

Toward a Japan-U.S. Economic Cooperation Charter

By Makoto Kuroda

Trade friction between the United States and Japan is no longer confined to the trade in goods but has turned into a complex and structural problem deeply rooted in the two countries' different systems and different practices and now encompasses security-related issues and other areas directly tied to the basic national policies. These changes have made trade friction an increasingly political issue, and they carry the risk of overall damage to a relationship that former U.S. Ambassador to Japan Mike Mansfield has termed "the most important bilateral relationship in the world, bar none." Recognizing the importance of Japan-U.S. relations, Mansfield proposed a Japan-U.S. free trade arrangement as a means of resolving the issues that face the two countries from a broader and longer-range perspective.

In light of the bilateral interdependence between Japan and the U.S., close cooperation is prerequisite to continued prosperity. And given the two nations' positions in the world economy, such cooperation is also essential to world economic stability. With this in mind, a number of concerned academics and businesspeople formed the Study Group for a Japan-U.S. Free Trade Arrangement in September 1988 under the auspices of the Japan Economic Foundation. The group has taken the issue of a possible free trade agreement as a starting point for studying Japan-U.S. relations across the board, and this article summarizes the results of our studies and our policy recommendations so far.

Why an economic charter?

There were many arguments, both for and against, concerning the viability of a Japan-U.S. Free Trade Arrangement. The main thrust of the discussion in this respect was:

- It would be very significant if all of the restrictions and barriers to trade between the U.S. and Japan could be

removed to make economic activity between the two completely free. Given the economic superpower status of both Japan and the U.S., however, there are doubts about the wisdom of a traditional free trade agreement executed bilaterally—which would benefit the two countries exclusively—since this would risk having a major impact on other countries as well as a negative impact on the GATT system.

- In light of the multifaceted interdependence of Japan and the U.S. and the responsibility both nations have within the world economy, an effort must be made to devise and implement arrangements allowing for wide-ranging free economic activity irrespective of national borders and providing equal treatment to all countries. Furthermore, a framework for cooperation should be built for the prevention or objective settlement of such friction as may develop between the U.S. and Japan as a result of these closer relations.
- We thus feel it is necessary to go beyond Ambassador Mansfield's idea and to move as quickly as possible to build a joint framework for wide-ranging cooperation without the image of exclusiveness that a Japan-U.S. free trade agreement would evoke. This would not only be in the economic in-

The following two articles concern progress made by a study group on a Japan-U.S. free trade arrangement and the latest meeting of an Anglo-Japanese forum on interchanges among high-tech industries. Both discussions were held under the auspices of the Japan Economic Foundation, publisher of the *Journal*.

terests of both countries but would also contribute to world economic stability.

The group began by debating a framework for wide-ranging cooperation in line with this general theme, and by incorporating both the idea of cooperation and the specific course to be taken in pursuing it, has agreed on the Economic Cooperation Charter.

Calling for a deepening of mutual trust

One thing that must be considered in debating this Japan-U.S. Economic Cooperation Charter is the lack of mutual trust between the two countries at present. Without a common understanding of the situation, the two countries continue to blame the friction on each other and this distrust feeds on itself to spawn greater distrust. Japan and the U.S. must first agree on the causes of trade friction and develop a mutual trust before they can hope to build an Economic Cooperation Charter.

It is worth noting here that the United States claims it has trouble understanding Japan because of the lack of transparency in Japanese social and other systems and cites this to justify its adoption of a results-oriented approach to trade policy with Japan. The Japanese, however, see



U.S. Trade Representative Carla Hills with Ichiro Ozawa, former vice Cabinet secretary, after concluding U.S.-Japan negotiations on electronic and communications equipment trade issues

Photo: Kyodo News Service

the results-oriented approach as simply an excuse for the U.S. to blame Japan for its own inability to attain its objectives. It is easy enough to dismiss U.S. complaints about the supposed lack of transparency as American blindness, but that dismissal does little to strengthen Japan-U.S. cooperation. Rather, the need is for both countries to make a greater effort to understand each other. The strong opposition that has erupted in Japan over the U.S. Congress' decision to target Japan under "Super 301" has made this imperative of strengthening mutual trust more important than ever.

The double-track approach

Two tracks must be pursued if a Japan-U.S. Economic Cooperation Charter is to be attained. First, in fields where neither the objectives nor the means for solving problems are clear, both nations must examine the other's positions and, based on empirical data, work together to narrow the perception gap and to widen the areas of shared understanding. Second, in areas where there is already a common understanding on the objectives and directions of cooperation, Japan and the U.S. must take joint action in finding innovative ways to implement specific policies.

These tasks must be carried out simultaneously and in parallel, which is why the group has come to call this the double-track approach.

Track 1: Joint analysis for understanding

As part of the double-track approach, joint inquiries and analyses by a Japan-U.S. economic structure study group of scholars, businesspeople and other interested parties would be one way of creating common understanding. The subjects of study could be selected based on requests from the government agencies responsible for Japan-U.S. relations and should offer a forum where each can hear the other out and verify the facts—e.g. a comparative survey of manufacturers' prices in each country—and this joint inquiry committee could present its results and policy recommendations to the two governments. Joint research activities need to be transparent and easily understood by everyone, and it would be best to limit the length of time for each inquiry to between six months and a year to avoid criticism from either side that the other is stalling.

Secondly, Japanese views on international economic problems have had far less output and exposure in English than American views have had, and it is there-

fore necessary to rectify this imbalance by enhancing the arrangements for giving full and timely coverage to Japanese speeches, papers, economic reports and other information in English. The establishment of an International Economic Information Center would be one step in that direction.

Thirdly, in light of the politicization of trade friction, it is essential that, given the major role they should play in defusing that friction, legislators from both countries have increased opportunities for engaging in candid exchanges of views.

Track 2: Specific cooperative programs

There are a number of areas where the problems between the two countries have already been pinpointed and it is now time to begin joint efforts to solve them. The group has already discussed the present problems, their impact on economic activity, and the potential for cooperation on: (1) reducing or eliminating trade barriers on both industrial and agricultural products, (2) establishing rules for new fields such as intellectual property rights, services and investment, (3) harmonizing tax, financial and distribution systems, as well as systems related to antitrust laws, industrial policies and corporate behavior, (4) macroeconomic policy coordination, (5) joint responsibility, and (6) a dispute settlement mechanism. A number of essential joint activities have been proposed (as listed below), and it is hoped that action will begin, starting with the more amenable areas.

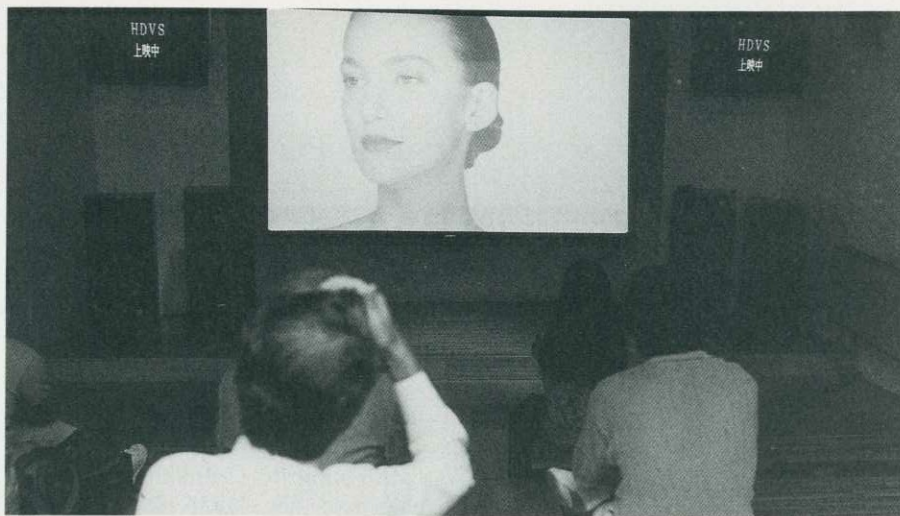
—On the reduction or elimination of trade barriers, the U.S. and Japan should consider jointly announcing their intention to reduce tariffs on industrial goods to zero on a most-favored-nation basis in the medium term as well as to make step-by-step reductions in agricultural trade barriers while considering how to ensure food supply stability.

—Concerning the establishment of rules for new fields, while both nations should cooperate to ensure success in the Uruguay Round, they should also continue their medium-term bilateral discussions on intellectual property rights and service areas not dealt with



Former Prime Minister Sousuke Uno (right) at the Uruguay Round Montreal ministerial meeting, which he attended as foreign minister

Photo: Mainichi Shimbun



High-definition television, known as "Hi-Vision" in Japan, broadcast in experimental stage

in the Uruguay Round. Both nations should also consider establishing common rules for investment, including those rules related to national security concerns.

- The harmonization of systems does not mean one side's changing its system to accommodate the other but means combining the best features of both systems and even developing a new-and-superior system. For example, Japan and the U.S. should consider the establishment of common rules to prevent transfer price tax systems from hobbling international corporate activities, a comparison of the two countries' antitrust laws as actually applied, government support for the joint development of technologies such as high-definition television and superconductivity, and cooperation toward the establishment of new multilateral rules on financial activities.
- In the coordination of macroeconomic policies, Japan must do its best to expand domestic demand and the U.S. must strive to reduce its budget deficit and to raise its savings rate.
- Concerning joint responsibility, the U.S. and Japan must consider burden sharing from the standpoint of providing the international public resources that the global community needs through such means as import expansion, economic cooperation, and dealing with the debt and environmental problems.
- We must consider establishing dispute settlement mechanisms including panel arbitration systems in areas where rules have already been clarified, such as with antidumping, counter-

vailing duties and the semiconductor agreement.

One way to ensure that Japan and the U.S. are able to smoothly implement this double-track approach would be for the two governments to establish a committee at the highest possible level to manage the process by determining the studies and measures that are necessary and to plan schedules for their implementation, as well as to devise new policy assessments based on the results of these studies.

Joint efforts to reduce the trade imbalance

The group set out to look at what might constitute a desirable course for Japan-U.S. cooperation in the future using the idea of a U.S.-Japan free trade arrangement as a starting point. Considering ways to reduce the bilateral trade imbalance was not one of its objectives. It is felt, however, that the double-track approach is an effective way to reduce trade imbalances. For example, the first track (joint inquiries in pursuit of common understanding) could provide an excellent framework in which to look for ways to reduce the imbalances, and the second track (a step-by-step approach to specific cooperative endeavors) would contribute on a macroeconomic level by promoting policy cooperation and on a microeconomic level by strengthening U.S. industry's competitiveness and improving market access.

Nevertheless, trade imbalances must be looked at from a global rather than a bilateral perspective. Otherwise, managed trade will become inevitable and the bur-

den of trade imbalances will simply be shifted to the weaker countries. Thus although we feel that the results-oriented approach's reliance on managed trade is inappropriate, we realize that everyone expects results to follow from cooperation. Results are not something that are achieved by advocacy alone. The results achieved will be in direct proportion to the efforts Japan and the U.S. make in these joint endeavors based on proper prescriptions.

Toward a new stage in Japan-U.S. cooperation

As trade friction between Japan and the U.S. becomes more strident, both nations find themselves at a dangerous fork in the road. They can either choose a common path and strengthen their cooperation, or choose separate paths and thus weaker ties.

Yet for Japan and the U.S. to succumb to trade friction and choose separate paths would have an inevitable and immeasurable impact on the stability of the free world. Given their crucial role in stabilizing the world economic system, the two largest economic powers in the world must not be allowed a parting of the ways. Both nations must consider friction as a necessary cost of the enhanced interdependence that their development necessitates. The U.S. and Japan must strengthen their cooperation by constructing a mechanism for preventing new conflicts and settling existing ones unemotionally.

The group has proposed the drafting of a new Japan-U.S. Economic Charter using a double-track approach with this in mind. Joint efforts to construct a new framework for bilateral cooperation need to be undertaken immediately—before trade friction does irrevocable damage to the Japan-U.S. relationship.

Makoto Kuroda was vice minister for international affairs of the Ministry of International Trade and Industry. He is an adviser of the Japan Economic Foundation and of the Long-Term Credit Bank of Japan, Ltd.