

As Delivered

**Remarks by Ambassador Jon M. Huntsman, Jr.
Deputy United States Trade Representative
The Foreign Correspondents' Club of Japan
Tokyo, January 24, 2002**

“Putting Sacred Cows to Pasture in the Year of the Horse: Structural and Regulatory Reform as a Prerequisite for Growth”

Thank you, Reed, for that very generous introduction. I'm delighted to be here with you today and I certainly appreciate, Myron, the invitation. I understand that appearing before this august group is an absolute must while in Tokyo. That if you don't, it's akin to eating sushi without *wasabi*. And since I like my *wasabi* strong, I decided that this was the right thing to do - particularly in the footsteps of Janet Jackson, who probably didn't cover the issues that I'm going to cover. But nonetheless, I am honored and absolutely privileged. I'm actually a little surprised at just how popular USTR is at some of the ministries. I wasn't anticipating such a warm welcome, but I'm absolutely delighted to be here on my first trip to Japan as a member of the team at USTR.

The Broader Importance of the Relationship

Before turning to the business of putting sacred cows to pasture through structural and regulatory reform, I'd like to step back for a moment and place the U.S.-Japan relationship into a broader context.

The strength of the bonds we share has been brought into even greater focus in the wake of the terrible events of September 11. One important lesson we all can take from that tragedy is that very real risks in the post-Cold War era persist in America and regions around the world and that security ties between the United States and Japan are absolutely as vital as ever. Japan's prompt response to support the war on terrorism underscored the strength of our relationship and was deeply appreciated by the Bush Administration. The speed with which the Koizumi Administration passed legislation in the Diet to make this support possible demonstrated Japan's commitment to securing peace around the world. We have also been impressed by Japan's forward-leaning role in rebuilding Afghanistan and applaud its hosting of the reconstruction conference this week.

Another lesson from September 11 is that the attacks were assaults on the entire world economy. The terrorists behind the World Trade Center destruction would like nothing more than to see a collapse of capitalism and open markets, the same markets that have provided for historic levels of prosperity around the world in the last half century. More than ever, the United States and Japan, as the world's two largest economies, share a special responsibility to stay engaged globally, to act as engines of growth, and to ensure that markets remain open – and become more open – over time to the free flow of goods and services.

To this end, there is much room for cooperation between our two countries as we begin to work in earnest on the ambitious objectives and deadlines set out by the 144 nations that launched the WTO negotiations last November in Doha. The Bush Administration especially welcomed Japan's constructive role in Doha and will be looking to Japan for both cooperation and leadership as we move forward. The road ahead, however, will not be easy. A major challenge, for example, will be China's WTO implementation. That country has a huge task in front of it to ensure its ministries, state-owned enterprises, and localities act in conformity with its WTO commitments. I am hopeful our two countries can work together to facilitate Beijing's full and timely compliance with those commitments.

We also share a responsibility to open markets in the region through support for APEC and by encouraging the continued development of the ASEAN Free Trade Area. Both our countries benefit from market opening initiatives from Bangkok to Manila and from Chengdu to Tokyo. It is therefore incumbent upon the United States and Japan to bolster the often difficult strides our trading partners of the region take to liberalize their markets.

Getting Back to Growth

But unless economies are growing, it is difficult to knock down trade barriers. The United States and Japan account for roughly 80 percent of the region's GDP. Linked to the Asia-Pacific by massive flows of trade and investment, the prosperity of our two economies are absolutely crucial to regional prosperity. The recessions that grip the United States and Japan do not, of course, bode well for our Asian trading partners. The year 2002 is not shaping up to be particularly stellar for them. With the exception of China's economy, growth in East Asia will be stagnant. Hong Kong, Singapore, Korea, and Taiwan are bracing for growth of 0.4 percent. No ASEAN country expects growth better than 2.5 percent – a grim figure when you compare it to the 5 percent growth those economies mustered in 2000. Even China, which saw 8 percent growth rates throughout the 1990s, has lowered its forecast for the year 2002 to below 7 percent.

The bottom line is that both the U.S. and Japan need to get their economies growing again to spur regional growth and activity.

Call me an optimist, but I am of the school that the worst is over for the U.S. economy, though it is still early to declare victory. For Japan, I am also optimistic over the long run, but recognize that there may be difficulties in the short term.

As we all know, Japan is facing some pretty daunting challenges. The non-performing loans and distressed asset problem is limiting prospects for a speedy recovery. The deflationary environment presents additional challenges as well. Unemployment is at an historic high of 5.5 percent. (I see that the Japanese Health, Labor and Welfare Ministry reported last week that only 63 percent of new high school graduates in Japan looking for work last year found jobs by fall – an historic low.) And Japan's fiscal deficit will reach 140 percent of GDP this year.

As I have already suggested, I am not at all convinced that Japan is down for the count. For half a century, this country dazzled the world with its accomplishments, becoming the

economic and technological leader of Asia. This is a nation of extremely talented, hardworking people. Where else would a television documentary called “Project X” gain such popularity than in Japan, a show which I understand venerates teamwork, innovativeness, the will to overcome seemingly insurmountable challenges, and the spirit of *gambare*. No, the will to recapture economic vibrancy exists within the Japanese people. I am absolutely certain of this.

Regulatory Reform Agenda

I would like to turn to an area that is clearly on my beat and a major theme of my meetings here this week – structural and regulatory reform. These reforms, painful as they were, laid the groundwork in America for its most prosperous, long-lasting economic boom ever. We deregulated the trucking, railway, shipping, and airline industries. In the 1980s and 1990s, we also undertook pro-competitive regulatory reform in the telecom sector, which was all about promoting growth and consumer welfare. These steps unleashed a flurry of innovativeness, drove productivity to high levels, and benefited consumers through lower prices and greater choice.

Take, for example, what happened in the wake of telecom deregulation in the United States. Information technology (IT) grew from 4 to 8 percent of the economy between 1977 and 1998. Long distance telephone traffic more than doubled between 1988 and 1998. Competitive local carriers invested over \$50 billion in the U.S. between 1996 and 2001 and their revenues increased from \$3 billion to about \$10 billion. Who could have imagined you could get so much vitality and growth out of a previously monopolized sector?

The United States certainly does not have all the answers when it comes to restoring economic growth. There is no silver bullet, but we do know from our own experience the importance of clearing away the thicket of regulations that retard economic growth. This is why we are so supportive of Prime Minister Koizumi in his determination to undertake bold structural and regulatory reform. And this is why President Bush and Prime Minister Koizumi made the U.S.-Japan Regulatory Reform and Competition Policy Initiative a key component of the Economic Partnership for Growth, which they inked last June in Camp David.

The primary objective of the Regulatory Reform Initiative is to promote sustainable growth in our two economies. As President Bush said on the day he and Prime Minister Koizumi launched the Initiative, “It’s in our nation’s best interest that the Japanese economy flourish, that it’s strong and that it’s vibrant.”

In an effort to create a new, more constructive tone in the U.S.-Japan bilateral economic and trade relationship, we have made a concerted attempt under the Regulatory Reform Initiative to focus on issues that the Koizumi Administration has identified as important areas for reform, such as information technology, telecommunications, energy, healthcare, and competition policy.

Last October, in the spirit of supporting the Koizumi Administration’s ambitious reform agenda, we submitted to the Japanese Government a set of recommendations under the

Regulatory Reform Initiative. Allow me to highlight some of the key recommendations we have made to Japan and explain why they are important.

We all know that information technology has revolutionized the way we conduct business, government, education, and entertainment.

Just as the youth of our country have discovered the marvels of the wireless Internet, Japan's economy will reap the benefits of increased productivity that IT is now generating. I call your attention to a report released this month by *Somusho* (Ministry of Public Management, Home Affairs, and Posts and Telecommunications), which projects a positive economic impact based upon their E-government program. Somusho estimates that the IT sector will expand under this program and will produce additional growth of potentially 0.5 percent and create 1.8 million new jobs by 2005. The report also says that labor productivity per worker will increase from 2.8 percent to 3.5 percent.

We are therefore working with Japan to promote the use of e-commerce in the private sector, expand and accelerate e-government initiatives that would make business transactions with the Japanese Government more efficient and less costly, and protect intellectual property rights in the digital age. This would include the implementation of a well-balanced ISP (Internet Service Provider) liability law, which would in turn spur the development of innovative products for Japan's software industries. In addition, we have made proposals to work cooperatively to facilitate IT skills training for Japan's youth and unemployed adults through e-education.

Given the importance of growth in the IT sector to both our economies, I have devoted some of my time in Japan during this trip suggesting to my counterparts how we might further energize our work in this critically important sector.

We welcome Japan's ambitious goal of constructing one of the world's most advanced telecommunications network infrastructures by 2005, particularly given the multiplier effect growth in this sector can have on stimulating investment, efficiency, and productivity throughout the economy. Although Japan has taken some important steps forward in this sector, we still think more needs to be done to establish a genuinely pro-competitive regime.

One important proposal is to eliminate and reduce the maze of filing and reporting requirements on carriers that compete with NTT. Streamlining these requirements would enable competitive carriers to respond to market forces more quickly and lower their cost of doing business in Japan. We are also looking forward to Japan's vigorous enforcement of its dominant carrier regulation, which is intended to prevent anti-competitive abuses by NTT. And we are continuing to work with Japan to reduce interconnection rates to competitive levels.

The U.S. Government applauds the steps Japan has taken thus far to liberalize its electricity and gas sectors. By achieving genuine competition in these sectors, Japan will be in a better position to grow and meet its goals of lowering electricity costs to internationally competitive levels, increasing efficiency, and encouraging innovation.

If, however, Japan is going to further liberalize its energy sector, it will need to come up with a roadmap for reform. Without it, how can new or potential entrants make sound business judgments about whether or not to allocate their resources to this important market? We all know that markets don't like unpredictability. So we are asking Japan, at the very least, to clarify the direction of energy reform and establish a meaningful timetable for future liberalization.

I suspect some of you may be wondering how the United States can make suggestions to Japan on energy reform in the wake of what happened in California and the collapse of Enron. As for California, that was an exercise in poor deregulation. I hasten to point out that deregulation has proceeded in an orderly fashion in other states around America, such as Pennsylvania, Virginia, and Texas. In fact, about half the states now have retail choice in place for power. I should also mention that the situation in California has improved with remarkable speed. People there have altered their consumption behavior to conserve energy. Rain in the west has filled the dams to help out as well. But also, the regulatory climate in that state has been streamlined, facilitating the construction of new power generation. The last I heard, California actually had an energy glut.

As for Enron, I have two things to say. First, if anything, the fallout from Enron's collapse is a testament to the strength of our open and transparent energy trading system. Enron fell from the table, but it didn't pull the tablecloth with it. Even though a major player has exited the market, there have been no price spikes, natural gas shortages or electrical outages. Our system worked. Second, though Enron was working hard to expand its presence in Japan, its departure should not have a significant impact on our regulatory reform work here. Other U.S. companies are making inroads in Japan. And I can assure you that if the pace of liberalization picks up, you'll be seeing more of them.

A final word on energy, as it is an extremely important commodity for individuals and industry alike. It cannot be treated like hamburger in the United States or *yaki soba* in Japan. Rather, reliability of supply is of enormous importance. Energy sector reform must therefore be carried out in a balanced, measured fashion. We are taking that approach in the U.S. and that is all we asking Japan to do.

Japan is engaged in a difficult demographic dance with its future, facing a rapidly aging population and soaring health care fees. Battling against some deeply entrenched vested interests, Prime Minister Koizumi has launched his drive to reform this country's health care system. As this process unfolds, we are encouraging Japan to undertake broader structural reform in this sector, placing a priority on addressing systemic inefficiencies that drive up health care expenditures, such as the longest hospital stays in the world and lack of hospital specialization. And we are working with Japan to remove regulatory and trade barriers that impede the speedy introduction of innovative, life-enhancing and cost-effective medicines and medical devices for Japanese patients.

In addition to focusing on key sectors, we are also taking up a number of important structural areas that cut across the economy, not the least of which is competition policy. Our

basic premise here is that the vigorous promotion of competition in Japanese markets, which includes a climate attractive to new entrants, is essential to Japan's recovery. To achieve this, we have asked Japan to bolster the enforcement power of the Japan Fair Trade Commission (JFTC) and expand its ability to foster competition in sectors undergoing deregulation, such as telecommunications and energy. We are particularly interested in the proposal to move the JFTC out of Somusho and into the Cabinet Office, which I notice received some media play earlier this month. Guilt by association is not the right characterization here, but given Somusho's oversight of Japan's telecommunications industry, it would seem more appropriate for the JFTC to find a new home in another part of the bureaucracy where its independence cannot be called into question.

Transparency is another important cross-cutting area. Transparency, fairness, predictability and accountability are all key components of a thriving economy. One of the things we are working on with Japan is to improve the ability of the public to comment on regulations before they are finalized. We have suggested, for example, that the public comment period be lengthened so that meaningful and detailed comments can be provided. In addition, we have proposed steps to ensure that comments submitted to the ministries are actually considered and evaluated during the policy formulation process.

Revision of commercial laws is a high priority as well. In particular, Japan's massive undertaking to overhaul its Commercial Code, the first such effort in half a century, is a welcome development. Overall, we are pleased with how this is proceeding as it stands to promote greater flexibility in the organization, management and capital structure of companies, including improvements in corporate governance. This in turn will make management more accountable and efficient and hopefully lead to a greater return on assets and increased competitiveness throughout the economy. One specific recommendation I would like to highlight is that Japan revise its commercial law to allow cross-border stock swaps or other mechanisms that would help spur transnational merger and acquisition activity in Japan and inject competition into the marketplace.

We have made a number of recommendations to Japan that we believe will contribute to a legal environment more conducive to international business. We have suggested that restrictions be removed on foreign lawyers working here. They bring with them high levels of expertise for conducting complex international business transactions, such as mergers and acquisitions, which can be an important tool for corporate restructuring. We have also made proposals to speed up resolution of legal disputes, which could otherwise turn into long and drawn out affairs, putting a damper on the marketplace.

In the area of distribution, we focused much of our attention in the past on increasing efficiencies in the retail sector. Some of you may remember the long discussions the U.S. Government had with Japan on getting a law into place that makes it easier to build large retail stores here. That has largely been successful. We have since moved on to working with Japan to expedite customs procedures that would facilitate the rapid delivery of goods to this country from abroad.

The objective of the Regulatory Reform Initiative is not just to talk about how to achieve sustainable growth, but to find concrete ways to achieve it. To help ensure progress, the two governments will submit a report for President Bush and Prime Minister Koizumi within the next few months detailing regulatory steps to be undertaken.

Staying the Course

I would like to conclude with three simple messages. First, I must emphasize that we have made all these reform recommendations in the spirit of cooperation and comity. As President Reagan said many years ago, there is nothing the United States and Japan cannot do together. Second, we would like nothing more than to see Japan quickly return to growth. A robust Japanese economy will only strengthen our security alliance. And third, during his visit to Washington this month, Minister Takenaka touched on an interesting concept: that Japan become a model of structural reform for economies around the region struggling to implement their own reform programs. For this and all the reasons I have laid out here today, we urge Prime Minister Koizumi and his Administration to stay on track with a bold reform agenda and resist the forces of the status quo who cling to the past in a misguided belief that Japan's future is in feeding its corpulent sacred cows. Thank you very much.

#