

July 9, 2007

THE OUTLOOK

Mindful of South Korea, Japan Considers Seeking U.S. Trade Agreement

By SEBASTIAN MOFFETT
 July 9, 2007; Page A2

TOKYO -- The free-trade pact signed by South Korea and the U.S. in April is worrying Japan, which fears the deal could leave it on the outside looking in.

The agreement, which is awaiting congressional action, would abolish U.S. tariffs on Korean-made flat TV screens, putting Japan at a disadvantage. For every flat TV Japanese makers export to the U.S., they -- unlike their Korean competitors -- would still have to pay a 5% tariff.

The pact would also exclude cars imported from Korea from a 2.5% tariff that would continue to apply to Japanese-made vehicles.

"We can't get left behind Korea," says an official at Japan's Ministry of Economy, Trade and Industry. "Japan is worried about this."

Such thinking underscores how much Japan has changed since its trade battles with the U.S. over autos, electronics and farm products that raged for a decade until the mid-1990s. It also shows Japan realizes that it needs to change to remain competitive.




Shinzo Abe

With a shrinking work force and growing number of elderly to support, Japan's only hope to maintain its living standards is to make more effective use of its land, workers and capital. Economists say that means gaining the best access possible to export markets, freeing up acreage now devoted to the country's highly inefficient farms and reducing the large sums its consumers currently pay for food.

A successful conclusion to the World Trade Organization's global trade talks could help Japan achieve some of those goals. But, after the failure of several efforts to secure a breakthrough in the stalled global talks, Japan, like other countries, is pursuing bilateral free-trade pacts.

The agreements typically abolish restrictions, such as tariffs and quotas, on trade in most goods and services between two countries. For Japan, a deal with the U.S. would be the biggest possible FTA. A 2004 study by the Peterson Institute for International Economics in Washington estimated such an agreement with the U.S. could boost Japanese economic output by some 3%.

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:
www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

Lately the idea has gained the attention of Japan's leaders. Prime Minister Shinzo Abe's main economic-policy committee recommended last month that the country "consider" free-trade pacts with the U.S. and the European Union. A few business groups already favor a U.S.-Japan free trade agreement. The U.S.-Japan Business Council and the influential Nippon Keidanren, the Japan Business Federation, came out over the past year in support of an Economic Partnership Agreement, which would include free trade.

A U.S.-Japan free-trade deal would link the world's two biggest economies, which together produce a third of global output. It could mark a huge opportunity for American farmers by giving Japanese consumers access to lower-cost food from the U.S.

Proponents of a U.S.-Japan deal are thinking well into the future. For a start, the U.S. free-trade agreement with Korea might not pass in Congress because of concerns about its potential impact on the U.S. auto industry.

What's more, the Bush administration's fast-track authority on trade agreements, which limits Congress to an up or down vote on such deals, expired at the end of June. In practical terms that means any further bilateral trade deals will likely have to wait until President Bush's successor takes over in January 2009. That could easily be someone who isn't keen on free-trade pacts: Hillary Clinton, who wants the Democratic nomination, has already declared her opposition to the deal with Korea.

Back in the days of U.S.-Japanese trade friction, talks between the two countries focused on Tokyo's huge trade surplus with the U.S. Japan exported cars and electronics to the U.S. but kept tariffs high on many farm products or banned imports of them outright. But much has changed since then that makes the idea of a U.S.-Japan free-trade deal more plausible.

"There were hours and hours of negotiations and frustration" back then, says Charles Lake, president of the American Chamber of Commerce in Japan. Now, relatively speaking, "it's so quiet it's wonderful. That's a contextual issue that can't be underestimated," he adds.

Cars were a huge source of friction, due partly to the inability of U.S. auto makers to sell their products in Japan. Though vehicles and auto parts still account for 6.8 trillion yen (\$55.11 billion) -- some 40% -- of Japan's exports to U.S., Japanese auto makers now build many of their cars for the American market in factories carefully dotted around the U.S. to win friends in Congress.

Japan's farm lobby is still its biggest homegrown opponent of trade liberalization, but is no longer as powerful as it once was.

Japanese farms average just 3.7 acres in size -- minuscule compared with the U.S. average of 494 acres -- making them relatively inefficient. As a result, food tends to be far more costly in Japan. The cheapest rice in Japanese supermarkets typically costs about \$1.50 a pound, compared with less than a third that in the U.S.

In the past, lobbying efforts by Japanese industries and farm groups were highly influential. But electoral reforms in 1994 eroded the influence of lobby groups by making it harder for lawmakers to campaign on single issues. As a result, these lobbying groups have lost much of their clout.

According to Hirofumi Kobayashi, a trade-policy manager at the Central Union of Agricultural Co-operatives in Tokyo, lobbying groups used to be able to deliver a million or so votes in a voting population of some 100 million, but can now only manage 150,000 to 200,000.

Even so, Japan has so far avoided big food producers in the free-trade agreements it has reached in recent years with trading partners starting with the city-state of Singapore. It has since signed similar agreements with other countries ranging from Mexico to Thailand, and is expected to sign a trade accord with Indonesia in August.

Tokyo recently started negotiating with Australia, a major exporter of farm products, to test whether such a deal was possible. The idea has already panicked the Japanese farm lobby. The Ministry of Agriculture, Forestry and Fisheries released a study late last year estimating that such an agreement would wipe out Japan's wheat and beet-sugar producers and halve domestic dairy and beef production. Much of the impact would fall on the cool, spacious northern island of Hokkaido, Japan's main center for those products. The local government there predicted that 88,000 jobs would be lost.

A free-trade accord with the U.S. would have even broader consequences. The U.S. extends both as far north and as far south as Japan, meaning American farmers can produce most of the products that Japanese producers can -- from wheat and milk in the north to pineapples and oranges in the south.

That, says Mr. Kobayashi of the Agricultural union, would put many Japanese farms out of business. He says that would reduce the beneficial side effects of having farms in Japan: the role paddy fields play in flood prevention, the cleansing effect of plants on the air and preservation of the cultural heritage of centuries of rice production. "If you removed tariffs," he says, "we couldn't keep up with this."

Some advisers to Mr. Abe's administration think the challenge would do Japan's farmers some good, by forcing them to change the way they do business. One reason Japanese farms are currently so tiny is that corporations aren't allowed to own farmland -- something the Agricultural Union opposes. That prohibition makes it hard for large farms with economies of scale to develop, and government advisers say the law should be changed. The Japanese government report suggesting a trade deal with the U.S. also called for reform of the agriculture sector, "without fearing globalization."

Write to Sebastian Moffett at sebastian.moffett@wsj.com¹

URL for this article:
<http://online.wsj.com/article/SB118393066733960259.html>

Hyperlinks in this Article:
(1) <mailto:sebastian.moffett@wsj.com>

Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact **Dow Jones Reprints** at 1-800-843-0008 or visit www.djreprints.com.