

Toward Freer Trade In Services : A Business View

By Masaya Miyoshi

One of the most notable developments in the world economy is the expansion of service industries. This is true especially of the industrialized economies of the West where the weight of services and software has been increasing rapidly. There have been discussions and studies on the liberalization of service trade at both bilateral and multilateral forums, including the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). In Japan this question has been studied in detail by the Japan-U.S. Businessmen's Conference and the Federation of Economic Organizations (Keidanren) as well as by the government. What has transpired so far in the discussions in business circles, and how will service trade liberalization develop in the future?

The business response to calls for freer service trade

Service trade liberalization was taken up for the first time between Japan and the United States at the Japan-U.S. Businessmen's Conference. In May 1981, the governments of the two countries called on the conference to follow up on recommendations made by the Japan-U.S. Economic Relations Group (the so-called Wise Men's Group) and study ways of strengthening bilateral economic relations. This request was made in the names of then U.S. Secretary of State Alexander Haig and Japanese Foreign Minister Sunao Sonoda. Joint task forces were created to discuss service trade along with trade laws and practices and agriculture. In July 1983, following 18 months of discussions, a joint report was presented at the 20th Japan-U.S. Businessmen's Conference.

The Joint Task Force on Trade in Services was co-chaired by John Haley, executive vice president of Chase Manhattan

Bank, and Soichi Yokoyama, adviser to the Bank of Tokyo. Discussions involved seven areas—banking, securities, legal services, insurance, airfreight, ocean shipping, and data processing and telecommunications. A 31-item list of problems in service trade was presented by the U.S. side, and the Japanese side commented on the issues raised. Three criteria were used: whether the problem did in fact exist; whether national treatment was already being accorded; and whether the problem was actually a matter of reciprocity rather than national treatment. The group gave highest priority to the second criterion, in the belief that it is not always appropriate to apply the principle of reciprocity in Japan-U.S. trade because the two nations have such different systems and institutions. This is especially true in service trade, which involves a wide range of activities. The report of the joint task force reached the following conclusions:

Banking—National treatment is already being accorded U.S. banks in Japan. Further efforts should be made to promote the liberalization and internationalization of Japan's financial markets.

Securities—National treatment is also being accorded in this area. The U.S. side,

however, expressed dissatisfaction that the number of members of the Tokyo Stock Exchange is currently fixed at 83, and that the cost of a membership, when available, is extremely high (about \$4 million).

Legal Services—The hope was expressed that dialog would continue between the Japan Federation of Bar Associations and the American Bar Association on the liberalization of legal services. It should be noted, however, that the JFBA was not represented at the discussions.

Insurance—The U.S. side complained of the long time required by Japanese authorities to approve new insurance businesses and products. The Japanese side maintained that the domestic insurance market is already sufficiently open. No agreement was reached.

Airfreight—Joint proposals were made on four points: (1) Customs clearance in the two nations should be improved; (2) the two governments should approve tax-free importation of ground support equipment; (3) the U.S. government proposal to levy customs service user fees should be abandoned; and (4) the Japanese government should open Chitose Airport to international flights transporting perishable goods.



A joint report on service trade was presented at the 20th Japan-U.S. Businessmen's Conference in July 1983.

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Ocean shipping—Improvements are being made on a number of issues, including the present prohibition on using non-Japanese standard marine containers (hi-cube containers) in Japan and the Japan Tobacco and Salt Public Corporation's refusal to use non-Japanese carriers for U.S. leaf tobacco shipments. The two sides agreed to closely watch future developments in these and other areas.

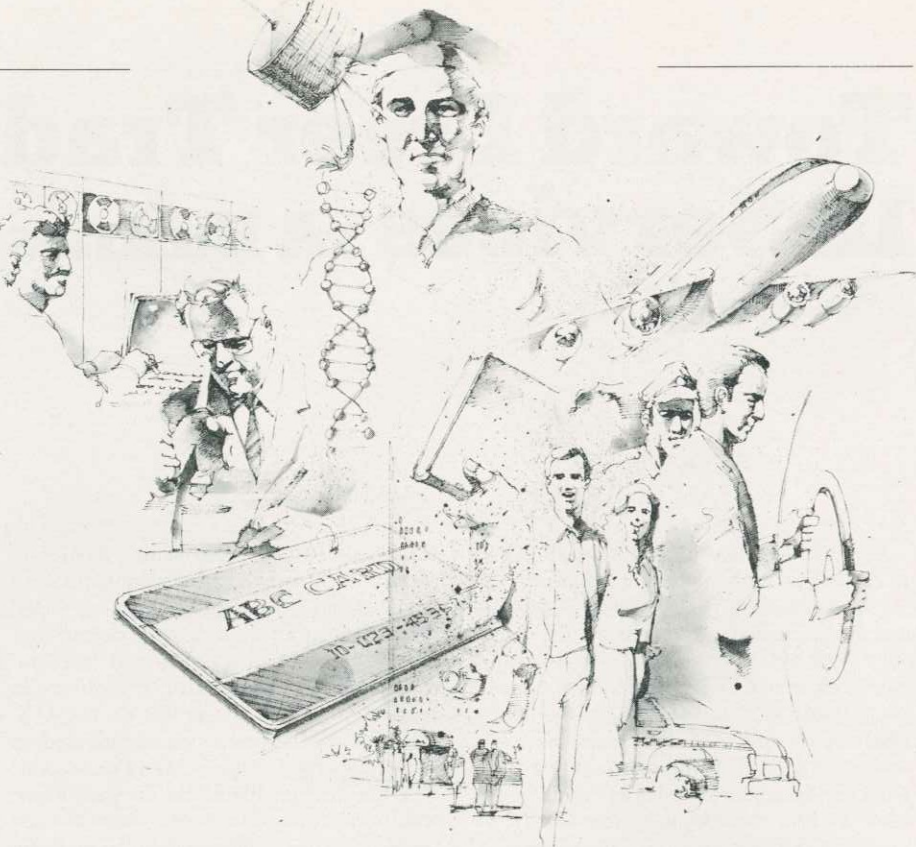
Data processing and telecommunications—The U.S. side complained about possible Japanese restrictions on future VAN (value-added network) services. The Japanese side explained that Japan's business community had asked the government to liberalize such services for large business enterprises and other groups. (Note: Legislation was submitted to the Diet in April this year that will make the VAN communications industry open to Japanese and foreign enterprises on an equal basis and this has been welcomed by U.S. officials including Special Trade Representative William Brock. See p.10—Ed.)

The task force proposed to the governments of both nations that they start bilateral and multilateral negotiations to reduce the barriers to international trade in the service area, and that they support preparations for such talks for the mutual benefit of Japan and the United States.

The focus of trade friction between the two nations has clearly shifted to the service sector in recent years, as the United States stepped up its demands for wider access to Japanese financial and capital markets and to the Japanese market for VAN and other telecommunications and data processing services. These requests clearly reflect the financial revolution and the liberalization of telecommunications in the United States. Keidanren has maintained that Japan should move positively to liberalize service trade and establish service trade rules, arguing that it is in the country's interest to maintain and strengthen the free trade system.

In an April 27, 1982 statement entitled "For Better Economic Relations with Our Trading Partners," Keidanren called for positive cooperation to establish international rules on trade in services and investment.

In September 1983 Keidanren further published a statement outlining its proposals for the internationalization of Japan's financial and capital markets. The statement said Japan should take substantive measures including early action to deregulate interest rates, the lifting of all restrictions on foreign direct investment in Japan, reduced controls on issues of yen-denominated foreign bonds (particularly private bonds) and abolition of the so-called "real demand rule" for forward currency trading. Keidanren also proposed establishing an offshore banking facility in Tokyo and a yen-denominated



bankers' acceptance market. The organization backed the internationalization of the yen as one way of meeting Japan's growing international responsibilities.

In its statement Keidanren also argued for reciprocity in legal services in order to promote mutual understanding and human exchanges. It said Japan should allow foreign lawyers to open offices in Japan and recommended expanded exchange through mutual recognition of license qualifications in various fields of law practice. This position was conveyed to the Japan Federation of Bar Associations through an informal exchange of views.

Keidanren believes the principle of national treatment, along with most-favored-nation treatment, should be observed in the liberalization of service trade, but also that reciprocity should be taken into account as far as practicable. The cultural and traditional aspects of service industries in various countries make it difficult to apply this principle across the board, but Japan should approach as closely as possible the national treatment accorded by other countries.

Liberalization of service trade

Measures to liberalize trade in services have been discussed at international forums such as OECD and GATT. The United States, Canada, Britain and other major industrial countries are enthusiastic about promoting liberalization in this sector. For its part, the Japanese government

expressed its readiness to help establish international rules for freer service trade in a market-opening program announced in May 1982. However, much remains to be done. In the longer term, a comprehensive liberalization program should be worked out on a multilateral basis. In parallel with such international talks, bilateral consultations and negotiations should be held to reduce service trade barriers. Keidanren believes that Japan should liberalize at its own initiative, rather than under pressure from foreign countries, since the promotion of international trade and competition in services is in Japan's own best interests.

Prime Minister Yasuhiro Nakasone and President Ronald Reagan agreed in November 1983 on the need to start a new round of multilateral trade talks to stem the protectionist pressures now loose in the world. Keidanren fully supports the proposed new round to promote freer international trade. The proposed multilateral negotiations would deal not only with pending problems, such as so-called "safeguards," industrial adjustment, agriculture and issues involving the developing countries, but also with new problems such as the liberalization of trade in services and high technology. The OECD study on services will likely continue in parallel with such talks under the auspices of GATT. Keidanren believes that Japan should take the initiative in preparing international rules for service trade, to promote international trade and competition in this growing field. In this endeavor the Japanese government can count on the solid support of the business community. ●