

BBL Seminar Handout

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"Opening Japan - Comparisons with other G20 countries and lessons learned from international experience"

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<http://www.rieti.go.jp/jp/index.html>

Opening Japan

Comparisons with other G20 countries and lessons learned from international experience

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Outline

- The role of openness for economic growth
- International comparison of openness – Japan vs. other G20 countries
- Policies supporting openness

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Openness and economic growth

- Openness is a key determinant and driver of economic growth
- Many dimensions of openness:
 - Trade
 - FDI
 - Circulation of people
 - R&D, technology and knowledge
- Importance of outward flows

Impacts of openness (I)

- Economies benefit on the whole from increased openness:
 - Specialisation and economies of scale
 - Product and labour market competition
 - Intra-industry reallocations and reduction of inefficiencies
 - Access to knowledge and ideas, supporting innovation and technology diffusion
- Overall: openness contributes to achieving and sustaining high rates of output and productivity growth

Impacts of openness (II)

- But: adjustment costs and potentially some negative impacts, e.g. at the local level
- Therefore, importance of complementary policies, e.g. labour market and social policies

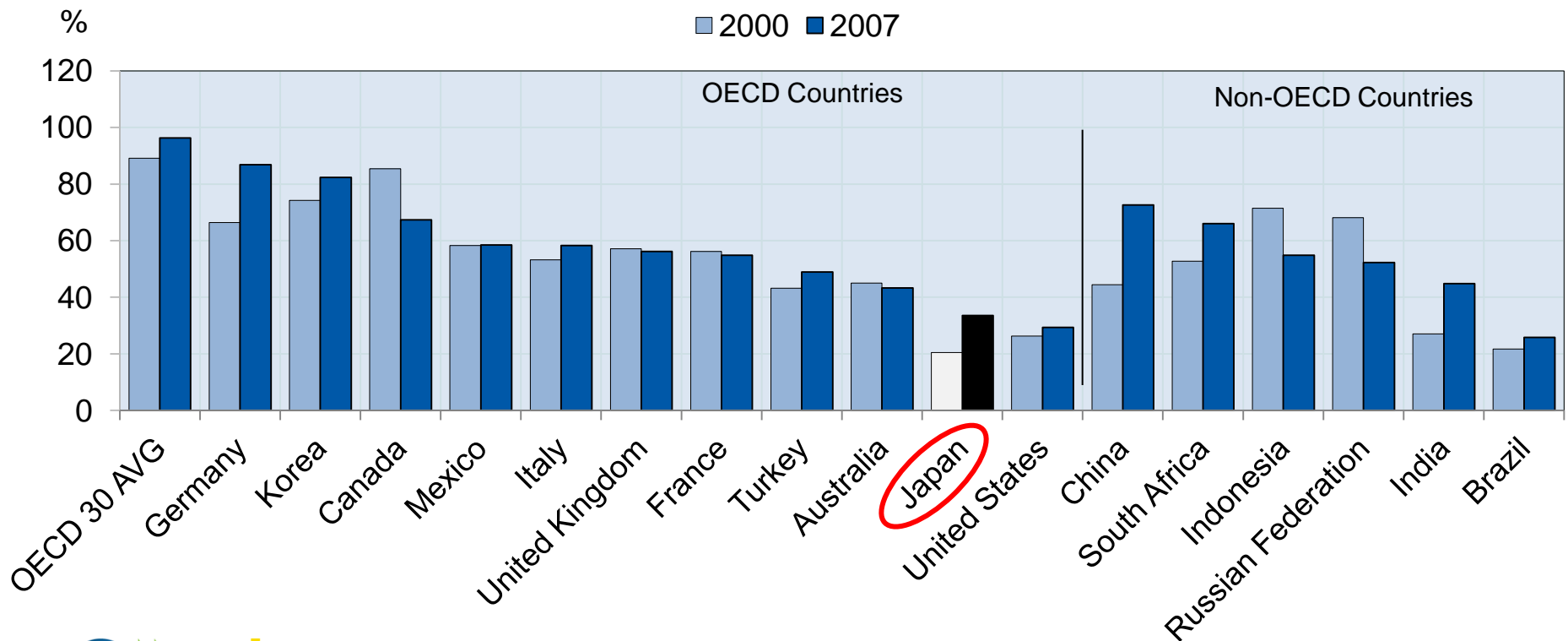
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International trade

Clear trend towards increased openness in most countries including Japan

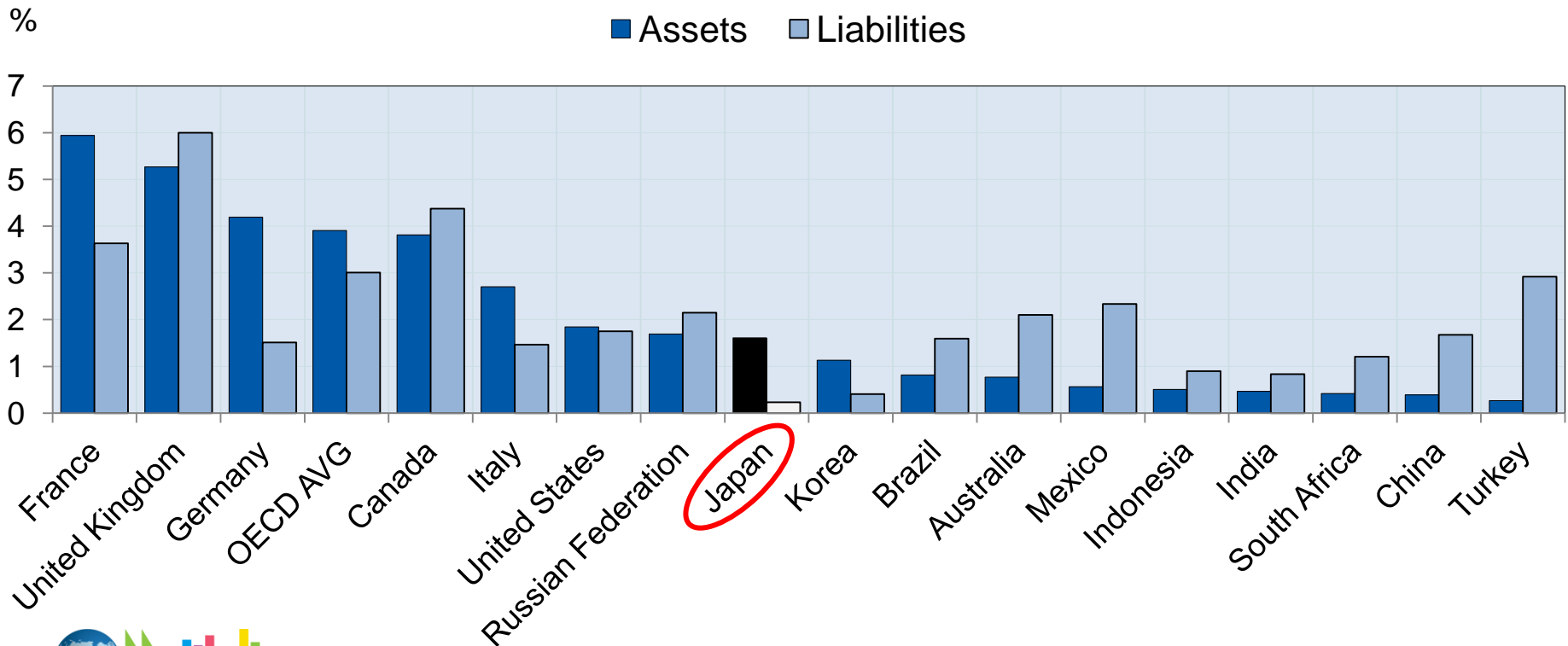
Sum of exports and imports, goods and services
As a percentage of GDP, at current prices.



International investment

Long term trend by Japanese companies to develop activities abroad, but Japan lags markedly in inward foreign investment

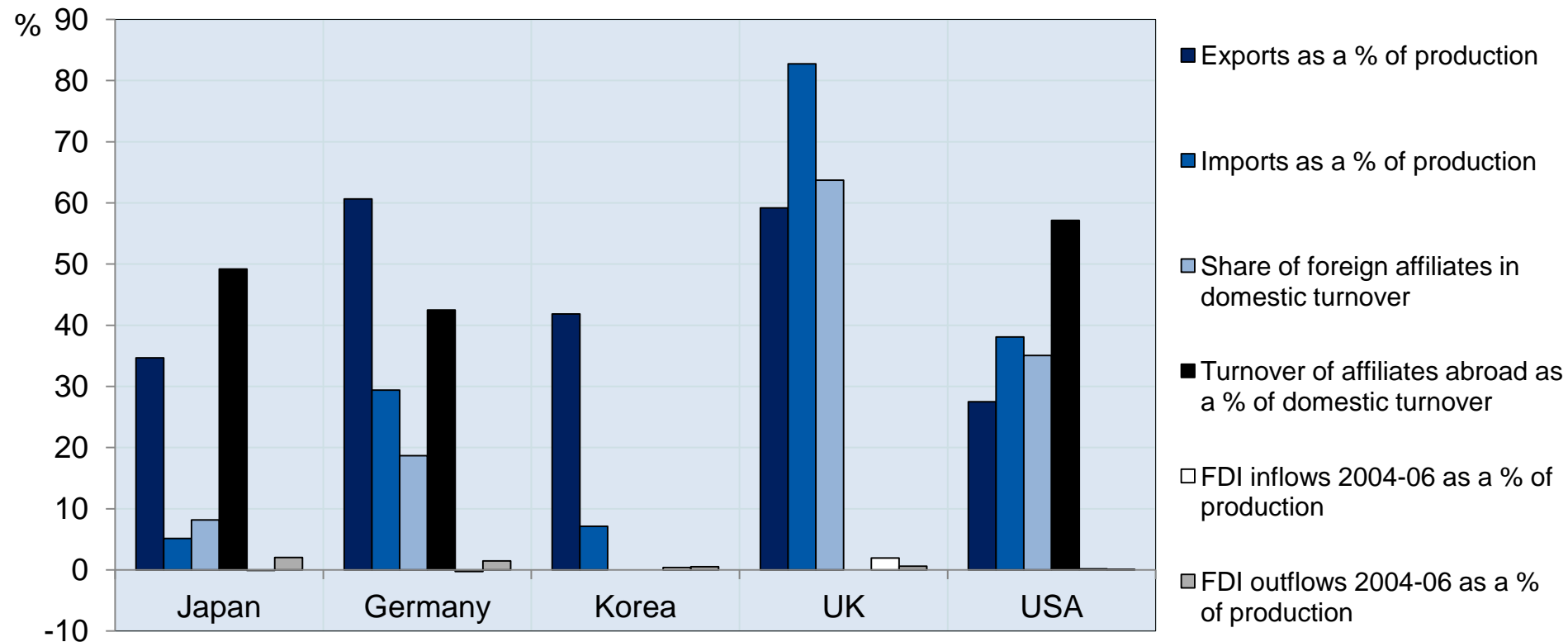
Foreign direct investment assets and liabilities as a percentage of GDP
Average 2005-2008



International trade and investment, industry level (I)

Large outbound activities in some sectors...

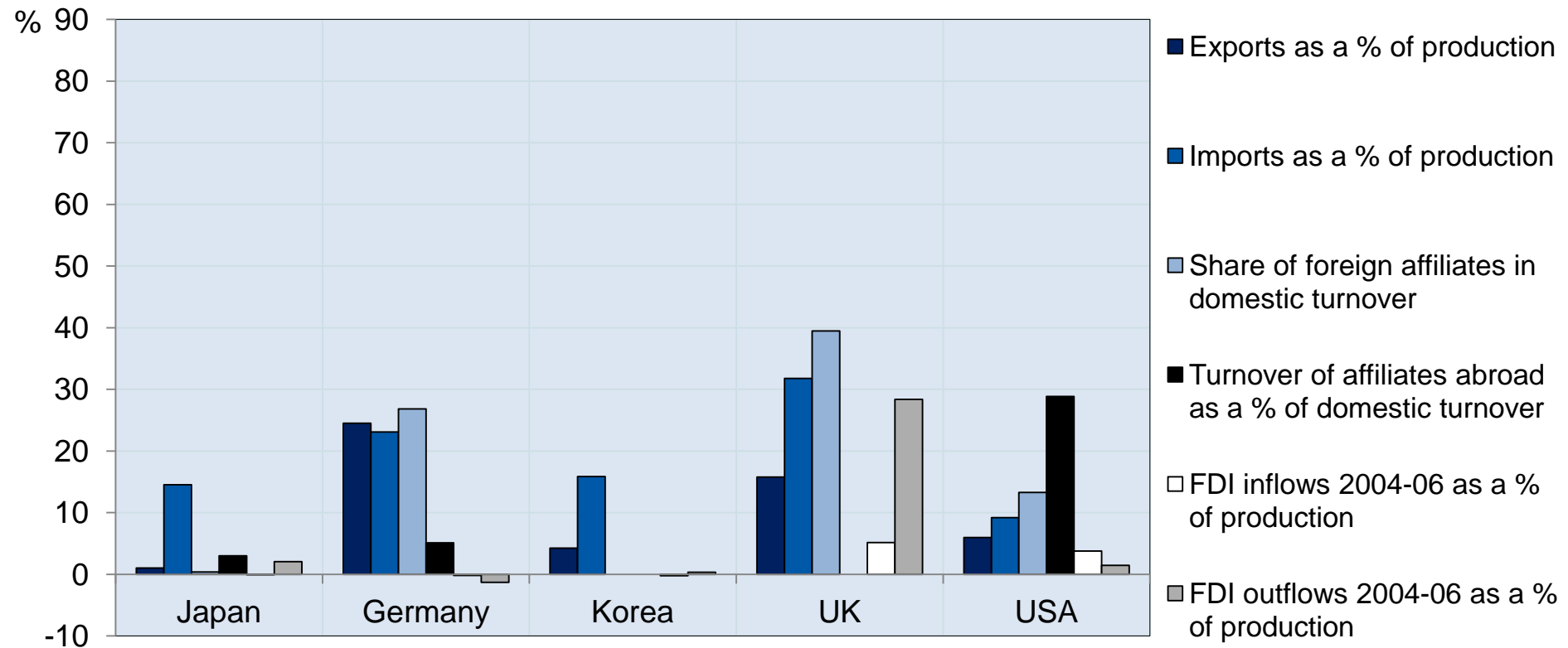
Transport equipment (ISIC 34+35)



International trade and investment, industry level (II)

... while other sectors are significantly less internationalised.

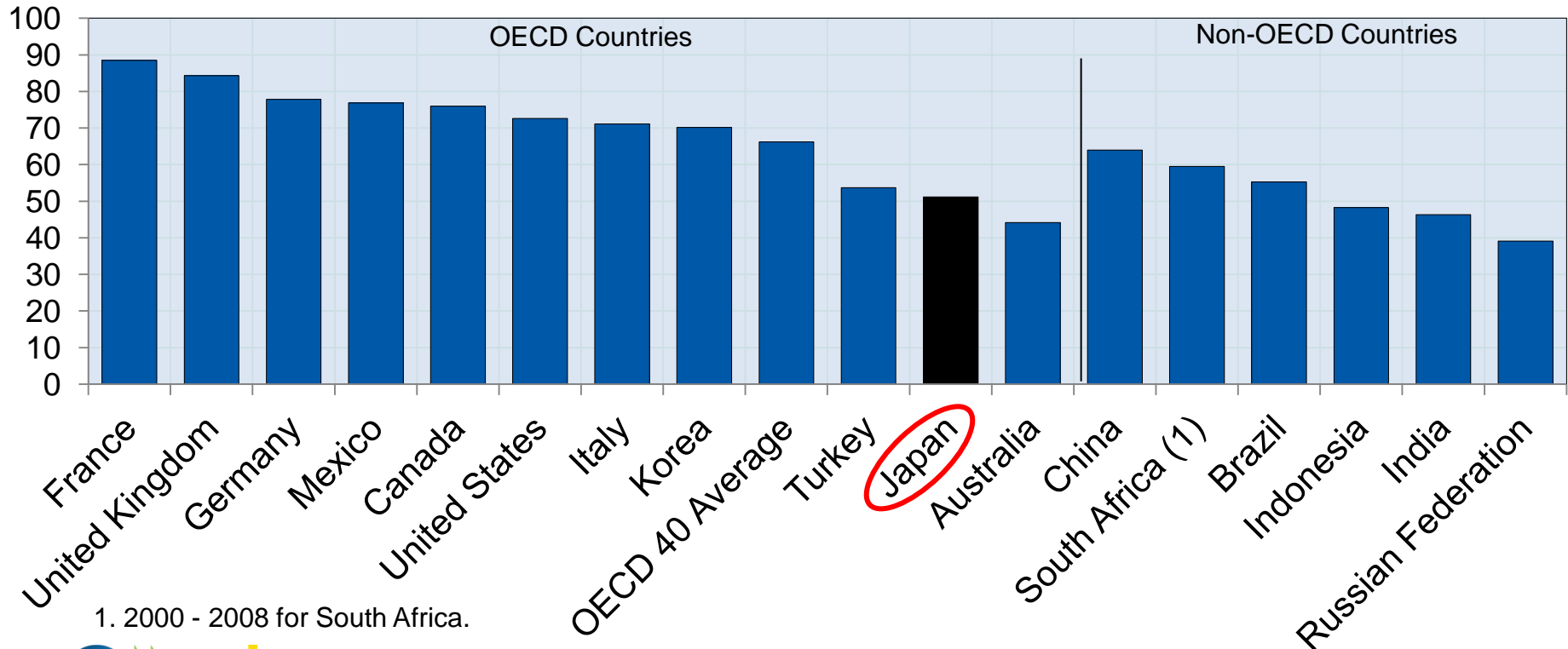
Food, beverages and tobacco



Global value chains (I)

Intra-industry trade increases with development of GVCs; larger countries tend to have lower values, particularly Japan

Index of intra-industry trade in manufactures
Average 1997-2008



1. 2000 - 2008 for South Africa.



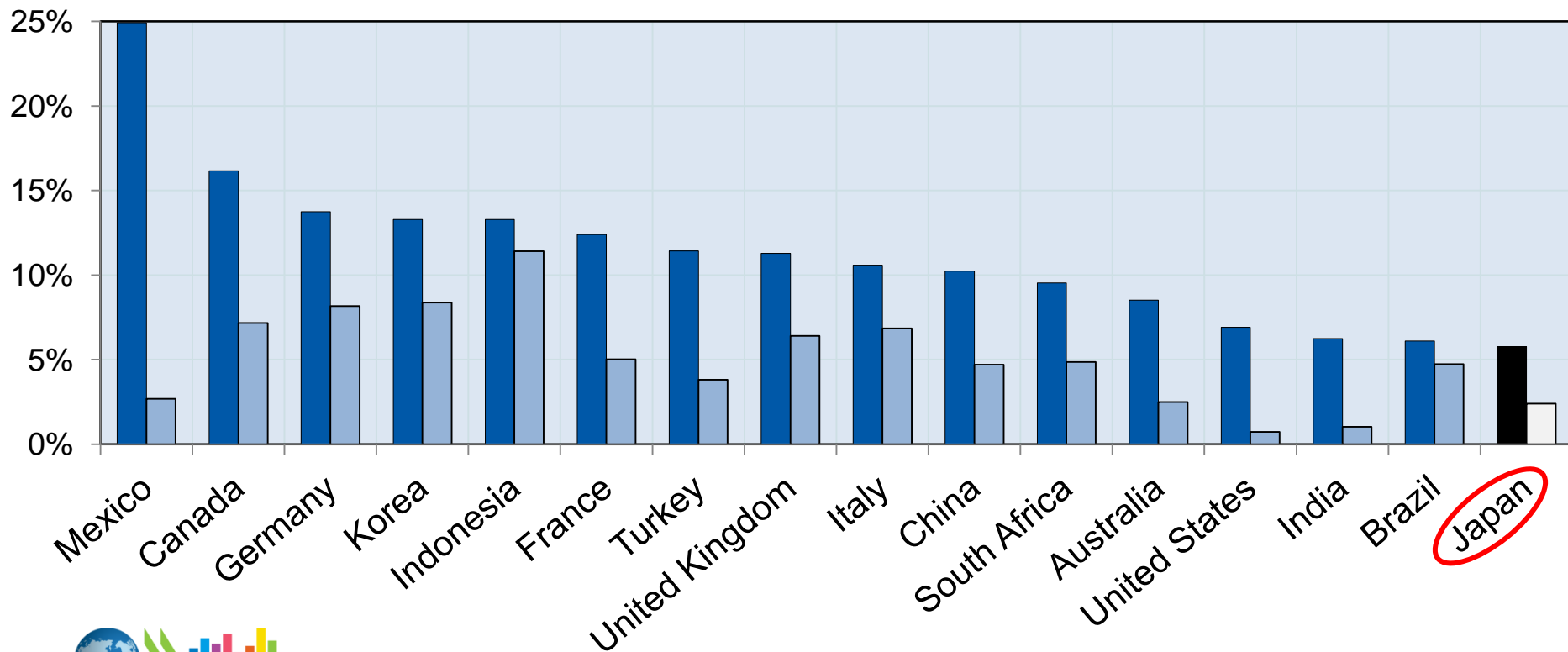
Source: OECD (2010), *OECD Economic Globalisation Indicators 2010*, OECD, Paris.

Global value chains (II)

Like other larger countries, Japan shows a low degree of offshoring both in services and manufacturing

Offshoring of manufacturing and services, by country, 2005
Imported intermediates as share of total intermediates

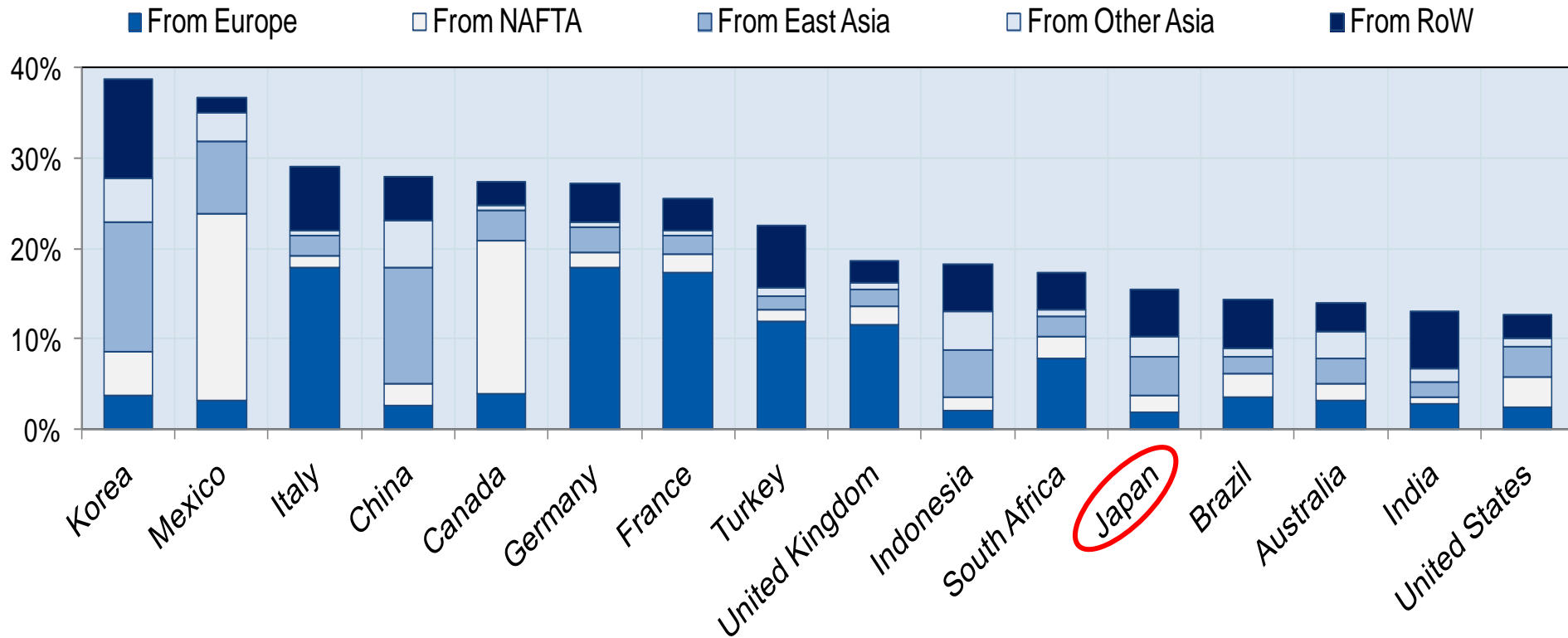
■ Manufacturing ■ Services



Global value chains (III)

Japan is heavily integrated with other countries in East Asia

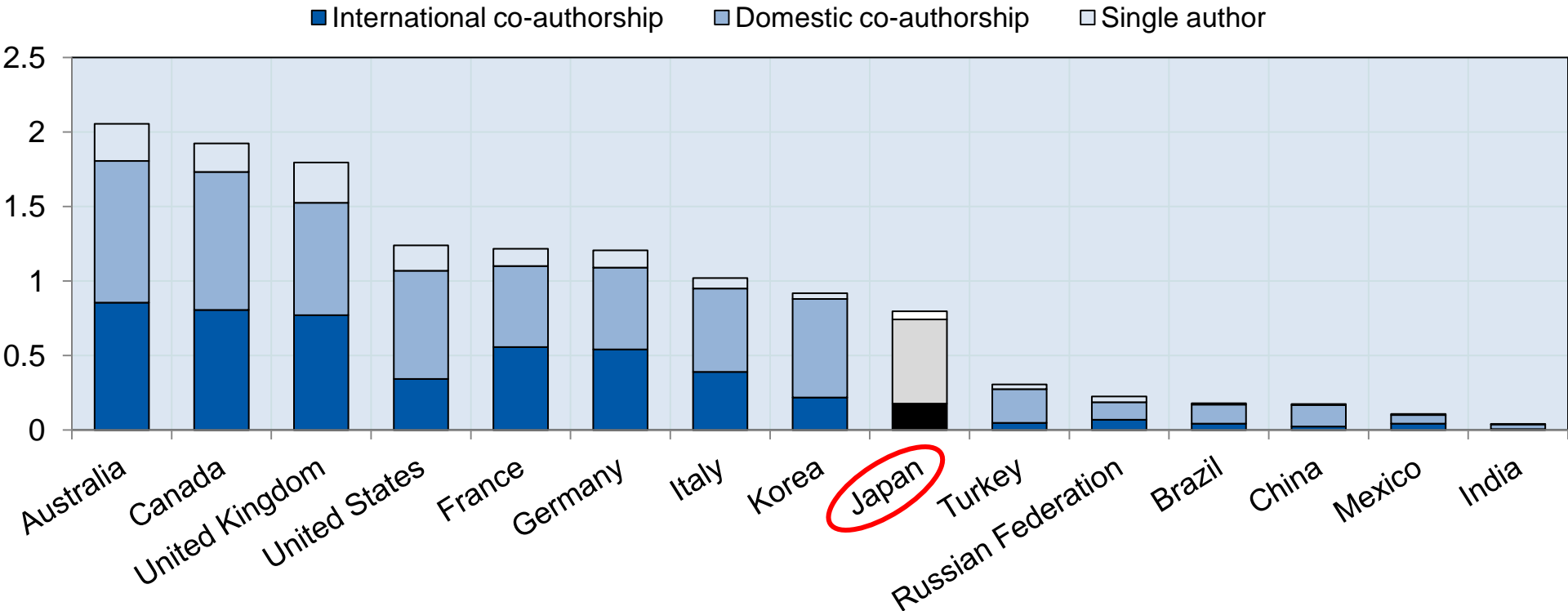
Import content of exports with partner countries, 2005



Internationalisation of knowledge (I)

International scientific collaboration in Japan is low

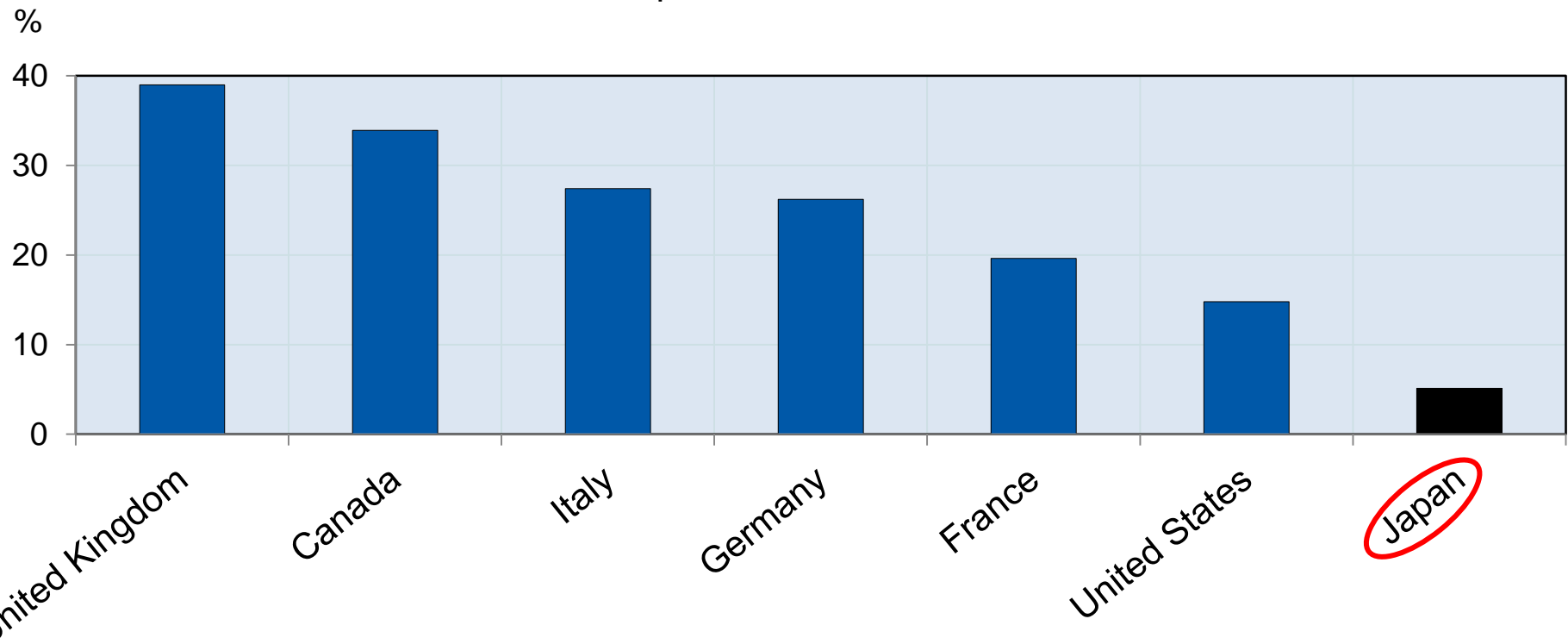
Scientific articles per capita, by type of collaboration, 2008



Internationalisation of knowledge (II)

Contribution of foreign affiliates to business R&D in Japan is low

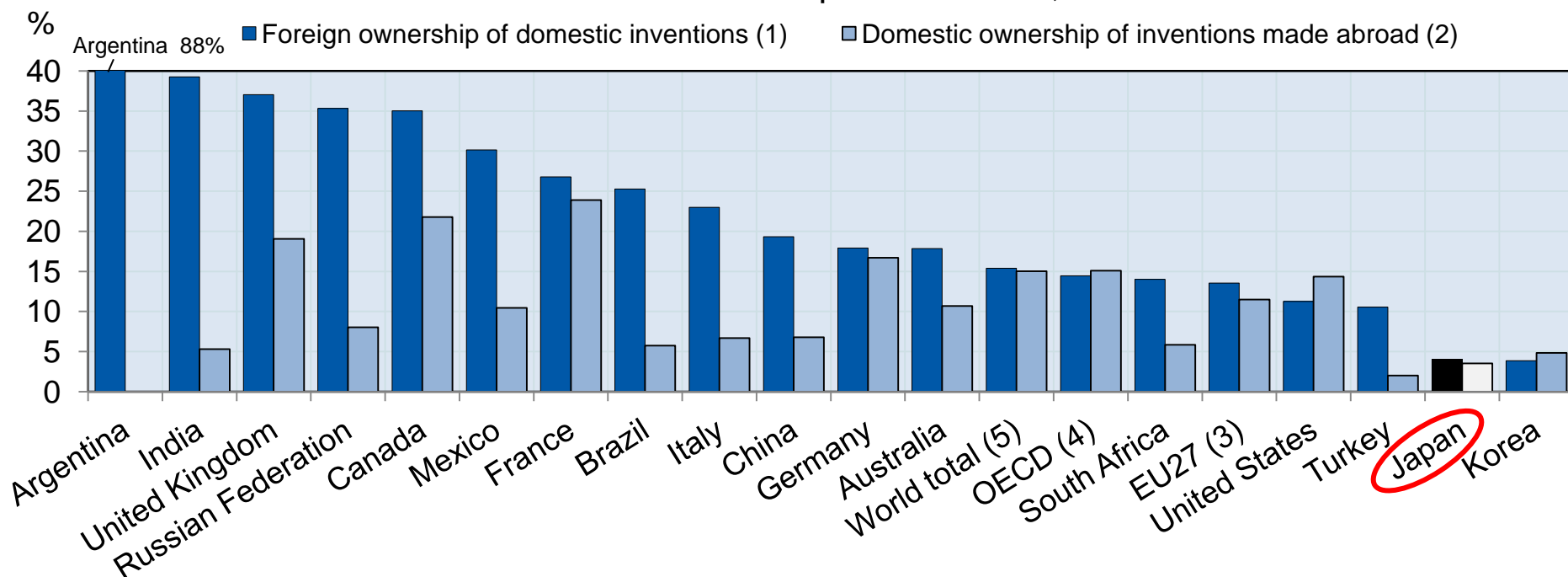
The share of foreign-controlled affiliates in total business sector R&D expenditure, 2007 , in %



Internationalisation of knowledge (III)

Limited importance of foreign firms controlling domestic inventions in Japan, and of inventions made abroad controlled by Japanese firms

Cross-border ownership of inventions, 2005-07



1. Share of PCT patent applications owned by foreign residents in total patents invented domestically. Coverage: countries/economies with more than 200 PCT filings over the period.
2. Share of PCT patent applications invented abroad in total patents owned by country residents. Coverage: countries/economies with more than 200 PCT filings over the period.
3. All patents that involve international co-operation.
4. Patents of OECD residents that involve international co-operation.
5. The EU is treated as one country; intra-EU co-operation is excluded.



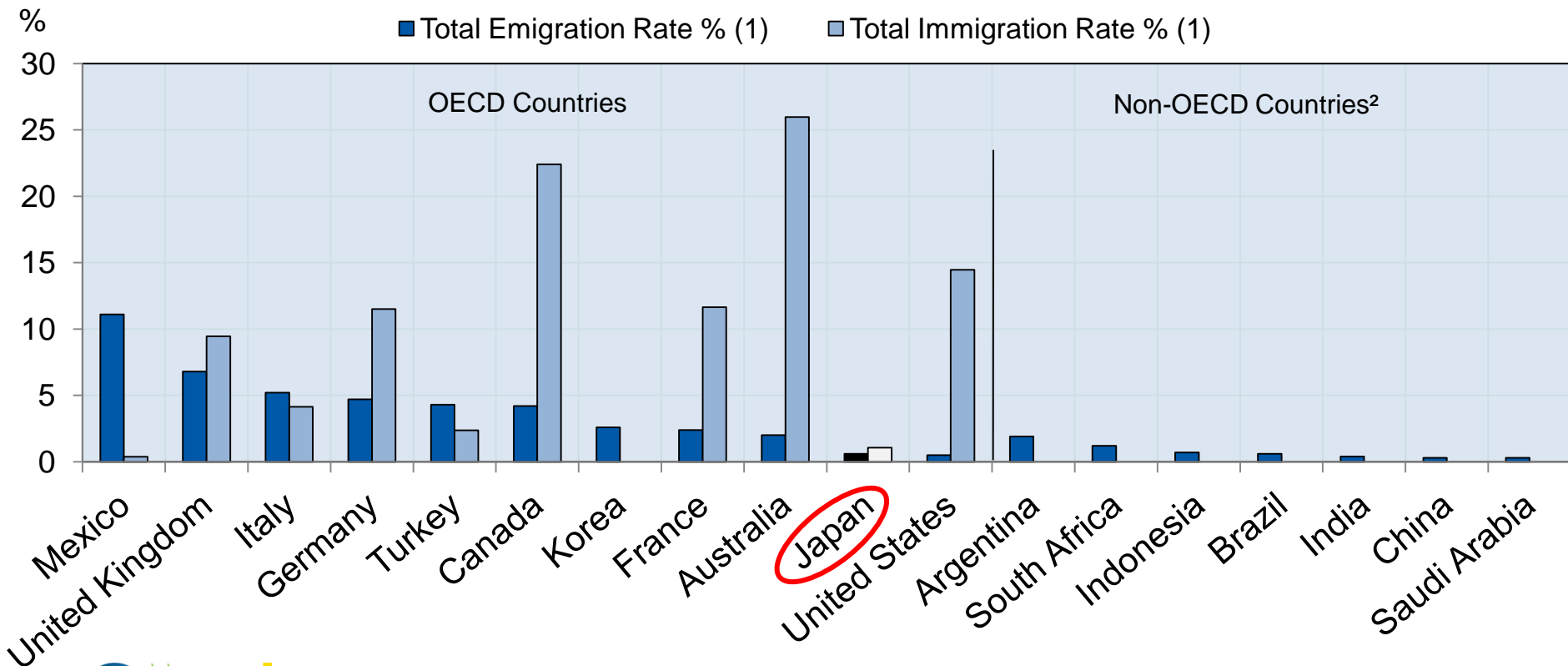
Source: OECD (2010), *OECD Economic Globalisation Indicators 2010*, OECD, Paris.

Internationalisation of labour (I)

Inbound and outbound flows of persons to and from Japan are significantly lower than for other countries

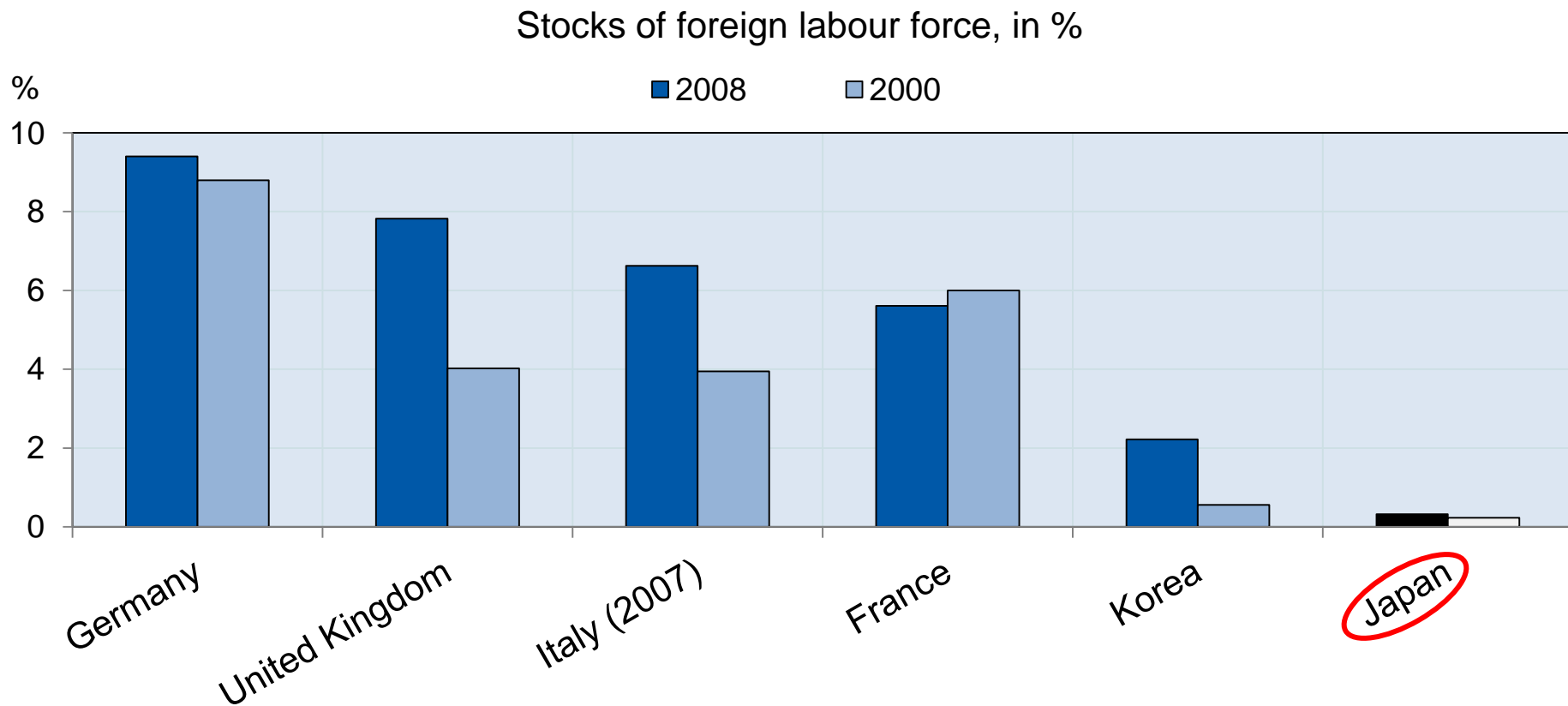
Total Migration Rates¹, circa 2000

Number of immigrants and emigrants as a share of total domestic population



Internationalisation of labour (II)

A small share of the Japanese labour force is foreign

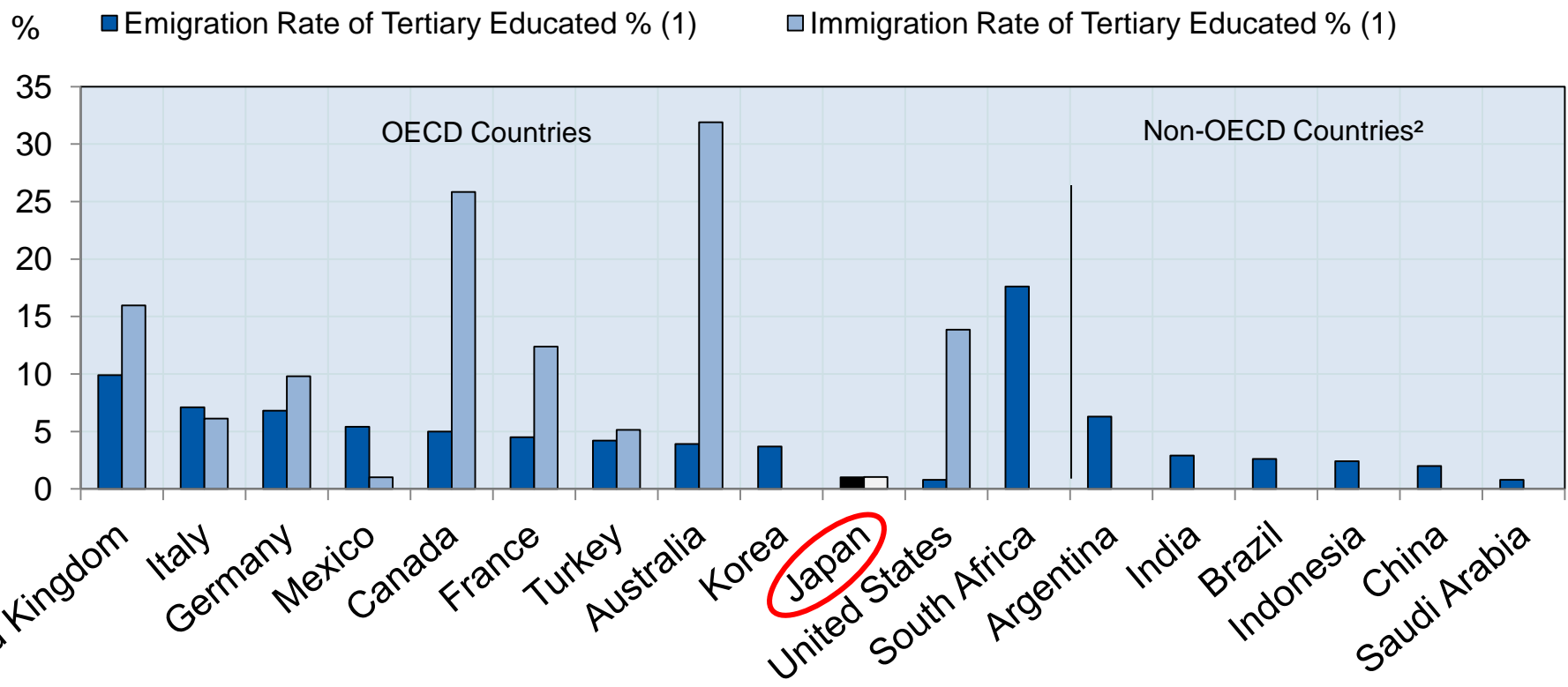


Internationalisation of highly skilled human capital

Japan participates only to a limited extent in global brain circulation compared to other OECD G20 countries

Migration Rates of Tertiary Educated, population 15+, circa 2000

Number of tertiary educated emigrants and immigrants as a share of total tertiary educated population



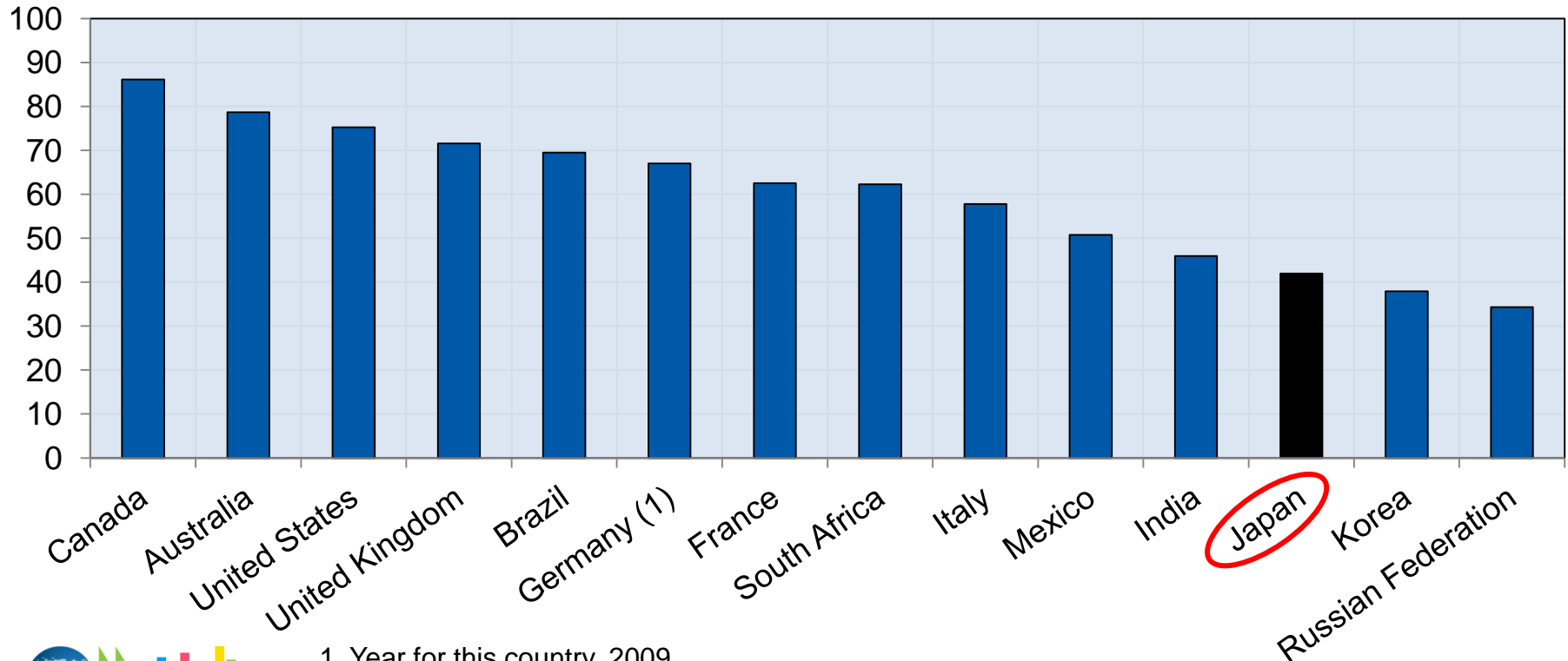
Source: OECD Database on Immigrants in OECD Countries - DIOC. DIOC-E 2000 release 2.0.

Cultural diversity

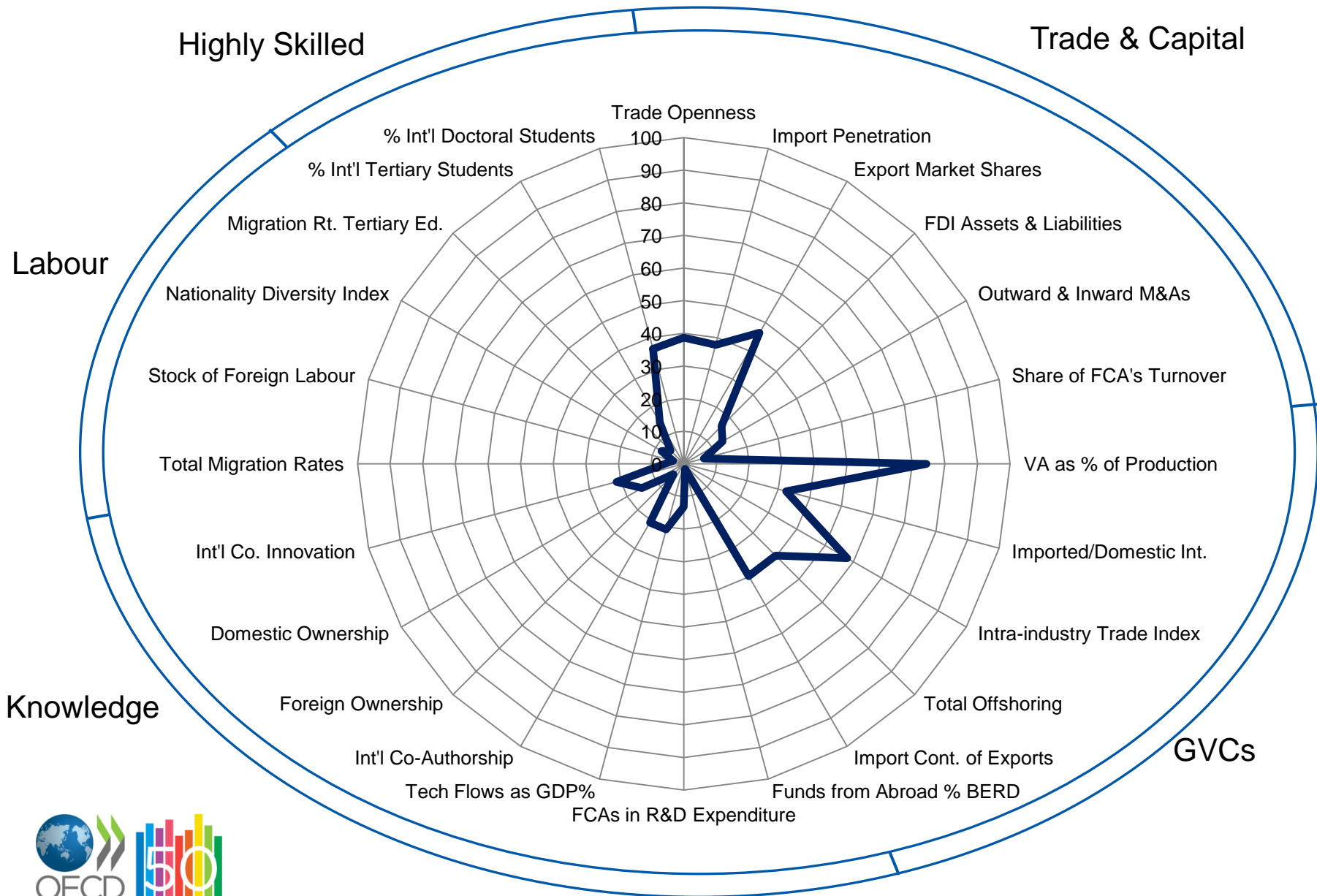
Limited acceptance of people from different racial, ethnic and cultural groups in Japan.

Gallup Diversity Index, 2008

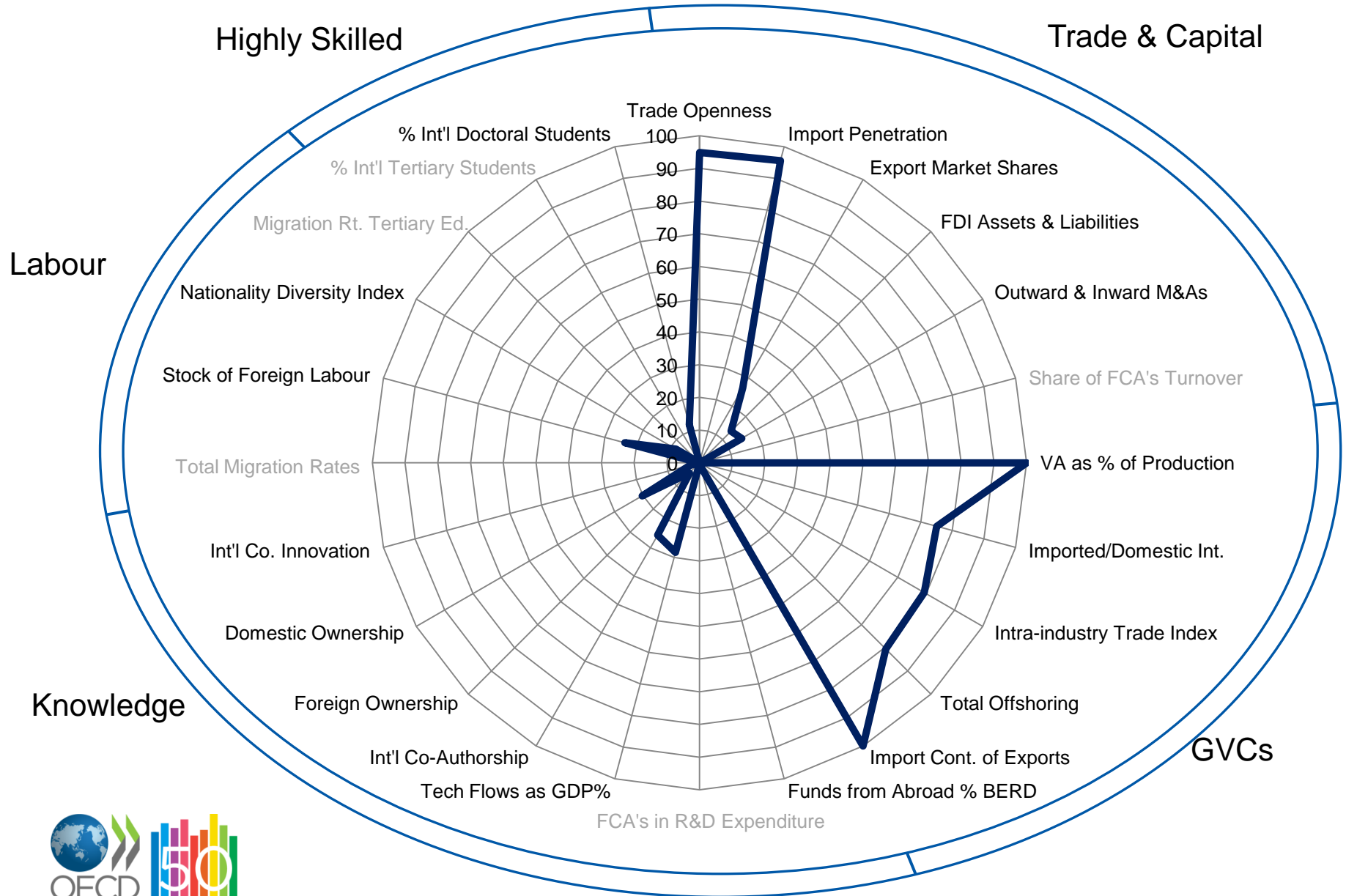
Percentage of respondents answering positive to each of the three questions concerning acceptance of different racial, ethnic, and cultural groups.



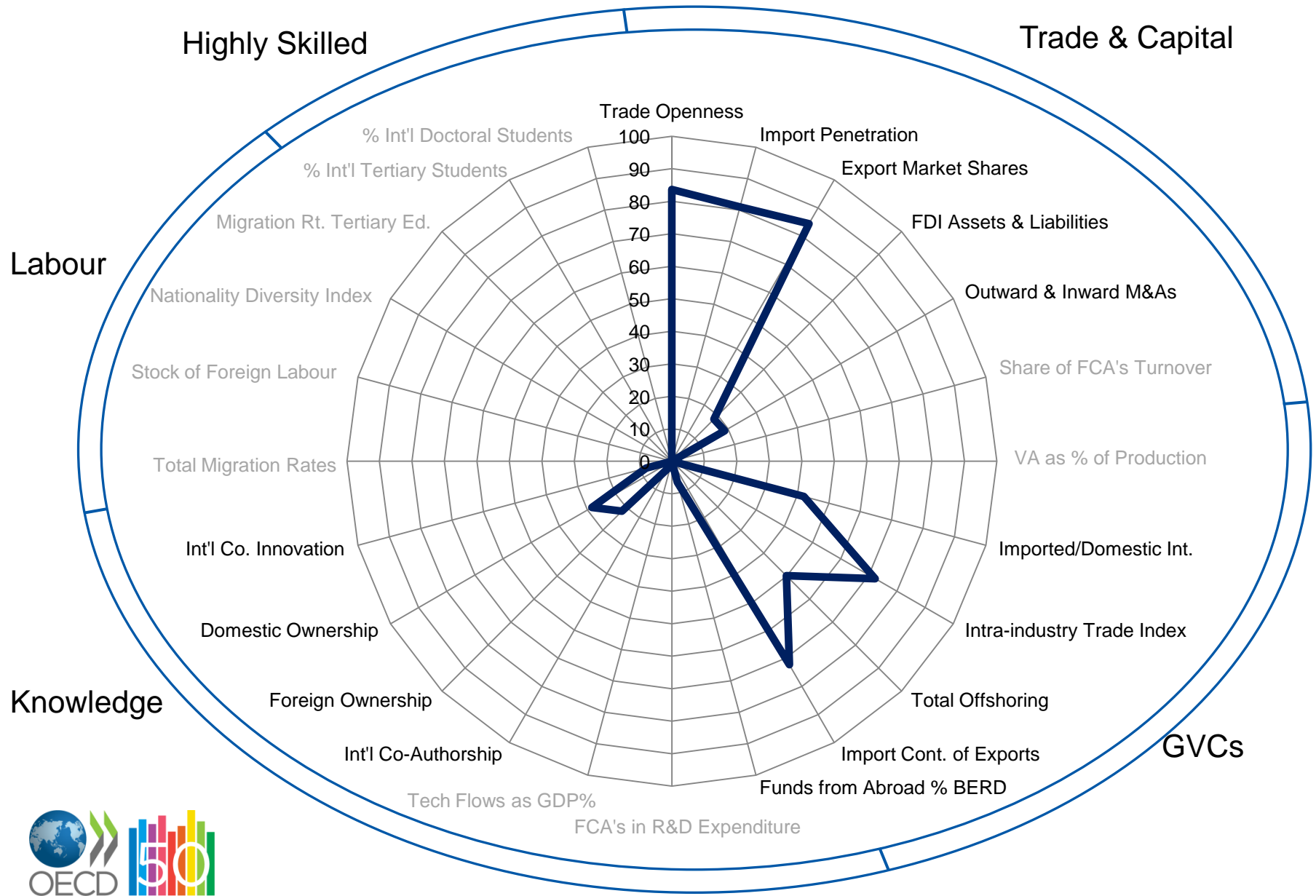
Key indicators on the openness of Japan...



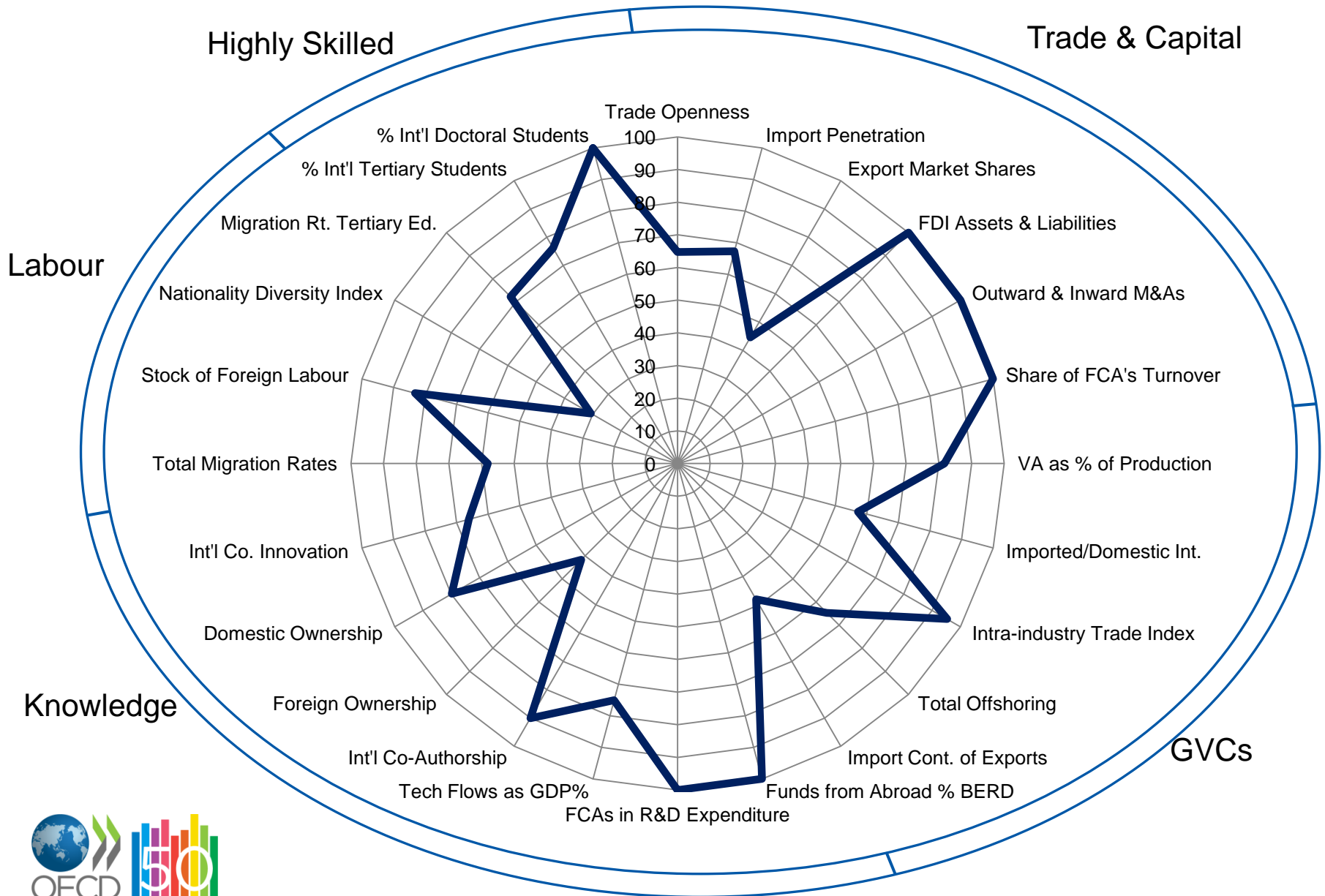
...compared to the openness of Korea...



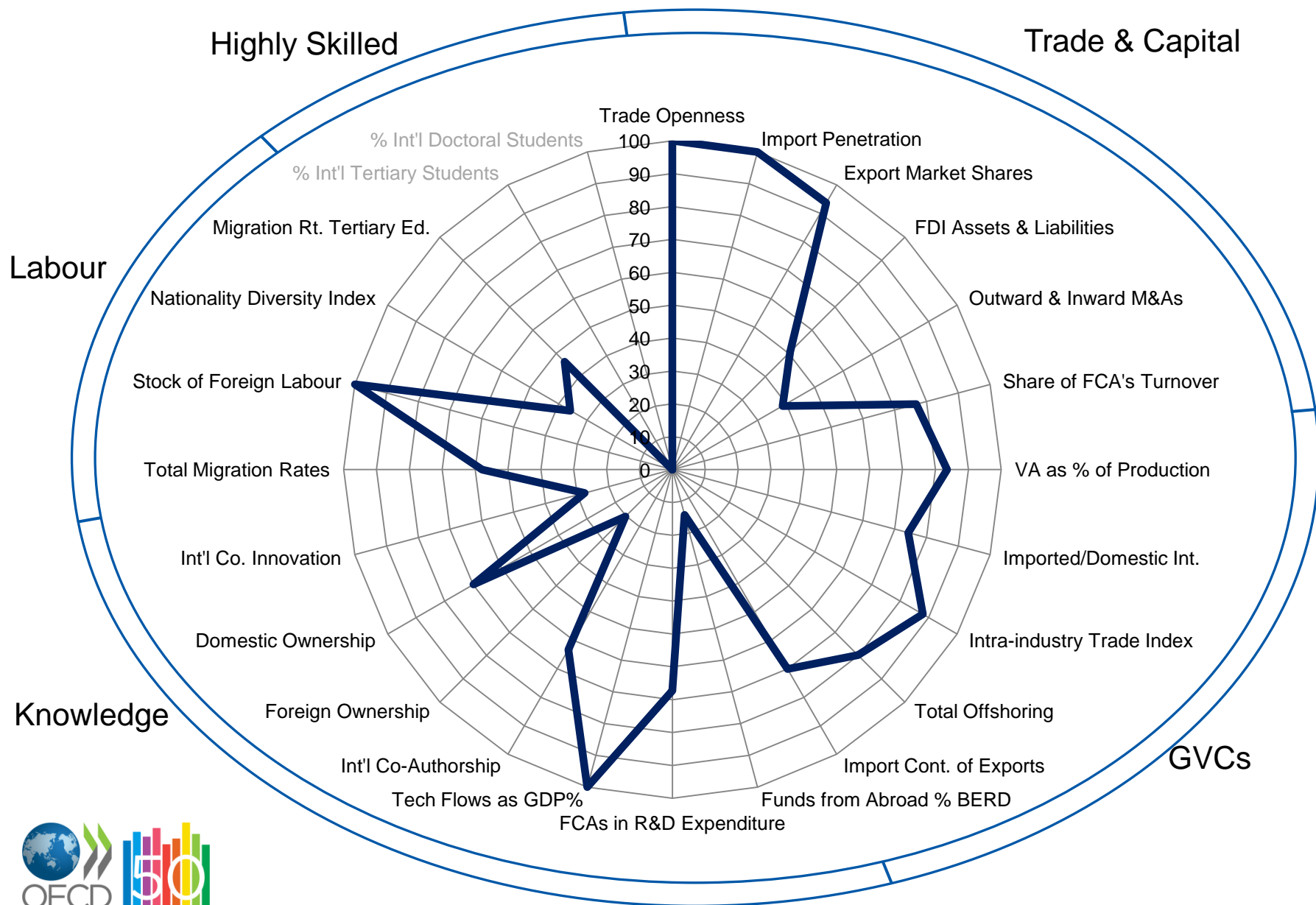
...the openness of China...



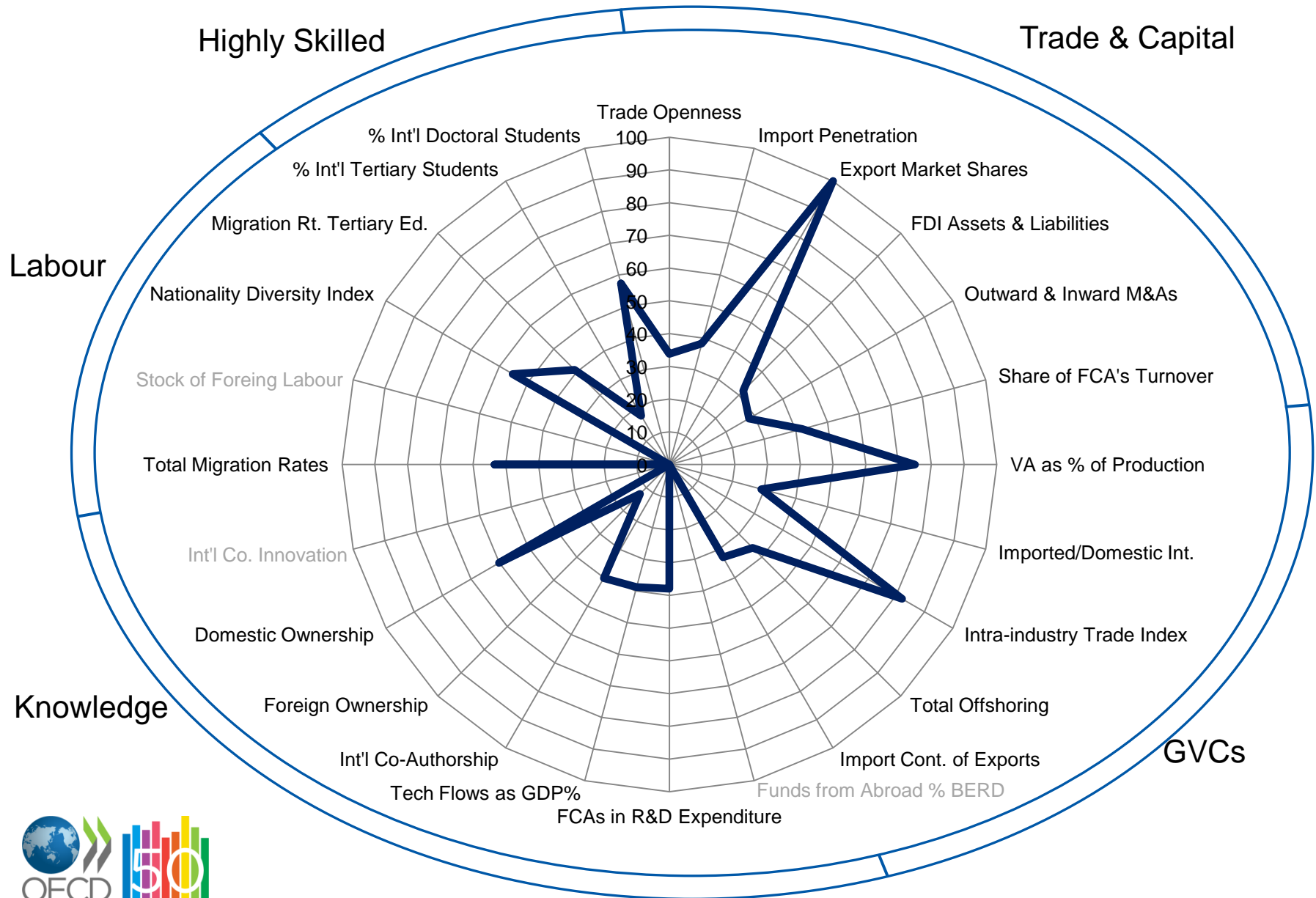
...the openness of UK...



...the openness of Germany...



...and the openness of the US



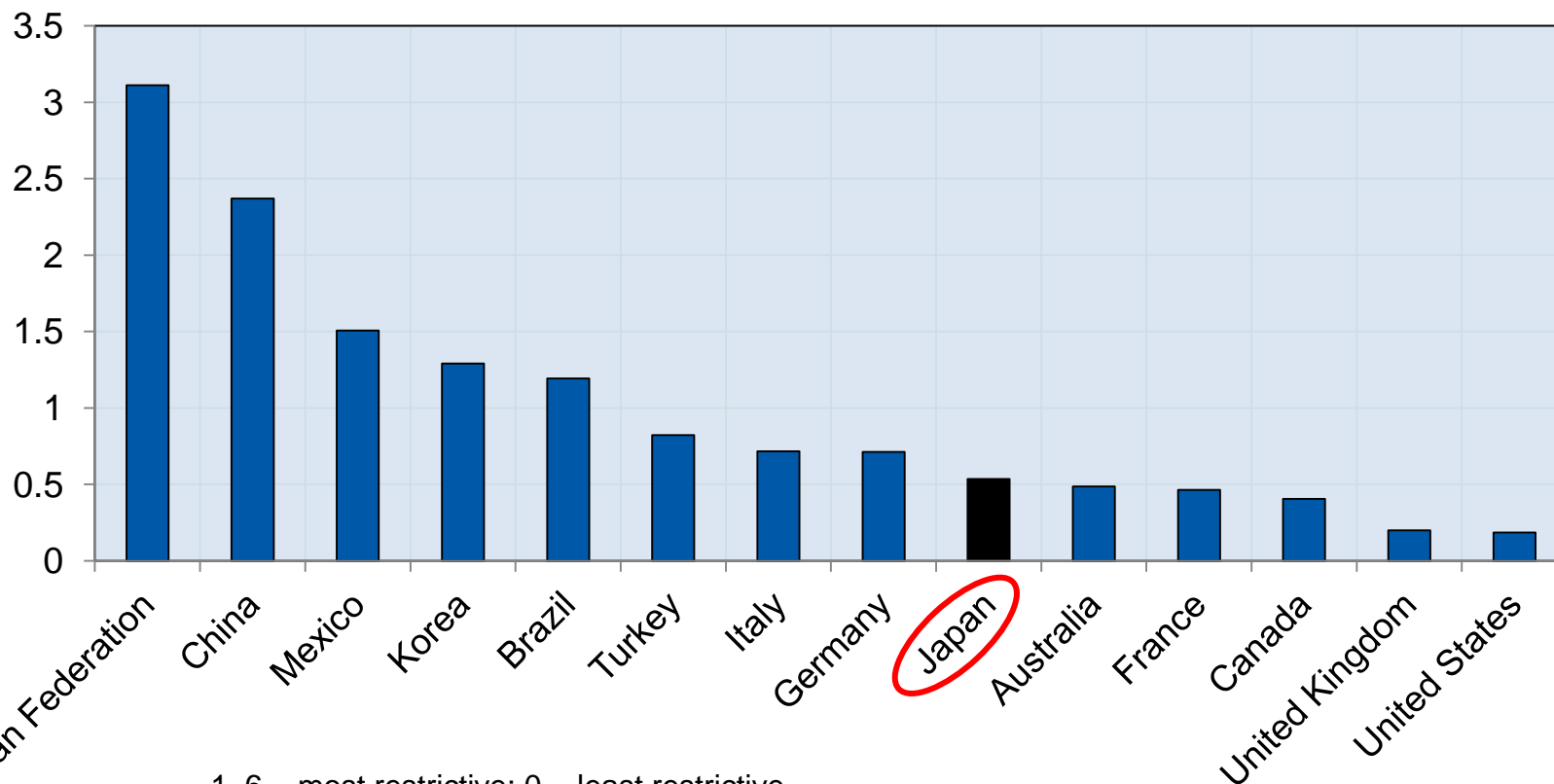
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Promoting trade and investment liberalisation

Barriers to trade and investment are relatively low in Japan compared to other G20 countries ...

OECD Product Market Regulations: Barriers to Trade and Investment, 2008



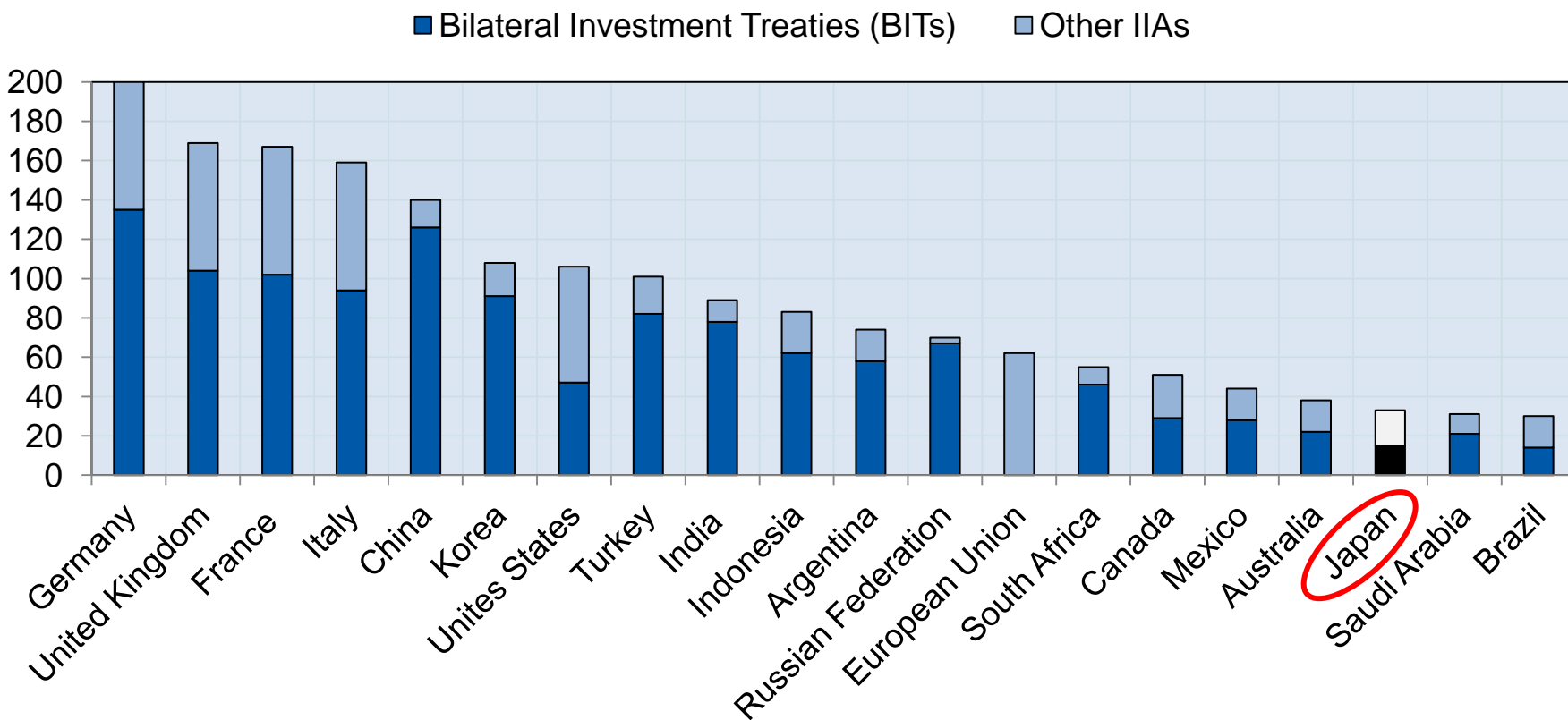
1. 6 = most restrictive; 0 = least restrictive.
2. Data may no longer fully reflect the current situation, in particular in fast reforming countries.
3. Data refer to beginning of 2008.

Source: OECD Product Market Regulations Database, 2008.

Promoting trade and investment liberalisation

... but Japan has relatively few bilateral investment agreements ...

G20 Members' International Investment Agreements, as of 15 October 2010

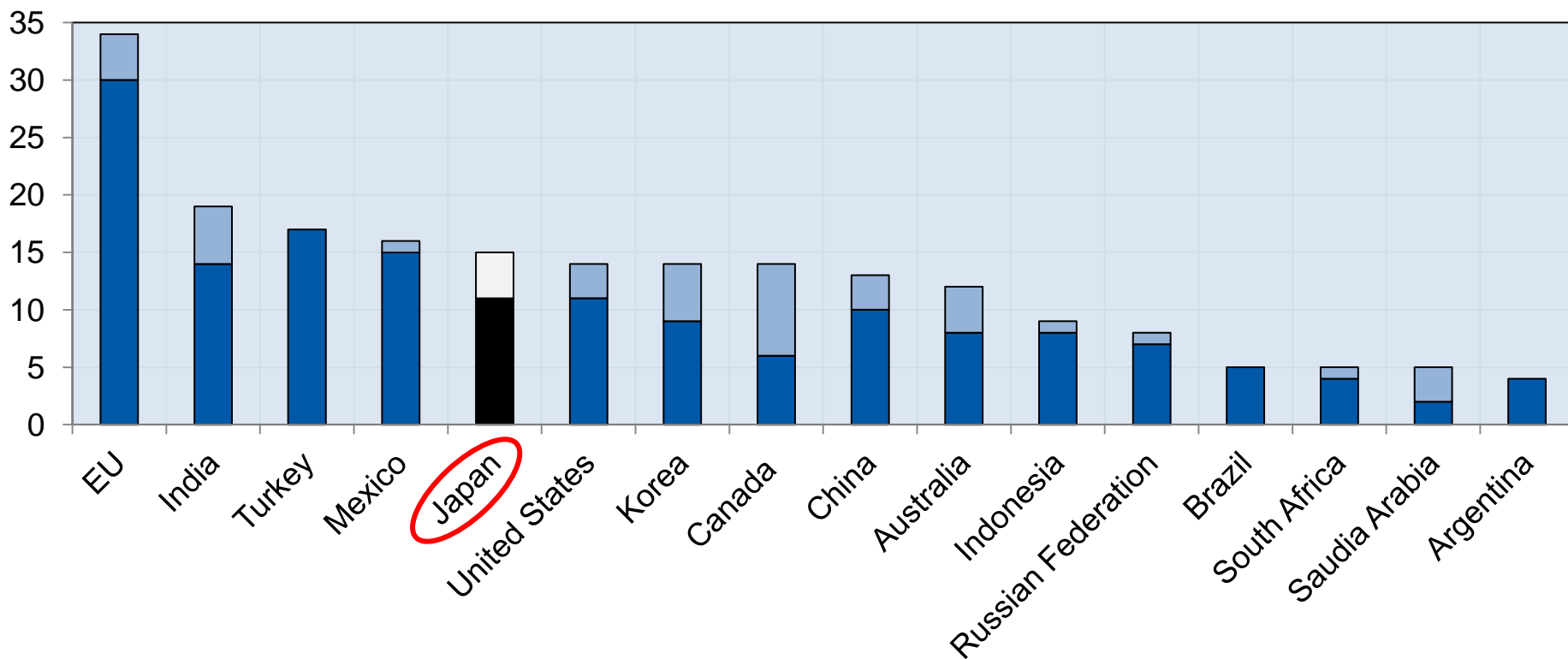


Promoting trade and investment liberalisation

... though relatively more regional trade agreements

Number of Regional Trade agreements in G20 countries

■ Number of RTAs in force ■ Number of RTAs with early announcement



The gains from regional economic integration: the EU

- Permanent rise of about 2% in GDP
- Boost in employment by almost 1 1/2%
- Quadrupling of FDI within Europe, and increase in FDI into Europe
- Trade boosted by 38% by EU membership (with only 5% diverted from non-members), plus positive “Single Market Effect” of 9%
- “Soft” gains in global trade system and international economic governance

Policies for openness of R&D and innovation

- Japan recently introduced:
 - R&D tax incentives
 - Reform to foster regional activities and revitalise urban areas
 - Changes in IPR legislation and specific IPR support towards SMEs
- But: international collaboration in innovation and science is weaker than in many other OECD countries

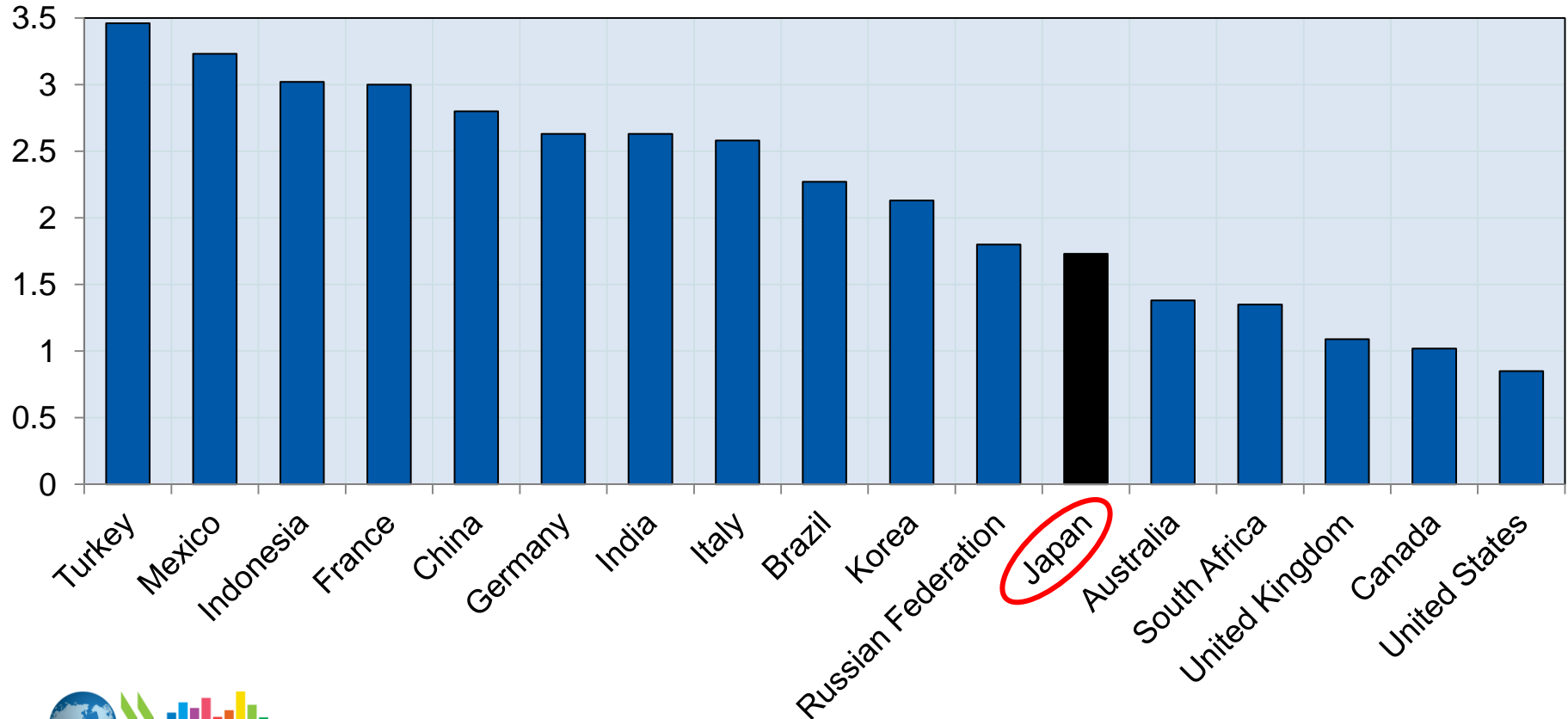
Internationalisation of R&D and innovation: Sweden and Finland

- Integrated need to promote internationalisation of national actors in innovation support programmes
- VINNOVA in Sweden:
 - redress systemic failures in NIS
 - promote collaboration among different innovation actors
- SITRA and TEKES in Finland:
 - create enabling conditions for domestic companies to integrate in GVCs
 - increase Finland's investment attractiveness;
 - promote international science and technology collaboration

Labour market policies

Overall, a high level of employment protection legislation is expected to have negative effects on the labour market.

Employment protection in selected G20 countries, 2008
Scale from 0 (least stringent) to 6 (most stringent)



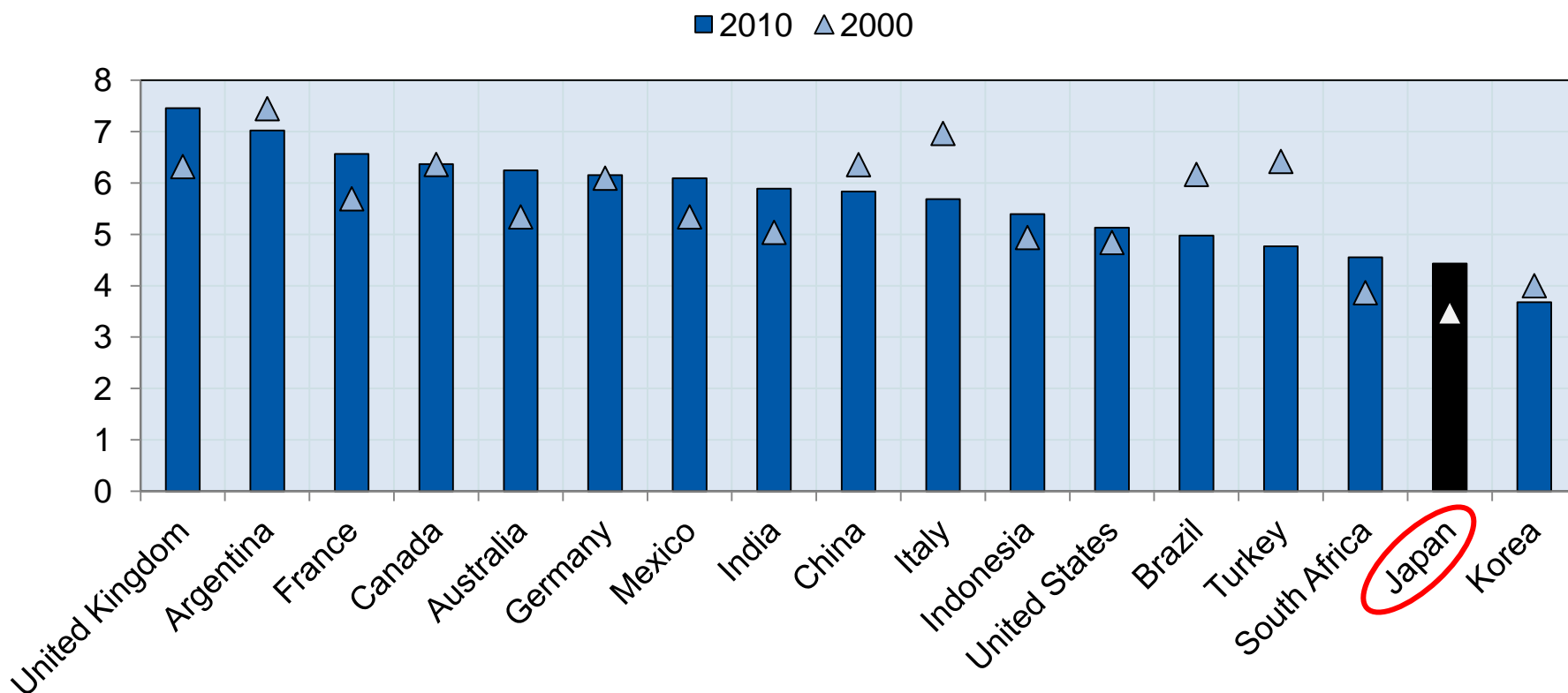
Increased openness through labour market reforms: Germany

- Erosion of international competitiveness and deterioration of public finances following reunification
- “Agenda 2010” played a role in maintaining an open economy, attracting investment and sustaining exports:
 - Labour market reforms
 - Social security reforms
 - Tax reforms

Policies for skilled labour migration and mobility

Japan's immigration policies are relatively strict for employing foreign labour

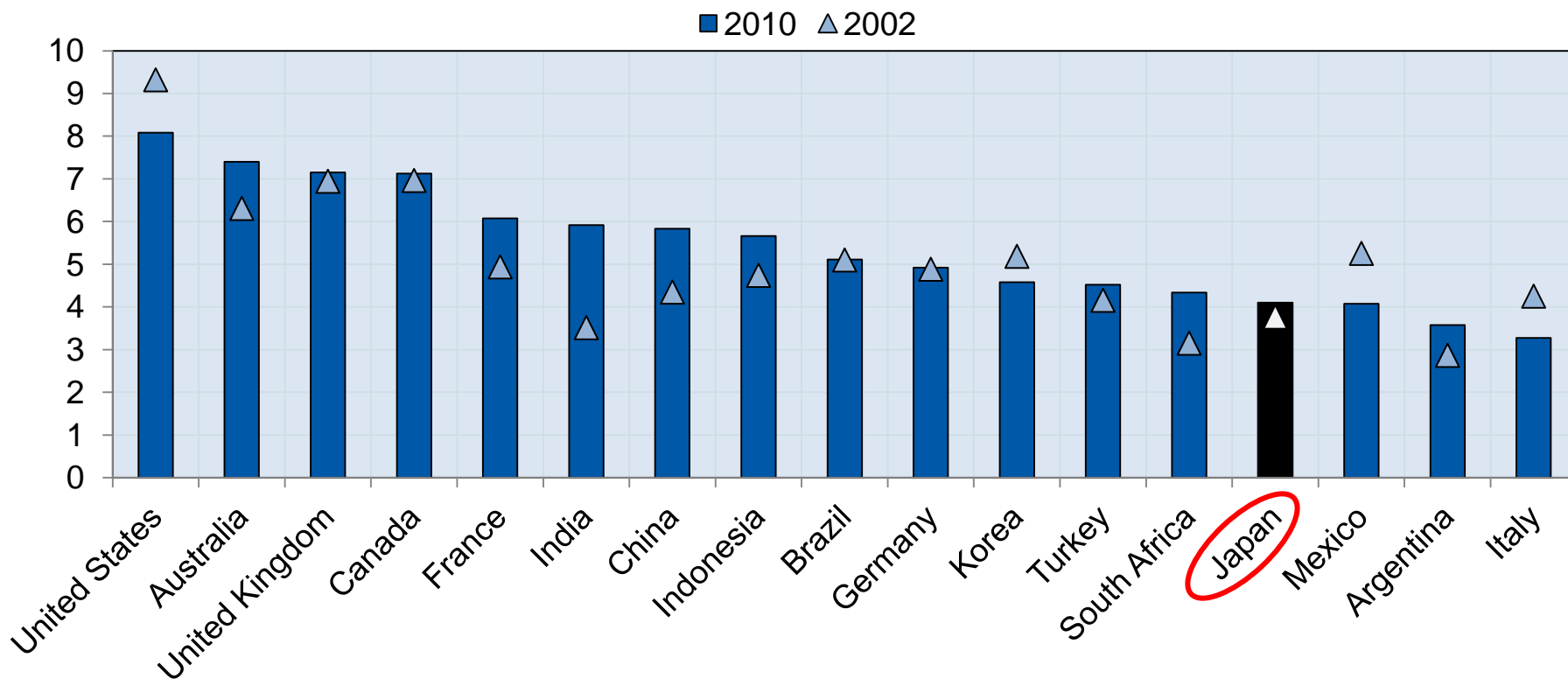
Immigration laws do not prevent your company from employing foreign labour
IMD WCY executive survey based on an index from 0 to 10



Policies for skilled labour migration and mobility

Executives do not consider Japan's business environment conducive to attracting foreign highly-skilled people

Business environment is attractive to foreign highly-skilled people
IMD WCY executive survey based on an index from 0 to 10



Policies to promote the migration of the highly-skilled: Denmark and Norway

- Relatively recent migration countries, with foreign-born population rates below OECD average
- Introduced policies for attracting highly-skilled migrant workers, with some evidence of success:
 - Early employment schemes
 - Job search visa (also for students)
 - Reduction of top marginal tax rates
 - Progress in international schools
 - English language courses

Conclusions

- Japan has actively promoted the free movement of goods and capital, and has promoted multilateral negotiations.
- Japan lags considerably in inward foreign direct investment, internationalisation of science and innovation, and openness to labour, notably highly-skilled workers.
- Further opening can strengthen future growth performance, as shown in the experience of other OECD countries.

Report on Opening Japan

- Presentation based on OECD report *Opening Japan – Comparison with other G20 countries and lessons learned from international experience*
- More detail and full details on indicators and their construction are available in the report.
- Report will be released in the coming weeks by OECD and will be accessible through the RIETI website.

Thank you!

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