

GENERAL AGREEMENT ON TARIFFS AND TRADE

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ACCESSION OF JAPAN

Statements submitted by the Japanese Observers to the Seventh Session

Explanatory Note on Control of Foreign Exchange and Import Licences

1. Shortly after the war ended in August 1945, Japan's foreign trade was re-started on a very minor scale and in an abnormal manner. Practically all the foodstuffs and raw materials necessary to avert an economic as well as political catastrophe were paid for by outside help mainly from the United States. The foreign trade was under strict control and the Supreme Commander for the Allied Powers was solely responsible for the external side, while in the domestic market the Japanese Government purchased all the export commodities and sold all the imported commodities.

With the progress of industrial rehabilitation, efforts were made to restore the foreign trade to normalcy. The government control was relaxed step by step and passed into private hands. In the prospect of joining in the Bretton Woods framework and the Havana Charter, the Government hastened to make its foreign exchange and trade administration conform to the ideals and principles laid down by them.

2. In December 1949 the Foreign Exchange and Foreign Trade Control Law was first put into effect. This law still serves as the basis of our current control of foreign exchange and foreign trade. It was prepared, in consultation with experts specially sent by the International Monetary Fund, with the view to minimizing the control and in conformity with practices accepted internationally. It is therefore thought useful for this working group to review the general outline of this law.

3. The Foreign Exchange and Foreign Trade Control Law authorizes the Minister of Finance to fix the rate of exchange of the national currency. It is now fixed at the single rate of 360 Yen for one United States dollar, and no exception is allowed in the application of this rate in any foreign exchange transactions. The Minister of Finance is also authorized under this law to prescribe the currencies with which the transactions authorized under the law may be effected. United States dollars and pounds sterling are currently prescribed to be such currencies, and the basic rate of 2.8 United States dollars is strictly maintained for one pound sterling.

All the foreign exchange funds are concentrated in a special account of the Government, except that foreign exchange banks are authorized to hold a certain amount of foreign exchange.

4. The foreign exchange control is tied in with the foreign trade control through the mechanism of the foreign exchange budget. The Government establishes its foreign exchange budget every half year, setting forth periodical import programmes. It shows the extent of commitment for visible and invisible import trade payments in the light of the current and prospective state of balance of payments, domestic demand for imported commodities, as well as arrangements, contained in the trade and payment agreements.

The foreign exchange budget prescribes the amounts of commodities or groups of commodities to be imported during the effective period of the budget. It also prescribes the areas from which they are to be imported: that is to say the dollar area, the sterling area, and the area with which we have entered into open account arrangements. The budget goes further to indicate the kind of import licence system to be applied to each item, of which there are two main systems. One is the automatic approval system, and the other fund allocation system.

Under the automatic approval system, importers may apply for imports of groups of commodities until the maximum amount for the group concerned is exhausted. However, under the fund allocation system, they have to obtain fund allocation from the Government before they apply for imports of commodities so designated. The percentage both in number of items and in the amount of commitments occupied by the automatic approval system is increasing, but important items of imports, especially from the dollar area, are still subject to the fund allocation system.

5. As to exports, no government licence is required except in the case of - (1) where unlimited export is not advisable in the light of domestic demand and supply; (2) where export to certain areas is restricted on account of the international situation; (3) where export price needs prior review; and (4) where certain commodities are liable to infringe industrial property rights at their destinations.

6. Japan's recent balance of payments may seem, on the surface, satisfactory. However, it is necessary to go further and analyze it in terms of the three different exchange areas as mentioned above; namely, the dollar area, sterling area and open account area. Under the present conditions, the trade with each of these areas should be balanced. Nevertheless, in 1951, we had excess exports to the sterling and open account areas, which were exceeded by excess imports from the dollar area. Furthermore, our deficit in the whole balance was covered by the dollar income accruing mainly from the off-shore purchases. Our trade and payment agreement with twelve countries, as well as the overall payment agreements with the sterling area are only our attempt to balance the trade at the highest possible level.

One of the characteristics of Japan's trade pattern in the pre-war days was to import industrial raw materials and export finished products. Now, in addition to the burden of importing raw materials, we have to rely on the annual import of about 3 million tons of staple

foodstuffs, and a part of our former trade market in the Far East has been closed. As a result, Japan is now obliged to import industrial raw materials and foodstuffs in substantial quantities from distant sources of supply in the hard currency area. In these circumstances, Japan is no exception to those countries which are obliged to exercise import control in order to safeguard their balance of payments.

It is believed that the controls which we exercise in the field of foreign trade, as outlined above, fully conform to the provisions of Articles XII, XIII and XIV of the General Agreement and at the same time serve to prevent our trade from straying from the bounds of internationally accepted fair practices.