

Strike Japan-US FTA for Services Trade to Mark 50th Anniversary of New Security Pact

By Noboru HATAKEYAMA

The Democratic Party of Japan (DPJ), which became the ruling party in the House of Representatives election last August, pledged in its election manifesto that it would conclude a Japan-US FTA. Although it weakened its language from “conclude” to “negotiate” later on due to strong opposition from agricultural cooperatives, a “Japan-US FTA” still remains there as the only country-specific FTA mentioned in the manifesto. One of my foreign friends other than Americans asked me as follows. “There must be many candidate countries for Japan to have to conclude FTAs with. Among them, the United States would be the most difficult country. Nevertheless, why do you think the DPJ referred to the United States alone for an FTA in its manifesto?”

Of course the US agriculture industry is very strong, especially as compared to that of Japan. However, Japan cannot exclude the entire agricultural sector from an FTA on trade in goods because doing so violates WTO rules. They stipulate that an FTA should cover substantially all products, which is interpreted as to cover more than 90% of a country's total imports. In other words, if the import amount of excluded items remains within 10%, exclusions are allowed. However, it is said the import amount of items on an exclusion wish list is well over this limit.

On the other hand, the Japanese manufacturing industry is very strong, especially as compared to its US counterpart. Particularly, the US auto industry, which faced the worst recession in a century, is now under the control of the US government. This may not be a right time for the further liberalization of the auto sector. The US electronics industry, if any, is also fragile. However, as is the case with Japan in agriculture, the United States cannot exclude the auto or electronics sector from a US-Japan FTA.

Therefore, several years ago, I came up with an idea of a Japan-US FTA only for trade in services. I even referred to the idea in my speech in March 2002 at the Institute of International Economics (now known as Peterson's Institute) led by Fred Bergsten.

An FTA only for services trade has the following merits.

First, of course, an FTA limited to services trade neither requires Japan to liberalize the agricultural sector nor obliges the United States to expose the auto or electronics sector to fierce competition with Japanese manufacturers. The governments of both countries don't have to face strong opposition from the industries concerned.

Secondly, although the original nature of an FTA remains in the field of the economy, it will lead to strengthened political relations between the countries involved. Like any other FTA, a Japan-US FTA, be it for trade in services alone, will contribute a lot to increased political ties between the two countries.

Thirdly, an FTA for services trade will offer a golden opportunity to enable the US service industry to enjoy freer markets for services in Japan. Frankly speaking, the United States has a stronger service sector than Japan does. US service industries are especially strong in finance and distribution. In this regard, the proposed Japan-US services FTA will serve the best interests of the United States in the short run. However, it will contribute a lot to Japan's interests as well by making its service industry more competitive in the long run by exposing it to fierce competition from US service companies.

As mentioned already, it is impossible to exclude the agriculture sector from an FTA on trade in goods. However, when it comes to an FTA for services trade, it is independent from an FTA for trade in goods.

Rules on an FTA for goods trade are stipulated in Article 24 of the General Agreement on Tariffs and Trade (GATT) while FTA rules on services are incorporated in Article 5 of the General Agreement on Trade in Services (GATS). Therefore, although there is no precedent for an FTA for services alone to have been concluded without agreement on trade in goods, a services-only FTA is legally feasible.

Of course, a full-fledged Japan-US FTA including trade in both goods and services is most desirable. However, it will take time. Therefore, rather than spending time bearing no fruit in the meantime, I would like to propose that the governments of Japan and the United States start a joint study to explore the possibility of concluding an FTA for services trade between them.

This year, the two countries are to celebrate the 50th anniversary of the amendment to the Japan-US security treaty. Both governments should reestablish their sound relations in the security arena on this occasion and develop a new economic solidarity under the banner of a Japan-US FTA for trade in services. **JS**

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