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PM Noda's courageous TPP Intention

On Tuesday 25th October, 2011, the Japanese Cabinet adopted a white paper effectively calling for Japan to join negotiations for the Trans-Pacific Partnership (TPP) trade agreement. This is a clear indication that Prime Minister Yoshiniko Noda intends to announce Japan's participation at the APEC Leaders' Forum in Hawaii - 12th-13th November, 2011. It is widely anticipated that US President Obama will announce basic agreement regarding the TPP amongst the nine negotiating countries – which include the US and Australia.

Japan's Agriculture, Forestry and Fisheries Minister Michihiko Kano and agricultural interest groups oppose the TPP on the basis that lowering / eliminating tariffs under the free trade pact will bring about a flood of imported products into the domestic market and associated safety issues. Other interests have expressed concern with respect to the delivery of medical services and insurance.

For some weeks, whether in visits to farm households and a NHK Talk show, the Prime Minister has openly stated his aspiration for joining the TPP indicating that Japan has a much better chance of influencing outcomes if it joins now than having to sign onto a subsequently concluded agreement of policies and principles. It can be assumed that pro-TPP advisers have made the point that President Obama wants the TPP as a manifestation of the US re-engagement with Asia as well as the domestic political outcome of fostering more US exports and securing employment. The US has lost significant market share in regional and key market bilateral commerce over the past ten years which can only partially be attributed to China's growth. With an emphasis on the domestic benefits of exports and job security, President Obama recently achieved bipartisan support in both houses for speedy passage of trade agreements with Korea, Colombia, and Panama after a hiatus of four years regarding trade deals.

Prime Minister Noda's leadership on the trade issue contrasts markedly with the indecision of his predecessors when confronted by powerful agricultural interests. The recent US-Korea FTA will result in some competitive disadvantages for Japan's automotive and electronics sectors which also are coping with a record appreciation of the yen exchange rate to 75-76 against the US dollar. The latter has been generating the offshore movement of some of the nation's manufacturing capacity, so the Prime Minister has resorted to his own Obama like domestic preserving industry and jobs stratagem.

The average size of Japan's farms is two hectares and fifty-five per cent are less than one hectare. Productivity is very low and sustained by subsidies and a tariff of 800 per cent that have led to the production of rice well in excess of domestic consumption. The average age of Japanese farmers is 68 and about 40 per cent have no body interested in succeeding in the occupation. Vacant farmlands amount to 400,000 hectares.

On Tuesday 25th, the Government also agreed to a Basic Policy on Strengthening the Agriculture Sector to deflate the TPP criticism from the agriculture sector and pave the way for the APEC announcement. The strengthening would aim for 20-30 hectare consolidations on flat land within five years which would necessitate financial support for farm households prepared to sell or lease their land to more ambitious farmers. Financial support was a DPJ election promise in 2009 although the measures would exclude tiny households. Policies to encourage the young into agriculture will have to follow.

The taxation of farmland is more lenient than that of commercial or residential lands. Consequently, the work of agricultural committees which have authority over the sales and leasing of farmland in municipalities will need reviewing.

Whilst finding the funds for such large scale fiscal expenditure in deficit laden Japan will be its own challenge, the Prime Minister still needs to gain passage through a parliament where the agricultural lobby has significant influence as represented by the fact that, pre-announcement, 180 DPJ parliamentarians have already signified their opposition to the TPP.

The TPP will contain phasing provisions of five to ten years which will be time for the structural reform to take place.

And for Australia....

On the occasion of Prime Minister Gillard's congratulatory telephone call to new Prime Minister Noda on 13th September, it was agreed that both countries would resume the bilateral FTA negotiations as soon as possible. A favourable decision regarding TPP should give a new impetus to these negotiations and give Japan the chance to either establish its liberalisation credentials by an early conclusion, or to use the TPP negotiation as an excuse for delaying final agreement.

Following the US-Korea FTA approval, it is expected that the Australia-Korea FTA negotiations will be speedily finalised. A delay in concluding the Australia-Japan agreement will disadvantage Japan's automotive and electronics sectors.

At the conclusion of the recent 49th Japan-Australia Joint Business Conference in Kyoto, delegates unanimously called on the Australian and Japanese Governments to conclude the negotiations as rapidly as possible. ■

Australia-Japan Business Co-operation Committee

PO Box 6005 Kingston ACT 2604 Australia

Tel: +612 6270 8030 Fax: +612 6273 3196 Email: ajbcc@acci.asn.au