback System for Re-Exported Products" was set up to refund tariffs paid for imported items when they are re-exported in the same condition as when imported.

(iii) Import Expansion Budgets

Budgets for expansion of imports to Japan were increased sharply from ¥ 1.9 billion in FY 1989 to ¥ 14.5 billion (approximately US$100 million).

(a) Improvement of an information network for promotion of imports

- Installation of a data base at JETRO headquarters on foreign products and Japanese import needs.

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12 To qualify for these tax breaks, the import volume of the product or products in question must increase by 10 per cent or more.

13 ¥ 7.5 billion from the FY 1989 supplementary budget and ¥ 7.0 billion from the FY 1990 budget
- Establishment of the "Economic Internationalization Centres" in each of the prefectures in Japan, and the provision of on-line information to consumers and small- and medium-sized distributors for promotion of imports.

- Installation of terminals at thirty-five JETRO overseas offices in Europe, North America and Oceania to provide information to European and US companies on Japanese import needs.

- Exchange of data with foreign governments in order to achieve further results.

(b) Promotion of exchange of personnel through the dispatching and acceptance of missions

Missions will be sent to purchase products at overseas trade fairs, and factory visit tours will be conducted to promote development of products for import to Japan. On the other hand, missions from Europe and the United States shall be readily received to promote exports to Japan.

(c) Dispatching experts to find promising products for import to Japan

Experts in the search for promising products for import to Japan will be sent to various locations in Europe and the United States to pick out promising products for import. Experts in finding promising products of small- and medium-sized companies will also be sent abroad to find and gather samples of products suitable for imports by small- and medium-sized distributors. Sample fairs will also be held in Japan.

(d) Invitational programmes aimed at promoting imports to Japan

European and United States specialists in economics will be invited to Japan in order to promote a better understanding of Japan on the one hand, and the internationalization of regional districts, as well as the cultivation of import-consciousness in Japan, on the other hand.

(e) Promotion of establishment of the International Comprehensive Distribution Centres

International Comprehensive Distribution Centres shall be established to provide a place where foreign exporters, producers and Japanese small- and medium-sized distributors can make contact.
(iv) Import Expansion Loan Schemes

The financing systems of the five major financing organizations (the Export-Import Bank of Japan, the Japan Development Bank, the Small Business Finance Corporation, the People's Finance Corporation and the Japan Small Business Corporation) will be improved and expanded in order to promote imports.

(a) Financing for imports of manufactured products by the Export-Import Bank of Japan

To raise the capacity of credit and to extend it to foreign corporations wishing to export to Japan.

(b) Financing system of the Japan Development Bank for the improvement of import facilities and promotion of investment in Japan

To improve and expand the "Loan Scheme to Improve Facilities for Imported Products" (low-interest financing system for facilities supporting the expansion of imports) and the "Loan Scheme to Promote Foreign Direct Investment in Japan" (low-interest financing system for investments in Japan by foreign corporations), and to establish the "Internationalization and Structural Reform Loan".

(c) Loan programmes of the Small Business Finance Corporation and the People's Finance Corporation to support smooth sales of imports

To finance small- and medium-sized wholesalers, in addition to small- and medium-sized retailers, in the loan programmes of the two Corporations for equipment procurement and working capital, which aim at promotion of imported-product sales.

(d) Development financing by the Japan Small Business Corporation in support of establishment of the International Comprehensive Distribution Centres

To finance third sector enterprises (corporations jointly established with investments from the public and private sectors) seeking to establish International Comprehensive Distribution Centres in the Corporation's development financing programme for small- and medium-size businesses.

Note: Existing activities for expansion of imports include:
(1) PR activities directed at the general public for promoting import expansion:

(i) Import Expansion Month (October): promotion of various publicity projects including nationwide street campaigns;

(ii) Sponsorship of various import fairs;

(iii) Surveys and information services provided through JETRO and the Manufactured Import Promotion Organization, and provision of support to exporting countries through the rental of exhibition space.

(2) Requests by the Government on Japanese industries to increase imports:

(i) The Government requested more than 300 of Japan's leading corporations to increase imports;

(ii) The Government held the Trade Conference, which is headed by the Prime Minister, and requested the participants to expand imports.

3. Measures for smooth adjustment of industrial structure

(1) Basic concept

The Japanese economy has adjusted to major changes in the economic environment such as the two oil crises and the appreciation of the yen through flexibly changing its industrial structure without resorting to protectionist measures.

The Government of Japan basically believes in market mechanism and is of the view that protectionist measures should not be introduced. From this viewpoint, the Government of Japan does not have a policy to discourage increase of imports in any industrial sector by taking, for example, border measures. Such a policy would contradict Japan's basic policy to uphold free trade and promote international division of labour. Nor does the Government of Japan have a policy to subsidize affected industries, in order to maintain existing levels of production and employment. Although such a policy may succeed in achieving short-term results such as avoiding dismissals of workforce, it will in the long run lower productivity of the economy on the whole, and reduce economic efficiency by preserving inefficient industrial sectors.

From the aforementioned international economic and macroeconomic viewpoints, the Government of Japan is actively engaged in "industrial structural adjustment". In other words, it is promoting the transfer of labour and capital from the sector that has lost competitiveness in relative terms to the most productive sector, in accordance with market principle.
The transfer of labour and capital should basically be implemented through market mechanism. To do so, the Government encourages competition in the market by, for example, deregulations. However, it extends complementary and limited assistance in order to facilitate and promote industrial structural adjustment when it is deemed inappropriate to leave the process to market mechanism, as in the cases given below.

Firstly, since corporate management operates under fixed expenses, its operations tend to continue even if losses are registered, so long as part of the expenses can be covered. In this case, promoting the withdrawal of the company from an industry that is no longer internationally competitive will give a favourable impact on the economies of both the exporting and importing countries. It is, therefore, rational that the Government provides financial assistance to cover part of the expenses required for the withdrawal.

Secondly, the workers and the region affected in the progress of industrial structural adjustment are normally under the most disadvantageous economic conditions in the country. Often, they cannot overcome difficulties just by relying on market mechanism alone. In such cases, it is necessary for the Government to extend certain assistance measures to help the employees and the region, in order to facilitate their industrial structural adjustment without resorting to protectionist measures.

However, under such circumstances, the market situation should decide to which industry labour and capital should be transferred. The Government, therefore, carries out its assistance measures without specifying the industry to which such resources should shift.

Moreover, in view of the fact that such government assistance policy is undertaken from the international economic standpoint, the Government sees to it that its assistance measures will not produce side effects such as promotion of exports.

Such government assistance policy is conducted as a temporary measure with its effective period clearly defined so that it will not become vested interests of certain parties.

(2) Outline of specific measures

In April 1987, Japan instituted the Law on Temporary Measures for Facilitating Industrial Structural Adjustment so as to deal with the retrenchment of industries, as well as problems relating to employment and regional economy generated by the drastic and sharp appreciation of the yen since September 1985.
In accordance with this law, the Government has been carrying out the following assistance measures:

(i) When a business disposes of its facilities, the Government applies special taxation measures to guarantee debt and allow the losses incurred to be carried over;

(ii) When a business disposes of its existing facilities and enter a new line of business to secure jobs for the employees, the Government applies special taxation measures to accelerate depreciation of the newly-acquired facilities of such business.

Note: In Japan, labour unions are normally organized on an enterprise-by-enterprise basis. The management is thus expected to avoid dismissal of workers as much as it possibly can by transferring them to other industrial sectors of the organization.

(iii) Funds are provided to a private company starting an enterprise that serves public interests (tertial sector) in the affected region, such as the one relating to recreational facilities.

(iv) The Government provides grants to subsidize the payment of interests on loans for setting up a new plant that would create employment of more than a certain number of workers in the affected region.

The law provides that the business itself should decide whether or not to dispose of its facilities or how much of its facilities are to be disposed of. It is not allowed that businesses form a cartel in disposing of their facilities. The exemption from the application of the Anti-Monopoly Act is no longer possible under the present scheme of the law.

The assistance measures described in (ii) to (iv) may be applied to any industry and there is no restriction based on a type of business to be entered. The Government and the Government financial institutions ensure that the assistance measures will not produce side effects such as the promotion of exports.

It is stipulated that the law be repealed by May 1996. Until then, the necessity of each individual assistance measure is to be reviewed every two or three years. In reality, the scope of application and the degree of enforcement of the assistance measures of (i) to (iv) have been narrowed and lowered since the law was first put into force.
4. Recent measures for improvement of market access relating to agricultural products

(1) Citrus fruit and beef

As for the import of citrus fruit and beef, which was a long-standing agricultural trade problem between Japan and the United States, the following market access improvement measures are being taken despite domestic difficulties. These measures are based on the results of consultations with the countries concerned, and taking into account Japan's position in the international trade.

(i) Citrus fruits

(a) The import quota of fresh oranges is being increased by 22,000 tons each year from FY 1988 and will continue through FY 1990. The import quota will be eliminated from FY 1991.

(b) The import quota of concentrated orange juice is being increased from 15,000 tons in FY 1988 to 40,000 tons through FY 1991. The import quota will be eliminated from FY 1992.

(c) The import quotas of single-strength orange juice and orange juice mixtures are being increased by stages up to and through FY 1991. The import quota will be eliminated from FY 1992.

(ii) Beef

The import quota of beef is being increased 60,000 tons each year from FY 1988 and will continue through FY 1990. The import quota will be eliminated from FY 1991.

At the same time, the Livestock Industry Promotion Corporation will no longer be involved in the determination of prices and transactions of imported beef from FY 1991.

(2) The so-called twelve agricultural products

As for the issue of imports of the so-called twelve agricultural products such as processed cheese, for which a recommendation was made at the GATT Council in February 1988, Japan has already implemented the following measures despite difficult domestic conditions. These measures are based on the results of consultations with the United States Government, which was party to the dispute, and taking into account Japan's position in the international trade.

(i) Processed cheese

The import quota system was eliminated on 1 April 1989.
(ii) Other sugar and sugar syrups (excluding lactose)

The import quota system was eliminated on 1 April 1990.

(iii) Fruit purée and fruit paste

The import quota system on non-citrus fruit purée and paste was eliminated on 1 October 1988, and that on citrus fruit purée and paste on 1 April 1990.

(iv) Fruit otherwise prepared or preserved

(a) Fruit pulp

The import quota system was eliminated on 1 October 1988 for such fruit pulp as apples, grapes, peaches and, on 1 April 1990, for citrus fruit pulp.

(b) Prepared or preserved pineapples

The import quota system was eliminated on 1 April 1990.

(v) Non-citrus fruit juice

The import quota system was eliminated on 1 October 1988 for fruit juice for infants; on 1 April 1989 for non-citrus juice other than apples, grapes and pineapples; and on 1 April 1990 for apples, grapes and pineapple juice.

(vi) Tomato juice, tomato ketchup and tomato sauce

The import quota system was eliminated on 1 July 1989.

(vii) Food preparations n.e.s. consisting mainly of sugar

The import quota system was eliminated on 1 April 1990.

(viii) Beef products

The import quota system on beef products was eliminated by stages on a product-by-product basis by 1 April 1990.

(ix) Dairy products

The import quota system was eliminated on 1 October 1988 for pasta and on 1 April 1990 for frozen yogurt, whipped cream in pressurized containers, ice cream, and concentrated protein products. With regard to some other products, import opportunities were increased for three years from FY 1988.
(x) Starch and inulin

A certain import volume is being maintained for the three-year period from FY 1988.

(xi) Dried leguminous vegetables

The import quota system was eliminated on 1 October 1988 for some of the products.

(xii) Groundnuts

Import opportunities were increased for the three-year period from FY 1988.

5. Japan-United States Structural Impediments Initiative

(1) Objectives

The Japan-United States Structural Impediments Initiative (SII) was proposed by President Bush in his statement on 26 May 1989. The leaders of the two countries agreed to have consultations on this subject and issued a joint statement when they met on 14 July on the occasion of the Arche Summit in Paris.

The SII talks are intended to complement the on-going efforts made in the framework of economic policy co-ordination, and to identify and solve structural problems that stand as impediments to the adjustment of trade and balance of payments between Japan and the United States.

Under this initiative, the United States and Japan, which are the largest and second largest economies in the world, have specified their respective economic structural problems and have held rounds of talks on them.

The items discussed in these talks are listed below:

Japanese side: Saving and investment patterns, land policy, distribution system, exclusionary business practices, keiretsu relationships and pricing mechanisms.

United States side: Saving and investment patterns, corporate investment activities and supply capacity, corporate behaviour, government regulations, research and development, export promotion, and workforce education and training.
(2) **Interim report**

The first, second and third meetings of the SII were held in September and November 1989 and February 1990, respectively. At the fourth meeting in April 1990, Japan and the United States compiled and released interim reports spelling out specific measures for their own structural reforms.

The following is a summary of the interim report on the steps already taken or to be taken by Japan on its own responsibility.

- **Saving and investment patterns:** Social overhead capital improvement, encouraging consumption in the private sector, etc.

- **Land policy:** Promotion of further supply of housing and residential land, comprehensive review of the land taxation system, deregulation, etc.

- **Distribution system:** Improvement of import-related infrastructures, expeditious and proper import procedures, deregulation, import promotion, etc.

- **Exclusionary business practices:** Enhancement of the Antimonopoly Act and its enforcement, greater transparency and fairness in government practices, encouragement of transparent and non-discriminatory procurement procedures by private companies, and facilitation of patent examination disposals.

- **Keiretsu relationships:** Prevention of anti-competitive business practices, promotion of foreign direct investment to Japan, and enhancement of the disclosure requirements.

- **Pricing mechanisms:** Obtaining information on price differentials between domestic and overseas markets and providing it to consumers and industries, formation of more appropriate land prices, setting of public utility prices at more appropriate levels, and deregulation, etc.

(3) **Final report**

The SII talks will be continued so that a joint final report will be issued by July, mainly covering the implementations of the measures set forth in the interim reports.

The measures to be taken by Japan and the United States respectively in connection with the SII talks will benefit not only the two countries but also the whole world. They will serve to prevent the rise of protectionism and thus contribute to the steady development of the world economy.
PART B:

BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES WILL BE CARRIED OUT: WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, EXTERNAL ENVIRONMENT
I. WIDER ECONOMIC NEEDS AND POLICIES

The Japanese economy, having overcome the two oil crises since the 1970s mainly by virtue of flexible adaptability of Japanese corporations, now holds an important position in the international community. During the 1970s, its pattern of export-driven economic growth was reinforced, due in part to a sharp increase in oil prices. In the early part of the 1980s, with a slow increase in domestic demand, exports continued to grow, propelled by buoyant expansion of the United States domestic demand and continued appreciation of the dollar. As a result, economic growth continued to be led by exports, producing a larger trade surplus. This economic pattern, however, was one element which aggravated the already growing imbalances in the world economy, and for that reason, it was impracticable to sustain it in view of the development of the world economy. Under such circumstances, there was a growing expectation that Japan should change the pattern of economic development. As this perception on the Japanese economy gradually prevailed, the "Maekawa Report" was released in April 1986, which pointed out the need to change the economic structure into an internationally co-ordinated one. This was followed by the "New Maekawa Report (Policy Recommendations on Economic Restructuring)", submitted to the Government in May 1987, urging the promotion of balanced restructuring of the national economy for the enhancement of the international co-ordination and improvement of the quality of life of people. These two reports spelled out the direction for the structural adjustment of the Japanese economy.

In the meantime, the value of the yen started to rise drastically in the fall of 1985. The appreciation of the yen, for it brings about the changes in relative prices, helps redress the external imbalances and consequently promotes structural adjustment. At the same time, it made people realize the necessity to further the active efforts for structural adjustment.

In view of these developments, the Government in May 1988 formulated the "Five-Year Economic Management Programme - Economic Management within a Global Context". The main objective of this programme was to step up the adjustment of economic structure, in order to shift it to, and firmly establish, a domestic-demand-led economic structure, within the framework of overall medium-term economic policy. The programme represented the basic direction of the management of the Japanese economic policy for the future. The first part of the economic programme identified the challenges facing Japan and spells out the basic directions of policy implementation as follows.

(1) Challenges facing Japan

The world economy has been increasingly destabilized in the 1980s by the expanded external imbalances and the surfacing of accumulated debt problems. This instability, if left alone, will undermine the sustained and steady growth of the world economy. To avoid this, economic structural adjustment needs to be promoted not only in Japan alone, but
also on a global basis. It should be particularly kept in mind that Japan now accounts for more than 10 per cent of the world economy, and its activities can substantially affect the global economy. Thus, Japan should endeavour to accelerate the economic restructuring in co-ordination with other countries, and reduce its external imbalances, thereby actively enhancing its contributions to the world.

It should also be noted that Japan's increased economic strength is not necessarily reflected in individual citizens' everyday life; there is a gap between the economic strength of the country and the sense of wealth experienced by people in daily life, as exemplified by the low housing standards, long working hours and high cost of living. To fill this gap, it is highly expected that the production/export-oriented economic structure, which was formed during the period of rapid economic growth, should be modified, in such a way that the benefits of economic development would contribute to the improvement of the quality of life of the people.

It is also significant to reduce the excessive economic dependance on the Greater Tokyo area, and revitalize regional economies, with a view to facilitating structural adjustment of industry and promoting balanced development of regional economic communities.

(2) Basic directions of policy implementation

The basic directions of economic steering to meet these challenges are outlined below.

(i) Transformation to, and establishment of, domestic-demand-led economic structure

The three major challenges facing Japan - (a) redressing external imbalances and contributions to the world, (b) realization of a diversified lifestyle which could give people a real sense of affluence, and (c) smooth structural adjustment and balanced development of regional economic communities - are not mutually exclusive.

Japan should reform its demand-supply structure and transform it into, and eventually establish, a domestic-demand-led economic structure by realizing a diversified lifestyle which gives people a real sense of affluence, facilitating industrial restructuring and promoting balanced development of regional economic communities. This process will not only lead to the formation of an internationally co-ordinated economic structure, but is also essential for sustained improvement of the external imbalances. In other words, the three challenges facing the Japanese economy should be, and can be, successfully met by accomplishing the transformation into, and establishment of, a domestic-demand-led economic structure.
(ii) Promotion of economic structural adjustment

The basic approach to take to accomplish a transformation to, and the establishment of, a domestic-demand-led economic structure is to carry out decisive economic structural adjustment. From this viewpoint, the Japanese Government is to carry out overall review and extensive reform of the systems and mechanisms of the economy and the society including their established practices and the operational aspect of the systems, while fully utilizing functions for the allocation of resources in fiscal policy. The Government, while making deliberate efforts in policy areas deeply related to the enrichment of the life of people, will continue its efforts in other areas to restrain the swelling of the public sector and to meet new challenges, by simplifying and improving the efficiency of the administration including relaxation and elimination of governmental regulations. With regard to the management of the public finance, the Government will try to achieve fiscal consolidation and at the same time to sustain the expansion of domestic demand. It will further endeavour to improve infrastructures of various segments of the society, which is an indispensable prerequisite for the promotion of structural adjustment.

(iii) "Economic Management in the Global Context"

As Japan's development is closely interlinked with and is inseparable from global prosperity, it is important to administer policies in all areas from the viewpoint of "Economic Management in the Global Context". For this purpose, the Government will not only try to contribute to the world through its external policies such as import expansion, economic co-operation and capital recycling, but also act in a global perspective when implementing such domestic policies as transformation of structure, reduction of working hours, and tax reform.

(iv) Opening of a new frontier

The hollowing-out and devitalization of the economy have been brought about by the slower growth of manufacturing sectors resulting from the changes in industrial structure, reductions in working hours, inclination of people for relaxation and comfort of life, and increasingly ageing population. In response to these situations, efforts should be made to maintain and foster the vitality of the economy and the society and to establish a base for national development by opening a new frontier through extensive reforms of existing systems and mechanisms, promotion of technological innovation and information-oriented advancement, and creation of new vibrant industrial areas utilizing the benefits of such innovative achievements.

These basic policy directions are reflected in the "Economic Outlook and the Basic Posture of Economic Management", approved by the Cabinet as guidelines for economic management in every fiscal year.
(3) **Basic posture of economic management in FY 1990**

Looking at the international situation surrounding Japan particularly in FY 1990, one should find that, whereas commodity price increases have been generally slowing down in industrialized countries since the second half of 1989, their economies are expected to continue gradual expansion, though the growth may be at a slower pace in the United States and a few other countries. The employment situation is generally improving, although unemployment rates are still high in European countries. On the other hand, large external imbalances remain between major economies, and protectionist moves are still persistent. Although gradual economic expansion is expected in developing countries, some of them are in difficult circumstances, often ridden with heavy accumulated debts in spite of the international co-operation now under way to solve the external debt problem. Furthermore, Eastern Europe has been undergoing major changes both politically and economically.

On the domestic scene, economic growth has been driven increasingly by domestic expansion in the steady progress of economic structural adjustment which has been propelled by the appreciation of the yen since 1985. It is expected that further progress be made in the structural adjustment mainly in areas having direct relevance to everyday life of people. There also remain large external imbalances, though they have a tendency to shrink. Japan's public finance is still beset with a substantial imbalance although it has been improving.

Given these perceived conditions, the basic posture of economic management in FY 1990 is outlined in the following direction.

(i) Efforts should be made to attain sustained expansion of the economy mainly driven by domestic demand.

(ii) While promoting the transformation to an internationally co-ordinated economic structure and forestalling trade protectionism to maintain and strengthen the free-trading system, active contributions should also be made to build up harmonious external economic relations and further vitalize the world economy.

(iii) Administrative and fiscal reforms should be energetically pressed forward.

(iv) While maintaining the stability of commodity prices, the general price structure should be adjusted in order to narrow the price differences between products sold in Japan and abroad.

(v) Based on the economic programme "Economic Management within a Global Context" and other guidelines, efforts should be made to pay due respect to consumers' interests and viewpoints, and to actively encourage structural adjustment including the reduction in working hours, so as to realize a diversified lifestyle which could give people a real sense of affluence.
(vi) The basis for the future economic development of Japan should be improved by carrying out balanced development of its land and opening a new frontier of the economy and the society.

(4) Outcome of recent economic policies

Japan's recent economic policies have thus enabled its economy to realize continuing domestic-demand-led expansion for four years since the fall of 1986, and the ratio of the current account surplus to the nominal GNP has steadily decreased from 4.3 per cent in 1986 to 2.0 per cent by 1989.

(Ratio of contributions of domestic demand and export)

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand's contribution</td>
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<td>7.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Export contribution</td>
<td>-0.6</td>
<td>-1.7</td>
<td>-1.0</td>
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</table>
II. THE EXTERNAL ECONOMIC ENVIRONMENTS

A. Major trend in imports and exports

The adjustment of Japan's exports and imports has been advancing because of the substantial appreciation of the yen following the Plaza Accord in 1985 and the sustained economic growth led by domestic demand.

The growth of imports is particularly significant, consistently surpassing that of exports for three years from 1987 till 1989, while the strong yen and the domestic demand-led economic steering became established trends. (The average annual growth rates of exports and imports during the three-year period were 9.6 per cent and 18.6 per cent respectively, on a customs clearance basis in dollars.)

Along with these developments, Japan's trade imbalance has been narrowing. The nation's trade surplus, after reaching a peak of $82.7 billion on a customs clearance basis in 1986 and $96.4 billion on an IMF basis in 1987, has continued shrinking. In 1989, in particular, it registered a remarkable decrease of $13.2 billion from 1988 on a customs clearance basis or $18.1 billion on an IMF basis. (The trade surplus in 1989 was $64.3 billion or $76.9 billion on the respective bases.) The ratio of the current account surplus to GNP has also been shrinking, after reaching a peak of 4.3 per cent ($85.8 billion) in 1986, to only 2.0 per cent ($57.2 billion) in 1989.

1) Import trends

After the Plaza Accord in 1985, Japan's imports (on a customs clearance basis, in dollars) rose steeply from $129.5 billion in that year to $210.8 billion by 1989, and also registered a rapid increase in quantity. Given an index rating of 100 for import volume in 1985, a 50.6-point growth was recorded by 1989 (150.6).

In an analysis of the increasing trend since 1985 by commodity item (on a dollar basis), while substantial growth was observed in a wide range of product categories, the imports of manufactured goods such as machinery and equipment, chemical products and textile products increased at especially rapid paces, together attaining a very high average annual growth rate of 27.5 per cent during the four years from 1986 to 1989. This has resulted in a sharp rise in the share of manufactured goods in Japan's overall imports from 31 per cent in 1985 to 50.3 per cent by 1989. The rise in the proportion of such goods to the total imports from developing regions has been particularly remarkable, soaring from 14.9 per cent in 1985 to 38.0 per cent by 1989.

Among primary goods, food imports increased rapidly their share rising from 12.0 per cent in 1985 to 14.7 per cent by 1989, while the imports of oil and oil products decreased from 31.3 per cent to 14.1 per cent over the same period, owing to a drop in crude oil prices and other circumstances.

In a geographical breakdown of import sources, the share of developed regions rose from 41 per cent in 1985 to 50.9 per cent by 1989, while that
of developing regions fell from 52.4 per cent to 41.7 per cent over the same years, mainly reflecting the drop in crude oil prices. The imports of goods other than oil and oil products from the latter, however, rapidly increased, almost doubling from $31.5 billion in 1985 to $61.4 billion by 1989, and their share in the total import value also rose from 24.3 per cent to 29.1 per cent. The share of imports from the Communist Bloc increased slightly, from 6.5 per cent in 1985 to 7.4 per cent by 1989.

(2) Export trends

Japan's exports (on a customs clearance basis in dollars) in 1989 registered a 3.9 per cent year-to-year growth, the lowest since 1985. Especially noticeable, for every month from October 1989, was the reduction in the monthly export value in comparison with the corresponding figures for the previous year.

Given an index rating of 100 for export volume in 1985, a slow growth of only 8.8 points was marked by 1989 (108.8).

In an itemized analysis of the export trend (counted in dollars) since 1985, the exports of capital goods, mainly machinery, have shown a relatively steady growth reflecting the expansion of economic activities in the world, while exports of consumer durables such as TVs and VCRs, consumer non-durables, including textiles, and industrial materials, including steel (all traditionally major export items from Japan) increased only slightly, as the yen's appreciation induced economic restructuring. At the same time, many items, including steel and motor vehicles, decreased in exported volume, reflecting a shift to higher-value-added goods.

Geographically, while the share of total Japanese exports to developed regions expanded from 58.3 per cent in 1985 to 60.8 per cent by 1989 and that to developing regions also increased from 32.4 per cent to 34.6 per cent over the same period, that to the Communist Bloc shrunk from 9.2 per cent in 1985 to 4.6 per cent by 1989.

B. Developments in the terms of trade and commodity prices

The significant appreciation of the yen since 1985 has resulted in major changes in the prices of Japan's exports and imports, to which the Japanese market and exporters have reacted.

The import prices on a yen basis decreased rapidly due to the appreciation of the yen. Given an index rating of 100 for import prices on a yen basis in 1985, the rate fell to 61.9 in 1989. As the Japanese market responded to this drop in import price, the import volume quickly expanded, partly as a result of the domestic demand boost, from an index rating of 100 in 1985 to 150.6 by 1989.

The reverse can be said of the prices of Japan's exports. The appreciation of the yen led to a rapid rise in dollar-quoted export prices, from an index rating of 100 in 1985 to 143.9 by 1989. Partly because of this increase in export prices, the volume of goods exported from Japan was rather slow to expand, from an index rating of 100 in 1985 to only 108.8 by 1989.
C. Important trends in the balance of payments, reserves, exchange rates and other such issues

In 1979 and 1980, Japan suffered current account deficits of $8.8 billion and $10.7 billion, respectively. Since then, Japan has continually shown a surplus, reaching $87 billion in 1987. The sharp rise in the current account surplus was mainly attributed to increase in the trade account surplus, accelerated by reductions in the invisible trade account deficit. Following the Plaza Accord, however, the price adjustment effects caused by the yen's appreciation have been outweighed by the volume adjustment effects on exports and imports. This, combined with a growing strong domestic demand, progress in overseas production of automobiles and other items, has resulted in a reduction in trade account surplus. Furthermore, since 1987, invisible trade account deficits have increased mainly because of increases in the travel account deficit. As a result, the current account surplus rapidly dropped to $57 billion in 1989.

In the long-term capital account, a sharp rise in securities investments and direct investments abroad led to sharp increases in the outflow of Japanese capital, which totalled $190.8 billion in 1989. In the case of foreign capital investment into Japan, there was a continued inflow up to 1988, with an annual average of about $10 billion (with the exception of a small outflow in 1987). In 1989, there was a large excess inflow of $102.8 billion, fed by steady growth in stock investments and active issuance of warrant bonds by Japanese corporations. As a result, the long-term capital account in 1989 recorded a net capital outflow of $87.9 billion, a slight drop from the excess outflows of about $130 billion recorded annually between 1986 and 1988.

Reflecting the trend towards current account surplus and increase in overseas investment of Japanese capital, Japan’s positive net position of external investment rose from $129.8 billion at the end of 1985 to $291.7 billion at the end of 1988, creating an increase in net assets.

After the real effective yen exchange rate (trade-weighted values) dropped sharply at the end of the 1970s, it remained relatively stable until 1985, apart from minor fluctuations. From 1985, the yen rate rose sharply, then settled into relative stability in 1987 and 1988. Since 1989, however, the yen rate has been dropping.

With regard to the yen's value against the United States dollar, following the September 1985 Plaza Accord, there was a sharp rise which came to about 90 per cent by the end of 1987, and was followed by a period of relative stability. From 1989, the yen's value against the dollar began a sharp decline, and currently stands at about 60 per cent above the value at the time of the Plaza Accord.

Japan's reserves, which had been fluctuating in the area of $25 billion in the latter half of the 1980s, rose sharply after 1986, reaching $100 billion in April 1989. They have dropped slightly since then, and currently stand at about $80 billion.
D. International macro-economic situation affecting the external sector of Japan

The global economy has been continuously expanding since 1983, and the expansionary phase has entered its eighth year. During this period, economic growth somewhat slowed down between 1985 and 1987, but high growth was posted again in 1988. Since the beginning of 1989, the pace of expansion has decreased slightly both in industrialized and developing countries, overall, and the economy has continued to show moderate expansion.

In the first half of the 1980s, the Japanese economy experienced a recession of about three years from the start of the decade and then entered a period of expansion in the first half of 1983. Japan's real GNP grew 4.0 per cent on average from 1980 to 1985. In the latter half of the 1980s, the Japanese economy entered a recession as the economic growth passed a peak in 1985. Since the end of 1986, however, it has been expanding. The real GNP growth rate stood at 4.6 per cent in 1987, 5.7 per cent in 1988, and 4.9 per cent in 1989. The average growth in the period from 1985 to 1989 was thus 4.4 per cent, a higher rate than that of the first half of the 1980s.

Overseas, the United States has been experiencing economic expansion since the end of 1982. Its real GNP growth rate was 2.7 per cent in 1986, 3.7 per cent in 1987, 4.4 per cent in 1988 and 3.0 per cent in 1989. The average of the period from 1985 to 1989 was 3.4 per cent. The members of the European Community have also been observing economic expansion. Their real GDP growth rate was 2.6 per cent in 1986, 2.7 per cent in 1987, and 3.7 per cent in 1988. The average of the period from 1985 to 1988 stood at 3.0 per cent. Asia's newly industrializing economies and four of the member nations of the Association of South-East Asian Nations (excluding Singapore and Brunei), who are important trading partners of Japan, saw their real GDP grow at an average rate of 10.7 per cent and 5.5 per cent respectively from 1986 to 1988.

From 1985 to 1988, the contribution of domestic and external demand to Japan's economic growth were 5.6 per cent and minus 1.2 per cent respectively, proving that the overall growth was fuelled by domestic demand and contributing to the reduction in external imbalance. A further breakdown indicates that both private and government final consumption expenditures grew 4.0 per cent and 2.5 per cent respectively on average, while gross domestic fixed capital formation by the private and the public sectors rose at an average rate of 11.6 per cent and 4.0 per cent respectively.

In the case of other countries, the United States saw its domestic and external demand contribute an average of 3.3 per cent and 0.2 per cent respectively to its economic growth from 1985 to 1989. The average contribution of domestic demand in the European Community from 1985 to 1988 was 3.7 per cent and that of external demand, minus 0.8 per cent.
III. PROBLEMS IN EXTERNAL MARKETS

(1) Unilateral measures by specific nations in trade matters

In April 1987, the United States took a unilateral measure by levying 100 per cent import duties on personal computers, power tools, and colour TVs imported from Japan (combined import worth $300 million) under Section 301 of the United States Trade Act of 1974 for the alleged reason that Japanese manufacturers were continuing to dump semi-conductors on third-country markets, and that no improvement had been seen in access to the Japanese market.

Part of this measure against Japan was withdrawn both in June and November 1987, due to the recognition that alleged dumping on the third-country markets had been discontinued. However, due to what the United States considers a still inadequate market access, the remainder of the measure worth $164 million (covering some personal computers and power tools) is still in effect to cover inadequacy in market access to the Japanese market.

When the Trade Act was amended in 1988, the United States instituted the so-called Super 301, which represented an intensified protectionist tendency by requiring the United States Trade Representative to identify priority countries and carry out investigations into their trade practices, with the possibility of invoking unilateral sanctions. In May 1989, Japan, together with India and Brazil, was identified as a priority country. With respect to Japan, the United States specified and investigated three items, i.e. government procurement practices of super-computers and satellites, as well as technical import barriers to forest products.

While the issues over these three items were settled by the end of April 1990, the implementation of the measures under Section 301 and Super 301 are based upon the unilateral judgment by the United States whether the trade systems and practices of other countries are unfair, and whether the counter actions should, therefore, be taken. In this respect, this legislation entails the strong possibility of yielding protectionist influences and undermining the multilateral free-trading system.

(2) Non-tariff barriers

(i) General description

Since the founding of the GATT, the tariff rates of the contracting parties have been reduced to a considerably low level through rounds of negotiations intended to further expand international trade, and subsequently the effects of tariffs on trade have diminished in relative terms. What have emerged as problems in consequence are the so-called non-tariff measures which have trade-distorting or restricting effects.

In the Uruguay Round negotiations, Japan has been addressing the issue of non-tariff measures on overseas markets, and has submitted a request list to the NTM negotiating group.
Of these non-tariff measures, the following aspects are considered particularly problematic.

(a) Abuse of existing rules in a protectionist manner, as found in arbitrary revisions of customs classifications or, in the arbitrary institution and administration of anti-dumping rules and rules of origin.

(b) Persistent adherence to an import restricting policy, or continued import restrictions carried out to protect and foster domestic industries, including information-related industries, by some developing countries despite their high level of economic development.

These measures and policies are obviously producing immensely adverse effects on the development of world trade. Japan is making active efforts through such multilateral forums as the Uruguay Round, to moderate and/or eliminate these measures and policies, which have disturbing effects on the expansion of trade.

(ii) Specific examples of non-tariff barrier

(a) Arbitrary administration of rules of origin

Rules of origin are used when determining a proper place of origin or what may be called a "nationality" of internationally transacted products and therefore should be neutral and technical.

Without any internationally unified rules of origin, there have been cases in recent years where some importing nations have formulated, revised, and/or administered their own rules in protectionist and arbitrary manners. Such practices of importing nations have been affecting exports and investments from Japan. The following are some of the specific examples.

(1) The European Community, which has traditionally set the criteria for determining country of origin for semi-conductors in accordance with the manufacturing process, unilaterally altered the basis of the criteria from the assembling step to the diffusion step. Consequently, Japanese semi-conductor manufacturers operating in the European Community have had to invest additional large sums to equip themselves to carry out the diffusion process within the region.

(2) France insisted that Japanese auto-makers operating in the United Kingdom procure less than 80 per cent of their manufacturing parts from the United Kingdom and that therefore their country of origin should be Japan. Based upon this argument, France tried to place the same import quantitative restrictions on the cars manufactured by Japanese makers in the United Kingdom as those on cars originating in Japan.
As the criteria by which to determine country of origin for copiers, the European Community instituted the opaque and unpredictable negative list formula. Based on the above-mentioned formula, the European Community attempted to levy an anti-dumping (AD) duty even on copiers produced by Japanese manufacturers in the United States in the same manner as it imposes an AD duty on copiers originating in Japan.

(b) **Arbitrary administration of measures against circumvention of AD duties**

In 1987, the European Community instituted rules to apply anti-dumping duties to parts and materials of products when like finished products are subject to the anti-dumping (AD) duties. These rules stipulate that if the said products are assembled in the European Community territory from parts imported from a country or countries to which the AD duties apply, such assembly shall be deemed an act of circumventing the AD duty when it meets certain conditions (including the condition that the value of parts imported from the country or countries subject to AD duties constitutes 60 per cent or more of the total value of all the parts), and therefore AD duties shall be levied on such imported parts.

The European Community later applied these rules to the production of (1) electronic typewriters, (2) electronic weighing apparatuses, (3) hydraulic shovels, (4) copiers, (5) bearings, (6) printers, and (7) VCRs, made by Japanese manufacturers in the European Community region. The production of four of these products determined what the European Community considers an act of circumventing AD duties (the allegation about VCRs is currently under investigation).

Considering that these rules and the measures thereunder were detrimental to the sound development of international economy and trade, and that they were inconsistent with GATT, Japan entrusted the solution of issue to the dispute settling procedure of the GATT in October 1988. The GATT panel, set up for this purpose, ruled, in March 1990, that the European Community's actions were inconsistent with the principle of national treatment prescribed by GATT Article 3, and they recommended to the Council that contracting parties should request to the European Community to make the application of the rules consistent with GATT. In April, the recommendation was referred to the Council for deliberation.

(c) **Discriminatory QRs against Japan**

When Japan acceded to GATT in 1955, many of the contracting parties applied GATT Article 35 to Japan. This was because those countries

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The formula lists product items whose country of origin cannot be certified simply because the specified manufacturing process takes place in the country.
recalled and felt threatened by how, in the 1930s, Japan used the leverage of its low wages and the devalued yen to quickly expand its exports of textiles, sundries, ceramics, and toys and thus made inroads into the markets of industrialized countries.

Many countries later withdrew the application of Article 35 as a result of continuous efforts on the part of Japan. However, in this process, Japan had to accept discriminatory QRs from European countries as a transitional measure. These discriminatory QRs against Japan are in violation of GATT since they no longer have grounds in GATT.

Thus far Japan has endeavoured to have these QRs withdrawn through informal consultations with the European Community. The removal of forty items have already been effected out of original 131 items. In addition, some progress has been made including the proposal by the European Community last December for immediate withdrawal of discriminatory QRs on thirty items against Japan. While watching the progress of the withdrawal, Japan has been requesting complete withdrawal of the QRs by 1992 at the latest.

(d) Arbitrary administration of tariff classification

An international convention was concluded at the Customs Cooperation Council (CCC) in order to facilitate international trade transactions by unifying the names and classification of commodities. While signatories to the convention are classifying products for tariffs according to the convention, there are some cases where tariff classification is administered arbitrarily.

For instance, the European Community altered tariff classification on VCR mechanical decks in April 1988, and raised the tariff rate from 5.8 per cent (which is for parts) to 14.0 per cent (which is for finished products). In response to this action, Japan requested the CCC in March 1989 to examine the matter, and the matter was discussed at the HS Committee of the CCC both in April and October 1989. In the Committee, Japan maintained that, without other components including electronic circuits, a mechanical deck could not be classified as a finished product and that therefore a mechanical deck alone was insufficient to be regarded as a finished product. This view was supported by an overwhelming majority. (Afterwards, the European Community made a reservation to accept it as the HS Committee's decision.)

In the United States, where multipurpose vehicles had previously been classified into passenger cars or trucks according to the form in which the vehicle cleared through customs, the tariff classification of all the "multi-purpose vehicles" was indiscriminately altered to trucks when the HS Agreement was introduced in January 1989. As a result, the tariff rate for those multi-purpose vehicles that had previously been classified as passenger cars was raised from 2.5 per cent to 25 per cent. In February 1989, this reclassification was revised again to classify
four-door "sport-utility" vehicles as passenger cars, with the applicable tariff rate reduced to the previous 2.5 per cent, while leaving the classification of van-type vehicles intact. For two-door "sport-utility" vehicles, however, the rate remained at 25 per cent.

At the request of Japan, the HS Committee discussed the matter concerning classification of multi-purpose vehicles in April and October 1989 and in April 1990. Japan proposed that classification be made by such criteria as whether or not the vehicle has a rear seat and as the ratio between the floor space of rear seats and that of cargo space. The eventual vote reflected the Japanese view, and overwhelmingly supported the classification of the type of two-door sport-utility multi-purpose vehicles as passenger car.

Since such arbitrary administration of tariff classification is not merely a matter of tariff classification as such but it also involves possible violation of tariff concessions, future developments on this matter should be watched carefully.

(e) Section 337 of the United States Tariff Act of 1930

Section 337 of the United States Tariff Act of 1930 provides for a procedure to control the importation of goods that infringe on United States intellectual property rights as "unfair import practices". The control is conducted by the ITC, and the period necessary for the whole procedure is limited to twelve months or less as a rule. If the petitioner's allegation is granted, limited or general exclusion order can be issued to restrict the importation of the goods irrespective of who the importer is.

In 1988, this procedure was revised to exempt part of onus of proof in alleging goods to infringe on the intellectual property rights. In 1989 the GATT panel (referring to the procedure before revision) came to a decision with respect to the six points that were unaffected by the revision, including the existence of time limitations for the procedure. It ruled that the procedure discriminated imported goods against domestic products (whose alleged infringement of the rights are examined at a federal court through civil suit procedures) and was thereby inconsistent with the principle of national treatment under paragraph 4, Article 3 of GATT. The panel regarded the inconsistencies involved in five of the six aforementioned points were beyond the extent of "necessity" justified under Article 20(d) of GATT. Although there have been moves on the part of the United States to amend Section 337 of the Tariff Act subsequent to the adoption of the panel's report, the United States Government has expressly stated that the implementation of this section would not be altered until the amendment of the Act. Hence, the present state, which the GATT panel judged to be inconsistent with the GATT, will remain unchanged for the time being.
Japan has repeatedly pointed out the problems involved in this procedure since Section 337 of the United States Tariff Act was under review by the GATT panel. It is therefore hoped that the procedure will be improved at an early date.

(f) Regulation from the viewpoint of "national security"

In the United States, the following systems are operating to restrict the inflow of foreign products or foreign enterprises into the United States market from the viewpoint of "national security".

The problem with the use of restrictive measures based upon this concept is that the very definition of "national security" is ambiguous, and as a result, the regulations could cover a wide range of goods and transactions depending on how these measures are administered. It also is extremely difficult to foresee whether a given case should be subject to regulation from the viewpoint of national security. Those who engage in transactions under such circumstances are placed in a precarious situation in which they may find themselves bound by unexpected control at any time. Furthermore, if they undergo investigation by the United States Government, they will be forced to bear great costs for it.

(1) Section 232 of the United States Trade Expansion Act of 1962 enables the Department of Commerce to conduct an investigation into cases where an import transaction is deemed potentially harmful to the security of the United States. A considerable number of investigations have so far been carried out regarding imports from Japan, Europe and other countries under this provision. They include the importation of products that are unlikely to be directly related to national security, such as timepieces and their parts, bolts, and nuts.

(2) United States legislations, including "The National Security Act of 1947" and "The Defense Production Act of 1950" authorize the Department of Defense to impose extensive restrictions on its procurements from overseas suppliers from the viewpoint of national security.

(3) Under Section 5021 of the Omnibus Trade Act (the so-called Exon-Florio clause), any foreign investment in the United States can be suspended or disrupted if it is regarded as a threat to the national security of the United States. Thus far six cases have been reported, in which formal investigations were conducted under the Exon-Florio clause, regarding the attempted acquisition of United States corporations by foreign enterprises.

(3) Japan's position regarding regional integration

In recent years, there have been notable moves for regional economic integration, as symbolized by the United States-Canada Free Trade Agreement
and the up-coming market integration of the European Community. Japan is of the view that these moves for integration can contribute to the overall development of world economy through the vitalization of regional economies. However, in order for that to happen, it is indispensable to ensure the openness of the integrated regions to economics outside the region. In particular, such moves for regional integration involve the danger of running into closed regionalism and of encouraging protectionist tendencies. If such tendencies are left alone, not only will it discourage the efforts of the countries participating in the Uruguay Round to strengthen and expand the GATT system, but it may also jeopardize the GATT system at its very root. Besides, the idea of seeking compensation from third countries for the reflexive benefits of the integration, which have been advocated by some countries, may cause a major regression of the GATT system whose base is the principle of free and non-discriminatory trade.

It is beyond doubt that the GATT system, having the most-favoured-nation treatment as its basis, has made important contributions to the post-war development of the world economy and trade. Japan regards the non-discriminatory trading system based on GATT as the pillar of its international trade policy. From this viewpoint, Japan considers it indispensable for any integrated region to be open to nations outside the region, and that such integration should have no significant adverse impacts on the interests of third countries.

Incidentally, the Asian-Pacific region has achieved a dynamic economic development under the GATT system without turning to regionalism. This fact justifies the choice of open, free, and non-discriminatory trade under GATT. In this context, the recent moves for Asian-Pacific economic co-operation are also to reinforce the GATT system.
APPENDICES
Appendix A: Trade Flows by Country/Geographic Area

**Total Value of Japanese Merchandise Trade**

(US$ million)

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<td>1989</td>
<td>275,175</td>
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**Source:** Ministry of Finance
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<tr>
<td>Latin America</td>
<td>8,760</td>
<td>6,355</td>
<td>9,297</td>
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<tr>
<td>Middle East</td>
<td>9,177</td>
<td>20,197</td>
<td>9,438</td>
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<td>Africa</td>
<td>2,894</td>
<td>1,635</td>
<td>2,760</td>
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<tr>
<td>Communist Bloc</td>
<td>11,924</td>
<td>10,627</td>
<td>13,818</td>
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<td>P.R. of China</td>
<td>8,250</td>
<td>7,401</td>
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<td>USSR</td>
<td>2,563</td>
<td>2,352</td>
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Source: Ministry of Finance
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<th>Calendar year</th>
<th>1985</th>
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<th>1988</th>
<th>1989</th>
<th>Ratio to FY (%)</th>
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<tr>
<td>Total of exports (A)</td>
<td>175,638</td>
<td>209,151</td>
<td>229,221</td>
<td>264,917</td>
<td>275,175</td>
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<td>Agricultural, forestry and fishery products (B)</td>
<td>2,046</td>
<td>2,209</td>
<td>2,290</td>
<td>2,474</td>
<td>2,465</td>
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<td>Exports</td>
<td>751</td>
<td>825</td>
<td>944</td>
<td>959</td>
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<td>Fishery products</td>
<td>96</td>
<td>99</td>
<td>85</td>
<td>73</td>
<td>86</td>
<td>117.4</td>
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<tr>
<td>(FOB)</td>
<td>1,199</td>
<td>1,285</td>
<td>1,262</td>
<td>1,442</td>
<td>1,354</td>
<td>93.9</td>
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<tr>
<td>(B)/(A)X</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
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<tr>
<td>Total of imports (C)</td>
<td>129,539</td>
<td>126,408</td>
<td>149,515</td>
<td>187,354</td>
<td>210,847</td>
<td>112.5</td>
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<td>Imports</td>
<td>26,222</td>
<td>29,865</td>
<td>37,299</td>
<td>47,342</td>
<td>51,097</td>
<td>107.9</td>
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<tr>
<td>Agricultural, forestry and fishery products (D)</td>
<td>16,763</td>
<td>18,047</td>
<td>21,058</td>
<td>27,391</td>
<td>29,668</td>
<td>108.3</td>
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<tr>
<td>(CIF)</td>
<td>4,518</td>
<td>4,989</td>
<td>7,749</td>
<td>9,017</td>
<td>10,880</td>
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<td>Forestry products</td>
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<td>6,830</td>
<td>8,492</td>
<td>10,934</td>
<td>10,548</td>
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<td>Fishery products</td>
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<td>23.6</td>
<td>24.9</td>
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<tr>
<td>(D)/(C)X</td>
<td>46,099</td>
<td>82,743</td>
<td>79,706</td>
<td>77,563</td>
<td>64,328</td>
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Source: Ministry of Agriculture, Forestry and Fisheries
Appendix B: (Macro-economic Indicators and Other Information)

### Per Cent Change in Annual Gross National Expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>GNE at current prices</th>
<th>GNE at 1980 prices</th>
<th>Implicit deflator of GNE</th>
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<tr>
<td>1982</td>
<td>6.4</td>
<td>5.1</td>
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<td>1983</td>
<td>6.4</td>
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<td>1.2</td>
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<tr>
<td>1984</td>
<td>6.5</td>
<td>4.6</td>
<td>1.4</td>
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<td>1985</td>
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<td>1986</td>
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<td></td>
<td>1.5</td>
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<tr>
<td>1987</td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
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**Source:** Economic Planning Agency
Contributions to Change in Annual GNE at 1980 Prices

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</thead>
<tbody>
<tr>
<td>Domestic demand</td>
<td>3.7</td>
<td>3.8</td>
<td>3.9</td>
<td>5.2</td>
<td>7.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Private demand</td>
<td>3.5</td>
<td>4.1</td>
<td>2.8</td>
<td>5.0</td>
<td>6.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Consum. expd.</td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
<td>2.4</td>
<td>2.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Resid. invi.</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>1.1</td>
<td>0.7</td>
<td>0.2</td>
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<tr>
<td>Non-resid. invi.</td>
<td>1.8</td>
<td>2.1</td>
<td>1.0</td>
<td>1.5</td>
<td>3.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Stock invi.</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.0</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Public demand</td>
<td>0.2</td>
<td>0.3</td>
<td>1.0</td>
<td>0.2</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Gov. consum. expd.</td>
<td>0.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Capital form.</td>
<td>0.2</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Stock invi.</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Net exports</td>
<td>1.3</td>
<td>1.1</td>
<td>1.4</td>
<td>0.6</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Exports</td>
<td>2.9</td>
<td>1.1</td>
<td>1.0</td>
<td>0.7</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Imports</td>
<td>1.6</td>
<td>0.0</td>
<td>0.4</td>
<td>1.3</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Gross national expenditure</td>
<td>5.1</td>
<td>4.9</td>
<td>2.5</td>
<td>4.6</td>
<td>5.7</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Note: 1. Contribution of each item is calculated using the following formula:

   Contribution = (data for the year - data for the preceding year)
   + (GNE for the preceding year) x 100

2. See Note 2 for Table A

Source: Economic Planning Agency

1 = minus

Example: 0.11 = -0.1
### Gross Domestic Product by Kind of Economic Activity

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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(1) Agriculture, forestry and fishing</td>
<td>278,208.9</td>
<td>295,651.4</td>
<td>307,257.0</td>
<td>321,519.0</td>
<td>342,747.7</td>
</tr>
<tr>
<td>(2) Mining</td>
<td>9,625.6</td>
<td>9,798.2</td>
<td>9,546.8</td>
<td>9,308.5</td>
<td>9,325.6</td>
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<tr>
<td>(3) Manufacturing</td>
<td>1,207.6</td>
<td>1,206.0</td>
<td>1,201.2</td>
<td>1,226.4</td>
<td>1,230.1</td>
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<tr>
<td>(4) Construction</td>
<td>88,845.0</td>
<td>94,160.0</td>
<td>96,380.3</td>
<td>99,593.5</td>
<td>106,593.7</td>
</tr>
<tr>
<td>(5) Electricity, gas and water supply</td>
<td>22,437.0</td>
<td>23,433.0</td>
<td>24,827.3</td>
<td>27,344.0</td>
<td>30,835.9</td>
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<tr>
<td>(6) Wholesale and retail trade</td>
<td>42,288.6</td>
<td>43,218.9</td>
<td>43,672.5</td>
<td>45,876.7</td>
<td>46,210.5</td>
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<tr>
<td>(7) Finance and insurance</td>
<td>16,540.5</td>
<td>17,840.8</td>
<td>18,354.4</td>
<td>19,917.1</td>
<td>21,586.5</td>
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<tr>
<td>(8) Real estate</td>
<td>29,204.8</td>
<td>30,997.7</td>
<td>32,895.7</td>
<td>35,557.9</td>
<td>38,060.0</td>
</tr>
<tr>
<td>(9) Transportation and communication</td>
<td>18,718.3</td>
<td>19,531.6</td>
<td>20,146.7</td>
<td>20,990.9</td>
<td>21,925.0</td>
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<tr>
<td>(10) Services</td>
<td>39,685.4</td>
<td>45,214.1</td>
<td>48,618.4</td>
<td>50,243.3</td>
<td>53,138.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Producers of government services</td>
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<td></td>
<td></td>
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<tr>
<td>(1) Electricity, gas and water supply</td>
<td>25,130.5</td>
<td>26,284.5</td>
<td>27,536.9</td>
<td>28,344.0</td>
<td>29,316.8</td>
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<tr>
<td>(2) Services</td>
<td>902.0</td>
<td>970.1</td>
<td>1,042.5</td>
<td>1,127.7</td>
<td>1,285.7</td>
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<tr>
<td>(3) Public administration</td>
<td>10,463.2</td>
<td>10,919.2</td>
<td>11,468.9</td>
<td>11,787.4</td>
<td>13,208.4</td>
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<tr>
<td>Sub-total</td>
<td>30,535.7</td>
<td>33,271.8</td>
<td>35,347.3</td>
<td>37,259.1</td>
<td>42,812.9</td>
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<tr>
<td>Import duties</td>
<td>1,337.3</td>
<td>1,268.1</td>
<td>942.4</td>
<td>1,043.3</td>
<td>1,146.4</td>
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<tr>
<td>Less: Imputed service charges</td>
<td>13,810.9</td>
<td>14,773.5</td>
<td>13,938.2</td>
<td>15,677.3</td>
<td>16,559.8</td>
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<tr>
<td>Total</td>
<td>296,668.7</td>
<td>314,824.5</td>
<td>328,440.9</td>
<td>342,116.9</td>
<td>364,067.8</td>
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<td>Statistical discrepancy</td>
<td>1,278.7</td>
<td>1,479.2</td>
<td>1,583.5</td>
<td>1,305.3</td>
<td>1,018.7</td>
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<td>Gross domestic product</td>
<td>297,947.5</td>
<td>316,303.7</td>
<td>330,024.3</td>
<td>343,422.3</td>
<td>365,086.5</td>
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<td>(cf) Factor Incomes from the rest of the world</td>
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<tr>
<td>(less) Factor Incomes to the rest of the world</td>
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<tr>
<td>Gross national product</td>
<td>298,452.7</td>
<td>317,440.9</td>
<td>331,253.5</td>
<td>345,476.2</td>
<td>367,388.6</td>
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**Source:** Economic Planning Agency
Recent Trends of the Consumer Price Index and the Wholesale Price Indexes in Japan

(Rate of change over the previous period. Unit: %)

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<th>Year/Quarter</th>
<th>Consumer Price Indexes</th>
<th>Wholesale Price Indexes</th>
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<tbody>
<tr>
<td></td>
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<td>Total</td>
</tr>
<tr>
<td>1985</td>
<td>2.0</td>
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<tr>
<td>1986</td>
<td>0.6</td>
<td>9.1</td>
</tr>
<tr>
<td>1987</td>
<td>0.1</td>
<td>3.7</td>
</tr>
<tr>
<td>1988</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>1989</td>
<td>2.3</td>
<td>2.5</td>
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<table>
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<th>Year/Quarter</th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>1989 January - March</td>
<td>10.5 (1.1)</td>
<td>0.5 (0.2)</td>
<td>0.1 (10.1)</td>
</tr>
<tr>
<td>April - June</td>
<td>2.4 (2.8)</td>
<td>2.6 (3.2)</td>
<td>2.2 (2.4)</td>
</tr>
<tr>
<td>July - September</td>
<td>0.1 (2.7)</td>
<td>0.8 (3.1)</td>
<td>0.6 (2.7)</td>
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<tr>
<td>October - December</td>
<td>0.7 (2.6)</td>
<td>10.2 (3.7)</td>
<td>10.4 (2.5)</td>
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<tr>
<th>Year/Quarter</th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1990 January - March</td>
<td>0.2 (3.3)</td>
<td>0.4 (3.7)</td>
<td>0.1 (2.5)</td>
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</table>

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<th>Year/Quarter</th>
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<th></th>
<th></th>
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<tbody>
<tr>
<td>1989 January</td>
<td>10.2 (1.1)</td>
<td>0.3 (10.1)</td>
<td>10.1 (10.4)</td>
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<tr>
<td>February</td>
<td>10.3 (1.0)</td>
<td>0.3 (0.3)</td>
<td>0.2 (0.0)</td>
</tr>
<tr>
<td>March</td>
<td>0.5 (1.1)</td>
<td>0.2 (0.5)</td>
<td>0.1 (0.1)</td>
</tr>
<tr>
<td>April</td>
<td>1.8 (2.4)</td>
<td>1.7 (2.5)</td>
<td>1.8 (2.2)</td>
</tr>
<tr>
<td>May</td>
<td>0.6 (2.9)</td>
<td>0.7 (3.4)</td>
<td>0.2 (2.5)</td>
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<tr>
<td>June</td>
<td>10.1 (3.0)</td>
<td>0.7 (3.7)</td>
<td>0.1 (2.5)</td>
</tr>
<tr>
<td>July</td>
<td>10.2 (3.0)</td>
<td>0.0 (3.1)</td>
<td>0.4 (2.7)</td>
</tr>
<tr>
<td>August</td>
<td>10.1 (2.6)</td>
<td>0.0 (3.0)</td>
<td>0.1 (2.8)</td>
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<tr>
<td>September</td>
<td>0.9 (2.6)</td>
<td>0.4 (3.3)</td>
<td>0.1 (2.7)</td>
</tr>
<tr>
<td>October</td>
<td>0.8 (2.9)</td>
<td>10.6 (3.3)</td>
<td>10.4 (2.6)</td>
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<tr>
<td>November</td>
<td>11.0 (2.3)</td>
<td>10.1 (3.8)</td>
<td>10.1 (2.5)</td>
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<tr>
<td>December</td>
<td>0.1 (2.5)</td>
<td>0.1 (3.9)</td>
<td>0.0 (2.5)</td>
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</table>

<table>
<thead>
<tr>
<th>Year/Quarter</th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 January</td>
<td>0.2 (3.0)</td>
<td>0.1 (3.7)</td>
<td>0.0 (2.6)</td>
</tr>
<tr>
<td>February</td>
<td>0.3 (3.6)</td>
<td>0.1 (3.5)</td>
<td>0.1 (2.5)</td>
</tr>
<tr>
<td>March</td>
<td>0.4 (3.5)</td>
<td>0.7 (3.9)</td>
<td>0.1 (2.5)</td>
</tr>
</tbody>
</table>

**Note:**
1. Figures in the parenthesis are the rates of change over the same period of the previous year.
2. Total wholesale price consists of domestic price, export price and import price.

**Source:** Consumer Price Indexes - Management and Co-ordination Agency
Wholesale Price Indexes - Bank of Japan
### The Trend of General-Account Expenditure and General Expenditure

*(Initial Budget)*

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<th>(FY)</th>
<th>Amount</th>
<th>Percentage change</th>
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<td>496,808</td>
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<td>503,796</td>
<td>1.4</td>
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<td>1984</td>
<td>506,272</td>
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<td>1985</td>
<td>524,996</td>
<td>3.7</td>
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<tr>
<td>1986</td>
<td>540,886</td>
<td>3.0</td>
</tr>
<tr>
<td>1987</td>
<td>541,010</td>
<td>0.0</td>
</tr>
<tr>
<td>1988</td>
<td>566,997</td>
<td>4.8</td>
</tr>
<tr>
<td>1989</td>
<td>604,142</td>
<td>6.6</td>
</tr>
<tr>
<td>1990</td>
<td>662,368</td>
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*Source: Ministry of Finance*
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**Source:** Bank of Japan
### Japan's Financial Resources Flow of Last Ten Years

#### (Net Disbursement Basis, $'000,000)

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<td>Grant assistance</td>
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<td>805</td>
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<td>763</td>
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<td>1,788</td>
<td>2,207</td>
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<td>As percentage of GNP</td>
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<td>(0.32)</td>
<td>(0.28)</td>
<td>(0.28)</td>
<td>(0.28)</td>
<td>(0.32)</td>
<td>(0.34)</td>
<td>(0.29)</td>
<td>(0.29)</td>
<td>(0.31)</td>
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<tr>
<td>(Average of DAC countries)</td>
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<td>(0.38)</td>
<td>(0.35)</td>
<td>(0.38)</td>
<td>(0.35)</td>
<td>(0.38)</td>
<td>(0.36)</td>
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<td>1. Export credits (over one year)</td>
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<td>823</td>
<td>1,410</td>
<td>649</td>
<td>472</td>
<td>493</td>
<td>-152</td>
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<td>2,095</td>
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<td>380</td>
<td>-1</td>
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<td>1,410</td>
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<td><strong>III. Private flows (PF)</strong></td>
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<td>1. Export credits (over one year)</td>
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<td>2,151</td>
<td>6,644</td>
<td>8,022</td>
<td>9,586</td>
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<td>2. Direct investment and others</td>
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<td>74</td>
<td>712</td>
<td>-1,762</td>
<td>-2,069</td>
<td>-655</td>
<td>-994</td>
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<td><strong>IV. Grants by private voluntary agencies</strong></td>
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<td>41</td>
<td>101</td>
<td>82</td>
<td>92</td>
<td>107</td>
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<td><strong>Total official and private voluntary agencies</strong></td>
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<td>6,766</td>
<td>12,231</td>
<td>8,889</td>
<td>7,896</td>
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<td>11,619</td>
<td>14,578</td>
<td>20,462</td>
<td>21,423</td>
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<tr>
<td>As percentage of GNP</td>
<td>(0.76)</td>
<td>(0.66)</td>
<td>(1.08)</td>
<td>(0.82)</td>
<td>(0.67)</td>
<td>(0.93)</td>
<td>(0.87)</td>
<td>(0.74)</td>
<td>(0.85)</td>
<td>(0.75)</td>
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<tr>
<td>(Average of DAC countries)</td>
<td>(1.17)</td>
<td>(1.04)</td>
<td>(1.25)</td>
<td>(1.15)</td>
<td>(0.91)</td>
<td>(1.00)</td>
<td>(0.54)</td>
<td>(0.63)</td>
<td>(0.56)</td>
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**Note:** As the figures in the table are rounded off they do not necessarily add up to the totals.

**Source:** Ministry of Foreign Affairs
APPENDIX C

Japan External Trade Organization and its Activities

(1) Outline

Japan External Trade Organization (JETRO), a special corporation fully funded by the Government and instituted under the Japan External Trade Organization Law, conducts varied activities for trade promotion. It has thirty domestic offices including the headquarters in Tokyo and seventy-seven offices in fifty-seven countries overseas.

Since its establishment in 1958, JETRO, whose main objective was to promote export, had been engaged in such activities as research, trade fairs, and intermediary services in trade transactions. To respond to changes in Japan's international economic environment, however, the organization has substantially altered its activities since the early 1970s. It has shifted its focus of operations to the promotion of imports from industrialized as well as developing nations, and to the enhancement of international exchanges with various foreign countries.

Since the beginning of the 1980s, JETRO has, in view of Japan's trade surplus, been carrying out activities to further promote imports with the aim of maintaining the free-trading system through balanced trade expansion. It is also making efforts to promote industrial co-operation including investment and technological exchanges with European and American countries. At the same time, it is endeavouring to expand its conventional programmes towards developing countries by engaging in activities that would contribute to fostering their small medium businesses and to developing products for their export, as well as co-operating with them to promote industrialization.

Recognizing the urgent need for Japan to increase imports in order to firmly uphold the free-trading system, the Government has earmarked a combined total of US$100 million in its fiscal 1989 supplementary budget and the fiscal 1990 budget for import-promotion programmes. This step was taken to improve JETRO's import-promotion operations.

(2) Operations JETRO

(i) Import-promotion activities

(a) Information services to overseas (providing information material on Japan's import system, trends in different commodity markets, etc.);

(b) organizing various import trade fairs in Japan;

(c) trade consultancy and counsellings (counsellings on exports to Japan, handling inquiries on exports to Japan, organizing seminars for promotion of exports to Japan, etc., at its overseas offices);
(d) sending and receiving missions (despatching import-promotion missions, receiving missions for promoting exports to Japan);

(e) building an information network for import promotion; and

(f) ending specialists to European countries and the United States to explore prospective products for export to Japan, etc.

(ii) Promotion of exchanges in investment and technology

(a) information services (research on investment environment in foreign countries, introduction of new Japanese technologies, information on investment environment in Japan, etc.);

(b) intermediating specific business matters (counselling and mediation for Japanese and foreign companies desiring technology tie-ups); and

(c) sending and receiving missions (despatching and receiving investment-exchange missions), etc.

(iii) Co-operation in economic development and trade promotion of developing countries

(a) fostering local medium and small businesses;

(b) co-operation in development of export products;

(c) information service on Japanese markets;

(d) organizing import trade fairs; and

(e) personnel exchanges, etc.