

**PROPOSALS
FOR
THE FURTHER DEVELOPMENT OF JAPAN-U.S. RELATIONS
— The Course We Should Pursue —
(Summary)**

保 存

**Committee on International Affairs
Kansai Keizai Doyukai (Kansai Association of Corporate Executives)**

July, 1993

Contents

I . Introduction	-----1
II . Current Situation of Japan-U.S. Relationship	-----1
1. Problems with Managed Trade as a Means of Resolving Economic Friction	
2. Japan's Role in the Reconstruction of the U.S. Economy	
3. Inadequacy of Mutual Understanding	
4. Movements Toward the Formation of an Economic Bloc in the Asia-Pacific Region	
III . Recommendations	-----3
1. Free Competition through Opening of Markets and Creation of Fair Competitive Conditions	-----3
(1) Rapid Liberalization of Japan's Rice Market	
(2) Creation of a More Transparent Economic System in Japan through Deregulation and Other Measures	
2. Promotion of Japan-U.S. Industrial Cooperation	-----4
(1) Creation of Japan-U.S. Round-Table Forum at the Industry Level	
(2) Cooperation in Technical Fields and Activation of Cooperative Research	
3. Reformation of Corporate Management in Japan	-----5
(1) Review of Corporate Behavior	
(2) Localization of Corporate Management	
4. Toward Deepening Japan-U.S. Mutual Understanding and Pursuit of Common Interests	-----5
(1) Establishment of "the Japan -U.S. Mutual Understanding Research Center" (Provisional Name)	
(2) Holding "the Asia-Pacific Environmental Conference"(Provisional Name)	
(3) Using APEC as a Forum for the Promotion of Free Trade	
IV . In Closing	-----7

I . Introduction

In the aftermath of World War II , Japan was faced with a massive deterioration of its economy. Through recovery aid provided by the United States, with its overwhelming economic strength, Japan was able to start on the path of recovery and development. Since that time, the United States has continued to play a vital role in the Japanese economy both as a source of technology and management know-how and as a market for export goods. While some economic friction did occur over the expansion of Japan's trade surplus with the United States in the specific product areas, the Cold War between East and West served to maintain close relations between Japan and the United States.

However, with the end of the Cold War, changes have begun to emerge in the nature of the trade friction due to the persistent trade imbalance, and also in the structure of Japan-U.S. security arrangements which were held together by a common goal of maintaining liberalism. The close relations between Japan and the United States, which have continued since the conclusion of World War II , are now at a crossroads.

Amidst this background, the newly-formed Clinton Administration has positioned reconstruction of the domestic economy as its highest priority and has begun the implementation of a host of domestic reform policies. Now is the time for us to rethink the Japan-U.S. relationship, and to consider action is necessary to further develop the relationship. In doing this, we need to reaffirm the importance of the Japanese-U.S. relationship from two different point of views: what it means to Japan, and what it means in the world.

II . Current Situation of Japan-U.S. Relationship

1. Problems with Managed Trade as a Means of Resolving Economic Friction

It goes without saying that the greatest concern in the Japan-U.S. relationship is the trade imbalance, which reached \$43.7 billion in 1992 (Japanese statistics). To alleviate this imbalance, solutions to structural problems with the U.S. economy, including the hollowing out of the manufacturing sector due to shifts overseas by U.S. multinationals the overly consumption-oriented economy and the large of the fiscal deficit, are of the first priority.

However, in an effort to secure a quick fix for the imbalance, managed trade has been implemented in the form of voluntary export restraints and import restrictions. Such bilateral managed trade measures go against the spirit of the GATT, which calls for free, multilateral, non-discriminatory trade. Further, the implementation of managed trade has not led to the desired results of balanced trade and improved competitiveness for U.S. industry. Japan also need to reflect deeply on the fact that the implementation of managed trade has caused the nation to effectively avoid further opening of its markets, which requires result in some painful transitions domestically.

2. Japan's Role in the Reconstruction of the U.S. Economy

It appears that the Clinton Administration will honor its campaign promises in implementing sweeping policy measures to strengthen industrial competitiveness and reconstruct the U.S. economy, including reduction of the fiscal deficit, strengthening of technical development and human resources, and improvement of social capital infrastructures.

The Problems of the deteriorating competitiveness of U.S. industry have been pointed out many times, in reports such as that prepared by the "MADE IN AMERICA" MIT Industrial Productivity Study Committee. Many companies have already begun to reexamine their operations, undertaking restructuring and downsizing programs to heighten their competitiveness and strengthen their operations. Still, many problems remains, for example, converting military technology to technology for civil use following the end of the Cold War, and the development of supporting industries.

Now, at this critical time when the United States has started down the road of structural reform, Japan should be open in providing active cooperation in reconstructing the U.S. economy, to create a strong, balanced relationship between the two countries.

3. Inadequacy of Mutual Understanding

The maintenance and development of good international relations starts with a correct appreciation and understanding of the other party. Since the end of World War II, Japan and the United States have carried out in depth exchange in social, economic, cultural, and other fields. However, misunderstandings based on incorrect information and preconceived ideas continue to prevail in the relationship, resulting in inadequate mutual understanding. Further, there is a large gap in perception between the two countries, resulting in unnecessary friction and intensified friction in the relationship.

To avoid the non-productive results of these prejudices and misunderstandings and to maintain and further develop Japan-U.S. relations, an increased effort is required in this area. Japan, in particular, must make the effort necessary to actively explain its position and thinking. In doing this, the importance of government communications and PR activities goes without saying, but at the same time, grass roots efforts should also be emphasized through companies and economic organizations involved in business with or in the United States, as well as the 4 million Japanese who travel to the United States each year and the 600,000 Americans who come to Japan.

4. Movements Toward the Formation of an Economic Bloc in the Asia-Pacific Region

In recent years, the Asia-Pacific region has shown remarkable economic growth, becoming widely perceived as the world's growth center. The development of the Asia-Pacific region was achieved on the basis of free trade, and it is necessary to maintain and strengthen the world's free trade system in the future.

However, the functionality of multilateral trade negotiations at the GATT is deteriorating due to the increased number of member nations, the expansion of areas being negotiated, and the complexity of the interests involved. As the Uruguay Round has stalled, there is a danger in the Asia-Pacific region of the formation of economic blocs, including the NAFTA agreement and the EAEC concept.

In the face of these realities, it seems realistic to actively approve of regional economic agreements that supplement the GATT, while keeping the GATT as the basis for promoting multilateral free trade and while working to further activate the GATT's ability to deal with such issues. In doing this, it goes without saying that such regional economic agreements need to be undertaken without allowing the formation of protectionist blocs, and in this area, Japan and the United States can play a key role in the Asia-Pacific region.

III. Recommendations

Based on the above awareness, we would like to make the following recommendations for the further development of Japan-U.S. relations. While sincere efforts of both countries are vital, we praise the first steps towards change being made under the new administration in the United States. We also need to change, while keeping a close watch for a while on the direction the efforts of the U.S. administration and industry take.

The prevailing perception of Japan in the United States relating to the problems between Japan and the United States is that "when a problem occurs, the talks continue endlessly, with Japan promising to deal with 80% of the United States' demands, and then only implementing 60%." We should be aware that this frustration in the United States toward "Japan's lack of proactive action," complicates Japan-U.S. relations beyond the reality of the situation.

The formation of the new administration should be viewed as an excellent opportunity for Japan to proactively propose solutions to problems and to take action before it is confronted with demands from the United States.

1. Free Competition through Opening of Markets and Creation of Fair Competitive Conditions

As we have already stated, Japan does not bear the sole responsibility for the expansion of its trade surplus. Nevertheless, from a macroeconomic standpoint, it is important for Japan to take decisive action to correct its export structure with resultant dependence on the United States and to convert to an economic structure that centers on domestic-led growth.

In addition, Japan needs to further open its markets and create conditions of fair competition and make major contributions to the maintenance and development of the free trade system through free competition. Japan must turn an attentive ear to the voices in the international community that say that "as long as Japan does not open its own markets, it has no right to demand maintenance or expansion of the free trade system,"

(1) Rapid Liberalization of Japan's Rice Market

Rice has come to be viewed as a symbol of the exclusiveness of Japan's markets. Japan needs to promote the Uruguay Round to further free trade. In the field of agriculture, the negotiations are already heading in the direction of introduction of tariffs with no exceptions, which therefore means that opening of the rice market is a key issue that is likely to determine the future not only of Japan-U.S. relations, but of Japan's other international economic relations as well. Consequently, the rice market should be opened immediately upon the introduction of interim measures to secure the income level of domestic farmers.

(2) Creation of a More Transparent Economic System in Japan through Deregulation and Other Measures

There is an awareness in part of U.S. business circles that the Japanese market is no longer "systematically" closed. However, while tariffs and other "restrictions that deal with national borders," have been greatly improved, there are many cases where foreign firms are unintentionally excluded from market participation due to "Japanese domestic restrictions." Further, while there has been talk for some time of doing away with the high emphasis on administration based on licenses and approvals, the number of licenses and

approvals required from the government is increasing annually. This needs to be rectified immediately.

Liberalization of these domestic regulations will make the economic system more transparent and more efficient, and is necessary both for foreign companies and domestic companies alike. Also, this will lead not only to an increase in foreign product imports but to promotion of direct investment from overseas as well.

2. Promotion of Japan-U.S. Industrial Cooperation

The United States is viewing the new administration as an opportunity to begin strengthening its industry. At this transient time, as a new world order has been created in the past-cold War era, a strong U.S. economy is important not only to Japan's economy, but to the world economy as well. Japan must contribute to increased employment and strengthened industrial competitiveness in the United States through investments and technology exchange as an equal partner, while working to activate the industrial and economic bases of both countries and deepening the interdependent nature of the relationship. The corporate and economic communities should play a major role in this so-called industrial cooperation.

(1) Creation of Japan-U.S. Round-Table Forum at the Industry Level

In Japan-U.S. relations, friction due to the trade imbalance tends to be emphasized, but on the other hand, there is a great deal of cooperation in the form of joint enterprises, cooperative development activities, technology transfer, and other management projects. This cooperation is playing a major role in deepening interdependence through increased employment, development of supporting industry, and promotion of exports.

For example, in the steel and automobile industries, close cooperative relationships have been constructed between companies of both countries. This should not end up as a mere example of Japan-U.S. industrial cooperation, but should be further promoted. To achieve this, we recommend the formation of round-table forum to carry out discussions at the industry level, in addition to the individual company level. There are many cases where problems with specific products cannot be resolved at the individual company level. In these cases, it is non-productive to immediately turn the problem into a political issue and such action tends to leave feelings of hostility. Rather dialogue at the industry level should be undertaken to search for solutions to problems and additional ways in which industrial cooperation can be realized. In carrying out such measures, the utmost care must be taken not to infringe on U.S. anti-trust laws.

(2) Cooperation in Technical Fields and Activation of Cooperative Research

The disparity in macroeconomic competitiveness between Japan and the United States, which appears on the surface in the form of trade imbalances, is the result of differences in production technology. To improve the competitiveness of U.S. industry in general the level of production technology must be improved.

Japanese industry should go beyond mere development and introduction of new technology to actively undertake industrial cooperation that makes use of its comparative advantages in production technology. Further, additional mutually-advantageous cooperation should be undertaken to transfer production technology to the United States and to promote introduction of basic and new technologies to Japan with development capabilities in basic technology being improved. Here, Japan needs to place increased emphasis on improving the protection of intellectual property rights and increasing awareness of related issues.

3. Reformation of Corporate Management in Japan

The trade imbalance, which is the main cause of economic friction between Japan and the United States, is due on the macro level to the overt consumption orientation of the U.S. economy and at the micro level to the hollowing out of the U.S. Manufacturing base. At the same time, there is room for serious reflection on Japanese Corporate behavior as well.

(1) Review of Corporate Behavior

There is a great deal of criticism of the behavior of Japanese companies in international markets, centering on such issues as vastly concentrated exports and excessive share competition. Some will argue that these arguments are based on misperceptions and only look at one side of the issue. However, with the scale of the Japanese corporate and economic presence, an attentive ear must be turned to these criticisms.

"When in Rome, do as the Romans do." Creating an international code of conduct for the corporate behavior will be a subject for the future, but it is expected that at a minimum corporations will observe the rules of the countries in which they operate. Activities with foreign companies need to be diligently undertaken in accordance with these rules.

(2) Localization of Corporate Management

In keeping with the scale of the Japanese corporate presence in the United States in recent years, there is a praise for the contribution to increased employment and development of supporting industries, but at the same time, these companies often find themselves in the cross-fire of Japan-U.S. trade friction. The operating environment facing Japanese companies is becoming increasingly complex and harsh, including the areas of product liability, the environment, community activities, etc.

To deal with these problems, Japanese companies have worked to achieve further internationalization and localization, but there is doubt as to whether their efforts were adequate. To achieve true localization, relationships with U.S. society must be deepened. To do this, head office control and regulation of U.S. subsidiaries must be loosened. The span of decision making authority held by subsidiaries must be expanded beyond management and personnel, to include community activities as well. These subsidiaries should work with advertising agencies and consultants to undertake effective PR activities in the area of charitable or messena activities.

In addition, company people on assignment need to deepen their mutual understanding not only in the area of business, but in social and cultural areas as well, undertaking grass roots activities to meld into local society.

4. Toward Deepening Japan-U.S. Mutual Understanding and Pursuit of Common Interests

To further deepen the Japan-U.S. relationship, the two countries should go beyond mere establishment of good relations to the pursuit of common interests. Here, mutual understanding and a perspective on the role of Japan-U.S. relations in the world is necessary. Both Japan and the United States belong to the Asia-Pacific, the world's leading growth sector, and the pursuit of common interests should begin first in.

(1) Establishment of "the Japan-U.S. Mutual Understanding Research Center" (Provisional Name)

Relationships between nations, as between people, are built on the foundation of mutual trust. Not only the economic systems, but the traditions, habits, cultures and social systems, of Japan and the United States differ greatly, and a mutual trust relationship needs to be built on an adequate understanding of these facts.

From this viewpoint, we recommend the establishment of "the Japan-U.S. Mutual Understanding Research Center" (Provisional Name). This research center would be an institution independent from either government comprising people from industry, government, and academic backgrounds. The institution would undertake comprehensive research not only on political and economic systems, but on customs, habits, culture, and other fields as well. At the same time, the institution would make recommendations for creating harmony among these elements and universalizing them. Also, the institution would find areas of common interest to the two countries and conduct research and make recommendations on how to achieve those interests.

(2) Holding "the Asia-Pacific Environmental Conference"(Provisional Name)

For sustained development of economy in the Asia-Pacific regions, it is necessary to pay due consideration to environmental issues. Then, if Japan and U.S. that are the leading nations in tackling the environmental problems provide countries in other regions with their experiential know-how and advanced technology, it would be a desirable cooperation which Japan and U.S. should engage in in this region.

Determining specific contents requires further examination in future, but now we would like to point out the followings as suggestions. Japan and U.S. take the initiative in holding "the Asia-Pacific Environmental Conference"(Provisional Name), and, for instance, ① give positively know-how on preparation or revision of environmental standards, and coordinate environmental policies of the countries through giving advice on environmental administration, and ② select companies which have excellent technology according to the field of environmental problems and exchange data on such companies and specific contents of the technology, thus facilitating each country's access to information that satisfies its needs.

(3) Using APEC as a Forum for the Promotion of Free Trade

Maintaining and developing the free trade system is a common interest of both countries, and constant monitoring must be performed to ensure that integration of the economy in the Asia-Pacific region does not have a minus effect on the expansion of world trade.

Here, we would like to propose that the Asia-Pacific Economic Cooperation (APEC) be developed as a forum for promoting free trade in the region. Signatories to such economic pacts as NAFTA and AFTA should be broadly included as members of APEC, and operation of such agreements should be checked through dialogue and deliberations in APEC.

To position and actively develop APEC as a forum for the promotion of free trade, the cooperation of both Japan and the United States, which have overwhelming economic influence and market in the region, is required. This year, in which the United States will chair APEC, is an excellent opportunity for Japan to the United States to present a vision and function to be performed by APEC and to develop a common awareness.

IV. In Closing

To further develop Japan-U.S. relations, it is important to avoid criticism and for each country to sincerely work to solve its problems. In the economic area, in particular, the role that companies can play is most significant.

At the same time, in international relations there is a limit to the scope of efforts that can be undertaken at the private-sector level. In this area, Japan's government and administration are not reliable. All words and no action for political reform, and vertically divided system of administration which persistently remain in spite of calls for improvement. The problem of discouragement with Japanese politics and administration is even more serious in light of the concerted government and private-sector efforts under the new president in the United States. For Japan to become a full-fledged member of the international society, not just economically, but in all aspects of its character, and to become a true partner of the United States, political and administrative reform must be undertaken now.

We, Japanese, must take the first step down the road of "change" both in the public and private sectors in all fields, including politics, administration, economics, and society.

**COMMITTEE ON INTERNATIONAL AFFAIRS
KANSAI KEIZAI DOYUKAI,
MEMBERS LIST FOR 1992**

(Titles as of 1992)

Chairman: Mamoru Hashimoto
Vice President
Marubeni Corporation

Vice Chairmen: Masataka Tamura
President
Osaka Sanso Kogyo, Ltd.

Kenjiro Takada
Director General
JETRO Osaka

Tatsutoshi Tsunoda (Withdrawn on October)
Resident Executive Director
The Export-Import Bank of Japan, Osaka Branch

Hidenao Irisawa (Admitted on October)
Resident Executive Director
The Export-Import Bank of Japan, Osaka Branch

Koju Suzuki
Standing Statutory Auditor
Matsushita Electric Industrial Co., Ltd.

Tadashi Kurachi (Withdrawn on November)
Managing Director and General Manager
Osaka office
The Bank of Tokyo, Ltd.

Mamoru Hashimoto (Admitted on November)
Managing Director and General Manager
Osaka office
The Bank of Tokyo, Ltd.

Susumu Wakita
Senior Managing Director
Daikin Industries, Ltd.

Tsunemitsu Kitayama
Senior Managing Director
Nissho Iwai Corporation

Keitaro Yokohata
Director
Sumitomo Corporation

Senri Hagio
Managing Director
Secretary General
Kansai Keizai Doyukai

Revised in 1992

