

White Paper on International Trade 2000

By International Trade Research Office, Ministry of International Trade and Industry

Executive Summary

The recovery of the world economy widened in 1999, underpinned by the continued robustness of the US economy, the firm European economy and also economic recovery in Japan and Asia. (Figure 1) 1) Key factors behind the buoyant US economy were structural changes in productivity, the labor market and elsewhere, spurred by information technology (IT) and regulatory reform. 2) Europe's introduction of the euro lent strong momentum to fiscal discipline, regulatory reform and other structural reform efforts. 3) Structural issues relating to technology, education, financial systems and legal systems are currently also under the spotlight in East Asia, which is on the road to recovery from its currency and economic crises. 4) The Japanese economy has moved on to a recovery trajectory despite the impact of changes in external economic conditions such as yen appreciation and rising oil prices (Part I, Chapter 1).

Factors such as IT development, the expanding role of developing countries, and a stronger NGO presence are boosting diversity and interlinkages across the globe, accelerating the pace of change. (Figure 2) Regional integration around the world is deepening not just in terms of tariff measures but also domestic economic measures. New directions are emerging, including broadening of the scope of regional groupings, and the co-operation between different regional groupings. Trade policy today needs to be able to respond to these realities of the global economy flexibly. It should also try various approaches. A multi-layered perspective will be crucial, while based on the WTO-centered multilateral trading system.

The comprehensive liberalization sought by the WTO, including tariffs, investment and services, offers well-

balanced economic benefit for the world economy, as is borne out by the economic model simulation conducted by MITI. (Figure 3) Economic analysis revealed the economic cost incurred through the abuse of anti-dumping and other measures. On the other hand, relation between trade and civil society concerns such as the environment and labor, issues brought to the fore by NGOs, need to be addressed objectively and in a manner which ensures information disclosure and transparency. (Part II, Chapter 2)

have continued to hold firm in Asia, with economic interdependence contributing to the recovery of both East Asia and Japan. (Figure 4, 5) It follows that consideration of free trade agreements with the Republic of Korea, Singapore and elsewhere, as well as other forms of regional integration involving Japan, are in line with the trends in economic analysis and economic realities such as deepening trade and investment interdependence. In addition, acute policy attention should be paid to new moves in terms of

Figure 1: World real GDP and trade volume by region

	Real GDP growth rate(%)					Trade volume(%) (Top:exports,bottom:imports)				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
World	3.6	4.1	4.1	2.5	3.3	9.1	6.7	9.7	4.2	4.6
Advanced Economies	2.7	3.2	3.3	2.4	3.1	8.8	5.9	10.3	3.7	4.4
(total)						8.9	6.2	9.1	5.5	7.4
US	2.7	3.6	4.2	4.3	4.2	10.3	8.2	12.5	2.2	3.8
EU	2.4	1.7	2.6	2.7	2.3	8.2	8.6	13.7	11.6	11.7
Japan	1.5	5.0	1.6	-2.5	0.3	8.0	4.7	9.8	5.9	3.9
						7.2	4.0	9.0	8.9	6.0
						5.4	6.3	11.6	-2.5	1.8
						14.2	11.9	0.5	-7.6	5.2
Developing countries	6.1	6.5	5.8	3.2	3.8	11.9	8.2	11.5	3.7	3.6
(total)						14.4	6.6	9.2	-0.3	1.1
Asia	9.0	8.3	6.7	3.8	6.0	15.5	8.8	16.7	6.1	4.2
Western Hemisphere	1.7	3.6	5.4	2.1	0.1	20.9	5.6	4.1	-7.8	6.3
Middle East	3.8	4.6	4.7	2.7	0.7	15.9	8.5	11.4	4.8	3.2
Africa	3.2	5.6	2.9	3.1	2.4	8.9	8.4	18.0	6.2	-3.3
						3.6	7.1	4.9	-0.9	3.9
						9.5	8.8	12.2	6.8	-1.6
						6.1	6.9	4.1	0.2	0.7
						8.7	3.2	6.6	3.8	-1.6
Countries in transition	-1.4	-0.6	1.7	-0.7	2.4					
(total)										
Central & Eastern Europe	1.7	1.6	2.3	1.8	1.4					
Russia	-4.2	-3.4	0.9	-4.5	3.2					
Central Asia,etc	-5.0	1.3	2.6	2.3	4.4					

Source :
World Economic Outlook
(IMF)

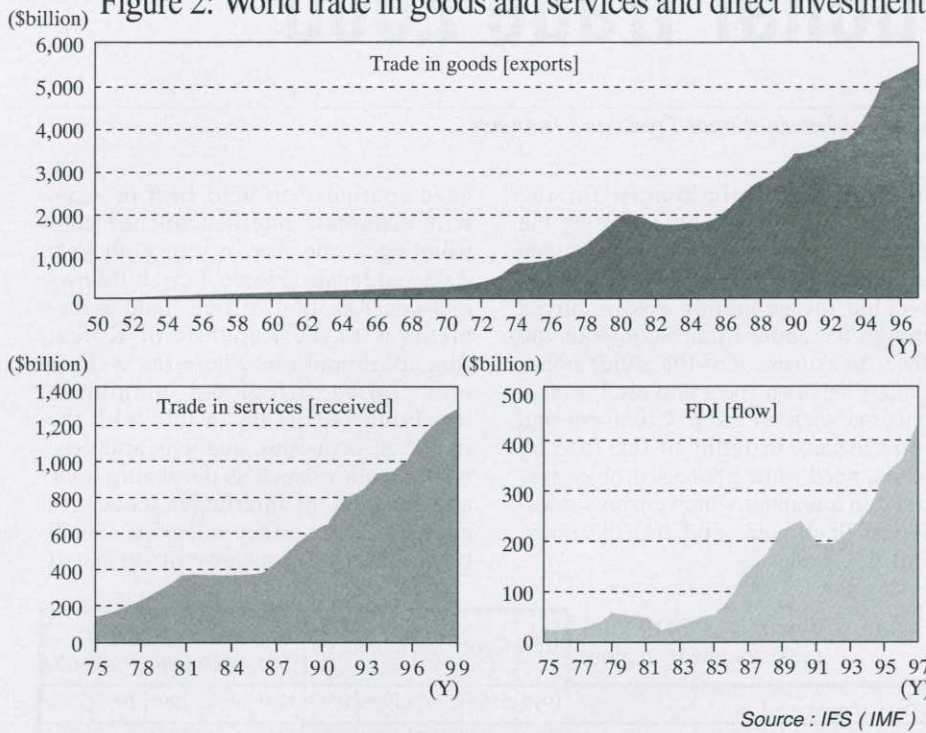
Notes : 1. Figures are as released by the IMF in April 2000.

2. Trade volume in the case of developed countries includes goods and services, trade in goods only in the case of developed countries and economies in transition.

On the economic effects of regional integration, dynamic effects such as competition promotion and market expansion are attracting the attention of economic researchers. On the other hand, in the wake of the currency and economic crises, Japanese companies

broadening and deepening regional integration in other groupings (EU, NAFTA, Mercosur, etc.), as well as new links between different regions. Multi-layered, progressive efforts are needed. Given the on-going fusion of the domestic and external economies,

Figure 2: World trade in goods and services and direct investment



Source : IFS (IMF)

the deepening of regional integration must be addressed in tandem with domestic economic structural reform. (Figure 6) (Part II, Chapter 3)

Looking to Japanese industrial competitiveness in the global economy, trade data on the course of manufacturing industry over the last 10 to 20 years reveals dynamic efforts to respond to international competition. At the same time, there is little room for celebrating past successes, with industry needing to continue to shoulder ever higher risks. (Figure 7) A comparison of the productivity of Japan's service industry with that of the United States indicates an

on-going disparity. Fundamental reason for better performance of electricity, telecommunications, air transport and finance in the US and elsewhere, is that synergy between institutional inno-

vation (regulatory reform and competition promotion) and market innovation is boosting productivity. (Figure 8) Since this process of synergic innovation continues to unfold in the US and other countries, Japan cannot afford to delay its own economic structural reforms and regulatory reforms. (Part III, Chapter 4)

Japan needs to make positive use of globalization as a chance to stimulate the Japanese economy. 1) Inward FDI has recently been expanding. M&As involving foreign management participation should improve corporate governance in Japan. (Figure 9) 2) In this age of economic globalization, competition is no longer simply among companies. Synchronization of reform efforts in the public domain across countries which could be described as "international system competition" is developing as countries compete to create attractive markets which will draw capital and human resources. For example, countries are reforming their medical and educational systems to improve quality and efficiency by introducing the principle of competition while maintaining a framework to ensure service quality. 3) Japan must take advantage of the experience of

Figure 3: 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

Figure 4: Growth rate of Japanese import value (yen base) and contribution by region (Q-Q)

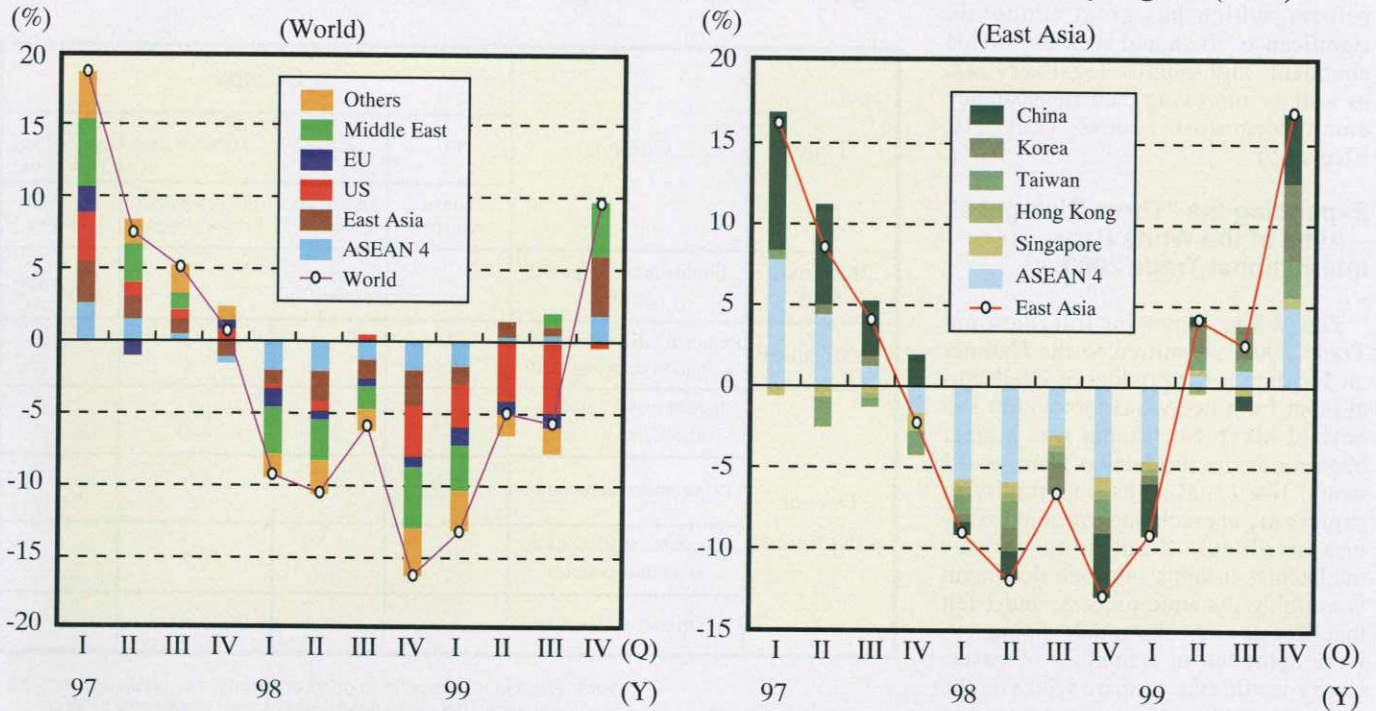
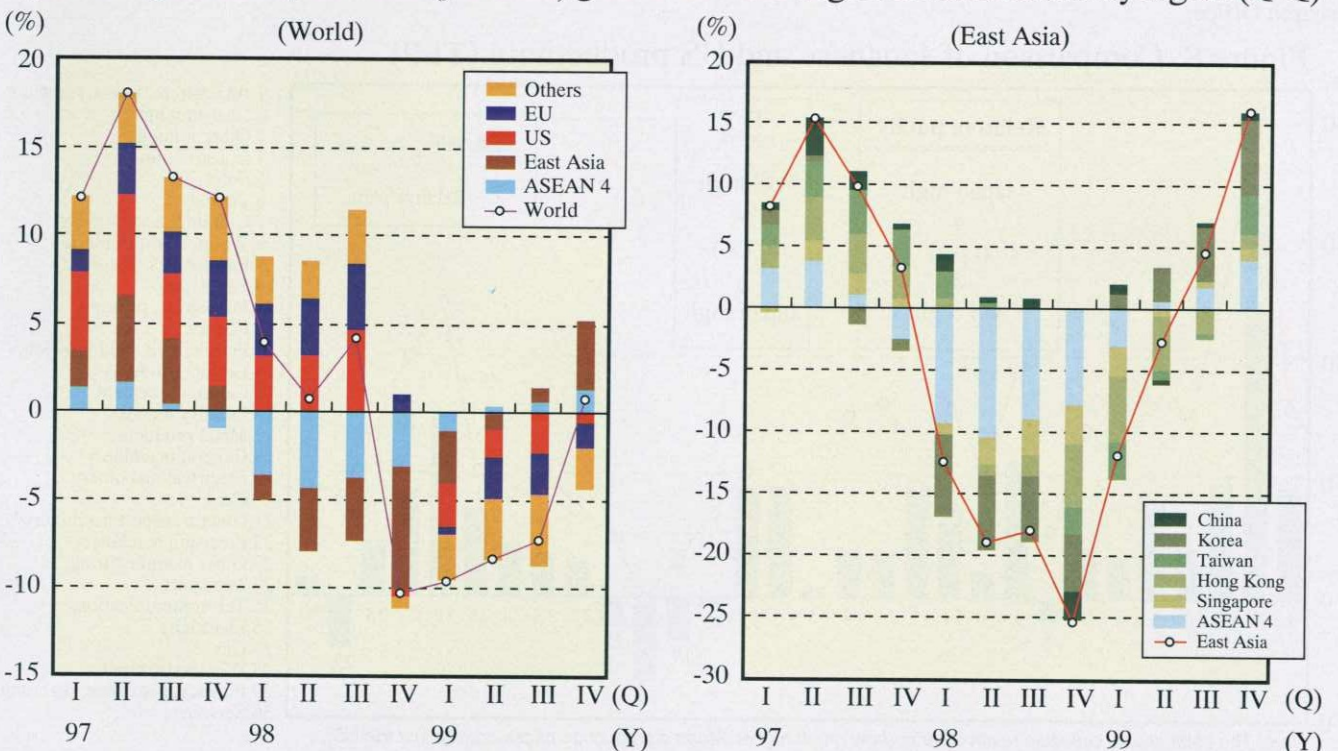


Figure 5: Japanese export value (yen base) growth rate and degree of contribution by region (Q-Q)



Source : Trade Statistics (Ministry of Finance)

AGENDA

other countries in judicial system reform, which has great economic significance. It should seek to provide abundant, high-quality legal services, as well as improving their transparency and information access. (Part III, Chapter 5)

Expanding the “Three Dialogues” – Aims of the White Paper on International Trade 2000 –

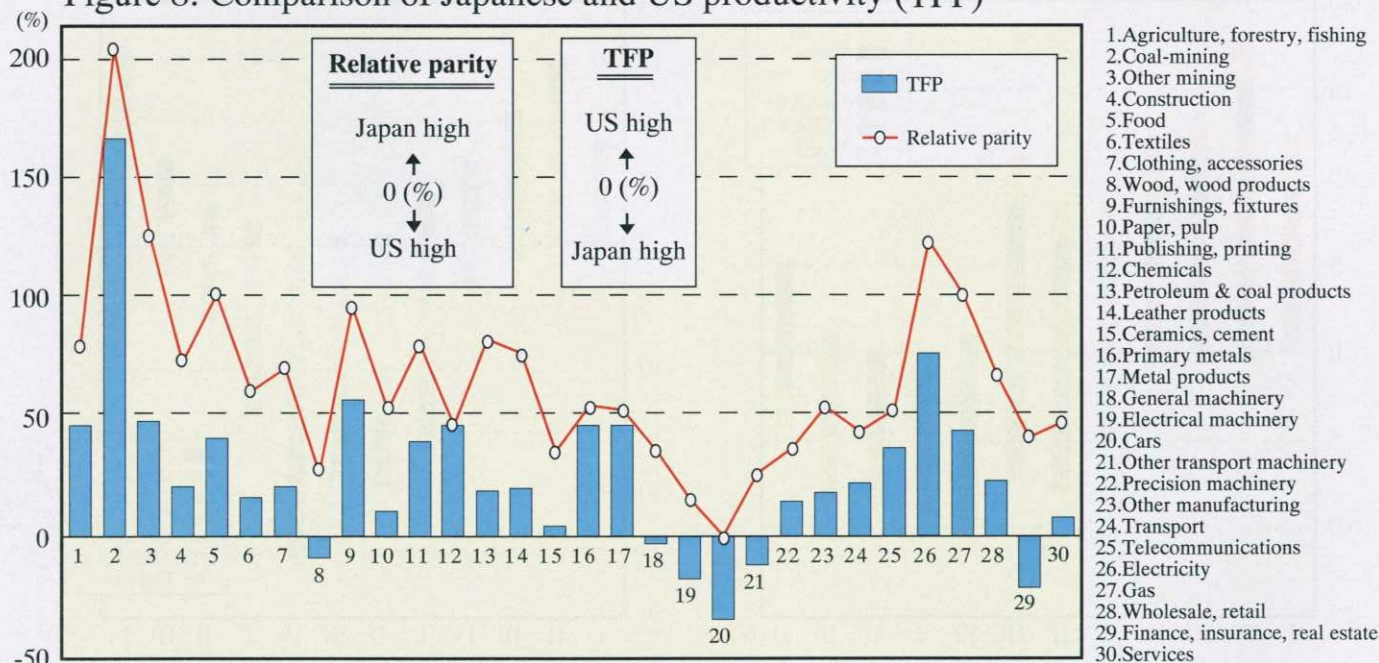
The White Paper on International Trade 2000, submitted to the Cabinet on 16 May, is the product of intellectual input from many quarters within and beyond MITI. Such input was a great blessing to the production team, and I would like to take this opportunity to express my appreciation again to everyone involved. Combining various intellectual insights into one document is a highly dynamic process, and I felt that diverse and substantial “dialogues” were achieved in a number of cases. Here I would like to share with you the thoughts of the production team, and particularly the International Trade Research Office.

Figure 6: Types of regional integration

Type	Content	Example			
		EU	NAFTA	MERCOSUR	AFTA (ASEAN Free Trade Area)
		15 European countries	US, Canada, Mexico	Brazil, Argentina, Paraguay, Uruguay	10 ASEAN members
Free trade area	Elimination of regional tariffs		○		○ (0-5%)
Tariff union	Regional tariffs eliminated Common extra-reg. tariff	○		○	
Deeper integration	Investment & services liberalization, etc.	○	○	○	
	Labor market integration	○		○	
	Common regulations & economic policies	○		○	
	Currency integration	○			

Note : Examples here refer to goals of the regional groupings, and do not imply that these have already been completely fulfilled.

Figure 8: 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.

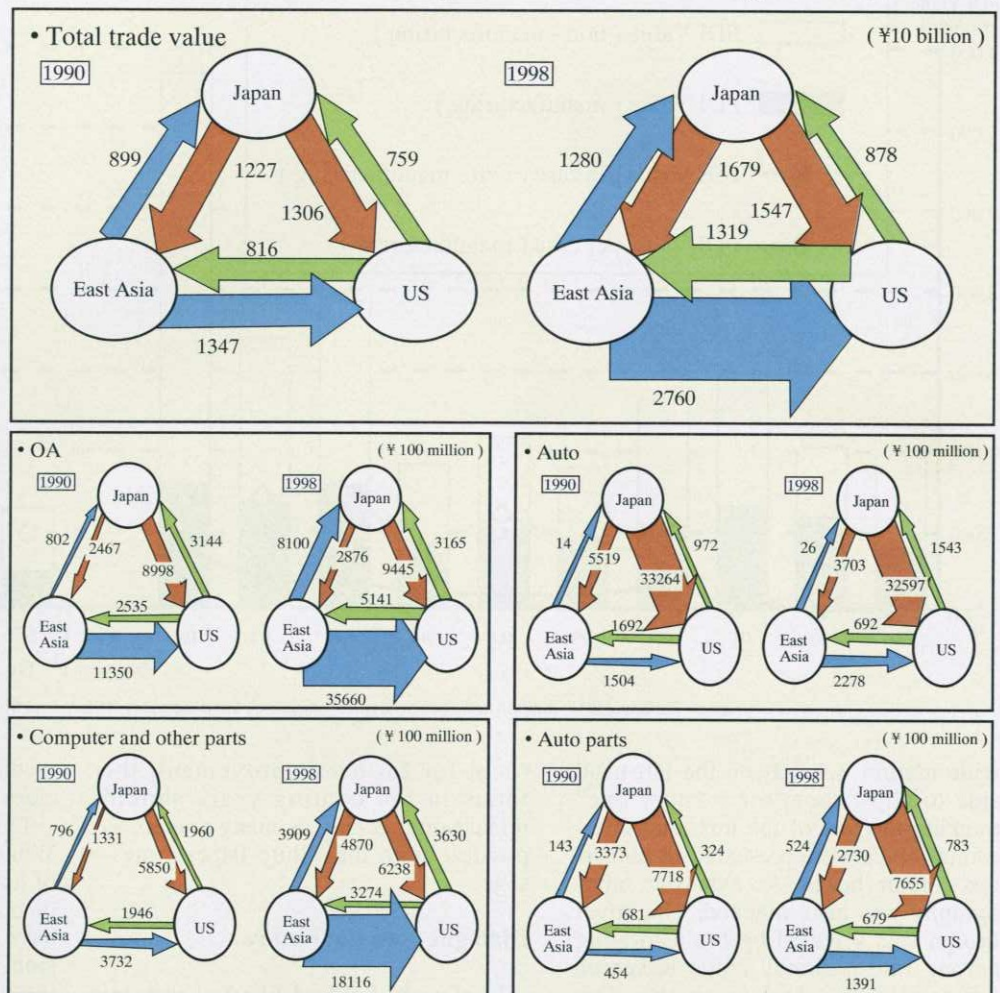
Dialogue with Policy

The major focus of this year's White Paper was dialogue between policy and research and analysis. Good policy, it goes without saying, is based on good analysis. As the division embodying MITI's research functions, it is the obvious mandate of the International Trade Research Office to provide valuable analysis which will assist in policy consideration. At the same time, neither policy nor research and analysis can perform effectively unless maintained as separate functions. Research and analysis in particular demand a certain accumulation of knowledge and skills, as well as a sense of professionalism as an analyst/researcher. "Dialogue" therefore becomes important as an ongoing fruitful exchange between policy and research and analysis built on mutual respect. In this year's White Paper process, we created a number of brief reports for the Ministry's perusal and used the consequent feedback as the basis for developing White Paper materials, which proved to be an effective mode of dialogue.

In addition, government research and analysis stand distinct from purely academic research in their value in policy consideration. The skillful amalgam of input from economists and analysts from different fields with policy-side interests is also a key factor determining the success of a White Paper.

We were most fortunate that this year's process coincided with increasing interest in multi-layered trade policy which, while grounded in the multi-lateral trading system, also embraces regional integration. Many points have yet to be addressed by research and analysis in regard to this policy, which definitely deserves continued attention

Figure 7: Trade value between Japan, US and East Asia (yen base; 1990-98)



Sources : Trade Statistics (Ministry of Finance)

in future White Papers. Another point meriting special regard in the context of dialogue with policy is intra-governmental coordination. This year's White Paper analyzes areas strongly tied to other ministries and agencies, such as service industry productivity, international systemic competition in education and medicine, and judicial system-reform, and in these areas too, dialogue produced a rich harvest.

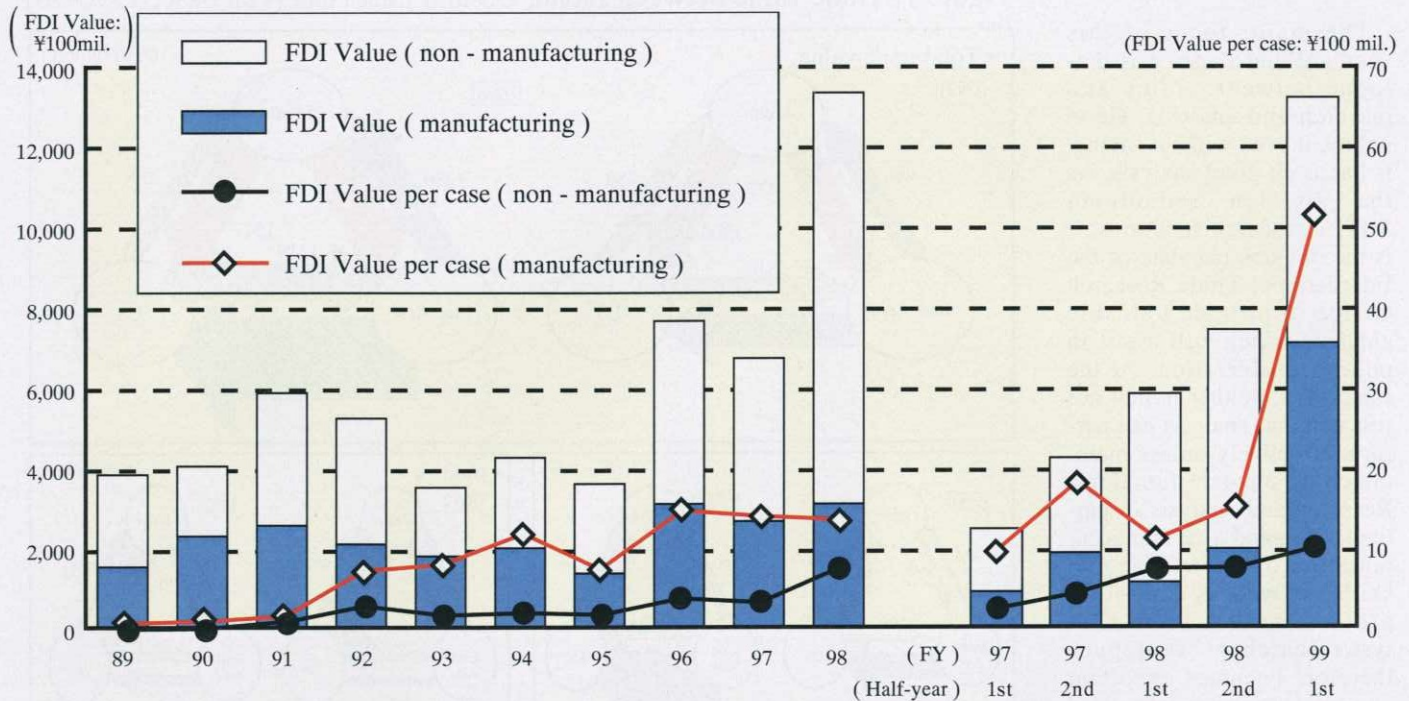
Dialogue with Readers

One point of which we were highly conscious in the White Paper 2000 process was dialogue with readers. My

stint at the OECD until last year served as a valuable experience in this regard. Much of the OECD's work involves disseminating messages through various types of reports and other channels. Strongly aware that the most substantive message is meaningless if it doesn't communicate to the intended audience, OECD staff employ a range of devices to ensure that they are getting through.

With this lesson in mind, a larger paper size and font were used for the popular version of the White Paper 2000, while the initial "executive summary" condenses the key points of the whole document into two pages. A

Figure 9: FDI in Japan (on a report / notification basis)



Note : Before 1991, a prior notification system applied; from January 1992, in principle, an ex post facto report system.

wide margin was left on the left-hand side to allow room for a “story-line” tracking the gist of the text, and interesting topics were presented in numerous column boxes. An extensive bibliography was also attached. The cover design was selected by brainstorming among International Trade Research Office staff in search of an attractive and appealing style.

Further, because the goal of contributing to policy analysis tends to make White Paper content rather specialist, International Trade Research Office staff devoted extra time to creating *Q&A on Japan’s Course in the Global Economy* (published by the Research Institute of International Trade and Industry), a highly accessible commentary designed to maximize the range of White Paper penetration. I hope readers will use this as a companion volume to the White Paper.

I have been greatly heartened at the positive reactions to the White Paper 2000 demonstrated by the media and elsewhere. While there is certainly

room for further improvement, the focus in the coming years should remain on reaching as many readers as possible with the White Paper’s message.

Dialogue with the Future

In closing, I would like to comment on the content of the White Paper. As the White Paper is an independent document which should tell its own story, I would urge readers to pick it up and give it the opportunity to do so.

The information technology revolution is an issue which will shape Japan’s future, and its handling in this year’s White Paper has drawn considerable interest. The White Paper 2000 looks at the IT revolution from the perspective of IT technology users rather than suppliers. The way in which market innovation and structural reform are occurring in parallel with a dramatic expansion in “informatization” in the United States and elsewhere is examined in various contexts, particularly

medicine and education, searching for clues for Japan.

The central thrust of this year’s White Paper was perhaps the question of how to ensure the peace and security of our own future. Recently, analysts have been pointing to a sense of occlusion in Japanese society, and recovering the resilience to competition which once drove Japanese economic growth has certainly never been more vital. Such developments have boosted the need for dialogue toward overcoming occlusion, which will in turn produce the synergy between the market and institutions, and between foreign and domestic economic policy, which is emphasized in the White Paper 2000. The White Paper signifies a continuation of this dialogue.

Expanding the “Three Dialogues” was written by Kawamoto Akira, Director of the International Trade Research Office, International Trade Policy Bureau, Ministry of International Trade and Industry.