

# Short History of Japan's Movement to FTAs

By *Hatakeyama Noboru*

## Japan's Original Position on FTAs

By the time this magazine is published, the Japan Singapore Economic Partnership Agreement (JSEPA) will have gone into effect. This is the first free trade agreement (FTA) Japan has ever been engaged in. Of course there was a reason why Japan had not been involved in any FTAs. An FTA is an agreement among member countries to mutually and substantially eliminate trade barriers such as tariffs and quantitative import restrictions.

FTAs, being an agreement to eliminate trade barriers among member countries only, also have a discriminatory aspect against non-member countries. The General Agreement on Tariffs and Trade (GATT) prohibited discrimination and required each member country to give most favored nation (MFN) treatment to the other member countries.

Therefore, Japan argued, FTAs violate at least the spirit of GATT, although GATT admits FTAs with certain conditions in Article 24 of its rule. In the 1980s, this argument of Japan's seemed to be prevailing.

## Why Did Japan Change?

However, the international situation started to change from the beginning of the 1990s. First of all, in December 1990, the ministerial negotiations at GATT's Uruguay Round in Brussels failed to reach a conclusion.

This failure cast a dark shadow over the smooth development of multilateralism which was cherished by GATT as opposed to FTAs, which were often categorized as bilateralism or regionalism.

Also, the so-called "EC 92" was successfully launched in 1992. EC 92 was an initiative by the then European Community (now the European Union

[EU]) to try to strengthen their FTAs. Both Japan and the United States expressed concerns in vain over EC 92 creating a "Fortress Europe."

Trying to cope with this development, the Association of South-East Asian Nations (ASEAN) formulated an ASEAN Free Trade Area (AFTA) in 1992 and the United States, Canada and Mexico created the North America Free Trade Agreement (NAFTA) in 1994.

Thus, as of Oct. 1, 2002, among the top 30 economies in the world, there are only five which are not members of FTAs. Those five economies are Japan, China, Korea, Taiwan and Hong Kong. So even if Japan contends its legitimate argument that FTAs are against the spirit of GATT which prohibits discrimination, Japan will lose in the regional trade agreement (RTA; FTA is called RTA in the World Trade Organization [WTO]) committee of the WTO, being surrounded by other countries, most of which are member countries in some FTAs. Avoiding possible isolation was one of the reasons for Japan's change in its position on FTAs.

Second, a country can carry out vigorous structural reforms through implementing firm commitment imposed upon it by an FTA. This would be a sound form of peer pressure to promote structural reform. For example, it is said that the Canadian wine industry was weak before NAFTA and the U.S.-Canada FTA. But after being exposed to foreign competition through FTAs, the Canadian wine industry has become a very competitive industry producing high quality ice wine and so on.

Third, FTAs can include ambitious trade reform faster than the WTO. The number of WTO members stands at 144 as of now, including China and Taiwan. It is fairly difficult to get a consensus there quickly. In the case of FTAs between two or several countries, however, there are fewer difficulties in

reaching a consensus. Therefore, in the near future, even a clause to introduce rules on competition and trade, which might be too ambitious for the WTO at this moment, can be incorporated into an FTA.

Fourth, actual damage has started being felt by Japanese companies due to the FTAs of other economies. For example, U.S. companies can export goods to Mexico free of tariffs in principle thanks to NAFTA. Also EU companies can do the same thanks to the EU-Mexico FTA that started in July 2000. However, Japanese companies have to pay tariffs when they export goods to Mexico. By the way Mexico has an average tariff rate of 16.2%. If an FTA between Japan and Mexico were concluded, this disadvantage for Japanese companies would disappear.

## How Has Japan Changed?

In the summer of 1998, when I was Chairman and CEO at the Japan External Trade Organization (JETRO), I had lunch with then Mexican Commerce and Industry Minister Herminio Blanco, who had been the vice minister of Commerce and Industry between 1988 and 1994 except for the period when he had been the Mexican government's chief negotiator for NAFTA between 1990 and 1993. I was also vice minister for international affairs of the Ministry of International Trade and Industry (MITI; now Ministry of Economy, Trade and Industry [METI]) until 1993, and we have cultivated our friendship since then. At this lunch, Blanco kind of boasted that he had concluded in December 1997 negotiations with his EU counterpart on the framework agreement of the FTA between Mexico and the EU, and invited me to Mexico City to discuss a possible FTA between Japan and Mexico if I was interested.



Photo: REUTERS • SUN



Koizumi Jun-ichiro (left) and Singaporean Prime Minister Goh Chok Tong sign a free trade agreement on Jan. 13 in Singapore

Then Mexican President Ernesto Zedillo was supposed to visit Japan in the fall of that year. Therefore, Blanco's idea was to have the Mexican President and Japanese Prime Minister jointly declare the kick off of the negotiation on Japan-Mexico FTA.

I accepted this invitation in August 1998. Blanco kindly arranged a meeting attended by himself and three vice ministers in his ministry and myself. They explained the framework agreement for an FTA between Mexico and the EU and the possibility of such an agreement between Japan and Mexico. Upon my return to Japan, I visited then MITI Minister Yosano Kaoru to convey the message from Mexico about a possible FTA between Japan and Mexico. Yosano told me that since it would represent a big change in Japanese government policy if MITI started negotiations on a Japan-Mexico FTA, he would like to have his staff study the matter. Thus, a study team on FTA was established in MITI. This team consisted of MITI officials led by Kanno Hidehiro, then Director General of the International Trade Policy Bureau. This team came up with a positive report on a dual track policy to pursue an FTA as well as the WTO. But it was historically ironical that this report was not ready for the meeting with Zedillo, which took place in mid-November 1998. Therefore he refrained from raising the Japan-Mexico FTA issue in a meeting with then Prime Minister Obuchi Keizo, knowing Obuchi was not ready to positively respond on that issue. Zedillo disclosed this FTA issue just in a meeting with Japanese business people at the Japan Federation of Economic Organizations (Keidanren; now the Japan Business Federation [Nippon Keidanren]).

However MITI's report on FTA was prepared in time for the ministerial meeting which was held in Kagoshima in late November 1998. Therefore Yosano responded in the affirmative to the request made by Han Duck-Soo, minister for Trade in South Korea, for the joint study of a possible FTA between Japan and Korea. In this

regard, Yosano's name should be remembered as the minister who changed Japan's trade policy from multilateralism alone to a dual track policy. Thus JETRO's Institute of Developing Economies (IDE) and the Korean Institute for Economic Policies (KIEP), both governmental think tanks, were assigned to jointly study the way to strengthen the economic relationship between Japan and South Korea, including an FTA.

Then in February 1999, JETRO and SECOFI, Mexico's Ministry of Commerce and Industry headed by Blanco, were assigned to carry out a study on a Japan-Mexico FTA. Both studies conducted by JETRO and its counterparts in South Korea and Mexico were in favor of FTAs. The results of both studies were announced in April 2000 for Mexico and in May of the same year for South Korea.

In the meantime, the Prime Minister of Singapore, Goh Chok Tong, visited Japan in December 1999 and agreed with Obuchi to start an FTA study between both governments. This study was completed in September 2000. Then, at the beginning of last year, FTA negotiations between the two governments commenced and the FTA was signed by Prime Minister Koizumi Jun-ichiro and Goh Chok Tong on Jan. 13 this year when Koizumi visited Singapore. This FTA was approved by Japan's Diet on May 8 and will become effective 30 days after the two countries exchange their instruments of rati-

fication, probably by the end of October this year.

Which country will be the second country to conclude an FTA with Japan after Singapore? I am personally guessing it will be Mexico. In January last year, Minister Hiranuma Takeo of METI visited Mexico and agreed with Economic Minister Luis Ernesto Derbez to explore the possibility of beginning a governmental FTA study between the two countries. Then Mexican President Vicente Fox visited Japan in June last year and agreed with Koizumi to launch the study. The first meeting of this study was held in Mexico in September last year. The seventh and the final meetings took place in Mexico at the end of July this year.

Around the time this magazine is published, the Asia-Pacific Economic Cooperation (APEC) leaders meeting is going to be held in Mexico on Oct. 26 and 27. On the sidelines of this meeting, there will be a summit meeting between Koizumi and Fox. Following the study mentioned above, I strongly hope both leaders will agree to launch a negotiation for a possible FTA between Japan and Mexico with the target of concluding it positively within the next year.

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(To be continued)

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