

**What is Next for the U.S. and Japanese  
Economies?**

**A Bilateral Dialogue**

**Center for Strategic and International Studies  
(CSIS)**

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## **Introduction**

The Japan Chair at the Center for Strategic and International Studies (CSIS) worked with Japan Economic Foundation (JEF) to convene a public seminar entitled, “What is Next for the U.S. and Japanese Economies? A Bilateral Dialogue.” This seminar brought together a group of American specialists and a delegation of experts from Japan to exchange views on key challenges in both economies and the prospects for bilateral economic cooperation, all with an eye toward future agenda-setting. The conference consisted of nine presentations and featured keynote remarks by JEF Chairman and CEO Noboru Hatakeyama and Matthew Goodman, Senior Adviser to the Under Secretary for Economic, Energy and Agricultural Affairs, U.S Department of State. Video of their remarks, along with audio of the entire event, is posted on the CSIS website:

<http://csis.org/event/what-next-us-and-japanese-economies>

The following summary articulates key themes and recommendations that emerged during the conference.

## Summary

### Outlook for the Japanese Economy

#### *Prevailing Themes*

- One can summarize key issues in the Japanese economy with several catch phrases beginning with the letter “D”: deflation; concerns about a “double dip” recession; dilution of the stock market; deleveraging; the debt-to-GDP ratio; the policies of the Democratic Party of Japan (DPJ); de-population (demographics); the dollar (exchange rates); and disparity in income among works and across regions.
- Areas of potential can be captured in catch phrases beginning with the letter “E”: emerging economies; energy; the “eco” sector; electronic commerce; exports (to emerging economies); and the elderly (expanding the market for health care services).
- Export dependency and deflation top a long list of economic problems that explain the recent economic downturn in Japan. Monetary easing and fiscal stimulus contributed to positive growth in 2009. Japan may experience one percent real GDP growth in 2010 and two percent in 2011 but the GDP output gap will only be removed over the course of the next decade.
- Future economic strategy should flow from a new development model with two central elements: a financial “big bang” to facilitate more capable capital markets for investment and a renewed embrace of globalization through the pursuit of free trade agreements.
- The 20<sup>th</sup> century was about efficiency and Japan must now focus on productivity, public welfare and sustainability. Industry has a role to play in future growth through innovation in various sectors including services, e.g. accessible design.
- Japan should consider both supply-side measures (such as tax cuts and deregulation) and incentives to increase demand (DPJ strategy) to increase the growth potential of the economy.

## **Outlook for the U.S. Economy**

### *Prevailing Themes*

- The business cycle shows that deep recessions tend to be followed by steep recoveries. Growth forecasts for the U.S. economy in 2010 vary from as low as 1.6 percent to as high as 4 percent. Strong consumption patterns, an increase in gross private domestic investment, increased government spending in the form of fiscal stimulus, and better than average net exports suggest the higher end of the forecast spectrum is a reasonable prospect.
- Concerns about a double dip recession persist but dynamics thus far point to a normal business cycle recovery.
- Inflation does not appear to be a threat and monetary tightening is unlikely over the next year.
- A decrease in U.S. household consumption and increased savings could limit the pace of recovery. The slow growth of consumption could have a negative impact on the U.S. economy.
- The adjustment in U.S. consumption patterns speaks to the need for balanced growth in the world economy. The international community cannot rely on U.S. consumption for a global recovery.

## **Agenda for Bilateral Cooperation**

### *Prevailing Themes*

- A full-fledged U.S.-Japan Free Trade Agreement (FTA) may be difficult in the near term but a narrow focus on services could serve as a starting point.
- Both the United States and Japan are facing the same economic reality: the rapid pace of change and realigning incentives in the global economy. The two governments should not focus exclusively on the bilateral agenda and think broadly about economic integration to include issues such as investment, corporate governance, and transparency.
- Linking businesses to the global supply chain is a competitive necessity. Providing capital and ideas for the global marketplace ensures opportunities for specialization. The United States and Japan can assume a leadership role in this process and in forming a plan for global economic governance.
- Long-term objectives and flexible strategies are critical elements in bilateral economic cooperation as evidenced by recent collaborations in the pharmaceutical industry.

- Increased investment flows as outlined in the 2009 United States-Japan Investment Initiative Report are encouraging despite the global economic crisis and decrease in global trade. Capital flows into Japan demonstrate a belief in the Japanese economy.
- The bilateral economic agenda speaks to the depth and breadth of engagement and coordination between the two countries. Items include the recently initialed open skies agreement; Japan's eco-friendly vehicle purchase program; access to the Japanese beef market; postal privatization in Japan; regulatory reform; intellectual property rights; anti-counterfeiting; customs procedures; clean energy technology; coordination in the G-20, APEC, and other forums; aid to sub-Saharan Africa; and a shared commitment to strong, balanced, inclusive, and sustainable growth in the wake of the global economic crisis.
- Japan and the United States, as hosts of the Asia Pacific Economic Cooperation (APEC) forum in 2010 and 2011, respectively, have an opportunity to develop a substantive agenda focused on sustainable growth and renewable energy.
- The United States and Japan also should continue to shape the institutional architecture for economic cooperation at the global level. The emergence of the G-20 is important in recognizing emerging economies but the G-8 should be sustained as a unique grouping of nations capable of addressing a broad range of issues.