

## White Paper on International Trade, 1998

# Part Two: Japan as a Member of the International Community—Its International Trade and Economy, and Its Future Path

### Chapter III : Japan's Economic System—Its Strength and Weakness

#### 9. The Development of the Japanese Economy

The engine for Japan's postwar development was technological advancement in its broad sense, which was made possible against the background of investments in equipment, induction of technologies from abroad and development of indigenous technologies. The Japanese economy has adapted to such environmental changes as the oil crises and the yen's appreciation by incessantly and dynamically upgrading its industrial and trade structures.

#### 10. Japan's International Competitiveness, and Its Foundation

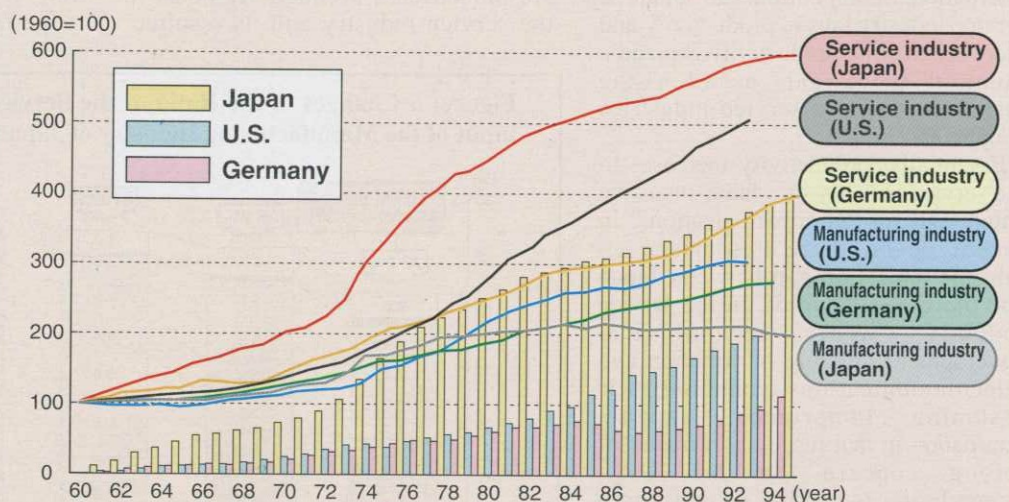
Japanese manufacturing industry has maintained its highly competitive strength, mainly, in the field of capital goods. Among the contributing factors are (1) the increase of labor productivity based on enhanced capital intensity and relatively low increases in wages, (2) corporate efforts to increase productivity against a backdrop of intense competition in both domestic and overseas

markets, and (3) the effect of economies of scale realized in the huge domestic market and overseas markets that expanded under the free trade system. Recently, however, it is feared that Japanese manufacturers will lose their price-competitiveness due to delays in equipment renewal amid the business slump, wage increases in dollar terms and a rise in unit labor costs.

As international competition rages and the quality of competition changes, it will become necessary for the manufacturing industry to develop software,

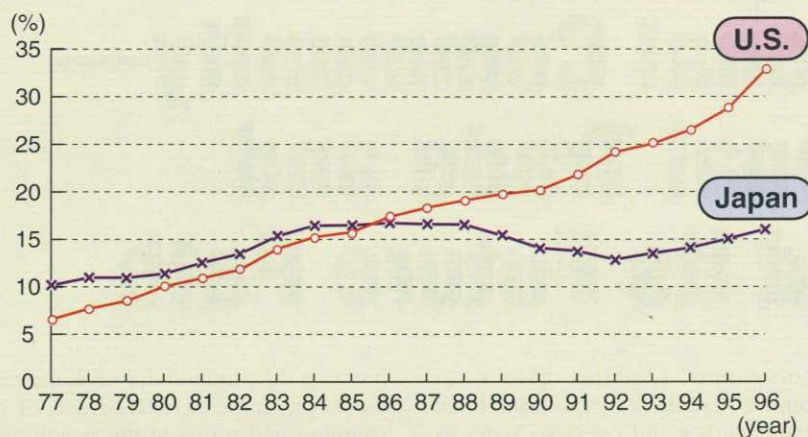
increase the productivity of white-collar workers, make effective use of outsourcing and promote the development of technologies. To observe the status quo in R&D activity from technological and trade perspectives, Japan continues to import technologies from Europe and the U.S. in the fields of telecommunications and electronics, and, while relying less than before on foreign sources for hardware, depends increasingly on foreign software. In terms of R&D expenditures, Japan registers a high level in "flow" but lags far behind the

Figure 4 Changes in the Prices of the Manufacturing and Services Industries



Note: Line graphs represent value-added deflators of different industry groups, and bar graphs represent margins of separation between the service industry and the manufacturing industry. Sources: The Economic Planning Agency's "Annual Report on National Accounts," and OECD's "ISDB"

**Figure: 5 Changes in the Ratio of Information-Equipment Investment to Private Capital Investment in Japan and the United States**



Sources: The U.S. Dept. of Commerce's "SCB," and an estimate made by Fujitsu Research Institute

U.S. in "stock." Its basic research share and the government's research share are both remarkably low.

Looking at service industries, Japan ranks first in service trade deficit among major countries and is weak in international competitiveness owing to low export service intensity. As a result of have been protected by various regulations and lacking exposure to international competition, the Japanese service industry lags in productivity and there arises a big productivity gap and a nominal price gap between the manufacturing and service industries (Figure 4).

Essentially, productivity increases in the service industry of a labor-intensive nature call for "informationization." In recent years, there has arisen an informationization gap between Japan and the U.S. (Figure 5). In the service industry, where technological development utilizing information and telecommunications technologies is assuming importance, Japan's retardation in that respect is a matter of strong concern. In the U.S., deregulation is making progress in a wide range of fields, including telecommunications and banking, and productivity increases are being attained through competition, however,

Japan is just on the threshold of a deregulation-induced activation of competition. Japan needs to go further in this direction.

Now that relations between the service and manufacturing industries are deepening (Figure 6), productivity increases in the service industry have far-reaching effects on the economy as a whole. For the future, expectations are pinned on a productivity boost in the service industry and its resultant

improvement in the Japanese economy.

### 11. Japan's Recent Trade Structure

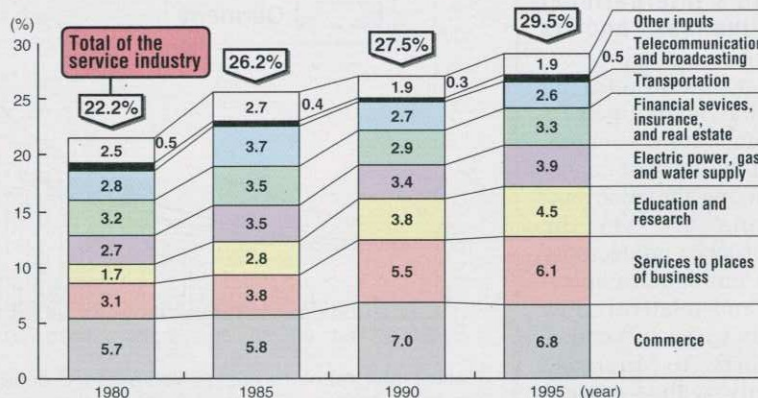
Japan's export and import structures have undergone changes with the accelerated division of work, and the shares of capital goods, machinery and parts have grown for both exports and imports. By region, Japan's trade relations have deepened especially with East Asia.

Japan's exports in 1997 grew by 13.9% over the previous year and imports showed a milder increase of 7.8%, marking the first trade account surplus in five years.

The growth of the value of exports in 1997 resulting from the growth in export volume. An estimated quantum index of export shows that exports increased mainly as a result of expanded demand in the U.S. and other countries. Japan's export price elasticity is on a down curve compared with the past, which indicates that Japanese exports are less susceptible to the effects of prices.

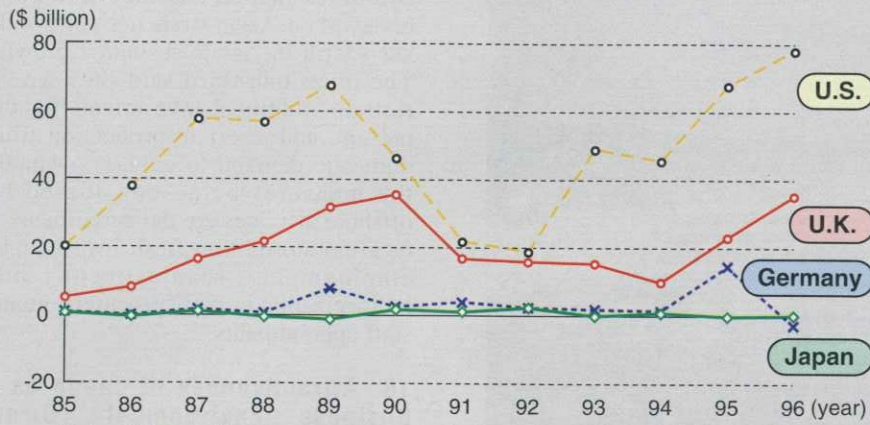
Reviewing the makeup of imports, durable consumer goods and nondurable consumer goods lost in shares, while industrial raw materials and capital goods still continue to contribute appreciably. To divide the import growth rate into quantum and price factors, price factors contributed

**Figure: 6 Changes in the Ratio of the Service Industry to Intermediate input of the Manufacturing Industry of Japan**



Sources: The Administrative Affairs Agency's "Input-Output Table," and MITI's "Input-Output Table"

**Figure: 7 Changes in Inward Direct Investment (Flow) in Major Countries**



Notes: 1. International payments basis.  
2. Negative parts indicate withdrawals of existing investment.  
Source: IMF's "IFS"

for economic rehabilitation, smoothly introduce technologies and participate in the world trade system. In the 1970s, Japan championed the Tokyo round of tariff-cutting talks under GATT aimed at checking protectionist pressures that came from various countries amid the global recession. At the same time, Japan got down to the task of averting trade frictions. As the relationships of mutual reliance among various economies took hold in the 1980s, the trade policy came to cover such new fields as foreign direct investment and trade in services. On top of it, the government diversified its trade policy to adapt to the needs for regional cooperation through such new forums as the Asia-Pacific Economic Cooperation (APEC).

less to imports in 1997, stunting value-based growth. On the other hand, contribution by quantum factors did not contract as much as did price factors. Trends in import volumes show that durable consumer goods and nondurable consumer goods slowed down while capital goods increased. According to a MITI survey, only 20 % of those companies polled replied they would rein in parts procurements from abroad if the yen depreciates further. Furthermore, the re-import ratio is generally on the rise. The change of import structure, occasioned by the progress of international division of labor, tends to lead to import increases despite the yen's depreciation.

**12. Changes in Japan's Current Account Balance**

Japan's current account balance took an upturn after moving downward, registering ¥11.4 trillion in 1997. To compare the trade and service accounts of Japan and other advanced countries in terms of percentage to GDP, the Japanese ratio is relatively low. But the ratio of Japan's current account surplus to GDP is at a relatively high level, given the large scale of income surplus that expands as the balance of net external assets increases.

**13. Changes in Trade Issues and Policies**

The postwar Japanese economy has developed in close conjunction with the world economy. Trade policy has been the "point of contact" for Japan's external relationships and promoted the free trade system and adapted the country to the economic environment, both at home and abroad.

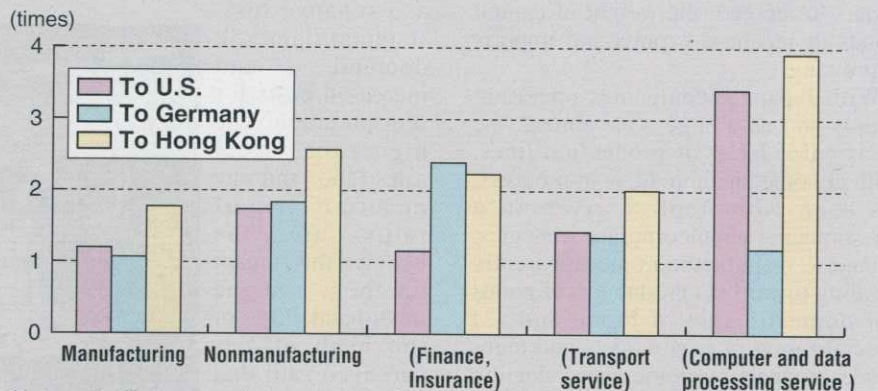
Japan's postwar trade policy had its origin in motivations to promote trade

**Chapter IV: Globalization and the Japanese Economy**

**14. Deepening of Business Activities of Japanese Companies in Asia**

Japanese companies have launched their offshore operations through direct investment as part of the globalization process. Their investment, especially, in machinery industry in Asia has expanded remarkably. Primarily, they made their way into Asia for low-cost production, but in recent years they

**Figure: 8 Domestic-Overseas Price Differential for Industrial Intermediate Goods and Services**



Notes: 1. Columns show number of times that prices in Japan represent over corresponding prices in other areas. 2. Survey conducted from April to June 1996.  
Source: "Survey of Domestic and International Prices for Industrial Intermediate Goods and Services," MITI.



Japan's deepening business commitment in Asia: Asahan PT Inalum's Aluminium Smelting Plant in Indonesia

have zeroed in on capturing a larger slice of the Asian market by taking advantage of Asia's economic growth. Consequently, the sales shares of local Japanese affiliates are growing, and so is the local content of parts and amount of reinvestment in the regions where they operate. Transfer of design and developmental functions to the regions is also well in progress. All of these point to deepening business commitments in Asia, which helps bolster production capacity in the region. This, in turn, creates an increase in exports of parts and machinery to Asia and a rise in re-exports from Japanese affiliates in Asia. In the end, the weight of capital goods in Japanese exports and imports is growing.

With Japanese companies operating deeply and on a large scale abroad, the division of labor of production lines, both at home and abroad, is in progress. As seen from replies given in a questionnaire about corporate strategies, Japanese manufacturers are apparently heading toward (1) production of goods for domestic sale in Japan and (2) specialization of new models and high-grade products by domestic production lines. The domestic R&D functions that underlie such a production strategy are shifting to an advanced level, and continue to expand. General-purpose

products, turned out in Asia under this system may be considered to supplement domestically produced goods with high value-added.

### 15. Effects of Asia's Currency Crisis on the Japanese Economy

As Japanese companies go deeper into Asian markets, economic links between Japan and Asia are becoming closer, and, for that reason, the Asian currency crisis is likely to have a heavy impact on Japan. About 60 % of Asian affiliates that responded in the questionnaire said that they would suffer adverse effects for such reasons as exchange loss, stagnant domestic demand and increased costs for transportation. The higher their local sales ratios and raw materials import ratios are, the heavier the impact on them. On the other hand, 90 % of the head offices surveyed said that they would be adversely affected for such reasons as a decrease in

exports to Asia, exchange losses in Asia and a drain on profits from Asia. But two-thirds replied that they would not review their Asian strategies and would keep faith in Asia's sustained growth. The other one-third said they would restrain additional investments for the present, and re-orient production from domestic demand to exports. Among the measures being considered by offshore affiliates are the curtailment of or a moratorium on fresh investments, employment readjustment and indigenization of parts procurement and staff appointments.

### 16. Attractiveness of Japan as a Business Environment (Direct Investment in Japan)

The progress of globalization of corporate activities implies the international appreciation of business environments in various countries concerned. To cite trends in domestic direct investment as an indicator of the attractiveness of business environment by international yardsticks, Japan is in a singular position among major advanced countries. (Figure 7). One problem about business activity in Japan is, as many respondents pointed out, that business costs are high. A survey of industrial intermediate goods and services shows that business costs related to nonmanufacturing industries in Japan are high by international standards (Figure 8). According to a regional checkup on the earnings ratios



International division of labor: Japanese manufactures shifting toward production of high value added products domestically and general-purpose products in Asia

of U.S. affiliates abroad, Japan is ranked low on the list. This may be one of the reasons a relatively small number of foreign companies have operated in Japan.

In these circumstances, direct investment in Japan by foreign companies, mainly manufacturers, has shown an increase recently. If Japan becomes viewed as an attractive business environment, it is expected to lead to the induction of excellent management resources and the creation of competitive conditions. The buildup of such a business environment will, in turn, create fresh industries. It is an important task for the Japanese economy to continue to maintain its viability amid business globalization.

## Chapter V: Seeking the Revitalization of the Japanese Economy

### 17. Structural Reform of the Japanese Economy

#### (1) Improving the Business Environment for Economic Vitality

##### *Business Environment that Promotes Entrepreneurship*

Competition helps promote an efficient distribution of resources and creates new markets and expands the frontiers of economic activity by giving parties strong incentives to display their creativity and innovativeness.

In Japan, strenuous efforts have been made to ease various regulations to invigorate the private sector in accordance with the Program for Economic Structure Reform (December 1996) formulated for creating new industries and the Action Plan for Economic Structure Reform (May 1997). These deregulatory measures include drastic steps to form competitive markets in the fields of distribution and logistics and a wide range of non-manufacturing fields, including part of the information and telecommunications fields. These measures are expected to promote competition and enhance international competitiveness in the nonmanufacturing sector where relatively low productivity poses a problem. They are

further expected to boost competitiveness in the manufacturing industries where intermediate goods and services are utilized, thereby contributing to improvement of the performance of the economy as a whole.

#### *Creation of a Business Environment that is Attractive to Japanese and Foreign Companies*

As globalization progresses, competition expands beyond national boundaries to become global. Companies that compete against powerful competitors throughout the world, may have greater incentives to achieve more technological innovations. If globalization progresses, international pressure will be brought to bear upon nontrading goods industries—even those not necessarily in a competitive environment—and markets will expand through mutual corporate efforts, making an efficient supply of goods and services possible.

For the fruits of such global competition to be enjoyed in Japan, efforts must be made to render the investment environment attractive for entrepreneurs, both indigenous and foreign. To be precise, Japan's high-cost structure needs to be rectified through the above-mentioned deregulation package while various corporate systems, including corporate organization and tax systems,

as well as the labor and employment systems are reformed. To create internationally attractive investment environments, it is important to take steps to curb public burdens on the people and enterprises.

#### (2) Productivity Improvement—Establishing Long-term Growth Base Promotion of Research and Development and Use of Its Outcome

The most important role in the creation of new economic frontiers by technological innovation is played by R&D activity. Fundamentally, it is necessary that efforts for private-sector technological innovations, that is, R&D activity, will be made under the free and competitive environment, and that results thus obtained will be spill over to other economic units so that the vigor of the economy may be heightened.

However, R&D activity is public, which means that its results may be utilized without compensation. It also involves a great deal of uncertainty as to the recouping of costs. Therefore, R&D activity is highly risky compared with normal corporate activities. It is even possible that investing resources in R&D activity may fall below the socially desired level. Taking this into account, the public sector should play a



Industry-academia-government collaboration: Center of Iizuka Research & Development managed by Iizuka R&D Organization in Fukuoka Prefecture, Kyushu

role so that resources earmarked for R&D will be at a socially desirable scale.

The first thing the government should undertake in this respect is to bolster the patent and other intellectual property systems that legally recognize a certain level of monopoly of R&D results so that R&D activity may be encouraged. It has been pointed out that intellectual property in Japan is protected to a lesser extent than in various other countries. The Bill for Partial Amendment to the Patent Law, etc. was submitted to the 142nd ordinary session of the Diet. The bill, which includes provisions to reduce the onus probandi of the plaintiff and raise the amount of compensation, is expected to provide better protection to intellectual property.

There are two ways for the government to concern itself with R&D—one is carrying out R&D on its own and the other is subsidizing R&D projects conducted by the private sector. It is hoped that basic, original R&D projects and those undertaken in response to social problems, such as the environment, the decrease in the number of children per family and the aging society, are of such a strong public concern that they will be conducted by public institutions, such as universities and state-run laboratories and research institutes, and the results are made available to private-sector institutions in the form of licenses and roles in joint R&D projects. As for R&D carried out by the private sector, the project is, in itself, done voluntarily in compliance with market trends, but it is desired that the project will be subsidized by the government according to its social importance or the risks involved.

A recent move of note is the Action Plan for Economic Structure Reform, which lists subjects of R&D in 15 promising fields. Subjects of strong social and economic needs are being studied through industry-academia-government collaboration that draws on the research capabilities of universities, state-run laboratories and research institutes. As part of those efforts, the

Bill for Promoting Technology Transfer from Universities to Private-sector Industries was presented to the 142nd session of the Diet. The bill provides measures to support technology transfer projects so that research results at universities, national laboratories and research institutes can be industrialized through the market mechanism and are put to effective use by society. At the same time, compensation may be properly distributed as research funds to universities and other research organs in a cycle of intellectual creation.

#### *Efficient Procurement and Utilization of Production Factors*

Below are measures designed to help companies or the economy effectively procure and utilize production factors, such as capital and labor, to contribute to the long-term invigoration of the Japanese economy.

##### (i) Efforts to Ensure Flexibility of Corporate Organization

Globalization sets various funds moving briskly toward markets with great capital efficiency. Naturally, such funds do not flow into markets with relatively poor capital efficiency. As a result, economic vitality in such areas is liable to suffer. Japanese companies are thought to lag behind their European and American counterparts in their managerial initiative to increase capital efficiency in deference to shareholders' interests. It is important for them to heed the global flow of capital and review their corporate organization so that they can gain high returns for distribution among shareholders.

Under such circumstances, the government faces the urgent need to reform systems and regulations inimical to increased corporate efficiency and take institutional measures to help boost corporate efficiency through markets. For example, the government should eliminate obstacles to mergers and acquisitions designed to sell inefficient business sectors or acquire external management resources. Another important task is to study ways to improve the environment for stepped-up spin-off operations. Through such flexible approaches to review corporate organization, companies can make

effective use of such management resources as capital and labor and boost their managerial efficiency.

##### (ii) Approach from Capital Side

Financial activities, such as fund procurement and operation are of extreme importance to enterprises. As globalization progresses, competition is becoming fierce. Therefore, it is essential that the environment for the efficient raising and operation of funds be improved and that various high quality financial services be offered under the principle of free competition to hedge risks and other financial needs.

In this context, "financial system reform," one of the government's six major reforms, is expected to lead to the lifting or relaxation of regulations restricting competition among financial institutions, such as banks and securities companies. As reform progresses in this direction, competition among financial institutions will be furthered so they can offer better services at reduced costs.

Next, the frontiers of economy need to be expanded through the creation of new industries. In this context, it is essential that the way be smoothed for venture businesses to procure risk money. To this end, steps should be taken to activate over-the-counter trading and encourage investment in stocks not yet listed on over-the-counter or regular stock markets. In addition to the expansion of such capital markets, it is important to diversify the sources of financing for venture companies. In Japan, the sources of funding for venture businesses lean more on domestic corporations and financial institutions than in the U.S. In view of this, the Limited Partnership Bill for Venture Capital was tabled in the 142nd regular session of the Diet. The law bill provides for measures to facilitate procurement of funds from pension funds, considered to be an important source of funds, and from investors abroad. This legislation is expected to pave the way for the smooth supply of risk capital to emerging industries.

##### (iii) Approach from Labor Side

One of the problems confronting

companies, domestic or foreign, planning to initiate business in Japan, is the difficulty of securing qualified personnel. If this difficulty is to be eased and Japan's business environment made attractive for Japanese and foreign entrepreneurs, it is important, for instance, that steps be taken to improve the ability of workers to move from one company to another, for example, by ensuring the portability of company pensions before and after such job changes.

To allow Japan to become a front-runner in the world's business scene by producing creative goods and services and structure efficient production processes, it is also necessary that an environment be in place in which creative and innovative workers can give free rein to their abilities. For this purpose, a flexible and optional employment system should be organized, and the scope, within which the arbitrary work system is applied, be enlarged to enable workers to work in voluntary and creative ways.

Meanwhile, easing restrictions on labor transfer and structuring a flexible, optional employment system are expected to give the labor market a further boost. This calls for the replenishment of the safety net to ease frictions arising from the exercise of market functions. This requires rules to form agreement between labor and management and the creation of a dispute-resolution mechanism.

As far as the quantitative aspect of labor is concerned, Japan's productive population, the headspring of the working population, has already been on the wane as society ages and families have fewer children, and is not expected to grow in the future. This restraint will possibly relax to some extent as the employment of highly motivated women and the aged accelerates. It is hence important that women be able to reconcile their professional with family lives, which will require a child-care leave system. It is also important that efforts be made to provide the aged with employment opportunities that meet their needs and the environment, under which women

and the aged can work with greater ease, will be improved.

On the other hand, as service play a bigger role in the economy and gains higher value-added and becomes information-oriented, there is a growing demand for human resources able to cope with such changes. Therefore, it is important to foster a diversity of talented workers with planning and developmental capabilities. At a time when the flow of human resources is expected to accelerate, it is also important for individuals to develop their own talents. The ground must be prepared for that individual initiative.

### **18. Direction of Japan's Trade Policy**

Amid a major change in the world's economic current, various countries are stepping up moves to structure new global trading systems. Since Japan is an important player in this field, its actions are attracting closer attention than ever before. Outlined below are the directions in which Japan should pursue a trade policy.

#### **(1) Maintenance of Multilateral Trading Systems and Formulation of International Rules for New Areas**

Countries are deepening their mutual relationships. Since international economic problems cannot be resolved by individual countries alone, it is becoming important to institute rules based on agreements reached under the multilateral trading system and bring the system to practical fruition.

##### ***Maintenance of Multilateral Trading Systems***

Smooth trade and investment are indispensable for Japan's economic development. One precondition for this is the maintenance of the free, indiscriminate multilateral trading system. What is important is the steady implementation of the World Trade Organization (WTO) rules, keeping a constant vigil on protectionist moves in various countries and getting such non-WTO members as China and Russia into the organization.

If Japan, which accounts for 20 % of the world economy, is to exist as a leading open market, it must further

improve its market environment and deepen mutual understanding with other countries.

##### ***Formulation of International Rules for New Areas***

International economic transactions are taking various forms against the backdrop of rapid globalization of corporate activities by Japan and other countries. Making comprehensive rules in such fields as investment, trade in services, intellectual property protection, competition policy and electronic commerce is now important for the smooth conduct of global corporate activities and the efficient utilization of natural resources.

#### **(2) Improvement of Environment for Global Undertakings**

As companies engage in activities with the entire world in view, Japan finds it important to perceive the world as a single market in its trade policy and improve the business environment in cooperation with other countries. Among the key tasks in this regard are the promotion and harmonization of market mechanisms in various countries.

##### ***Improvement of Environment for International Undertakings***

Especially in East Asia where many Japanese companies are active, flaws in legal and administrative systems governing investment, competition policy and intellectual property systems stand in the way of business activities. Such software infrastructure needs to be supported in terms of funds and personnel.

To eliminate uncertainties in various countries, it is important to utilize the guarantee system administered by the Multinational Investment Guarantee Agency (MIGA), establish cooperation among trade insurance agencies in APEC and expand the international commercial arbitration system. It is also important to further the provision of information under improved information gathering and database systems.

##### ***Adjustment of Systems and International Standardization***

It is important for Japan and other

countries to harmonize each other's systems lest differences between them hamper global economic activities. First, Japan's domestic systems need to be reviewed with the realization that it is a major world market, and bottlenecks to global economic activities, if there are any in the Japanese systems, should be eliminated. In other words, they are required to make constant efforts to bring their mutual approval systems and competition policy in line while continuously reviewing their domestic legislation.

Secondly, drafting international standards is also important as global companies tie up, and such international standards must be always taken into consideration when establishing Japanese standards.

### **(3) Efforts to Strengthen Foundations for Economic Progress**

Japan is inseparably linked by trade and investment to both the East Asia economy and that of the entire world. Therefore it is important to maintain sustained growth in East Asia. It is also important help the countries in the region overcome the fragilities existing in their economies, and, at the same time, push ahead with R&D cooperation conducive to the development of the world economy.

#### ***Efforts toward Sustainable Economic Growth in Countries***

Globalization, as seen in the currency and economic crises in East Asia, threatens to exacerbate the weaknesses and risks in various countries and heavily impact the Japanese economy as well as other economies through trade, investment and overseas asset transactions.

Countries in East Asia and newly emerging industrial economies are heavily dependent on trade, investment and fund transactions. For Japan it is important to support the influx of funds into those countries by utilizing trade insurance and back them up in their effort to restore credibility in cooperation with the International Monetary Fund (IMF) and other organs.

From a medium-and long-range

perspective, Japan is called upon to support East Asian nations' efforts to solidify their economic foundation. It is further important to provide financial assistance and dispatch experts to and receiving trainees from the East Asian countries for the purpose of fostering supporting industries, training personnel and improving infrastructure while helping them build up the market system. Such support is necessary in helping them ride out the fragilities in their industrial structure.

#### ***Technology Transfer and International Research Cooperation Conducive to Advancement in World Technology Standard***

High-tech research is of international and public nature and will elevate the technological level of the entire world economy. Therefore, international cooperation is desirable in this field. Projects currently under way within APEC and other organizations to boost the level of environment-related technological cooperation are worth supporting.

### **19. Concrete Approaches to International Trade**

Trade policy has evolved on a multilateral, regional or bilateral basis.

#### **(1) Vigorous Approaches to Multilateral Framework Restructuring International Rules**

It has been agreed that the General Agreement on Trade and Service (GATS) and various other agreements reached during the Uruguay Round of tariff-cutting talks will undergo a sweeping review around 2000. It is important that the government exchange views with the private sector and formulate free and just rules while bringing them in line with discussions at other international organizations. Furthermore, debate on environmental and other related problems need to proceed from a standpoint of making them compatible with the principle of free trade.

On the other hand, the government and the private sector should cooperate to make a human and intelligent contribution to international organs and

conferences if they are to have Japan's strategies reflected in these rule-making processes. What is important is exercising a substantial influence on international rule-making.

#### ***Maintaining and Developing Existing Rules***

To maintain stability in the multilateral trade system, it is important to watch and correct such opaque trade-restricting measures as anti-dumping duties and country-of-origin rules in effect in various countries and constantly study ways to make standards for such measures clear. It is further necessary to make use of the WTO's dispute settlement procedures.

#### **(2) Response to Regional Frameworks**

Since Japan is one of the few advanced countries that does not participate in regional trade associations, it should keep an eye on such regional unions to see that they do not resort to trade-restricting measures. It will also become more important for Japan to make various approaches within such open frameworks as the APEC and Asia-Europe Meeting (ASEM).

#### ***Eliminating Restrictive Measures by Regions***

The existing regional unions are different in nature from prewar regional blocs in that they do not raise barriers to nonmembers, but there is a danger that they will distort trade and investment by sophisticated, highly technical means of differentiation based on country-of-origin and other rules. Efforts should be made to watch and prevent such moves that could impede the efficient distribution of resources.

#### ***Cultivating Conditions for Global Business through Regional Cooperation***

APEC is important as a forum not only for promoting trade liberalization but also for improving the global business environment in the Pacific-rim region. It is also important for APEC to harmonize systems and standards through collaboration with economic groups in other regions.



### ***Strengthening Foundations for Economic Progress through Regional Cooperation***

Various steps aimed at promoting stable development in the Asia-Pacific region by drawing on such regional frameworks as APEC and ASEM have been taken to cope with the currency and economic crises that hit East Asia in 1997. It is becoming important for Japan to utilize such regional frameworks as a means of supporting efforts to cement the economic

trade disputes that the WTO rules target have been forbidden. Any attempt to settle such disputes through voluntary export controls has been explicitly prohibited. Henceforth, it will be most effective to settle bilateral disputes according to international rules and procedures. In order to cope with possible disputes over services and other domestic economic systems, it is also important to keep checking the domestic economic structure and its relations to international rules.

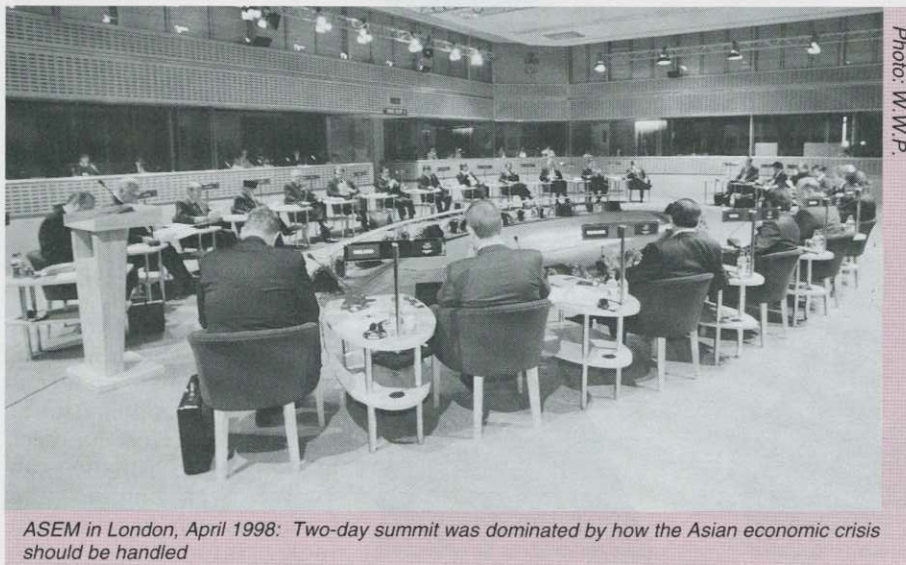
to each other as the division of labor takes root. This makes it important to help them surmount their fragilities and achieve further growth. Therefore, it is important that they fully grasp each other's industrial structure and carry out a carefully thought-out scheme for bilateral financial and technological cooperation.

It is especially advisable that bilateral and comprehensive cooperation be extended to provide software support for fostering supporting industries and nurturing human resources and offer hardware support for improving infrastructure with private-sector technology and funds and environmental conservation equipment.

### **(4) Teamwork between Public and Private Sectors, and Clear Role Sharing**

There is an increasing need for trade problems to be settled under international rules that govern the economic structure as a whole. This calls for efforts to exchange information with the global companies and domestic parties concerned and have them reflected in the government's trade policy. At the same time, it is necessary that opinions be exchanged among private-sector parties to build an environment for making policy proposals.

On the other hand, the government and the private sector are called upon to clarify their respective roles in order to implement a trade policy in a responsible manner. That is, the government's trade policy should be devoted to building up the environment for competition and investment, forming and getting markets functioning, and covering serious trade risks that cannot be avoided, if left up to market economic activity. It is important to make clear that the government's policy targets have nothing to do with economic activities in the private sector. **JJT**



*ASEM in London, April 1998: Two-day summit was dominated by how the Asian economic crisis should be handled*

foundation in the Asia-Pacific region where Japan is increasingly involved in trade and investment.

### **(3) Structuring New Bilateral Relations**

National economies are becoming so closely related on every front that frictions and the objects of mutual understanding among them extend not only to "water's edge" measures and actions by global companies, but also to their economic structures and domestic systems.

#### ***Bilateral Negotiations under International Rules***

The birth of the WTO has greatly influenced Japan's policy on bilateral negotiations. In other words, the procedures for the settlement of disputes have been tightened, and unilateral measures for the settlement of

### ***Adjustment of Economic Systems and Mutual Understanding***

Countries with close economic relations must work closely and circumspectly together to carry out the harmonization and standardization of systems. It is necessary that bilateral efforts be made to coordinate and readjust procedures and systems concerning mutual approval, customs clearance, standardization, cooperation in competition policy and protection of intellectual property so that the roots of friction be eradicated. It is also necessary that such approaches will be upgraded to a multilateral level.

#### ***Support of Efforts to Strengthen Foundations for Economic Progress Centering around Asia***

The Japanese economy and Asian economies are now inseparably related