

### ***Research Focus***

#### ***The Australia-Japan FTA and New-Regionalism: A Japanese Perspective***

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After a long period of pro-and-con studies, Australia and Japan finally started negotiating over a free trade agreement (AJFTA) in April 2007. Japan has already concluded eight FTAs, six of which are with ASEAN countries and two with Latin American countries, but the AJFTA would be the first FTA for Japan with a developed country. From the viewpoint of Australia, on the other hand, the AJFTA would be a FTA with one of the largest trading partners in the Asia-Pacific.

Direct effects of the AJFTA at the macro-economic level seem to be pretty small. With some notable exceptions such as agricultural products in Japan, both countries already have fairly low trade barriers for trade in goods. A 2007 simulation by Japanese economists finds that the removal of bilateral tariffs and export subsidies would result in one-off increases in GDP of just 1.8 per cent and 0.4 per cent respectively in Australia and Japan. Services sectors in both countries do not present extremely strong international competitiveness, and thus both are having difficulty in finding offensive agendas in their negotiations. There are thus some skeptics who criticise the negotiation as a waste of time. However, the AJFTA may yet have crucial strategic importance.

Bilateral FTA networking has proliferated in the Asia-Pacific. Let us take nine advanced countries in APEC, that is the seven OECD countries (the United States, Canada, Mexico, Japan, Korea, Australia, and New Zealand) and two free-trade-oriented countries (Chile and Singapore), where we have 36 bilateral combinations. Out of 36, 19 have already concluded FTAs, and seven are currently under negotiations. It does not seem to be natural if some key combinations such as Australia-Japan are left without FTAs. The AJFTA is also an essential element for enlarged East Asia.

We must also note that some of the FTAs in the Asia-Pacific achieve extremely high levels of liberalisation coverage for trade in goods. For example, liberalisation coverage after the 10-year of interim period in the Australia-US FTA in terms of tariff lines reaches 100 per cent and 98.1 per cent on the Australian and the US sides; in the case of the Korea-US FTA, though not in effect yet, 99.7 per cent and 100 per cent.

The emergence of clean FTA networking may become a path-breaking move toward new international commercial policy regime. To conclude completely clean FTAs with all major trading partners is, from the viewpoint

of the country concerned, equivalent to accomplishing open-regionalism. Authentic trade economists have for long criticized FTAs as a 'dirty' policy tool in the following two aspects: first, some exclusion from trade liberalisation is virtually allowed, and second, discriminatory treatment generates trade diversion and other complication such as rules of origin. However, if one country has completely clean FTAs with all countries, these evils are all gone. It does not even have to stick to a geographical concept of 'region' anymore; as far as free trade is pursued, any country can be a partner. Such 'new open-regionalism' shares the spirit of unilateral trade liberalisation that trade economists have believed in but is different in effectively utilising pressure against protectionism with the fear of possible isolation. A benevolent domino effect may accelerate trade liberalisation in other countries.

We have also observed a number of cases in which trade liberalisation in the framework of FTAs actually accelerates, rather than deters, trade liberalisation on the most-favored-nations basis. Once we successfully make a small crack, a big iceberg of protectionism may be broken. As far as the cleanness of trade liberalisation is pursued, temporary dis-

crimination does not generate much evil. Rather, momentum toward trade liberalisation should be emphasised, particularly in the context of the Asia-Pacific where economic dynamism in the open setting has dominated.

FTAs are flexible tools that would meet various policy needs. Given that the WTO is barely working for new policy agendas in the era of globalisation, the creative usage of FTAs becomes crucial. Countries that have the capability of developing clean FTA networks in terms of trade in goods can lead further integration in other policy modes. High-quality FTAs could be an effective drive toward new international commercial policy regime after the Doha Development Agenda.

Japan has exploited the flexibility of FTAs in a good way and a bad way. On the good side, Japanese FTAs have worked and will be working for the substantial improvement of business environment in ASEAN countries and Mexico. In addition to simple tariff removals, Japanese FTAs include various policy measures such as trade or investment facilitation,

institution-building for investment rules and intellectual property rights protection, establishing business-government dialogues for trouble-shooting, and links with other policy modes such as economic and technical cooperation for capacity building and infrastructure development. Notice that these measures are largely non-discriminatory.

On the bad side, Japan's strong bargaining power against developing countries has allowed Japan not to liberalise a fair range of commodities, particularly in the agricultural sector. Although its FTAs promote agricultural sector liberalisation to some extent, a large number of agricultural products are still subject to trade protection. The Japanese Government has claimed that, within 10 years, trade liberalisation under its FTAs will cover at least 90 per cent of imported values (based on a benchmark year), except the Japan-Mexico FTA (where the coverage is only 87 per cent). However, the liberalisation coverage in terms of tariff lines in Japan's FTAs with Singapore, Mexico, and Malaysia is only 76 per cent, 87 per cent, and

88 per cent of commodity classifications respectively. So the liberalisation coverage of Japanese FTAs obviously does not meet the current standard in the Asia-Pacific.

The Australia-Japan FTA may work as an icebreaker. Australia is the most committed free trader in the region. Japan knows that the conclusion of AJFTA can be reached only with substantial reform in its agricultural sector. Japan also knows that its current agricultural protection is neither desirable for the whole nationals nor sustainable due to the aging of farmers. Straight talks on agricultural protection have been held in recent days in Japan. Although the political economy still seems to be uncontested, agricultural protection is not 'untouchable' anymore.

Imagine Japan free from agricultural protection. Then, the Asia-Pacific region can truly lead the worldwide campaign for a new international economic order.

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### Events

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### Publications

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### Asia Pacific Press

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