Section 3. External Economic Policy

1 The Trends of the World Economy

Economic Conditions of the Industrialized Countries. In the United States, Ronald Reagan, who had advocated the return of "Strong America", beat President Carter and won the Presidential Election in autumn 1980. The Reagan Administration advocated reviving market mechanisms by the achievement of small government as the basis of their economic policy. In order to achieve this objective, a large-scale tax reduction policy was implemented and deregulation was promoted. "Reaganomics" (the economic policy of the Reagan Administration) then achieved a big success in restraining inflation. However, it was still hard to revive a "Strong America", as the United States faced difficulties with the "twin deficits" of fiscal deficit and balance of payments deficit in terms of its economy. The trade deficit continued to expand into the early 1980s, and the United States became a debtor country in 1985 for the first time since the World War I.

The European economy also faced a slowdown. The real growth rate of twelve EC countries was at the 3% level in the late 1970s, but it shifted down to 1 to 2% in the 1980s. The unemployment rate jumped from the 3% level in the mid 1970s to 10% in 1985. The increase rate of consumer prices remained at over 10% since the 1970s. The economic slump in the U.K. and France was particularly severe.

Against such conditions, Japan overcame the second Oil Crisis without severe consequences and achieved a growth rate of 3 to 5% in the early 1980s, which was overwhelming to other industrialized countries. Japan's imports also significantly increased in the period, mainly for heavy and chemical products. The trade surplus in 1984 reached $44.2 billion. External investment showed dynamic development for both indirect and direct investments. Consequently, the external net asset amount reached $129.8 billion in 1985, to make Japan the world largest creditor country.

Summits and Alliances of Industrialized Countries. The Venice Summit in 1980 was held in the middle of the second Oil Crisis. Therefore, it was decided to make the priority of the Summit how to deal with the inflation which had resulted from the second Oil Crisis. The declaration indicated a solution to the issues by combining a short-term overall demand management policy, a mid- and long-term income policy and a supply policy. For the oil problem, the objective was set as being to reduce the excessive dependency on oil among the energy demands by saving oil consumption and developing alternative energies.

The main agenda of the Ottawa Summit in 1981 was the macro economy. Some countries demanded that the United States correct the excessive rise in the interest rate of the United States, which was one of the main factors that were restraining the economic policies of other counties.

In the Versailles Summit of 1982, the European countries and Canada strongly criticized the high interest rate of the United States. Against the instability of the foreign exchange market, the "Statement of International Monetary Undertakings" was issued, to announce that G7 countries would start discussing the effects of the foreign exchange market by doing surveillance (mutual surveillance) among the major countries regarding their foreign exchange rates.

Prior to the Williamsburg Summit in 1983, G7 (the 7-country Minister of Finance and Central Bank Governor's Meeting) was held on April 29, 1983 in Washington and a "Statement on Intervention Study" was announced. The statement suggested that additional measures were necessary to achieve the stability of the foreign exchange market, as economic policy operations were not sufficient to prevent the occurrence of unregulated conditions in the market. Accordingly, while it was claimed that an intervention policy would be required, it also pointed out the limitations of an intervention policy. In the summit in May, there were quite a many negative opinions about President Mitterrand of France's ideas about target zones (a system to restrict the fluctuation of major currencies within a certain range). As a result of summarization of the opinions, an annex of the "Williamsburg Declaration on Economic Recovery" which was announced after the Summit, stated that the Summit countries agreed to start examinations of a multilateral surveillance system for the economic policy of the member countries by IMF.

The "London Economic Declaration", announced at the London Summit in June 1984, recognized that economic recovery had come to stay and stressed the need for temperate fiscal and monetary policies based on mid- and long-term perspectives. The main agenda of the summit was the start of a new GATT Round, so that the start of the preparation of a new Round was agreed.

The Problem of Debt Accumulation. While signs of a debt accumulation crisis had emerged in Eastern European countries from around 1981, the external debt crisis of Mexico in 1982 significantly affected the world economy. On August 23, 1982, Mexico had difficulty in paying its external debt and made a request for an emergency loan to the IMF and for an extension of the due date for the official debt to its creditor banks.

The debt crisis of Mexico immediately affected Argentina and Brazil.

The default risk of developing countries in the 1980s increased as they depended on the short-term loans of foreign financial institutions.

Against the debt accumulation crisis, the United States, as the largest creditor country to countries with debt accumulation, started to take measures under the lead of government. The organizational emergency support program led by the United States had the IMF play the role of promoting rescheduling and providing new loans from private financial institutions, as well as its facilities. Since then, the IMF started to take on the character of a rescue organization.

Japanese commercial banks furnished loans to the so-called “problem countries” (about 30 countries) for about $30 billion as of June 1983. The total amount of loans to Mexico, Brazil and Argentina was $21.5 billion. Japanese government provided the emergency supports of IMF or BIS and stated that debtor countries should make strong efforts in terms of economic adjustment first.

2 Trade Friction and the Yen-Dollar Committee

The Trend of the Balance of Payments. The current account deficit which resulted from the second Oil Crisis continued even after 1980, but turned into a surplus of $4.7 billion in 1981 (Table 1-3-1). Then, the surplus range rapidly increased to $35 billion in 1984. One of the main reasons for the current account surplus was the expansion of the trade surplus.

The trade surplus to the United States was particularly large. Exports to the United States were 24.2% of the total amount of exports in 1980, but increased to 35.2% in 1984. This increase in exports is attributed to the increase in exports such as motor vehicles, motorcycles, semi-conductor electronics products, audio tape recorder, AV apparatus and office machines. The rapid increase of Japan’s trade surplus with the United States led to severe trade frictions between Japan and the United States.

In terms of the capital account, the long-term capital account became an over inflow in 1980 for the first time in 16 years, which was a temporary phenomenon. In and after 1981, it shifted to become a capital over outflow and excess outflow of $49.6 billion in 1984. Securities investment led to an increase in external investment in this period. The amount of securities investments increased by 8 times in 1980 to 1984. This was because institutional investors actively invested in bonds in the United States, as the Japan-U.S interest spread was large. In contrast to this, the increase in direct investment was only about 2.5 times in the same period.

Exchange reserves fluctuated along with the dollar appreciation, but the fluctuation was gradual as a whole from 1980 to 1986 (Figure 1-3-1).

Increase in External Assets. External assets decreased in 1980 from the previous year after being affected by the Oil Crisis, but rapidly increased after that. The balance of external assets increased by 2.5 times from $135.3 billion in late 1979, to $341.2 billion in late 1984. Meanwhile, external liabilities increased by 2.5 times during the same period. Net external assets exceeded the 1978 level which was the best on record and reached $74.3 billion in 1984 (Figure 1-3-2).

The main increase in external assets was caused by the securities investments of the private sector. For external liabilities, in particular, the increase in stock transactions of non-residents of Japan and the increase in securities investment due to the dynamic issuance of corporate bonds by Japanese enterprises were noticeable.

The Trend of the Foreign Exchange Rate. Yen depreciation recorded a low of ¥251/$ in the NY market in late February 1980, after yen depreciation started due to the U.S. dollar defense package and the second Oil Crisis. As a result of cooperative countermeasures against yen depreciation by the major countries, yen appreciation resumed in and after June and reached ¥203 by the end of the year (Figure 1-3-3).

However, yen depreciation occurred again, reaching ¥247 in August 1981. The yen started to increase from November to ¥217 in early January 1982. However, there was in trend of yen depreciation after that, reaching ¥278 in early November of the year.

Yen was ¥230.40 in early 1983 and reached ¥232.00 to close by the end of the year. The fluctuation for the year was relatively small at ¥20.60. In March 1984, yen appreciation went to ¥222, but reached ¥251 at the end of the year, because of dollar appreciation thanks to the economic recovery in the United States.

Measures for Opening up the Market. The Japan and U.S. trade friction was rekindled in the middle of the 1980s. In particular, regarding motor vehicles, there was a move in the U.S. Congress toward legislation for introducing import restrictions on motor vehicles, and voluntary export restrictions to the U.S. was decided upon in May 1981. The U.S. Secretary of Commerce Baldridge, visited Japan in October 1981 and requested the expansion of import products. The third Jones Report, issued in December of that year, insisted that Japan should open its markets for agricultural products (beef and citrus fruits), fertilizer, leather, tobacco and services.

Criticism of Japan by the EC also increased. In February 1981, the EC executive council meeting of foreign ministers announced an eight-point statement on commerce and trading issues with Japan. The representative of the EC Committee visited Japan in September of the year to request import expansion of fourteen items.

The Japanese government decided upon its policy, “Japan’s Current Economy and Basic Policy of Economic Operation” in the Ministerial Conference for Economic Measures on September 5, 1980, to gradually progress the improvement of the balance of payments. However, Japan was requested to present more specific policies in 1981, and the Suzuki Cabinet, established in 1981, proposed measures to solve the external economic friction as one of its important policies. The Ministerial Conference for Economic Measures decided upon its “Measures for Further Opening the Market” on December 16, 1981 (primary measures to open up the market). They included: 1) a foreign currency lending facility up to $500 million; 2) an interest subsidy to promote saving of rare metals, such as nickel and chrome; and 3) early implementation of improvements to the import testing procedures and reduction of tariff rates. In January 1982, the Office of Trade and Investment Ombudsman (OTO) was established, with the Deputy Chief Cabinet Secretary as the chief.

Pressure to open up the Japanese market grew fierce in 1982.

On May 28, 1982, the Ministerial Conference for Economic Measures announced its “Additional Measures to Open up the Market” (the second set of measures to open up the market). They included: 1) improvement of import testing procedures; 2) reduction of tariff rates; 3) relaxation of import restrictions; 4) an increase in imports; and 5) improvement of the distribution system and business practices.

The Ministerial Conference for Economic Measures decided upon its “On the Promotion of External Economic Measures” for further opening up the market on January 13, 1983 (the third set of measures to open up the market). They included 1) the reduction of the tariff rates of 86 items; 2) import expansion of six agricultural products, such as tomato juice; and 3) holding an OTO advisory council, improvement of standard and certification systems, and improvement of import testing procedures.

Although the Japanese government proposed measures to open up the market one after another, talks to ease frictions were proceeding with difficulty. Therefore, the government started to consider new external economic measures from July 1983. It was decided to organize the new external economic measures as comprehensive economic measures, which led to the “Comprehensive Economic Measures” being decided upon on October 21. The “Comprehensive Economic Measures” included: 1) economic stimulation by expansion of domestic demand; 2) market opening; 3) import promotion; 4) encouragement of capital inflow; 5) promotion of international transactions in yen and improvements in the conditions of the financial and capital markets; and 6) promotion of international cooperation. It was a remarkable feature that financial and capital market issues (4 and 5) were newly included in the measures.

Furthermore, the "External Economic Measures" were also announced on April 27, 1984. They included six points as follows: 1) market opening and import promotions (reduction or abolition of tariff rates, relaxation of the import restrictions on beef and oranges, import liberalization and distribution improvements for manufactured tobacco products); 2) market opening in the high technology sector (purchasing communication satellites and allowing open access to telecommunication businesses); 3) promotion of the liberalization of financial and capital markets and the internationalization of the yen; and 4) the promotion of international investment.

The Official Visit of President Reagan in Autumn 1983 and the Establishment of the Yen-Dollar Committee. After the Yen-Dollar Committee was established in autumn 1983, the liberalization and internationalization of financial and capital markets were rapidly progressed.

American industries were irritated by the expansion of the imbalance of trade between Japan and the U.S. and sought a solution. The so-called "*Morgan Paper*" pointed out that the cause of yen depreciation/dollar appreciation was that Japan's financial and capital markets were closed. As U.S. government officials paid attention on this report, the U.S. government decided to request the liberalization of Japan's financial and capital market in early October 1983.

The Secretary of the Treasury Regan requested the Japanese government in a letter to the Minister of Finance, Noboru Takeshita, dated October 13, 1983, to make a statement referring to the immediate promotion of the liberalization of the capital market and specific measures to achieve it, when President Reagan visited Japan in November. The "Comprehensive Economic Measures", decided upon on October 21 by the Ministerial Conference for Economic Measures, included the "promotion of international transaction in yen and the improvement of the conditions of financial and capital markets, etc." as well as a review of real demand rule, a study toward the establishment of a market for trade related banker's acceptance denominated in yen and the elimination of the designated companies system.

The Prime Minister's statement after Nakasone-Reagan talks revealed that Japan and the United States had agreed on creating opportunities to talk about the problems of exchange rates and investments. On the same day, Takeshita-Regan Joint Press Announcement was issued.

The Working Group of Joint Japan-U.S. Ad Hoc Group on the Yen-Dollar Exchange Rate, Financial and Capital Market Issues. The Ministry of Finance finalized its basic policy on the “active”, “voluntary” and “progressive” liberalization of the financial and capital market and the internationalization of the yen in the newly established Yen-Dollar Committee.

The working group was comprised of the Ministry of Finance of Japan and the Department of the Treasury of the United States. Vice Minister of Finance for International Affairs Oba and Under Secretary Sprinkel became the co-chairmen. There were six working group sessions held from February to May 1984, to discuss a wide range of issues including items other than those listed in the joint press announcement in November 1983. Additional requests from the United States were: 1) the establishment of a Euroyen market; 2) access for American financial institutions to the Japanese market; 3) capital market liberalization; and 4) direct investment to Japan.

As regards the expansion of the Euroyen market, early in the meeting, Japan insisted that the first priority would be the internationalization of the Tokyo Market, to expand that market, so that development of a Euroyen market should be considered as a supplemental issue. The United States, however, did not agree, and Japan complied by showing their intention to start expanding the Euroyen market in April 1984. In terms of the liberalization of financial and capital markets, Secretary of the Treasury Regan expressed his frustration by tapping the meeting table as Japan was being too cautious but the Prime Minister Yasuhiro Nakasone committed to progress the liberalization immediately. Consequently, Japan agreed to considerable liberalization.

The report was prepared in the fourth to sixth working group sessions in May and submitted to the Japanese Minister of Finance and the U.S. Secretary of the Treasury on May 29.

The “Yen-Dollar Meeting Report”. The “Yen-Dollar Meeting Report” was published on May 30, 1984. The MOF also issued a document entitled the “Current Status and Future Prospects for the Liberalization of Financial and Capital Markets and the Internationalization of the Yen” concurrently. On May 28, the Minister of Finance Takeshita made a consultation with the Committee on Foreign Exchange and Other Transactions about the internationalization of the yen.

The “Yen-Dollar Meeting Report” summarized as follows:

“Both sides expressed their expectation that the agreed measures and follow-up steps to liberalize the Japanese capital market, to internationalize the yen, and to improve access for foreign financial firms to the Japanese capital market, will help enable the yen to more fully utilize its underlying strength and Japan's importance as a great trading and financial world power, and will significantly improve the efficiency of the Japanese and the world's capital markets."

The United States was interested in (A) Capital Market Liberalization; (B) Access for Foreign Institutions to Japanese Money and Capital markets; (C) Development of Euroyen Investment and Banking Markets; and (D) Direct investment.

(A) Capital Market Liberalization

The United States requested the removal of the withholding tax on earnings, the removal of interest rate ceilings on time deposits, the establishment of a short-term financial market similar to TB market, the deregulation of CD issuance conditions, the establishment of a yen-dominated Banker's Acceptance (BA) market, the removal of swap limits, the liberalization of overseas yen lending, the removal of real demand rules in forward exchange transactions and the liberalization of holding bank accounts overseas and direct trading by Japanese residents in Japan. The Japanese government accepted most of the requests of the U.S. government.

(B) Access of Foreign Institutions to Japanese Money and Capital markets

The United States requested the acquisition of membership for foreign securities firms in Tokyo Stock Exchange, participation in trust banking activities and secure transparency of the regulations and policies governing the activities of Non-Japanese financial institutions. Japan explained that Tokyo Stock Exchange was an autonomous membership organization, and that the government was not in a position to determine the terms and price of membership. Meanwhile, Japanese side agreed on the entry of foreign banks into the trust banking business in Japan.

(C) The Development of Euroyen Investment and the Banking Market

The United States requested the expansion of Euroyen bond market, free access to Euroyen bond market for foreign underwriting contracts, the removal of withholding tax on earnings by non-residents on investments in Euroyen bonds issued by Japanese residents, the establishment of a Euroyen CD market and permission for Syndicated Euroyen lending based on the perspective that the "Establishment of a completely free Euroyen market is the cornerstone of progress toward the internationalization of the yen," and therefore that Japan should approach the yen's internationalization from the establishment of a Euroyen market. Japan accepted both requests for implementation.

(D) Direct Investment

The United States proposed the elimination of the designated company rule and the provision of basically an equal, national treatment of foreign investors, in order to “eliminate barriers, impediments and policies that interfered with the free international flow of direct investment,” and Japan accepted to do so.

The Follow-up Meetings. The Yen-Dollar Committee was terminated with the announcement of the report and the items agreed went on to be implemented in order. For implementation, the Report of the Committee on Foreign Exchange and Other Transactions (the “Internationalization of the Yen”) was released in March 1985, which was followed by the “Outline of the Action Program for Improved Market Access” on July 30.

Furthermore, Japan-U.S. Follow-up Meetings were held six times until April 1987, for the schedule management of items in the Yen-Dollar Meeting Report, and opinion management between the Japanese and U.S. governments. In 1989, in succession to the Follow-up Meetings, the “Joint Japan - U.S. Working Group on Financial Markets” was newly established, to discuss issues on financial deregulation between the two countries.

In addition, financial talks with other countries such as the U.K., West Germany, France, Italy, Canada and EC Committee were held from 1984 to 1986.

3 The Liberalization of External Financial Transaction and External Financial Services

Elimination of the Yen Conversion Regulations and the Real Demand Rule. Foreign exchange banks were severely restricted from obtaining short-term funds (Euro dollars, etc.) from overseas, to supplement the shortage of domestic funds under the yen conversion regulations (introduced in February 1968; revised to be stricter in February 1970). This regulation was toward deregulation, after the yen conversion regulations were revised, with the different title of “Swap Limitations” in June 1977. The swap limitations were then eliminated on June 1, 1984. The elimination of swap limitations meant the complete end of the ban on arbitrage transactions of short term funds, so that Japanese banks were able to obtain a strong means of overseas short-term funding.

In April 1984, the real demand rule was eliminated. The real demand rule in forward exchange transactions required the forward exchange transactions between foreign exchange banks and customers (residents) to be based on the demand according to the actual transaction, such as trading. The MOF proposed a review of the real demand rules in its “Comprehensive Economic Measures” in October 1983. In the November Joint Press Announcement, Takeshita and Regan announced their intention to eliminate the real demand rule.

Liberalization of Euroyen Transactions. The MOF was reluctant to intentionally expand the Euroyen market and assumed a restrained attitude regarding the issue of Euroyen bonds. However, Euroyen transactions were rapidly liberalized after the Yen-Dollar Committee.

Euroyen lending preceded the liberalization of Euroyen transactions. The MOF only admitted Euroyen lending (lending of deposits of yen accepted by an overseas branch of a Japanese foreign exchange bank for short-term trade banking) from February 1981, and the restriction of use was eliminated in June 1983, to allow non-residents to lend Euroyen from overseas branches of Japanese foreign exchange banks for stock investment in Japan (this rule was applied to Japanese residents from June 1984).

Euroyen bond issuance was only permitted to non-residents, such as persons concerned with international organizations, but the guidelines on Euroyen bonds for Japanese residents were eased in April 1984, so that Japanese enterprises were allowed to issue the bonds.

Euroyen CD permitted foreign and Japanese banks to issue only for short-term bonds (within six months) from December 1984.

Problems relating to the Market Access of Foreign Banks and Securities Companies. Foreign financial institutions have been allowed to access the market of banking, securities and the insurance business for years in Japan, except for the trust business. As the Yen-Dollar Committee also raised the problem of market access to the trust business, the Japanese government indicated its policy to permit their entry to the trust business in 1984.

Another significant problem was the acquisition of membership of the Tokyo Stock Exchange for foreign securities companies, which had gained considerable attention since 1981. When the United States requested opening the market in the Yen-Dollar Committee in April 1984, the Tokyo Stock Exchange increased the number of membership, to allow six foreign securities companies to enroll in November 1985.

The External Lending of Foreign Exchange Banks. The external lending of foreign exchange banks rapidly increased, mainly for foreign currency denominated external lending (lending of Japanese Exchange Bank for non-residents, or overseas loans) in the early 1980s (See Table 2-3-1).

Foreign currency denominated mid- to long-term overseas loans, which were temporarily banned at the time of the second Oil Crisis, resumed in April 1980. The yen-dominated syndicate loans also resumed in October of the same year. The MOF had been restricting the total amount of external loans, but abolished the restrictions in September 1983. In terms of Euroyen lending, short-term lending was liberalized in June, and mid- and long-term lending were also liberalized in April 1985.

The number of increase of overseas stations such as overseas branches or local corporations in the early 1980s overwhelmed that of the late 1970s. The ratio of services by overseas branches of the overall services of Japanese banks jumped, reaching 19.6% for deposits and 10.3% for lending in March 1982, compared to only 7.4% for deposits and 3.7% for lending in September 1967.

Table 2-3-1 Balance of External Lending and Euroyen Lending

Year end	External lending		Euro yen lending			
	Foreign exchange-dominated	Yen-dominated			For non-residents	For Japanese residents
	$100 million	$100 million	$100 million	¥1 billion	¥1 billion	¥1 billion
1972	72	0	–	–	–	–
1973	133	0	–	–	–	–
1974	166	1	–	–	–	–
1975	178	2	–	–	–	–
1976	174	3	–	–	–	–
1977	183	8	–	–	–	–
1978	300	47	–	–	–	–
1979	436	79	–	–	–	–
1980	549	91	–	–	–	–
1981	743	136	7	162	162	0
1982	925	155	7	174	174	0
1983	1,026	198	8	192	192	0
1984	1,230	290	22	552	468	84
1985	1,344	352	76	1,532	1,399	133
1986	1,691	572	216	3,457	2,385	1,072
1987	2,182	804	686	8,433	3,253	5,180
1988	2,755	997	859	10,809	3,321	7,488
1989	3,373	1,083	1,198	17,184	3,946	13,238
1990	3,928	938	1,933	25,985	3,121	22,864

Source : Ministry of Finance,
Zaisei Kinyu Tokei Geppo (Ministry of Finance Statistics Monthly) No. 398,
Okurasho Kokusai Kinyu Kyoku Nenpo (Annual Report of International *Finance Bureau, Ministry of Finance)*

(Note) Yen-dominated foreign currency lending for 1972–1979 and Euroyen lending in US dollars
are converted to the Yen-Dollar market price at the end of the year.

Impact Loans and Foreign Currency Deposits. The foreign currency lending of banks in Japan to Japanese residents was called impact loans. Impact loans were deregulated from 1978, and the regulations were abolished by March 1980. As a result, securities companies, trading companies, and manufacturers could easily obtain large funds by interest arbitrage transactions. Since 1981, the increase in impact loans was striking, mainly for short-term impact loans. The amount of loans reached $221 billion by the end of December 1988. The balance of long-term impact loans increased to $41.8 billion. Japanese banks also handled more than 80% of impact loans by 1989.

Regulations on foreign currency deposits for Japanese residents were lifted in May 1972, and it was largely liberalized under the amended Foreign Exchange Control Law in 1980, and then further expanded.

Issuance of Foreign Bonds and the Adjustment of the Fields of Banks and Securities Companies. The issuance of foreign bonds by private enterprises was temporarily reduced in 1980, and growth was restored (see Figure 1-3-4). The rate of foreign bonds among the funds of Japanese enterprises obtained from the capital market rapidly increased, to reach 46.2% in 1983, from 26.8% in the previous year. From 1983 to 1985, bond raising overseas exceeded that in Japan. With the amendment of the Commercial Code, the issuance of corporate bonds with stock rights (warrant bonds) was permitted, so that the issuance of warrant bonds also started for foreign bonds.

The overseas business of securities companies boomed, as major securities companies expanded their business in the Euro bond market, and semi-large securities companies opened their businesses in overseas markets. On the other hand, banks felt that the domestic policy of the “Separation of Banking and Securities Activities” was an obstacle for them in developing their security business in the Euro Market, which had no such regulations. Therefore, the Banking Bureau, the Securities Bureau and the International Finance Bureau of the MOF held a consultation, for the adjustment of the fields of finance and securities.

4 Development of Economic Cooperation

The actual amount of ODA in 1980 exceeded $3 billion for the first time. The three-year ODA doubling plan, decided upon in 1978 (the primary interim target) exceeded the target by 16%. On January 23, 1981, the government confirmed the cabinet decision on the second target (the “Second Medium-Term Target for Official Development Assistance”) and newly set the goal of the actual ODA amount for the five years of the early 1980s (1981-1985) as more than doubling the total amount of the five years of the late 1970s ($10.68 billion). However, the amount of ODA did not increase as scheduled, due to various reasons including the progression of yen depreciation and fiscal difficulties. Therefore, the actual amount of the second target was $18.1 billion: an 84.7% achievement ratio.

5 The Tokyo Round Negotiations and Further Opening of the Market

The Tokyo Round Negotiations. In December 1979, the Tokyo Round Negotiations were finally concluded, so that the tariff was uniformly reduced for the items categorized under Japan's tariff reduction concessions for 8 years, from April 1, 1980.

However, Japan has already conducted a 20% uniform reduction in FY1972 and an "advanced implementation of reduction of tariff rates" in 1978, so the current effective tariff rate of quite a number of items was already lower than the standard tariff rate. Therefore, even though a gradual reduction in the tariff rates would be implemented according to the Tokyo Round Agreements, no actual effect of the reductions was expected for the first few years. Thus, the United States and the EC requested that Japan reduce the effective tax rate from the initial year. In order to cope with this requirement, Japanese government announced that the tariff reduction of Tokyo Round Negotiations would be voluntarily implemented in May 1979, earlier than planned. The Ushiba-Strauss talks in June confirmed this announcement. The number of items for advanced implementation was about 1900, which accounted for about 72% of the entire offered items.

Trade Frictions and Market Opening. As Japan was able to overcome the damage caused by the second Oil Crisis easily compared to other countries, its trade surplus became a substantial surplus in FY1981, and the trade imbalance between Japan and other industrialized countries was expanded, and the industrialized countries started criticizing Japan and demanding the implementation of reduction or elimination of tariff and non-tariff barriers and the improvement of the market access. The focus was on foods with the EC and on motor vehicles, tobacco and semi-conductors with the United States.

On December 16, 1981, the "External Economic Measures", decided upon in the Ministerial Conference for Economic Measures, proposed the improvement of import testing procedures, the easing of import restrictions and the reduction of tariff rates as measures for opening of the Market. In order to improve the import testing procedures, the Office of Trade and Investment Ombudsman (OTO) was established with the Deputy Chief Cabinet Secretary as the chief. As for the reduction of tariff rates, the government announced that they would implement it two years earlier than agreed in the Tokyo Round Agreement. Then, they implemented it uniformly in FY1982. The number of items covered by this measure was 1653 (114 agricultural products and mining and 1539 manufacturing products).

The Ministerial Conference for External Economics announced its “Additional Measures to Open up the Market” on May 28, 1982, before the Versailles Summit. According to this, the government implemented tariff reductions on 215 items requested by the United States and the EC in FY1983. In January 1983, “On the Promotion of External Economic Measures” was announced with tariff reductions on 83 items, such as chocolates and biscuits.

The current account surplus in 1983 reached $20.8 billion, so that it was requested that Japan further reduce its surplus and expand imports to avoid external economic frictions. The “Comprehensive Economic Measures” of October 1983 included the advanced implementation of the tariff reductions for mining and manufacturing products agreed in the Tokyo Round Negotiations, and tariff reductions were implemented for 1280 items.