

# 貿易政策逆轉：1995 年以來的日本貿易政策的演進

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## 中文摘要

過去 15 年日本一直面對經濟競爭力以及經濟力量與安全不對稱的問題。從 1960 年代至 1990 年代中期日本是東亞區域發展的驅動力。但是，90 年代末期的亞洲金融危機與日本正在進行中的經濟變遷使日本帶領東亞區域發展的微弱領導地位結束。越來越多的徵兆顯示日本正在掙扎著進入一個其已不再對區域發展的方向與速度擁有很大影響力的區域。日本因而迅速地轉變其貿易政策，透過越來越聚焦於易於獲利的雙邊協定與經濟伙伴協定（EPA）的議程來建立戰略貿易伙伴關係以減少更廣泛的全球貿易議程式微所帶來的不利。

在此區域貿易協定（RTA）日益增加成爲區域貿易政策驅動力的時代，日本感受到必須在自身被摒棄之前加入

RTA，將自身與以雙邊架構為基礎的的 RTA 相連接起來。於是，自 90 年代末期日本便從過去透過 APEC 與 WTO 來促進多邊經貿發展與穩定貿易關係轉變到經由雙邊貿易協定增加經濟合作。

日本對傳統貿易協定採取寬廣而膚淺的作法，即將傳統經貿協定所涉及的領域擴大，但限制如農業等傳統上困難的領域不受波及，利用其經濟規模為後盾進行貿易協商。日星 EPA 及其後的日本與墨西哥、馬來西亞泰國以及最近的菲律賓等國的貿易協定皆凸顯其優惠的本質，而非 APEC 與 WTO 所強調的全面性協定。

總之，日本試圖以雙邊貿易策略來補充過去所聚焦的全面多邊貿易策略。

# Reverse Engineering Trade Policy: The evolution of Japan's trade policy after 1995

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**Key words :** Japanese trade policy, EPA, RTA, FTA

Over the past 15 years, Japan is facing issues relating to economic competitiveness and security that had hitherto been anathema to the image of Japan as the globe's second largest economy. An increasingly obvious observation would be to suggest that Japan is struggling to enter into a regional environment where it no longer has the luxury of influencing the direction and pace of regional development. After spending the majority of the period after the Second World War driving the process of regional integration through one means or another, Japan has found itself in an uncomfortable position. Over the past fifteen years, Japan has lost the economic influence and dynamism that drove its claims for regional economic centrality. It no longer drives the debate on regional development in the way it did for 30 years between the 1960s, up to the mid 1990s. The combination of the Asian Crisis and Japan's ongoing economic transformation in the late 1990s ended the era of tenuous Japanese leadership in driving regional development, a position in doubt since the late 1980s. Japan has since quickly moved to reverse engineer a trade policy that can mitigate the

decline of its wider global trade agenda with an increasing bilateral concentration on easy gains and strategic trade partnerships through its agenda of Economic Partnership Agreements (EPAs). Since the late 1990s, Japan has moved from an emphasis on its multilateral economic development through APEC and the WTO towards stabilising trade relationships and increasing economic cooperation through bilateral deals. In an era when the 'domino theory' of increasing Regional Free Trade Agreements (RTAs/ FTAs) is driving regional trade policy, Japan has felt pressured to join in and tie itself into a bilateral framework of RTAs before it gets left out of the loop.

In undertaking a process of seeking EPAs, Japan is struggling to balance a number of different factors which are making this transition far more difficult. In 2004, Munakata saw that three factors (extra-regional pressures, the desire for an effective cooperation mechanism and intra-regional competitive dynamics) were driving East Asian initiatives towards regional integration.<sup>1</sup> This paper will look at a number of issues related to the tensions flowing from these factors and the ways in which they have influenced Japanese trade policy. The rise of China is a major factor, in terms of regional trade patterns and the effect that China is having in hollowing out Japan's industrial base. Japan is increasingly connected to China's trade policy and being asked to react to China's regional trade policy rather than concentrating on its favoured territory of broad-scale regional cooperation and regional financial cooperation. This can be seen through the debate over East Asian trade agreement proposals

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<sup>1</sup> N. Munakata, "Regionalisation and Regionalism: The Process of Mutual Interaction", <http://www.rieti.go.jp/jp/publications/dp/04e006.pdf>, June 2006.

centred around ASEAN. More worrying for Japan is the prospect of a China-ASEAN FTA deal that gives better outcomes for each party than those deal 'sweeteners' that Japan can offer through an EPA.

This article concentrates on an even larger problem. More central to Japan's trade problems are actually determining the extent and scope of EPAs. This METI-driven strategy practices a 'wide but shallow' policy towards negotiations, and mirrors an ongoing policy of domestic deregulation favoured by the Koizumi Cabinet. While trumpeted as a 'new-age trade agreement' that is a "more comprehensive concept than an FTA",<sup>2</sup> Japan's template for the entire EPA strategy is based on the Japan-Singapore Economic Partnership Agreement (JSEPA). An ideal case for Japan, but a poor overall example given that Singapore doesn't have an agriculture sector, this set of easy cooperation choices are not faced anywhere else in the region or in any of the EPAs it has since signed with Malaysia, Mexico, and soon with The Philippines and Thailand.<sup>3</sup> While the policy provides a way of pushing forward Japan's regional economic integration, it is a complex procedure that ironically makes use of Japan's economic clout to gain beneficial outcomes, much like the US has over the past 30 years. While reverse engineering such a policy is useful for pushing forward with economic

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<sup>2</sup> H. Kuroda (Vice-Minister of Finance) in Oct 2002, "Can Asia be Economically Integrated?", <http://www.mof.go.jp/english/if/vmi021002e.htm>, June 2006.

<sup>3</sup> MOFA, "Japan's Efforts on Economic Partnership Agreements (EPAs)", <http://www.infojapan.org/policy/economy/fta/effort.pdf>, July 2006.

integration, Japan pushing an arguably superficial trade policy does have its risks.

## **Background**

Japan's interest in trade is based on geography and the poor hand it has been dealt on natural resources. Japan is incredibly reliant on trade, a fact that driven Japan's foreign policy more or less since the Tokugawa Shogunate in the early 17<sup>th</sup> Century. The vulnerability associated with access to raw materials and markets beyond its own shores has elevated trade beyond the level at which trade usually occupies national policy in other countries. Japanese trade policy in the postwar period was, in as much as it was maintaining the US alliance, about minimising its economic vulnerability. As a state reliant on raw material imports for the majority of its export-oriented economy, Japan sought to embed its position up to the 1970s as the 'workshop of Asia' through two policies.

On the one level, Japan relied upon practical US support through bilateral trade deals with the US or its allies,<sup>4</sup> of which trade with South Korea, Australia and Malaysia/Singapore were very important. This was coupled with the US underwriting the GATT process of multilateral tariff reductions from the 1950s onwards. It also had a corollary of removing regional tensions accumulated over the course of Japan's autarchy during the first

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<sup>4</sup> Japan's Asian relationships largely began after Japanese war reparations. See W. Borden, *The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*, University of Wisconsin Press, Madison, 1984, pp. 65-66, 80.

part of the 20<sup>th</sup> Century. On another level, through Japanese economist Kojima and ideas for a regional free trade area, Japan pushed from the mid 1960s a view of increasingly integrated trade patterns that would not only benefit the states of the region but would also comparatively benefit the larger economies more, with Japan as a core state to benefit. While the policy framework had at its heart a desire to give Japanese *keiretsu's* unfettered access to regional markets for raw materials and industrial goods, it fitted into the prevailing notion at the time of the wider benefits to be gained through liberalisation. Japan's policy has since been described as 'resource diplomacy' or 'enterprise regionalism'.

However, Japan was far happier as a trade regime 'free rider' than as a successful East Asian industrial power. As the GATT process continued from the late 1960s onwards, Japan was increasingly under pressure from the US to give up 'the easy road' of export-oriented industrialisation and focus on domestic production and market deregulation. With its trade surplus with the US, Europe and NIEs growing increasingly larger during the 1970s and 1980s, Japan faced heavy pressure to curb its heavily integrated system of administrative guidance and corporate cooperation. Its heavily protected markets for agricultural goods and the high levels of non-tariff barriers traditionally posed problems for Japan. While manufacturing has proved to be a useful bargaining chip in trade relations on a global, regional and bilateral basis, agriculture remained an ongoing hindrance in direct trade negotiations. For Japan, agriculture is as much about security as it is about trade, given that Japan is nutritionally only

40% self sufficient.<sup>5</sup> However, this policy of exclusion continues through to forestry and fisheries, with Japan recalcitrant to any attempt to put these sectors on the negotiating table.

### ***Japanese Policy on Trade: Integration, not Liberalisation***

Japanese trade policy, as with all policy decisions, are not solely determined in response to external factors. It is also interesting to see the means by which the different bureaucratic apparatuses have sought to utilise trade as a means to further their own domestic agendas. While MITI (now METI) for a long time held the majority opinion on trade policy direction, MOF and to a lesser extent MOFA and MAFF were also determined to influence Japan's trade position. Ravenhill notes this competition ranged through discussions leading to the creation of APEC and whether it would overshadow other fora like PECC and PAFTAD.<sup>6</sup> While METI has driven the trade agenda (it was primarily through the auspices of the MITI that Japan and its *keiretsus* played a significant role in establishing export-orientated growth models in countries such as Thailand, Malaysia, Indonesia and the Philippines since the mid-1980s<sup>7</sup>),

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<sup>5</sup> The Japan Times, "Revitalising Japanese Agriculture", <http://search.japantimes.co.jp/print/ed20060701a1.html>, July 2006.

<sup>6</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, Cambridge University Press, New York, 2001, p. 99.

<sup>7</sup> Higgott, R. and Stubbs, R., 'Competing Conceptions of economic regionalism: APEC vs EAEC in the Asia Pacific', *Review of International Political Economy*, 2(3), Summer 1995, p. 527. For a more in-depth look at

MOF has sought to change the focus away from trade on regional financial cooperation, while MOFA has sought to focus on possible regional objections to Japanese economic diplomacy.<sup>8</sup> Regardless of bureaucratic disagreement, all have agreed on the importance of regional economic integration and technical facilitation. It has been a far more successful ploy in intra-ministerial struggles to talk about cooperation than it has been to talk about liberalisations winners and losers.

Additionally it is useful to note the method by which Japanese policy has sought to influence the wider debate on issues such as trade beyond domestic circles. In expressing itself, Japanese policy has seldom been overt, following a consensus building approach on an international level, much like it is done on a domestic level. Generally expressed quietly and sometimes through the agency of others, its style of international policymaking has been characterised as 'leading from behind' and 'leading by stealth'.<sup>9</sup> Mainstream commentators like Ogura

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the relationship between Japan and the region, especially for administrative guidance, see W. Hatch, "Exporting the State: Japanese Administrative and Financial Guidance in Asia,"

[\[http://www.pro.harvard.edu/abstracts/083/083001HatchWalte.html\]](http://www.pro.harvard.edu/abstracts/083/083001HatchWalte.html),

January 2000.

<sup>8</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, p. 98- 101.

<sup>9</sup> see Alan Rix, 'Japan and the region: leading from behind', in Richard Higgott, Richard Leaver, and John Ravenhill (eds), *Pacific Economic Relations in the 1990s :Cooperation or Conflict?*, Boulder, Lynne Rienner, 1993, pp. 62-82 and Reinhard Drifte, *Japan's Foreign Policy for the Twenty First Century: From Economic Superpower to What Power?*, London, Macmillan, 1996.

(he suggested that Japan build "a theory of Asian capitalism")<sup>10</sup> and Funabashi (who suggested that Japan should have a central role in the creation of a "cohesive Asian worldview") have offered their own versions of Japan's policy leadership in the region.<sup>11</sup>

This passive approach can be seen in its attempts to develop an overall foreign policy and trade profile. It has tried to sail a middle course; not upsetting its close relationship with the US, whilst maintaining a strong relations with East and Southeast Asia. Part of this strategy is seen in the Japanese use of regionalism in the past 10 years to try and reconcile these two threads of Japanese policy.<sup>12</sup> Through the APEC, PBEC, PECC and PAFTAD fora, it sought to influence the way in which the region would view economic integration and Japan's position within it. Regional approaches afforded Japan flexibility in a policy area which, given Japan's trade reliance, demanded long-range planning. Through regional trade, Japan could on the one hand gain wider access for Japanese business to trade and invest around the Pacific. On the other, it could use the vagaries

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<sup>10</sup> Kazuo Ogura, "Creating a New Asia," [\[http://www.japanecho.com/docs/html/260305.html\]](http://www.japanecho.com/docs/html/260305.html), April 2000.

<sup>11</sup> Johnstone, C. B., 'Paradigms Lost: Japan's Asia policy in a time of growing Chinese Power', *Contemporary Southeast Asia*, 21(3), December 1999, p. 372. It is interesting to see that Japan has taken an official route which corresponds with each of these suggestions, as Japan's consensus-based political system would tend to indicate.

<sup>12</sup> For an overview of Japanese diplomacy over the past 30 years, see M. Kohno, "In Search of Pro-active Diplomacy: Increasing Japan's International Role in the 1990s," CNAPS Working Paper, [\[http://www.brookings.org/fp/cnaps/papers/1999\\_kohno.html\]](http://www.brookings.org/fp/cnaps/papers/1999_kohno.html), November 1999.

of consensus-building tactics in multilateral fora to avoid making concrete commitments to reduce domestic barriers to reciprocal trade and investment.

If regional approaches were a natural fit for Japan's trade policy, why has Japan moved to embrace trade bilateralism? First, as in most cases of Japanese foreign policy, the US is front and centre of the causes. Bilateral trade had arrived much earlier but took time to permeate through the optimal solutions posed by multilateral organisations. Ravenhill suggests the move towards 'open' trade policies, on a multilateral, regional or bilateral basis, were initiated by the US during the 1980s, in an era when the Second Oil Crisis and domestic liberalisation programs around the world opened up opportunities to reduce the US trade deficit.<sup>13</sup> That this period coincided with the struggle to attain consensus though the Uruguay Round of the GATT reinforced the sense that, while common goals on a global level were preferred, political cycles in countries with trade deficits needed results far quicker than comprehensive world talks could provide. As the US was the main county driving this process, impatience on improved trade access reinforced the threat that a declining hegemon could pose to regional trade, especially in light of the US-driven manipulation through the Plaza Accord of 1985. In 1987, the US ambassador suggested that a feasibility study for a US-Japan FTA be considered.<sup>14</sup>

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<sup>13</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, p. 81.

<sup>14</sup> JETRO, *Prospects for Regional Trade Agreements in East Asia*, [http://www.jetro.go.jp/ec/e/stat/surveys/fta\\_eastasia.pdf](http://www.jetro.go.jp/ec/e/stat/surveys/fta_eastasia.pdf), June 2006, p. 1.

For Japan, countries reliant on trade (especially with the US), such as Japan, Singapore, South Korea and Australia, looked to regional trade deals to avoid the harsher ramifications of bilateral haggling with the US. Linked to this, Japan has often looked to increase technical cooperation and facilitate business links. In subsequent years, following the impact of the Accords, Japan lost competitiveness in complex manufacturing with the rest of the region.<sup>15</sup> Followed by the implosion of the 'bubble' in the domestic economy, Japanese industry relocated to East Asia to try and re-establish international competitiveness.<sup>16</sup>

Another reason for Japan's movement towards bilateralism lay in the ultimately failed attempt at a regional trade organisation. For Japan, the regional trade body that was to become APEC after 1990 neatly filled a number of issues that had punctuated its regional diplomacy. First, Japan was reticent to actively pursue official bilateral lines of communication in East Asia, often preferring businesses to negotiate with the imprimatur of Japan's government. This avoided regional claims of Japan *actively* pursuing regional economic control at the expense of wider regional development.<sup>17</sup> Second, a potential

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<sup>15</sup> "Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?,"

[<http://www.warwick.ac.uk/fac/soc/CSGR/wpapers/wp2499.pdf>].

<sup>16</sup> A good overview of Japan's initial banking crisis and the beginnings of the Asian Financial Crisis can be found in Leonard Seabrooke, "Gunslingers, Gaiatsu and Globalisation: US – Japanese Pathologies of the Asian Financial Crisis," [<http://www.ssn.flinders.edu.au/dvst/pubs/globalisation.pdf>], September 2000.

<sup>17</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, pp. 98-99.

regional trade agreement fulfilled a policy long pushed by economists such as Kojima who believed that trade liberalisation offered Japanese *keiretsu* the advantages of standardisation of regulation as well as markets access. That this policy was remarkably similar to Akamatsu's earlier GEACS idea, albeit without direct regional political control, did not escape East Asian neighbours.

Finally, a regional trade grouping allowed Japan to diminish the impact of increasingly torrid annual US-Japan bilateral meetings that had begun in the late 1960s. The benefit of an institution like APEC was through the ability to filter US demands through a sieve. Japan could not be singled out for culpability; instead the US could focus their growing unhappiness with overall East Asian trade surpluses through wider untargeted measures.<sup>18</sup>

APEC did have the potential to find new ground towards long standing trade issues within the Asia Pacific and that is clear from Japan's promotion of the idea. Kikuchi and Watanabe argued that the increasing liberal-influenced multilateralisation of the region through APEC and the ASEAN Regional Forum (ARF) could gradually overcome the differences and interests in the Asia Pacific area. The induction of two countries that had avoided official and broad-reaching regional trade frameworks in the Asia Pacific, namely Japan and the US, strengthened the view that this could have been the beginning of a new regional

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<sup>18</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, p. 83.

era.<sup>19</sup> However, the inherent tension between the groupings' consensual basis and the Western desire for liberalisation became clear.

The institutional weaknesses of APEC have become more obvious over time. They include the reliance on 'concerted unilateralism' (states unilaterally removing barriers to persuade others to do likewise) and peer-group pressure to deliver far-reaching liberalisation without negotiations, the lack of an active secretariat and the rotation of the chair around 21 diverse members, and a less-coherent Asia Pacific community with membership expanded to the likes of Russia and Peru.<sup>20</sup>

While officials noted that APEC went into "visible decline" during the latter half of the 1990s, much of this had to do with the competing visions of what the organisation could achieve. If measured on US interests in APEC, the success of the organisation would be based on the forum becoming another opportunity to pressure East Asia into further deregulation and trade liberalisation. The failure of Japan to entertain reductions to agricultural barriers outside of the WTO in Osaka during 1995 and the general inability to gain overall acceptance to pursue concerted Early Voluntary Sectoral Liberalisation (EVSL) in Vancouver during 1997 made it clear that APEC would not become more than a discussion forum in future. JETRO

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<sup>19</sup> T. Kikuchi and A. Watanabe, 'Japan's Perspective on APEC: Community or Association?', in 'America, Japan, and APEC: The Challenge Of Leadership in the Asia-Pacific', *NBR Analysis*, 6(3), November 1995, p. 24.

<sup>20</sup> J. Kunkel, 'Australia's trade policy in an age of globalisation', *Australian Journal of International Affairs*, 56(2), July 2002, p. 245.

indicated in 2003 that recent developments in voluntary reductions by APEC members were neither consistent with APEC goals of consensus or informality, nor assisted in reducing barriers to sensitive trade areas.<sup>21</sup>

If measured by Southeast Asian and Japanese interests, APEC could be a consultative body that discussed wider developmental issues including trade, investment and wider cooperation. The best that can be said of APEC is that it began a process of regional dialogue that has led to an understanding of regional positions on cooperation and assisted in some regulatory standardisation (such as visas and passports). Yet, the core difference between the two visions of APEC, between vaguer ideas of broader engagement and a more legalistic results-oriented approach, continue to add extra uncertainty into the complex dynamics of regional economic relationships.

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<sup>21</sup> JETRO, *Prospects for Regional Trade Agreements in East Asia*, p. 5.

## ***Towards EPAs***

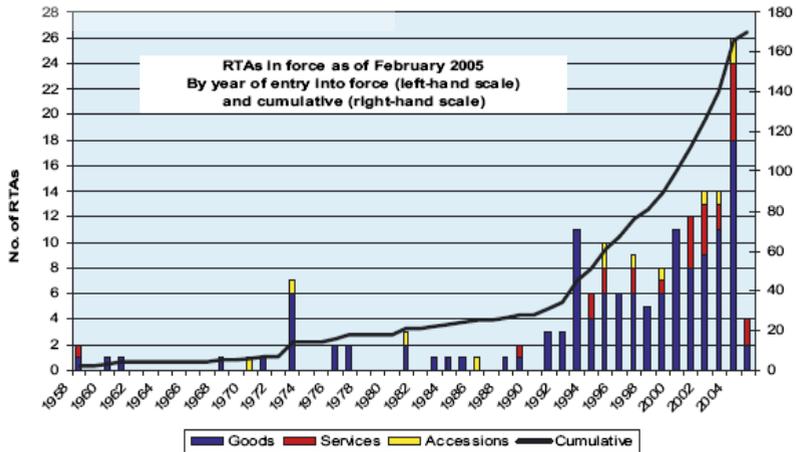
With APEC floundering, Japanese trade policy moved to take advantage of the 'old' policy of bilateralism. From the mid-1980s onwards, bilateral deals had gained favour with various nations around the world looking for insurance against an increasingly negative global economic climate and a deadlocked round of GATT. These FTAs were seen in terms of insurance, despite their diversionary and discriminatory effect on trade flows.<sup>22</sup> Academic opinion is divided over whether FTAs or Regional Trade Agreements (RTAs) are 'stepping stones' or 'stumbling blocks'. Regardless of the merits, anecdotal evidence later backed by analysis from WTO researchers in 2005, suggested that there is a 'domino effect' apparent in the increasing number of RTAs being established around the globe (see Figure 1).<sup>23</sup>

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<sup>22</sup> J. Crawford and R. Fiorentino, 'The Changing Landscape of Regional Trade Agreements', *WTO Discussion Paper No. 8*, [http://www.wto.org/english/res\\_e/booksp\\_e/discussion\\_paper8\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/discussion_paper8_e.pdf), p. 6.

<sup>23</sup> J. Crawford and R. Fiorentino, 'The Changing Landscape of Regional Trade Agreements', *WTO Discussion Paper No. 8*, [http://www.wto.org/english/res\\_e/booksp\\_e/discussion\\_paper8\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/discussion_paper8_e.pdf) and J. Kunkel, 'Australia's trade policy in an age of globalisation', *Australian Journal of International Affairs*, 56(2), July 2002, p. 245.

Figure 1: RTAs notified to the WTO/GATT (1948-2005)



Source: J. Crawford and R. Fiorentino, 'The Changing Landscape of Regional Trade Agreements', *WTO Discussion Paper No. 8*, [http://www.wto.org/english/res\\_e/booksp\\_e/discussion\\_paper8\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/discussion_paper8_e.pdf),

The move towards increasing bilateralism in trade had been avoided by Japan, because, as noted earlier, Japan was fearful in becoming attached to a system of bilateral agreements that might discriminate against it. This fear had precedents in the 20<sup>th</sup> Century where Japan was targeted even when it became a member of GATT. Nevertheless, METI switched its support behind the idea of RTAs in the 1999 METI White Paper, when it signalled that a Northeast Asian Trade Agreement would be a useful policy move, especially considering the positive trade impact of NAFTA and EU and the negative attitude towards the trade agendas of the WTO and APEC. This followed numerous approaches in the year before by Mexico and South Korea in

particular.<sup>24</sup> The White Paper also suggested given the overall critical mass of FTAs being signed, and Japan's continued inaction on this front, Japan would be at a competitive disadvantage should it not become involved.<sup>25</sup> Hence, rather than being attracted to bilateralism for its benefits, Japan joined a bandwagon heading down a pre-existing hill. Remaining outside the web of bilateral arrangements was no longer an option if Japan wanted to remain competitive and free from passive trade discrimination.

Japan began looking for partners in trade with which to conduct bilateral agreements. This has occurred along a number of concurrent paths. For Japan, ideally it would like to strengthen regional cooperation in East Asia. Prime Minister Mori pushed for regional Comprehensive Economic Partnerships (CEPs) at the ASEAN+3 summit in Singapore during November 2000, and then a year later at the Japan–ASEAN summit.<sup>26</sup> More recently, Chief Cabinet Secretary (now Prime Minister) Shinzo Abe and Trade Minister Nikai suggested a 16-nation FTA along the same lines, albeit with little detail.<sup>27</sup> While still seeking a comprehensive regional solution, Japan also looked to other

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<sup>24</sup> T. Terada, 'The making of Asia's First Bilateral FTA: origins and regional implications of the Japan–Singapore economic partnership agreement', *Pacific Economic Papers* No. 354, 2006, p. 9.

<sup>25</sup> J. Ravenhill, *APEC and the Construction of Pacific Rim Regionalism*, p. 189.

<sup>26</sup> J. Gilson, 'Complex regional multilateralism: 'strategising' Japan's responses to Southeast Asia', *The Pacific Review*, 17(1), March 2004, pp. 82-83.

<sup>27</sup> The Japan Times, "Japan to pitch 16-nation FTA at ASEAN meeting", <http://search.japantimes.co.jp/print/nb20060803a4.html>, August 2006.

countries interested in moving beyond the slow pace of regional discussions. Singapore offered such a deal with a number of additional benefits.

### ***Towards a Singapore Strategy***

Following on from the 1999 White Paper and the difficulty in gaining wide spread regional agreement on a blanket regional trade agreement, Japanese policymakers started raising the idea of increased trade bilateralism, a point that was picked up by the more integrated states in Japan's overseas production network, such as Malaysia and Thailand. It begun by signing the Japan-Singapore Economic Partnership Agreement (JSEPA) in 2002, followed by Mexico three years later and Malaysia in 2006. Recently Japan sought to begin discussions with Gulf States about a possible regional EPA to be signed over the next couple of years, in addition to Japan's efforts in seeking a wider ASEAN agreement.<sup>28</sup> As METI suggested in a recent presentation, it enabled Japanese businesses additional market access and opportunities while offering their EPA partners similar access to Japan's markets for goods and services, as well as boosting the competitiveness of Japanese companies.<sup>29</sup> It

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<sup>28</sup> See The Japan Times, "Japan, Gulf States to negotiate FTA", <http://search.japantimes.co.jp/print/nb20060407a6.html>, April 2006 and "ASEAN, Japan hopes to ink FTA by early '07", <http://search.japantimes.co.jp/print/nn20060411a2.html>, April 2006. The ASEAN agreement is only likely to avoid the more recently accepted members of ASEAN in Indochina.

<sup>29</sup> METI, "Japan's Policy on FTAs/EPAs", <http://www.meti.go.jp/english/information/downloadfiles/FTAprogrss200503.pdf>, June 2006.

was this aspect of competitiveness and business promotion that Japan desired that would be mirrored by Singapore in its desire to recover from the Asian Financial Crisis and remain globally competitive.

JSEPA was the first and arguably easiest deal to sign for both countries: for Japan it was the first bilateral agreement it had signed; for Singapore it was the second after New Zealand in 2000. The economic partnership agreement offered each what the other wanted without a long drawn out negotiation process. The base figures for the agreement are initially impressive.

When the JSEPA was signed in 2002, tariffs on goods covering 98.5 per cent of total trade between the two nations were abolished, as compared to 65 per cent previously. Singapore agreed to remove tariffs on all imports from Japan, while Japan increased its zero tariff commitments to Singapore by more than twice the amount previously imposed, from 3,087 to 6,938 products (from 34 per cent to 77 per cent).<sup>30</sup>

For Singapore, this agreement had economic, political and strategic benefits. With East Asia still reeling from the Asian Crisis, opening up links with powerful economies gained them greatly improved access as well as increased opportunities in Japan's market. Antagonism towards Singapore in Malaysia and Indonesia also acted to underline the importance of increasing

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<sup>30</sup> T. Terada, 'The making of Asia's First Bilateral FTA', p. 17.

the linkages between Singapore and the great powers in the region.<sup>31</sup>

For Japan, it offered an easy step into such a deal and the first test of its 'broad based, shallow depth' strategy. It looked to surpass simple trade comprehensive trade liberalisation for 'broader and deeper' economic integration<sup>32</sup> which focused on trade outcomes through tackling intellectual property and investment, a long held foreign policy for Japan as Hatch has discovered.<sup>33</sup> This can be seen in Table 1 as the EPA covers areas beyond those usually associated with trade. Singapore, like Japan, is a developed economy with a well-developed and lucrative service sector that offers itself as a regional hub for global business. It also had the advantage "that it would serve as a test case for the subsequent negotiations with agricultural exporters such as Mexico".<sup>34</sup>

However, given that it was Singapore that took agriculture off the negotiation table (Singapore primary agricultural export was milk, which attracted a 30.5% tariff on entering Japan), it was unlikely that JSEPA was going to replicate the same

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<sup>31</sup> D. Wall, "Koizumi trade pitch misses," [\[http://www.japantimes.co.jp/cgi-bin/geted.pl5?eo20020421a1.htm\]](http://www.japantimes.co.jp/cgi-bin/geted.pl5?eo20020421a1.htm), April 2002.

<sup>32</sup> See the remarks by current Japanese Foreign Minister Taro Aso, "The Hallmarks of Economic Diplomacy", <http://www.mofa.go.jp/announce/fm/aso/speech0603.html>, May 2006.

<sup>33</sup> See W. Hatch, *Japan's Agenda for Asian Regionalism: Industrial Harmonization, not Free Trade*, paper to the International Studies Association conference in Montreal, March 17<sup>th</sup> 2004.

<sup>34</sup> T. Terada, 'The making of Asia's First Bilateral FTA', p. 10.

pressures that Japan would face with other trading partners around the region.<sup>35</sup> And when both sides trumpet that one of the main sectors to benefit from the agreement is beer, its tempting to agree with Drysdale's comment that in terms of economic impact, JSEPA is 'trivial'.<sup>36</sup>

Nevertheless, the EPA initiative broadens the scope of negotiations and reduces the focus on pure trade, widening the areas in which bargaining can occur. For Japan, such a policy enables it far more flexibility in dealing with economic integration and cooperation and turns what is an inherent weakness (access to Japanese markets for goods) and levels the overall balance.

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<sup>35</sup> T. Terada, 'The making of Asia's First Bilateral FTA', p. 11.

<sup>36</sup> T. Terada, 'The making of Asia's First Bilateral FTA', p. 18.

**Table 1: Areas covered under JSEPA**

Liberalization and Facilitation	Enhancing Economic Cooperation
<p><b>Trade in Goods</b> Tariff elimination for goods, introduction of bilateral safeguard measures, etc.</p>	<p><b>Financial Services</b> Promotion of regulatory co-operation through sharing information etc. between the two countries, facilitate the development of financial markets, including capital markets in both countries and in Asia, improve financial market infrastructure, etc.</p>
<p><b>Rules of Origin (ROO)</b> Preventing circumvention of goods from third countries, etc.</p>	<p><b>Information and Communications Technology (ICT)</b> Dissemination of ICT, creating favorable environment for promoting electronic commerce, co-operation on skill standards, protection of private information, co-operation towards bridging the digital divide, facilitation of the procedure for accreditation/recognition of Certification Authorities, etc.</p>
<p><b>Customs Procedures</b> Co-operation through information exchange for simplifying customs procedures, harmonizing with international standards, etc.</p>	<p><b>Science and Technology</b> Promotion of co-operation in development and research in the field of life sciences, environment and advanced technology, etc.</p>
<p><b>Paperless Trading</b> Co-operation to promote electronic filing and transfer of trade-related documents</p>	<p><b>Human Resource Development</b> Promoting exchange of students and scholars, and exchange of government officials, etc. (c.f. Reference to the Joint Announcement on joint technical assistance for third-country human resource development)</p>

<p><b>Mutual Recognition</b>          Providing a framework which enables certain procedures required in the importing country to be undertaken in the exporting country.</p>	<p><b>Trade and Investment Promotion</b>          Joint activities and information exchange to promote trade and investment activities by private enterprises of both countries, etc.</p>
<p><b>Trade in Services</b>          Realization of the liberalization for more wide range of the service sectors than ones of General Agreement on Trade in Services (GATS), and expansion of scope of the beneficiaries of the Agreement, etc.</p>	<p><b>Small and Medium Enterprises (SMEs)</b>          Co-operation in promoting SME's activities and facilitation of co-operation between SMEs of both countries.</p>
<p><b>Investment</b>          Assurances of the national treatment for investments in principle, prohibit measures designed to inhibit investment, protect investors and investments, and establish dispute settlement procedures between a Party and an investor of the other Party, etc.</p>	<p><b>Broadcasting</b>          Promotion of co-operation in the broadcasting sector, through information exchange and sharing among the relevant authorities, etc.</p>
<p><b>Movement of Natural Persons</b>          Facilitation of the movement of natural persons between the two countries for business purposes and mutual recognition of professional qualifications.</p>	<p><b>Tourism</b>          Information exchange concerning tourism promotion, etc. (c.f. The twinning of streets between Ginza and Orchard Road is mentioned in the Joint Statement)</p>
<p><b>Intellectual Property (IP)</b>          Facilitation of patenting process in Singapore, promotion of bilateral information exchange, etc.</p>	

Source: <http://www.mofa.go.jp/region/asia-paci/singapore/area0201.html>

The extension of the JSEPA template onto other countries is a question worth asking. In the case of Mexico, the big picture reason for the deal, namely increased investment access to NAFTA and reduced tariffs on manufactured goods, was almost lost in the ongoing battle to protect agriculture. More than offering a new window onto an area where Japan had traditionally suffered in comparison with other states, the negotiations offered a new view on an established base. While it was enacted in April 2005, the agreement stumbled frequently on the level of access Japan was willing to give Mexican primary producers, in this case in the citrus and pork industries. In the end, an agreement on a sliding set of tariff reductions over a quota (85000 tons of pork and 6500 tons of citrus juice) was enough to gain acceptance on both sides.<sup>37</sup>

Similarly, in the case of Thailand, while Japan sought reductions in manufacturing tariffs and access to government acquisitions and the financial sector, 15 agricultural products are yet to be categorised under the terms of the Japan Thailand EPA.<sup>38</sup> All agricultural, forestry and fisheries goods are expected to be tariff free after the agreement has been in force for 10 years.

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<sup>37</sup> W. Hatch, *Japan's Agenda for Asian Regionalism: Industrial Harmonization, not Free Trade*, paper to the International Studies Association conference in Montreal, p. 14.

<sup>38</sup> MOFA, "Japan-Thailand Economic Partnership Agreement - Attachment 2", [http://www.mofa.go.jp/region/asia-paci/thailand/joint0509/joint0509\\_2.pdf](http://www.mofa.go.jp/region/asia-paci/thailand/joint0509/joint0509_2.pdf), July 2006.

As is widely noted, bilateral trade deals are about far more than pure economics. Politics and other issues in strategic and social policy are inherently involved in determining countries that are suitable for such enhanced cooperation. Given the wider implications, it also possible to see the EPA process hindered as much by political, strategic and other factors beyond economics. Ironically, the fact that bilateral deals carries with them long-standing issues undermines the inherent logic of bilateral deals and their desire to attain quick results. An interesting case in point is that of the ongoing discussions between Japan and Australia, two countries with natural complementarities and with shared interests beyond the scope of economic integration. The joint press statement of 'Australia-Japan Creative Partnership' in 2002, most of the points contained within the initial statements were restating traditional diplomatic issues such as Japan's desire to become a permanent member of the UNSC, the importance of the continued US presence in the region and differences in opinion over the Kyoto Protocol. The other major points were more security focused, describing shared attitudes towards the war against terror, Japan's role in East Timor, the rebuilding of Afghanistan and broader regional security.<sup>39</sup>

As Goodall surmised, the visit did not really produce much in the way of results, beyond a brief mention of Koizumi's proposal for the extension of an East Asian economic community announcement made in Singapore in January.<sup>40</sup>

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<sup>39</sup> Ministry of Foreign Affairs of Japan, "Joint Press Statement by Prime Minister John Howard and Prime Minister Junichiro Koizumi," [<http://www.mofa.go.jp/region/asia-paci/pmv0204/joint.htm>], May 2002.

<sup>40</sup> Alan Goodall, "Smiling Koizumi guarded on free trade,"

While there has been some progress on talks, they are currently up to the 3<sup>rd</sup> Joint Study into the potential for an enhanced relationship.<sup>41</sup> Given the political significance of agriculture and the emotions tied in with it, Australia will want some form of market opening on this front. Given the domestic complexities of following this path, Japan will be trying to negotiate out the more intrusive demands for cuts in domestic agricultural protection through opening access to financial markets and other service areas.

Similarly complex cases can be seen with South Korea and Taiwan. After being the state that initially asked Japan to consider an FTA, after an initial study in 2003, 5 years after Kim Dae Jung's first sign of interest, nothing has happened due to ongoing bilateral tensions over Yasukuni Shrine and Takeshima Islands. In October 2001, Economic Minister Lin Hsin-i suggested to his Japanese counterpart that think tanks in each country undertake scoping studies on a potential agreement between the two economies. However, because of fears of repercussions from China, Japanese officials and business leaders were quick to decline the option.<sup>42</sup> Comprehensive economic integration are optimal goals but require optimal conditions.

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[<http://www.japantimes.co.jp/cgi-bin/geted.pl5?eo20020508a1.htm>], May 2002.

41 MOFA, 'Australia-Japan Trade and Economic Framework: The 6th Joint Consultative Committee meeting (JCC) and The 3rd Joint Study for Enhancing Economic Relations between Japan and Australia, including the Feasibility and Pros and Cons of a Free Trade Agreement

42 W. Hatch, *Japan's Agenda for Asian Regionalism: Industrial Harmonization, not Free Trade*, p. 11.

## The China Effect

Along with the growth of EPAs, the other major effect on Japanese trade policy is China, through the pace of economic growth and its integration into the East Asian economy. More than just an element of foreign policy focused on domestic economic health, the rise of China and the influence on Japan as its largest trade partner is causing a series of problems that have yet to be resolved. China's rapid jump into the regional market for regional economic agreements through initiatives such as the ASEAN-China Free Trade Area (ACEFTA) has overshadowed Japan's responses to the push for greater regional economic integration. One of the more interesting aspects of the 2001 METI White Paper (and especially Chapter 1) is the amount of space devoted to the rise of China and its increasing impact on the rest of East Asia; in terms of altering patterns of production, investment, trade and growth. Nearly half of the first chapter on East Asian dynamism related to China's regional impact.<sup>43</sup> In Table 2, the China effect can clearly be seen, with Japanese exports to China growing from \$31 billion to \$80 billion in the period 2001-2005, with imports growing from \$58 billion to \$109 billion over the same time period.

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<sup>43</sup> Japanese Ministry of Economy, Trade and Industry (METI), *White Paper 2001* at <http://www.meti.go.jp/english/report/index.html>.

**Table 2: Japan's Trade, 2001-2005 (\$ billions)**

		2001	2002	2003	2004	2005
U.S.	Exports	121.7	118.5	115.4	126.8	134.9
	% YoY	-14.8	-2.6	-2.6	9.9	6.3
	Imports	63.5	57.6	58.7	62.4	64.5
	% YoY	-12.3	-9.3	1.8	6.4	3.3
	Export volume growth rate	-13.3	1.5	-5.7	3.6	2.1
	Import volume growth rate	-15.0	-10.1	-11.2	9.0	1.6
EU 25	Exports	64.7	61.1	71.9	88.9	88
	% YoY	-17.6	-5.5	17.6	18.4	0.7
	Imports	44.8	43.7	48.8	57.8	59.1
	% YoY	-4.6	-2.4	11.6	16.1	3.0
	Export volume growth rate	-13.7	-3.5	5.3	7.3	-5.2
	Import volume growth rate	0.9	-1.2	-3.4	5.0	0.2
East Asia 9	Exports	156.6	173.0	210.9	264.8	279.4
	% YoY	-18.0	10.4	21.9	25.5	5.5
	Imports	141.3	139.4	161.8	195.9	219.3
	% YoY	-6.3	-1.4	16.0	21.1	11.9
Asian NIEs	Exports	87.9	94.3	110.4	139.5	145.5
	% YoY	-23.6	7.3	17.1	26.3	4.3
	Imports	38.5	35.4	38.8	46.6	51.0
	% YoY	-17.5	-8.0	9.8	20.0	9.5
	Export volume growth rate	-16.4	14.2	8.1	12.5	-5.5
	Import volume growth rate	-8.0	-3.8	3.5	4.4	5.8
ASEAN 4	Exports	37.7	38.8	43.3	51.5	53.6
	% YoY	-17.2	3.1	11.5	18.9	4.2
	Imports	44.8	42.3	47.8	55.1	59.2
	% YoY	-8.4	-5.4	12.8	15.4	7.4
	Export volume growth rate	-14.9	8.1	2.3	11.3	1.4
	Import volume growth rate	-2.4	-0.8	4.5	3.1	-1.6
China	Exports	31.1	39.9	57.2	73.8	80.3
	% YoY	2.2	28.2	43.5	29.0	8.8
	Imports	58.1	61.7	75.2	94.2	109.1
	% YoY	5.1	6.2	21.9	25.3	15.8
	Export volume growth rate	8.4	37.0	28.3	16.5	2.4
	Import volume growth rate	8.9	11.7	16.4	13.4	11.2

Note 1: Asian NIEs = Hong Kong, Korea, Singapore and Taiwan.

Note 2: ASEAN 4 = Indonesia, Malaysia, Philippines and Thailand

Note 3: ASEAN 4 export volume growth rates show ASEAN 10 data

Source: JETRO, 'Japan's Trade Trends 2005',

<http://www.jetro.go.jp/en/market/trend/special/pdf/jem0604-1e.pdf>, July 2006.

Various commentators have argued that Japan should increase the number of FTAs/EPAs it signs, especially with ASEAN, following China's commitment in 2002 to sign a FTA agreement with ASEAN. China had been pushing in this direction well before hand. At the fourth meeting of ASEAN+3/APT in Singapore in November 2000, Zhu Rongji suggested that the main elements that should be included in discussions were "the development of the Mekong River Basin, transportation and communication infrastructure, cooperation in IT, human resource development, agriculture and tourism".<sup>44</sup> In a clear attempt at differentiation with Japan, China also offered to convene an ASEAN+3 meeting between agriculture and forestry ministers and hold a related forum dealing with agricultural technology and business cooperation.

The quick acceptance of the China-ASEAN free trade agreement at the 2001 ASEAN meeting in Brunei caused concern that Japan would be hit by a substantial trade diversion effect. The China ASEAN-FTA would be operational by 2010 with China unilaterally lifting its barriers to trade by 2006. This is similar to the guidelines for liberalisation set down under APEC's 1994 Bogor protocol, under which complete liberalisation would be expected by 2010 for developed nations and 2020 for developing nations. However there is a real doubt over the practicality or enforceability of such targets. The WTO process could be expected, in all likelihood, to take about the same time and come up with less impressive results. But it is the lack

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<sup>44</sup> H. Soesastro, 'Towards an East Asian Regional Trading Arrangement', in S. Tay, J. Estanislao and H. Soesastro (eds.), *Reinventing ASEAN*, ISEAS, Singapore, 2001, p. 227.

of certainty with a global trade round that continues to drive the drive towards formalising market access and business cooperation.<sup>45</sup> Hatch discovered in an interview during 2003 with a METI official that it was this agreement that forced a hastening of Japan's EPA strategy.<sup>46</sup> What was to become The 'Koizumi Doctrine' was a reflection of the 'catch-up' diplomacy that China forced Japan into in order to keep itself involved in the process of regional institutionalisation

The changed regional circumstances have not stopped Japan trying to assert their vision of regional integration or trying to leverage regional outcomes away from a position that centralised China's regional position. In a much-anticipated speech in Singapore in January 2002, Koizumi's speech (the first enunciation of the 'doctrine') was billed as an important statement of a new Japanese push for greater regional integration. Instead it was a vague re-establishment of what many saw as a stale policy - pursuing regional integration within the region.<sup>47</sup> Increased security-based dialogues and financial assistance was promised but again without detail. In April 2002, Koizumi travelled to the Baoa Forum for Asia on Hainan Island to re-assert Japan's proposal for an East Asian economic cooperation agreement and on the "ASEAN + 5" formula (with Australia and New Zealand being the additional parties to

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<sup>45</sup> D. Wall, "Koizumi trade pitch misses."

<sup>46</sup> W. Hatch, *Japan's Agenda for Asian Regionalism: Industrial Harmonization, not Free Trade*, p. 9.

<sup>47</sup> Speech by Prime Minister Junichiro Koizumi of Japan, "Japan and ASEAN in East Asia - A Sincere and Open Partnership", [[http://www.kantei.go.jp/foreign/koizumispeech/2002/01/14speech\\_e.html](http://www.kantei.go.jp/foreign/koizumispeech/2002/01/14speech_e.html)], January 2002.

ASEAN+3).<sup>48</sup> Since then trade and relations with East Asia have taken a subservient position to strategic affairs and the US alliance. Interestingly, the rapid pace of regional trade talks and the growing influence of China has not escaped US policymakers, with US Ambassador to Japan Thomas Schieffer wary about the potential for protectionism to arise out of the changes in influence occurring in East Asia.<sup>49</sup> This is despite, as was noted earlier, the US restarting the modern process of trade bilateralism in the 1980s.

With China signing an agreement with ASEAN leaders to complete negotiations on a ASEAN-China FTA within the next decade, Japan is increasingly being isolated by China's ability to move forward in its reform agenda whilst Japan's own trade plans remain stifled by domestic resistance.<sup>50</sup> Japan has tried to fight back especially on the issue of agriculture. In 2002, the then Minister for Agriculture, Forestry and Fisheries Tsutomu Takebe argued that agriculture and fisheries should be included in any prospective free trade deal. Such FTAs should be negotiated on the basis of overall benefit for Japan, Takebe argued in a meeting with Japan Business Federation (*Nippon Keidanren*), Japan's biggest business lobby group. But while this forum was always likely to be an example of 'preaching to the choir' given the predominance of manufacturing groups who would be supportive of reductions in tariffs in manufacturing

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<sup>48</sup> D. Wall, "Koizumi trade pitch misses."

<sup>49</sup> The Japan Times, "Schieffer frets Asia-Oceania FTA idea", <http://search.japantimes.co.jp/print/nb20060420a.html>, April 2006.

<sup>50</sup> Atsushi Yamada, "ASEAN, China bypass Japan", [\[http://www.asahi.com/english/international/k2001110300145.html\]](http://www.asahi.com/english/international/k2001110300145.html), November 2001.

and secondary industries, such a move would falter on the access of agricultural goods.<sup>51</sup>

While other countries are able to use the extended boundaries to 'cherry-pick' specific sectors on which to negotiate, Japan's negotiating stance is naturally compromised because of the political sensitivities surrounding Japanese agriculture. ASEAN is already critical of Japanese 'cherry-picking', suggesting that it is generally unhappy about being asked to liberalise domestic structures in Japan's view of 'broadening' the relationship beyond trade while at the same time not compromising on continuing issues related to Japanese restrictions on foreign labour and primary produce.<sup>52</sup>

And there is something to be said for East Asian countries targeting agriculture as a sector for liberalisation as a test of Japan's willingness to enter into a mutually beneficial bilateral relationship. As Kawasaki (from the MITI Research Institute for Economy Trade and Industry or RIETI) suggested in September 2003, most of the potential pure trade agreements that Japan could sign with the region involved increased trade levels, but would diminish Japan's direct trade surplus with each. Most, apart from Thailand and Malaysia, would involve Japan

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<sup>51</sup> The Japan Times, "Include farm goods in FTAs: Takebe", [\[http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nb20020709a5.htm\]](http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nb20020709a5.htm), July 2002.

<sup>52</sup> For two examples of Japanese side-tracking on these issues, see K. Ogoura, "Rethinking ties with ASEAN", <http://search.japantimes.co.jp/print/ea20060520a1.html>, May 2006 and M. Ito, "Japan's 'strategy' criticised", <http://search.japantimes.co.jp/print/ea20060508a1.html>, May 2006.

increasing imports of regional primary sector goods.<sup>53</sup> Hence, Japan has pushed very hard on building its case for trade liberalisation on more comprehensive terms than just trade, looking to build on the '3<sup>rd</sup> Wave' of RTAs being signed around the world which incorporate easing investment conditions, regulation and policy harmonisation and access to government procurement, along with the traditional reductions in tariffs and quotas.

## **Conclusion**

Over the past decade, there has been a rapid increase in the number of RTAs coming into effect around the world. As one of the largest national trading states, Japan has been acutely aware of the shift to such bilateral agreements. As a result, Japanese trade policy has tried to manage the old with the new, reverse engineering a bilateral trade strategy in attempt to complement the older comprehensive, multilateral trade strategy. In the 2001 METI White Paper, it succinctly outlines the reasons for this new approach.

In working to boost the Japanese economy, it is becoming increasingly important that Japan not only further promote policy coordination among states, as exemplified by the traditional coordination of macroeconomic policies, but also optimize the synergy between its domestic and external policy. To these ends, Japan is already shifting

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<sup>53</sup> K. Kawasaki, "The Impact of Free Trade Agreements in Asia", RIETI Discussion Paper Series 03-E-018, <http://www.rieti.go.jp/jp/publications/dp/03e018.pdf>, June 2006, pp. 10-11.

its external economic policy toward the multi-layered utilization of regional, bilateral and other fora, while retaining its traditional focus on multilateral frameworks. Realizing multilateral trade liberalization, however, will remain a necessary condition in ensuring that Japan enjoys optimum benefit from free trade. The drive behind the policy shift is to make multi-layered and flexible use of the various fora as part of the process in reaching this ultimate goal.<sup>54</sup>

Japan has undertaken a ‘broad but shallow’ approach to traditional trade agreements, expanding the traditional number of sectors covered under agreement. This limits exposure to traditionally difficult sectors like agriculture and brings Japan’s sheer economic size to bear in negotiations. The JSEPA and subsequent agreements with Mexico, Malaysia, Thailand and most recently The Philippines underline the preferential nature of each of these bilateral deals, falling short of the comprehensive agreements that are sought under wider APEC and the WTO processes.

Whereas states traditionally could put Japan onto the back foot if trade in goods, it is far more secure pushing an EPA in which Japan has far more room to manoeuvre in negotiations. The problem still remains how to reconcile the various EPAs with each other and whether a traditionally domestically focused Japan can continue the ongoing reform process. The overall EPA strategy has been possible because of the nature of Koizumi’s deregulatory reform programs and the broad scale public and

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<sup>54</sup> METI, *2001 White Paper*,  
<http://www.meti.go.jp/english/report/downloadfiles/gWP0140e.pdf>, p. 1.

private support for his reform program. While this has worked up until the present, when Koizumi leaves the Prime Ministership to his LDP successor in September this year, it is questionable whether they will have the same support. Fujio Mitarai, the new head of the peak business body Nippon Keidanren, suggested that although Japan should tie EPAs to regional economic development and Japan's deregulation process, they should not compromise the employment of a local workforce maintaining long held norms such as life time employment.<sup>55</sup> If that is the case, Japan will face the same old problem of reconciling external market access with internal economic reform. And, as demonstrated by the costly adjustment process undertaken by Japan during the 1980s, this path is not without its risks.

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<sup>55</sup> Y. Wijers-Hasegawa, "New Keidanren chief urges Asia diplomatic thaw", <http://search.japantimes.co.jp/print/nb20060525a3.html>, May 2006.