

A Short History of Japan's Movement to FTAs (Part 2)

By *Hatakeyama Noboru*

Japan's First FTA

Japan and Singapore exchanged diplomatic notes for the Japan-Singapore Economic Partnership Agreement (JSEPA) on Oct. 30 last year, and it came into effect from Nov. 30. This is the first free trade agreement (FTA) Japan has ever had. Not only that, this is the first FTA which has been concluded in the so-called "Far East" area. So, although some Chinese professors tend to boast of China taking the initiative for FTAs in Asia by starting the negotiations on the China-Association of South-East Asian Nations (ASEAN) FTA, JSEPA should be given the credit for having taken such an initiative.

There have been two questions raised about JSEPA. The first question was what kind of additional benefits Japan could obtain from an FTA with Singapore as Singapore is already one of the most open countries in the world.

Firstly, Japan obtained benefits in service sector. In the General Agreement on Trade in Services (GATS) at the World Trade Organization (WTO), the service sector is categorized into 155 items. Out of these 155 items, Singapore has already liberalized 62 in the Uruguay Round (UR) negotiations. In JSEPA, Singapore conceded additional 77 items to Japan, making a total of 139 liberalized items for Japan. The typical improved items include telecommunications, distribution, education, financial services and transportation.

Secondly, the conditions for entry into Singapore by business persons have been relaxed. Before JSEPA, both countries were committed to allowing the entry of business persons for short-term business trips of 90 days or less or for personnel changes within a company. In addition to these two cases, JSEPA admits the entry of investors and persons with actual contracts with companies in the partner country. Of course this is a benefit that Singaporean companies can also enjoy.

Thirdly, even in the area of trade in goods, the elimination of the tariff on beer

on the part of Singapore will bring about benefits for Japan. The Singaporean beer tariff is 10% but this is eliminated just for Japan because of JSEPA. It is said that a Japanese beer company will shift its export base to Singapore. Production will shift from a factory in Shenzhen, China, to a factory in Japan which can benefit from zero tariffs for beer in Singapore.

The second question was about the benefits Singapore could obtain from JSEPA, because Japan's average tariff rate for industrial goods was already as low as 1.5%.

Firstly, the Mutual Recognition Agreement (MRA) has been included in JSEPA. MRA is an agreement to enable Singapore companies to export such products as electronics, for example, to Japan by receiving only domestic inspections in Singapore dispensing with Japan's inspections and vice versa. This is the second MRA Japan has ever made. The first one was with the European Union.

Secondly, Singapore has also obtained benefits in the service sector. Out of the 155 items of service categories in GATS, which I mentioned before, Japan has already liberalized 102 items in the UR negotiations. In JSEPA, Japan conceded additional 32 items to Singapore including distribution, financial services, medical services and transportation.

How about the agricultural sector? Although it was sometimes said that the agricultural sector was excluded from JSEPA, this is not true. The agricultural sector is included in JSEPA conceptually. First of all, agricultural items whose tariff rates the Japanese government conceded to zero in the UR negotiations were included in JSEPA. However, these items do not mean anything new for Singapore because tariffs for these are already zero not only for Singapore but also for any other members of the WTO. What is new to Singapore, however, is the fact that Japan included in JSEPA agricultural items whose tariff rates in Japan are actually zero without being bound in the UR negotiations. In other words, Japan has lowered the tariff rates of these items to

zero just with Singapore, although this concession is not a big deal at all, frankly speaking. If we look back, the first meeting for JSEPA study was held in Singapore on March 7 and 8, 2000. It took more than two and half years before JSEPA entered into force.

Mexico will be the Next Country

Regarding FTA studies, Japan and Mexico agreed to establish the "Japan-Mexico Joint Study Group" to strengthen bilateral economic relations on June 5, 2001. This study group came up with a final report on July 25 last year. Japanese Prime Minister Koizumi Jun-ichiro and Mexican President Vicente Fox held a meeting in Los Cabos on Oct. 27, 2002, and decided to launch negotiations to conclude a bilateral agreement, taking into account the report submitted by a joint study group. The first meeting for such official negotiations was held in November 2002. I hope these negotiations will be finished within this year, thereby making the second FTA for Japan.

Study for South Korea Started

In the case of South Korea, a positive conclusion was jointly reported by Japan External Trade Organization's (JETRO) Institute of Developing Economies and the Korean Institute for Economic Policies back in May 2000. On Sep. 23 of the same year, at the summit meeting with the then Prime Minister Mori Yoshiro, South Korean President Kim Dae-Jung proposed to establishing the Japan-Korea FTA business forum consisting of business persons and scholars.

Mori welcomed this proposal, and the forum was headed by Ushio Jiro, Chairman and CEO of Ushio Inc., for Japan and Park Yong-Sung, Chairman of the Korea Chamber of Commerce and Industry, for South Korea. This forum submitted a joint communique on Jan. 25, 2002 to the effect that a Japan-Korea FTA should be materialized soon and for this purpose the consultations between the two

governments should start.

Based on this communique, at the summit meeting between Japan and South Korea on March 22, Koizumi and Kim agreed to start a government-level joint study group, including business persons and scholars. This study group is represented by four deputy director generals with the Ministry of Economy, Trade and Industry, the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Agriculture, Forestry and Fisheries for Japan and by the deputy director general of the Ministry of Foreign Affairs and Trade for South Korea. They have already met three times with the last meeting being held on Dec. 4 and 5, 2002 in Seoul. Since South Korea had a presidential election on Dec. 19, the Japan-Korea joint study will be intensified after the new administration will have settled under the new president.

Korea and Chile finally signed their FTA on Oct. 24, 2002. They had been negotiating for four years. It was always mentioned especially by the South Korean side that since a Chile FTA was in the pipeline, a Japan-Korea FTA, if any, would be materialized after this pipeline had been cleaned up. Therefore this was good news not only for Korea (and Chile) but also for Japan to expedite a Japan-Korea FTA.

China's Movement to ASEAN

Before explaining about the Japan-ASEAN FTA movement, I would like to refer to the China-ASEAN FTA movement. As a matter of fact, I met Shi Guangsheng, Trade Minister of China, on July 31, 2000 at JETRO's office in Tokyo and on Aug. 31 at his office in Beijing. On both occasions I asked him if China was interested in negotiating FTAs with any other countries. He did not give a clear answer and I got the impression that China was not ready for any FTAs because it was too busy trying to accede to the WTO at that time. However, three months later, Chinese Prime Minister Zhu Rongji proposed to study an FTA between the ASEAN countries and China on Nov. 22, 2000 at the summit meeting held in Singapore between the leaders of ASEAN and China. The answer from the ASEAN side was that it would be agreeable if the study was on the "possibility" of having an FTA between them. At the summit

meeting among the leaders of ASEAN, China, Japan and South Korea, (ASEAN plus 3) that followed, the then Thai Prime Minister Chuan Leekpai also proposed studying a possible FTA among the ASEAN plus 3. The chairman's group decided to ask the East Asia Study Group (EASG) to study this proposal. The EASG was established at this meeting with the proposal made by Kim Dae-Jung.

Thus, two possible FTA studies, one for ASEAN and China and the other for the ASEAN plus 3 originated from the summit meetings held in Singapore in Nov. 2000.

The first study for ASEAN and China was completed in the summer of 2001 and on Nov. 6 of the same year, their leaders agreed to enter the negotiations on an FTA between them with a target of concluding it within the next 10 years. Just before then, at the end of October 2001, I had the opportunity to meet Singapore Prime Minister Goh Chok Tong. He asked me if Japan was ready for the situation when China would go faster than Japan in entering FTA negotiations with ASEAN. I also met Chinese Prime Minister Zhu in Beijing on May 28, last year. On that occasion he made the following comment; "It is true that Japan has signed an FTA with Singapore. But that must have been easy because Singapore does not have too strong an agricultural sector. However, most of the other ASEAN countries do have strong agriculture. Therefore it will take time for Japan to conclude an FTA with them. China will be much faster than Japan in concluding our negotiations. Although we have agreed to conclude one within the next 10 years, it will not take that long."

As he predicted, the FTA negotiations between ASEAN and China advanced rather smoothly and on Nov. 4, 2002, their leaders made the Framework Agreement (FA) for comprehensive economic cooperation between ASEAN and China. Of course FA is not an FTA agreement itself, but an agreement stipulating the target, the coverage, the principles of tariff reduction, the schedule, and the scheme for the so-called early harvest items, which are going to be included in the FTA. This FA has many impressive points. The first is the coverage. The FTA will cover not only trade in goods but also trade in services, and even rules on foreign direct investment.

The second is the schedule. In 2001, when they agreed to enter into FTA negotiations, it was understood by many people that they would conclude the negotiations within the next 10 years. But, according to the FA, the "10 years" turned out to be the implementation period of the FTA and certainly not the negotiating period.

The third impressive point is the character of the FTA. There was an observation that an FTA between ASEAN and China will be based on the so-called "Enabling Clause" of the General Agreement on Tariffs and Trade (GATT) decision in 1979 to allow only developing countries rather flexible FTAs which admit just reductions of tariffs. This contrasts with normal FTAs based on Article 24th of the GATT rules which requires the elimination of tariffs for substantially all products. Since both ASEAN countries and China are developing countries, they are qualified to use the Enabling Clause. However, according to the FA, they will not use this clause. Instead, they are going to base their FTA right on Article 24th of GATT and on Article 5th of GATS which are supposed to be used between developed countries.

Fourth, the early harvest is also impressive. It was being said that the so-called "early harvest" items would be offered mostly to ASEAN countries from China to induce them in an FTA by carrying forward the Chinese liberalization schedule for "several" agricultural items, including palm oil from Malaysia for example. But now, in this FA, ASEAN and China came up with a rather comprehensive scheme of early harvest items although the details have not been decided.

However, it is very good especially for China to try hard to have a rather ambitious FTA with ASEAN. Because it means that China will commit its liberalization not only to WTO multilaterally but also to an FTA with ASEAN regionally, thereby strengthening further their "reform and opening" policy which is in the interests of all the other countries. **UJI**

(To be Continued)

Hatakeyama Noboru is the chairman and CEO of the Japan Economic Foundation.