

WORLD TRADE ORGANIZATION

WT/TPR/M/32

8 June 1998

(98-2299)

Trade Policy Review Body
28-29 January 1998

TRADE POLICY REVIEW

JAPAN

Minutes of Meeting

Chairperson: H.E. Mr. Munir Akram (Pakistan)

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I. INTRODUCTORY REMARKS BY THE CHAIRPERSON

1. The fourth Trade Policy Review of Japan was held on 28-29 January 1998.

2. The Chairman (H.E. Mr. Munir Akram), introducing the review of Japan, welcomed the Japanese delegation headed by Mr. Jun Yokota, Deputy Director General of the Economic Affairs Bureau, the Ministry of Foreign Affairs of Japan, the discussants (Ambassador Anne Anderson, Ireland, and Mr. Stuart Harbinson, Hong Kong, China), and Members of the Trade Policy Review Body (TPRB). The TPRB was to base its work on two reports, one submitted by the Government of Japan (WT/TPR/G/32) and the other by the WTO Secretariat (WT/TPR/S/32). A large number of delegations had submitted advance questions in writing.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF JAPAN

3. The Representative of the Japan expressed the hope that, through the discussions of this fourth Trade Policy Review on Japan, everyone would have a better understanding of Japan's trade policy. The document prepared by the Secretariat for the meeting was comprehensive and informative, but contained some factual inaccuracies, as well as observations that the Government of Japan regarded as not totally justified.

4. Since the last Trade Policy Review of Japan in 1995, Japanese economic and trade policies had "generally remained the same", as noted in the Secretariat report. Japan had strongly supported the multilateral trading system, and had steadily promoted domestic liberalization since its accession to the GATT. Japan's basic trade policy was to maintain and strengthen a free and non-discriminatory trade policy for the sustainable development of the global economy. Japan's assessment of the WTO was that in the fourth year since its establishment, it was on the whole functioning effectively as the centre-piece and the guarantor of the multilateral system.

5. Japan prided itself on its leading role in strengthening the functions of the WTO. For example, Japan had submitted offers of the highest level and had contributed substantially to the success of the negotiations. Since the establishment of the WTO, Japan had implemented in full all the Uruguay Round Agreements. As a result, Japan's tariff level was now the lowest among developed countries, with an average tariff on industrial goods at 1.5 per cent and the incidence of customs duty as a percentage of import value at 2.8 per cent in FY 1996, a level at least comparable to other major developed countries.

6. In order to further improve market access, Japan had decided in 1997 to review all of the past OTO (Office of Trade Ombudsman) cases (approximately 800) and to take additional measures, as well as to proceed with a complete review of the standards and certification system from the viewpoint of international harmonization. Japan had also conducted bilateral consultations with the United States and the European Union regarding specific sectors. Measures taken as a result of these consultations were applied on an MFN basis, and were expected to facilitate trade and investment. Japan's policy on the issue of trade disputes was that they should be solved within the multilateral framework under the WTO. Japan would continue to respect the WTO dispute settlement mechanism and make efforts to enhance its effectiveness and credibility.

7. As to the accession of new members to the WTO, Japan considered it very important to guide them in so that the multilateral trade regime could be strengthened. Japan had supported early accession of all applicants but considered it particularly important that major trading countries, such as China, join the WTO as quickly as possible.

8. The Government of Japan believed that regional trade agreements must be consistent with the WTO rules and must complement and enhance the multilateral free trade regime, in order not to undermine the principles of a free and non-discriminatory multilateral trade system or lead to segmentation of the world economy. Japan was involved in a regional economic cooperation endeavour in the forum of the APEC. Trade liberalization in the APEC benefited members and non-members alike as it was implemented on an MFN basis. Japan believed that the promotion of cooperative economic relationships among the APEC members would invigorate world trade and contribute to the development of the world economy.

9. Despite the overall high quality of the Secretariat report, in the section on tariffs and trade-related taxes and charges, he believed that the report did not correctly assess Japan's efforts, since it focused only on the remaining specific items of high tariffs without giving adequate emphasis to the overall low level of Japan's tariffs. For example, the Japanese tariff rates on textiles and textile products may indeed have been higher than those on industrial products, but they were in fact lower than rates on textiles and textile products of other countries. Elsewhere in the report, the Secretariat

often pointed out that Japan was lagging behind other developed countries, however, in this case no comparison was made.

10. As pointed out in the Secretariat Report, customs clearance times had been considerably shortened, despite the increase of imports. For maritime cargoes, it took an average of 26.1 hours in 1991, from the moment a proper customs declaration had been made until clearance. However, in 1996 the time had been reduced to an average of 10.2 hours. For air cargoes, the time had been reduced from 2.3 hours in 1991 to 1.8 hours in 1996. Air cargoes were often processed very rapidly, and those that needed no inspection were normally cleared immediately upon arrival. The "clearance time" indicated in the Secretariat report included the time prior to customs declaration. Japan was not aware of any accurate international comparison of customs clearance time which took into account the different systems in different countries. Importers may intentionally leave cargoes in bonded areas duty free for use as a distribution base.

11. Japan's government procurement procedures were open both to domestic and overseas suppliers. With regard to procurement of not less than SDR 100,000, overseas products had accounted for 14.1 per cent of the total procurement value in 1996. This figure had remained somewhere in the range of 14 to 20 per cent for the past five years. Comparable statistical data for the United States and the European Union were not available, since they had not made notifications to the GPA Committee since 1992. However, in 1991, for procurement valued at SDR 130,000 or above, overseas products had accounted for 14.8 per cent in Japan, whereas the figure had been 9.4 per cent in the United States and 0.9 per cent in the European Union.

12. The Japanese economy had failed to show strong signs of recovery since last April, with a decline in demand, particularly consumption, and a difficult situation in employment. The economy remained sluggish due to slow growth in consumption and production, resulting from factors such as a "backlash" from the growth in demand anticipating the April 1997 raise in the consumption tax rate from 3 to 5 per cent, a decrease in real disposable income, and inventory adjustment in the business sector. Against this background, stock prices had languished in the face of the introduction of the "prompt corrective action", and private financial institutions were thus said to have become reluctant to provide credits. As a result, concerns were being raised that the real side of the economy may have been adversely affected as, for example, small and medium-sized enterprises suffered from a lack of funds. In addition, the Japanese financial system had been threatened by a series of failures of banks and security firms since last November. These factors had increasingly weakened the confidence of households and enterprises within the Japanese economy.

13. Furthermore, the serious recession and turmoil in the neighbouring Asian economies inevitably had, and would continue to have, a negative impact on Japan's exports to Asian countries, which accounted for approximately 40 per cent of Japan's exports. Serious concerns existed that slower growth in exports may further retard the recovery of the Japanese economy. However, it could also be said that the negative impact was mitigated by the fact that among the goods exported to the Asian countries were parts and materials that were indispensable to them. Although real GDP growth in FY 1997 was expected to be 0.1 per cent, Japan believed that real economic growth in FY 1998 would achieve 1.9 per cent.

14. In order to bring about economic recovery, the Government of Japan would take the following measures in order to increase the confidence of households and enterprises within the Japanese economy, thereby pushing the economy back on the track of private demand-led, autonomous and stable growth: (i) a temporary national income tax and local income tax reduction, worth about ¥2trillion; (ii) an extensive tax reform package, including tax reductions on corporate income, security transaction, land value, etc., equivalent to about ¥840 billion in tax cuts; (iii) additional public works amounting to approximately ¥1 trillion in the FY 1997 Supplementary Budget; and (iv) a front-loading of public works worth ¥1.5 trillion. In addition, the "Emergency

Economic Policy Package" of November 1997, which included an extensive deregulation programme, would be rigorously implemented.

15. In order to stabilize the financial system and to address the credit crunch problem, the Japanese Government would take the following urgent and extraordinary measures, effective for a limited period: (i) an injection of public funds to expand the scope of deposit insurance to cover all financial institutions so as to ensure full protection of the deposits of all financial institutions; (ii) as a means to cope with the critical situation of the financial system, purchasing preferred stocks and subordinated bonds issued by financial institutions to increase capital bases; (iii) providing the Deposit Insurance Corporation (DIC) with ¥10 trillion worth of government bonds and authorizing ¥20 trillion in the government guarantee to the relevant DIC accounts; (iv) a flexible application of the so-called "prompt corrective action on domestic banks" and ensuring sufficient funds (approximately ¥25 trillion in total including credit guarantee) for small and medium-sized enterprises through governmental financial institutions, with a view to enhancing measures to address the credit crunch.

16. To cope with the need to maintain a vital economy, even under the prospect of the increase in life-expectancy of the Japanese population, it was considered essential to engage in a far-reaching economic structural reform in a decisive and swift manner. Thus, the Japanese Government had completed the Economic and Social Plan for Structural Reform in December 1995 as a cabinet decision, and based on this it had implemented various deregulation measures to vitalize the economy and to rectify the "high cost structure" of the economy. It had also presented the Economic Structure Reform as part of the "Structural Reform in Six Areas", adopted as a cabinet decision in the "Program for Economic Structure Reform", which had included a schedule for the promotion of further economic structure reform and concrete measures to be taken (e.g. the fostering of new industries through comprehensive measures, such as deregulation responsive to the needs in specific sectors, human resources development, support for research and development, creation of an internationally attractive business environment through deregulation in order to rectify the high cost nature of our economy). A follow-up to this Cabinet Decision had been conducted in December 1997.

17. He said that the Secretariat report statement that the Japanese Government had excluded agriculture, construction and maritime transport in its deregulation package was factually incorrect. The Government of Japan had been actively promoting deregulation in a wide range of areas. For example, demand and supply adjustment measures in the transportation area would be abolished, the "Big Bang" would be introduced, and the Building Standard Law would be amended to reflect the transition from a specification-based to a performance-based criteria.

18. The Government of Japan had decided to make a fundamental policy change regarding the Large Scale Retail Store Law, while giving full consideration to the recommendation issued by the advisory group to the Minister of International Trade and Industry at the end of 1998. By introducing a new legal scheme to address current and new concerns, such as traffic congestion and environmental degradation, which was involved in the opening and operating of large-scale retail stores, it was Japan's understanding that the Large Scale Retail Store Law would lose its *raison d'être*.

19. In December 1997, the Government of Japan had decided to establish a new three-year deregulation programme starting in FY 1998, by setting up a new *ad hoc* committee for the promotion of deregulation composed mainly of eminent persons from the private sector for the time being, thereby further promoting the deregulation process. On 26 January, the Deregulation Committee had been established under the Administrative Reform Promotion Headquarters based on this decision. The new committee was expected to conduct hearings with various groups, domestic and foreign, with a view to drafting a new programme.

20. The structural reform, including deregulation, was expected to increase the growth rate of real GDP by about 0.9 per cent annually from 1998 to 2003. Although the Secretariat report said that

energy prices in Japan were higher than those in other developed countries, this was not entirely correct if the rate of taxes included in those prices and the scarce energy resources in Japan were considered. Furthermore, deregulation policy was now being implemented and was expected to further decrease energy prices. For example, a litre of gasoline, which cost ¥122 on average in 1994, now cost ¥92. The Government of Japan intended to lower electricity charges to the international level by the year 2001.

21. The Government of Japan had an important policy issue to make its market even more open internationally and to pursue the realization of a free economic society where the principles of self-responsibility and market mechanism prevail. The structure of the Fair Trade Commission (JFTC) had therefore been strengthened in June 1996, and the final report of the Administrative Reform Committee in December 1997 stated that "the role of the JFTC is increasing". The Government had been striving to implement competition policy actively. JFTC was dealing rapidly and effectively with various violations of AMA (Antimonopoly Act), such as price cartels and bid-rigging. The number of recent legal measures taken and amount of surcharge ordered were shown in the Government report. JFTC had made criminal accusations against 46 companies and 67 individuals in four cases since 1990; the latest, in February 1997, had concerned bid-rigging by manufacturers of water meters purchased by the Tokyo Metropolitan Government whereby 25 companies and 34 individuals had become the object of criminal accusation. Among the defendants in those four cases, 44 companies and 66 individuals had been convicted. Japan was conducting surveys and making recommendations on government regulations and was reviewing exemptions from the application of the AMA. An Omnibus Act to repeal or reform 35 exemptions under 20 laws had been enacted last July. With respect to the remaining exemptions scheduled for further review, specific conclusions would be reached by March 1998. It had already been decided to repeal the anti-depression cartels and the rationalization cartels under the AMA.

22. The Japanese word "keiretsu" was sometimes mistakenly used to mean the closed nature of the Japanese market. However, similar groups of enterprises were also seen in other countries. The existence of a keiretsu relationship among enterprises had a certain economic rationale, e.g., a stable business among the group enabled efficient activities and management of enterprises based on a longer-term perspective. However, the Government of Japan was concerned whether enterprises preferred doing business only within the group, thus giving rise to anti-competitive trade activities. A survey of the six major corporate groups in 1992 had shown that the percentage of intra-group transaction was less than 7 per cent, and the figure was still declining. The Government was making efforts to monitor the situation so that trade among enterprises within the keiretsu relationship would not prevent fair competition and transparency and that foreign enterprises could penetrate the Japanese market smoothly.

23. It was becoming more important to promote international cooperation between competition authorities and the international harmonization of competition policy due to the globalization of the economy. From this view point, JFTC intended to further cooperate with other competition authorities, by exchanging views and by positively participating in discussions in international organizations such as the WTO and the OECD. The discussion on the interaction between trade and competition policy, including the impact of trade measures on competition, was particularly important. Furthermore, the Government was to conduct deliberations with a view to establishing a private remedy system to enable parties who had suffered damages from actions that hindered the realization of a fair and open market to seek relief on their own initiative and responsibility.

24. The Secretariat report stated that most of Japan's import and investment promotion measures had focused on assisting existing procedures rather than attempting major structural improvements. However, the Japanese Government had been implementing measures on economic structural reforms, deregulation and competition policy as mentioned.

25. Japan had accepted with difficulty the Uruguay Round Agreement on Agriculture; it had, however, been implementing the commitments faithfully. Japan was the largest net importer of foodstuffs in the world and its food selfsufficiency rate was 42 per cent calorie-based and 29 per cent cereal-based, both were the lowest among major developed countries. Thus, maintaining a stable food supply had become an increasing concern for the Japanese people.

26. Japan regarded agriculture as a multifaceted productive activity, involving not only the provision of a stable food supply to the population, but also the conservation of national land and environment, the development of rural economies and the promotion of policies that took into account this multiple function of agriculture. During the Uruguay Round negotiations, Japan had emphasized the need for a proper appreciation of the role played by agriculture. The Agreement on Agriculture contained, in its preamble, provisions related to non-trade concerns, including food security and the necessity for environmental conservation. Similar views could be found in the provisions concerning export prohibition and restriction. The inclusion of "stockholding for food security purposes" and "payment under environmental programme" into a "Green Box", in Annex II of the Agreement, was another example. It was Japan's understanding that these provisions reflected its views as mentioned above. However, in the present WTO Agreement, the obligations imposed upon exporting countries, with regard to export prohibitions, export restrictions and the introduction of export tariffs, were weak, whereas, those imposed upon importing countries, such as on import prohibition and restrictions and the reduction of import tariffs, were very strict. As a result, there continued to be a lack of balance between the obligations and the rights of importing and exporting countries.

27. In assessing agricultural trade, the Secretariat report did not distinguish between agricultural products and industrial products, focusing solely on economic aspects such as cost and benefit. Japan, however, considered it important that the multiple functions of agriculture and its particular nature be taken into consideration when discussing trade in agricultural products.

28. The Research Council on Basic Problems concerning Food, Agriculture and Rural Areas had been established by the Prime Minister in April 1997 to determine the basic direction of Japan's policies on agriculture. The Council was currently examining specific policies relating to issues on food, agriculture and rural areas, giving consideration to the multi-function aspect, and would adopt a report in the summer of 1998.

29. Concerning the level of agricultural support, it was Japan's understanding that the PSE method had not been adopted in the course of the Uruguay Round negotiations because it had not reflected the roles provided by agriculture, such as the conservation of national land and the environment, and also due to the excessive influence of exchange rate fluctuations on the results. The AMS method, which had not had such drawbacks, had been adopted instead and had been used to measure reductions in the domestic support of Members. In spite of this, the Secretariat report assessed the level of agricultural support using, among others, the PSE method. Japan believed that the role played by agriculture in the conservation of national land and environment should be appropriately reflected in such an assessment.

30. In the first follow-up to the Action Plan for Economic Structure Reform, it had been agreed that the Government would conduct a thorough review of the standards and certification system based upon the following principles: (i) the Government would maintain only the minimum regulations necessary to meet proper policy objectives; (ii) the Government would, to the extent possible, introduce systems under which certifications were conducted by third parties, including private corporations; (iii) the system would be compatible with international standards: in concrete terms, the review would be conducted along the following basic guidelines, and necessary measures would be put into practice as soon as possible.

31. First, when the Government designated or accredited a third party institution to conduct the conformity assessment of technical standards, the international designation and accreditation

standards should be used as a basis and, in appropriate cases, participation by private enterprises would be allowed. Second, with the adoption of performancebased standards and technical regulations, relevant JIS standards would be elaborated, and where appropriate private standards and international standards existed, these would be utilized. A three-year programme starting in FY 1995 was in process to align around 1,000 standards with the relevant international standards. Third, the acceptance of foreign data would be further promoted, for example, 23 foreign institutions were already recognized as third-party institutions in respect of the Law for the Control of Electrical Appliances. Fourth, mutual recognition would be further promoted based on the principle of reciprocity. Consultations were already being held with the European Union and with Australia in this respect.

32. In the field of industrial property rights, the Patent Law, the Industrial Design Law, and the Trademark Law had all been amended in accordance with the TRIPS Agreement. Japan was also making significant efforts in international harmonization through such ways as participating in discussions in the WIPO; the Trademark Law had been revised, in order to ratify the WIPO Trademark Treaty in June 1996, and had entered into force on 1 April 1997. Japan was also conducting a review to assess the need to amend relevant laws in order to establish civil and criminal procedures to enable parties to seek more adequate and effective remedies against the infringement of industrial property rights, especially in the field of patents. Based upon its result, the Japanese Government intended to submit amendments to the Patent Law to the regular session of the Diet in January 1998. The proposed amendments included: in the area of civil remedies, measures to increase the amount of damages through the facilitation of proving lost profit by the IPR holder; and an increase in the permitted amount of damages to compensate for lost licence fees. In the area of criminal remedies, IPR infringement penalties had been raised, especially for corporate entities. The Copyright Law had been amended in 1994, and had entered into force in January 1996, fulfilling all obligations under the TRIPS Agreement. The Law had been additionally amended in 1996 to strengthen civil and criminal remedies, and again in 1997 to establish the right of authors, performers and phonogram producers to "make transmittable" their work, performance and phonograms, respectively, in order to comply with the relevant provisions of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

33. The Government of Japan had undertaken active efforts in the framework of the WTO, together with other Members, towards creating multilateral rules on the liberalization of trade in services. Japan was confident that its Schedule of Commitments under the General Agreement on Trade in Services was of the highest level among Members, not only with regard to the number of sectors committed, but also to the level of commitments. Japan had submitted high-level offers in the follow-up negotiations on maritime services, basic telecommunications and financial services, thereby contributing to the successful conclusion of those negotiations, although in the case of maritime services its contribution had been to no avail.

34. The Secretariat report had touched upon a number of issues in the services sector; it described Japan's domestic regulations in the services sector as "often complex and opaque" and noted that trading partners had requested Japan to simplify the administrative procedures and to ensure the transparency of those regulations. The report also raised concerns that Japan's services sector had lower productivity than the manufacturing sector and allowed a "high degree of discretion to the relevant authorities". The Government of Japan did not share these views. Deregulation was among its priority policy issues and was being actively promoted as one of the means to improve the kind of situation mentioned in the Secretariat report. In the telecommunications sector, for example, Japan had eliminated foreign ownership restrictions, established the rules for interconnection, liberalized international simple resale and a number of other regulations, and is carrying out the restructuring of the NTT. Transparency was assured in the rule-making procedures by publishing proposals and by seeking comments from those concerned.

35. The Secretariat report stated that "the price of telecommunications services remains significantly higher in Japan than in the other major industrial countries" (para. 99). However, in the long-distance service market where five companies were competing, the level of prices was the same as in major industrial countries, and in the mobile telephone market, in which seven companies were competing in some regions, the decrease and diversification of prices were remarkable. With the liberalization of simple resale, the prices of international telephone services were also expected to go down further. Deregulation was also taking place in the area of broadcasting, and the Government of Japan did not agree with the description in the Secretariat report that "Japan has followed a fairly restrictive policy on broadcasting services and cable TV" (para. 107), when the situation in other countries was not generally less restrictive.

36. In the financial services sector, the financial system reform had progressed through the amendment of the Foreign Exchange and Trade Control Law in order to abolish the "authorized foreign exchange bank" system. Deregulation programmes in other sectors had also been planned and implemented, and the number of foreign service suppliers in such sectors as, financial services, telecommunications, construction services and legal services, was expanding. Japan was thus convinced that it would continue to improve transparency and productivity in its services industries through these efforts.

37. The Secretariat report also pointed out that in Japan, labour productivity in the services sector was lower than in the manufacturing sector. However, productivity in the services sector was also relatively low in all other major trading partners. With regard to professional services, the Government of Japan had provided qualification requirements and licensing procedures for professional service suppliers to ensure the competence of the suppliers and to protect consumers. However, Japan did not impose regulations solely for the protection of domestic industries. The above-mentioned requirements and procedures were no more restrictive than those of other major partners.

38. The reinforcement of the free trade system would support the sustainable development of the global economy. In spite of the current Asian economic situation, Members should ensure the full implementation of the Uruguay Round results, and proceed with further liberalization under the multilateral trading system, without resorting to protectionism. This was the course that Japan would be taking.

III. STATEMENT BY THE FIRST DISCUSSANT

39. The first discussant (H.E. Ms. Anne Anderson) recalled that practically every WTO Member had a stake in the health of the Japanese economy, which was the second largest in the world. The normal high level of interest was magnified in current circumstances, where difficulties encountered in a number of ASEAN economies had had resonance in Japan. Questions as to whether Japanese policies were a part of the problem or a part of the solution were the subject of vigorous debate. Given the pace of recent developments, providing a snapshot of the Japanese economy had not been easy. A major focus would be on hearing a fully up-to-date assessment from the Japanese delegation of revised policy orientations in the light of most recent developments.

40. The Secretariat report began with a sobering sentence that "since Japan's last Trade Policy Review in 1995, its economic situation has not improved". The interval of almost three years since the last review fell into two parts, with recovery and healthy growth in the earlier half being offset by a sluggish performance in the second half. It appeared now that growth for 1997 would be almost nil, and many predictions for growth in 1998 hovered around 1 per cent, although a much more optimistic government forecast was for 1.9 per cent. She wondered whether that was still valid under current circumstances.

41. The Japanese Government had recognized that it faced major policy challenges. The report by the Japanese Government stated that "serious limitations have been revealed in the Japanese socio-economic system, which has sustained the development of the country over the 50 year post-war period". A succession of recent statements by the Prime Minister and other senior-level policy makers all underlined that this was a period of intensive self-analysis in Japan.

42. Steps at national level were accompanied by active multilateralism. However, while it was accepted that the Government was seeking to address the range of challenges, a concern was repeatedly expressed that there was still insufficient commitment to the radical steps required, and that in some areas the scope of the actions proposed was not commensurate with the scale of the problems. In the various policy areas under discussion, the same question tended to suggest itself: whether the steps currently contemplated went far enough to address the underlying issues.

43. In looking at structural issues, it was important that the strengths of Japan's economy, including high education standards, positive labour relations, and high savings and investment rates, were not undervalued under the strain of recent events. However, many of the policies that had suited the conditions of earlier decades had not translated well into the 1990s, and were holding back growth. This diagnosis, which had been made a few years ago, appeared to have taken some time to translate into action. If a particular set of attitudes and policies had yielded highly beneficial results over a prolonged period, there is understandable caution about experimenting with change. In addition, the Japanese decision-making process, with its emphasis on persuasive and consensual approaches, probably did not best lend itself to rapid adjustment to changed circumstances. The problem now for the Japanese Government was that different types of problems were having to be dealt with simultaneously. The very high level of public debt, the highest in the OECD, at around 100 per cent of GDP, undoubtedly constrained policy choices. Concerns about an ageing population, some 25 per cent now aged 65 or over, low productivity rates, and high cost industry also had to be confronted. New policies to tackle these problems had had comparatively little time to yield results before the Asian financial crisis had become a whole new factor in the equation. It was clear that Japanese policy-makers had high hopes for the impact on growth rates of the various structural reform measures and she was interested to learn whether Japan felt the analysis and assumptions underlying the Action Plan, and the projections for growth resulting from the plan, required any adjustment in the light of recent developments.

44. The need for a comprehensive and integrated programme of deregulation was stressed in practically every commentary on the Japanese economy, and was central to government policy

making. The over-regulation of the economy was seen as having effects right across the board, inhibiting competition and productivity, underpinning high cost structures, acting as a disincentive to imports and inward investment. It was critically important for the Government to move ahead with determination, facing down vested interests wherever necessary, and ensuring that the various actions over individual sectors were guided by an overall vision. She said that delegations would certainly be interested in hearing whatever supplementary details might be available in the course of the discussion.

45. The need to stimulate the domestic economy was one of the leitmotifs running through every analysis of the Japanese economy. Japan's trading partners had been concerned about the recent situation where growth in the Japanese economy appeared to have been exclusively export driven. It was a concern shared by the Japanese Government and policy statements had repeatedly emphasized the need for domestic-led growth. Consumption spending as a ratio of GDP was significantly lower in Japan than in other developed countries and generating consumer confidence was a key task facing the Government. It was not an easy one against the background of budget deficits and the current financial crisis. A clear and consistent message to the domestic consumer rather than the kind of "stop-go" signals which seemed to have been conveyed, particularly with the increase in consumption tax in April 1997, was perhaps most needed. The package of 18 December had been very much welcomed, although its adequacy in the circumstances had been widely questioned.

46. The discussion about enhancing domestic demand had been brought firmly into focus by the crisis in a number of Japan's neighbouring countries. In the face of a collapse in import demand in these countries, Japanese exporters dependent on these markets might well have to either sell more on a revived domestic market or sell more on other markets where Japan already ran huge surpluses.

47. There was also the fact that ASEAN countries hit by financial crisis would inevitably be looking to enhance exports, aided by the huge devaluation of their currencies, as one of the lifelines to help them through the current crisis. An influx of cheaper exports from these countries could be anticipated on European and American markets but undoubtedly ASEAN exporters would be hoping for stimulation of consumption in Japan as one of the more important lifelines. It would be helpful to hear in further detail about the prospects for concrete results from the Government's current attempts to stimulate the domestic economy.

48. The Secretariat report stated that, since the last TPR, Japan's current account surplus had declined steadily. It pointed out, however, that this trend seemed to be reversing from April 1997. The latest available figures, for the third quarter of 1997, confirmed this: the value of exports had risen by 3 per cent in the third quarter while the value of imports had fallen by 15 per cent. The depreciation of the yen and the weakness of the domestic economy obviously underlaid these trends. Japan's major trading partners did not view with equanimity any prospect of further surges in the Japanese surplus. On the contrary, they were strongly advocating that the trend of the last nine months or so be reversed. As regards Japanese imports, the key issues would be stimulation of consumer demand and improved market access. The outlook for Japanese exports seemed difficult to read; the low value of the yen would continue to assist exporters. However, the difficulties in South East Asian economies were likely to have a two-fold effect. Firstly, given the extent to which Japanese exports were directed towards that region, the loss of markets, particularly in certain sectors, were likely to be significant. Secondly, with dramatic currency losses and decline in production and wage costs in South East Asian economies, exports from these countries would have a considerably improved competitive edge over Japanese exports on third country markets. She was interested to have some projections by Japan in this area, in particular the diagnosis for Japanese export performance over the period ahead.

49. She had noted the details of the Japanese GSP scheme; also the fact that the Secretariat report stated that the scale of net benefits from the scheme was limited. None of the least-developed countries were on the list of top ten beneficiaries of Japan's GSP. The Japanese market was not easy

to penetrate and it would certainly challenge the resources of a least-developed country. While overall market opening would improve the prospects for all potential exporters, it was obvious that the least-developed countries were coming from very far behind. She was interested to learn whether any special encouragement was being considered to help those countries gain a toe-hold in the Japanese market.

50. On the balance and direction of outward and inward foreign direct investment, Japan's traditionally high savings rate had funded much of its investment needs in the past and it had relied to a far lesser extent than most developed countries on inward investment. The Secretariat report said that in 1993, the disparity between inward and outward investment flows had been in the ratio of 1:13. This had been reduced to a ratio of about 1:7 in 1996 but indications were that it had widened again to about 1:9 in 1997. Many countries had welcomed and benefited from Japanese outward investment; however, the degree of imbalance could hardly be healthy and must be a particular cause for concern in current circumstances since Japan might no longer be able to rely on domestic investment to the extent it had. The report showed that Japan was conscious of the major factors likely to be acting against greater inward investment including high business costs such as land prices and wages, low expected profitability and a high tax burden. Other factors militating against inward investment had been identified as the complex regulatory systems, lack of transparency in regulatory procedures, complex distribution systems and exclusionary business practices.

51. There was undoubtedly a realization in Japan that it must become more attractive to foreign direct investment. Many of the factors discouraging such investment were being addressed in the structural reforms of the economy, particularly in tackling the issues of deregulation. She was interested to hear the Japanese perspective on these investment imbalances in further detail including the impact of latest developments. There had been considerable investment by Japanese manufacturers in ASEAN countries over recent years. The difficulties in these economies might have a deterrent effect on further Japanese investment; on the other hand, there had been much speculation about acquisitions likely to be made by foreign investors at lower rates in the weakened ASEAN economies. She was interested to hear which scenario the Japanese delegation considered more likely: a slowing down of activity by Japanese investors in ASEAN or a possible acceleration. The impact of the latest developments on inward investment in Japan was also worth considering. It might be the case that inward investment which might otherwise have been attracted to Japan would now be looking with more interest at acquisition opportunities at attractive rates in the ASEAN economies.

52. In conclusion, the financial crisis in South East Asia had caused a seismic upheaval throughout that region which was requiring new ways of looking at issues, and new planning. It would certainly help if the Government of Japan tried to provide the road map that they were developing for the period ahead. Japan was an immensely important regional and global economic power. Japanese policymakers faced a hugely challenging task in trying to accommodate the country's national economic interests with the responsibilities that derived from its wider role. A great deal rested on their being able to find that accommodation.

IV. STATEMENT BY THE SECOND DISCUSSANT

53. The second discussant (Mr. Stuart Harbinson) said it was always worth recalling Japan's central importance in the world as a whole, particularly in Asia, as the world's second-largest national economy. Japan had reached a crossroads, as was evident in the report by the Government of Japan, which acknowledged the dramatic changes that were taking place through globalization of the world economy and the fact that these had revealed some limitations in the Japanese socio-economic system. The Government of Japan was clearly well aware that these limitations had to be addressed, and it had in many ways made a strong start in recent years. The task, however, had been made more difficult and given added urgency by recent events in Japan and elsewhere in Asia. Japan's success in tackling its own problems and setting a good example for others to follow was now crucial, particularly for the region as a whole, but also for the future health of the world economy.

54. The ability of the Japanese economy to respond to the challenges it faced had been hampered by a number of factors, including the financial services sector. It was difficult for any trading economy to compete successfully in the modern business environment without access to top class financial services, which could only be developed in a truly competitive environment, with good supervision but without excessive regulation, and with a high degree of transparency. In Japan, the situation had been further complicated by the after-effects of the burst-bubble economy since the turn of the decade, and a mounting bad debt problem. The response of the Japanese Government had been to publish a number of reports on structural reform of the financial services sector, with the aim of making Tokyo an international financial centre comparable with New York and London. He was interested to hear an up-to-date assessment of how quickly this reform programme (the "Big Bang") could be carried through in practice and what the prospects for success were, especially in the light of recent regional developments.

55. Japan had recently announced a number of measures to stabilize the financial system, including a concrete plan for recapitalization of financial institutions and measures to address the so-called credit crunch. While these support measures were undoubtedly welcome in order to bolster confidence in the system, they would not, however, appear to be substitutes for decisive action to overhaul the regulatory system.

56. The Secretariat report drew attention to the fact that productivity in services was well below that in the manufacturing sector. Concerns had been raised on the links between the complicated regulatory environment and low productivity, in particular, in distribution services, suggesting the need for further deregulation. While a number of initiatives had been taken, or were in train, and while progress had certainly been made, the general regulatory environment in the services sector remained somewhat unsatisfactory. Japan had had a deficit of no less than US\$50 billion on services trade in 1995. The services sector had been accounting for an increasing proportion of GDP and employment. Meanwhile, Japan continued to be a larger investor in manufacturing capacity overseas, a process that was clearly driven by the attractions of producing goods in lower cost locations. A more competitive services sector could well be the key to unleashing domestic demand, bolstering business confidence in Japan, reinvigorating the economy, and significantly enhancing the efficiency of the manufacturing sector. While some progress had undoubtedly been made in this direction, it would appear that there was still quite a long road to travel. It seemed that the ongoing adjustment towards an increasingly service-oriented economy could be facilitated in some cases by adopting more economically efficient policies with regard to market access. While the report by the Japanese Government noted that average tariff rates for industrial products had been reduced to 1.5 per cent, the Secretariat report said that applied tariffs for manufactures averaged 4.9 per cent with some high peaks. Tariff escalation was evident in a number of sectors. Agricultural tariffs were substantially higher, while a combination of high government support levels and quotas led to over-production and/or prices that bore little resemblance to world prices.

57. The distortions thus introduced or sustained might have been exacerbated by practices in other areas such as standards, government regulations and related measures. He noted that Japan was making greater efforts towards increased international harmonization of standards and the adoption of mutual recognition arrangements. Still, a number of difficulties appeared to remain regarding the acceptance of foreign certifications and test results. The adjustments might not have been happening quickly enough either to mollify Japan's trading partners or to give the economy the flexibility it needed in today's increasingly globalized economy.

58. The Government of Japan was clearly focusing on a more active implementation of competition policy, and the Japan Fair Trade Commission had produced many useful studies, surveys, reviews and guidelines. However there were still doubts as to how committed the JFTC was to vigorous enforcement. Change might be taking place but sometimes at a gradual pace.

59. The overall conclusion was that Japan and its trading partners shared a common interest in removing distortions and promoting greater efficiency in the Japanese economy. Japan urgently needed to stimulate its domestic economy and to deal with the source of trade friction and alleviate the possible effects of a more difficult exporting environment within Asia. There seemed to be little doubt that the Government was fully aware of what was required. The question that perhaps needed to be asked was whether the action which had been taken, or which was in hand, was having the desired effect quickly enough.

60. On Japan's contribution to development of multilateral trade policy, Japan was an active, constructive and a very influential member of the WTO. It was one of the few remaining Members that conducted its trade almost entirely on an MFN basis. There was always the possibility that, the more preferential agreements there were, the greater the fear of exclusion or discrimination, and hence the greater the temptation, if not to join an existing preferential agreement, then to set up one's own. He was interested to hear the further thoughts of the Japanese delegation on this theme. He hoped that Japan would stick to its principles and continue to trade on a full MFN basis, and that it would concentrate its efforts on the process of ongoing progressive multilateral trade liberalization, thereby bringing about a convergence between multilateralism and regionalism.

V. STATEMENTS BY MEMBERS OF THE TRADE POLICY REVIEW BODY

61. The representative of Canada emphasized the strengths of his country's relationship with Japan. In the context of the structural and economic crisis in a number of East Asian economies, Japan's continued movement towards a more open and transparent regime would serve to stimulate production and general economic growth in that region. Although Canada was on the whole pleased with the positive trends in trade and economic relations with Japan, concerns remained in respect to Japan's economic and trade policy regime. While considerable progress had been made since the inception of the Deregulation Action Programme in 1995, there remained highly regulated sectors which had a significant impact on the Japanese economy and the openness of its markets, such as agriculture and food processing, residential construction, transportation, telecommunications, financial services, distribution and retail trade. Canada urged Japan to widen the scope of its efforts to produce optimum benefit for its economy and trade.

62. Although Canada welcomed the revision of some of the Japan Agricultural Standards, further movement on such items as horizontal application plywood would be welcomed. Fire restrictions on multi-unit wooden dwellings in the Building Standard Law could be removed, and a move towards recognizing qualified foreign organizations as Registered Grading Organizations under the Japan Agricultural Standards could reduce the cost of lumber. Japan's system of tariff classification also distinguished between species and dimensions of lumber, regardless of its end use. As a consequence, Spruce-Pine-Fir imports, key building components, were subject to duties ranging from 4.8 to 6.5 per cent, whereas hemlock imported for the same purpose entered duty free. It had been estimated that the full elimination of tariff rates on softwood lumber, as well as laminated lumber and plywood, would contribute about ¥4 billion annually to the reduction of housing costs in Japan.

63. Canada maintained that, in Japan's Food Sanitation Law, quality factors should not be used to justify the prohibition of agrifood products, since these factors did not constitute health and safety risk as provided for the SPS Agreement. The more restrictive standards in the Law for frozen foods than for unfrozen products, as well as varietiespecific-based approvals of fruit and vegetable importation, were not scientifically justified.

64. Japan maintained high specific duties on most cooking oils, including canola oil, to provide protection to its domestic crushing industry, currently between 20 and 25 per cent on an *ad valorem* basis. The economic feasibility of existing and potential investments was being adversely affected by the Japanese import tariff on mustard flour and meal and prepared mustard. For this tariff line the WTO rate was currently 12.5 per cent and the temporary rate was 10.3 per cent. Canada had also expressed concerns regarding field peas. Japan considered that imported peas compete with domestic peas intended for human consumption. The existing tariff structure did not differentiate between food grade peas for human consumption and field peas for use in livestock feeds. Peas were presently imported under a tariff quota rate of 10 per cent. This tariff made field peas non-competitive as a feed ingredient with other protein sources which enter duty free.

65. The representative of New Zealand said that Japan's economic activity was of enormous global importance. A successful reform programme, one that would seriously encourage efficiency and promote competition in the Japanese market, was vitally important. The Secretariat report made clear that Japan had some way to go before unnecessary restrictions in some key areas were removed, and more effort was needed to come into line with internationally agreed standards and practices. For example, there was a wide discrepancy between simple average tariffs for industrial and agricultural goods. As a producer of agricultural products, New Zealand was especially sensitive to the tariff peaks that occur in agriculture. The simple average applied tariff for agriculture was around 26 per cent, while that for industry was 1.5 per cent. However, the out-of-quota regime through a combination of specific and *ad valorem* charges resulted in an effective tariff between 500 and 700 per cent for a range of key dairy items. Out-of-quota rates of this size halted trade. Tariff quotas should be operated to allow a phased reduction of protection, and should not remain as barriers to

trade. Tariff quotas and import quotas were a general area of concern to New Zealand; for example, the management of tariff quotas and especially the issue of quota underfill. He queried the rationale for Japan to maintain tariff quotas for product categories where quotas were unfilled, due to low market demand. He remained concerned too that there was no mechanism to reallocate automatically unused quotas among end-users, and would welcome movement towards eliminating such restrictions on trade.

66. The Secretariat report also noted that most fisheries import quotas had shown little change over the past several years. New Zealand was disappointed that Japan showed little sign of moving to a more acceptable and WTO-consistent approach in this sector. Japan's assertion that opening its market would contribute to unsustainable harvesting was not, in his view, credible. Protection of the domestic fisheries industry was not a reason to maintain import quotas, and he would be interested in Japan's WTO justification of its policy, which had also been a matter of concern at the last TPR.

67. Sanitary and phytosanitary issues were amongst the biggest problems for foodstuff exporters into Japan. These restrictions not only had a significant impact on existing major export industries, but also impeded the development of some high-quality industries with considerable trade potential. A telling example of New Zealand's problems in this area was access for apples. In 1997, four years after phytosanitary conditions had been agreed for New Zealand apples to enter the Japanese market, total exports had been less than 9 tonnes. This did not reflect a lack of market demand, but rather the sheer complexity and cost of phytosanitary conditions. He hoped that Japan would note New Zealand's concerns in this area and work with exporters to find a better approach. He nevertheless welcomed Japan's increasing emphasis, noted in the Secretariat report, on moving towards international standards embodying performance-based criteria. This was a constructive development and New Zealand looked forward to continuing a dialogue with Japan in this area.

68. New Zealand considered that market-access restrictions had an impact on overall economic efficiency. They were inconsistent with the overall positive thrust of the bilateral relationship between New Zealand and Japan, which involved constructive cooperation both bilaterally and in regional forums such as APEC. Their retention raised questions about the pace and application of deregulation in Japan.

69. The representative of Norway sought Japan's assessment of the potential impact of the weakness of the banking and financial sectors on its trade policy, bearing in mind that the Japanese Government had reaffirmed its commitments to the maintenance and strengthening of the multilateral free trade system. He emphasized the strengths of his country's relationship with Japan.

70. Although Japan had confirmed its willingness to give priority to the multilateral approach, the operation of laws and regulations regarding the so-called "prior consultation system" in Japanese ports seemed to contradict this policy. He invited Japan to inform the TPRB of the status of the present legislation and practices regarding this system, and hoped that any improvements the Japanese authorities might apply would be implemented on an MFN basis.

71. The Secretariat report pointed out that it had not always been easy for outsiders to follow the process of deregulation because of the multiplicity of programmes. The adoption of more wide-ranging deregulation was encouraged; the main rule should be a deregulated market with a limited number of exceptions, not the other way round.

72. The Secretariat report noted that "distribution continues to be one of the lowest-productivity sectors in Japan". A careful observation of day-to-day transport activities in Japanese cities supported this statement. The Government had consequently recognized the need for reform in this sector. In Norway's view, everybody would gain if the reforms produced a more efficient distribution system. He believed that Japan would be best served by a distribution system that was both varied and sophisticated enough to maintain also a wide selection of imported products.

73. The representative of the European Union agreed that recent developments had largely overtaken those described in the reports. Japan's economic growth had dropped sharply in recent months, resulting essentially from a loss of business and consumer confidence, including confidence in the domestic financial system, and the effects of the Asian financial crisis. In addition, Japan's trade and current account surpluses had now been increasing steadily for more than a year. Provisional data showed that the EU's merchandise deficit with Japan had increased by 67 per cent in 1997, an increase well above that for Japan's overall trade with all countries.

74. The Government of Japan's forecast for economic growth in fiscal year 1998 was 1.9 per cent, emanating entirely from internal demand factors. He welcomed the expectation that growth would not be export-led. However, this constituted a significant change from 1997 when external demand had underpinned economic growth.

75. In cushioning recent economic developments, both in Japan and the rest of Asia, an open and transparent world trading and financial system had crucial roles to play. Recent problems in Asia had arisen at least in part due to a lack of market openness and transparency. It was now imperative to tackle these issues, which would provide at least part of the solution to the current economic problems.

76. Japan's domestic economic policy was central to alleviating recent difficulties. He fully supported the goals of the Japanese Government to revitalize the domestic economy and create an economic system more compatible with market mechanisms. Recent economic measures went in the right direction. However, these measures would not, in themselves, give a significant boost to the economy in FY 1998. He asked whether further measures might be needed to restore confidence in the economy. Over-reliance on export demand would lead to the burden of adjustment being placed on Japan's trading partners. This made it important for Japan to continue its efforts to promote structural reforms facilitating access to its market.

77. The EU thus supported and welcomed the recent announcement of a new three-year deregulation programme, starting in April 1998, which responded to a long-standing EU request. He welcomed the creation of a group of "eminent persons" to monitor the deregulation process, although he was somewhat disappointed to hear that no European participant had been invited to join this group, while representatives from other foreign parties had been invited. The key issue for deregulation was the implementation of concrete measures. The new programme should fully take into account the 200 deregulation proposals that the EU had submitted to Japan in November 1997. These measures would, if implemented, substantially improve market access for the vast majority of Japan's trading partners as well as domestic Japanese companies. He emphasized the need for the vigorous enforcement of competition policy.

78. The EU recognized the short-term need to stabilize the banking and financial system and to maintain confidence. However, care must be exercised in underwriting existing financial capacity. Bailing out insolvent or uncompetitive financial institutions risked limiting or delaying structural reform in this sector and would, in turn restrict market access for foreign firms, further undermining confidence in the economy. He welcomed the recent assurances by the Government that it was not the intention to use public funds to bail out insolvent financial institutions.

79. He recognised Japan's good record concerning the implementation of WTO Agreements, and looked forward to Japan taking a proactive approach to trade liberalization in the framework of new WTO negotiations around the turn of the century.

80. As for trade policy towards least-developed countries, Japan was alone among the principal developed countries in not having yet come forward with concrete proposals to grant additional access in the context of the recent High-Level Meeting. The EU encouraged Japan to improve access

conditions for these countries and looked forward to learning what measures Japan was planning to take in this regard.

81. Significant progress had been made in 1997 in resolving a number of trade disputes with Japan. Most remaining market-access problems related to regulatory obstacles to trade. Among the more pressing problems were difficulties in the fields of leather and leather footwear, pigmeat, landing slots at Tokyo's Narita airport, testing and certification requirements for agricultural products, and distribution. The EU believed that Japan's trade policies and practices were moving in the right direction. The key now was to ensure effective and timely implementation of structural reforms. Recent economic and trade developments in Japan had reinforced the need for decisive action in this respect. Particular emphasis was placed on the finding of the Secretariat Report that the firm continuation of the deregulation process was "an essential element in stimulating the domestic market and encouraging improved market access".

82. The representative of Australia emphasized his country's strong economic relationship with Japan. She welcomed Japanese initiatives to increase imports by pursuing structural reform, including through deregulation, and suggested that the pace of reform needed to be hastened, particularly in the area of agriculture. She hoped that Japan, as one of the largest economies in the world and as one of the principal beneficiaries of an open and rule-based multilateral trade system, would play an active role in achieving further multilateral liberalization. Australia applauded the important and positive role played by Japan in the sectoral negotiations in information technology, maritime transport, telecommunications and financial services, and encouraged Japan to lend its support to calls for a balanced and comprehensive round of trade negotiations by 2000 that would allow all WTO participants to secure maximum gains. She noted that Japan's average applied tariff on manufactured goods was less than 5 per cent, and hoped that the low level of tariff would enable Japan to support also the call for further multilateral industrial tariff negotiations, to coincide with the mandated negotiations in services and agriculture.

83. Japan's high levels of protection and support for agriculture remained a major concern to Australia, notwithstanding the progress that had been made during the Uruguay Round in changing and making more transparent the methods used. Support levels remained significantly above comparable OECD countries, average applied agricultural tariffs were more than five times the level for manufactured goods, and there were significant tariff peaks and tariff escalation in a number of sectors. The operations of state-trading enterprises continued to stifle imports. Tariff-rate quotas appeared to operate as quantitative restrictions. These high levels of assistance had not resulted in significant productivity improvements, nor had they helped Japanese agriculture to adjust significantly to the changes under way globally. They had been to the detriment of Japanese consumers and taxpayers and also to Japan's food processing industries, which had been encouraged to move offshore because of the high cost of inputs. The results of Japan's policies had not been consistent with the Government's own food security objective. She was therefore interested in moves under way in Japan to review its Basic Agricultural Law and to hear about likely policy options in agriculture, particularly in the lead-up to the next round of agriculture liberalization negotiations mandated to begin at the end of 1999. Australia acknowledged that it was the sovereign right of any WTO Member to support its agricultural sector, but did not accept that this be done in a way that distorts trade.

84. The SPS and TBT agreements had set out clear and detailed rights and obligations covering quarantine, food safety measures and other standards and technical regulations to prevent their use as unjustified technical barriers to trade. She noted that as part of its 1996 APEC Individual Action Plan, Japan had undertaken to implement more transparent quarantine procedures based on sound scientific assessment, and welcomed this and other commitments by Japan to increase the transparency of its quarantine procedures. Nevertheless, Australia had a number of quarantine problems with Japan. She encouraged Japan to ensure that technical barriers were not disguised restrictions on access to the Japanese market and that they respected the letter and the spirit of the SPS and TBT Agreements.

85. Australia had pursued a number of market access issues through formal and informal bilateral consultations with Japan, made formal submissions to the Office of the Trade and Investment Ombudsman with some success, and used the Japanese Fair Trade Commission and the MITI Import Board to raise market-access concerns. The Japanese Government's Deregulation Action Programme (DAP) had provided a further useful mechanism to lobby for the removal of regulations which, directly or indirectly, impeded access for imports. Australia therefore welcomed Japan's recent decision to establish a replacement programme when the DAP expired in March 1998.

86. Australia noted the lower productivity levels in Japan's services sector than in the manufacturing sector. Given that services was a growth area in Japan, productivity growth in services would have a greater impact on economywide productivity than in manufacturing. This underlined the benefits of having open and competitive services markets in Japan, benefits that would accrue not only to Japan's trading partners but to Japan itself.

87. The representative of Hong Kong, China emphasized that its relationship with Japan was strong; Japan was a key target for its exporters and for investment.

88. Hong Kong, China's comparative lack of success in both import penetration and investment into Japan were points generally appreciated by the Japanese Government and highlighted in the two reports. It could only be to the benefit of all concerned that conditions for both were made easier.

89. Deregulation in its widest sense was the key to achieving many of the aims of the Japanese Government in making its economy more compatible with the modern day market mechanisms. Hong Kong, China was an excellent example of how an economy could flourish in a very open and transparent regulatory environment. There was some way to go before Japan achieved its stated aims; the good intentions for deregulation had not yet translated well into meaningful changes. He urged that the Japanese Government find better ways to expedite the changes needed in order to prosper in the twenty-first century, in particular, given the current financial turmoil in Asia. As the second largest economy in the world, Japan needed to open its markets to other economies currently in difficulty. All would gain by the full implementation of the measures Japan had, or was proposing to, introduce.

90. Hong Kong, China welcomed Japan's firm support for the multilateral trading system. Japan was a strong and positive force in the system. Hong Kong, China would continue to work with Japan to promote and to strengthen the rules-based multilateral trading system, which remained the bedrock on which international trade must be built.

91. The representative of Switzerland said that Japan had a leading role in international trade and therefore a considerable responsibility for the smooth functioning of the multilateral trading system. He emphasized Switzerland's strong relationship with Japan. It was of great interest to all WTO Members to follow closely the evolution and application of the Japanese trade and economic policy especially in the light of the present complicated circumstances. Switzerland took a keen interest in the Japanese decision-making process in trade-related policy areas. The regulatory environment for goods and services was often very complex. It had been positively noted that one of the Deregulation Action Programme's basic directions of reform was the change from ex-ante regulatory-type administration to ex-post review-type administration.

92. He agreed with the Secretariat that bilateral arrangements could lead to an erosion in the observance of the MFN clause, and therefore encouraged Japan to continue to scrupulously observe the cornerstone of the multilateral trading system.

93. Regarding the pharmaceutical sector, Switzerland was very concerned about Japan's taxation practices over the last years. He hoped that existing international standards and recommendations were also fully applied by Japan in the sector. Regarding the Public Health Insurance Reimbursement

System, the Swiss pharmaceutical industry agreed with the Secretariat report that the reimbursement price (Drug Tariff) did not adequately compensate research companies for the costs inherent in developing new, innovative pharmaceutical products. The Government of Switzerland was generally concerned about any inadequately designed price control systems which interfered with a liberal market, and would follow further developments in this area with great interest.

94. Standards and regulations became increasingly important in a trading environment with low industrial tariffs. Situations where goods from overseas faced different standards, additional tests or different testing methods were rather burdensome and costly, in particular in the areas of medical devices, pharmaceuticals, chemicals, machinery, mechanical and electrical appliances. As part of the Deregulation Action Programme, Japan was making great efforts to move towards increased international harmonization of standards. He encouraged Japan to undertake further improvements to adopt new international standards as well as to harmonize Japanese standards with the existing ones.

95. Several Swiss companies doing business in Japan had reported that they faced major delays in customs clearance, in the case of sea cargo up to ten days. Although some progress had been made, as pointed out in the Secretariat report, it was evident that this was still a major obstacle and that the customs clearance time in Japan remained quite long. In 1995 it had been indicated that the Ministry of Finance would adopt a system to allow import permissions in advance in order to reduce the time for passing customs. He believed that such permission had never been granted in advance and that corresponding guidelines did not yet exist, thus, he asked for the status of implementation of this advance import permission.

96. He noted that access to government tenders was, in many cases, not subject to written rules and conditions. Often the reasons given for declining an offer from a company seemed rather unclear. For many sectors and product categories the share of foreign suppliers in government procurement was extremely small.

97. The representative of India noted that Japan was an extremely important contributor to world trade. Economic developments in Japan were invariably looked upon from the perspective of their impact on the multilateral trading system. WTO Members had therefore been closely following the recovery in the Japanese economy since the recession of 1993. While the signs were positive, the pace of recovery had been slow. Up to the middle of 1995, the Japanese economy had recorded very slow growth; although there had been a marked improvement in 1996, the latter half of 1997 again saw a downturn, primarily because of the economic turmoil in the neighbouring Asian countries. The continuing deficit and increase in indebtedness had prompted the Government to take a package of measures for curtailing spending. Although a slow-down was foreseen, the package of measures taken prudentially, and the weaker yen, should ultimately bring in further export-led growth.

98. Since its last Review in 1995, Japan had taken a number of steps towards deregulation and structural reform. He noted Japan's statement that both deregulation and structural reforms would remain in the forefront of Japan's trade and investment policies. Progress in these areas would enhance Japan's ability to achieve its economic and social objectives. Market access would undoubtedly remain a key area of deregulation and reform. Although the Government had taken some steps to improve market access and distribution among priority areas, much more needed to be done towards giving priority to import promotion; there were still a large number of policies and procedures that inhibited the expansion of trade. From India's perspective, the most significant impediment was the range of phytosanitary and quarantine regulations governing the import of agricultural and food products. This issue remained an area of disagreement between Japan and its trading partners. Japanese standards for fresh fruit and vegetables were far more stringent than international standards. The insistence on the date of manufacture, instead of the universally accepted practice of "best before" date, was another source of disadvantage for overseas competitors. It was essential for Japan to ensure increased international harmonization and to adopt mutual recognition arrangements.

99. Another area that impeded trade was the complexity and rigidity in Japan's distribution system, which raised the cost of market entry and inhibited access by foreign firms. Exclusive relations between retailers, wholesalers and manufacturers often presented significant hurdles. Japanese procedures in this area should be simplified.

100. Japan's implementation of its new tariff regime had resulted in an increase in some tariff rates. While Japan had taken certain remedial measures, these had not affected tariff peaks, which continued to occur in the agriculture, food manufacturing, textiles and footwear sectors. The administration of tariff quotas needed to be streamlined, especially since tariff quotas frequently remained under-utilized and there was no system of reallocation of unused quotas. Further, a number of non-tariff barriers were also prevalent in the Japanese market. There were quotas and semi-controlled trading on a number of agricultural products such as rice, wheat, and barley. In particular the Simultaneous Bidding and Selling system (SBS) for rice had acted as a barrier to exports of Indian rice to Japan. The WTO consistency of the SBS system needed to be examined.

101. The share of services in Japan's overall trade had also been increasing. However, there were restrictions in the handling of local business by foreign agents which impeded effective cooperation between Japanese and foreign firms. Certain rules and conditions in the legal and accounting services sectors were not conducive to growth. Japan's policy, whereby even bona-fide businessmen were not granted multiple entry visas, further inhibited the growth of business. As a model for other Asian economies, Japan needed to rectify these shortcomings so that it could continue to foster growth and bilateral trade both in goods and services.

102. As an original signatory to the WTO, Japan's belief in and commitment to the multilateral trading system was well known. This was best illustrated in its policy towards regional arrangements. Unlike some of the other prominent Members of the WTO, Japan did not support or believe in the proliferation of customs unions or other preferential regional agreements. India looked forward to Japan's continued contribution in the strengthening of the multilateral trading system.

103. The representative of the Republic of Korea noted that, in recent years, Japan had demonstrated a willingness to engage in a constantly evolving process of liberalization, including marked tariff reductions. Japan had initiated various import promotion measures since 1994. Given the importance of Japan in the multilateral trading system and the size of its market, Members expected to benefit from such a process. However, many obstacles to trade continued to impede access of foreign products and services to the Japanese market. Korea encouraged Japan to pursue its liberalization, covering sectors that had yet to be addressed. In spite of the Japan's efforts to liberalize trade and implement import promotion measures, Korea still faced an increasing trade deficit with Japan. Korea requested Japan to accelerate its efforts to apply more substantial and tangible measures to improve market access in general. While noting Japan's continued efforts to reduce tariffs, 16 industrial goods of concern to Korea, which were competitive with their Japanese equivalent, retained high tariff rates. Accordingly, Korea urged Japan to reduce tariffs on such goods as polypropylene, suitcases, clothing, silk fabrics, and footwear.

104. The process of deregulation that Japan had initiated appeared to be oriented toward promotion of the domestic economy, and remained partial in scope. For Korea, it appeared insufficient in its level of deregulation. Such sectors as agriculture and fisheries, construction and certain services, including distribution, still faced strict regulation that hampered improved market access. For example, Japan imposed sanitary inspections on imports of certain foods, contrary to other advanced countries. Moreover, even after opening public procurement in the construction sector, there still existed various institutions and practices that restricted the access of foreigners into the Japanese construction market. Korea asked Japan to take concrete steps to accelerate its deregulation process, thereby contributing to re-ignite the vigour of the East-Asian economy.

105. Tax incentives granted by the Japanese Government for imports were mainly directed at industrial goods coming from advanced countries which already had a competitive edge. Japan should expand tax incentives so that developing countries could also benefit from them. The Foreign Access Zone programme did not seem to bring substantial benefits to Members as it focused on developing local cities rather than on stimulating foreign companies by providing them with incentives. He asked Japan to provide more information on how the Foreign Access Zone programme could present a concrete advantage for Members trading with Japan.

106. The representative of Korea expressed appreciation to the Japanese Government for its efforts at solving market-access problems for imported fishery products through the establishment of the "Trade and Investment Ombudsman" office. However, at least two issues on fisheries remained sources of concern for Korea. First, Japan was still implementing numerous restrictive quotas on fishery products imported from Korea. He urged Japan to increase the quotas or improve the system, and ultimately, on a long-term basis, to eliminate these restrictive quotas on nine items to facilitate the access of Korean fishery products to the Japanese market. Second, Korea had been and remained subject to the equivalent of an import cartel for laver through the operation of Japan's Association of Laver Producers. Korea strongly hoped that these barriers would be removed as soon as possible.

107. The representative of the United States commended Japan for its significant contributions in recent WTO negotiations, particularly the Information Technology Agreement, the Telecoms Agreement, and the recently concluded Financial Services Agreement. She hoped that these agreements would provide improved access to the Japanese market for Japan's trading partners in these important sectors. In turn, she expected Japan to benefit substantially from these agreements and from expanding the scope and strength of trade rules under the WTO.

108. She noted that since the 1995 review of Japan, the United States and Japan had reached a number of bilateral agreements in sectors including auto and auto parts, insurance, semiconductors and harbour services. She expected these agreements to result in improved access to Japan's market. She welcomed other steps that Japan had taken since the 1995 review to bring its regime into compliance with WTO rules, including amending its copyright law to provide retroactive protection for sound recordings and the recent settlement of the dispute on distilled spirits.

109. She expressed concern over Japan's large, increasing current account surplus with the rest of the world, projected to reach about US\$93 billion in 1997, an increase of 42 per cent over 1996: this represented 2.2 per cent of Japan's GDP, considerably above the levels of most industrialized countries. There were no signs of the surplus decreasing in the months ahead; the projected surplus for 1998 could likely exceed US\$100 billion. This was extremely troublesome and represented a serious drag on the rest of the world economy.

110. Japan's global trade surplus was also experiencing a similar trend. After declining in 1996, it had risen sharply by almost 50 per cent in 1997 to ¥10 trillion. The Prime Minister had recognized that it was necessary for Japan "to rectify the nation's growing trade surplus". The global trading system could not afford to have the world's second-largest economy relying on an export-led strategy to achieve economic growth. Japan needed to stimulate domestic-demand led growth that would generate a truly healthy economy. The Japanese economy was stagnant, with GDP growth in 1997 likely to be well below 1 per cent. Based on Japan's current economic policies, economists were predicting only modest growth, if any, in GDP for 1998. This situation became all the more of concern considering the current economic and financial situation in South Asia. Japan had a critical role to play in the global economy at this important time, serving as a partner in Asian adjustment and an engine of growth for other economies in the region. It was critical for Japan to take the steps necessary to deal with the issues in its financial system, to generate solid growth in domestic demand, to implement immediate and far-reaching deregulation, and to open its market to imports from other countries.

111. The Secretariat report was replete with examples of structural characteristics of the Japanese economy that restricted access for foreign products and services and discouraged foreign investment. For example, while some progress had been made in the area of customs clearance times and sanitary inspection procedures, these remained quite high by developed-country standards; and, with respect to investment, the report indicated that the Government of Japan had failed to address sufficiently the real obstacles encountered by importers and investors, including exclusionary business practices, high market entry and business costs, and lack of transparency.

112. She shared the concerns of others regarding government procurement. Japan's policy appeared to be one of carefully matching its own commitments to those of others, rather than setting an example with significant unilateral liberalization. Japan's consistently narrow interpretation of its commitments frequently resulted in implementation that did not achieve the desired results because it failed to address informal barriers to market penetration.

113. She welcomed recent amendments to the Anti-Monopoly Act to strengthen and upgrade the Japan Fair Trade Commission, while noting and supporting the Secretariat's concern with inadequate enforcement efforts by Japan. The United States strongly held the view that Japan's competition policy efforts would remain inadequate until it significantly strengthened enforcement, including more criminal prosecutions and higher penalties for violations. Tables in the Secretariat report showed an actual decline in cases initiated under the Anti-Monopoly Act between 1993 and 1996. Serious enforcement efforts would require an increase in JFTC resources, especially investigative personnel.

114. The regulatory environment for services was often complex and non-transparent. Various barriers to foreign penetration in services, such as distribution, telecommunications, professional services and transportation, carried a heavy cost for Japan and its trading partners. Distribution was an area of particular concern to the U.S. Government. In sector after sector, from glass to film to autos and paper, U.S. exporters faced barriers to entry and full participation in the distribution channels of Japan, hindering their ability to move their products to the consumer. Distribution was one of the lowest productivity sectors in Japan; serious opening of Japan's distribution system was in the interest of Japan and its trading partners.

115. While welcoming the deregulatory measures undertaken since the last review in 1995, she remained extremely concerned about the slow pace of reform, the resistance to meaningful reform in many Japanese Ministries and government entities and the serious consequences of failing to continue to move forward with an aggressive deregulation agenda. Many Japanese newspapers, academicians, politicians, and business groups, as well as a number of governments had also been critical of the series of weak Japanese deregulation programmes, and had called for bold action in this area. The challenge for Japan was to seize the current popular support for deregulation and the Prime Minister's own initiative to bring about this objective. Deregulation meant more than counting the number of deregulatory measures that had been taken year to year. It was critical to look at the substantive nature of such measures to assess whether they had been effective in liberalizing the Japanese economy and opening Japan's market.

116. The U.S. Government also remained extremely concerned that steps that Japan might take in the future under the guise of deregulation would actually result in new types of regulation, less transparency and further close Japan's market. The legislation currently in draft to repeal the Large Scale Retail Store Law would include a proposal to allow local authorities to consider what effect new stores would have on environmental concerns. Although these were legitimate concerns of local governments, she saw the serious danger that vague or non-transparent rules might be abused to restrict store openings under the pretext of protecting the local environment. She therefore urged the Government of Japan to see that the new rules were transparent, consistent and non-discriminatory and that they minimized the delays in new store openings. She also believed that it was critical for interested parties, including foreign governments, to participate in the process.

117. The U.S. Government was currently pursuing a bilateral deregulation initiative with Japan. Four sectors had been agreed on for immediate attention: financial services, telecommunications, housing and medical technology/pharmaceuticals. She expected Japan to undertake a meaningful package of deregulatory, market-opening actions in all of these sectors by spring 1998.

118. The U.S. Government welcomed Japan's recognition that it had benefited from the multilateral trading system and that Japan had a responsibility to maintain and strengthen the system. She looked to Japan to serve as "a leader in further liberalization of trade and investment", and looked forward to reviewing the results of such initiatives at Japan's next trade policy review in two years.

119. The representative of Colombia said that, although Japan received only 3 per cent of its exports, it was an important market because the majority of exports was concentrated in a small number of agricultural products. Trade statistics for 1993 to 1996 showed that Japan had a bilateral trade surplus that reached 200 per cent of Colombia's exports. She expressed gratitude for the cooperation of JETRO with the Colombian export promotion agency in developing a project to increase and diversify Colombian exports to Japan, as well as bilateral initiatives to facilitate inspection control. In this context, the development of agricultural policy and implementation of the SPS Agreement were of great interest; Colombia had presented some specific questions and looked forward to the written answers. An explanation regarding the SPS policy for fruit and vegetables would also be interesting; in particular whether these measures reflected international standards in effect or a level of risk specifically determined by Japan, and whether efforts to simplify domestic regulations were in fact in line with international standards in the sector.

120. Japan had four types of tariffs, including concessional exceptions. 228 companies had used imported materials with reduced or exempted tariffs for specified purposes. She asked if Japan could explain these "specified purposes" and the system for tariff exemption or reduction for the import of raw materials to be used in the production of export goods (Article 19 of the Customs Code). She also sought information on Japan's policy with regard to the Generalized System of Preferences. It appeared that this covered 10 per cent of imports from developing countries, while 75 per cent of GSP imports was met by ten countries. She wished to know whether there was any possibility of the programme being expanded.

121. The representative of Iceland said that Japan had long maintained strong support for the multilateral trading system. Deregulation and structural reform had been vital ingredients of Japan's trade policy in recent years. The results of many of the reform initiatives launched by the Japanese Government remained to be seen. His impression was that intensified efforts were needed. He expressed concerns about the economic difficulties experienced by Japan since the last Review.

122. Although there had been a slight downturn in Iceland's exports to Japan since 1995, he emphasized Japan's importance as a valuable trading partner. As stated in the Secretariat report, Japan's distribution-sector practices and regulations continued to cause its trading partners difficulties. These complex and multi-layered networks were difficult to access and contributed to high distribution costs. The Government of Japan had recognized the need for reform and restructuring of the distribution sector, and he looked forward to any measures that might be taken.

123. Iceland would have wished Japan to make substantial bindings on fish and fish products under the Uruguay Round; a large number of tariff lines in this sector continued to be unbound. The use of quantitative restrictions for some fisheries products had also continued under the WTO; the Secretariat report suggested that this had been done to contribute to sustainable utilization of fisheries resources. Iceland would argue that although this was certainly a worthwhile goal, there could be more appropriate ways to pursue it; the solution lay with responsible fisheries management and trade liberalization, not restriction. Iceland asked whether the Government of Japan had any plans to reduce or eliminate this practice.

124. He emphasized that sustainable utilization of fisheries resources could be achieved by a general abolition of subsidies to fishing industries, which had led to over-capacity, distorted trade and undermined resources. Iceland would appreciate any information on the nature and extent of subsidies to the Japanese fishing industry, including any indications that these might in future be modified, reduced or abolished.

125. The representative of Pakistan said that Japan had always played a constructive role in multilateral trade under the GATT and the WTO and was one of Pakistan's main trading and investment partners. He was concerned that the recovery in GDP had come to a sudden halt in mid-1997. He expected that measures announced by the Government of Japan in November 1997, coupled with the so-called "pump-priming" measures taken since then, should provide a framework for domestic-led recovery.

126. He expressed concern about tariff peaks and escalation in agriculture, textiles and clothing, leather goods and footwear, as well as fisheries. He urged the Japanese authorities to review their import policy regime with respect to these products. While he appreciated that Japan's GSP beneficiaries currently comprised 150 countries, the distribution of benefits remained highly skewed both in terms of the number of main beneficiaries and the range of products. He hoped that Japan would consider measures to broaden the coverage of the scheme.

127. The representative of Indonesia, on behalf of the ASEAN countries, said that Japan had achieved and continued to display an impressive performance in the export sector. Stimulation of its own economy would provide a much-needed impetus toward alleviating the economic difficulties faced by some countries in Asia. The Secretariat report noted that Japan was likely to be more severely affected than other industrialized countries by the financial problems besetting some ASEAN economies, due to the growing economic interdependence between Japan and these economies. ASEAN viewed Japan's policy responses vis-à-vis the challenges in the region as extremely important. ASEAN looked upon Japan not only as an economic and trading leader, but more importantly as a partner.

128. Although the overall level of Japan's tariff was relatively low, certain products were still subject to high protection, tariff escalation and tariff peaks, including products of major interest to ASEAN such as agriculture, food manufacturing, textiles and footwear.

129. Most ASEAN countries had benefited from Japan's GSP scheme. However, the scale of net benefits of GSP was still limited, partly because many products of interest to developing countries were not eligible for GSP benefits, particularly textiles and some agricultural products.

130. ASEAN highlighted the often burdensome SPS procedures required before exports of fruit, plants and other products were allowed into Japan. While Japan had accepted greater efforts to move toward international standards, there was still a need to improve on pre-export clearance procedures. While many of Japan's requirements might be justifiable under the SPS Agreement, the administrative procedures imposed were often lengthy and cumbersome. He referred to particular cases concerning fruit, rye straw, processed pork and pigmeat.

VI. REPLIES BY THE REPRESENTATIVE OF JAPAN AND ADDITIONAL COMMENTS

Macro-economic background and structural reform

131. The representative of Japan stated that replies to some of the detailed questions on technical issues might be provided bilaterally. The ¥2 trillion tax reduction would have a positive effect on the Japanese economy, estimated to be about 0.2 per cent of GDP. This, with other fiscal and financial measures, should have a cumulative positive impact.

132. The share of public sector employment in GDP in terms of Central Government and local governments employees, had been 8.2 per cent of the total workforce. More detailed figures would be provided later.

133. Japan's efforts towards building a domestic demand-led economy were described in the Secretariat report. Measures such as the five-year Social and Economic Plan for Structural Reforms of December 1995 and the Deregulation Action Programme of March 1995 were bearing fruit in the form of, for example, decreases in tariffs for telecommunications and in the price of gasoline. The Economic Planning Agency estimated that deregulation since FY 1990 had created about 1.6 per cent of GDP worth of business opportunities and that future structural reform, including deregulation, would lead to an annual increase of about 0.9 per cent in GDP between 1998 and 2003.

134. These calculations were of a mid- to long-term nature did not take into account short-term cyclical fluctuations; it would thus be difficult to tell the effect of difficulties in the Asian region on Japan. The currency depreciation of ASEAN countries would have a negative effect on Japanese exports to that region and positive effects on imports from the region. It would also be difficult to be definitive about the effects on Japan's foreign direct investment (FDI) in Asia. However, by categorizing the FDI into two types, one aiming at sales in the internal market of the FDI-receiving country and the other aiming at exports from that particular country to the outside region, in the former case, the recent difficulties were likely to have a discouraging effect on further Japanese investment, whereas in the latter case, the incentive to invest may have become greater.

135. Exports were foreseen to grow by around a little less than 12 per cent in 1997, whereas about 5 per cent growth was expected in 1998. On the other hand, Japanese imports were expected to grow following the recovery of the economy, and as a result, the goods and services account surplus in fiscal year 1998 was expected to be about ¥6.2 trillion, or some 1.2 per cent of GDP, similar to the previous year. The current account surplus was also expected to be similar to the previous fiscal year, i.e. about ¥12.4 trillion, or around 2.4 per cent of GDP. The above forecast was based on the assumption that the dollar to yen rate in FY 1998 would be about ¥123 per U.S. dollar. A similar projection was made by the IMF in December 1997.

136. A fairly comprehensive account of Japan's structural reform had been given on the first day of the Review. Japan had been promoting deregulation according to programmes set up in 1995 and further revised in 1997; those programmes concerned 12 areas, including housing, land, information and communications, and distribution. Concrete results so far included the liberalization of the import of gasoline products and the introduction of a tender system in wholesale electricity. Deregulation measures in the field of communications had already been explained. Foreign exchange controls had been relaxed and conditions for issuing commercial papers had been liberalized. Japan had eliminated and would, in principle, continue to eliminate, clauses under "demand-supply adjustment" in the area of distribution and transportation. The remarks that Japan's deregulation efforts had so far excluded agriculture, construction and international transport was incorrect. For example, the obligation by farmers to sell rice to the Government had been eliminated. On government procurement, the report by the Administrative Deregulation Sub-Committee, produced in December 1997 recommended the improvement of tender procedures related to public works. The economic impact of all these

deregulation measures was not being assessed by any formal mechanism in Japan, but an assessment was being carried out by the Economic Planning Agency.

137. Japan took the view that deregulation stimulated the economy, and thus would continue its effort to introduce further deregulation. The Administrative Reform Committee had completed its work, and deregulation would be carried out according to the recommendations made by the committee, which the Government had the obligation to respect as much as possible. On 26 January 1998, Japan had set up a body to promote new deregulation efforts, comprising mainly eminent persons from the private sector. What would be included in the new three-year deregulation programme was not yet decided, but it would certainly comprise the programmes which had not been completed, programmes that were included in the final opinion of the Administrative Reform Committee, and inputs from individuals in Japan and abroad. The new three-year programme would cover the entire administrative area.

138. Concerning competition policy, he noted that exemptions to the Anti-monopoly Act of Japan had already been touched upon in the opening statement. To sum up, an omnibus act to review or reform 35 exemptions and 20 laws had been enacted last July; remaining exemptions were being reviewed and specific conclusions would be reached by March 1998. It had already been decided by the Cabinet in December 1997 to abolish anti-depression cartels and rationalization cartels.

139. Legal systems to deter violation of anti-monopoly or anti-trust laws were different from one country to another; the majority of OECD member countries, for example, had no criminal procedures in this respect. As for Japan, law enforcement was twofold: first, administrative decisions, including cease and desist orders and surcharge payment orders; second, criminal penalties. The two systems were being utilized comprehensively. With regard to criminal enforcement, in 1990, the Fair Trade Commission had announced a policy of actively filing criminal accusations with the Public Prosecutor General with a view to deterring malicious and grave violations of the AMA. In this respect, JFTC was working closely with the public prosecuting authorities and was exchanging information and opinions on concrete programmes for each case. It was not appropriate to make judgement based solely on the number of measures taken; for instance, it was almost meaningless to compare the number of legal measures among the major industrialized countries. Citing from the annual report of respective countries, for instance, in FY 1996, the United States had pursued 42 criminal cases and 31 decisions, while the European Union had had seven administrative orders; the United Kingdom had two administrative orders, and Germany, seven legal measures, and so on. The JFTC recognized that whether to allow private citizens to sue for injunctions against violation of the AMA was a subject for examination. Concerning transparency of enforcement actions, JFTC made public not only legal or formal actions but also warnings. On the other hand, cautions were not considered to be measures which should be made public, since there was not enough evidence to suspect that violation of the AMA existed. Regarding the monitoring process, JFTC took actions in three forms: firstly, cease and desist orders; secondly, reporting by the parties on concrete action taken; and thirdly, monitoring by JFTC after a decision had been enforced, if deemed necessary.

140. Against a background of reduction in the public service, JFTC had managed to increase its staff; the number of personnel engaged in investigations had increased by more than 30 per cent since FY 1994, and investigative personnel had almost doubled since FY 1989. However, considering its expanding scope of activities, JFTC's resources were still limited. Concerning activities such as surveys and guidelines, to make trade practices and activities AMA-consistent, the revised guidelines introduced in 1994 were also to be applied to administrative guidance given earlier. JFTC would actively hold consultation with ministries and government agencies concerned to ensure that administrative guidance would not replace anti-competitive government regulations that were abolished. JFTC had revised and made public the AMA guidelines on trade associations in 1995 and was taking steps to improve openness of trade associations and make them AMA consistent. In regulated sectors in particular, JFTC would watch carefully so that government regulations should not

be replaced by anti-competitive self-restraints, or other practices by trade associations. JFTC would also take steps to follow up sectoral surveys on a case-by-case basis.

141. There were no comprehensive data on cross-shareholdings. However, according to a survey conducted on the six major corporate groups, the ratio of intra-group stockholding had been 22 per cent.

142. Bilateral cooperation agreements on competition policy could have certain merits, by clarifying the scope of cooperation and making it more effective. The Government of Japan would study bilateral agreements concluded between foreign governments.

143. A Cabinet decision had been taken in September 1995 relating to the introduction of transparency of councils and advisory bodies. According to this decision, a council or advisory body was to be headed by someone other than a retired official of the ministry to which it was affiliated. Minutes of councils and advisory bodies were being made public.

144. Increasing inward direct investment was important, as this would introduce more competition, increase imports, contribute to the structural reform of the economy, and hence would serve the interests of consumers. Therefore, in 1994 the Government had set up the Japan Investment Council, headed by the Prime Minister. The Import and Inward Investment Promotion Law provided for a preferential tax system; loans with preferential rates were extended by the Japan Development Bank, JETRO and FIND. The latter two organizations provided information useful to investors.

145. The first discussant, said that she was struck by the common themes that emerged in the interventions of many speakers: structural reform, deregulation, the need to stimulate the domestic market, and concerns about the trade surplus. Although there was acknowledgement of, and appreciation for, all of the measures, programmes and administrative steps taken, there was a recurring sense that the whole seemed to be less than the sum of the parts, that it was difficult to see the real results, and that the various actions should be infused with energy and singleness of purpose. She had been very interested to hear the Japanese representative addressing the impact of all of the measures, and would follow the assessment of the Economic Planning Agency with interest.

146. In many interventions, she heard references to Japan's role in the world and its role as the second-largest national economy. "Responsibilities", "leadership" and "partnership" were given a particular urgency in terms of the current developments in the ASEAN region and parts of Asia. She hoped that the message coming from many speakers had been heard and would be taken back to Tokyo.

147. On the question of the relationship between the South East Asian crisis and Japan's trade and investment policies, the second discussant had an impression that the Japanese representative had thought that events in South East Asia might make imports into Japan from the region more competitive and perhaps dampen the demand for Japan's exports to region. He saw a more active role for Japan in helping neighbouring economies to overcome their problems. Market opening, structural reform, and stimulating the domestic economy were very directly related to helping neighbouring economies to pull out of the existing difficulties.

148. The representative of the United States asked whether figures or projections for growth or decline in imports in 1998 were available. She asked for clarification of the exchange rate used for the trade figures provided by the Japanese delegation, and whether the same rate was used for projections for the current account surplus. In response to the two-part characterization of foreign direct investment in Asia, she asked whether there were any estimates of the share of Japanese investment in each of these categories.

149. The United States was very interested in the EPA's assessment of the impact of deregulation measures; she requested further information, in particular, what specifically were they looking at, the time frame for the assessment, and whether the results would be made public.

150. She asked whether Japan had seriously considered the U.S. proposal regarding the establishment of a high-level body in the Prime Minister's Office to oversee the deregulation effort, and if so, why Japan had rejected such a suggestion. She also asked whether there would be any oversight by the Government of the overall deregulation process in the new eminent persons' group from the private sector, established on the dissolution of the Administrative Reform Council.

151. She asked for a detailed response on what steps Japan had taken to improve the openness of trade associations. Regarding follow-up measures by the JFTC regarding their surveys, she asked for further elaboration on the measures that Japan had taken.

152. She believed that Japan had said it was not necessary to change policies in response to the Asian financial crisis because this was a short-term phenomenon and Japan's policies were implemented on a medium- and long-term basis. She asked whether there were truly no prospects or plans to take additional steps to revitalize the Japanese economy, particularly at this critical point in time.

153. The representative of the European Union asked whether a slow-down in the growth of Japanese exports could be assumed in the early months of 1998. Predictions for the current account surplus in terms of GDP would remain the same as FY 1997, at around 2.4 per cent; the goods and services surplus would also remain the same at about 1.2 per cent of GDP. The difference between these two figures was principally accounted for by transfers and receipts from overseas Japanese investments. Recently these had increased quite strongly, mainly because of the somewhat weaker yen increasing the value of receipts in yen terms to Japan. He asked whether the Japanese authorities expected this situation to continue. Approximately one quarter of recent Japanese foreign investments were located in Asian countries, whose currencies were very weak; the receipts in yen terms would be somewhat lower, and the yen/dollar exchange rate on which these assumptions had been based could be stable at around the current level. He could not anticipate an increase in yen terms of income receipts from investments in Europe or the United States, and therefore requested more details on how these receipts would be maintained at 1.2 per cent of GDP.

154. He was pleased that foreign suggestions for input into the forthcoming new deregulation programme would be taken into account. He asked whether the Japanese authorities intended to bring in measures that would have a significant economic impact across all sectors to the front of the programme rather than to backload them, as in the 1992 programme. He was concerned that no European representative had been nominated to participate in the "Eminent Persons Group" and asked if this could be reviewed to ensure representative foreign opinion.

155. The representative of Japan responded that Japan's imports were projected to grow by about 3 per cent in FY 1997 and about 6 per cent in FY 1998. The assumed exchange rate would be ¥123/US\$ for the current account surplus and for the export and import projections. He had compared Japanese, U.S. and EU FDI some years before, and had found that Japanese and U.S. FDI had been more export-oriented, while EU FDI into Asia had been more domestic-market oriented.

156. He asked whether the 16 per cent rate of increase in Japanese exports for calendar year 1977, mentioned by the EU representative, was in dollar terms or in yen terms. It would not be easy to compare a figure in dollar terms with Japan's numbers (11 to 12 per cent growth in FY 1997). Japan did not anticipate a sharp deceleration of exports in the last quarter of FY 1997. One reason for the trend on the income account was the assumption made on the dollar exchange rate, which he expected would be around ¥121/US\$ in FY 1997 and ¥123/US\$ in FY 1998. The appreciation of the

yen against Asian currencies had some impact on the projection of the income account for FYs 1997 and 1998.

157. The Fair Trade Commission had issued guidelines on trade associations in October 1995. At the time, the Commission had set up an advice section for trade associations. In FY 1996, JFTC had received 856 consultations, the Commission had already made public some of the cases on which it had been consulted; JFTC had conducted so many surveys that it was almost impossible to take them up one by one. As an example, in October 1997 a survey in insurance had been announced, with a two-fold purpose: firstly, from the viewpoint of regulation, and secondly to understand the transactions between insurance companies and users. The result would be announced within one year.

158. He noted that there had been a slight mistake in Japan's earlier statement on the assessment of the effects of deregulation on the economy. The EPA was not undertaking a new assessment of the affects, but had done such an assessment two years earlier. The results of that study had been mentioned in the opening statement.

159. The Committee on Deregulation, comprising people from the private sector, was set up under the authority of the Administrative Reform Promotion Headquarters, headed by the Prime Minister, with government oversight. He was not in a position to give any assurances on the participation of foreign members, but would take note of the statements made. Japan was in a process of determining the context of the programme, thus he could not say whether there would be any front-loading or not.

160. On the question of Japan's responsibilities in the Asian crisis, Japan had been providing funds when the emergency packages of the IMF were drawn up for Indonesia, the Republic of Korea and Thailand. Japan wished to see whether its efforts would bear fruit before venturing into another set of programmes.

161. The first discussant reiterated that, although a great deal was under way in the deregulation area, either not enough was in place or the measures in place were not having practical effects. Thus, very clear and constant monitoring, as well as trying to establish the effects of the measures in place, was very important.

162. Commenting on a question regarding Japan's emphasis on multilateralism, the representative of Japan did not think there was any possibility of Japan entering into any regional trading agreements at the moment. The essence of regional trading agreements was to differentiate between countries that were in the groups and those that were outside. Although such arrangements were permitted under certain conditions by the GATT, the conditions were not clear enough; there was an undeniable danger of undermining the MFN principle. The work going on in the Committee on Regional Trading Arrangements was very important; Japan participated with great interest in that work, especially in relation to systemic issues.

163. He noted that tariff rates were reviewed every year subject to representations from foreign governments and the private sector within Japan. An explanation of Article 19 of the Customs Tariff Law, under which tariffs on materials or inputs could be refunded, could be provided. As he had already mentioned, the time necessary to clear customs procedures was very short, and was becoming even shorter. Japan was not aware of any study that compared different systems in a uniform manner. Japan had introduced improvements by linking different procedures; the Nippon Automated Cargo Clearance System was linked with procedures under the Food Safety Law and the Phytosanitary Law since February and April 1997, respectively. This kind of interfacing would be progressively extended to procedures under other laws. Companies handling import procedures were competing among themselves in order to provide as rapid a service as possible; further improvements could therefore be expected. For cut flowers, Japan's figures showed that customs clearance time on average had been 1.8 hours, which he thought was sufficiently short. For catalogue sales, the Customs Overseas Mail Taxation and Information System had been introduced in April 1997; goods

sent by mail were cleared the same day. He did not know the reason for the increase shown for processing of air cargo.

164. The Secretariat report stated that Japan was reluctant to proceed with a review of standards. This was not correct. Japan had decided in December 1997 to proceed with a comprehensive review of standards and certification systems. The international harmonization of mandatory and voluntary regulations contributed to the smooth processing of imports and improving market access. That was why Japan had been promoting this effort.

165. Regarding the Building Standard Law, Japan was actively trying to promote construction materials that were in conformity with foreign standards, such as those applied in the United States and Canada. The change to performance criteria would be carried out through an amendment in the law which would be submitted to the present Diet session. This would allow a smoother acceptance of foreign products that were in conformity with standards used in other countries. Japan's industrial standards were voluntary; and a review of these standards was carried out every five years. In proceeding with the review, inputs were sought from foreign countries. In determining JIS marks, Japan was currently using data provided by 17 foreign testing centres from nine countries. A publication titled "Guide to JIS Marking System" contained the necessary information pertaining to testing, etc. could be obtained through JETRO. He noted that, at present, there were about 8,100 JIS, of which about 2,000 had a corresponding international standard, and among the 2,000, about 1,000 were already in conformity with international standards. Japan was bringing the remaining 1,000 into conformity with international standards and was actively exchanging information with such organizations as ISO, IEC, BSI, and DIN. The same held true for JAS, at least concerning Japan's efforts to take into account international standards. Currently, Japan was proceeding with the internationalization of JAS related to fruit juices and forestry products. It had not yet been decided whether Japan would recognize foreign inspection institutions as grading organizations.

166. Deregulation for frozen foods needed to be looked at carefully, in the light of microbiological standards. Japan recognized that the technical advances in this field provided room for review of Japan's present practice. Testing by variety of fruit and vegetable was a delicate question. Japan believed that this testing was in conformity with the SPS Agreement as was the case for the more general questions on phytosanitary procedures regarding fruit and vegetables. The procedure related to imports of plants was made public; normally, imports of fresh fruit or vegetables did not require inspection at the time of exportation by exporting countries. Japan wished to continue discussions on SPS measures on apples of Fuji variety produced in Tasmania, and on mango. Regarding conformity of Japan's SPS system with the recommendations of the International Office of Epizootics, Japan banned imports of cloven-hoofed animals from countries where foot-and-mouth disease, rinderpest and African swine fever had not been eradicated.

167. Japan was still examining whether, or how far, regional aids needed to be modified, and wished to take this issue to the Committee of Subsidies and Countervailing Measures.

168. Regarding the import promotion programme, the representative of Japan noted that the ratio of manufactured goods in imports had risen from 55.2 per cent in 1994 to 59.4 per cent in 1996; the share in GDP of such products had risen from 3.2 per cent to 4.5 per cent. Therefore, Japan believed that the Secretariat report statement that the import promotion programme was not producing results was not entirely correct. Japan also disagreed with the statement that the import promotion programme consisted mainly of giving the incentives to imports: deregulation and review of standards and certification were also included in the import promotion and market access facilitating programme. Concerning the budget allocation for import promotion, the overall MITI budget had been reduced by 8.7 per cent but the budget related to the Foreign Access Zone (FAZ) would be increased by 1.5 per cent. Tax incentives for import promotion would be extended to FY 1999; these incentives could be utilized by all countries exporting goods that were imported at zero rate. In

addition, Japan was developing the FAZ programme by adding new types of industry to the programme.

169. State-trading enterprises were set up in order to pursue a well-defined policy objective; their operations were on a commercial basis, consistent with the WTO Agreement. This was also true for the operation of the Agriculture Livestock Industry Corporation; revenue for this corporation was used for the expansion of dairy product consumption. Tobacco production was monopolized by Japan Tobacco Incorporated (JTI), to promote sound development of the industry under the provisions of the Tobacco Business Law. Private traders could import leaf tobacco dependent upon subsequent purchase of the imported product by Japan Tobacco Incorporated.

170. Some delegations had mentioned that participating in Japanese government procurement was difficult. Japan recognized that there were differences between the products being talked about but, as a whole, the share of foreign products in Japan's government procurement, as he had already stated, was relatively high, at least higher than in the United States or EU. Japan went beyond the obligations of the GPA with a US\$100,000 threshold level for Japanese government procurement. In addition, Japan made its procurement programme public at the beginning of each fiscal year, again going beyond the obligations of the GPA. Japan also applied the transparency provisions of the GPA to all prefectures and all 12 designated cities.

171. On intellectual property, Japan was trying to shorten the time needed for examination. Japan had set up new programmes on patents, trade marks and designs. For example, on patents, Japan intended to respond within 12 months on whether an application was rejected or whether examination would proceed.

172. Japan's GSP system covered a wide range of products; in industrial products, there were very few exemptions. Japan had eliminated the need to provide a certificate of origin for 200 products, and the requirements were lighter for textile products, and thus Japan's system was worthwhile for developing countries. Least-developed countries could export to Japan without quantitative limits and at zero tariff. Japan was reviewing the GSP as from 1998, with a view to removing from the list of GSP beneficiaries some countries regarded as already well developed and having reached an economic level comparable to developed countries.

173. The second discussant said he had been reassured by the affirmation of Japan's commitment to multilateralism. He had noted the remarks on the efficacy of the import promotion programme, but he had continuing doubts on philosophical grounds as to its justification. It would be preferable to concentrate on removing any distortions or inflexibilities in the domestic economy, allowing the market to operate freely, rather than possibly adding further distortions through import promotion subsidies.

174. The representative of Thailand requested Japan's reply in writing to his questions, and confirmation of the elimination of the Special Emergency Safeguard under the Agriculture Agreement and safeguard measures on live swine and pork under the Agreement of Safeguards. He also wished to hear the Japanese view on the consistency of these schemes when both measures were taken concurrently. On SPS measures, while these measures might be in compliance with the WTO Agreement, administrative aspects presented an unnecessary obstacle. He requested Japan's opinion whether there could be any intention under the Deregulation Action Programme to ease these obstacles. Regarding frozen shrimp, he noted that working together in 1995, Thailand and Japan had been able to reduce the oxy-tetracycline requirement level down to the CODEX level. However, another substance used in conjunction with export of frozen shrimp, was oxymolic acid which was the same as oxy-tetracycline. He asked why Japan could not reduce the level of this substance to the same as oxy-tetracycline. On prepared and processed pork, the normal requirement by Japan for these products was to either boil or steam at 100oC for one minute, or to cook by any other means for 30 minutes. Certain products from Thailand needed to be fried or grilled; frying or grilling for

30 minutes would practically destroy any product. He wondered whether there was any practical reason for this regulation to be so rigid.

175. The representative of Brazil expressed much interest in the responses given by Japan with regard to practices in the agricultural sector. Exports of tropical fruit was an area of key interest to Brazil; Brazil would be very interested in hearing a comment from Japan on the compatibility of its practices for the imports of fresh mangoes with the SPS Agreement. Brazil adopted the hydrothermic-immersion method of control against the Mediterranean fly pest, however, the Japanese authorities requested a type of control that made it impossible to export the fresh fruit. The Japanese market for fresh fruit was very important; worth US\$1,200 million in 1997. Brazil had had a residual part of the market due to the phytosanitary requirements adopted by Japan. This issue had been raised bilaterally many times. Over the last four years, Brazil had presented numerous tests showing the validity of its immersion process to combat this specific pest, but without any breakthrough solution to the problem. Moreover, Brazil had learned recently that the Japanese authorities were accepting this method from other exporting countries and also accepting the concept of regions free from the "Mediterranean" fly. This discrepancy of treatment was not exactly compatible with the procedures and the spirit of the SPS Agreement. Brazil was ready to enter bilateral consultations with Japan on this topic.

176. The representative of Colombia sought a detailed answer to specific questions raised regarding SPS measures on certain products of interest to Colombia. He also sought clarification on exemptions under Article 19 of the Customs and Tariff Law and indications as to the criteria adopted or followed in inviting interested suppliers to make proposals for imports by tobacco marketing agencies. With regard to the GSP, the representative of Japan had said that the coverage was sufficient. Certainly the coverage of industrial products was far ranging and the number of exceptions was limited, however, the actual impact of the GSP was very small; only 5 per cent of Colombia's total imports benefited from tariff preferences and less than 10 per cent of imports from developing countries enjoyed GSP treatment.

177. The representative of the United States asked questions with respect to intellectual property rights, to clarify points that had been raised by the Japanese representative with respect to the response time for applications on patents and trade marks. He asked whether a twelve-month response period was currently in place or whether that was something Japan planned to do in the future. He also sought a reply, either orally or in writing, to his question with regard to trade secrets, specifically with respect to the amendments to the civil procedures act that Japan would put into place in June 1998.

178. The representative of Canada asked whether any systemic reviews of linkages in respect of customs procedures were being considered. He understood that considerations for certification of foreign organizations as registered grading organizations under the JAS Law had not yet been decided and asked whether a review was under way or was to be set up to make a decision. With respect to standards questions, he asked whether criteria used for certification bodies in the private sector for JIS mark licensing were published by JETRO. He sought clarification of the indication in the Secretariat report that Japan did not favour unilateral recognition of the standards and procedures. With respect to the Food Sanitation Law, Japan had said it recognized that advances in distribution allowed some room for consideration of changing the approach to frozen foods. He asked whether there was, or would be, a review. Regarding trade marks, he cited an example of the granting of a trade mark for the use of the word "organic" for beverages, even though the term referred to a method of production. Canada was prepared to discuss these issues bilaterally.

179. The representative of Hungary said that the share of Asian countries in Japan's foreign trade had increased by more than 10 per cent in the 1990s, which clearly showed that significant concentration of trade might occur even without free-trade areas or customs unions. Hungary shared the concerns expressed by many delegations with regard to a number of substantive and procedural

elements of the Japanese SPS mechanism. For example, the whole range of fresh Hungarian fruit and vegetables was prohibited from entering the Japanese market; in other product areas, such as meat, SPS concerns did not seem to necessitate the maintenance of the significant administrative burdens now in place.

180. The representative of Australia noted that tariffs were reviewed annually. While this was reflected in the Secretariat report, he had found it problematic that Japan pursued tariff reviews in the absence of any central body with responsibility for such matters. He asked whether Japan had plans to establish a tariff reviewing mechanism that would allow tariff anomalies to be considered in an open and transparent way. He thanked Japan for its response that standards issues associated with Fuji apples and varieties of mangoes from Australia would continue to be addressed bilaterally. He noted that both of his specific questions on these items related to time frames. On customs procedures, he agreed with Japan's statement that clearance times had been reduced, and that improvements had been made, costs in areas such as cold storage warehousing, commercial fumigation and handling remained high, and impacted negatively on the demand for fresh produce. The problem seemed to lie in the lack of sufficient competition, particularly at airports. He asked whether these problems were likely to be addressed by the Committee on Deregulation.

181. The representative of the European Union said that while regional aid was a matter for discussion in the Subsidies Committee, he looked forward to hearing from Japan on its regional aid programmes. Japan's description on GSP provisions for the least-developed countries was interesting, but he understood that there were no plans to take additional measures to facilitate access. He flagged the question of tariffs and the management of tariff quotas in the sensitive area of leather and shoes as a very important one for the European Union, on which he hoped to see some substantive progress in the near future.

182. The representative of New Zealand asked whether the annual review of tariffs was coordinated by one body, e.g. the Ministry of Finance, and whether there was any formal mechanism by which requests for reviews of tariffs by the Government or the private sector were gathered together for overall consideration. New Zealand's experience in this regard was that such a mechanism both assisted it with its annual review process and made life easier for its trading partners. He also asked for details of how the results of the annual review process were transmitted to foreign governments. He thanked the Japanese representative for his answer on state trading enterprises. New Zealand would continue to take a close interest in the operations of the animal and livestock industries corporation, because of the large sums which it received in terms of quota rent, which he noted were substantially higher than the cost of imported products to the consumers.

183. He sought an oral reply to New Zealand's question on quantitative restrictions on fisheries which New Zealand had previously raised in the 1995 review of Japan. He looked forward to written responses to other specific questions.

184. The representative of the Republic of Korea said improvement in access for imports on the part of Japan would be most appreciated. Other important trading centres were contemplating ways of absorbing, or at least leaving the door open to, goods from the region currently affected by the crisis.

185. The representative of Malaysia sought written replies to questions on tariff escalation for timber, and cocoa-based products; in the area of pharmaceutical products, especially condoms whose exports had been affected; and on the strict Food Sanitation Procedures for exports of cosmetics into Japan. On phytosanitary requirements on cut flowers, he recognized that while the measures imposed by Japan may be in conformity with the SPS Agreement, administrative delays remained serious. ASEAN had talked about the need for Japan not to forget the bigger picture, and the discussants and several other participants had also alluded to this statement. He trusted that the Japanese delegation would take this call back with them and exercise the right policy options.

186. The representative of Japan responded that he could only respond to a limited number of issues in part due to the time remaining. He could confirm the response time for patents; this programme was already in place. As for trade marks, the target date was the year 2000, and for design registration, the target date was 2002. On the question of least-developed countries, Japan's basic position was that the way to help lay in capacity building, and not in according preferential market access. Despite this basic position, Japan was doing quite a lot in the area of economic and technical cooperation for these countries, and had begun examining the possibility of extending the list of products benefiting from the GSP system. This examination was at a very early stage. Regarding the review of Japan's tariff system, the body responsible for all tariffs was the Ministry of Finance. Each year, the Minister of Finance asked the Customs and Tariff Council for proposals for modifications to Japan's tariffs. This body's advice or recommendations were incorporated into Japan's Customs and Tariff Law, after approval by the Diet. Questions related to SPS would be answered in writing.

187. The representative of the United States said that she had raised another question on trade secrets and sought confirmation that a reply in writing could be expected; the representative of Japan replied that the United States would receive an answer in writing.

188. The representative of Norway, also sought answers in writing to his country's questions on fishery products.

189. The first discussant noted with great interest Japan's statement about examining the possibility of extending the products in the GSP system to include more items of interest to LDCs, and strongly encouraged that exercise.

Sectoral policy

190. The representative of Japan said that in view of the limited time he would concentrate on some of the more interesting questions and would respond Norway's questions regarding fisheries quotas under this heading.

191. Regarding low productivity of services, particularly distribution, he pointed out that using the revised criteria of the System of National Accounts, the figure for Japan would be 70 per cent, or at least more than 60 per cent as indicated in the Secretariat report. This relative difference between the productivity of the distribution sector and manufacturing industries, which were more capital intensive, held true for other countries as well. On rice, Japan had been faithfully implementing the Uruguay Round agreements, in particular, by setting the price for "minimum access" rice comparatively lower than domestically produced rice. The difference was about 20 per cent. Japan was making efforts to promote consumption of "minimum access" rice in Japan's national market. On the import quota on fishery products, Japan actually had measures in place to limit the fishery harvest. Thus he thought that the basis for justification of Japan's measure could be found in GATT Article 11, second paragraph (i).

192. There had been questions about the utilization of the unused tariff rate quota. From FY 1997, Japan had introduced a measure to improve the utilization of quotas for several products; this consisted in allowing applications in periods other than the beginning of the fiscal year. Regarding special safeguards, he noted that Japan set the trigger level based on the figures of imports in the past three years, according to para. 4 of Article 5 of the Agriculture Agreement. He knew of no provision in the Agriculture Agreement to take into account the utilization situation of the tariff rate quota in triggering the SSGs. Thus he believed that the two systems could operate separately and that Japan's actions were in conformity with the Agreement.

193. Concerning frontal collision tests for automobiles; Japan had made a prior notification of this proposed measure in January 1993. He knew of no submission of opinion from the European Union

or its member countries. As a result, Japan had introduced this measure for nationally produced cars from April 1994. But in order to give lead time to imported cars, Japan had given an additional five-year allowance for imported cars. The measure would be put into place from April 1999. Japan was very conscious of the importance of harmonizing regulations related to automobiles, and was actively participating in the work of Working Party 29 of the ECE.

194. A question regarding shipping had been raised, suggesting that Japanese fast ferry companies were engaged in dumping. The problem concerned a Japanese company competing in the Japanese market for purchase of a ship, and an Australian company finding it difficult to compete with this particular Japanese company. It would be a novel notion to call this dumping. He asked for more clarification from the Australian delegation about their concern.

195. Australia had raised a question about the warehousing business. There was no demand/supply adjustment criterion in market entry to this sector, and prices were not subject to approval by the Government.

196. Japan maintained a tariff rate quota system for leather, introduced after Article XXVIII negotiations. In the course of the Uruguay Round negotiations, Japan had agreed upon cuts in the primary rate of 20 per cent and also a cut in the secondary rate of 50 per cent. These measures were in place and Japan was implementing them faithfully.

197. The Prior Conformation System (PCS) with regard to silk was in place to ensure the faithful application of Japan's bilateral agreements with China and the Republic of Korea, by preventing circumvention of these agreements, which did not have a quantitative limiting effect. The PCS complemented the bilateral measures, and would remain until 2004 when the agreements would be phased out.

198. The Japanese tariffs on automobiles were relatively low. Importation of automobiles had been 184,000 units in 1992, but that number had increased to 364,000 units in 1997. There was no governmental regulation on dealership.

199. He noted that Japan was in the process of reclassifying vitamins, herbal and mineral foods. For these products, Japan did not have any TRQ system.

200. On services, he presented figures to show that participation in the Japanese market was expanding. In the telecommunications sector, in 1997, there were 141 companies operating as Type-I telecommunication carriers. Among these, 27 companies had foreign capital participation. Among 87 Type-II carriers, 28 companies had foreign capital participation. In construction, there had been 34 foreign companies in the sector in 1988, increasing to 77 in 1997. In financial services, foreign equity companies increased from 49 companies in 66 branches in 1993 to 59 companies and 76 branches in 1997; the number of banks had increased from 64 in 1980 to 92 at present; the number of life insurance companies had doubled in the past ten years; and the number of Gaikokuho-Jimu-Bengoshi (foreign legal consultants) had increased from 31 in 1987 to 87 in 1998.

201. He stated that the Government of Japan was actively engaging in deregulation in the field of telecommunications. Japan had finished all procedures for the acceptance of the WTO Basic Telecommunications Agreement and had taken measures to implement the Agreement. Restrictions on foreign ownership had been abolished and the clause on prevention of excess facilities in the Telecommunications Business Law, a kind of "demand supply adjustment" provision, had been rescinded. Rules for inter-connection had also been introduced. Japan was preparing a bill on the deregulation of KDD to be submitted to the present Diet session and had announced in December 1997 that it would abolish the "100 destination" rule by the end of June 1998.

202. In the field of broadcasting, foreign-ownership restrictions on cable providers would be abolished with the entry into force of the Basic Telecommunications Agreement. Japan had also modified its accounting rates regime for WTO member countries so that accounting rates could be lowered through competition. Japan expected that liberalization of international resale would lead to diversification and lower prices for international services. Foreign-ownership restrictions would be abolished except for that of NTT and KDD, for which foreign-ownership restrictions should also be eliminated with the abolition of the KDD law.

203. In Japan, Internet domain names were administered by a private organization (Japan Network Information Centre), and it was the Government's policy, in principle, to respect their decisions. He noted some misunderstandings on the issues raised, that registration costs in Japan were not high compared with other countries. There were improvements in registration procedures, such as an introduction of on-line registration; and the requirements of local presence, such as business registration. In addition the restriction of one name per corporation existed in the other countries.

204. The second discussant said that, although a lot of progress had been made, any major trading economy needed to have a top-class, competitive services sector. This could only be achieved by deregulation, with good supervision and ensuring full transparency. Much still needed to be done in many services sectors. If further progress could be made, then the economy would be reinvigorated; the manufacturing sector would also benefit from enhanced efficiency, and there would be more demand both for domestically produced and imported goods.

205. The representative of New Zealand thanked Japan for the response to one of the questions regarding quantitative restrictions on fisheries and looked forward to written responses on that and other the questions on the issue. New Zealand did not consider that GATT 1994 Article XI:2:c(i) was a justification for the QRs in place and would therefore continue bilateral dialogue with Japan on this important issue.

206. The representative of Australia said that he would greatly appreciate written responses to a number of questions, especially in the area of agriculture. Australia's question related to the high cost of warehousing was to suggest that greater competition between operators would reduce prices.

207. The representative of Canada said that Japan had not responded to many of Canada's follow-up questions on agriculture, services, and other areas. Canada would submit in the next few days a list of the questions that had not been addressed.

208. The representative of Thailand emphasized the importance of the rice sector. Thailand had submitted written questions regarding rice, specifically on clarification of the mark-up system for imported rice, the transparency of the SBS programme, determination of country of origin for imports of rice and also with regard to administration of the export of rice for food aid, particularly in conjunction with the minimum-access commitment for the years 1995-96. He would also appreciate written replies on these issues.

209. The representative of Hong Kong, China appreciated the clarification made on the status of the PCS for silk fabrics. However, she noted that it was not very clear whether the system would remain intact until 2004 or would be progressively phased out. If the latter was the case, more detailed information on the implementation of this phasing-out system would be appreciated. She also sought information on when the foreign-ownership restrictions for KDD would be abolished. She would be pleased to receive responses from the Japanese delegation in writing.

210. The representative of the United States noted that not all their questions to Japan had been answered. She would re-submit them to Japan and would appreciate written responses.

211. The representative of the European Union said that with regard to the recapitalization of financial institutions, he would be interested to know the criteria for these institutions receiving public funds. On the implementation of financial sector reforms and strengthening bank supervision, he enquired about the reasons for the delay in the implementation of "prompt corrective action". He noted that Japan had announced measures to allow banks to ignore accounting offsets on new portfolio holdings by booking securities at acquisition cost. He asked for further information on this. On the issue of landing slots at Narita airport, he requested information on the reallocation of unused slots, and conformation that only IATA guidelines would be used in this reallocation. On maritime services and port practices, he was interested in Japan's expectations with regard to the effect of implementation of three- and four-party agreements reached in 1997. He also noted that the United States and Japan had recently concluded an arrangement on the procurement by NTT, and he would be interested to know if Japan envisaged opening up the monitoring of this agreement to third parties.

212. The representative of India said that he would be pleased to receive written answers to his delegation's questions.

VII. CONCLUDING REMARKS BY THE CHAIRPERSON

213. During the last two days, the Trade Policy Review Body (TPRB) has conducted the fourth review -the first under WTO provisions - of Japan's trade policies and practices. These remarks, made under my own responsibility, summarize the salient points raised during the discussion; they are not intended to substitute for the collective evaluation and appreciation of Japan's trade policies and practices.

214. The discussion, including the introductory statement of Japan and the remarks of the two discussants, developed under three main themes: (i) macroeconomic background and structural reform, (ii) trade policies, and (iii) sectoral issues. Participants also raised a number of questions in writing. The representative of Japan provided a comprehensive reply in the context of the meeting and undertook to provide further details as necessary.

(i) Macroeconomic background and structural reform

215. Participants emphasized Japan's important role in the global and regional economy, in the context of the economic crisis experienced by several countries in East Asia. Members welcomed recent measures aimed at increasing domestic demand in Japan. However, some doubts were expressed whether these measures were sufficient and would produce results quickly enough, to address the current economic issues facing Japan. Some members queried whether official projections for growth should be adjusted downwards in the light of current developments. Participants emphasised the need for Japan to stimulate domestic demand, rather than rely on exports to revive growth. Some participants expressed concern on the recent widening of the current account and trade surpluses.

216. Participants commended the progress made to date in deregulation and structural reforms and the recent announcement of a new programme to replace the current Deregulation Action Programme. They asked for supplementary information on the new programme. Some members noted that certain sectors remained highly regulated, including agriculture, food processing, construction, transportation, telecommunications, financial services and distribution, and urged widening of the scope of deregulation and a faster pace of reform. Concerns were also raised that deregulation might result in new types of regulation. While some welcomed the opportunities given by Japan for comment by foreign authorities on deregulation, others raised concerns regarding the membership of the monitoring group for the deregulation process.

217. Participants raised questions relating to the enforcement of competition policy by the Japan Fair Trade Commission, and urged Japan to strengthen its competition policy regime. Questions were also raised on Japan's perspectives on the balance between outward and inward investment.

218. In reply, the representative of Japan said that recent tax reductions should add some 0.2 per cent to Japan's growth, together with a positive psychological effect on consumption. Structural reform should add a further 0.9 per cent per annum to growth in the period 1998-2003. Efforts to stimulate domestic demand through deregulation and reduction in prices were bearing fruit. The Asian currency crisis could affect Japanese exports adversely - both directly, and indirectly through changes in competitiveness - while stimulating imports from Asian countries. A possible fall in Japanese investment in East Asian domestic consumption could be balanced by investment for future exports.

219. Concerning the current account and trade surpluses, the authorities expected export growth to slow and imports to accelerate in FY 1998: the surplus in goods and services could be some 1.2 per cent of GDP and the current account surplus around 2.4 per cent, comparable to previous levels.

220. Deregulation was having a stimulating economic effect and these efforts would be continued. Concrete examples of structural reform included the liberalization of gasoline imports, elimination of demand/supply requirements in distribution and transportation, and foreign exchange deregulation. Agriculture, construction and international transport had not been excluded from the programme.

221. The work of the Administrative Reform Committee had been completed. The Government had set up a body to promote new deregulation efforts. A new three-year deregulation programme had been established, covering all administrative areas. Comments on the programme were welcomed.

222. The representative of Japan stressed that numerous exemptions to the Anti-Monopoly Act had already been abolished, and others would be reviewed by March 1998. The exemptions for anti-recession and rationalization cartels had been abolished in December 1997. The JFTC worked closely with the public prosecutor in enforcing the law through administrative decisions and criminal penalties. Care would be taken that administrative guidance would not replace anti-competitive regulations and that restrictive practices not be introduced by trade associations.

223. Japan had adopted in 1995 a decision on increased transparency in governmental advisory bodies. Japan attached importance to increasing inward foreign investment, both as a means to increase competition in the domestic market and to encourage restructuring. Potential investors in Japan benefited from a law providing a preferential tax system, and a scheme to make available preferential credit.

(ii) Trade policies

224. Participants welcomed Japan's emphasis on multilateralism in its trade relations and commended Japan's contribution to the WTO process. It was stressed that Japan conducts its trade almost entirely on an MFN basis, avoiding participation in preferential trade arrangements; assurance was sought that Japan's bilateral trade agreements would consistently be applied on an MFN basis.

225. Participants noted that average tariffs in agriculture were higher than in manufacturing, and raised concerns on tariff peaks and escalation in agriculture, food manufacturing, textiles, leather and footwear. Some participants raised concerns on tariff quotas, including high out-of-quota rates; the lack of a reallocation mechanism for unused tariff quotas; import quotas on certain products; length of customs clearance times; and Japan's use of origin marking requirements.

226. Participants welcomed Japan's efforts towards increased international harmonisation of standards, including embodying of performance based criteria, and the adoption of new mutual recognition arrangements, while noting that further progress could be made. Participants welcomed the increase of transparency in quarantine procedures and the revision of some Japan Agricultural Standards. However, concerns were raised on the complexity and cost of sanitary and phytosanitary conditions; variety-specific approval procedures for fruits and vegetables; and restrictive standards for frozen foods. Participants encouraged further revision of Japan's Food Sanitation Law.

227. Some participants noted that Japan's import and investment promotion scheme did not adequately address obstacles to investment and that tax incentives under the Import Promotion Scheme may favour industrial imports from developed countries. Questions were raised on the advantages of the Foreign Access Zones for foreign exporters.

228. Participants also raised concerns on the scope of state trading in Japan, as well as issues regarding transparency and the state of liberalization in government procurement procedures.

229. Participants noted recent reductions in the examination periods for patent approvals, and asked for the scope of further actions. Participants also requested information on the proposed amendment to the Civil Procedures Act concerning trade secrets.

230. Participants raised concerns on the product coverage of Japan's GSP scheme; and on trade policy towards least developed countries, including in the follow-up to the recent High Level meeting.

231. The representative of Japan thanked Members for their recognition of Japan's commitment to the MFN principle in the multilateral trading system. He saw no possibility under present conditions of this commitment weakening. Regional trading agreements, while they could contribute to trade liberalization, had the potential danger of undermining the MFN principle. He noted that tariff rates were reviewed every year on the basis of requests from foreign and domestic entities. Customs clearance times were difficult to compare among countries with differing import systems but efforts were constantly being made to reduce delays; for example, an immediate release system had been introduced for air cargo, and cut flower imports from the EU and Australia were cleared in an average of 1.8 hours.

232. On TBTs, Japan had decided in 1997 on a review of procedures to facilitate imports. Legislation to adopt performance criteria had been sent to the Diet to encourage the adoption of international standards. The representative provided details on standards, both concerning JIS and JAS. Japan was giving consideration to recognizing foreign certification agencies.

233. The representative also provided information on Japan's SPS measures, including those on frozen products, fruits and vegetables, and plants. Details were given on animal inspection, including disease control.

234. The representative of Japan noted that the share of manufactured imports in GDP had risen from 3.2 to 4.5 per cent between 1994 and 1996: therefore he was confident that the import promotion programme was working. Its central focus was not on incentives; deregulation and recognition of foreign standards were also import promotion measures. The import promotion tax concession system had been extended until 1999: it was applied on an MFN basis to all countries exporting dutyfree items, not favouring imports from industrialized countries. Imports into Foreign Access Zones had grown more rapidly than the total: again, the infrastructure of FAZs were available to imports from all sources.

235. State trading enterprises sought specific policy objectives, and Japan believed their operation was consistent with WTO rules. Information was given on state trading in livestock and tobacco.

236. Foreign participation in government procurement varied across products, but overall it was higher than in other major trading partners. Moreover, Japan was going beyond its obligations under the GPA.

237. Regarding IPRs, Japan was making efforts to shorten the period of examination for the granting of patents, trademarks and designs. Administrative procedures were also being streamlined.

238. Japan's GSP system had a broad coverage and efforts had been made to simplify its use. The system offered particular advantages to least developed countries. The GSP was currently under review to remove countries that had reached higher stages of development; LDCs had more favourable treatment under the GSP scheme.

(iii) Sectoral issues

239. Some participants raised concerns about the levels of protection and support for agriculture, and likely policy options in the future, including in the next round of liberalization negotiations.

Questions were also raised on testing and certification requirements for agricultural products and regulatory obstacles to trade in pigmeat. Others raised concerns about the WTO consistency of the SBS system on rice, the continuation of import quotas on fisheries and the import cartel of laver. A number of participants suggested that the results of Japan's agricultural policies had been inconsistent with the Government's own food security objective. Questions were raised on moves to review Japan's Basic Agricultural Law.

240. Some participants raised concerns about inadequate reimbursement prices of pharmaceuticals, also noting burdensome and costly testing procedures for medical devices, pharmaceuticals, chemicals, mechanical and electrical appliances. The continuation of regulatory obstacles to trade in leather and leather footwear was also noted.

241. Participants welcomed Japan's contributions to the WTO financial services and basic telecommunications negotiations. However, they raised concerns about low productivity in some services sectors and openness of certain services areas; complex regulations in certain services sectors; and the low level of competition in some services. Particular attention was paid to construction, financial, legal, accounting and distribution services. Participants sought an assessment of the effects of weakness in the financial sector on the trade policy of Japan. Questions were raised on transparency and disclosure in the financial sector, including criteria for receiving public funds. Members requested an up-to-date assessment of the implementation of the "Big-Bang" programme, especially in the light of recent regional developments.

242. Some members urged further deregulation in construction materials, including further recognition of international certification procedures, moving towards performance-based standards, revision of fire safety restrictions, and recognition of qualified foreign organizations as Registered Grading Organizations.

243. In view of the limited time, the representative of Japan in his reply focused on selected sectoral issues.

244. In respect of agriculture, he said that as regards rice, Japan was faithfully implementing the Uruguay Round agreement, particularly by setting the price for minimum access rice some 20 per cent below that for domestic rice and promoting consumption of minimum access rice in Japan's market. Administration of unfilled tariff rate quotas had been improved in FY 1997 by permitting applications for unused quotas at different periods. He noted that the trigger level for special safeguard provisions was based on imports in the previous three years, which in Japan's view was in conformity with the Agriculture Agreement. The import quota on fisheries was intended to prevent resource exhaustion in surrounding waters and was, in Japan's view, justifiable under GATT Article XI:2(i).

245. Concerning footwear and leather, the representative described Japan's tariff quota system, and noted the specific difficulties of this sector. He also stated that prior confirmation system for silk aimed to ensure the faithful application of bilateral agreements, not to limit imports; this measure would be phased out by 2004.

246. Japan had eliminated tariffs on autos in 1978, and imports had increased substantially in recent years. There was no government involvement in dealership arrangements. The representative gave information on the reclassification of vitamins, herb and mineral products and noted that Japan's tariff classification would not be affected.

247. The representative of Japan noted concerns regarding low productivity in services, particularly distribution, and suggested that differences in productivity levels between services and manufacturing were not significantly different from other countries. He said that the Deregulation Action Programme sought to promote transparency in services and to simplify administrative procedures and notification or reporting requirements. He gave examples of increases in recent years

in foreign service providers in telecoms, construction, legal and all areas of financial services. He called attention to liberalization measures in various areas of telecommunications and broadcasting, including the abolition of the KDD Law, the forthcoming abolition of the "100 destination rule", improvements in interconnection liberalization on cable providers, modification of accounting rates, and the liberalization of foreign investment.

Conclusion

248. We have had a very constructive discussion of Japan's economy and trade policies, which has been held at a difficult time for Japan and the world economy. Many participants have emphasized the importance of market opening and deregulation as well as Japan's role in assisting the resolution of the Asian financial crisis.

249. Structural reform, deregulation and market stimulation - leading to more open markets - have been common themes running through this TPR discussion. The Japanese economy was, in earlier days, a major engine of world trade and investment and the TPRB has clearly expressed the hope that Japan can again effectively assume this role through its economic recovery and the positive effects of deregulation.

250. All participants have recognized Japan's strong and active participation in the WTO system and the importance attached by Japan to MFN treatment has been welcomed. We hope that Japan will respond positively, as they have undertaken, to the large number of specific or bilateral concerns raised during this meeting by various Members.
