

**GTAP-related Activities 2004/2005**  
**- RIETI, Japan -**

June 2005

Kenichi Kawasaki

Established in April 2001, the mission of the Research Institute of Economy, Trade and Industry (RIETI) is to produce theoretical, analytical and empirical policy research and analysis. The Institute has seen a synergistic effect achieved by its proximity to and interaction with actual policymakers. The GTAP model simulation studies mainly the impact of trade and investment liberalization and facilitation, which have been key considerations for trade policymakers in Japan and other Asian economies.

1. Research Issues

a) Japan's FTA/RTA in Asia and others

Japan, that had not joined any regional agreement until recently, started the negotiations for a bilateral and/or regional Free Trade Agreement (FTA). In November 2002, the "Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership (JSEPA)" came into force. In April 2005, the "Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership (Japan-Mexico EPA) entered into force. Other efforts have been made with Korea, ASEAN countries and others.

RIETI has provided the GTAP model studies on the impact of the FTAs between Japan and those countries and contributed to the discussions at the joint study group composed of enterprises, academia and officials in Japan and the partner country. Those have been included and/or cited in the reports, which were published prior to launching the bilateral negotiations. The recent contributions include the presentation on the impact of Japan-Indonesia FTA in January 2005 and that of Japan-Chile FTA in April 2005.

Moreover, the modeling studies analyzing the impact of trade and investment liberalization between Japan and Australia were prepared for the Joint Study under the Australia-Japan Trade and Economic Framework undertaken by the two governments in March 2005. This study was carried out in cooperation with the Centre for International Economics in Australia and Philippa Dee of Australian National University.

b) APEC Trade and Investment Liberalization and Facilitation (TILF)

The Government of Japan research team in RIETI initiated the study on "The

Impact of APEC Investment Liberalization and Facilitation,” carried out under the APEC Economic Committee (EC) in 2002. A key element of this study was to quantify the investment barriers in APEC member economies based on a description of investment-area activities in the Individual Action Plan (IAP) of APEC.

The 2002 study recommended that IAPs be continually updated and improved. It was requested by the member economies that the periodic follow-up assessments of the anticipated impact of APEC actions would be undertaken evaluating the state of investment liberalization and facilitation in the region. The work plan for following up the 2002 study was adopted by the APEC EC in August 2003.

The interim report, which was submitted to EC II in September 2004, covered the basic framework of the study and the quantification data based on investment related chapters of the IAPs 2003. The methodology and initial quantification were reviewed and members agreed in principle on the methodology of the study. However, another interim report was presented to EC I in February 2005 updating the quantification of barriers based on the IAPs 2004. Quantitative model simulations will incorporate the updated quantification of barriers aiming to be submitted at the EC II in fall 2005.

c) The adjustments of global imbalances

The first brainstorming workshop of the Network for East Asian Think Tanks (NEAT) Working Group on “Promoting Economic Integration in Asia through Resolving New Global Imbalances” took place at RIETI in December 2004, followed by its second workshop in April 2005. Their objectives were 1) to exchange views on the current global imbalances arising from the unsustainable US twin-deficits and the massive foreign reserve accumulation in Asia and 2) to discuss ways to resolve the imbalances through enhanced policy dialogue and coordination among the East Asian authorities aimed at mitigating the adverse impact of a large US dollar depreciation and the resulting exchange rate adjustments in Asia.

The modeling studies carried out under this working group include the estimates on the impact of a) US external adjustments by US dollar depreciation alone, b) currency appreciation against the US dollar on individual economies in East Asia. Those will be estimated and compared by various models like single-country and global models and macro econometric and general equilibrium models. The studies are planned to be reported to East Asia Summit in December 2005.

## 2. Publications

Kenichi Kawasaki (2004), “The Sectoral and Regional Implications of Trade Liberalization”, a paper presented at the ESRI Asia Workshop on Economic Modeling, Bangkok, November 2004

Kenichi Kawasaki and Philippa Dee (forthcoming), “The Sectoral Impacts of Trade and Investment Liberalization between Japan and Australia”