

Japan: Carrying Out a Multidirectional FTA Strategy

Summing up 2012: Present State of FTAs in the World

Japan is working hard in a multidirectional manner for conclusion and negotiations for free trade agreements (FTAs) with its major trading partners/regions and emerging countries with great potential as markets. Such efforts are being made to develop favorable environments for Japanese companies engaged in business overseas, and to take in growing foreign markets.

Japan has concluded 13 FTAs

A decade has passed since Japan saw its first economic partnership agreement with Singapore took effect. Japan has since been working proactively for FTA negotiations with other countries. Its FTAs can roughly be divided into four features in terms of countries and regions it has concluded agreements with or is in negotiations with: (1) Conclusion of FTAs with ASEAN countries in which many Japanese companies have been based and which have close economic ties with Japan; (2) Conclusion of agreements with “FTA hub countries”—nations that make active and effective use of FTAs as part of their trade policy (Mexico, Chili, etc.); (3) Pursuit of large-scale FTAs, with integration of large markets and/or future establishment of a broad free trade zone in view (Japan-EU, RCEP, TPP, Japan-China-Korea, etc.); (4) Pursuit of FTAs with natural resource suppliers from the viewpoint of energy security (Gulf Cooperation Council (GCC), Australia, etc.).

As of the end of September 2012, Japan has 13 FTAs that have come into force, four prospective agreements under negotiations (including one with South Korea, for which negotiations have been suspended), three for which agreements to start negotiations for FTAs have been reached, and five for which preparations are being made to start negotiations, for some of which preliminary talks have been completed. During the past year, FTAs with India and Peru came into effect in August 2011 and March 2012, respectively. With the two FTAs, Japan’s FTA coverage (the ratio of the value of trade with countries and regions with which Japan has FTAs in effect to the total value of trade) reached 18.6 percent in 2011.

Advancement made in Japan-EU, RCEP, etc.

What has Japan achieved in its efforts for so-called large-scale FTAs? Since July 2011, as part of their preliminary talks, Japan and the European Union (EU) had worked on the “scoping exercise,” a process of considering coverage of the agreement, and completed the work at the end of May 2012. During the process, the EU showed great interest in Japan’s non-tariff measures. Some 30 fields were put on the table, including automobiles (quicker and simpler investigation of new technologies, and relaxation of regulations concerning the surface area of car maintenance shops) and medicaments and medical instruments/appliances (quicker and simpler evaluation of new medicines). The EU can start negotiations for an FTA with Japan only when the European Commission succeeds in obtaining a mandate for negotiations from all EU members. Since automobile businesses of Germany, Italy, and other countries are strong opponents of the agreement, such countries show cautious attitudes toward start of negotiations with Japan. It seems to take time for the European Commission to secure a mandate from all 27 members.

What the EU mainly expects of Japan is abolition of its non-tariff barriers. Conclusion of an FTA with EU will also deliver not a few benefits to Japan. Most of what Japan exports to EU consist of non-agricultural goods, many of which are subject to tariff, with only 35.4% of them exempted from taxation (Note 1). Automobiles and related goods account for some 20 percent of Japan's exports to the EU, and passenger cars, motor vehicle parts, and motor vehicles for transport of goods are subject to tariff rates of 10.0 percent, 3.0-4.5 percent, and 3.5-22.0 percent, respectively. As seen in the fact that some of "monitors, excluding those for computer-use (HS8528.49 & 59)" and "radio receivers and radio cassette recorders (HS 8527)" are subject to a tariff rate of 14 percent (Note 2), some major electric equipment see a high tariff rate imposed on them. With conclusion of an FTA, it is expected that some of the existing tariffs, especially those on such major export goods, will be eliminated.

For the Regional Comprehensive Economic Partnership (RCEP), ASEAN-10 and six countries that had concluded FTAs with ASEAN (Japan, China, South Korea, India, Australia, and New Zealand), participated in the economic ministerial meeting held for the first time in Cambodia in August 2012. At the meeting, the 16 countries confirmed the progress they had made in talks about liberalization of trade of goods and service and investment, and agreed on the "Guiding Principles for Negotiations," which set out purposes and principles of negotiations for RCEP. They are working to start negotiations at a summit meeting between the member countries, which is to be held in November 2012.

Japan, China, and South Korea signed a trilateral investment agreement in May 2012 at a summit meeting between the three countries. Japan had already concluded separate investment treaties with the two countries: the Japan-China Investment Agreement (1989) and the Japan-Korea Investment Agreement (2003). The trilateral agreement is not an investment liberalization treaty that guarantees equal treatment of domestic and foreign parties regarding investment opportunities. However, it explicitly prohibits any unfair or discriminative requirements for technical transfer, and includes stipulations concerning protection of intellectual property rights, which were not covered by the Japan-China Investment Agreement. These are some examples of great expansion of rules for transparency of investment activities and protection of investments.

Emerging countries as promising partners for FTAs

What is pointed out as major objectives of pursuing FTAs includes expanding businesses of Japanese companies and bringing down costs by reducing trade and investment barriers potential partner countries have in place, and securing natural resources by strengthening economic ties with them. From these viewpoints, six countries and regions in the table, with which Japan has not yet started to consider whether to conclude an FTA, would deliver rather great benefits once FTA is concluded. They are emerging countries with promise of growth, and Japanese companies have great interest in them. They are all important customers of automobiles, electric equipment, steel, and other products exported by Japan. Although there are exceptions, they have rather high tariff rates and a lower level of liberalization of service trade. Once concluded, FTAs with these countries are expected to deliver great effect for improving business environments.

Russia, after its accession to the WTO on August 22, 2012, brings down its average bound tariff rate of all items from 10 percent to 7.8 percent. More than one-third of all the items see their tariff set at or below the bound rates on the accession day. However, automobiles, which

account for more than 60 percent of exports from Japan to Russia, have higher tariff rates left for them, as the bound rate for finished cars (gasoline and diesel-fueled cars) is merely reduced from 30 percent to 15 percent (within seven years after its accession). There still remains a lot to be improved in terms of investment barriers and customs procedures. Conclusion of an FTA with Russia would be greatly effective for lowering its tariffs.

Brazil is one of the largest emerging markets on the globe, and sees growing imports of machines, automobiles, etc., as well as increasing investment in these sectors from Japan. Japanese companies are also active in direct investment in the field of natural resources. From around 2003, an opinion began to spread in Brazil that MERCOSUR should conclude an FTA. The expectations of the Japanese business community were great, but since then no progress has been made. In 2011, Japan was invited for the first time to a MERCOSUR summit meeting, a sign of resumed action for strengthening relationship between Japan and the region.

The remaining four countries are also destinations of automobiles, machineries, and other products that Japan exports, and the tariffs are generally high. Japan has already concluded investment protection agreements with **Pakistan**, **Egypt**, and **Bangladesh**. Realization of a higher-level investment treaty through conclusion of an FTA achieves higher transparency in the regulations and procedures needed in setting up local business bases of the Japanese companies in such countries. With coordination with Japan's sensitive items for tariff abolition taken into account, commencement of major research is expected.

Note 1: The ratio of the EU's imports of non-tariff items from Japan to its entire imports from the country in 2011 on a value basis. It is calculated based on trade statistics of the EU.

Note 2: This includes "television cameras, digital cameras, and video camera recorders (HS8525 & 8099)."

Note 3: This article is based on information as of September 2012.

Table: Major emerging countries with which Japan has not yet concluded, or started considering whether to negotiate, an FTA

Country/Region	Export destination ranking	Export value (in \$100 mil.)	Major export goods from Japan						Average tariff rate of all items for MFNs (%)	FDI (2005 - 2011; cumulative in \$100 mil.)	Investment agreement conclusion	Number of WTO service commitments	Major FTAs concluded
			Share (%)		Average tariff rate for MFNs (%)								
Russia	15	118.0	Automobiles		General machinery		Electric equipment		10.3	17.4	May 2000	116	Formed a customs union with CIS countries. Concluded FTAs with Serbia and Montenegro.
			65.5	10.6	14.9	9.0	4.4	12.7					
Brazil	26	61.9	General machinery		Automobiles		Electric equipment		12.5	253.5	Yet to be concluded	43	Member of the Mercado Comun del Cone Sur (MERCOSUR), and the Asociacion Latinoamericana de Integracion (ALADI). As a member of MERCOSUR, concluded FTAs with Israel and Egypt.
			32.0	12.1	25.6	19.0	9.8	12.6					
South Africa	28	43.1	Automobiles		General machinery		Electric equipment		7.8	18.9	Yet to be concluded	91	Member of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). Concluded the South Africa-EU Trade and Development Cooperation Agreement (TDCA). As a member of SACU, concluded an FTA with the European Free Trade Association (EFTA).
			47.2	11.5	27.1	2.2	5.3	5.5					
Pakistan	42	17.0	Automobiles		General machinery		Steel		15.8	2.6	May 2002	45	Member of the South Asia Free Trade Area (SAFTA). Concluded FTAs with China, Malaysia, and Sri Lanka. Also concluded the Trade and Investment Framework Agreement with the United States.
			42.7	41.9	22.2	10.8	10.7	10.8					
Egypt	47	13.4	Automobiles		General machinery		Electric equipment		17.4	3.0	January 1978	44	Concluded FTAs with the EU, EFTA, and MERCOSUR, and bilateral FTAs with Turkey and other Middle East countries. Reached an agreement with Russia to start negotiations on FTA.
			32.5	21.7	25.9	5.2	9.5	7.9					
Bangladesh	50	10.7	Steel		Automobiles		General machinery		12.9	4.0	August 1999	9	Concluded no bilateral FTA. Member of the South Asia Free Trade Area (SAFTA).
			34.4	11.2	24.0	16.2	17.6	6.6					

Note: Major export goods from Japan are classified according to 2-digit HS codes.

Source: Adapted by JETRO from Trade Statistics/Outward and Inward Foreign Direct Investment (Ministry of Finance), Tariff Analysis Online (WTO), Annual Report of Statistics on Japanese Nationals Overseas (Ministry of Foreign Affairs), WTO website, and others.

Naonori Yamada
International Economic Research Division
Overseas Research Department