

Political Decisions Urgently Needed for Japan's FTAs

By ITO Takatoshi

In April, South Korea and the US concluded an FTA (Free Trade Agreement), which seems to have shocking implications for Japan.

First of all, this agreement is almost like a truly free trade arrangement, where US markets will be 100% liberalized except agricultural products, while Korea's non-agricultural markets will be 99% open and its agricultural products will be liberalized except rice (completely exempted) and beef (gradual tariff reductions over 15 years). Very few people expected that Korea would go that far to conclude an FTA.

Second, Korea started its FTA negotiations with the EU as soon as it reached an agreement with the US. If Korea and the EU agreed, Korean products could possibly wipe out Japanese products in the EU region where tariffs are fairly high (10% on auto, 14% on flat TV, etc.).

As of now, Japan is yet to decide how to use FTAs strategically. Japan has so far concluded (and signed) FTA agreements with six countries (Singapore, Mexico, Malaysia, the Philippines, Chile and Thailand), and reached basic (framework) agreements with two countries (Indonesia and Brunei) and one region (10 ASEAN countries). In addition, negotiations with Australia and some other countries are currently under way.

However, these FTA agreements, called EPAs (Economic Partnership Agreements) by the Japanese government, are somewhat problematic in that Japan's liberalization rate is lower than that of developing countries such as Mexico, Thailand, the Philippines and Malaysia. In fact, the former is at most 90% and the latter exceeds 95% on the trade value basis. It is a shame that an advanced country like Japan is less open than those developing countries.

One of the main reasons for this is protection and high tariffs for the agricultural sector. Strong objections are often expressed within Japan to FTAs on the ground that Japan's agricultural industry would be destroyed if tariffs were eliminated.

In view of the Korea-US agreement, however, it is not impossible to exempt rice from FTA negotiations. The important thing is to identify to what extent tariff protection is absolutely

necessary and what other measures can replace those tariffs that are not so essential.

There may also be an objection that if Japan and the US concluded an FTA, it would cover approximately 40% of the world's GDP, negatively influencing discussions for WTO to decide on a global framework for free trade, and possibly inviting some criticisms from developing countries.

However, a Japan-US FTA would not constitute a trade bloc to impose high tariffs on other countries. Both Japan and the US would be willing to extend their FTAs to other countries with very lower tariffs, possibly except for agricultural products, so this would not be a trade bloc. If the US concludes an FTA with any other country, it would cover 30% of the world's GDP anyway and, therefore, the 40% figure for the Japan-US FTA would not have any particular significance.

In Japan's FTA negotiations from now on, the following points should be taken into account.

First, try to accelerate negotiations to reach an agreement with Australia, and start joint studies for FTA negotiation with the US and the EU, respectively, as soon as possible.

Second, pursue FTAs with high liberalization rates both on the trade value basis and on the tariff line basis.

It is imperative that Japan make progress toward FTAs with the US and the EU before Japanese companies become disadvantaged due to Korea's FTAs, and possibly accelerate their investment in the EU and the US in order to avoid such a disadvantaged position. Japan's political decisions are urgently needed in this regard.

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