

Japan's Growth Strategy in the Asia-Pacific Context

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on, January 5, 2007 by His Excellency Akira Amari, Minister of Economy,
Trade and Industry, Japan

I would like to talk about the various changes in today's economic environment and future cooperation between Japan and the U.S. I would like to begin with the changing character of the tremendously important Japan-U.S. economic relationship.

After a long period of trade friction came the period of "indifference", as if both countries were tired of the rocky relationship. Since then the relationship has entered a new stage, a period of "cooperation". From the 1970s, Japan and the U.S. fought fiercely with each other over trade issues, ranging from textiles and steel, to semi-conductors and automobiles. In the late 1980s, "the Japan-U.S. Structural Impediments Initiative" was held, and both governments debated not only trade issues but also internal and structural issues, such as the savings rate in both countries, and trade practices in Japan. The early 90s was an era when both sides had heated discussions over the U.S. demand for numerical targets, for instance, on automobile imports to Japan from the U.S. The newly born World Trade Organization (WTO) was caught up in this dispute.

After that, in the late 1990s, the U.S. economy recovered strongly, whereas the Japanese economy entered a long period of stagnation. Trade issues calmed down, while, by contrast, the U.S. interest in Japan declined. In 1998, former President Bill Clinton chose not to make a stop in Japan on his way to a week long visit in China. This was quoted as a typical example of U.S. lack of interest in Japan. On the other hand, it seemed to me that the Japanese side was a little bit relieved about this change in the U.S. attitude. What is important is that structural reform was in progress in Japan during that time and that the Japan-U.S. economic relationship developed extensively and profoundly. This change was not only through trade but also through direct investment and personal exchange. Or, I would say, at this time of "indifference", both Japan and the U.S. looked at each other, reaffirming that they share common values, respect each other's differences, and had built a comfortable relationship.

At the start of the 21st century, the Japan-U.S. relationship has become closer and more stable both politically and in terms of security. This relationship has been built on comradeship and mutual trust between former Prime Minister Koizumi and President Bush, particularly after September 11, 2001.

While the relationship between Japan and the U.S. has developed positively, we are now facing various global economic challenges. These derive from globalization and

economic development in emerging economies. Also, security issues such as "combating terrorism" and "epidemics" have come to the fore. Japan and the U.S. share fundamental values of democracy and the market economy, and our relationship has become more matured. Therefore, it is necessary for Japan and the U.S. to shift to the next era of cooperation.

Now I would like to move on to the next topic, "the future of the U.S.-Japan relationship." From the viewpoint I have discussed so far, I would like to talk about the promising cooperation between the U.S. and Japan. In this cooperation, there would be three layers: bilateral, regional and global.

The first layer is to strengthen the bilateral relationship between the U.S. and Japan. Both countries boast of "Economic Power," ranked first and second, respectively, in GDP, accounting for about 40 percent of global GDP.

We are also innovative countries full of cutting-edge technologies, and vying for the top in R&D expenditure and the number of patent applications.

The Abe administration, succeeding former Prime Minister Koizumi last September, is working to establish a growth strategy through innovation and an open attitude. This strategy is viewed as one of the important themes of our economic policy. I understand that the Bush administration also sees encouraging innovation as a key for competitiveness and economic growth:

The undertaking from this standpoint is the collaboration between the patent offices of Japan and the U.S. This is the "Patent Execution Highway" initiative, which has been practiced in trial form since July of last year. With this initiative, we will be able to ensure faster processing of patents and at high quality by sharing use of existing information needed for mutual examination. This will bring great positive benefits for companies in both countries, where innovation is regarded as important. For example, one U.S. company took advantage of this initiative on a trial basis and secured the necessary rights faster than ever before. In addition, an idea for a legal framework to control counterfeit products and piracy was proposed at the G8 summit in July 2005. Actually, I am one of the advocates for this framework, and I will work hard together with the U.S. and take the initiative for early realization of the legal framework, along with the participation of the E.U.

Moreover, we are cultivating the seeds of cooperation on other issues, such as establishing technical standards and developing new energy resources. The second layer would be regional cooperation in the Asia-Pacific. A close partnership between the U.S. and Japan will lead not only to sound economic growth in both countries but also to economic development in the whole Asia-Pacific region. Japan and the U.S. should take the initiative in spurring trade and investment in this region.

The 21st century is often called the "Century for Asia." In particular, East Asia, including ASEAN countries, mainland China, and India, has experienced growth at the rate of between seven and eight percent per year. This region has recorded the highest growth rate throughout the world since the 1990s. Right now, the East Asia region has attracted the world's attention, and is considered to be the center of global growth. It has a population of 3.1 billion people, which is half of the global population, and maintains one-fourth of both GDP and trade volume in the world. A report recently published by the World Bank estimates that the output of the global economy will double to \$72 trillion in 2030 from \$35 trillion in 2005. The driving force will be economic growth in developing countries, especially Asia-Pacific countries. Additionally, what is even more dramatic is that the middle-class population, earning between \$4,000 to \$17,000 per capita, will increase by eight hundred million people in the next thirty years, and that three-fifths of this increase will come from the Asia-Pacific region.

However, it is no exaggeration to say that both the U.S. and Japan have brought about economic growth in East Asia. Direct investment that sprung from both countries has built a borderless supply-chain network in East Asia, ranging from production, to distribution, to retail. If you look at the intra-trade rate, East Asia hits 57 percent, and economic integration in this area is flourishing. East Asia has already surpassed NAFTA countries at 45 percent and will be on a par with EU countries, at 60 percent.

Considering the fact that both Japan and the U.S. are surrounded by the Pacific Ocean and have the most imperative alliance in the world, it is becoming more and more important for us to firmly support East Asian countries, solidifying "Win-Win-Win" relationships among us.

In this context, I attach great importance to APEC, the Asia Pacific Economic Cooperation, as a forum to realize Japan-U.S. cooperation across the Pacific Ocean and a "Win-Win-Win" relationship. The U.S. government has made it clear that APEC activities should be highly evaluated, and President Bush himself proposed the so-called "FTAAP", the Free Trade Agreement in Asia-Pacific region, at the last informal Summit meeting in Hanoi, Vietnam.

Here, I would like to stress the fact that the Asia-Pacific region is a key area for achieving economic growth worldwide. This region consists of East Asian countries and the U.S., meaning that both the center of global growth and the largest economic power are embraced. I would like to welcome and support FTAAP as a new goal for APEC activities, in cooperation with the U.S.

On the other hand, I hasten to add that the economic capabilities of various economies, as well as their government's ability to enforce, is diverse in this region. East Asian countries are different from EU countries moving toward integration. We have to take into consideration the reality that FTAAP will not be something that can happen overnight. Along with advancing the systems based on freedom and equal opportunity, we have to support other Asian countries which do not have sufficient economic

competitiveness. And, through economic cooperation, we should help them raise their economic level in order to advance trade and investment liberalization.

Please allow me to introduce some of Japan's efforts. The Japanese Government has actively undertaken negotiations on Economic Partnership Agreements with East Asian countries, bearing in mind the reality that actual economic integration is continuing. Japan has so far pushed for comprehensive and many-sided EPAs, including elimination of tariffs, investment rules, and cooperation. We have concluded bilateral EPAs, starting from Singapore in 2002, as well as with Malaysia, Philippines, Thailand, Indonesia, and Brunei. In addition, we are now under EPA negotiations with ASEAN as a whole, also with Vietnam, India, and Australia.

In parallel with these efforts, the Japanese Government has launched an initiative, the "Comprehensive Economic Partnership in East Asia," in April last year. At present, Japan, China, South Korea, India, and Australia-New Zealand is negotiating Free trade Associations (FTA) with ASEAN as a whole. Within a few years, we will see the completion of five FTAs with ASEAN at the hub. This initiative attempts to integrate these five FTAs, and these 16 countries will conclude a comprehensive economic partnership agreement by getting democratic and market economy-based countries like India, Australia and New Zealand into the mix. We will try to construct an open economic system based on freedom and fairness, and thus I believe this initiative would help the U.S. efforts a great deal. Next weekend Prime Minister Abe and I will attend the East Asian Summit and Economic Ministers Meeting in Cebu, the Philippines. Leaders and ministers from East Asia will give the blessings to the start of the track-two study by experts on the East Asia EPA this year. Japan is also proposing the establishment of an Economic Research Institute for ASEAN and East Asia early this year, together with the East Asia EPA. This idea is mainly aiming at supporting ASEAN countries' efforts through cooperation. I think that the promotion of these two ideas is an important "building block" for making APEC a solid and unshakeable framework. The U.S. Government is under bilateral FTA negotiations with East Asian countries including South Korea and Malaysia. I would truly welcome and hope for the successful conclusion of these FTAs and the further expansion of the U.S. FTA-network in Asia.

Those efforts by the U.S. side would accelerate the momentum for FTAAP. Moreover, what is important for both the U. S. and Japan is to advance our bilateral economic partnership as a model for East Asian countries. In addition, both countries have to cooperate with each other on specific policy areas for economic development and liberalization of trade and investment in this region. Taking into consideration the voices from the U.S. and Japanese industries that play a vital role in the development of the East Asia, I would like to double our efforts to enhance cooperation in APEC and other fora.

The third and last layer will be mutual cooperation on global issues. The reason why the Japan-U.S. relationship is going to be more important is the fact that there are a number of issues and problems in the world where Japan and the U.S. must take the initiative.

For example, the WTO Doha Round negotiations returned to normal in November last year, and we must seek the early conclusion of these negotiations. Also, we have to establish a stable international oil market and resolve energy and environmental issues including global warming. There are other issues at stake, including nuclear non-proliferation and counter-terrorism that all countries must tackle.

In particular, rapid economic growth in some developing countries has resulted in high prices of energy resources and move for the strategic use of energy in major nations. Problems such as climate change and pollution have crossed borders and regions and are damaging our global environment. Japan and the U.S. combined occupy 40 percent of global GDP, and 25 percent of energy consumption and CO2 emissions. Therefore, we should deal with energy and environment issues in cooperation with each other so that we can show a model for solving global problems. For instance, we will cooperate on diversifying the energy mix by using more nuclear energy and clean coal. It is also important for both countries to engage emerging economies like China and India in energy conservation and emergency preparedness. We definitely have to create a more transparent investment climate in energy-producing countries. I believe that specific efforts and significant result could be expected in these areas.

Right now, twin movies featuring "Iwo-jima" directed by Clint Eastwood have made a deep impression on viewers in both Japan and the U.S. These are based on the viewpoint of the soldiers from each country, fighting a miserable war. We have to admit that in the history of our two countries there have been times of great conflict. After World War II, the U.S. lent us a helping hand, and that laid a solid foundation for the future development in Japan. The economic growth in Japan and mutual dependence led to the era of "friction". Then followed the time of "indifference." However, both Japan and the U.S. have finally developed a relationship of the maturity with shared common values, while acknowledging the past calmly and constructively. Now is the time for Japan and the U.S. to implement three-layered cooperation: cooperation for both, cooperation for the Asia-Pacific, and cooperation for the global economy. As a member of the Japanese Cabinet, I feel very passionate about this and would like to make it happen, of course with your help.

Thank you very much for your kind attention

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