

Thoughts on a Japan-US FTA

By *Hatakeyama Noboru*

A Japan-US FTA linking the world's largest and second largest economies would theoretically be one of the best FTAs in terms of the size of its impact on mutual economies and also on the world economy as a whole. However, Japan and the United States have been passive about entering FTA negotiations with other countries in the past. These two countries have never taken the initiative for starting FTA negotiations, except for the United States having done so in rare cases where FTAs were politically motivated. Therefore, in considering a possible Japan-US FTA, the key point will be which country takes the initiative. There is a big concern that time will pass by without these two countries doing anything to set up an FTA between them while many other countries are pursuing FTAs among themselves and even with Japan or the United States. Ideally, countries like Japan and the United States that are strong allies in the area of security would also have such a relationship in the economic field concluding an FTA. However, the real world is more severe.

If the government of Japan tries to take the initiative, lawmakers who have close ties with the agricultural sector will oppose it. I am not defending them but this is a fact of life. Similarly, if the government of the United States tries to set up an FTA with Japan, it might be criticized by some industrial pressure groups.

However, if neither country takes the initiative and things are left as they are in this respect, there may be many people on both sides of the Pacific who regret that there is no institutional economic integration taking place between the two nations. Are there any good measures to solicit FTA negotiations between Japan and the United States?

The first and foremost would be Japan's agricultural reform, since a Japan-US FTA should be comprehensive, and fully include the agricultural sector. However, Japan's agricultural

reform must be pursued in conjunction with global agricultural reform. The main reason for Japan's protectionist agricultural policies is to ensure national food security. These policies aim to protect Japan from a food crisis that would cause domestic social unrest. Exporting countries would say "if Japan liberalizes its markets, it can rely on other countries when a food crisis occurs." This is not true. Although GATT Article XI, 1st paragraph states that "no prohibitions or restrictions...shall be instituted or maintained by any contracting party...on the exportation...destined for the territory of any other contracting party," 2nd paragraph states that the above provisions shall not extend to "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs...essential to the export contracting party." Of course if critical shortages of foodstuffs were to occur in an exporting country, Japan as an importing country would also fall into a predicament. In such a case, however, under the current WTO system, Japan cannot rely on imports of foodstuffs due to possible export prohibitions or restrictions implemented by exporting countries based upon GATT Article XI. Therefore, Japan or any other importing countries of foodstuffs have a reason to try to rely on domestic production. Accordingly, in order for Japan to be able to conduct real agricultural reform, including the full-fledged opening of its agricultural markets, a Japan-US FTA should incorporate a provision, requiring the exporting country of agricultural goods not to enforce export prohibitions or restrictions even temporarily applied to prevent or relieve critical shortages of foodstuffs so that consumers in importing and exporting countries can be treated equally, at least legally. Of course even if such a provision is incorporated into the rules of a Japan-US FTA, the governments of the exporting countries may enforce export prohibitions or restrictions but

they would actually be doing so illegally. Of course, if the above provisions of GATT Article XI are amended in a manner mentioned earlier in the Doha Round of WTO negotiations, it would be fine.

Secondly, if the negotiations for a US-South Korea FTA progress smoothly, Japan might be compelled to hurry to sign a similar agreement with the United States. Conversely, if negotiations between the United States and South Korea do not go well, this would be used as a pretext for Japan not having an FTA with the United States. By the way, a Japan-US-South Korea FTA is not imaginable at this stage. Once negotiations between the United States and South Korea have already started, Japan would feel extremely uncomfortable to be a late participant. (South Korea would feel the same, if the Japan-US negotiations were to proceed first.)

Thirdly, if negotiations for an East Asian Free Trade Area which does not include the United States progress smoothly, the United States might be compelled to hurry to establish an FTA with Japan.

We strongly hope that a Japan-US FTA will be listed in the FTA negotiation agenda as soon as possible. **JS**

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