



TRADE POLICY DEVELOPMENTS PAPER NO. 43

TRADE POLICY REVIEW REPORT

OF

JAPAN

VOLUME VIII

(JANUARY-MARCH 2013)

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This report has been prepared under a consultancy project awarded by the Centre for WTO Studies, Indian Institute of Foreign Trade (IIFT), New Delhi

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EXECUTIVE SUMMARY

- Japan has provided economic stimulus to various sectors to the tune of 10.3 trillion Yen (approx. US\$ 100.7bn). The stimulus package will extend to more than 400 programs.
- During March, 2013, the policy board of the Bank of Japan laid several guidelines for Japan's money market. Special measures have been finalized to tackle the problem of deflation.
- A survey of trade volume between Japan and China during the year 2012 has been presented along with the predictions for the year 2013.
- A special legislation is being debated in the Japanese Diet entitled, 'Japan Brand Fund' in-order to support business and expand Japan's export base.
- Japan finally entered as a formal member of the trans-pacific partnership (TPP) agreement.
- Japan and EU initiated their long due trade negotiation and entered the formal process of concluding a trade agreement. Sensitive areas of negotiation in terms of technical barriers to trade have been highlighted.
- On January 28, 2013, USTR Ron Kirk and United States Agriculture Secretary Tom Vilsack announced that the United States and Japan have agreed on new terms and conditions for expanding exports of U.S. beef and beef products to Japan. Under these new terms, which enter into effect on February 1, 2013, Japan will now permit the import of beef from cattle less than 30 months of age, compared to the previous limit of 20 months, among other steps.
- Japan and UK amended their Double Tax Avoidance agreement.
- Japan sought consultations against China for imposition of AD duties. Further it was also successful in establishing the panel against Argentina for its import restrictions.
- The WTO secretariat conducted the trade policy review of Japan.

AGENDA FOR NEXT REPORT

1. Japan is proposing to join the next round of TPP negotiations set for May 15 in Lima, Peru. The Report will include a coverage of the TPP negotiations
2. The Foreign Trade Practices Report of 2013 published by Japan is expected to be released in second quarter of 2013. The next quarterly report shall provide a detailed account of this report.

I. ECONOMIC AND TRADE ENVIRONMENT

Japan's long experience of stagnation exacerbated by natural calamities such as the 2011 tsunami have triggered the grant of economic stimulus to some of the key sectors. The government has announced a new and large stimulus package of around 1.5 percent of the GDP during 2013-14. The government has also set up a number of committees that are mandated to recommend reforms in labor policy, health care, and agriculture. This slew of measures has prompted the International Monetary Fund (IMF) to upwardly revise its economic forecast for Japan. (See Box 1). According to the Economist Magazine, the Japanese grew at a rate of 4.1 percent in the first quarter of 2013.

According to the monthly economic report prepared by the Cabinet office of Japan, the economic conditions of Japan during January-March, 2013 can be described as follows:

- Exports have moderately decreased ; Industrial production is showing signs of picking up, although it is still reported at -3.4 percent in April, 2013.
- Corporate profits show signs of improvement, mainly among large firms. Business investment is starting to level off.
- Firms' judgment on current business conditions shows signs of improvement.
- The employment situation shows signs of improvement recently. It is currently estimated at 4.1 percent. Recent price developments indicate that the Japanese economy is in a mild deflationary phase.

(i) Economic situation

Demand trends such as consumption and investment

Private consumption holds firm.

Japan's economy grew at a faster than expected pace in the first quarter, led by robust private consumption and a rebound in exports. According to the report of the Cabinet Office, the private consumption held firm during this quarter. The Synthetic Consumption Index, which synthesizes demand-side statistics (Family Income and Expenditure Survey, etc.) and supply-side statistics (Indices of Industrial Producer's Shipments, etc.), increased in January in comparison to December, while it also increased in terms of the three-month moving average.

As for short-term prospects, private consumption is expected to show steady movement as confidence is improving. However, movements of employment and income should be closely monitored.

Box 1: Emergency Economic Measures for the Revitalization of the Japanese Economy

The government on January 11, 2013 approved a set of emergency economic measures ostensibly to revitalize the Japanese economy. The emergency measures are aimed at reversing the long-lasting trend of a shrinking economy, which has been suffering from the prolonged appreciation of the yen and deflation, decline in employment and income, increased inequality between generations, pessimism about the future and a sense of stagnation.

The package consists of three major policies: a fiscal policy with high mobility; a bold monetary policy; and a growth strategy. The government says these are essential for pulling the country out of an economy plagued by a strong yen and a deflationary trend.

One of its main features is a massive spending of more than 20 trillion yen (215 billion US dollars), including costs covered by local government and the private sector. About 10 trillion yen (107 billion US dollars) out of this will be secured by a supplementary budget for fiscal 2012 (ending on March 31, 2013). To this end, the government will issue construction bonds for 5.2 trillion yen.

The package will require the Bank of Japan to make a firmer commitment to pump more money into the economy by setting a clear inflation target. Such a monetary policy amounts to overriding the central bank's decision making.

The package says that its growth strategy is aimed at turning Japan into the most corporate-friendly country in the world by carrying out "bold regulatory reforms" mainly in environment-related business and healthcare services.

These three policies are no different than supply-side measures that were adopted as part of the "structural reform" policies carried out under Prime Minister KOIZUMI Jun'ichiro's administration since the early 2000s. Given the fact that the "structural reform" policies have forced workers to endure hardships, Zenroren rejects the Abe administration's emergency package. We demand that the package be reviewed.

The package says the 10.3 trillion yen budget will include 3.8 trillion yen to be used for post-disaster reconstruction and disaster prevention, and 1.8 trillion yen for public works projects that would encourage private sector investments. It also makes clear that roadside power poles will be removed and that parks will be built and urban rail transit systems would be improved. All these are ostensibly for the purpose of "revitalizing local communities." In sum, huge amounts of tax money would be used for development projects that are not important but are made to keep the money busy.

On the other hand, only 300 billion yen will be provided to help develop human resources or help people find jobs. The money would be directed to helping firms in job training for casual workers and other ineffective programs.

Source: Cabinet Office, Japan

(ii) Business investment is starting to level off

Business investment is starting to level off. The Quarterly Financial Statements Statistics of Corporations by Industry, demand-side statistics, show that business investment increased for the first time in four quarters from the October-December quarter of 2011. In the October-December quarter of 2012, business investment decreased for manufacturers and increased for non-manufacturers. Capital Goods shipments, supply-side statistics, have leveled off.

According to the Short-Term Economic Survey of Enterprises in Japan (Tankan) (December survey) by the Bank of Japan, planned business investment in the fiscal year 2012 is expected to increase for the second consecutive year for manufacturers, and that for non-manufacturers is expected to increase for the first time in five years. According to the Business Outlook Survey by the Ministry of Finance and the Cabinet Office, planned business investment in fiscal year 2013 is expected to increase for large manufacturers and to decrease for large non-manufacturers. The figures for *Orders Received for Machinery*, a leading indicator, are on an upward trend, but substantially decreased in January from the previous month.

As for short-term prospects, business investment is expected to pick up, reflecting the improvement of corporate profits and confidence, etc.

(iii) Housing construction has shown a steady undertone.

Housing construction has shown a steady undertone. Construction of owned houses, houses for rent and houses for sale has shown a steady undertone. The total number of sales of condominiums in the Tokyo metropolitan area has been almost flat. As for short-term prospects, housing construction is expected to show steady movement, due to improvement of confidence with continuously lasting reconstruction demand. However, the supply-demand situations of construction workers should be closely monitored.

(iv) Public investment has shown a steady undertone.

Public investment has shown a steady undertone. The amount of contracted public works in February 2013 was lower than in the previous year. The amount of public works orders received in January 2013 were lower than in the previous year.

As for short-term prospects, steady movement is expected to be intensified gradually, partly due to a boosting effect by the supplementary budget. In the general account of the budget plan for FY 2013, the government plans to increase expenses relate to public investment by 15.6% from the previous fiscal year. Out of local public investment expenses under the fiscal plans of local governments, those for projects undertaken by local governments on their own funding have

been slashed by 5.8% from the previous fiscal year (increased by 2.6 % in a case where expenses for urgent disaster prevention and mitigation projects are included).¹

(v) SMEs situation

During March 2013, the Small and Medium Enterprise Agency and the Organization for Small and Medium Enterprises and Regional Innovation jointly compiled the results of the 131st Survey of SME Business Conditions (January-March 2013) that was conducted by the Organization for Small and Medium Enterprises and Regional Innovation. The results of the survey included the following:

- The recent business conditions of small and medium enterprises appear to be improving.
- The business conditions DI (diffusion index) of all industries showed a decrease in the negative gap.
- Looking at the business conditions DI of each industry, the negative gap of both the manufacturing and non-manufacturing sectors decreased.
- From January to March 2013, the business conditions DI of all industries improved by 4.3 percentage points from minus 25.2 in the preceding quarter to minus 20.9, which means that the negative gap decreased.
- The business conditions DI of the manufacturing sector improved by 4.6 percentage points from minus (-)24.4 in the preceding quarter to minus (-) 19.8, which means that the negative gap decreased. Looking at the business conditions DI of each industry, the negative gap decreased in 12 industries (including manufacture of transportation equipment, metal products, furniture and fixtures, iron & steel and non-ferrous metals, and electricity/information and telecommunication equipment/electronic parts). The negative gap deteriorated in 2 industries (manufacture of pulp, paper and paper products, and food).
- The business conditions DI of the non-manufacturing sector improved by 3.4 percentage points from minus 25.3 in the preceding quarter to minus 21.9, which means that the negative gap decreased. Looking at the business conditions DI of each industry, the negative gap decreased in all of the industries, namely the construction, service, retail and wholesale sectors.
- The financing DI of all industries improved by 1.8 percentage points from minus 19.8 in the preceding quarter to minus 18.0; the DI measuring long-term financing difficulty improved by 0.6 percentage points from minus 10.3 in the preceding quarter to minus 9.7; and the DI of short-term financing difficulty improved by 0.9 percentage points from

¹ Executive Summary, March 2013, Monthly Economic Survey, at: <http://www5.cao.go.jp/keizai3/getsurei-e/2013mar.html>

minus 7.2 in the preceding quarter to minus 6.3, which means that the negative gap decreased.²

(vi) Policy Stance

To revitalize the Japanese economy, the Government is making its efforts to move the economy onto the "virtuous cycle of growth and creating wealth," and to restore a robust economy, in addition to move forward the reconstruction from the Great Earthquake. In order to correct excessive appreciation of yen and overcome deflation early, the Government is seeking elimination of deflationary expectations and avoid further deterioration of economy with prompt and flexible economic and fiscal policy management. In particular, the market has recently observed rising share prices which is a harbinger of economic recovery. The Government will ensure that these signs of improvement lead to realizing economic recovery via appropriate policy management.

Accordingly, the Government firmly manages progress of the Emergency Economic Measures including the FY2012 supplementary budget for its prompt and steady implementation, and works for early passage of the FY2013 budget and the related bills. In addition, the Government decided the "Fiscal 2013 Economic Outlook and Basic Stance for Economic and Fiscal Management" on February 28, 2013. .

The Government expects the Bank of Japan to pursue aggressive monetary easing in order to achieve the price stability target of two percent at the earliest possible time.³

(vii) Monetary policy

At the Monetary Policy Meeting held in Japan on March 7, 2013, the Policy Board of the Bank of Japan decided, by a unanimous vote, to set the following guideline for money market operations.

Before enumerating the guidelines set, the background of the Japanese economy as deliberated by the members needs to be highlighted. Deliberations stated that exports have appeared to stop decreasing, mainly against the background of the aforementioned developments in overseas economies. Business fixed investment has shown some weakness on the whole, although resilience has been observed in non-manufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing. Meanwhile, financial conditions in Japan are

² The 131st Survey of SME Business Conditions (January-March 2013), March 27, 2013 at: http://www.meti.go.jp/english/press/2013/0327_04.html

³ Executive Summary, March 2013, Monthly Economic Survey, at: <http://www5.cao.go.jp/keizai3/getsurei-e/2013mar.html>

accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is around 0 percent.

With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path mainly against the background that domestic demand remains resilient. The resilience of the domestic demand is partly due to the effects of various economic measures and overseas economies gradually emerging from the deceleration phase. For the time being, the year-on-year rate of change in the CPI is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

Regarding risks, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, the possibility of emerging and commodity-exporting economies making a smooth transition to the sustainable growth path, and the effects of the recent bilateral relationship between Japan and China.

In this light, the Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan's economy make progress. Based on this recognition, the Bank has set the price stability target at 2 percent in terms of the year-on-year rate of change in the CPI.

Under the price stability target specified above, the Bank will pursue monetary easing and aim to achieve this target at the earliest possible time. The Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including the accumulation of financial imbalances. It will take into consideration that it will take considerable time before the effects of monetary policy permeate the economy.

The Bank will pursue aggressive monetary easing, aiming to achieve the above-mentioned price stability target, through a virtually zero interest rate policy and purchases of financial assets, as long as the Bank judges it appropriate to continue with each policy measure respectively. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending.⁴

Further the action plan made by the BOJ has been all inclusive and covers the following economic and financial sectors of Japan.

Matters Relating to the Conduct of Monetary Policy

The Bank will pursue aggressive monetary easing, aiming to achieve at the earliest possible time the 'price stability target' introduced in January 2013. More specifically, the Bank will continue

⁴ Available at: http://www.boj.or.jp/en/announcements/release_2013/k130307a.pdf

with its virtually zero interest rate policy and purchases of financial assets, as long as it judges it appropriate to do so. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations of economic growth and to increase their lending. Taking into consideration that the effects of monetary policy on the economy will take some time, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including the accumulation of financial imbalances. In support of these policy operations, the Bank will continue to enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end, the Bank will further strengthen its analysis of the effects of monetary policy and their transmission through the economy.

Taking a macro-prudential perspective, the Bank will do the same for its analysis of the effects of developments in global financial markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the accumulation of financial imbalances.

At the same time, the Bank will communicate its thinking on the conduct of monetary policy to the public effectively and disseminate the findings of the research and analysis underpinning its policy decisions.

Matters Relating to the Financial System

With the deepening of the international discussion on maintaining financial system stability, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability. Meanwhile, the scope of discussion at international forums has widened to include the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

The business environment surrounding financial institutions has continued to change, and disparities remain among institutions in terms of their profitability and financial strength. In this situation, some financial institutions, mainly major banks, have actively expanded their global business and have been susceptible to developments in overseas economies and global financial markets. Furthermore, the new capital requirements are being phased in from 2013. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage

financial institutions to step up efforts to improve their management of risks through activities organized by the Bank.

Center for Advanced Financial Technology (CAFT)

At the same time, the Bank will continue to refine its methods for analysis and assessment of the financial system in Japan in line with ‘The Bank of Japan’s Initiatives on the Macro-prudential Front’, released in October 2011, and will communicate its findings to the public effectively.

The Bank will make use of the findings of its on-site examinations and off-site monitoring as well as its macro-prudential analysis in developing financial system policies and implementing monetary policy.

Matters Relating to Payment and Settlement Systems and Market Infrastructure

The Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan’s payment and settlement systems, and implement measures necessary to respond to the following: (1) structural changes, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, as well as the resultant calls from market participants for payment and settlement systems that accommodate these changes; and (2) discussions, taking place both at home and abroad in the wake of the global financial crisis following the Lehman debacle, on reviewing payment and settlement practices and reforming the framework for financial regulation and supervision.

As part of these measures, the Bank together with the relevant parties, will proceed steadily with the establishment of the new Bank of Japan Financial Network System (BOJ-NET). At the same time, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, in accordance with the oversight policy adopted by the Bank as per the ‘Principles for Financial Market Infrastructures,’ the international standards issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

With a view to further enhance the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad and by making use of the new BOJ-NET, scheduled to be phased in during fiscal 2013-2015.

Based on its experience following the Great East Japan earthquake and the government’s reappraisal of potential damage scenarios such as those for Tokyo Inland Earthquakes, the Bank

will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

In addition to the above efforts, on the international financial front, the Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance.

Matters Relating to the Regional Economic and Financial Environment

The Bank will maintain a sound grasp of regional economic and financial conditions, including the progress of rebuilding following the disaster caused by the Great East Japan earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.

The Bank will strengthen its grasp of business conditions at regional financial institutions -- including their performance as financial intermediaries -- through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions. The Bank will also support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the CAFT. By means of these activities, the Bank will contribute to efforts aimed at improving the functioning of the financial system in regional economies.

Matters Relating to Banknotes, Treasury Funds, and Japanese Government Securities (JGS) Services

The Bank will continue to work toward securing confidence in banknotes and coins, and will conduct further research on anti-counterfeiting technologies as part of this effort. With regard to banknote examination and services relating to treasury funds and JGSs, the Bank will examine the likely impact on the workload at its Head Office and branches from recent changes in the delivery routes of banknotes between financial institutions and the Bank, as well as the progress being made in the online processing of treasury funds. Based on this examination, and taking account of lessons learned in responding to the earthquake disaster, the Bank will proceed with its reappraisal of the division of roles among its operating locations, such as the Head Office and branches. It will also proceed with the reappraisal of its operational frameworks for banknote

examination and services related to treasury funds and JGSs. Through these efforts, the Bank will seek to make its operational frameworks in these areas even more stable and efficient.⁵

Trade Environment

Recently, exports have been moderately decreasing. By region, exports to Asia have been gradually decreasing. Exports to both the U.S. and the EU are starting to level off. With respect to short-term prospects, exports are expected to be leveling off, reflecting the steady overseas economies and the trend of exchange rate depreciation of the yen. However, it should be noted that there are risks of downturn in overseas economies.

Imports have been steady without showing drastic fluctuation during this quarter. By region, imports from Asia have nearly remained constant. Imports from the U.S. have been growing at a slower pace recently. Imports from the EU have been weak too. As for short-term prospects, imports are expected to remain broadly constant for the time being.

The deficit in the services trade has decreased.⁶

(i) Trade Volume: Japan-China & Japan-USA

During February 2013, JETRO conducted a survey on the volume of trade between Japan and China during the year 2012. The survey indicated that total trade sees decline for first time in three years due to China's economic slowdown, while Japan's trade deficit registers record high. Converting yen-denominated statistics for imports (preliminary) and exports (revised) released by Japan's Ministry of Finance in January 2013 to US dollars, the Japan External Trade Organization (JETRO) found that Japan's total trade with China dropped 3.3% to US\$333.664 billion in 2012, marking the first drop since 2009. Imports from China rose 3.0% to US\$188.955 billion, setting a record high with single-digit growth, while exports to China fell 10.4% to US\$144.794 billion, also marking the first drop since 2009, following Lehman's fall. As a result, Japan's balance of trade logged a deficit of over US\$44.246 billion for the first time, an increase of two times over the previous year. This was the first deficit exceeding US\$40 billion.

Also, Japan's total exports with the world decreased 2.4% from the year earlier to US\$801.282 billion, a total decrease of US\$19.511 billion, of which the drop in value of exports to China reached US\$16.758 billion. Japan's contribution ratio in export fluctuation to the world was the largest ever with minus 2.0 points.

⁵ BOJ strategic priorities for 2013-2015, March 15, 2013 at: <http://www.boj.or.jp/en/about/activities/strategy/data/hoshin13.pdf>

⁶ Executive Summary, March 2013, Monthly Economic Survey, at: <http://www5.cao.go.jp/keizai3/getsurei-e/2013mar.html>

(ii) Overview of 2012

Exports to China decreased for first time in three years. On the back of China's economic slowdown and the recent demonstrations, a serious decrease was seen in Japanese exports of general machines such as motors, construction and mining machines, steel and automobiles. In particular, those of automobiles drastically fell after the September demonstrations began. In comparison with the previous year, there was an 82.4% drop for the month of October, the year's largest decline, and a 63% drop for the entire period of September to December. That became one of the main factors for a decline in Japan's overall exports. On the other hand, those of metal processing machines showed sound growth with a 4.9% rise from the previous year. In particular, those of machining centers recorded strong growth continuously with a 27.5% rise.

Imports from China reached record high, while growth remains at single-digit level. With imports, a continued increase was noted in foodstuff, car components and communication instruments fueled by the continuously expanding demand for smart phones in Japan. Meanwhile those of petroleum products, chemical goods, iron and steel and non-ferrous metal decreased because of sluggish domestic demand.

China's share of total Japanese trade dropped for two consecutive years. Japan's exports with the world rose slightly, while Japan-China trade showed a decrease. As a result, China's share of Japan's total trade dropped for the second consecutive year by 0.9 points to 19.7% from the year earlier. China's share of Japan's exports declined by 1.6 points to 18.1%, marking the first fall in 15 years, while its share of Japan's imports dropped for the third consecutive year, falling by 0.2 points to 21.3%.

(iii) Outlook for 2013

The Chinese economy is picking up from the low seen in the third quarter of 2012, and Japan's exports to China seem to be on the way to recovery. However, since the Chinese government has been taking a stance toward emphasizing structural reform over its economic growth rate, it is unlikely that the government will implement large-scale stimulus measures to create domestic demand. Therefore, even if the exports to China improve, the growth rate is likely to remain modest.

Imports from China are expected to see a continuous rise, fuelled by development of local production of parts and raw materials in addition to finished products, strong demand for smart phones and Japan's economic recovery and expansion of public projects.

Considering the above, Japan-China trade throughout 2013 is expected to see an increase after the decline in 2012 and is even likely to exceed the previous record set in 2011.⁷

⁷ JETRO survey: Analysis of Japan-China Trade in 2012 and outlook for 2013, February 19, 2013 at: <http://www.jetro.go.jp/en/news/releases/20130219452-news>

(iv) Employment situation

The employment situation shows signs of improvement recently. The total unemployment rate has decreased by 0.1 percentage points from the previous month to 4.2% in January. The total unemployment rate of those aged 15 to 24 was 7.3%, an increase of 0.2 percentage points from the previous month. The labor force, the number of employed persons, and the number of unemployed persons have been increasing. The number of employees have been moving horizontally.

The effective ratio of job offers to applicants has been rising because of an increase in the number of new job offers, etc. Overtime hours worked in the manufacturing industry have been moving horizontally.

As for the movement of wages, contractual cash earnings have been showing steady movement. Although the total amount of cash earnings had been in weak temporarily along with a decrease in special cash earnings including year-end bonuses, it has been moving horizontally lately again.

As for short-term prospects, the employment situation is expected to improve, though some severe aspects still remain. In addition, attention should be given to continuing developments of employment adjustment in the manufacturing industry.⁸

(v) Legislations in Japan

On March 15, 2013, the Cabinet of Japan approved the Bill of the Act on the ‘Japan Brand Fund’. Subsequent to this, the Ministry of Economy, Trade and Industry submitted the Bill to the 183rd ordinary session of the Diet. The Bill aims to establish the Japan Brand Fund, a company to support business activities for cultivating overseas demand for Japan's attractive products or services that make full use of the unique characteristics of Japanese culture and lifestyle, through support measures, such as supplying risk money by utilizing the Special Account for the Fiscal Investment and Loan Program. The Bill aims to increment the sustainable growth of Japanese economy.

The policy makers in Japan feel that as it is facing the decline of domestic demand along with a decreasing birth rate and an aging population, as well as the market expansion and severe competition of business in emerging countries, it is necessary for Japan to take measures to sustain its economic growth. To achieve this goal, it is imperative that Japan makes use of its attractive products or services that make full use of the unique characteristics of Japanese culture and lifestyle, and to develop the attractiveness into new business, so as to attract overseas demand to Japan.

⁸ Executive Summary, March 2013, Monthly Economic Survey, at: <http://www5.cao.go.jp/keizai3/getsurei-e/2013mar.html>

Under the Bill, the Fund will support business activities, such as distributing Japan's content, expanding overseas the products of regional enterprises that express their unique sense and creativity, and efficiently providing products or services related to the basic necessities of daily life, through support measures, such as investment in activities, dispatching experts, and counseling by such experts.

The Fund is to be established under the approval of the METI Minister. The government of Japan will regularly hold one half or more of the total number of issued shares of the Fund.⁹

PART II- TRADE AND INVESTMENT POLICY FRAMEWORK

Bilateral and Multilateral Trade Negotiations/Agreements

(i) Japan-Mongolia

On January 8, 2013, Japan and Mongolia signed in Ulaanbaatar, Mongolia, a bilateral document concerning the JMC (the 'Low Carbon Development Partnership between the Japanese side and the Mongolian side'). Both countries will establish a joint committee to operate the JMC. Japan will contribute to international efforts to prevent global warming by facilitating the reduction of greenhouse gas emissions in Mongolia through the mechanism.

The Joint Crediting Mechanism is a program in which Japan's contribution to reduction and absorption of greenhouse gas emissions in partner countries through transferring Japan's low-carbon technology and products is calculated and evaluated as credits for contribution. Currently, MOFA, METI, and MOE are jointly proceeding with bilateral negotiations with countries that are interested in the mechanism. This Japan-Mongolia partnership is the first partnership signed by Japan for this purpose.

In this light, both countries mutually recognize that reductions or removal of emissions under the JCM can be used as a part of their own internationally pledged greenhouse gases mitigation efforts.

Both countries ensure the transparency and the environmental integrity of the JCM, and do not use it for the purpose of any other international climate mitigation mechanism.¹⁰

Further, during March 2013, the third round of the negotiations for the Japan-Mongolia Economic Partnership Agreement was held from April 2 to 5, 2013 in Ulaanbaatar, Mongolia. In this round, negotiations would cover trade in goods, services, rules of origin, customs

⁹ Cabinet Decision on the Bill of the Act on Establishment of the Japan Brand Fund, March 15, 2013 at http://www.meti.go.jp/english/press/2013/0315_04.html

¹⁰ Japan and Mongolia Signed a Bilateral Document Concerning the Joint Crediting Mechanism, January 2013 at: http://www.meti.go.jp/english/press/2013/0108_01.html

procedures, investment, intellectual property, competition, cooperation and improvement of business environment.¹¹

(ii) Japan-EU

During March, 2013, the EU and Japan formally agreed to launch negotiations for a bilateral trade deal, with the first round scheduled for mid-April. European Commission President José Manuel Barroso, European Council President Herman Van Rompuy, and Japanese Prime Minister Shinzo Abe officially gave the green light for the talks to begin, despite the postponement of a bilateral summit that had been originally scheduled for kicking off the talks.

The news marks “a historic event”, European Trade Commissioner Karel De Gucht told journalists in Tokyo, stressing the bloc’s commitment to liberalising trade barriers. However, the commissioner added, it is hard to tell how long the talks themselves will last, given the sensitivities of some of the topics that the trade talks are set to address.

Non-tariff barriers, particularly automobiles, which have long been a sticking point between Brussels and Tokyo, are expected to be a major point of discussion in the talks. The directives approved by the European Council’s trade ministers last November require that Japan’s non-tariff barriers be eliminated in parallel to any tariff reductions on the EU side. Media sources indicate that if progress is not seen in non-tariff barriers, railways, and urban roadmaps within a year of launching the negotiations, the Commission will be required to suspend the negotiations.

Given the EU’s fragile economic recovery and the prolonged struggles of the WTO’s Doha Round of trade talks, Brussels has been increasingly pursuing bilateral and regional trade deals in recent years to boost growth and jobs in the 27-member bloc.¹²

(iii) Trans-pacific partnership agreement

During March 2013, amidst a highly-anticipated announcement, Japanese Prime Minister Shinzo Abe confirmed that his country will seek to join the eleven others that are negotiating the so-called Trans-Pacific Partnership (TPP) Agreement. If successful, Japan would be one of the largest economies involved in the talks, second only to the US. Noting that other Asian economies are also opening up, he warned against the dangers of maintaining an inward approach. “This is our last chance,” he continued. “If we don’t seize it, Japan will be left out.”

¹¹ The Third Round of Negotiations for the Japan-Mongolia Economic Partnership Agreement (EPA), March 27, 2013 at: http://www.meti.go.jp/english/press/2013/0327_01.html

¹² ICTSD reporting; “Japan, European Union Announce Free Trade Talks to Start April,” BLOOMBERG, 25 March 2013; “EU and Japan agree to launch free trade talks,” DEUTSCHE WELLE, 25 March 2013; “Japan, EU agree to start free-trade negotiation,” THE ECONOMIC TIMES, 25 March 2013; “SKorea, China, Japan begin free trade talks,” THE ASSOCIATED PRESS, 26 March 2013, “Too Early To Give Up On Big Asia,” FN ARENA, 26 March 2013

The possibility that Japan could seek entry into the trade talks had been raised on previous occasions by both of Abe's predecessors, who were from the current-opposition party. However, they were each ultimately unable to receive the necessary political backing to move forward, and many had wondered whether Abe would also decide to make a similar effort, given the potential political hurdles.

On the other hand, Japan's farmers have long been wary of the proposed trade deal, out of concern that the country's famously high agricultural import tariffs particularly for rice, will be the casualties of joining the negotiations. The Asian economy's manufacturing sector - particularly its automobile industry has, however, largely backed the idea of joining the talks, given its potential to benefit from the pact.

Following their discussions, the two leaders i.e, Abe and US president Obama, said that Tokyo would not be required to unilaterally eliminate tariffs as a condition to entry, and that both sides could potentially give ground in "sensitive" areas, such as agriculture for Japan or automobiles for the US - a move that was seen as paving the way for an affirmative TPP announcement from Tokyo. Since the Obama meeting, Abe has been working to build up political momentum in Tokyo with both his party and its coalition partner, stressing that Japan must move quickly if it still wants to have a say in the final TPP outcome.

Abe's announcement also garnered a warm reception from many TPP members, some of whom also cautioned that Tokyo will still need to prove its readiness to meet the pact's ambition and standards before being allowed to sign on.

Tokyo and Washington have already been holding consultations on areas such as automotive and insurance sectors, along with other areas where non-tariff measures are a source of concern; however, Marantis noted, "important work remains to be done."

Acting New Zealand Minister of Trade Steven Joyce similarly said that his country will need "assurances" of Tokyo's commitment to work toward the ambitious levels that TPP members have set, and can "contribute positively" to the negotiating momentum. However, he also highlighted the importance of Japan - one of the world's largest traders - becoming a member of the group. "This expression of interest by one of the region's largest economic players is consistent with the vision of TPP serving as a platform for broader regional economic integration in the Asia-Pacific," Joyce said.

It must be noted that Abe's move came within days after current TPP members - an 11-country group that includes Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, the US, and Singapore - concluded their 16th round of negotiations. The talks are said to have "intensified" in advance of the end-2013 deadline that has been set for clinching a pact. However, negotiators have also acknowledged that many challenging topics remain unresolved, which some fear could lead to the deadline being postponed. Some analysts have also expressed scepticism over whether this date can be met if Japan is invited into the talks, given that Tokyo

will come with its own set of negotiating priorities that will have to be balanced with those of current members.

The process to bring Japan into the negotiations will itself take some time, as all current TPP members (eleven of them) must agree to allow Tokyo into the talks. Those eleven will then have to complete their necessary domestic procedures - such as a 90-day consultation period with Congress in the US - before the Asian economic powerhouse can formally come on board. Given these processes, current TPP negotiators have said that it is unlikely Japan will be a member in time for the next round of talks, which will be held in Lima, Peru in May, 2013.¹³

(iv) **Japan- Kyrgyz Republic**

During February 2013, METI concluded the ‘Memorandum on Cooperation between the Ministry of Economy, Trade and Industry of Japan and the Ministry of Economy of the Kyrgyz Republic in the Field of Trade, Economy, Energy, and Mineral Resources’. In the talks, both affirmed the importance of improving the business environment in the Kyrgyz Republic and agreed on the expectations that this memorandum will lead to concrete business promotion between the two countries. In order to enhance bilateral economic relationship, a memorandum towards further development of cooperation on the following matters was signed:

- Improvement of business environment
- Promotion of projects and business
- Training human resources and other cooperation
- Cooperation in the mineral resources sector
- Cooperation in the fields of energy conservation and improvement on energy efficiency.¹⁴

(v) **Japan-China-Republic of Korea**

During March 26-28, 2013, the first round of negotiations for a Free Trade Agreement (FTA) among Japan, China and the Republic of Korea was held in Seoul, Korea. In this round of negotiations, the scope and method of negotiations, amongst others, were discussed.¹⁵

¹³ ICTSD reporting; “Japan’s farmers dig in against trade deal,” FINANCIAL TIMES, 18 March 2013; “Japan seeks to join U.S.-led Pacific trade talks, reform hopes rise,” REUTERS, 15 March 2013.

¹⁴ Memorandum on Cooperation between the Ministry of Economy, Trade and Industry of Japan and the Ministry of Economy of the Kyrgyz Republic Concluded, March 2013 at: http://www.meti.go.jp/english/press/2013/0301_01.html

¹⁵ First Round of Negotiations on a Free Trade Agreement (FTA) among Japan, China and the ROK, March 28, 2013 at: http://www.mofa.go.jp/press/release/press6e_000019.html

Aid for Trade

(vi)Japan-Indonesia

On March 28, 2013, the Government of the Republic of Indonesia and Japan International Cooperation Agency (JICA) concluded loan agreements to provide Japanese ODA loans up to 10,142 million yen for the following three projects.

Japanese ODA loan agreement was signed for the following three projects.

(1) Construction of high-efficiency coal-fired power plant to improve power supply capacity in the capital region, load center of Java-Bali system

The Indramayu Coal Fired Power Plant Project (E/S), one of the Japanese ODA loan projects, will construct a large capacity (1,000 megawatt), high-efficiency coal-fired power plant applying ultra-super critical (USC) steam condition, a state-of-the-art technology, and supply power to Jabodetabek and West Java Province, load center of Java-Bali system. It will improve the capacity and reliability of the power supply, thus contributing to further economic growth in Indonesia.

(2) Supporting geothermal development in Indonesia's eastern areas

Although Indonesia enjoys a robust economic growth, nearly half of the total population, 46.1 percent, still lives on less than two dollars per day (purchasing power parity base). Especially, the poverty is severe in the eastern areas. Therefore, poverty reduction and alleviation of economic disparity are important issues in Indonesia. For power supply, there are 6 out of the 33 provinces in the country where the household electrification rate is less than 60 percent, and all of those provinces are located in the eastern areas. Therefore, improving the power supply in those areas is also an urgent issue. As the power supply in those areas depend primarily on diesel power generation, which comes with high unit cost of production and severe environmental burden, diversification of power generation is also important. Under such conditions, the Government of Indonesia is promoting the expansion of renewable energy, including geothermal resource, which Indonesia has one of the highest potential in the world.

The Geothermal Development Acceleration Program (Tulehu Geothermal Power Plant Project (E/S)), one of the Japanese ODA loan projects, will construct a 20-megawatt geothermal power plant to replace the aging diesel power plant in Ambon Island, Maluku Province, a region with extreme poverty. This will provide a stable power supply and improve the living standards, thus reducing poverty and further developing renewable energy in Indonesia.

(3) Enhancement of flood management in the Bandung Metropolitan Area, the core of the textile industry

Flood damage causes not only physical losses to infrastructure and homes, but entails socio-economic losses such as economic stagnation and poverty, therefore has potential risk for hindering sustainable growth. The Government of Indonesia is carrying out water resources management including flood prevention measures, particularly in major cities where population and industry are concentrated. However, due to financial limitations, the existing water resource facilities constructed or improved by the Government of Indonesia are not sufficient, and level of safety achievement for flood control remains low. To respond to recurring flooding and future flood risks, structural and non-structural measures have become high priorities for the integrated water resources management in terms of surveying the river basins, planning the development of water resources management, and formulating watershed plans.¹⁶

(vii) Japan-Philippines

On March 27, 2013, the Japan International Cooperation Agency (JICA) signed Japanese ODA loan agreements with the Government of the Republic of the Philippines to provide loans of up to a total of 54.034 billion yen for assistance for two projects. The focus of the project would be:

(1) Mitigation of road congestion with the implementation of a mass transit system in Metro Manila

Because of the severe traffic congestion in Metro Manila, promoting a modal shift to a rail mass transportation system is a priority to alleviate overcrowding on the roads. LRT Line 1 will be extended to the south to the northern part of Cavite Province and LRT Line 2 will be extended to the east to the cities of Marikina and Antipolo in order to enhance the transportation capacity on both lines, which serve the central area of the capital and the suburbs, where the population has increased markedly, particularly in recent years. This will alleviate road congestion, and thereby reduce air pollution and mitigate climate change effects. This project will apply advanced Japanese technology, such as highly efficient inverters, on rolling stock to be procured by the project, which will contribute to energy efficiency and reducing maintenance costs.

(2) Responding to air traffic demand by the construction of an environmentally friendly airport

In order to meet the rapidly increasing demand for air travel, JICA will provide assistance in improvement of convenience and safety through construction of a new airport in Bohol Province, central region of the Philippines, compliant with international safety standards and with adequate handling capacity, replacing the current airport. Under the concept of "an eco airport," the project will construct a new environment friendly airport using advanced Japanese technology. This will include a photovoltaic power generation system and geotextile sheets in the soaking yard to prevent airport drainage water from polluting the surrounding environment during construction.

¹⁶ Signing of Japanese ODA Loan Agreements with the Republic of Indonesia, March 28, 2013, JICA at: http://www.jica.go.jp/english/news/press/2012/130328_02.html

After the construction is completed, technical assistance will be provided for environmental protection to avoid a negative impact to the natural environment caused by the increase in tourists.¹⁷

(viii) Japan-Ghana

On March 13, 2013, JICA President Akihiko Tanaka held talks and exchanged opinions with Seth Terkper, Minister of Finance and Economic Planning, and John Dramani Mahama, President of the Republic of Ghana. In the talks with the President, Mahama expressed his gratitude for the debt relief provided by Japan in 2004 based on the HIPC Initiative, and declared his determination to further enhance strength of Ghana. He also expressed his appreciation for all of Japan's cooperation, especially for the basic infrastructure support that has reached more than 75 billion yen over the past 30 years and forms a backbone of the country that includes the road construction between Tamale and Paga. The President also mentioned hopes for a resumption of Japanese ODA loans.¹⁸

(ix) Japan—Sri -Lanka

On March 14, 2013, the Japan International Cooperation Agency (JICA) signed Japanese ODA loan agreements with the Government of the Democratic Socialist Republic of Sri Lanka to provide ODA loans of up to a total of 41.107 billion yen for assistance of four projects.

(x) Japan-Nepal

On March 13, 2013, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of Nepal in Kathmandu for up to 15.137 billion yen for the Tanahu Hydropower Project.

The project will construct a reservoir type hydroelectric power plant (140 megawatts) capable of producing power even during the dry season in Tanahu District, located approximately 150 kilometers to the west of the capital of Kathmandu. The power plant will boost the current power production capacity by approximately 20 percent, giving a fillip to Nepal's economy and improving the living environment. The loan funds will be allocated to procurement and installation expenses for the hydroelectric and power generation equipment. The project is based on the expectation of co-financing from the Asian Development Bank (ADB), the European

¹⁷ Signing of Japanese ODA Loan Agreement with the Republic of the Philippines, March 27, 2013, JICA at: http://www.jica.go.jp/english/news/press/2012/130327_01.html

¹⁸ JICA President Akihiko Tanaka Meets with John Dramani Mahama, President of the Republic of Ghana, and Other Key Personnel, March 15, 2013 at: http://www.jica.go.jp/english/news/press/2012/130315_01.html

Investment Bank and the Abu Dhabi Fund for Development. Loan agreements are planned to be signed with those aid agencies before the end of Japanese fiscal year 2012.¹⁹

(xi) Japan-Bangladesh

On March 10, 2013, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of the People's Republic of Bangladesh at Dhaka to provide an ODA loan of up to a total of 95.683 billion yen for assistance for four projects.

The characteristics of four projects financed by Japanese ODA loans provided by the agreement are described below.

- (1) Eliminating bottlenecks on the economic corridor –rehabilitation and new construction of three bridges on National Highway No.1.
- (2) Ensuring a stable water supply for a commercial city – water supply facilities for Chittagong, the second largest city.
- (3) Regional infrastructure improvements to meet people’s needs – assistance for infrastructure and local governance improvements.
- (4) Rural electrification to improve people's lives.²⁰

(xii) Japan-Peru

On January 9, 2013, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreements with the Government of the Republic of Peru in the capital of Lima to provide Japanese ODA loans of up to 5.078 billion yen for assistance in the North Lima Metropolitan Area Water Supply and Sewerage Optimization Project (II) and up to 2.905 billion yen for assistance for the Amazonas Rural Development Project.

The features of these two loans that were signed are as described below.

- (1) North Lima Metropolitan Area Water Supply and Sewerage Optimization Project (II)

This project will lay pipes, rehabilitate the secondary pipe network and procure maintenance and management equipment for improving the water and sewer system. Thus, it will result in

¹⁹ Signing of Japanese ODA Loan Agreement with Nepal, March 13, 2013 JICA, at: http://www.jica.go.jp/english/news/press/2012/130313_01.html

²⁰ Signing of Japanese ODA Loan Agreement with the People’s Republic of Bangladesh, March 11, 2013, JICA at: http://www.jica.go.jp/english/news/press/2012/130311_02.html

improving water and sewer services along with the sanitary conditions in the northern part of the Lima Metropolitan Area.

(xiii) Amazonas Rural Development Project

This project will assist with comprehensive regional development to the Utcubamba Valley in Amazonas Region by developing the tourism industry and encouraging local residents to participate in it through tourism promotion and building basic infrastructure. The loan funds will be allocated to maintain ruins and other tourism resources, constructing a visitors' center and other tourism facilities, paving roads for improved access, constructing waste disposal facilities to accommodate a larger number of tourists, building government capacity for tourism, educating community residents and assisting them in participating in the tourism industry, and consulting services. The construction of the waste disposal facilities is expected to also have the effect of reducing greenhouse gases and alleviating climate change.²¹

PART III- TRADE POLICY AND PRACTICE BY MEASURE

(i) Trade Remedies

No trade remedy actions were reported during the review quarter

PART IV- MEASURES AFFECTING EXPORTS/IMPORTS

(i) Investment promotion

On March 15, 2013, the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SME Support Japan) concluded a partnership agreement with the Asian Gateway No. 1 Investment Limited Partnership through which SME Support Japan will invest 600 million yen (out of a total fund of 1.2 billion yen) in the Partnership. METI will endeavor to provide funds to SMEs that are to develop their businesses overseas and support their management through the fund.

METI will invest in SMEs that are to develop their businesses overseas through the Partnership (a fund) formed by SME Support Japan jointly with private investment enterprises. At the same time, METI will also provide various types of necessary support measures for SMEs, such as those to open new markets that are necessary to develop their businesses overseas (a project financed by the FY2012 budget titled "Project for Enhancing Management Foundations of SMEs that are to Develop their Businesses Overseas" hereinafter referred to as the "Project").

²¹ Signing of Japanese ODA Loan Agreement with the Republic of Peru, January 9, 2013, JICA at: http://www.jica.go.jp/english/news/press/2012/130109_01.html

SME Support Japan formulated the Partnership to implement the Project. From December 11, 2012, to January 17, 2013, it invited applicants of enterprises that satisfy certain requirements for executing operations as a member of the unlimited liability partnership, and adopted the enterprise for the Project. This funding is the first case adopted under the Project.²²

(ii) Technical Barriers to Trade

On January 28, 2013, United States Trade Representative Ron Kirk and United States Agriculture Secretary Tom Vilsack announced that the United States and Japan have agreed on new terms and conditions which pave way for expanded exports of U.S. beef and beef products to Japan. Under these new terms, which enter into effect on February 1, 2013, Japan will now permit the import of beef from cattle less than 30 months of age, compared to the previous limit of 20 months, among other steps. It is estimated that these important changes will result in hundreds of millions of dollars in exports of U.S. beef to Japan in the coming years. This agreement also goes a long way toward normalizing trade with Japan by addressing long-standing restrictions that Japan introduced in response to bovine spongiform encephalopathy (BSE).

The two governments also agreed to regular and ad hoc consultations to review progress under the agreement and address any issues that may arise. In an accompanying letter exchange, Japan also confirms its ongoing BSE risk assessment by its Food Safety Commission (FSC), which includes a consideration of raising the age limit above 30 months for beef and beef product imports from the United States, taking into account international standards.

Background

In December 2003, Japan banned U.S. beef and beef products following the detection of a bovine spongiform encephalopathy (BSE)-positive animal in the United States. In July 2006, Japan partially reopened its market to allow imports of some U.S. beef from animals aged 20 months or younger produced under a special program for Japan.

In December 2011, at the request of Japan's Ministry of Health, Labor and Welfare (MHLW), Japan's independent Food Safety Commission (FSC) initiated a risk assessment to examine raising the maximum age of the cattle from which U.S. and certain other foreign beef and beef products could be exported to Japan, as well as revising the definition of specified risk materials (SRMs). (SRMs are certain cattle tissues that can carry the BSE agent). Based on an FSC risk assessment released last October, Japan entered into consultations with the United States to revise the import requirements, including raising the age limit for U.S. cattle and adopting a

²² Formulation of an Investment Partnership to Support SMEs to Develop their Businesses Overseas, March 2013 at: http://www.meti.go.jp/english/press/2013/0315_03.html

revised definition of SRMs for U.S. beef and beef product imports that is closely aligned with international standards of the World Organization for Animal Health (OIE).²³

PART V- MEASURES AFFECTING PRODUCTION AND TRADE

(i) Taxation

The Government of Japan and the Government of the United Kingdom of Great Britain and Northern Ireland have agreed in principle on the draft Protocol amending the Convention between Japan and the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital Gains which entered into force in 2006.

The draft Protocol amends part of the current Convention in order to reduce taxation on investment income (dividends and interest) in the source country, introduce an arbitration system to the mutual agreement procedure between the tax authorities, and introduce a system to lend assistance to each other in the collection of revenue claims of the other country, with a view to promote investment and economic exchanges between the two countries and preventing international tax evasion and tax avoidance.

The Protocol will be signed after the necessary domestic procedures have been completed by the two Governments. Thereafter, the Protocol will enter into force after the completion of the approval process on both sides (in the case of Japan, approval by the Diet will be necessary).²⁴

(ii) Intellectual Property Rights

On February 28, 2013, the Japan Patent Office (JPO) and the Ministry of Science and Technology (MOST) of the Republic of the Union of Myanmar held a meeting in Myanmar, and both countries advanced their cooperation to establish an intellectual property system in Myanmar.

This advancement will further strengthen the Japan-Myanmar cooperation in terms of intellectual property (IP) and advance the development of an IP system. It is also expected that IP rights of Japanese companies in Myanmar will be properly protected and utilized.

²³ U.S. Trade Representative Ron Kirk and Agriculture Secretary Tom Vilsack Announce Agreement to Further Open Japan's Market to U.S. Beef, <http://www.ustr.gov/about-us/press-office/press-releases/2013/january/ustr-kirk-ag-sec-vilsack-japan-beef-announcement>.

²⁴ Agreement in Principle on the Protocol Amending the Tax Convention with the United Kingdom, March 21, 2013, Ministry of Finance, http://www.mof.go.jp/english/tax_policy/tax_conventions/press_release/20130321uk.htm

Earlier, in the second ASEAN-Japan Heads of Intellectual Property Offices Meeting in July 2012, the JPO and ASEAN countries concluded the Memorandum of Cooperation on Intellectual Property. They adopted the action plan concerning the specifics of the cooperation, such as the development of human resources and support for the introduction of IT. At the same time, the JPO is strengthening intellectual property cooperation with emerging countries in Asia in order to support the global business activities of Japanese companies, such as by aiming to reach agreement on another action plan for 2013-2014 in the third ASEAN-Japan Heads of Intellectual Property Offices Meeting that is to be held in April 2013.

As an increasing number of Japanese companies have been expanding their businesses to Myanmar recently, it is necessary to properly protect IP in Myanmar. However, the legal system related to IP in Myanmar is yet insufficient, and currently the government of Myanmar is endeavoring to prepare for developing IP legislation or establishing an IP office.

On February 28, 2013, the Commissioner of the JPO held a meeting with the Minister of MOST. Both sides advanced the Japan-Myanmar cooperation toward the establishment of an IP system in Myanmar. At this meeting, the both sides reaffirmed that the JPO will implement the following items while responding to requests from Myanmar:

- Offering comments on the draft Industrial Property Rights Act and its rules in Myanmar to the organizations responsible in Myanmar.
- Accepting study groups from Myanmar to visit Japan, in cooperation with the World Intellectual Property Office (WIPO)
- Studying the feasibility of dispatching experts to Myanmar to establish and develop an IP office.
- Inviting people involved from Myanmar to Japan for training, for the purpose of establishing and developing an IP office in Myanmar, e.g., inviting such people to long-term training lasting six-months
- Translating JPO's examination operation manuals and other materials concerning industrial property rights from Japanese to English, and offering such English materials to organizations responsible in Myanmar
- Dispatching JPO's patent examiners etc. to organizations responsible in Myanmar, and offering them advice on examination operations
- Holding seminars on industrial property rights in Myanmar or other countries.²⁵

²⁵ Intellectual Property Cooperation between Japan and Myanmar has Advanced, February 2013, at: http://www.meti.go.jp/english/press/2013/0228_07.html

PART VI- TRADE POLICY BY SECTOR

(i) Agriculture

Japan currently restricts rice imports through a tariff-rate quota (TRQ) set at roughly 767,000 metric tons. While imports within the quota are duty free, shipments outside the quota are subject to a duty rate of 341 yen per kilogram, or roughly \$3,400 per metric ton, according to an industry source. It is expected that Japan's rice import regime may be a potential area of liberalization under the TPP negotiations. However, members of his Liberal Democratic Party in Japan have demanded the exclusion of rice, wheat, barley, beef, pork, sugar and dairy from tariff reduction or elimination.²⁶

²⁶ InsideUSTRade, March 22 2013 (last accessed May 29, 2012).

ANNEXURE- I

WTO DISPUTES

Consultations

Japan-China

On 20 December, 2012, Japan notified the global trade arbiter that it would be seeking consultations with China over Beijing's anti-dumping duties on a specific type of steel tubes used in industrial boilers - formally known as high-performance stainless steel seamless tubes, or HP-SSST (DS454).

The duties at issue, which also affected imports of the same product from the EU, have been in place since last November, following the results of an anti-dumping investigation that China launched in September 2011. The duties applied to Japan's imports, according to the country's Ministry of Economy, Trade, and Industry, ranged from 9.2 to 14.4 percent.

According to Tokyo, the duties are in violation of the WTO's General Agreement on Tariffs and Trade, along with provisions of the global trade body's Anti-Dumping (AD) Agreement. The consultations request raises questions regarding various procedural elements of the investigation, such as whether there had been sufficient evidence to launch the investigation in the first place.²⁷

Establishment of panel

Japan-Argentina

On January 28, 2013, a panel was established against Argentina at the request of Japan, the United States and the European Union. This is a case regarding whether a series of Argentina's import restrictions, including non-automatic licenses, a prior import declaration requirement and a trade balancing requirement on the importation of a wide range of goods, are in compliance with the WTO Agreements.

Earlier, on December 6, 2012, together with the United States and the European Union, Japan had requested the establishment of a panel.²⁸

The details of the proceeding shall be reported in the subsequent reports.

Appellate Body proceedings

Japan-Canada

²⁷ DS-454, available at: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds454_e.htm

²⁸ A panel under the WTO Agreement was established to address import restrictions by Argentina, January 2013 at: http://www.meti.go.jp/english/press/2013/0128_01.html

During early March, 2013, the World Trade Organization's Appellate Body began its two day public hearing in the feed-in tariff (FIT) dispute brought by the European Union and Japan against Canada's domestic content requirements for solar and wind power. The hearing is the latest in a series of public WTO dispute settlement hearings at the WTO. Japan, Canada and the EU's open session statements were broadcasted to members of the public who registered to observe the hearing via closed circuit television in an adjoining room at the WTO. The public hearing is an affirmation of the U.S. drive to increase transparency in WTO dispute settlement.

For years, the United States has urged WTO Members to join its efforts to make dispute settlement hearings public. The first instance of public observation of a dispute settlement proceeding was in September 2005, during the EC (European Communities) Hormones – Continued Suspension dispute involving the EU, Canada, and the United States. The panel and Appellate Body both agreed to hold their hearings in open sessions and over 200 members of the public registered to attend.

Since then, the number of open hearings has grown as well as the number of Members willing to make open session, or public statements. To date, there have been at least 12 different panel proceedings, including the Canada FIT dispute and nine other Appellate Body proceedings, producing at least 20 different public hearings. At least 30 WTO Members have made, or have agreed to make, a statement in at least one open session dispute settlement hearing, and over 350 members of the public have registered to attend at least one WTO public hearing. Any member of the public can register with the WTO to view the hearings, and many travel to Geneva solely for this purpose, reflecting the benefit and public value for having these hearings open for public observation. This trend in WTO dispute settlement demonstrates the value of the efforts to improve the transparency of the WTO dispute settlement system, as well as many Members' increased acceptance of the value of transparency.²⁹

²⁹ Open Dispute Hearing at WTO Reflects U.S. Transparency Effort, March 15, 2013 at: <http://www.ustr.gov/about-us/press-office/blog/2013/march/open-dispute-us-transparency>

ANNEXURE II WTO TPR REPORT ON JAPAN

A biennial review of country's policies prepared by the WTO secretariat has found that that Japan's shaky economic recovery could be stronger if structural reforms are integrated into the Asian trading power's overall strategy. The report stated that in addition, while Tokyo has seen signs of export recovery in the wake of the tsunami in 2011 and the global financial crisis, the Asian economic powerhouse has made limited progress in reforming barriers to agricultural market access, boosting investment, and ensuring greater transparency on food safety measures.

The report found that since the tsunami fiasco, the Japanese economy has been on the mend, largely as the result of spending geared at reconstruction, as well as consumer spending and inventory building. However, risks remain, the WTO warned, noting that the Asian country remains "*susceptible to shocks in the global economic environment especially in key trading partners such as the EU and China.*"

The current WTO review of Japan also found that domestic demand is necessary for driving growth in the medium to long term, but that risks to such growth are likely to come from Japan's high public debt and rapidly aging population. Over one-fifth of the island country's population is over 65 years old, according to government data, and that proportion could reach nearly 40 percent of the population by 2050.

Another challenge, the review finds, comes from over a decade's worth of deflation and an appreciating yen during the time period reviewed. Further, the issues mentioned below were also discussed in the report:

Agriculture tariffs

The WTO report found little change in Tokyo's trade policies since the last review in 2011, while noting that there has been a slight increase in Japan's overall simply applied MFN - or most favoured nation - tariff. While the tariff was 5.8 percent in the 2010 fiscal year, in 2012 it increased to 6.3 percent.

Within this, the average for agricultural protection is 16.5 percent, relative to 3.7 percent for non-agricultural products. The report also noted "relatively high" average applied tariffs for footwear, headgear, prepared foods, vegetables, live animals, hides and skins, arms and ammunition, and textiles and clothing.

Meanwhile, Japan's drift from price support toward income support was praised by some members, including Brazil. The WTO review had found that this shift, however, remains minor, and that the sector continues to receive government assistance in the way of a high applied MFN tariff rate, tariff quotas, income support, and production controls in some cases.

SPS measures

During the review, WTO members also tabled questions over whether Japan's various SPS measures, which deal with food safety and plant and animal health, were in line with international standards, bringing up concerns such as existing beef bans or the need for cost-benefit analyses.

Japan submitted 41 SPS notifications to the WTO in the period under review, according to the Secretariat Report, with 30 of the revisions involving changes to maximum residue limits (MRLs) for pesticides and amendments regarding food additives.

In the meanwhile Japan allowed market authorization for beef from the EU members and also partially lifted beef bans for US and Canada. Tokyo had previously cited concerns over Bovine Spongiform Encephalopathy (BSE), more commonly known as mad cow disease as cause for the restrictions.

Regulatory challenges

Another topic that sparked discussion involved regulations and standards, and what obstacles these pose for trade. While the report found that 54 percent of Japanese Industrial Standards (JIS) were aligned with international standards in 2011 - an increase from 46 percent two years prior - some members called for even greater convergence between the two. Some of the other members that spoke, meanwhile, noted that regulatory obstacles to trade in goods, services, investment, and public procurement remain high.

Investment

The WTO review report also found that inward foreign direct investment (FDI) in Japan continues to be outpaced by outward FDI, despite government efforts to create investment incentives - a fact that some delegations pointed out at the meeting. FDI makes up a much smaller percent of GDP than in Japan's larger OECD counterparts.

While inward FDI saw inflows between 2007 and 2009, the report found, 2010 and 2011 outflows of inward FDI of US\$1.4 billion and US\$1.8 billion, respectively. Outward FDI, meanwhile, more than doubled in 2011 to US\$116 billion, a result that was attributed in part to the yen's appreciation.³⁰

³⁰ WTO: Structural Reforms Needed for Japan to Sustain Economic Recovery, Bridges Weekly Trade News Digest, volume 17, number 6, 20th February 2013 at: <http://ictsd.org/i/news/bridgesweekly/154773/>