Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with Japan under paragraph 4(b) of Article XII.

2. The Working Party had before it:

   (a) a basic document prepared by the secretariat in collaboration with the Japanese authorities describing the system and methods of the balance-of-payments import restrictions in operation in Japan. The document also contains a statement under Part II, "Effects on Trade", submitted by the Japanese authorities.

   (b) documents provided by the International Monetary Fund.

3. In conducting the consultation the Working Party followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Japan. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter had transmitted the results and the background material from its consultation with Japan concluded on 16 October 1957.

5. In accordance with the procedure agreed upon by the Working Party the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Japan. The statement made was as follows:
"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Japan under Article XIV of the Fund Agreement, which consultation was concluded on October 16, 1957.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Japan under Article XIV of the Fund Agreement, and particularly to paragraph 2, and to paragraph 4 which reads as follows:

4. The Fund welcomes the fact that Japan, before the balance of payments difficulties set in, made considerable progress in relaxing restrictions and reducing their discriminatory and bilateral aspects. Recently there has been a reduction of exchange allocations for imports. The Fund hopes that progress in reducing discrimination and bilateralism will continue, and that progress in reducing restrictions will be resumed as soon as practicable."

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with Japan. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Japan

6. The full text of the opening statement of the Japanese representative is attached to this report as Annex I, and is summarized in the following paragraphs.

7. The Japanese representative said he would like to make a statement on the basic features of the Japanese economy and on the principles of their import control, to supplement the documentation already circulated. Considering her enormous population, Japan was poorly endowed with natural resources and had to import 100 per cent of her requirements of raw cotton, raw wool, crude rubber, phosphate rock, bauxite and potassic salt, 80 per cent to 95 per cent of sugar, crude oil and iron ore, 60 to 80 per cent of soya beans, wheat, hides and salt. The imports of foodstuffs and raw materials represented more than 70 per cent of total imports. It was accordingly most essential for Japan to promote her exports to pay for imports. Though Japan's production had increased considerably since the war, her exports were still far below their pre-war level. The imbalance between imports and exports had hitherto been covered by receipts from procurements by foreign troops in Japan.

8. The basic trade control policy of Japan was, so far as the economic situation permitted, to pursue the aims of the Foreign Exchange and Foreign Trade Control Law, namely "the proper development of foreign trade and the safeguarding of the balance of payments and the stability of the currency, as well as the most economic and beneficial use of foreign currency funds, with a view to rehabilitating and expanding the Economy". He emphasized the fact that the Law
expressly stated that "the provisions of this law and of orders issued thereunder shall be reviewed with the objective of gradually relaxing and eliminating the restrictions as the need for them declines".

9. During the past few years the Japanese Government has taken measures for trade liberalization including expansion of the Automatic Approval System, enlargement of global quotas, abolition of open account arrangements, reduction in the so-called "retention quota" under the Special Foreign Exchange Allocation System, and simplification of foreign exchange control procedures for visible and invisible trade. These measures had had significant effects in regard to liberalization, and he gave figures to demonstrate these points. The policy of abolishing open account arrangements would be pursued in future, as far as circumstances permitted. Japan tried to accord non-discriminatory treatment to her trade partners; it was hoped that this treatment would be reciprocated. The Link System had now been limited to certain raw materials only.

10. The economic situation had changed in 1957, when Japan found herself confronted with a crisis in the balance of payments, with a deficit of $542 million during January-June 1957. To cope with this situation the Japanese Government, instead of resorting to an intensification of import restrictions, had adopted internal monetary and fiscal measures from March 1957 such as: raising the Bank of Japan's official interest rate, raising commercial banks' lending rates and interest rates on time deposits; restrictions of loans by the Bank of Japan; postponement of 15 per cent of public investment and Government loans; curtailment of loans by commercial banks for private investment; increase of the advance deposit required for obtaining import licences.

11. As these measures would require some time before their effects were fully felt, the Japanese Government had applied to the International Monetary Fund and the Export-Import Bank for short-term credits, and in June a purchase of $125 million had been authorized by the IMF and in August a credit of $175 million had been granted by the Export-Import Bank (of which $60 million was a renewal of the credit for the previous year on revised conditions).

12. Despite the difficulties in the payments position, import restrictions had not been intensified; for the first half of the fiscal year 1957 the amount used under the Automatic Approval System was $447 million (covering 595 items) or 25.9 per cent of the total exchange budget, an increase over 1956 in both the number of items and the percentage of the total amount. For the budget under the Foreign Exchange Allocation System, the amount for global quotas accounted for 67.9 per cent of the total budget for imports, and the amount for single quotas represented 6.2 per cent. Compared with 1956 figures the percentage under global quotas increased, while that for single quotas decreased.

13. The foreign exchange budget for the second half of the 1957 fiscal year showed a slight decrease compared with that of the preceding period. Because of the internal measures taken, domestic production had been gradually declining, and growing stockpiles of imported raw materials, due to a sharp increase in imports in 1956 and the early part of 1957, had resulted in a considerable decrease in domestic demand for imports. The foreign exchange budget for the latter half of 1957 was expected to meet the requirements of domestic industries.
Concerning the prospects for the balance of payments in the immediate future, the Japanese representative stated Japan expected to reach equilibrium in the latter half of the 1957 fiscal year. Exports were expected to expand gradually, as domestic demand fell, and as goods were diverted towards overseas markets. It was hoped that for the next fiscal year, with the continuance of the present tight money policy, equilibrium, or even a surplus, in the balance of payments would be attained, though such forecasts were difficult to make.

The Government was making the utmost efforts to curb an excessive expansion of the economy by tightening credits and curtailing public investment, and it was hoped that further progress would be made towards trade liberalization.

The Japanese representative pointed out that the liberalization of imports would be greatly facilitated if Japan's exports could be expanded. Accordingly, they deeply regretted the fact that more than ten contracting parties were still refusing to apply the GATT provisions in regard to their trade with Japan, thus discriminating against the latter's exports.

In conclusion, he stated he anticipated with confidence that Japan's present difficulties would soon be overcome by their own efforts and by the sincere cooperation of the countries concerned. He emphasized that they intended to continue their efforts, to an even greater degree, towards the relaxation of import restrictions, when the balance-of-payments situation improved.

Balance-of-Payments Situation and Prospects, and Alternative Measures to Restore Equilibrium

Members of the Working Party stated they fully appreciated the fact that Japan had been experiencing balance-of-payments difficulties over the past few months, and they welcomed the reassuring statements made by the Japanese representative concerning the alternative fiscal and monetary measures which had been taken to cope with the situation. It appeared that an investment boom had developed in Japan, and as this gathered momentum, had been accompanied by inflationary pressures. To contain the boom and to try to reach equilibrium the Government had introduced internal measures and it was gratifying to see that this policy had been adopted, rather than one of imposing new import restrictions. The Working Party noted with satisfaction that the Japanese Government had made real progress in relaxing import restrictions and in reducing discrimination, and that their current policy was much more liberal than it had been previously. It would not be appropriate to press too hard for further relaxation of restrictions, but it was hoped that as soon as a position of equilibrium was reached, the Japanese Government would re-examine the position, with a view to introducing further liberalization and non-discriminatory measures and to resuming substantial progress away from bilateralism. There were still distinctions made between imports from the dollar area and elsewhere, and some members wondered whether this distinction, especially in regard to certain raw materials,
was valid or necessary; they hoped that consideration would be given to this particular aspect of import policy. A member asked if the Japanese delegate could give figures showing current gold and foreign exchange reserves as compared with 1954, when Japan was emerging from similar balance-of-payments difficulties.

19. In answer to the last point, the Japanese representative referred to page 48, Table 11, of the International Monetary Fund's background paper for their 1957 consultations, and gave the following information for the months of July and August 1957:

(i) Gold - no change, this figure remaining at $23 million
(ii) US $ -
     July $730 million
     August $702 million
(iii) Sterling -
     July $126 million
     August $135 million
(iv) Open account balances -
     July $274 million
     August $286 million
(v) Total -
     July $1,153 million
     August $1,146 million

In 1954 Japan's total international reserves had been $1,130 million, comprising gold - $21 million, US dollars $685 million, sterling $232 million, and Open Account Balances $192 million. Over the past few years Japan's reserves had been highest in December 1956 with a total of $1,646 million; dollar reserves were also at their highest level - $1,211 million.

20. Commenting on these figures, a member noted that although the level of reserves was approximately the same in August 1957 as at the end of 1954, it was clear from the figures in Tables 9 and 10 of the IMF document that, whereas the level of imports in 1954 had been about $2,040 million, in 1957 they were running at the rate of $3,600 million. Special Government Receipts had fallen progressively over the years - from $602 million in 1954 to $498 million in 1956. These were two developments which seemed to have an important bearing on the balance-of-payments situation.

21. The Japanese representative expressed appreciation of the remarks made in the preceding discussion about his Government's problems and about the internal measures taken. It was recognized that there was some discrimination regarding imports from the dollar area, but Japan had an unfavourable trade balance with that area and had to take that into consideration. In 1955 the unfavourable balance was $113.5 million and in 1956 $80.5 million. For the period January-June 1957 the unfavourable trade balance amounted to $476.8 million.
In every year Japan had a large unfavourable balance with the dollar area, but fortunately they had considerable invisible receipts, mostly arising from special procurements by the United States Army in Japan. The situation was one which made the complete abolition of discrimination very difficult; but when their balance of payments was improving they had tried to relax this discrimination, and would continue to do so as the balance of payments permitted.

22. Members from the dollar area emphasized the fact that they hoped the Japanese Government would, as the balance-of-payments position improved, consider the overall payments and reserve position and not determine their policy by reference to a strictly bilateral balance situation.

23. One member pointed out that Japan was very dependent on imports for her exports, and must increase her exports to obtain equilibrium in the balance of payments. The Japanese Government had adopted an austere internal policy, and it should be remembered that there were still fifteen countries applying Article XXXV of the GATT against Japan. In his view some solution of this problem would have to be found, otherwise Japan could not re-establish a competitive export position.

24. The Japanese representative said he welcomed these remarks; the withdrawal of the application of Article XXXV to Japan by countries concerned was of very considerable importance and significance to his country's trade policy and balance-of-payments position.

25. A member from the dollar area stated that before Japan's balance-of-payments difficulties set in, the trend had been towards elimination of restrictive and discriminatory trade practices, and some relaxation of trade and payments. He wished, however, to express concern that liberalization had not been proportionately extended to certain dollar area goods, and hoped that, as the balance-of-payments position improved, the Japanese Government would reduce discrimination against dollar area goods, particularly those which competed with domestic manufacturers. He also asked if the Japanese authorities expected that the measures taken to reduce overall demand, principally through internal monetary and fiscal controls, would have the effect of reducing the external payments deficit sufficiently so that there would be an approximate balance at the end of the year.

26. The Japanese representative said that they had liberalized imports from the dollar area as well as from other areas; there was still some discrimination: he gave as an example the policy concerning the import of scrap iron; from the sterling and open account areas this commodity was under the Automatic Approval System, whereas for imports from the dollar area it was under the Foreign Exchange Allocation System. In point of fact, however, import figures showed there were considerable quantities coming in from the dollar area. If dollar imports of this commodity were put under the Automatic Approval System, they would be too large as the Japanese users showed considerable preference for imports from the dollar area. Theoretically there was a difference in treatment but actual figures showed dollar imports to be very substantial, and in fact it would seem in this, as well as in some other cases, that there was little or no discrimination.
27. He added that receipts from special procurements by foreign troops might well decrease considerably and accordingly the Japanese Government could not depend on these receipts. The United States Government was making efforts to purchase more under the ICA programme and the Japanese authorities hoped these purchases would increase in the near future. Overall, however, special procurement receipts were likely to decrease, and Japan was therefore trying as much as possible to increase her exports. He assured the Working Party that his Government's policy was, as circumstances permitted, to make every effort to increase liberalization and to reduce discrimination against dollar imports.

28. A member observed that three points seemed worthy of note in relation to the discussion thus far. First, that though Japan was experiencing moderate balance-of-payments difficulties its overall dollar position was strong. Second, that Japan anticipated a decline in foreign government dollar expenditure in Japan. However, the member observed, it was important to focus on the basic problem in Japan - i.e. the balancing of overall demand and supply of resources. If foreign governments reduced their purchases, he said, the resources became available to meet demand elsewhere, and could be exported. This member in making his third point concluded that the most logical way of assuring that these released resources were exported was to maintain their competitiveness through a liberal and non-discriminatory import policy.

29. A member enquired about the outlook for private foreign investment in Japan as one means to augment the foreign exchange position, improve productivity, export-earning capacity and the future balance-of-payments position. Were the Japanese authorities considering any measures to attract foreign private equity capital, and were there any specific sectors of the economy which the Japanese considered to be especially attractive, and if so what special efforts were being taken to obtain such capital?

30. The Japanese representative replied that a law concerning foreign investment had been passed, and special assurances and protection had been provided, so long as the investment would contribute to easing the balance of payments and to the development of the economy.

System and Methods of the Restrictions, and Effects on Trade

31. One member referred to the discrimination applied to the import of certain dollar goods. He recalled the statement by the representative of Japan to the effect that, since substantial imports of scrap iron and certain other goods were permitted under quota from the dollar area, there was little or no discrimination in spite of the difference in treatment under the import control system. While he appreciated the view that the import demand for such goods from the dollar area might justify quantitative controls on balance-of-payments grounds, such controls did constitute real and effective discrimination. In regard to the commodities which had been excluded from the Automatic Approval System when originating in the dollar area - for example, cheese, oats and soya beans - he asked for information concerning the basis on which such items had been so excluded. Had such goods been included under global quotas within the Exchange Allocation System?
32. The Japanese representative referred to his previous remarks concerning the need to distinguish in import policy between certain goods from the dollar, and non-dollar, areas respectively. He used again the example of scrap iron and scrap steel; these, when originating in the sterling area, were under the Automatic Approval System, but from the dollar area were under the Exchange Allocation System; there would appear to be some discrimination, but import figures showed that large quantities in fact came from the dollar area. The reason why the Japanese authorities could not place the dollar goods in question under the Automatic Approval System was that if they did so dollar imports would be greater than their balance of payments could stand; there was a strong preference by manufacturers for dollar goods; heavy increases in dollar imports would disturb Japan's normal trade relations with other areas. The basic reason was the balance-of-payments situation.

33. A member observed that up to June 1957, when applying for import licences, Japanese importers were required to deposit with a bank a bank-guarantee or government bonds amounting to 1 to 5 per cent of the invoice value of the goods concerned. Such a measure was no doubt taken only to keep the number of non-utilized licences to a minimum. Since the date mentioned, important modifications had been introduced, the deposit being increased to an amount which could go as high as 35 per cent, and it had to be made in cash. He called attention to the fact that the discount rate in Japan had gone above 9 per cent. He also observed that, in these conditions, it appeared that a technical measure introduced to make effective the functioning of a quota system was moving towards a mechanism capable of putting a real brake on imports. The freezing, for a relatively long period, of an amount which represented a substantial percentage of the value of the imports increased their cost. It would be interesting to know whether it involved an attempt to introduce a new method of import control or a new type of restriction to be added to those already in force. It would also be interesting to have information about the products to which the highest deposits applied and about the additional burden thus put on imports. It was perhaps useful to draw attention to the fact that this new procedure could have a certain discriminatory effect; it tended to strengthen the natural discrimination resulting from the different distances from Japan of some exporting countries. In the case, for example, of European countries, the Japanese importer would be influenced not only by the higher transport costs but also by the freezing, for a longer period, of his liquid assets.

34. In reply, the Japanese representative stated that the purposes of the advance deposit system were (i) to prevent frivolous applications and the possible loss of confidence in certain Japanese importers by overseas suppliers and (ii) to prevent applications for speculative imports. The system also served as a supplementary measure in the restrictive monetary policy. In May-June 1957 the rate of deposit had been increased, but the objectives were to reinforce the tight money policy adopted since March-April. It was recognized that the deposit requirement had some effect in restricting certain imports; before the rates were raised certain commodities were considered; the highest rate was 35 per cent, the lowest 1; but in most cases it was only 5 per cent.
In raising the rates there was no intention of discriminating in regard to the origin of imports. The main criterion was that of essentiality; 1 to 5 per cent was applied to imports of raw materials; 25 to 35 per cent to imports of less essential or luxury goods.

35. After further discussion of this subject it was agreed by the Japanese representative that he would provide a full list of all goods affected, showing the rate applicable to each.

36. One member enquired about the criteria applied in import licensing policy, in particular about the role of price and quality of imported products in relation to those domestically produced; in other words if the same product was available from either dollar or non-dollar sources did relative prices (import as compared with domestic) play a significant role in import licensing policy?

37. The Japanese representative replied that they had to consider price and quality in formulating their import budget. Concerning the import of raw materials, in drawing up the foreign exchange budget, consultations were held with representatives of the Industry Bureau and with industries. The essential requirements, from the dollar area and elsewhere, were calculated, and then consideration was given to the foreign exchange available. Certain raw materials could be obtained by users from any source, and no doubt they gave full consideration to the questions of price and quality; the Government, in that case, did not consider the price factor, leaving purely commercial considerations to apply. In the case of commodities such as wheat, barley and rice, import was through a Government Agency which worked on the system of tenders, in which price and quality were important factors.

38. In some cases prices of Japanese products were higher than those of import goods, but in licensing policy the Japanese authorities did not give attention to the protective aspect. Balance-of-payments difficulties required that there be import control and some discrimination. Where there was an adequate supply of certain goods from domestic industries, there was little or no need to import them; otherwise the balance of payments would be detrimentally affected. Where imports were regarded as necessary, the Japanese authorities did not consider the domestic industries concerned.

39. Members noted with appreciation that Japan was now tending to rely much less than hitherto on bilateral trade agreements, and hoped that this trend would continue. They noted also that the percentage of retention of certain foreign exchange earnings under the Special Foreign Exchange Allocation System (page 7 of secretariat, Basic Document) had been reduced from 10 to 3 per cent and that the period of utilization had also been reduced; this was an encouraging and welcome sign, and they hoped that in due course the system could be abolished. Members also noted again with appreciation,
the internal fiscal and monetary measures which had been taken by the Japanese Government and again expressed the hope that Japan would continue her efforts towards reducing restrictions and discrimination. It was hoped that such action would include provision for the importation at least of minimum commercial quantities of consumer goods; this would be beneficial not only in exposing domestic industries to competition but also in avoiding unnecessary damage to foreign commercial interests; progressive trade liberalization would ensure not only the avoidance of the uneconomic use of Japan's resources, but also the most effective use of such resources.

40. The Japanese representative stated they were ready to consider carefully all applications for imports of minimum commercial quantities, in order to avoid unnecessary damage to foreign commercial interests, as far as circumstances permitted.

41. The Working Party expressed appreciation of the information given by the Japanese representative, who in turn expressed his thanks for the patience and co-operation of the Chairman and members.
OPENING STATEMENT BY THE JAPANESE REPRESENTATIVE

1. The Japanese Government appreciates the importance of this series of consultations in facilitating better understanding on import restrictions which have still been maintained by so many contracting parties.

We are desirous of cooperating with this Committee to make clear the present system of exchange and trade control in Japan as well as the prospects for reducing the restrictions. As a supplement to the basic document and background paper which covers the balance-of-payments situation and system and methods of the import restrictions, I would like to make a brief statement on the basic feature of the Japanese economy and the principles of her import control.

2. Considering her enormous population, Japan is poorly endowed with natural resources. She must import 100 per cent of her requirements of raw cotton, raw wool, crude rubber, phosphate, mineral rock, beauxite, and potassic salt, 80 to 95 per cent of sugar, crude oil and iron ore, 60 to 80 per cent of soya beans, wheat, hides and salt. The imports of foodstuffs and raw materials represent more than 70 per cent of the total imports. Under these circumstances, it would be no exaggeration to say that her imports affect vitally Japan's economy and her people's living. In other words, it is most essential for Japan to promote her exports to pay for the imports. In fact, however, her exports fall far short of her imports. Japan's production has shown a considerable recovery since the end of the War, while her exports are still far below the prewar level. To take the situation in 1956, industrial production was 220.5 per cent of the average figure of 1934-36 and the volume of imports was 114.4 per cent. Whereas the volume of exports was only 86 per cent, which means that this is the only sector in our economy which has failed to regain the prewar status. It is noted that the imbalance between imports and exports has hitherto been covered by receipts from procurement of foreign troops in Japan.

3. Control of foreign trade and exchange in Japan is essentially based on the economic situation in which this country is placed. The Foreign Exchange and Foreign Trade Control Law, which is the basic law in this field, has clearly stated in its outset that the controls are intended "for the proper development of foreign trade and for the safeguarding of the balance of payments and the stability of the currency as well as the most economic and beneficial use of foreign currency funds, with a view to rehabilitating and expanding the economy." Further, it is expressly stated in the same law that "the provisions of this law and of orders issued thereunder shall be reviewed with the objective of gradually relaxing and eliminating the restrictions as the need for them declines."

It is needless to say that the basic trade policy of the Japanese Government is to pursue such aims faithfully and to enforce this reviewing clause of the same Law. The Japanese Government, as already clarified at
its annual consultations with the International Monetary Fund, has in the past several years taken measures for liberalization of foreign trade and exchange as far as the payments situation permitted and consistent with the most effective use of foreign currency funds.

The measures taken along this fundamental policy included: expansion of the Automatic Approval System; enlargement of global quotas; abolition of open account arrangements; reduction in the so-called "retention quota" under the Special Foreign Exchange Allocation System; and simplification of foreign exchange control procedures for visible and invisible trade. These measures have produced significant effects toward the liberalization. In the case of the budget allocated for the Automatic Approval System, while it was $1,441.3 million in the first half of the fiscal year 1954, covering 335 items and representing 12.8 per cent of the total exchange budget, it expanded to $5,135 million in the second half of the fiscal year 1956, covering 560 items and representing 20.7 per cent of the total budget.

The budget for the Foreign Exchange Allocation System stood at $931.3 in the first half of the fiscal year 1954, of which the single quota budget amounted to $913.2 million and represented 83.2 per cent of the total exchange budget. It increased in the second half of the fiscal year to $1,969.7 million, of which the single quota budget amounted to $387.5 and represented 13.6 per cent of the total foreign exchange budget. These figures indicate the remarkable expansion in the sphere of the Automatic Approval System and great reduction in the single quota budget.

Japan had open Account arrangements with sixteen countries in April 1955, but these arrangements have subsequently been abolished in respect of ten countries including Federal Republic of Germany, the Netherlands, Indonesia and the Philippines, and mutual transactions are conducted in transferable currencies. The policy of abolishing open account arrangements will be pursued in the future as far as circumstances permit. By adopting the system of multilateral payments, Japan upheld the principle of "the same currency, the same treatment" and tried to accord non-discriminatory treatment to her trade partners. We have pursued this course in the expectation that we shall be reciprocated by other countries with equal fair treatment.

The Link System has now been limited to certain kinds of raw materials, and measures for reduction of the rate of the "retention quota" was taken in regard to the Special Foreign Exchange Allocation.
4. The economic situation in my country changed in 1957. We found ourselves confronted with a crisis in her balance of payments, with a deficit of $542 million during the period of January-June 1957. To cope with this urgent situation, the Japanese Government, instead of resorting to measures intensifying import restrictions, has adopted a tight money and fiscal policy since March, 1957.

The principal measures for carrying out this policy were:

(1) Raising by the Bank of Japan of its official interest rate, in March and May.
(2) Raising by the commercial banks of their lending rates and interest rates on time deposits.
(3) Restriction of loans by the Bank of Japan.
(4) Postponement of 15 per cent of public investment and Government loans.
(5) Curtailment of loans by the commercial banks for private investment.
(6) Increase of the advance deposit required for obtaining import licences.

As these domestic measures will require some time before their effects are fully felt, the Japanese Government temporarily applied to the International Monetary Fund and the Export-Import Bank of Washington for short-term credits and, in June, a purchase of $125 million was authorized by the IMF and in August a credit of $175 million was granted by the EXIM, of which $60 million was a renewal of the credit for the previous year on the revised conditions.

5. I would now like to deal with the situation in regard to our exchange budget this year. As to the exchange budget for import for the first half of the fiscal year 1957 which actually amounted to $1,725 million, the amount used under the Automatic Approval system was $447 million covering 595 items, and accounting for 25.9 per cent of the total exchange budget. This is an increase both in the number of items and in the percentage of the amount as compared with the figures for 1956. And of the total budget for the Foreign Exchange Allocation which was $1,278 million, the budget for global quota was $1,171 million, accounting for 87.9 per cent of the total budget for imports, and the budget for single quota, was $107 million, representing 6.2 per cent of the total budget. As compared with the figures for 1956 the percentage of imports under global quota increased, while single quota imports decreased.

Therefore, I can say that we have not intensified our import restrictions, in spite of the difficulties in payments position.
The foreign exchange budget for import recently prepared for the second half of the fiscal year 1957 amounts to $1,652 million, which is a slight decrease as compared with that of the preceding period. Due to the monetary and fiscal measures as mentioned before, domestic production has gradually been declining. The mining and industrial production for the latter half of 1957 is expected to be about 105 per cent of the figures for the corresponding period of the previous year, whereas the same index for April-July, 1957 stood at 112 per cent. Furthermore, the growing stockpiles of imported raw materials due to a sharp increase in imports in 1956 and in the early part of 1957 has brought about a considerable decrease in domestic demand for import. I would like to point out that the foreign exchange budget for import during the latter half of this year will not sacrifice the domestic demand but, on the contrary, it will fully meet the requirements of domestic industries.

6. Now I wish to refer to the prospects of our balance of payments in the immediate future. It is expected that we shall attain equilibrium in the balance of payments in the latter half of this fiscal year. We have formulated the exchange budget for this period on this assumption. Import demand has been declining, as I have mentioned already. Exports are expected to expand gradually as the domestic demand falls and goods are more and more diverted to overseas markets.

Therefore, we are calculating that the deficit of $515 million for the first half of this fiscal year will be carried over to the end of this fiscal year, and will represent the final balance of the whole year.

With regard to the prospects for the next fiscal year, we are intending to continue our present tight money policy to attain equilibrium or even surplus in our balance of payments although it is rather difficult to forecast the future.

7. Now, I wish to speak a little about the course which the Japanese Government is to take, hereafter, with regard to import restrictions and to certain problems of exports.

Recognizing that current difficulties in the balance-of-payments situation are mainly due to the rapid expansion of our economy, particularly over investment for the past one year or two, our Government is making utmost efforts to curb an excessive expansion of the economy by tightening credits and curtailing public investment, with a view to tiding over the difficulties within as short a period as possible. I hope that we shall soon succeed in overcoming the present difficulties and shall be able to make a further progress in the liberalization of trade.

In this connexion, I should like to draw your attention, Mr. Chairman, to the fact that the liberalization of imports would be greatly facilitated if exports could be expanded. This is especially true for a country like Japan, who has a high degree of dependence on exports for sustaining the
national economy. However hard we endeavour to improve the payments position by resorting to tight money policy or other domestic measures, if the optimum rate of expansion in our exports could not be maintained, we are afraid that we could not liberalize our imports further.

Therefore, we deeply regret to see that more than ten contracting parties are still refusing to apply GATT provisions with respect to their trade with Japan, thus discriminating against our exports.

To repeat my main theme again, I anticipate with confidence that the difficulties now confronting Japan will soon be overcome by our own efforts and by the sincere co-operation of the countries concerned, and I also wish to emphasize once again that we intend to continue our efforts, in an even larger scope, towards the relaxation of import restrictions, when Japan's payments situation is improved.