

## **International Trade and Investment**

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Under the third medium-term plan that started this fiscal year, the International Trade and Investment Program will continue the international economic research undertaken in the Formulating Japan's Strategy in Response to Globalization and Deepening Economic Interdependence in Asia Program during the second medium-term plan, and will further deepen policy research. In the program, researchers from the fields of economics, management, law, and political science will study international trade, direct investment, technological innovation, and economic growth, as well as trade policies and international economic rules related to these issues. The scope of the research is quite broad; in particular, how the Japanese economy, which is recovering from the Great East Japan Earthquake, should cope with the international economy is an extremely important issue. The objectives of the four projects comprising this program are described below.

The Study on the Creation of the Japanese Economy and Trade and Direct Investment project (project leaders: Ryuhei Wakasugi and Yasuyuki Todo, Faculty Fellow) will further develop the research based on the results of the Study on International Trade and Firms project undertaken in the second medium-term plan period. Thus far, both theoretical and empirical analysis have been conducted and policy proposals made that incorporate firm heterogeneity, taking firms' internationalization (i.e., export and foreign direct investment (FDI)) as the key to Japan's economic growth. The project will be developed to cover the effects of exports and FDI by Japanese firms on employment, the impact of the protection of international property rights on corporate R&D and innovation, and the impact of internationalization of firms on international technology transfer. It will also take note of the developing Chinese market and will analyze the agglomeration and internationalization of firms (i.e., exports and FDI) and the growth of the Chinese economy. Of particular note is the fact that the Great East Japan Earthquake has caused a massive shock to Japan's society and economy. How to overcome this serious damage will be the key to future development of the Japanese economy. In this project, to achieve the creation of a new

Japanese economy after the damage from the Great East Japan Earthquake, research will be undertaken to examine the issues on the international transactions (trade and foreign investment) of firms, particularly the new production networks in global markets, industry agglomeration, and the response to the electric power supply restrictions. The project will be conducted by 10 researchers.

The population decrease, low birthrate, and aging society are exacerbating the problems of domestic market contraction and labor force supply restrictions, and the growth of emerging economies is causing a relative sagging of the Japanese economy. Meanwhile, the future of the World Trade Organization (WTO) round of negotiations remains unclear while free trade agreement (FTA) networking is advancing. What trade policy should be adopted is becoming increasingly important for the Japanese economy. Regarding the choice of such an important trade policy, free trade is supported by many economists; however, it is a fact that there are many who have a sense of resistance to the realization of free trade. There is a possibility that individual characteristics that are not assumed by standard economic theories have an impact on the approval or disapproval of trade policies. The Empirical Analysis of Trade Policy Preferences at the Individual Level in Japan project (project leader: Eiichi Tomiura, Faculty Fellow) will conduct surveys and empirical research based on such surveys regarding public support on the choice of trade policy and will provide foundational knowledge for forming Japan's trade policy.

Corporate production technology is directly connected to competitiveness, so firms are engaged daily in a competition for technology development and acquisition, and corporate activities aimed at improving productivity and technological capabilities are a source of economic growth. In the past, Japanese firms have enhanced their productivity and technological capabilities through globalization, particularly through exports and FDI. Recently, they have been making acquisitions with the aim of incorporating technology as well as technology transfer and outflow in connection with offshoring. The various issues regarding corporate technology are closely tied to the advancement of economic globalization. The Economic Analysis of Technology in the Global Economy project (project leader: Jota Ishikawa,

Faculty Fellow) will theoretically and empirically analyze various technology-related issues including technology development, imitation, protection, transfer, diffusion, and standardization from an international economics perspective, and draw policy implications that will help make the improvements in productivity and technological capabilities that are vital for Japan to achieve global economic growth.

International economic transactions are based on various treaties and agreements, and one cannot disregard the impact that the contents of such treaties and agreements have on the Japanese economy. The Comprehensive Research on WTO project (project leader: Tsuyoshi Kawase, Faculty Fellow) will further develop the results of the second medium-term plan and analyze the WTO and other international trade orders for trade and investment from legal and political viewpoints and make policy proposals.