

PRESS RELEASE

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STRUCTURAL REFORMS : THE KEY TO JAPAN'S ECONOMIC RECOVERY

Japan appears to be extricating itself slowly from a severe economic situation, and the current nascent recovery could lead to real GDP growth of around 1% in 2000, says a new WTO report on the trade policies of Japan. Following negative growth of 2.5% in 1998, when Japan was the only industrialized economy in recession, Government outlays turned into a positive growth factor as were net exports, due in part to the openness of the multilateral trading system. Having recovered by 0.2% in 1999, real GDP growth is projected by the Government to be around 1% in 2000. It reached an annual rate of 4.2 % in the second quarter of 2.000.

The report says that the Government has sought to revive the economy through expansionary macroeconomic policies together with structural reforms. But the view is taking hold that a sustained economic recovery can be achieved only through more aggressive structural reform that enhances competition.

The WTO report, along with a policy statement by the Government of Japan, will serve as the basis for the trade policy review of Japan which will take place on 14 and 16 of November in the Trade Policy Review Body of the WTO.

The report notes that a key element in structural reform is deregulation, which has the potential to reduce costs and prices to world levels, thereby stimulating demand and growth. Economic intervention has been reduced in several sectors, especially financial services, telecommunications and retailing, says the report. Steps have also been taken by the Japan Fair Trade Commission (JFTC) to increase competition. These elements are in addition to the stimulus to competition provided by Japan's further liberalization of its trade and investment regime, partly in accordance with WTO commitments.

The WTO report stresses that since its previous Trade Policy Review in 1998, Japan has made no major changes to its trade policy regime except those pertaining to its regulatory framework for financial services, the so called "Big Bang". Japan's trade policy priorities include strengthening the multilateral trading system. It also remains committed to the promotion of deregulation and improved transparency. Japan's commitment to the former is demonstrated by the Cabinet's adoption in April 2000 of a revised Three-Year Program for Promoting Deregulation (TYPPD) in sectors including financial services, telecommunications, energy, transportation and distribution. A July 1999 cabinet decision on "Ideal Socio-economy and Policies for Economic Rebirth" calls for the establishment of fair markets and consumer sovereignty in a transparent manner.

During the period under review, Japan has been an active participant in WTO activities. It has used extensively the WTO dispute settlement mechanism, having been a party to four disputes, three as plaintiff and one as defendant.

The report also notes that in a break with the past, regional free-trade agreements now seem to be attracting greater interest in Japan; more specifically, an agreement with Singapore is being studied jointly by the two Governments, and government-affiliated institutes in Japan and Korea are exploring the possibility of a free-trade agreement between the two countries. According to the authorities, these regional and bilateral initiatives will not undermine Japan's commitment to the multilateral trading system.

Japan has continued to liberalize its trade and investment regimes, mainly as part of its broad regulatory reforms. However, measures constituting potentially important distortions to competition are still evident in some sectors, notably agriculture and certain services.

The tariff is Japan's principal trade policy instrument. Most imports to Japan are either duty free or are subject to low tariff rates. In fiscal year (FY) 2000, the simple average applied MFN tariff rate was 6.5%; the rate is expected to fall to 6.3% once the Uruguay Round tariff cuts are fully implemented, by 2009. Nearly 99% of tariff lines are bound and most applied tariff rates coincide with bound rates, thereby imparting a high degree of predictability to Japan's tariff schedule. At the same time, non-ad valorem duties are an important feature of the tariff, particularly in agriculture; they accounted for 6.9% of all lines in FY2000. While such duties are indicated clearly in Japan's tariff schedule, they can conceal high ad valorem equivalent (AVE) rates. In the interests of transparency, the Japanese authorities have provided the Secretariat with AVE estimates for more than two thirds of these duties; AVEs for the remaining such duties are not available due to the absence of imports, which might suggest that the rates are prohibitive, and that the applied MFN tariff average is underestimated. Available AVE estimates show that 90 of the top 100 tariffs entailed non-ad valorem duties whose ad valorem equivalents (AVEs) ranged from 40.1% to 983.7%. Japan applies tariff quotas on about 200 agricultural items; the allocation of these quotas varies by product and can be complex.

Japan is moving from price to income support for agriculture. However, the sector remains relatively well protected from foreign competition. The average tariff on imports of agricultural products remains high, tariff quotas can be intricate, and a number of these products receive domestic support. As a consequence, the overall level of government assistance for agriculture (as measured by producer and consumer support estimates) is well above the OECD average.

Japan enacted a new Basic Law for Food, Agriculture and Rural Areas in July 1999, in order to cope with major economic and social changes facing agriculture and to lay out the future direction of agricultural policy. The new Law is based on four basic principles: a stable food supply, fulfilment of agriculture's multifunctional role, sustainable development of agriculture, and the development of rural areas.

MORE

The report notes that Japanese manufacturing has traditionally been much more exposed to international competition than other sectors. Tariffs on manufactured goods are usually low, non-tariff barriers are few, and the sector receives relatively little financial or other assistance from the State.

The share of services in Japan's GDP has grown to roughly 65%. Protection for Japanese suppliers from foreign competition has been provided not so much through border measures, but more through internal regulations, notes the WTO report, which stresses also that Japan's attention has focused increasingly on deregulation and that Financial services liberalization is one of the centrepieces of recent structural reform efforts. In the meantime, Japan has also introduced various measures to promote further deregulation in the telecommunications sector.

With economic prospects seemingly brighter, there is perhaps the danger that Japan may waver in its resolve to continue to pursue structural reforms, thereby jeopardizing a sustained recovery. Indeed, there have been some recent signs of "reform fatigue". Nonetheless, the Government seems firm in its intention to intensify regulatory and other reforms aimed at removing distortions to competition.

Notes to Editors

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals. Significant developments which may have an impact on the global trading system are also monitored. For each review, two documents are prepared: a policy statement by the government of the member under review, and a detailed report written independently by the WTO Secretariat. These two documents are then discussed by the WTO's full membership in the Trade Policy Review Body (TPRB). These documents and the proceedings of the TPRB's meetings are published shortly afterwards. Since 1995, when the WTO came into force, services and trade-related aspects of intellectual property rights have also been covered.

For this review, the WTO's Secretariat report, together with the policy statement prepared by the Government of Japan, will be discussed by the Trade Policy Review Body on 14 and 16 of November 2000. The Secretariat report covers the development of all aspects of Japan's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector.

Attached to this press release is a summary of the observations in the Secretariat report and parts of the government's policy statement. The Secretariat report and the government's policy statement are available for the press in the newsroom of the WTO internet site (www.wto.org). These two documents and the minutes of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

MORE

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MORE

TRADE POLICY REVIEW BODY**JAPAN****Report by the Secretariat – Summary Observations****Economic Environment**

Japan appears to be extricating itself slowly from a severe economic situation; real GDP was up by 0.2% in 1999 and showed signs of further strength in the first half of 2000. This nascent recovery follows negative growth of 2.5% in 1998, when Japan was the only industrialized economy in recession. The main factors behind this shrinkage were the sharp drops in business investment and private consumption, both reflecting dampened expectations. The fall-off in business investment also reflected excess capital, financed largely by debt, prompting firms to restrain investment as part of their restructuring efforts. The drop in private consumption was also due, inter alia, to households' almost static disposable income and uncertainty surrounding the sustainability of pensions and the social security system. Government outlays were a positive growth factor in 1998 as were net exports, due in part to the openness of the multilateral trading system. Growth was stimulated later in 1998 by a rebound in public investment, reflecting public works projects implemented as a result of the April 1998 fiscal package; public works then surged in 1999 as a consequence of an additional fiscal package in November 1998. Having recovered by 0.2% in 1999, real GDP growth is projected by the Government to be around 1% in 2000. Consumer price inflation has been practically non-existent, at 0.6% in 1998 and -0.3% in 1999. The unemployment rate has continued to rise, reaching 4.7% in 1999, the highest level for four decades, although there are signs of improvement.

The Government has sought to revive the economy through expansionary macroeconomic policies together with structural reforms. But in this regard financial policies may be reaching their limits: the Bank of Japan, in moving away from a zero-interest-rate policy, recently raised one of its short-term rate by 0.25%; the fiscal deficit is approaching 10% of GDP and government debt is around 130% of GDP. Concurrently the view is taking hold that a sustained economic recovery can be achieved only through more aggressive structural reform that enhances competition.

A key element in structural reform is deregulation, which has the potential to reduce costs and prices to world levels, thereby stimulating demand and growth. Economic intervention has been reduced in several sectors, especially financial services, telecommunications and retailing. At the same time, Japan has had to counter the threat to economic recovery posed by the fragility of the financial system. Another element of structural reform entails corporate restructuring aimed at redressing several imbalances that have eroded corporate profits; these imbalances involve excess capital and labour, high levels of long-term debt, and inadequate funding of company pensions. Steps have also been taken by the Japan Fair Trade Commission (JFTC) to increase competition. These elements are in addition to the stimulus to competition provided by Japan's further liberalization of its trade and investment regime, partly in accordance with WTO commitments.

Trade Policy Regime: Framework and Objectives

Since its previous Trade Policy Review in 1998, Japan has made no major changes to its trade policy regime except those pertaining to its regulatory framework for financial services. Japan's trade policy priorities include strengthening the multilateral trading system.

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Japan remains committed to the promotion of deregulation and improved transparency. Its commitment to the former is demonstrated by the Cabinet's adoption in April 2000 of a revised Three-Year Program for Promoting Deregulation (TYPPD) in sectors including financial services, telecommunications, energy, transportation and distribution. A July 1999 cabinet decision on "Ideal Socio-economy and Policies for Economic Rebirth" calls for the establishment of fair markets and consumer sovereignty in a transparent manner. Recently, steps have also been taken by a few ministries, notably the Ministry of Industry and Trade (MITI), to evaluate the costs and benefits of trade and trade-related measures, including regulations; these evaluations could contribute to more informed policy-making and, if published, would improve public accountability.

Japan grants at least MFN treatment to all WTO Members. During the period under review, Japan has been an active participant in WTO activities. It has used extensively the WTO dispute settlement mechanism, having been a party to four disputes, three as plaintiff and one as defendant. Japan participates in the Working Groups on Competition Policy and Investment, as well as those on Electronic Commerce and Government Procurement.

In a break with the past, regional free-trade agreements now seem to be attracting greater interest in Japan; more specifically, an agreement with Singapore is being studied jointly by the two Governments, and government-affiliated institutes in Japan and Korea are exploring the possibility of a free-trade agreement between the two countries. According to the authorities, these regional and bilateral initiatives will not undermine Japan's commitment to the multilateral trading system. Japan has, of course, long had a strong bilateral relationship with the United States; arrangements between the two countries currently cover several trade and trade-related areas. Japan also has bilateral treaties with several countries on investment, taxation, and social security, six of which were concluded between 1998 and first half of 2000.

Japan continues to grant unilateral preferential market access to products from certain developing countries under its Generalized System of Preference (GSP) scheme.

Trade Policies and Practices by Measure

Japan has continued to liberalize its trade and investment regimes, mainly as part of its broad regulatory reforms. However, measures constituting potentially important distortions to competition are still evident in some sectors, notably agriculture and certain services. Recognizing the need to further promote competition, the authorities attach high priority to sound competition policy.

The tariff is Japan's principal trade policy instrument. Most imports to Japan are either duty free or are subject to low tariff rates. In fiscal year (FY) 2000, the simple average applied MFN tariff rate was 6.5%; the rate is expected to fall to 6.3% once the Uruguay Round tariff cuts are fully implemented, by 2009. Nearly 99% of tariff lines are bound and most applied tariff rates coincide with bound rates, thereby imparting a high degree of predictability to Japan's tariff schedule. At the same time, non-ad valorem duties are an important feature of the tariff, particularly in agriculture; they accounted for 6.9% of all lines in FY2000. While such duties are indicated clearly in Japan's tariff schedule, they can conceal high ad valorem equivalent (AVE) rates. In the interests of transparency, the Japanese authorities have provided the Secretariat with AVE estimates for more than two thirds of these duties; AVEs for the remaining such duties are not available due to the absence of imports, which might suggest that the rates are prohibitive, and that the applied MFN tariff average is underestimated. Available AVE estimates show that 90 of the top 100 tariffs entailed non-ad valorem duties whose ad valorem equivalents (AVEs) ranged from 40.1% to 983.7%. Japan applies tariff quotas on about 200 agricultural items; the allocation of these quotas varies by product and can be complex.

MORE

Japan has few non-tariff border measures; those currently applied involve some import prohibitions, import licensing, and quantitative import restrictions (on fish and silk, for example). Imports of certain goods are subject to licensing requirements in order to ensure national security, safeguard consumer health and well-being, or to preserve domestic plant and animal life and the environment. Like tariff quotas, certain aspects of the import quota system can be complex.

Japan has rarely used contingency measures, such as countervailing and anti-dumping duties and emergency safeguards, although there has been resort to special safeguards in agriculture.

Japan maintains certain export controls on grounds of national security and public safety and to ensure adequate domestic supplies of certain agricultural and other primary products. Indicating their absence, Japan has not notified any export subsidies to the WTO. Export finance, insurance, guarantees, and duty drawback schemes are available.

Various forms of assistance are provided by central and local governments to some sectors, notably agriculture. An interesting anomaly involves assistance, in the form of tax breaks and low interest loans, provided for certain types of imports (and investment).

Japan has made several major changes in its foreign direct investment (FDI) regime since its previous review. These include: the introduction of ex-post facto notification for mining (instead of prior notification) and the elimination of reporting requirements when foreign corporations change their activities to sectors that do not require prior notification; the elimination of limits on foreign capital participation in certain types of telecommunications carriers, except for the Nippon Telegraph and Telephone Corporation (NTT); and the abolition in June 1999 of the regulations on foreign investment, and employment of non-Japanese officers, in the cable television industry. Although a notified inward FDI project may be rejected by the Government, the authorities state that this has not been the case since 1997. Inflows of FDI into Japan have risen considerably during the past two years but are still low by OECD standards; whereas Japan is the OECD's second largest economy, it is 19th with respect to FDI inflows. This contrasts with Japan's position as one of the main sources of FDI.

As regards government procurement covered by the Agreement on Government Procurement, no preferences are granted to domestic suppliers. The share of foreign suppliers in the total value of government procurement was 5.7% in 1998 (up from 4.6% in 1997); there are indications that this share is considerably lower in the case of public-works procurement, which has been a key feature of recent fiscal stimulus packages.

Japan continues to bring its standards into line with international standards; it has also taken further steps to ensure acceptance of foreign test data and conformity assessments.

Japan has continued to participate in multilateral and regional discussions for agreements to promote international harmonization of regimes protecting intellectual property rights (IPRs).

The Three-Year Program for Promoting Deregulation (TYPPD), as revised in April 2000, is aimed, inter alia, at creating a "free and fair" Japanese economy fully open to the international community. Furthermore, with a view to increasing transparency of government policy and related measures, in March 1999, Japan introduced a notice and comment ("public comment") system for use prior to introducing or revising regulations. The TYPPD also contains measures to increase competition. These include the abolition of a number of exemptions from the Anti-Monopoly Act (AMA), Japan's principal competition law; as a result, the number of exemptions under the AMA (and other laws) dropped from 89 in 1996 to 22 in 2000. At the same time, following the modest increase in its budget and staff, the role of the Japan Fair Trade Commission (JFTC) has been strengthened. Moreover, judging from the increased number of cases and actions taken, the JFTC also seems to have become somewhat more aggressive in addressing private anti-competitive practices; a majority of these cases involve bid-rigging in connection with tenders for government

MORE

procurement contracts. However, the operation of the JFTC is perhaps hampered by its lack of resources and expertise in pursuing complex cases.

Trade Policies by Sector

Japan is moving from price to income support for agriculture. However, the sector remains relatively well protected from foreign competition. The average tariff on imports of agricultural products remains high, tariff quotas can be intricate, and a number of these products receive domestic support. As a consequence, the overall level of government assistance for agriculture (as measured by producer and consumer support estimates) is well above the OECD average, and appears to have risen since 1997. The average annual amount of transfers to agriculture during the 1990s has exceeded agriculture's contribution to GDP, which has averaged roughly 1.5%. Productivity in Japanese agriculture remains low by national standards.

Japan enacted a new Basic Law for Food, Agriculture and Rural Areas in July 1999, in order to cope with major economic and social changes facing agriculture and to lay out the future direction of agricultural policy. The new Law is based on four basic principles: a stable food supply, fulfilment of agriculture's multifunctional role, sustainable development of agriculture, and the development of rural areas. With a view to implementing the policy direction stipulated in the new Law, a Plan was decided by Cabinet in March 2000. It contains various measures, some of which have already been implemented; these include the reform of the price policy for wheat and the introduction of direct payments to farmers in hilly and mountain regions. The Plan also includes a guideline for reaching a 45% food self-sufficiency ratio (on a calorie basis) by 2010 (compared with 40% in 1998).

Japanese manufacturing has traditionally been much more exposed to international competition than other sectors (except in the cases of prepared food products, tobacco, alcoholic beverages, textiles, footwear and headgear, and leather and leather products). Tariffs on manufactured goods are usually low, non-tariff barriers are few, and the sector receives relatively little financial or other assistance from the State. Nonetheless, manufacturing, unlike agriculture, has been the driving force behind Japan's rapid export-led development during the past 50 years. This is especially true for automobiles, robotics, video recorders, cameras and video games, where the government has played a very minor role other than to participate actively in multilateral trade liberalization. As in most other industrialized countries, however, manufacturing's contribution to Japan's GDP has declined steadily; in 1998, it accounted for 23.5% of GDP compared with 24.4% in 1997.

The share of services in Japan's GDP has grown to roughly 65%. Protection for Japanese suppliers from foreign competition has been provided not so much through border measures, but more through internal regulations (including licensing and restrictions on foreign investment), state-ownership in some instances, and anti-competitive private practices. In recognition of the growing importance of services, both to consumers and as a determinant of international competitiveness, Japan's attention has focused increasingly on deregulation combined with the strengthening of competition laws and their enforcement. The high cost of services and other inputs can be a factor encouraging Japanese businesses to relocate abroad.

Financial services liberalization is one of the centrepieces of recent structural reform efforts; Japan has continued to make progress in implementing the liberalization agenda that was established in 1997. Popularly known as the "Big Bang", the purpose of these reforms is to create a "free, fair and global" financial system by, inter alia, allowing firms to provide various types of financial services beyond existing borders of financial institutions (that is, banks, insurance companies, or securities companies), and opening the door to foreign institutions wishing to operate in Japan. Entry of foreign institutions may well have provided a further impetus to financial and corporate restructuring. Financial liberalization is also creating new opportunities for household savings, such as fast-growing

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mutual funds, which are more inclined to invest in new, fast growing enterprises. Financial liberalization is thus likely to contribute to a more efficient allocation of savings.

At the same time, Japan has had to grapple with the threat to economic recovery posed by the fragility of the financial system. Accordingly, it has taken steps to re-capitalize the banking system. More specifically, 1998 legislation provided up to ¥60 trillion (12% of GDP) to address the problem of non-performing loans: some insolvent institutions have been closed, two large banks were temporarily nationalized (one of which was subsequently sold to a foreign bank), and many others have received large injections of public capital. Regulatory and supervisory responsibilities for banks have been transferred from the Ministry of Finance to a new agency, the Financial Services Agency (FSA) and its parent body, the Financial Reconstruction Commission (FRC). Provisioning standards have also been tightened. Whereas Japan appears to have successfully addressed the banking sector's problems, some life insurance companies still face the threat of bankruptcy and are therefore attracting increased regulatory attention from the FSA.

Japan has also introduced various measures to promote further deregulation in the telecommunications sector, including: elimination of foreign ownership restrictions for certain types of telecommunications services and cable TV service providers; the elimination of the authorization requirement for end-user charges; the introduction of a price-cap regulation for certain end-user charges; and an amendment in May 2000 to the Telecommunications Business Law setting up a framework to introduce a long-run incremental costing (LRIC) system. Nonetheless, as indicated by the JFTC, the Japanese telecommunications market remains monopolistic, and the prices of some services are still high by developed-country standards. For example, Japan's internet-access charges for 40 off-peak hours in March 2000 were higher than in most other OECD member countries; such high charges tend to discourage the use of the internet and the spread of information technology, thereby hampering the development of electronic commerce.

Concerns have been raised about the adequacy and effectiveness of competition policy in relation to other service sectors as deregulation proceeds, notwithstanding the recent strengthening of competition laws and their enforcement. In particular, several sectors, notably maritime and air transport, are exempt from the Anti-Monopoly Act.

Outlook

There are signs of recovery in the Japanese economy. Led by public investment, real GDP was up at an annual rate of 4.2% in the second quarter of 2000. But after increasing strongly in the first quarter of 2000, partly as a result of a rise in corporate profitability, corporate investment dropped somewhat in the second quarter despite increasing profitability. The recent mixed trends in private consumption and investment, together with the present high level of unemployment (which has contributed to Japanese consumers' reluctance to spend), persistent downward pressure on prices, and declining net exports, provide a rather unclear picture concerning the strength of the recovery and its durability. The strengthening of the yen, which has appreciated considerably against the U.S. dollar and the Euro since the middle of 1998, could cause net exports to fall further, possibly weakening the recovery. The decision by the Bank of Japan, in August 2000, to end its "zero-interest-rate" policy has probably taken into account the likely impact of that decision, not just on the exchange rate but also on the financial system and on consumer spending and investment. Nevertheless, as a result of continuing doubts about the strength of the economic recovery, the Government is reportedly considering yet another fiscal stimulus package, albeit much smaller than the two previous ¥18 trillion packages (in November 1998 and 1999).

With economic prospects seemingly brighter, there is perhaps the danger that Japan may waver in its resolve to continue to pursue structural reforms, thereby jeopardizing a sustained recovery. Indeed, there have been some recent signs of "reform fatigue" (e.g. postponement of the introduction of consolidated taxation; delays in pension reform; the two-year delay in the planned

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abolition of bank deposit safety-net scheme; and the fact that, as yet, no licences have been granted to non-financial groups wishing to engage in banking). Nonetheless, the Government seems firm in its intention to intensify regulatory and other reforms aimed at removing distortions to competition. In this respect, the Government's recent decision to abandon plans to bail out a heavily indebted major retailer constitutes a positive sign. By and large, the private sector has urged the Government to press ahead with reform.

While continuing to open its market at the multilateral level, Japan appears to be becoming increasingly involved in regional arrangements, notable the APEC forum, and is developing links with the grouping consisting of ASEAN, China and Korea (ASEAN+3 (including Japan)). Japan is also exploring bilateral free-trade agreements, having eschewed such arrangements in the past. It is important that such regional and bilateral arrangements do not erode Japan's long-standing attachment to the multilateral trading system.

MORE

TRADE POLICY REVIEW BODY

JAPAN

Report by the Japanese Government (Part II)

THE TRADE AND ECONOMIC POLICY ENVIRONMENT

JAPAN'S ECONOMIC ENVIRONMENT

The Japanese economy had been in recession since the spring of 1997, but the recession came to an end around the spring of 1999, owing to the implementation of various policy measures such as additional public investment, income tax reduction, accommodative monetary policy, and measures for stability of the financial system. Since then, economic activities have continued to improve moderately. The Asian economic recovery has also contributed to the improvement after the second half of 1999. In the process of recovery, as the inventory adjustment progressed, industrial production and corporate profits increased. These developments provided a good background for the recovery in investment in plant and equipment since the end of 1999. Exports continue to increase due to the good economic condition of Asia, Europe, and the United States. Imports, especially those from Asia, are increasing.

Although the employment situation remains severe with the unemployment rate staying at a high level, overtime hours worked and job offers have been increasing. The business perception of excessive employment is decreasing although the level is still high. On the other hand, with respect to the household sector, private consumption has not yet shown a clear trend of improvement despite the fact that decrease in income is coming to the end. In short, although the Japanese economy is improving moderately, it is still not on an autonomous path of recovery.

The Government of Japan will continuously carry out economic and fiscal management measures focusing on economic recovery, and will operate appropriately in order to attain autonomous economic recovery, carefully taking into account the trend of the economy. The government of Japan will compile a new set of policies to implement the Plan for the Rebirth of Japan.

With regard to the financial situation, overall the accommodative monetary condition has been maintained. A zero interest rate policy had been in place since February 1999, but on 11 August 2000 the targeted overnight call rate was raised to an average of around 0.25%. Long-term interest rates have been lower than 2% except in February 1999. Short-term interest rates had remained stable except for the temporary rise because of Y2K problems. However, since August 2000, they have increased somewhat. The money supply (M2+CDs) has been increased at the year-on-year change of about 2.0-3.0% from February to July in 2000. The accommodative monetary policy has contributed to the economic recovery by stimulating investment in housing and equipment, while money demand by private sector still remains weak. On the other hand, stock prices had shown a rising trend due to the removal of uneasiness in the financial system and continuing economic improvement. However, partly due to the influence of stock price adjustments in the United States, they fell in mid-April of 2000, and have remained weak.

With regard to the dollar-yen exchange rate from 1998 to August 2000, the dollar depreciated from ¥147.64 in August 1998 to ¥101.25 in November 1999. The dollar has traded in a tighter range since the turn of 2000, mainly between ¥104 and ¥110.

MORE

TREND IN FOREIGN TRADE

Trade statistics indicate that Japan's trade surplus expanded in 1997, after four straight years of decline, and rose to its highest level of ¥13.99 trillion in 1998. In 1999, both exports and imports, but especially exports decreased, and as a result, the trade surplus decreased to ¥12.28 trillion. In the first half of 2000, the imports largely increased reflecting the recovery of the Japanese economy, and the trade surplus declined by 4.6%.

The total value of exports decreased two straight years from 1998 onwards, due mainly to the economic crisis in East Asian countries. In the first half of 2000, the total value of exports has been recovering.

- The total value of exports in 1999 amounted to ¥47.55 trillion (a decrease of 6.1% as against 1998).
- A year-to-year increase in the first half of 2000 up by 8.9% (as against the first half of 1999).
- Increase or decrease of the total value of exports in 1999 on a regional basis (as against 1998).

NIEs (incl. Korea, Singapore, Hong Kong and Taiwan)	up by 0.2%
China	up by 1.4%
The Association of Southeast Asian Nations (ASEAN)	up by 1.3%
The United States	down by 5.6%
The European Union (EU)	down by 9.2%
The Middle East	down by 31.3%

The total value of imports likewise decreased for two straight years from 1998 onwards, due mainly to the slump of the Japanese economy and the yen's appreciation. In the first half of 2000, the total value of imports has been recovering.

- The total value of imports in 1999 amounted to ¥35.27 trillion (a decrease of 3.8% as against 1998).
- A year-to-year increase in the first half of 2000 up by 13.7% (as against the first half of 1999).
- Increase or decrease of the total value of imports in 1999 on a regional basis (as against 1998).

NIEs	up by 9.2%
The Middle East	up by 3.6%
ASEAN	up by 1.3%
China	up by 0.6%
The United States	down by 13.0%
EU	down by 4.6%

The share of manufactured goods in total imports has also been increasing steadily, reaching in 1999 a record level of 62.5% (a 12.3% point increase as against 1990).

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TREND IN FOREIGN INVESTMENT

Japan's outward foreign direct investment (FDI) on an MOF reported basis amounted to ¥7,439.0 billion in FY1999, which represents an increase of 42.6% as against FY1998. The FDI largely increased after the decrease (21.2%) in FY1998. The major characteristics of outward FDI in FY1999 were:

- (i) FDI in the manufacturing industry in FY1999 swelled to ¥4,719.3 billion three times the amount for FY1998 (¥1,568.6 billion) mainly because of several large FDIs such as in the food sector. FDI in FY1999 in the non-manufacturing industry decreased by ¥900 billion to ¥2,698.8 billion, mainly due to the decline of FDI in the finance and insurance sector.
- (ii) On the whole FDI in developed countries sharply increased due to several big M&As in these countries. About 76% of all FDI therefore was concentrated in FDI in North America and Europe. The tendencies in Asia vary among the countries. FDI in Korea was boosted to ¥109.3 billion from ¥38.7 billion in FY1998, which was the largest FDI in Asia in FY1999, while FDI in Thailand shrank to ¥91.0 billion, a half of the amount in FY1998.

FDI flows into Japan in FY1999 almost doubled for two consecutive years to ¥2,399.3 billion from ¥1,340.4 billion in FY1998. The growth rate of inflow (+79.0%) was larger than that of outflow (+42.6%). Therefore, the gap between outward and inward FDI flows was reduced from a 4:1 in FY1998 ratio to a 3:1 ratio in FY1999. The major characteristics of inward FDI in FY1999 were:

- (i) FDI in the manufacturing industry increased to ¥979.7billion (+213.4%) mainly because of a rapid increase of FDI in the machinery sector. FDI in the non-manufacturing industry also increased to ¥1,491.6 billion (+38.1%) with increases of FDI in the telecommunications sector and the trading sector.
- (ii) The amount of inward FDI from every other region except North America and Japan increased.¹ There were particularly dramatic increases of FDI from France (+4,341.1%), Canada (+9,648.8%), Netherlands (+268.2%) and Cayman (+1,058.6%).

¹ Investments from Japan are those by foreign owned companies in Japan.