

Economic and Social Research Institute, Cabinet Office, Government of Japan

Report on GTAP Related Activities for
The Advisory Board Meeting, Center for Global Trade Analysis

June 12-13, 2006
Addis Ababa, Ethiopia

The Cabinet Office assists with the overall strategic functions of the Cabinet Secretariat, and carries out planning and overall coordination regarding key Cabinet policies. As such, the Cabinet Office is in charge of economic and fiscal policy. The Economic and Social Research Institute (ESRI, formerly the Economic Research Institute of the Economic Planning Agency) of the Cabinet Office joined the GTAP in April 1996, occasionally utilizes the GTAP model to evaluate quantitatively the effects of economic and fiscal policies.

1. Activities in 2005

The Economic and Social Research Institute (ESRI) continues to use GTAP on requests from the internal sections of the Cabinet Office (CAO) and the Council of Economic and Fiscal Policy (CEFP) to evaluate the potential impacts of possible trade policy changes and various economic factors. In addition, the ESRI has been supporting the GTAP activity by providing Japan's Input-Output table.

On the international trade policy, the government has been prioritized in promoting FTA. Trade related indicative simulations have been used as a starter in the process of negotiation. This policy and procedure of negotiation explicitly reconfirmed in the *Basic Policies for Economic and Fiscal Management and Structural Reform 2005* (Cabinet Decision June 21 2005) in which detailed accounts of Japan's FTA/EPA strategy and use of GTAP based simulation in the governmental negotiation are noted. In response to the cabinet decision and subsequent requests, the CAO and the ESRI reconstructed the CGE model unit and strengthened collaboration network among related sections in the CAO by expanding visiting fellows last year. Activities related to this issue are listed in the next section.

On the other economic analysis purpose, the GTAP-CGE was used to describe the potential impact of sustaining steep rise in crude oil prices on the Japan and world economy. The result was cited in the official economic report.

On the supporting activity of GTAP, the ESRI has been providing input output data. Last provision was for GTAP version 6 in March 2005. Since Japan's SNA statistics are made by the ESRI, further expansion of data related contribution would be expected in this field.

A number of research projects have been mentioned in the internal meeting and are possible during the coming year. In addition to the continuous use in FTA negotiations, these possibilities include assessments of long-term impact of population dynamics in the globalization era, and evaluation of structural reform policies.

2. Governmental FTA related presentations and compiled documents

The following presentations and documents contain simulation results based on the GTAP model and database.

(1) Presentation

Kawasaki, Kenichi, “The Impact of an FTA between Japan and Canada,” *Japan-Canada Economic Framework, Joint Study Working Group, Experts Meeting on Economic Modeling*, (Tokyo, Japan) April 2006.

Kawasaki, Kenichi, “The Impact of an FTA between Japan and Switzerland -CGE Model Simulation-,” presented at *The Second Meeting of the Joint Governmental Study for Strengthening Economic Relations between Japan and Switzerland*, (Bern, Switzerland) February 2006.

(2) Document

Kawasaki, Kenichi, “The Impact of Liberalization,” Chapter 5 in *Australia-Japan Trade and Economic Framework (Joint Study)*, the governments of Japan and Australia, April 2005.

(3) Citation

Kawasaki, Kenichi, “On the Economic Impact of East Asian EPA,” mimeo.

Simulation results were cited in the following report.

Ministry of Economy, Trade and Industry, *Global Economic Strategy*, (in Japanese) April 2006. This is available on the <http://www.meti.go.jp/press/20060412001/20060412001.html>.

Kawasaki, Kenichi, *Report of the Joint Study Group on Japan-Chile Economic Partnership Agreement/ Free Trade Agreement*, the governments of Japan and Chili, November 2005.

Kawasaki, Kenichi, “The Economic Impacts of FTAs- Model Simulation Analyses,” presented at *The ESRI International Workshop on FTA*, (Tokyo, Japan) March 2005. This is available on the <http://www.esri.go.jp/en/workshop/050316/050316Kawasaki-e.pdf>.

Simulation results were also presented at the following conferences;

“The Economic Impacts of FTAs -Model Simulation Analyses-,” presented at *The International Symposium on Toward a CJKFTA: Visions and Tasks*, sponsored by Development Research Center of the State Council (DRC), China, National Institute for Research Advancement of Japan (NIRA), and Korea Institute for International Economic Policy (KIEP). (Beijing, China) September 2005.

“The Economic Impacts of FTAs- Model Simulation Analyses,” presented at *The 7th Policy Messe, Workshop of Policy Research Network*, (Tokyo, Japan) March 2006.

Simulation results were cited in the report by the research project called “Japan’s 21st Century Vision”. The Council on Economic and Fiscal Policy established the special board of inquiry for examining this issue in September 2004. Four working groups in the areas of Economic and Fiscal Prospects, Competitiveness, Living and Regional Affairs, and Globalization were further established under the special board, and these conducted vigorous deliberations across a wide range of issues.

Globalization Working Group, *Japan: Creating an Influential Nation without Walls*, (Tokyo, Japan) April 2005. This is available on the http://www.keizai-shimon.go.jp/english/publication/pdf/050419visionglobalization_report.pdf.

3. Other Activities

The following studies completed during the past year contain research based on, or related to, the GTAP model and database.

Tsutsumi, Masahiko, “On the Economic Impact of Steep Rise in Crude Oil Prices -Evaluation by the GTAP CGE Model-,” mimeo. Simulation results were cited in the following report.

The Cabinet Office, *The Japanese Economy 2005-2006 -Present Situation and Policy Issues for Breaking away from Deflation*, (in Japanese) (Tokyo: Jiji Gaho-sha) December 2005. This is available on the <http://www5.cao.go.jp/keizai3/2005/1202nk/05-00000.html>.

Tsutsumi, Masahiko, “The Japanese Economy and FTA in Asia, (in Japanese)” *Journal of International Affairs*, No.126, p49-p69 (Aichi: Institute of International Affairs, Aichi University) October 2005.

Tsutsumi, Masahiko, “A Choice of Regional FTA and Economic Growth of ASEAN Economies, (in Japanese)” Chapter 4 in Takanashi Kazuhiro ed., *Development Economics: From Decrease in Poverty to Sustainable Economic Development*, (in Japanese) (Tokyo: Keio University Press) October, 2005.

Kawasaki, Hirofumi and Kanemi Ban, “Development of a Closed CGE model of the Japanese Economy with Increasing Return to Scale and Monopolistic Competition, (in Japanese)” *ESRI Discussion Paper No.146*, (Tokyo: The Economic and Social Research Institute) June 2005. This is available on the http://www.esri.go.jp/jp/archive/e_dis/e_dis150/e_dis146.html.

(Appendix 1)

Basic Policies for Economic and Fiscal Management and Structural Reform 2005

Cabinet Decision

June 21 2005

The following sentences describe current Japan's foreign economic policy. These are excerpted from http://www.keizai-shimon.go.jp/english/publication/pdf/050705basic_policies.pdf.

Section 3 – To Realize a New Dynamic Era – Overcoming Aging and Globalization

6. Strengthening Global Strategy

The CEEP will draft “The Global Strategy of Japan” (provisional title) by spring 2006, in order to tackle globalization in a comprehensive and strategic manner through measures including economic diplomacy, domestic structural reform, regional management and an international division of labor.

In addition, the Government will actively pursue the following measures.

(1) The rest is omitted.

(2) The rest is omitted.

(3) The rest is omitted.

(4) The rest is omitted.

(5) The Government will accelerate the international partnership by promoting EPAs and by strengthening and accelerating the Program for the Promotion of Foreign Direct Investment in Japan.

Also, the Government will continue its efforts towards the goal of providing official development assistance (ODA) of 0.7% of our gross national income in order to contribute to the Millennium Development Goals.

(6) The rest is omitted.

A detailed account of the underlined part is written in the appendix table.

Acceleration of the international partnership

1. The government will expand EPAs while endeavoring to reach an agreement in the new WTO round by 2006. To this end, the government will promote EPAs strategically with East Asian countries and/or others in accordance with the Basic Policy towards further promotion of Economic Partnership Agreements (EPAs), approved by the Council of Ministers on the Promotion of Economic Partnership on December 21, 2004. Also, quantitative estimates of potential impact of prospective EPAs will be used appropriately.

Basic Policy towards further promotion of Economic Partnership Agreements (EPAs)
Approved by the Council of Ministers on the Promotion of Economic Partnership on December 21, 2004

1. Economic Partnership Agreements (EPAs), against the background of growing economic globalization, contribute to the development of Japan's foreign economic relations as well as the attainment of its economic interests as a mechanism to complement the multilateral free trade system centering on the WTO. Simultaneously, EPAs facilitate promotion of structural reforms of Japan and its partners.
2. These EPAs contribute to the creation of international environment further beneficial to our country from the politically and diplomatically strategic points through, among others, fostering the establishment of an East Asian community.
3. Having concluded an EPA with Singapore and having signed one with Mexico, our country has reached agreements in principle on the major elements of the EPA with the Philippines. Negotiations with Thailand, Malaysia and the Republic of Korea are currently in progress. Furthermore, it has been agreed that negotiations with ASEAN as a whole will be initiated from next year. These efforts are designed to realize our policy to promote economic partnerships with East Asia as its focus, and the Government shall do its utmost to conclude these EPAs as soon as possible.
4. In addition to the above-mentioned negotiations, the Government will study the possibility of negotiations with other countries/regions, taking into account the progress of the on-going negotiations as well as the importance of EPAs to our economy and society. In identifying countries or regions to negotiate with, the Government shall consider overall factors including the economic and diplomatic perspectives and the situation of these countries and regions; more specifically, the attached criteria shall be fully taken into account.
5. In that process, considering the state of economic relations with the proposed partner, the Government shall review possible alternative measures of economic partnership to Free Trade Agreements (FTAs), such as conclusion of an investment agreement or a mutual recognition agreement and improvement of investment environment.
6. The Government shall endeavor to ensure that the promotion of EPA negotiations will facilitate Japan's negotiations at the WTO. In addition, based on the experience of the past negotiations, the Government shall endeavor to conduct negotiations and operations more efficiently, further develop the necessary human resources, and make extensive use of experts in the private sector.

Criteria on Identifying Countries/Regions to negotiate with on the FTAs/EPAs

In identifying countries or regions to negotiate with, the Government shall take the following perspectives into comprehensive consideration:

1. Creation of international environment beneficial to our country
 - 1-1 Whether or not it will facilitate the efforts towards community building and stability and prosperity in East Asia.
 - 1-2 Whether or not it will contribute to the efforts to strengthen our economic power and to tackle political and diplomatic challenges.
 - 1-3 Whether or not it will reinforce Japan's position at multilateral negotiations, including the WTO talks, through partnership and cooperation with the related countries/regions.

2. Attainment of economic interests of Japan as a whole
 - 2-1 Whether or not it will substantially expand and facilitate exports of industrial, agricultural, forestry and fishery products, trade in services, and investment, through the liberalization of trade in goods and services and of investment; whether or not it will improve the business environment for Japanese companies operating in the partner countries/regions, through harmonization of various economic systems such as protection of intellectual property rights, as well as through facilitation of movement of natural persons.
 - 2-2 Whether or not it is indispensable to eliminate economic disadvantages caused by absence of EPA/FTA.
 - 2-3 Whether or not it will contribute to stable imports of resources, safe and reliable food, and to diversification of its suppliers.
 - 2-4 Whether or not it will promote Japan's economic and social structural reforms, thereby making economic activities efficient and vibrant; whether or not, in the sectors of agriculture, forestry and fisheries, it will adversely affect Japan's food security and its on-going efforts towards structural reforms in these sectors.
 - 2-5 Whether or not it will further promote acceptance of professional or technical workers, thereby stimulating Japan's economy and society and promoting its further internationalization.

3. Situation of the partner countries/regions and feasibility to realize EPA/FTA
 - 3-1 Which products are difficult for each party to liberalize given the current trade relations between Japan and partner countries/regions; whether or not both parties are able to give appropriate consideration to such difficulties.
 - 3-2 Whether or not it will cause friction or problems with other countries/regions, which might be affected in the field of trade and investment.
 - 3-3 Whether or not the concerned countries/regions are capable of implementing the commitments under the WTO and EPA/FTA.
 - 3-4 Whether or not an FTA focusing on tariff reduction and elimination is the best means of economic partnership with the concerned countries/regions.