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# JAPANESE PERSPECTIVES ON A FREE TRADE AGREEMENT / ECONOMIC PARTNERSHIP AGREEMENT (FTA/EPA) WITH SWITZERLAND<sup>1</sup>

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## *Abstract*

Since May 2007, official negotiations on a Japanese-Swiss Free Trade Agreement / Economic Partnership Agreement (FTA/EPA) are under way. This article analyzes the path towards these negotiations on a Japanese-Swiss FTA by focusing on the Japanese perspectives on such a potential agreement. The main finding of the analysis is that the Japan's political-economic elites can be divided into *three groups* with differing views of an FTA with Switzerland. A first group, taking a narrow economic perspective on FTAs, does not object to an FTA with Switzerland, but regards it, at best, as of secondary importance because of the limited economic effects to be expected. A second group, which is primarily concerned with the interests of the Japanese farming and fishery sectors, is supportive of an FTA with Switzerland because of its foreseeable little impact on Japan's primary sector of industry. In the long-term strategic, political-economic perspective of a third group, an FTA with Switzerland is regarded as of high potential as a door to the European market and an ideal case for an FTA with an advanced industrial economy and, therefore, strongly supported. The two last perspectives together with the pro-active Swiss trade diplomacy have been of crucial importance for the establishment of the Joint Governmental Study Group for Strengthening Economic Relations between Japan and Switzerland (JGSG) that led the way to negotiations.

## 1 Introduction

In its final report of January 2007, the Joint Governmental Study Group for Strengthening Economic Relations between Japan and Switzerland (JGSG) reached a positive assessment of a potential bilateral Free Trade Agreement (FTA) or Economic Partnership Agreement (EPA) between Japan and Switzerland and recommended “that negotiations on an FTA/EPA be launched as soon

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as possible” (JGSG 2007:29). On 19 January 2007, Swiss President Micheline Calmy-Rey and Japanese Prime Minister Shinzo Abe acknowledged the report of the JGSG and announced the opening of negotiations. Since May 2007, official negotiations on a Japanese-Swiss FTA are under way. Table 1 provides an overview on the steps taken towards a Japanese-Swiss FTA so far.

*Table 1: Steps towards a Japanese-Swiss FTA (as of August 2007).*

Since 1995	Regular bilateral economic consultations between Switzerland and Japan
Spring 2000	Proposal for an Japanese-Swiss FTA by Switzerland
2002–2004	Parallel FTA feasibility studies (Swiss State Secretariat for Economic Affairs, Japanese External Trade Organization)
October 2004	Swiss President Deiss in Tokyo; talks on FTA issues
April 2005	Swiss President Schmid in Tokyo; Schmid and Prime Minister Koizumi agree to set up a Joint Study Group
October 2005–November 2006	Joint Governmental Study Group for Strengthening Economic Relations between Japan and Switzerland (5 meetings)
January 19, 2007	Swiss President Calmy-Rey and Prime Minister Abe decide to start negotiations
May 2007	First round of FTA/EPA-negotiations (Tokyo)
July 2007	Second round of FTA/EPA-negotiations (Savognin, Switzerland)

Source: Authors.

This article analyzes the path towards these negotiations on a Japanese-Swiss FTA by focusing on the Japanese perspectives on such a potential agreement. For many decades, bilateral trade agreements have been important instruments of Swiss foreign economic policy, but Japan has only recently made a paradigmatic change from (exclusive) multilateralism to (complementary) bilateralism in its foreign trade policy. Japan’s current FTA strategy is clearly concentrated on East Asia and the wider Asian-Pacific region where most of its trade is conducted and where most of its direct investment is located. Japan has already reached a number of agreements in the region and is fiercely negotiating further agreements (see table 2). Moreover, in East Asia, Japan is under pressure by the

pro-active and successful trade diplomacy of the PR China and South Korea, especially regarding the Association of Southeast Asian Nations (ASEAN) (see *Economist* 2007; ZILTENER 2005b). The Ministry of Foreign Affairs (MOFA 2007:14) declares explicitly in a recent overview of Japan's FTA policy and priorities that the "focus of Japan's FTA strategy is first East Asia and afterwards the leading economies beyond this region."

How does Switzerland fit into Japan's FTA strategy? An FTA with Switzerland would be the first bilateral agreement of Japan beyond East Asia and Asia-Pacific with an advanced industrial economy. However, is Switzerland a 'leading economy' from a Japanese perspective? More concretely, which priority has an FTA with Switzerland for Japan? How is its potential and significance assessed by the Japanese side? Which economic and strategic advantages do members of the political-economic elites in Japan expect to achieve from such an agreement with Switzerland? In order to answer these questions, Japanese perspectives and positions concerning a potential FTA with Switzerland have been studied by analyzing written Japanese sources and through expert interviews. The written sources include publications by private and public research institutes and think tanks about FTAs, articles in the Japanese mass media, records of relevant parliament and governmental commission sessions as well as reports from conferences. Additionally, in March/April 2006, 29 guided interviews were conducted with members of the political-economic elites as well as scientific community that take a leading role in the formulation of Japan's FTA policy.

The main finding of the analysis is that the Japan's political-economic elites can be divided into *three groups* with differing views of an FTA with Switzerland. A first group, taking a narrow economic perspective on FTAs, does not object an FTA with Switzerland, but regards it, at best, as of secondary importance because of the limited economic effects to be expected. A second group, which is primarily concerned with the interests of the Japanese farming and fishery sectors, is supportive of an FTA with Switzerland because of its foreseeable little impact on Japan's primary sector of industry. In the long-term strategic, political-economic perspective of a third group, an FTA with Switzerland is regarded as of high potential as a door to the European market and an ideal case for an FTA with an advanced industrial economy and, therefore, strongly supported. The two last perspectives together with the pro-active Swiss trade diplomacy have been of crucial importance for the establishment of the JGSG that led the way to negotiations.



This article has the following structure. First, Japan's new FTA policy is discussed. An overview of the paradigmatic shift towards bilateral FTAs and its background factors is given. Furthermore, the institutional setting of Japan's FTA strategy and its consequences are analyzed. In section three the general public perception of Switzerland as economic partner and the coverage of a possible FTA with Switzerland in Japan are presented and discussed. The perspectives of a Japanese-Swiss FTA among the Japanese elites are then the topic of section four. Finally, the main findings are assessed in the concluding remarks.

## 2 Bilateral FTA as New Strategy in Japan's Foreign Trade Policy

Until the late 1990s, Japan has been a champion of exclusive multilateralism in international trade policy. As GATT member since 1955, Japan accepted regional and bilateral trade agreements as compliant with the GATT rules, but Japanese officials were sceptical and often openly criticised such agreements as undermining multilateralism. Japan's own bilateral trade agreements were primarily with the USA and limited to a few specific trade questions. However, since 1998, FTAs have been developed to central instruments for the Japanese foreign economic policy (ZILTENER 2005a). In August 2007, Japan has already signed eight FTAs, with Singapore, Mexico, Brunei, Chile, Malaysia, the Philippines, Thailand and Indonesia, of which three are in force (Malaysia, Mexico and Singapore) (see table 2). The Agreements with Chile and Indonesia will enter into force this year, and in the course of 2008 at least four more are planned to follow. Furthermore, negotiations with four other countries (Australia, India, Switzerland and Vietnam) and with two regional trade blocs (ASEAN and Gulf Cooperation Council) are under way. Negotiations on an FTA/EPA between Japan and South Korea have started already in December 2003, but they are currently blocked. What has led to this paradigmatic change in Japan's foreign trade policy?

*Table 2: Chronology of Japan's FTA/EPAs (as of August 2007).*

<i>Partners</i>	<i>Start of Negotiations year/month</i>	<i>Basic Agreement</i>	<i>Signing in brackets: planned</i>	<i>Enter into Force</i>
Singapore	2001/01	2001/10	2002/01	2002/11
Mexico	2002/11	2004/03	2004/09	2005/04
Korea	2003/12			
Malaysia	2004/01	2005/05	2005/12	2006/07
Philippines	2004/02	2004/11	2006/09	(2008)
Thailand	2004/02	2005/09	2007/04	(2008)
ASEAN	2005/04	2007/05	(2007/11)	(2008/04)
Indonesia	2005/07	2006/11	2007/08	(2007/12)
Chile	2006/02	2006/09	2007/03	(2007/09)
Brunei	2006/06	2006/12	2007/06	(2008)
GCC	2006/09			
India	2007/01			
Vietnam	2007/01			
Australia	2007/04			
Switzerland	2007/05			

Source: Authors.

### *2.1 The Policy Shift towards FTAs*

In 1998, Japan was addressed by Mexico and South Korea concerning the possibility of bilateral FTAs. In contrast to earlier approaches by other countries, these proposals triggered Japan's policy shift towards a multi-layered foreign trade policy. They fell on fertile ground as discussions and a reappraisal of regional and bilateral economic agreements had started in Japanese policy-making circles (KOJIMA 2001:45). In the case of Mexico, Japanese companies saw themselves increasingly disadvantaged in comparison to US-competitors because of the impact of new NAFTA regulations (for details, see MANGER 2005:812–814). Therefore, Japan's most influential national business organisation, Nippon Keidanren, strongly supported an FTA with Mexico for overcom-

ing this discrimination of Japanese companies and pushed for negotiations. Together with the Ministry of Economy, Trade and Industry (METI) and the parastatal Japanese External Trade Organization (JETRO), it formed an FTA vanguard that formulated and promulgated an FTA policy as a new instrument (see HATAKEYAMA 2002, 2003a, 2003b, 2003c). In the case of South Korea, a possible FTA was one of several proposed steps for ameliorating and strengthening the political relations between the two countries. The start of serious discussions on governmental level was primarily politically motivated. From 2000 onwards, the FTA vanguard was joined by the Ministry of Finance (MOF) and the Ministry of Foreign Affairs (MOFA) to form an FTA coalition. Especially for MOFA this was a fundamental change as it had been a strong advocate of exclusive multilateralism.

Japan's first FTA was, however, neither established with Mexico nor with South Korea. Singapore had approached Japan in December 1999 concerning an FTA and was the perfect candidate for a test run as agricultural issues could be omitted from an agreement. Furthermore, Japan wanted to send a signal to East Asia by concluding its first FTA with an Asian neighbour. After swift negotiations, the FTA between Japan and Singapore was signed in January 2002 and is in force since November 2002. Nippon Keidanren accepted the temporary postponement of an FTA with Mexico, which was from a private business perspective much more urgent, but it kept pushing Mexico on the FTA agenda. While Japan had been able to sideline agricultural issues in its FTA with Singapore, the negotiations with Mexico nearly collapsed because of the strong resistance of the Ministry of Agriculture, Forestry and Fisheries (MAFF) to include agricultural products into an FTA. Finally, the FTA coalition was able to soften the categorical opposition of the MAFF and agricultural interest groups and to reach a compromise with Mexico after 16 months of fierce external and internal negotiations.

After the conclusion of an agreement with Mexico as litmus test for Japan's new FTA policy, the new policy instrument was systematized and institutionalized. Involved ministries expanded their internal capacities for FTA negotiations and the LDP (Liberal Democratic Party) as main government party formed an FTA committee. In quick succession Japan started negotiations with a number of ASEAN economies and Chile, a country that was regarded as gateway to the regional trade bloc MERCOSUR (Mercado Común del Sur) in Latin America. Apart from agricultural and fishery products, migration arose as a new problematic issue in FTA negotiations. A number of ASEAN economies demanded the opening of the Japanese labour market for their workers in certain

occupational fields (KIMURA 2005:15–16; *Nihon Keizai Shinbun* 2005c; YUN 2005:233–234). Still, Japan was able to sign three agreements with ASEAN economies and with Chile. By 2005, FTAs have become a central element in Japan's foreign economic policy. The FTA coalition has also started to make efforts for a higher awareness and stronger acceptance of FTA in the Japanese public by publishing studies about the benefits of FTAs.

It is important to note that the Japanese FTA policy is not a complete turning away from Japan's traditional foreign trade policy. It is a paradigmatic shift from (exclusive) multilateralism to regionalism and bilateralism, but concerning policy content strong continuities exist. Japan's FTAs, especially in East Asia, do envisage the reduction or complete abolishment of tariffs, but at least as important are the efforts towards industrial harmonization (HATCH 2004). Japan's FTA approach includes harmonization of industrial and competition policy and of investment rules, protection of property rights as well as facilitation of movement of business people (see MOFA 2007:2–3, 14–16). It includes a wide range of areas for intensified economic cooperation with the final goal to strengthen industrial production networks and international division of labour in East Asia, and it is embedded in the Japanese model of state-led economic development.<sup>2</sup> Therefore, the Japanese government prefers to talk of Economic Partnership Agreements (EPAs) instead of FTAs. Still, as described above, private business interests played a crucial role in the establishment of Japan's FTA strategy, especially regarding the FTA with Mexico.

## 2.2 *Institutional Setting of Japan's FTA Policy*

The formulation and constitution of the foreign trade policy is based on an interaction between international negotiations and the national agenda as set by domestic interest groups in the institutional framework of the policy-making process (see EVANS/JACOBSEN/PUTNAM 1993; PUTNAM 1988). Therefore, a short overview of the institutional setting is indispensable for a full understanding of Japan's FTA policy and Japanese perspectives of a possible FTA with Switzerland. Two points are of central significance.

First, the Japanese administration is marked by a strict segmentation between state agencies (see IMAMURA 2006). Vertical integration of ministries and national agencies and intense competition for resources among them leads to a lack of cooperation and coordination between them. This segmentation is further

2 DENT (2005:301–302) describes the Japanese FTA approach as a “developmental-industrial FTA model” in contrast to the “asymmetric neoliberal FTA model” of the USA.

strengthened through strict delimitation and long historical continuity of policy spheres and of policy networks with private actors. Struggles for competence and conflicts between state actors are the result of this. If one ministry tries expanding its policy sphere into the domain of another ministry, open conflicts are often the consequences (for examples, see CHIAVACCI 2004b; DEWIT/STEINMO 2002; JOHNSON 1989).

The dual structures of Japan's political economy of strong developmental state and redistributing interventionist state are the second important point (KAWABATA 2004:23–25; WOODALL 1996:5–14). Following the seminal study of Chalmers JOHNSON (1982), Japan has often been identified as a prime example for a strong developmental state (see e.g. WOO-CUMINGS 1999). Primarily METI (formerly Ministry of International Trade and Industry; MITI) and MOF as central economic ministries promoted and coordinated industrial development through long-term, strategic planning and played a central role in the Japanese success story of very fast economic development. Still, the strong developmental state is only one side of Japan's political economy. In other economic sectors like agriculture or construction industry, the Japanese state acts as redistributing interventionist state (MULGAN 2005; WOODALL 1996). MAFF and the Ministry of Land, Infrastructure and Transport (MLIT) are important state actors in this second aspect of Japan's political economy.<sup>3</sup> State actors are protecting and supporting internationally non-competitive sectors by preventing the influx of foreign competitors into the Japanese market and by influencing market structures through political regulation. Furthermore, the central administration operates a large infrastructure program, from which the construction industry, especially in rural areas, profits.<sup>4</sup>

The segmentation of state administration and the dual structures in the political economy strongly influence Japan's international trade negotiations. In Japan's foreign trade policy, the segmentation leads to fierce competition between METI and MOFA for the strategic leadership that surprises foreign analysts and is generally regarded as counterproductive for Japan's own interests

3 Some ministries like for example the Ministry of Internal Affairs and Communication (MIC) can be attributed to both operation modes (strong developmental state and interventionist redistributive state) of Japan's political economy due to their policy domains (KAWABATA 2004).

4 In contrast to most advanced economies in the West, state reallocation in Japan is not primarily redistribution between social classes through a social welfare state, but redistribution of taxes from urban areas into rural regions (JINNO/DEWIT 1998).

(AHN 1998; KRAUSS 2003).<sup>5</sup> In the case of Japan's FTA policy the situation is even more complex. Japanese delegations in bilateral FTA negotiations usually include representatives from four ministries (MAFF, METI, MOF and MOFA). One interviewee, who was himself involved in a leading function in FTA negotiations, said that the first phase of a study group on governmental level between Japan and a potential FTA partner before official negotiations has not only the function to get acquainted with the positions and views of the potential FTA partner, but it is also of eminent importance for the Japanese delegation to establish internal communication and trust relationships between its members from different ministries.

Still, contradictory positions inside Japanese FTA delegations persist due to different interests of the ministries involved. Interviewees pointed to a strong antagonism between MAFF and METI. MAFF is clearly an agent of agricultural interest groups and takes a very lukewarm position concerning FTAs because of the recurrent demands by potential FTA partners for a stronger opening of Japan's agricultural markets for foreign products. METI, on the other hand, regards FTAs as a crucial part of Japan's new foreign trade strategy for promoting and strengthening the position of Japan's export industries and is pressing for comprehensive FTAs. Neither MAFF nor METI could fully prevail in the FTA negotiations. MAFF could not prevent the conclusion of FTAs that also include agricultural products. Still, METI sees its room to negotiate strongly limited because of the permanent blocking by MAFF and agricultural interest groups. As mentioned above, FTA negotiations have been further complicated by demands for an opening of the Japanese labour market for foreign workers by ASEAN countries. Hence, the MOJ (Ministry of Justice) and the MHLW (Ministry of Health, Labour and Welfare) had also to be consulted as they are responsible for the immigration and labour market policy. Japanese mass media severely criticize this situation regarding the complex composition of Japanese FTA delegations and different and contradicting positions of involved ministries, which impede the formulation of a coherent Japanese FTA policy. One example is a column in the English edition of the *Nihon Keizai Shinbun* (2004a) that highlights the need of an 'FTA czar' in Japan's FTA policy (see also NEGISHI/TAKAHARA 2005; *Nihon Keizai Shinbun* 2005b):

5 Illustrating in this context is the joke of an Australian minister in an official speech in 1992 that APEC (Asia-Pacific Economic Cooperation) has not only a 'Three China' problem (PR China, Hong Kong and Taiwan), but also a 'Two Japans' problem (METI and MOFA) (KRAUSS 2003:327).



Japan's FTA bids have been plagued, as is so often the case, by a pluralized, uncoordinated and cumbersome policymaking process. While the Ministry of Economy, Trade and Industry is pressing trade partners to open their markets to Japanese industrial products, the Ministry of Agriculture, Forestry and Fisheries is doing everything it can to protect domestic farmers by fending off competition from cheaper imports. And the Foreign Ministry is not doing a good job as policy coordinator. This situation can only be changed by centralizing policymaking, vesting a single individual with the authority to oversee and coordinate trade policy across ministries from a strategic perspective. Unless it has a politically powerful commander to lead this mission, Japan will suffer a costly defeat in the increasingly fierce FTA battle.

In fact, because of these conflicts between state agencies, the leadership by the Prime Minister is of crucial importance for the formulation and implementation of the FTA policy. Especially former Prime Minister Koizumi played a pivotal role in the establishment of FTAs as new instruments in Japan's foreign trade policy (NAKAGAWA 2006:332–333; YANAGIHARA 2004). Moreover, the leadership of the Prime Minister is of crucial importance for FTAs with economies outside East Asia. FTAs with East Asian economies are essential for Japanese companies because of the increasing importance of East Asia as export destination and production base (SUEHIRO 2005; METI 2007:89–154). However, economies outside of East Asia require more political leadership because pressure from private business circles is much smaller.<sup>6</sup>

### 2.3 *Unrealized Expectations?*

In order to understand the Japanese perspectives of Switzerland as potential FTA partner, the general mood concerning FTA as a new policy instrument in spring 2006 in Japan is shortly described. Although, Japan could score some achievements and successes in its FTA policy, the overall mood has to be described as generally subdued or even depressed. Supporters and advocates of bilateral agreements found their high expectations into FTAs not realized, but also opponents to this reorientation of foreign trade policy were rather depressed.

Agricultural interest groups and MAFF who are the primarily opponents of an active FTA policy had to accept compromises concerning questions of principle. Originally, they fiercely opposed any inclusion of agricultural products into FTA and any agreement concerning agriculture beyond WTO regulations. However, as described above, they could not maintain their categorical rejection of FTAs including agricultural trade. Although MAFF and agricultural interest

6 As noted above, the FTA with Mexico is an exception from this general rule.



groups have started to formulate their own FTA policy principles (see MAFF 2007:5), they still see themselves forced onto the defensive. For them, Japan's FTA policy is a very unwelcome policy field where they have nearly nothing to win and a lot to lose.

Supporters of a multilateral foreign trade policy within the WTO and APEC (Asia-Pacific Economic Cooperation) are also very critical of the new FTA policy. They see their misgivings fully affirmed by the achieved FTAs or, better said, by what could not have been achieved in FTAs so far. Due to the different rules of origin in FTAs and free trade blocs, they worry that international trade will become much more complex and that bilateral agreements could ultimately even become an obstacle for trade and investment (regarding these criticisms, see also BHAGWATI 1995; DIETER 2004). Hence, they regard FTAs as a by far more unsound solution than multilateral agreements. The reorientation of Japan's foreign trade policy towards FTAs has let in the eyes of the supporters of a multilateral foreign trade policy to a weakening of Japan's WTO and APEC policy as ministries involved in the foreign trade policy established new FTA sections by reallocating staff from the WTO and APEC sections. Still, the results of Japan's FTA policy are regarded as very limited. One interview partner observed very critically that Japan's new FTA policy has been introduced with a lot of promises, but the only noteworthy achievement has been the weakening of Japan's multilateralism in foreign trade policy.

Even among supporters of an active FTA policy as a new and promising instrument in foreign trade policy a rather negative view of the achieved FTAs was dominant. This depressed mood among supporters was due to unmet high expectations. First, FTA should be the key for a more active and successful foreign trade policy. Exponents of an FTA policy hoped to overcome the standstill in WTO and APEC negotiations in recent years. They did not regard FTAs as a contradiction to a multilateral foreign trade policy; they even hoped that bilateral agreements would give new stimuli to APEC and WTO negotiations. Second, many supporters hoped that Japan could strengthen its (leadership) position in East Asia, especially in view of the rising influence of the PR China and its dynamic FTA policy. Beyond the new rivalry with China, FTAs should thirdly also strengthen the position of Japanese corporations in East Asia and improve the FDI (foreign direct investment) environment for Japanese companies in the region. Some members of the FTA vanguard regard FTAs even as starting point for a regional integration process and the construction of an

East Asian community.<sup>7</sup> And finally, FTAs were also regarded as an important policy for intensifying restructuring and raising efficiency in the Japanese economy by opening Japan's markets to foreign competition.

Overall, FTA supporters agreed in the interviews that these high expectations have not been met. Although agricultural interest groups could not prevent the signature of FTAs including agricultural products, MAFF and agricultural interests groups have clearly obstructed the formation and realization of a comprehensive FTA strategy and policy. Many supporters expressed frustrations in the interviews about the quality of the FTAs that Japan had achieved. It had been hoped that by signing more comprehensive FTAs Japan could counterbalance China's dynamic FTA diplomacy, but a number of interviewees said that (potential) FTA partners in South East Asia were frustrated by Japan's unwillingness to liberalize its agricultural and fishery markets as part of its FTAs. Therefore, a number of interviewees argued that it is of crucial importance for Japan to reassess its FTA policy and to strive for signing comprehensive FTAs of high quality.

### 3 Public Perception of Switzerland as potential FTA Partner in Japan

After the short overview of Japan's new FTA policy and its institutional setting, we turn now to the public perception and view of a possible FTA with Switzerland in Japan. First, the general image of Switzerland in Japan is discussed.

#### 3.1 *General Image of Switzerland in Japan*

Switzerland's image in Japan can surely be said to be outstanding. Switzerland enjoys high esteem in Japan as a politically stable and peaceful country and is one of the most popular travel destinations of the Japanese population.<sup>8</sup> Spora-

7 Still, despite increasing debates, the boundaries of such an East Asian or Asian Pacific community, its inner structure and the forms of regional integration beyond economic cooperation remain very ambiguous (see e.g. MUNAKATA 2006).

8 Already the Japanese Iwakura Mission that visited Europe during 1871–1873 as official mission of the Japanese government expressed a very positive verdict on Switzerland. The positive image of Switzerland in Japan was further strengthened by General Douglas MacArthur, Supreme Commander of the Allied Powers in occupied postwar Japan, who advised Japan to become the Switzerland of East Asia.

dically critical or even negative analyses of Switzerland are also published in Japan, like for example *Kuroi Suisu* [Dark Switzerland] by FUKUHARA (2004). But such criticism is outweighed by publications that depict a very positive image of Switzerland. INYAMA (2006), for example, downright celebrates Switzerland as a superbrand, which Japan should try to emulate. Still, the very good image of Switzerland in Japan is to a certain degree one-sided. In public opinion in Japan, Switzerland is primarily regarded as a country with a beautiful nature and a traditional lifestyle. The cliché of Switzerland as “Heidi country” is predominant among the Japanese population. Switzerland as advanced economy with large, world-wide active corporations and innovative small and medium-sized enterprises is much less known in Japan. Takafumi KUROSAWA (2004:365), renowned Japanese scholar on Swiss economy and economic history, writes in this context:

In the overall image of Switzerland, however, economics were less prominent than the country's natural beauty and its distinctive political system. Japanese recognition of Switzerland's economic achievements was neither deep nor systematic enough to be of real significance.

Moreover, it is also rarely known in Japanese public that Switzerland is a leading education and research location with universities and research institutions attaining top positions in world-wide rankings. This one-sidedness of Switzerland's image is confirmed in a recent representative survey in Japan on behalf of Presence Switzerland (KÜHN/WEISS RICHARD 2003), a Swiss governmental organization with the mission of conveying an authentic, original and vibrant image of Switzerland abroad. According to the survey, Switzerland enjoys in Japan a very positive image that is overall better than the image of Austria, France and Germany, with which Switzerland is compared, but in fields like economy, education and research France and Germany are regarded as superior to Switzerland by the Japanese population (KÜHN/WEISS Richard 2003:15–16). Qualitative interviews with Japanese employees in Swiss corporations in Japan confirm these findings (CHIAVACCI 2004a:496–497). Switzerland is primarily seen as the perfect travel destination, in which one would also like to live because of political and social stability, orderliness and cleanliness, and nice landscapes and beautiful nature. Still, the large majority of the interviewed employees do not consider Switzerland an innovative and leading nation regarding economy and research.

What are the reasons for this one-sidedness of Switzerland's image in Japan? The economic size of Switzerland could be a first reason. In international trade, Switzerland is neither regarding imports, nor regarding exports among the twenty most important trading partners of Japan. Still, Switzerland is one of the most important investors in Japan. According to OECD (2004:211–212), the accumulated stock of Swiss foreign direct investment in Japan occupies the sixth position after the USA, the Netherlands, France, Germany and Canada in Japan. However, perception of this presence of Swiss companies in Japan is limited among the Japanese population. In comparison to the size of the Japanese market, the presence of Swiss corporations is relatively small, though it is very impressive in comparison to other advanced industrial economies. And some of the very large Swiss corporations with a strong presence in Japan are normally not recognized as Swiss companies. Moreover, besides watches, army knives, chocolate and cheese, products that Japanese consumers clearly identify as Swiss products are missing.

A second reason for the one-sided image of Switzerland could be, ironically, the very good bilateral trade relations between Switzerland and Japan. From 1970s onwards, due to increasing trade surpluses, Japan came under fierce criticism from the USA and many European economies and some commentators even predicted a trade war between Japan and the West (PRESTOWITZ 1988; THUROW 1992). But Switzerland has been pointed out as an exception among advanced economies regarding strained economic ties with Japan (KATZENSTEIN 1988). In contrast to nearly all other advanced economies, Switzerland had no significant trade deficit with Japan from the 1970s onwards and, therefore, very good bilateral trade relations. From the mid-1990s onwards, Switzerland has been generating a steadily increasing trade surplus with Japan. In 2006, Swiss exports were for the first time more than the double of imports from Japan. However, because of the absence of trade conflicts with Japan, in contrast to the USA and the EU, Switzerland might also not be recognized by the Japanese public as a competitive economy and attractive location to do business. The good bilateral relations with Switzerland might even reinforce the idyllic image of Switzerland as peaceful, traditional and close to nature.

### *3.2 Japanese-Swiss FTA in the Japanese Mass Media*

A representative example for the (seldom) media coverage of a possible Japanese-Swiss FTA is a radio broadcast of *Māketto Trendero* [Market Trends]. In this week-daily program, Takako Ohara covers economic issues for Radio Nikkei.

On 25 Mai 2005, Ohara reported about the basic agreement for an FTA between Japan and Malaysia:<sup>9</sup>

Conclusion of an FTA between Japan and Malaysia! After Singapore, Mexico and the Philippines, Malaysia is the fourth country with which Japan reaches an FTA. And Japan is vigorously looking for further FTAs. Thailand, Indonesia, ASEAN and India are possible candidates. According to some quickly checked sources, there is also a study group with Switzerland... Switzerland? Chocolate, cheese, and finance industry? If somebody should know why Switzerland [is an FTA candidate], please contact Ohara. It really bothers me; I can't even sleep at night.

Apart from this short ironic comment, a possible FTA with Switzerland was not mentioned again during the broadcast. This example illustrates two main aspects in the public discussion and media coverage of a possible FTA with Switzerland in Japan. First, in contrast to Japan's FTA policy in general, an FTA with Switzerland is not treated as an important topic. Second, even if the joint governmental study group or Switzerland as potential FTA partner is mentioned, Switzerland is not regarded as a significant FTA candidate.

A full text search in the electronic archives of two leading Japanese newspapers *Asahi Shinbun* and *Nihon Keizai Shinbun* shows the nearly complete non-coverage of Switzerland as potential FTA partner in the Japanese mass media. Although leading Japanese newspapers publish nearly daily articles, analyses, comments or editorials about Japan's FTA policy, among the hundreds of articles about FTA only a handful of articles are about Switzerland as potential FTA candidate. Back in 2000, the *Nihon Keizai Shinbun* published two articles concerning a possible Japanese-Swiss FTA. In a first article in August, the Swiss proposal of an FTA is reported (*Nihon Keizai Shinbun* 2000).<sup>10</sup> The second article is a short interview with the Swiss ambassador Johannes J. Manz about possible benefits of a Japanese-Swiss FTA (MANZ 2000). In addition in 2001, a short notice about the proposal for an FTA between EFTA (European Free Trade Association) and Japan by Iceland's trade minister was published in the *Nihon Keizai Shinbun* (2001), in which Switzerland is mentioned as EFTA member. The conclusion and results of the feasibility studies of JETRO and SECO are neither mentioned in the *Asahi Shinbun* nor in the *Nihon Keizai Shinbun*. It takes until October 2004 that Switzerland as possible FTA candidate is taken up again.

9 Source: <http://blog.radionikkei.jp/trend/index.php?date=2005-05-23>. All translations from Japanese into English are made by David Chiavacci.

10 This first proposal led to the separate feasibility studies by JETRO and SECO (see table 1).

And even then, only six articles are published from autumn 2004 to spring 2006 in both newspapers together. In October 2004, the *Nihon Keizai Shinbun* (2004b) reports on the official visit of Swiss President Joseph Deiss who proposed during his visit to move on towards an FTA between Japan and Switzerland. In February 2005, the same newspaper published an overview about Japan's FTA policy, in which the possibility of an agreement with Switzerland and Australia are mentioned (*Nihon Keizai Shinbun* 2005a). In the last paragraph of the article the main advantage of an FTA with Switzerland is depicted:

Beyond Asia, it is studied to start negotiations with Switzerland. The reason is that an FTA with Switzerland, which is a partner in the WTO agricultural trade negotiations, would be an advantage in the foreign policy strategy.

A day before, a first article about a possible FTA with Switzerland had been published in the *Asahi Shinbun*. The author Yasushi SATÔ (2005) describes in detail the positive stance of the MAFF to a possible FTA with Switzerland:

In the government, MAFF proposes to start negotiations for an FTA with Switzerland. The aim of MAFF is to "kill two birds with one stone" by not only overcoming its bad name as a permanent inhibitor in trade negotiations, but also strengthening cooperation with Switzerland that pursues the same policy as Japan in the WTO agricultural trade negotiations. [...]

The ratio of agricultural products of all imports from Switzerland is only 1.4%. MAFF's view is that even if customs duties for agricultural products should be reduced, it would only have a small impact on agriculture.

Japan and Switzerland are within the WTO agricultural trade negotiations, which draw to an end in the second half of this year, important members of the G10 group<sup>11</sup> of agricultural importers. Opposite to agricultural exporters who demand a massive reduction of customs duties, Japan and Switzerland take in very close cooperation a contrarian position. In MAFF there is a dominant opinion that "strengthening cooperation with Switzerland by starting FTA talks has more advantages" (leading MAFF bureaucrat).

However, in the last paragraph of his article SATÔ (2005) refers to the very low interest in an FTA with Switzerland among other ministries:

11 The G10 group is a loose interest group of importers of agricultural products that was formed at the WTO meeting of 2003 in Cancun through an initiative of Switzerland. It consists of Bulgaria, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, South Korea, Switzerland and Taiwan.



However, it is only MAFF in the administration that takes a positive position concerning an FTA with Switzerland. In METI, MOFA and MOF, there are many voices that would like to grant priority to countries in Asia and Latin America and there is no interest in negotiations with Switzerland. Whether talks with Switzerland are started or not will depend on the success of MAFF's persuasion ability.

In April 2005, two articles were published treating Switzerland as potential FTA partner. In a short article in the *Asahi Shinbun* (2005a), the agreement between the Japanese Prime Minister Koizumi and the Swiss President Samuel Schmid, who was officially visiting Japan, to establish a governmental study group regarding an FTA between Switzerland and Japan is reported. Again it is pointed out that "MAFF takes a positive stance [regarding an FTA with Switzerland], but that opposite opinions exist in the administration and that no joint position has emerged" (*Asahi Shinbun* 2005a). In an article of April 2005 in the *Nihon Keizai Shinbun* (2005b), the Japanese FTA policy in general is analysed. The discrepancies between ministries is critically discussed and regarded as main factor for the inconsistencies in Japan's FTA policy and the absence of an overall FTA strategy. The visit of Swiss President Schmid and the positive stance of MAFF regarding an FTA with Switzerland are discussed. In conclusion, the marginal economic benefits of an FTA with Switzerland for Japan and the ambivalent position of the Japanese government are stressed (*Nihon Keizai Shinbun* 2005b):

However, according to a study of the Cabinet Office, an FTA with Switzerland will only lead to a growth effect of 0.006% in the GDP [of Japan]. Which negotiations should take priority? The position of the government is currently still ambiguous.

In the studied time period up to spring 2006, a last article about an FTA with Switzerland was published in November 2005 (*Asahi Shinbun* 2005b). In this article the start of the governmental study groups with Australia and Switzerland and the expansion of Japan's potential FTA partners are discussed.

### 3.3 Analysis

Overall, it has to be noted that the coverage of Switzerland as a potential FTA partner is marginal in Japanese mass media. Apart from a guest column in the Anglophone Japanese newspaper *The Japan Times* by Teruhiko MANO (2004) and a longer guest contribution in the influential monthly magazine *Ronza* by Noburo HATEKAYAMA (2005), which will be closer discussed in section four, there are no voices in Japanese mass media that point out the benefits of an FTA



with Switzerland and lobby for Japanese-Swiss FTA. Moreover, Switzerland is neither a topic in scientific analysis and popular science publications about FTAs in Japan. A number of books have been published in recent years in Japan about FTAs, but also in these comprehensive studies Switzerland is missing as potential FTA partner (see, among others, JETRO 2005; UMADA/URATA/KIMURA 2005). Switzerland's nearly complete absence in the discussion about FTAs is even more striking in the large number of working papers, comments, position papers and analysis that have been published by researchers and private as well as public think tanks. A search in early summer 2006 through the internet search machine i-Hub<sup>12</sup>, which allows a full text search of the publications of 105 Japanese research institutes, produced over 100 publications about Japan's FTAs. But in not one single of these publications Switzerland is analyzed or discussed as potential FTA partner.

This non-perception of Switzerland as potential FTA partner can partly be explained by the concentration of Japan's FTA policy on Asia and especially East Asia. The whole debate about FTA policy in Japan focuses on East Asia. Switzerland as a European economy is outside of Japan's main FTA strategy. Still, it is conspicuous that Chile as possible FTA partner is much more present in public discussion in Japan. A second factor that leads to this non-perception of Switzerland as potential FTA partner in Japan is Switzerland's one-sided image. As long as the Swiss economy and the world-wide role of Swiss corporations are generally underestimated in Japan, Switzerland will hardly qualify as a valid FTA partner.

Furthermore, it is striking that Switzerland as FTA candidate is primarily covered in mass media in the context of internal conflicts in the Japanese government and combined with criticism about Japan's missing FTA strategy. Besides the already discussed examples above, this is the case in an article of the Anglophone Japanese newspaper *The Japan Times* of April 2005 (NEGI-SHI/TAKAHARA 2005):

Prudish about bilateral free-trade agreements just five years ago, Tokyo is now fielding partnership requests from 25 economies and regional blocs. But there is no denying an element of haphazardness in the way it is selecting some of the candidates. Earlier this week, Tokyo agreed to launch a joint study on economic cooperation with Switzerland that includes a possible FTA.

"We're looking to Switzerland because, well, it's in Europe," a Foreign Ministry official who requested anonymity said when asked why the Alpine country was a potential partner.

12 See <http://www.i-hub.jp/>.

An agreement with Switzerland would offend no major lobby group, making it “low-risk, low-return,” he explained.

His statement is one indication why Japan appears to be failing to effectively introduce a cohesive strategy in its FTA talks, according to Hajime Yamazaki, research fellow at Rakuten Securities Economic Research Institute. “The FTAs with large economic benefits (for Japan) are also the most politically challenging and most likely to stall,” he said. By following the path of least resistance, Japan could end up with numerous watered-down FTAs that look good on paper, but are “neither harm nor cure” for the Japanese economy, Yamazaki said.

As in this example, an FTA with Switzerland is often identified as a project of MAFF, which wants to overcome its image as permanent inhibitor in Japan’s FTA policy and hopes to strengthen Japan’s position in the agricultural WTO trade talks.

#### 4 Japan’s Political Economic Elites and a Possible FTA with Switzerland

An analysis of the tepid and indifferent media coverage about Switzerland as potential FTA partner nearly imposes the question why official negotiations for an FTA have been started in May 2007? One can hardly argue that public benevolence or even public support for a Japanese-Swiss FTA pressured the Japanese government into negotiations. Still, Japan’s turn to FTA as new instrument in the foreign trade policy is primarily a project of the elites. The crucial question then is how the Japanese political-economic elites perceive the potential of an FTA with Switzerland?

An analysis of the media coverage would suggest that the official negotiations between Japan and Switzerland are the result of the advocacy of agricultural interest groups and MAFF that regard an FTA with Switzerland as relative harmless for Japanese agriculture and that hope to strengthen Japan’s position in WTO trade talks through an FTA with fellow G10 member Switzerland. An empirical survey through interviews with members of Japan’s political-economic elites that are closely involved in the policy making process shows, however, a more differentiated result. Overall, roughly three groups can be differentiated among Japan’s political-economic elite regarding their perspective of an FTA with Switzerland:

1. A group with a narrow economic perspective of FTAs that does not reject an FTA with Switzerland, but that regards it only as of secondary significance, economically relative unimportant and, therefore, to a certain degree as redundant.
2. A perspective of Japan's primary sector of industry is taken by a second group, which evaluates an agreement and stronger cooperation with Switzerland positively because the potential impact of an FTA with Switzerland on Japan's agriculture and fishery is regarded as very limited. Moreover, because of strategic considerations an FTA with Switzerland is regarded as beneficial for their own political agenda.
3. A group with a strategically long-term, political-economic perspective that also attaches to an FTA with Switzerland in a narrow economic view only a secondary importance, but that, because of several strategic-political considerations, regards an agreement as very important and adopts accordingly a positive attitude to an FTA with Switzerland.

#### *4.1 Narrow Economic Perspective*

From a narrow economic perspective an FTA with Switzerland is regarded as unconvincing in Japan's political-economic elites. The economic effects of a bilateral agreement with Switzerland are estimated as too small. According to a model simulation of Japan's Cabinet Office that was quoted by interviewees as well as reported in Japanese mass media, an FTA with Switzerland will result in a rise of Japan's real GDP by only 0.006% (KAWASAKI 2006). In a number of interviews it was affirmed that already a first model simulation concerning the economic effects of an FTA between Japan and Switzerland (ITI 2003), which was part of the feasibility study of JETRO in 2003–2004, was evaluated negatively by many and especially business-friendly circles in the Japanese government. Still, potential effects of an FTA in the service sector cannot be integrated into such model calculation. Nevertheless, a number of interviewee expressed the opinion that even if one takes into consideration that the positive economic impact of an FTA might be largest in the service sector, the input and work for realizing an FTA with Switzerland would be in no relation to the overall return. In this context, it was stressed that the new FTA policy is very resource intensive and is a large burden for the limited resources of national ministries. Furthermore, it was argued that bilateral economic relations between Japan and Switzerland are already very good. Hence, they are hardly significantly improvable through an FTA. Some interviewees also pointed out that the economic potential of an FTA between Japan and Switzerland is very limited because neither Japan nor Switzerland would deregulate bilateral trade in agricultural products where still rather high customs duties are imposed. In

media reports quoted earlier, it is argued that neither METI nor MOFA have a strong interest in an FTA with Switzerland. Several interview partners confirmed this rather negative stance of most state agencies except from MAFF. This lack of interest of many ministries for an FTA with Switzerland seemed to be in interested policy circles in Tokyo an open secret. In a meeting of the budgeted committee of the House of Representatives on 30 September 2005, an opposition politician said for example in an inquiry to the economic minister:<sup>13</sup>

Moreover, I have heard that if a European country, like for example Switzerland, would like to conclude an FTA with Japan, then MOFA and METI are not very enthusiastic. I find this regrettable.

In this context, it has to be also noted that, in contrast to MAFF, Switzerland as possible FTA partner has not been mentioned in many official publications of METI and MOFA about Japan's FTA policy. Even after the start of the JGSG, Switzerland is not mentioned at all in two longer articles by METI bureaucrats about Japan's FTA policy (NAKAZAWA 2005; SUGITA 2005).

Moreover, interviewees agreed that no significant pressure for an FTA with Switzerland is exerted by private Japanese business. In contrast to the FTA with Mexico and to a certain degree also to the FTA with Chile and Australia, private business groups are very reserved regarding an FTA with Switzerland. Especially Nippon Keidanren as the most important and influential private business organization that has been a very strong and influential supporter of an active FTA policy remained silent regarding an FTA with Switzerland for quite a time. Representatives of Nippon Keidanren were very sympathetic to an FTA with Switzerland in the interview, but this contrasted with the fact that Nippon Keidanren has not issued an early official call for the launch of official FTA negotiations with Switzerland as it has been the case regarding an FTA with the Gulf Cooperation Council or Australia (NIPPON KEIDANREN 2005, 2006). In a report about an official Nippon Keidanren mission that visited in June–July 2006 Iceland, Norway, Poland, and Switzerland, the vice chairman of the mission writes only about the positive view of a Japanese-Swiss FTA on the Swiss side, but there is not a single word in the report about the importance and desirability of such an agreement for Nippon Keidanren or Japanese private business (YONEKURA 2006:45):

13 Source: [http://www.shugiin.go.jp/itdb\\_kaigiroku.nsf/html/kaigiroku/001816320050930002.htm](http://www.shugiin.go.jp/itdb_kaigiroku.nsf/html/kaigiroku/001816320050930002.htm).

In the case of Switzerland, it is said that a joint study group between the Swiss and Japanese government should conclude its work in the near future. The Swiss side expressed the strong hope that [through an FTA] not only commodities trade, but the economic relations in a wide area are strengthened in a degree of friendly meaning, highly advanced economies.

Finally, on 20 February 2007, NIPPON KEIDANREN (2007a) issued an official statement requesting the earliest conclusion of an FTA between Japan and Switzerland. However, this statement came over a month after the publication of the positive final report of the JGSG and nearly three months after the Swiss private business organization ECONOMIESUISSE (2006) had published an official call for opening negotiations on 30 November 2006.

Generally, Japanese private business does not attach high importance to an FTA with Switzerland because no important problems have arisen in bilateral economic relations that would cause an urgent need for action. The minor significance of an FTA with Switzerland for Japanese corporations is also obvious in representative surveys, in which Japanese companies are asked which countries should be treated with priority as potential FTA partners. Even if Switzerland is listed as potential FTA partner in the questionnaire, it is rarely identified by Japanese companies as an important and desired FTA partner (JETRO 2005b:55–57; MRI 2005:2).

To sum up, an FTA with Switzerland is regarded by a first group among Japan's political-economic elites with a narrow economic perspective rather negatively because the economic effects of a Japanese-Swiss FTA are considered to be marginal. This first group that includes METI and Nippon Keidanren as leading exponents of business interests in Japan took a rather disinterested position concerning an FTA with Switzerland. Several sources and statements in the interviews clearly document that an FTA with Switzerland has not been actively supported. FTAs with other countries and trade blocs are regarded as much more important and urgent. Still, although this first group has not actively pressed for an FTA with Switzerland, it has also not actively tried to impede an FTA with Switzerland. As long as talks and negotiations with other potential FTA partners that are regarded as more important than Switzerland are not hampered through studies and negotiations for a Japanese-Swiss FTA, such an agreement will still be welcomed by this first group as it forms part of the Japanese FTA vanguard.

#### 4.2 *Agricultural Perspective*

A second group comprehending MAFF and agricultural interest groups considers a possible FTA with Switzerland primarily from the perspective of Japanese agriculture, which is under pressure due to Japan's FTA policy. Several interviewees confirmed the media coverage of the stance of this group. A possible FTA with Switzerland is not regarded by them as having a negative impact on Japanese agriculture. In fact, as the share of agricultural products in the bilateral trade between Japan and Switzerland is very small, it is even possible to reach an agreement without incorporating agricultural products that still fulfils the WTO rule that an FTA has to cover 90% of all trade in order to be approved.<sup>14</sup> In this context the difference between Switzerland and EFTA was pointed out in several interviews. EFTA had also proposed an FTA to Japan in 2001 (*Nihon Keizai Shinbun* 2001), but fishery products, especially from Island and Norway, are a huge obstacle for an FTA between Japan and EFTA. MAFF and agricultural interest groups would surely veto an FTA with EFTA, but they are in favour of an FTA with Switzerland that does not export in any significant amount fishery products to Japan.<sup>15</sup>

The hope that Japan could strengthen its position at the WTO negotiations about agricultural trade through an FTA with Switzerland as fellow member of the G10 group of importers of agricultural products was another point of the media coverage that was confirmed in several interviews. A statement of a vice minister of MAFF during an official press conference on 21 February 2005 also confirms the position of MAFF:<sup>16</sup>

Because Switzerland is a G10 member and a very influential country an FTA with Switzerland in order to strengthen cooperation with Switzerland and cohesion among G10 would, according to MAFF, be an invaluable gain. Therefore, MAFF would like to actively promote an FTA with Switzerland.

14 In the year 2001, for example, agricultural products had a share of only 0.1% of all Japanese exports to Switzerland respectively only 1.2% of all Swiss exports to Japan (HONMA 2003:1).

15 The vice chairman of the above mentioned Nippon Keidanren mission that visited in June–July 2006 Island, Norway, Poland, and Switzerland confirms in his report about the mission the Japanese reservations regarding an FTA with EFTA (YONEKURA 2006:45): “Fishery products are important export products of EFTA members Island and Norway. Therefore, an FTA with EFTA is a very difficult undertaking for Japan.”

16 Source: <http://www.kanbou.maff.go.jp/kouhou/050221jimujikan.htm>.



A number of interviewees also shared the assessment of journalists, quoted above, that MAFF and agricultural interest groups try to overcome their negative image as an inhibitor to an active FTA policy. Furthermore, MAFF might also want to learn from Switzerland as a country that has a very protective agriculture policy and is at the same time pursuing a very active FTA policy.

Overall, an FTA with Switzerland is regarded as unproblematic for Japanese agriculture and does not encounter any resistance by MAFF or agricultural interest groups. On the contrary, MAFF and agricultural interest groups are, because of several strategic considerations, active supporters of an FTA with Switzerland.

#### *4.3 Strategic, Political-economic Perspective*

In a political-economic perspective, an FTA with Switzerland gains for Japan a significance, especially regarding strategic considerations that exceeds by far the expectable economic effect. Interviewees, who took such a strategic perspective formed a distinctive third group among the interview partners, agreed that an FTA with Switzerland for Japan is a test case for FTAs with advanced economies of the West. Like Singapore as first FTA partner in East Asia had been a test run for Japan, Switzerland was regarded as a study case for bilateral trade agreements with Western economies. The relative small economic size of Switzerland, the trouble-free trade relations between Japan and Switzerland as well as the huge experience of Switzerland in bilateral trade agreements make it an almost perfect candidate as Singapore had been as first FTA study case.

Furthermore, it was stressed by several interview partners that Japan could reach with Switzerland an agreement of a high quality. Switzerland is an ideal partner for a comprehensive agreement that covers not only trade, but also other areas. The goal is not only an FTA, but an encompassing EPA that covers issues beyond the current WTO agenda and induces not only trade liberalization, but also better and closer economic cooperation between Switzerland and Japan. Among others, the following areas for increased cooperation were mentioned in the interviews:

- regulation of service sector and standards in the service sector;
- flows of funds and investment between the two countries;
- intellectual property rights;
- research and development;
- enhancement of movement of persons between the two countries;
- promotion of tourism.



Several interviewees emphasized that especially Switzerland had all prerequisites for realizing a substantial and good bilateral agreement by having very good bilateral relations with Japan. Moreover, the implementation of an ambitious agreement of high quality and complex contents should not be a problem in the case of Switzerland. It was also hoped that a positive and persuasive precedent could be established through a Japanese-Swiss FTA. As described above, a certain frustration existed in spring 2006 among Japan's political-economic elites about the results of the FTA policy. The high expectations of FTAs of the FTA vanguard had not been realized. It was therefore hoped that by achieving a substantial FTA with Switzerland, the whole FTA policy would gain new dynamic. Some interviewees argued that Japan was currently following a short-term and defensive FTA strategy in reaction to a rising China in East Asia and to economic discrimination as in the case of NAFTA/Mexico. Hopefully, a high quality FTA with Switzerland would help to transform Japan's FTA policy into a proactive, long-term and strategically oriented approach.

Some interview partners even demanded that an FTA with Switzerland should be used as a test run for opening up Japan's agricultural markets.<sup>17</sup> As a complete trade realization with Switzerland regarding agricultural products is not expected to have any major effects on Japan's agriculture, Switzerland was regarded as the ideal test run for opening Japan's agriculture markets. However, asked about the possibility of a complete liberalization of agricultural trade through an FTA between Japan and Switzerland, the large majority of the interviewees agreed that the possibility of a complete opening of Japan's and Switzerland's agricultural markets through an FTA is very small because both countries pursue a very protectionist agricultural trade policy and have very little intention to create a precedence for liberalized agricultural trade.<sup>18</sup>

Questions of migration as the second problem area in Japan's FTA policy were also not regarded as a major obstacle for a high quality agreement between Japan and Switzerland. On the contrary, several interviewees hoped that a liberalization of the movement of highly-qualified specialists and business

17 Masayoshi HONMA (2003:1), agricultural economist of the Tokyo University, wrote already in his report about agriculture for the JETRO feasibility study about a Japanese-Swiss FTA: "[...] an agreement with Switzerland is the seldom chance to realize an agreement without exceptions, which announcement abroad would have a wide impact. Therefore, agriculture should be integrated to 100% without exceptions into an agreement."

18 In the year 2005, according to calculations of the OECD (2006:55 and 65), governmental support for agricultural producers is with a share of 56% in Japan and a share of 68% in Switzerland in international comparison even with advanced economies very high.

people between Switzerland and Japan would be included into an FTA as this could simplify and stimulate knowledge transfer and cooperation between the two countries. Also, regarding education and research, several interviewees hoped for more exchange and stronger cooperation between Switzerland and Japan through an FTA.<sup>19</sup>

In a long-term, strategic perspective an FTA with Switzerland was also regarded as of crucial importance because it would countervail the formation of economic trade blocs. Especially those interview partners, who clearly preferred a multilateral foreign trade policy, stressed the risks of a foreign trade policy primarily oriented to East Asia. In their view, the current trend of bilateral and regional trade agreements could lead to a world of three trading blocs (North and Latin America, Europe and North Africa, and East Asia). As Japan is clearly focusing in its FTA policy on East Asia, it is contributing through its policy to this bloc building, which was regarded in the long-term as a major threat to world trade and the development of the world economy. For the trade interests of Japan, for which, despite the increasing importance of East Asia, Europe and the USA remain important and likely irreplaceable key markets, such a bloc building can have very negative effects. Because an FTA between the EU and Japan was regarded by many as very difficult and, therefore, to be very unlikely realized in the next years, an FTA with Switzerland as bridge between Japan and Europe was regarded of central importance and as a counterbalance to trade blocs building tendencies. Hence, an FTA with Switzerland was regarded as an important step for developing and realizing a global FTA strategy beyond the East Asian region. It was argued that a substantial FTA with Switzerland would also have an impact abroad. It would show that Japan is willing to conclude FTA with advanced economies. Regarding the question if an FTA with Switzerland could also be a blueprint for FTA talks with the EU and the USA, there was no agreement among the interviewees. One part thought that such a development was quite realistic and that this aspect should be considered in possible negotiations with Switzerland. However, others argued that FTA talks with the EU or the USA might start earliest in five or ten years and that an FTA with Switzerland would hardly still then be considered a basis for negotiations.<sup>20</sup>

19 In the meantime, Switzerland and Japan have signed in July 2007 an agreement on science and technology that has been reached independently of the FTA negotiations.

20 In June 2007, NIPPON KEIDANREN (2007b) has already launched a call for a feasibility study regarding an FTA between Japan and the EU. Business interests are also pressing for an FTA with the USA (*Economist* 2007). Moreover, Japan is under pressure due to the conclusion of an FTA between South Korea and the USA and progressing FTA talks

If an FTA with Switzerland is described as a bridge between Japan and Europe, then the question of whether it is also hoped that Japan can gain through an FTA with Switzerland better market access to the EU arises. The two only articles that are calling for an FTA with Switzerland already mentioned above stress a better access to the EU market as a central argument for an agreement with Switzerland (HATAKEYAMA 2005; MANO 2004). HATAKEYAMA (2005:244) discusses at the end of his longer article, in which he demands a more strategic orientation of Japan's FTA policy and a prioritisation of high quality FTAs, Switzerland as a potential FTA partner and highlights the improved access to the EU through an FTA with Switzerland:

The last point is: With which countries can Japan conclude high quality FTAs? Apart from Chile, with which a study group on governmental level has already started, there is Switzerland.

The most important reason is that an FTA with Switzerland will be a strong basis for an expansion in the EU. Because Switzerland has already concluded an FTA with the EU, products of Japanese subsidiary companies in Switzerland can be exported without customs duties into the EU market. If it is the goal to export finished products duty free into the EU market, then direct investment in the EU is also good. Still, in this case, parts and production machinery that are needed for the manufacturing of the finished products are liable to EU customs duties.

However, if an FTA with Switzerland is concluded, then parts and production machinery that are exported to Switzerland are not only duty free, but thanks to the FTA between Switzerland and the EU also in the EU freed of duties customs. In short, an FTA between Japan and Switzerland, provided direct investment in Switzerland, has the same effect in export perspective as an FTA between Japan and the EU.

MANO (2004) also stresses in his guest article in the Anglophone Japanese newspaper *The Japan Times* the attractiveness and benefits of an agreement with Switzerland as this would grant direct access to the EU:

There will, of course, be difficulties negotiating a trade pact with a region of its vast expanse, and bilateral FTAs with individual European countries will not be easy because of the EU framework.

There is an opportunity to hurdle this difficult situation, however, because Switzerland – a country geographically situated in the centre of Europe – is approaching Japan about a possible FTA.

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between South Korea and the EU. In view of these dynamic developments, FTA Negotiations between Japan and EU and/or USA might start much earlier than many interviewees assessed in spring 2006.

After a 2001 national referendum negated the possibility of Switzerland joining the EU, the Swiss government held a series of trade talks with the union to avoid being left out of the trend toward integrated European markets. The first accord, which took effect in June 2002, dealt with liberalization of government procurement, elimination of technical barriers to trade, technological cooperation, and access to agricultural markets.

In May this year, the two parties also reached an effective accord on 10 other fields, including media, education, processed food products and measures to crack down on fraud.

A bilateral agreement with Switzerland would give Japan indirect access to the EU, as in the case of the FTA with Mexico. For Switzerland, a bilateral pact with Japan is seen as beneficial because it will boost financial cooperation, trade in goods and services, and give the country a strong foothold in the Asian market. While the size of the Swiss market itself may not be so big, we should not ignore the proposal from this country, which has a unique strategy of its own.

Both authors affirm in the interviews their opinion that an FTA with Switzerland would indirectly also grant Japanese corporations improved access to the EU market. However, this view is not shared by all interview partners. The majority of the interviewees argued that because of rules of origin, which are defined in FTAs, it is rather doubtful whether a possible FTA between Japan and Switzerland and the FTA between EU and Japan will really result in a better access to the EU market for Japanese companies. Furthermore, it was argued that manufacturing in Switzerland is quite expensive. Hence, a relocation of production into Switzerland to circumvent EU customs duties would only be in very rare cases worthwhile. It was also regarded as highly questionable whether the EU would remain inactive in the case that really a huge commodity flow from Japan through Switzerland into the EU would start circumventing EU customs duties. Overall, it was argued that some Japanese companies might gain a better access to the EU with an FTA between Japan and Switzerland, but that it would hardly have a substantial macroeconomic impact.

As last important point for an FTA between Switzerland and Japan from a strategic perspective, the stimulation of FDI in Japan was mentioned in some interviews. It was hoped that an FTA between Switzerland and Japan would result in a stronger connection of Japan to the important Swiss capital market and, thus, would increase European FDI and portfolio investment through the Swiss financial sector to Japan. Interviewees judged differently the question if a bilateral agreement might also give to Swiss finance companies competitive advantages in the Japanese market? Some interview partners predicted increased opportunities and advantages for Swiss banks and other finance companies in Japan through an FTA. It was even hoped that Swiss companies would increase their presence in the Japanese finance market after the conclusion of an FTA

and, thereby, increase efficiency in the Japanese capital market. Others, however, foresaw few possible advantages for Swiss financial service companies as opposition from the Japanese finance sector and MOF could be expected. MOF officials were very noncommittal concerning these questions and said that no declaration could be made because the service sectors had even not been discussed in the JSGS at the time of the interviews.

## 5 Concluding Remarks

Official negotiations for an FTA between Japan and Switzerland are currently under way and the conclusion of an agreement, unforeseeable problems excluded, can be expected for 2008. The analysis of Japanese perspectives concerning potential benefits and advantages of an FTA with Switzerland in the context of Japan's overall FTA strategy shows, however, that the establishment of the JSGS and the start of official negotiations had not been a matter of course. Japan's FTA strategy is primarily focusing on East Asia. FTAs beyond East Asia are primarily regarded as important if they are linked to burning economic problems, as in the case of Mexico, or potentially huge benefits. From a narrow economic perspective, an FTA with Switzerland is neither a necessity due to economic frictions or problems nor as important due to potential economic benefits. An FTA with Switzerland is a rather neglected topic in the Japanese mass media, which may also be related to the very good, but also one-sided image of Switzerland in Japan. The rather long time period of over five years from the first approach of Switzerland concerning an FTA in spring 2000 until the establishment of the JSGS in autumn 2005 as well as the reluctant attitude among Japanese foreign trade policy makers with a narrow economic perspective has to be seen in this context.

Still, in two other perspectives taken by members of Japan's political economic elites, an FTA with Switzerland is clearly more positively assessed. Especially MAFF and agricultural interest groups are strongly supportive of an FTA with Switzerland. They hope to strengthen Japan's position at the WTO negotiations through a stronger cooperation with Switzerland as fellow member of the group of agricultural importers (G10) and to overcome their image as permanent inhibitor in Japan's FTA policy. Furthermore, a Japanese-Swiss FTA will have hardly any significant (negative) effect on Japan's primary sector of industry. Another group among Japan's political economic elites favours an FTA



with Switzerland from a perspective of political economy. For a whole number of reasons, Switzerland is hereby regarded as an important piece in Japan's FTA strategy.

Overall, interviewees agreed that especially this third, political economic perspective was of crucial importance together with the proactive Swiss diplomacy for the establishment of the JGSG. After the parallel feasibility studies, a rather reluctant mood concerning an FTA with Switzerland was dominant in Japanese trade policy making circles. The visits of Swiss President Deiss in 2004 and Swiss President Schmid in 2005 in Japan and Switzerland's continuous efforts for a Japanese-Swiss FTA documented earnest and sustained interest in a bilateral agreement with Japan. At the same time a political economic perspective of a Japanese-Swiss FTA gained legitimacy and momentum in Japan with Prime Minister Koizumi also adopting such a view. This led to the establishment of the JGSG whose positive assessment cleared the way for the ongoing negotiations. That an FTA with Switzerland is much more a political than an economic project for Japan is also visible in the fact that MOFA and not METI is leading the Japanese delegations in the JGSG and in the current negotiations. Hopefully, the result of the current negotiations will be an FTA/EPA between Japan and Switzerland that will open an era of even further strengthened and improved cooperation and relations between the two countries.

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