TRADE POLICY IN TRANSITION?

The political economy of antidumping in Japan

Hidetaka Yoshimatsu

Abstract  This article examines antidumping policy and politics in Japan. Drawing on detailed analysis of the institutional system regarding antidumping and the filed dumping cases, I explore how evolving trade policy preferences of the Ministry of International Trade and Industry (MITI) have changed antidumping policy and politics, and what has altered MITI policy preferences. In the 1980s, MITI bureaucrats sought to settle dumping issues swiftly by encouraging the industries concerned to hold inter-industry meetings and pursuing bilateral voluntary export restraints. As Japan has accumulated trade disputes with developed countries, MITI officials have over time stressed a strict application of the antidumping legislation on the basis of the rule-governed principles embodied in the international trading system.

Keywords  Japan, antidumping, trade policy, textile industry, MITI.

INTRODUCTION

Over the last two decades, Japan’s trade policy and trade relations have been the subject of controversy. The major controversies have concerned disputes with developed countries over Japan’s exports and the opening of the Japanese market (Kusano 1983; NIRA 1989; Lincoln 1990; Krugman 1991; Mikanagi 1996; Schoppa 1997). In recent years, several basic industries have suffered from increased imports from developing countries, enhancing the likelihood that these industries will call on the government to introduce protectionist measures. This raises an additional trade issue. How do the import-competing industries and government react to rising import pressure? This article seeks to address this question by focusing on antidumping policy in Japan.

Dumping refers to an exporting firm’s selling in a foreign market at a price lower than it charges in other markets, usually its home country. An importing country is allowed to impose an antidumping duty to offset the dumping margin of a dumped product, provided that it can be shown that such dumping is causing or threatens to cause ‘material injury’ to domestic
industries in the importing country. The General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) regime provides antidumping measures under GATT Article VI and the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (the Antidumping Agreement). 1

Developed countries, mainly the United States, Canada and Australia, and the European Union (EU), have resorted to antidumping suits to restrain imports from developing countries (Table 1). In recent years, antidumping investigations have been increasingly used by developing countries including Mexico, South Korea and Brazil. Japan has been one of the major defenders, with dumping duties imposed on seventy-seven products by December 1996. Cases where Japan is a complainant have been rare. Japanese industry has filed five antidumping cases to date: three from the textile industry and two from the ferroalloy industry (Table 2). 2 In the three cases filed in the 1980s, the petitions were withdrawn before initiating an investigation mainly because of the introduction of a voluntary export restraint (VER). In contrast, the government imposed dumping charges in the two cases filed in the 1990s.

In this article, I examine antidumping policy formation and antidumping politics in Japan. Drawing on detailed analysis of the institutional

\[\textbf{Table 1} \quad \text{Number of antidumping investigations in major countries, 1990–7}\]

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\[\textbf{Table 2} \quad \text{Antidumping suits in Japan}\]

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<th>Filed item</th>
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<td>Norway, France</td>
<td>Ferrosilicon</td>
<td>Withdrawal</td>
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<td>JKIA</td>
<td>South Korea</td>
<td>Knit sweater</td>
<td>VER, withdrawal</td>
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<td>8/10/1991</td>
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<td>China, Norway,</td>
<td>Ferrosilicon,</td>
<td>Dumping duties on</td>
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<td>South Africa</td>
<td>manganese</td>
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<td>20/12/1993</td>
<td>JSA</td>
<td>Pakistan</td>
<td>Cotton yarn</td>
<td>Dumping duties</td>
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Source: Compiled by the author from newspaper reports.
Note: JSA, JKIA and JFA denote the Japan Spinners’ Association, Japan Knitting Industry Association and Japan Ferroalloy Association, respectively.
framework regarding antidumping and the filed dumping cases, I explore how evolving trade policy preferences of the Ministry of International Trade and Industry (MITI) have changed antidumping policy and politics in Japan, and what has altered MITI’s policy preferences. I argue that while MITI’s bureaucrats sought to settle dumping cases by swiftly inducing the industries concerned to hold inter-industry meetings and utilizing bilateral VERs in the 1980s, they have over time pursued strict application of the antidumping legislation on the basis of the rule-governed principles embedded in the GATT/WTO system.

In the following section, I take a brief look at the literature on the determinants of trade policy to provide a theoretical framework for this study. I then investigate the institutional framework for activating antidumping files in Japan. The following two sections delve into the process of the filed cases. By comparing three cases in the 1980s and two cases in the 1990s, I explore whether and why trade policy preferences of MITI bureaucrats have evolved.

THEORETICAL PERSPECTIVES ON ANTIDUMPING POLICY AND POLITICS IN JAPAN

A major issue with respect to trade policy and trade politics is what determines the formation of trade policy. An extensive literature that has addressed this question is classified into two groups: the supply-side and the demand-side explanations. The supply-side approach stresses the effects of the national interest and domestic political institutions in the formation of trade policy. Some political scientists have highlighted the role of policy-makers in realizing the national interest through public policy (Krasner 1978; Nordlinger 1981). This view postulates that public officials are not mere intermediaries for societal interest groups, but maintain autonomy to pursue their own policy goals by withstand societal pressure. The ability of policy-makers to advance the national interest relies on the extent to which domestic institutions render policy-makers susceptible to demands from societal groups. The domestic political institutions constitute the filter through which demands from societal actors are transformed into policies, and their political behaviour responds to the opportunities and constraints created by these institutions (Katzenstein 1978; Goldstein 1988). Hence, domestic political institutions and institutional changes are the key variables in determining the patterns and shifts in trade policy.

The demand-side approach links general economic conditions and pressure group demands to trade policy formation. This approach regards trade policy as the product of competition among societal interest groups that react to changes in market conditions. Macroeconomic factors are often cited as important variables. Employment is the most important macroeconomic factor in generating the demand for protection (Takacs 1981;
Bergsten and Cline 1983: 77–82). Widespread unemployment resulting from rising imports imposes severe adjustment costs on domestic workers, and an increase in imports tends to lead to demands for protection. Dornbusch and Frankel (1987) raise variations in the exchange rate as the most important macroeconomic determinant of protection. They argue that appreciation of the dollar leads to demand for protection because the over-valued currency undermines the competitiveness of exports and import-competing sectors by raising the price of domestically produced goods.

Some scholars who adopt the demand-side approach have focused on corporate preferences as a critical determinant of trade policy. Theoretical and empirical research has explored why industries and firms ask for protection. It has long been argued that demand for protection arises out of the rent-seeking behaviour of firms. Firms demand protection if they believe they can capture excessive rents from the imposition of trade restrictions (Krueger 1974; Bhagwati and Srinivasan 1980; Bhagwati 1982). Other scholars hold that industries and firms that are at a comparative disadvantage vis-à-vis foreign rivals seek to exert political pressure on government to erect trade barriers against foreign imports (Caves 1976; Ray 1981). Characteristics of industries including the number of firms or workers in an industry, an industry’s size or geographic concentration are critical factors affecting firms’ trade policy preferences and outcomes of trade politics.

This article explores trade policy and politics of antidumping in Japan with particular attention to supply-side factors. Indeed, various demand-side factors can explain some aspects of antidumping policy and practices in Japan, especially the issue of why so few antidumping cases have been petitioned. In general, the antidumping system is unfamiliar in Japanese society, a non-litigious society, in which the people prefer to settle conflict ‘out of court’ (Miyazaki 1998). In addition, few Japanese industries suffered from import pressure until the mid-1980s due to low imports of manufactured products. The ratio of manufactured goods in total imports remained less than 40 per cent until 1987. It grew from 39.8 per cent to 56.9 per cent between 1987 and 1996, and the import volumes of several final products have increased greatly during this period. However, some of these imports were conducted by Japanese firms themselves as intra-firm trade. For instance, imports of consumer electric products grew seventeen times from 24 billion yen in 1985 to 410 billion yen in 1996.3 However, Japanese electronics firms imported most of them through intra-firm transactions. According to MITI’s survey data on overseas operations of Japanese electronics firms in Asia in total sales increased steadily from 22.2 per cent in 1986, to 28.7 per cent in 1995, to 33.8 per cent in 1997 (MITI 1989: 228–9; 1998: 188; 2000: 154). In 1995, the share of intra-firm trade in total exports to Japan by affiliates of Japanese electronics firms in Asia was 88.9 per cent (MITI 1998: 213).
The above explanations give credence to the argument that demand-side factors are directly relevant to antidumping practices in Japan. However, supply-side factors have particular implications in accounting for antidumping trade policy and politics in Japan. As is widely known, the Japanese government has intervened in the market to sustain the sound and steady development of particular industrial sectors. In particular, MITI has utilized various industrial policy measures including fiscal, tax and trade policies, subsidies and ‘visions’ (Komiya et al. 1988). MITI has also used administrative guidance as a way of achieving particular policy objectives or coordinating industrial interests (Shindo 1992; Oyama 1996). An equally important fact is that MITI and industrial sectors have forged close relationships through various consultation channels. They are linked through formal channels such as sector-specific advisory councils and the submission of position papers regarding sectoral policy issues and amakudari practices. The industrial sectors have also developed continuous give-and-take relationships with MITI’s bureaus and sections through various informal channels and actions. These patterns of connection are likely to yield the possibility that policy preferences of bureaucrats not only influence overall trade policy but also impinge on detailed actions of Japanese industries.

This prediction is strengthened by some evidence regarding preparation for petitioning an antidumping complaint in several industries. Although only five cases became lawsuits, several material industries including steel and petrochemicals prepared for an antidumping suit. Steel manufacturers have been interested in antidumping against imports of steel materials from developing countries since the Japan Iron and Steel Union set up a special committee on the prevention of unfair trade in December 1982. The petrochemical industry also conducted an antidumping investigation of ethylene glycol and acrylonitrile in 1983. The textile producers’ associations other than the Japan Spinners’ Association (JSA) and Japan Knitting Industry Association (JKIA), which petitioned a suit, also conducted a preliminary investigation for an antidumping suit. In September 1988, the Japan Chemical Fibres Association (JCFA) conducted an antidumping investigation of Korean acrylic filament by organizing a special working group to investigate import routes. In early 1994, the Japan Cotton and Staple Fibre Weavers’ Association also prepared for an antidumping suit against imports of Chinese cotton-spun fabric.

Despite moves to prepare for a suit, the above industries did not resort to a real suit. Although the industries’ decisions not to petition a suit sprang from various factors including overall market trends and comparison between costs for filing a suit and likely benefits from a petition, government intervention also seems to be a critical element. Kodama (1989: 35) explains this point as follows:
a ministry that had jurisdiction over an industry which hoped to lodge a complaint always showed attitudes that it neither encouraged nor rejected filing preparations under the principle of ‘the administration of the law’. However, the Ministry informally encouraged the industry to conduct ‘prior consultation’ about application documents, and repeated traditional ‘administrative guidance’. The Ministry pointed out that evidence collected by the industry was insufficient, hinting that a complaint would end in vain unless more evidence was collected.

Accordingly, examination of policy preferences of MITI, which has jurisdiction over manufacturing industries, is a useful way of understanding antidumping policy formation in Japan.

In addition, unlike in other industrialized countries, adopting antidumping restrictions has been a difficult policy option for Japanese bureaucrats. Opening the domestic market has been one of the major trade policy objectives since the early 1980s when Japan began to incur huge trade surpluses. Quite a few market-opening measures were adopted as a way of rectifying trade imbalances or responding to pressure from foreign countries. Given these overall policy trends, preferences of government officials are likely to impinge on the submission of antidumping petitions that lead to restrain imports.

THE INSTITUTIONAL SYSTEMS FOR ANTIDUMPING IN JAPAN

The legal bases for antidumping in Japan are Article VIII of the Customs Tariff Law and the Cabinet Order Relating to Antidumping Duty. The antidumping system was legally adopted in 1920, and an antidumping petition by an industry was introduced in the 1951 amendment of the law. The order was enacted in 1967 in accordance with the establishment of the Antidumping Code at the GATT Kennedy Round.

Japan’s antidumping legislation has been amended several times to keep it consistent with international norms. It has several notable features. First, the provisions of the law and cabinet order regarding antidumping are rather simple compared with those of other developed countries. Before being amended in December 1994, the antidumping legislation was extremely vague and simple. While Article VII of the law consisted of 13 sections, the cabinet order had 14 articles. After the amendment, the amount of description doubled in the law and increased roughly 2.5 times in the cabinet order. Article VIII (changed from VII) of the law comprises 37 sections and the cabinet order has 20 articles. These provisions are still rather sparse compared with the US antidumping legislation, which includes detailed enforcement regulations.
While antidumping suits are accompanied by complicated procedures, the provisions of the law describe basic matters regarding the filing procedures (Sections 1 to 12), the modification and abolition of antidumping duties (Sections 13 to 24), and the extension of the imposition period (Sections 25 to 29). Accordingly, technical matters including documents for petitions, formation of an investigation body and the determination of dumping and material injury needed to be supplemented by an order for procedure or guidelines. However, the government was for a long time reluctant to formulate them. The private sector required the government to outline details of interpretations and applications of the law and order. The Japan Textile Industry Federation (JTIF), in cooperation with Keidanren (Federation of Japanese Economic Organizations), prepared a draft of the guidelines, and this came into force as the Guidelines for Procedures Relating to Countervailing Duty and Antidumping Duty in December 1986. In drafting the guidelines, the textile federation consulted with officials at the Ministry of Finance (MOF), not with MITI officials. This was because MITI was reluctant to draft such guidelines.

Although the guidelines do not have legal enforcement effects, they serve to clarify the procedural rules by stipulating that the reception office for application was MOF’s Planning and Legal Division and that the period for determining whether to initiate an investigation was approximately two months after receiving a written application. They also contained a detailed form for application. The specification of the reception office and the attachment of an application form were important for facilitating a suit because these enabled an industry to avoid ‘prior consultation’ with the ministry that has jurisdiction over the industry (Kodama 1989: 37). Several provisions of the guidelines also reflected the private sector’s hope to facilitate the procedure for a suit. Article I, Section 4(2) stipulates that a complainant is not required to submit evidence that is not reasonably available. This clause, adopted from a relevant provision in the US law, aimed to avoid a case when an industry abandons a suit because the government requires that the complainant submit sufficient evidence. Article II, Section 2(2) also stipulates that ‘when there is sufficient evidence to initiate an investigation, the government shall, in principle, initiate the investigation’. This clause aims to restrict the government’s discretion to determine whether or not an investigation is to be initiated. As explained below, the law basically admits the broad discretion of the administrative authorities, and the private sector-initiated guidelines tried to restrict this discretion.

Second, the administrative institution for antidumping has been weak and insufficient compared with counterpart institutions in developed countries. In the United States, ‘dumping’ determinations are made by the International Trade Administration of the Department of Commerce (DC), and ‘material injury’ determinations by the International Trade Commission
(ITC). In the EU, the Directorate-General in Charge of External Relations of the European Commission (EC) is involved in all stages of the investigation including the decision to initiate a proceeding (Trebilcock and Howse 1995: 101–2). There is no such permanent organization that has the responsibility for enforcing antidumping procedure in Japan. Furthermore, an investigation is not conducted by a sole agency but by a body comprising officials from plural agencies in Japan. Thus, when an investigation is to be initiated, an investigation body is formed by several officials from the MOF, the Ministry that has jurisdiction over the industry concerned, and MITI (the guidelines Article VI, Section 3). So it is unlike the US system in which the DC and ITC have jurisdiction over the separate procedural parts, since MOF and MITI have overlapping jurisdiction on the antidumping proceedings.

MOF has a section that is responsible for administering antidumping and countervailing duties: the Planning and Legal Division. However, MITI did not have a section to handle trade dispute issues. The dumping issue was handled by the Tariff Division at the International Trade Policy Bureau whose major business was to administer general matters regarding tariffs. In October 1995, MITI set up the Trade Policy Planning and Investigation Division at the International Trade Administration Bureau. The division’s two operations are analysis of trends in exports and imports for drawing up forecasts and handling antidumping, countervailing and emergency duties, and safeguard measures. The deficiency in the administrative system reflects the fact that appeals for rectifying unfair trade practices have been rare in Japan. At the same time, the insufficiency might constitute a factor in discouraging MITI bureaucrats from accepting a petition, preferring a negotiated settlement.

Third, administrative authorities have broad discretion in antidumping procedure in Japan. This stems partly from the inadequacy of the articles in the law and cabinet order. At the same time, the legislation itself provides the government with broad discretion. Dumping duties are normally imposed when a fact of dumping exists and a dumped product causes or threatens to cause material injury to a domestic industry. In addition to these two conditions, the Japanese law (Section 1) stipulates a third condition: ‘if it is found necessary to protect such domestic industry’. This opens the possibility that the government may not impose duties even if there is a proven case of dumping and a finding of material injury. The law (Section 5) also states that the government shall initiate an investigation, ‘if it is found to be necessary’. This clause provides the government with discretion not to initiate an investigation even when there is sufficient evidence with respect to the fact of dumping and the fact of material injury.
THREE ANTIDUMPING CASES IN THE 1980s

The cotton yarn case in 1982

The first antidumping and countervailing cases in Japan were lodged in 1982. On 27 December 1982, JSA petitioned MOF to institute an antidumping suit against South Korea and a countervailing duty suit against Pakistan. The association claimed that massive imports of cheap cotton yarn from the two countries had caused serious damage to domestic cotton spinners. The import volume of cotton yarn in 1982 totalled 596,700 bales, 51 per cent more than that in the previous year, and imports from South Korea and Pakistan grew by 37.5 and 72.9 per cent per year, respectively. On 18 April 1983, Korean spinners announced that they would accept a VER at the meeting with their Japanese counterparts. They agreed to hold cotton yarn exports to an annual maximum of 270,000 bales for three years. JSA dropped the case against South Korea immediately. As for the countervailing suit, the government decided in February 1983 to investigate charges that cotton yarn exports from Pakistan had been subsidized by the government because the Pakistani government refused to withdraw export subsidies. In August 1983, the Pakistani government agreed to withdraw export subsidies. JSA dropped the case against Pakistan in February 1984 after the completion of Pakistani loans to cotton producers in January.

Through the preparation and petition process, MITI sought to settle the trade disputes swiftly, not making them political conflicts. Before filing the complaints, JSA called on MITI to engage in bilateral negotiations to restrain disorderly imports with South Korea and Pakistan, but MITI refused. When JSA filed the cases, there were no detailed rules regarding the procedures for a petition and an investigation. Although MOF showed a clear-cut view on this matter, considering that the absence of rules would not impede a suit, MITI was prudent in the investigation procedure, being anxious about foreign criticism of the less transparent administrative procedure.

JSA had an inter-industry meeting with its South Korean counterpart on 17 and 18 January 1983 and with its Pakistani counterpart on 22 February. Japanese spinners were reluctant to engage in inter-industry negotiations with less successful prospects, hoping that the government would initiate an investigation. Accordingly, JSA was likely to have the meetings, accepting MITI’s administrative guidance. When the dumping issue was resolved at the inter-industry meeting in April 1983, MITI commented that ‘we welcome the settlement of the trade dispute by negotiations that our spinning industry dropped the case after evaluating a voluntary export restraint by the Korean industry’. Several observers who examined this case argue that MITI tacitly approved the first non-unilateral quantitative restraints on textile imports, not objecting to inter-industry agreements (Friman 1990: 135; Uriu 1996: 86). In fact, MITI orchestrated such agreements behind the scenes.
The ferroalloy industry is another representative industrial sector that suffered from rising import pressure in Japan. In March 1984, the Japan Ferroalloy Association (JFA) petitioned MOF to institute an antidumping suit against France and Norway and a countervailing duty suit against Brazil to curb a sharp rise in imports of ferrosilicon. Domestic demand for ferrosilicon was 400,000 tons annually for the previous five years, but imports rose sharply from 120,105 tons in 1979 to 243,141 tons in 1982, increasing its share in Japan’s total domestic demand to 60 per cent. In particular, imports from the three countries increased from 87,000 tons in 1982 to 149,000 tons in 1983, pushing up their shares in total imports from 37 to 53 per cent. In addition, import prices between 1982 and early 1983 were cheaper than domestic prices by 60,000 yen per ton. JFA claimed that France and Norway exported ferrosilicon at a price 10 to 20 per cent cheaper than domestic prices, and Brazil exported it with subsidies of 11 per cent f.o.b. prices. Because of steep import rises, domestic production decreased from 343,989 tons in 1979 to 186,597 tons in 1982, a 46 per cent drop over three years. Three domestic manufacturers retreated from production in 1981, and five plants run by four manufacturers out of twelve plants run by ten manufacturers suspended production in 1983.

Three months after the petition, the government decided to suspend the preliminary investigation and JFA dropped the cases. Two factors explained this quick termination. First, import prices of ferrosilicon rose sharply as the worldwide production of crude steel recovered. The prices increased from $570 per ton in early 1983 to $650 in February–March 1984 to $750 in July–September. Second, the three governments concerned notified their Japanese counterpart of their intentions to take responsibility for arresting unfair exports. The Brazilian government proposed that it strive to maintain fair exports at official policy talks. France and Norway sent a message that the governments would guide companies to maintain proper exports. This case ended in a ‘grey’ solution: guidance by exporting countries.

JFA began preparations for a suit in November 1982 by setting up a working group. In March 1983, JFA finished surveys of imports from seven countries, and planned to lodge a complaint with MOF the following month. However, when the association consulted with MITI about a suit, MITI was extremely cautious about it on the grounds that since import expansion for rectifying trade imbalances was Japan’s major policy issue, an antidumping file that would lead to import restrictions was problematic. MITI’s position was weak in the ferrosilicon trade issue. A major cause of the declining competitiveness of Japanese ferrosilicon was the high price of domestic electricity, which accounted for some 60 per cent of total production costs. A suit by the ferroalloy industry was likely to lead to criticism
of MITI’s energy policy, which had failed to resolve the problem of high electricity costs.\textsuperscript{17} JFA strengthened pressure on the government by gaining support from steel manufacturers, who are the users of ferrosilicon, and obtained MITI’s accord to accept a suit. However, when JFA got this accord one and a half years after it began preparations, import prices of ferrosilicon had already climbed to unproblematic levels.

**The knitted sweater case in 1988**

The third antidumping file was petitioned against Korean knitted sweaters in 1988. The Japanese knitting industry suffered from rising imports of knitted sweaters after 1985. The appreciation of the yen increased the attractiveness of the Japanese market to overseas suppliers, encouraging the entry of knitted sweaters from producers in South Korea, Taiwan and China. South Korea, in particular, accelerated an export drive. Imports of Korean sweaters increased 41.8 per cent in 1986, 25.9 per cent in 1987 and 77.2 per cent from January to July 1988.\textsuperscript{18} Responding to the Japanese request, the Korean government announced in June 1988 that it would adopt a monitoring measure on price and volume of exports. However, the measure had almost no effect. The import volume of Korean knitted sweaters in July 1988 was 14 million units, 29 per cent up from the previous year and 0.68 million units up from the previous month.\textsuperscript{19} On 21 October 1988, the association eventually lodged an antidumping complaint with MOF, claiming that the export prices of Korean knitted sweaters were 30 per cent lower than normal market prices. After five days of negotiations between the Japanese and Korean industries, on 2 February 1989 South Korea announced a VER. This limited the annual growth rate to less than 1 per cent for the next three years under a price monitoring system. JKIA withdrew the petition in March 1989.

Compared with the previous two cases, this case became more politicized, involving the conflicting interests of various actors. The major textile industrial associations such as JTIF and JCFA helped JKIA to collect data and provided financial and personnel assistance.\textsuperscript{20} The ruling Liberal Democratic Party (LDP) was also involved in the case. In late December of 1988, Kabun Muto, Chairman of the LDP’s Special Committee on Textile Measures, visited South Korea seeking to coordinate relations between the governments and industries of both countries. The Japan Federation of Textile Workers’ Unions (Zensen Domei), and the Democratic Socialist Party that supported it, also openly supported the suit. In contrast, the Japan Textiles Importers Association (JTIA) was strongly opposed to the suit. In January 1988, JKIA and the Knit Products Committee of JTIA organized meetings where they discussed measures to restore ordered imports of knit products. However, JKIA decided on the suit without prior consultation in the middle of ongoing negotiations.
Some members of the Knit Products Committee hinted at the possibility that JTIA should secede from JTIF.\textsuperscript{21}

MITI formally took a positive stance on activating antidumping measures. The joint advisory committee of the Textile Committee of the Industrial Structure Council and the Textile Industry Council had deliberated and drawn up the textile industry report every five years. The 1988 report recommended that ‘appropriate measures such as antidumping and countervailing duties based on GATT rules should be introduced, when a sharp increase in imports was caused by unfair trade practices’.\textsuperscript{22} However, since imports of knitted sweaters became a trade dispute, MITI had been reluctant to resolve the issue in the form of a lawsuit and searched for a negotiated settlement. In April 1988, MITI sent Eiichi Tamori, Deputy Director-General of the Consumer Goods and Service Industries Bureau, to South Korea to ask for the Korean government to restrain exports of knit products. Even after JKIA passed a resolution to file a suit the following month, MITI made efforts to persuade the association to postpone it. MITI sought to extract from the Korean government a promise to restrain exports, and successfully drew an announcement that Korea would adopt export-monitoring measures in June 1988. However, when MITI’s Eiichi Tamori visited South Korea one month later to confirm details of the measures, the Korean government could not show them how their proposal would work, on the grounds that the effectiveness of the measures would depend on the private sector.\textsuperscript{23} Accepting encouragement from both governments, JKIA and JTIF held an inter-industry meeting with the Korean industry in August and October, but no substantial progress was achieved.

In October 1988, JKIA finally filed a suit with MOF after it confirmed that the monitoring measure had almost no effect. The association reportedly informed then Prime Minister Noboru Takeshita of its intention to lodge a suit, without informing MITI. JKIA feared that MITI would use administrative guidance to dissuade it from filing a suit, arguing that evidence was insufficient.\textsuperscript{24} In fact, the Japanese government claimed that the submitted evidence was insufficient. JKIA provided additional evidence in November and December, carefully avoiding its submissions being used as a pretext to postpone the date when the government would determine whether to initiate an investigation (Kodama 1989).

In January 1989, the government informally notified that it would initiate an investigation after confirming that the petition was sustained by sufficient evidence. On 25 January, the Korean Textile Products Exporters Association proposed holding an inter-industry meeting, and the meeting was held for five days from 28 January. On 2 February, the Korean association announced that it would accept a VER. Indeed, the Korean industry proposed an inter-industry meeting, but MITI had moved behind the scene. Shigeo Tanahashi, a director of the Consumer Goods and Service
Industries Bureau, visited South Korea in late December of 1988 and proposed that the Korean Ministry of Commerce and Industry search for a voluntary settlement between the industries. The Korean ministry persuaded the executives of the Korean Textile Products Exporters Association to hold an inter-industry meeting.\textsuperscript{25}

Thus, MITI's basic stance on the knit trade dispute was to avoid resolving it by a suit and to search for a negotiated settlement. This stance was shown clearly in the statement of MITI's Eiichi Tamori at the press conference in May 1988: 'in the resolution of knitted sweater dumping, it was desirable that the relevant industrial associations pursue the matter independently in order to prevent the politicization of the issue in South Korea'.\textsuperscript{26} MITI feared that a suit would lead to the deterioration of Japan–Korea relations and would provoke international criticism that such an action runs counter to Japan's commitment to increase imports and reduce its trade surplus. Furthermore, the Japanese government hoped to sustain the steady economic development of newly industrialized economies (NIEs) in Asia given that the US government intensified a protectionist stance against imports from the NIEs because of growing trade deficits.\textsuperscript{27} For instance, the Japanese government took the lead in including the phrase 'talks and collaboration between advanced industrialized countries and the NIEs' in the Economic Declaration at the Group of Seven Summit in Toronto, Canada, in June 1988. With this policy orientation, Japan needed to increase imports from the Asian NIEs.

The above three cases had several characteristics in common. MITI, which was unwilling to resolve the dumping disputes by a suit, made serious efforts to discourage the industries from filing a petition, encouraging them to search for a negotiated settlement at the inter-industry meetings. After the industrial associations petitioned a suit, MITI informally induced the parties to accept a VER before it had to initiate an investigation. In all cases, the industries withdrew the petition before the government initiated an investigation.

TWO ANTIDUMPING CASES IN THE 1990S

The ferrosilicon manganese case in 1992

On 8 October 1991, the Japan Ferroalloy Association lodged the second antidumping suit against imports of ferrosilicon manganese from China, South Africa and Norway. When JFA brought the charges, four domestic companies manufactured some 110,000 tons of ferrosilicon manganese and 190,000 tons were imported.\textsuperscript{28} Imports from China were particularly salient, rising in share of total domestic demand from 17.4 per cent in 1989 to 39.1 per cent in 1991. Average import prices fell from $761 per ton in July 1989 to $522 in July 1990, down 30 per cent. The import surge allegedly
reduced sales of Japanese manufacturers by 9 per cent and their market share by 7 per cent. JFA required the Chinese government and ferroalloy association to restore orderly exports at the Japan–China ferroalloy meetings in August 1990 and June 1991. The Chinese government and the ferroalloy association promised to make efforts to restore orderly exports, but export prices declined further.

JFA considered that an antidumping suit was indispensable for maintaining the ferroalloy industry in Japan. Although JFA petitioned a suit against imports of ferrosilicon in 1984, the government did not initiate an investigation. Eventually, the domestic production of ferrosilicon shrunk sharply from 197,000 tons in 1982 to 41,000 tons in 1992. As a consequence, the number of ferroalloy companies and their employees fell respectively from 38 and some 7,000 in 1980 to 22 and some 3,100 in 1990. Ferrosilicon manganese, whose production required relatively low electricity costs, was almost the last product in which Japanese ferroalloy manufacturers could retain a competitive edge against imported products.

In late November 1991, MOF and MITI decided to initiate an investigation. In June 1992, the government announced an interim determination of dumping margins for three countries: from 5.7 to 26.6 per cent for China, 18.9 per cent for Norway, and from 1.2 to 1.8 per cent for South Africa. The government acknowledged the fact of dumping but did not take emergency retaliatory measures because the import volume of ferrosilicon manganese declined considerably. In January 1993, the government determined that it would impose dumping duties on the Chinese imports ranging from 4.5 to 27.2 per cent. It refrained from levying duties against Norwegian and South African exporters although they were found guilty of dumping. This was because the share of Norwegian manganese in the Japanese market was negligible (4 per cent even at its height in 1990) while South African manganese was discounted by a small margin.

The Japanese government was cautious about imposing duties even in this case. The interim determination in June 1992 was peculiar because the government did not take provisional measures although it found that this was a case of dumping. Most countries imposed charges if the administrative authorities found a proven case of dumping. JFA criticized this ‘grey’ determination and submitted a proposal that required the government to take provisional measures. The final determination was to be announced in November 1992, but the announcement was delayed for two months. An official reason for this delay was that several companies concerned had not submitted requisite information. However, the government had almost finished the investigation, and delivered its decision informally to impose charges on the Chinese exporters in November 1992. The delay came from the government’s cautious attitude on imposing dumping duties for the first time, and its desire to announce the decision after the GATT Uruguay Round was concluded. The dumping margin rate was also quite low. When
JFA lodged the complaints with MOF, it calculated a 71.1 per cent margin for China, and a 67 per cent margin for Norway and South Africa.\(^{31}\) This dumping margin was low even in terms of international comparison. In December 1994, the US government imposed a 150 per cent margin on imports of ferrosilicon manganese from China. Despite its cautious approach, the government not only initiated an investigation for the first time but also imposed dumping duties. What implications do differences in policy outcomes between this case and the previous cases in the 1980s have for Japan’s trade policy? As already explained, the existence of huge trade surpluses was often cited as a major reason why the Japanese government was reluctant to adopt a protectionist policy like antidumping in the 1980s. In fact, trade imbalances expanded in the early 1990s. Japan’s trade surplus increased from $78 billion in 1988 to $107 billion in 1992. Japan’s major trade partners continued to criticize the closed nature of the Japanese market. For instance, when US President George Bush visited Japan in January 1992, he demanded that Japanese automakers increase the purchase of US auto vehicles and parts to help rectify Japan’s trade surplus with the United States.

While the fundamental environments surrounding trade structure and trade relations remained almost unchanged, there were subtle changes in MITI’s stance on international trade disputes. MITI gradually strengthened its reliance on the GATT dispute settlement mechanism and international trade rules. The Japanese government was long sceptical about the effectiveness of the GATT mechanism as it thought the mechanism could be abused by countries that demanded arbitration panels before exhausting bilateral negotiations (Funabashi 1995: 197). The government regarded bilateral negotiations rather than multilateral GATT negotiations as desirable for settling international trade disputes. Moreover, Japan had a disgraceful record in GATT litigation. Between 1977 and 1988, Japan was a respondent in twelve cases at the GATT panel, and Japan’s measures were found inconsistent with GATT rules in major cases.\(^{32}\)

However, when Japan finally brought its own complaint to GATT, the experience helped to change Japan’s view on the GATT dispute settlement. In October 1988 Japan brought its first complaint to the GATT panel that the EC’s antidumping duties on imports of Japanese electronic parts were in violation of GATT rules. In March 1990 the GATT panel approved the Japanese allegation. The Japanese government, with this as a turning point, came to emphasize multilateral negotiations rather than bilateral negotiations as a dispute settlement measure (Ishiguro 1992: 34).

After this case in which the Japanese government had reason to be pleased with the outcome, the government became more willing to delegate the resolution of trade conflicts to the GATT/WTO. Japan requested seven consultations and two panels between 1991 and 1997.

The experience also motivated the Japanese government to pursue
‘rule-oriented’ principles in international trade relations. In January 1991, MITI decided to set up a post for investigating unfair trade practices in Western countries. In June 1991, the Institute for International Trade and Investment, a MITI-affiliated organization, issued a report on unfair trade practices in the United States, the EC and Canada. The following year, MITI itself began to issue a report on unfair trade policies through the Subcommittee on Unfair Trade Policies and Measures of the Industrial Structural Council, an advisory body to the Minister of International Trade and Industry.\textsuperscript{33}

The report aims to dampen a unilateral, results-oriented approach favoured by the US government after the mid-1980s by providing an objective evaluation of the trade policies and measures of Japan’s major trading partners. Although the first report was criticized severely by the US government, Japan has continued to issue the report. The basic idea of the report was to promote the development of GATT and other international trade rules and the trade dispute settlement on the basis of such international rules. Thus, publication of the report implies that MITI considered trade practices and disputes in terms of strict international rules, a departure from ‘realistic’, reconciliatory policies that aimed to avoid the deterioration of relations with trade partners.

Changes in MITI’s preferences for paying more respect to internationally-oriented, multilateral rules are likely to affect import policies. In 1993 Yoshio Mori, as Minister of International Trade and Industry, stated at a press conference that the imposition of dumping charges was ‘a result of a fair and strict investigation based on the GATT codes, international rules and the domestic legislation’.\textsuperscript{34} MITI hoped to show that Japan supported free and fair trade in terms of both imports and exports by applying international rules strictly to imports from developing countries.

The cotton yarn case in 1993

The fifth antidumping suit was lodged by the Japan Spinners’ Association in late 1993. In January 1992, JSA began an antidumping investigation of cotton yarn imports from Pakistan. At that time, JSA abandoned the petition because the Pakistani government resumed a minimum export price system on cotton yarn exports. But in 1993, low-priced exports of twenty-count cotton yarn from Pakistan became a critical issue again. In May 1993, JSA unofficially informed MITI of its desire to begin an antidumping investigation, and filed a suit against Pakistani twenty-count cotton yarn on 20 December 1993. According to JSA, imports of cotton yarn from Pakistan accounted for some 80 per cent of sales in the Japanese market, and the price of twenty-count cotton yarn imported from Pakistan was 20 per cent lower than domestic prices in Pakistan.\textsuperscript{35} Two months later, MOF and MITI decided to commence an investigation of the complaint. In August 1994, the
government announced that it would not take a provisional measure to restrain imports. The government postponed a final decision in February and April because the import price was unstable. In August 1995, MOF and MITI decided to impose dumping margins ranging from 2.1 to 9.9 per cent. JSA did not expect the imposition of duties. Before the final decision was announced, MITI’s bureaucrats unofficially informed the association that the imposition of duties might be difficult. Accordingly, JSA welcomed the result, especially the fact that the government approved dumping margins of less than 10 per cent. The textile industry for the first time achieved its objective of imposing dumping charges on imports after failing twice. How does this result relate to changes in MITI’s trade policy preferences?

First, a matter that deserves attention is that MITI’s responses to this issue were swift and steady by comparison with its responses in the previous cases. MITI set up a dumping investigation team headed by the Deputy Director-General of the Consumer Goods and Service Industries Bureau in May 1993 when JSA informally notified MITI of its intention to prepare for a suit. While the government did not show explicit decisions on how to handle the suits for more than three months in the three cases in the 1980s, it decided to initiate an investigation within two months in both this case and the previous ferrosilicon manganese case. The government also offered for the first time an opportunity of a ‘meeting with parties with adverse interests’ in the investigation process. The meeting, held with the consent of interested parties with opposing views, served to raise the transparency and fairness of the procedure.

MITI showed a positive stance on antidumping in the 1993 textile report. The previous textile report released in 1988 had simply stated that antidumping duties based on GATT rules should be introduced when a sharp increase in imports was caused by unfair trade practices. The 1993 textile report included more concrete provisions for antidumping. This report explicitly spelt out that damages accompanying the imposition of dumping duties to consumers and users were mere losses of reflected interest gained through the purchase of products at unreasonably cheap prices. The report also encouraged the government to develop systems necessary for responding to antidumping suits.

More significantly, in the cotton case the government did not take any action to encourage the Pakistani government to adopt a VER or other measures. On the contrary, the government decided to impose dumping margins despite a proposal by the Pakistani government to adopt a VER. This reaction was unexpected by the Pakistani government, which decided to appeal to the WTO panel on the grounds that Japan decided to take unfair measures even though the Pakistani government delivered a statement of its intent to restrain exports voluntarily.

The imposition of dumping duties naturally led to the protection of the spinning industry. However, judging from overall policy orientations in the
1990s, the decision on the imposition seems to have little bearing on the protection of spinning producers. In the 1990s, MITI’s basic stance on industrial policy has gradually shifted to retreat from protecting industries under its jurisdiction. For instance, MITI amended the Large-Scale Retail Stores Law in January 1992 and May 1994 to eliminate protection over small retailers by allowing large stores to own a larger number of outlets and facilitate their business operations. In March 1996, MITI abolished the Provisional Measures Law on the Importation of Specific Petroleum Refined Products, which virtually confined the importers to the companies operating oil refineries, and consequently blocked imports of oil products. MITI also became an aggressive supporter of deregulation after 1993. In May 1994, MITI invited severe criticisms from other ministries when it issued two internal reports advocating deregulation in areas outside its own jurisdiction.

The decision to impose dumping duties can be seen as MITI’s further commitment to internationally-oriented rules and principles. In January 1995, WTO was established and the WTO Antidumping Agreement came into force. During the negotiations, the Japanese government demanded tightening disciplines on the calculation of dumping margins, the approval of damage and dumping investigation procedures in order to prevent the arbitrary abuse or misuse of antidumping measures. These commitments encouraged the Japanese government to apply the antidumping legislation based strictly on international rules.

A critical incident that showed MITI’s support for multilateral rules was the US–Japan auto and auto parts negotiations in 1994–5. At the final stage of the negotiations, the Japanese government lodged a complaint with the WTO against US unilateral sanctions against Japanese auto vehicles. There was political pressure to search for a swift settlement of the dispute without resorting to the WTO, given that the US presidential election would be held the following year (Hosokawa 1999: 165). At that stage, the Japanese government did not form a monolithic entity and there were divergences within MITI. While horizontal bureaus such as the International Trade Policy Bureau and the Industrial Policy Bureau favoured the strict application of WTO rules, the sector-specific bureaus such as the Machinery and Information Industries Bureau pursued a more flexible approach to maintain the interest of industries under their jurisdiction (Ikuta 1996: 6–7). Yet despite these divergences, MITI could adhere to the international rule-based settlement, and the appeal to the WTO and support for Japan’s claim among major WTO members constituted decisive factors settling the dispute in Japan’s favour (Hosokawa 1999: 164).

Thus, the settlement of the auto and auto parts dispute demonstrates that MITI officials have shifted further away from a bilateral-based to a multilateral-oriented approach in resolving trade disputes. An increased emphasis on multilateralism is likely to affect import policies. MITI has
strengthened its commitments to the international rule-oriented approach away from an ambiguous settlement such as the adoption of a VER.

As explained above, MITI’s support for multilateralism stemmed partly from Japan’s considerable success at GATT panels. The start of the WTO in January 1995 strengthened MITI’s new policy orientation. Establishment of the WTO facilitated settlement of trade disputes based on international rules and principles, and strengthened MITI officials’ recognition of the effectiveness of utilizing multilateral rules and systems (Uchiyama 1999: 41–2). In addition, the so-called ‘multi-faction’ has become more influential within MITI. MITI’s officials have gradually become accustomed to multilateral rules and systems because many young officials from various bureaus, including sector-specific bureaus, attended meetings during the Uruguay Round negotiations. Through their accumulated experiences, they learned how multinational negotiations work (Nihon Keizai Shim bunsha 1995: 186–7). When the Japanese government discussed the possibility of appeals to WTO panels during the 1995 US–Japan auto negotiations, older officials at MITI were relatively cautious about the settlement through the WTO. In contrast, younger officials who served as directors supported the appeal to the WTO (Ikuta 1996: 5–7).

The bitter experiences of failing to settle trade disputes through bilateral arrangements also strengthened support for the multilateral approach (Schoppa 1999: 323–4). In the 1986 US–Japan Semiconductor Agreement, the US and Japanese governments exchanged a side letter that referred to a 20 per cent market share achieved by US companies in the Japanese market. While MITI officials considered the letter merely an acknowledgement of the US side’s desire, it was used as a pretext for US sanctions in 1987. In the 1992 auto parts negotiations, the US government demanded the implementation of plans to purchase US-made parts despite the fact that the Japanese government had clarified that these plans were voluntary. Schoppa (1999) argues that these incidents reduced trust in US–Japan trade negotiations. They also made MITI bureaucrats recognize the risks involved bilateral negotiations relative to the risks in multilateral negotiations.

**CONCLUSION**

This article has focused on the trade policy preferences of MITI bureaucrats as one variable that helps to explain antidumping policy and politics in Japan. In particular, it has argued that MITI bureaucrats have strengthened their preference for an international rules-oriented approach to resolve trade disputes, and these evolving preferences have affected import policies including antidumping policy.

In the 1980s, MITI was extremely cautious about restraining imports through antidumping measures, and these preferences of MITI had much
to do with national antidumping policy and politics. For a long time the institutional framework for administering an antidumping petition was inadequate. Guidelines for antidumping procedure were not in place formally until 1986, and MITI held a passive attitude when the guidelines were formulated under the private sector’s initiative. MITI’s administrative organization for accepting an antidumping suit was also insufficient until recent years. These institutional shortcomings discouraged the private sector from resorting to antidumping measures.

When dumping foreign products became critical issues in the Japanese market, MITI bureaucrats sought swift resolution. They often encouraged the parties concerned to hold inter-industry meetings and settled the cases before initiating an investigation. A critical reason for this action was that MITI feared that adopting a protectionist stance would worsen Japan’s relations with major trade partners and invite international criticism that such a defensive stance runs counter to Japan’s espoused commitment to rectifying trade imbalances.

During this period, MITI resolved this dilemma between on the one hand satisfying demands to protect declining industries and on the other avoiding criticism of import restrictions by adopting ambiguous ‘grey area’ measures that fall between free and managed trade. This reconciliatory approach based on bilateral negotiations was easily adaptable to MITI. Internally, MITI became accustomed to reaching consensus through close linkages with industrial sectors and using informal consultation measures that include administrative guidance. Externally, MITI adopted bilateral measures as a means to settle trade disputes resulting from Japan’s exports to developed countries.

In the 1990s, the government imposed dumping duties twice. This is not straightforward support for the argument that MITI changed its trade policy preferences for activating antidumping measures. The decision on whether to impose dumping charges depended on various aspects, including recognizing the case as a true case of dumping with material injury to a domestic industry. As this study revealed, MITI was still cautious about imposing dumping duties even in the 1990s, fearing deterioration in relations with Japan’s trade partners.

At the same time, it seems possible to hold that MITI bureaucrats have changed their views on multilateral trade rules and systems over time and that these changes have influenced antidumping policy in Japan. The two industrial associations that petitioned an antidumping suit in the 1980s took the same action in the 1990s. While they could not achieve their objective in the 1980s, they could in the 1990s. They were more desperate in the suits in the 1990s when import pressure rose. However, there were no distinctive changes in the measures and political resources available to these associations. The evolving policy preferences of MITI bureaucrats do matter in accounting for antidumping policy in Japan.
MITI has over time paid more respect to the rules-oriented principles embodied in the GATT/WTO system. As Japan has accumulated trade disputes with developed countries and with establishment of the WTO in January 1995, MITI bureaucrats have shifted away from the bilateral, reconciliatory approach towards the international rule-oriented approach. While MITI strengthened its commitment to fair trade by beginning to issue a report on unfair trade policies in 1992, it has willingly utilized GATT panels as an effective way of resolving international trade disputes. MITI has also shown a more positive assessment of the antidumping measures adopted in the international trade system, departing from bilateral settlements.

Importantly, MITI’s new orientation does not imply that it now intends to use antidumping measures more frequently. MITI has recognized the risk of antidumping, which could threaten the basic tenets of non-discrimination and reciprocity embodied in the GATT/WTO regime. MITI has instead pursued the use of antidumping strictly to curb the abuse of antidumping as a trade remedy. This is shown in the Japanese government’s Proposal on Antidumping in preparation for the 1999 WTO Ministerial Conference in Seattle. The Proposal argues for raising the transparency of the Antidumping Agreement and strengthening disciplines over the use of antidumping.

We see, then, that MITI’s policy preferences do matter in accounting for the evolving pattern of Japan’s antidumping policy. This study has not sought to measure the extent to which MITI’s trade policy preferences have affected antidumping policy vis-à-vis corporate preferences or political preferences, which is beyond this study’s ambit. The issue is nevertheless important, and the relative significance of these other actors in the policymaking process will be the subject of further investigation in the light of the present study.

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ACKNOWLEDGEMENTS

The author is grateful to William James and two anonymous referees for their helpful comments.

NOTES

1 For the overall analysis of antidumping, see Finger (1993) and Miranda et al. (1998).
2 In addition to these five antidumping cases, two countervailing suits were petitioned to date.

Administrative guidance is defined as an administrative action that, without any coercive legal effect, ‘encourages regulated parties to act in a specific way in order to realize some administrative aim’ (Young 1984: 923).

*Amakudari* (literally ‘descent from heaven’) is a custom whereby bureaucrats descend into high positions in industrial associations or companies. Bureaucrats, through *amakudari*, exert influence on industries and companies as well as securing beneficial positions in retirement.

Major examples are tariff reductions and removals of quotas on various agricultural products including beef, oranges and citrus juice over the period between 1977 and 1988, the Market Oriented Sector Specific (MOSS) negotiations in 1985–7 and the Structural Impediments Initiative (SII) in 1989–90.

After the Uruguay Round was concluded, the law and ordinance were amended in order to bring them into conformance with the Antidumping Agreement.

Article XXI, Section 1, of Council Regulation (EU) No. 384/96 also provides the administrative authorities with similar discretion. In general, the Japanese antidumping regulation is close to that of the EU than to the United States and Canada in terms of details of legislation and the degree of discretion of the administrative authorities.

Ferrosilicon and ferrosilicon manganese are used as additive agents to improve quality in the refining process that turns pig iron into steel.


In January 1988, the US government announced the NIEs would graduate from preferential tariff treatment under the Generalized System of Preferences (GSP). In spring 1989, the government also enforced NIEs to give up special and differential treatment under the GATT (Bayard and Elliott 1994: 171).

The cases are as follows: measures on imports of thrown silk yarn complained
about by the US in 1977; measures on imports of leather by the US in 1978; measures on imports of leather by Canada in 1979; restraints on imports of manufactured tobacco by the US in 1979; measures on imports of leather by the US in 1983; quantitative restrictions on imports of leather footwear by the US in 1985; restrictions on imports of certain agricultural products by the US in 1986; customs duties, taxes and labelling practices on imported wines and alcoholic beverages by the EC in 1987; trade in semiconductors by the EC in 1987; tariffs on imports of spruce, pine, fir (SPF) dimension lumber by Canada in 1988; restrictions on imports of beef and citrus products by the US in 1988; and restrictions on imports of beef by Australia in 1988. The GATT panel found that Japan’s measures were inconsistent with GATT articles in the 1983 leather case, the 1986 agricultural case, the 1987 alcoholic beverage case and the 1987 semiconductor case.


36 Interview, JSA, Tokyo, March 1998.

37 Senken Shimbun, 18 May 1993.


41 The US government called on its Japanese counterpart to commit itself to a voluntary plan to elevate purchases of US auto parts. Responding to a rejection by the Japanese government, the US government announced retaliatory measures to double import tariffs on certain models of Japanese luxury vehicles.


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