

Trade and domestic reforms: the Japanese experience

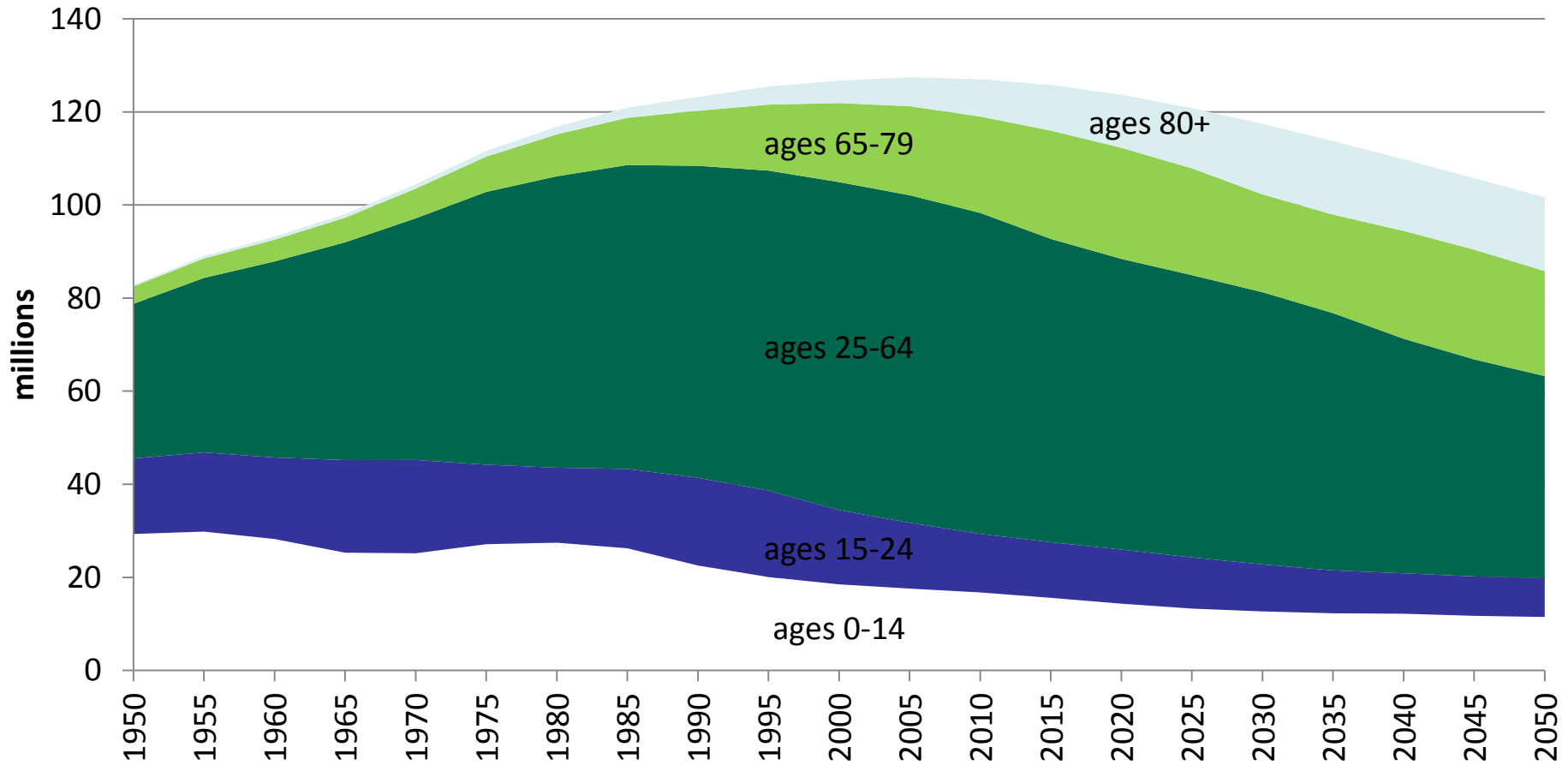
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Strategy in high growth era

- Four decades of trade and industrial transformation following WWII
- Strategy of establishing access to global markets: underpinned by GATT and focused on MFN
- Champion of APEC and regional cooperation to underpin open regionalism
- Export-led growth successful until technological frontier reached

A rapidly growing dependency ratio

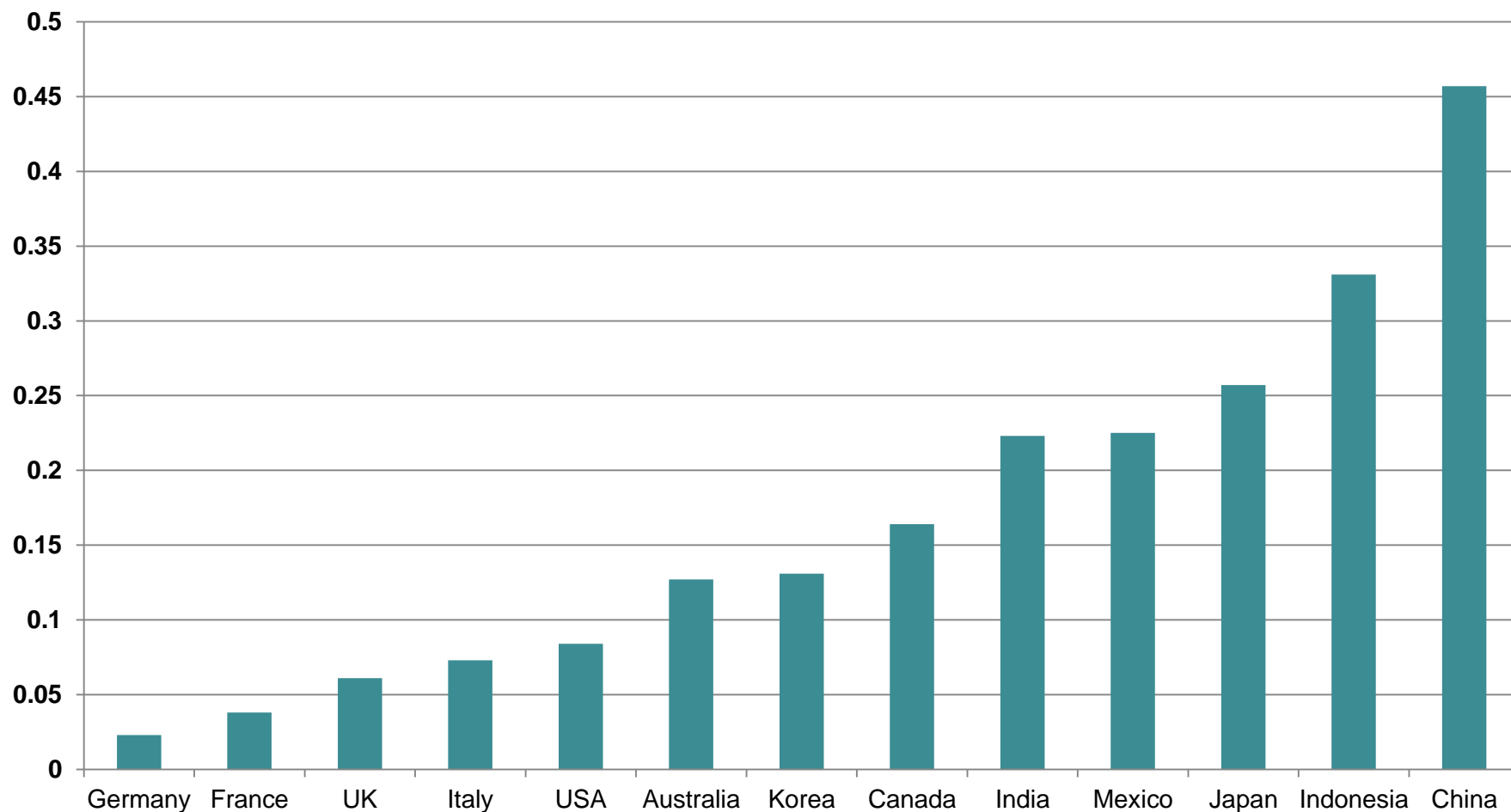


Source: UN population projections

Reform priority: opening up protected sectors

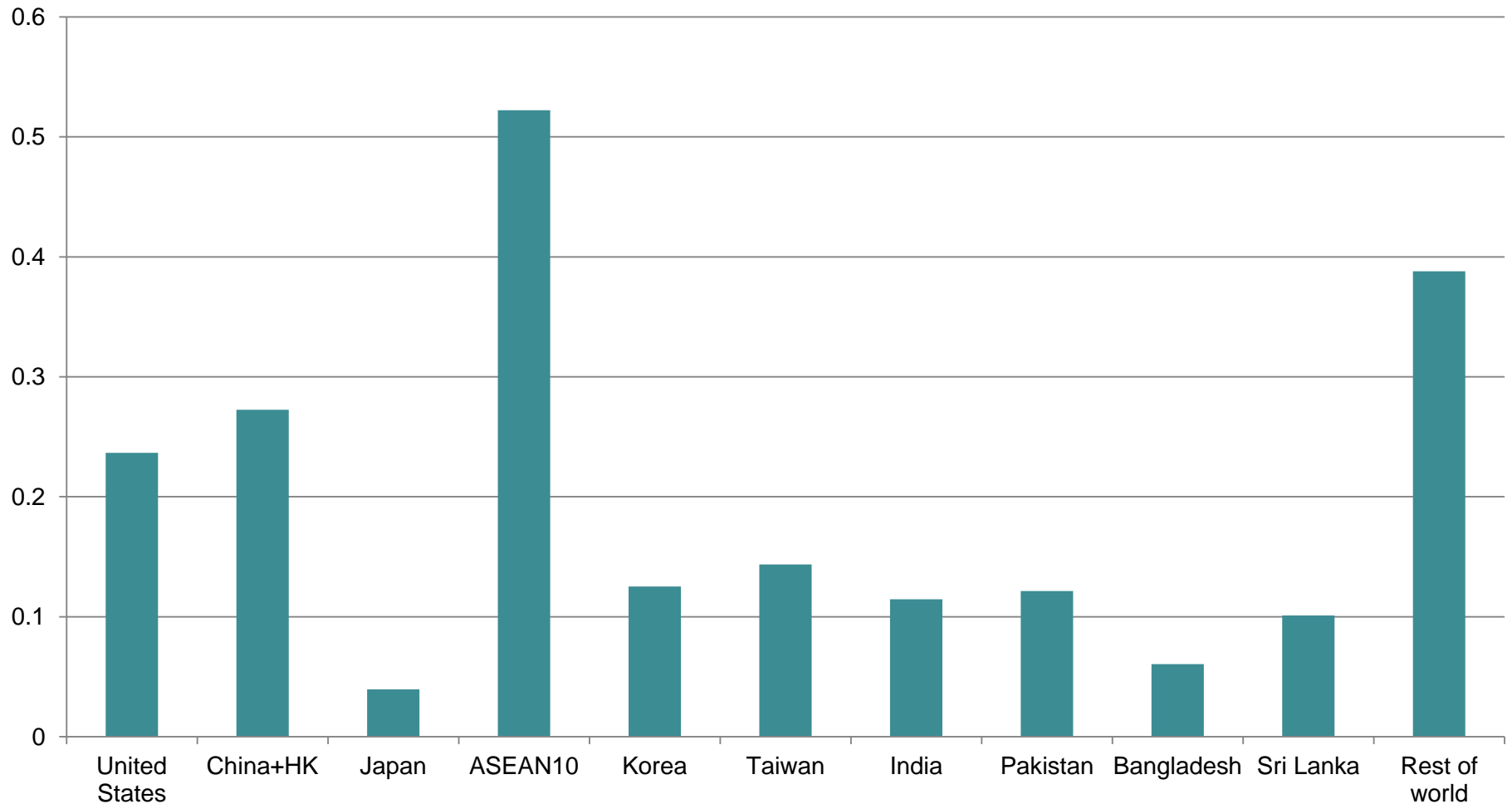
- Higher dependency ratio and ageing population requires productivity growth
- Mixed productivity performance across sectors
- Productivity in manufacturing high, low in services and agriculture
- Structural (regulatory) reforms
 - Ranked 124th (of 125) in WEF's Global Competitiveness Report for foreign market access but also 98th for new domestic entrants
 - WB's Doing Business index, Fraser Institute's Economic Freedom index all paint similar picture.

OECD's FDI restrictiveness index, 2010



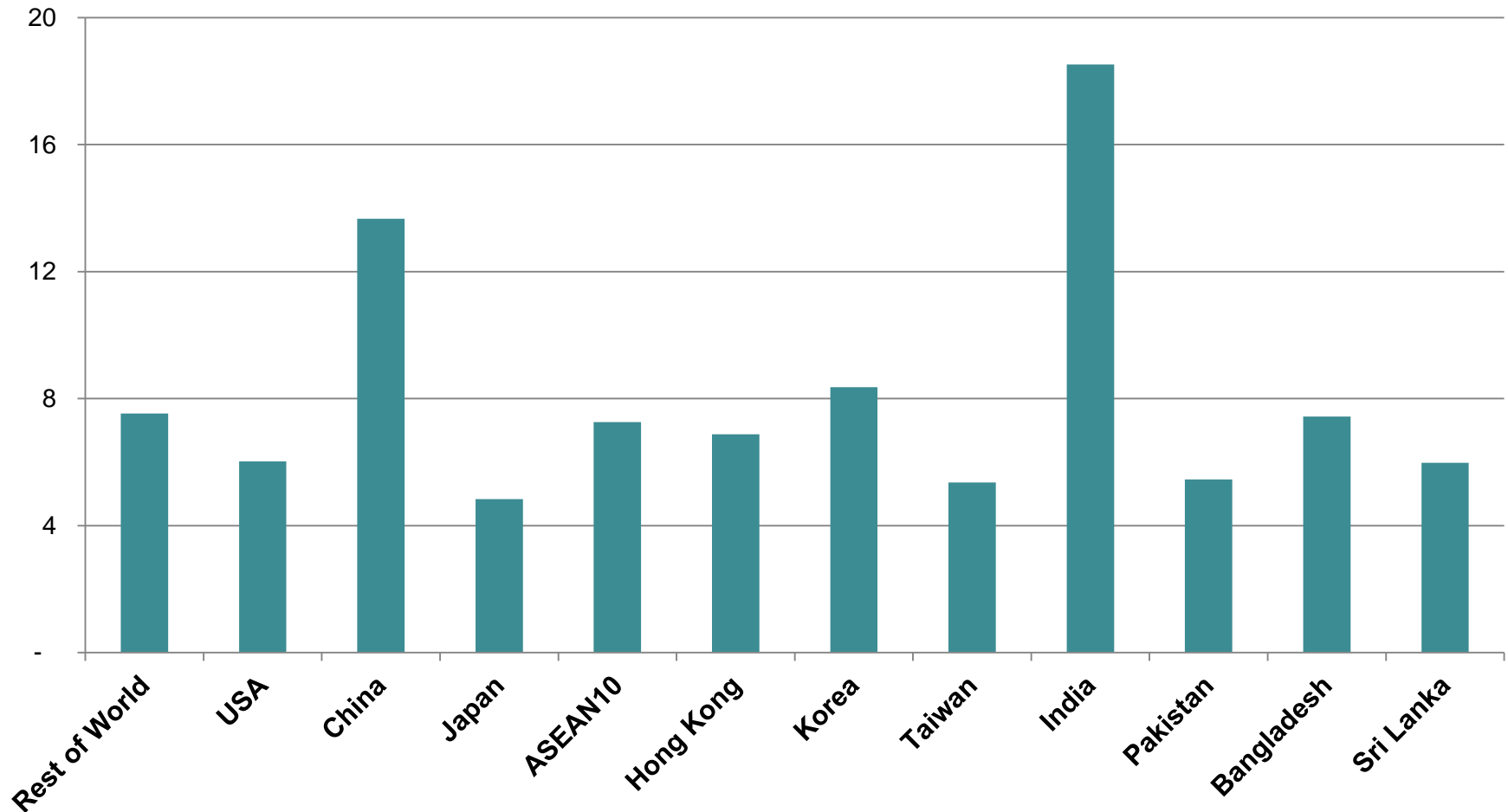
Source: Kalinova, Palerm and Thomson (2010).

Inward FDI stocks relative to GDP, 2010 (ratio)



Source: UNCTAD, UNCTADStat.

Growth rates of services exports 1995–2009 (per cent)



Source: UNCTAD, UNCTADStat.

Japan's “EPAs” or trade free agreements

- Agreements with mostly developing countries
 - Singapore, Mexico, Malaysia, Philippines, Chile, Thailand, Indonesia, Brunei, ASEAN, Switzerland, Vietnam, India and Peru
- Avoided Japanese liberalisation and reform
- Retreat to bilateralism started without strategy

Japan's top 10 trading partners (per cent share and US\$mil)

| | 1990 | 1995 | 2000 | 2005 | 2010 | 2013 |
|---------------|----------------|----------------|----------------|------------------|------------------|------------------|
| China | 3.5 | 7.4 | 10 | 17 | 20.7 | 20.0 |
| United States | 27.6 | 25.4 | 25 | 18.1 | 13 | 13.3 |
| EU | 4.6 | 5.6 | 6.3 | 5.5 | 5.2 | 7.6 |
| South Korea | 5.6 | 6.2 | 6 | 6.4 | 6.2 | 6.0 |
| Australia | 3.7 | 2.9 | 2.7 | 3.3 | 4.1 | 4.4 |
| Thailand* | 2.5 | 3.8 | 2.8 | 3.4 | 3.8 | 3.7 |
| Saudi Arabia | 2.6 | 1.6 | 2 | 3 | 2.9 | 3.7 |
| Indonesia* | 3.4 | 3.1 | 2.8 | 2.7 | 3 | 3.0 |
| Hong Kong | 2.9 | 3.9 | 3.4 | 3.4 | 3 | 2.5 |
| Malaysia* | 2.1 | 3.5 | 3.3 | 2.4 | 2.8 | 2.9 |
| Rest of world | 41.5 | 36.5 | 35.8 | 34.7 | 35.4 | 32.8 |
| Total | 521,746 | 779,032 | 858,984 | 1,110,807 | 1,462,460 | 1,548,263 |

Source: UN Comtrade; authors' calculations

* EPA or FTA partner

Japanese economic diplomacy in drift

- Trade agreements under negotiation: more difficult
 - Australia, EU, TPP, RCEP, South Korea, Canada...
- Not connected closely to domestic reform thus far: TPP symbolism
- Liberalisation through preferential agreements will bring limited and symbolic gains
- Need to open up to new entrants, not give privileged access

The China factor

- Global trade regime has been crucial for Japan-China economic relationship
- The politics has not derailed the economics
 - 2001-2006 Koizumi period and China's WTO accession
 - Trade and investment growth despite proactive policy
- Japanese external economic strategy needs to include China