

Time Now Ripe for Free Trade and Investment

Japan's trade policies have been developed with a primary focus on East Asia. The United States, meanwhile, is strengthening the regional APEC (Asia-Pacific Economic Cooperation) framework as well as pursuing free-trade agreements (FTA) with more and more individual countries. 2009 will mark twenty years since the formation of APEC. Waseda University Professor **Shujiro Urata** argues that Japan should take advantage of this opportunity to strengthen its free-trade policies.

Japan has developed its trade policies with a focus on free-trade agreements with East Asian countries. The first free-trade agreement that Japan concluded under the bilateral framework recognized by the World Trade Organization (WTO) was the FTA with Singapore. Until then, Japan had mainly focused on a multilateral trade policy within the General Agreement on Tariffs and Trade (GATT) and WTO. Japan then went on to expand its trade policies, mainly focusing on Free Trade Agreements (FTA) and Economic Partnership Agreements (EPA) with countries in the ASEAN region. The external factors that drove this process were ASEAN's active FTA policy based on a "hub and spokes" approach and the conclusion

of an FTA between China and the ASEAN region. These events brought about an adjustment in Japan's trade policy in ASEAN from a bilateral approach to include a regional approach. Japan pushed for the key conclusion of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which was signed in April 2008 and went into effect in December 2008. With this Japan has now completed FTAs with almost all of the major countries in ASEAN as well as an FTA covering the entire ASEAN region. Japan has also advocated that this agreement be further expanded into a Comprehensive Economic Partnership in East Asia (CEPEA) covering the entire East Asian region, including the sixteen countries known as ASEAN+6 (the ASEAN countries plus Japan, China, Korea, India, Australia and New Zealand). Japan is now actively working towards achieving this goal.

There are various issues to be resolved in order to pursue this goal. One of them is to revive the FTA negotiations with Korea, where talks are currently stalled. Japan also has to conclude an FTA agreement with

Australia, which is now under negotiation. To sign this, Japan has to liberalize its agriculture sector. Japan should press ahead with its liberalization and structural reform, centering on agriculture, and should play a leading role in the establishment of a free-trade agreement among the countries in the ASEAN + 6 group. In 2005, these nations combined accounted for a quarter of the world's gross domestic product (GDP) and a half of the world's population. Among the ASEAN + 3 group, intra-regional production networks have been built through foreign direct investment by multinational enterprises, centering on the machinery industry. The addition of India, Australia and New Zealand will greatly benefit the ASEAN + 3 in securing sources of mineral resources and other primary products and in cultivating the consumer market in India.

A simulation analysis using a general equilibrium model shows that trade liberalization through the formation of an FTA among the ASEAN + 6 will push up the GDP of the ASEAN + 6 by 2.1 percent. Simulation analyses of the ASEAN + 6 FTA and ASEAN + 1 FTAs show that the former will bring the greatest economic benefit to the ASEAN + 6. It will increase Japan's GDP by 0.5 percent (see [table](#)).

APEC Resurfaces

In the midst of this groundswell of FTAs centering on East Asia, we have also seen the resurfacing of APEC. Back in 1989, when the Uruguay round of the General Agreement on Tariffs and Trade (GATT) had run aground and movement toward regionalism was underway in Europe, the Asia-Pacific Economic Cooperation forum (APEC) was established with the aim of promoting mutual market opening among the region's



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—Waseda University Professor Shujiro Urata

Impact of East Asian FTAs on GDP (Unit: %)

	ASEAN+3	(ASEAN+1*)x6	ASEAN+6
Japan	0.4	0.1	0.5
China	4.7	0.2	4.8
South Korea	3.6	0.2	3.7
ASEAN	5.7	2.1	5.9
India	-0.1	0.5	3.5
Australia	-0.1	0.2	1.4
New Zealand	-0.1	0.1	1.9
ASEAN+6	1.7	0.3	2.1

Note: * ASEAN+1 = FTA such as between ASEAN + Japan

countries and contributing to economic growth within the region and around the world. APEC saw its heyday in around 1993 to 1994. In 1994, APEC members agreed with the “Bogor declaration,” which featured specific goals. This declaration was “to pursue free and open trade and investment in the Asia-Pacific,” and the agreement was that the developed members of APEC would achieve this by 2010 with the developing members achieving this goal by 2020.

However since then, and particularly since September 11, 2001, the focus of APEC discussions has shifted from trade and investment to anti-terrorism policies and security issues, and interest in the original goals of liberalizing trade and investment has faded. Against this background, there was an East Asian summit in 2005, where it appeared that APEC was moving towards an East Asian framework that would not include the United States. This led to the revival of APEC under American leadership.

The APEC region occupies a weighty position in the world economy. As of 2006, it accounted for some 55% of the world’s gross domestic product (GDP) and 40% of its population. The high economic growth within the region has been enabled to a large extent by this trade in goods and services and by brisk investment, but special mention needs to be made of the important position of the United States. This country has offered a market for the final consumption of much of the merchandise trade, acted as a competitive provider in service trade, and served as a major supplier and recipient of investments. In this context, the concept of the Free Trade Area of the Asia-Pacific (FTAAP) is being scrutinized. Proposed by the

United States at the 2006 APEC meeting, this would be a free trade agreement (FTA) encompassing all of APEC’s members. If the FTAAP comes into being, it would create the world’s largest market, surpassing the scale of the European Union (EU).

Beyond Trade Liberalization

Using exports and foreign direct investment as levers, APEC’s members have achieved smooth economic growth. The region’s economies are in a slump at present because of the global financial crisis, but if they can overcome the crisis and return to the growth track, they should be able to resume smooth growth. Trade and investment expansion will play a key role, but for this to occur, liberalization and facilitation of trade and investment will be indispensable.

It is generally agreed that because of agricultural protectionism and other problems, the FTAAP cannot be brought into being in the near future. In this situation, some APEC members have begun to establish FTAs demanding high-level liberalization. Four members including Singapore and Chile have entered into one such FTA, known as P4. Furthermore, the United States, Australia, and Peru are working towards joining it this year to create the Trans-Pacific Strategic Economic Partnership Agreement (TPP).

If Japan finds itself unable to conclude FTAs with such APEC members because of its unwillingness to open its market to agricultural imports, it will suffer injury in the form of fewer export opportunities. In order to avert such a situation, Japan must firmly resolve to liberalize agricultural products.

Discussions on the liberalization of agriculture tend to focus solely on potential damage. Yet it is not only possible to alleviate such damage, Japan could pave the way for a brighter future for agriculture by simultane-

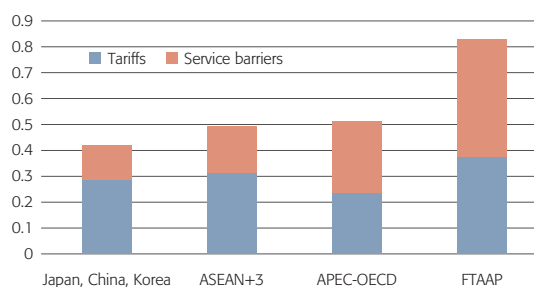
ously promoting liberalization and structural reform.

Acting as the host country for the APEC forum in 2010 will offer Japan a good opportunity for enlarging its presence in the Asia-Pacific, a region that will have a huge impact on the nation’s future. On this occasion, Japan needs to play the central role in promoting an assessment of the progress made toward the Bogor goal and in securing the selection of APEC’s next goals.

As for the next goal, I believe it should extend beyond trade liberalization to cover other issues, notably investment liberalization, trade and investment facilitation, and economic and technical cooperation. Japan has been taking the initiative in promoting cooperation among the ASEAN + 6 in economic partnership, the environment and other areas.

One of Japan’s strengths is its technology, and in pursuing Japan’s economic and diplomatic policies, I think it is extremely important that Japan should utilize technology, and particularly technologies relating to

Impact of FTAs on Japan’s GDP



the environment and energy, as a diplomatic policy tool.

As it prepares for hosting APEC in 2010, Japan should harmonize its actions with the work underway on the Comprehensive Economic Partnership in East Asia (CEPEA), a regional economic framework, and it must closely coordinate strategy with other APEC members, particularly with Singapore, this year’s host, and the United States, the host for 2011. [□](#)

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