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## Belated Start with a Burden: Japan's FTA Negotiations

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In January 2002, Japan concluded its first free trade agreement (FTA) with Singapore. Despite the increasing number of FTAs worldwide (currently about 140), Japan has been the slowest among major developed countries to conclude them. Within Asia, Singapore and China have been pursuing FTAs aggressively. Japan belatedly started FTA negotiations with several countries, including Mexico, Korea, and Chile. However, progress in these negotiations is being hindered by Japan's agricultural policy.

### What Is in Progress?

**Singapore:** Japan's first FTA, the Japan-Singapore Economic Agreement for a New Age Partnership (JSEPA), went into effect in November 2002. JSEPA, defined as an Economic Partnership Agreement (EPA), is not limited to FTA-type-access (tariff) issues. It includes new areas such as investment, competition policy, mutual recognition agreement (MRA), information-communication, and the financial sector. Under JSEPA, Singapore abolished all tariffs on imports from Japan, whereas Japan abolished its tariffs on about 3,800 items from Singapore. The agreement excludes agricultural products and some petrochemicals.

**Mexico:** After more than two years of preparation, Japan and Mexico opened official bilateral free-trade talks in November 2002. Demands for an FTA with Mexico have been especially strong among Japanese businesses. Compared with businesses in countries that have concluded FTAs with Mexico (e.g. the United States, Canada, and European Union countries), Japanese businesses have been paying relatively high tariffs. Japan's largest business association, Japan Business Federation (*Nippon Keidanren*), welcomed the launch of the bilateral negotiation and urged both governments to conclude the FTA within a year, but agricultural policy remains an impediment. Mexico proposed the inclusion of agricultural products in the FTA, especially its pork export to Japan. In 2001, pork, its third-largest export product, amounted to about U.S.\$206 million.

**Chile:** In 1996, the Chilean government proposed an FTA with Japan, and the Japan External Trade Organization (JETRO) launched the Japan-Chile Free Trade Agreement Study Group to explore the implications of an FTA. The study group expects an increase in Japan's automobile, super-sized tires, and audio- and visual-equipment exports. On the other hand, it predicts an increase in Chile's export of marine products (salmon, trout, and sea urchins), agricultural products, and processed goods (grape and apple juice), and copper. Although the study group suggests the conclusion of an FTA between Japan and Chile, official negotiations have not started yet. It is believed that Japan will not start its official negotiation until an FTA with Mexico, which will be the first FTA for Japan including agricultural products, is successfully concluded.

**ASEAN:** One year after China's announcement of an FTA plan with the Association of South East Asian Nations (ASEAN) in November 2001, Japan agreed to the ASEAN-Japan Closer Economic Partnership (CEP). CEP is a blanket agreement which not only includes the elements of an FTA, but also those issues in need of improvement, such as non-tariff barriers to goods, services, and investment, as well as areas beneficial to both nations, such as information technology, support for the small- and medium-sized enterprises, and tourism. The negotiations begin this year, and Japan and ASEAN will aim to complete them within 10 years. As for furthering efforts toward an ASEAN-Japan CEP, Japan

hopes to start bilateral FTA negotiations with ASEAN countries, such as Thailand, the Philippines, Malaysia, and Indonesia. For countries that are not members of the WTO, Japan will continue to provide Most Favored Nation (MFN) treatment as stipulated in Article 1 of the General Agreement on Tariffs and Trade (GATT). Whether Japan pursues a CEP with ASEAN or bilateral FTAs with ASEAN countries, a compromise on agricultural products seems inevitable.

**Korea:** As a result of the joint proposal by the Japan-Korea FTA Business Forum in January 2002, workshops including academic, business, and government circles have taken place. Korea is concerned about abolishing its tariffs on automobiles, electrical goods, and electronic products, while Japan fears opening its agricultural market. Despite both countries' concerns, either an FTA or EPA is important given the economic interdependence between Japan and Korea and Korea's political significance in the tense relations between Japan and North Korea.

**United States:** Despite discussions, an FTA between Japan and the United States is still unlikely. Both countries' governments and businesses are wary given the significance of issues like steel and agricultural products.

Japan has also been offered FTAs by several other countries, such as China, Taiwan, Australia, New Zealand, Malaysia, and the Philippines. However, due to political obstacles (Taiwan), barriers in the trade of agricultural products, and skepticism about the benefits of FTAs, the progress of these negotiations has been slow.

### **No Consensus on the Agricultural Market**

Tough negotiations with Mexico on agricultural products are pending. Success for the FTA without the inclusion of agricultural products seems almost impossible because of Mexico's high expectations. There appears to be no consensus between the Japan's Ministry of Foreign Affairs (MOFA) and the Ministry of Agriculture, Forestry, and Fisheries (MAFF) regarding Mexico's agriculture interests. In its proposal "Japan's FTA Strategy (October 2002)," MOFA mentions that in future FTA negotiations the opening or structural reform of agricultural markets is "unavoidable." MAFF insists on the openness of Japan's agricultural market in its report "Japan's Food Security and Agricultural Trade Policy (December 2002)," noting that Japan's average tariff on agricultural products—12 percent—is already lower than those of both the EU (20 percent) and Argentina (33 percent). MAFF criticizes the presumed necessity of opening the agricultural market, insisting that it merely stirs up domestic friction and damages the FTA negotiation itself.

Although Japan was a latecomer to FTA negotiations, several FTAs are in line in the near future. Building domestic consensus regarding the opening of agricultural markets before the actual negotiations is indispensable.

In October 2002, after the meeting with President Fox of Mexico, Prime Minister Koizumi indicated that Japan cannot avoid including the reduction of the tariff on agricultural products to conclude an FTA with Mexico. As with Japan's much-needed banking system reforms, the agricultural issues will only be resolved by strong leadership from Koizumi.

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