1. At the meeting of the Working Party on Structural Adjustment and Trade Policy on 2 July 1981, it was agreed that the secretariat should invite all contracting parties to provide by the end of 1981 the information required in Paragraph II(b) of the Annex to L/5120, taking into account the objectives outlined in Paragraph I of the Annex and the work already done (L/5177, paragraph 10). Paragraph II(b) of the Annex to L/5120 states that one of the tasks to be undertaken is "consistent with the GATT and the results of the MTN, an exchange of information and discussion on the experience of all contracting parties with regard to structural adjustment, along with an overall analysis of the experience".

2. Contracting parties were invited in GATT/AIR/1742 of 13 July 1981 to provide the requested information. The submission of Japan is reproduced in the Annex to this document.

3. Some participants have underlined that, with a view to the usefulness of the exercise, they attach considerable importance to the fact that all members of the Working Party fulfil their obligation and make written contributions. These participants have also indicated that they would be prepared to participate in an examination of their contribution in the Working Party only when notifications of the other contracting parties participating in the Working Party have also been received.

4. Delegations which have not yet submitted information are requested to do so as soon as possible.
I. Basic principles and roles of structural adjustment

1. Under the free-trade system, structural adjustment of industries should, in principle, be autonomously undertaken, through the market mechanism, by industries which attempt to respond positively to new situations.

2. However, if reliance is placed solely on the market mechanism, occasions may arise where the realization of a favourable industrial structure is jeopardized in the light of long-term considerations. In such circumstances, structural adjustment policy will serve to supplement the market mechanism.

3. Structural adjustment policy includes: (i) presentation of "visions"; (ii) promotion of technological development; (iii) application of monetary and tax measures; and (iv) promotion of industrial labour policies. In the advancement of these policies, due consideration must be paid to the above-mentioned basic principle that the private economic sector is mainly responsible for positive adjustment.

4. Actually, the basic principle of Japanese industrial policy aims at, through the market mechanism, fully utilizing the vitality of the private economic sector which has, by nature, a competitive character. Therefore, most of adjustment measures introduced are indirect and inductive.

II. Industrial structure and trade structure

1. Generally speaking under the free-trade system, changes in the trade structure reflect comparative advantage and the change in the trade structure causes a change in the industrial structure. On the other hand, a change in the industrial structure may cause change in trade structure. In other words, trade structure and industrial structure are closely interrelated. The Japanese case is no exception to this general principle.

2. Industrial structure of Japan

   (1) The structural change in Japanese industry from the 1950s to the 1970s was similar to that found in other industrialized countries, i.e. the secondary and tertiary sectors increased their relative shares, while that of the primary sector declined. However, the following phenomena were peculiar to Japanese structural change during the high economic growth period (1960s).

   (i) The speed of the overall structural change was significantly more rapid than that of other industrialized nations.

   (ii) The structural change within the manufacturing sector was remarkable, i.e. while the share of labour intensive industries such as textiles declined, capital intensive industries such as metal, machinery and chemicals increased.

   (iii) As a consequence of the above changes, the capital-labour ratio of industry increased rapidly.
(2) But in the 1970s, especially after the first oil crisis in 1973, the above-mentioned trends began to change. The share of the manufacturing industry declined slightly, the growth of steel and petrochemical industries slowed down and that of machinery products (excluding shipbuilding) increased.

In general, there has been remarkable development of R & D intensive industries (computers, aircraft, etc.), high-technological assembling industry (communication machines, numerically-controlled machine tools, etc.), while decline has been seen in the share of simple labour-intensive industries and those with a high level of energy consumption. Also, within the individual industries, technology and knowledge-intensive policies have been implemented. The process of realizing knowledge intensiveness of Japanese industries is now well established.

3. Trade structure of Japan

The characteristic of the trade structure in Japan is that its export specializes in industrial products and that the share of natural and energy resources in the total import is much higher than that of other developed countries.

This is due to various geographical and historical conditions peculiar to Japan, including (1) the fact that Japan is poorly endowed with natural and energy resources and (2) the fact that Japan has a big domestic market and does not have any neighbouring industrialized countries with a comparable level of economic development as Japan and with which Japan would be able to develop international division of labour.

4. (1) Export structure

Japan attained a high level of industrialization in the 1960s through the development of heavy and chemical industries and the export structure evolved in the same direction. The export structure in the 1970s was marked by the declining trend of the material industry and rapid increase in importance of the processing and assembling industry such as electric, transport, precision and other machines. This means that the export structure experienced a transition to more knowledge intensive, and sophisticated processing industries.

(2) Import structure

Characteristics of Japanese import structure are as follows:

(1) The share of raw materials and energy resources has been remarkably high (66.7 per cent in 1980) and that of manufactured goods has been relatively low (22.8 per cent in 1980).

(2) The import structure is very closely linked to domestic production activities.
These characteristics may be due to the conditions mentioned in 3(1) and (2) above.

In recent years, however, some changes have been taking place in the import structure and its background conditions. Namely, they are:

(1) Due to rises of crude oil prices in 1973, the share of crude oil has been increasing in value terms, but in volume terms it has been decreasing.

(2) The share of raw materials in the total import has been decreasing, while import of manufactured goods continues to expand.

III. Specific industrial policies

1. Industrial policies of the periods of the Second World War (post-war reconstruction period - from the second half of 1940s to 1950s)

(1) As a result of World War II, many production facilities were destroyed and production was extremely stagnant. Under these circumstances the Government adopted the following measures to reconstruct the economy and stabilize the life of the people.

(i) A "Priority Production Policy" was introduced under which a major part of the scarce raw materials, energy and capital were allocated to basic industries such as steel and coal industries.

(ii) Economic reconstruction required substantial funds, but financial power was insufficient in both private enterprise and private financial institutions. Under these circumstances, the Government established the "Reconstruction Financial Corporation" (1947-1952) to supply industrial capital to basic industries such as power generation, steel, coal and fertilizer industries.

(iii) On the other hand, reflecting the active demand for reconstruction, the demand for foreign currency far exceeded reserves and receipts. It was necessary then to allocate the scarce foreign currency to the purchase of essential goods which were desirable from the standpoint of national economy, such as food, machinery and raw materials for export goods. For this purpose, the "Foreign Currency Budget System" was introduced.

(2) Thus, by the middle of the 1950s, economic reconstruction was almost completed, alleviating the country of the shortage of goods.

(3) However, the newly-recovering industries not only lacked technology, but also raw materials and capital. Through the operation of the Foreign Investment Law, and the Foreign Exchange and Foreign Trade Control Law, as well as introduction of tax-incentive measures, the Government reinforced the basis of the industry.
In addition to the appropriate operation of the Government's industrial policy, active growth finance by private banks enabled entrepreneurs to carry out capital investment aggressively. All of these factors stimulated and vitalized the private economic activities.

High-growth period - 1960s

(1) This is the period when Japan took a step towards an open economy by liberalizing foreign trade and exchange, and when it attained a high economic growth rate.

With regard to foreign trade, Japan acceded to GATT in 1955. In 1960 the Government adopted the "Principles of Trade and Exchange Liberalization Plan". As a result of this, the liberalization rate rapidly increased from 40 per cent in 1960 to 93 per cent in 1964.

As regards liberalization of capital, Japan's commitment to IMF Article 8 and its accession to OECD in 1964 enhanced the liberalization process. The first round of capital liberalization was taken in 1967 and Japan attained an almost complete level of liberalization in 1973.

(2) During this period, excessive inter-company competition caused excessive investment in Japanese industry, reducing the efficiency of industrial activities, which in turn made industry vulnerable to the change of the international economic environment and the shift to an open economic system. Under these circumstances, the Industrial Structural Research Committee was established in 1961 to study all aspects of industrial and trade policies. After three years of thorough study, the Committee announced a "long-term vision". In defining the optimal industrial structure of the future, the long-term vision adopted two criteria; one was the productivity increase rate, and the other income elasticity. The heavy and chemical industries were selected on the basis of these criteria.

Thus, in the 1960s, especially in the second half of it, intensive capital investment was made in the heavy and chemical industries, specifically steel and petrochemicals. The Japanese economy made rapid progress under the mechanism of "investment calls for investment". On the part of the Government, it implemented various measures with respect to finance and taxes, to support the active development in the private sector.

Transition period - 1970s

Due to the development of the heavy and chemical industries, the international competitiveness of Japanese industry was strengthened bringing about a constant balance-of-payments surplus. However, there was a possibility that this sustained surplus would cause new inflationary pressures. There were other acute problems related to the over- and under-population of certain regions and environmental pollution during the high-growth period. In the international scene, there emerged swift changes in economic environment, such as multilateral currency adjustment and oil crisis.
The change in the economic environment required a review of Japanese industrial policy and it was proposed that a change in existing policy, which was based on two criteria of income elasticity and productivity increase rate, in the direction of a knowledge-intensive industrial structure was proposed. In fact in the 1970s, as is mentioned in 2(1) of Part II above, the high-technology assembling industry grew, while the simple labour-intensive industry and the high energy-consuming industries decreased their shares. Thus promotion of knowledge-intensive industry was realized.

On the other hand, progress was also made in the efficient use of energy. This was made possible chiefly by the efforts of energy-consuming industries to cope with high-energy costs, such as energy conservation and the introduction of alternative energy sources.

2. Concrete measures for structural adjustment

(1) Textile industry

(Please refer to the report which the Japanese Government submitted to the Textile Committee in 1979.)

(2) Machinery and electronics industry

(i) In view of the importance of these industries which support the national economy, measures for their development including legislations such as Provisional Law on Temporary Measures for Machine Industry had been introduced since the second half of the 1950s. However, with the change of times, the weight of the policy measures was shifted and in the 1970s, presentation of "visions" began to play a major rôle, i.e. setting up modernization programmes, according to the level of technical progress in individual industries. Financial and tax measures became more or less symbolic or psychological.

(ii) As for technological development, the vitality of private enterprises, based mainly on the market mechanism, has tremendously contributed to it. However, it is not sufficient to rely merely on the initiatives of private enterprises in areas which require great risk and long lead-time before being put into practice. Therefore, the government assistance is extended to these areas, but it is basically confined to R & D. The commercialization of the results of R & D are left to individual enterprises.

(iii) Such assistance by the Government not only plays an important rôle in the domestic economy, but also contributes to the world economy through the international transfer of the results.