

Nine Basic Principles for Negotiating Economic Partnership Agreements: Move Forward on Negotiations for TPP and Other High-Quality Agreements

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Introduction

Japan today faces a plethora of problems: an aging and shrinking population, enormous government debt, an economy caught in the grips of long-term stagnation, the many years required for recovery and reconstruction from the Great East Japan Earthquake, and the damage caused by harmful rumors and misinformation created by the Fukushima nuclear accident. Japan and the Japanese people need to recognize the severity of the crisis facing this nation and must muster the political leadership needed to overcome it. The “lost two decades” must not be allowed to become the start of Japan’s demise. In light of this danger, it is absolutely imperative for Japan to move forward in negotiating for the conclusion of Trans-Pacific Partnership and other high-quality economic partnership agreements (hereinafter “agreements”) in order to ensure the return of the economy to a solid growth path. Prime Minister Yoshihiko Noda is called on to exercise strong leadership and to take a proactive and assertive stance in negotiations that suits the status of a leading industrialized country.

At the November 2011 meeting of the Asia-Pacific Economic Cooperation (APEC), the prime minister stated, “Japan will enter into consultations with the countries concerned toward participating in the Trans-Pacific Partnership Agreement (TPP) negotiations.” In December 2011, the Cabinet approved the “Strategy for Rebirth of Japan: Overcoming Crises and Embarking on New Frontiers.” This document recognized the importance of taking the initiative in promoting high-quality economic partnership agreements in order for Japan to benefit from growing demand in the Asia-Pacific region and other parts of the globe, and of taking leadership in formulating new rules for trade and investment. The document then declared that Japan would promote Japan-Korea and Japan-Australia EPA negotiations as a step toward the realization of the Free Trade Area of the Asia-Pacific (FTAAP); would work toward an early start of negotiations in regional economic partnership agreements such as the Japan-China-Korea FTA, the ASEAN+3, and the ASEAN+6; would move forward in discussions with concerned countries toward participating in TPP negotiations; and would seek to launch negotiations for a Japan-EU EPA and other agreements at an early date.

Following on these developments, Keizai Doyukai takes this opportunity to propose nine basic principles to be adopted by the Japanese government in approaching negotiations on high-quality agreements. Moreover, all countries participating in the negotiation of such agreements should endeavor to embody these principles in the structure of agreements. We strongly urge the Japanese government to adopt these principles as soon as possible in the form of a Cabinet decision and to establish a powerful unified framework for promoting and participating in negotiations.

Nine Basic Principles for Negotiating Economic Partnership Agreements

Principle 1: Approach Agreements as Key Pillar in Growth Strategy

Considering that the pace of Japan's population shrinkage will steadily increase, the agreements that Japan will participate in must be geared toward stimulating economic growth by increasing Japan's exports and incoming foreign direct investment.

To achieve this purpose, Japan should approach agreements as a key pillar in its growth strategies. Japan should see such agreements as a strong growth driver that prompts the government to take budgetary, tax, and legislative measures and implement public services (market testing) and administrative reforms as well as regulatory revisions expected to have a strong impact on promoting innovation, as enunciated in the Strategy for Rebirth of Japan.

Principle 2: Link Agreements to the Enhancement of Industrial Competitiveness

Agreements should be designed to ensure fair competitive conditions to Japanese products in terms of price by eliminating tariffs on goods traded among participating countries, and to promote the adoption of simple and unified trade and investment procedures. Such agreements can contribute to strengthening Japan's industrial competitiveness by functioning as levers in cutting costs, shortening lead time, and developing a smooth and efficient global supply chain that is resilient to natural disasters.

Principle 3: Use Agreements as Lever for Promoting Agriculture Development and Strengthening Global Competitiveness

Regarding agriculture, discussions tend to focus on the impact of increased imports on Japanese agriculture. But it should not be forgotten that agreements provide opportunities for promoting agricultural exports by going on the offensive in appealing the safety and security of Japanese food products. As in the case of other products and services, it is possible for Japanese agricultural products to beat the products of other countries in international competition. To achieve this purpose, agreements should be used as a lever to advance the agricultural sector and enhance its international competitiveness by encouraging young people and other community members to engage in agriculture, urging the transition from part-time to full-time farming, and improving agricultural productivity.

Principle 4: Pursue High-Quality and Comprehensive Agreements

Not only should Japan pursue high-quality agreements committed to the principle of immediate or gradual elimination of tariffs on all goods traded, but it should also endeavor to conclude agreements that deepen the various elements of existing EPAs, including the formulation of rules for trade in services and nontariff barriers (e.g., government procurement, investment, protection of intellectual property rights, and competition policy) and comprehensive coverage of new areas of concern, such as the environment, labor, long-term care, nursing care, and other cross-sectional issues.

Principle 5: Ensure Fair, Free, and Equal Competitive Conditions and Environment

Ensuring fair, free, and equal competitive conditions to all market participants is a basic principle of the WTO. Moreover, this principle is the main premise for concluding high-

quality agreements. “All market participants” of course includes private businesses, but it also extends to state-owned enterprises and public corporations that are participants in market competition. The assurance of fair, free, and equal competitive conditions must apply to transactions involving all such corporate categories.

It is also necessary to formulate fair, free, and equal trade rules that will guard the exports of participating countries from unfair protectionist measures in overseas markets. This means concluding agreements that ensure a fair, free, and equal competitive environment based on a fair legal environment that includes the establishment of arbitration mechanisms and systems.

Principle 6: Ensure Access to Fair and Highly Transparent Markets

Infrastructure development, for which there is growing demand from emerging economies and others, requires high levels of technological capability and know-how. In light of this requirement, countries should liberalize their government procurement markets. Establishing fair government procurement practices will encourage effective utilization of public funds and fair competition among private businesses, leading to higher levels of overall economic efficiency. This means concluding agreements that promote the liberalization of government procurement markets of participating countries by eliminating nontariff barriers in such markets and ensuring nondiscriminatory and highly transparent access.

Principle 7: Ensure Prohibition of Export Restrictions

Japan depends on imports to satisfy many of its food and natural resource needs. Therefore, securing stable, reliable, and long-term supply sources abroad is a priority issue in Japan’s national security.

Although agreements tend to focus on benefits to exporting countries, agreements should have a balanced structure so that the interests of importing countries are not jeopardized. The General Agreement on Tariffs and Trade (GATT) Article 11 “General Elimination of Quantitative Restrictions” does not distinguish between exports and imports in prohibiting restrictions on free trade. Similar principles should be included in high-quality agreements.

Principle 8: Actively Promote Cooperation Conducive to Mutual Benefit

Agreements that have been thus far concluded by Japan contain provisions for mutual cooperation. Such provisions should be included in agreements to be concluded in the future.

Specific examples would include provisions for active mutual assistance among participating countries to support entities such as small and medium enterprises, and provisions for promoting and facilitating cooperation among related associations of participating countries. Such measures would promote the welfare of the people of participating countries and would also contribute to developing close and stable economic relations among participating countries.

Principle 9: Conclude Open and Flexible Agreements

To enable as many countries as possible to join an agreement in the future, no restrictions should be placed on participating in negotiations other than requiring a commitment to achieving a high level of liberalization. Agreements should be open and flexible and should constitute “responsive agreements” that contain processes for adapting to technological innovations and the creation of new business models.

Conclusion

In the process of discussing a future vision for economic partnership strategies, Keizai Doyukai formulated the basic principles that the Japanese government should adopt in approaching negotiations on agreements. The present document was prepared in response to the widespread view that these principles should be submitted to the government in the form of a proposal.

Today, the Japanese economy finds itself placed in an increasingly difficult environment. This requires the prime minister and all politicians, whether in power or opposition, to share an urgent sense of crisis and to step forward to exercise political leadership under the banner of discarding differences in pursuit of the common good. Such leadership must have as its focus the resolution of the numerous problems and challenges that have resulted in Japan’s lost two decades, and the pursuit of diplomatic strategies aimed at achieving sustained economic growth.

In the years ahead, the center of gravity in the world economy will steadily shift toward Asia, raising the probability that Asia will increasingly act as the locomotive force in the global economy. Currently, nine countries are negotiating for the conclusion of the TPP. This is a very important first step toward building a free and open economic order in the Asia-Pacific region.

Guided by the basic principles outlined in this document, the Japanese government should exercise leadership as a leading member of the advanced countries of the world and pursue strategic and multifaceted diplomatic initiatives resulting in the early conclusion of TPP and other high-quality agreements. Keizai Doyukai earnestly believes that this line of action will not only contribute to Japan’s economic growth but will also promote growth in the Asia-Pacific region and throughout the entire world, and will contribute to the further deepening of the free trade regime.

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