



How open is the Japanese economy today?

Maison Franco-Japonaise
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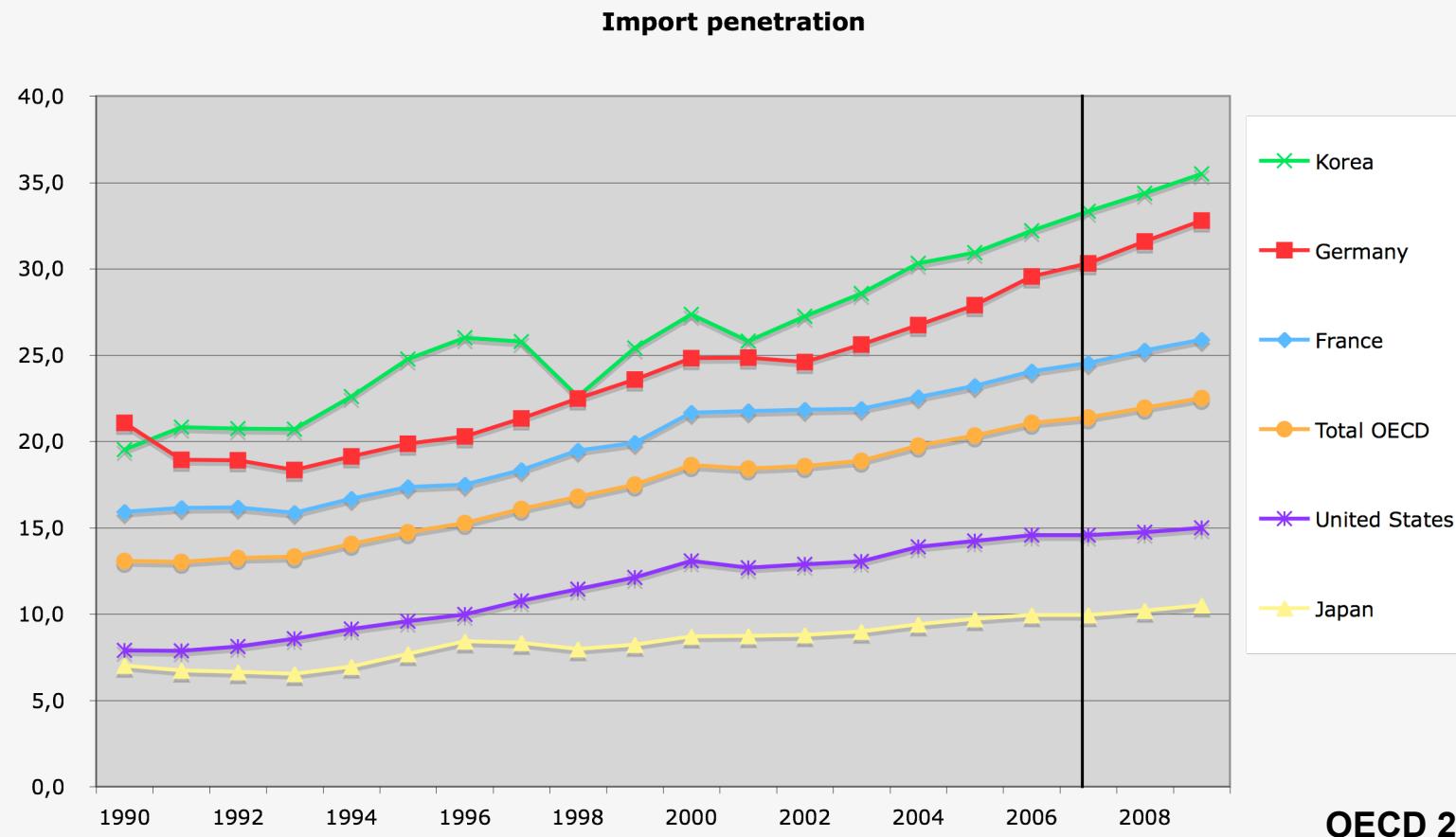


Outline

- 1. Observation: Low degree of internationalisation**
- 2. What does it mean? Framework of analysis**
- 3. In search of barriers**
- 4. Outlook**



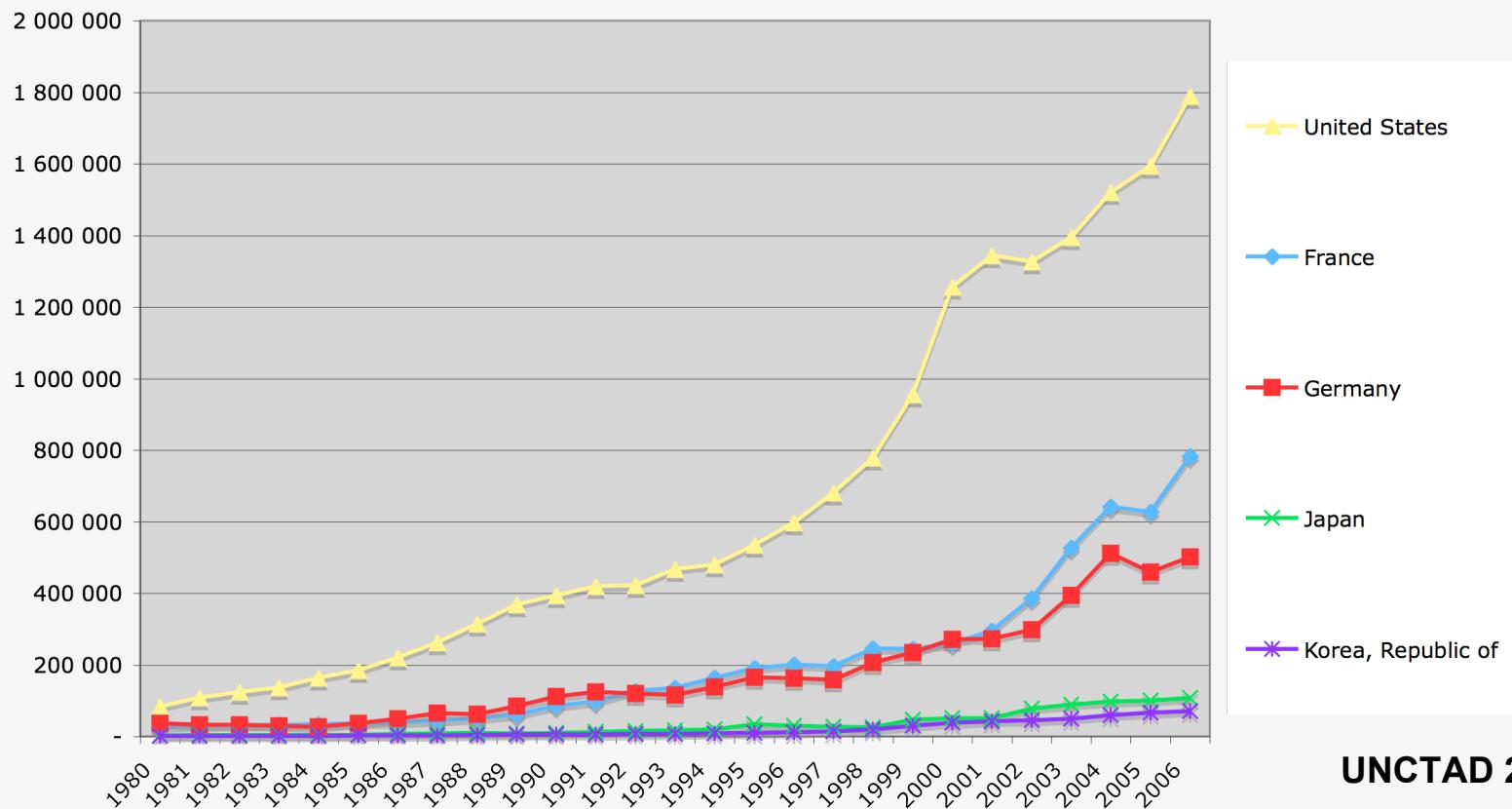
(1) Import penetration remains lowest in OECD





(2) Inward FDI position remains very low

Inward FDI Stock by Host Country



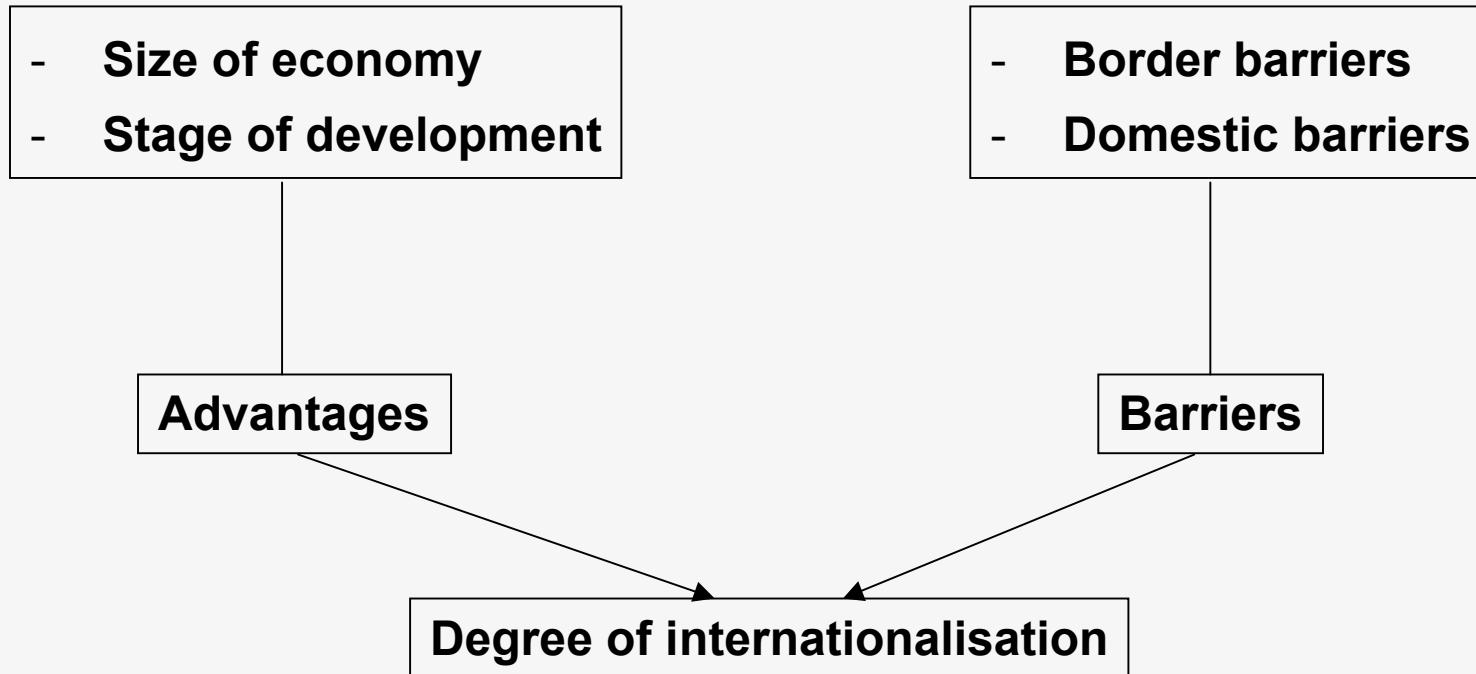


(3) Inward FDI performance extremely poor ...

Economy	Inward FDI Performance Index	
	2005	2006
Congo, Democratic Republic of	130	131
Burkina Faso	126	132
Iran, Islamic Republic of	135	133
Bolivia	136	134
Kenya	134	135
Kuwait	137	136
Japan	136	137
Nepal	139	138
Angola	30	139
Yemen	140	140
Ireland	141	141

UNCTAD 2007

... potentially, Japan should rank much better.





Given the size and stage of development of the Japanese economy, the degree of internationalization seems too low.

This means there must be some specific barriers that are not or less prevalent in other developed economies.

These barriers should restrict both trade and inward FDI.



Overview

- **Border barriers - tariffs**
- **Non-tariff border barriers**
- **Domestic regulation**
- **Structural barriers**



Border barriers

International comparative data show Japan's tariff and non-tariff barriers to be more or less in line with US and EU levels.

Similar results apply to restrictions on FDI.



Such barriers cannot explain Japan's low level of internationalisation.



Domestic regulation

In comparative studies about domestic regulations of labour and product markets and restrictions to entrepreneurship, Japan occupies a middle rank among OECD countries.

In any case, domestic regulation affects domestic companies in the same way as foreign companies.

The only possible bias would be that foreign companies are less acquainted with domestic rules and administrative procedures. However, one would not expect this to be a substantial hurdle.



Structural barriers

By exclusion of the previous barriers, the structural barriers must be the relevant ones.

The same conclusion holds when considering that over the last 50 years Japan has considerably reduced its border barriers and deregulated its domestic market, however, the degree of internationalisation has hardly increased.



Structural barriers

Def.: Barriers not created by purposeful action. Part of spontaneous order in the evolution of economic systems.

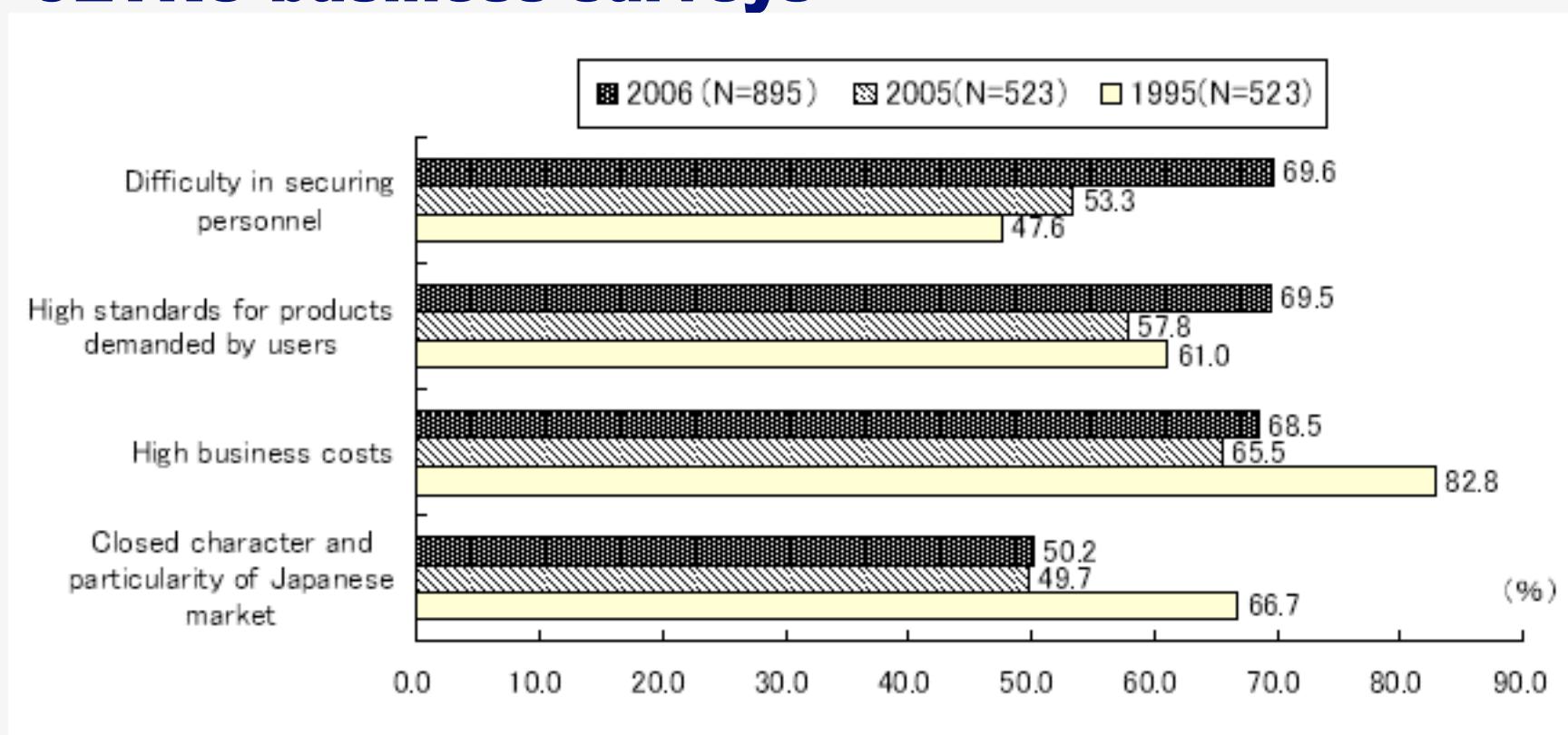
Areas: Consumer behaviour, structure of business relations, organisation of factor markets (labour, capital)

To be relevant:

- Such barriers, must have discriminatory effects on foreign business.
- They must be less prevalent in other OECD countries.



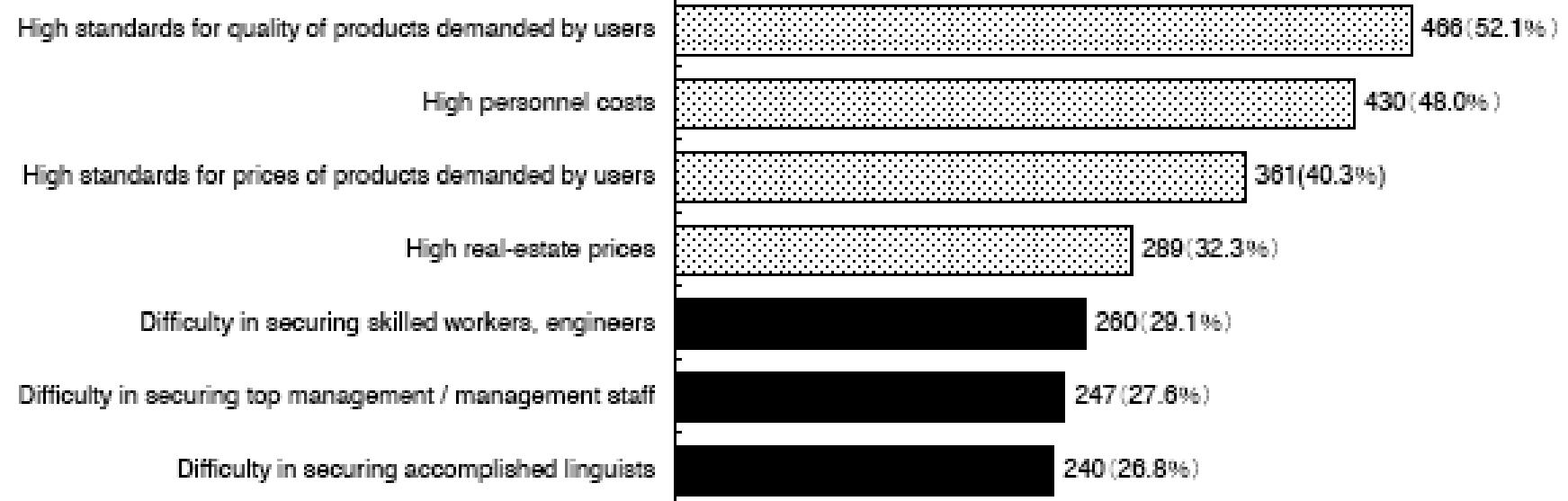
Structural barriers - importance underlined by JETRO business surveys



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Structural barriers - customer requirements and labour market conditions most important.



JETRO 2007



Structural barriers - high customer requirements and labour market conditions most important.

Why?

- **High costs and prices are per se not discriminatory.**
- **With access to qualified local labour many other adjustment problems can be overcome.**
- **However, specific customer requirements are a challenge in the communication between a Japanese affiliate and its head quarter at home even if Japanese personnel can be secured.**



Structural barriers - internal labour markets

- **The prevalence of internal labour markets for qualified employees is specific to Japan.**
- **It puts foreign companies at a distinct disadvantage**
 - **Although foreign affiliates are small in size, unlike Japanese companies of similar size, operations at foreign affiliates require highly qualified personnel.**
 - **In-house training is costly given scope of operations.**
 - **Even if in-house training is attempted, to gain access to “high potentials” a reputation as a reliable employer is needed. Given the size and short history such a reputation is difficult to build up.**



Structural barriers - the link between trade and FDI

- **Why should internal labour markets affect trade?**
 - To penetrate a foreign market, it is often necessary to establish an affiliate. This is especially true for “sophisticated” products and services requiring specific investments in the host market.
 - Empirically, there is a strong complementarity relation between FDI and trade. FDI is enhancing rather than substituting trade.
 - This can also be observed in Japan, where most foreign affiliates are engaged in sales, distribution and sales service.
 - **In conclusion: Barriers to FDI are barriers to imports!**



- **High customer requirements and difficulties in recruiting qualified local staff, seem to be the most prominent barriers to Japan's further internationalisation.**
- **The further lowering of border barriers through FTA or EPA will not change the situation.**
- **Although barriers to labour mobility have been lowered, there does not seem to be a radical shift.**
- **As long as FDI is being obstructed by internal labour markets, the import penetration of Japan will remain low.**
- **“Restrictions” on imports imply restrictions on exports.**