

JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

“Recommendations on Revitalizing the Doha Development Agenda”

Nippon Keidanren (Japan Business Federation) Position Paper

Executive Summary

Success in the Doha Development Agenda (DDA), would further promote trade, thus greatly contributing to the development of the global economy, and benefiting developed and developing countries alike. Although the original goal which was to reach a comprehensive agreement by the end of 2004 now appears difficult to achieve, in order to reach the agreement with a single-undertaking formula, members will have to be flexible in their ongoing efforts to promote negotiations, keeping in mind the experiences gained through the Cancún Ministerial Conference and addressing the issues facing developing countries.

Meanwhile, WTO Members continue to spare no effort in their negotiations and aim to reach a framework level package by the end of July 2004. The Japanese business community hopes that an agreement

will be reached by the end of July on a framework for agriculture and non-agricultural market access, that such an agreement will spur on overall negotiations, and that Members will exercise a strong commitment to the process, making positive political decisions with regard to other important matters, especially the Singapore Issues, trade in services, antidumping, IT and e-commerce.

To that end, Nippon Keidanren sent a 12-member delegation on a mission to Geneva, Brussels and Washington DC (June 1-9, 2004).

Basic Position Regarding Focal Areas Towards the End of July

(1) Trade in agricultural products

A framework agreement on agriculture is a prerequisite for revitalizing the DDA, and Nippon Keidanren therefore calls on all Members, including Japan, to arrive at a positive political decision regarding this issue. Furthermore, Nippon Keidanren considers it important, when promoting liberalization, to maintain a balance between the rights and obligations of both exporting countries and importing countries.

Japan should make a decision based on national interest, including both consumers and producers. Nippon Keidanren appreciates the Government of Japan's effort in responding to the Uruguay Round accords by introducing liberalization. Japan should implement reforms in domestic agricultural policy that boost competitiveness, while at the same time reconsider the way of border measures, such as tariffs, and domestic supports, to make further improvements to market access.

For its part, the United States should significantly cut its export subsidies and export credits, and also consider the way of less trade distorting support of domestic agriculture, with a view to revising the Farm Security and Rural Investment Act of 2002.

The EU, too, should significantly cut export subsidies within a predetermined time limit. In this regard, Nippon Keidanren welcomes EU's proposal for the flexibility to reduce its own export subsidies, and USA's indication of flexible stance in this area.

Canada and Australia, key members of the Cairns Group, are

Currently No. 45 June 2004

**Through the United Nations:
Improving US-Japan Relations** 4
*by Linda Jamison, Abshire-Inamori
Leadership Academy*

“Recommendations on Revitalizing the Doha Development Agenda”

conducting monopoly practices for exports of wheat and other agricultural products, but Nippon Keidanren maintains that disciplines on export state trading must be established at the WTO. We hope that Brazil, India, and other G-20 members will play a strong role in promoting a framework agreement for the agricultural sector. We call on developed countries to correct their own trade-distorting measures, but at the same time, developing countries should pursue liberalization based on enhanced competitiveness over the mid to long term.

(2) Non-agricultural Market Access

Developed and developing countries need to move toward reducing or eliminating the many high-tariff items that still remain, as well as a wide range of non-tariff barriers, in order to ensure both economic development through liberalized trade and an effective distribution of resources.

Formula for reducing high tariffs should be adopted within frameworks that will be agreed upon. Furthermore, Nippon Keidanren considers it important to eliminate or harmonize sectoral tariffs, and calls for a zero-for-zero approach in such sectors as consumer electronics and electric appliances, and for harmonization and a zero-for-

zero approach in motor vehicles, and for harmonization of textile. After elimination of tariffs through formulas and sectoral approaches, we welcome the Members to agree to the supplementary measures mediated by zero-for-zero approach, harmonization, and the request/offer process. Although there are some products for which particular countries will find it difficult to reduce tariffs—for example, forestry and fishery products in the case of Japan—it is nevertheless important that all members, including Japan, take the appropriate steps to move negotiations forward.

Remaining non-tariff barriers should be entirely eliminated as possible while the liberalized business activities of domestic and foreign corporations should be ensured.

In developing countries, many items are not yet covered by the Harmonized System (HS) Codes, and should lift their HS Code cover rates to as nearly 100 percent as possible.

(3) Singapore Issues

Overall progress in the DDA is of primary importance, and it would therefore be preferable for the four Singapore Issues to be discussed separately where necessary. This does not mean, however, that issues that will not be brought forward for

negotiation in the immediate future should be taken off the discussion table at WTO.

(i) Trade Facilitation

Clarification, simplification, and harmonization of trade procedures would benefit all those involved with trade. These steps would not only reduce the burden placed on the business community but would also boost the administrative efficiency of Members.

Virtually all members have indicated an understanding of the significance of such benefits. Nippon Keidanren therefore strongly urges that discussions be conducted on the modalities of negotiations regarding trade facilitation rules, that these negotiations be launched at the General Council meeting in July, and that an agreement be reached as an essential part of the single undertaking.

Trade facilitation rules should be drawn up with the participation of all members, and clarify and improve relevant aspects of the General Agreement on Tariffs and Trade (GATT) Articles V (Freedom of Transit), VIII (Fees and Formalities Connected with Importation and Exportation), and X (Publication and Administration of Trade Regulations). Rules should be based on such principles as transparency, simplicity, and

standardization, and should cover wide aspects of trade-related procedures.

Developing countries should actively participate in the effort to establish trade facilitation rules. However, because of their lack of adequate infrastructure and human resources, they should also be offered opportunities to promote capacity building. Furthermore, flexibility will be required when considering the referral of a dispute to a settlement body, as in the case of non-compliance due to a lack of capacity.

(ii) Investment

Trade and investment are now closely linked and therefore, there is a strong need to liberalize investment and create investment rules. Multilateral investment rules within WTO can be reviewed and augmented during future rounds of negotiations – such rules have the potential of ensuring greater stability, transparency, and predictability of the investment environment than could be achieved through bilateral investment treaties (BITs).

When creating investment rules, the development policies of developing countries should be fully considered, with the principles of liberalization and transparency to

the extent acceptable for developing countries.

Nippon Keidanren remains convinced of the need for investment rules within WTO. If the investment rule making is removed from the single undertaking and postponed, alternative proposals from the perspective of pragmatic approaches related to the circumstances of the negotiations need to be made, considering the utmost importance of promoting overall progress in the DDA. The consideration of plurilateral agreements by interested major developed and developing countries might be one of the options.

For its part, although WTO negotiations is the fundamental of international trading system, Japan should actively pursue the establishment of BITs and Economic Partnership Agreements (EPAs) with major countries and regions creating systematic frameworks whose objectives include the protection and liberalization of investment and the establishment of dispute settlement mechanisms.

(4) Issues Regarding Developing Countries

Liberalization of trade and investment, as well as trade facilitation, will result in greater inflows of foreign capital, leading to further economic development, more jobs,

technical transfers, and other benefits. For these reasons, developing countries should be also keen to participate in the DDA. Developed countries should be willing to offer developing countries incentives for doing so, and more accommodating approach should be considered with regard to issues high on the agenda of developing countries, and with regard to supporting capacity-building efforts and special and differential treatment (S&D) provisions according to the capacities of developing countries.

Other High Priority Areas

(5) Trade in Services

All trade in services sectors, including financial services, IT, e-commerce and distribution, play a key role in the establishment of integrated supply chains. Members must spare no effort liberalizing trade in services, in order to gain maximum advantage from liberalized trade in goods and investment.

Some members are participating in trade in services negotiations while keeping an eye on the extent of progress in other areas, especially agriculture and non-agricultural market access. However, because of the advantage of liberalizing trade in services, Members should take an

Continued on page 7

Through the United Nations: Improving US-Japan Relations

by Linda Jamison, Abshire-Inamori Leadership Academy

In a rare moment of public candor, President George W. Bush told Prime Minister Koizumi at the G-8 Summit that the US supports a permanent seat for Japan on the UN Security Council. This is certainly not a departure from official US policy, but it does indicate the significance of the US-Japan alliance, that over the years has been marked more by imbalance than a partnership between equals.

Within the UN framework, however, US support of a permanent seat for Japan is crucial. Even though Japan has a superb track record at the UN, the US-Japan bilateral relationship is characterized more by Japan's acquiescence to US demands than by deep involvement in planning at the international level. Now, Japan has an opportunity to remedy this not only by acquiring a permanent seat on the Security Council, but in turn asserting itself as an equal partner with the United States – within the United Nations and within the alliance.

Japan has been an unflinchingly loyal partner of the US in international relations. Aside from providing Self Defense Forces in Iraq, shouldering much of the financial burden at donor conferences for Afghanistan and

Iraq, agreeing to forgive loan debt for the Heavily Indebted Poor Countries (the World Bank's HIPC program), to providing peacekeeping troops and resources in a host of UN peace operations around the world, Japan still suffers from an inferiority complex when it comes to its bilateral relations with the US, a condition that negatively affects its international image.

The time to recalibrate the US-Japan alliance within the UN framework has come, particularly now, as the US finds itself struggling with legitimacy in Iraq, continued instability in Afghanistan, and tension with its other allies. As the UN takes on a greater role in Iraq, and will likely continue to do so throughout the region, Japan has an opportunity to alter its relationship with the US, first, by changing its image as the junior partner in the alliance, and second, by pressuring the US to work more effectively and more completely through the UN to achieve greater international cooperation on major issues.

Japan has gained significant international prominence in the last decade, largely from its role within the UN system. Japan has never wavered in its support of the UN, taking a consistent and oftentimes neglected leadership position on a

variety of UN-related issues. These conditions with respect to the UN, make it possible for Japan to use its alliance with the United States to pressure its ally to operate more fully within the international community. In order to do this, however, Japan must become a more complete international partner in its own right by focusing on two critical areas of change: 1) reshape its image; and 2) continue to press for UN reform.

As the World War II generation leaves the scene in Japan and the younger generations control more and more of the bureaucratic and political levers of power, Japan must break free of its image at home and abroad as the defeated enemy of the United States 60 years ago. Even after decades of peace and cooperation between the two countries, Japan is still reluctant to criticize the US on important international policy matters. Moreover, it does not assert its own influence as aggressively as it should.

Japan's unequivocal support of the US will not be accepted by the younger generations of Japanese who want their leaders to be assertive and voice Japan's position, independent from the senior partner, the United States. Still, some positive steps have been

taken as Japanese leaders have responded to recent domestic pressure to take a more active role in Asia without the watchful eye of the US in the background. This new approach is amplified by decades of Japanese public support of the UN.

The Japanese people have a psychological and emotional commitment to the UN that has lasted nearly 60 years – a phenomenon that paves the way for Japan stepping out of the shadow of the US and more visibly onto the international scene. Not only has Japan's foreign policy always placed the UN at the center of its diplomacy, but the Japanese style of consensus-building is culturally more accepting of multilateral approaches that dominate the UN culture. The Japanese style at the UN is also more conciliatory, less forceful and independent than that of the US.

Another advantage that makes it easier for Japan to recreate its image is that in 60 years it has not engaged in armed conflict. Without a traditional military, Japan has virtually no enemies. Even though simmering resentments exist that are deeply held and emotionally driven, Japan is not encumbered by overt conflicts with other countries. Japan's regional and bilateral

relations are more defined by economic competition than security interests that taint regional politics and international stature.

Furthermore, in many regions of the world Japan is viewed as a benign economic partner whose investment has led to prosperity and more social stability. Even with China and North Korea, Japan has managed to maintain positive relations that are not likely to erupt. This is another powerful leverage point for Japan, particularly throughout Asia and the Middle East, where the US has little political or cultural credibility. Unique conditions have created an opportunity for Japan to distinguish itself within the international community in ways that differ significantly from its strongest ally. The more Japan defines itself independently from the US, the more likely it will develop the capability to flex its international clout on a broader-range of issues.

As Japan considers multiple courses of action to become a more effective international leader, it must bring more pressure to bear at the UN for meaningful reform. The most critical area of reform in the near future is the power center of the UN – the Security Council. Japan can help by encouraging

reform in two ways – membership and dues.

First, membership. The current formula reflects a world that no longer exists. The five countries with permanent seats and veto power – China, France, Great Britain, Russia and the United States – were the victors of World War II when the UN was created. At the dawn of a new century, permanent membership on the Security Council must reflect other criteria.

In this new era, power is more a function of flexibility than simply who possesses nuclear weapons or a large military. Economic strength has become a potent projection of power and leadership in the world. Foreign direct investment, aid contributions, and the ability to give multilateral and bilateral loans are all indicators of how countries such as Japan contribute economically to social and political stability around the world. Japan must be its own advocate for a permanent seat on the UN Security Council, even with US support, and help manage the process for determining the criteria for membership and expansion of the body.

Second, Japan has carried a heavy load at the UN – financially and politically. In the areas of financial

Continued on page 6

Through the United Nations: Improving US-Japan Relations

SECURITY COUNCIL CONTRIBUTIONS TO UNITED NATIONS

	% of Regular Dues (2004)	% of Peacekeeping Dues (2001)
China	2.05%	1.90%
France	6.03%	8.23%
United Kingdom	6.13%	7.00%
United States	22.00%	29.17%
Russia	1.10%	1.50%
Japan	19.47%	19.77%

SOURCE: Japan Ministry of Foreign Affairs Official Website
United Nations Official Website

assessments, agency leadership, and peacekeeping and troop contributions, Japan's dedication to the UN remains unmatched. Japan pays 19 percent of the total UN budget. The US pays 22 percent. Japan pays more in regular dues to the UN than the combined total of dues paid by four of the five permanent members: Great Britain (6 percent), France (6 percent), China (2 percent), and Russia (1 percent). Japan's portion of the peacekeeping budget is even higher.

Yet without a permanent seat on the Security Council, Japan's real political influence remains marginal. Here again, Japan has a chance to leverage its past participation and commitment to the UN into a stronger leadership role. Moreover, future constitutional changes in Japan could lead to a broadened

role for its military in collective security, providing a wider-range of peacekeeping support around the globe. Combined with the financial responsibility that Japan already has at the UN, its influence on the international level could soar.

By working actively and immediately to press for the adoption of a set of criteria for permanent membership on the Security Council, Japan can have a greater impact on the future of international peace and security, which could lead to more influence with the US.

The real question to improving the US-Japan alliance is not if the imbalance can be improved, but how. The answer lies at the UN where Japan's leadership and influence is more effective and more acceptable than that of the

US. At the beginning of a new century marked by non-traditional conflict, threats of terrorism on a global scale, and the increasing gap between developed and lesser developed countries, the international community through the UN Security Council will be asked to determine which challenges it will accept and which it will decline. By its actions, Japan has proven its commitment to international cooperation.

Now Japan has an opportunity to step out of the shadow of the US, to recalibrate its image as a global leader and emerge as a stronger, more independent voice in international peace and security – a journey that could prove beneficial both to the alliance and to Japan's national identity. ■

Linda Jamison is Dean of the Abshire-Inamori Leadership Academy at the Center for Strategic & International Studies in Washington, DC. She can be reached at: LJamison@csis.org

“Recommendations on Revitalizing the Doha Development Agenda”

active role in pushing forward with trade in services negotiations, regardless of the circumstances surrounding other negotiations.

Nippon Keidanren urges all countries to improve the transparency of their domestic regulations and to avoid introducing regulations that require more burdensome than necessary to ensure the quality of services. Nippon Keidanren welcomes the decision by the Working Party on GATS Rules that the negotiations on Emergency Safeguard Mechanisms (ESM) are extended up to an indefinite date.

It is extremely regrettable that only around 40 countries have submitted initial offers, and that the deadlines set have not been met.

Developing countries should be made more aware of the advantages of liberalized trade in services and the procedures encompassing special commitments, and that they and other countries that have not yet submitted initial requests and offers should do so promptly. Members that have made submissions—mainly developed countries—need to consider improving the content of their initial offers and should also continue to raise liberalization levels. To make these efforts more effective, it would be worthwhile to consider setting new milestones.

Nippon Keidanren calls for Members to make liberalization commitments that enable the unhindered worldwide movement of highly skilled natural persons involved in specialist and technical fields. Nippon Keidanren also calls for Members to go beyond their schedules of specific commitments to ensure the transparency, simplification and expedition of their immigration regulations and procedures.

(6) Antidumping

The spate of arbitrary, protectionist antidumping measures imposed in recent years has destabilized the international trading system. Nippon Keidanren strongly urges that negotiations on a concrete proposal for a revised Antidumping Agreement would progress, in light of the results achieved to date through studies conducted by the negotiation group on rules. Strengthening the disciplines of the Antidumping Agreement would prevent the imposition of such measures and thus prevent reducing the effects of market access improvement.

(7) E-commerce

The liberalization of IT and e-commerce will serve as a springboard for further development of the global economy. Nippon Keidanren

urges Members to commit full liberalization in computer-related services as well as value-added telecommunications services within the trade in services negotiations. A prompt announcement that the moratorium on customs duties regarding online/electronic/digital transactions be made permanent and activating the work program on e-commerce are important. Furthermore with regard to the treatment of software, it is strongly recommended that the GATT should be applied to online/electronic/digital transactions.

Conclusion

Nippon Keidanren supports the multi-layered trade policy, including bilateral and regional economic partnership agreements (EPAs). We are convinced that Japan, too, needs to strategically promote EPAs. Even so, EPAs must in all cases be consistent with WTO rules, which means that substantially all items need to be liberalized in accordance with Article XXIV of the GATT. Nippon Keidanren considers that multilateral negotiations within the WTO are at the heart of the international trading system.

Given the importance of multilateral negotiations, Nippon Keidanren works hard to promote them and makes timely recommen-

Continued on page 8

“Recommendations on Revitalizing the Doha Development Agenda”

from page 7

dations. It has already sent missions to the WTO in Geneva on four separate occasions.

Nippon Keidanren will fully use the fruits of this mission, and promote exchanges of opinions with the relevant people and organizations in Japan, and to make recommendations to the WTO Secretariat and negotiators representing developed and developing countries, as well as countries in transition, with a view to achieving definite progress in upcoming negotiations. It will also further strengthen its ties with business federations in developed and developing countries. ■

Would you be interested in seeing other topics covered by the Japan Economic Currents?
Please e-mail ValeriePloumpis@KKC-USA.org

FIRST CLASS MAIL
U.S. POSTAGE
PAID
WOODBIDGE, VA
PERMIT NO. 534

Publisher, Keizai Koho Center

Director, Katsunori Nemoto
nemotok@kkc-usa.org

Editor, Valerie Ploumpis
vpoumpis@kkc-usa.org

1900 K Street NW, Suite 1075
Washington D.C. 20006
202 293-8430

www.kkc-usa.org

Keizai Koho Center (KKC) is an independent, non-profit organization designed to promote the understanding of Japan's economy and society at home and abroad. Its financial resources are derived entirely from the private sector.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

The views expressed in this newsletter are of the contributors and do not necessarily represent those of the Keizai Koho Center.