

White Paper on International Trade 2000

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. 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. Europe's introduction of the euro lent strong momentum to fiscal discipline, regulatory reform and other structural reform efforts. 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. 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. 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. 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)

On the economic effects of regional integration, dynamic effects such as competition promotion and market expansion are attracting attention of economic research. On the other hand, in the wake of the currency and economic crises, Japanese companies have continued to hold firm in Asia, with economic interdependence contributing to the recovery of both East Asia and Japan. 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 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 on-going fusion of domestic and external economy, the deepening of regional integration must be addressed in tandem with domestic economic structural reform. (Part II, Chapter 3)

Looking to Japanese industrial competitiveness in the global economy, trade data on the course of the 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. 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 innovation (regulatory reform and competition promotion) and market innovation is boosting productivity. 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. Inward FDI has recently been expanding. M&As involving

foreign management participation should improve corporate governance in Japan.

In this age of economic globalization, competition is no longer simply among companies. Synchronization of reform efforts in 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 . Japan must take advantage of the experience of 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)