

White Paper on International Trade Sheds Light on Domestic Structural Problems

By Yashiro Naohiro

This year's White Paper on International Trade can be viewed as an epoch-making publication in that it has taken up the progress in globalization of economic activities and at the same time specified reforms of domestic systems that need to be implemented in response to such globalization.

In the 1990s, all the major industrialized nations are pushing ahead with structural reforms in response to the globalization of the economy. The U.S. economy is sustaining non-inflationary growth for a long period of time, propelled by the favorable effect of regulatory reforms that were carried out in and after the 1980s. With a view to realizing currency integration, European nations are also promoting reforms of economic structure that are aimed at activating competition in the market. Moreover, East Asian nations are recovering from economic and currency crises and are implementing measures to bolster their economic

power base. In this way, steady progress in reforms of economic structure is commonly observed in all of the world's main economies with the sole exception of Japan.

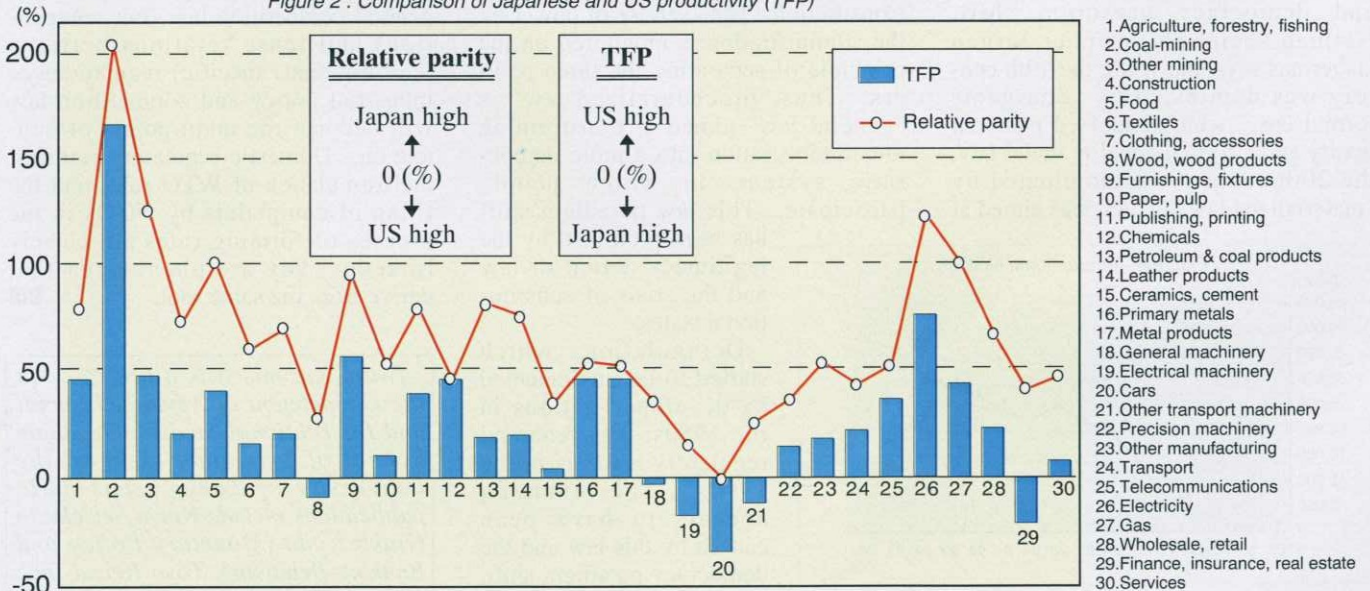
Amid the steady economic development in East Asia, interdependent relations between Japan and the rest of East Asian nations are being increasingly deepened. If Japan concludes regional free-trade agreements individually with such countries as South Korea and Singapore, interdependent relations in the region will be further enhanced. The globalization of economies, both developed and developing, spurs liberalization of trade and investment. This trend brings about a great positive effect through the expansion of competition in the world marketplace. Using a general equilibrium model, this year's white paper quantitatively analyzed the magnitude of such an economic effect. This is the great contribution this year's white

paper made. (Figure 1)

In order to maintain the vitality of economic activity today, the unusually strong competitiveness of certain manufacturing sectors alone is not enough. It is important to improve the productivity of the economy as a whole, including the non-manufacturing sector. Productivity of Japan's non-manufacturing sectors such as electric power, telecommunications and aviation, however, lags far behind that of the United States. (Figure 2) This is a major factor behind the high living costs in Japan and a gap of progress in regulatory reforms and "market innovation" that Japan and the United States have so far carried out.

Globalization of economies actively prompts competition not only between businesses but between states as well – "international competition among systems," in which states compete to attract capable manpower and a large amount of capital. Currently, Japan is

Figure 2 : Comparison of Japanese and US productivity (TFP)



Note: The vertical axis indicates relative parity (how much higher Japan's production prices are against the US), as well as the extent to which the TFP contributes to this.

Figure 1 : Economic effect of trade and investment liberalization (GDP-boosting effect)

	Step	Economic effect (GDP-boosting effect [%])		
		World	Developed countries	Developing countries
Liberalization of trade in goods	50% reduction in industrial tariffs (static effect only)	0.18	0.04	0.58
Liberalization of trade in services	Elimination of service barriers	2.04	1.97	2.24
Investment liberalization	Assumption that investment liberalization will maintain momentum of direct investment into developing countries Assumption that technology transfer will accompany direct investment (productivity transfer)	2.03	0.36	7.86
Liberalization of trade in goods (OECD estimates)	Elimination of industrial tariffs (Including dynamic effect)	3.1

not necessarily superior to other countries in this respect. Foreign direct investment in Japan, which hit an all-time high in fiscal 1999, is expected to greatly help remedy the situation. On average, foreign business corporations enjoy higher earnings than their Japanese counterparts in the same industrial sectors, thanks to their self-developed technologies and managerial systems. The smooth penetration of such foreign know-how into the domestic market is expected to help revitalize Japanese businesses, which tend to confine themselves in domestic cooperation.

In order to make the Japanese market more lucrative for overseas investors, reforms of domestic systems need to be implemented widely. The white paper shows the direction of system reform in three fields – medical care, education and the judiciary.

The problem of Japanese medical service stems in large part from the excessive number of hospital beds under international standards and the

limited number of doctors and nurses per bed. This poses a big question about the efficiency of Japan's medical resources distribution and indicates the need to shift a medical fee system from the present piece-rate fee system to a system that takes into account the difference of quality in medical services. To standardize and improve the quality of medical services, the white paper points out that Japan can take lessons from the medical reforms being implemented in the United States.

Excess and shortage coexist in Japan's educational services. For higher quality education, it is important to offer consumers greater choices by strengthening school accountability and third-party institutions' appraisal functions. The strengthening of school accountability and appraisal functions will become all the more important when colleges and universities play a greater role in adult education. At the same time, it is necessary to promote the mechanisms of competition in

teaching which hardly work at present, in order for the improvement of appraisal to result in higher quality education.

Finally, this year's White Paper on International Trade devoted many pages to judicial system reforms in response to the globalization of economies, the first time this issue had been mentioned in a government white paper on economic affairs. Amid deepening interdependent relations between states, businesses increasingly tend to be exposed to possible lawsuits and the risk involved in contracts. Moreover, the shortening life-cycle of new products makes it necessary to quickly resolve disputes over intellectual property rights such as patents. Under such circumstances, it is an important and urgent task to provide high-quality judicial service so as to bolster the Japanese economy's competitiveness. The number of Japanese legal professionals is much lower, however, than those of the United States and European nations due to the Japanese government's policy of limiting the success rate of the bar examination. (Figure 3) The white paper points out that the increased number of judicial personnel and the introduction of the principle of competition in the judicial field are essential for offering services in response to user needs.

Since the end of the Cold War, interdependent relations have been deepening rapidly in the global economy. Japan would be left behind in the "age of speed" should it fail to break the barrier of vested rights and hold fast to the outmoded socioeconomic structure. This year's White Paper on International Trade clearly shows the fact that domestic structural problems are the fundamental factor behind international trade rows.

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Figure 3 : Comparison of number of personnel in legal profession (1997)

	U.S.	U.K.	Germany	France	Japan
Number of personnel in legal profession	940,508	82,653	111,315	35,695	21,458 (19,733)
per 100,000 of population	352.5	158.3	135.7	61.3	17.0 (15.7)
Number of lawyers	906,611	80,868	85,105	29,395	16,398
per 100,000 of population	339.87	154.89	103.77	50.15	13
Number of judges	30,888	3,170	20,999	4,900	2,899 (2,093)
per 100,000 of population	11.6	6.07	25.6	8.4	2.3 (1.7)

Note : 1. The parenthesized Japanese figure for the number of personnel in the legal profession excludes summary court judges and summary court prosecutors. The U.S. figure represents the median between 1995 (896,172) and 1999 (984,843).

2. The U.S. figure for the number of lawyers deducts the number of judges and prosecutors from the total of lawyers in all states (996,270). The U.K. figure represents the total of barristers (9,231) and solicitors (71,637). The French figure represents the total of lawyers, councilors at the Court of Appeal, councilors at the Conseil d'Etat, and attorneys at the Court of Cassation.

3. The Japanese figure for the number of judges is for 1997. The parenthesized figure excludes summary court judges. The U.S. figure represents the total of judges in 50 states and Washington D.C. The U.K. figure (England & Wales) represents the number of judges in England and Wales with legal qualifications. The German and French figures represent the number of judges with legal qualifications.

Source: Supreme Court of Japan "The Legal System for the 21st Century: Court's Basic Idea on the Legal System"

Yashiro Naohiro is a Professor of Economics at the Institute of International Relations, Sophia University. His major work is "Social Security and Retirement in Japan (co-author)," in Gruber, Jonathan and Wise, David ed., Social Security and Retirement around the World.