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P A P E R



The United States, Japan, and Free Trade

Moving in the Same Direction?

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Sponsored by The Japan Foundation Center for Global Partnership



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Summary

The global trading system is at a turning point. With the Doha Round of trade negotiations floundering, the direction charted by two of the world's largest economies and biggest advocates of unfettered global trade will have a profound impact on the fate of the free trade regime. It was in this context that we launched a project examining whether the United States and Japan could find common ground for cooperation on global trade and, if so, what form that cooperation might take. We looked at four options: (1) working together to restart the multilateral Doha Round of the World Trade Organization (WTO), (2) signing a bilateral free trade agreement (FTA), (3) participating in the formation of the multilateral, regional Trans-Pacific Partnership (TPP), and (4) pursuing independent trade strategies. We evaluated each option based on its impact on international relations and economic growth and its political and practical feasibility.

We found strong evidence supporting the case for cooperation through the TPP. With the announcement on November 7, 2011, by Prime Minister Yoshihiko Noda that Japan would begin discussions to join the TPP, both countries have now committed to negotiations. Whether the United States and Japan will find ways to cooperate to push these negotiations toward a successful conclusion remains to be seen, but our research indicates that this is the best policy option available at this time for both countries. In other words, both the United States and Japan have independently arrived at the decision that joining the TPP is in their own national interest. While this may not guarantee cooperation, we believe it provides solid ground for the two nations to work cooperatively toward a successful conclusion of the TPP.

The benefits of trade liberalization are well established theoretically and empirically. Moreover, the citizens of the United States and Japan have directly experienced and contributed to those benefits over the past 60 years. These economic benefits have derived primarily from multilateral trade liberalization through the General Agreement on Tariffs and Trade (GATT) and its successor regime, the WTO. Therefore, one might assume that these two long-time allies would naturally seek to cooperate in continuing trade liberalization.

Yet, trade also creates pockets of pain as less competitive industries are driven out of business, resulting in lost jobs and, at times, severe hardships for communities. Trade agreements can result in changes to domestic rules and regulations, undermining existing authority and shifting decisionmaking power. Sometimes these shifts produce positive health and safety gains. Sometimes they serve to loosen rules designed to protect the environment and the health and safety of individuals.

This is why trade liberalization is a highly political process that often generates well-organized domestic opposition. Both the United States and Japan face such politicized constituencies, although the supporters and opponents of free trade in each country tend to be

mirror opposites. In the United States, labor unions have traditionally been opposed to trade pacts because U.S. manufacturing costs, especially labor costs, are high relative to much of the rest of the world. Farming interests, however, have been aggressively in favor of free trade, albeit opposed to rules that might lead to reduction in their government subsidies, given relatively low costs and high productivity. In Japan, where the reverse cost comparisons typically apply, the most stalwart opponents of free trade have been agricultural interests while business and labor have been generally, if somewhat tepidly, supportive. These differences have made it difficult for the United States and Japan to actively collaborate in pushing the stalled WTO negotiations forward.

Bilateral and regional trade agreements are less desirable than global multilateral agreements because they tend to distort trade, yet beginning with the North American Free Trade Agreement (NAFTA) this is the avenue the United States has been pursuing—partly for economic reasons but also for the diplomatic and political gains that FTAs confer. About a decade later, Japan also joined the game, using FTAs strategically and focusing primarily on Asia. Both countries have exercised their clout in these bilateral agreements to placate domestic opponents of open trade. For instance, environmental and labor force provisions have grown progressively stricter in U.S. FTAs while concessions on agriculture are conspicuously missing from Japan's FTAs. At present, however, neither country finds it politically feasible to engage head-on in a discussion of a U.S.-Japan FTA.

One may ask why we think U.S.-Japan cooperation on trade is possible at this time. The answer is that the economies in the United States and Japan are both in need of outside stimulus to propel them forward. Moreover, both countries are also desirous of maintaining strong leadership positions in Asia. In the case of the United States, the administration of President Barack Obama has launched the National Export Initiative with the goal of doubling the value of U.S. exports by 2015. As part of this effort, President Obama has committed the United States to TPP negotiations. Likewise, Japan has a strong national interest in making sure that it can compete on even footing with both South Korea and China in global markets starting with Asia, and there is growing recognition that if Japan wishes to retain food self-sufficiency, the agricultural sector must attract new investments.

While we believe that it is unlikely that the United States and Japan will find a way to cooperate in reigniting the Doha Round—and that it may not even be possible for them to do so, given strong resistance by large emerging markets such as India and China—we do find ample reasons to believe that both the United States and Japan will move forward with TPP negotiations. By doing so, both countries can strengthen their standing in the Asia-Pacific region and demonstrate a commitment to open markets. This commitment could provide at least a temporary economic boost and, if the TPP fulfills its promise to be comprehensive and broad-based, it should generate significant longer-term stimulus. Opposition to the TPP in the United States has been muted in part because it has had a relatively low profile. The addition of Japan will raise the profile and the stakes, but it will also increase the potential gains. Conversely, Japan faced vociferous and fervent opposition prior to Prime Minister Noda's announcement, but this may diminish over time as the outlines of the scope of expected concessions as well as benefits become clearer.