



BRIEFING NOTE

Updated February 25, 2011

Recent Developments in Japan – a Pivotal Change?

Several indicators have appeared in the October 2010 to January 2011 period suggesting that we are witnessing a consensus-building process that spans industry, government and politicians and which supports policy that might lead to a pivotal change in Japan. A sense of urgency now appears to be broadly felt at the top of government and industry about the need to respond to a perceived shift in the centre of the world's economy to Asia

In brief, these indicators are:

1. Prime Minister Kan's Investment Promotion Roundtable meetings (see details below) have revealed overwhelming industry and government priority on entry in the TPP (Trans-Pacific Partnership also known as the Trans-Pacific Strategic Economic Partnership Agreement - being promoted by the US).
2. There is a paradigm shift in the government's agricultural sector policy to complement the strategy for TPP entry. On November 9, the Chairman of the Agricultural Corporations Association stated at PM Kan's Roundtable that his organisation accepts the need for TPP entry and EPAs and relies on PM Kan to provide alternative measures to support his industry.
3. A meeting of 800 companies was held on November 1 led by the Keidanren and the Keizaidoyukai to reach a consensus on recommendations on corporate tax, TPP entry, etc. to give the government at the November 9 PM Kan's Roundtable
4. The Cabinet adopted a policy position on the *Basic Policy on Comprehensive Economic Partnerships* with the major focus on a broad Asian FTA starting with the TPP (and 2 sentences related to the EU in 4 pages of text) on November 9. By approving this document, Cabinet approved the start of consultations with TPP members as well as the restructuring of the agriculture industry and regulatory reform required to implement the TPP and other EPAs.
5. Sixteen meetings of a special DPJ committee held prior to the November 9 Cabinet meeting reached a consensus on working towards TPP entry
6. On November 26, the Japanese government launched a Ministerial Taskforce chaired by Prime Minister Kan to work on support measures for the Agriculture industry at the same time as it starts on consultations with TPP countries. The first meeting will be held on November 30.
7. A Ministerial Taskforce entity has been established to oversee measures required to ensure Japan's participation in a free trade area in the Asia-Pacific region.



8. METI estimated conservatively that Japan's participation in the TPP would add 10 trillion yen to GDP and much bigger benefits if the TPP were to involve China and other countries. In contrast, METI also estimates a decrease of 10.5 trillion yen in GDP if Japan does not join the TPP.
9. Prime Minister Kan made a public statement at APEC on opening up Japan – he equated joining the TPP, with Japan's opening to the world in the 19th century after more than two hundred years of isolation.
10. Keidanren Chairman Yonekura made a public statement on the need for new measures for free trade to adapt to a shift in the centre of the global economy to Asia
11. The Japanese Trade Union Confederation (Rengo) has endorsed the Keidanren's support for TPP entry
12. US Secretary of Commerce welcomed the Cabinet's November 9 decision to start working towards TPP entry. The US will host the 2011 APEC meeting and hopes to take the TPP forward.
13. A Yomiuri Shimbun survey found that more than 60% of the general public want Japan to enter the TPP.
14. Editorials of the Yomiuri Shimbun on November 30 and the Nihon Keizai Shimbun on December 1 called for an end to government protection of the farming industry.
15. Keidanren Chairman Yonekura meets Chief Cabinet Secretary Sengoku on December 2 to call again for agriculture reform to prepare for Japan's participation in the Trans-Pacific Partnership free trade initiative
16. Professor Yorizumi Watanabe, Faculty of Policy Management, Keio University and Japanese government advisor spoke at the Foreign Press Centre on December 3 advocating Japan's entry into the TPP as a step towards achieving an FTAAP (Free Trade Area of the Asia-Pacific).
17. Showing commitment to the decisions taken at the Roundtable, PM Kan announced on December 13 that the corporate tax rate would be cut by 5% in fiscal 2011 and on December 16, the 2011 tax reform proposal was approved by the Cabinet.
18. Showing further commitment to the Roundtable decisions, Prime Minister Naoto Kan promised to balance free trade and agricultural reform in order to advance trade negotiations, in a New Year's message released on January 1, 2011. Moreover, he will hold another Investment Roundtable meeting in January.
19. Japan and the United State have announced that they will hold talks on Tokyo's possible participation in negotiations for an expanded trans-Pacific free trade agreement in Washington in the week of January 18.



20. On January 14, Prime Minister Kan made a few changes to his cabinet, appointing Mr. Banri Kaieda, a strong proponent of TPP entry, to the position of METI Minister.
21. On January 14, the chairman of the Japan Foreign Trade Council (Mr. Shoei Utsuda) issued a statement urging the government to quickly express its intention to join the TPP.
22. On January 19, new METI Minister Banri Kaieda pledged to reach a decision on entering the TPP by June this year.
23. On February 17, Singaporean Prime Minister Lee Hsien Loong, told visiting representatives of the Nippon Keidanren that he wants Japan to join the Trans-Pacific Partnership.
24. On February 25, Tatsuo Hirano, Senior Vice Minister of the Cabinet Office, announced that the government is starting a series of debate forums across Japan to raise public awareness of the need for Japan to open up the country and promote high-level free trade agreements.

In detail, the background to these indicators is:

Prime Minister Kan established an advisory roundtable to build consensus from industry on actions to be implemented as soon as possible to increase domestic investment and reboot the economy. The members are the Chairmen of 23 of Japan's leading industrial Associations and Federations, such as the Keidanren, Japan Chamber of Commerce, Japan Bankers Association, Prefectural Governors' Association, Agricultural Corporations Association, the Japan Federation of Trade Unions, etc., as well as the Chairmen of the EBC and the ACCJ.

The meetings have been chaired by METI Minister Ohata in the presence of PM Kan, Chief Cabinet Secretary Sengoku, Minister of State for Economic and Fiscal Policy Kaieda, Senior Vice Ministers of MAFF, MHLW, and MLIT, and others. MOFA and MOF do not have representatives in the RT.

So far there have been 5 meetings: September 28, October 18, November 9, November 16 and November 29. Another may be scheduled in December (TBA).

By the 3rd meeting (November 9), a list of overall priorities (based on an analysis of the numbers of federations requesting them) was prepared by METI and that list was tabled as the subject of that meeting. At this third meeting, the Keidanren was asked to present the overall priorities of industry, which were reported to be corporate tax reduction, TPP entry, and yen intervention. The Keidanren then asked for early implementation of TPP entry and said that industry expected strong leadership on the matter by the PM Kan and that effective measures for agriculture sector reform must go hand-in-hand with this to succeed. This was followed by overwhelming industry pressure in the subsequent comments from other industry representatives at the table for a corporate tax cut and TPP entry. The industry leaders were coordinated in their focus on these priorities, which appear to



have been set in unison at a prior weekend meeting of 800 companies chaired by the Keidanren with METI and DPJ representatives present.

At this 3rd Roundtable meeting, PM Kan then reported that at a Cabinet meeting held that morning (November 9), the Cabinet had agreed to adopt the basic policy spelled out in the *Basic Policy on Comprehensive Economic Partnerships* to enable work to start on TPP entry and for other EPAs to be concluded. He explained that a Ministerial entity will be established to oversee measures required to ensure Japan's participation in a free trade area in the Asia-Pacific region and conduct consultations with other TPP members. He added that the government will start working to restructure and support the agriculture sector immediately in parallel – PM Kan himself will chair another ministerial entity to oversee this agricultural structural reform. The work of these entities is expected to achieve readiness by mid-2011 for more specific forward action. Reference to relations with the EU occupied 2 sentences in the 4-page document.

Significantly, at this 3rd Roundtable meeting, the Chairman of the Agricultural Corporations Association said that his organisation understands the importance for Japan of concluding EPAs and does not want to oppose TPP entry. To enable this he wants government assistance to stimulate farming management for greater profits and more agricultural sector education (courses) to bring more people into the sector and make it more competitive. He concluded by saying that they count on Kan's leadership to restructure the agricultural industry.

The 4th meeting of PM Kan's Roundtable started with a presentation from MAFF Senior Vice-Minister Tsutsui, who outlined the current plans to restructure the agricultural sector. The plan entails not just increased subsidies to farming households but a major shift in agricultural work/workers from food production to large-scale non-food plant production for industrial use in producing biofuels, plastics, hydrogen, etc., a shift to using existing agricultural facilities to produce hydrogen, direct selling and distribution by farmers of agricultural foods, creation of joint-stock farming companies, and production of quality foods for export (especially to China - he mentioned that there have been approaches from China as arable land in China is declining and they want to secure a food supply, including rice). It appears that a start has already been made on this transition. According to a November 1 Nikkei article, the sector's reforms would likely be implemented over a 5-10-year period in tandem with a gradual reduction in tariffs as TPP membership is implemented.

In this 4th meeting, the ACCJ, which had not had the opportunity to speak in the 3rd meeting, urged the government to take all steps necessary to announce that Japan will enter the TPP.

In the 5th meeting on November 29, all speakers again reiterated their recommendation for TPP entry, reduction of the corporate tax cuts, elimination of non-tariff barriers, and so on, but also pushed for early implementation. Prime Minister Kan said that drastic reforms are needed, and that the government has already started to tackle reform of the agriculture sector so as not hold up development of the economy, which can be achieved by entering the TPP and other EPAs. State



Minister for Economic and Fiscal Policy Kaieda again emphasised that TPP entry is important and that the recommendations must be implemented. Chief Cabinet Secretary Sengoku said that a sense of crisis among the politicians and government officials has not been strong enough. However, industry has made its recommendations clear and implementation of the policy is very important. He said he will make sure they are implemented.

Throughout these Roundtable meetings, PM Kan, METI Minister Ohata, and Chief Cabinet Secretary Sengoku have shown a keen intent to “open” Japan in order to become a strong participant in the imminent global economic nexus in Asia.

In summary:

- Our view is that there has been a shift in emphasis to a TPP - under pressure from Japanese industry, with METI’s support. Their voice is joined by the ACCJ and the US Department of Commerce as the US is in the process of joining the TPP (the ACCJ has a position paper on this). A powerful consensus has been established.
- There appears to be an extremely strong resolve at Prime Minister and Cabinet level to follow this course with the establishment of ministerial entities headed by PM Kan to manage the process of entering an Asia-Pacific FTA and concurrently restructure and support the agriculture industry.
- There is potential for a fundamental realignment in Japanese economic policy and marginalisation of EU interests, and consequently, this could be a very serious challenge for European industry in Japan whose market shares would possibly decrease as a TPP with both Japan and the US as members would mean a much stronger US foothold in Japan.
- We would be interested to learn the response of the European Commission to these developments ahead of the eventual participation of Japan in the TPP in order to mitigate any negative impact on European businesses in Japan.

Note:

This Briefing Note was presented to representatives of the European Commission visiting Japan as well as to the Delegation of the EU to Japan on November 26 and 29