

2011: Year for Challenges

By Noboru HATAKEYAMA

For those countries committed to join the Trans-Pacific Partnership (TPP) free trade regime, this new year will be a year of challenges. Those countries include the United States, Australia, Malaysia, Peru and Vietnam. This year will be more challenging for Japan, which has not committed to join the TPP yet but decided to commence consultations with existing and committed member countries of the TPP.

The United States and Australia tend to be regarded as countries with the freest trade policies. However, in the US-Australia FTA, the United States has exempted sugar and dairy products from a liberalization list, for example. Whether the United States can decide to liberalize these exemptions through TPP negotiations would be a big challenge for the Obama administration.

The Malaysian government used to intervene in economic activities rather frequently. Therefore it was surprising for it to have decided to join the TPP this time. Malaysia has a traditional policy favoring indigenous people known as *Bumiputra*, which gives a special quota to them in permitting foreign direct investment, for example. The country started changing this policy several years ago. However, there are remaining restrictions, especially in the services sector, hence to eliminate them would be a great challenge for the government of Malaysia.

Vietnam is a country governed by a communist party. I wonder how the communist economy can live with the market economy aiming at complete free trade and investment, which is the goal of the TPP.

Now, Japanese Prime Minister Naoto Kan's Cabinet decided on a "Basic Policy on Comprehensive Economic Partnership" last November. According to the policy, Japan will open up the country, subjecting all goods to negotiations for trade liberalization and will work toward the realization of regional economic partnerships such as an East Asian Free Trade Agreement (EAFTA) and a Comprehensive Economic Partnership in East Asia (CEPEA). Also Japan will begin consultations with the TPP member countries while promoting appropriate domestic reforms in several areas, including the agricultural industry, labor inflow from abroad and deregulation.

Although this policy is a little bit short of expressing the Japanese government's strong will to join the TPP, it is still a historical Cabinet decision trying to face the challenge ahead squarely. Reasons are as follows.

(1) The Kan administration decided to establish the Headquarters for the Promotion of Agricultural Structural Reform to improve competitiveness of agriculture. In addition, it referred

to a policy switchover from border measures to fiscal ones so that the burden of maintaining domestic agricultural production would be transferred from consumers to taxpayers.

This is quite a big decision. The ruling Democratic Party of Japan has introduced the so-called individual household income support system for rice in which the government gives direct subsidies to each farmer to fill a gap between falling prices of rice and the cost of production. It intends to expand this system to other agricultural products as well. However, as of now, the "falling prices" are not linked with tariff reductions or eliminations as a result of concessions made at the WTO or FTA negotiations. If they are linked, then such a system will work as countermeasures to cope with liberalization.

(2) Under the decision, the government will subject all goods to negotiations. This means the government will not request exemption of any goods in advance. Of course, certain goods may be exempted from a liberalization list as a result of negotiations for the TPP.

Now there is an opinion that if Japan is to join the TPP, the government should get approval from each of the nine current and future member countries. But some countries may ask Japan, as a condition to approve its TPP participation, to solve long-standing bilateral issues in advance. But if the TPP negotiations require all countries to put everything on the table, requests for such a "pre-condition" should not be allowed either. Those long-standing bilateral issues should be solved through negotiations.

(3) Regarding the timing of Japan's formal participation in the TPP negotiations, if any, it has been pointed out that June this year would be the most plausible because a basic agricultural promotion and improvement program will have been developed by then. There is an opinion to the effect that judging from the US intention of trying to conclude the TPP negotiations by the next APEC summit which Washington will host in Hawaii in November 2011, it would be too late for Japan to formally participate in the negotiations in June. Of course, the sooner, the better. But history is often built through informal dialogue. I think Japan will be able to reflect its position through an informal exchange of views since commencing consultations with the relevant TPP countries has been endorsed by the Cabinet decision domestically and warmly welcomed internationally.

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