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24

Japan's Trade Policy at the Crossroads: the Hatoyama Administration's Agenda

Junichi Sugawara
Senior Research Officer

Mizuho Research Institute

Junichi Sugawara currently holds the position of senior research officer at Mizuho Research Institute Ltd. (MHRI). Subsequent to joining the Fuji Research Institute Corporation in 1996, he has engaged in policy research on international trade issues including those of the World Trade Organization (WTO), Asia–Pacific Economic Cooperation (APEC) and Free Trade Areas/Agreements (FTAs). He was an advisor to the Permanent Delegation of Japan to the OECD in Paris during the period from July 2001 to June 2004, dealing with trade, investment and cooperation with non–members. He concurrently holds the position of guest fellow of the WTO Research Center of Aoyama Gakuin University.

E-mail: junichi.sugawara@mizuho-ri.co.jp
TEL: +81-3-3591-1327
FAX: +81-3-3591-1397

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Junichi Sugawara
Senior Research Officer

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Contents

Summary

1. Japan's trade environment has undergone cataclysmic changes during the past decade. Amid the progress of regional economic integration in North America and Europe, Japan carried out a shift of its trade policy from one advocating the maintenance and reinforcement of a global free trade regime under the World Trade Organization (WTO) as its one and only pillar to a "Multi–layered Trade Policy" which also pursues the conclusion of bilateral, regional free trade agreements (FTAs) as another pillar. Since 2002, Japan has entered into 11 FTAs primarily with countries among the Association of Southeast Asian Nations (ASEAN) (as of the end of 2009). Concurrently, China and South Korea also started to adopt a proactive stance toward FTAs. East Asia was thus transformed from an "FTA vacuum" into a major battlefield for FTAs, accelerating the institutionalization of regional economic integration.
2. With Japan's FTA with ASEAN (AJCEP) entering into force in December 2008, Japan has completed its first phase of its FTA strategy, mainly involving the conclusion of FTAs with the countries of ASEAN. In the subsequent stage, the main agenda will shift toward the conclusion of FTAs with major trade partners such as the US, EU and China, and the achievement of a region–wide FTA in East Asia within frameworks such as ASEAN Plus Three, ASEAN Plus Six and APEC–wide FTA known as the Free Trade Area of the Asia–Pacific (FTAAP). Nevertheless, the future is uncertain with respect to both of these issues. This is because there is a missing link which is indispensable in either of these frameworks, namely that the conclusion of an FTA among Japan, China and South Korea is unlikely anytime soon. Japan is not ready to be a party to the Trans–Pacific Partnership Agreement (TPP) which is expected to serve as a building block for the FTAAP. Given Japan's difficult position in agricultural negotiations in the WTO Doha Round negotiations, Japan's

international trade policy faces an impasse in bilateral, regional and global levels.

3. Amid these circumstances, it is still difficult to discern a clear direction of the Hatoyama administration's international trade policy after it swept into power in September 2009. Despite repeated comments by Prime Minister Yukio Hatoyama and cabinet members on a proactive role in liberalization of trade and investment, they have not culminated in concrete action thus far. The idea of the East Asian community is the sole initiative proposed strongly by Prime Minister Hatoyama. This initiative itself existed already in the early 1990s and was also advocated by Japan under the Liberal Democratic Party (LDP). The Hatoyama initiative follows in the steps of these frameworks which conceptualize the East Asian community as "the functional cooperation in various fields based upon the principle of open regionalism". Thus far, Prime Minister Hatoyama's East Asian community initiative does not step beyond the framework set forth under administrations led by the LDP.
4. Domestic reforms are urgently needed to break this impasse. In particular, the liberalization of the agricultural market and the acceptance of foreign workers are two critical issues which need to be addressed. That said, the most important point is that these issues should not be considered merely as means to respond to "external pressures (*gaiatsu*)" in international trade negotiations. Rather, these issues must be discussed from the perspective of the ideal society Japan wishes to attain and to reflect such discussions in Japan's international trade policy. International trade policy is a means to build a desirable society and is not an objective in itself. Thus, it would be extremely difficult to promote trade policies without a national consensus and support through national debate on these issues.
5. The year 2010 is a crucial year for Japan's international trade policy. Firstly, the WTO Doha Round talks will reach a critical stage. Secondly, the institutionalization of regional economic integration in East Asia will progress in terms of both breadth and

depth. Thirdly, the year 2010 is the deadline for achievement of free and open trade and investment in the Asia–Pacific among the industrialized economies of the Asia–Pacific Economic Cooperation (APEC) set forth under the Bogor Goals [adopted in Bogor, Indonesia in 1994 by the APEC leaders]. Moreover, Japan will serve as the chair at the annual APEC Economic Leaders' Meeting this year. Hence, the Hatoyama administration must clearly map out its international trade policy as soon as possible. If not, Japan would fall far behind other countries in terms of international trade policy. This would compel Japanese companies to move their production sites overseas, and in turn, could lead to the loss of jobs in Japan. The Hatoyama administration unveiled its *New Growth Strategy (Basic Policies)* on December 30, 2009 and is scheduled to formulate a roadmap for the new growth strategy by June 2010. It will have a definitive meaning for Japan's future international trade policy.

1. Introduction

Japan's international trade policy will reach a crucial stage in the year 2010. On January 1, 2010, three new free trade agreements (FTAs) came into force in East Asia (note 1), and several FTAs are expected to be concluded and become effective during the course of the year. Nevertheless, Japan's FTA negotiations (note 2) have made very little progress.

The year 2010 is the deadline for achievement of free and open trade and investment in the Asia–Pacific among the industrialized economies of the Asia–Pacific Economic Cooperation (APEC) set forth under the Bogor Goals [adopted in Bogor, Indonesia in 1994 by the APEC leaders]. Moreover, Japan will serve as the chair at the annual APEC Economic Leaders' Meeting this year. While the chances are slim, the Doha Round of the World Trade Organization

(WTO) also aims at reaching a final agreement during 2010. However, there has been little progress in terms of necessary political decisions in Japan.

In retrospect, Japan has undergone major changes in its international trade environment during the past decade. If these changes comprise the first phase, Japan is currently standing at the doorsteps of the next stage. Even so, it is still difficult to discern Japan's trade policy and how Japan wishes to proceed at this crucial stage. Japan is now standing at a critical juncture, testing its mettle as to whether it can maintain its important position in the global free–trade regime and, in particular, the regional economic integration in East Asia. The year 2010 will be a decisive year for the future of Japan.

2. Cataclysmic changes in Japan's trade environment

There have been cataclysmic changes in Japan's trade environment during the past decade. Looking back at the end of 2000, East Asia was described as a "vacuum" with respect to FTAs in contrast to the institutional progress of regional economic integration such as the European Union (EU) in Europe and the North American Free Trade Agreement (NAFTA) in North America. The regional economic integration which took place in East Asia was a *de facto* economic integration driven by market forces, referred to as "regionalization", to be differentiated from "regionalism" which is accompanied in many cases by institutional frameworks intended by government policy (note 3).

Circumstances have changed drastically with the start of the 21st century. In the late 1990s, Japan underwent a shift of its trade policy from one pursuing the maintenance and reinforcement of global free trade regime under the WTO as its one and only pillar to a

"Multi–layered Trade Policy" which also pursues the conclusion of bilateral, regional FTAs as another pillar. Under this policy, Japan shifted its wary stance toward FTAs and the institutionalization of regional economic integration in East Asia, and started to take a proactive stance toward FTAs (note 4). The Agreement between Japan and the Republic of Singapore for a New–Age Economic Partnership (JSEPA) signed in January 2002 became the first FTA for Japan.

Initially, the main target of Japan's FTA strategy was the member states of the Association of Southeast Asian Nations (ASEAN) where Japanese corporations had made inroads through intra–regional production networks. Of the ASEAN10 countries, Japan concluded bilateral FTAs with seven countries excluding Cambodia, Laos and Myanmar and signed a Japan–ASEAN FTA (AJCEP) in April 2008. As of the end of 2009, Japan has effectuated 11 FTAs including those with Mexico, Chile and Switzerland.

Japan was not alone in adopting a more proactive stance toward FTAs. South Korea, without a single FTA till then as in the case of Japan, and China, achieving accession to the WTO at the end of 2001, both started to take a positive stance toward FTAs. Beginning with its first FTA with ASEAN, China proceeded to conclude FTAs with frontrunners in FTAs in the Asia Pacific region such as Chile and New Zealand. Assuming an even more ambitious stance, South Korea concluded FTAs with the US, the EU and India in addition to the foregoing countries. Amid the lackluster progress of the WTO Doha Round negotiations, East Asia which was referred to in the past as an "FTA vacuum" has become the principal battleground of FTAs. As of the end of December 2009, a total of 24 FTAs have been concluded with respect to Japan, China and South Korea combined (note 5).

Furthermore, the rapid economic growth of China during this time period has also had a profound effect upon Japan and the rest of the world. In contrast to the end of 2000 when China was not yet a member of the WTO (ranking 7th place and possessing a 3.6% share of world trade), China ranks 3rd place in world trade following the US and Germany, possesses a 7.9% share of world trade, and is a major player in the WTO as of the end of 2008 (WTO statistics). Given the threefold growth of Japan's trade with China during this period, China overtook the US as Japan's largest trade partner (Ministry of Finance, *Trade Statistics*). China's rise has also had a large impact upon the institutional developments regarding regional economic integration in East Asia. One of the solutions of the governments of East Asia on how to win in the competition with China and how to link China's economic growth with its own development was the institutional promotion of regional economic integration including the conclusion of FTAs.

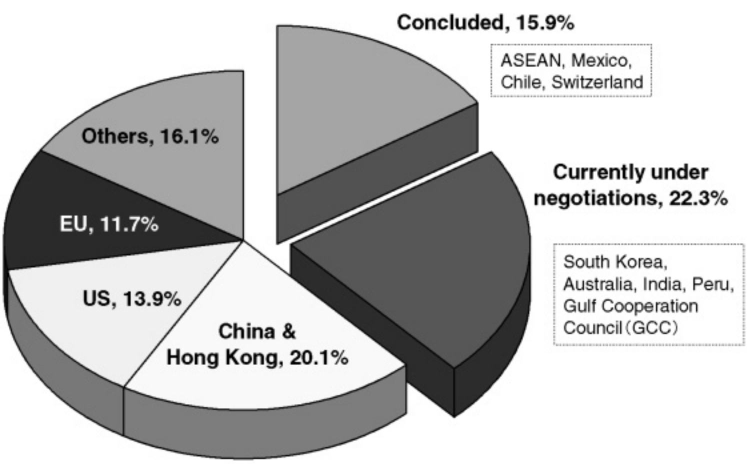
3. A deadlock in Japan's trade policy

With the entry into force of the AJCEP in December 2008 (note 6), Japan has completed its first phase of its FTA strategy primarily involving FTAs with the countries of ASEAN. In the subsequent stage, the principal agenda will be the conclusion of FTAs with major trade partners and the achievement of a region–wide FTA in East Asia. Nevertheless, the future is uncertain with respect to both of these issues.

The total value of trade with the 13 countries with which Japan has concluded FTAs is approximately 16% of Japan's total trade value (2008, **Chart 1**). When including trade with countries in the process of negotiations, the percentage would be slightly less than 40%. Looking forward, the impending task in Japan's FTA strategy is to conclude FTAs as soon as possible with Australia and India, both of which are currently in the process of negotiations. Simultaneously, Japan must also commence negotiations with major trade partners such as China, the US and the EU. In particular, the EU is attracting the avid attention of Japan's industrial sector. In addition to the maintenance of high tariffs upon certain items such as automobiles (10%) and household electrical appliances (14%), the EU concluded an FTA with South Korea last year. While this (South Korea–EU) FTA is expected to enter into force during this year, the EU promises to abolish all tariffs upon industrial products from South Korea within five years of the effective date. Japanese business firms have been voicing strong calls for a Japan–EU Economic Integration Agreement (EIA) due to their concerns regarding their disadvantage in competition with Korean companies in the EU. However, the EU is taking a passive stance, citing the meagre merits of an EIA with Japan such as the current low level of tariffs to start out with.

Turning to an FTA with the US, there are strong calls for a Japan–US FTA not only from the economic perspective but also from the political perspective to strengthen Japan–US relations. However, the commencement of talks is unlikely anytime soon due to strong opposition concerned mainly with the FTA's negative impact upon domestic agriculture.

Chart 1: Percentage of trade with EPA (Economic Partnership Agreement) partners (countries and regions) in total trade of Japan (2008)



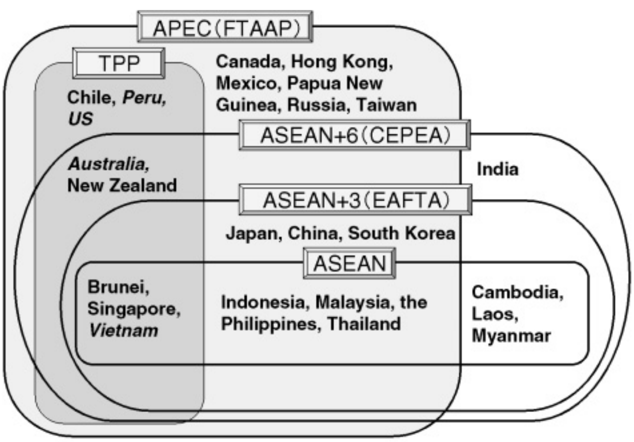
Note: The GCC is comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

Source: Ministry of Finance, *Trade Statistics*.

As for an FTA with China, a tripartite summit meeting of Japan, China and South Korea in October 2009 agreed upon the establishment of a joint study group on a tripartite FTA, comprised of members from business, academia and government. Even though joint study is scheduled to start in May this year, it is unlikely that these developments will lead immediately to the commencement of negotiations.

Various frameworks have been proposed regarding the region–wide FTA. Among these are the East Asia FTA (EAFTA) by ASEAN Plus Three (the 10 countries of ASEAN and Japan, China and South Korea), the Comprehensive Economic Partnership in East Asia (CEPEA) by ASEAN Plus Six (ASEAN Plus Three plus Australia, New Zealand and India), and the Free Trade Area of the Asia–Pacific (FTAAP) by the 21 economies of the Asia–Pacific Economic Cooperation (APEC) (**Chart 2**). The FTAAP envisages a massive free trade area encompassing a population of 2.7 billion and total GDP of USD32 trillion as of 2008 (according to World Bank statistics).

Chart 2: Conceptual image of the region–wide FTA framework in the Asia Pacific region



Note: The countries in italics are countries expressing their participation in negotiations for membership in the Trans-Pacific Partnership (TPP).
Source: Made by MHRI.

Thus far, FTAs in East Asia have developed with the ASEAN as the hub. The ASEAN has concluded FTAs with the following countries: China (2004), South Korea (2006), Australia and New Zealand (February 2009), and India (August 2009). As for Japan, an FTA with ASEAN was concluded in 2008. Given these developments, an ASEAN–hub FTA network has been completed among the ASEAN Plus Six. The next step would be to join the spokes in this hub–and–spoke network to form a single region–wide FTA (**Chart 3**). This involves the development of bilateral FTAs ("lines") between countries to form a more integrated regional market (a "plane"), likened by Professor Jagdish Bhagwati as "turning spaghetti into lasagna" (note 7).

Chart 3: FTAs among major countries of East Asia

	Japan	China	S. Korea	Australia	India	ASEAN
Japan		●	○*	○	○	◎
China	●		●	○	●	◎
S. Korea	○*	●		○	◎	◎
Australia	○	○	○		●	◎
India	○	●	◎	●		◎
ASEAN	◎	◎	◎	◎	◎	

Notes: ◎: concluded, ○: negotiating, ●: joint study stage
* Negotiations between Japan and South Korea are currently suspended.
Source: Made by MHRI.

Regarding ASEAN Plus Three and ASEAN Plus Six, there are differences in opinions as to which framework should be prioritized within the area. However, in view of the current state of Japan, there is not much meaning in pursuing this discussion. This is because there is an indispensable missing link, namely the conclusion of an FTA among Japan, China and South Korea. From Japan's perspective, negotiations regarding the Japan–South Korea FTA have been stalled since the end of 2004 and are still at the level of working–level talks for the resumption of negotiations. Negotiations for a Japan–China FTA have not even started yet and the tripartite FTA among Japan, China and South Korea are still at the level of joint study. Furthermore, the chances are slim that talks on the Japan–Australia FTA will reach an agreement anytime soon, given the difficulties in negotiations on agricultural matters. Despite requests for commencement of negotiations by New Zealand, Japan is still not prepared to commence negotiations. The only bright spot is that the current talks on the Japan–India FTA may reach an agreement during the year.

In contrast, China has already effectuated an FTA with New Zealand. Furthermore, South Korea has effectuated an FTA with India and has commenced negotiations with Australia and New Zealand last year. Despite hearsay that Japan favors an ASEAN Plus Six framework while China favors an ASEAN Plus Three framework, the reality is that Japan lags behind China and South Korea in the conclusion of an FTA within the ASEAN Plus Six framework.

The Trans–Pacific Partnership Agreement (TPP), is expected to serve as a pathfinder to the realization of the FTAAP. Even though negotiations will be commenced in March 2010 due to the addition of new countries, Japan is not a participant. New Zealand is one of the original members of the TPP, and the US and Australia are among the new participants to negotiations. At the moment, Japan is unable to participate in plurilateral FTA talks because of the inclusion of participants with which Japan has difficulties in concluding bilateral FTAs.

In view of Japan's difficulties in progress with FTA talks, WTO negotiations comprising the other main pillar of Japan's trade policy would gain further importance. Even so, this is also difficult. In the Doha Round talks, Japan stands in an extremely difficult position with respect to agricultural negotiations, even though the situation is not quite evident being hidden behind the clashes between the US and developing nations such as China and India. As shown above, Japan's international trade policy faces an impasse in bilateral, regional and global levels.

4. A lack of clear direction in the Hatoyama administration's trade policy

It is still difficult to discern a clear direction of the Hatoyama administration's international trade policy after it swept into power in September 2009. At the time of the general election, the Democratic Party of Japan (DPJ) led by Yukio Hatoyama stated that it would play a proactive role in liberalization of trade and investment and mentioned the promotion of negotiations for the conclusion of a Japan–US FTA (note 8). Prime Minister Yukio Hatoyama and cabinet members have continued to comment from time to time on the promotion of WTO/FTA negotiations even after the new administration took office. In his address delivered in Singapore in November 2009 (Japan's New Commitment to Asia – Toward the Realization of an East Asian Community, hereinafter referred to as the "Singapore Address"), Prime Minister Hatoyama summed up Japan's EPA strategy thus far and commented that they have been "insufficient to fully 'open up Japan'", and that "going forward, we will accelerate EPA negotiations with South Korea, India and Australia and pursue the possibilities of EPA negotiations with other countries as well. We will also actively participate in the discussions for the "Comprehensive Economic Partnership in East Asia" (CEPA) among the ASEAN Plus Six countries, as well as the Free Trade Area of the Asia–Pacific (FTAAP) among APEC economies." However, actual developments have not materialized to date.

Furthermore, note that the Hatoyama administration is a coalition government of three parties, including the Social Democratic Party (SDP) which opposes Prime Minister Hatoyama on certain issues. The SDP places top priority upon the protection of Japan's domestic agricultural sector, opposes the Japan–US and Japan–Australia FTAs, and upholds Japan's revision of its WTO and FTA policy. Admittedly, the SDP only opposes the expansion of agricultural imports and FTAs which would lead to the contraction of the domestic agricultural sector and is not opposed to the conclusion of FTAs itself. That said, it would be virtually impossible to conclude FTAs without the liberalization of Japan's agricultural market. To say the least, it would result in an FTA without much economic significance.

Despite the lack of clear direction of the Hatoyama administration's trade policy, the idea of the East Asian community is an initiative proposed strongly by Prime Minister Hatoyama. This initiative itself is akin to the East Asia Economic Group (EAEG) proposed by former Malaysian Prime Minister Dr. Mahathir bin Mohamad in 1990. The East Asian community initiative was proposed as early as January 2002 by Prime Minister Junichiro Koizumi as Japanese Prime Minister amid the rising momentum toward the institutionalization of East Asia regional economic integration subsequent to the Asian currency crisis at the end of the 1990s. The initiative continued to be discussed at the ASEAN Plus Three and East Asia Summit (EAS). Despite these historical developments, Prime Minister Hatoyama's initiative gathered widespread attention because it is deemed to encompass security matters and that it purports to distance itself from the US. However, notwithstanding Prime Minister Hatoyama's original intentions, as far as Prime Minister Hatoyama's official comments are concerned, the East Asian community initiative does not step beyond the path set forth under administrations led by the LDP. This is evident from Prime Minister Hatoyama's address at the 64th Session of the General Assembly of the United Nations on September 24th, 2009 (note 9) and the Singapore Address set forth below.

> *In my initiative, I propose that countries sharing a common vision promote cooperation in various fields. This would be based on the principle of 'open regional cooperation.' Through this, our region would develop a multi-layered network of functional communities. I attach the greatest importance to the promotion of concrete cooperation in a broad range of areas such as trade, investment and education.* (Singapore Address)

The Hatoyama administration's initiative which perceives the East Asian community as "the functional cooperation in various fields based upon the principle of open regionalism" is fundamentally the same as the past initiatives under LDP–led administrations. It refers to a “community” (with a small “c”) and not a “Community” (with a large “C”) as in the case of the European Community. In his Singapore Address, Prime Minister Hatoyama referred to the members of the East Asian community as “people who share these ideals and dreams”. This was met with criticism as being vague and in need of specifics. However, given the difficulty to reach an agreement on the members and specific details (including participation by the US) even within the countries of East Asia, it would be important to take a pragmatic approach in order to enhance the breadth and depth of intra–regional cooperation. The Hatoyama administration’s stance should be interpreted as strategic ambiguity for the sake of avoiding unnecessary arguments at the outset of developments toward realization of the initiative.

Thus, at this point in time, we cannot discern a significant shift of the Hatoyama administration’s trade policy from those under LDP–led administrations in the past. However, in the absence of change, it would not be possible to break the impasse in Japan’s trade policy. Will the Hatoyama administration be able to make bold political decisions to demolish this impasse? Even though the DPJ is predicted to promote the liberalization of trade and investment as its fundamental stance, the future course is uncertain given its character as a coalition government and the upcoming Upper House elections this summer.

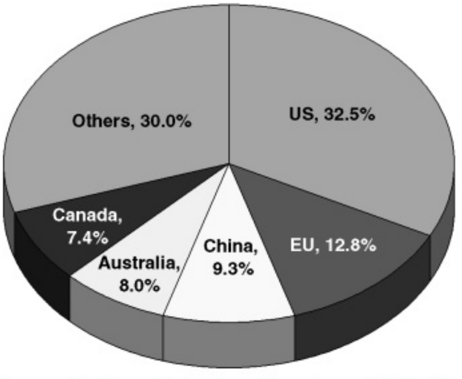
If Japan cannot even achieve the conclusion of FTAs with China and South Korea, Prime Minster Hatoyama’s East Asian community initiative will turn out to be a pie in the sky. Prime Minister Hatoyama’s success in making progress toward the realization of his initiative will serve as the test of his ability to exert leadership in the promotion of international trade policy.

5. Urgent need for domestic reforms

Looking forward, there are two crucial issues which need to be addressed with respect to Japan's trade policy. They are the liberalization of the agricultural market and the acceptance of foreign workers. Counterparties in trade negotiations with Japan whose average tariff rate on industrial products is only 2.6% (2008 simple average) (note 10) would seek the opening of markets in both these areas. However, in FTAs thus far, Japan has only liberalized these areas on a limited scale.

As for the agricultural sector, this area is said to be an impediment to Japan's international trade negotiations, serving as the cause for Japan's lag in FTA negotiations in comparison with other countries such as South Korea. Admittedly, a mere glance at the individual negotiations shows that the agricultural sector is not the sole bottleneck. That said, the political difficulty to liberalize the domestic agricultural market is the major cause of Japan's impasse in international trade policy – such as its inability to proceed with FTAs with major trade partners and region–wide FTAs in East Asia (**Chart 4**).

Chart 4: Percentage of trading partners and regions in total agricultural imports of Japan (2008)



Source: Ministry of Agriculture, Forestry and Fisheries.

A large part of the general public in Japan believes that the domestic agricultural sector must remain protected for the sake of food security and in order to protect traditional farming communities and the natural environment. However, the ongoing decline of the purportedly protected domestic agricultural sector is a clear signal of the fact that the method of protection must be changed. In comparison with 1995 – the year following the end of the Uruguay Round negotiations – Japan's cultivated acreage declined by 8% to approximately 410 thousand hectares, the number of workers in the agricultural sector declined by 27% to approximately 870 thousand workers and the total value of agricultural output fell 18% to JPY2 trillion in 2008 (according to statistics released by Japan's Ministry of Agriculture, Forestry and Fisheries).

The Hatoyama administration decided upon the introduction of the individual (household) income support system. This system possesses the potential to transform Japan's agricultural policy from a system relying upon price support and consumer burdens to one resting upon direct payments and taxpayer burdens and create a domestic agricultural sector with no need for protection by high tariffs. However, it is still uncertain at the moment whether this measure will contribute to the competitiveness of the domestic agricultural sector and whether it will lead to the liberalization of Japan's agricultural market.

Turning to the acceptance of foreign workers, Japan has thus far accepted workers on a limited basis, accepting workers in certain types of businesses from specific countries on the basis of individual FTAs. However, as in the case when Japan eased the requirements for acceptance of Thai cuisine chefs in the FTA with Thailand, the virtually blind acceptance of foreign workers in accordance with the counterparties' requests in the absence of any clear strategy is undesirable. The current discussions in the direction of facilitating the entry of highly skilled workers through the adoption of a points system following examples set forth by countries such as the UK may be perceived as a step forward.

The most important point is that these issues should not be considered merely as means to correspond to “external pressures (*gaiatsu*)” in international trade negotiations. Rather, this issue must be discussed from the perspective of the ideal society Japan wishes to attain and to reflect such discussions in Japan’s trade policy. The question is not how to liberalize the agricultural market so that it does not serve as an impediment to international trade negotiations but how to position the liberalization of the agricultural market in the facilitation of the agricultural reform which is indispensable for food security and the vitalization of the agricultural sector. The issue regarding the acceptance of foreign workers must also be discussed from the perspective of how to utilize foreign labor in Japan in an era of population aging, falling birthrate and population decline and not how to respond to counterparty requests in trade negotiations. International trade policy is a means to build a desirable society and not an objective in itself. Thus, it would be difficult to promote trade policies without the national consensus and support through national debate on these issues.

6. 2010 – a crossroad in Japan’s trade policy

A number of important events in Japan’s international trade policy will take place during the year 2010. On a global level, the WTO Doha Round negotiations will reach a critical phase toward final agreement during the year. Even though the road to final agreement is extremely rocky, an agreement would lead to great benefits for Japan and, at the same time, would also require painful domestic reforms.

On a regional level, full–fledged movements toward the institutionalization of regional economic integration will start within the framework of East Asia and the Asia Pacific – including the East Asian community initiative. With respect to the APEC, the year 2010 is the target year for the industrialized economies to achieve “free and open trade and investment" set forth under the Bogor Goals and to present "the outcomes of the exploration of a range of possible pathways to achieve FTAAP" (note 11). Japan must lead the discussions as chair of APEC 2010.

Turning to East Asia, intra–zone tariffs were abolished among ASEAN6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand) and tariffs were abolished among the ASEAN6 and China under the ASEAN–China FTA from January 2010. At the same time, three FTAs took force, including the ASEAN–India FTA, the ASEAN–Australia & New Zealand FTA, and the India–South Korea FTA. In 2010, international trade policies of the countries of East Asia during the past decade will start to bear fruit and will mark an epoch in regional economic integration.

As the Japanese government's international trade policy stands still, Japanese companies engaging in business in the East Asia region are realigning their businesses in a bid to cope with the shifts in the international trade environment. There are cases already where countries are taking advantage of FTAs concluded by host countries of investments in order to tap third party markets. For example, Japanese companies are exporting color TV sets manufactured in Thailand tariff–free to India by taking advantage of the India–Thailand FTA (Early Harvest Scheme). While the Hatoyama administration advocates a 25% reduction of greenhouse gas emissions from the level in 1990 by 2020 and the reinforcement of employment–related regulations, Japanese companies are concerned about the rise of corporate cost burdens accompanying the implementation of these initiatives, apart from the policy objectives themselves. In addition, the ongoing appreciation of the yen and Japan's impending population decline are casting dark shadows upon future domestic production. The proactive FTA strategy of South Korea is also fueling the sense of crisis among Japanese companies. As mentioned before, South Korea has already effectuated FTAs with the ASEAN and India and has completed negotiations with the US and EU. Negotiations are currently under way with Australia and New Zealand. Should Japan's international trade policy face an impasse and exports to promising markets suffer disadvantages in comparison to other global competitors, Japanese companies would be compelled to move their production sites overseas. This, in turn, could lead to the loss of jobs in Japan.

In any country, a new administration must first tackle its domestic agenda at the expense of international trade matters. However, the Hatoyama administration is now faced with the task to define and carry out its international trade policy as part of its growth strategy. Japan's promotion of its international trade policy including the conclusion of FTAs is vital for the Japanese economy to absorb the dynamic energy of East Asia which is the growth center of the world and other emerging economies. "International trade policy" does not refer merely to export promotion strategies. Domestic reforms such as agricultural reforms are indispensable for the implementation of Japan's international trade policy. Prime Minister Hatoyama must carry out his commitments set forth in his Singapore Address. Japan is currently standing at the crossroads, in need of a new policy agenda enabling it to tackle the huge impending shift of its international trade environment.

The Hatoyama administration launched its *New Growth Strategy (Basic Policies)* on December 30, 2009. The *New Growth Strategy* incorporates *Asia Economic Strategy*, setting forth objectives including "the formulation of a roadmap for Japan to build an FTAAP by 2020", "doubling the flow of people, commodities and money into Japan", and to "implement bold reforms of regulations which serve as impediments" for such purpose. A roadmap for the new growth strategy is scheduled to be formulated by June 2010. If the specific policies set forth therein do not include clear new international trade policies which are accompanied by necessary domestic reforms, Japan will fall far behind other countries in international trade and may be faced with the liberalization of markets it does not desire. Japan is indeed standing at a crucial juncture with respect to international trade policy.

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Notes:

1 In this paper, “East Asia” refers to ASEAN Plus Six.

2 Japan concluded an Economic Partnership Agreement (EPA) which the Japanese government claims to set forth the reinforcement of economic relations over a broader span than FTAs. However, some FTAs are similar in nature with Japan’s EPAs and are referred to by various names. Therefore, such agreements in general including Japan’s EPAs shall be referred to as FTAs with the exception of individual and specific EPAs.

3 Naoko Munakata (2006) p.3.

4 Junichi Sugawara (2005)

5 The Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong & Macao, and Preferential Trade Agreement (PTA) are not included.

6 As of the end of February 2010, the agreements are not yet effective with respect to Indonesia and the Philippines.

7 However, Japan has concluded an FTA with ASEAN as a whole, separately from a bilateral FTA with the members of ASEAN. The usage of this method would result in the production of a new lasagna in addition to the existing spaghetti.

8 The Democratic Party of Japan, “2009 Change of Government– The Democratic Party of Japan‘s Platform for Government: Putting People’s Lives First,” August 18, 2009.

9 Address by Prime Minister Yukio Hatoyama at the 64th Session of the General Assembly of the United Nations, September 24, 2009.

10 WTO, *World Tariff Profiles 2009*.

11 THE 17th APEC ECONOMIC LEADERS’ MEETING, Singapore, 14 – 15 November 2009, “SUSTAINING GROWTH, CONNECTING THE REGION”.

Mizuho Research Institute

Nittochi Uchisaiwaicho Building
2-1, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo 100-0011
TEL: (03) 3591-1241
FAX: (03) 3591-1399
http://www.mizuho-ri.co.jp/english/