

# Japan Eyes FTAs with Europe, United States

By Okabe Hiroshi

Photo: Kyodo News

The Japanese government is stepping up efforts for bilateral and regional free trade agreements (FTAs) aimed at eliminating barriers to trade in goods and services. In May, the government agreed in principle with the Association of Southeast Asian Nations (ASEAN) to conclude a comprehensive economic partnership agreement (EPA) that will include not only an FTA but also rules to protect investment and intellectual property. In addition, the government will launch private-level joint studies separately with the United States and the European Union (EU) this autumn in an initial step to conclude bilateral FTAs. The combined gross domestic product (GDP) of Japan, the United States and the EU accounts for about 70% of the world's total. The creation of a mammoth economic zone between Japan and the United States and between Japan and the EU is expected to influence the current global trade structure focused on the World Trade Organization (WTO).

Behind the Japanese government moves toward FTAs with the United States and Europe is a strong sense of crisis that Japan could be left behind in the quest for free trade accelerated by competition for FTA conclusion involving its Asian rivals such as China and South Korea, which are maintaining rapid economic growth. South Korea, which agreed with the United States in April to conclude an FTA, will begin FTA negotiations with the EU shortly. Such negotiations are also under way elsewhere among powerful economies, including the EU and India, and China and Australia.

Japan has agreed to conclude or has concluded EPAs with several countries, including the Philippines and Thailand, but the partners are chiefly Southeast Asian countries. There is no denying Japan has lagged behind from a global perspective. In an effort to fuel negotiations, Japan agreed with ASEAN in May to conclude an EPA, the first such agreement for Japan with a regional alliance. For Japanese businesses having bases within ASEAN, the abolition of customs duties in intraregional

trade is a great advantage, giving them the foundation to win competition with their main rivals in China and South Korea.

Japanese and US business leaders announced a statement in November 2006 after their annual meeting calling for full-fledged studies about an FTA between the two countries. For Japan, the United States is one of the largest trade partners with bilateral exports and imports totaling about ¥22.2 trillion in 2005. Expectations are growing in the Japanese business community that elimination of customs duties under the proposed FTA will go a long way to further trade expansion. Early this year, the US government sounded out the Japanese government informally about the launch of FTA studies.

But in FTA negotiations with the United States, Japan will inevitably be asked to abolish import duties on farm products such as beef and wheat, facing a political decision taking account of impact on the domestic agricultural market. In the US-South Korea FTA, the two countries agreed to lift customs duties on more than 90% of mining and industrial products, including automobiles, forcing Japanese automakers and other manufacturers to face severe price competition with their Korean rivals in the US market.

The Japanese government appears to have decided to hasten FTA talks with the United States due to such a sense of crisis and strong requests for early negotiations from the business community led by the Nippon Keidanren as well as the intention of Prime Minister Abe Shinzo giving priority to Japan-US relations. On the other hand, the US government apparently hopes that a strong stance toward an FTA with Japan sought by business and agricultural organizations will appeal for its interests prior to the presidential election in 2008.

The Japanese government's economic and fiscal policy outline clearly says that FTAs with the United States and Europe are "matters to be studied as future tasks." The wording represents a little retreat from language contained in an earlier proposal made by private-sector members of the



Foreign Minister Aso Taro addresses a meeting of Japanese and US business leaders in Tokyo on Nov. 13. The leaders said in a statement that the time is ripe to formally study the possibility of forming a bilateral economic partnership agreement between the two countries.

Council on Economic and Fiscal Policy that joint studies on the FTAs be commenced quickly. But Japan's FTA negotiations with the United States and Europe, which will greatly influence the world's trade system, are likely to take a steady step forward.

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