

Introduction

The theme of this year's White Paper on International Economy and Trade is trade strategies towards increasing productivity and economic growth.

When the medium and long term position of the Japanese economy is considered, it is an undeniable fact of more aged society with a fewer number of children, and no prospects of an increase in the working population, the question of how to raise productivity, maintain economic vitality and sustain strong growth is an important issue.

Commerce—that is to say, international economic activity including trade and investment—makes a great contribution to increasing productivity, and expanding the quantity and improving the quality of goods and services which benefit our citizens by more efficiently allocating and utilizing labor, capital and technology and carrying out economic activities with foreign countries. Japan, which is poor in energy resources, has used to trade to make up for these insufficient resources and developed its economy. Until the 1980s there were times when imports for securing of energy resources made up approximately 60% of all Japan's imports. However, with the progressive opening-up of Japan's markets, with various goods and services being imported and exported, and with an international cross-border division of manufacturing process, this percentage has declined to around 30% in recent years; there is an increasingly strong trend in Japanese trade to export those products in which Japan has a comparative advantage, import those in which Japan has a comparative disadvantage, and present consumers with a wide variety of options among the same type of products (Figure 4-1-3). The expansion in Japan's trade volume, which in 2006 on a goods and services exports base reached 16.1% of GDP, the highest point for the post-war period (Figure 4-1-2), and the abovementioned changes in the contents of imports and exports may be considered to be contributory factors behind the rise in productivity and strong economic growth of Japan. However, the trade as a percentage of GDP in Japan is still limited in scale when compared with the countries of the EU or with the Republic of Korea (ROK), which carry out extensive trade and investment including intra-regionally (Figure 4-1-4, Figure 4-1-5); going forward, therefore, it is important strategically to promote the expansion of commerce, and link this to a rise in productivity and strong economic growth in Japan's domestic economy.

From this perspective, there are two new trends worthy of notice in terms of promoting trade strategies.

The first is that the production zone and the market zone of the East Asia-wide economic partnership (Japan, China, ROK, ASEAN countries, India, Australia and New Zealand) are achieving the world's highest growth rate and have increased the greatest scale and integration capacity in the world. When the East Asian economy is compared to those in the North American Free Trade Agreement (NAFTA) and the European Union (EU), the intra-trade ratio is considerably higher than that of NAFTA and approaches that of the EU, and is already higher than the EU's trade ratio was at the time when the tariff union was inaugurated (Figure 2-1-13). Furthermore, when the goods traded within this region are regarded, the number of intermediate goods traded is 1.9 times the number of finished goods, reflecting organic partnerships in intra-regional industries through cross-border division of manufacturing process; this greatly exceeds NAFTA's figure of 1.1 times and the EU's figure of 1.3 times for intermediate goods (Figure 2-1-15). Structurally, while the structure whereby core materials of Japan or Newly Industrializing Economies (NIEs) are used for processing and assembly in China and ASEAN and exported to Japan, the EU and the United States has been maintained (Figure 2-2-17~Figure 2-2-19), the supply of intermediate goods from China and ASEAN intra-regionally from the countries themselves is expanding, particularly with universally-available resources, and the mutual supply of intermediate goods based on comparative advantages is expanding. In addition to this evolution of the production zone, in recent years an evolution of the market zone in East Asia has also become a key characteristic. The previous state of East Asia, whereby the markets of each country were surrounded by trade barriers, most of them provided their own different goods and carried on their own production. However, in recent years, particularly in ASEAN, with trade barriers having been rapidly removed, the same products have come to be supplied to the various countries, and in production the intensification and appropriation of supply functions has made progress within the region in order to realize the benefits of scale, while the positioning of control bases for intra-regional retailing functions is also making progress (Figure 2-2-20, Figure 2-2-21, Figure 2-2-30, and Figure 2-2-37).

As the expansion of Japanese companies in East Asia develops in this manner, East Asia is playing an increasingly important role as a source of new innovation and a source of supply for global human resources. In addition, with the economies of China and India facing different problems even while both are continuing to grow, Japanese

industry and government need to put their efforts into continuing to assist in the growth of the East Asian region including these two countries, while linking this to the growth of the Japanese economy.

The second is that it needs to be considered as to how Japan's service industry responds to the global expansion of the service industry that is proceeding around the world at a rapid pace.

Traditionally, the service industry has been seen as an industry with a strongly local nature, because of the need to be familiar with local languages, commercial custom and regulations. Certainly, while the service industry had a 61.1% share of global nominal GDP in 1990, its share of foreign direct investment (FDI) was only 44.9%. However, with the striking advance of the global expansion of the service industry in recent years, making up 68.5% of nominal GDP, and 66.4% of FDI in 2004, rapid change and expansion is taking place in the service industry as a global industry (Figure 3-1-6). In such circumstances, it is an undeniable fact that Japan's service industry lags behind greatly in terms of global expansion. The background to this lies in the fact that Japan's service industry has not fully realized a rise in productivity, especially in the utilization of information technology (IT), and in communication problems. In recent years, while increasing the utilization of high-quality business support services and increasing the procurement capacity in the field of distribution have come to be important elements in the raising of the competitiveness of Japanese industries as a whole, the risk that the Japanese economy as a whole will lose its competitiveness is being increased by the delay in the global expansion of the Japanese service industry and in the entry of Japan into the global service industry. It is important that the Japanese service industry puts its efforts into expansion of investment in Japan in the service field (Figure 3-3-19 and Figure 3-3-23) as well as speeding up the belated rise in productivity (Figure 3-3-6 and Figure 3-3-13).

Based on such developments in recent years, Japan must proceed with proactive and drastic expansion of its trade strategy through a combination of diverse policy measures including the World Trade Organization (WTO), Economic Partnership Agreements (EPAs)/Free Trade Agreements (FTAs), and the Asia-Pacific Economic Cooperation (APEC).

The conclusion of the negotiations of the WTO Doha Round, which shapes the global trade order, has the greatest significance for global trade including that of Japan, and Japan is needed to continue to play a proactive role within this round.

In addition to this, in East Asia, where Japan's companies' production network is being established, it is essential to strongly promote the East Asian economic integration, focusing on liberalization of trade in products and services, improvement of economic rules, and the correction of intra-regional disparities. As a contribution to this, it is necessary to promote the acceleration of private sector experts' research on the Comprehensive Economic Partnership in East Asia (CEPEA), and the establishment of the Economic Research Institute for ASEAN and East Asia (ERIA). In addition, the private-sector experts' research on "East Asia EPAs" proposed by Japan at the East Asia Summit of January 2007, is to be accelerated, starting at the earliest possible opportunity and aiming for the interim report at the East Asia Summit which is planned to be held in November of this year. For the medium and longterm, Japan aims to build an open East Asian economic zone, and promotes efforts towards economic partnerships. Moreover, with proactive and strategic work progressing in terms of EPAs/FTAs, the Global Strategy set in May 2006 stipulates that negotiations with resource producing countries and populous countries are important. Globally, FTA negotiations between countries, including the large-scale economic zones, are becoming more and more vigorous; however, it is becoming important to consider major markets such as those in the United States and the EU, and investment destination countries as future issues, while keeping in mind the directions of foreign countries, the economic relationships that they have had with Japan up until now and the scale of their economies. Japan will advance its preparations starting with the countries/regions where this is possible. Thus, with Japan significantly behind in terms of investment agreements, having concluded only 11 such agreements while the countries of the EU are concluding around 100, it is hoped that this will be proactively promoted from the perspectives of preserving investment and trade liberalization (Figure 4-2-24).

In order to bolster sustainable growth in the future, it is important for Japan to step up its proactive dissemination of the "Japan Brand" overseas, as an attractive country which is more open to the outside world in addition to promoting internal direct investment.

It is to be hoped that in this manner, Japan's future trade policy will be strongly developed as a contributor towards industrial competitiveness, in anticipation of higher productivity and growth.