

Japan's FTAs as Tools for Achieving Companies' Commercial Interests: Do Japanese Corporations Need a Region-Wide Trade Liberalization Treaty?

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Abstract

Since the 1950s and 60s, Japanese companies have been shifting their manufacturing operations overseas. As the private sector invested more and more abroad and became dependent on the production base in East Asia, it became evident that some sort of formal agreement was needed to stabilize the situation in the FDI-host countries and consolidate the internationalization of production networks. Japanese bilateral free trade agreements (FTAs) were utilized for this purpose. The Ministry of Economy, Trade and Industry (METI) has often stated that FTAs have been developed as a tool for securing firms' commercial interests. They have been a part of a broader policy of supporting rapid industrialization and economic growth since the Yoshida Doctrine. Japan has signed several bilateral FTAs as well as a semi-regional one with ASEAN and is currently participating in three coexisting frameworks with regional economic integration agendas, which include fostering of a region-wide FTA. This study focuses on the use of FTAs by Japanese corporations – FTAs' main clients – to date. It asks, what strategic commercial objectives do different types of existing FTAs (bilateral, semi-regional) fulfill for Japanese corporations, mainly in the electronics and machinery sectors, and how successful are they in performing this role? What additional value-added benefits could the planned region-wide FTA bring? In other words, do Japanese corporations need a region-wide FTA, or do the bilateral agreements and the semi-regional one provide a sufficient response to the firms' foreign commercial goals? I discuss the inter-constitutive nature of the value-added benefits of different levels of Japan's FTAs. Both trade theory and econometric studies of FTAs point to the conclusion that bilateral FTAs are a second-best option to semi-regional agreements, which, in turn, are less welfare enhancing than is regional or global multilateral liberalization. Despite that, this study finds that there is little support among Japanese MNCs in the electronics and machinery sector for a region-wide FTA. Research underpinning this analysis is based on a series of interviews with Japanese MNCs, governmental officials and analysts conducted by the author in Tokyo between 2009 and 2010.