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THE GATT'S TRADE POLICY REVIEW OF JAPAN, 1994

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1. INTRODUCTION

This is the third review of Japan's trade policies conducted as part of the Trade Policy Review Mechanism (TPRM) that was initiated in 1989 by the GATT. The previous reviews covered 1990 and 1992. Under the TPRM, Japan, the United States, the European Communities, and Canada are to be reviewed every two years, with other countries to be reviewed every four to six years or longer. This TPRM report consists of two volumes. Vol. I contains an in-depth study of Japan's trade and related policies by the GATT Secretariat, and Vol. II contains remarks by the Chairman of the GATT Council, a report by the Government of Japan reviewing and responding to particular points of contention raised in the GATT Secretariat's report, and the minutes of the GATT Council Meeting at which representatives from individual GATT member countries offered comments and criticisms of Japan's trade policies.

The GATT Secretariat report in Vol. I contains a wealth of information on: (1) Japan's domestic and external economic structure and performance; (2) a brief discussion of the institutional framework that shapes Japan's trade policy; (3) discussion and data pertaining to Japan's inward and outward foreign direct investment (FDI); and (4) what constitutes the bulk of the report, a detailed discussion and data relating to Japan's trade policies and practices broken down by type of measure and by producing sector.

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In what follows, Section 2 addresses some of the main features of Japan's recent domestic and external economic performance. In Section 3, the focus is on Japan's trade policies and practices, which, as mentioned, constitute the bulk of Vol. I of the TPRM review. Section 4 summarizes the current sources of concern about Japan's trade policies. Concluding remarks are contained in Section 5.

2. JAPAN'S RECENT ECONOMIC PERFORMANCE

a. Domestic Developments

As already mentioned and as is evident from Table 1, Japan has experienced a sharp reduction in its growth of real GDP since 1991 especially. Real gross domestic capital formation has declined and private consumption increased by only relatively small amounts. The yen appreciated significantly between 1991 and 1995, falling below 80 yen to the U.S. dollar in nominal terms in April 1995. It has since depreciated to a level of 107 in April 1996. The combination of domestic slowdown and recession together with the yen appreciation has caused domestic wholesale prices to fall and to hold down consumer prices to only marginal increases. Domestic employment growth has been minimal while the rate of unemployment has risen noticeably, reaching 3.4% in November 1995 according to news reports, which is very high for Japan compared to earlier years. While both the gross domestic investment/GDP and the gross national savings/GDP ratios have fallen since 1991, Japan's savings rate has evidently remained relatively high and in excess of the rate of gross domestic investment. It is not surprising therefore, as will be noted below, that Japan has continued to run a sizable surplus on its current account as its aggregate expenditure has been less than aggregate output.

Both fiscal and monetary policy stimuli have been introduced by the authorities, with a series of fiscal packages beginning in August 1992 and successive reductions in the official discount rate by the

Bank of Japan (I, pp. 4-5).[1] But these stimuli have had a limited effect through 1995 as the economy has failed to grow significantly. This suggests that the stimuli may have been small and/or inconsistently applied in the context of the ongoing recession. The outlook for 1996, according to news reports, is that the rate of growth will increase from its sluggish levels of the preceding years, although it remains to be seen if this higher rate of growth will be sustained beyond 1996, especially because of the fragility of the banking system and continuing weaknesses in asset markets.

While not discussed in the TPRM review, it should be noted that political conditions in Japan have been in a state of flux. Toshiki Kaifu of the Liberal Democratic Party (LDP) left office in November 1991. He was succeeded by Kiichi Miyazawa also of the LDP. Miyazawa left office in July 1993 when the LDP lost its long-standing post-World War II majority in the Japanese Diet as a result of the nation-wide election. Miyazawa was succeeded by Morihiro Hosokawa of the Japan New Party who headed a coalition government that excluded the LDP. Hosokawa resigned in April 1994 and was succeeded by Tsutomu Hata of the Renaissance Party who headed a minority government. Hata lost a vote of confidence in June 1994 and was succeeded by Tomiichi Murayama of the Socialist Party who headed a coalition government composed primarily of the LDP and the Socialist Party. In January 1996, Murayama was succeeded by Ryutaro Hashimoto of the LDP.

Under the circumstances, it might appear that the absence of strong and effective direction at the national political level has made it difficult to achieve a consensus on what policy measures should be taken to ameliorate Japan's economic situation. I will return to this point below since weak and uncertain political leadership may make it difficult to forge a consensus especially on the design and implementation of effective policies of deregulation, fostering of competition, and increasing market access.

[1] Vol. I and II of the TPRM report are referred to as I and II, with page numbers to be indicated.

b. External Performance

1. Balance of Payments

Recent changes in Japan's current and capital accounts and overall balance of payments are shown in Table 2 in terms of U.S. dollars together with the current account on a yen basis. There is evidently an important difference in the accounts depending on whether they are measured in dollars or yen. The increase in the dollar-based current account through 1993 apparently reflects the slowdown in the Japanese economy and hence declining expenditures on imports together with a host of other factors, including J-curve and valuation effects of yen appreciation, increased investment income, and lower world prices of imported commodities (I, p. 6). In 1994 and 1995, however, according to *The New York Times* (Jan. 24, 1996, p. A1), the trade balance, measured on a customs clearance basis, has declined markedly to levels of $120.9 billion and $107.1 billion in the respective years. [2] By the same token, as noted in Table 2, since 1992 there has been a significant decline in the current account measured in terms of yen. Although not discussed in the TPRM review, should the current account surplus continue to diminish, this could conceivably help to defuse some of the U.S. criticism especially that has been directed at Japan for ostensibly following neo-mercantilist trade and related policies that serve to maintain a surplus position.[3]

2. Merchandise Trade

Information on the commodity composition of Japan's merchandise trade is given in nominal terms in Table 3 for 1963 to 1994.[4] Japan's revealed comparative disadvantage in agricultural and mining

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[2]The 1995 trade balance measured on a balance of payments basis was presumably lower than the 1994 level recorded in Table 2.

[3]Of course, as noted, the criticism may be misdirected insofar as the current account surplus represents the difference between Japan’s aggregate output and expenditure rather than the consequence of trade policies.

[4] It would be preferable to report the composition in constant dollars, but the requisite price indexes are not readily available. This also applies to Table 5 below.

products is evident from the net imports indicated. Its revealed comparative advantage in the net exports of manufactures is also evident, especially for machinery and transport equipment. Clothing is the only category of manufactures that shows net imports.[5]

The percentage distribution of the composition of Japan's trade is shown in Table 4. It is striking that the relative importance of imports of agricultural and mining products has fallen from 77.4% in 1963 to 48.3% in 1994, with the largest relative declines in agricultural raw materials, ores, and mineral fuels. The fall in world oil prices presumably accounts for a significant part of the reduced importance of primary product imports. The relative importance of imports of manufactures increased from 21.5% in 1983 to 49.2% in 1994, which is quite remarkable in such a short period of time. The largest relative increases have been in imports of office and telecommunications equipment, clothing, and other consumer goods. Virtually all, 95.2% in 1994, of Japan's exports are comprised of manufactures.

Changes in the geographic distribution of Japan's merchandise trade from 1980 to 1994 are recorded in nominal terms in Table 5 for Japan's major trading partners: the United States; EU-12; East Asia; and the Rest of World. Japan has sizable net imports of agricultural and mining products from the United States, East Asia, and the Rest of World. Japan has been a net exporter of semi-manufactures to the United States, East Asia, and the Rest of World and a net importer from the EU-12. Japan's sizable net exports of machinery and transport equipment to all of the countries/regions shown are evident, with the largest increases being for the countries of East Asia. While Japan has continued to be a net exporter of textiles, clothing, and other consumer goods to the United States and the Rest of World, it is a net importer from the EU-12 and especially from East Asia. While not shown separately, Japan's trade with China has increased significantly in recent years.

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[5] More disaggregated data would also show net imports of pharmaceuticals, aircraft, and precision instruments.

3. Foreign Direct Investment

Data on the sectoral distribution of the stock of Japan's inward and outward foreign direct investment (FDI) are reported for 1984, 1989, and 1993 in Table 6. As shown in the last row of Table 6, the absolute amount of Japan's inward FDI is very small compared to its outward FDI. In 1993, 56.3% of inward FDI was in manufacturing, including 17.5% in chemicals and 26.5% in mechanical equipment. The other 43.7% was in services, with 19.4% in wholesale and retail trade and 16.3% in other services. It is evident that the proportion of inward FDI in the services sectors increased substantially between 1984 and 1993. According to the TPRM report (I, p. 35):

> "The authorities ascribe the relatively low levels of FDI into Japan largely to high production costs, land prices and acquisition costs; these factors have been exacerbated by yen appreciation and domestic competition, which together have resulted in generally low profitability for foreign affiliates and thus tending to discourage possible new entrants. ... To these factors should be added, when considering the fairly low stock of FDI in Japan, past restrictions on FDI and the fact that, with domestic savings in excess of investment, the Government had not encouraged inward FDI, except in areas where specific technology was thought necessary, e.g., chemicals."

It might also be mentioned that in the past Japanese domestic firms acquired access to foreign technology by means of licensing arrangements, and that Japan has had a sizable deficit position in its current account for payments of royalties and fees. In any event, issues of inward FDI lie outside the purview of the TPRM report and thus are not dealt with to any great extent in the main body of discussion dealing with Japan's trade policies and practices and in Vol. II of the report.

The data on Japan's outward FDI in Table 6 indicate that about two-thirds of the stock in fiscal 1993 was in services, especially wholesale and retail trade, finance, insurance and business services, and other services (including real estate). The outward FDI in the auto industry is not reported separately so that the data are somewhat difficult to interpret.

The geographic distribution of Japan's inward and outward FDI is reported in Table 7. The United States was the largest investor, with 40.7% of the stock of inward FDI in 1993. This excludes reinvested earnings by subsidiaries in Japan so that the U.S. share may in fact be somewhat larger. The United States accounted for 41.9% of the stock of Japan's outward FDI in 1993, and Europe for 19.5%. South and East Asia accounted for 15.7% of outward FDI in 1993, and the proportion invested in China has increased significantly in the period covered in the table.

There is a brief discussion (I, p. 33) of the relationship between FDI and trade with respect to different regions. A study by Japan's Economic Planning Agency is cited that concluded that outward FDI in North America tended to reduce exports of final products (e.g., autos) and increase intra-firm trade, with exports of capital goods and semi-manufactures going from Japan to North America. In contrast, Asian-directed FDI also stimulated substantial exports of Japanese capital goods, but there was a significant impact on Japan's imports as well, with goods produced in Asian affiliates being increasingly imported into Japan.[6]

3. JAPAN'S TRADE POLICIES AND PRACTICES

a. Framework and Objectives of Japan's Trade Policy Regime

The TPRM review (I, pp.13-14) has a brief but informative discussion of the roles that the various Japanese ministries, inter-ministerial organizations, government-affiliated advisory councils, and private sector business organizations play in the design, consensus, and implementation of Japanese trade policies. This discussion is important insofar as it is a reminder that Japan's trade policies reflect the interplay of the interests of different constituent groups in the public and private sectors, and that changes in these

[6] It is worth noting that while Japanese investments in North America have resulted in fewer Japanese exports there, they have also resulted in increased Japanese imports in the past year or so. Thus, for example, Honda is now the leading North American automotive exporter to Japan.

policies will therefore require agreement on the part of those concerned. This is perhaps an obvious point, but it is nonetheless worth stressing because of the beliefs of some foreign observers and government officials that Japan's trade policies are set in a monolithic manner. It is further worth noting that Japan has established an Office of Trade and Investment Ombudsman (OTO) to receive and process complaints associated with market-access issues and that steps have been taken to strengthen the OTO.

The TPRM review (I, p. 15) summarizes the objectives of Japan's economic and trade policies as follows: "...redirecting the economy towards greater reliance on domestic rather than export demand, while improving living standards and achieving a more open and transparent structure; since the collapse of the bubble economy in 1991, increased emphasis has been placed on structural issues, such as deregulation, trade liberalization, and otherwise strengthening the market mechanism, as well as on the immediate concern of recovery from the recession." Numerous measures have been introduced in pursuit of these policy objectives, but it remains to be determined what impact these measures have had.

We now turn to a discussion of the trade-related measures.

b. Japan's Trade Policies and Practices by Measure

1. Tariffs and Nontariff Barriers

In discussing Japan's participation in the Uruguay Round negotiations, the TPRM review notes (I, pp. 15, 36) that: Japan's import-weighted tariff average on industrial products will decline from 3.9 to 1.7% by 1999; nontariff border protection of agricultural products, except for rice, will be tariffied and bound and reduced by 36% by the year 2000, although some products (e.g., dairy products, wheat, starch, and peanuts) will have ad valorem equivalents of several hundred percent; minimum access levels for rice, which were zero until the Uruguay Round, are to increase from 4 to 8% of domestic consumption by the year 2000 and the continuance of special treatment for rice is to be negotiated.

Excluding the tariffication of agricultural products, it is noted (I, pp. 40-41) that the highest simple average and peak tariffs as of 1994 were concentrated in: footwear (67.4/179%); beverages (22.2/85%); food manufacturing (19.8/50%); leather products (16.9/60%); and food products (16.3/174%). Clothing had a simple average of 12.1% and textiles, 8.7%. All the remaining tariffs on primary and industrial products were quite low on average. It would thus appear that, with some exceptions, Japan's formal tariffs on industrial products are relatively low and will be reduced or eliminated altogether on many products as a result of the Uruguay Round negotiations.

As far as nontariff barriers (NTBs) are concerned, Japan has maintained import quotas justified on health and safety grounds on such industrial products as organic chemicals, pharmaceuticals, explosives, rubber adhesives, and military equipment and firearms. The quotas on pharmaceuticals are to be removed in the near future. It appears accordingly that Japan's formal NTBs on industrial products are rather limited in scope. As already noted, quotas on imports of agricultural products and manufactured food products are to be replaced by tariffs. Japan has state trading arrangements that cover imports of rice, wheat, barley, skimmed milk powder, butter, salt, opium, alcohol, tobacco, and raw silk. The protection involved with these products will be converted to tariff equivalents, except in the case of rice as noted above, and it appears unlikely that this protection will be reduced significantly in the near future.

2. Other Policies and Practices

The TPRM review discusses a host of other Japanese policies and practices that affect its international trade. The most important of these include: standards and technical measures; the role of the Office of Trade and Investment Ombudsman; government procurement; antidumping, countervailing duty, and safeguard measures; import promotion measures; export restraint arrangements and export cartels; and competition policy.

A number of these policies and practices have been singled out by Japan's trading partners, particularly the United States, as constituting "informal" barriers that impede access to Japan's domestic market. Thus, it has been alleged that standards and technical measures have been designed in ways that inhibit imports, that government procurement policies are biased in favor of Japanese suppliers, and that the structure of corporate linkages in Japan creates significant entry barriers for foreign firms and is a major source of anticompetitive practices.

The data reported in the TPRM (I, pp. 56-60) suggest that there has been noteworthy progress in assuring that Japan's standards and regulations conform to international norms, although the concern is expressed that progress has been relatively slow. Deregulation measures have also been introduced and recommended covering a variety of products and practices, including housing and land-related issues, information and communication-related items, wholesale and retail distribution, standards and certification and inspection issues, import procedures, and financial, securities and insurance-related sectors. Furthermore, steps have been taken to clarify and improve government procurement procedures, although this remains a controversial area.

The TPRM review identifies three types of corporate groupings that exist in Japan: (1) horizontal corporate grouping (kigyo-shudan); (2) vertical supplier affiliation (seisan-keiretsu); and (3) vertical distribution affiliation (ryutsu-keiretsu). The issue here is whether these types of corporate groupings enhance economic efficiency and/or create entry barriers. To the extent that the groupings foster anticompetitive behavior, this presumably can be dealt with by Japanese antimonopoly law. The question then becomes how effective the application of the antimonopoly law may be and what role trading partners may play in identifying anticompetitive behavior and inducing the Japanese authorities to institute policies that will result in greater competition. The impression one gets from the TPRM review is that in recent years Japan's competition policies have been more clearly articulated, although their effectiveness is difficult to gauge. As will be noted below, the U.S.-Japan dispute in 1995 over autos and auto parts related directly to U.S. claims that corporate groupings impeded access of U.S. products to the Japanese market. By the same token, there is reason to believe that there has been increased competition in recent years from imports that has resulted in breaking down existing barriers and encouraging new and efficient forms of corporate structuring.

Some of the other policies and practices noted above also deserve mention. Prior to 1993, Japan had not instituted any antidumping actions, but, in 1993, it imposed antidumping duties on imports of ferro-silico-manganese from China and, in 1994, it initiated an antidumping investigation on cotton yarn from Pakistan. It will be interesting to see whether Japan will make further use of antidumping policies in the future. Japan has never taken countervailing duty actions or safeguard measures, but this could change as well.

In response to pressures especially from the United States to reduce its external surplus, Japan has introduced a variety of import promotion measures. These measures include tax incentives, concessionary loans, import promotion activities, and improvements in infrastructure that are designed (I, p. 73): "...to encourage domestic producers and distributors to switch to imported products by temporarily subsidizing their transition costs; and to encourage foreign exporters and investors to increase their presence in the Japanese market by subsidizing their transition costs." The problem is that the programs are applied only to manufactured products already entering Japan on a duty-free basis. The TPRM review notes (I, p. 74) that this will distort relative prices and increase the implicit protection against other products not eligible for the incentives. In particular, the result is to magnify the impact of the already heavy protection of Japanese agriculture. Thus, if it were desired as a matter of policy to take action to increase imports, it could be argued that an across-the-board import subsidy would be preferable.

Finally, it is noteworthy that most of the voluntary export restraint (VER) arrangements that have inhibited Japan's exports have now been eliminated. An indication of these arrangements is given in Table 8. It is interesting in retrospect to ask why Japan was so often the target of VERs and, at the same time, whether there was any basis for the claim that Japan imported too little from its trading partners. Our preceding discussion indicates that Japan's revealed comparative disadvantage and import protection are most pronounced in the agricultural and food manufacturing sectors, and that its revealed comparative advantage is most pronounced in its manufacturing sectors, in particular machinery and transport equipment. The imposition of VERs on Japan's exports suggests accordingly that Japan has been singled out for "exporting too much." So-called informal protection perhaps exists in some manufacturing sectors, but, if so, it remains to be explained how it is that so many Japanese firms and industries could be so efficient by world standards.[7]

3. Preferential Trading Arrangements

Japan is distinctive insofar as it is not currently a member of any type of preferential trading arrangement. It has played a leading role in the Forum for Asia Pacific Economic Cooperation (APEC), but it looks upon APEC mainly as a means of fostering regional cooperation among the countries involved

[7] In an effort to explain the relation between import protection and export efficiency, Krugman (1984) has developed a theoretical model in which protection enables imperfectly competitive firms to exploit scale economies, which thereby serve as a springboard for promoting exports. Baldwin and Krugman (1988) present a simulation model that is designed to investigate the production and export experiences of the Japanese producers of 16K random access memories. They conclude that the success of the firms involved can be explained in terms of the Krugman model, although they express a number of reservations about their results. Since the Baldwin-Krugman study is by no means definitive, it would be interesting to analyze other industries to determine just how important import protection and scale economies have been in Japanese industry and whether there are other (more) plausible explanations for the Japanese experiences. My own view is that the export successes of many Japanese firms can be attributed less to import protection and more to certain specific Japanese institutions (e.g., lifetime employment, keiretsus) and to the conditions of domestic competition that have shaped management behavior. For some research along these lines, see Weinstein and Yafeh (1996) and Beason and Weinstein (1996).

but without engaging in agreements that would be discriminatory. Of course, it remains to be seen whether or not APEC will in fact be able to avoid discriminatory arrangements, given the conflicting objectives of all the countries involved.

c. Japan's Trade Policies and Practices by Sector

The preceding discussion has focused on the different measures and practices that Japan uses in implementing its trade policies. The TPRM review also contains a lengthy discussion of these matters with a sectoral focus. While some of this discussion overlaps with the preceding section of the TPRM report, it is nevertheless useful since a great deal of the dialogue concerning Japan's trade policies and practices is framed in sectoral terms. In what follows, I will limit my discussion to those sectors that have been the object of controversy, especially between Japan and the United States.

It is well known of course that the U.S.-Japan bilateral relationship has been of central importance in Japan's trade relations and policies. This has been manifested over the years in a variety of bilateral arrangements affecting Japan's exports and imports and its domestic economy and policies. The major arrangements involving the United States as well as the European Union, United Kingdom, Canada, and Australia are summarized in Table 8.[8] It has already been noted that most "voluntary" restraints on Japan's exports have now been terminated, so that the table is a reminder of the extent to which Japan has in the past been singled out for "exporting too much." It is also evident that the U.S. focus especially has shifted increasingly to measures affecting Japan's imports in an effort to enhance the interests of U.S. exporters of a variety of agricultural and industrial products.

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[8] See Japan, Industrial Structure Council (1995), for the Japanese Government's annual report on the trade policies of its major trading partners, including discussion of the U.S. National Trade Estimate Report issued by the Office of the U.S. Trade Representative (USTR) and the European Union report on Japan. It is interesting to juxtapose these reports in order to get some perspective on the policies being followed abroad that each of these trading entities considers detrimental to their interest.

The most recent and intense example of U.S. pressure occurred in the first half of 1995, which was beyond the period covered by the TPRM review. The issues involving access of U.S. autos and auto parts to Japan's market had been addressed earlier during the Bush Administration in January 1992 in the Global Partnership Plan of Action in which Japanese auto manufacturers announced that they would increase their imports of auto parts and would help expand imports of U.S. autos. The Japanese Government also promised measures to encourage greater imports of autos and parts over a three-year period ending March 31, 1995. Apparently dissatisfied with what had been accomplished, the United States insisted that the Japanese auto companies increase their purchases of auto parts and components by 20-30% beyond what had been pledged in 1992 and persuade their dealers to carry more U.S. autos. The United States also requested that the Japanese Government use its influence to achieve the foregoing objectives.[9]

The Japanese Government refused to accede to the U.S. demands for numerical targets and to exercise its influence on the behavior of Japanese auto companies. With the breakdown of negotiations, on May 10, 1995, the Clinton Administration unilaterally initiated a Section 301 “unfair trade practice” action and notified the World Trade Organization (WTO) that it would initiate a dispute settlement procedure against Japan within 45 days to challenge the Japanese business practices and regulations that ostensibly discriminated against competitive U.S. and foreign autos and auto parts. On May 17, 1995, the Clinton Administration further announced, under its Section 301 authority, that it would place a 100 percent tariff on imports of thirteen Japanese luxury autos priced above $33,000. Based on 1994 data, this would have affected 12.5% of the volume and 20% of the value of Japan's auto exports. This tariff would be imposed effective June 28, 1995 and would be retroactive to May 20, unless an agreement were to be reached

[9] The discussion of the U.S.-Japan dispute on autos and auto parts in this and subsequent paragraphs is based primarily on USITC (1995a).

between the two governments.[10] For its part, the Japanese Government notified the WTO that it would challenge the proposed unilateral U.S. sanctions as being illegal according to WTO rules. They also suggested that they stood ready to retaliate with sanctions of their own against U.S. exports if the Section 301 tariff increases were carried out.

It is important to note that the WTO had just come into existence officially at the beginning of 1995. The U.S. actions and the Japanese response would thus have constituted the first test of the WTO's legal powers. There was widespread criticism at the time that the unilateral U.S. punitive actions were discriminatory and at variance with WTO rules of nondiscrimination. Also, while it is conceivable that the legality of the structure of Japanese industry and the relations between the auto companies and their suppliers could be subject to challenge within the GATT/WTO framework, there was no precedent for such a challenge. Under the circumstances, the WTO was placed in an almost impossible situation such that any decision that might have been reached would directly challenge the authority of one or the other of the world's most important trading nations.

Fortunately, the dispute was resolved at the eleventh hour on June 28th, when the United States decided to drop its demands for verifiable numerical targets and a formal endorsement of these targets by the Japanese Government. Nonetheless, the United States claimed that it had achieved a great victory that would result in the deregulation of Japan's replacement market, provide U.S. auto companies greater access to Japanese dealership networks, and increase Japanese auto company purchases of U.S. auto parts. Specific figures were cited concerning what U.S. auto companies and parts suppliers could expect to achieve in the Japanese market as well as changes in production plans and parts procurement by Japanese auto companies in the U.S. and North American market in the next three to five years.

[10] See Levinsohn (1995) for an econometric analysis of the effects that the U.S. tariff increases might have had on the sales and profits of U.S., Japanese, and European auto companies.

For its part, the Japanese Government made it clear that the announced goals and business forecasts and intentions of the U.S. and Japanese automobile companies were not to be interpreted as official commitments and would not be subject to the trade remedy laws of either country. The United States announced that it planned to monitor the agreement, using both quantitative and qualitative criteria to determine what progress was being made and apparently reserving judgment on possible steps that might be taken if in its view the agreement was not being fulfilled. It would thus appear that we have not heard the end of this story, and it is quite conceivable a few years hence that bilateral tensions between the two countries will reemerge in the auto and auto parts sector.[11] There is continuing cause for concern, moreover, since another potentially divisive situation may be developing between the Kodak and Fuji film companies about Kodak's access to Japan's market.[12]

The history of bilateral trade relations involving Japan and its major trading partners, in particular the United States and the European Union, is remarkable for it demonstrates the unwillingness of major players in the global trading system to seek multilateral solutions to trade frictions and disputes in all circumstances. One can hope that the nascent WTO will assume the dominant role in dispute settlement as it becomes more firmly established. But there is no guarantee of this so long as some large and powerful nations or trading blocs remain determined to preserve their sovereignty and at times to exercise their political muscle.

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[11] An early assessment of the auto accord, in Nakamoto (1996a), suggests that European carmakers have expanded their roles in Japan much more than have U.S. producers.

[12] For details on the USTR 301 action against Fuji Photo Film, see USITC (1995b). It should be noted that the Japan Fair Trade Commission (JFTC) has instituted an investigation into Japan's domestic market for photographic film and paper. However, according to Nakamoto (1996), there is a good chance that nothing much will come of this investigation. He refers to the JFTC as "the watchdog that refuses to bite" and goes on to explain why there may not be widespread support for antimonopoly enforcement in Japan.

4. CURRENT SOURCES OF CONCERN ABOUT JAPAN'S TRADE POLICIES

Vol. II of the TPRM review is interesting in its own right insofar as it contains: (1) an overview of the TPRM report and the discussion of the report conducted by the Council of GATT; (2) the reaction to the Vol. I TPRM report by the Government of Japan; and (3) the minutes of the GATT Council meeting at which the TPRM was discussed by Council representatives. Given the setting in which the discussion took place, one might wonder how frank the GATT Council discussion was and whether important issues were glossed over. Diplomatic niceties were of course preserved at the Council meeting. Nonetheless, it is interesting and important to note that there was a good dose of criticism expressed as well concerning Japan's trade and related policies. The remarks of one of the two discussants -- Pierre Gosselin -- especially capture what to me are the major current sources of concern that other countries have about Japan's trade policies.[13] These can be summarized as follows (II, pp. 61-64):[14]

> 1. <u>Slow progress in implementing structural reforms:</u> "No one could question Japan's dedication to a free and multilateral trading system; in all their major economic policy statements, the Japanese authorities [have] underscored the importance attached to the objective of achieving harmonious external relations, strengthening the multilateral system, contributing to global economic welfare and more recently re-orienting the economy towards greater reliance on domestic rather than export demand. ... however, the reality ... [is] more complex. Despite apparent efforts, progress [has] remained slow in a number of structural reforms designed to achieve the effective market access improvements expected by trading partners."
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> 2. <u>Need to assess the market impact of deregulation:</u> "Japan ... [has] initiated a vast deregulation programme as one means of addressing the market access concerns of the international trade community. While the list of measures being reviewed ... [is] impressive – more than one thousand – tangible results in terms of improving access, reducing bureaucratic red tape and, above all, ameliorating the well-being of Japanese consumers, [has] yet to crystallize. Japan should provide a more systematic evaluation of the

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[13] It would be interesting to compare Gosselin’s remarks with those expressed by discussants of the TPRM reviews of other major trading nations/regions such as the United States, EU, and Canada.

[14] The inclusion of bracketed words below is designed to change the original statements from past to present tense.

deregulation plan; not necessarily to report on what [has] happened to regulatory measures themselves, but rather to assess the extent to which the deregulation initiative ... [has] had a real impact on the marketplace, including where relevant whether it ... [has] led to a greater alignment of domestic prices. Otherwise, deregulation might be a misnomer for re-regulation."

3. Strengthen the function of the Office of Trade and Investment Ombudsman (OTO): "... the strengthening of the function of the OTO and the Market Access Ombudsman Council noted in the Secretariat report ... [is] welcomed. However, participation of foreign enterprises [has] remained largely embryonic and this might require further action, such as expanding the role of the OTO in decision-making, ensuring availability of information in timely fashion, and encouraging participation of foreign enterprises in Japanese business associations."

4. Expand conformity of industrial standards to international norms: "In standards, generally, structural reforms [have] seemed to advance at a snail's pace. The last review noted that only 5.2 per cent of Japan's industrial standards coincided with international norms; the proportion ... [has] now been increased to 10.4 per cent.... Admittedly this ... [represents] a...significant improvement, but it still ... [amounts] to an insignificant proportion for an economy of the size and importance of Japan."

5. Assess desirability and impact of import promotion programmes: "Japan ... [has] introduced import promotion programmes, including financial incentives, to reduce market entry costs of imports and thus accentuate import penetration to enhance competition and consumer welfare. However, the beneficial impact of such measures ... [has] yet to be demonstrated. ...There ... [is] always a risk that the selective subsidization of imports could lead to other distortions, and simply divert attention from the need to further liberalize non-competitive sectors."

6. Strengthen enforcement of antimonopoly policy: "Considerable attention ... [has] been given in both the Secretariat and Government reports to competition policy. In recent years, and to some extent as a result of international pressures, several positive steps ... [have] been taken to strengthen the power and influence of the Japanese Fair Trade Commission. However, the enforcement record [has] remained modest and the preference to use administrative guidance rather than judicial enforcement might leave trading partners perplexed as to whether the end result might not be the creation of another layer of regulatory intervention. ...A related question ... [is] vertical [keiretsu] arrangements and their impact on market access. This ... [has] sparked considerable debate as a source of concern. Again, stiffer price competition at the distribution level could help stimulate demand for price-competitive imports."

7. Reduce agricultural protection: "There [is] evidence that it would not be appropriate for Japan to encourage domestic production and promote self-sufficiency in agriculture. Despite such evidence, Japan [has] persisted in maintaining excessive protection in this area. Japan's concern with food security ... [is] understandable, but given limited overall production in a small land area, food security would best be served through

> more open, secure access to the market and the new disciplines on export prohibitions and restrictions imposed by the WTO Agreement on Agriculture. It ... [is] clear that Japanese consumers and the Japanese economy in general would benefit from a reallocation of resources from production and processing of food products to other economic sectors."
>
> 8. More vigorous domestic policy actions to promote greater harmony with trading partners: "It ... [is] evident that much ... [has] been accomplished since the last review, but there ... [is] much left for the Japanese authorities to do. ..., the key to dealing with structural imbalances ... [is] deregulation and strengthening the functioning of the market, to provide effective market access and enhanced competition. How vigorously and completely the Japanese authorities ... [pursue] those objectives would determine the harmony they ... [enjoy] with their trading partners. Failure to act aggressively would undermine the multilateral trading system that Japan so staunchly ... [supports]."

The foregoing points thus reflect the dominant concerns that Japan's trading partners have about Japanese trade policies. These concerns are further articulated by the statements attributed to national representatives that are reported in the minutes of the GATT Council meeting. While the TPRM review does not have the authority to require that a country change its trade policies, the review is nonetheless valuable because it identifies the major issues that deserve attention by Japan's policy makers. The question then is whether Japanese leaders have the political will and are able to forge a consensus for change. Given the recent political instability in Japan and the resistance of domestic interest groups to changes that could affect them adversely, it seems likely that the pace of deregulation, antimonopoly actions, and trade liberalization especially in agriculture and food products will be gradual rather than rapid.[15]

With the advent of the WTO, one can hope that foreign official dissatisfaction with respect to Japan's trade policies will be expressed through a multilateral process. This would serve to depoliticize

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[15] Gary Saxonhouse has pointed out to me that it is by no means clear that the portrait of the Japanese economy painted in the TPRM review is widely accepted in Japan. Thus, strong political leadership in Japan, once it arrives, might decide that the kinds of policy changes that the TPRM takes for granted are better resisted than encouraged on the grounds that the policy changes have little or nothing to do with whether or not Japan is a liberal economy. For some further comments along these lines, see Nakamoto (1996b).

trade disputes and thus obviate the resort to the type of bilateral action that the United States initiated in the first half of 1995 and may threaten again.

5. CONCLUSION

The overall impression that emerges from the GATT review is that Japan has been struggling since 1991 in response to the collapse of its domestic asset markets, the onset of economic slowdown and recession, and a very sizable nominal and real appreciation of the yen. While a variety of fiscal and monetary policy stimuli have been introduced since 1991 to help bolster economic growth, their impact has been limited through 1995. There are indications, however, of a significant expansion of the economy in 1996. The most noteworthy development in Japan's trade policies during the period under review was the conclusion of the Uruguay Round negotiations. Japan's industrial tariffs, already relatively low, are to be reduced even more and removed altogether in some sectors. Most voluntary export restraints (VERs) affecting Japan's manufactured exports have either already been, or in the near future will be, eliminated. Japan also agreed to tariffication of its NTBs affecting its imports of agricultural products and foodstuffs and to a future reduction of these tariffs. In what may be an historic change, Japan agreed to open its rice market to imports on a small scale.

Also of potentially great significance, Japan has embarked on what may turn out to be a far reaching domestic program of deregulation and strengthening of its competition policies. While these efforts have met with approval, Japan's major trading partners are nonetheless concerned by what they perceive to be the slow pace at which these policy changes are being introduced and the absence of firm commitments by the Japanese Government to make certain that the consequences of the policy changes will be substantive. Further worth noting is that Japan has introduced special subsidies and other measures designed to increase imports of selected manufactured goods, although it remains unclear whether these various measures are desirable in their own right. In this regard, greater access to Japan's import market has remained a key objective especially for the United States, so much so that it was brought to a head in 1995 (beyond the period covered the GATT review) by the unilateral U.S. decision to pressure Japan to agree to numerical targets for imports of autos and auto parts.[16,17] The unilateral U.S. action could not have come at a worse time, for it threatened the very existence and influence of the World Trade Organization (WTO) that had just been officially launched at the beginning of 1995. While this U.S.-Japan bilateral dispute was settled, at least momentarily, it does not portend well for the future of the WTO unless the United States and other major trading entities decide to place greater emphasis on the pursuit of multilateral rather than unilateral solutions to trade disputes.

[16] Numerical targets will be at issue in the bilateral discussion of whether or not the Semiconductor Agreement should be extended beyond mid-1996. This Agreement has been a bone of contention since the Japanese Government maintains that it never really accepted the numerical target involved in the original 1986 negotiations. For a discussion and demonstration of why numerical targets are a very poor policy tool, see Greaney (1996).

[17] It is noteworthy that the United States chose to exphasize security rather than trade issues in the bilateral dialogue that took place in April 1996. It will be interesting to see whether bilateral trade issues will again become paramount in the course of the U.S. presidential campaign in 1996 and following the November election.

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TABLE 1
Japan's Economic Performance 1988-1994
(Billions of U.S. Dollars, Percentage Change, and Percent)

Calendar Years	1988	1989	1990	1991	1992	1993	1994
	(Percentage Change)						
Real GDP	6.2	4.7	4.8	4.3	1.1	0.1	1.0
Industrial production	10.5	5.9	4.6	1.8	-6.1	-4.6	0.2
Private consumption	5.2	4.3	3.9	2.2	1.7	1.1	2.6
Government consumption	2.2	2.0	1.9	1.6	2.2	3.2	2.4
Gross capital formation	11.9	9.3	8.8	3.7	-0.8	-1.3	-0.5
Exports of goods & nonfactor services	7.0	9.0	7.3	5.2	5.2	1.0	4.3
Imports of goods & nonfactor services	18.7	17.6	8.6	-4.1	-0.4	3.2	9.1
Wholesale prices	-1.0	2.6	2.0	0.2	-1.5	-3.7	-2.1
Consumer prices	0.7	2.2	3.1	3.3	1.7	1.2	0.7
Real effective exchange rate[a]	5.8	-6.0	-10.6	5.8	3.2	16.8	7.3
Unemployment (percent)	2.5	2.3	2.1	2.1	2.2	2.5	2.9
Balance of payments							
Merchandise trade balance (U.S. $bill.)	95.0	76.9	63.6	103.1	132.4	141.4	145.8
Current account (U.S. $bill.)	79.6	57.2	35.8	72.9	117.6	131.4	129.3
Share of GDP	2.8	2.0	1.2	2.2	3.2	3.1	2.8
Gross domestic investment/GDP	30.6	31.8	32.8	32.5	31.2	30.3	
Gross national savings/GDP	33.3	33.8	34.0	34.6	34.4	33.4	

[a]Increase indicates appreciation

Source: GATT, Vol. I, p. 3; IMF *International Financial Statistics*, Nov. 95.

TABLE 2

Balance of Payments of Japan, 1990-1994

Calendar Years (U.S. $ bill.)	1990	1991	1992	1993	1994
Current account	35.8	72.9	117.6	131.4	129.1
Merchandise trade	63.5	103.0	132.3	141.5	145.9
Services & unrequited transfers	-27.8	-30.1	-14.8	-10.1	-16.8
Capital account					
Long-term capital, net	-43.6	37.1	-28.5	-78.3	-82.0
Short-term capital, net	21.5	-25.8	-7.0	-14.4	-8.9
Errors and omissions	-20.9	-7.8	-10.5	-0.3	-17.8
Overall balance	-7.2	76.4	71.6	38.4	20.4
Memo:					
Current account (hundred bill. yen)	52.0	97.7	149.0	146.1	132.0

Source: GATT, Vol. I, p. 7; Bank of Japan; *Economic Statistics Monthly*, Oct. 1995 (Table 94).

TABLE 3

Commodity Composition of the Value of Japan’s Merchandise Trade, 1963 to 1994

(Billions of Dollars)

	1963			1973			1983			1993			1994		
	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.
Agricultural products	**0.5**	**3.0**	**-2.5**	**1.5**	**13.8**	**-12.3**	**2.6**	**26.2**	**-23.6**	**3.8**	**59.3**	**-55.5**	**4.1**	**67.7**	**-63.6**
Food	0.3	1.4	-1.1	0.9	7.3	-6.4	1.5	17.1	-15.6	2.0	41.8	-39.8	2.1	49.4	-47.3
Raw materials	0.2	1.6	-1.4	0.6	6.6	-6.0	1.1	9.1	-8.0	1.7	17.5	-15.8	2.0	18.3	-16.3
Mining products	**0.1**	**2.2**	**-2.1**	**0.4**	**14.5**	**-14.1**	**2.2**	**70.6**	**-68.4**	**5.0**	**64.7**	**-59.7**	**5.7**	**65.2**	**-59.5**
Ores & other minerals	0.0	0.9	-0.9	0.0	4.5	-4.5	0.2	7.5	-7.3	0.5	8.7	-8.2	0.5	9.3	-8.8
Fuels	0.0	1.2	-1.2	0.1	8.3	-8.2	0.4	59.1	-58.7	2.0	49.3	-47.3	2.3	48.1	-45.8
Non-ferrous metals	0.0	0.1	-0.1	0.3	1.7	-1.4	1.5	4.1	-2.6	2.5	6.6	-4.1	2.9	7.8	-4.9
Manufactures	**4.9**	**1.5**	**3.4**	**34.6**	**9.9**	**24.7**	**140.6**	**27.1**	**113.5**	**345.9**	**111.5**	**234.4**	**378.0**	**135.5**	**242.5**
Iron & steel	0.7	0.1	0.6	5.3	0.2	5.1	12.8	1.3	11.5	14.5	4.0	10.5	14.9	4.0	10.9
Chemicals	0.3	0.4	-0.1	2.2	1.9	0.3	6.9	7.0	-0.1	20.1	17.7	2.4	23.6	19.8	3.8
Other semi-manufactures	0.6	0.1	0.5	2.6	1.5	1.1	9.3	2.7	6.6	15.9	11.9	4.0	17.7	13.6	4.1
Machinery & transp. equip.	1.6	0.8	0.8	19.1	3.2	15.9	93.7	8.9	84.8	260.0	40.9	219.1	284.6	52.7	231.9
Power gener. machinery	0.0	0.1	-0.1	0.2	0.1	0.1	1.9	0.7	1.2	4.8	2.0	2.8	5.7	2.3	3.4
Other nonelec. machinery	0.3	0.4	-0.1	3.0	1.1	1.9	15.2	2.0	13.2	44.9	6.6	38.3	51.0	7.2	43.8
Office & telecom. equip.	0.4	0.1	0.3	4.7	0.8	3.9	27.1	2.4	24.7	84.6	16.5	68.1	94.5	22.9	71.6
Elec. mach. & apparatus	0.2	0.1	0.1	1.6	0.5	1.1	7.5	1.1	6.4	23.2	5.0	18.2	26.7	6.4	20.3
Automotive products	0.2	0.0	0.2	4.4	0.2	4.2	30.6	0.6	30.0	80.1	6.5	73.6	82.4	8.6	73.8
Other transp. equipment	0.5	0.1	0.4	5.2	0.4	4.8	11.3	2.0	9.3	22.4	4.3	18.1	24.3	5.2	19.1
Textiles	0.9	0.0	0.9	2.5	1.1	1.4	5.3	1.5	3.8	6.7	3.9	2.8	6.8	5.2	1.6
Clothing	0.2	0.0	0.2	0.4	0.6	-0.2	0.6	1.5	-0.9	0.6	12.6	-12.0	0.6	15.3	-14.7
Other consumer goods	0.6	0.1	0.5	2.6	1.4	1.2	12.0	4.2	7.8	28.0	20.5	7.5	29.8	25.0	4.8
Total	**5.5**	**6.7**	**-1.2**	**36.9**	**38.3**	**-1.4**	**146.9**	**126.4**	**20.5**	**362.2**	**241.6**	**120.6**	**397.0**	**275.2**	**121.8**

Source: Adapted from WTO (1995, p. 32).

TABLE 4

Percentage Distribution of the Commodity Composition of Japan's Merchandise Trade, 1963 to 1994

(Percentages)

	1963		1973		1983		1993		1994	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Agricultural products	**8.8**	**44.5**	**4.1**	**36.0**	**1.8**	**20.8**	**1.0**	**24.6**	**1.0**	**24.6**
Food	5.9	20.8	2.4	18.9	1.0	13.6	0.6	17.3	0.5	18.0
Raw materials	3.0	23.7	1.7	17.1	0.7	7.2	0.5	7.3	0.5	6.6
Mining products	**1.2**	**32.9**	**1.2**	**37.7**	**1.5**	**55.9**	**1.4**	**26.8**	**1.4**	**23.7**
Ores & other minerals	0.1	13.0	0.1	11.6	0.2	5.9	0.1	3.6	0.1	3.4
Fuels	0.3	18.0	0.2	21.8	0.3	46.7	0.5	20.4	0.6	17.5
Non-ferrous metals	0.8	1.9	0.8	4.4	1.0	3.2	0.7	2.7	0.7	2.8
Manufactures	**90.0**	**22.6**	**93.7**	**25.8**	**95.7**	**21.5**	**95.5**	**46.2**	**95.2**	**49.2**
Iron & steel	12.9	1.3	14.4	0.6	8.7	1.1	4.0	1.7	3.7	1.5
Chemicals	5.8	5.5	5.8	4.9	4.7	5.6	5.6	7.3	5.9	7.2
Other semi-manufactures	11.7	1.2	7.0	3.9	6.3	2.1	4.4	4.9	4.5	4.9
Machinery & transp. equip.	28.4	12.0	51.7	8.3	63.8	7.0	71.8	16.9	71.7	19.1
Power gener. machinery	0.2	0.9	0.5	0.3	1.3	0.6	1.3	0.8	1.4	0.8
Other nonelec. machinery	5.6	5.4	8.1	2.8	10.3	1.6	12.4	2.7	12.8	2.6
Office & telecom. equip.	6.8	2.1	12.7	2.1	18.4	1.9	23.3	6.8	23.8	8.3
Elec. mach. & apparatus	3.7	1.3	4.3	1.3	5.1	0.9	6.4	2.1	6.7	2.3
Automotive products	3.4	0.5	12.0	0.6	20.9	0.5	22.1	2.7	20.8	3.1
Other transp. equipment	8.7	1.9	14.1	1.2	7.7	1.6	6.2	1.8	6.1	1.9
Textiles	16.8	0.6	6.6	3.0	3.6	1.2	1.9	1.6	1.7	1.9
Clothing	3.9	0.1	1.0	1.5	0.4	1.2	0.2	5.2	0.1	5.5
Other consumer goods	10.5	1.8	7.1	3.7	8.1	3.3	7.7	8.5	7.5	9.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Adapted from WTO (1995, p. 32).

TABLE 5

Japan’s Merchandise Trade by Major Trading Partner and Product, 1980-1994

(Billions of Dollars)

	United States		EU (12)		East Asia[a]		Rest of World		World	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Agricultural products										
1980	0.3	10.6	0.3	1.2	0.8	2.8	1.5	15.4	2.9	29.9
1990	0.4	17.4	0.4	3.8	1.5	7.1	1.0	22.3	3.3	50.5
1994	0.5	20.8	0.4	4.7	2.0	11.1	1.3	31.2	4.1	67.7
Mining products										
1980	0.6	4.4	0.3	0.3	0.8	2.8	0.9	76.6	2.5	84.1
1990	0.7	4.8	0.2	1.3	1.9	4.7	1.1	67.5	3.9	78.2
1994	0.6	2.9	0.2	1.0	3.3	3.8	1.6	57.5	5.8	65.2
Manufactures										
1980	30.4	9.4	17.2	6.4	18.9	4.9	56.3	4.3	122.7	25.0
1990	88.2	29.6	52.6	29.2	47.7	22.1	86.6	19.1	275.1	100.0
1994	114.9	38.0	56.0	28.8	85.4	38.4	121.7	30.3	378.0	135.5
Semi-manufactures										
1980	5.3	3.4	2.3	2.4	7.2	1.4	16.1	2.4	30.9	9.6
1990	8.5	7.9	5.1	7.7	13.1	5.2	15.3	10.0	42.0	30.9
1994	10.6	8.9	6.2	9.5	20.7	7.0	18.7	12.0	56.2	37.4
Machinery and transport equipment										
1980	22.0	4.3	11.6	2.3	8.5	0.7	33.8	1.2	75.9	8.4
1990	71.6	15.8	40.4	11.1	27.1	4.6	63.8	4.5	202.9	36.0
1994	94.8	21.2	43.3	11.2	52.5	9.5	94.1	10.7	284.6	52.7
Textiles, clothing, and other consumer goods										
1980	3.1	1.7	3.3	1.8	3.2	2.9	6.4	0.7	15.9	7.1
1990	8.2	5.8	7.0	10.4	7.6	12.3	7.5	4.6	30.2	33.1
1994	9.5	7.8	6.5	8.0	12.2	21.8	9.0	7.7	37.2	45.4
Total[b]										
1980	31.7	24.5	18.1	8.3	20.7	10.5	59.2	97.2	129.8	140.5
1990	90.9	52.8	54.0	35.2	52.1	34.4	90.0	112.4	287.0	234.8
1994	118.7	63.3	57.7	35.6	92.5	53.9	126.7	122.0	395.6	274.7

[a]Includes Republic of Korea, China, Hong Kong, and Taiwan.

[b]Including commodities not classified according to kind.

Source: GATT/WTO (1990/91, 1993, and 1995).

TABLE 6
Japanese Foreign Direct Investment and Its Sectoral Distribution at Year-End, 1984-1993[a]
(Percentage)

	Inward FDI			Outward FDI		
Sector	1984	1989	1993	1984	1989	1993
Primary	**..**	**..**	**..**	**18.6**	**7.5**	**5.3**
Agriculture	..	..	..	1.6	0.8	0.7
Mining & quarrying	..	..	..	17.0	6.7	4.7
Manufacturing	**73.6**	**65.2**	**56.3**	**30.3**	**26.0**	**27.2**
Food, beverages, & tobacco	2.6	1.9	1.8	1.4	1.3	1.4
Textiles, leather, & clothing	1.2	0.8	1.1	2.7	1.3	1.3
Paper, printing, & publishing[b]	..	..	..	1.3	0.6	1.0
Chemical products	26.3	17.4	17.5	5.1	3.4	3.9
Coal & petroleum products	11.1	4.4	3.3	..	..	..
Non-metallic products	2.0	0.9	0.5	..	..	..
Metal products	7.3	3.2	3.1	6.6	3.7	3.0
Mechanical equipment	19.9	34.3	26.5	2.3	2.5	2.7
Electric & electronic equipment	..	..	..	4.6	5.8	6.4
Motor vehicles	..	..	..	..	..	..
Other transport equipment[c]	..	..	..	3.9	3.6	3.6
Other manufacturing	3.3	2.4	2.5	2.4	3.9	3.9
Services	**26.4**	**34.8**	**43.7**	**48.5**	**64.7**	**65.7**
Construction	0.5	0.5	0.4	1.0	0.8	0.9
Wholesale & retail trade	13.0	14.1	19.4	15.3	10.0	10.7
Transport & storage	0.3	0.8	0.8	6.7	6.1	5.6
Finance, ins., & bus. services	..	3.7	5.9	9.8	22.1	19.2
Communication	—	0.8	1.1	..	..	..
Other services[d]	12.7	14.9	16.3	15.6	25.6	29.3
Unallocated	**..**	**..**	**..**	**2.6**	**1.8**	**1.7**
Total – %	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
– Bill. $	$5.5	$15.7	$29.9	$80.3	$262.8	$422.6

..Not separately reported.
[a]Position at end of fiscal year (March).
[b]Including lumber and pulp.
[c]Including motor vehicles.
[d]Including real estate and other services.

Source: OECD (1995).

TABLE 7
Geographic Distribution of Stock of Japanese Foreign Direct Investment Position at Year-End, 1984-1993[a]
(Percentage)

	Inward FDI			Outward FDI		
Country/Region	1984	1989	1993	1984	1989	1993
Europe	21.6	23.2	29.5	12.3	17.5	19.5
Canada	2.0	1.2	4.4	2.2	1.8	1.8
United States	48.6	50.5	40.7	27.6	41.0	41.9
Other OECD countries[b]	18.1	11.8	11.4	6.4	5.9	6.3
Africa	..	..	0.1	4.4	2.1	1.7
Latin America-Caribbean	..	..	3.4	16.4	13.8	11.3
Middle East	..	..	..	4.1	1.3	1.1
South and East Asia	3.5	2.8	4.1	25.1	15.9	15.7
China	..	..	0.1	0.3	1.0	1.5
Other countries	6.3	10.5	6.5	1.5	0.6	0.6
Total –%	100.0	100.0	100.0	100.0	100.0	100.0
– Bill. $	$5.5	$15.7	$29.9	$72.0	$254.4	$422.6

..Not separately reported.
[a]Position at end of fiscal year (March).
[b]Investment for foreign subsidiaries in Japan included in inward FDI.

Source: OECD (1995).

TABLE 8
Major Bilateral Trading Arrangements Between Japan and Its Major Trading Partners

United States

1. Voluntary export restraints/monitoring

Products	Duration
Textiles and clothing	1992-
Pottery and chinaware	1964-December 1994
Passenger cars	April 1981-March 1994
Steel and steel products	October 1984-March 1992
Machine tools	December 1987-December 1993
Ball bearings	Terminated July 1993
Metal flatware	1962-December 1994

2. Arrangements affecting imports

a. Trade liberalization and deregulation

Products	Date of Intiation
Medical equipment & pharmaceutical products	1986
Beef and oranges	1988
Wood products	June 1990
Insurance	October 1994

b. Public procurement procedures

Products	Date of Initiation
Super computers	June 1990
Satellites	June 1990
Computer products and services	January 1992
Telecomm. products and services	November 1994
Medical tech. products and services	November 1994
Telecommunications equipment	November 1994
Public works	January 1994

c. Import facilitation

Products	Date of Initiation
Amorphous metals	September 1990
Semiconductor products	1986
Automobile parts	January 1992; June 1995
Automobiles	January 1992; June 1995
Glass products	January 1992
Paper products	April 1992
Flat glass	1995

3. Other arrangements

	Date of Initiation
Structural Impediments Initiative	July 1989
Framework for a New Economic Partnership	July 1993

European Union - Export Restraints/Monitoring

Products	Duration
Passenger cars	1986-December 1999
Steel products	1972-April 1992
VCRs	Monitoring
Forklift trucks	1987-December 1994
Machine tools	1986-December 1993
Ball bearings	Terminated July 1993
Cotton fabrics	1978-

United Kingdom - Export Restraints/Monitoring

Products	Duration
Passenger cars	1977-1992
Light and heavy commercial vehicles	1975-1992
Pottery and chinaware	1964
Clothing	1978-December 1994

Canada - Export Restraints/Monitoring

Products	Duration
Pottery and chinaware	1964-
Polyester filament, fabrics, and clothing	1982-December 1994
Ball bearings	...July 1993
Passenger cars	1986-1988

Australia - Export Restraints/Monitoring

Products	Duration
Ball bearings	...July 1993

Source: Adapted from GATT (1995, I, pp. 21-22 and 81-82).