



Focus of Japan-U.S. Economic Dialogue (III) Shifting Towards a Primary Focus on Reinforcing the WTO: Japan Should Reject Results-Oriented U.S. Demands

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Key Points

- Japan should pursue common Japan-U.S. interests, with an eye towards China
- Bilateral negotiations over Japan-U.S. free trade agreements (FTAs) have effectively already begun
- Japan should collaborate with Australia and European states in the formation of a free trade coalition

The Japan-U.S. Economic Dialogue was launched during U.S. Vice President Mike Pence's upcoming visit to Japan in April, 2017. In addition to affirming the success of the Japan-U.S. summit meeting in February, the Dialogue is also an attempt to contain and manage the various criticisms made by President Donald J. Trump.

This is common practice in managing Japan-U.S. economic relations, and similar methods have been employed in the past; such as in the Comprehensive Economic Talks held under the Clinton administration, and the Vice-Ministerial Level Economic Dialogue held under the Bush administration. (Please refer to the table.) In order to avoid accidental outbreaks of individual frictional issues, the common keywords that are shared amongst these processes are “comprehensive” (as opposed to “individual”), “dialogue” (as opposed to “negotiation”) and “cooperation” (as opposed to “confrontation”).

In this article I would like to interpret the current situation and identify what the focus of future negotiations should be, based on my own experiences gained through my involvement in these processes in the past.

First, Japan should aim to achieve an atmosphere of cooperation rather than confrontation, and seek to incorporate common Japan-U.S. interests as items for discussion. This is the traditional Japanese negotiating stance.



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Transition in World Trade Systems		
	Japan-U.S. (Bilateral)	Multilateral
1981-85	Voluntary Export Restraints (automotive, iron and steel, etc.)	
1986	Japan-U.S. Semiconductor Agreement	Single European Act (SEA) signed, North American Free Trade Agreement (NAFTA) negotiations begin
1987	U.S. Trade Act Section 301 trade sanctions invoked (semiconductors)	
1989	Japan-U.S. Structural impediments Initiative	Asia-Pacific Economic Cooperation (APEC) established
1993	Japan-U.S. Comprehensive Economic Talks	
1995	Japan-U.S. Automotive Agreement	World Trade Organization (WTO) established
2001	Vice-Ministerial Level Economic Dialogue	
2016		12 participating countries sign the Trans-Pacific Partnership (TPP) agreement
2017	Economic Dialogue	U.S. leaves TPP and announces renegotiation of NAFTA

The hidden topic of discussion is China. China is a top priority for the U.S., accounting for approximately half of the U.S. trade deficit. Rather than the U.S. placing China and Japan in the same line and attacking them, we should attempt to create a dialogue in which Japan and the U.S. cooperate and work together in dealing with the Chinese issue. The problems of Chinese overproduction (in iron and steel, etc.) and the creation of rules concerning intellectual property and electronic transactions will become important themes. Japan-U.S. cooperation in the cyberspace and space exploration fields is also based on a mutual competitive awareness of China.

On the other hand, the focus of U.S. concerns is on actual, visible benefits in individual industrial fields. The agricultural and livestock industries, in particular, have failed to reap any benefits from the Trans-Pacific Partnership (TPP), and are dissatisfied with this state of affairs. These industries represent a major base of support for the Republican Party in Congress leading up to the midterm elections in 2018, and are likely to increase pressure on the government.

In the case of the automotive industry, the problem lies more with customs tariffs on the American side, and is really an area in which Japan should be on the offensive. Despite this, however, the U.S. continues to reiterate criticisms that Japan has non-tariff barriers to trade. But it is clear from the foray of European vehicles into the Japanese marketplace that this criticism is misdirected. This is surely an example of one of Trump's negotiating techniques, of stirring things up in order to create jobs through the expansion of local production.

Japan should secure and maintain bi-directionality in the Dialogue. Looking back over past talks, Japan has a bad habit of committing itself to exclusively defensive posturing. But true negotiations can only take place when offensive moves are also made.

Japan should also raise problems that have a major impact on the activities of Japanese companies, such as border taxes and “Buy American” (i.e. preferential purchasing of American-made goods and products).

There is also the debate as to whether or not Japan will accept the Japan-U.S. FTA in relation to these issues. As far as Japan is concerned, wherever possible, it is preferable to avoid bilateral negotiations with the U.S. because Japan depends upon the U.S. for security. However, if the U.S. throws that ball then Japan does not have the option of rejecting such negotiations.

In actual fact, such negotiations have effectively already begun, starting with the Japan-U.S. summit meeting in February. The vague concept of a “framework” as mentioned in the joint declaration made after the talks is a common trick used when purposefully avoiding the use of the word “agreement.” The term “framework” is being used at the present time simply from the standpoint of encouraging the return of the U.S. to TPP.

The question of whether or not Japan and the U.S. can agree upon a shared objective for the Dialogue is also a key factor. The point here is the reinforcement of the WTO. The Trump administration disregards the importance of the WTO, and can be seen to be returning to the trade negotiation methods of the 1980s. The two distinguishing characteristics that can be seen here are: (1) a results-oriented approach in terms of their objectives, and (2) one-sided measures in terms of the methods being employed.

Until now, the U.S. has stressed the importance of “fair trade.” It has been pointed out that the concept of fair trade is ambiguous in itself, but it has been internationally accepted, and it is meaningless to simply point out that fact alone.

The first problem lies in the consequentialist, results-oriented approach of judging fairness based on the equality of results; in demanding that the results of trade should balance out equally. The most dangerous keywords are “mutually beneficial” (reciprocal) and “balance of interests.” At a glance, these terms are similar to the term “win-win,” but in actual fact they are more different than they appear. During the intense trade conflicts of the 1980s, the U.S. brandished these words like a political sabre as they pressed for the rectification of trade imbalances and the liberalization of markets.

The second problem is that the methods being employed by the U.S. to rectify perceived unfairness are entirely one-sided. The U.S. judges unfairness unilaterally, and imposes sanctions by exercising Section 301 of the U.S. Trade Act.

These 1980s-style methods of trade negotiation came to an end with the establishment of the WTO in 1995. However, the Trump administration is once again employing the dangerous keywords of the past, including “mutually beneficial” and “balanced trade,” and has repeatedly stated that it “will not comply with judgments or arbitrations by the WTO that damage U.S. interests.”

During the Japan-U.S. summit talks held in April, 2017, the two countries agreed upon the formulation of a 100-day plan for rectifying trade imbalances. This is evocative of the Japanese response of the 1980s. There is a possibility that the U.S. may also issue similar demands to Japan.

So, how should Japan respond in the face of this? Firstly, irrespective of the handling of the

Chinese issue, Japan needs to take a firm, resolute stance in refusing to accept this U.S. results-oriented approach. In addition to this, with regard to feelings of dissatisfaction towards the WTO, Japan should consider the idea of reinforcing the WTO from an equal-opportunities standpoint.

For example, Japan should seek to gain understanding with regard to just how important augmenting discrepancies in WTO rules relating to subsidies and state-owned companies is as in terms of policy towards China. Japan should also work to make the U.S. realize that if we tolerate one-sided measures that ignore the judgments of the WTO, it will in fact be China that takes the most dangerous actions as a result. The impact of American-made goods being subjected to sanctions in today's massive Chinese market is decisively different to in the past. Starting from the issue of dissatisfaction towards the WTO, Japan should work to point the U.S. in the direction of reinforcing the WTO rather than allowing them to return to pre-WTO methodologies. What is required in order to prevent the U.S. from becoming globally isolated due to protectionist policies is the ability to hold a dialogue and exchange opinions that fit well with the Trump administration.

It is also important to have a global perspective that goes beyond simple Japan-U.S. relations. Firstly, there is also a need to simultaneously advance TPP based on a partnership without U.S. participation. In addition to beneficial effects in terms of steering U.S. policy, this will also act as an incentive to draw the U.S. back into TPP in the future.

The fact that Australia is advocating for a TPP without U.S. participation is also an important factor. Historically, too, Australia has been an important strategic partner for Japan in terms of trade strategy in leading the U.S. and China. During the 1980s, Japan and Australia cooperated in the establishment of Asia-Pacific Economic Cooperation (APEC), from a shared sense of crisis over the movements of the European Union (EU) and the North American Free Trade Agreement (NAFTA).

We are now seeing rapid, fluid fluctuations in the global order, as can be seen in the wavering integrity of the EU, and in the renegotiation of NAFTA. What is needed, during this era of massive global change, is a free trade coalition. Japan should surely cooperate with Australia in proactively leading this coalition.

Cooperation with the Europe is also important in setting a better undertone for the Japan-U.S. Economic Dialogue. In order to create a movement towards reinforcing the WTO, Japan needs to join forces with Europe as a coalition partner. The prohibition of unilateral measures through the WTO in the past was also achieved through cooperation with Europe. The agreement over the Japan-EU Economic Partnership Agreement (EPA) on 8 December 2017, through political decision-making, has very significant meaning.

At the G20 Finance Ministers and Central Bank Governors Meeting in March, 2017, the U.S. faced off with China and the EU over the wording of the G20 pledge to “resist all forms of protectionism.” Remaining silent on this issue out of hesitance to side against the U.S. will lead to doubts over Japan's level of seriousness and sincerity.

Japan also needs to pay close attention to U.S.-Chinese relations. We must also not forget that Japan-U.S. relations are prone to vary as a dependent variable of relations between the U.S. and China.

In doing so, Japan has a tendency to envisage a confrontational relationship between the U.S and China, working to the advantage of Japan. But moving forward, there is also a possibility that Trump—whose priorities lie in securing actual benefits—may cut a tough deal with China. Even the possibility of the sudden announcement of a dramatic U.S.-China FTA is not entirely out of the question. We should remember the panic caused by U.S. President Nixon’s visit to China without any consultation with Japan whatsoever. In order to avoid such occurrences, too, it would be best for Japan to set a desirable tone and direction for the Japan-U.S. Economic Dialogue as early as possible.

In its handling of the Japan-U.S. Economic Dialogue, Japan will need to maintain multiple, broad-ranging viewpoints in terms of both temporal and spatial (global economic and geopolitical) aspects, such as those described above.

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