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Promoting Japan's Participation in the TPP (the Trans-Pacific Partnership)

By AKAO Nobutoshi

The Kan administration, in its October policy speech, emphasized its intention to proceed with negotiations for its participation in the TPP (the Trans-Pacific Partnership) and to aim at establishing the Free Trade Area in the Asia-Pacific region, advocating enlargement and deepening of the economic partnership with the Asia-Pacific countries as one of the pillars of the New Growth Strategy which had been approved in the Cabinet meeting in June 2010. I am in total support of this policy by the Kan administration and sincerely hope that this will be put into action at any cost, making good on its promise. Nonetheless, it is quite incomprehensible that powerful argument against it has recently been raised in the Democratic Party of Japan (DPJ) and in the administration itself. I was extremely encouraged when Mr. Ozawa Ichiro, then DPJ Secretary-General, clearly stated, in presenting the 2009 DPJ manifesto which advocated negotiations of the Japan-U.S. Economic Partnership Agreement (EPA), that the conclusion of Japan-U.S. EPA would cause no problem if Individual Household Income Compensation Program (Kobetsu Shotoku Hoshō Seido) should be introduced.

The 110 Diet members of the DPJ including the Ozawa faction supporters began to oppose the TPP. Besides, it is even more perplexing to see that Former Prime Minister Hatoyama Yukio (then DPJ President) took the initiative in setting up this Diet members' group. It is quite difficult to understand the behavioral principle of former PM Hatoyama, who had lost his credibility both in and outside the country by repeating flippant and hasty statements on the Futenma base and other issues. He should be consistent in his words and deeds in view of the middle- and long-term national interests, instead of being based on shortsighted factional logics. In order for Japan, who now faces serious concerns of rapid aging and low birthrate, to maintain its economic vitality, it is imperative that she should establish a region-wide network of production, distribution, and consumption throughout the Asia-Pacific region, now the center of global economic growth. Japan's market size based on her domestic production and sales activities is in steady decline, and the future for Japan's economy including agriculture looks bleak. Time is pressing.

Since the 1980s when the yen was already appreciating against the dollar, Japanese companies had enlarged and strengthened their overseas operations in the United States, Europe, and the member states of the Association of Southeast Asian Nations (ASEAN). Since the beginning of the 21st century, Japanese companies expanded their operations in China though they were ten years behind American and European companies. At the same time, there are many

examples to illustrate how risky it is to over-concentrate in China, such as anti-Japan demonstrations during the Koizumi administration, strikes against Japanese companies for higher wages, and the politicization of economic issues as was the case with export restrictions of rare earth. As a way of avoiding such risks, Japanese companies have adopted foreign investment policy called the “China plus 1.” In this regard, Japanese companies are to blame for their lack of risk-awareness by allowing themselves heavily dependent on the import of rare earth, which is essential in the high technology industry, from China.

The Japanese government needs to foster institution-building that will further promote such corporate overseas operations. Since the days of the Koizumi administration, Japan, with a view to a remote goal of an East Asian community building, had already proceeded to the negotiations and conclusions of EPAs with the ASEAN member states as well as ASEAN as a whole, and achieved to some extent establishment of ASEAN-centered economic partnership. In addition, from the viewpoint of community building in East Asia, it is basically desirable to conclude EPAs with both China and South Korea which are major economies in the region, and then to establish a free trade area in the entire East Asian region. However, Japan-Korea EPA negotiations have been suspended for the past five years, and Japan-China EPA negotiations have not even been initiated in the first place. Even if it began, it is not expected to be easily concluded. Therefore, to be consistent with Japan’s past and new initiatives, Japan needs to pursue two-pronged strategy simultaneously; that is, Japan should continue to work with those countries concerned, especially China and South Korea, toward the establishment of an East Asian Free Trade Area, while joining the negotiations for the Free Trade Agreement in the Asia-Pacific region, which has recently begun to develop rapidly.

Right after Former Prime Minister Hatoyama came into office in September 2009, he proposed the idea of establishing an East Asian community which attracted wide attention, but resigned before presenting any concrete plans. On the other hand, Prime Minister Kan’s proposal to enlarge and strengthen an economic partnership with the Asian-Pacific countries should be more realistic. This proposal is worth high merits, as it is intended to further promote a series of EPA negotiations promoted since the Koizumi administration and thereby achieving the realization of regional economic integration. The TPP is so far a free trade agreement (FTA) among such small economies as Singapore, Brunei, New Zealand, and Chile, but these four countries are ranked high in a variety of international competitiveness rankings. The TPP should, in this regard, be regarded as an exemplary case of FTA. The U.S., Australia, Vietnam, Malaysia, and Peru began negotiations to participate in the TPP.

The biggest challenge Japan should face in joining this kind of FTA negotiation is the issue of the agriculture liberalization. In the EPAs which Japan had already concluded, many agricultural products including rice are treated as exceptions. Consequently, in most cases, Japan’s liberalization rate (elimination of tariffs) is lower than that of its counterparts which are developing countries. Agriculture has long been Japan’s “Achilles’ heel” in this type of negotiation, including the past negotiations in GATT/WTO. Although it might be possible that some of agricultural products are made to be exceptions in the process of TPP negotiations, there

is little possibility of them being treated as overtly exceptional and Japan should not pursue this possibility. Japan should grow out of the past mistakes and prioritize policies that can connect the liberalization of trade to the structural reform of agriculture thereby enhancing competitiveness of Japan's agriculture.

The current system of protecting agriculture, for example, by imposing 778% of import duties (ad valorem duty basis) on imported rice will inevitably lead to the further deterioration of Japan's agriculture. "2010 Census of Agriculture and Forestry" announced by the Ministry of Agriculture, Forestry and Fisheries of Japan, shows that the agricultural population has been decreasing year after year and the consistent trend of aging of such population (the average age is 65.8 years old now) has no sign of touching bottom. The pace of intensification of cultivated acreage in Japan is so slow that 1.4 hectares of cultivated acreage per farming household is no match for 50 hectares in France and 170 hectares in the U.S. Also there are arguments over whether the current system of "Individual-household Income Compensation *kobetsu shotoku hoshō seido*," is genuinely aiming for the enhancement of competitiveness in agriculture or it is simply "pork-barrel" spending. It is necessary to pursue particular types of income compensation that can truly enhance competitiveness.

I was Chief Negotiator in Uruguay Round of the General Agreement on Tariffs and Trade (GATT, the predecessor of the World Trade Organization) which was concluded in 1993. The government at the time prepared a budget of 6 trillion yen as compensation of agricultural agreement and for "the enhancement of international competitiveness" of Japan's agriculture. It is still unclear whether this enormous amount of budget was indeed utilized to enhance international competitiveness at all. It is disappointing that similar arguments are even today repeated without making any progress, regardless of the fact that the economic environment that surrounds Japan has significantly changed compared to 1993. South Korea in those days was more agriculture-protectionist than Japan. It still remains vivid in my memory that, when South Korea accepted the Uruguay Round agreement that requires South Korea's acceptance of 4 percent of total domestic consumption in ten years as minimum access requirement of rice (in the case of Japan, the minimum access was 8% in six years), President apologized in tears to the citizens on TV and replaced the agriculture minister. This same South Korea has since made a drastic change in its economic policy, now concluding FTA with both the U.S. and European Union (EU). There are many precious lessons that Japan should learn from South Korea.

(This is the English translation of an article written by AKAO Nobutoshi, Former Secretary General, The ASEAN Promotion Center on Trade, Investment and Tourism / Former Ambassador to Thailand, which originally appeared on the BBS "Hyakka Seihou" of JFIR on October 29 and 30, 2010.)