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External Economic Policies in the Aftermath of the Great East Japan Earthquake and Tsunami: Japan's Trade Diplomacy in Asia-Pacific

By

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Mr Lynch, Thank you very much indeed for your very kind presentation of myself. It is indeed a great honour and pleasure for me to be here. Actually this is a second time for me to be in Wellington because previously your Ministry of Foreign Affairs and Trade kindly invited me to share some thoughts on trade issues back in March 2008. And the season in March is really perfect to visit Wellington but this time, this winter time and it is historical snow falling but maybe I have a chance to stay another night if the airport is to be closed down because of this heavy snow falling. But anyway that would be even a great pleasure for me.

Thank you very much indeed for coming here despite the weather. I am very honoured and privileged to be here. My thanks also go to the Victoria University and also the New Zealand Institute for International Affairs. My thanks also go to the Japanese Embassy and the Minister of Foreign Affairs of Japan who have been making the necessary arrangements for this conference to be taking place.

Ladies and gentlemen, today's menu is a little late for *plat du jour* but I have, maybe at the outset, I will actually talk about the recovery process of Japan. Then go on to trade issues, particularly I would like to talk about Japan's Free Trade Agreement, FTA policies, its achievements and challenges and later on I would like to talk about Japan / New Zealand bilateral trade with the possible prospect of the Trans-Pacific Partnership Agreement known as TPP.

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The first slide is to indicate to you how Japanese super highways, I mean the expressways, have been damaged by the March 11 earthquake, the great Tohoku East Japan earthquake. More than half of the Tohoku expressway has been damaged as you see in the pictures as of March 11 and 12 with some after shocks that followed the major earthquake on March 11. But as you see some cracks you will find on the picture, for instance these, here and there, have been more or

less repaired as early as March 17th following this earthquake and the traffic restriction on this expressway was lifted as early as March the 24th so this is a very important communication device and communication transport artery so the recovery of the road system was one of the major developments in the process of recovery of that region.

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Next slide is to show you how Japanese bullet train Shinkansen had been also repaired or recovered. There were about 26 trains operating at the time of the earthquake but none of them, fortunately, had a serious accident or derailed. Any serious damage, there was no serious damage to elevated bridges and stations and so forth. So as of April the 29th the entire Tohoku Shinkansen resumed its service following those recovery of bits and pieces along the line of this Tohoku Shinkansen. Together with the road services and Shinkansen the railroad services, the airports also came back to normal services but as you see this is the picture of the Sendai Airport which had been massively ruined by the earthquake and tsunami also, this is a picture of the tsunami really inundating the whole area of Sendai Airport and as you see the runway has been completely damaged but the runway has been restored and became usable by March the 28th thanks to the cooperation of the US Armed Forces and the Japanese Self Defence Force. And as of April 13th, the commercial flights start to operate between Haneda, that's Tokyo International Airport, Haneda Airport and Sendai and also Osaka Airport and Miyagi that resumed their operations. And the picture that you saw on your right hand side is the picture of the first flight on April the 13th.

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The next slide is to show you some of the industrial recovery. The Sumitomo Metal which is located here in the Kashima in Ibaraki prefecture, that was also heavily damaged by the quake and stopped production of the steel but as early as April the 30th, Sumitomo Metal's Kashima plant resumed its operation. It was returned to full operation towards the end of May. And Sumitomo Metal Industries previously declared that they are going to merge with Nippon Steel. Nippon Steel has a Kamaishi steel furnaces, have been also severely damaged but nevertheless the merge of Sumitomo Metal Industries and Nippon Steel will be undertaken as it has been previously programmed. So the steel production is almost back on the right track again.

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The next slide is various different companies, car manufacturers like Nissan, Honda and how they are now coming back to the recovered stage. Several weeks after the earthquake, certain major factories producing core parts and components temporarily ceased operation. Those are like Central Automotive Company, Kanto Automotive Company, those are the affiliated companies to Toyota – but they resumed their work, their production gradually. Most of the motor production companies have restarted their production depending on the supply level of core parts and materials. In the case of Nissan, for instance, you see as of the 18th, all factories including the

earthquake damaged engine factory in Iwaki city resumed production. Likewise in the case of Honda they restarted their production as of April 11th. But nevertheless the damage to those factories have been quite significant and Japan's auto export of April 2011 marked decrease by 43.2% and the inference or impact was not only limited in Japan but also across the Pacific. The US car production has been also decreased by 8.9% in April 2011 due to the failed supply of parts and components to US car manufacturers.

This disaster reminded us that Tohoku region, the upper north region of Honshu of Japan, a very important part of the production network and what we call indirect export. More than 60% of the output, industrial output of this region going into Kanto district which is centred around Tokyo and then the final product such as cars or electronics would be exported to overseas. So we realised that Tohoku area has been very much deeply integrated into this kind of supply chain or production networking. And those production networking would be now constantly coming back.

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The next slide is to indicate the locations of Fukushima Dai-ichi nuclear plant stations. The distance between Tokyo and Fukushima Dai-ichi NPA is roughly 230kms, is about 144 miles. I put in some other comparable distances like in the case of Europe it is more or less the same distance as Paris and Brussels. In the case of New Zealand here, maybe I would say between Auckland and Rotorua, it would be more or less the same distance. So people worry very much about the effects of radioactivity but if you look at this radioactivity which had been measured by our Ministry of Education and other organisations such as METI (Ministry of Economy, Trade and Industry), the recent environmental radioactivity level in Tokyo is lower than the level in New York and Hong Kong. If you look on the right hand side here, the environmental radioactivity levels around the world, for instance in the case of Hong Kong it is 0.14 μ Sv/hour. In the case of New York, 0.095 μ Sv/hour, whereas in Tokyo 0.078 μ Sv/hour. So altogether the accumulated environmental radioactivity level in Tokyo, if the current level continues for three months, will be 168.5 μ Sv/hour which is far less than the gastro-intestinal x-ray examination which usually has the level of 600 μ Sv. Or an air trip between Tokyo and New York one way only, it will be 200 μ Sv. A person like myself, I travel about 10 times overseas and flying Tokyo-Paris or Tokyo-New York and I would get easily more than 4,000 μ Sv per year. So I think the radioactivity level in Tokyo is not really that dangerous for the time being. And the international organisation such as ICAO, International Civil Aviation Organisation declares in April 11th, continuous monitoring around these airports including Sendai, confirms that radiation levels are well within safe limits from a health perspective. And other organisations such as WHO also mentioning that they are not advising general restrictions on travel to Japan. So despite the fact that we have still residual problems of those radioactivities and some 300-400 people are fighting every day in order to calm down the damaged nuclear plants, so far I think things are under control and the Japanese economy as a whole is certainly on the right track to come back in the normal operations.

But of course those triple disasters, earthquake, tsunami and radioactivity hit really the Japanese economy adversely. The negative effect has been quite obvious. The OECD forecast is -0.9% gross in 2011 but OECD also forecast for the year 2012, the positive economic growth of 2.2% for the year 2012 and also IMF, International Monetary Fund, also forecast -0.7% of the economy gross for this year but as of next year, there would be a robust coming back of Japanese economy at the gross rate of 2.9%. So I would say that this year we have still some negative effects but next year we will have more positive and robust economic development to make even this recovery more firm and sustainable.

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So this is the first part of my expose today about the disaster and recovery of the Japanese economy. This will be followed by the trade issues and the first couple of slides that I want to show you are the actual status of trade surrounding Japan. And here you see China, USA and the European Union three major trading partners. Up to the year 2006 the United States has been the largest trading partner for Japan but the year 2006 was a kind of very important turning point year and China became the largest trading partner for Japan being followed by the United States as the second largest and EU as the third largest. But if you count the trade between 10 nations of ASEAN, Association of South East Asian Nations, and Japan, the bilateral trade between Japan and ASEAN counts the third largest even before our trade with the European Union. And all these developments with China and other ASEAN countries, due to this very active inflow of foreign direct investment to China and also ASEAN nations. And as you see, USA, EU, together with the USA and EU, China became one of the most important destinations of Japanese investment together with our investment to the major countries of ASEAN.

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And I would like to explain why the investment to ASEAN and China increased. The major important event that forced all the Japanese manufacturers to move out from Japan to produce parts and components be it in the automotive sector or be it in the electronics or computer industries, that was the Plaza Accord. The Plaza Accord maybe the younger students do not know because it is a long time ago, but the Plaza Accord was very decisively important because it was a major exchange rate realignment between the Japanese yen and US dollars. Sorry, here the Yen mark is not well appearing here, but there is actually prior to Plaza Accord, one US dollar was 240 yen and after the Plaza Accord, one dollar became 180 yen. So it is about 25% appreciation of the Japanese yen. Before this Plaza agreement everything was produced in Japan so everything was made in Japan, but bearing in mind this 25% appreciation of the Japanese yen, Japanese manufacturers thought that it was no longer profitable to make everything in Japan and they tried to shift the production sites of their parts and components abroad. First they directed their FDI towards ASEAN countries such as Thailand, Indonesia,

Malaysia, Singapore and so forth. Why? – because their national currencies like Thai baht or Malaysian ringgit, they have been closely linked and pegged to US Dollar so that they can avoid the ups and downs of currency exchange rate and their production overseas in those countries will have quite a beneficial effect on the entire Japanese industries placed in that area. And of course, this FDI further extended to other countries like Taiwan, Korea and also certainly the mainland China. So they were more or less motivated to avoid negative effects of appreciated Japanese yen and this kind of tendency certainly still goes on because now the Japanese yen is even 77, 76 yen to one dollar. So this kind of shifting of production sites to overseas is even more phenomenal.

So this is what I would call de facto business-driven integration in East Asia. This business-driven integration has been initiated by this Plaza Accord and this FDI flow into those countries making parts and components being produced locally in those ASEAN countries or East Asian countries and actually those parts and components are being produced but then they are being traded to some other countries within the region.

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So the next slide will just give you some examples of the system that I would call the optimal supply system. So this is a case of Japanese car industries in the late 1980s or 1990s. The Japanese producers continuously produce highly value added engine parts and components such as IC control fuel injection system and they would export that kind of core part or component to such countries as Thailand, Malaysia, Philippines and Indonesia. So you see, in the respective countries, they produce all different sorts of parts and components and then those parts and components are being traded, being exchanged, across the national boundaries of those countries. But there was another consideration on the part of Japanese manufacturers who invested in those countries – the fact that the tariff protection rate has been very high in those countries. Because Thailand, they want to become the centre of car manufacturing in Asia, they want to become Detroit of Asia, that was their ambition. And Malaysia also, they are promoting a national car project known as Proton Saga and the ex-Prime Minister, Mr Mahathir has been promoting the national car project and that kind of national car project of Malaysia also gave the same sort of way of thinking to Indonesia. And Indonesia also followed Malaysia's way of establishing their national car industries.

So their tariff rates would be very high like in the case of in Thailand, the tariff rates ranged from 40% to 60%. So Japanese car producers they went on FDIs and producing parts and components but still the tariff barriers impeded their business operations in those countries so the kind of natural course of the sequence is that they wanted to reduce those industrial tariffs of those countries that accommodate Japanese FDIs or even in some case, eliminate those duties. So in this way Japanese companies started to be very aware of the possibility of free trade

agreements and this affects the government policy on international trade. The shift of Japanese trade policy from purely MFN-based –GATT- WTO trade policy to a more hybrid approach of having preferential trade arrangements such as FTA or EPA could be explained by this new phenomena of increased intra-regional trade ratio.

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As you see, prior to the Plaza Accord, in the year 1980, both in export and import East Asia is not really that high, around 34% but eight years after the Plaza Accord, year 2003, both in export and import it is more than 50% in the case of export, and almost 60% in the case of import. So if you compare with the European Union, East Asia is still lagging behind of this intra-regional trade ratio. But if you compare with NAFTA in case of particularly the imports, NAFTA is still something hanging around 40% in terms of import so East Asia has a higher propensity of importing from other countries within the region, much higher than that of NAFTA. So that indicates that in East Asia we have much well developed sort of web of production networking start to function well.

So that is the background why Japanese trade policy-makers have to shift its trade policy from purely WTO multi-lateral MFN-based trade policy to a hybrid approach putting the regional dimensions into its international trade.

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So this is a kind of summary part of what I have been talking about in the last five or six minutes, that the regional economic integration in East Asia is very much the feature of business-driven integration through foreign direct investment and production networking or production chains being well developed and that formulates de facto integration. This is quite different from European type of integration. European type of integration is more institution driven integration and de jure integration as you are aware of when they started from the Treaty of Rome to establish EEC, European Economic Community, in the form of customs union and at the same time they have established the European Commission as the executive branch of European communities. And also they have the Council of Ministers as well as European Parliament for the democratic control of the European *acquis communautaire*. So this is very different but the Asian side we started from de facto integration but now not only Japan but also some other countries like Korea, China and also ASEAN themselves, they are now very much mindful of making FTAs so I think there is a kind of shift from de facto integration to the de jure integration also taking place here in this region of East Asia. That is a very important sort of background when we think about the nature of regional economic integration in East Asia.

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So bearing in mind this kind of development, the Japanese Government is also more or less obliged to review its trade policies and back in the year 2002 the Ministry of Foreign Affairs prepared a policy paper on FTA or FTA strategy. That was one of my first activities once I was

called in to MOFA (Ministry of Foreign Affairs) as Deputy Director General for Economic Affairs. I remember August 2002 it was also a very hot summer but with young officials, we worked on this FTA policy paper and that was in October that we published it through a home page and also through press conferences. The major, the element of Japanese FTA could be described with this schematic slide. Of course the Free Trade Agreement is certainly a central part of our EPA. We call it Economic Partnership Agreement because we like to make a distinction between the traditional FTAs and what Japan would like to have in the future. So of course FTA free trade agreement is traditional notion a bit which the objectives of improving market access, both in trading goods and services is certainly a core part of EPA. But we would like to add some other chapters and maybe most importantly a chapter on investment. A chapter on investment is very important because we do not have multilateral investment agreement, we failed in OECD to create one and of course TRIMS, Trade Related Investment Measures as part of WTO agreement, while it's not really comprehensive and we would like to have more sort of prohibition of performance requirements and other important provisions such as investors to state or state investor litigation process, and also most favoured nation treatment or national treatment even before the establishment of those foreign direct investments to be accommodated in the host countries. So this kind of, before establishment National Treatment or MFN or state to investors, investors to state dispute settlement, those are the new elements that we tried to bring in to our investment chapter of EPA and we have been doing that quite successfully.

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The bilateral cooperation and business environment, those are also very interesting characteristics of Japanese EPA, particularly the business environment. We have a sub-committee once EPA came into effect, business environment had the opportunity for the private companies to send their representatives to sub-committee meetings so that they could resist any problems that they might encounter while they are investing or they are in operation in the host countries. So of course it's a two way process and business environment chapter has been very much appreciated by the private sectors on both sides. And competition also is another element that we deem very important because competition, unfortunately in a Doha development agenda we could not bring in the competition into the negotiations after the failure at Cancun September 2003.

So we think that competition, the free competition or fair competition is the other side of the same coin as international trade so we would like to bring in this element into our EPA so that our partner countries, particularly the developing countries partners, if they do not have the competition regimes or competition laws then we would like to provide them the capacity building exercise so that our developing country partner could have competition policy in place.

Movement of natural persons is also another element that we like to bring in and in particular, our agreement with the Philippines and also with Indonesia. We have a special chapter to deal with the nurses and care workers from the respective countries to come to Japan and exercise their hospital care services. Japan is a very rapidly aging society and according to the Japan Association of Nurses, they say that by the year 2025 some 340,000 nurses would be missing so we need additional 340,000 nurses for taking care of the elderly in 2025-2030. So we have the vital interest of this kind of agreement that opens up the door to our foreign supplier of services and maybe these nurse and care workers' story would be just the beginning of the entire process of the opening up of the labour market. Maybe with the obvious reasons, it could be limited to skilled labour and maybe not to talk about unskilled labour but for instance in the case of Japan / Mongolia talks on the possible negotiation on FTA/EPA between Mongolia and Japan, Mongolia side is very much interested in sending their agriculture labour to Japan during the winter time and as you know our agriculture population is also very much aging, rapidly aging population and the average of our agriculture farmers is around 66 years old. So maybe it is sensible to have that kind of scheme to bring into Japan those Mongolian farmers in winter time when the winter is very, very cold, it is much colder than here. I've been to Ulaanbaatar for several times and it is about 20-25 degrees below zero so it's really, it's not practical for agriculture people to work outside. So maybe it could be a good occasion, it's a good trade off between Mongolia and Japan.

So the idea of EPA is going beyond traditional FTA which is more centred around on the market access issues. So the next slide is in a bit more detail of how those issues like the trade in goods the trade in services, investment and also there is some principal areas such as government procurement, improvement of business environment or corporation be covered by our bilateral or regional EPAs. As you see in the case of government procurement we attach the most importance. Unfortunately, only four of EPAs, the one with Singapore, Chile, Mexico and Switzerland we can successfully cover the government procurement but with ASEAN countries it was so difficult to bring them in. So those, the lack of coverage of government procurement with regard to our bilateral FTAs with ASEAN countries suggest to us that we have to move forward and in that respect I think the TTP, Trans Pacific Partnership Agreement will have provided us, provided Japan with ample opportunity to go far beyond what we have previously agreed upon through our EPA negotiations.

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Next slide is just to give you some idea about the kind of guidelines, also basic policies with regard to EPAs. The first indent here is also very important that indicates that Japan's recourse to bilateral or regional FTA or EPA does not mean that Japan's, does not mean in any way the Japanese departure from our commitment in WTO but rather EPA to complement the multi-lateral trading system embodied in WTO. So to us, its EPA is complementary device or supplementary device to our commitment in WTO for all trade liberalisation and liberalisation of investment. EPA

to develop further Japan's external economic relations and ensure its economic benefits, that's certainly true for everybody. And also third indent was also very important because this developmental EPA coincided with the premiership of Mr Junichiro Koizumi and Prime Minister Koizumi often said that there would be no progress without reform. So no progress without reform particularly the structure reform was the very important element in the Koizumi government. And I would say that Japanese development of EPA is a just external dimension of such domestic structure reform. So through EPAs or EPA negotiation, we wanted to expose the much protected segment or sectors of Japanese economy more to international competition and through EPA or EPA negotiations, we would like to bring them to the international competition and through international competition we could improve the productivity and we could improve the competitiveness of those Japanese sectors.

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So the domestic structure reform was one of the major considerations that we had in mind when we started the EPAs, first starting with Singapore and followed by our agreement or negotiation with Mexico and others, being very much like, very much stimulated by this domestic structure reform. EPA as a diplomatic device to create sound international environment notably in East Asia but also the bilateral negotiations taking place to move on our EPA, that was really the best way to get to know each other. I, myself, had the experience of negotiating with Mexicans, we needed 23 consecutive months for agreement in substance but those 23 months, every month either we go to Mexico or they come to Tokyo and we really dealt with all the small details about each other's country's systems or social problems and legal problems and so forth. So although we celebrated 400 year anniversary of Japan / Mexico, the foreign relations between two countries last year, but I think the negotiation of bilateral EPA between Japan and Mexico really provided a very solid platform to get to know each other in all the details. In this way, I think the FTA/EPA negotiations certainly provide that kind of very strong ties between two countries. So in that respect, I am certainly very supportive of negotiations between New Zealand and Japan.

Okay so with all reasons the Japanese private stakeholders wanted EPA to be expeditiously negotiated and concluded and as a result of those efforts this is the list of Japan's EPAs achievement so far and starting from Singapore, Mexico, Malaysia, Chile and so forth we have a country like Switzerland as well. And with Switzerland, for instance, we apply now the self declaration for rules of origin. You know, in the European Union and Switzerland you use this self declaration for getting the origin certificates and we finally adopted this Swiss way or European way of acknowledging the country of origin and we adopted this in a very user-friendly system for fixing the rules of origin. So we have about a dozen of countries and those countries are described in the red colour here, all EPA already came into effect and the most recent one is the one with India and also the one with Peru. So we have those 12 EPAs already in place while three countries, or group of countries, like Korea, Australia and Gulf Cooperation Council (GCC)

we are still negotiating and the fact that more than four years we have been negotiating with Australia indicates the gravity of difficulties involving agriculture, certainly. But those three countries, three partners, we like to move on quickly as soon as possible.

The countries not appearing on this list but forthcoming possible partners for negotiations will be Mongolia as I mentioned. We have already concluded our study phase with Mongolia as of March this year. Even after the quake, the third meeting had been held in Ulaanbaatar to ramp up our joint study group with Mongolian counterparts. The one with the European Union has been also starting I would say because towards the end of May it was, May 27th or 28th this year, the summit meeting was held and the EU and Japan agreed to be engaged in the kind of ante-chamber sort of exercise, what I would call the scoping exercise to fix the scope of bilateral FTA negotiations and the first round of such scoping exercise has been held last month, the month of July this year.

So also another country and that I could add to the list is Canada. Japan and Canada have been also considering the possibilities of having EPA and the study phase on the governmental level G2G study group has been gathered several times and the most recently again, 9th of July, we had a meeting with Canadian experts to discuss the possibilities of Japan / Canada EPAs. Canada is very much interested in this but there is a kind of asymmetry in the trade relationship because to Canada, Japan ranks the third important trading partner but for Japan, Canada ranks only the 16th in the bilateral trade. So that reflects somewhat the temperatures on both sides while we are going to negotiate bilateral EPA deals.

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The next slide I would like to draw to your attention to maybe this part of the table. This slide entitled East Asia discriminates against East Asia. We have about some 40 FTAs across East Asia. Japan has about a dozen and China has also slightly less than 10. Korea has six or seven that covers extensively their trade about 35% of their external trade would be covered by their FTAs. But nevertheless the tariff rates on agricultural products as you see it is about the average rate would be 41%. So 41% average duties on the export of agricultural products from East Asia imposed by East Asia you see. So that also with footwear or textile light industries is more or less the same, slightly lower duties like 26.8% and food and beverage 21.8% but East Asia discriminates against East Asia. Even though we have a number of FTAs. So that means that we have to improve the quality of our FTAs and EPAs. And maybe the best way to do that would be bringing all those 40 something FTAs or EPAs into the framework of TPP, maybe that is the best way to grade up or improve the quality of our EPAs or FTAs in the region.

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So that is the motivation of the APEC-wide free trade and last year in November, the APEC leaders get together in Yokohama in November, they have made a declaration that there could be

a road map to lead all the APEC 21 economies to an APEC-wide free trade, free trade area of Asia-Pacific. They have identified a couple of major frameworks – one being the ASEAN + 3. We mean ASEAN plus Japan, China and Korea. And we have also ASEAN + 6, Japan is opting for this ASEAN + 6 because we would have Australia, New Zealand as democratic members to this community. So Japan is more favouring ASEAN + 6 and China is favouring ASEAN + 3 but then we have also a possibility of having a free trade area between Japan, China and Korea, the tri-lateral FTAs but none of those have started negotiations. The only one the framework that has engaged in the actual negotiations is TPP – Transpacific Partnership Agreement.

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So I think the importance of TPP is really overwhelming because first of all it's the only one forum where actual negotiations have been taking place and also if you look at on your right hand side, in terms of population, in terms of trade, in terms of intra-regional trade ratio, I think the future of TPP is more promising than that of ASEAN + 3 or that of + 6. Of course, the ASEAN + 3 or + 6, they have their own missions to complete but I think the TPP, as I told you, they provide the very solid basis for upgrading and improving our existing FTAs. So I think the TPP is really the forthcoming format of liberalising trade in Asia-Pacific for the very foreseeable future.

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Now I would like to turn to the bilateral trade between Japan and New Zealand and this is the overall trading partners of New Zealand and as you see Japan is the fourth largest trading partner for New Zealand, both in terms of imports and exports.

And the next slide is to share with you what are the main products, both exports to Japan and imports from Japan, and it suggests that our bilateral trade relations are quite complementary to each other. So if you look at the following couple of slides, Japan constitutes a fairly important market for New Zealand export items. Like in the case of cheese, Japan is only slightly lagging behind of the Australian market. Japan is the second largest destination of New Zealand cheese. And in the case of beef (fresh and chilled), Japan is the biggest market for New Zealand beef exports and also in the case of Kiwifruit or aluminium, this kind of natural resource, Japan is an overwhelmingly important destination for New Zealand. So in the case of food and other things, Japan is also the very important share of New Zealand's exports.

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So I am very happy to bring your attention to this Japan / New Zealand partnership forum that I attended on the 11th of July this year. And the more than 100 business people attended on this occasion. And I just picked up some of the main elements of the chairperson's wrapping up summary of the conference and there was a support expressed for Japan's future participation in TPP and your Minister for Trade, Mr Tim Groser, participated also in this forum and he gave us a speech. In his speech he mentioned that Japan's involvement would increase TPP's attractiveness as a pathway to FTAAP. It is very kind of him to mention that. But of course the

trade connectivity, if you look at that, I think Japan's participation in TPP would certainly increase the importance of TPP overall. And also some accommodation of sensitive parts of Japanese economy, namely agriculture, has been expressed in a very subtle way in the third indent here. That some parts of the economy could be addressed by transitional assistance to the affected sectors. This was to deal with our sensitivity in agriculture. The Japanese industry communities, economic communities are represented by the patronage organisation called Keidanren. The Keidanren together with the Japanese Chamber of Commerce, Association of Japanese Corporate leaders, Keizai Doyukai, they are all supportive of Japan joining, participating in TPP negotiations. But because of the disasters, triple disasters, because of the aging agriculture sector, we could not really declare that Japan join TPP negotiations up to this moment. But I am still very much hopeful of putting or pushing Japan forward for the participation in TPP negotiations bearing in mind that some accommodation could be done to accommodate the very sensitive part of our economy.

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TPP certainly would deliver a freer climate, more favourable climate to enhance farther a close economic relationship between Japan and New Zealand. So this is also concluding part of my expose this evening. I would say that there are three growth poles, one being America's, centre around NAFTA, North American Free Trade Agreement, on the other side of the Pacific and on the other side of the Atlantic from the United States, European Union which is now the Union of 27 member countries. And also it has a very close relationship with *Confoederatio Helvetica* Switzerland and also other EFTA countries together with ACP, African, Caribbean and Pacific, countries that the European Union try to embrace with their Cotonou Agreement. And certainly we have East Asia, ASEAN +3 plus additional three, so ASEAN + 6 is in the process of making its integration in this particular region.

But fortunately we have inter-regional cooperation frameworks as well. The APEC between the Pacific rim countries of Americas and also East Asia and we have also ASEM, Asia Europe meeting, I hope one day New Zealand and Australia also join this ASEM format. So although we have this kind of very intensified integration procedures or process going on in each of the respective growth poles, but we have fortunately APEC to keep the two mega regions open to each other as well as ASEM to keep East Asia and the European Union open to each other. And then we have also, of course, trans-Atlantic marketplace or trans-Atlantic Economic Council between European Union and Americas.

So you see fortunately this way if ASEM-APEC trans-Atlantic marketplace functions properly then we do not have the situation that we used to have in the 1930s like economic autarky or economic blocks trying to implement the trade restrictions or lowering their exchange rates and so forth. 'Beggars thy neighbour' policy will not take place under this picture. But more importantly, what we

have in common is a kind of basic and solid common rules that we have and that is WTO. Despite the fact that we have failed so far in concluding Doha Development Agenda, Doha Round exercise, but we remember that WTO is providing the basic rules and spirits to international trade and even a country like China is a fully fledged member to the WTO and Russia is about to join the WTO. So WTO provides a kind of universal set of rules and disciplines for trade and investment and also we should not forget that dispute settlement mechanism in WTO works very well and since 1995 the WTO came into force, there are about 380 trade disputes that have been successfully dealt with. So I think the kind of rule oriented approach, rule oriented solutions to trade disputes have been sort of main streamlined rather than power oriented solutions to trade disputes.

So I think despite the fact that we have a number of regional undertakings, regional integrations has been very much intensified but as long as we have the solid WTO and then people try to share the spirits and rules of WTO I think those regions, our regionalisation of trade will certainly contribute to further enhancing the trade across all the areas or regions. So I hope that those FTA/EPAs could be a kind of positive sort of stepping stones to realise the multilateral trade liberalisation after all.

[Slide 30]

So today's conclusion – Japan's approach to trade is that FTA/EPA is a complementary device to our multilateral trade liberalisation endeavours. In the area of East Asia it started with this de facto business-driven integration but we try to provide de jure integration as well through our FTA and EPAs. But we have to keep improving the content of our FTA/EPAs and in that regard, the forum such as TPP would be very much important to bear in mind. Worldwide, Japan tried to move on from defensive FTA to a more strategy FTA and the one with Switzerland, the one with European Union and maybe the one possibly with SACU, South African Customs Union, or SADIC, we never lost the sight of the possibility of having the South African countries or African countries sub-sarahan African countries for future trade ties.

And the dozen of EPAs that I showed you that I could describe as our first generation EPA but the first generation EPA is nearly done but the second generation EPA, we have to address our EPA policies to big partners like the United States, European Union and also the very important partners like New Zealand and Canada and across the Asia Pacific, we would to move on to TPP. Of course we have some domestic difficulties but I am very mindful and hopeful that we could move on to TPP at least and have to join negotiations in TPP because that is to follow our road map that we have previously agreed in Yokohama last year on the occasion of the APEC summit meeting. Of course needless to say, Japan will make further firm commitment in WTO, APEC and ASEM.

So this is the end of my talk today and I just thank you very much for your very kind attention and I am open for any discussions or comments. Thank you very much indeed.

Question:

... You mentioned the internal difficulties in Japan, I wonder if you could just explain those a little bit further. In particular, I wonder how much, how bipartisan is support for the TPP within the Japanese political process? Does the opposition share the Government's views on TPP?

Answer:

Well thank you very much indeed for your very good and penetrating question. Yes, I think as Minister Groser mentioned, that Japanese involvement will add attraction to TPP as a whole but also you mentioned about critical mass and Japan is quite ready to form critical mass together with United States, Australia and New Zealand particularly in the rule setting agenda. If you like, regulatory coherence or government procurement, competition and all other rule oriented areas of TPP. So Japan would be quite happy to join this critical mass in order to move forward the freer trade and investment across the region of Asia-Pacific. And the internal difficulties that we have is certainly around agriculture. And prior to this triple disaster on March the 11th, if you have the chance to look at the Japanese Economic Journal, Nikkei and all other newspapers, those major, there are four major newspapers, they have been always supportive of Japan joining TPP. And that is only an echo of the Japanese industrial community which really looks at the TPP with very high ambitions and I mentioned about Keidanren which is a patronage organisation of big industries, they are all certainly for Japan joining TPP. Japan's Chamber of Commerce which is also a representative body of small and medium size enterprises, also very much positive in joining TPP. So if you look at the Nikkei's census, I mean the questionnaire of Nikkei readers, more than 56% was in favour of Japan joining TPP. So that was the situation before the triple disaster. Because of this earthquake, Tsunami and radiation, that hit really Tohoku area and Tohoku area is a very important area for agriculture. And for instance, in terms of rice production, about 20% of rice production comes from that area and also 20,000 hectares of farming land has been inundated by the tsunami. So all these factors really push TPP agenda backwards unfortunately. But still the persistent support for the TPP is very, very strong. So once the Japanese Government could deliver the necessary funding for adversely-affected farmers to recover or at least some sort of income, direct income support to those affected farmers, then there could be the possibility of pushing forward this TPP agenda bearing in mind that we have a majority of people but majority is a silent majority. This silent majority supports TPP.

So one kind of self-imposed obligations that I impose myself is to try to deliver an accurate and correct view of TPP amongst the Japanese population so that nothing to fear, nothing to worry about in joining TPP negotiations. Particularly, some rumours around in Japan, for instance, once Japan joined the TPP negotiations, the following morning all the agriculture duties were scrapped, or to be phased out. The foreign cheap labour will come into Japan right away after Japan is joining negotiations on TPP. That is not true as you know, you see, so that kind of negative campaign has been quite obvious in Japan nowadays so we would like to bring in to the Japanese people that accurate, concrete and correct assessment of TPP ought to be very vital to bring all Japanese preparation towards the joining TPP negotiations in the very near future.

Is that okay, am I responding to you?

Question:

You mentioned that in the Koizumi period, the emphasis on domestic structural reform. Has that process continued since Koizumi left the scene?

Answer:

That is another good question, a penetrating question as well. Wow, That's very challenging too. I mean in terms of postal reform it certainly it is going backwards. And I think the DPJ Japan of DPJ is the ruling party for the time being, I think they would be faced with political reality that they have to bring remedies to the budgetary situation which is so bad in Japan. So I think one way or the other DJP Government would be obliged to face with this reality that they have to bring in more budgetary disciplines in their political conduct. So I think that structural reform would be also another agenda inline with tightening up of budgetary disciplines in the coming DPJ Government.

[End]