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**Japan's Competitive FTA Strategy:  
Commercial Opportunities versus Political Rivalry**

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## Introduction

In little over a decade, Japan's trade policy has experienced a dramatic transformation: from a critic of regionalism to an avid preferential trader eager to build an ever expanding FTA network. Japan's decision to join the FTA frenzy is best explained as an instance of policy diffusion whereby the prior actions of other FTA nations created strong pressure for Japan to reverse its half century of exclusive support for the multilateral system. The literature on policy diffusion has identified two major forces for the spread of economic policies (in this case preferential trade accords): ideational dissemination (emulation) whereby new policy paradigms become predominant, or competition whereby the search for relative advantage induces governments to embrace policies likely to yield economic, political, or rule-making benefits.

In this chapter, I argue that competitive dynamics explain best Japan's FTA policy shift. Japan has used its FTAs to meet three main challenges: 1) to restore or advance the competitive advantage of internationally-oriented business sectors in selected overseas markets; 2) to disseminate a distinct Japanese approach to preferential economic integration different both from the American and Chinese FTAs; and 3) to hone its regional leadership credentials vis-à-vis China by reaching out to Southeast Asian nations, and inviting extra-regional partners to integration talks in order to balance China's influence. However, the need to respond to multiple competitive pressures has taxed heavily Japanese FTA policy. The Japanese government has confronted a major dilemma: whether to meet the demands of the business sector to negotiate a bilateral FTA with China that maximizes economic returns, or whether to heed the calls from politicians that see in China an emerging rival and in economic integration an important venue to stake Japan's claim to regional leadership.

Moreover, while the origins of Japan's FTA policy cannot be found in isolated domestic pressures, it is undeniable that national policymaking patterns influence heavily how Japan articulates its FTA strategy. The traditional bottom-up policy making style gives interest groups (e.g. from business and agriculture) influence over the direction of

Japanese trade policy. However, two recent developments are likely to influence Japan's ability to meet competitive pressures through FTA policy: the attempts to centralize policymaking in order to decrease the power of the farm subgovernment (and to explore intra-agricultural divisions), and the growing politicization of foreign economic policy with the weakening of the traditional division of economics and politics and the pursuit of security driven FTAs.

This paper is organized as follows. Section one provides a brief overview of Japanese FTA policy highlighting the main characteristics of Japanese free trade agreements. Section two focuses on the FTA policy shift in the late 1990s in order to assess the competing hypotheses on FTA dissemination: emulation versus competition (in addition to the null hypothesis of independent decision-making). Section three highlights the ever expanding economic objectives in Japanese FTA policy. Section four looks at Japan's new legalism through the FTA venue. Section five focuses on the impact of Sino-Japanese competition on patterns of East Asian integration. The last section concludes with a reflection of the impact of these multiple competitive pressures on Japan's FTA policy.

## **I. Overview of Japan's FTA initiatives**

For most of the postwar period, the Japanese government regarded the multilateral trading system as *the* vehicle to secure market access abroad for Japanese enterprises, criticized trade regionalism as harmful to the GATT's principle of non-discrimination, and played a passive role in the definition of trade governance rules in the multilateral forum (Searight, 1999). In the past decade, however, all these core understandings in Japanese trade policy have been thoroughly revised as the Japanese government now regards FTAs as supportive of the multilateral system and capable of producing deeper liberalization; is bent on fleshing out a multi-track trade policy with concurrent negotiations at the bilateral, regional, and multilateral levels; and has used proactively the WTO's dispute settlement mechanisms and is eager to partake in the dissemination of new trade and investment rules (Pekkanen, 2008).

The adoption of an FTA track in Japan's trade policy was particularly striking. Roughly a decade after first entertaining the possibility of negotiating preferential trade

accords, Japan has rapidly built an FTA network: as of April 2008, Japan had five FTAs in effect (Singapore, Mexico, Malaysia, Chile and Thailand); had signed preferential trade deals with Philippines, Indonesia, Brunei, and ASEAN; and was in active negotiations with GCC nations, Australia, Switzerland, India and Vietnam (see Table 1). It is clear from this table that bilateral FTAs gained traction first since Japan more nimbly lined up trade agreements with individual Southeast Asian nations and Mexico and Chile; while negotiations with ASEAN as a whole proceeded slowly, and the initiative to launch an East Asian FTA (comprised by ASEAN+6 members) has not yet materialized, given disagreements with China over the core membership of the EAS integration project. On the other hand, the volume of trade and investment flows comprised by these bilateral FTAs is rather modest –never exceeding the 4% ceiling (with the exception of the FTA with Korea which is deadlocked), while the ASEAN wide FTA promises to yield more economic benefits.

Another noteworthy characteristic of Japanese FTAs is their broad issue scope. The Japanese government has attempted to include multiple WTO plus commitments in areas such as intellectual property, government procurement, temporary entry of business people, and customs facilitation. But the trademark issue of Japan's trade agreements is the economic cooperation chapter (covering areas such as science and technology, small enterprises, human resource development, and improvement of the business climate), so much so that the Japanese government has coined a different term to refer to its preferential trade deals: Economic Partnership Agreements (EPAs). Despite the attempt to negotiate encompassing FTAs, Table 1 shows that the implementation of this Japanese formula has not been completely homogeneous. Reflecting the high priority the Malaysian government attaches to its bumiputra policy (of giving priority to ethnic Malays on government contracts and hiring practices), the Japan-Malaysia FTA does not include WTO plus provisions on the elimination of performance requirements and excludes government procurement.<sup>1</sup> The trade agreement with Chile includes provisions

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<sup>1</sup> Underscoring the interconnectedness of FTA negotiations, Malaysia's uncompromising position vis-à-vis Japan reflected also its concern that any concession to Japan would become the de facto starting point in subsequent negotiations with the United States and India. For that reason, Japanese officials are waiting to see if the United States pries open Malaysia's government procurement market through its FTA talks, to press for a similar concession during the scheduled five year renegotiation of the Japan-Malaysia FTA. Interview with METI official, Tokyo, May 2006.

on the improvement of the business climate, but does not incorporate a full-fledged chapter on economic cooperation. More importantly, the Japan-ASEAN FTA does not include new and binding obligations on investment and services, but only the vague proviso to establish a committee to explore these issues after the enactment of the agreement.

Finally, a very important trait of Japanese FTAs is the asymmetry in liberalization commitments. Market opening is very high (as evaluated by the percentage of tariff lines to be eliminated or reduced) in industrial goods, but markedly less in agricultural commodities due to longer calendars for liberalization and outright exceptions for agricultural commodities. As Table 2 shows, the percentage of Japanese agricultural tariff lines excluded from liberalization in Japanese FTAs is very elevated: 61% with Singapore, 41% with Mexico and 55% with Malaysia. These are high numbers when compared with agreements inked by the United States and the European Union, as Cheong and Cho (2006) have demonstrated.<sup>2</sup>

Summing up, there is no question that FTAs have become a major component of Japanese trade policy with 15 different such negotiations initiated in the last decade (and with exploration of more ambitious FTAs as discussed later). Why then has Japan embraced an FTA strategy? Is the new trade policy a response to isolated domestic pressures (independent decision-making), or on the contrary is it best understood as an instance of policy diffusion (interdependent policy-making)? Are Japan's FTA outcomes (selection of partners, sectoral coverage, and issue scope) better explained by emulation or competition dynamics? The remainder of this chapter explores these issues.

## **II. Japan joins the FTA frenzy: dissemination dynamics**

Two main actors (trade bureaucrats housed in the Ministry of International Trade and Industry or MITI and big business as represented by its peak association Keidanren) pushed for a redirection of Japanese trade policy to experiment for the first time with preferential trade accords. The actions of these actors were fundamentally oriented by the

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<sup>2</sup> The data on agricultural liberalization in Table 2 comes mostly from Cheong and Cho (2006), but it expands on their findings by applying their methodology to estimate agricultural liberalization in the Japan-Malaysia FTA, and by calculating industrial liberalization in all of the FTAs listed on the table.

need to respond to the prior FTAs of other nations deemed to put Japanese companies at a disadvantage in overseas markets. NAFTA, in particular, provided the first vivid example of the pinch of trade and investment diversion that Japanese firms and the government expected would magnify with the non-stop proliferation of free trade agreements in the world economy. Competitive pressures, therefore, provided the essential stimulus for FTA diffusion in Japan.

Japanese trade bureaucrats first began discussing the possibility of joining the new wave of FTAs in the summer of 1998 when they were first approached by Mexico to explore a bilateral trade deal.<sup>3</sup> The Japanese business community was supportive of this initiative as it feared the trade diversion effects of NAFTA, and so MITI launched a study to assess the feasibility and merits of embarking on a completely new path for international trade negotiations (Hatakeyama, 2002). MITI's internal report noted the importance of developing additional trade policy options –especially in a context of rapidly proliferating FTAs and stagnation in the WTO front- and identified in FTAs as well a good opportunity to pursue structural reform. A main concern for trade officials was that Japan was lagging behind as other countries were developing multi-track trade policies (multilateral, regional, bilateral) to advance their economic interests. Acquiring the same policy tools as their counterparts enjoyed was, consequently, a main motivation to launch an FTA policy.

Although MITI's internal deliberation on the merits of an FTA policy shift had been triggered by the Mexican overture, the Ministry selected Korea as the first priority in FTA negotiations. MITI's actions reflected political pragmatism since it considered easier to garner the support of politicians and the public in favor of the new FTA policy if it negotiated first with a neighboring Asian country, and not with a much more distant Latin American nation.<sup>4</sup> Negotiations with Korea bogged down, however, due to concerns in the feasibility studies about a major expansion in Korea's trade deficit with Japan. In the end, Singapore was selected as Japan's first FTA partner largely due to Singapore's offer to exclude agriculture from the talks (Terada, 2006: 1).

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<sup>3</sup> Although in the past MITI officials had informally discussed the possibility of signing a bilateral trade accord with the United States, no initiative materialized from those discussions (Munakata, 2006, Krauss, 2000).

<sup>4</sup> Author interview with former senior METI official, Tokyo, May 2006

Undeterred by the opposition of the agricultural lobby, Keidanren continued to demand an FTA with Mexico (Keidanren, 1999, 2000).<sup>5</sup> Japanese firms complained that the absence of a bilateral Japan-Mexico FTA placed them at a disadvantage vis-à-vis their American rivals (and later on European companies as Mexico signed an FTA with Europe in 2000) given the relatively high Mexican tariffs (on average 16%) and discretionary changes in Mexico's economic policy that frequently applied *only* to non-FTA firms. But beyond these general concerns, Japanese firms in the automobiles, electronics, and government procurement industries considered NAFTA a serious competitive threat to their operations in North America.

The automobile industry complained that NAFTA's strict rules of origin and the continued imposition by the Mexican government of performance requirements (requiring local production for a limited quota of duty-free vehicle imports) made it difficult to compete with American car makers with more developed regional production networks and to benefit from the expansion of Mexican auto imports in the late 1990s and early 2000s (Nakahata, 2005). Japanese electronic firms, which had flocked to the Mexican export platform program (*maquiladora*) in the late 1980s to create a major supply base of consumer electronic goods (most notably color TVs) for the US market, were deeply worried by the NAFTA-mandated elimination of duty drawback benefits. And Japanese general trading companies and plant exporters were finally squeezed out of the Mexican government procurement market, when Mexico announced in May 2003 that only FTA firms could tender bids. MITI was now ready to push for a more ambitious FTA and widely circulated a report quantifying the economic losses for Japan from NAFTA's trade diversion (in the order of \$3.2 billion dollars with 31,824 jobs lost) (Solís and Katada, 2007: 289).

The successful negotiation of the FTA with Mexico (enacted in April 2005) did in many ways open the door for a more active FTA policy since it represented the first occasion in which Japan made WTO plus concessions in agriculture -with Singapore Japan merely bound the zero percent tariffs that were de facto in effect (Lincoln, 2004). This was a major advance considering the strong clout that the agricultural lobby (the

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<sup>5</sup> For a discussion of Keidanren's role in promoting the FTA policy shift and its position regarding talks with Singapore, Korea, and Mexico see Yoshimatsu (2005).

iron triangle of agricultural cooperatives, ruling party politicians, and farm bureaucrats) has had over trade policy. The extreme bureaucratic sectionalism and the informal norm of unanimity has given the agricultural lobby veto power over Japan's international negotiations involving agricultural liberalization (Fukui, 1978, Searight, 1999). In fact, it took an unprecedented top-down intervention by then Prime Minister Koizumi to break the deadlock over meager agricultural concessions in talks with Mexico. Undoubtedly, some structural changes also facilitated this breakthrough: such as the contraction of the farming population, intra-agricultural rifts,<sup>6</sup> and changes in the electoral system deemed to weaken the influence of the farm vote (e.g. redistricting to correct rural over-representation, and shift to single member districts to encourage issue-based electoral competition and not pork-barrel).

But far from representing the defeat of Japanese agricultural protectionism, FTA policy reflects a political compromise whereby the agricultural lobby does not veto the preferential trade agreements but makes sure that its primordial interests are protected. For instance, in all Japanese FTAs key primary commodities (rice, sugar, wheat, plywood) are off limits, and even in the case of Mexico, tariff-rate quotas (TRQs) were implemented for the most sensitive products (pork, beef, chicken, oranges, and orange juice) and no preferential tariff for chicken was established by the signing of the agreement, lest Thai trade officials use that preferential tariff in their own FTA negotiations with Japan.<sup>7</sup> The recent launch of FTA talks with Australia could indeed represent a turning point since it is the first time Japan is negotiating with a major supplier of agricultural goods in the Japanese market (representing 10% of all Japanese agricultural imports). However, the use of "exclusions" and "renegotiations" is likely to continue as Australian trade officials have acknowledged that the sensitivities of Japan's agricultural products ought to be factored in the negotiations (Joint study, 2006: 10).<sup>8</sup>

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<sup>6</sup> For instance, a government strategy has been to foster competitive Japanese agricultural exports in niche markets to weaken the opposition to FTAs. Naoi and Krauss (manuscript) emphasize the importance of these intra-sectoral divisions.

<sup>7</sup> Interview with officials from Mexico's Secretaría de Economía, Mexico City, May 2005.

<sup>8</sup> Labor mobility is another controversial issue in Japan's FTAs with Philippines and Thailand. The opposition of the Ministry of Labor and the Nurse Association has for instance resulted in strict Japanese certification requirements that will make it unlikely to have a large number of applicants (Pempel and Urata, 2006: 88).



This analysis of Japan's FTA policy shift underscores the importance of competitive pressures (in particular the perceived need to cope with trade and investment diversion effects from proliferating FTAs), and the central role that internationalized business sectors and trade bureaucrats played in championing the new policy. It also underscores how international diffusion pressures must be channeled through domestic policy-making channels, which in the case of Japan, meant the cooptation of the agricultural lobby into the new FTA policy by sheltering the most sensitive commodities from liberalization. Japan's ability to meet international competitive pressures through FTA policy is very much influenced by these domestic political constraints. And these internal political battles are likely to intensify as the degree of ambition in Japanese FTA policy has grown quickly: from the original defensive goals to encompass broader economic, legal, and political objectives.

### **III. Japan's FTA policy through the logic of economic competition**

#### *From defending to expanding market access abroad*

Soon after the initial policy shift, Japanese companies became interested in using FTAs to revamp their production networks in East Asia in order to achieve long-standing goals of integrating and streamlining their regional production networks, and to forestall the advances of rival MNCs in Southeast Asian countries, which in the aftermath of the Asian financial crisis had courted more aggressively foreign direct investment and export production to increase foreign exchange earnings (Manger, 2005).<sup>9</sup> FTAs would facilitate local and regional supply of parts (to decrease reliance on expensive imported parts from Japan) and would allow Japanese affiliates in the region to enjoy the benefits of specialization and economies of scale by serving larger regional markets. In this way, FTAs were deemed essential to maintain the competitive presence of Japanese multinationals in the region, especially in countries like Thailand where American firms were awarded national treatment status through the Treaty of Amity and Economic

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<sup>9</sup> It is important to note that not all ASEAN nations responded to the economic crisis with liberalization of their markets. Malaysia followed the opposite path by imposing greater restrictions on investment and continuing to promote the national car project (Shimokawa, 2004). While Japanese auto firms were not facing the competition from incoming foreign multinationals in Malaysia, they still suffered from discriminatory treatment in favor of the national industry and were eager to integrate their operations in Malaysia to the regional production network. An FTA would help them accomplish these objectives.

Relations, and were Chinese exporters would soon enjoy preferential access as the China-ASEAN negotiations continued to move forward (Keidanren, 2003).

Bilateral FTAs with the largest ASEAN nations (Thailand, Philippines, Malaysia) were important vehicles to achieve both the proactive (rationalization of production networks and development of regional export platforms) and defensive (keep up with the competition from Chinese products and Western multinationals) goals of Japanese companies. Yet, in one crucial area the demands of the business community have not been met: negotiating an FTA with China. Given the importance of China as a top destination for Japanese FDI and as an export platform to service regional and global markets, it is not surprising that in every survey of Japanese firms China is selected as the top priority for FTA talks (JETRO, 2003, Kajita, 2004, JBIC, 2005). Among the concrete reasons to negotiate a bilateral FTA with China, Japanese enterprises mention: tariff elimination, customs simplification, codification of investment rules, deregulation and administrative transparency and intellectual property protection (JETRO, 2006: 11).

A much more expansive definition of competitive economic goals to be achieved through FTAs has in fact taken place recently, as the Japanese business community has begun to demand preferential trade negotiations with its largest trading partners: China, the United States and Europe. In the latter two cases, a major concern of Japanese enterprises is to keep up with competition from South Korea who has already signed an agreement with the United States, and is currently negotiating with the European Union. Keidanren, therefore, noted that “if the U.S.-Korea FTA, currently under negotiation, is concluded and brought into effect Japanese companies will be placed at a *marked competitive disadvantage* relative to Korean companies when conducting business with the U.S.” and “if South Korea, which is competing with Japan in automobiles, electronic appliances, and other industrial sectors, signs a FTA with the EU, leaving Japan lagging behind, it will cause *huge damage*” (Keidanren, 2006: 2 and 2007:6, emphasis mine).

Evidently, competition with its two neighbors in Northeast Asia has affected the direction of Japanese FTA policy by increasing the premium of speeding up negotiations with ASEAN, and embarking on FTA talks with the United States and Europe. Reflecting these competitive pressures, METI announced in the spring of 2007 that concrete steps will be taken to launch FTA feasibility studies with these industrialized nations.

However, a fierce domestic political battle is to be expected between advocates and detractors of FTA policy in Japan, given the large adjustment costs likely to ensue from negotiating with these large economies.<sup>10</sup> Once more Japan is confronted with the dilemma of keeping up with international competition via FTAs while dealing with sizable domestic political constraints.

*Export protectionism in Japan's FTAs: rules of origin*

Firms can use FTAs to out-compete their rivals by resorting to non-transparent protection in the form of rules of origin. Interestingly, both Souminen and Esteveadordal (2004) and Cheong and Cho (2006) reach the conclusion that Japan has adopted stringent rules of origin in its FTAs. A restrictiveness index for a sample of FTAs (which takes into account the different rules to document substantial transformation such as change in tariff classification, regional content, and specified processes, plus clauses on accumulation and *de minimis*) places NAFTA at the top (0.67), followed by the EU-Mexico (0.60), Japan-Mexico (0.54), Japan-Singapore (0.49), Korea-Chile (0.47), and Korea-Singapore (0.44) (Cheong and Cho, 2006: 22). While these studies offer a comparative view on aggregate levels of restrictiveness, it is unclear from them in which ways certain Japanese industries have lobbied for tough rules of origin and for what specific purposes.

Although only one example, the active lobbying campaign of the Japanese Textile Federation in FTA talks with Southeast Asian nations does provide a window on the use of these devices to shelter domestic markets. The Japanese Textile Federation –concerned over an import surge of Chinese products through ASEAN nations- has endorsed a “fabric-forward” rule of origin in order to limit the duty-free import of garments; and engaged in private diplomacy to seek the understanding of counterpart textile associations in the region. The Thai garment industry countered that with such rule of origin it would not be possible to export clothing to Japan since Thailand does not have the technological capability in weaving, dying, and finishing processes for cloth manufacture, so it offered as a better alternative the U.S. formula which nominally was

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<sup>10</sup> Notably absent has been a similar initiative for an FTA with China. In addition to the opposition from agricultural and labor intensive sectors (textiles), the bilateral FTA with China has been casualty to political tensions as discussed later.

more restrictive (“yarn-forward”), but in fact offered through the “short-supply list” the possibility of counting certain imported cloth towards Thai origin (Japan Textile Federation, 2006: 54). And in the opinion of a Thai textile company executive, the offer to use a cumulative ROO for the ASEAN wide FTA was an empty promise since Thailand does not import cloth from Philippines, Indonesia or Singapore. It would be “like watching a banquet that cannot be eaten” (Japan Textile Association, 2006: 61).

From the point of view of the Japanese Textile Federation, the strong opposition of the Thai garment industry was due mostly to its desire to maintain its leverage vis-à-vis the United States (Japan Textile Association, 2006: 47). This example once more underscores the competitive nature of the FTA race through the phenomenon of concession linkages, whereby a government may adopt a hard line in one FTA front in order to avoid losing leverage in concurrent FTA talks with different partners.

#### **IV. Japan’s FTA policy through the logic of legal competition**

Legalization in international trade governance has proceeded abreast as governments rely on hard law obligations instrumentally (to obtain actionable commitments on issues of interest) and strategically (to keep up with legalized trade tactics of competitors). Japan has been no exception to this broader pattern, and has abandoned its previous insistence on a consensual approach for regional trade agreements (a la APEC) in favor of FTAs with well developed dispute settlement mechanisms.<sup>11</sup>

A major objective of Japan FTA policy has been the desire to gain leverage in the definition and dissemination of international rules on trade and investment across *all* trade forums. Indeed, a key MITI official involved in the 1998 intra-ministry deliberations on FTA policy noted that the countries lagging behind the FTA race were precisely the passive countries in negotiations at Geneva. In his view, FTA policy offered an opportunity to reenergize Japan’s trade policy and to adopt a much more proactive position on trade and investment rule-making.<sup>12</sup> In this endeavor, MITI bureaucrats enjoyed full support from large business, as Keidanren early on pushed for FTAs in order

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<sup>11</sup> For an analysis of Japan’s shift in favor of legalism at the multilateral level see Pekkanen (2003).

<sup>12</sup> Interview with senior ex-MITI official, Tokyo, May 2006.

to propagate legal rules facilitating the operation of Japanese businesses overseas (Keidanren, 2000).

Japan's competitive legal strategy through FTAs has aimed to amend WTO provisions deemed harmful to Japanese corporate interests (anti-dumping), to spread new rules that can later on be incorporated at the WTO level (investment), and to elicit from developing countries preferential commitments that surpass their WTO obligations in areas such as government procurement or intellectual property protection, and in so doing compete with China for the dissemination of a distinct Japanese FTA model that has a much broader issue scope and a larger degree of legalization.

Regarding the reform of existing WTO rules, Japanese government and industry have long been dissatisfied with the multilateral anti-dumping code as they deemed that American and European anti-circumvention practices and dumping methodologies resulted in discriminatory treatment of Japanese companies.<sup>13</sup> Japanese business interests identified in FTAs an opportunity to reform antidumping practices by incorporating in these agreements clauses on the mutual non-application of antidumping duties, or by adopting new antidumping rules that could later on serve as a yardstick for reform at the WTO level (Keidanren, 2000: 6). Interestingly, when the prospects for some reform of the antidumping code appeared more promising in the Doha Round, the Japanese business community dropped this negotiation objective in the FTA front.<sup>14</sup> However, Keidanren continues to monitor closely the treatment of antidumping in other FTAs and is quite prepared to bring the issue back to the FTA front if favorable opportunities exist: "In the negotiations for the U.S.-Korea FTA currently under way it appears that the Korean side aims to ensure that restrictions of some kind are imposed on the U.S. ability to invoke antidumping measures, though the U.S. has never agreed to include such a provision in the FTAs it has concluded so far. If a similar provision were to be included in a Japan-U.S. EPA, that would be of great benefit to Japanese companies that have been suffering from protectionist U.S. antidumping duties" (Keidanren, 2006: 6). These examples illustrate the strategic use of alternative trade forums to advance new international rules on issues of interest.

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<sup>13</sup> Anti-circumvention refers to the imposition of anti-dumping duties to goods manufactured by target companies in third countries.

<sup>14</sup> Interview with Keidanren officials, Summer 2005.

The attempt to use FTAs as standard-setting devices to fill gaps in multilateral regulation has gained traction particularly in the area of investment. Japan, as many other industrialized nations, has been interested in adopting a more ambitious investment code that goes beyond the WTO TRIMs chapter to encompass national treatment and MFN status, investor-host state dispute settlement mechanisms, and further elimination of performance requirements (including clauses on mandatory employment of local nationals) (Keidanren, 2006). Initially, Japan had high hopes that such an agreement could be incorporated into the WTO charter as one of the four Singapore issues. But once investment was dropped from the Doha Round due to the opposition of developing countries, FTAs and bilateral investment treaties became the venues to pursue the establishment of international investment rules. Keidanren (2002) in fact was a forceful champion of FTAs to disseminate international investment rules in what could be labeled a bottom-up approach to rule-making. Pekkanen (2008) notes a very strong correlation between the model investment chapter in FTAs offered by Keidanren and the actual provisions of Japan's trade agreements with Singapore and Mexico in that they offer non-discriminatory treatment for multinationals, protection and compensation from regulatory expropriation, eliminate performance requirements, and provide state-state and state-investor dispute settlement mechanisms, among other elements.

Other areas where Japan is actively seeking WTO plus commitments from its FTA counterparts are government procurement, services, and intellectual protection. FTA negotiations with countries not partaking in the WTO's plurilateral agreement on government procurement are frequently the only way in which Japanese companies can gain a foothold on these markets and/or to be able to offer competitive bids. The Japanese business community has also made national treatment a key priority in its service negotiations in FTAs, and has called for a tightening of enforcement mechanisms against counterfeiting in the intellectual property provisions of free trade agreements (Keidanren, 2006).

Japan has succeeded in negotiating FTAs with multiple WTO plus provisions on investment, intellectual property, services, and economic cooperation. However, as noted before, Japan was unable to secure substantial commitments on government procurement, services, and performance requirements in its FTAs with Malaysia and ASEAN.

Moreover, it is important to note that Japanese FTAs reflect in fact a mix of legalism and voluntarism, rather than an outright endorsement of pure hard law. Japan has been unwilling to undertake binding and actionable commitments on competition policy, customs procedures, financial services, and economic cooperation. This last chapter in particular contains clauses on human resource development, promotion of small and medium sized enterprises, and improvement of the business climate, which are of interest to Japanese corporations in order to ensure the availability of high skilled labor and supporting industries, and to gain direct access to host government officials to voice specific grievances hindering the climate of operations. But all of these cooperation clauses are non-binding, and there are no direct ties to ODA disbursements either. Japan's avoidance of hard obligations in the economic cooperation chapter is most likely due to one-side nature of these commitments: as the industrialized partner in these FTAs Japan is expected to make most contributions. The co-existence of legalism and voluntarism in Japanese FTAs, therefore, corroborates Kahler's depiction of legalization strategies in East Asia as instrumental, in that legalization is a strategy that can be activated or deactivated to suit the competitive interests of corporations and governments.

Japan's legal competitive strategy has yielded an FTA approach different from both the NAFTA model and Chinese trade agreements. Compared to the United States, Japan has shied away from binding obligations on financial liberalization, has not been interested in incorporating labor and environmental standards, and has emphasized an explicit cooperation/development approach to trade negotiations. On the other hand, Japan's FTAs are more comprehensive in terms of issue scope and legalistic (in terms of defining precise obligations and establishing dispute settlement mechanisms) than Chinese FTAs, which have been characterized as brief, vague, and with an emphasis on conciliation rather than formal dispute settlement (Antkiewicz and Whalley, 2005). In this way, China and Japan are offering different "models" of regional integration, and the race is on to see which one disseminates further and fastest. A common perception in Japanese FTA policymaking circles is that China is prepared to negotiate narrower FTAs (affecting mostly tariffs on goods), but that it skillfully lured East Asia by offering agricultural concessions through the early harvest program. On the other hand, Japan is interested not only in tariff elimination but rule-setting, and the spread of high-quality

FTAs is a key priority for government and business.<sup>15</sup> Thus, the dissemination of a distinct Japanese approach to preferential trading is a central concern in Japan's competitive FTA strategy, especially towards China, the other possible focal point for regional integration.

### **V. Japan's FTA policy through the logic of political competition**

Japan's forays into trade regionalism are also influenced by broader political and security considerations, especially two central concerns of its foreign policy: the maintenance of the U.S. alliance (even as Japan departs from past precedent and endorses now regional integration bodies that do not include the United States), and the need to respond to China's rising stature in the region (which could eclipse Japan in terms of defining the tempo, substance, and membership of the regional integration process).

The slowdown of trans-pacific cooperation forums (APEC and ARF) and the proliferation of Asian FTAs do represent a significance challenge for the United States to remain actively engaged in the region and for the United States and Japan to reiterate the centrality of their bilateral bond. For these reasons, Armitage and Nye's report (2007: 18) on strengthening the US-Japan alliance singles out the negotiation of a comprehensive bilateral FTA as one of the most effective economic means to achieve both objectives.

On the other hand, Sino-Japanese relations are in a moment of redefinition as both countries are confronted with the new realities of Chinese economic take-off and military buildup and rising nationalism in both Japan and China. Wan (2006: 334) notes that Japan and China have moved away from the friendship framework to a situation of limited rivalry in that they both have expanded their political, economic, and military objectives and view each other as an obstacle towards their realization. As Mochizuki (2007: 761, 764) explains, fashioning an adequate response to China's rise has generated lively debate in Japan. The two predominant strategic options considered by Japanese elites -cooperative or competitive engagement- include prescriptions for Japan's regional integration policy. According to the former, the East Asian Summit must provide a vehicle to achieve a community where both countries renounce a bid for hegemony, and

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<sup>15</sup> Interviews with METI, MOFA, and JETRO officials and academics, Tokyo, Summer 2005. Obviously, the quality of Japanese FTAs is compromised by the significant agricultural exclusions as noted in Table 2.



where the two tier structure (ASEAN+3 as backbone for integration, and the broader EAS as a supportive forum) bridges the Sino-Japanese positions. The latter, however, views the exclusion of the United States from the EAS negatively, signaling a preference for trans-Pacific options.

Thus, as Japan fleshes out its FTA policy it must aim for a delicate political compromise between shoring up its key security alliance with the United States, displaying a commitment to the construction of Asian regional integration institutions, and striking the right balance between competition and cooperation in its dealings with China. This uneasy mix of political and security pressures has influenced Japanese FTA policy in at least three important dimensions: the selection of FTA partners, the competitive courting of Southeast Asian nations, and the competitive bid to influence the EAS agenda.

#### *Political criteria in FTA partner selection*

From the outset, political criteria have influenced the decision to select or bypass certain countries as FTA partners. As mentioned before, MITI bureaucrats leaned in favor of South Korea as the first FTA counterpart, largely because they deemed this choice an easier political sell among politicians and domestic audiences. In characterizing FTAs as essentially “political coalitions” (Ogita, 2003: 241), MITI was hoping to consolidate the new trade policy by pointing to the larger benefits for Japan’s regional diplomacy. The Japan-Korea FTA was desirable precisely because it could “kick-off the new stage in East Asian relations in that economic dynamism can make an opportunity to go beyond bitterness (Fukagawa, 2000:7).<sup>16</sup>

The decision in the spring of 2007 to initiate FTA negotiations with Australia after a protracted process of consultations and feasibility studies is also explained along political lines. As Terada (2005: 16) shows, Prime Minister Koizumi decided to launch an official FTA feasibility study in order to reciprocate for the dispatch of Australian

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<sup>16</sup> However, as these FTA talks reached deadlock in November 2004 due to disagreements over the level of agricultural (and especially fishery) liberalization in Japan and concerns among the Korean small enterprises with the trade adjustment burden, these expectations were not met. The further deterioration of bilateral relations due to territorial disputes and the PM Koizumi visits to the Yasukuni Shrine made it difficult for the political leaders of both countries to intervene and break the impasse over these market access concerns (Katada and Solís, 2006).

soldiers to protect the activities of Japanese Self-Defense forces in Iraq (and also in keeping with the larger strategic goals that have motivated Japan to insist on Australia joining the EAS as discussed below). The security-economic connection was evident in the joint announcement by both governments to launch FTA talks *and* sign a “Japan-Australia Joint Declaration on Security Cooperation.” This is a remarkable initiative for Japan since it had not established a close security partnership in the postwar period with any other country besides the United States. In fact, some agricultural watchers in Japan have decried the security-economic link for sacrificing agriculture for the sake of expanded security ties between Japan, Australia, and the United States (Ono, 2007).

But perhaps the single most important application of political criteria has resulted in the bypassing -so far- of China in the negotiation of a bilateral FTA, despite overwhelming business support for such an initiative. That the central preference of the business community has been ignored is remarkable for a country whose foreign economic policy is usually portrayed as supporting the overseas expansion of Japanese exporters and MNCs (Arase, 1995). The deterioration of bilateral relations with China has clearly limited the ability of Japanese business groups to lobby more actively for this FTA. Indeed, Sino-Japanese frictions increased due to the Japanese Prime Minister Koizumi’s visits to the Yasukuni Shrine, territorial disputes over the Senkaku/Daiyou islands, and competition over gas deposits in the East China Sea; and they peaked in the spring of 2005 with massive anti-Japanese riots in several Chinese cities. However, broader domestic changes in the formulation of Japan’s China policy have also affected the chances of the business community to find a sympathetic ear among Japanese politicians. For instance, Takamine (2002) notes a larger role for LDP politicians more attuned to sagging public opinion of China at the expense of MOFA bureaucrats concerned primarily with stable bilateral relations; and Katada (2007) highlights the important generational change as many old China hands in the LDP have retired or passed, and they have been supplanted by younger politicians with more assertive views vis-à-vis China.

*Competitive courting of Southeast Asia*

In addition to economic considerations, Southeast Asia is of great importance to Japan and China to achieve political and diplomatic goals. China is keen to cultivate relations with Southeast Asian countries in order to mitigate containment policies of the United States, discredit the “China Threat” theory, and further isolate Taiwan (Yang, 2003: 315). For these reasons, since 1997 China is credited with pursuing a “charm strategy” that has included refraining from devaluation during the Asian financial crisis, negotiating an FTA with ASEAN, signing a code of conduct on territorial disputes in the South China Sea in 2002, and signing ASEAN’s Treaty of Amity and Cooperation (TAC) a year later (Teufel Dreyer, 2006: 545, De Santis, 2005: 26).

On the other hand, after the end of the Cold War Japan’s more activist diplomacy in East Asia aimed to play a mediating role between antagonists (e.g. in Cambodia), bring stability to the region, and counter China’s growing influence (Peng, 2001: 120-121). In this way, Japan has endeavored to expand its ties to the region beyond economic diplomacy to promote cooperation in many more areas such as environmental protection and political/security dialogues. Such was the spirit of the Hashimoto doctrine of January 1997 which proposed regular summits with ASEAN leaders to discuss a broad range of issues. Later that year, Japan displayed activism through the Miyazawa initiative disbursing \$30 billion dollars to countries in the region undergoing financial crisis. In 2003 and marking the 50<sup>th</sup> anniversary of Japan-ASEAN relations, the Tokyo declaration expressed the desire to work towards the realization of an East Asian Community (Yeo, 2006).

In this context of heightened attention to Southeast Asia, FTAs afford China and Japan the opportunity to emphasize the joint gains of economic cooperation with ASEAN nations, in ways that allow them to advance important diplomatic goals (the acceptance of China’s peaceful rise thesis, and the mitigation of regional distrust towards Japan’s leadership initiatives) (Hoadley and Yang, 2007, Munakata, 2001). The competitive dynamics at work are transparent in the series of moves and counter-moves that have characterized Japanese and Chinese FTA policies in the region: the Japan-Singapore FTA increased the interest of the Chinese government on FTAs which resulted in its November 2001 announcement to establish an FTA with ASEAN within ten years, and the swift response of Japan in January 2002 with the proposal for a Japan-ASEAN

Comprehensive Economic Partnership, and then in 2004 its willingness to sign as well the TAC.

Importantly, there is a widespread perception in the region that Japan lags behind China in its ability to use FTAs to score diplomatic goals. This is evident in both the FTA and TAC fronts (Terada, 2006a). After Koizumi's high profile announcement in January 2002, the Japanese government decided to proceed first with bilateral trade agreements with the larger ASEAN countries, according to Munakata (2006: 121) because it had to clear the more demanding requirements of the WTO's Article 24 as opposed to the leeway China enjoyed through the enabling clause that applies to FTAs among developing countries.<sup>17</sup> But even after negotiations with ASEAN as a whole got under way in the spring of 2005, disagreements over negotiation modalities, rules of origin, and exclusion lists meant that a basic agreement was only reached in August 2007. Japan also hesitated to sign the TAC in 2003 since it worried it would constrain its ability to promote democracy and human rights in the region and it could have negative implications for its alliance with the United States (Terada, 2006a: 13-14). According to Yeo, it is the "US first, Asia second" mentality which hinders Japan's ability to lead in the path towards East Asian regionalism (Yeo, 2006).

Undoubtedly, one of the most important consequences of the competitive courting of Southeast Asia is the increased leverage of ASEAN nations. Fearing marginalization by negotiating with much larger trade partners, ASEAN countries have deliberately encouraged competition among the larger Northeast Asian countries.<sup>18</sup> This strategy has paid off in that ASEAN+3 has emerged as the nominal anchor for the region-wide integration process, and ASEAN's agenda has prevailed in defining the criteria to

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<sup>17</sup> Other FTA watchers attribute Japan's decision to pursue the bilaterals first to a bureaucratic split in that MITI preferred the subregional FTA to avoid the deleterious effects of crisscrossing rules of origin, but MOFA wanted the bilateral route in order to cement relations with target nations by framing this initiative as a broad diplomatic effort. And according to other FTA experts, since the nature of economic involvement in the region is very different for Japan and China (with substantial Japanese FDI in these countries) it made sense to proceed bilaterally to address more fully the market access concerns of Japanese MNCs in each country. Author interviews with officials from MITI, MOFA, JETRO, and Japanese academics, Tokyo, summer 2005. See also Solís (2006) for a report on these rounds of interviews.

<sup>18</sup> Munakata (2006: 122) cites Singapore's trade minister George Yeo: "On the question of East Asian FTA, it will be 3+10 rather than 10+3. The economic size of the three is much larger than the ten. ASEAN will be marginalized. Therefore, we prefer 10+1, in a position to deal with Japan, China and ROK separately."

participate in the East Asia summit: be a dialogue partner of ASEAN, sign the TAC, and have substantial relations with ASEAN.

*Conflicting blueprints for East Asian trade integration*

The East Asian summit has become the latest theater for Sino-Japanese competition. As preparations for the inaugural EAS to take place in Kuala Lumpur in December 2005 got underway, China and Japan went on record regarding their clashing views on the future institutional structure of East Asian integration. The old debate on inclusive vs. exclusive regionalism which first emerged in 1990 with the ill-fated East Asian Economic Grouping proposal by Malaysia's Prime Minister Mahatir, is once more at center stage. China has endorsed a more limited membership with ASEAN + 3 as the core group in an East Asian regional entity. Japan, on the other hand, proposed a more extensive membership through the inclusion of Australia, New Zealand and India.

The desire to dilute Chinese influence in a future East Asian FTA is a large consideration behind Japan's proposal. First of all, the three members that Japan sought to incorporate into the East Asian regional integration process are all democracies, and this reinforces the argument that in creating a community, members should share values regarding democracy or human rights protection (Hatakeyama, 2006). In this way, Japan seems to be pointing to the potential weaknesses of China as a regional leader on two central areas: strong rule of law and democratic governance. Second, the inclusion of Australia reflects Japan's desire to upgrade bilateral security relations, consolidate trilateral defense talks including the United States, and counter a rising China (Terada, 2005: 12). Third, the incorporation of India, another large and booming emerging economy, prevents China from becoming the sole spokesperson for developing countries in the EAS.

While Japan succeeded in gaining admission to the EAS for Australia, New Zealand, and India, the designation of ASEAN+3 as the *main* vehicle for community building (with the EAS playing a supportive role) represents an endorsement of the Chinese view to retain a more narrow East Asian focus in the integration process.<sup>19</sup> It is

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<sup>19</sup> During the second EAS summit in January 2007, a decision was made to launch a feasibility study of Japan's ASEAN+6 FTA proposal.

not clear yet whether the EAS will emerge as a forceful engine for integration capable of generating substantial commitments from its members on a multitude of issues beyond trade and investment liberalization. But what does seem certain is that Sino-Japanese competition to define the substance of East Asian integration will continue in the foreseeable future.

### **Conclusions**

This paper has argued that the competitive diffusion mechanism explains best the original policy shift and subsequent evolution of Japanese FTA strategy. Therefore, this concluding section identifies the most important competitive pressures and correlates them to FTA outcomes; discusses how international diffusion pressures are processed through domestic policy-making channels, and addresses the central dilemma for Japanese policymakers as economic and political competition seem to pull FTA policy in different directions.

#### *Competition with whom over what?*

In the economic realm, Japanese firms –especially in the automobile and electronics industries- have felt strong competition from their American (and to lesser extent European) rivals both in North American and Southeast Asian markets. As American firms pushed in the NAFTA negotiations for tight rules of origin in automobiles and the elimination of duty drawback in the *maquiladora* industry (where many Japanese electronics firms had invested), and as American and European firms benefited from the elimination of performance requirements (such as the Mexican Auto Decree), Japanese firms saw their position in North America deteriorate. A few years later, Japanese companies felt the pinch of competition with American firms closer to home, as some East Asian countries liberalized their investment policies in the aftermath of the Asian financial crisis, and Western multinationals made great inroads (for instance the Big Three Automakers in Thailand). In order to restore the level playing field, Japanese firms strongly demanded FTAs that awarded similar market access benefits.

China's and Korea's FTA policies have also put strong competitive pressure on Japanese enterprises. The China-ASEAN FTA created concerns of trade diversion in Southeast Asian markets; while Japanese auto and electronic firms decried the serious competitive challenge if Korean enterprises enjoy lower tariffs and less pressure from US antidumping disciplines provided Korea successfully enacts trade agreements with the United States and the European Union.

The competitive nature of the FTA frenzy is also evident in the phenomenon of "concession linkages." Examples of this dynamic abound in Japanese FTAs: the refusal to fix the preferential tariff rate for chicken in the Japan-Mexico FTA until the agreement went into force (due to concern with Japan's negotiation with Thailand); the defensive posture of the Thai textile industry vis-à-vis Japan since it did not want to lose its leverage in on-going negotiations with the United States, and Japan's intention to upgrade its government procurement commitments with Malaysia if the United States achieves more concessions through its FTA. All these examples speak to one important trend: the resistance to give concessions in one FTA front because of its perceived negative effects on subsequent negotiations. Because through FTAs governments seek to surpass the concessions already achieved by their rivals, commitments in prior FTAs become *de facto* the negotiation floor in subsequent trade talks, making policymakers more defensive in their earlier agreements as they calculate the impact of "escalating concessions."

In terms of rule-making, the United States and China have been the main targets of competition. Towards the United States, the dissemination of alternative antidumping rules has been an important concern, and Japan has consciously differentiated its brand of FTAs by emphasizing the trade facilitation agenda and economic cooperation clauses. Nowhere is the attempt to propagate a distinct model of economic integration more prominent than in Japan's competition with China to become the focal point of regional integration. Japanese officials have emphasized the higher quality of their FTAs (broader issue scope and binding obligations) as well as the ability of Japan as an industrialized nation counterpart to facilitate the development of Southeast Asian countries. Strategic competition with China has also fueled an intense race to cultivate relations with

ASEAN, and motivated Japan to invite extra-regional partners (such as Australia, New Zealand, and India) to integration talks in order to balance China's rising influence.

Japan's FTA outcomes reflect these multi-faceted competitive pressures. Japanese FTAs are *selective* in that the choice of partners, timing of negotiations, and market access commitments reflect the attempt to restore and/or advance competitive advantage. For instance, the FTA talks with Mexico and Thailand aimed to level the playing field for Japanese companies; the timing of the ASEAN-Japan FTA is explained by the desire to neutralize the political gains China made by initiating talks with ASEAN first; and the ASEAN + 6 initiative reflects the strong desire to influence the membership and nature of regional integration in East Asia. Japan's FTA policy is indeed heterogeneous in that Japan is pushing for an FTA approach different both from the NAFTA model and the more informal Chinese FTAs.

However, Japan's FTA formula (meager agricultural concessions and multiple WTO plus commitments) may be a hard sell in East Asia. Japanese FTA policy is undercut by the Chinese FTA approach that does not comprise binding new rules on trade and investment, and may be more attuned to the traditional ASEAN way. But the other disadvantage (agricultural protectionism) is self-inflicted, and points to the need to factor in how domestic politics influence a country's response to international FTA diffusion pressures.

#### *International diffusion pressures, domestic policymaking processes*

Japan continues to exhibit a bottom-up policy-making pattern, whereby strong policy sub-governments and weak bureaucratic coordination give clout to interest groups and generates a cumbersome negotiation strategy as the conflicting interests of internationalized business sectors and agriculture must be reconciled. These domestic political constraints, therefore, have delayed Japan's FTAs with larger trading partners and/or have generated significant acrimony as smaller FTA counterparts must accept promises of economic assistance instead of market access concessions.

But the domestic politics of Japanese trade policy are in flux with attempts to centralize policymaking and growing divisions among the members of the peak associations for agriculture and business –Nôkyô and Keidanren respectively (see Solís



2008). One of the most important changes, however, is the growing politicization of trade policy with the more active intervention of politicians attuned to public opinion trends. Consequently, the traditional separation of politics and economics vis-à-vis China has been harder to maintain and the most consistent demand of the Japanese business community –an FTA with China- has gone unheeded. But the Japanese agricultural lobby also suffered a serious blow as Japan decided to pursue a security-motivated FTA with Australia that will impose much larger adjustment costs on Japanese farming than previous trade deals.

*Commercial opportunity versus political rivalry*

As the examples above show, the pull and tug of contradictory competitive pressures has presented Japanese policy-makers with a central dilemma: whether to pursue economic opportunity by signing a bilateral FTA with China (that could become the centerpiece for a more cohesive regional integration project) or to respond to political rivalry by developing a competing and overlapping FTA network. This decision will loom large on the nature of regional integration in East Asia.

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**Table 1. Japan's FTA Network**

Partners	Status	Export Share*	FDI Share	Issue Scope**
Singapore	In force (Nov. 2002)	3.6%	1.8%	Investment, Services, Economic Cooperation
Mexico	In force (April 2005)	1.0%	0.7%	Investment, Services, Economic Cooperation
Malaysia	In force (July 2006)	2.6%	0.6%	Investment, Services, Economic Cooperation***
Chile	In force (Sept. 2007)	0.1%	0.1%	Investment, Services
Thailand	In force (Nov. 2007)	3.1%	2.1%	Investment, Services, Economic Cooperation
Philippines	Signed (Sept. 2006)	2.0%	1.1%	Investment, Services, Economic Cooperation
Indonesia	Signed (August 2007)	1.5%	1.4%	Investment, Services, Economic Cooperation
Brunei	Signed (June 2007)			Investment, Services, Economic Cooperation
ASEAN	Signed (April 2008)	13.3%	5.7%	Economic Cooperation****
Korea	Negotiation suspended	6.7%	1.6%	Not available
GCC	Negotiation (Sept. 2006)			Not available
Switzerland	Negotiation (April 2007)	0.4%	0.2%	Not available
Australia	Negotiation (April 2007)	2.0%	2.5%	Not available
India	Negotiation (January 2007)	0.5%	0.4%	Not available
Vietnam	Negotiation (January 2007)	0.5%	0.2%	Not available
ASEAN + 6	Initiative only (May 2006)			Not available

Notes:

\* Trade and FDI shares of overall trade and investment flows represent averages for the years 1999-2004

\*\*None of the Japanese FTAs include labor and environmental clauses

\*\*\* The Japan-Malaysia FTA does not provide WTO plus concessions on elimination of performance requirements or on government procurement

\*\*\*\* The Japan-ASEAN FTA does not provide new and binding obligations on investment and services, but a committee to explore these issues is to be formed one year after enactment.

Sources: Japan Ministry of Foreign Affairs website, Trade data from JETRO, 2005 and MOF's trade statistics

([http://www.customs.go.jp/toukei/suii/html/time\\_e.htm](http://www.customs.go.jp/toukei/suii/html/time_e.htm)),

FDI data from MOF's website (<http://www.mof.go.jp/english/e1c008.htm>).

**Table 2****Assymetrical Liberalization: Japan's FTAs in Comparative Perspective**

(percentage of tariff lines liberalized)

<u>NAFTA (US-Mexico)</u>	<u>10 years</u>	<u>After 10 years</u>	<u>Exceptions</u>
Industrial tariffs	97%	3%	0%
Agricultural tariffs	97%	3%	0%
<u>EU- Mexico</u>			
Industrial tariff	100%	0%	0%
Agricultural tariff	59%	0%	41%
<u>US-Australia</u>	-	-	-
Industrial tariff	100%	0%	0%
Agricultural tariff	59%	8%	33%
<u>Japan- Singapore</u>			
Industrial tariff	100%	0%	0%
Agricultural tariff	39.4%	0	61%
<u>Japan- Mexico</u>			
Industrial tariff	94%	0%	6%
Agricultural tariff	52%	8%	41%
<u>Japan-Malaysia</u>			
Industrial tariff	81%	10%	9%
Agricultural tariff	28%	17%	55%

Note: Percentages may not add to 100% due to rounding.

Sources: Annex 1 from respective trade agreements, Cheong Inko and Jungran Cho (2006) Market Access in FTAs: RIETI Working Paper Series, and Jae Lee Chang, Jeong Hyung-Gon

et al. (2006) "From East Asian FTAs to EAFTA," KIEP policy report.



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