

## **Realizing Japan's Economic Growth through Economic Partnerships**

### **Introduction**

On March 15, the Japanese government announced Japan's intention to join the Trans-Pacific Partnership (TPP) negotiations. The government made this decision based on the joint statement issued following the Japan-U.S. summit, held in February this year.

During 2013, in addition to the TPP talks, Japan will hold various strategic negotiations concerning the Regional Comprehensive Economic Partnership (RCEP), the Japan-China-South Korea Free Trade Agreement, the Japan-Australia Economic Partnership Agreement, the Japan-European Union Economic Partnership Agreement, etc. Across the Atlantic Ocean, the United States and the European Union are expected to begin negotiations on the Transatlantic Trade and Investment Partnership Agreement. So the formation of international standards for trade and investment rules is expected to progress this year. Amid this trend, we at Keizai Doyukai (Japan Association of Corporate Executives) believe that Japan should actively participate in the preparation of fair and transparent international rules and contribute to the world through the advancement of trade liberalization, while at the same time pursuing sustainable growth of the Japanese economy and affluent lives of its people by benefiting from the vitality of global economies.

An economic partnership negotiation often develops in synergy with another negotiation. To promote negotiations with a wide variety of parties toward realizing a Free Trade Area of the Asia-Pacific (FTAAP), Keizai Doyukai hereby makes a proposal concerning the goals that Japan should pursue in TPP free trade talks, and initiatives that the Japanese government should take in order to grow its economy by benefiting from the TPP.

## **1. Goals that Japan Should Pursue in TPP Negotiations**

Since the member nations of the TPP seek to reach an agreement by the end of 2013, Japan has only a limited time for negotiations. Accordingly, the Japanese government should build a solid and powerful system by integrating the power of various ministries and agencies, and make decisions promptly from the viewpoint of national interests. By overcoming difference in views among respective ministries and agencies, the Japanese government must make up for the delay in joining TPP negotiations. Moreover, to ensure that the agreement will truly benefit the Asia-Pacific region and boost its development, Japan must participate proactively and with tenacity in discussions and preparations of common rules. The business communities ready to cooperate with the government by rendering necessary assistance in a timely manner.

To secure national interests in the limited time given to Japan for negotiations, we believe that the Japanese government must make the utmost effort toward achieving the following goals.

### **(1) Sustainable growth of the Japanese economy by capitalizing on the vitality of global economies**

#### **[1] Improving the efficiency of supply chains on a global basis through the harmonization of various rules**

At TPP negotiations, in addition to tariff abolition/reduction on major export items, high priority should be placed on harmonizing international standards and accreditation processes. Harmonized standards will lead to reduction in both lead time and the extra costs necessary for meeting diverse rules/standards. This in turn will enable more small and medium enterprises to export products featuring their original technologies.

Benefiting from the TPP agreement, Japanese companies will be able to build more efficient and smooth global supply chains, and to steadily supply high-quality products/services at reasonable prices. At the same time, they will be able to create more job opportunities. The amount of their tax payment will be increased as well.

#### **[2] Reinforcing the competitiveness of Japan's business environment through deregulation and institutional reforms**

To ensure the sustainable growth of the Japanese economy, it is essential to reinforce the competitiveness of Japan's business environment. In tandem with negotiations with other member countries of the TPP framework, the Japanese

government must reform domestic regulations and institutions, and rationalize existing rules. By improving applicable rules' predictability and transparency in operations, in addition to the above-mentioned initiatives, the government must prepare an investment environment that appeals to both Japanese and non-Japanese companies. An increase in inward direct investments is expected to promote the innovation of Japanese industries, strengthen their growth potential, improve their productivity, and create greater job opportunities.

Japanese companies, on the other hand, will provide job opportunities to experts and specialists from around the world by reinforcing R&D centers and their activities. At the same time, Japanese companies will strive to enhance the value of Japan's brand by supplying attractive products/services worldwide.

### **[3] Contributing to the world by promoting trade liberalization**

We understand that the TPP agreement is a comprehensive accord, covering not only abolition/reduction of tariffs and promotion of service trade, but also the international harmonization of rules in a wide range of fields, including competition policies, intellectual property rights, and investments. Moreover, the TPP is aimed at simplifying operations of related rules and improving their transparency. In view of the increase in the number of member nations in the mid- to long term, we firmly believe that establishing fair, transparent and non-discriminatory rules for non-tariff barriers will benefit member nations.

During the negotiations, the Japanese government should not accept numerical targets for industrial products, since setting such targets is against the principle of free trade. Moreover, the government must pursue the protection of investors, investment assets and intellectual property rights, and seek to set adequate conditions, as well as environment, to guarantee fair and free competitions, ensuring that all market players, including state-owned and state-run corporations, can compete with one another on an equal footing. To ensure the effectiveness of rules to be set and to secure national interests, it is also essential to build appropriate legal systems, including arbitration systems.

Preparing fair and free trade systems will enable many more Japanese companies to engage in various projects in the Asia-Pacific region. Eliminating non-tariff barriers from the government procurement market will facilitate entry by Japanese companies in various projects to construct infrastructures, which entail advanced technologies and expertise. Since demand for infrastructure is expected to increase, particularly in emerging countries, by engaging in such projects Japanese companies will be able to contribute more to improving the standard of living of people in emerging countries.

Moreover, if developing countries adopt advanced standards and criteria of Japan and other developed countries, especially in areas relating to environmental protection and labor conditions, this will result in the better global environment and better labor conditions worldwide.

## **(2) Stable supply of resources and foodstuffs**

### **[1] Forbidding export controls**

Securing energy resources is vital for Japan, since the country has few natural resources. Securing foodstuffs is also essential for Japan, but to produce food, we need energy to run agricultural machines.

In recent years, however, we have seen some resource-producing countries control mining, impose tariffs on exports, and restrict access to their natural resources in various other ways. Although in trade agreements greater priority is usually given to the interests of exporting countries, the interests of importing countries should be considered, as well. In TPP negotiations, we expect that the Japanese government will work hard to establish rules on tariffs on exports and basically to ban quota restrictions, so that Japan can import sufficient amounts of natural resources and foodstuff in a stable manner.

### **[2] Reinforcing the international competitiveness of Japan's agriculture and food industry, and expanding their sales channels**

To secure sufficient supply of foodstuff, it is essential to diversify suppliers, in addition to improving the working ratio of Japan's farmlands by revitalizing Japan's agriculture. To this end, we must develop overseas markets of Japanese agricultural products.

The industrial circle can help the agricultural sector in developing overseas markets by providing expertise in marketing, organizational management, and the use of information and communication technologies. In this way, the industrial circle can help enhance the international competitiveness of Japan's agriculture and food industry, and expand their sales channels. At the same time, the agricultural sector and other industries can work together to ensure both the security and safety of food. While other industries can provide adequate quality control techniques and related information, the food industry should also release safety information to consumers.

## **2. Initiatives to Foster Agricultural Businesses Competitive in the Global Market**

The Japan-U.S. joint statement issued in February this year recognizes “bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States.” At present, Japan sets high tariff rates only for a limited number of agricultural products: 777.7% for polished rice and 251.8% for wheat<sup>1</sup>. Tariff rates for other products are not so high, such as 0% for soybeans and flowers to 3% for fresh vegetables. To date, Japan’s agriculture, particularly producers of cereals, has been protected by both border measures and subsidies. However, these protective measures have not been effective in reinforcing the competitiveness of Japan’s agriculture, as is evidenced in the negative GDP of wheat varieties.

### **(1) Converting Japan’s agriculture into a growth industry**

In consideration of Japan’s decreasing and aging population, we believe that we must take the opportunity of Japan’s entry into TPP negotiations to convert Japan’s agriculture into a growth industry. This must be pursued regardless of whether or not exemption is permitted for some agricultural products that have been protected from international competition. We believe that the agricultural sector should expand the markets of its products into other countries, through efforts in various areas. For instance, the agricultural sector should improve agricultural productivity by integrating small farmlands and introducing advanced information and communication technologies. In addition, greater effort must be made to differentiate Japanese products from those produced in other countries. By the coming summer, Keizai Doyukai plans to prepare another proposal concerning comprehensive policies to convert Japan’s agriculture into a growth industry, while protecting farm lands and agricultural communities.

### **(2) Introducing a new direct payment policy for rice growers to protect and reinforce rice production**

According to the estimate prepared by the Japanese government, rice would be most affected by the abolition of border measures. To reinforce the international competitiveness of rice production, in place of the current governmental measures to stabilize farmers’ incomes we propose that the government adopt new

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<sup>1</sup> To provide appropriate data for WTO negotiations, these percentages of ad tariffs were calculated based on the import prices of rice and wheat from 1999 to 2001. According to the Customs Tariff Schedule (January 2013), the WTO agreed tariff rates for rice and wheat are 341 yen/kg and 55 yen/kg, respectively.

measures, as described below.

Our proposal herein concerns rice production in flatlands; concerning rice production in mountainous areas and other disadvantageous areas, we believe that the present direct payment system for rice production in these areas should be maintained.

### **[1] Phasing out the present rice production adjustment program**

The government should phase out the present rice production adjustment program, designed to curtail rice production, and allow farmers to grow rice at their will.

### **[2] Introducing a new direct payment policy to compensate for production costs up to 12,000 yen/60 kg**

Abolishing the production adjustment program will lead to the decline in the rice price in the Japanese domestic market. To compensate for the loss on the part of rice growers, in place of the present subsidy system (designed to compensate for the loss caused by fluctuation of rice price), the government should introduce a new system of direct payment to farmers to compensate for the balance between the market price and 12,000 yen/60 kg<sup>2</sup>. The payment should be provided to rice growers regardless of whether they are full-time or part-time farmers.

As an incentive to improve productivity as swiftly as possible, the cap on direct payment should gradually be lowered to the balance between the market price and 7,000 yen/60 kg over a period of 10 years.

Regarding the distribution costs included in the present subsidy system, distribution efficiency must be improved by employing industrial expertise.

### **[3] Abolishing the direct payment subsidy program for rice (15,000 yen/10 ares)**

The government should abolish the direct payment subsidy program for farmers who observe the cap for rice output (15,000 yen/10 ares [0.2471 acres])<sup>3</sup>.

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<sup>2</sup> In principle, minimum paddy size of certified farmers is 4 hectares, except for Hokkaido. Production costs per 60 kg vary from 10,900 yen for 3~5 hectares, 10,300 yen for 5~10 hectares, 9,600 yen for 10~15 hectares, 8,800 yen for over 15 hectares.

<sup>3</sup> While 58.3% of farmers with rice paddies below 0.5 hectares (1.2355 acres) receive the subsidy, among the farmers with paddies over 5 hectares (12.355 acres), recipients account for 98.4%. 40.1% of the subsidies are granted to farmers with paddies over 5 hectares.

#### **[4] Reviewing agricultural budget allotment and related laws/regulations**

The government should review the agricultural budget allotment and take measures to improve productivity, including the integration of small farms/paddies, R&D toward increasing yield per unit, and human resource development. At the same time, the government should offer subsidies to farmers planning to withdraw from agricultural business.

To promote the integration of scattered farms and small farms, the government should relax the requirements for organizations that promote the integration of farmlands<sup>4</sup>, so as to encourage a wide variety of organizations to enter agricultural business. Concerning support to farmers who are planning to withdraw from agricultural business, the government should provide generous aid during the initial three years, but gradually decrease the amount of such grants from the fourth year, abolishing the grants in fiscal 2020.

To improve the international competitiveness of the agricultural sector, the industrial circle should provide expertise concerning marketing, organizational management and effective use of information and communication technologies. The industries must also work to develop advanced agricultural machines that improve productivity, and promote rice consumption by serving rice at in-house cafeterias and by various other means.

#### **Conclusion**

We believe that the TPP trade liberalization talks comprise an essential step toward building a free and open economic system in the Asia-Pacific region. Japan's entry in negotiations is essential to ensuring the sustainable growth of Japan's economy in tandem with the global economy. To date, Japan has developed its economy by benefiting from free trade systems. Accordingly, Japan must exert its leadership in preparing international trade rules and reinforce its efforts to reach agreements as promptly as possible in negotiations regarding the RCEP, the Japan-China-South Korea FTA, and the Japan-Europe Union EPA, in addition to the TPP agreement. Through strategic and multilateral negotiations with the parties concerned, Japan must advance toward multilateral trade liberalization.

It is understandable that people are generally concerned about any environmental change. However, there is no guarantee that we can maintain the present standard of living if Japan does not join the TPP framework. To enable our

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<sup>4</sup> At present, the eligible organizations are limited to municipal governments, agricultural cooperatives, agricultural corporations and non-profit organizations dedicated to land improvement programs.

succeeding generations to enjoy a high living standard, we must seriously consider the impact of our present behavior on future generations, and recognize the risks involved in not taking a necessary step now. With this in mind, Keizai Doyukai firmly believes that it is high time to adopt measures to advance free trade systems and reform existing domestic structures.

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