

US-Japan Relationship In Search of Real Change

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The American baseball player and manager Yogi Berra is famous for his quirky turns of phrase, many of which are so quotable: “Baseball is 90% mental and the other half is physical” or “I never said most of the things I said.”

He probably was not thinking about US-Japan relations, however, when he remarked “It’s like déjà-vu, all over again” but that is a good description of what observers might think as they review the bilateral relationship today.

In late 2000, just before the inauguration of President George W. Bush, a bipartisan group of Japan experts argued that the two nations had drifted apart during the administration of President Bill Clinton and urged a stronger security relationship.

Eight years later, during the 2008 presidential election period, both presidential candidates urged a stronger relationship and re-engagement with Japan. And as recently as President Barack Obama’s November 2009 visit to Japan, he and Japanese Prime Minister Yukio Hatoyama stressed the need for the bilateral relationship to be more “constructive and future-oriented” (Hatoyama) and to become “even stronger and more successful in meeting the challenges of the 21st century” (Obama).

So, with a seemingly strong consensus on the need for a more robust relationship, why have the two governments not been able to work more closely? Why is there a sense of frustration on both sides? What agenda might unite the countries’ leadership and private sectors more closely?

A Trans-Pacific Disconnect

There are a series of facts that would suggest that maintaining a close working partnership should be a top priority for the two governments. The United States and Japan are ranked respectively first and second in the world in terms of the size of gross domestic product (GDP), accounting for one-third of the entire world’s GDP. The two economies are united in an extraordinary number of ways:

- The continuing defense commitment of the United States is crucial to Japan’s national security as well as Asia’s regional security.
- Japan is a very stable country with universal values similar to those of the United States, including its commitments to democracy, the rule of law, respect for freedom and a market economy.
- Japan is a peace-seeking country and has adopted a firm policy of not producing nuclear weapons, of supporting the Nuclear Non-Proliferation Treaty (NPT) and of not exporting weapons.
- Japan supports international organizations, politically and financially, including the United Nations, the IMF, the World Bank and the Asian Development Bank. Likewise, the United States provides a major share of the resources and plays a leadership role in these same institutions.
- Japan ranks as the second largest supplier of foreign direct investment to the United States, creating more than 600,000 job opportunities for

Americans, and the United States is by far the largest destination for Japan’s foreign investment (31.9%) and is also by far the largest source of direct investment in Japan (33.5%). (latest figures)

- Two-way trade is enormous – \$147.1 billion in 2009.
- Japan is the second largest foreign holder of US Treasury securities.
- Japan is a leader in developing energy-conservation and alternative energy technologies, and has extensive experience in operating nuclear power stations.
- The United States is a leader in developing information technologies and biotechnologies.
- The United States accounts for the largest share of foreign holdings of Japanese stocks.

Despite these facts, the level of economic and political cooperation between the two nations is well below potential. This disinterest used to be called among policy circles in the United States “Japan fatigue.” Frankly speaking, a better description today might be “Japan indifference.”

Focusing on the Dragon

The rise of China is an important reason for the diminishing US-Japan relationship, and the explanation is straightforward: the tremendous growth of the Japanese-Chinese trade relationship. [Chart 1](#) shows Japan’s exports to the United States, the EU and China, and [Chart 2](#) its imports from those partners. Japan’s exports to and its imports from China have risen dramatically over the past years, especially after China’s accession to the WTO. In 2009, China became Japan’s largest export and import markets. Remarkably, Japan’s imports from China in 2009 exceeded its imports from the United States and the EU *combined*.

These startling figures and trends provide ample reason for the Democratic Party of Japan’s (DPJ) focus on China. But having acknowledged these significant developments, this paper argues that the US-Japan relationship is even more important today and that both nations need to invest much greater effort to promote cooperation in areas of mutual interest.

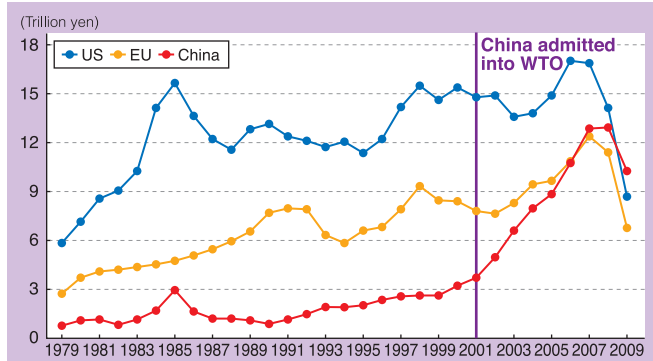
Rebuilding US-Japan Relationship: A Joint Action Agenda

The long and multifaceted historical relationship between the two countries provides a foundation for a new, 21st century partnership. The partnership comprehends actions focused on expanding economic and political cooperation between the countries as well as joint work that is aimed at achieving mutually held global goals. It recognizes the strengths that both nations enjoy and areas where cooperation can be most fruitful.

Based on discussions that we participated in with experts from Japan and the United States, we proposed to the newly elected Hatoyama and Obama

CHART 1

Japanese exports to China dramatically increase relative to exports to US & EU after China's WTO entry



Note: Composition of EU increasing over time from original EU (9) to current EU (27)
Source: Trade Statistics of Japan, Customs & Tariff Bureau, Japan Ministry of Finance

governments a Joint Action Agenda to implement this new partnership. In our view, elements in which the two countries could find a common interest would include:

- Strengthening the security relationship
- Negotiating a modernized bilateral Treaty of Friendship, Commerce and Navigation
- Simultaneous achievement of the 3Es – economic growth, energy security and environmental protection
- Addressing climate change
- Improving food safety and security
- Enhancing cooperative innovation
- Creating sound, stable financial and capital markets
- Achieving a successful conclusion to the Doha Round of WTO negotiations with revised and enhanced content
- Enhancing integration of the two economies
- Promoting Asia-Pacific regional integration

A. Strengthening Security Relationship

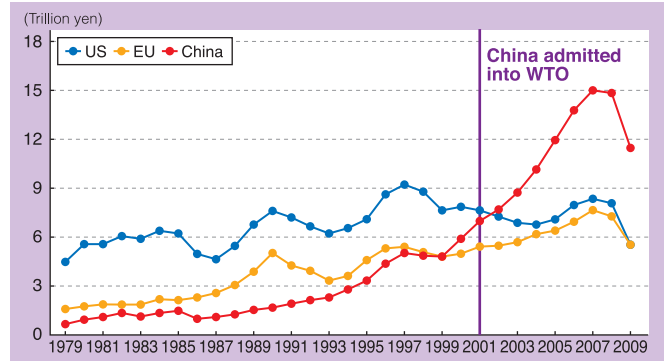
The 1960 Treaty for Mutual Cooperation and Security remains the foundation of the US-Japan alliance and the key element in maintaining peace and security in East Asia. The two governments should rededicate themselves to consolidating the foundation of the security relationship and continuing to transform it to meet the challenges of the 21st century. They should work cooperatively to identify and deploy nonmilitary tools to fight terrorism and insurgency in countries of mutual concern. This may include economic, commercial, diplomatic or other means.

B. Negotiating a Modernized Bilateral Treaty of Friendship, Commerce & Navigation

Both nations celebrated the 50th anniversary of the signing of the Treaty for Mutual Cooperation and Security last January. The governments should start exploring the possibility of the launch of negotiations for modernizing another key agreement, the Treaty of Friendship, Commerce and Navigation (FCN). Modernizing the FCN treaty would serve as a modest but important first step in deepening economic cooperation. The modernized FCN treaty should aim at enhancement of regulatory convergence and transparency, improvement of investment rules, facilitating freedom of movement of persons and establishment of mechanisms for facilitating cooperation in energy and food supply in emergencies.

CHART 2

Japanese imports from China also increase relative to US & EU even before China's WTO entry



Note: Composition of EU increasing over time from original EU (9) to current EU (27)
Source: Trade Statistics of Japan, Customs and Tariff Bureau, Japan Ministry of Finance

C. Simultaneous Achievement of 3Es – Economic Growth, Energy Security & Environmental Protection

Together with the private sector, the US and Japanese governments should work together both bilaterally and globally to achieve simultaneously the 3Es. Partial achievement of any of these goals could result in canceling out achievement in the other two. For example, the continued conventional use of coal is an economic option for energy security, but it will hamper climate change mitigation. Imbalanced climate change commitments risk failure to attain economic growth goals.

D. Addressing Climate Change

The key to coping with challenges of climate change is for the United States and Japan, the two countries that are most advanced in developing the relevant technologies, to work together to develop additional innovative technologies to reduce or eliminate CO₂ emissions. Both countries should collaborate to deploy existing low-carbon technologies to developing countries through official development assistance (ODA) efforts, including via the assistance of the World Bank and other development agencies, as well as through private investment. The two countries' cooperation should also involve trade, intellectual property rights protection, and financial policy aspects of addressing climate change. More specifically, both countries should push for lower tariffs on environmental goods, strong intellectual property rights protection for green technologies and enhanced financial arrangements to facilitate technology transfer.

Given the poor results of the December 2009 UN Climate Change Conference in Copenhagen, as well as an apparent collapse in broad political support for and growing skepticism regarding continued international negotiation of a cap + trade system in the United States, we believe there will be a redoubled US focus on technological solutions for climate change mitigation. Such greater reliance on technology, and creation of public/private partnerships, will naturally make cooperation in creative ways between the two nations even more valuable.

E. Improving Food Safety & Security

Both nations need to devote substantial attention to ensuring that only safe food products are provided to their populations in ways that are responsive to the concerns raised in a number of recent incidents, consistent with international obligations and norms, and which strive to address overburdened regulatory processes. Clearly progress on this subject is needed. The two countries can work together to create new international rules.

F. Enhancing Cooperative Innovation

Japan and the United States each have strengths in innovation and in research and development which can yield increased results through cooperation, coordination and identification of mutually reinforcing synergies. Specifically, governmental laboratories, universities and companies in both countries should cooperate with each other to develop innovative technologies in the field of bioscience, including vaccines against AIDS, malaria and tuberculosis as well as antibiotic-resistant bacteria. There are similar opportunities in the field of climate change/green energy.

G. Creating Sound, Stable Financial & Capital Markets

Many of the financial problems facing both countries and their trading partners were foreseeable. There needs to be a full-scale effort by officials and experts from the United States, Japan and other countries/regions to investigate the problems and make needed corrections. In light of this, the establishment of a US-Japan-EU trilateral discussion forum would be beneficial, aiming at collaboration on: 1) macroeconomic policy, and 2) how financial markets and corporate governance need to be improved. The discussion's result should be harmonized rules for financial firms and instruments used internationally, as well recommendations for actions by each nation. This forum should consult with, and take account of, related work underway in the G-20.

H. Improving Multilateral Trade Regime & Doha

The two governments should assign a high priority to a successful refocusing and conclusion of the Doha Round. It is clear, however, that success in the negotiations requires substantial improvements in the multilateral regime provided by the WTO. This is of vital importance to the durability of a liberal world trading system, and of particular importance to resisting protectionism and fostering recovery of the world economy. Specifically, both governments should agree that among the improvements would be the following subjects of immediate concern: enhancing global welfare of all peoples, especially those in the emerging economies through liberalization of markets for "green technology"-enhancing products and information/communications technology products; drafting the rules that will govern subsidies and import restrictions tied to domestic climate change measures; improved standards and procedures to ensure food and product safety, rules on export controls used in times of food and raw material scarcity; better disciplines on forced technology transfer and other distortions imposed in connection with investments; improved rules to increase the use of international rather than national standards where adverse trade effects might otherwise occur, guaranteeing a basic level of freedom of information; improved transparency of WTO dispute settlement and management, and negotiating improved access for services in parallel with improved regulation of financial institutions in other fora. In addition, the two countries would share an interest on misalignments of exchange rates and should develop proposals on this subject for the WTO.

I. Enhancing Economic Cooperation Between the Two Economies

The two governments need to redouble efforts to fully consult on issues of mutual concern before, not after, decisions are taken. They need to make these decisions and consultations better known to their people and avoid the unnecessary politicization of trade and technical issues.

Moving beyond a strong conclusion to an enhanced and relevant Doha Round, exploration should start immediately on whether there is mutual benefit to be derived from negotiation of a high-standard US-Japan economic partnership agreement (EPA). An EPA could include a range of trade and investment liberalizing measures as well as issues of current concern and importance to, and meriting the support of, the wider stakeholder community involved in trade negotiations today.

J. Promoting Asia-Pacific Regional Integration

Japan should actively review the opportunity for regional economic integration presented by the Trans-Pacific Partnership (TPP) negotiations which the United States has recently announced it has entered. Given the current political and economic climate in the United States, the TPP is likely to be one of the few, if not the only "game in town," in terms of regional economic integration negotiations to which the United States is a partner.

K. Building Blocks to Creating an Enhanced, More Effective Dialogue

As it is clear that there is not yet the commitment in either country to move immediately into a broader and deeper level of closer economic cooperation, a "building-block approach" offers a practical means to make progress at this time. This building-block approach includes:

- A Business Environment Initiative which would focus on sector-specific and cross-sectoral issues.
- A Cabinet-level forum to discuss strategic bilateral, regional and global issues facing the two nations.
- A US-Japan Economic Summit every two years between the president and prime minister.

These institutional arrangements would be able to move forward on the extensive range of issues before both nations and would yield concrete, near-term results while building support within Congress and the Diet for a more inclusive, more formalized bilateral relationship.

Conclusion: Recognize Each Other's Strengths

The global economic crisis offers many lessons, including that no one nation, no matter how large or economically powerful, can take effective action alone. The foregoing Joint Action Agenda offers both governments, and their private sectors and other stakeholder groups, ideas on how Japan and the United States can work cooperatively to achieve mutually shared objectives.

A closer US-Japan relationship is not a goal in itself, but rather is a means to a better life for people of both countries and the world. The bilateral partnership has contributed to prosperity, security and stability for 60 years. The task for both the Obama and Hatoyama governments is to recognize the unique strengths that each nation offers the other in a partnership leading to achieving clear goals. Doing otherwise risks proving Yogi Berra right when he warned: "If you don't know where you are going, you might wind up someplace else." **JS**

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