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THE STRUCTURAL IMPEDIMENTS INITIATIVE: AN EXAMPLE OF BILATERAL TRADE NEGOTIATION

*Mitsuo Matsushita**

INTRODUCTION

In June 1990, the governments of the United States and Japan concluded the Structural Impediments Initiative ("SII"), a series of bilateral trade negotiations.¹ The SII came about as a result of a large trade imbalance between the two countries in favor of Japan, which, despite many efforts, the United States and Japan had been unable to reduce. It was the U.S. government's perception that the real cause of the trade imbalance was not Japan's protective border measures in the form of tariffs or quantitative restrictions, such as import quotas on agricultural and leather products, but rather the oligopolistic industrial sector in which large companies linked together by stock-holdings and interlocking directorates exclude outside parties from transactions. This perception on the part of the United States was what initiated the SII.

The SII is unique in the sense that it dealt with subjects not usually on the agenda of international trade negotiations. Most of the SII negotiations concerned matters of domestic policy and regulation, such as public expenditure, land use policy, restrictive business behavior, close inter-corporate relationships and the system by which goods are distributed. Not surprisingly, the SII was criticized both in the United States and Japan. Japanese critics felt that the U.S. government was trying to interfere with Japanese domestic matters. In the United States, some critics believed that the SII would have a minimal effect, if any, on the trade imbalance.

Nevertheless, the SII serves an important function as a model for future trade negotiations. As international economic relationships become closer and trade restrictions in the form of border measures decrease, it becomes increasingly important to reduce differences between national economic institutions and to harmonize both formal

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1. The Final Report of the SII was submitted to President Bush and Prime Minister Kaifu on June 28, 1990. JOINT REPORT OF THE U.S.-JAPAN WORKING GROUP ON THE STRUCTURAL IMPEDIMENTS INITIATIVE (1990) [hereinafter SII REPORT].

laws and regulations as well as informal business customs. Differences in taxation, technical standards, industrial policies, the regulation of business activities, and business customs and corporate behavior may hinder the expansion of transnational business activities. In the future, therefore, reduction of such differences and the harmonization of national economic institutions will, in a broad sense, become increasingly necessary. In this respect, the SII may be regarded as a forerunner of future trade negotiations.

I. METHODS OF HARMONIZING NATIONAL ECONOMIC INSTITUTIONS

Several attempts have been made in the past to harmonize national economic institutions through international negotiation. The General Agreement of Tariffs and Trade ("GATT") at the multilateral level, the European Common Market at the regional level, and the U.S.-Canadian Free Trade Agreement at the bilateral level are examples of earlier efforts.

A. *Multilateral Negotiation — The GATT Model*

In recent decades, trade negotiations within the GATT have dealt with the harmonization of national economic institutions, especially with regard to technical standards and government procurement. Over the course of the Tokyo Round of multilateral trade negotiations, the Contracting Parties agreed upon the Standards Code to deal with trade barriers caused by differences in national technical standards. The Standards Code establishes principles to be observed by the Contracting Parties in order to minimize differences in technical standards. The Government Procurement Code is designed to address essentially the same issue in the area of government procurement. In both areas, domestic measures rather than border measures are of primary concern.²

In the Uruguay Round, the basic issue in the areas of intellectual property, trade in services and trade-related investment measures is the harmonization of national institutions. This is especially true with regard to intellectual property, where the aim of negotiations is to establish both a minimum standard for the protection of intellectual property rights among nations and a uniform method of enforcing of those rights.

If there are future GATT negotiations after the Uruguay Round,

2. For a discussion of the Standards Code and the Government Procurement Code, see generally J. JACKSON, J.-V. LOUIS & M. MATSUSHITA, *IMPLEMENTING THE TOKYO ROUND* (1984).

there is little doubt that the harmonization of national economic institutions will be regarded as the major issue.

B. Regional Integration — The European Community Model

Experiments with the harmonization of national economic institutions also exist at the regional level. The most successful regional example is the European Common Market, where an important part of the integration is aimed at the unification and harmonization of national economic laws and regulations. The Single Market Program, which aims to bring the Common Market to completion by 1992, attempts to harmonize national economic institutions in many areas including technical standards, banking, taxation, corporate law, intellectual property and environmental protection. This is achieved through the European Economic Community authority, which issues directives in specific economic areas requiring the member states to conform their national laws to common standards in those areas.

In the area of technical standards, for example, Member States are required to maintain a certain minimum standard in their laws and regulations, to recognize the laws and regulations of other Member States and to accept commodities which conform to those laws.³ Another example, the Second Banking Directive,⁴ establishes both a minimum standard in such areas as capital requirement, and the home state rule, which requires Member States to recognize the banking regulations of another Member State. As a result of the home state rule, a bank need only follow the laws and regulations of the Member State in which it is established in order to operate throughout the Common Market.

The harmonization of economic institutions is more advanced in the Common Market than in other international economic alliances such as the GATT. This is in large part due to the common heritage and the geographical and cultural proximity of the Member States. Without such geographical and cultural proximity, the Common Market's methods of unifying domestic institutions may not always be applicable to other international efforts at harmonization. However, the integration of national markets is progressing between the United States and Japan, the United States and Canada, and Japan and Korea. The economic interests in harmonizing national economic institutions of the countries involved in the process of integration are somewhat similar to those of the Common Market Member States. In

3. *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein*, 1979 E.C.R. 649.

4. 32 O.J. EUR. COMM. (No. L 386) 1 (1989).

light of these common interests, some of the integration methods employed in the Common Market may be worthy of consideration when, as with the SII, attempting to achieve harmonization of economic institutions.

C. *Bilateral Negotiations — The U.S.-Canadian Free Trade Agreement Model*

The U.S.-Canadian Free Trade Agreement provides for the reduction of tariff and non-tariff barriers.⁵ Improved government procurement procedures give enterprises of each country better access to procurement bids offered by the government of the other country. In the services industry, the agreement recognizes the right of enterprises to establish and operate local business in the other party's territory. In the financial areas, the agreement recognizes the right of enterprises of each country to acquire financial companies in the other. The agreement sets up a unique dispute settlement process whereby antidumping and countervailing duty disputes are adjudicated by a panel composed of experts from both countries whose rulings cannot be appealed. Continued use of this dispute settlement mechanism will have the effect of harmonizing the enforcement of antidumping and countervailing duty statutes between the two countries.

Another remarkable feature of this agreement is the initiation of a joint study with the goal of establishing common rules governing export subsidies and predatory pricing in exports. This could result in the abolition of national antidumping and countervailing duty laws with respect to U.S.-Canadian trade.

II. THE STRUCTURAL IMPEDIMENTS INITIATIVE

The SII is devoted almost exclusively to reducing differences between economic institutions in Japan and the United States. Although it is bilateral, the SII differs from the U.S.-Israeli Trade Agreement and the U.S.-Canadian Free Trade Agreement in that it does not address the issue of border measures. Instead, the major focus is on the harmonization of internal economic policies. The SII is, therefore, distinct from the models discussed above.

A. *Background and Overview of the Structural Impediments Initiative*

In 1989, President Bush and Prime Minister Uno reached an

5. Although it will not be discussed here, the U.S.-Israeli Trade Agreement is another example of the bilateral model.

agreement establishing a joint task force to investigate formal and informal trade barriers between the two countries. The task force was made up of officials from the U.S. Departments of State, Treasury and Commerce and members of the Japanese Foreign Ministry, the Finance Ministry and the Ministry of International Trade and Industry. Three meetings were scheduled, the first of which was held in September 1989, the second in February 1990 and the third in April 1990.

The task force published a final report on June 28, 1990, which it submitted to President Bush and Prime Minister Kaifu. The report contains recommendations which both governments are urged to implement. Formally, the SII is nothing more than a study by the joint task force on major trade obstacles between the two countries. It is not a formal agreement, and noncompliance with the recommendations would not constitute a violation of an international agreement. In actuality, however, noncompliance on the part of the Japanese government would invite a strong reaction by the U.S. Congress in the form of a retaliatory bill or a request to the Executive Branch to invoke Super 301.⁶ In this sense, it should be regarded as an international agreement or understanding in substance, if not in form.

The governments of both countries will review the results of the SII three times in the first year, twice in the following year, and a final time in the third year.

B. *The Structural Impediments Initiative Final Report*

The final report of the SII is a document of approximately 100 pages containing findings on "structural impediments" in Japan and the United States and recommendations on how to rectify them. To characterize the recommendations generally, those concerning Japanese impediments are concrete and those directed toward the United States are more general and abstract.

1. Recommendations for Japan

The report lists six areas which the Japanese government is urged to restructure: saving and investment patterns, land policy, the system of production distribution, exclusionary business practices, *keiretsu* relationships⁷ and pricing mechanisms.

6. 19 U.S.C. § 2420 (1988).

7. *Keiretsu* relationships are closely-tied corporate relationships characterized by mutual stock-holdings, interlocking directorates and the like.

a. *Saving and Investment Patterns*

In the area of savings and investment,⁸ the targeted problem in Japan is the high savings rate and the low rate of spending and consumption. Public facilities such as roads, parks, sewage disposal and housing are in need of funding. Current public expenditure is insufficient to meet the needs. The parties agreed that the Japanese government would increase public spending by ¥430 trillion during the next decade.

b. *Land Policy*

The basic issue with regard to land policy concerns the exceedingly high land prices in Japan which results in insufficient land available for housing.⁹ It is increasingly difficult for an average person to purchase a house. The high land price is also partly responsible for the low rate of consumption. Measures to be taken under the SII include a more active appropriation of land for public purposes, a review of the Land Lease Law¹⁰ and the House Lease Law,¹¹ a review of divisions between Urbanization Promotion Areas and Urbanization Control Areas,¹² and the promulgation of specific deregulation measures. The aim of all the measures is to increase the supply of land and stabilize land prices.

c. *Distribution System*

Measures proposed under the SII to restructure Japan's distribution system include improvement of the import-related infrastructure and the promotion of expeditious and proper import procedures and customs clearance procedures.¹³ The proposals also include deregulation measures, among which the relaxation of control under the Large-Scale Retail Stores Law¹⁴ is probably the most important. The Large-Scale Retail Stores Law restricts the entry of new large-scale retail stores (such as supermarkets) into local markets. The U.S. government believes that large-scale retail stores, which are not subsumed in vertically integrated distribution networks organized by powerful

8. SII REPORT, *supra* note 1, at I-1 - I-9.

9. *Id.* at II-1 - II-6.

10. Shakuchi hō, Law 49, 1921, as amended.

11. Shakka hō, Law 50, 1921, as amended.

12. An urbanization promotion area is an area designated by the government in which the process of urbanization is encouraged. An urbanization control area, on the other hand, is an area in which urban development is restricted to prevent the disorderly sprawling of cities.

13. SII REPORT, *supra* note 1, at III-1 - III-16.

14. The Large-Scale Retail Stores Law (*Daikibo, kouri tenpo hō*, Law 109, 1973).

manufacturers and are relatively free from the control of manufacturers, are thus more likely to purchase foreign goods than distributors and retailers, who are subject to control by manufacturers. Therefore, if Japan relaxes restrictions on the market entry of large-scale retail stores, more foreign-made goods will be sold in Japan.

Under the current law, when a large-scale retail store intends to enter a local market, it must undergo a series of examination procedures in which the government determines whether the new retail store would adversely affect small stores in the area. If the government determines that the entry would have an adverse effect, it advises that the time of entry be delayed or that store floor space be reduced. The government can issue an order implementing the advice if the store chooses to ignore it. As a result of the SII, the Japanese government has proposed to shorten these examination procedures.

Another proposed measure is the relaxation of control over premium offerings and advertisement under the Law to Prevent Unreasonable Premium and Representation.¹⁵ Enterprises sometimes offer a premium when they sell products to customers. This law authorizes the Fair Trade Commission to establish a price ceiling setting the maximum allowable premium value. A premium offered at a value above the maximum value violates this regulation. The law also authorizes the Fair Trade Commission to prevent misrepresentations in advertising. Still another proposed item is the relaxation of liquor licenses which will result in more liquor licenses for large-scale retail stores.

The Fair Trade Commission (the enforcement agency of the Anti-Monopoly Law) has announced that it will formulate guidelines concerning the enforcement of the Anti-Monopoly Law with regard to anticompetitive conduct by private enterprises in distribution. The Ministry of International Trade and Industry has also announced guidelines and has established rules of conduct to be observed by private enterprises.

d. *Exclusionary Business Practices*

Proposals to contend with exclusionary business practices include a variety of measures such as stricter enforcement of the Anti-Monopoly Law, the introduction of greater transparency in administrative guidance, government recommendations to private enterprise to purchase parts and components on a non-discriminatory basis, and the shortening of the examination period for a patent.¹⁶

15. The Law to Prohibit Unreasonable Premium and Representation (*Futokeihinrui oyobi futohyouji boshi hō*, Law 134, 1962).

16. SII REPORT, *supra* note 1, at IV-1 - IV-11.

The Anti-Monopoly Law is of particular importance. The U.S. government has claimed that the anticompetitive conduct of Japanese enterprises has prevented foreign enterprises from effectively investing and doing business in Japan. The United States also claims that, although the provisions of the Japanese Anti-Monopoly Law¹⁷ are well drafted, enforcement has been lax, creating rigidity and exclusivity in the Japanese market and thereby making it difficult for foreign enterprises to penetrate the market. The U.S. government has called for stricter enforcement of the law.

The SII Report recommends that the Fair Trade Commission replace its current system of administrative guidance, warnings and other informal regulatory measures with more formal procedures. In addition to a budget increase for the Fair Trade Commission, the new program calls for transparency in the enforcement process, an increase in the maximum administrative fine imposed on cartels, and more effective criminal prosecution of cartels. The SII Report also recommends a program to facilitate private damage suits by plaintiffs and the adoption of stronger measures to prevent bid-rigging practices.

e. *Keiretsu Relationships*

The United States government has argued that *keiretsu* relationships have created a business structure which excludes outside parties, thus hindering the entry of foreign enterprises into the Japanese market. Reciprocal dealings among the Japanese enterprises involved in *keiretsu* relationships are said to be a cause of the exclusion. Under the SII, the United States and Japan have agreed that the Fair Trade Commission will announce guidelines on the enforcement policy directed toward businesses linked by stock-ownerships and related matters and exclusive relationships among enterprises.¹⁸

Japan and the United States also agreed to relax investment controls under the Foreign Exchange and Foreign Trade Control Law.¹⁹ This law will be reviewed with an eye toward possible amendment, which would include the introduction of a post-reporting system for foreign investment in Japan instead of the current prior-reporting system.²⁰

17. The Anti-Monopoly Law (*Dokusen kinshi hō*, Law 54, 1947). See M. MATSUSHITA & T. SCHOENBAUM, *JAPANESE INTERNATIONAL TRADE AND INVESTMENT LAW* 139-71 (1989).

18. SII REPORT, *supra* note 1, at V-1 - V-7.

19. The Foreign Exchange and Foreign Trade Control Law (*Gaikokukawase oyobi gaikoku-boeki kanri hō*, Law 228, 1949).

20. There is an exception for areas where the prior-reporting system is necessary for reasons of national security and where the Japanese Government has withheld the liberalization under

f. Pricing Mechanism

The issue with regard to pricing is whether or not there is an undue difference in price between Japanese products sold in Japan and those exported to the United States.²¹ The United States suspects that the price of Japanese products in Japan is generally higher than that in the United States, indicating the existence of a rigid market structure in Japan which prevents prices from fluctuating according to the operation of the market. The U.S. Department of Commerce and the Ministry of International Trade and Industry have engaged in joint research on this price differential. Although results have been inconclusive, the two sides have agreed to continue joint research in the future.

2. Recommendations for the U.S. Government

Compared with the measures to be taken by the Japanese government, those directed at the United States are more general and abstract. This is because the main purpose of the SII was to deal with the "Japan Problem." The result thus emphasizes steps Japan should take to alleviate the problem. The areas in which action is urged on the part of the U.S. government include savings and investment patterns, corporate investment activities and supply capacity for the improvement of U.S. competitiveness, corporate behavior, government regulation, research and development, export promotion and work force education and training.

Among the more important of these measures are savings and investment patterns,²² where the primary goal is to reduce the budget deficit of the federal government. With regard to corporate investment activities,²³ treble damages suits under the U.S. antitrust laws will be abolished for joint venture production. There will also be a review of products liability law and possible recommendations for improvements. As a measure directed at corporate behavior,²⁴ the U.S. government will make recommendations to private enterprises to adopt a long-range view in formulating their corporate management strategies. With regard to government regulations, export control under the Export Administration Act²⁵ implementing the COCOM

the Organization for Economic Co-operation and Development Code of Liberalization of Capital Movements.

21. SII REPORT, *supra* note 1, at V-1 - V-7.

22. *Id.* at 1-12.

23. *Id.* at 13-17.

24. *Id.* at 18-20.

25. 50 U.S.C. §§ 2401-2420 (1988).

agreement²⁶ will be relaxed, and voluntary export restraints in steel will be gradually phased out.²⁷ The agreement encourages the adoption of the metric system as a measure aimed at research and development.²⁸ To promote exports, the U.S. government will provide American exporters with information on export-related matters. Finally, there will be an increase in the government's budget for work force training.²⁹

III. SALIENT FEATURES OF THE STRUCTURAL IMPEDIMENTS INITIATIVE TALKS

In the SII, unlike traditional trade negotiations, there is little emphasis on border measures. In fact, there is no single item in the SII which deals with them. The SII places heavy emphasis on the possible changes in domestic institutions and business customs which may have indirect effects on trade.

The SII may be a prototype for future trade negotiations. After border measures decrease, or are eliminated altogether, and business activities become more transnationalized, differences in domestic economic institutions, business customs and corporate behavior will be the new obstacles to international business activities. In future trade negotiations, therefore, the elimination or reduction of such differences will be the major objective.

While the GATT and the European Communities are experimenting with harmonization of national economic institutions with varying degrees of success, the SII goes a step further. It involves not only the reduction of differences in formal economic institutions, but also the harmonization of corporate business behavior and customs.

The SII model may not, however, prove useful in other situations because the circumstances under which it was conducted were unique. The SII was initiated during a tense political and economic relationship between Japan and the United States. The governments of the two countries have stated that the SII is separate from the application of Super 301 of the U.S. Omnibus Trade and Competitiveness Act.³⁰

26. COCOM refers to the Coordinating Committee for Multilateral Export Controls. See 50 U.S.C. app. § 2404(i) (1988).

27. SII REPORT, *supra* note 1, at 21-23.

28. *Id.* at 28-29.

29. *Id.* at 30-37.

30. Super 301 of the Omnibus Trade and Competitiveness Act of 1988, 19 U.S.C. § 2420 (1988), provided that, in 1989 and 1990, the U.S. Trade Representative was to submit to Congress a report in which the Representative was to enumerate practices of foreign governments which could impede exports from the United States into those countries. From items listed in the report, the United States Trade Representative was to select those impediments whose re-

However, there is no doubt that Super 301 played a role in the events leading up to the SII. In 1989, the U.S. Trade Representative named three areas as "priority items" under Super 301: the purchase of super-computers by the Japanese government,³¹ the purchase of satellite equipment and the adoption of technical standards in wood products. These three areas were relatively narrow and manageable because the objective of the U.S. Trade Representative was to avoid a major confrontation with the Japanese government, which would have resulted if more sensitive and fundamental issues such as market structure and corporate behavior in Japan had been Super 301 targets. Such sensitive subjects were left to more informal negotiations between the two governments. Although the U.S. Congress would have preferred to invoke Super 301 instead of resorting to the "softer approach" of the SII, any resulting confrontation would have negatively affected the prospect of the Uruguay Round. The Executive Branch therefore decided to adopt a softer approach and initiated the SII.

The SII reflects in several ways the tense political context in which it was initiated. First, there is little symmetry between the measures to be taken by the Japanese government and those which the U.S. government will take. However, it should be observed that this asymmetry in obligations was inevitable since the SII was designed to deal more with the "Japan Problem" than the "America Problem." Undertakings by the Japanese government, which include the control of exclusionary business practices and *keiretsu* relationships and the modification of business behavior and customs will involve a major change in the Japanese way of doing business. Second, although some of the measures aimed at the United States necessitate changes in domestic institutions, such as the introduction of the metric system, by and large they are general. The general announcement to reduce the federal budget deficit and recommendations to enterprises to adopt a long-range corporate strategy exemplify this generality. In contrast to Japan's obligations, the U.S. measures generally do not impose new norms on corporate behavior and business customs. Although the SII includes a proposal for the reform of U.S. antitrust laws, specifically, to reduce the civil liability of enterprises engaged in joint venture production by eliminating treble damages awards in suits brought by private parties, this measure was strongly pushed by domestic industries in the United States and also the Executive Branch before the SII.

removal or reduction would drastically improve the export opportunities of U.S. exporters to those countries as priorities for action.

31. This also included the purchase of super-computers by national universities and government research institutes.

Despite doubts about the applicability of the SII model to other situations, negotiations like the SII can be advantageous for several reasons. First, bilateral negotiations are particularly appropriate for resolving problems peculiar to the parties concerned. The SII addressed such U.S.-Japanese trade problems as the huge trade imbalance, the intensive competition in research and development in high technologies, the existence of a wide disparity in competitiveness in some sectors of industry, and the high degree of economic dependence of the Japanese economy on that of the United States. These are problems which may lend themselves to a better resolution in a bilateral forum rather than a multilateral forum such as the GATT, where a more diverse group of countries and interests are involved.

In addition, the major focus of the SII was structural problems — not only differences in national economic laws, but also differences in the Japanese government's public spending and land policies and the customs and behavior of Japanese corporations. At present, there is no international forum, including the GATT, in which to conduct multilateral trade negotiations to solve problems of this kind. At present, a bilateral forum may be the only option.

Informality is another feature of the SII. Informal negotiations have the advantage of addressing trade issues in a flexible and prompt manner. When conflicts are imminent and immediate attention is required, a more informal and expedited process than multilateral negotiations may be necessary. As was evinced by the SII, a direct clash can be avoided by quickly resorting to an informal negotiation. In multilateral negotiations, as was evidenced by the Uruguay Round, it is difficult to come to a consensus on difficult problems within a short period of time.

While there are important advantages to bilateral trade negotiations like the SII, the shortcomings of this approach should not be overlooked. One such shortcoming is that solutions reached in a bilateral context may have unexpected and adverse impacts on third-party countries. In the context of the SII, for example, the parties agreed that the Japanese government should relax its control of sales using premiums. Since such premium sales are not regulated in the United States, Japanese enterprises in the U.S. market have an advantage compared to U.S. enterprises in the Japanese market. The liberalization of premium sales in Japan would correct this imbalance and would thus be advantageous to U.S. enterprises. In Europe, however, premium offerings are prohibited in some countries — if Japan completely liberalizes premium offerings to satisfy the U.S. government's request, European enterprises, which are not accustomed to this com-

merical practice, will encounter more difficulties in the Japanese market than will U.S. enterprises. Another example is the Japanese Fair Trade Commission's tightening of the antitrust regulation of sole import distributorships. The guidelines, which will soon be announced by the Fair Trade Commission, reflect a concession to the U.S. claim that the sole import distributors in Japan have engaged in anti-competitive activities. However, European enterprises claim that there are advantages in sole import distributorships and that such activities should not be unduly restricted.

The above-mentioned shortcomings are the inevitable result of any bilateral trade negotiation in which the interests of third-party countries are generally left out. Although the new rules resulting from the SII are to be applied on a non-discriminatory basis, the changes made on the basis of one country's request may not always be in the interest of third countries.

Another shortcoming of the SII is that some reform programs were set up too quickly in response to immediate political pressure without consideration for consistency and symmetry in the laws of Japan. The Anti-Monopoly Law reform is illustrative of this problem. Proposals to modify the law and its enforcement procedures include an increase in administrative fines, an active utilization of criminal penalties and the use of private damages actions.³² The objective of the U.S. government is to simultaneously strengthen all of the above enforcement mechanisms of the Anti-Monopoly Law. However, increasing administrative fines while at the same time imposing criminal penalties may create a situation of "double jeopardy" prohibited by the Japanese Constitution.³³

CONCLUSION

In spite of its many shortcomings, the SII succeeded in mitigating political tensions between the United States and Japan, at least for a short period of time. As a result of the SII, the Japanese government has agreed to implement measures such as land policy and antitrust reforms. This signifies that the SII filled a gap created by the lack of political leadership in Japan.

However, the coverage of the SII remains too narrow since it concentrated only on the pressing issues of the time. There are still areas

32. The administrative fine is a European device employed by EC and German administrative authorities. In the United States, the criminal penalty and private damages system is widely used instead of administrative fines.

33. Article 39 of the Japanese Constitution provides that no person shall be condemned more than once for the same crime.

which need to be addressed, such as institutional harmonization in industrial policy and intellectual property rights, the establishment of a dispute settlement mechanism and cooperation in macro-economic policy. It should be emphasized that a bilateral negotiation such as the SII should be a supplement to — and not a substitute for — the GATT. At a time when the GATT's institutional basis is weak and its enforcement power is insufficient, a supplementary system like the SII is necessary.