

# Japan's Economic Partnership Agreement Strategy - Consideration Based on a Comparison with South Korea

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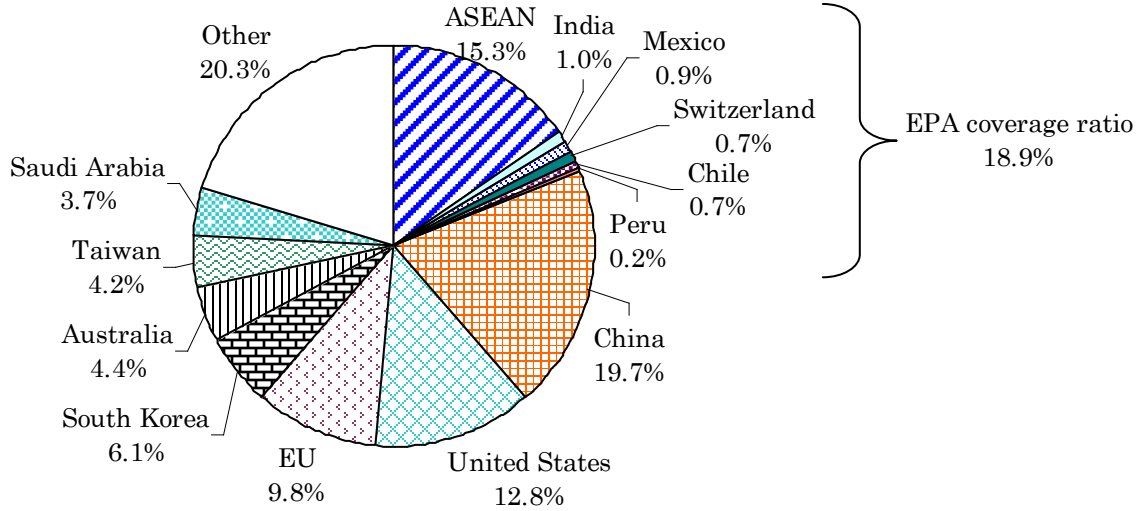
As the presence in world trade of developing and newly emerging countries becomes more prominent, the WTO's Doha Development Round negotiations have stalled because of conflicts among the industrialized countries and these developing/newly emerging countries. For this reason, increasingly, countries around the world are aggressively concluding bilateral and regional free trade agreements (FTAs).

The objectives of signing FTAs appear to be to stimulate trade through reductions in tariffs and drive economic growth. Other reasons for concluding FTAs are to strengthen international competitiveness through competition and increase inward direct investment. Besides these objectives, as business becomes more global in scope, we can also list creating a business environment that has more-favorable conditions than those of competitors. In some respects, when one country signs an FTA, this may encourage other countries to conclude FTAs. Therefore, FTAs are a form of competition among countries.

Amid this environment, since the size of demand in South Korea is not so large, that country is using exports to leverage economic growth and is actively signing FTAs. In 2011, South Korea concluded an FTA with the EU, and, in 2012, an FTA went into effect between South Korea and the United States. Currently, an FTA with China is under negotiation. As with Japan, one of the concerns in South Korea about signing FTAs is the potential impact on the agricultural sector. Therefore, as it pursues its FTAs, South Korea is keeping tariffs on sensitive items, such as rice and some other agricultural products, and providing assistance to agriculture in order to reduce the negative effect on that sector.

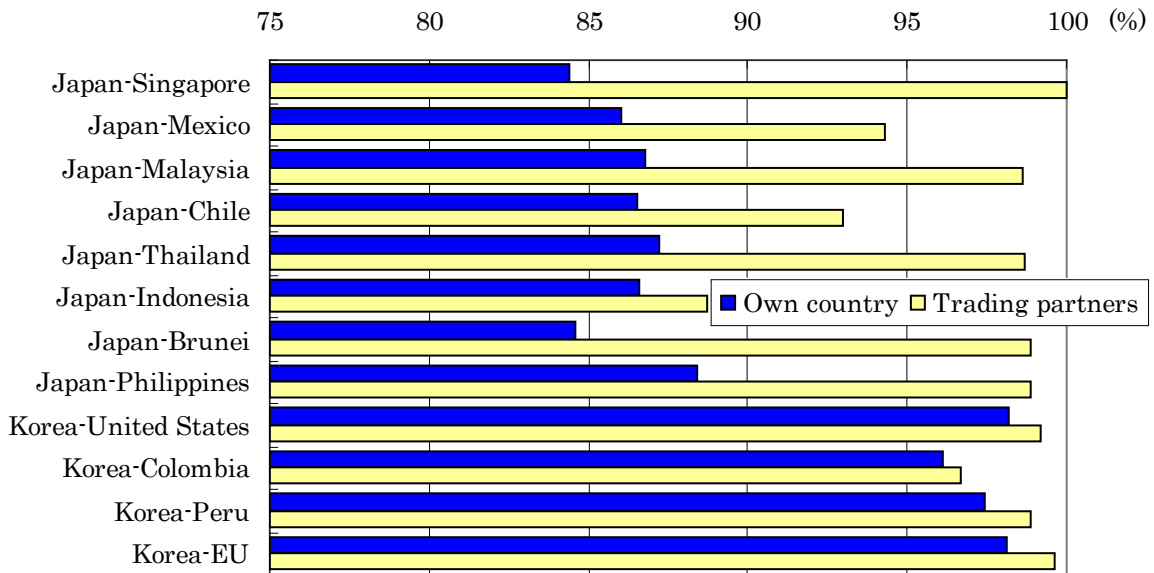
Since entering the 2000s, Japan has aggressively concluded Economic Partnership Agreements (EPAs). Thus far, Japan has signed 13 of these agreements, mainly with the countries of the ASEAN region. However, the EPAs with countries that are not members of ASEAN have relatively small trading volume, and the share of total trade with countries with which Japan has concluded EPAs is less than 20%. In addition, an examination of the share in the total of items on which tariffs are to be eliminated (basically in 10 years) in the EPAs shows they have remained at a low level because of concerns about the effect on the agriculture, forestry, and fishing industries.

Chart 1: Japan's Principal Trading Countries and Regions



Source: Compiled from Ministry of Finance, *Trade Statistics*

Chart 2: Ratio of Liberalization under EPAs and FTAs: Japan vs. South Korea



Note: On an item basis

Sources: Compiled from Cabinet Secretariat, *State of Consideration of Comprehensive Economic Partnership Agreements* (October 27, 2010); Japan External Trade Organization (JETRO), *Trade Trends, Global Trade and Investment Report*; and other materials

Japan is confronting major issues related to trade policy. Negotiations in connection with the Regional Comprehensive Economic Partnership (RCEP), the Japan-China-Korea FTA, and other agreements are scheduled to begin. In addition, Japan faces the issue of whether to participate in the Trans-Pacific Partnership (TPP) negotiations. For Japan to proceed with EPAs, consideration of its agricultural policy, including how to revitalize the agricultural sector, will be needed. In addition, the viewpoints of taking initiatives speedily and revitalizing the economy will be important. In the future, if Japan successfully concludes the RCEP, the TPP agreements, and EPAs with the EU, its EPA network will be completed with the world's major trading nations, centering around the industrialized countries. The next issue will be how to proceed with EPAs with developing/newly emerging countries.

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\*This is an English language summary of a report originally published on February 1, 2013. The full report is available only in Japanese, but the author will answer questions regarding the topic by e-mail.

\*The information and the views contained herein are subject to change without notice.