

Japan's FTA Strategy

Shujiro URATA
Waseda University

November 18, 2004

Contents

I. Introduction

II. Recent FTA Developments in the World and in East Asia

III. Japan's FTA Strategy

IV. Motives for Japan's FTA Strategy

V. The Impacts of FTAs on the Japanese Economy

VI. Obstacles to Promoting FTAs for Japan

VII. Promotion of FTAs for Japan: Ways to Overcome Obstacles

I. Introduction

Recent Developments

- Japan's First FTA (with Singapore) in 2002
- Comprehensive FTA (EPA)
- A Shift from GATT/WTO (one track approach) to FTA (multiple-track approach)

Objectives of the Paper

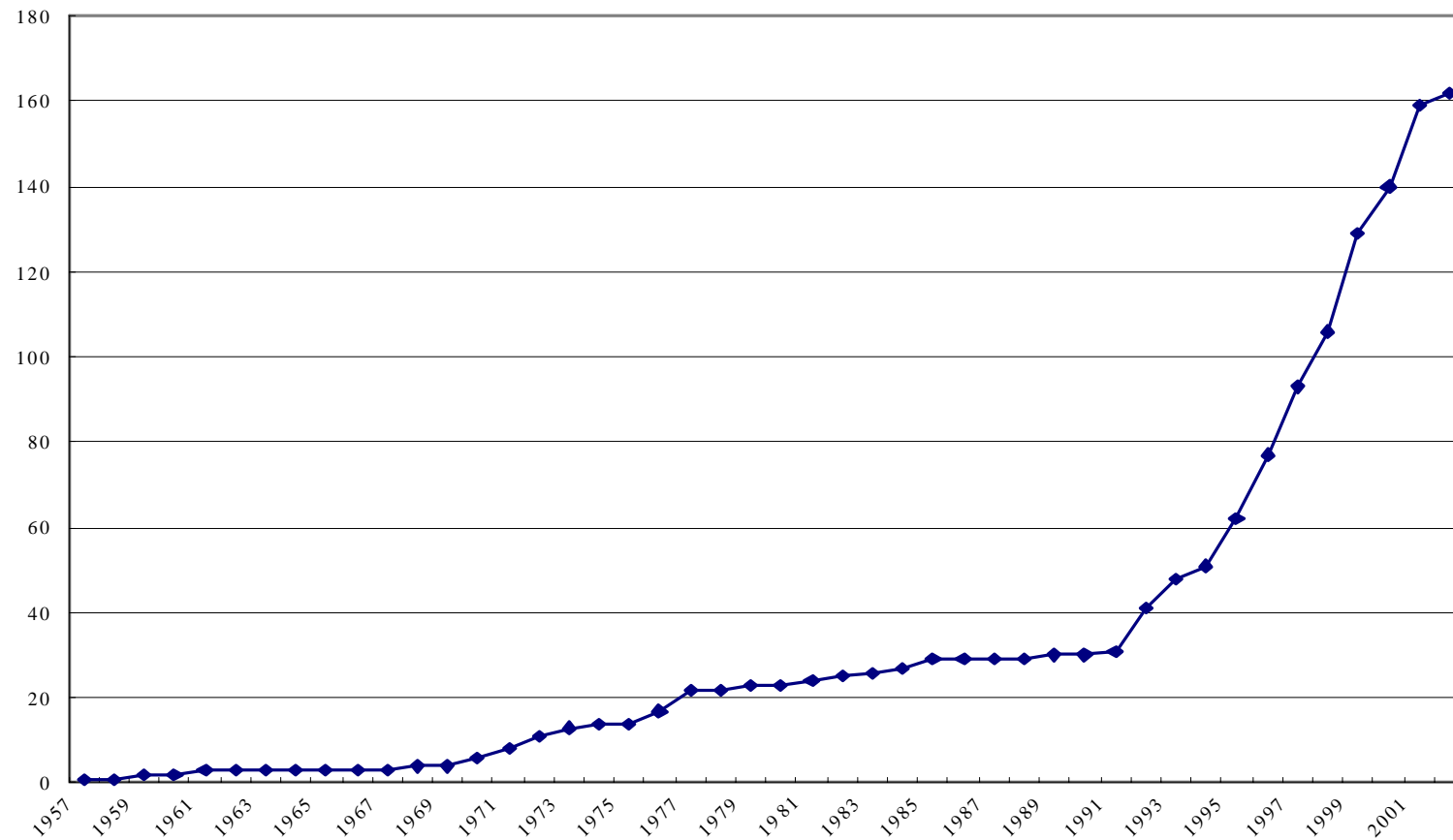
- Identify benefits of FTAs
- Identify obstacles for the promotion of FTAs
- Propose the ways to overcome the obstacles

II. Recent FTA Developments in the World and in East Asia

- Rapid expansion of FTAs in the world, particularly since the 1990s
- WTO+ contents such as trade and FDI facilitation, FDI liberalization, environment, etc.

Expansion of FTAs

Number



Motives behind Expansion of FTAs

- Promote economic growth by increasing market access in member countries and by promoting domestic policy reform
- Slow progress in WTO process
- Liberalization in new areas such as labor mobility (WTO-plus elements)
- Increase bargaining power in international market

RTAs in East Asia		
In action	Under negotiation	Under study
Bangkok Treaty (1976)	Japan-Mexico (c)	Japan-ASEAN
AFTA (1992)	Japan-Korea	Japan-Taiwan
Singapore-New Zealand (2001)	Japan-Thailand	Japan-Australia
Japan-Singapore (2002)	Japan-Philippines	Japan-Chile
Singapore-Australia (2003)	Japan-Malaysia	Korea-ASEAN
China-Hong Kong (2003)	Singapore-Canada (c)	Korea-Singapore
Singapore-US (2004)	Singapore-Mexico	Korea-Australia
Korea-Chile (2004)	Singapore-EFTA	Korea-New Zealand
	Singapore-Hong Kong	Thailand-US
	China-ASEAN	Singapore-Chile
	Thailand-Australia (c)	Singapore-Taiwan
		Singapore-India
		ASEAN-India
		ASEAN-US

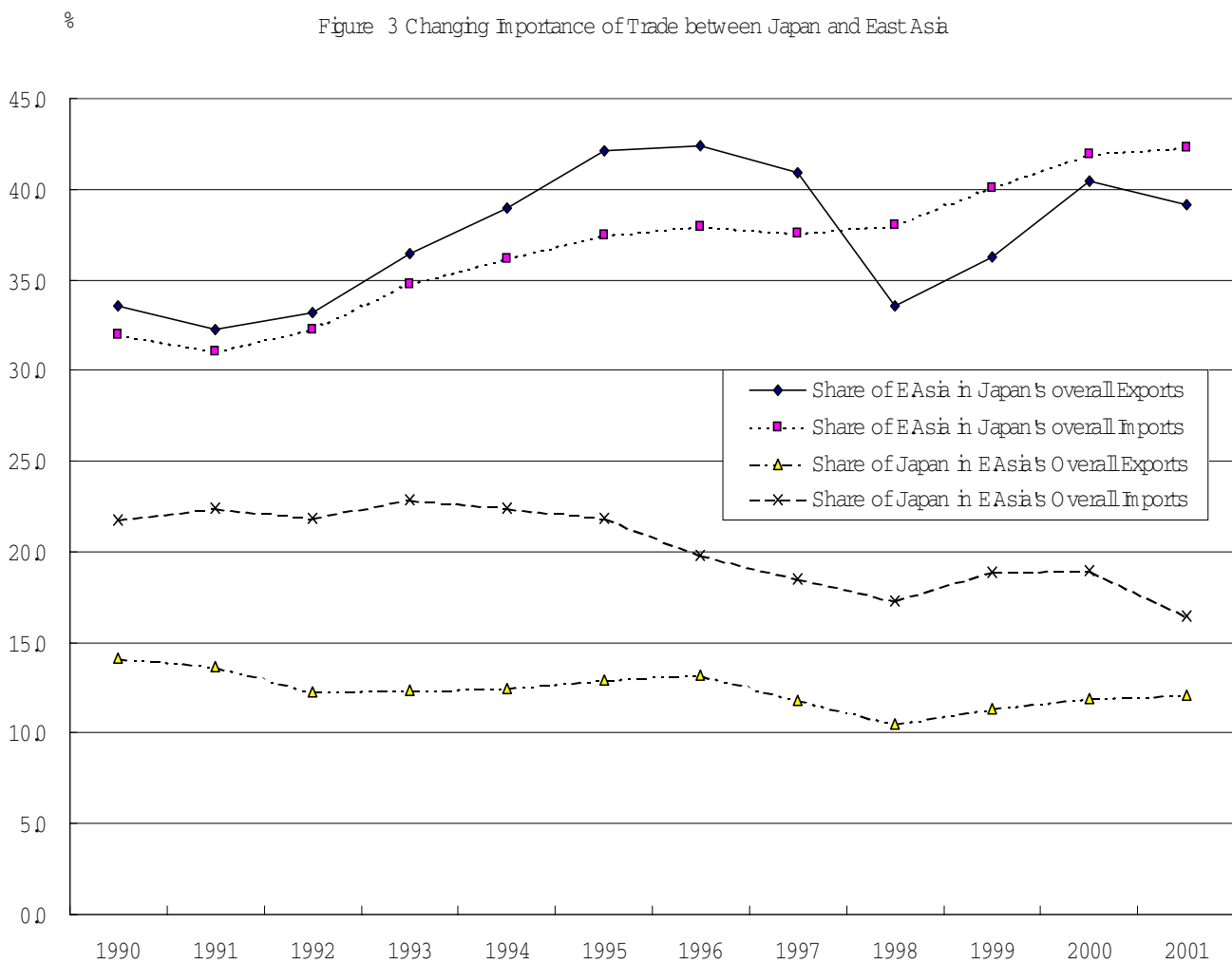
Motives behind FTAs in East Asia

- East Asian currency, financial, and economic crisis
- Increasing FTAs in the rest of the world
- Emergence of China as a Big Economic Power
- Rivalry (competitive FTAs: China-Japan, among ASEAN members)

III. Japan's FTA Strategy

- Focus on East Asia
- Comprehensive framework: WTO-plus
Economic Partnership Agreement
(FTA, Economic Cooperation)
Free movements (goods, funds, people,
and information)
System harmonization

Figure 3 Changing Importance of Trade between Japan and East Asia



Future Economic Prospects of East Asian and Japan

Transition of actual GDP growth rate
in the world and East Asia (%)

Calendar year	Annual average growth rate			
	1980-90	90-2000	2000-10	2010-20
World	2.8	3.0	2.9	2.8
U.S.A.	2.6	2.1	1.7	1.4
Western Europe	2.3	2.6	2.1	1.5
Japan	4.1	2.6	1.9	0.5
East Asia	7.7	7.6	6.8	5.5
Asia NIES	8.2	7.5	6.6	5.2
ASEAN4	5.4	6.8	7.6	5.9
China	8.9	8.3	6.5	5.6

(Note) ASEAN4: Indonesia, Malaysia, Philippines, Thailand

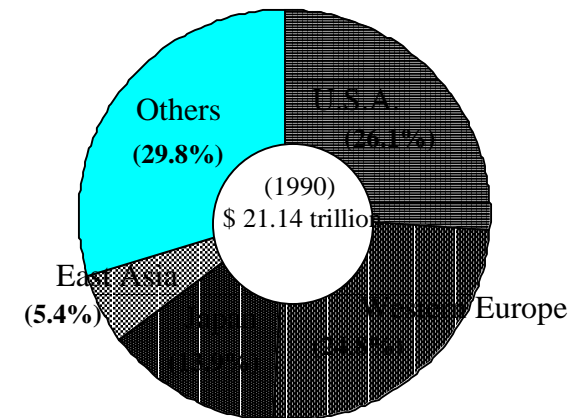
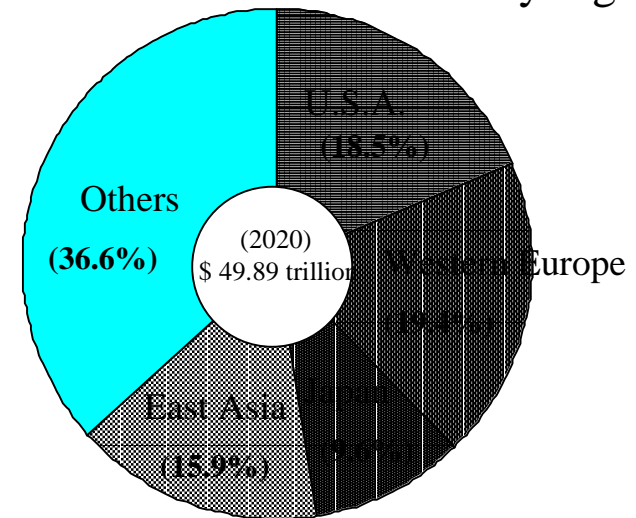
Sources: IMF, *International Financial Statistics*

Republic of China, Taiwan Statistical Date Book 1994

World Bank, World Table 1994

Economic Planning Agency "Annual Report on National Accounts"

Shares of the world GDP by region



IV. Motives of Japan's FTA Strategy

- Increase market access in foreign countries (trade and investment)
- Promote domestic deregulation
- Contribute to Asia's economic growth
- Contribute to rule making at WTO in new areas including investment
- Strengthen economic and political positions in East Asia

V. The Impacts of FTAs on the Japanese Economy

- Economic growth through
 - better resource allocation
 - export expansion and FDI expansion
- Negative impacts on non-competitive sectors

Impacts of FTAs on GDP (%)

	Japan	Japan	Japan	China
•	Singapore	Korea	China	Korea
•	Korea	ASEAN	Korea	ASEAN
•	•	•	ASEAN	•
Japan	0.009	0.038	0.061	-0.006
Korea	0.207	0.274	0.366	0.226
China	-0.004	-0.019	0.497	0.213
Hong Kong	-0.000	0.023	0.899	0.657
Taiwan	-0.007	-0.031	-0.094	-0.049
Indonesia	-0.008	1.294	1.319	0.857
Malaysia	-0.009	1.731	1.813	1.063
Philippines	-0.007	1.119	1.152	0.701
Singapore	0.180	0.985	1.176	1.098
Thailand	-0.039	3.409	3.576	1.800
Vietnam	-0.013	2.215	2.403	1.841
US	-0.001	0.003	0.001	-0.000
EU	-0.000	0.006	0.006	0.002
World	0.005	0.070	0.096	0.035

Impacts of East Asia FTA on Japan's Production (%)

Agriculture	-0.09	Transportation machinery	0.31
Forestry	-0.30	Other manufacturing	-0.09
Fishery	-0.21	Electricity, Gas, Water	0.06
Mining	-0.10	Construction	0.08
Food processing	-0.12	Transportation services	0.03
Textiles, apparel	-0.22	Communication services	0.01
Wood, pulp	-0.06	Finance, insurance	0.02
Petrochemicals	0.16	Business services	0.03
Iron and steel	0.27	Personal services	0.05
General machinery	0.31	Other services	0.01
Electric machinery	-0.35	•	•

VI. Obstacles to Promoting FTAs for Japan

Economic obstacles

- Opposition from non-competitive sectors
- WTO consistency (substantially all trade)
- Agricultural sector
- Labor mobility

Non-economic obstacles

- Security
- Political factors

VII. Promotion of FTAs for Japan: Ways to Overcome Obstacles

- Implement programs to deal with non-competitive sectors: Gradual and scheduled liberalization
- Agriculture: income subsidy, liberalize land ownership
- Strong political leadership
- Policy coordination in Japanese Government and Ministries
- Strong support from general public
- Sense of urgency toward Japan's future
- Increasing international exchange with Asian economies