

TOKYO FOUNDATION FORUM

Trade expert: TPP key for U.S.-Japan growth

Japan and the United States face some similar challenges, such as heavily indebted governments that have failed to stimulate growth and economies that are increasingly exposed to fast-rising China. Bruce Stokes, an international economics columnist for the *National Journal*, a Washington-based public policy magazine, believes both countries can cope with such challenges if they work closely together within the Trans-Pacific Partnership free trade compact.

"There are often moments in history when there are opportunities for things to change. This is one of those times. We have a number of tectonic forces working in the world economy almost at the same time," Stokes said as the keynote speaker during a recent forum in Tokyo. He was a senior fellow at the Council on Foreign Relations, an independent U.S. think tank, from 1995 to 2002 and stayed in Japan as a Japan Society fellow in 1987 and again in 1989.

The forum titled "Japanese and U.S. Perceptions of the TPP" was organized by the Tokyo Foundation, an independent, not-for-profit public policy think tank.

Citing the ongoing negotiations on the Trans-Pacific Partnership free trade agreement and Japan-European Union negotiations on a bilateral economic partnership agreement, as well as talk in the United States about an FTA with Europe, Stokes said: "The three big economic players in the industrialized world are for the first time beginning to work more closely together. This is an opportunity we need to take advantage of."

He added: "We also have three economies that face some of the same problems—slow growth and high unemployment. We have governments that don't have a lot of money to spend—we are deep in debt. We have, at least in the United States and Japan, monetary policy that has no future—we have zero interest rates and cannot print more money."

Therefore, he said: "we have to find other ways to stimulate growth and structural change. Liberalization of our economies to the world is one of the ways to do that."

Positive U.S. reception

Stokes noted that the U.S. public and business community have both reacted favorably to Japan's possible participation in the TPP framework. "We are in a unique position in Japan and the United States to cooperate more closely on the TPP because our



Bruce Stokes



Yutaka Harada



Kiyohide Morita



Fumiaki Kubo



Ryosuke Tsuchiya

relationship is at a very, very good point—70 percent of the American public has a favorable attitude toward Japan and 60 percent of the American public would like to increase trade with Japan... There is overwhelming interest in the American business community for closer relations through the TPP with Japan."

The keynote speaker went on to say that Japan and the United States "also share some of the same challenges in the world economy. The biggest challenge is China—not China as an enemy but as a very strong economic competitor that will get stronger over time. There is a growing belief in the United States that we need to cooperate with other nations both in Europe and Asia in dealing with the challenges posed by China. We need to ensure that the economic values shared between the United States and Japan and other Asian countries—those values that define the economy—will keep going forward in Asia and the world."

"The reason we need to work together on the TPP is [because it is] one of the ways to work to create a set of standards in values that can maximize our abilities to remain competitive in the economy in the future because we will have to continue competing with China."

Japan and the United States obviously have to surmount a number of highly sensitive economic issues in their TPP talks, including

the automobile and rice trade and the health care market in Japan.

Last year, Japan exported 1.4 million vehicles to the United States, while the U.S. auto industry exported only 16,000 passenger cars and light trucks to Japan. Stokes said the Japanese would say U.S. automakers have not done enough to increase their sales in Japan. "I don't want to argue that the one side is right and the other side is wrong," he said, "but I would suggest to you that 1.4 million versus 16,000 to the American public sounds unfair. So, in the [TPP] negotiations, we will have to find some way to accommodate that difference."

Stokes referred to some cases in which sensitive issues were eventually excluded from U.S.-signed trade pacts. "For example," he said, "sugar was left out of the U.S.-Australian FTA, not because the Australians wanted it left out but because the Americans wanted it left out. Rice is left out of the [U.S.-] Korean FTA."

He said American rice exporters would not want rice left out of a TPP accord with Japan, but "we also have to look at history—these agreements do have accommodations for sensitivities. So, I do think that we can also handle the agricultural problems that surround the TPP negotiations."

As for the U.S. demand for greater access to the Japanese health care market, Stokes said: "I can tell you categorically that the United States does not desire to change the Japanese health insurance program. We have never done that in the FTAs [with other countries]. We have no desire to do that."

However, while emphasizing that it is up to Japan to decide to actually participate in the TPP trade compact, the U.S. speaker said: "We cannot wait forever. The American president hopes to get this done by December 2012. As we say in English, the train is leaving the station and we have to decide who is on the train and who is not on the train."

"There are some people in Japan who say 'if we don't get on the train now, we'll get on the train later. We need to be very careful about that. It would be harder to get on the train as it gets further on the track. Japan will have less negotiating leverage if that happens.'"

Panel discussion

Following the keynote speech, Stokes and the following Japanese specialists held a panel

discussion:

- Kiyohide Morita, a professor at the College of Bioresource Sciences of Nihon University, specializing in farm management and agricultural economics. He concurrently serves as the vice president of the Agricultural Economics Society of Japan.

- Ryosuke Tsuchiya, a senior fellow at the Tokyo Foundation specializing in medical care. He was the director of the National Cancer Center Hospital Tsukiji, Tokyo, from 2006 to 2010.

- Yutaka Harada, a senior fellow at the Tokyo Foundation specializing in the Japanese economy and trade relations. After working at the Economic Planning Agency, he served as vice president of the Policy Research Institute of the Finance Ministry and then as chief economist at the Daiwa Institute of Research.

- Fumiaki Kubo, a senior fellow at the Tokyo Foundation and a professor at the University of Tokyo. He is also vice president of the Japanese Association for American Studies and a member of the Japan-U.S. Conference on Cultural and Educational Interchange (CULCON).

The panel discussion was moderated by Takaaki Asano, a Tokyo Foundation research fellow and project manager.

Tsuchiya said: "As for the health care sector, we have a trade deficit of ¥2 trillion a year. Is the Japanese health care industry opposed to the TPP? No. We do not hear voices from the pharmaceuticals industry or the medical devices industry opposing the TPP. Only the JMA (Japan Medical Association) may oppose the TPP." The JMA is a leading national body for physicians.

Harada said: "Mr. Stokes said only 1 percent of Americans now see Japan as a threat to the United States [economically]. I kind of long for those good old days when Japan was regarded as a threat to the United States."

Concerning the current attitude of the U.S. public vis-à-vis trade, Harada said, "Free trade is not regarded as something favorable these days among the American public."

Turning to what he described as a "very serious" trend in Japan, he said, "Young Japanese parliamentarians especially [tend to] subscribe more or less to the same [negative] thinking [toward free trade]. Those young parliamentarians are skeptical of the TPP because Japan has not grown economically for the last 20 years. Parliamentarians in their 40s have experienced nothing but recessions

in their adulthood."

Kubo pointed out that the United States, for its part, has a "dilemma" in seeking to create "a high-standard or quality TPP agreement" because of the fact that "it has weak industries like the auto sector." The University of Tokyo professor also said: "U.S. public opinion of late is rather negative toward free trade. How can the U.S. government overcome this?"

Referring to the results of an October 2011 vote on the U.S.-South Korea FTA, Kubo noted that Republican members of Congress tended to be more in favor of free trade than Democrats. In public opinion polls, though, supporters of the Republican Party who felt that free trade was bad for America outnumbered those who believed it was good; the trend was especially noticeable among Republicans who support the Tea Party.

U.S. wants Japan in TPP

"If the United States insists on a high quality TPP pact, Malaysia and Vietnam, for example, may be expelled," Kubo said. "So only a few countries will subscribe to it and the TPP agreement will end up being a very weak one. Therefore, the exclusion of Japan from the TPP accord is not counted as a good option by the Obama administration."

Speaking of the domestic situation, Kubo said, "The postwar success of Japan—not military success but economic success—became possible not because of agricultural exports but because of exports of manufactured products." In this connection, he emphasized the importance of bringing "competitive elements" to those protected areas.

Kubo urged politicians who are trying to keep the agricultural sector closed to the world to think how relevant and correct such an approach is in terms of Japan's overall national interests. "Politicians should have a greater vision, rather than focusing on microscopic discussions," he said.

Agricultural reform

Morita said: "The government says the average cultivated area in Japan should be increased to 30 hectares and national agricultural federations are in favor of collective farms by consolidating [small] farmland. This indicates that there is more or less a consensus about structural reform in agriculture in Japan."

He asked, "How can we increase the size of

Japanese farms to 20 to 30 hectares on average?" Today's average farm in the country is only 2 hectares. "We cannot increase the size of national land. This means that we have no choice but to ask nine out of 10 farmers to quit farming. This may be an exaggeration, but there has been no precedent for any country but the United Kingdom to ask nine out of 10 farmers to abandon agriculture," he said. The United Kingdom pursued this policy by resorting to the "enclosure" of farmland before the nation was democratized.

"What is the actual mechanism for implementing structural agricultural reforms? There should be a national debate. We have to gather all kinds of insights in Japan—not just those of the agricultural sector. If we can find a solution, it can be applied to Korea and China as the average farm sizes there are similar to that in Japan. In the case of China, the farm size is half of that in Japan," Morita said.

The Nihon University professor added: "Both Korea and China are facing the same problem as Japan [as to the structural reform of the agricultural sector]. If farm size is forcibly increased in China, it will stir up strong opposition and may lead to the toppling of the communist government."

Morita, who noted he is in favor of structural reforms in agriculture, said, "Supposing that Japan participates in the TPP pact and that subsequently rice is sold at half the current price or at less than ¥6,000 per 60 kilograms, government subsidies [to rice-growing households] can be reduced from ¥1.4 trillion to ¥520 billion a year."

He noted that European consumers are supportive of the EU's Common Agricultural Policy (CAP), a system of regional agricultural subsidies and programs because "they think agriculture is necessary for their region, but there is no such consensus in Japan yet."

In answering a question from the audience about Japan's possible initiative to enter into FTA negotiations with China and South Korea, Stokes said: "The degree of opening [China] expects in the short run is not nearly as beneficial to Japan as the TPP. And if Japan wants to go down that road and have a very low level of agreement, that will be Japan's choice, but we Americans don't think it will be in Japan's interest. So the leverage may not be as great as it sounds [in enhancing Japan's status in TPP negotiations with the United States]."



Courtesy of the Tokyo Foundation
U.S. and Japanese panelists discuss the prospect of the Trans-Pacific Partnership free trade agreement from Japanese and U.S. perspectives in a forum organized by the Tokyo Foundation on Feb. 1.

Life after the Disaster

Following the March 11 earthquake and tsunami, the Tokyo Foundation—an independent, not-for-profit public policy think tank—has been engaged in placing the disaster in perspective. We have outlined priorities for the nation, delivered timely policy proposals, and identified potential pitfalls. We have also reached out to people directly affected by the tsunami and nuclear crisis, asking them to share their insights and perspectives in the hope that they will help us identify the most important lessons—not only for Japan but also for humankind in the twenty-first century. The following is a sampling of the many comments voiced in the course of our research activities, Foundation-organized intellectual dialogue, and social action initiatives, including the "101 Voices from Tohoku" project to document the lives of tsunami-affected residents, as told in their own words.

www.tokyofoundation.org/en

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The nuclear accident has offered an opportunity to reflect on a lifestyle premised on mass production, mass consumption, and mass waste. The hardships we're going through now will hopefully be remembered 50 years later as the price that was paid for achieving a life-style—which we in litate call *maderi*—that places a higher value on caring for others than on personal profits.

—Norio Kanno, Mayor, Iitate Village in Fukushima Prefecture, addressing Chinese, Japanese, and US scholars during a Tokyo Foundation-organized Tohoku tour in September 2011.



During the three months since the quake, over half a million people have gone to Tohoku as volunteers. Every weekend, young people who work in Tokyo get on a bus on Friday night and arrive in Ishinomaki the next morning. They clean up the mud all day, sleep in a tent, do the same thing the next day, get on the bus again, and are back at work Monday morning. There is a lot happening that people should feel proud about.

—Gerald Curtis, Tokyo Foundation Senior Fellow and Burgess Professor of Political Science, Columbia University, from "Beyond Reconstruction: Political Priorities in the Wake of 3/11," <http://www.tokyofoundation.org/en/t/gjmx>



The tsunami pushed the reset button in many agricultural communities. It swept away not only homes and farms but also many obsolete structures and practices that have stood in the way of change. Now is the time for residents to mull over ideas that they would previously have dismissed as impossible or to revive an abandoned dream.

—Shinichi Shogenji, Tokyo Foundation Senior Fellow and Professor at the Graduate School of Bioagricultural Sciences, Nagoya University, from "A Community-Based Model of Rural Recovery," <http://www.tokyofoundation.org/en/t/g1yri>

People whose houses survived the tsunami took in neighbors who lost their homes. We pooled our stocks of rice and distributed onigiri rice balls to everyone. The three fish stores in town all donated their stock, saying that with power lines down, the fish in their freezers would go bad anyway. So none of us went hungry.

—Masae Maekawa, former midwife in the Kirikiri district of Otsuchi, comments on the strong ties in her community that enabled everyone in her neighborhood to look after one another. <http://kikigaki101.tokyofoundation.org/?p=1294>

Masae Maekawa

There used to be 52 houses in this cove, and 44 were washed away. The tsunami took everything away, but nobody here—myself included—bears any grudges. Virtually no one has any bitter feelings against the sea or the tsunami. That's because the sea has been such a generous provider until now.

—Shigeatsu Hatakeyama, oyster cultivator in Kesennuma, Iwate Prefecture, and founder of Mori wa Umi no Koibito nonprofit organization working to plant forests to maintain a nutrient-rich sea. <http://www.tokyofoundation.org/en/t/h5ntl>

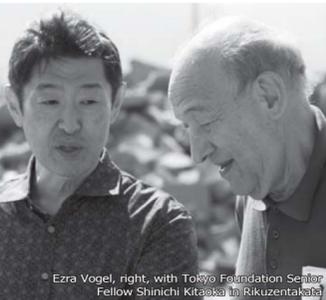
There are many in Japan even now who maintain that nuclear energy is the only way. Others cling to the hope of renewable energy while urging people to turn off their air conditioners. It seems to me that what we really need to do is open up the electric power industry to businesses and people who can inject it with new ideas and technologies.

—Yutaka Harada, Tokyo Foundation Senior Fellow, from "Clearing the Smoke about Nuclear Energy Costs," <http://www.tokyofoundation.org/en/t/byrj>



There are many things that the world can still learn from Japan, like how to keep social order. Japan has not had rapid growth for 20 years, but they've had a very orderly society. There was no looting or stealing at the time of the quake, and people in Tokyo happily did without air-conditioning in the middle of summer. For a country with slow growth to do so well in maintaining order is really a re-markable achievement.

—Ezra F. Vogel, Professor Emeritus, Harvard University, speaking at a Japan-China-US symposium in Beijing on September 6, 2011, organized by the Tokyo Foundation. <http://www.tokyofoundation.org/en/t/ayqzw>



I think we need to give people with minority opinions—including women and younger people—a bigger voice in how to rebuild. I'm perfectly happy just being a link in the chain.

—Hiroki Haga, deputy leader of the evacuation center in the Kirikiri district of Otsuchi. He recounts that he guided people up the stairs to higher ground, rescuing three people, but there were many more he could not reach. His wife was carried about 400 meters by the waves in her car, but it struck a house, and she was miraculously able to crawl out. <http://kikigaki101.tokyofoundation.org/?p=1624>

Hiroki Haga