

Cooperation and Free Trade

By Shinji Fukukawa

I am convinced that cooperation among the nations of the Asian-Pacific region, including the United States and Japan, is highly desirable. I feel this way for a number of reasons, the first being that the economy of this region has such high growth potential. Over the past few years, the Asian-Pacific economy has grown at a rate surpassing most of the rest of the world's. The region's share in the world economy in terms of nominal GDP rose from 41.2% in 1980 to 52.2% in 1986. Measured by exports, the share rose to 37.5% from 31.1% during the same period.

At the same time, however, it is true that this region is facing various problems, such as the fragility of the Asian NIEs and ASEAN. This fragility of the region includes: the existence of a substantial trade imbalance, fear of the deflationary effect on the countries concerned as a consequence of future attempts by the U.S. to reduce the budget deficits, high dependency on exports, and a lack of supporting industry. It is necessary for the nations concerned to solve these problems by cooperating with each other. Thus, if this region can continue to live up to its potential to grow vigorously, I believe that it will be able to play the role of locomotive to lead the world economy in terms of ability to supply materials, markets and development of technology.

The second reason is the rapidly growing interdependent ties between the nations in this region. In the case of Japan, for instance, the proportion of trade carried on with other Asian-Pacific nations rose from 50.6% to 61.3% during the years 1981 through 1987. The percentage for the U.S. rose from 40.3% to 48.5% and for the NIEs, from 58.8% to 63% during the same period. Japanese direct investments in the U.S. showed about a 2.7-fold increase from 1985 to 1987, while U.S. investments in Japan grew approximately 2.2-fold. Japanese investments in the NIEs rose 3.7-fold, while U.S. investments in the NIEs climbed an eye-opening 8,000% during the same period.

An international division of labor has been developing at the same time. The Asian NIEs and ASEAN nations, which had tended to base their development largely on exports to the U.S., recently have been exporting less to the U.S. and more to Japan. In fact, Japanese imports of finished products from the Asian NIEs showed a 60% increase in 1987 compared with the previous year. From January through September of 1988, these imports rose 54%.

Powerful markets

Imports by the Asian NIEs and ASEAN nations have also increased. Imports by the Asian NIEs from January through June of 1988 were up 43% against the previous year, and the total imports of the Asian NIEs have surpassed those of Japan. As for the ASEAN nations, imports from January through March of 1988 were 42.6% higher than in the previous year. As we can see from the above figures, the Asian NIEs and ASEAN rapidly increased their imports along with Japan. As a result, these regions are beginning to become very powerful markets in the world economy.

There is a third reason why Asian-Pacific cooperation is so important, and this is that common interests and concerns have been expanding. Needless to say, the different stages of economic development among the region's nations make it too early to aim at a homogeneous and integrated market like the European Community. I believe that the nations in the region will be able to tackle many common problems through mutual cooperation, however. We can cooperate, for instance, in efforts to stabilize the energy supply, in consolidating information and communication networks, in enhancing transport capacity, in improving investment conditions and in dismantling trade barriers.

One thing I would like to emphasize here is the steady progress the region's

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nations have been making in democratization, in both the political and economic sense of the word, and also in promoting political stability and the market economy. I think that this proves the success of America's foreign policies in the postwar period. I am afraid that there may still be many problems to be solved before economic and political democratization is realized. I am firmly convinced, however, that democratization will take root in all of the nations in this region.

Next, I would like to talk about some of the forms that regional cooperation can take. We need to give serious thought to how we should cooperate to encourage economic development in the Asian-Pacific region while setting an ultimate goal of contributing to the development and stability of the world economy. More concretely, I think that we should, first of all, help each nation to build a firm foundation for independent development while promoting interdependence among all nations concerned.

This means that we should aim for development based on an allocation of roles suited to each nation's economic ability, rather than adhering to the conventional type of development that depended too heavily on the American economy. For this purpose, we will need to take a gradual series of measures to expand domestic demand, liberalize markets, establish corporate independence and extend appropriate economic cooperation.

Seeking a framework

Other tasks that need to be addressed include improving education, building infrastructure, expanding medical care, preventing environmental pollution and improving working conditions. These are the kinds of considerations we should keep in mind as we seek a framework for international cooperation. Japan has devoted a great deal of effort to the development of the region by expanding both its imports and economic cooperation, so

that the U.S. will not have to bear such a large burden.

Secondly, creating a specific framework for cooperation will require a broad consensus. Given the diversity of this region in matters such as race, culture and economic development, it will take much time and effort before we can attempt an approach like the OECD system. Also, Southeast Asian countries tend to be very wary in their dealings with the major economies.

I think that we should handle this problem carefully, and the economic powers should be flexible enough to respect the independence of the nations concerned. For the time being, the best thing to do is to promote discussion among people in various fields, including industry, academia and government, in order to accumulate what results we can while seeking out common interests.

Thirdly, any cooperative framework should be open to the participation of nations in other regions. This is necessary for the purpose of maintaining the competitiveness of the Asian-Pacific region and to promote the further development of the countries concerned. As long as our ultimate goal is to establish and maintain a global system of free trade, this point will deserve our special attention. That is to say, the Asian-Pacific region is expected to grow into a very great market for the overall world economy in the future.

Also, various business opportunities are expected to stem from the implementation of large-scale projects, following the development of cooperation programs. I think that these opportunities should be open to the overall world economy including such faraway nations as EC countries. Presently, various kinds of movements of regional cooperation, such as the integration of the EC, are under way. It is expected that the Asian-Pacific region will demonstrate a model case of open regional cooperation for other regions.

In my view, we have already reached the point where we should start several concrete cooperative projects. The Ministry of International Trade and Industry does a lot of work in economic cooperation. In addition, the ministry two years

ago established the New Asian Industries Development Plan to help nurture foreign-exchange-earning industries in other Asian countries. Under this plan, MITI promotes assistance, investment and imports, thus contributing to infrastructure-building, marketing, personnel training, financial cooperation and other efforts.

This program has received high marks from China, Thailand, Malaysia and other countries in the region. Also, aiming for completion by 1992, MITI has been developing translation systems for Japanese and Indonesian, Thai, Malaysian and Chinese. Computer translation should prove a big help in improving communications between these countries and Japan. ASEAN investment promotion companies are also active.

As a future issue, I think it would be meaningful to consider a multifaceted cooperation project for energy development and distribution within the Asian-Pacific region. It would also be valuable to study means of making large-scale improvements in public infrastructure. Given the global nature of environmental pollution problems, technical cooperation for the prevention of pollution has become an urgent task.

Pacific blessing

The diversification of data communications is also a necessary project. In the realm of policy, improving the industrial input-output table, which is the most up-to-date analysis of Japan's economic structure issued by MITI every year, and establishing an industrial database will assist in the international division of labor. Administrative officials need to learn from the results achieved in other sectors. And along with these efforts, it may be practical to seek a mechanism for promoting regulation-free transactions within the region.

Whatever the project involved, both Japan and the U.S. must promote assistance, respecting the initiative of the countries concerned. Asian-Pacific cooperation has just entered the deliberation stage, and there are many problems that need to be discussed. The Pacific Ocean

used to isolate the nations whose shores it laps, but now it can bring them genuine blessings by linking them and promoting their economic development.

As economic powers with enormous responsibilities in managing the world economy, Japan and the U.S. need to consider a new structure for their mutual relationship, one that will help them handle conflicts effectively so that they can continue to contribute to development of the world economy.

From this perspective, a Japan-U.S. free trade concept deserves examination as a means of enhancing relations between our two nations. I think that the scope of the cooperation should be such as to enable the building up of a more comprehensive cooperative relationship with an extensive scope, surpassing that of U.S.-Canada Free Trade Agreement. In this case, given the fact that Japan and the U.S. are the two major countries in the free trade bloc and have great responsibility for the operation of the world economy, there are various differences between the systems in use in Japan and the U.S., which could hinder further enhancement of cooperative relations, and I think such a framework should seek to do the following:

- diminish border barriers, including tariffs and quotas in all fields including manufacturing and agriculture;
- lower various barriers in such new fields as services, investment and intellectual property, and establish rules to cover them;
- provide for macroeconomic policy coordination to maintain the sound development of the world economy;
- harmonize systems in such fields as standards and certification, and policies concerning competition;
- establish dispute settlement procedures.

This concept involves many problems that need to be considered, such as conformity with the GATT system, relations with third nations which may be worried about development of economic blocs, and treatment of fields that will be affected in both Japan and the U.S.

Clearly, some broad-ranging research is called for, as part of a larger effort to set

a desirable path for the U.S.-Japan relationship. These studies, which should also look into alternative possibilities, should be undertaken by various sectors in both countries.

Accounting for some 35% of the

world's GNP, Japan and the U.S. shoulder a heavy responsibility in the international community. Some serious discussions are needed to find how we might best contribute to the world economy. I think that a Japan-U.S. free trade concept can be an

important key to achieving our goals. ■

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Restructuring Japan's Economy

By Ariyoshi Okumura

Two trends characterize the Japanese economy as it stands today. One is what might best be termed the "mini-high growth" now in progress. The other is the structural adjustments in Japanese industry that have made such growth possible.

The dollar has been halved in value against the yen, from ¥240 to ¥120, since the Plaza Accord of September 1985. As a result, Japan's export industries, which conclude 60% of their contracts in dollars, have suffered heavy cuts in profits. On the other hand, the dollar's fall has sharply reduced the cost of the goods Japan imports, because 90% of this import trade is conducted in dollars. Thus the corporate sector has gained enormous premiums from the dollar's depreciation. The sharp drop in world oil prices has brought Japanese corporations equally large premiums.

Today, more than three years after the Plaza Accord, Japan has succeeded in correcting the "mismatch" between its earnings discounts and premiums. This is evidenced by the noninflationary "high" growth Japan is enjoying at both the macro- and microeconomic levels.

This growth pattern is similar to that of the 1960s, but it is somewhat different from the pattern envisioned by the Mae-kawa Report of 1986. The most striking difference is in working hours. The Mae-kawa Report called for reducing working

hours in the hope that greater leisure time would help improve the quality of life. In reality, working hours have been extended, rather than reduced, during the mini-high growth period.

The main thrust of today's growth comes from the private sector, not the public sector. In other words, personal consumption and private capital investment have led the expansion of the domestic economy. This is an ideal growth pattern. Real GNP has expanded more than 5% a year, while the growth rate of domestic demand has been more than 6% annually, and that of industrial production more than 8%.

The impact is also being felt in the trade balance. Imports have increased at an annual rate of 25%. In fiscal 1988, total import value is forecast to reach anywhere between \$170 billion and \$180 billion. In contrast, exports have expanded at only half the rate of imports, 12%, with total fiscal 1988 value estimated at some

\$260 billion. That figure is much smaller than for the United States (an estimated \$320 billion in 1988) or even West Germany (\$310 billion). The strength of U.S. and German exports followed by Japanese exports suggests that trade in capital goods has increased more than consumer goods against the backdrop of strong capital investment worldwide.

Money image

Judging from these trade figures, Japan's balance of trade should finish fiscal 1988 some \$85 billion-\$90 billion in the black. This is a fact of life with which Japan will have to live. Part of this surplus is admittedly recycled to the United States, where it serves to finance the U.S. budget deficit, now running at \$150 billion a year. Yet the huge trade surplus still creates the perception in the United States and elsewhere that Japan, and particularly the Tokyo market, is awash with money. This

