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China Rivalry Fuels Japan's FTA drive

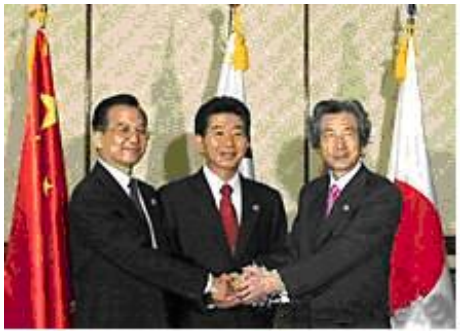
By Hisane MASAKI

Japan is revving up its drive toward free-trade agreements, or FTAs, with trading partners, largely fueled by an intensifying rivalry with China, a rapidly ascendant economic as well as military power.

Japanese and Chinese national flags

As the World Trade Organization's trade talks falter, countries all over the world are pursuing their own separate FTAs with trading partners. Bilateral or regional integrations, especially in the form of FTAs, have popped up all over the world since the early 1990s. They include the North American Free Trade Agreement (NAFTA), the European Union (EU) and Mercosur, a Latin American customs union initially comprised of Argentina , Brazil, Paraguy and Uruguay. In East Asia, too, many countries are now competing for FTAs with trading partners in and outside the region.

Japan joined the FTA competition, concluding its first FTA, with Singapore, in 2002. It signed its second FTA, with Mexico, in 2004, and third one, with Malaysia, in December last year. Japan has also reached basic agreements in FTA negotiations with the Philippines in November 2004 and with Thailand in August last year, and has been negotiating FTAs with South Korea, Indonesia and the 10-member Association of Southeast Asian Nations (ASEAN) as a whole in the past year or so.



Japan's PM Koizumi (right), China's PM Wen (left) and S.Korean President Roh join hands in October, 2003.

In mid-February, Japan and Vietnam held preparatory talks in Hanoi for formal FTA negotiations, which are expected to start as early as this summer. In late February, Japan and Chile, a gateway to Mercosur, held the first round of FTA negotiations in Tokyo. Chile is an associate member of Mercosur. Resource-poor Japan plans to open FTA negotiations with the oil-rich Gulf Cooperation Council (GCC) in summer with a view to ensuring stable oil supplies. Japan is also expected to kick off FTA negotiations this year with India and is moving toward FTA talks with Australia, Switzerland and South Africa.

Despite its accelerated FTA moves, however, Japan still has a lot to do if it is to march in step in the ever-intensifying global and regional FTA competition.

Japan has yet to sign FTAs with Thailand and the Philippines. Thai Prime Minister Thaksin Shinawatra's dissolution of Parliament for snap elections on April 2 will delay the official signing ceremony in Tokyo for the FTA between Japan and Thailand, which was scheduled for April 3. Despite their basic agreement in FTA negotiations, Japan and the Philippines have yet to iron out differences over the number of Philippine nurses and care-givers who will be allowed to work in Japan. Japan and Indonesia, the largest ASEAN nation with a population of more than 200 million, have set the end of this year as a target date for concluding an FTA. The end-2005 target date for Japan and South Korea to conclude FTA negotiations has passed. The Japan-South Korea negotiations have stalled since November 2004 due to sharp differences over farm trade as well as chilly political ties. FTA negotiations between Japan and the entire ASEAN group, launched in the spring of 2005, have failed to make significant headway.

The biggest obstacles to FTA negotiations are Japan's staunch resistance to a liberalization of agricultural and labor markets, something that developing countries want most. Tokyo wants to keep import tariffs for farm products, including politically sensitive rice, as high as possible to shield weak and uncompetitive domestic farmers from a flood of cheaper imports.

The Japanese government decided on March 7 to expedite the FTA negotiation process by changing its former policy of giving priority to concluding an economic partnership agreement, or EPA, over an FTA. Unlike an FTA, which is limited to slashing or eliminating import tariffs for products, an EPA is a more comprehensive trade pact that includes elimination of restrictions on foreign investment, a dispute-settlement mechanism and protection of intellectual property rights, as well as an FTA.

While an EPA is a higher-quality trade pact than an FTA, negotiating it is far more time-consuming and laborious. This is one important reason why Japan has lagged behind China, among others, in the race to clinch FTAs. Under the new trade policy, Japan will seek FTAs or investment pacts, rather than EPAs, depending on the economic conditions of trading partners. Japan will also present "model accords" as a basis for discussion, so that the parties need not create an FTA from scratch. Such an approach could be tested in future FTA negotiations with countries such as Vietnam, Brunei and India.

Beneath the recently accelerated Japanese FTA strategy lies an intensifying rivalry with China over energy resources as well as over political and economic influence in Asia.

Japan has been competing over scarce energy resources with China. The two energy-hungry Asian powers have been locked in a simmering dispute over gas reserves in the East China Sea. Furthermore, they have each lobbied hard for alternative routes for a pipeline from eastern Siberia's oilfields to Pacific Rim nations. The Sino-Japan rivalry over energy resources shows signs of spreading to the Middle East.

Japan's coast guard in the East China Sea

In early 2004, Japan and Iran signed a $3 billion deal to develop Iran's massive Azadegan oilfield. But with international tensions rising over Iran's nuclear program, there are growing concerns in Japan about how the nuclear crisis will play out. China has recently won rights to the Yadavaran oil field in Iran. Many analysts point out that should Japan be forced to give up the Azadegan project as part of international sanctions against Tehran, China would step in to replace Japan. Japan imports almost all of its oil, and the GCC, the customs union comprised of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates, accounts for more than 70% of Japanese oil imports. Japan plans to seek the inclusion in the proposed FTA a GCC pledge to preferentially supply crude oil to Japan, even in emergencies, like war. China started FTA talks with the GCC in April last year.

China had a head start over Japan in strengthening ties with ASEAN and other trading partners through spreading FTA nets. Alarmed by the prospects of its political and economic influence being eclipsed by China's, especially in East Asia, Japan is making all-out efforts to turn the tables. Outside Asia, while Japan has just launched FTA negotiations with Chile, China already signed an FTA with the South American country in November. Kicking off FTA negotiations with India — and possibly with Australia — later this year would also be part of Japan's strategic efforts to counter the influence of China in a proposed East Asian community (EAC), one of the main issues discussed at the first East Asia Summit in Kuala Lumpur, Malaysia in mid-December.

Japan has strongly advocated the inclusion of India, as well as Australia and New Zealand, in the proposed EAC, an idea opposed by China and some other

Asian nations. In a fresh sign of Japanese emphasis on the importance of ties with India as a counterbalance to the unmatched overall power of China in the region, Foreign Minister Aso Taro chose the world's largest democracy for his first foreign trip of the year in early January. Nearly a year ago, Prime Minister Koizumi Junichiro also visited India. Koizumi's Indian counterpart Manmohan Singh is expected to visit Tokyo in summer 2006. Meanwhile, Japan, the U.S. and Australia plan to hold their first foreign-ministerial security dialogue in Australia later this month.

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