

Center for Strategic and International Studies (CSIS)

Japan Post Reform: Return to Sender?

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MATTHEW P. GOODMAN: OK, well, let's get started. You're welcome to bring drinks in – at least I think you are; I don't know what the house rules are. But – (chuckles) – we're going to permit it anyway in this event, although I should say to our NHK viewers who may be watching that this isn't what we normally do at CSIS, have drinks at every event; only when it's – only when it's happy hour, as it is now.

So welcome, everyone. My name is Matthew Goodman. I'm the Simon Chair in political economy here at CSIS. And it's very nice to see you all here on a Tuesday evening to talk about an important and interesting issue: Japan Post and the reform or otherwise of that important institution in Japan.

We have a great panel who I'll introduce in 30 seconds. But just to say that this issue has been, as everyone knows, a front-and-center issue in Japanese economic and political discourse for, I mean, over a decade if not decades. But certainly the last decade it's been a very central part of the political-economic landscape in Japan, including the intense focus that Prime Minister Koizumi had on this topic in his administration and the sort of landmark revolutionary legislation that he pushed through in his term.

And the issue is interesting because it has so many different implications. I mean, it has implications for the – for Japanese politics, Japanese trade policy, for regulatory policy. Financial systemic questions arise; questions of the state's role in the economy arise. And that in turn has implications internationally, including for Japan's participation in the Trans-Pacific Partnership.

So it's actually an issue that is – covers a lot of ground and I think has a lot of different dimensions. And I hope we're going to touch on most of those issues today. I'm pretty sure we will in one way or the other. If we don't, then we certainly welcome your questions and comments on those issues and others that I may not have mentioned.

So let me, with no – without further ado, let me introduce our panel. First of all, Naoki Tanaka, who is the president of the Center for International Public Policy Studies in Japan, a new think tank which has been around for about five years. He's also founded other think tanks in Japan and is I think a well-known economist and commentator in Japan.

But most importantly in this context, he was special economic adviser to former Prime Minister Koizumi and was chairman until late March of the Postal Services Privatization Committee, a position that he held for two terms, so for six years. Actually you have his bio, so I won't give more detail. But he's obviously the right person to talk about this issue, and it's a good time in particular to have him here since he's just left that position.

Next to him is Gary Hufbauer, another very familiar face in Washington, who is the Reginald Jones Senior Fellow at the Peterson Institute for International Economics. And I don't need to really introduce Gary in depth because I think everyone knows that he's an expert on international trade and tax policy and has written a lot on that. He's also a – kind of a legend at the Treasury Department, where I used to work, and I knew about Gary long before I met him because he served there back in the – in the '70s and made a big impact. He has taken a

particular interest in this question of Japan Post and has written about it, including an article or a policy brief which you have with his – in front of you somewhere in this package.

By the way, in that package you also, in addition to the bios, have a – the recent report from the Postal Services Privatization Committee that Chairman Tanaka was responsible for releasing in March, reporting on progress on postal reform. And you also have a paper from Tanaka Sensei which is not directly related to this theme but indirectly I think touches on some of the themes. But that's for your information. And he will – he will address that.

So after Gary, then we have Warren Maruyama, another familiar person here, who's a partner at Hogan and – I'm sorry, I almost said Hogan and Hartson – Hogan Lovells but also was a multi-service U.S. government official, including General Counsel at the U.S. Trade Representative in the Bush 43 administration. And Warren is a – is a well-known trade expert and will also offer his thoughts on this important topic.

So I will stop there. We – this is on the record, I mean, as the camera indicates. We will audiotape this session as well, so it will be available on our website. And for those who may not catch everything, but you'll be able to hear it again.

So with that, I will turn it over to Tanaka Sensei.

NAOKI TANAKA: Thank you, Matt. As you know, the new act on the privatization of Japan Post passed the Diet at the end of last month. After that, Mr. Koizumi said to me like this: "Tug of war is being waged between resistance forces and privatization camp. So the effect of this new act will rely on the future generations."

So half of equities of two financial institutions will be sold, but it will take several years. So it will depend upon the prime minister at that time. So will – (inaudible) – our prime minister be from privatization camp? That's very important. So this new act is postponement of the decision as to the future course, the future form of Japan Post. That's very important.

Koizumi-san mentioned it will take several years to sell half of two financial institutions, because in order to sell the two financial institutions, it will depend upon the equity story. The equity story depends upon the innovative message which depends on the cost-cutting and innovation of their services. It will take time for the management of Japan Post. So five years after or several years after, a new battlefield will appear before us. So that depends upon our political development in the next phase of this.

Koizumi-san said like this: "TPP is very important because we have the positive engagement for the global affairs. And in that situation we should focus on the state-owned enterprise in this field, in this area. So in order to be competitive in the global situation, especially in the trans-Pacific area, the role of the state in the economy should be made less in the case of Japan."

At this time in China, state-owned enterprises play a very important role. So through TPP we'll have the advantage for – over the Chinese decision making. So such kind of reform is

necessary for Japan's enterprises who – which engage in the mainland China, because in mainland China state-owned enterprises play very important role. And they are dominant in some fields. Even – (inaudible) – a financial company in Japan or in the United States can't get good conditions for the management of their factories there.

So in order contain such kind of trend in China, a TPP framework is necessary. If Japan is to have access for TPP, so we should focus on the same economic principle in Japan. So in that case, the total equity of two financial institutions of the Japan Post [Group] should be sold completely. So future form of Japan Post will depend upon the – our political developments in Japan. So battlefield will continue for us. So we should persuade our people to complete the privatization of our economic systems. So that's very important for us. Today we'll be able to discuss this problem from very broad basis. Thank you.

MR. GOODMAN: OK. All right. Thank you for that brief introduction. And I hope you'll be willing to answer questions and give further detail on your thoughts in a moment.

But let's turn to Gary.

GARY CLYDE HUFBAUER: Thanks, Matt. And thanks, everybody, for coming. And I especially want to thank Alan Wolff and Tom Howell, who are true experts, at least on this side of the – of the Pacific, in the – all the details of the Japan Post story. And I relied on them, and they were kind enough to help on not getting the story at least too wrong. You have our policy brief, which is the third of three policy briefs on this – on this issue.

And again, I think I have to thank both Tom and Alan, because more than a decade ago they signaled the problems with state-owned enterprises. But it's only in the last few years that I think it's been widely recognized that this is a serious and rising problem in the – in the world economy. And we at the institute take it seriously enough now – probably later than Tom and Alan did – but serious enough that we recommend it should be a major topic for the World Trade Organization in the aftermath of whatever happens on the Doha Round. And it should, of course, get a lot of attention in the Trans-Pacific Partnership.

Everyone envies China, and some countries emulate China in this – in this respect of growing state-owned enterprises. So it's not something that can be – can be ignored. Now, that brings us immediately to Japan Post, which has – (inaudible) – going back many, many decades, and the very regrettable reversal of the Koizumi reforms in this latest legislation. There's a lot of nuance in the legislation, which we tried to deal with in the policy brief, to summarize and probably to oversimplify.

There was language in the same vein as, let's say, remarks on the floor of the Congress and in hearings in the Congress that seemed to be actually in contradiction with the legislation; seemed to open up possibilities for not having an antireform. But that kind of language in Japan has no more strength than it does in this country. When you take it to the, you know, courts, the courts don't pay a lot of attention to that kind of legislative guff. And in Japan it has no binding effect on the – on the future. So if a future prime minister wants to be very liberal in his or her

interpretation, that would be one thing. But there's no obligation to be liberal, and the law itself is quite illiberal in terms of a stepping back.

So the points I would make on it are, first and foremost, this is a major blow to Japan's entry into the Trans-Pacific Partnership. And that goes back to the earlier point about the rise of state-owned enterprises. I mean, how can, you know, a major country, which Japan is – (chuckles) – a major country, reverse its position on the biggest bank and insurance company in the world and come with a straight face and want to join a TPP of which a major plank will be to discipline state-owned enterprises? It has to be – it has to be for the present membership, but it also with any view of setting a standard for China in the future and other countries – Indonesia is another country which into the state-owned enterprise – et cetera, it has to have some very strong language. So that's – that was a quite a disappointment. And I – one hopes that as a – as part of the process of Japan joining the talks, if not this year, next year, Japan really signals a very different interpretation than the – than the strict letter of law.

Now, am I or is the U.S. government on a rampage to privatize all state-owned enterprises? Of course, that's what the Koizumi reform would have done for the Japan Post bank and insurance company. But I would say that's a matter for Japan. But what is important is that the state-owned enterprises not have advantages over private competitors. And that's the – that's where the rubber hits road in this particular case, but it also hits the road with the Korea Post, with China Post, with many state-owned enterprises around the world. First of all, they all have nontransparent accounting, a lot of cross subsidies, but secondly, they – they're not subject to the same regulatory discipline as private firms; they get a pass on that. Japan Post is so powerful that it even got out of IMF review. This is amazing. I mean, it – you know, I mean, it just shows their ability to influence things, because IMF, in its – in its review of Japan Post, (just ?) excluded right out with a footnote, Japan Post, and (they hear ?) it's a major financial institution. We want to talk about financial stability – (chuckles) – with a(n) enterprise that has 60 percent of its assets in Japan government bonds, which only yield a percent or 2 percent of less, and what would happen if the interest rate went up, and – there are just many issues which had – which had – escape.

So to begin with, Japan Post could, and the prime minister could order it to, or direct it, or to the postal commission, to give the same opportunities in this vast network of post offices to private companies that it has in terms of distributing new products, insurance products, banking and so forth. So there is much that can be – can be done, and we go into this in more detail.

But let me – let me stop there with the final word that I think it would be highly regrettable for the U.S. to open talks with Japan on TPP without some commitment on this issue which, in my mind, is equally important as beef. You know, I know beef gets – (chuckles) – a lot of attention, and beef is important, and autos are important too, but this one is much more of a precedent for how the world is going to go in terms of how companies are going to compete with one another in the decade ahead, I think, than either beef or autos. Thank you.

MR. GOODMAN: Thank you, Gary, very clear and concise and brief, which is always good, and food for thought.

So Warren, why don't you go ahead?

WARREN MARUYAMA: Well, first I'd like express appreciation to CSIS and Matt for organizing this event. It's an honor to be on a panel with Chairman Tanaka after his distinguished service on the postal privatization commission, and also with Gary, because when I was a young lawyer at USTR, I got assigned to the subsidies issue –

MR. HUFBAUER: (Chuckles.)

MR. MARUYAMA: – and got to know Gary's handiwork in the Tokyo Round Subsidies Code quite well.

My role here is to explain how a previously obscure issue like Japan Post has erupted into a potential WTO dispute and also into a major impediment to Japan's potential participation in TPP. When Japan joined the WTO in 1994, it fully bound its insurance sector. It didn't take any exceptions for postal – for insurance or banking. And that means that Japan is subject to GATT's national treatment, MFN and market-access obligations. These obligations apply fully and unconditionally and without any exceptions for Japan Post.

As Chairman Tanaka explained, in 2005 Prime Minister Koizumi made a historic decision to privatize Japan Post. He staked his political career on this. He took it to an election. He threw his opponents out of the LDP, an impressive political step, and he won an overwhelming victory.

And his bill provided a complex but elegant solution. It divided Japan Post into five separate entities, and it launched a process that was designed to lead to full privatization by 2017. And finally and importantly from a GATT standpoint, it adopted legal protections that were designed to encourage "equivalent conditions of competition," which is GATT-WTO language for national treatment.

This privatization process was essentially put on hold after the DPJ won in 2009 and entered into a coalition with the People's New Party, whose sole mission in life is reversing the Koizumi era of privatization and apparently getting even for various slights of that period. The latest step was the enactment by the Diet last month of a new postal law, which rolls back certain elements of the Koizumi-era privatization.

All of this is important because insurance involves high stakes. Trade agreements helped U.S. and European companies to get a foothold, particularly in the third sector. The 1994 and 1996 U.S.-Japan bilateral agreements ultimately led to an opening of all insurance sectors to competition but restricted Japan Post in light of its government-provided advantages. And these agreements helped build a market that's worth approximately \$50 billion in sales to U.S. companies. I should add one unusual feature of the Japan Post issue that's different from past U.S.-Japan trade disputes: Japanese banks and insurance companies are just as opposed to any steps that would unleash Japan Post without a level playing field as their U.S. and European counterparts.

I think it was Tolstoy who observed that happy families are all alike, but unhappy families are different, each in their own way. And Japan Post, like a lot of postal entities around the world, is a very unhappy family at this point in time. It's got the same problem as the U.S. Postal Service: Mail volumes and revenues are declining because of email. It's got limited management capabilities. As our own experience with Fannie Mae and Freddie Mac shows, letting government-endowed corporations run loose can pose huge systemic risks, and Japan Post's management has gotten in over its head in several major investments.

Nevertheless, Japan Post is now eyeing banking, insurance and, I guess, real estate investment as potential revenue sources to keep its postal network alive. And this has been a particularly attractive idea to rural postmasters who have a lot of political clout and whose jobs are on the line.

I'm going to leave it to economists and business analysts to figure out whether reconstituting Japan Post would actually work. I have my doubts, but I'm a trade lawyer, so this isn't my area of expertise. Instead, what I'm going to focus on is two issues: the WTO and TPP.

In its current form, Japan Post involves multiple WTO violations, including at least two that are clear-cut. The first is the Japan Post network, where Japan Post insurance gets access to 21,000 post offices to distribute its insurance products. In contrast, private insurance companies, including foreign ones, get access to 1,000 at best. So there are different and less favorable conditions of treatment. These conditions distort competitive conditions, to the disadvantage of U.S. and European insurance companies. And this is going to get worse under the new postal law, since it imposes additional restrictions on the ability of Japan Post, through its network of postal offices, to sell private insurance products.

A second clear-cut WTO violation is strategic combinations. The insurance business law prohibits private insurance companies, including foreign ones, from entering into combinations with unrelated entities. But Japan Post has been permitted to combine its postal, its insurance and its banking operations in an effort to achieve synergies. U.S. and European companies, in contrast, can't engage in this type of combination. This is also a national treatment violation, and again, it also gets worse under the new law, since it actually recombines Japan Post Holdings, Japan Post Insurance and Japan Post Bank into a single monolithic entity.

These concerns have been raised repeatedly by U.S. and European negotiators in bilateral consultations, and Japan has repeatedly assured both governments in various agreements of its commitment to a level playing field. The point was made most recently by the U.S. and EU ambassadors to the WTO, in consultations with Japan in May of 2010.

And I think it's pretty clear that Japan's WTO experts also agree. Ironically, the best evidence of this is a couple of years ago when the Ministry of Foreign Affairs' treaty division provided internal advice on the WTO implications of the postal reform bill. No one has ever seen their advice, but afterward, in a press conference, then-Postal Minister Kamei blasted MOFA as, quote, "an outpost of the State Department" and "a bunch of traitors." That Kamei would react in such a fashion mildly suggests that their views were something he, as the principal proponent of reversing the Koizumi-era reforms, did not want to hear.

I'm going to switch now to TPP, since Japan Post has also complicated Japan's efforts to explore participation in the Trans-Pacific Partnership. In May of 2011 Prime Minister Noda announced that Japan was interested in joining TPP. That makes a lot of sense: At this point, Japan is well behind the curve in negotiating FTAs. Korea has taken a much more aggressive approach. It has negotiated major FTAs with the U.S. and EU that are now entering into effect. And as a result, Korean goods will get a competitive advantage in the U.S. and EU markets as tariffs are phased down, and this advantage is going to show up where Japanese and Korean goods go head to head, like autos and consumer electronics. It's likely that Mexico and Canada will come in before Japan, given that Japan is currently seen as unprepared to take the commitments to join TPP.

I don't think anyone in the U.S. seriously – well, with potential exceptions of autos and organized labor – questions the potential benefits of bringing Japan into TPP. Most of the U.S. trade associations and multinational companies that file comments with the USTR were broadly supportive. But the core USTR concern is whether Japan really buys into TPP's core principles, or whether it views TPP as a damage-control exercise where the goal will be to secure cuts in U.S. tariffs while continuing to shelter Japanese farmers and protected industrial sectors and water down TPP's obligations as much as possible. The last thing that anyone at USTR wants is another Doha, and the enactment by the government of Japan of blatantly WTO-inconsistent postal insurance legislation has only reinforced those concerns.

Thank you.

MR. GOODMAN: OK. Thank you.

MR. TANAKA: (Off mic.)

MR. GOODMAN: Sure, sure.

MR. TANAKA: I am going to add two points. One, the imposition by the new act on the Japan Post, as you know, the new act imposes financial universal services. So it's very ridiculous. Private financial institutions in Japan cover almost all cities and villages; [only] 20-plus villages are out of [private financial] services among more than 3,000 cities and villages in Japan. And usually Japan's users are now relying on websites for banking. So universal service, which is imposed by the new act on the Japan Post will mean a lot of cost for Japan Post or its financial institutions.

As to solicitors of insurance services, more than 1 million people are categorized – are solicitors of [private-sector] insurance service. Why then does the new act impose universal service [on Japan Post] in this field. It means the privatization process of Japan Post will have the added burden – will face very difficult burden in the selling of the equities through the market. So it will become very difficult for the management of such kind of financial universal service.

Second I want to mention –Koizumi-san said it like this: “Why have the resistance forces gotten some momentum in this situation?” He mentioned that market mechanisms in the global context are being questioned after BNP Paribas crisis and Lehman Brothers shocks. Subprime loans in the United States would have the same meaning for the management of market mechanism. And the systemic risk which took place after Lehman Brothers shock has had the same kind of meaning for the management of our economic system.

The resistance forces have gotten some kind of power from the discrediting of the market mechanism. So in order to – in order to have the victory in the battlefield – so we should have the very robust market mechanism, this is just very important. So we should focus on such kind of situation. So a lot of new measures should be pulled for the sake of market mechanisms. That’s very important. So it’s his judgment or his reflections on the market mechanism. Thank you.

MR. GOODMAN: OK. Thank you. So let me just – before I open it to others, let me ask each of you one question, which is, Tanaka-san, how did this happen? Because I was in Japan a few weeks ago just before the legislation had passed, but when it was already clear it was going to pass, and I talked to a few people and most of my Japanese friends, who are pretty sophisticated people, didn’t even know about this.

And yet, I mean, this was the signature issue of the Koizumi administration, and it was – and the TPP debate was a huge debate in Japan where you could only –you couldn’t turn on the television without somebody having a panel discussion of Japan’s entry into TPP. Why – how did this happen? Is it because Japanese people didn’t care about the Koizumi reform and didn’t think it was worth defending? Were they just not paying attention? Was it done in the middle of the night? I mean, what – why is this – how is this possible that there could be such a change that seems to significant, without more of a kind of public debate about it?

And I’m sorry – shall I just ask all three questions and then you can each think about it as I – as I go through the other two? (Laughter.) So for Gary, I guess my question is pursuing a little bit this financial systemic risk question and how serious that really is. What are – could you elaborate a little bit on what the potential risks are? And if those risks are there, why are either the Japanese authorities not more worried about those risks? Or why did the IMF not apply the stress tests, which is, I think, the specific thing you’re referring to, that they were exempted from – on Japan – the Japan postal financial institutions.

And then for Warren, I mean, it’s rare that a USTR lawyer is as forceful and clear in the stating that there are clear WTO violations. (Laughter.) I mean, when we’re talking about China, we’re worried about a lot of things. It’s very hard to get USTR now –I know you’re not as USTR – but to say there’s a clear violation here and we’re going to take a case to Geneva. So it seems you were pretty categorical. I mean, why shouldn’t the U.S. or Europe or others who are worried about this take Japan to the WTO and challenge this there?

MR. TANAKA: (Off mic.)

MR. GOODMAN: The political economy question and why wasn't there more of a debate about this.

MR. TANAKA: In Japan, when we discuss TPP or – (inaudible) – TPP, agriculture field is the main battlefield for us. So as to Japan Post, so, yes, postal savings bank would play some kind of role. But for example, as to the loans for housing, there's already enough competition among [private] financial institutions. We cannot doubt that fact. So new loans for housing from Japan Post Bank – that's nothing for Japan's people. That's very important.

So as you mentioned, intellectual – some policy intellectuals in Japan don't pay a lot of attention to the privatization process in Japan Post. That's the reality. So I have to say something on this. So we are now – in the midst of a very big shift as to the governance. So in the old times after the World War II, so we have the very peculiar governance system.

So we can analyze three axes. One is the catching-up process of development mechanism; second, the efficiency of commodity production; third – that's very important – the balancing as to market mechanism. After the World War II, so as developmental capitalism country, our ancestors piled up measures as part of the catching-up process. And through this kind of process, efficiency of commodity production were developed. That's very important.

However, in this process some sectors were behind. So it's the agriculture sector, and it's rural area. So in order to rebalance, investments for public works were done. And protection of rice were introduced, very high protection. And in order to finance the public works, huge postal savings money were used for that.

So it's – we have such kind of combination. But as to modernization of industries, after the Meiji Restoration, Japan were the front runner. All those modernization themes of industries were monopolized by Japan. But in the last two decade, modernization of industries has shifted from Japan to China or another neighboring Asian country.

So in order to be – in order to be competitive in the global market, Japan's industry [must be] shifted to a postmodern theme. Under a postmodern theme, differentiation is very important. In order to have the differentiated products and services along a new axis, new principles would be needed. So the Japan Post mechanism, Japan Post savings or Japan Post insurance – this kind of activities will not have the impetus for the new development which will be needed for postmodern society.

So if Koizumi-san had the leadership – stronger leadership, there would be reduction of the assets of Japan Post savings and Japan Post insurance – such kind of reduction would be introduced. But at that time he said it like this: Only privatization has introduced a lot of obstacles and resistance forces in the Diet. Reduction of the assets – I mentioned the reduction – huge reduction of the asset of Japan Post – is impossible for Japan's political system. So only privatization should be introduced at first stage. But in the second stage, reduction of the assets should be introduced. But such kind of [follow-up] duties should be done by his successors.

So we have to shift the governance system, to a new one. Japan Post belong to the old governance system. So as you mentioned, political scientists in Japan and the economists in Japan should focus on the shift of the governance system in Japan in order to address the new themes which our companies, our industries have to face.

MR. GOODMAN: OK, thank you.

Gary?

MR. HUFBAUER: Well, Matt, for a political economist you raised a pretty difficult question. And this is, you know, why is the systemic risk issue ignored? I would say – and I'll try to say this very briefly – every country needs some kind of zero-risk asset. And it's usually called money. But people are not just satisfied with money; they want to – they want to have a zero-risk asset which yields some return.

So this wish or this combination leads to creations such as Fannie Mae and Freddie Mac and many others, which yield a return, have an implicit promise of government support but not an explicit promise. And in that circumstance it's difficult – it seems to be very difficult for the political system, any part of it, to come in and say the emperor has no clothes. I mean, Alan Greenspan said that a couple of times about Freddie Mac and Fannie Mae, but he didn't say it very loudly. And they all let it slide.

And the same thing happened in Europe, because once you took the Central Bank and centralized it in the European Central Bank, you no longer had the – in fact, the treaty says you don't have – the European treaty says you don't have the support of the Central Bank for the national bonds. Now while there's no explicit promise in the U.S. for the Federal Reserve to support Treasury bonds, I think there's an implicit understanding that they will do that when the crisis comes or if a crisis comes; that they will do various tricks of the trade to keep treasury bonds, you know, from plunging in half, because that's what the Central Bank can do.

So now we turn to Japan. Well, Japan Post has this very same function of having a yield, a – (inaudible) – yield on all its deposits and so forth, very small; the implicit promise that the Japan Central Bank will support it. And in turn – (chuckles) – Japan Post buys all these Japan government bonds, which have a very low yield. I mean, the whole thing is totally circular. Now who's going to cry out that this is a hoax? Or I mean, this is a – hoax is the wrong word. This is a setup for a crisis in the future. When? Always hard to say. But it is a very fragile setup on which the whole nation is relying.

And I guess that's my answer. Everybody wants to believe this, and there is no – there are very few regulators strong enough to come in and ask the what-if or the kind of scenario questions which the Pentagon is always asking about – every war scenario that you can possibly imagine – as is CIA. But in the financial system we don't do that, at least not yet.

MR. GOODMAN: Warren?

MR. MARUYAMA: Well, you asked why I'm being more definitive than when I was at USTR, and I guess it's because I'm no longer at USTR. (Laughter.) But you know, I guess I would say that it's pretty unusual to find de jure national treatment violations. I spent two years at USTR scrounging around to find them, because – (laughter) – they're great [WTO] cases if you can find them and bring them. But this situation is pretty unusual, where you've got two aspects – and there are more – of a law that involve discrimination that's basically written into a statute.

The reason why the case hasn't been brought – there's been a de facto standstill on aggressive expansion by Japan Post since the Koizumi-era privatization. I think people counted on the Postal Services Privatization Committee to keep a lid on this stuff before there was equivalent conditions of competition, and it did its job. If you read the press release that was issued by Ambassador Punke and his European counterpart after the –

MR. GOODMAN: The U.S. ambassador to the WTO.

MR. MARUYAMA: – U.S. ambassador to the WTO – after the U.S., EU and Japan held WTO consultations, I think if you read between the diplomatic language it basically says, this is a big, stinking WTO problem. And you know, it's pretty clear that both governments take the view that there are some big problems here.

And finally, I don't know what – (inaudible) – treaty division said to the Japanese cabinet when it advised on this. But it couldn't have been very, you know, vague and hedged [WTO advice], because otherwise, Minister Kamei wouldn't have blasted them as a bunch of traitors.

MR. GOODMAN: So – well, I shouldn't monopolize; I know we don't have much time. I have a follow-up question. But let me open it up to the floor, and just identify yourself if you wouldn't mind. Thanks.

Q: Hi, I'm Steve Simchak with the Coalition of Service Industries. And we're very lucky to represent insurance companies and associations, banks and delivery service companies as well. And when Japan announced its interest in joining the TPP, we were very supportive; told everyone we could how supportive we were. But we've also been very involved in the TPP with – by supporting the SOE text with other associations, including the NFTC and some other ones. And so this obviously severely complicates our support for Japan joining the TPP, as it does for many associations and other groups.

And I'm wondering, are there any confidence-building measures that Japan could take now, now that the law has already passed, to make support for their joining TPP less complicated?

MR. GOODMAN: OK, so that's maybe – Gary – (inaudible) –

MR. HUFBAUER: Well, I – can I – it's just a one-sentence – (inaudible) – stand still. If they just committed to a standstill – which if you take this supplementary resolution, which I – which is described in our policy brief, is quite possible. Now of course Prime Minister Noda –

(chuckles) – put to the act, so maybe he's not inclined to do that. But for TPP reasons he might. And it would really just be a one-liner: standstill on all current practice.

MR. GOODMAN: Warren, anything to add or – but the – but the implication of what you said, Warren, was that if they do start pushing out into new business and sort of effectively violate the standstill – de facto standstill that's been under way for some time, that that could raise this into the – the light of day and might bring the wrath of God upon them potentially.

MR. MARUYAMA: It wouldn't be my decision [any more], but –

MR. GOODMAN: Yeah, but that's possible. OK.

Yeah, Alan, sorry.

Q: Alan Wolff, chairman of the board of the National Foreign Trade Council. Follow-up on Matt's question of why did this happen. Japan is a model for the rest of the world. I know there's been a slowdown in the economic growth, but Japan's companies are well-known everywhere – you know, Toyota, the electronics companies – all private, very successful globally. So it's not as if this is Russia or Vietnam or China. This is Japan, which has – which understands highly competitive companies – Kanban, all the texts that were written on management techniques.

I understood that DPJ was dependent on votes of PNP earlier. And so a series of prime ministers sort of went along with the notion, although they didn't somehow get the legislation through. All of a sudden New Komeito comes along, and LDP switches completely but for two or three votes, and DPJ in one group. So all of a sudden in lightning speed, this reversal of the Koizumi reforms goes through. My question is really why? I mean, they're not listening to the private sector certainly, to people like yourself. You weren't in the private sector; you were a government commissioner – but they – there's a model that – they know it's successful. There is – there are intellectuals; as you say, the intellectuals were sort of sidelined. But why did this somehow come together instantly and get pushed through immediately when it's sort of in the face of an understanding of what works? Because there's – there is a lot of Japan that is committed to – market mechanisms are working; there are very successful private companies. So why did the – what's the political background of this?

MR. TANAKA: In 2001, Koizumi-san won the victory in – within the LDP. As that time, so in his campaign, he said like this, I will destroy LDP if the members of LDP don't commit for the liberal institutionalistic approach. So that's very important. So Koizumi-san is a – special case within the LDP. Other members of LDP belong to the very old governance system. They – most of them -- depend upon the public finance for public works. So after Koizumi-san stepped down, so – under Abe, Fukuda and Aso administrations, they return to the old governance system. That was the reality. So Koizumi-san is the only one, a very exceptional case.

So we have had a lot of headaches to handle the political programs in domestic field, so new realignment of political parties will be needed to focus on the – focus on the new liberal

institutionalistic approach. So that's very important. So after general election, so such kind of a discussion will be done in our country. So we should present some kind of model, political model, and we should have the capability to persuade our people to focus on the (reformist ?) movement.

Thank you.

MR. GOODMAN: OK. All right, other questions. Jim.

Q: Jim Fatheree, U.S.-Japan Business Council.

It seems to me, as I recall reading, a lot of this was just vote-trading because of the need for Noda to get support for a consumption tax. So you had all these – all these seats or all these legislators shifting around in order – and all this trading going on for him to get support for the consumption tax – (inaudible) – it's not a given that that's going to happen anyway, but that was my sense of why some of that seemed to go on at the time. And I'm not a Japanese political expert, but maybe you could comment on that.

Just to try to wrap this up for, you know, sort of the takeaway – I'm very narrow-minded, so I have to leave with something that I can report –

MR. GOODMAN: You can have some cheese, too. (Laughter.)

Q: Yeah, well, I didn't have any wine, so at least I can try to remember this.

So Gary, you're saying standstill is the one thing that we can do, but it seems to me that unless – because of the ambiguous nature of this, it's not written into the law itself; it's the interpretation of the law or to the discretion of the prime minister – then what we need is the – is the explicit threat of a WTO case, that it has to be clearly registered. So to Warren's point, they didn't do anything because there was an implicit standstill, so now, for Japan to get into TPP, we need a clear declaration of a standstill, but they have to understand that if they start to move in the wrong direction, then we go to the WTO. It may sound like I've been drinking wine, but how likely is that sort of scenario?

MR. GOODMAN: OK, before you answer that, Warren, are there any other questions? Because I'm conscious we're running up against time. And maybe two more. These two here, and then – and then we'll – go ahead – (inaudible).

Q: Thank you. Brad Smith, American Council of Life Insurers. I just would ask both Gary and Warren, one of the – you both mention two elements, one of the financial sector assessment program and Japan getting a – allowing Japan Post to take a pass for the stress test on the trade side. Both of those issues and the inconsistencies that Japan has with both of the principles that you outlined are very much part of the agenda of the G-20 coming up. And I just wonder to what extent do you believe this has been raised and is being recognized within the G-20 as perhaps a wrong direction Japan is taking on – in the SOE debate where obviously one of the other pulls of the continuum is China. And do the people in Japan, as well as the G-20

leaders, recognize that Japan is really following or seeming to follow more of a Chinese state capitalism model than the outline that's set in the TPP?

MR. GOODMAN: OK.

Q: Very quickly, my name is Jonathan Madison, and I work for the House Financial Services Committee. And next week we're actually having a hearing on international insurance issues. And so my question is this: How do you think domiciled insurance companies here in the U.S. and the ones who operate on an international scale would be directly affected by – [Japan Post]?

MR. GOODMAN: All right. who here -- would, either Gary or Warren, want to answer Jim's standstill question?

MR. HUFBAUER: Well, quickly – I'll leave the WTO angle to Warren – I would hope that in the – in the TPP negotiations itself, if it comes to that point – that is, Japan is a member and so forth – then Japan would subscribe to the kind of propositions that we outlined in our policy brief and would commit itself in a way that would really require reversing the legislation without bringing a WTO case. That would be my hope, but I'll leave Warren to answer whether a WTO case would help Japan along in that path.

Now, on the – on the G-20 agenda, that's a very good question. I'm a little bit disappointed in the G-20. I think it's gone kind of soft. It had its high point during the midst of the financial crisis, and the recent meetings, I think, have been not so productive. I would hope that this is being raised, but I think, realistically, if it is being raised in the G-20, it's probably on a bilateral basis – or maybe not just the U.S. and Japan, but maybe some other countries as well as the U.S. would raise it with Japan, because I would think in Europe, it would as well be noticed that this is quite a – quite a reversal. But as – in a high level, in the G-20, I mean, they all want to be friendly with one another and so forth, so I'm not too optimistic there.

Finally, on the U.S.-domiciled insurance companies, I mean, this – you know, this is just – I think it creates an impossibly unlevel playing field for companies which actually have to have honest accounting as to their – you know, as to their business models and, you know, their assets and so forth when you have a company which is, you know, cross-subsidized to a fare-thee-well and there is no accounting and so forth. And that's just one of many, because it is quite common for postal services to be in the insurance business as well, and they all have something of the same problem. So I think it's a – it's a serious problem for the United States, which has many domiciled insurance companies which are not backed up by the state of California or whatever else.

MR. GOODMAN: Warren, you want to add?

MR. MARUYAMA: Just quickly, I mean, I think – you know, as part of the discussions over whether Japan will participate in TPP, there is this talk about confidence-building measures. I think the three sectors that have been flagged as ones where confidence-building measures are necessary are beef, autos and insurance. And at least according to news reports, that was raised

directly by President Obama in his meeting with Prime Minister Noda. I'm not privy to what's going on in the actual negotiations, but I do read in Inside U.S. Trade that a standstill is one of the things that's on the table.

You know, I agree with Gary. I'd be surprised if the G-20 process got down to nitty-gritty [technical discussions] on an issue like this. At least from my experience – and this was a while ago, in Bush 41 – [G-8 and G-20 discussions] tend to be at a much more ephemeral and don't get down to specifics on market-access barriers.

I think it's a really good question about what's this means for U.S.-domiciled insurance companies. I think there is a broader – you know, obviously, this is a big problem -- and it's not often that you see the U.S., European, Japanese and Canadian insurance companies and banks all writing – joining together in policy statements saying this is a big problem if Japan Post is let loose without appropriate conditions to ensure a level playing field. But I think even more than that, it has broader implications that go well beyond financial services, because if you were to have a state-owned entity of this size allowed to skate through the TPP process, it says a heck of a lot about what happens if China ever decides to join.

MR. GOODMAN: (Off mic.)

I'm sorry – Mindy (ph), do you want to ask and then Tanaka-san and then we'll – and –

Q: (Off mic) – just an observation. I don't think Japan wants to skate through the TPP process. I don't think they want the TPP. And I think this feeds into that because joining TPP would, on top of postal privatization, if they went forward with that, would completely realign Japan's political system and really take the – change the dynamic of the rural vote and diminish the rural vote. And so this may be self-fulfilling.

MR. TANAKA: China will play a very important role when we discuss the future course of our society and of our economic development. Recently, among Japan, China and South Korea, government – our government decided to start the discussion as to the FTA among three parties. However, Japan will not get through such kind of a dialogue because through the FTA framework in East Asia will not be able to contain red capitalism, state capitalism in China.

And in the case of South Korea, in the next decade, they have to absorb the northern parts of the peninsula. So after that, a lot of discussion will occur in South Korea. So in South Korea, two schools, economic schools, exist. One is the ocean school. One is the peninsula or continental school. So economic growth in China has been very good one. So Korean exports to China have increased very much. However, in the near future, the Korean government has to think very deeply about the continental situation. So if merger of northern parts took place, conflict within Korea and China will take place; it comes from historical reasons. So the ocean school in Korea will recover in the near future. In such kind of a situation, red capitalism or state capitalism is not preferable for most of the Korean people. That's my understanding.

So we will start the FTA discussion among three parties in East Asia. But for us, the access for TPP is very important. And from U.S. side, U.S. has had a lot of uncertainties or risk

in the future course of China from the viewpoint of security or from the viewpoint of economics – (inaudible). So Japan has to decide whether to be cooperating with the TPP concept or TPP framework.

So of course, within Japan, a lot of problem exist, especially in the agriculture sector. But the contribution to our GDP from the agriculture sector is only 1 percent. And almost of all farmers are getting ready to retire from economic activities. So it's time. We will have a liberalized economic order, even in agricultural sector in a very near future. So we have to persuade the farmers and consumers so we can have the access for TPP. It's very important to contain the state capitalism.

MR. GOODMAN: OK, thank you.

Well, listen, this is obviously one of those topics that needs more than an hour, and we've taken a little more than an hour, but we will do this again. I particular thank the – while there are a bunch of dimensions of this that are worth their own exploration, but the whole question of state – the state's role in the economy and state-owned enterprises, of which this is a piece, I think is an important question that's a rising topic of conversation in Washington, but the understanding of all the dimensions of that issue are lagging behind. So I think we would like to play a role in elevating the understanding, and so we'll do this again. And I appreciate very much the panel's presentations and appreciate everyone's coming, and thank you and look forward to seeing you again. Thanks.

(END)