

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

Report on GTAP Related Activities in 2006 for
The Advisory Board Meeting, Center for Global Trade Analysis

June 4-5, 2007
Purdue University, USA

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

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.

On the other economic analysis purpose, ESRI holds ongoing studies to describe the impact of market globalization on Japan and the world economy, especially concentrated on the effect of large populated countries including China and India. Also, ESRI conducted internal training course to increase a multitude of research activities which utilize GTAP-CGE model.

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 will 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. Research results will be compiled as a discussion paper.

2. Presentations and documents

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

(1) Presentation

Kawasaki, Kenichi, "The Economic Impacts of FTAs- Model Simulation Analyses," presented at *the 2007 Northeast Asia International Conference for Economic Development in Niigata Policy Proposals* (Toki Messe, City of Niigata, Japan) 7th February 2007.

Kawasaki, Kenichi, "The Economic Impacts of FTAs: Model Simulation Analysis", APEC Official Symposium, "Impact of Regional Economic Integration in East Asia on APEC Trade Liberalization", Tokyo, September 2006

Kawasaki, Kenichi, "The Applications of GTAP Model", Economics Training, ESRI, Cabinet Office, Tokyo, September 2006

Kawasaki, Kenichi, "The Economic Impact of FTAs: Model Simulation Analyses", Seminar, JICA Paraguay Office, Asuncion, September 2006

Kawasaki, Kenichi, "The Impact of an FTA between Japan and Canada: CGE Model Simulations", Japan-Canada Economic Framework, Joint Study Working Group, Experts Meeting on Economic Modeling, Ottawa, June 2006

(2) Document

Kawasaki, Kenichi, "Simulation study on the economic effects of an Economic Partnership Agreement", Chapter IV in Report of the Joint Governmental Study Group for strengthening economic relations between Japan and Switzerland, January 2007

Kawasaki, Kenichi, "The Impact of Japanese Economic Cooperation on Asian Economic Development", Chapter 16 in *Computable General Equilibrium Approached in Urban and Regional Policy Studies*, Edited by Masayuki Doi, World Scientific Publishing Co. Ltd., July 2006

Tsutsumi, Masahiko, "On the Economic Impact of US-Korea FTA-Evaluation by the GTAP CGE Model-," April 2007, mimeo. Simulation results were not published yet.

Tsutsumi, Masahiko, "Searching the Common FTA Strategies in East Asia: Scenario Analyses, (in Japanese)" Chapter 2 in Shindo Ei-ichi, and Hirakawa Hitoshi eds., *Designing East Asian Community*, (Higshi Ajia Kyoudoutaiwo Sekkeisuru, in Japanese), pp25-35, (Tokyo: Nihon Keizai Hyoronsha) June 2006.

(3) Citation

Kawasaki, Kenichi, “The Economic Impact of a FTA between Japan and ASEAN”, White Paper on International Economy and Trade 2006, Ministry of Economy, Trade and Industry, June 2006

(4) Others

Kawasaki, Kenichi, Short-Term Expert on an Economic Modeling Analysis Sent to the Ministry of Finance of Paraguay, JICA, September 2006

(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.