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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the discussion, the Chairman noted that the report by the Government of Japan was contained in document C/RM/G/8 and the report by the Secretariat in documents C/RM/S/8A and 8B. The report by Japan followed the outline format for country reports agreed by the Council in July 1989 (L/6552). The Secretariat report followed its usual format, and in line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Japan on its trade policies and practices, as far as the factual information contained in the first six Chapters of its report was concerned.

2. Advance notice in writing of points raised by a number of contracting parties had been passed to the Japanese delegation.

3. The Chairman expressed appreciation for the assistance given by the two discussants. For the review of Japan, Ambassador William Rossier would open the discussion, and Mr. Elbio Rosselli would subsequently make additional remarks.
II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF JAPAN

4. On behalf of the Japanese government, I would like to welcome the opportunity given to us at this Special Council Meeting to review our trade policy for the first time. Let me first extend our sincere appreciation to the Secretariat for the cooperation and support it has rendered us in the process of this undertaking. We believe that the comprehensive and informative report prepared by the Secretariat, together with our own full report, will enhance understanding of the contracting parties on Japan's trade policy, practices and its background. While we applaud the excellent quality of the well-prepared report by the Secretariat, we feel it necessary to point out that we do not share the view of the Secretariat on some of the descriptions and observations in the report. We will submit to the Secretariat in writing a list of the important points on which we hope that due adjustment is made when the report is formally published. I should also like to thank both Ambassador Rossier and Mr. Rosselli who, as discussants, have undertaken the important task of leading our discussions this afternoon.

5. Japan's trade policy and its philosophy and direction have evolved by taking giant steps in response to Japan's rapid economic development and growing economic changes in the world. However, we are frequently frustrated by criticisms and questions raised on our trade policy or system that appear to stem from a long-outdated perception about us. These experiences support our strong desire for better understanding and up-to-date knowledge of Japan's trade policy.

Basic Objectives of Japan's Trade Policy

6. Since our trade policy and practices are explained in detail in the report submitted by our Government, I would like to underline a few points here, which, in our view, are of particular relevance for other contracting parties in understanding the trend and basic direction of our trade policy.

7. First, I wish to emphasize that Japan is fully committed to the multilateral trading system which is sustained by the General Agreement on Tariffs and Trade. A rapid expansion of Japan's foreign trade under the GATT system has immensely contributed to its post-war economic development and thus to the improvement of the Japanese living standard. Against this background Japan realises that maintaining and strengthening the GATT system is not only in its own interest, but is also its task as a major trading nation. The commitment to free trade and the forestallment of protectionism through a strengthened multilateral trading system form the very basis of Japan's trade policy.

8. In this connection, a brief description of how these basic objectives are pursued in individual policies may be worthy and relevant. Japan limits government intervention in import/export transactions to the bare minimum. Also, Japan has implemented a series of measures for improved market access, which are intended to achieve a level of openness exceeding international standard. We are confident that through these measures the openness of our market compares favourably with other markets abroad. For
example, we consider, therefore, that the existing standards and certification system and other trade-related regulations no longer discourage activities of the private sector, prevent the entry of foreign firms into the Japanese market, or restrict competition from overseas.

9. We have taken a number of measures which are intended to respond effectively to the changing economic environment. They include measures to ease regulations to promote competition in the domestic market, measures to promote smooth transformation of industrial structures, and measures to extend assistance to regions suffering high unemployment rates. These measures are all taken to reinforce the mechanism for industrial structural adjustment so that labour and capital are transferred from relatively less competitive industrial sectors to more productive ones. I wish to stress here that in taking all these measures, we have not resorted to any protectionist measures.

10. Japan has also made every possible effort to improve market access for agricultural, forestry and fishery products in spite of domestic difficulties in these fields. As a result of such endeavours, Japan has become the world's biggest net importer of agricultural, forestry, and fishery products. I would like to emphasize that Japan's self-sufficiency ratio of food has dropped to 49 per cent on a calorie basis which is the lowest level among developed countries. In addition, we have been making policy efforts to control production of certain agricultural products which tend to be over-produced, and extensively streamline and rationalize subsidies to these industries.

11. On the international stage, Japan has, since its accession to GATT in 1955, contributed to the liberalization of world trade through active and full participation in the past rounds of multilateral trade negotiations. Japan regards the Uruguay Round negotiations as a top priority issue of Japan's foreign policy. With respect to international arrangements on foreign trade, Japan attaches utmost importance to the multilateral free trading system under the GATT. Japan has been a signatory to the GATT Codes concluded during the Tokyo Round negotiations. Under the Japanese Constitution, obligations under the General Agreement and other GATT Codes supersede any domestic law. Furthermore, it should be noted that Japan strictly abides by the m.f.n. principle, and it does not form any free trading zone or customs union with any country. It has not granted any specialized preferences to any country or region other than those covered by the GSP.

Implementation of Trade Policy

12. Since specific measures of our trade policy are covered in our own report, I would like to refer to the following two points, which both reflect the views of my Government on GATT rules.

13. First, Japan has never invoked any anti-dumping measure, countervailing duty or safeguard measure. This record is the accumulation of judgement in each individual case, but behind these judgements lies the fact that the Japanese Government attaches great importance in dealing with
trade matters to the "rule of law" and, it therefore applies GATT rules in a very strict and rigid manner. Another underpinning recognition is that, whereas invoking such regulatory measures is permitted under the GATT, some countries have opted to easily give in to protectionist pressures, and these precedents made it extremely difficult for countries to resist effectively political pressures for protectionism. Such recognition is derived from our own experiences where we were directly and adversely affected by the arbitrary application of GATT rules, in other words, clever misuse of GATT rules by others. This is the reason my Government has been stressing the importance of reaching an agreement on the clarification and strengthening of GATT rules in the current Uruguay Round Negotiations.

14. In this connection, let me say a few words about the often cited, but misconceived notion of the "administrative guidance". Unfortunately this notion is often viewed by our trading partners as a form of enforceable instructions by the Government to the private sector for their compliance with certain government policies. This is wrong. To the contrary, the administrative guidance is merely a recommendation of the Government to the private sector, in line with policy objectives without any enforceable element. It is given in writing as much as possible.

15. The second point on the implementation of Japan's trade policy relates to our voluntary export restraints.

16. Voluntary restraints on exports have been introduced when there is an imminent danger of the importing country resorting, for a political reason to import restrictive measures that GATT does not allow. And, in taking voluntary restrictive measures, there is an agreement or understanding with the importing country that these voluntary restraint measures are taken as urgent, exceptional and temporary measures to help the importing country to return to free trade. In other words, we use voluntary restraint as the last resort. And by doing so, we believe it has contributed to defusing the danger of erosion of the GATT system.

17. Furthermore, what is even more fundamental and important is that GATT does not provide for any effective means to counter strong political pressure from the importing country calling for some sort of export restraints. It also relates to the fact that the voluntary export restraints on specific trade items have been in place over a considerable period of time. It should be noted that one of the reasons that these restraints have been long in place is that there was no guarantee that the importing country would not take unilateral protectionist measures when the voluntary restraints are lifted.

Regarding external imbalance

18. One of the main points of interests for contracting parties in Japan's trade policy review may be with regard to how Japan is addressing the issue of its external imbalances. This, of course, is one of the most important tasks in our economic policy. Our basic approach is to maintain the co-ordination of economic policy with other major industrialized countries. At the same time, we intend to continue our efforts in
transforming our economic structure into one that is led by domestic demand and that is more harmonious with the rest of the world economy. In order to facilitate this process, we have been conducting an overall review of our economic and social systems and have been carrying out extensive reforms to encourage structural adjustment. In addition, we have taken measures to improve access to our market and to encourage import expansion. As a result, Japan's imports, especially imports of manufactured goods, have increased remarkably in recent years. The growth of imports from 1987 to 1989 was high at the average of 18.6 per cent while the average growth of exports in the same period was 9.6 per cent. Accordingly, Japan's external imbalance is diminishing and the ratio of our current account surplus to GNP has fallen from 4.5 per cent in fiscal 1986 to 1.9 per cent in fiscal 1989.

Japan-United States Structural Impediments Initiative (SII)

19. I would like to take this opportunity to touch briefly on the final report of the Structural Impediments Initiative or the SII talks between Japan and the United States which was concluded on 28 June 1990. The SII talks were launched to identify and solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustments with the goal of contributing to the reduction of payments imbalances. The final report contains specific efforts and actions by both Governments, but in view of the time I will only refer to the measures to be taken by the Japanese side. Japan will be actively and voluntarily implementing specific measures in the following six areas: namely, saving and investment patterns, land policy, distribution system, exclusionary business practices, keiretsu (associated companies) relationships and pricing mechanisms. Some of the specific measures include: promotion of steady growth in mid- and long-term social overhead capital improvement, promotion of further supply of housing and residential land, effective use of land, improvement of import-related infrastructures, expeditious import procedures, deregulations in the distribution system and improvement in business practices, import promotion such as the introduction of import promotion, tax, more open and transparent keiretsu relationships, promotion of foreign direct investment to Japan, and redressing price differentials between domestic and overseas markets. We believe that the measures to be taken by Japan and the United States in conjunction with the SII talks will benefit not only the two countries but also all trading partners, and will thus contribute to stability and steady development of the world economy. Our Government will be providing necessary information and briefings on the implementation of these specific measures.

Conclusion

20. In concluding, Mr. Chairman, I would like to quote from the statement made by our Prime Minister, Mr. Kaifu, on the occasion of the Informal Ministerial Conference on the Uruguay Round held last November in Tokyo, since I believe that it is the manifestation of our basic recognition of our trade policy. The Prime Minister said, "We in Japan, however, have been continually putting forward a policy based on the market principle, which is the starting point of the GATT. Our experience fully supports the
view that the market principle is indeed the driving force of economic development*. He then said, “We have tried to play our due part in the advancement for the cause of free trade. The result is here to see. We are confident that the openness of our market now compares favourably with other markets abroad. We do not stop there, congratulating ourselves, but we are determined to do more to strengthen the multilateral trading system*. "Policy based on the market principle" and "maintenance and strengthening of the multilateral trading system", as the Prime Minister put them, are the very core of our trade policy and its direction.

21. It is the sincere hope of the Japanese Government that this review will provide an important opportunity to help furthering the understanding by the contracting parties on the basic objectives and the implementation of our trade policy.
III. STATEMENT BY THE FIRST DISCUSSANT

22. Japan has been a contracting party since 1955, and its share in world trade went up from 3 per cent then to 9.2 per cent in 1988. Japan ranks third among trading nations in both world merchandise exports and imports. However, surprisingly enough, Japan's merchandise trade to GDP ratio, equivalent to 17 per cent, is one of the smallest among all GATT contracting parties. Those 17 per cent look at first sight like a misprint considered the successful omnipresence of products "made in Japan" on the world's markets. Japan has been very successful to adapt the basket of exported products by reducing the share of more mature industries such as steel, ships and textiles to more growth-prone industries such as telecommunication, machinery and electronic industries.

23. Since 1986, Japan's imports have expanded more rapidly than the dollar value of global merchandise trade. However, during the 1980s, Japan accumulated huge trade and current account surpluses that have been heavily criticized. It would be unfair to criticize the surpluses in general and Japan's success as an exporter. Japan has become the world's most important net capital exporter - the surpluses were used to finance deficits elsewhere in the world as well as important aid programmes. However, the surpluses may be due to the still restricted access to the Japanese market. From this point of view criticism is justified.

24. For a variety of products, tangible progress has been achieved in recent years to improve access to the Japanese markets. However, through import quotas or tariffs, high levels of protection remain for a number of agricultural and industrial products such as coal, leather and textiles. Non-tariff-measures such as standards, import procedures, and administrative guidance (Gyosei Shido) are also affecting trade in both agricultural and industrial products. The following are questions related to these aspects:

- Are there any changes envisaged by the Japanese Government to reduce the level of protection for the remaining hard core products?

- What further steps are considered by the Government to make Japanese standards, import procedures and similar trade policies and practices more transparent and efficient? What attempts are made to reduce trade-related anti-competitive elements in governmental and private trade practices?

- What is the role of administrative guidance (Gyosei Shido) in trade policy? Which government agencies make use of administrative guidance to affect trade flows? What are their objectives? What is its quantitative and qualitative impact on Japanese export and import performance? Since administrative guidance hardly ever takes the form of published guidelines, why is it preferred to more transparent instruments of trade policy?

25. Earlier this year Japan implemented the so-called "Import Expansion Programme 1990" which included the elimination of tariffs on more than
1,000 items. This programme is an integral part of the Japanese-United States "Structural Impediment Initiatives" (SII). Japan has always assured its other partners that benefits resulting from the SII will be given not only to the United States but also - on an m.f.n. basis - to Japan's other trading partners. However, the import expansion programme 1990 and SII in general are tailor-made for the United States trade interests. We therefore ask Japan to lend an open ear to requests made by other, smaller trading partners in the context of the ongoing negotiations of the Uruguay Round.

26. Japan has benefited considerably from the multilateral, rule-based liberalization of world trade and from the opening of other countries' markets. Japan has participated actively in the multilateral trade negotiations under the auspices of the GATT. However, although we recognize Japan's commitment to the multilateral trading system, Japan's attitude with regard to bilateralism is somewhat ambiguous. It has never ceased to criticize severely unilateral, bilateral, or regional approaches to trade. Nevertheless, Japan applies itself a number of bilateral measures, the SII being only one of them. According to the Secretariat, in 1989 12½ per cent of Japan's total exports and almost one third of its exports to the United States were subject to VERs. Japan is not only a victim of such agreements, but also a beneficiary in many cases. The number of VERs has tended to grow over time, and the VERs have tended to remain in effect longer than originally scheduled. In view of the widely recognized importance of Japan as a major economic and trading power, I believe that today's discussions should address this fundamental aspect of the trade policy of Japan which is a major contributor to the success of the multilateral trading system and to the growth of world trade.
IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

27. First, I should like to thank the Secretariat and the Japanese Government for the excellent documentation furnished for this meeting of the Council.

28. In our first statement on Monday, at the start of this series of trade policy reviews, we said that given the objectives of the review mechanism - to improve adherence by contracting parties to the GATT rules and disciplines, to achieve better functioning and transparency of the multilateral system and to review the impact of a contracting party's trade policies and practices on the system - it was often appropriate to formulate questions at the abstract level, regardless of which contracting party was under review, as a way of establishing an intellectual order in the exercise.

29. We said that it was appropriate to consider, in the abstract, which are the principal trade policy measures that a contracting party applies; what are the trends in the application of one or other instrument; what are the patterns of any protection by sector; which factors are behind those levels of protection; the impact of policies and practices on other contracting parties, other trade partners; the degree of transparency of trade policy measures; the relationship between trade policy measures and their contribution to strengthening the multilateral trading system.

30. These questions which can be put in the abstract are obviously of particular relevance when put in relation to the third power in the world from the economic and trade viewpoint, namely Japan. As Ambassador Rossier has pointed out, in the thirty-five years since Japan became a contracting party it has moved into third place among trade partners. Furthermore, and particularly in the course of the 1980s, Japan has undertaken a broad and difficult reform of its trade policies and practices.

31. No doubt this reform process has been encouraged by pressure from outside, but Japan has adopted a broad range of foreign trade liberalization measures, particularly as regards access to its market.

32. A country which ranks third obviously comes under scrutiny and critical thinking on the part of everyone, and it is perhaps in this perspective that we should like to present some remarks.

33. As we have already mentioned, one of the abstract or theoretical questions that can be asked is, for example, what is the nature of protection, whether that protection operates throughout the whole range of a country's activities, or whether there is some degree of selectivity. As may be seen in the reports presented by the Japanese Government and by the Secretariat, Japan's agricultural sector is the subject of a complex set of domestic policies and measures of protection at the frontier which include price support and Government subsidies, restrictive measures and in some cases virtual import prohibitions, together with a major tariff barrier which comprises elements of pronounced tariff escalation, affecting access
to the Japanese market and the allocation of resources within Japan's production structure.

34. Although the share of agriculture in Japan's gross domestic product has declined rapidly, its agricultural output has increased under the cover of major protective barriers. There is a high degree of self-sufficiency for a large number of products, self-sufficiency that, in fact, implies substantial restriction of access. Only relatively few agricultural products or tariff lines are bound in GATT.

35. While one must recognize the very great effort that Japan has been making in recent years in the direction of eliminating and transforming quantitative import restrictions, a substantial number of these are still in effect. It should be underlined that while many of them have been transformed into tariff quotas, these quotas are relatively small and in cases of direct conversion of quantitative restrictions into tariffs, the tariffs are high, varying between 40 and 60 per cent.

36. As one can see, Japan's agriculture as a whole, whether as regards foodstuffs, cereals, livestock, oilseeds, or dairy products, is in fact governed by a system which, though in the process of change and liberalization, is not consistent with the possibilities of access that Japan enjoys in other markets and for other products, nor with the levels of access that could be accepted by an economy as powerful as Japan.

37. In connection with the efforts that Japan has made in the direction of opening its market and increasing its imports, it is important to underline one aspect that Ambassador Rossier mentioned in his opening remarks, namely the consistency of a contracting party's trade policies with multilateralism.

38. It is important to ask, for example, to what extent Japan's market-opening measures are really non-discriminatory; whether, for example, the powerful economic and trade relationship that exists between Japan and some of its trade partners in particular does not in some way imply trade distortion, even though allowing improved access for the products of one or more contracting parties.

39. Furthermore, still in connection with the relationship between a country's trade policies and the multilateral trading system, and in connection with market access, as one can see from the documentation before us and as mentioned by Ambassador Endo earlier this afternoon, while Japan has not invoked any safeguard measures, whether safeguard measures under Article XIX of the General Agreement or protective measures on grounds of unfair trade policies or practices such as anti-dumping measures or countervailing duties, nevertheless Japan has had recourse to grey area measures as regards access to its market.

40. It is a well-known fact that in respect of certain textile imports from China, Pakistan and Korea, Japan has not availed itself of the kind of restrictions permitted under negotiated multilateral instruments to which Japan is a party - in this case the Multi-Fibre Arrangement - but has
preferred to resort to bilateral contacts with these individual countries, and to negotiate with them voluntary restraint agreements in respect of exports by China, Korea and Pakistan.

41. Clearly then, the question one must ask is why Japan has not been able to request certain limitations under an existing arrangement at multilateral level but prefers to resort to grey-area limitations of this kind which are not transparent, are not entirely known, and affect a volume of trade that is not precisely known.

42. Why has Japan not had recourse either to the mechanisms permitted under the General Agreement or to those permitted under other multilateral agreements?

43. Furthermore, and in conclusion as regards grey-area measures, it is quite clear that in the case of Japan there exists a substantial set of voluntary export restraints which have tended to remain in effect for a considerable time; and while we can understand that this can sometimes be the lesser of two evils, one must ask why Japan has not sought to resolve the problem in the context of the General Agreement and what is the attitude of the Japanese Government as regards the possibility of more frequent recourse to the GATT mechanisms, in particular the dispute settlement mechanisms, in order to avoid the pressures that often lead to the acceptance of voluntary export restraints.

44. In this connection, I believe that all the contracting parties recognize as a very positive indication Japan's recourse to Article XXIII of the General Agreement in the case of the screwdriver assembly plants. We hope that this marks a turning point and that the Japanese Government will continue to make fuller use of the GATT mechanisms in all such matters.
V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

45. The representative of the European Communities said that, from a bilateral angle, the Community viewed the fact that it had steadily increased its weight as a trading partner of Japan very positively. In 1989, it had accounted for 17 per cent of Japan's total trade, up from 13 per cent in 1986. On the other hand, the EC's exports and imports to and from Japan had added up to almost 8 per cent of total extra-Community trade in 1989.

46. At the same time, the Community had some serious, continuing concerns about its trade deficit with Japan. This deficit not only seemed to perpetuate itself, but it had also reached a preoccupying size: for the last four years it had gone above 20 billion ECUs, about one third of Japan's trade surplus. Consequently, the Community had been following closely the recent evolution of Japan's external imbalances. The shift from export-led to demand-led growth experienced by the Japanese economy since 1985 had been a first and important step in the right direction. The combination of an expansive fiscal policy, market opening measures, and the substantial and effective appreciation of the yen had had an impressive impact on the Japanese current account. The Community noted, however, its concern about the depreciation of the yen through 1989 and particularly during the first few months of this year, with the potential impact that this might have on Japanese trade.

47. One particularly positive factor in the evolution of Japanese trade had been the increase in imports of manufactured products which had grown to over 40 per cent of Japan's total imports in 1989, from 30 per cent in 1986. However, the difference from the average of 70 per cent for the developed countries could not be explained only in terms of the lack of raw materials and food production in Japan. Taken as a percentage of GNP, the ratio of imports of manufactured goods in Japan was well below that of other industrialized countries. This was an indication that the level of intra-industry exchanges was still inadequate. Therefore, the share of manufactured imports should continue to increase.

48. The Community believed that it would have been instructive to have had some data and analysis on the correlation between production and exports in Japan. There was a wide perception that the export orientation of Japan's economy in the 1960s and 1970s had created many cases of production on a global scale and at a level which many times exceeded the capacity of the domestic market. Contrary to what was taught by the theory of comparative advantage, until fairly recently it had not been materially possible to produce at the global level. The consequences of such production in terms of highly competitive, even aggressive, export sales, with little or no profit in the short term, and their impact on other markets had not been fully foreseen. The Community's representative asked whether the authors of GATT had foreseen that exports of one country might one day take virtually the whole, or even one half, of a domestic market of another country.
49. Turning to Japanese market-opening measures, he welcomed the increases of Community exports which had resulted in certain sectors. The Community welcomed the fact that in certain areas such as wines, alcoholic beverages, and passenger cars, policy changes had produced impressive recent results in terms of increased imports. Perhaps these initiatives, largely the result of external pressures, and the striking success that had followed from them, were the best evidence that there had been indeed much to be done to correct the structural imbalance of imports and exports after the 1960s and 1970s. The Community had had good reasons to have launched the idea of an Article XXIII working party back in 1983 to consider these same issues multilaterally in the GATT. Much still remained to be done; large differentials existed between prices of goods in Japan and other markets, there were still substantial constraints within the distribution system, and standards, certification and import procedures could be simplified further. The Community expected these matters to continue to be among the first priorities of the Japanese authorities. The Community shared the Secretariat's view that Japan's lack of transparency in administering trade-related regulations, partly resulting from the high degree of discretion given to individual Government offices, needed to be changed.

50. The Community had watched closely the Structural Impediments Initiative (SII) talks between Japan and the United States. The EC welcomed the structural reform measures announced, and looked forward to their early implementation. The EC expected Japan and the United States to apply "erga omnes" all the measures contained in the final SII report. Nevertheless, the Community remained seriously concerned with this approach to solving Japanese structural problems and it remained uneasy about the implicit link between this initiative and the utilization of Section 301 of the United States Trade Act.

51. The Community also welcomed the "Comprehensive Import Expansion Measures" recently approved by the Japanese Government. The Community was determined to ensure that the Secretariat's concern that there was the "risk that this approach to import promotion could result in trade distortion" would in fact prove to be unfounded.

52. The Communities' representative commented on positive elements in Japan's trade policy. There was no record of anti-dumping or countervailing action, Article XIX safeguard measures, bilateral textile arrangements to restrict imports, or free-trade area or preferential agreements. There was inevitably a down-side to this picture. Informal methods of settling anti-dumping or countervailing issues, where industry complaints had been subsequently withdrawn, might give satisfactory results; but where this was achieved through administrative guidance or even more informal arrangements, it could be regarded as essentially an arbitrary way of making decisions. The dividing line between import or export cartels, administrative guidance and managed trade was a fine one. Japan was still a net exporter of textiles, and had only in the last few years become a substantial net importer of clothing. Yet, there were no MFA restraints and only moderate tariff levels. One might well wonder what other informal arrangements might exist of which one was not fully aware.
The Community supported the view that more transparency in such areas would be useful.

53. The Secretariat observations suggested that there was a certain contradiction between Japan's consistent support for the multilateral trading system and its readiness to seek solutions for trade problems within a bilateral framework. It was suggested that Japanese trade policy should make a greater attempt to use multilateral procedures. The Community would hesitate to subscribe to this analysis and it would ask itself the question whether this was indeed the attitude of all contracting parties. Japan was, after all, still a very export-oriented economy, and extremely competitive. In cases where this resulted in over-concentration on certain products and in certain markets, a certain prudence on the Japanese part was, in the Community's view, hardly unwise. It was an attitude which offered some advantages to its immediate competitors, whereas a multilateral approach which could lead to import restraints might result in a spoiled market. It was clearly one which had attractions for the importing countries directly concerned. One should not, on this issue, allow academic inclinations in favour of multilateral rules and procedures to lead one into being overcritical of an alternative which had apparently been tried and found to function well. However, some more transparency in specific cases would be helpful.

54. The representative of Chile observed that the share of Japanese imports in world trade was smaller than that of exports, and that Japan had the lowest rate of manufactured imports of all developed countries. This could indicate a high degree of internal protection. Japan's huge current account surplus had implications for interest rates, investment and aid for third countries.

55. He pointed out that Japan employed voluntary export restraints to avoid confrontation with its main trading partners instead of promoting the simple, free and transparent play of market forces.

56. Japan's aggregate level of support for agriculture represented more than his own country's total output. This situation led to extremes, as in the case of rice whose price was 660 times above the world level. Other non-tariff measures, such as different standards, certifications, import procedures, and sanitary and phytosanitary regulations, constituted major obstacles to trade.

57. Precise data on total Government procurement had not been provided. The level of Government expenditures in industrial research and development was much lower than the average for developed countries. His delegation sought clarification on these aspects.

58. He acknowledged that Japan was making serious efforts to liberalize its market, by dismantling distribution and certification procedures, lowering tariffs, bringing norms into line with international standards, and increasing the use of tariffs as instruments to regulate imports. He also noted that close and dynamic cooperation between the Government, Parliament and enterprises was the real basis of Japan's economic system.
and its economic development policies. The fact that the General Agreement stood above domestic laws in Japan was considered as an extremely positive element, as this provided stability for the multilateral system and security for its trading partners. It was also important that the Government of Japan opted for modernization of small and medium-sized enterprises rather than for distortion by means of subsidies to maintain obsolete and inefficient systems.

59. The representative of Chile said that his delegation considered it a very positive element that Japan had not invoked anti-dumping or countervailing duty actions, nor Article XIX safeguard action. However, this might have been possible because it had achieved these ends by other means, including para-tariff measures.

60. He concluded by saying that Japan had areas which other countries should try to imitate, but at the same time other areas in which questionable practices for a country committed to free trade and multilateralism were observed. Chile urged Japan to continue its efforts to liberalize its market and to play its proper role as the world's third largest economic power.

61. The representative of the United States said that Japan represented one of the great economic success stories of the past forty years. GNP growth had slowed somewhat in the 1980s, but Japan had remained the fastest growing major industrial country. Its share of world GNP had doubled since 1960.

62. Japan's exporting success was legendary, even though trade was smaller in relation to GNP than it was for many European countries. Japan's share of OECD exports had tripled since 1960, testimony both to Japanese enterprise and to a favourable global environment for Japanese exporters. Trade and current surpluses had been very large in the 1980s, though falling in yen terms and as a share of GNP after 1986.

63. In the last decade, Japan had become the world's second largest industrial economy, the third largest exporter, and the third largest importer. As Japan acknowledged in its report, the GATT system had provided the environment for these achievements. There were few countries that had benefited as much as Japan from an open world trading system. Such great gains implied a corresponding responsibility to share fully in the work of maintaining an open and stable global trading system. One of the most valuable contributions that Japan could make in this regard was to remove remaining regulatory and institutional obstacles to imports, thereby benefiting not only the world trading system but also Japan itself.

64. The representative of the United States noted that the trade relationship of his country with Japan was one of the most studied, written about of all bilateral trade relationships. This was understandable since the United States was Japan's largest trading partner. He focused his remarks on three principal areas of Japan's trade régime: its export strategy, remaining barriers to market access, and Japan's agricultural policies.
65. Japan's economic success and the vitality of the Japanese economy had in many ways contributed to global prosperity. Yet the Government of Japan had often supported its industry with a particularly aggressive export strategy, characterized by government support, protected home markets, and co-ordination through administrative guidance. Moreover, many U.S. companies had complained about cartel-like practices, which they felt were prevalent among the largest Japanese firms. Now that Tokyo had begun to move away from these practices, the United States called on Japan to acknowledge that this orientation was a thing of the past, and that from this point forward, Japanese companies would sell in their export markets on the basis of fair and open competition, subject to the GATT system of multilateral rules.

66. With regard to foreign access to Japanese markets, Japan had initiated a number of market opening measures in recent years. For example, tariff cuts and tax breaks for importers had been implemented in April of this year in the context of the Import Expansion Plan. In the Structural Impediments Initiative talks, Japan had committed itself to liberalize its distribution system, to tighten enforcement of its anti-monopoly act, and to review traditional business practices to ensure that they did not hinder foreign participation in Japanese commerce. Of particular importance was Japan's pledge to continue efforts to reduce its current account surplus.

67. Although many import quotas had been eliminated and applied tariff rates were low, there were still important sectors where tariffs and quotas were significant barriers to trade. The United States still heard of reports from world-class exporters, and not just from United States exporters, who face great difficulties in penetrating Japanese markets. There were many examples where United States companies consistently outsold their Japanese competitors in "neutral" third markets and yet were unable to penetrate the Japanese market significantly. The United States recognized that this resistance to imports resulted from numerous causes, many of which reflected social traditions that were not directed specifically at international trade. In general, it appeared difficult for newcomers, both domestic and foreign, to enter Japan's commercial system.

68. Standards and certification barriers had been addressed in Japan's Action Programme for Improved Market Access of April 1990. Both Japan's report and that of the GATT Secretariat had noted that this had produced marked improvements in the system. The Secretariat's report, however, pointed out that the Office of the Trade and Investment Ombudsman had received over 400 complaints since 1982, indicating "a considerable lack of transparency in administering trade-related regulations, partly resulting from the high degree of discretion given to individual government offices....". He asked whether this situation reflected a more general problem of a lack of transparency in government regulation of trade and too much discretion allowed to government officials to restrict trade, even where the market was nominally open. He also asked what steps the Japanese Government was taking to correct these problems.
The use of strict government regulation in a manner designed to limit import opportunities had in the past been extremely troubling to many competitive United States exporters. He cited the following examples to describe the problems:

- at one time, United States companies could not sell their baseball bats because they had been decreed unsafe, despite the fact that United States producers were the largest in the world and had sold millions in America;

- United States companies had a problem selling skis because officials had told them Japanese snow was different;

- for years the United States was kept out of Japan's market for tobacco products and alcoholic beverages by government monopolies and other restrictions;

- quotas on beef, citrus and leather products had been equally onerous;

- United States super-computer and satellite industries, the best in the world, had only recently reached agreement to provide greater access in those sectors;

- the United States was a very efficient producer of wood and paper products, and yet they still faced tariffs and standards that limited them to a very small share of Japan's markets.

All of these restrictions had been maintained at a time when Japan's share of the U.S. market in industry after industry - from steel to autos to semi-conductors - had been increasing substantially, and the United States' bilateral trade deficit had been soaring. These practices had led to a high level of frustration among United States industries and created serious strains on the multilateral trading system. Because so many of these restraints had seemed incapable of attack under GATT rules, the pressure for bilateral solutions had understandably increased.

The representative of the United States noted that, after a long period of bilateral tension, many of these practices had been addressed. He agreed with the comment of the representative of the European Communities that where these had been addressed, there had been impressive growth in imports. Others were still awaiting resolution. If faith in multilateralism was to be restored in countries competing with Japan, the Japanese Government must continue its move away from the protectionist policies and attitudes of the past. In short, the United States strongly encouraged Japan, a great exporting nation, to continue its trend toward becoming a great importing nation as well.

Finally, agriculture was an area where much had been done, but where much remained to be done. The Secretariat's report described accurately how Japan had maintained a high degree of protection for its agricultural producers. To restrict import competition, the Ministry of Agriculture,
Forestry and Fisheries, in conjunction with the agricultural cooperatives, used price supports, subsidies, import licensing restrictions, high tariffs, and state trading.

73. The United States saw the folly of agricultural subsidies and protectionism in many nations. The extraordinarily high prices Japanese consumers paid for agricultural products because of these policies were a striking example. Meat, poultry, and even staples such as rice cost far more than in other countries. Major domestic price distortions remained for wheat, barley, corn and sorghum, which severely penalized the end users of these products, including Japan's livestock industry.

74. The United States recognized Japan's concern about food security, but it believed this concern could be addressed in ways that did not close off Japan's domestic agricultural markets to import competition. Perhaps this message was getting across, as there had been some progress in widening market access for imported agricultural products in Japan. The United States called on Japan to reduce and bind its agricultural tariffs, to continue its support for the reduction of global subsidies, to eliminate agricultural quotas, and finally to end its prohibition of rice imports.

75. He added that his foregoing remarks should not obscure the fact that recently, Japan had been pursuing a very positive approach to its GATT obligations. As the TPRM reports noted, Japan was a signatory to all the Tokyo Round Codes, and its tariffs were among the lowest bound in the GATT. While Japan had been the subject of several dispute settlement actions, its prompt and faithful implementation of the panel decisions should serve as an inspiration to those whose hands were not as clean as they should be.

76. Japan could not, however, rest on its close adherence to the GATT, and say, "that is sufficient". Japan was too important economically and its position in the trading system was too large for that. Having become an economic superpower, Japan had a special responsibility to make positive contributions to the health and smooth functioning of the global economy.

77. The United States looked forward to working with Japan to ensure a successful conclusion of the Uruguay Round Negotiations. This would require an extraordinary effort by all parties concerned, and Japan's ability to lead by example would be an important ingredient in the outcome. Japan's leaders, like the leaders of all our countries, must be prepared to make some tough political decisions.

78. In summary, the representative of the United States said that further movement could certainly be made by the Japanese authorities. Japan had taken steps recently to move its trade policy in a positive direction which would, hopefully, lessen Japan's potential for having an adverse impact on the open trading system in future. This trend was seen in the market opening measures undertaken; in the gradual movement away from an aggressive export strategy formerly characterized by protected home markets and co-ordinated government-industry supports; and in Japan's current approach to its GATT obligations and its participation in the Uruguay
Round. Japan's continued adherence to these new approaches would be the measure by which the Japanese economic miracle would ultimately be judged.

79. The representative of New Zealand said that Japan was his country's second largest export market, and also its second largest source of imports. In this perspective, he found this review most useful. As the two discussants had covered points of interest to New Zealand, he only wished to single out two areas for comment from his country's point of view.

80. First, Japan had made real progress in improving access for agricultural products in recent years. Beef and citrus were good examples. However, as the Secretariat report noted, a hard core of high protection remained, covering a broad range of agricultural products. Therefore, while New Zealand agreed that the trend was in the right direction, it was anxious to see the movement extended to all commodities and consolidated, including by an early phase-out of remaining import restrictions. New Zealand looked both to the Uruguay Round and GATT's ongoing activities for progress in this respect.

81. The second point concerned Japan's relationship to GATT. The open multilateral trading system had clearly been a very benign setting for Japan's economic growth, even though the reports well documented the associated "grey-area" pressures on its exports. While New Zealand would be interested in further comments by Japan on the question of resort to bilateral measures on imports, it noted nevertheless the Secretariat's view that Japan had a record of non-recourse to GATT approved temporary measures, including Article XIX safeguard action, which was in striking contrast to the practice of its major trading partners.

82. New Zealand would be looking to Japan in the Uruguay Round for strong support to strengthening the key principles of the multilateral trading system. He welcomed the encouragement given by the representative of Japan in his initial remarks.

83. The representative of Australia noted that Japan was Australia's largest export market and the country with which Australia had a major trade surplus.

84. Japan's development into the second largest industrial power in the world had been characterized by a high degree of government management. Bringing multilateral transparency to bear on this process deserved to be a focus of this review for the following reasons: (i) Japan's management of bilateral relationships, most noticeably with the United States and the EC, and the resulting proliferation of grey area measures; (ii) the nature of the relationship between Government and industry in Japan, which tended to hinder transparency; and (iii) the management of the economy, which appeared to be essentially based on the promotion of growth and the interests of producers. No independent review of policy existed which could assess on a broad level the costs and benefits, including those to consumers.
85. The process of "administrative guidance" testified to the closeness of the relationship between the Government and industry in Japan. He asked how the Government could ensure that administrative guidance did not, intentionally or unintentionally, restrict market access or undermine fair competition. The linkage between administrative guidance and the formation of import and export cartels was noted. The statement that only one import cartel remained did not seem to accord with the experience of Australian coking coal and iron ore producers, who faced increasingly co-ordinated power industry buyers.

86. No mention had been made in the documentation of the role of local governments in the structure of trade policy formulation. Some elaboration of whether there were any constitutional, political or traditional limitations on the central government's ability to control the trade and industry-related actions of local governments would be useful.

87. There were no substantive references to the role of consumer groups. Japan's economic policy objectives had focused strongly on reducing its surplus through appropriate macro-economic policy settings, market opening measures and some deregulatory changes designed to promote structural reform. However, the surplus remained large, and Japanese consumers continued to pay higher than world prices for many products, particularly foodstuffs. Further reform of trade and economic policies in this area should thus be considered.

88. The degree of bilateralism apparent in Japan's trade policies was of concern to Australia. There had been a remarkable tendency to opt for or to accept bilateral solutions to trade problems, such as VERs or import management, particularly in relation to the United States and the EC. Such management of trade amongst the biggest economic powers in the world had severe implications for smaller countries and for the multilateral system generally. On the other hand, Australia welcomed Japan's recent use of the GATT dispute settlement procedures. As one of the major economic powers, Japan should shoulder its share of responsibility for the health of the multilateral trading system by responding to threats of unilateral action by invoking the GATT dispute settlement procedures.

89. Japan's phasing out of import quotas on industrial and agricultural products was, unfortunately, largely a result of bilateral consultations and selective implementation of GATT Panel recommendations. Australia had consistently expressed its interest in the elimination of the remaining restrictions, especially those on dairy products. The Structural Impediments Initiative (SII) talks, while they seemed to be capable of producing interesting and desirable developments, were also a bilateral process. The extent to which any real and lasting reforms arising from SII were implemented multilaterally, on an m.f.n. basis, rather than bilaterally, would be a telling indicator of Japan's commitment to the multilateral system.

90. Australia encouraged Japan to continue implementing macro-economic and structural adjustment policies to reduce its surplus, and to continue to liberalize its trade régime within the GATT system. Despite recent
measures to open up certain sections such as beef, fruit, wines and passenger cars, the level of Japanese protection continued to be high. Japan's merchandise trade to GDP ratio was one of the smallest among all GATT member countries. In addition, no developed country had a lower ratio of merchandise imports to GDP. These broad estimates were suggestive of the high level of protection in Japan.

91. Protection was particularly high in the agricultural sector, largely through the use of import quotas and State trading to protect domestic producers from import competition and to assist price support systems. According to the Japanese Government, aggregate support in agriculture had declined from 5 trillion yen in 1986 to 4 trillion yen in 1989. However, it still corresponded to over 40 per cent of gross agricultural product. Rice was the main problem in this area, but dairy products and fish products were also important examples. Freeing imports in this sector would clearly promote structural adjustment in the Japanese economy and substantially reduce costs to consumers.

92. Japan's level of tariff bindings was quite low, particularly for a major industrial country. Additionally, the existence of four tariff categories and the incidence of tariff quotas and tariff escalation meant that the tariff system was not as stable or predictable as it could be. Quantitative restrictions, standards and certification systems, other import procedures, Government procurement, and import promotion measures all affected imports. They were perceived as trade restricting or impeding by exporters or trading partners and increasingly, by Japanese importers.

93. A number of specific questions relating to Japan's import system, including Government procurement and State trading as well as sectoral issues, would be submitted for follow-up in writing.

94. The representative of Norway, speaking on behalf of the Nordic countries, outlined issues and questions posed to Japan in writing in advance. The first concerned Japan's attitude to the GATT in light of the recent Council decision relating to the Panel report on the so-called "screwdriver" plants. He asked how Japan saw prospects for solving conflicts of interest with other countries when allegations of "screwdriver" assembly investments were made, in view of the conclusions of the Panel report. He also asked whether the use of the dispute settlement system signaled a change in Japanese attitude towards the use of the GATT.

95. The second question related to voluntary restraint arrangements (VRAs). The Nordic countries were interested to know whether successful use of the dispute settlement system would lead to efforts to bring Japan's trade policies more in line with GATT principles through the dismantling of VRAs on exports as well as imports.

96. The third issue concerned the Structural Impediments Initiative (SII). A number of questions had been asked regarding m.f.n. aspects of SII, further details relating to the reforms in the distribution system, and the prospects of Japan's having to look to the co-ordination of its macro-economic policies, should SII measures proved not to be sufficient.
97. The Nordic countries also noted that while the Government of Japan was making what they believed to be sincere efforts to increase imports, the share of imports in Government procurement was very low.

98. Finally, having become the world's largest donor, Japanese official development assistance flows had a substantial impact on world trade. The Nordic countries asked how Japan intended to ensure that major receivers of Japanese ODA had the necessary freedom for the optimal market-based determination of the source of their imports.

99. The representative of Norway concluded by saying that the Nordic countries had noted with great appreciation Japan's very active participation in all Negotiating Groups of the Uruguay Round. Japan's role in the future multilateral trading system would be crucial.

100. The representative of Switzerland posed questions regarding some specific Japanese trade policy instruments. First, in order to understand the functioning of the Japanese tariff system, it would be useful if Japan could explain how decisions to reduce tariffs were taken, and in particular how consumers and importers could pursue their interests in lower tariffs.

101. Secondly, it was not entirely clear how or where final decisions were made to enter into voluntary export restraint (VER) arrangements. She asked whether the Japanese delegation could describe, on the basis of a concrete example, the steps of procedures, the analyses undertaken and the decisions which led to the acceptance of a VER. Other related questions were: who had the final word in the decision; how VERs were administered; and whether export licences issued by the MITI, administrative guidance, export forecasts and others were used for the administration of the VERs.

102. The Secretariat's report contained a brief explanation of the operation of administrative guidance and the recent announcement by the Japanese Government to implement it in writing as much as possible and not to undermine fair competition. She requested the Japanese delegation to be more explicit on the elements and the functioning of the present administrative guidance, and on what would be done to attain the recently announced objectives. Although the Japanese delegation had stated that administrative guidance was a non-enforceable recommendation, she considered that it could imply more than a mere recommendation; the private sector would have a very strong incentive to comply with it to maintain the basis for long-term co-operation with the Government.

103. The representative of the Republic of Korea recognized that given the status and size of Japan's economy and trade, the impact of Japanese trade policies and practices on the multilateral trading system was very important. Such importance became even more pronounced with the leading role Japan played in world monetary and financial arenas, in the advancement of science and technology and in the development of the global economy as a whole.

104. Trade and current account surpluses under the free trading system were nothing wrong and there was nothing to be rectified. However, in the
real world, when the size of surpluses became disproportionate, they could give rise to serious disequilibria in the macro-economic policies of many countries, and, in the trade field, encourage protectionism and trade frictions. In this regard, his delegation welcomed the series of initiatives and efforts made by the Japanese Government in recent years. He noted with particular interest the decreasing trend in the trade surplus during the last three years as a result of such initiatives. Japan merited appreciation for such efforts. It was hoped that these efforts would be continued and achieve the intended objectives and results.

105. Referring to paragraph 387 of the Secretariat report, he noted that medium and long-term reduction of such surpluses would be largely determined by fundamental factors influencing the balance between the traditionally high level of savings in Japan and its investment performance, macro-economic policies and structural policies outside the trade area. Other factors which could be cited included the advancement of industrial technologies and competitiveness of Japanese exports vis-à-vis export products of other countries. In this respect, he asked the view of the Japanese Government about the prospect of Japanese external trade and current account surpluses in the coming years.

106. Japan, unlike other major trading partners, had never taken any anti-dumping, countervailing or Article XIX safeguard actions. His delegation welcomed the statement by the Japanese representative about the background and rationale of such policy. However, taking into account paragraph 389 of the Secretariat report, his delegation wanted to know whether Japan would maintain such a policy and practice without asking for export restraint from exporting countries.

107. Finally, with reference to paragraph 388 of the Secretariat report, he said that it was difficult to believe that bilateral approaches would help the strengthening of the multilateral trading system. His delegation wished to know whether Japan would renounce any bilateral action and uphold the multilateral trading system in the future, in particular in the light of strengthened rules and disciplines after the conclusion of the Uruguay Round.

108. The representative of Canada said that Japan was Canada's third, and almost second, largest trading partner. Developments in Japanese trade policy were of interest to a growing number of sectors of the Canadian economy. Bilateral trade had grown at a very rapid pace over the last ten years. This positive development, however, should not hide the fact that the full potential of Canada's access to the Japanese market had not yet been realized.

109. The reports reflected the dynamics of the Japanese economy, including its ability to adapt to change. The combination of these qualities with the benefits of an open multilateral trading system under the auspices of the GATT had served Japan well. Japan had achieved remarkable economic results in the past few decades. The strong influence of trade on the Japanese economy, as well as Japan's large impact on the world trading system, became evident when examining Japan's policies. The impact of
exports of manufactured goods on its rapid economic growth over the last decades had been substantial.

110. Japan's share of world merchandise imports was well below that of its world merchandise exports. Manufactured products accounted for a low proportion of imports, while tariff escalation in resource-based sectors was high. A hard core of high protection remained, despite tangible progress in improving access to Japan's markets. Canada was pleased that structural and institutional issues were on Japan's trade policy reform agenda along with traditional access measures. He pointed out that there had been criticism, even within Japan, regarding the lack of benefits from the initiatives already taken for Japanese consumers. The slowness of passing on the benefits of a stronger currency through lower prices to the Japanese consumer was one example. He asked whether Japanese trade policy development took into consideration the impact of its policies on Japanese consumers.

111. A unique aspect of Japanese trade policy was the manner in which international trade was managed. He asked how the Japanese Government, being a strong supporter of the multilateral trading system, reconciled this support for the m.f.n. principle with the propensity for bilateral arrangements noted in the Secretariat report. Canada was concerned that such bilateral arrangements could have the effect of distorting trade and investment flows.

112. In the light of Japan's pledge to provide greater transparency, his delegation would welcome an elaboration of Japan's use of administrative guidance in its management of trade. Questions were, for example, how administrative guidance was monitored; what were the "good" reasons for not making such guidances public in certain cases; what were the set procedures for making public those not falling into these cases; whether the agencies and departments which had discretion to use administrative guidance included instructions to use the m.f.n. principle; and what were the relevant domestic laws used by Japan for enforcement of voluntary export restraints on private firms.

113. Canada encouraged the structural reform efforts being undertaken by Japan under the Structural Impediments Initiative talks with the United States. Canada supported measures to promote fairer and freer competition within Japan. Canada's major concern was that actions be taken on an m.f.n. basis in a manner transparent to all Japan's trading partners. Canada encouraged Japan to make its SII progress reports available to all contracting parties. His delegation understood that as a result of the SII a new import board would be created to report to the Prime Minister's advisory council on trade. He asked whether this board replaced the Office of the Trade and Investment Ombudsman, and what remedies would be available to importers and representatives of foreign exporters. He also asked whether the amendment of the Large Retail Stores Law would mean that small retailers would no longer have veto powers. He added that further details on changes involving the Fair Trade Commission would be appreciated, including whether and how consumers might be associated with the review process.
114. With regard to Japan's import expansion program, the representative of Canada asked why there was a need for manufacturing capacity in Japan to exist in order to take full advantage of the tax credit system for imports. This policy might result in the majority of benefits going to Japanese companies, since there would be an incentive for them to increase the level of imports from overseas subsidiaries, while foreign companies working through trading companies, which managed the bulk of Japanese imports, would not benefit as significantly. With regard to financing for manufactured imports by the Export-Import Bank, Canada would be interested in knowing whether this domestic legislation distinguished between the eligibility of companies whose country had balanced or surplus trade with Japan and those countries where this was not the case.

115. Noting Japan's objective of providing a standard of living for farmers at the same level as for other workers, he asked how the fact that less than 20 per cent of farmers were full-time and that approximately 15 per cent (1983 estimate of OECD) of farm household income was agricultural income was factored into policies to fulfil this objective.

116. The representative of Canada pointed out that although neither report had provided much information on fish trade, it was a significant sector for both Japan and Canada. It was time for Japan to eliminate its import restrictions in this sector.

117. Canada was encouraged by Japan's greater interest in the GATT dispute settlement system. Canada urged Japan to use the multilateral instruments at its disposal rather than resorting to bilateral solutions. Japan had become one of the most powerful and influential members of the international trading community. The Japanese Government had supported, from the beginning, a good result in the Uruguay Round and a strengthened multilateral trading system. The trend in Japan, as noted in the reports, was towards a more open market. Canada welcomed this trend and looked forward to leadership from Japan in the GATT in the months and years to come.

118. The representative of Brazil commended the Japanese commitment to free trade and the strengthening of the multilateral trading system. Since its accession to GATT in 1955, Japan had made a number of contributions to trade liberalization, and currently it was actively participating in the Uruguay Round. Japan's contribution to the liberalization of world trade should, however, be commensurate with its position as the second largest economy in the world. In this sense, further trade liberalization, mainly in the area of tariffs, standards, certification and import procedures would be welcome. Brazil hoped that in the ongoing negotiations on market access, Japan could translate its commitments into concrete actions to improve market access further.

119. The declining share of developing countries in Japan's merchandise imports gave cause for concern. Despite Japan's stated objectives, products of interest to developing countries, such as leather, footwear, textiles and clothing, faced high tariffs. In textiles and clothing, Japan had gradually moved away from non-interference in trade flows. Brazil
urged the Japanese authorities to continue to resist protectionist attempts from the textile industry, especially the Japan Chemical Fibre Association. In the same vein, in certain items such as wood products, some ores and metals, and textiles and clothing, tariff escalation was particularly pronounced. Moreover, certain tariff quotas still restrained access to the Japanese market for products of interest to developing countries.

120. The representative of Brazil noted that after the Tokyo Round the Japanese Government had re-examined the list of products whose imports had been strictly controlled. The list had then been reduced to coal and 22 agricultural products. In December 1989, Japan had reduced tariffs for industrial products to an average rate of 2 per cent. There remained, however, trade barriers and subsidies of different nature protecting the local market from foreign competition, in addition to high tariffs for vegetable oils, sugar products, pork meat and poultry.

121. In the negotiations of the Uruguay Round on agriculture, Japan showed a clear preference for the concept of food security, which might prevent minimum market access conditions. Nevertheless, there was room for Japan to import 300,000 to 500,000 tons of rice, and mention had been made in Tokyo of importing such quantities from the United States, Australia and Thailand. Several technical barriers rendered almost impossible the import of some agricultural items into Japan. The import of black beans was restricted to 120 thousand tons per year, and the product could only be imported by trading companies recognized by Government-related institutions. This jeopardised free trade. Apples could not, in practice, be imported into Japan due to severe sanitary regulations. Other fruits were not effectively imported due to the obligation to buy them in pre-established periods, which might not coincide with crop time.

122. The representative of Brazil further pointed to technical barriers imposed by Japan on imports of shoes, which were required to have several width sizes besides the normal length size. Leather goods also faced a too rigid tariff quota régime allowing for very modest quantity increases from one year to another.

123. Brazil recognized that the multilateral trading system owed much to Japan's contribution and support, as demonstrated by the recent Japanese decision to use the GATT dispute settlement mechanism when objecting to the EC anti-dumping regulations on imports of parts and components. Nevertheless, Japan's frequent recourse to voluntary restraint measures on its exports and its attempts to obtain voluntary export restrictions on certain imported textile products had an adverse impact on the trading system. The objective of strengthening the multilateral trading system could only be attained by a firm resistance to accept or adopt grey area measures. Brazil encouraged Japan to pursue with vigour such an objective in the ongoing multilateral negotiations.

124. The representative of India appreciated the fact that unlike many other large trading nations, Japan had not invoked any anti-dumping or countervailing measures, nor taken recourse to Article XIX safeguard actions. India also commended Japan for not having used the provisions
available to it under the MFA for resorting to arrangements to restrict imports of textiles and clothing.

125. He noted, however, that although tariffs on industrial products were low and substantially bound, they were high for a number of products of export interest to developing countries, and some tariff peaks reached 60 per cent. High tariffs were particularly evident in such areas as leather and footwear, jute products, and textiles and clothing.

126. India was also concerned that the share of imports of manufactures from developing countries into Japan was low. The share of manufactures in Japan's total imports was much lower than that for other industrialized countries. It was disturbing to find that the share of Japanese imports of manufactures from developing countries was even lower. According to GATT, *International Trade 1988/89*, Japan's exports of primary products to developing countries in 1988 were US$3.72 billion, while imports from them were US$53.41 billion. On the other hand, Japan's exports of manufactures to developing countries were US$80.50 billion, while imports were US$23.56 billion. He expressed concern that Japan used developing countries primarily as a source for raw materials and that a very significant trade imbalance existed between Japan's exports and imports of manufactured items from developing countries. The coverage of the Japanese GSP was small, and the share of developing countries and their utilization of the scheme, both in absolute terms and percentage terms of the total exports to Japan was rather low. He also said that the complexity of the GSP scheme considerably reduced its value and effectiveness for developing countries. There was need to expand the scope and coverage of this scheme to encourage exports of manufactures from developing countries to Japan.

127. However, his delegation commended Japan for its market opening measures in recent years, measures based on the policy of domestic demand-led growth, related fiscal and other macro-economic policies and structural adjustment programmes. India encouraged Japan to continue to take these measures.

128. In Japan's agriculture, one could find low tariff bindings, tariff escalation and a number of non-tariff barriers such as standards, certifications, and sanitary and phytosanitary regulations. India noted that Japan had begun opening up its agricultural market, and hoped that negotiations in the Uruguay Round would accomplish balanced results, taking into account, *inter alia*, the concerns on food security expressed by the Government of Japan.

129. India welcomed the commitment expressed by Japan to the multilateral trading system and to the rule of law. However, it also noted with discomfort that Japan had succumbed to the pressures of bilateralism, by entering into a large number of VER arrangements. It was a matter of great concern that Japan had also started using such measures in restricting imports of textiles and clothing from some developing countries. India hoped that as a result of the Uruguay Round, Japan would follow the path of multilateralism, in a determined way, both in word and in deed. With respect to the Structural Impediments Initiative talks between Japan and
the United States, India hoped that these negotiations could be conducted in a transparent way, and the results be made available on a multilateral basis.

130. The representative of Morocco noted that Japan appeared to have always been able to adjust itself to changes in its external environment. Japan had thus been in a position to offer very competitive products for export markets, and its trade and current account surpluses had made Japan the first exporter of capital.

131. However, the Secretariat report pointed to Japan's Achilles heel with respect to access to its market. His delegation knew that Japan was aware of the problem, and appreciated Japan's efforts in adopting a series of liberalization measures in respect of the distribution system, discriminatory trade practices, price-fixing mechanisms and so forth. Morocco noted with satisfaction Japan's trade liberalization measures, particularly in the area of leather, vegetables, fruits and other foodstuffs, which were among its main export interests. He also referred to the excellent bilateral cooperation and trade relationship between Morocco and Japan.

132. Morocco was keenly interested in increased flexibility by Japan with regard to technical regulations, and sanitary and phytosanitary regulations. Concerning Japan's rules of origin, he asked what transformation percentages were applied to conventional tariffs, GSP rates and the special scheme for ASEAN members.

133. He asked whether the final report of the Structural Impediments Initiative would be notified to GATT.

134. The representative of Morocco concluded that as a major trading country Japan had a special responsibility, commensurate with its place in world trade, to contribute more to the multilateral trading system. Japan's repeated commitment to the success of the Uruguay Round made his delegation convinced that Japan would do so in the future.

135. The representative of Austria welcomed the trend towards liberalization in the Japanese import system. Austria had benefited from this trend, as its exports to Japan had increased, although at a slower pace than the Japanese exports to Austria. Japan exported 4.5 times more to Austria than Austria to Japan. The widening of this gap was of great concern to his Government.

136. Austria recognized that Japanese tariffs were generally low. However, Austria was concerned that many goods of particular interest to competitive Austrian industries, like winter sports industries, still faced very high tariffs. One example was ski boots. Shoes and some other leather goods were in the same position. In this field, Austria noted a strong Japanese resistance to reduce tariffs and abolish tariff quotas, invoking social, cultural and historic reasons which were difficult to understand when invoked by the third largest economic power in the world.
137. The representative of Austria shared the concerns of those who felt that certain import promotion measures, negotiated bilaterally, were tailor-made for some trading partners. Austria hoped that these measures would be available on an m.f.n. basis, and that the strengthened multilateralism as a result of the successful completion of the Uruguay Round would foster this m.f.n. process.

138. The representative of Thailand said that Japan's economic growth during the past twenty years was undoubtedly one of the amazing stories of the twentieth century. The emergence of Japan as an economic super-power was something nobody could ignore. His delegation fully supported the statement on page 3 of the report by Japan which read:

"Japan perceives that the maintenance and strengthening of the GATT system,... is not only for its own interest but is also its responsibility as a major trading nation in the world."

The GATT system should be for everyone, not just for big nations. Japan's responsibility should include ways to open the markets for goods exported by efficient producers.

139. A small nation like Thailand would naturally seek a model for its development. His country would therefore follow the actions to be taken by Japan upon the completion of the Uruguay Round. In particular, he wanted to know how Japan was going to achieve one of its objectives of stabilizing the supply-demand situation and prices for products under State trading. Thailand also hoped that, after the Uruguay Round, the market access situation for agricultural products in Japan could be significantly improved. More and more contracting parties had begun to understand that the removal of barriers in the case of Japan had not necessarily meant opening of the markets. His delegation was curious to see how the Japanese Government could effectively use its powerful administrative guidelines to make sure that market access was in fact opened.

140. Thailand noted with great appreciation Japan's adherence to the m.f.n. principle. Japan had taken a position that regional trade arrangements which were discriminatory by nature would not be welcomed. Thailand hoped that the preferences provided by Japan to certain trading partners under several bilateral agreements could be extended to other GATT contracting parties as well.

141. His delegation hoped that Thailand would become one of the leading exporters to Japan, and the trade pattern between them would be improved. Thailand's current account deficit with Japan had been the established pattern for many years.

142. Thailand also observed how Japan had been, and would be, responding to bilateral pressures from certain nations. Problems with such bilateral measures were referred to in the report by Japan. Thailand hoped that a super-power like Japan would play a leading role in this area as well.
VI. RESPONSES BY THE REPRESENTATIVE OF JAPAN

143. The representative of Japan thanked all delegations which had actively participated in the review. He had listened to and noted with great care all the comments and questions raised in the course of the discussions. However, listening to them had made him feel that he was still living in the 1970s. With respect to certain technical questions, his delegation would offer answers after clarification with the parties concerned.

Bilateralism and Multilateralism

144. Some delegations had pointed out discrepancies between Japan’s strong commitment to the multilateral trading system and its tendency to deal with trade issues in a bilateral setting. It had also been mentioned that, within the context of the Uruguay Round, Japan had been critical of bilateralism, regionalism, and unilateralism. The heart of the question here was that any final results of bilateral trade talks should be made known to third parties and benefits should be extended to others on an m.f.n. basis. Japan fully subscribed to this idea and believed that Japan had conducted its trade policies on this line. In other words, Japan believed that as long as the application of m.f.n. principles was ensured, the principles of multilateralism and bilateralism could be consistent and complementary with each other.

Voluntary Export Restraints

145. The representative of Japan stressed that the Japanese Government had never been, and would not be, a demandeur of voluntary export restraints. The Government of Japan had introduced voluntary export restraints only as means of urgent, exceptional and temporary relief, and only when there had been an imminent danger of the importing country resorting for a political reason to import restrictive measures. Japan was ready to phase out existing voluntary export restraint measures. However, at the same time, GATT had to be sufficiently strengthened so as to prevent an exercise of unilateral action or threat to use it. Otherwise, the source of voluntary export restraints would not disappear. He noted that GATT had not so far provided a sufficient shield to protect contracting parties from this kind of political pressures.

146. The Government of Japan had never requested other contracting parties to take voluntary export restraint measures, and it had no intention to do so in the future.

Administrative Guidance

147. The representative of Japan observed that administrative guidance had become a kind of myth surrounding the Japanese Government. Various kinds of misunderstanding and misconceptions were derived from it. Administrative guidance was a recommendation made by the Government to the private sector in pursuit of an announced policy approved by the Cabinet or the Minister in charge, and it was left to the private sector whether or
not to follow such recommendation. He believed that the governments of many contracting parties made recommendations of this kind. They might be more effective than those made by the Japanese Government.

148. In operating administrative guidance related to trade, the Government suggested to private firms in a general manner that some prudence should be exercised in exports of products which were sensitive to their trading partners. This suggestion by the Government had no mandatory power to restrict exports by individual firms. In fact, there had been cases where private firms had not followed the administrative guidance or recommendations of the Government.

149. The Government had in recent years encouraged private firms to promote imports. Many private firms knew the Government's policy objectives and had endeavoured to increase imports, including sending missions to promote imports. Japan did not share the view expressed in paragraph 384 of the Secretariat report which suggested that the level of imports could be effectively managed by the Government. The situation was far from that. He also stressed that Japan's import expansion measures were intended to develop imports irrespective of their sources.

150. The Japanese Government had made it a practice to implement its administrative guidance in writing as much as possible, and unless there were good reasons not to do so, such as the possible divulgence of business secrets, to make administrative guidance public when it was implemented.

Dispute Settlement

151. A number of delegations had asked whether Japan would use GATT dispute settlement procedures in the future. Reference had been made to the recent Panel case concerning anti-dumping regulations by a contracting party on imports of parts and components. This was the first case Japan had brought to a Panel as a complainant. However, Japan had invoked consultations under Article XXII.1 and Article XXIII.1 in the past, and it would use the GATT dispute settlement procedures whenever there was a good prospect that specific trade problems could be solved through GATT procedures. For that purpose, Japan continued to participate actively in on-going Uruguay Round negotiations on dispute settlement so that GATT dispute settlement procedures should be improved.

Trade and Development Assistance

152. Replying to a question raised by one delegation on trade aspects of Japanese official development assistance (ODA), the representative of Japan said that since 1978, untying of ODA had been rapidly expanded. In 1988, the share of untied aid in Japan's total ODA had reached 72.8 per cent, one of the highest in the world. Of the grant aid in particular, a scheme to provide about $500 million of non-project type grants mainly for African countries, from 1987 to 1989 had been just completed on an entirely untied basis. This scheme was expanded in scale ($600 million) this year and was now being continued until 1992, equally on an untied basis.
Agriculture

153. He noted that some delegations had expressed the view that some Japanese agricultural products were heavily protected. He wondered how Japan's status in world agricultural trade, namely the largest net importer of agricultural products, could then be effectively explained. Japan's self-sufficiency rate for cereals was as low as 30 per cent on a calorie basis. In the cases of soybeans and wheat, its self-sufficiency rates were only 6 and 17 per cent. Japan, as the largest net importer of agricultural products in the world, was participating actively in the Uruguay Round negotiations for a fair and stable trading system in agricultural products. Japan had made great efforts to stabilize international agricultural trade through a series of market-opening measures in recent years. Japan had also implemented production control and streamlined domestic agriculture without disturbing world markets through export subsidies.

Tariffs

154. Some delegations had indicated high tariffs in certain industrial sectors. His Government was prepared to address this issue in the course of market access negotiations of the Uruguay Round.

SII Talks

155. Finally, the representative of Japan noted many delegations' strong interest in the SII talks between Japan and the United States. Naturally, all benefits resulting the talks would be extended to all third parties. The final report was out and was publicly available.
VII. FURTHER STATEMENTS

156. One discussant noted that contracting parties had given a generally positive reply to the question of whether Japan’s trade and economic policies had been moving in the right direction. Japan was encouraged to continue its policy of removing all existing real obstacles to trade, which were numerous. However, one important exception to this general trend was Japan’s attitude to bilateral solutions for specific trade problems, which operated in parallel to its commitment to the multilateral trading system. Most delegations had touched on this issue. He hoped that the Japanese delegation had registered the concerns expressed in this regard, particularly on the possibility of an extension of recourse to bilateral solutions in preference to the multilateral system, and their strong wishes for Japan to take a more determined attitude to the multilateral trading system. Although the Japanese representative had pointed out a number of criteria to be met for ensuring complementarity between the bilateral and multilateral approaches, this continued to give concern to a number of countries, as some bilateral agreements covered areas where multilateral rules already existed.

157. The other discussant noted the concerns expressed by a number of delegations that Japan, while not using Article XIX, anti-dumping or countervailing measures, had resorted to negotiations or discussions with its trading partners for them to take restrictive measures on their exports to Japan. The cases of textile exports from China, the Republic of Korea and Pakistan to Japan had been mentioned. In view of the response of the Japanese representative in this regard, he asked whether Japan considered the factual information contained in paragraphs 153, 279 and 383 of the Secretariat report erroneous, or whether it opposed the Secretariat’s view. He also asked whether Japan would have imposed limitations on imports from these countries, if they had not self-limited their exports to Japan. As described in paragraph 149 of the Secretariat report, an anti-dumping petition by the Japanese knitting industry concerning knitwear from the Republic of Korea had been withdrawn after the Korean industry association had undertaken to exercise self-restraint on their exports. He asked whether the Japanese Government had explained to the Korean authorities that it was not necessary to impose self-restraint on their exports.

158. The representative of Japan replied that his delegation understood the concerns over bilateralism, and was conscious of the need that any erosion of the multilateral system should be strongly avoided. In this context, the success of the Uruguay Round in setting up an appropriate framework for solving disputes was important. Concerning imports of certain textile products, he reiterated that as far as the Government was concerned, it had never requested other contracting parties to take voluntary export restraint measures, and it had no intention to do so in the future. With respect to the factual description of the cases in the paragraphs 149, 153 and 279 of the Secretariat report, his delegation had no objection. He thought that his statement did not conflict with the factual description.
159. The representative of the European Communities said that his delegation did not share the first discussant’s views about bilateral solutions to trade problems. Bilateralism and multilateralism could go hand in hand. They did not have to be polarized against each other. For example, anti-dumping and countervailing provisions, safeguard and dispute settlement procedures all involved bilateral elements. One should not regard these as polarized and mutually exclusive. In an anti-dumping case, a bilateral solution might be arrived where exporting companies were prepared to give certain guarantees. His delegation thought this a perfectly acceptable solution. What was different in the case of Japanese experiences from those of the EC was that during the process the complaints had been withdrawn. In the case of the EC, complaining industries were certain about their injury and they maintained the complaint, but the Commission afterwards found a different solution. With respect to voluntary restraints in general, he underlined that one should not be overcritical of this method of solving certain problems, for alternative ways might not, in fact, turn out to be better.

160. Responding to points made by the representative of Japan, the representative of the United States said that although his country acknowledged that Japan was the largest single net importer of agricultural products, this fact could not be used to argue that there was no need for greater trade liberalization. If that were the case, the United States, being the largest single importer of textiles, clothing and footwear, would not find itself facing demands for greater liberalization in the Uruguay Round. There was no complete defence against demands for liberalization even in the field of agriculture. The United States recognized that concerns such as food security would be raised. He had heard that some people in his country had raised national security concerns in the area of textiles and footwear, arguing that no army could march without clothes and shoes. In an inter-dependent global economy in which Japan was a chief beneficiary, Japan must provide further access opportunities in areas where others had comparative advantages. The United States would continue to press for liberalization in those areas.

161. Japan’s response concerning the question of administrative guidance had not been entirely convincing. He thought that the Japanese statement did not completely reflect the true relationship between the Government and the private sector. Recently, the President of a large company in Japan had stated that he listened to the MITI very carefully. This statement reflected the strong cooperative relationship between the Government and the private sector, which had both positive and negative aspects.

162. Administrative guidance and "visions" provided by the Government often formed the basis for collective activities by a number of companies in Japan which might be detrimental to the interests of new entrants into the field. They did not entirely exclude foreign participation; there were in fact many sectors in Japan where foreign firms had been successfully established. However, these activities tended to exclude outsiders, both Japanese and foreign, who had not become part of the established collection of firms operating in that field. These practices by firms in Japan gave rise to an enormous controversy, particularly
because the GATT itself did not deal with the question of relative differences between nations in their competition policies. It was becoming a matter of great concern to United States and other firms which were highly competitive in comparison with Japanese firms. In the past, the enforcement of the Anti-Monopoly Law in Japan had been quite lax. No plaintiff had ever succeeded in obtaining the reimbursement of its damages under the two provisions of the Law that permitted private actions against monopolistic acts. Where there had been findings of bid-rigging and price-fixing by Japanese companies, the amount of fines imposed by the Government had been substantially less than the profits received from these actions. The existence of problems arising from relative differences in anti-competition practices had to be acknowledged, if the problems were not to be solved through the only available measures such as border measures, voluntary restraints, or other bilateral solutions. Some credence should be given to these concerns about private firms' competition policies and practices. While recognizing the difficulties of the issue, the United States would continue to press for further transparency and further enforcement by the Japanese Government in this field. His delegation considered that the recent conclusion of an understanding in this area by Japan was positive and helpful.

163. The representative of Japan, commenting on the question regarding administrative guidance, stressed that the Government did not, and could not, actually instruct the private sector to do or not do something by way of administrative guidance. Myths to the contrary had been created over the years, and they gave rise to misunderstandings. When the Japanese Government pledged that it would make every effort, one should not jump to the conclusion that the Government could attain its objectives through administrative guidance.

164. With respect to the question regarding new entrants into the Japanese market, the representative of Japan said that it was a natural tendency for successful companies not to want to reveal their experiences and secrets, and for losers to raise their voices of complaints. The successful firms might not say that it had been easy to penetrate into the market, but in fact there were many foreign firms which had successfully settled in Japan. The situation therefore had to be looked at in a balanced perspective.

165. The representative of the Republic of Korea, referring to the statement of the representative of the European Communities that bilateralism and multilateralism could go hand in hand, pointed out that the anti-dumping, countervailing and safeguard procedures which the Communities representative had referred to as examples were bilateral procedures under the General Agreement and GATT Codes. However, the bilateralism in question here concerned grey area measures such as VERs which were discriminatory and therefore not compatible with the multilateral trading system.

166. The representative of Australia thought that some of the remarks made by the representative of Japan begged the question whether the answers to other questions were related to Japan's trade policies or to the multilateral trading system itself. In this respect, the observation made
by the representative of the European Communities about bilateralism and multilateralism was interesting, as it begged the question whether, in the light of the Japanese record, some of the cases referred to were indeed imperfections of the multilateral trading system which participants in the Uruguay Round were seeking to do away with. Therefore he thought that the examples would not address the "isms". He said that a small country like Australia had an entirely different perspective of what lay ahead in the grey area.
VIII. CONCLUDING REMARKS BY THE CHAIRMAN

167. The aim of the reviews undertaken in the framework of the Trade Policy Review Mechanism is to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In these closing remarks, I do not wish to substitute for the appreciation made by the Council of Japan's trade policies and practices, but rather, on my own responsibility, to bring out some of the salient points that have been made in this review.

168. Council members noted the dynamic long-term development of the Japanese economy and the process of structural change it had undergone. These had brought the country among the top three trading nations. Japan's trade to GDP ratio had nevertheless remained low, partly because of the less rapid growth of imports than exports up to the second half of the 1980s. This had resulted in vast trade and current account surpluses. Japan had become the world's foremost exporter of capital.

169. Council members welcomed the positive trend of Japan's trade policies which had become pronounced since the mid-1980s and which was to be seen in the context of Japan's efforts to reduce its huge trade and current account surpluses. Until the recent depreciation of the yen, exchange rate movements had contributed to reducing the surpluses. Members commended the Japanese Government for addressing the external imbalances through a combination of macro-economic measures, particularly policies promoting domestic demand-led economic growth, and trade liberalization.

170. Tariffs on several industrial products had been lowered in recent years, and, by now, most tariffs on industrial products were bound at relatively low levels. Quantitative restrictions on several agricultural products had been removed. Steps had been taken to reduce adverse effects on trade of a broad range of other non-tariff measures. The degree of openness of the Japanese market to international trade had thus improved. This had resulted in large increases in imports of liberalized products.

171. Council members noted the strong support of the m.f.n. principle expressed by Japan. Japan was not a member of any regional trade agreements and extended no preferences other than those under the GSP. It was a signatory to all MTN agreements. Japan had not taken any Article XIX safeguard action, nor engaged in anti-dumping action or imposed countervailing duties. Japan did not restrict imports of textiles and clothing under the MFA. Japan's commitment to the multilateral trading system was demonstrated by its active participation in the Uruguay Round.

172. While appreciating these features of Japan's trade policies and practices, members of the Council expressed their concerns in a number of areas. They included:

(i) The apparent lack of transparency in the administration of Japan's trade policies. In this connection, it was suggested that individual government offices enjoyed a high degree of
discretion in administering trade policies. More information was sought on the operation of administrative guidance, export restraints and import approval procedures. Members also queried the rôle of local government in policies affecting trade.

(ii) Reference was made to the difficulties experienced by foreign suppliers in establishing their products on the Japanese market because the anti-competitive practices of certain Japanese firms were not adequately addressed.

(iii) The continuing high level of support for agriculture. The level of protection was particularly high for products such as rice, dairy products and fish through tariffs, tariff quotas, import quotas, State trading, sanitary and phytosanitary regulations and other non-tariff measures. The level of tariff bindings for agricultural items was low, reducing the predictability of access to the Japanese market. The high cost of protection to consumers was reflected in high prices for food products.

(iv) The low level of intra-industry trade. It was noted that the share of manufactures in Japan's imports was much smaller than in other industrial countries.

(v) The trade restrictive effects of high tariffs for leather, footwear, jute products, textiles and clothing; import quotas on coal and some other products; and the low import content of government purchases.

(vi) Tariff escalation, especially between unprocessed and semi-processed products, for a large number of agricultural and resource-based products as well as for industrial products of particular export interest to developing countries.

(vii) The approach made by the Japanese Government, in close cooperation with the private sector, to the promotion of exports.

(viii) Frequent recourse to various forms of "grey area" measures, such as voluntary export restraints, for a number of more traditional manufactured products. Japan had also recently asked certain developing countries to restrain their textiles and clothing exports to the Japanese market. Some members noted that Japan's readiness to accept requests for export restraints from its trading partners, or to ask partners to take such measures, could weaken the multilateral trading system.

(ix) The developing countries' declining share in Japan's imports
and the low share of imports of manufactures from developing countries. The limited coverage of the GSP scheme was also noted.

(x) Complex standards, health and sanitary regulations, certification and other import procedures, as well as various public regulations on the distribution of goods and services. Despite encouraging progress, these were seen to be continuing to impede trade in both agricultural and industrial products. There was also continuing lack of transparency in these areas.

(xi) The inadequate representation of consumer interests in the formation of trade policies. The lack of information could prevent the costs and benefits involved in trade policies being fully apparent to Japanese consumers.

173. Several Council members observed a propensity by Japan to deal with trade issues in the context of bilateral trade relations, and to work out solutions designed to meet the particular needs and concerns of its major trading partners. Some members noted that there would be a rôle for bilateral solutions in dealing with trade problems. At the same time, it was suggested that, by taking a bilateral route, Japan had not stood firmly against the threat of unilateral action. In this context, information was sought on the outcome of recent talks between Japan and the United States in the framework of the Structural Impediments Initiative. Members urged Japan and the United States to notify these results to GATT. Members pressed Japan to ensure that all trade measures taken autonomously or in the framework of bilateral discussions are applied on an m.f.n. basis to all trading partners. Some members expressed the hope that Japan's recent resort to GATT dispute settlement procedures might signal an intent to follow a more multilateral approach in future.

174. In reply to these questions and comments, the representative of Japan said that he saw a certain gap between the perceptions of Japanese trade policies and practices by some Council members and their reality.

175. Some Council members had seen a discrepancy between Japan's strong commitment to the multilateral trading system and its tendency to deal with trade issues in a bilateral setting. He believed that, as long as the MFN principles were ensured, the principles of multilateralism and bilateralism could be consistent and complementary with each other. Related to this, he emphasized that all benefits resulting from the Structural Impediments Initiative talks would be extended to all third parties. The final report was publicly available.

176. The Government of Japan had introduced voluntary export restraints only as a mean of urgent, exceptional and temporary relief, and only when there was an imminent danger of the importing country resorting for a political reason to import restrictive measures. The Government of Japan had never requested other contracting parties to take voluntary export restraint measures, and had no intention to do so in the future. Japan was ready to phase out existing voluntary export restraint measures if GATT
were sufficiently strengthened so as to prevent political pressure for unilateral protectionist measures.

177. The representative of Japan noted that the share of untied aid in total Japanese official aid was one of the highest in the world.

178. He gave some detail on the operation of "administrative guidance". This measure was merely a recommendation made by the Government to the private sector in pursuit of the announced policy approved by the Cabinet or the Minister in charge. The Japanese Government intended to implement its administrative guidance in writing as much as possible, and unless there were good reasons not to do so, it would make administrative guidance public when it was implemented.

179. The level of imports could not be effectively managed by the Government. However, the Government encouraged private firms to increase imports, irrespectively of their sources.

180. Japan had made great efforts to stabilize international agricultural trade through a series of market-opening measures in recent years, and implemented production controls and streamlined domestic agriculture without disturbing world market through export subsidies. Japan was the largest net importer of agricultural products, a fact hardly supporting the notion of a highly protected agricultural sector. In the context of the Uruguay Round, Japan supported efforts to establish a fair and stable trading system for agricultural products.

181. The Japanese Government was prepared to address the issue of high tariff items in industrial sectors in the course of market access negotiations of the Uruguay Round.

182. As for the comments on dispute settlement, the representative of Japan reminded the Council that Japan, in addition to the recent Panel case, had invoked Article XXII.1 and Article XXIII.1 in the past. He noted that Japan would use the GATT dispute settlement procedures in the future whenever there was a good prospect that specific trade problems would be solved through these procedures. Japan's active participation in the Uruguay Round negotiations in this area were aimed at making the procedures more credible and reliable.

183. Members of the Council recognized Japan's major rôle in global trade exchanges and the great importance of Japan's trade policies and practices for the effective functioning of the multilateral trading system. Many members expressed the hope that Japan's firm commitment to the multilateral system, and to its further strengthening through the Uruguay Round, would lead to a diminished rôle of bilateral or "grey area" measures and greater use of GATT rules and procedures.

184. Council members appreciated Japan's recent efforts towards trade liberalization and to promote imports. They welcomed the assurance that the measures would cover the interests of all trading partners and would be implemented in a non-discriminatory manner. They also welcomed Japan's
continuing efforts to promote the process of structural reform and to address problems in the area of border measures, administrative practices, standards and regulations with a view to achieving a further opening up of the economy to imports.