

A Short History of Japan's Movement to FTAs (Part 4)

By *Hatakeyama Noboru*

In November 1999, Juan Gabriel Valdes, then Chilean Minister of Foreign Affairs and the incumbent ambassador to the United Nations, kindly visited the Japan External Trade Organization (JETRO), when I was the chairman thereof, and proposed starting a joint study on a Japan-Chile free trade agreement (FTA) conducted by the DIRECON of the Chilean Foreign Ministry and JETRO. This proposal was accepted by JETRO after consultation with the Ministry of International Trade and Industry (MITI; now the Ministry of Economy, Trade and Industry: METI) and the study started in both organizations with a JETRO committee formulated for the Japanese side. JETRO's committee began the study in May 2000 and completed it in June 2001. This committee was attended by experts and business people as regular members, including director-level government officials of MITI, the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Agriculture, Forestry and Fisheries as observers. The conclusion of the study was very positive for an FTA between Japan and Chile, recommending that the maximum efforts should be made to conclude a Japan-Chile FTA. The study also noted that it was important to have adequate consideration for the potential impact on specific Japanese domestic industries, the "multi-functionality" of agriculture and the need to secure a stable supply of natural resources.

In May 2002, the 21st Japan-Chile Business Cooperation committee issued a joint statement, including a resolution that called for each committee to request the respective governments to start full-fledged negotiations on a Japan-Chile FTA. In November last year, Maria Soledad Alvear Valenzuela, the Chilean Minister of Foreign Affairs came to Japan and met Prime Minister Koizumi Jun-ichiro. It was reported that on this occasion she conveyed to him the Chilean interest in promoting a Chile-

Japan FTA which was being requested by the business sectors of both countries. In February this year, Chilean President Ricardo Lagos visited Japan at the invitation of Koizumi and they referred to the Japan-Chile FTA. Chile has already concluded FTA negotiations with the European Union, South Korea and the United States. Therefore, a situation will come soon where although American, European and South Korean goods can enter the Chilean market free of tariffs, Japanese goods competing with them cannot do so unless Japan concludes an FTA with Chile.

World Trade Organization (WTO) rules require FTAs to include substantially all products. This is interpreted as meaning that such agreements should cover more than 90% of imports. In general, it is assumed that eliminating industrial tariffs is easier than eliminating agricultural tariffs. The higher the weight given to agricultural and fishery imports, the more difficult it is for an FTA to cover more than 90% of the total imports. Since the share of agricultural, fishery and forest goods that Japan imports from Chile runs as high as 50% of the total imports from that country, it would seem unlikely at first glance that Japan could forge an FTA with Chile. But that is not so. The records for 1999-2001 show that 61.4% of Japanese imports from Chile were tariff-free, while tariffs of less than 5% were imposed on 29.4% of the imports.

Adding 61.4% to 29.4% makes a total of 90.8%. Thus if Japan eliminates the tariffs of less than 5%, it can clear the 90% hurdle. Of course, that won't be easy. It is true, though, that the imposition of tariffs of less than 5% to protect domestic industries could be absorbed at times by exchange rate fluctuations.

Canada and Australia are the third and fourth biggest exporting countries to Japan which makes it difficult for Japan to conclude an FTA with them.

In the case of Canada, however, a kind of initiative was unexpectedly taken up

by the Japanese side. On behalf of MITI, JETRO asked Professor Wendy Dobson to conduct a feasibility study on a Japan-Canada FTA by a subcontracting arrangement with a Canadian university. As a result, the so-called Dobson report was completed in 1999. It recommended that the Japanese and Canadian governments should comprehensively liberalize trade and investment between them with the target year being 2010. In May 2000, at the 23rd Japan-Canada Business Conference (JCBC), the chairman's summary said that a new platform consisting of business representatives and experts should be established to take actions aimed at concluding a Japan-Canada FTA. Frankly speaking, however, some of the reactions regarding an FTA with Canada from government officials were not too positive. Taking these reactions into consideration, at the 24th JCBC in May 2001, Thomas d'Aquino, the President and Chief Executive of the Canadian Council of Chief Executives, proposed a Trans-pacific Partnership Agreement (TPA) between Japan and Canada. His idea was not necessarily to conclude an FTA especially in the area of market access for trade in goods, but to include an investment agreement as well as a mutual recognition agreement in a TPA. D'Aquino played a great role in the negotiations on the U.S.-Canada FTA in the 1980s. At the symposium held in Tokyo in June 2001 by the Canadian Chamber of Commerce in Japan (CCCJ), I also proposed my personal idea to have a Japan-Canada FTA on trade in services alone.

As I mentioned before, when it comes to trade in goods, an FTA should cover substantially all goods. It is, however, not a requirement to include trade in services in the same FTA. Therefore, an FTA on trade in services alone can be concluded. In September 1999, Canadian Prime Minister Jean Chrétien led a major business mission to Japan, trying to change Canada's image here in



The author (left) attended the international symposium "FTA: JSEPA and Beyond" co-organized by JEF and SIIA, in Singapore on March 7, 2003

Japan from a country only strong in agriculture, forestry and mining to a country of advanced technologies. The Canadian Ambassador to Japan at the time, Leonard J. Edwards, worked really hard on this. I told him and his Canadian colleagues that if Canada was interested in increasing exports of high-technology products to Japan, an FTA on trade in goods would hardly work because Japan had no tariffs on these products. However, I told them if they were trying to increase exports of services with high-technology, why didn't we have an FTA for the service sector alone? There has been no positive answer from the Canadian side toward my proposal yet. In February this year, a vice-ministerial level meeting between Japan and Canada was held in Tokyo. Although some ideas were exchanged at this meeting to strengthen the cooperation between the two countries, no reference was made to an FTA.

In the case of Australia, MITI (now METI) Minister Hiranuma Takeo agreed with Australian Trade Minister Mark Vaile to study measures for strengthening bilateral economic relations. Based upon this agreement, a private sector committee was formulated for each side with the respective chairman being Professor Ito Motoshige of the University of Tokyo and Professor Gordon de Brouwer of the Australian National University. In April 2001, Japan's committee proposed that concrete measures should be gradually taken to expand bilateral economic relations, while the Australian committee proposed concluding a Trade and Investment Facilitation Agreement (TIFA) between the two countries. In April 2002, the Japan Australia Business Co-operation Committee (JABCC) chaired by Murofushi Minoru, the Chairman of Itochu Corp., proposed that the two governments should immediately commence a study for the conclusion of a comprehensive economic partnership agreement, which would include an FTA. The Australia-Japan Business Cooperation Committee (AJBCC) chaired by Hugh Morgan, now the Chief Executive Officer of the Western Mining Corp., recommended an early agreement between Australia and Japan leading to the creation of a free trade area that would eventually eliminate the

barriers to merchandise and services between the two countries, and facilitate bilateral trade, investment and economic cooperation. In May 2002, Koizumi and Australian Prime Minister John Howard welcomed these two proposals and agreed that the two governments would launch high-level consultations to explore all the options for deeper economic linkages between Australia and Japan. Based upon this decision, the two sides agreed to hold high-level consultations at the deputy minister level and to establish working groups at the director level. Three meetings of the working group have already taken place. However, because of agricultural problems on the part of Japan, the prospect of successfully concluding an FTA between Japan and Australia is not too bright at best.

In terms of agriculture, there are hardly any problems that would prevent Taiwan from concluding an FTA with Japan. The share of non-agricultural exports from Taiwan to Japan last year was 88.9% of Taiwan's total exports to Japan. Therefore, if Japan can liberalize some tiny items of agriculture, it can easily clear the WTO's 90% hurdle. This, however, will not be politically easy because the Japanese government recognizes that the government of the People's Republic of China is the sole legal government of China. Therefore, the contacts for a possible FTA between Japan and Taiwan are being made on a private sector basis through the East Asia Business Conference consisting of Japanese and Taiwanese business executives. However, since Taiwan was admitted to the WTO as "separate custom territory" instead of being deemed a sovereign country, Japan and Taiwan may be able to find a way to conclude a bilateral FTA by using such terminology as a "separate custom union" for Taiwan.

If the FTA which includes Japan and Taiwan is a regional one, such as an East Asia Free Trade Area, rather than a bilateral one between Japan and Taiwan, the precedent in WTO for the status of Taiwan can be more easily applied to

include Taiwan as a member of an FTA.

The movement for FTAs in Asia was kicked off by the start of the Japan-Singapore Economic Partnership Agreement (JSEPA). Had it not been for the start of JSEPA, there would not have been such strong movements in this area toward FTAs, including those between ASEAN and China, and ASEAN and Japan. Singaporean Prime Minister Goh Chok Tong took the initiative for JSEPA. In this regard, Goh and his Singaporean colleagues' initiatives should be highly appreciated not only by Japan but also by other Asian countries. The first joint study group meeting for JSEPA was held in Singapore on March 7, 2000. Exactly three years later, on the same date of this year, my organization, the Japan Economic Foundation (JEF) held an international symposium entitled "FTA: JSEPA and Beyond" in Singapore with the cooperation of the Singapore Institute of International Affairs (SIIA). This symposium was attended by many experts and high officials as panelists or speakers, including former Trade Ministers – Dr. Herminio Blanco of Mexico and Dr. Chulsu Kim of South Korea, and the incumbent deputy trade Ministers – Long Yongtu of China and Dr. Thomas Aquino of the Philippines. I strongly hope a symposium like this will accelerate the movement for strengthened regional integration in this area. **JTI**

(This is the last article of the series)

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