

# Reshaping World Trade Agenda: Mega-FTAs in Asia-Pacific and the Japan-EU Economic Partnership

**Colloquium: Japan, Portugal and EU Cooperation**

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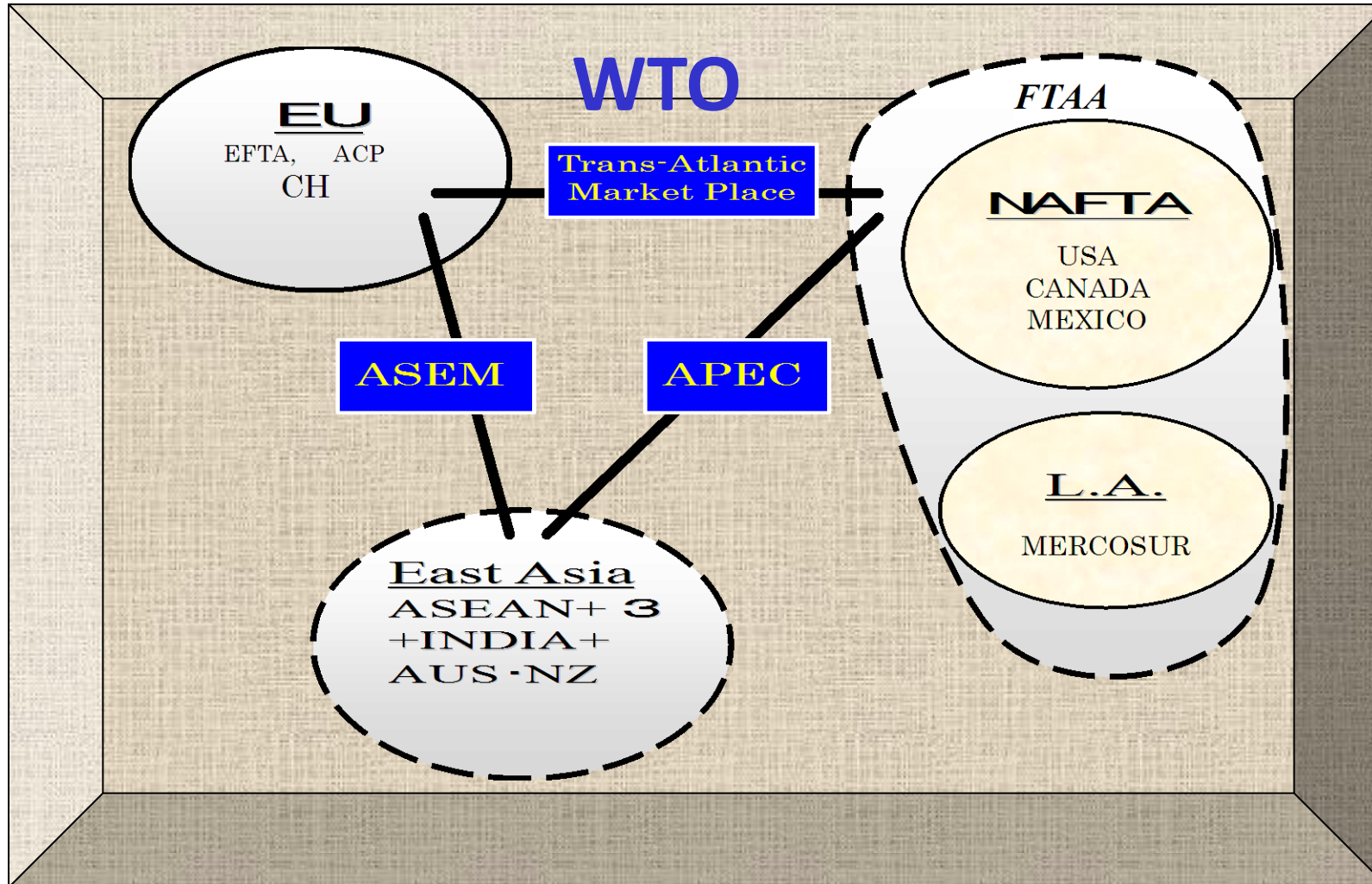


# Definition of Terms

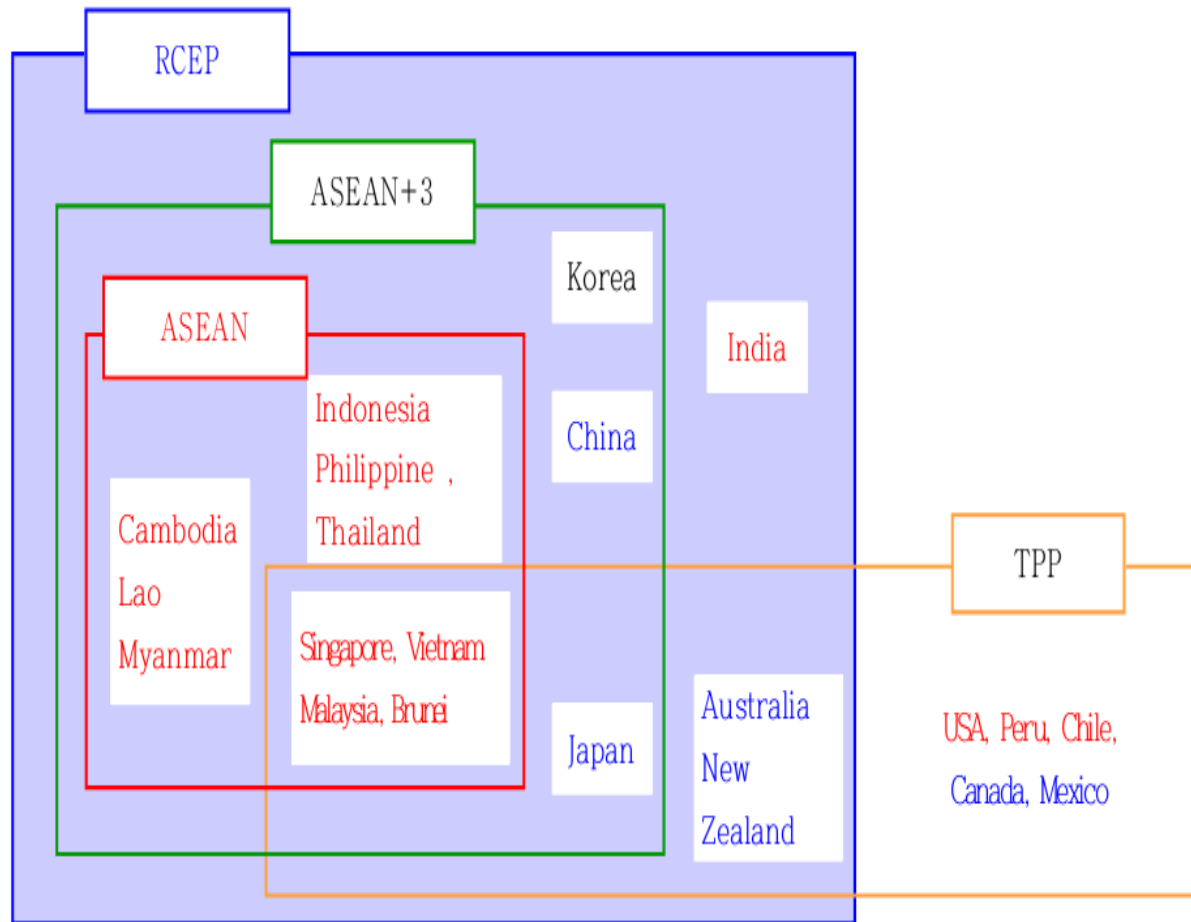
- "**Article XXIV of the GATT**"= Members of the **WTO** may form a customs union or a free trade area as an exception to the MFN principle under certain conditions such as it covers "substantially all the trade"
- "**FTA**"=A group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade (GATT XXIV:8 (b))
- "**TPP**"=Trans-Pacific Strategic Partnership Agreement; an inter-regional FTA among Asia-Pacific countries with high-level commitment in tariff elimination as well as in making new rules on investment, competition, IPRs etc.
- "**RCEP**"= Regional Comprehensive Economic Partnership in East Asia. 10 ASEAN countries+JCK+Australia, NZ, India (**ASEAN+6**)
- "**TTIP**" = Trans-Atlantic Trade and Investment Partnership; a bilateral FTA to be negotiated between the US & the EU

# Three Mega-Regions

## --- WTO & Regional Integration ---



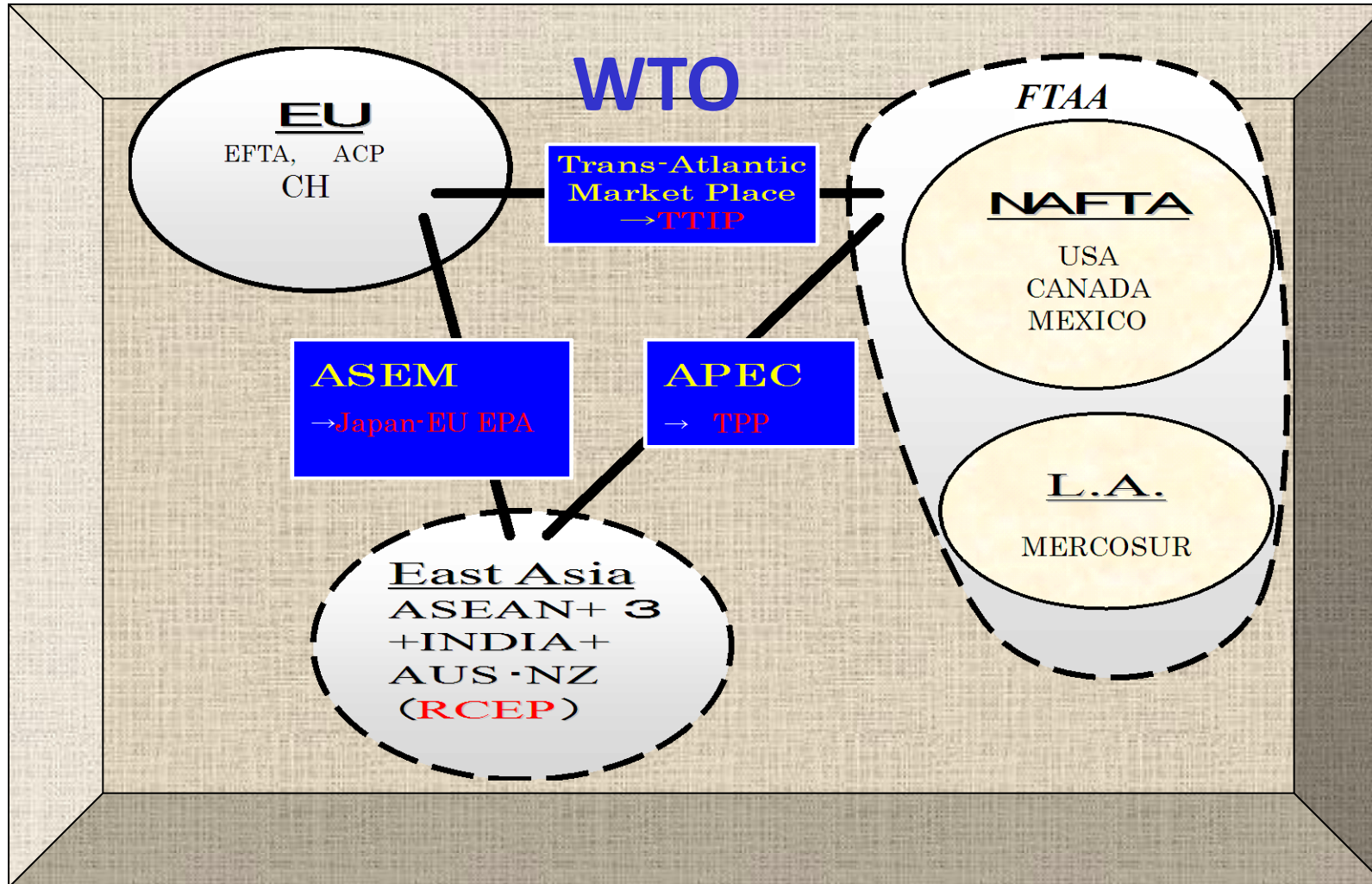
# Membership and Economic Importance of Regional Integration Frameworks



	Trade (2012)	Trade (2012)	GDP (2011)	GDP (2011)
	Billion US \$	Share (%)	Billion US \$	Share (%)
JCK FTA	6,619	17.9	14,280.9	20.4
RCEP	10,470	28.4	19,929.9	28.5
TPP	9,545	25.9	26,593.4	38.0
TTIP	15,602	42.3	32,686.5	46.8
World	36,890	100.0	69,899.2	100.0

# Three Mega-Regions

## --- WTO & Regional Integration ---

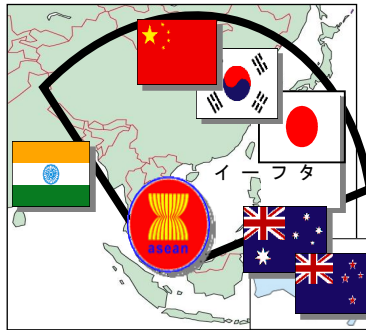


# APEC-wide Economic Integration

## FTAAP (Free Trade Area of Asia-Pacific)

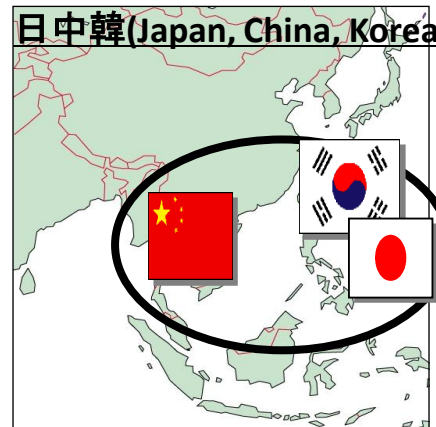
### ASEAN+3 (EAFTA)

(ASEAN・日・中・韓)



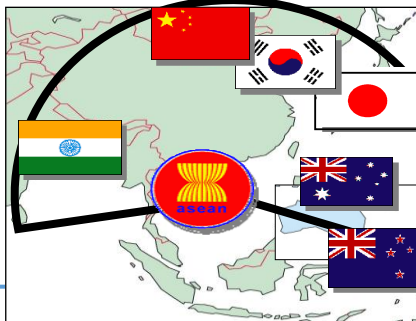
### The Trilateral FTA

日中韓 (Japan, China, Korea)

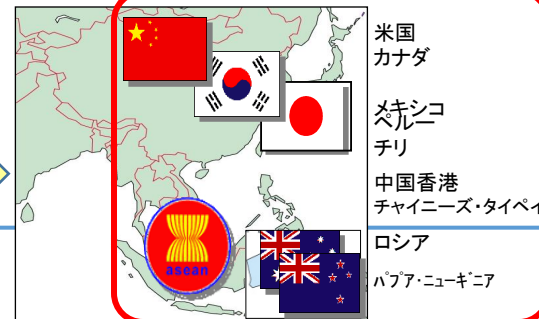


### ASEAN+6 (RCEP)

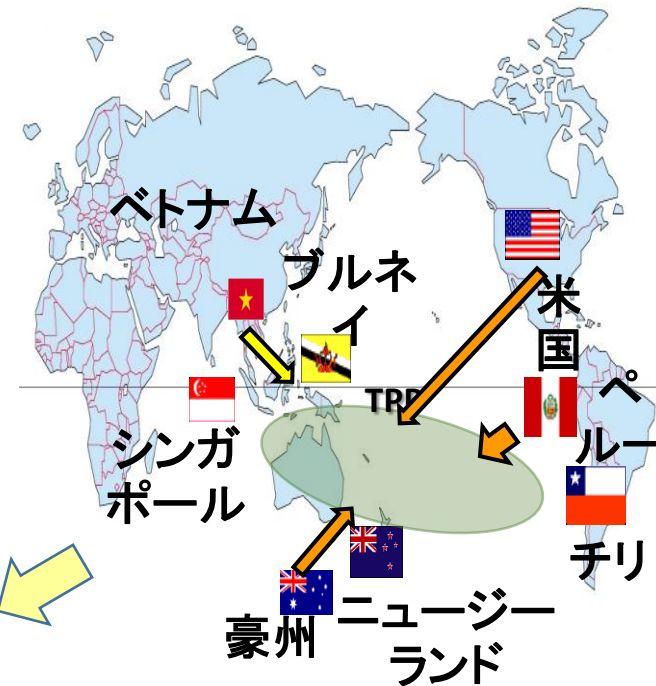
(ASEAN・日・中・韓・印・NZ・豪)



### FTAAP (APEC)



### TPP (12)





# Agenda of the TPP

## Trans-Pacific Strategic Economic Partnership Agreement

- "P4": a comprehensive FTA including elimination of all tariffs among Chile, Brunei, New Zealand, and Singapore

- TPP/12:

- **Participants:** US, Canada, Mexico, Peru, Chile, Vietnam, Malaysia, Singapore, Brunei, Australia and New Zealand, Japan

- **Goal (missed):** to be completed by the end of 2013

- **Negotiating Agenda:** 21 chapters including 4 cross-cutting issues

- Competition (**SOEs**)
- Market Access for goods (**sugar, beef, rice,..**)
- Cooperation and Capacity building
- Cross-border services
- Customs
- E-commerce
- Environment
- Financial services
- Government Procurement
- **Intellectual Property Rights**
- Investment (**ISDS**)
- **Labour**
- Legal issues
- Rules of Origin (**textiles and apparel**)
- Sanitary and Phytosanitary Standards (SPS)
- Technical Barriers to Trade (TBT)
- Telecommunications
- Temporary Entry
- Textiles and apparel
- Trade remedies
- **Regulatory coherence**
- **Competitiveness and business facilitation**
- **SMEs**
- **Development**

# Japan and the TPP

- President **Obama** Visit in Tokyo, November 2009: a wake-up call
- PM Kan(DPJ) on the TPP at the Diet, October 2010: a strategic failure provoking strong opposition against the TPP, inter alia, from Agriculture Lobby
- PM **Noda**(DPJ) to step forward, November 2011/2012: influence on China (ASEAN+3  $\Rightarrow$  ASEAN+6/RCEP) and the EU (FTA with Japan)
- Canada, Mexico joined TPP Negotiations 2012
- PM **Abe** (LDP) to join TPP Negotiations, March 2013
- Japan-US Agreement on Bilateral Talks on **Cars & NTMs**, April 2013
- Japan joined TPP Negotiations, July 2013



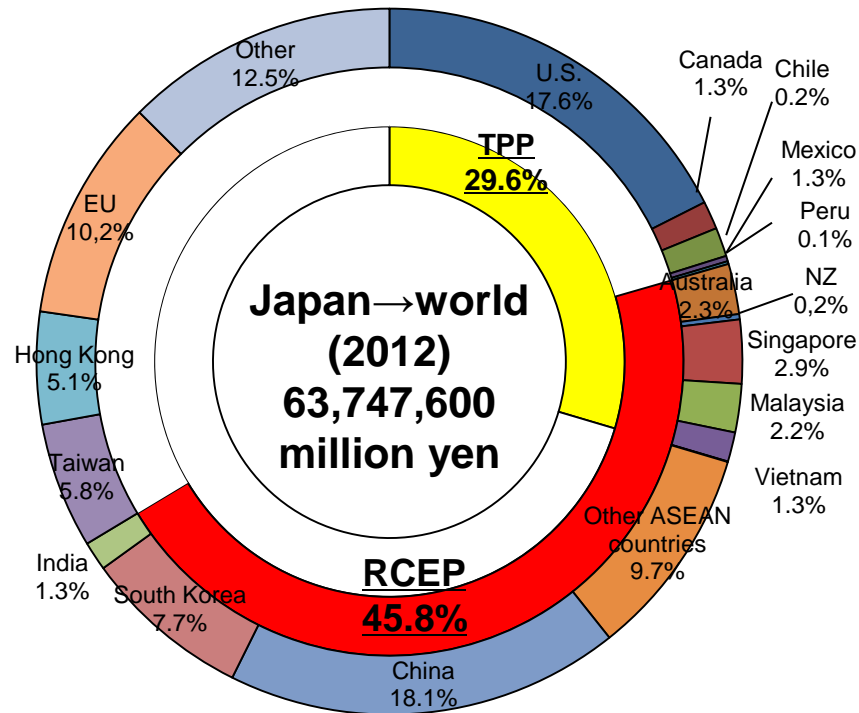
# President Obama's Visit in Tokyo, 23-25 April 2014: “a key milestone in the TPP negotiations”

- No “Agreement on Substance” Announced
- “We have **identified a path forward** on important bilateral TPP issues.” (Joint Statement, 25/04/2014)
- “This marks **a key milestone** in the TPP negotiations and will inject fresh momentum into the broader talks” (idem)
- A major breakthrough in sensitive products: tariffs on beef, pork, dairy, rice, wheat, and sugar/sugar-contained products
- Exchange of “**Sensitivities**”; agricultural tariffs for Japan and tariffs on cars/trucks for the US

# The significance to Japan of the Pacific-Asia region

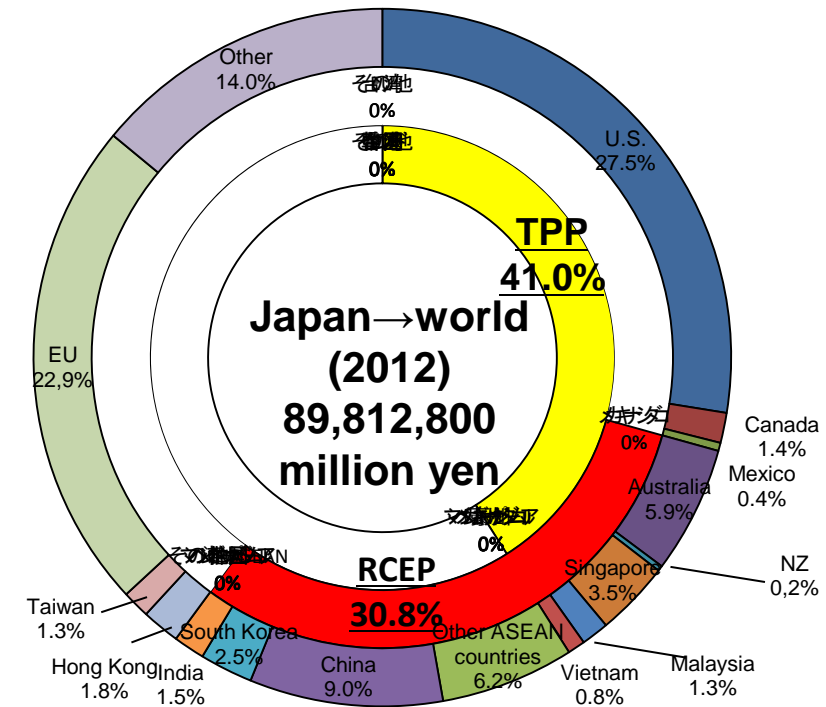
- Approx. 45.8% of exports by value were exported to states engaged in RCEP negotiations.
- Approx. 30.8% of foreign direct investment was invested in states engaged in RCEP negotiations.

Proportion of Japanese exports by region, in 2012



Trade data: Trade Statistics of Japan  
(Ministry of Finance, 2012)

Proportion of Japanese FDI by region, in 2012



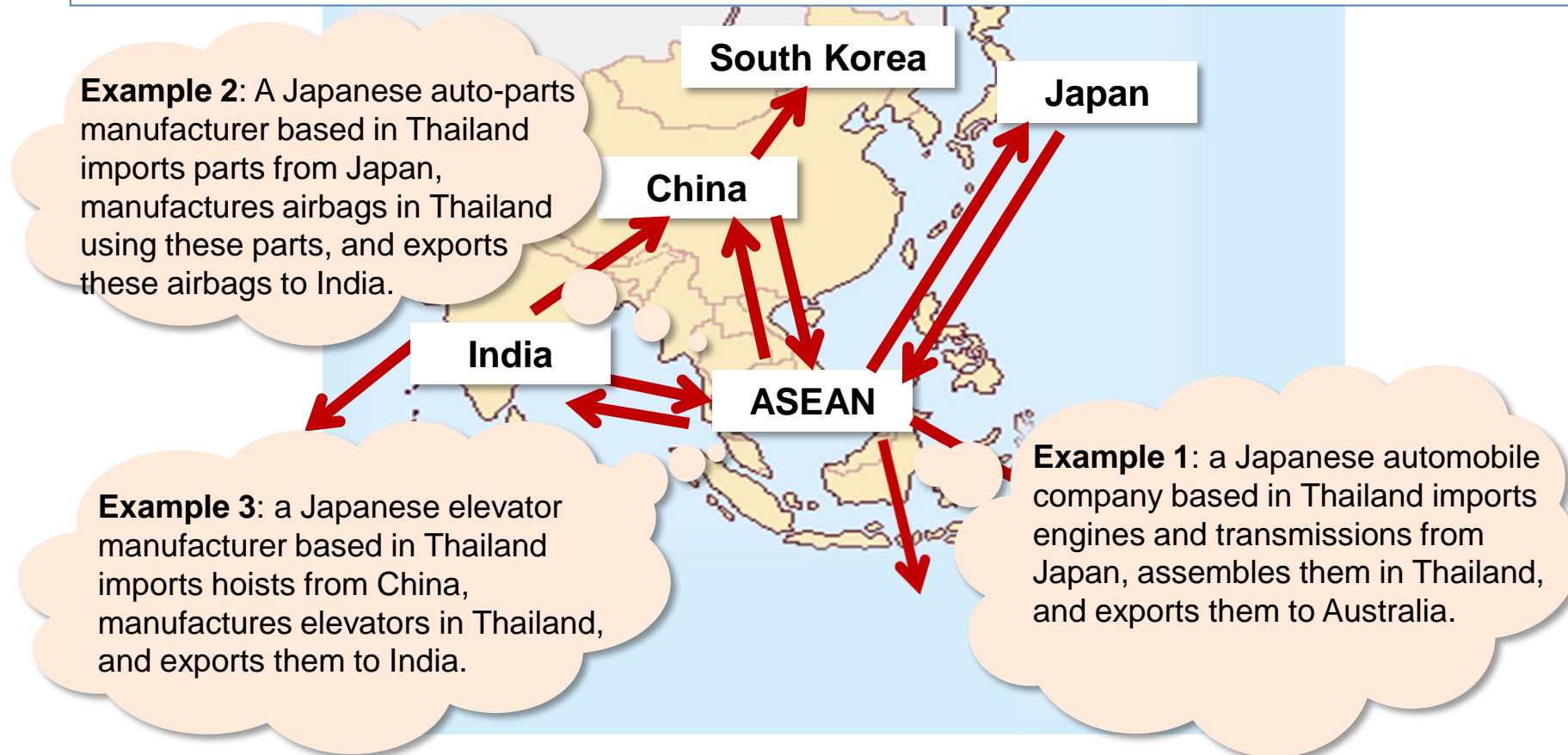
\*Individual figures for Peru, Chile, Brunei, and Papua New Guinea are excluded, since they have not published stock results. However, total figures by region include those states that have not published their results.

Source: Japanese foreign assets and liabilities balance (Ministry of Finance)  
Direct investment (assets) balance statistics, by region (Bank of Japan)

# The significance of participation in RCEP

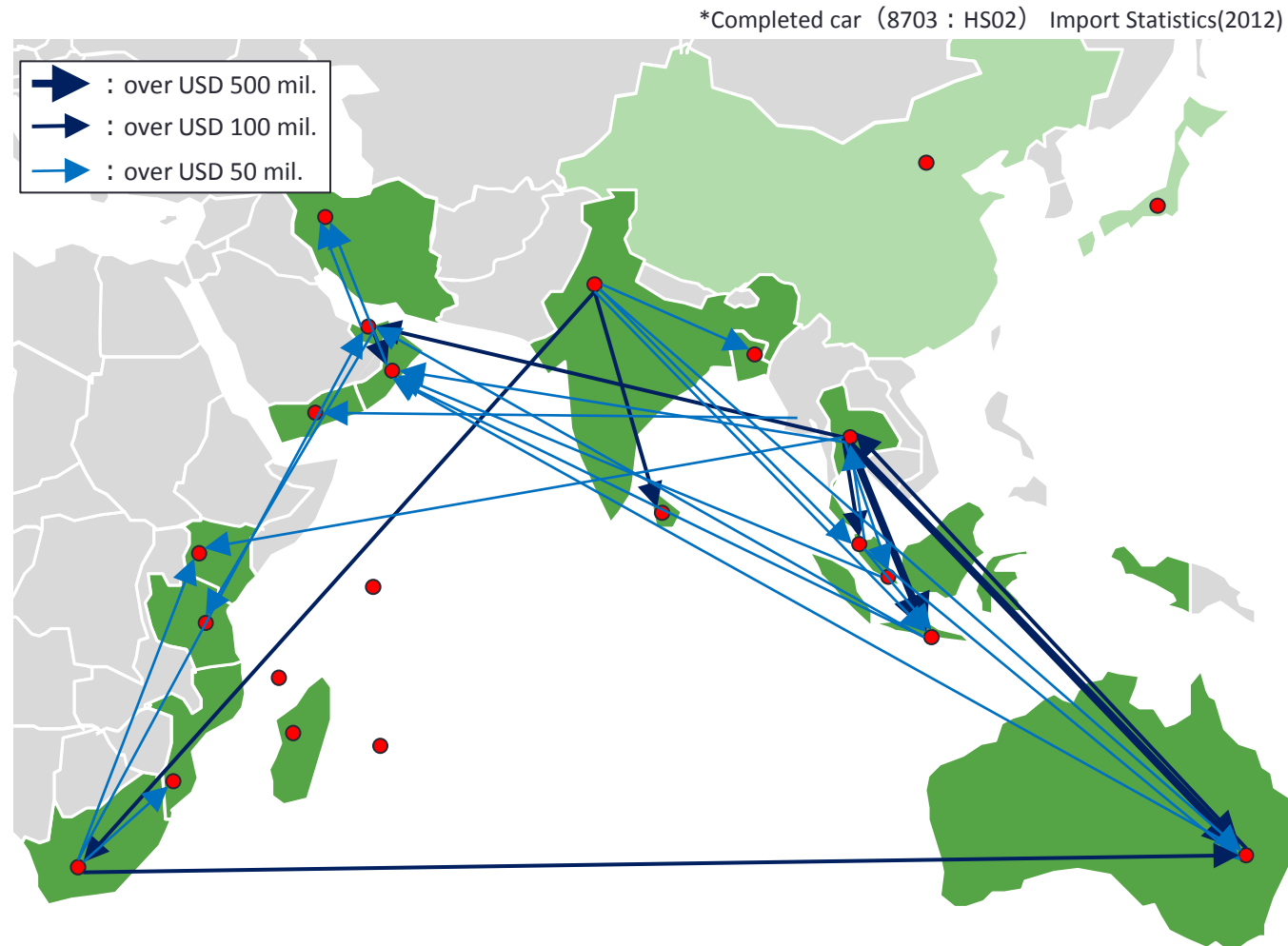
## Unification of supply chain networks in the East Asia region

- In order to increase exports to growth markets both inside and outside the East Asia region, the unification of corporate supply chains is essential.
- At present, each EPA has its own set of regulations (e.g. rules of origin), and the differences between these regulations hinder corporate activities. By unifying these regulations into a single set of simple, easy-to-use rules for corporations, RCEP will facilitate the establishment of an trans-national supply chain network.



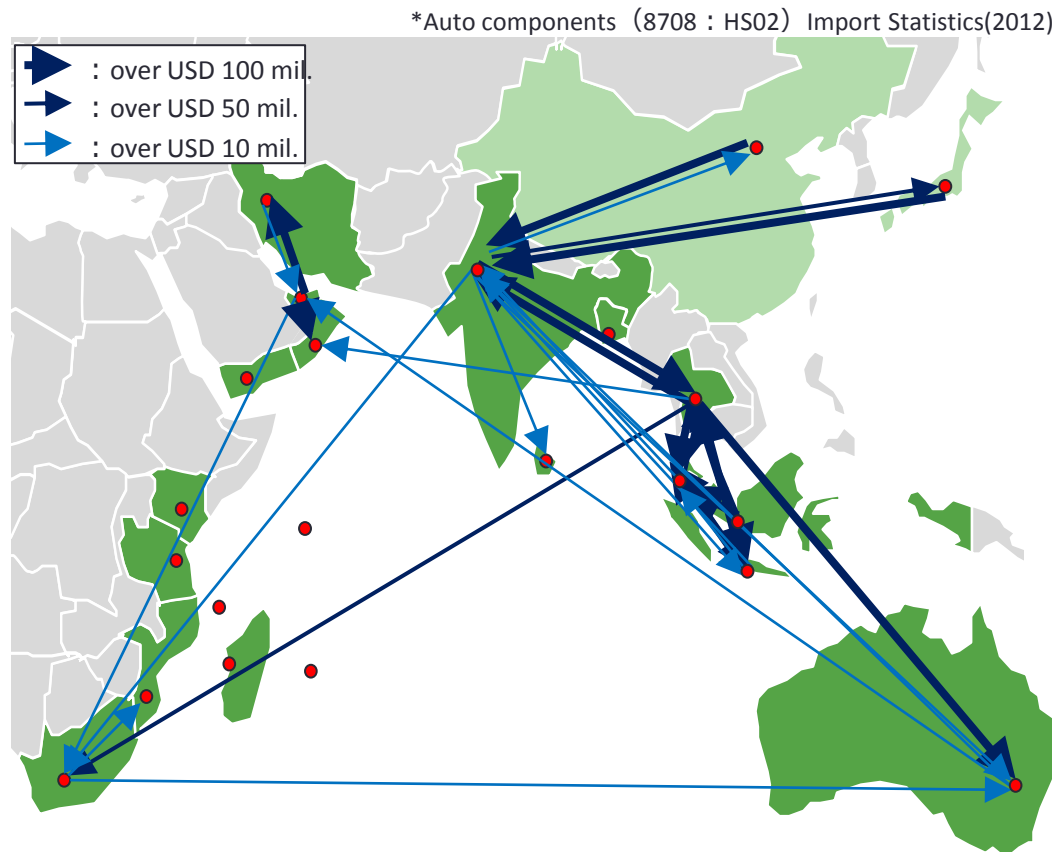
## Automobile Industry: Trade Flow of “Completed Car”

- India has begun to be included in the supply chain among RCEP countries and is performing as an exporting hub of completed car along with Thailand.



## Automobile Industry: Trade Flow of “Auto Components”

- Trade routes among/between South-East Asia and South Asia are “Hot Spots”.



### Auto company

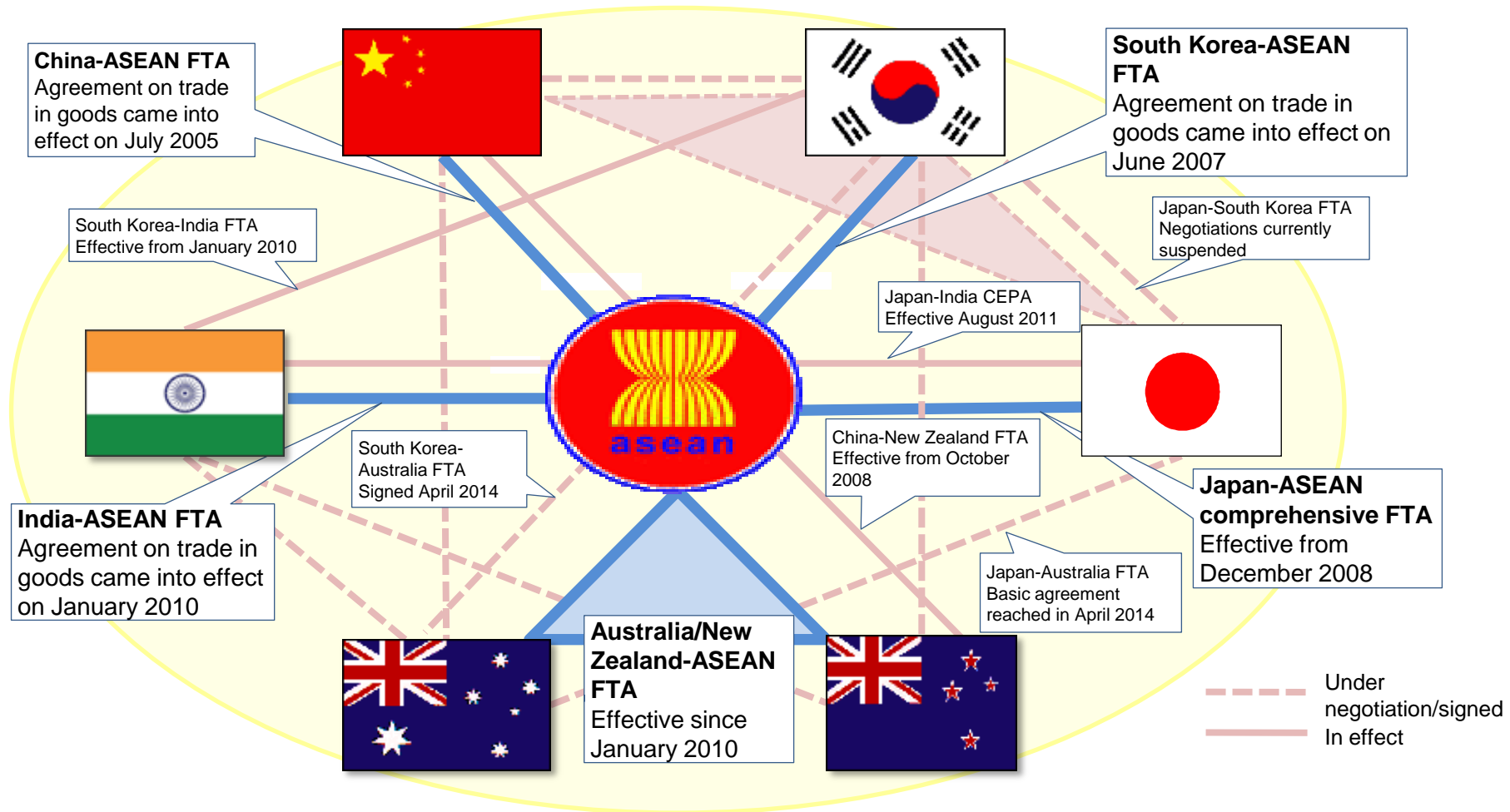
- Exporting auto parts to Japan, Taiwan, Thailand, Malaysia, Indonesia etc.

### Motorcycle company

- Compared to Thailand, India has cheaper parts with the same quality.
- Local supporting industry of India is very strong, compared to Thailand or Indonesia.
- Japanese enterprises in ASEAN have started to include India in their supply chains by importing motorcycle parts from India. Currently, Bangkok is the center of optimum supply chain network in ASEAN, however, we are considering including India.

# RCEP(Regional Comprehensive Economic Partnership)

- The RCEP is an economic partnership between ASEAN and those states which already have FTAs with ASEAN, namely Japan, China, South Korea, India, Australia and New Zealand. It aims at the creation of a high-quality, comprehensive economic partnership agreement, and the drawing up of regulations for an advanced supply chain in the East Asian region.
- In May 2013, the first round of negotiations took place, with the intention of finalizing an agreement by the end of 2015.



# Points of the “Guiding Principles and Objectives of the RCEP”

## (Level of ambition)

- ✓ The RCEP will have broader and deeper engagement **with significant improvements over the existing ASEAN+1 FTAs**, while recognizing the individual and diverse circumstances of the participating countries.
- ✓ Tariff negotiations will be conducted on a comprehensive basis. Such negotiation should be aim to achieve the tariff elimination on a high percentage of both tariff lines and trade value.

## (Scope of the EPA)

- ✓ RCEP will cover; **Trade in Goods, Trade in Services, Investment, Economic Cooperation, IPR, Competition, Dispute Settlement, and Other Issues** covered by FTAs among RCEP participating countries

## (Membership)

- ✓ The RCEP agreement will also have an **open accession clause** to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations.

## (Timeline)

- ✓ Negotiations will commence in early 2013 and aim to **complete by end-2015**.



# RCEP(Regional Comprehensive Economic Partnership) - Direction of Negotiations

## Overview

## Regional Comprehensive Economic Partnership

- RCEP is a multi-regional economic partnership that covers approximately half of the world's population and one third of its GDP. Negotiations are expected to conclude before the end of 2015.
- Intended to set out regulations for an advanced supply chain in the East Asian region, RCEP aims at the realization of unified EPA procedures, and an EPA that is convenient for corporations to use.

## Results of previous rounds of negotiations

- Thus far there have been five round of RCEP negotiations: the first in Brunei, in May 2013; the second in Australia, in September 2013; the third in Malaysia, in January 2014; the fourth in China, in March 2014; and the fifth in Singapore, in June 2014.
- At the first RCEP ministerial meeting in August 2013, agreement was reached on the principle of mutual tariff concessions. **In addition, it was agreed that tariff modalities would be established before the second ministerial meeting in August 2014.**
- At the most recent round of negotiations, a working group (WG) was held on each of the following: trade in goods, trade in services, investment, competition, intellectual property, economic and technical cooperation, and legal and institutional matters (dispute settlement?).

## Future schedule

- August 2014, Myanmar – second round of RCEP ministerial meetings.
- December 2014, India – sixth round of RCEP negotiations.

# RCEP as Conceived by Government of India

(SIAM, February 2014)

## Implications of RCEP on India: Opportunities and Challenges

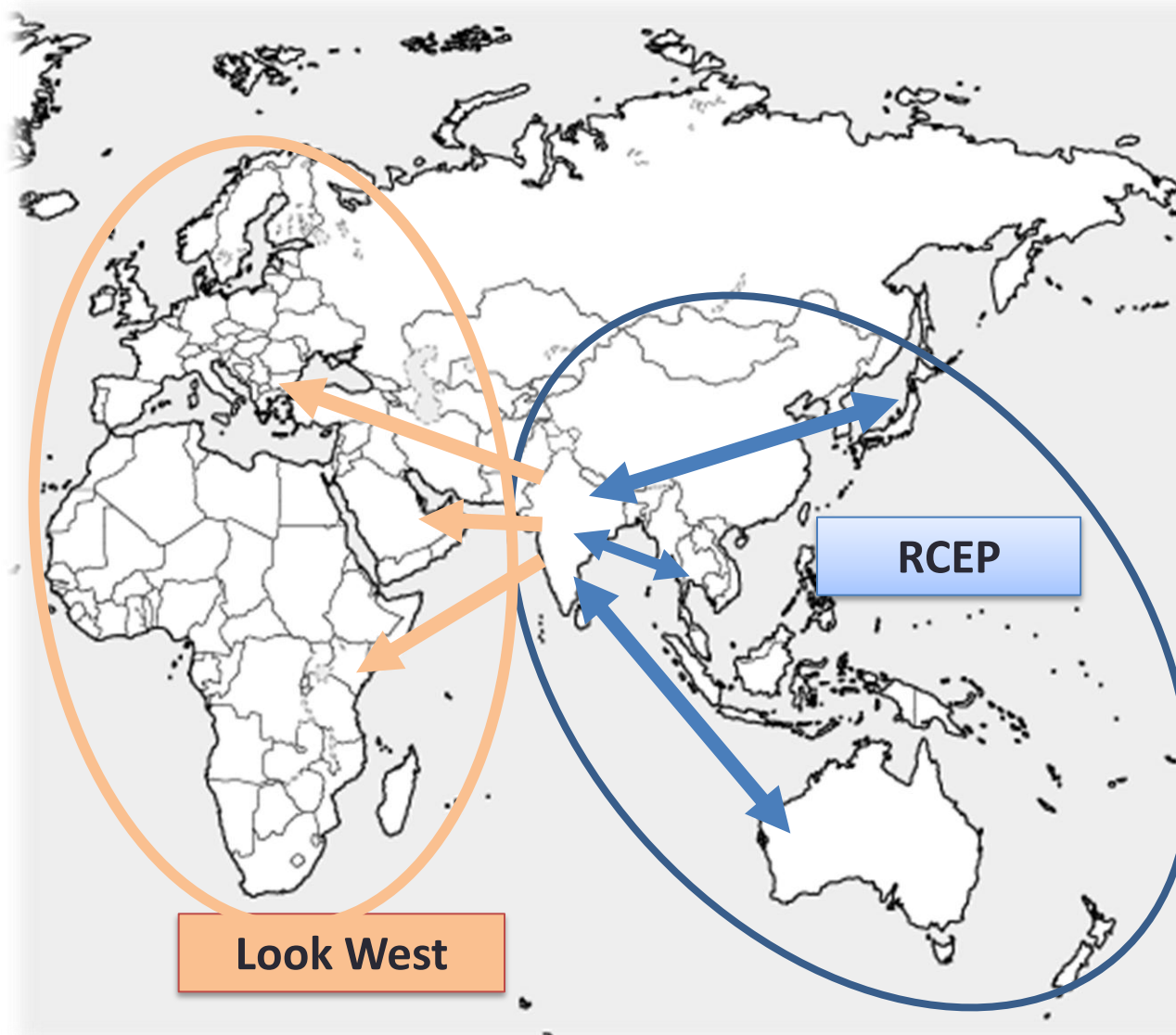
- Opportunities

- Increased FDI flow into India
- Greater opportunities to invest in these countries and third countries taking advantage of complementary strengths
- Participation in regional Value Chains
- Greater access to growing markets
- As an international service provider, particularly in the area of information and communication technology India may gain from the agreement.

- Challenges

- The implication of tariff reduction/elimination on domestic industry
- Integrating Indian auto industry into the value chain that will be shifted to the region after the implementation of the agreement

# RCEP and Look West



**The most important  
country/region  
to export within 1 to 3 years**

	Japanese affiliated companies in India	
	Country/Region	Share
1	Middle East	14.8
2	Japan	14.4
3	Thailand	12.3
4	Indonesia	10.2

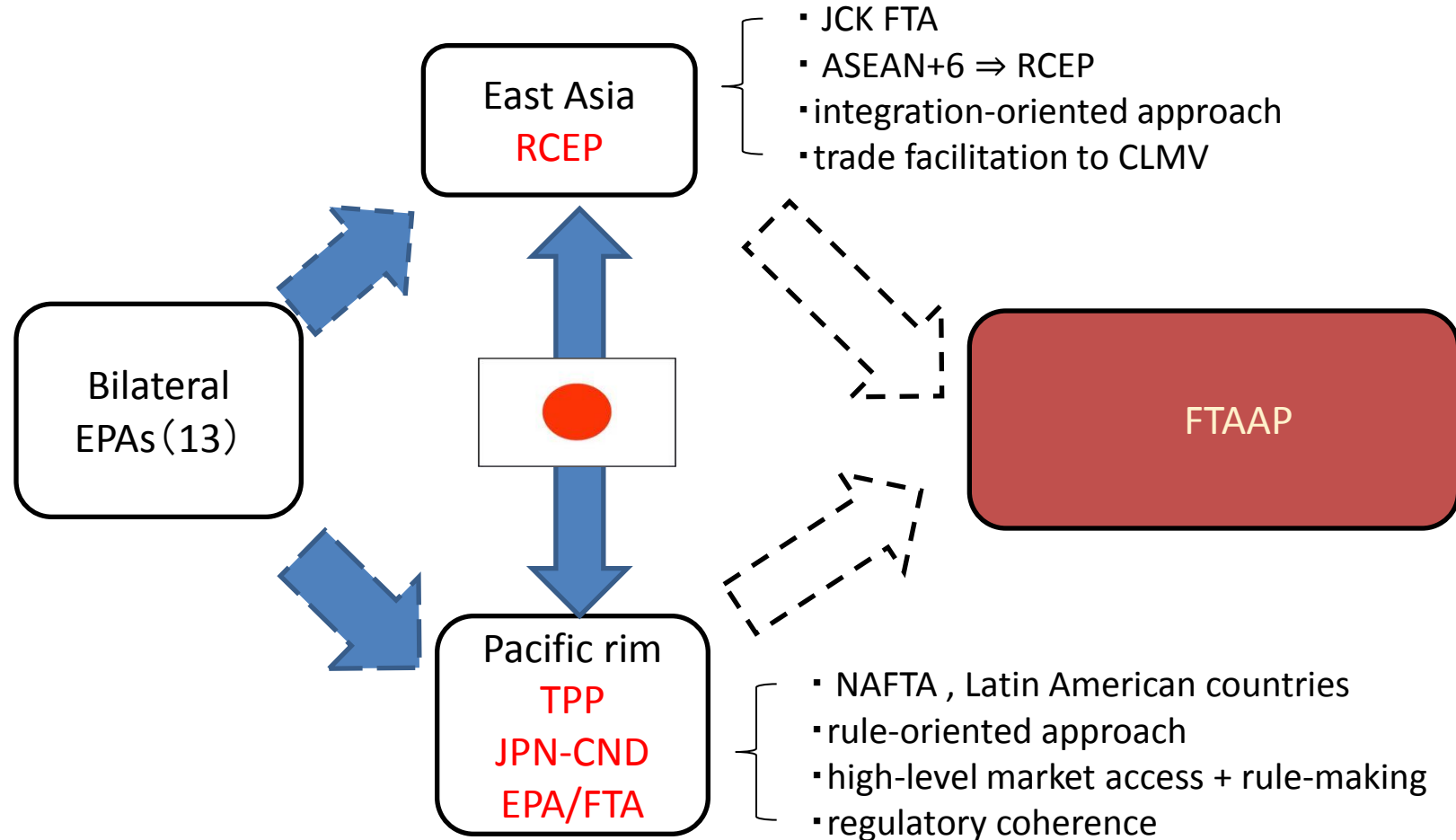
Source: Survey on Business  
Conditions of Japanese-  
affiliated Firms in Asia (2013,  
JETRO)

## Negotiations in TPP & RCEP

分野	TPP	RCEP
Market Access (goods)	○	○ (WG Trade in Goods)
Rules of Origin	○	○ (Sub WG)
Trade Facilitation	○	○ (Sub WG)
Trade Remedies (SG, AD, CVD)	○	○ (WG Trade in Goods)
SPS	○	○ (Sub WG)
TBT	○	○ (Sub WG)
IPR	○	○ (WG IPR)
Competition Policy	○	○ (WG Competition)
Investment	○	○ (WG Investment)
Government Procurement	○	
Environment	○	
Labour	○	
Services (Cross-border Services、Business Travelers、Financial Services、Telecom Services)	○	○ (WG Trade in Services)
Electronic Commerce	○	
Horizontal Issues	○	
Dispute Settlement	○	○ (WG Legal/Institutional )
Cooperation	○	○ (WG Cooperation )
Institutional Issues	○	○ (WG Legal/Institutional)

# Japan's FTA/EPA Strategy in Asia-Pacific

— a pivotal centre between TPP & RCEP —



# Some Remarks on Integration in Asia-Pacific

- East Asia is moving *from de-facto business-driven integration to de-jure institution-driven integration*, where the multilateral norms and principles are to be maintained; transparency, MFN, National Treatment
- **RCEP** has enormous potential, but it should accelerate its velocity of negotiations
- **TPP** leads ahead of RCEP in shaping trade architecture in Asia-Pacific
- RCEP matters more to **India** and the Indian Ocean-rim Countries: Japanese and the multinationals in India as well as India's local companies are starting to expand their business transactions across Middle East, Africa and Southeast Asia with price competitiveness and business network

# Bilateral and regional FTAs/EPAs and their Importance to Japan (MOFA)

## EPA•FTA in Japan (July, 2013)

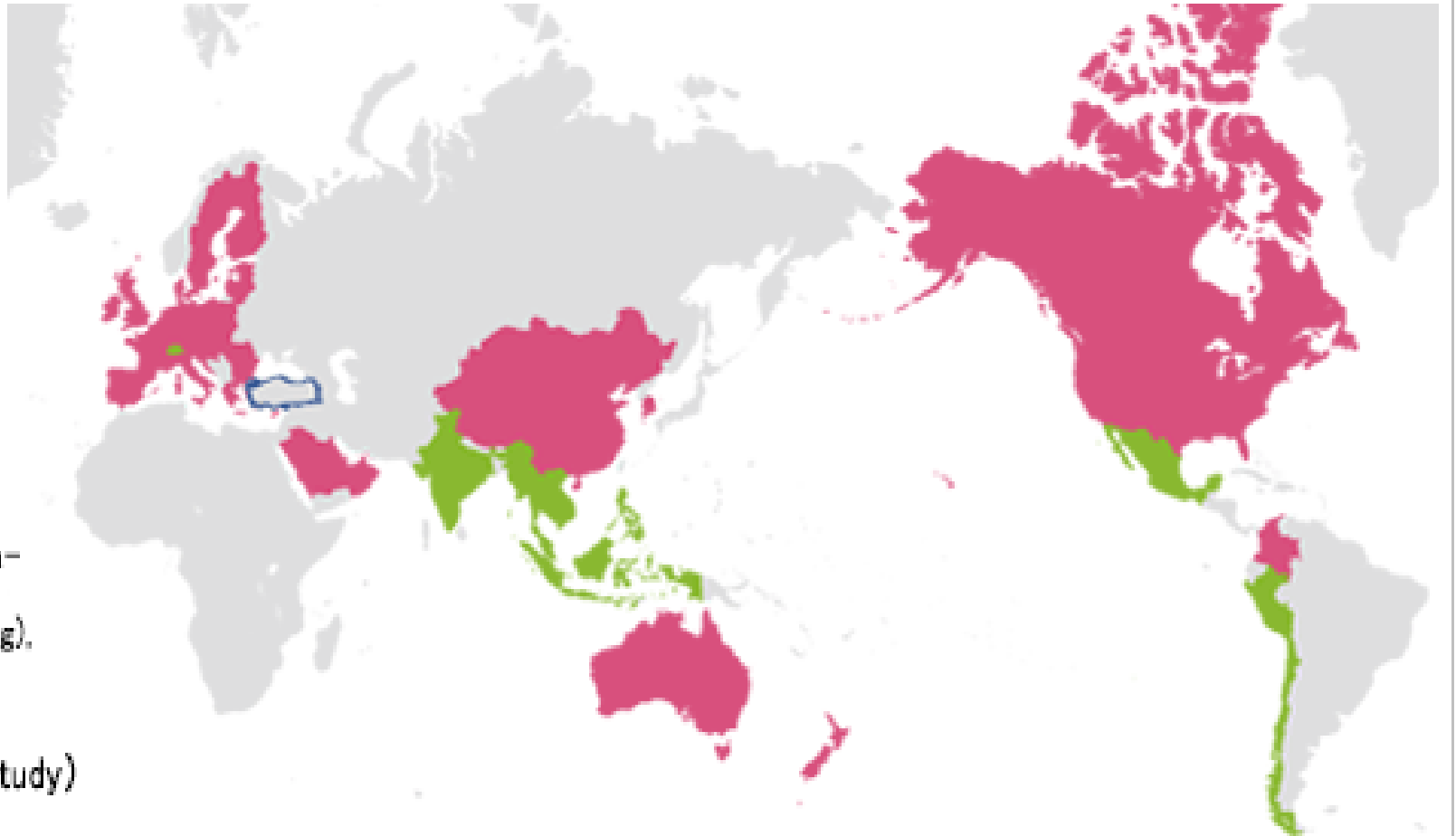
### ● Concluded ▶ 13

Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Viet Nam, India, Peru

### ● Negotiating ▶ 10 (Include Countries unsigned)

Australia (Negotiating), Mongolia (Negotiating), Canada (Negotiating), Colombia (Negotiating), Japan-China-ROK (Negotiating), EU (Negotiating), RCEP (Negotiating), TPP (Negotiating), GCC (Negotiation postponed), Korea (Negotiation suspended)

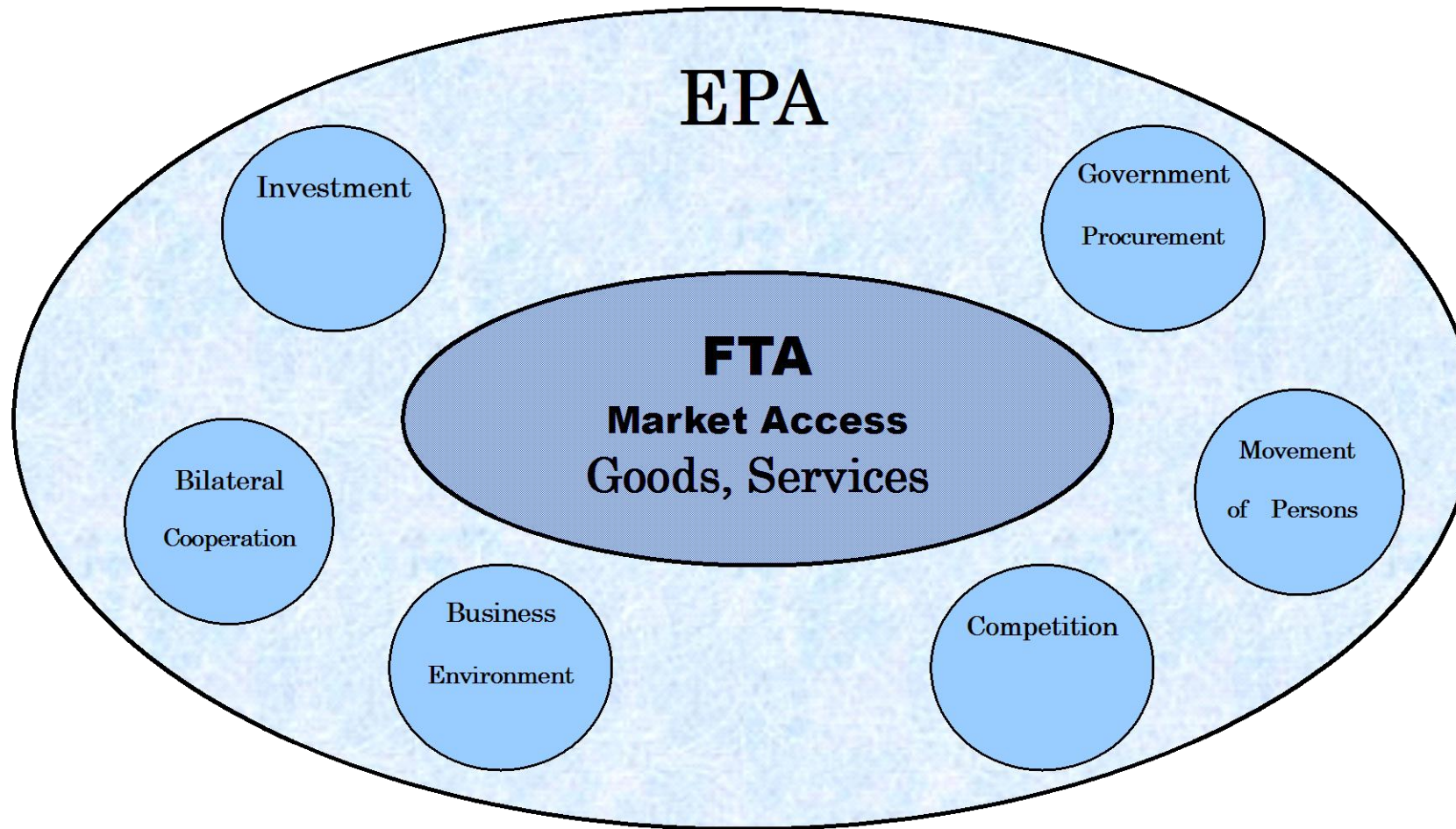
### ○ Pre-Negotiating (ex. Joint Study) Turkey





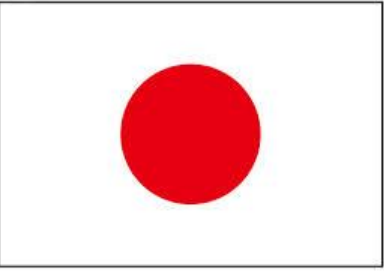
# Economic Partnership Agreement

## EPA: Japan's FTA Strategy



# Substance of Japan's EPA

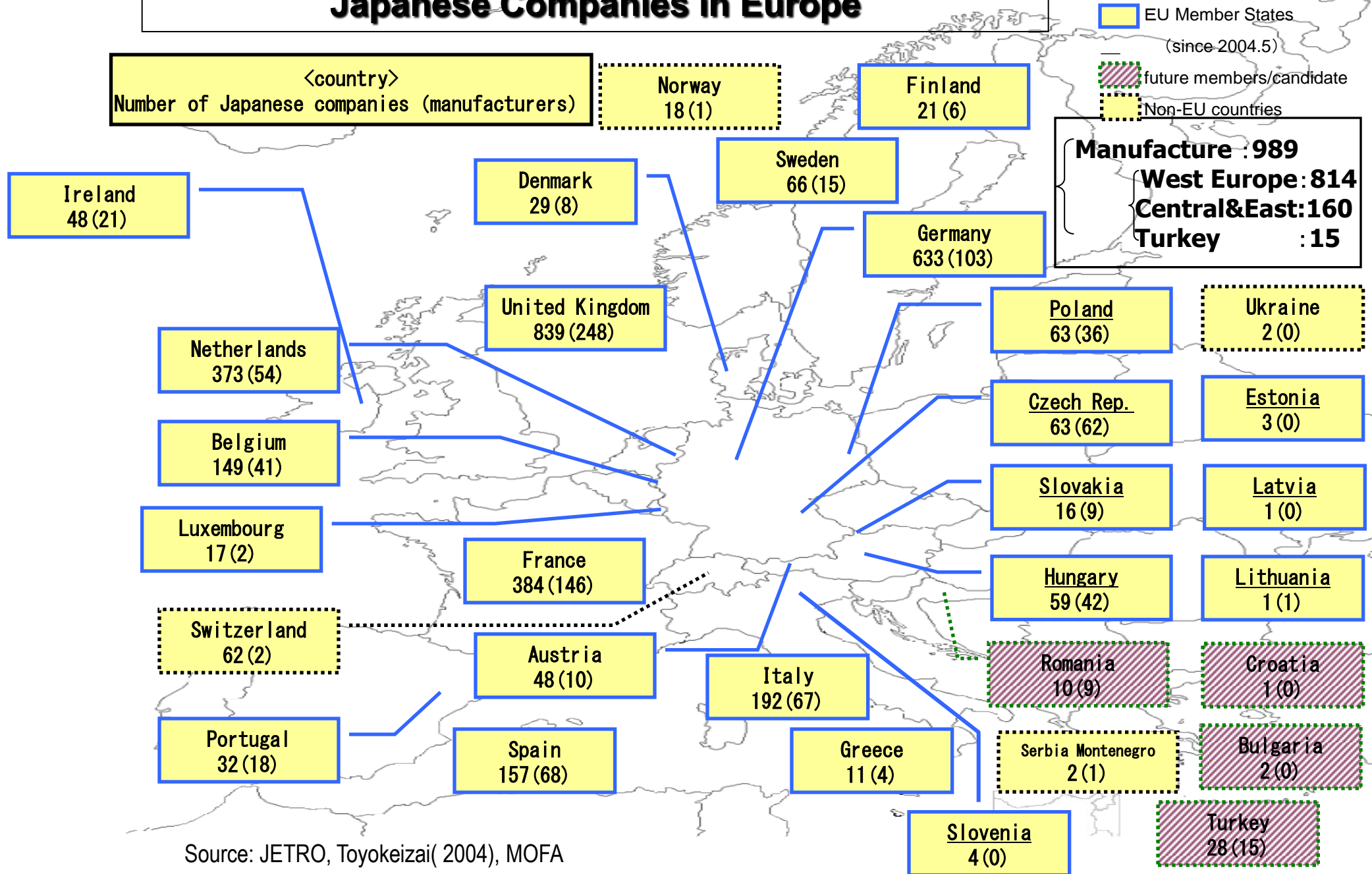
		Trade in goods			Trade in service				Investment				Government Procurement	Intellectual Property	Competition	Improvement Of Business Environment	Cooperation	Energy and Mineral Resources
		Market Access	SPS/TBT	Mutual Recognition	Market Access	National Treatment	MFN Treatment	Movement of Natural Person	National Treatment	MFN Treatment	Prohibition of performance requirements	Dispute Settlement between state and investor						
ASEAN	Vietnam	○	○		○	○		○			○				○	○	○	
	Philippine	○		○	○	○	○	○	○	○	○			○	○	○	○	
	ASEAN	○	○														○	
	Brunei	○			○	○	○	○	○	○	○	○				○	○	○
	Indonesia	○			○	○	○	○	○	○	○	○		○	○	○	○	○
	Thailand	○		○	○	○	○	○	○	○	○	○		○	○	○	○	
	Malaysia	○	○		○	○	○	○	○	○	○	○		○	○	○	○	
	Singapore	○		○	○	○		○	○		○	○	○	○	○			
Latin America	Chile	○	○			○	○	○	○	○	○	○	○	○	○	○		
	Mexico	○	○			○	○	○	○	○	○	○	○		○	○	○	
Europe	Switzerland	○	○		○	○	○	○	○	○	○	○	○	○	○	○		



# Japan and the EU: from conflicts to cooperation

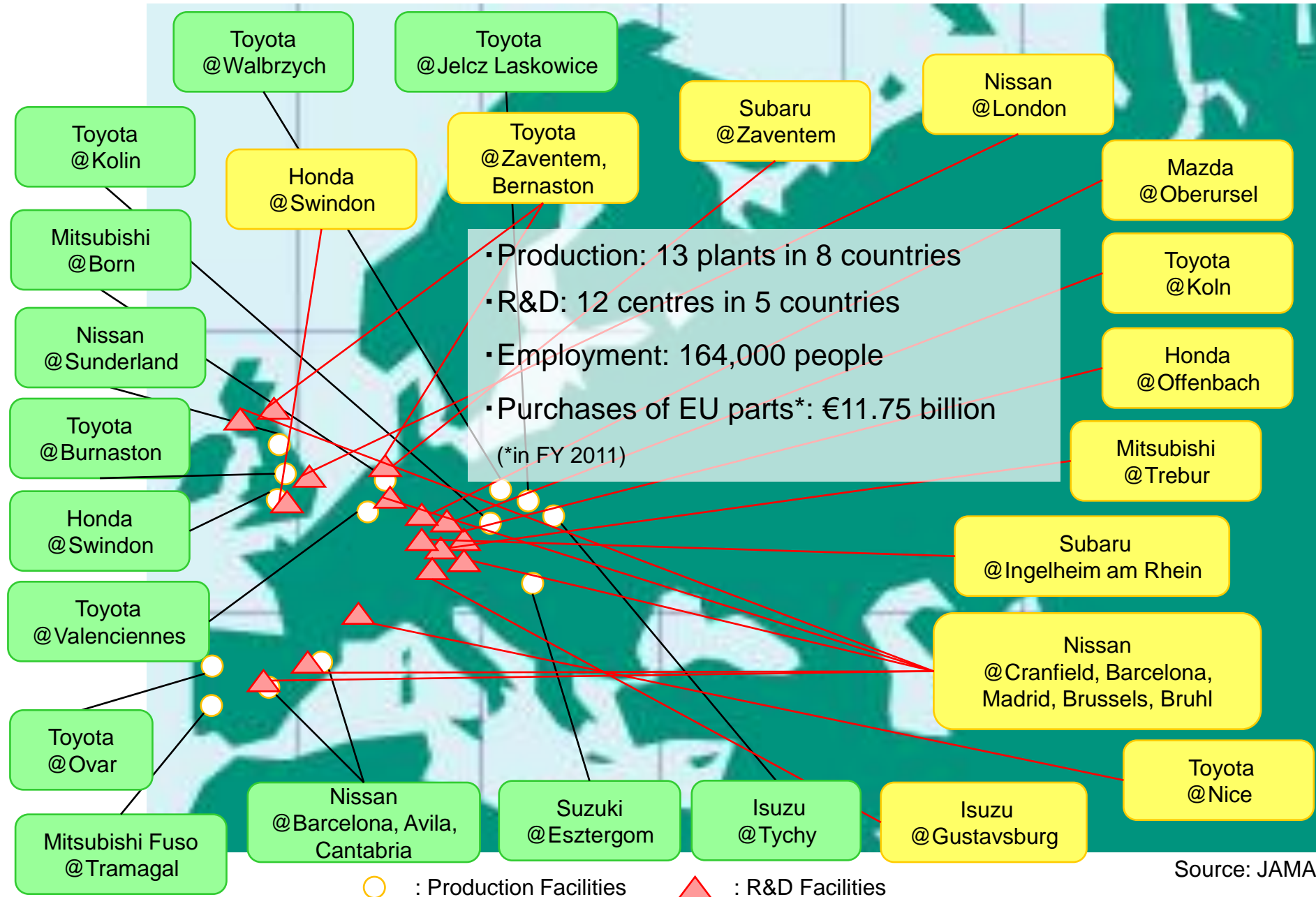
- 1976-1990: **Trade Frictions** caused by trade imbalances in favour of Japan
- **The Japan-EC Joint Declaration** (1991): the first step towards cooperation
- **The Japan-EU Action Plan** (2001): the second step to build a solid platform for cooperation
- “**The Scoping Exercise**”: to determine the level of ambition and the coverage of EPA/FTA negotiation (May, 2011-April 2012)
- The EU Foreign Ministers’ Council adopted the Draft Directive for the EU-Japan FTA (November, 2012)
- Decision to start negotiations by the Heads of State Japan/EU (March, 2013)

# Japanese Companies in Europe



Source: JETRO, Toyokeizai( 2004), MOFA

# Japanese Automakers' Production/R&D Facilities in the EU



Source: JAMA



# Agenda for Negotiation (14 areas)

- General Principles
- Trade in Goods
- TBT (Technical Barriers to Trade)/NTMs
- Rules of Origin
- Customs Procedures and Trade Facilitation
- SPS (Sanitary & Phytosanitary Measures)
- Trade in Services
- Investment
- Government Procurement
- Intellectual Property Rights
- Competition Policy
- Dispute Settlement
- Trade and Sustainable Growth
- Other Issues

# Interests of the Parties

- Japan

- Elimination of Industrial Tariffs (10% on cars, car-parts, 14% on TV, electronics)
- Trade in Services
- Investment

- The European Union

- Non-tariff Measures (NTMs) in auto, processed food, food additives, pharmaceuticals etc.  
⇔ 70% of the EU Export to Japan is already duty-free
- Government Procurement
- Railway Equipments
- Trade in Services



# Central Objectives of Japan in the Rule Area

- **Auto**
  - UNECE Regulations on Technical Standards on Safety and Environment
  - International Whole Vehicle Type Approval (IWVTA) to be introduced in 2016
  - “Zoning”(Allocation of Maintenance Shops in Residential Zone)
- **Railway Equipment (Public Procurement)**
  - Clarification of Safety-exception
  - Transparent Application of the Safety-exception Clause
  - Procurement Rules on Privatized Entities that “graduated” from the application of the WTO/GPA

# EU-Japan trade balance in railway products

- ◆ The EU had a trade surplus with Japan in railway products from 2001 to 2010.
- ◆ Japan mainly imported railway carriages, maintenance equipment and electronic parts.

Trade balance in railway products between Japan and the EU

year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	total	average
France	-811	-490	-528	-44	-330	-892	111	-3,394	-236	-164	-6,778	-678
Germany	-2,150	-2,645	-2,405	-834	-1,308	-2,325	-2,380	-3,455	-248	-318	-18,069	-1,807
Spain	-1,846	-1,508	-1,847	-302	-971	-1,986	-1,722	-2,667	-173	-246	-13,168	-1,327
Italy	-1,556	-27	-733	-2,493	-1,285	-2,815	-608	-899	-1,314	-2,146	-13,876	-1,388
UK	-572	-284	-582	-322	-513	-1,523	5,555	14,975	14,026	-54	30,706	3,071
Austria	-1,258	-1,225	-1,078	-679	-3,622	-5,312	-4,619	-4,598	-5,908	-4,953	-33,252	-3,325
EU total	-5,639	-4,868	-3,527	-1,666	-7,628	-14,477	-3,613	2,141	6,202	-8,375	-41,451	-4,145
world total	50,214	36,507	32,145	77,940	127,812	69,685	57,899	81,443	55,797	47,998	637,440	63,744

Source: Trade statistics of the Ministry of Finance , Japan (in JPY million)

# Examples of European Companies that Participate in Government Procurement in Japan

## Veolia Water Japan

A Japanese corporation under a French company (environment)

Succeeded in signing contracts with five local governments (more than 19 billion yen)

Main example: Contents of the contract with Matsuyama City, Ehime Prefecture

- Contract period: Five years from 2012
- Contract value: Around 1.3 billion yen
- Order contents: Entrusted management of institutions, including a water purification plant in Matsuyama City

Other examples

- Signed similar contracts with Hiroshima City, Saitama Prefecture, Chiba Prefecture, and so on (more than 19 billion yen in total since 2006)

## Siemens Japan

A Japanese corporation under a German company (industrial machinery)

Received orders for expensive medical instruments from institutions, including national university hospitals (more than 4 billion yen)

Main example: An order for medical instruments from a Japanese national university hospital

- Time of order: July 2011 (Bid)
- Contract value: Around 700 million yen
- Order contents: Radiotherapy systems

Other examples

Received orders from national university hospitals throughout the country (More than 4 billion yen in total since 2010)

GlaxoSmithKline (Japanese corporation)  
A Japanese corporation under a British company (pharmaceuticals)

Received a large order for an anti-influenza drug for government stock (more than 5 billion yen)

Main example: An order for medicine from the Ministry of Health, Labour and Welfare of Japan

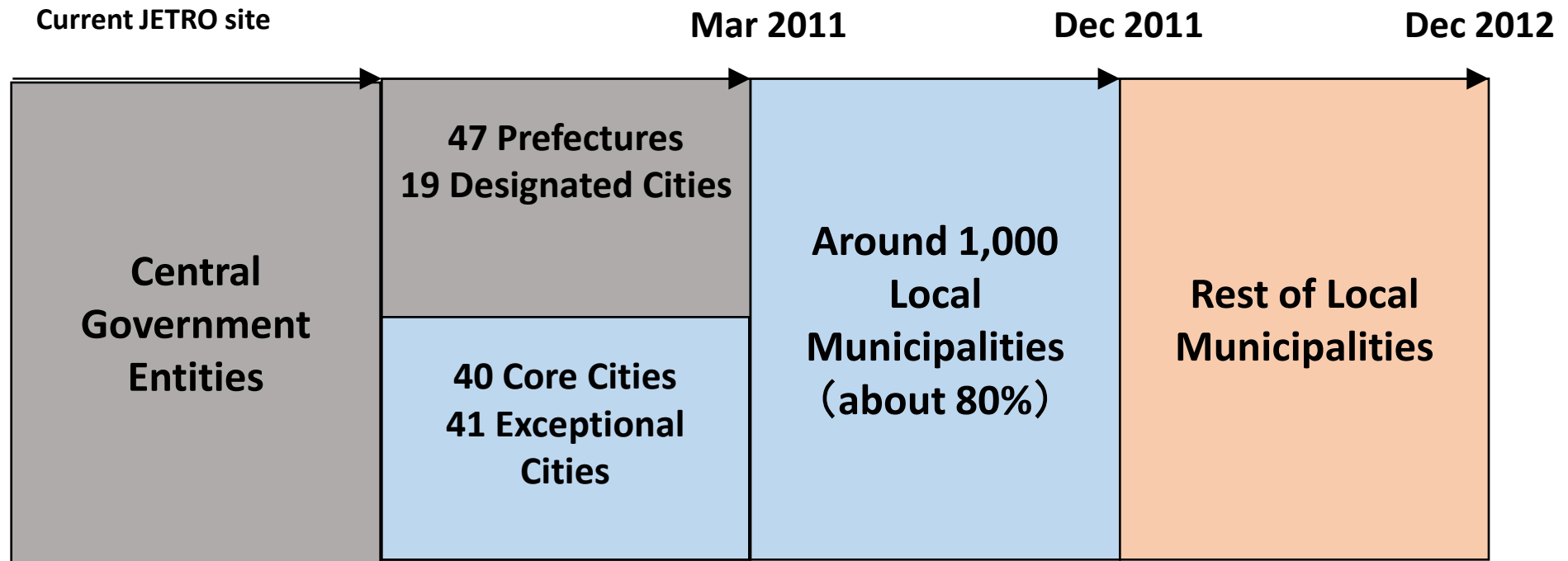
- Time of order: March 2009 (bid)
- Contract value: Around 3.7 billion yen
- Order contents: Anti-influenza drug

Other examples

Received orders for Relenza from the Ministry of Foreign Affairs, Osaka Prefecture, Yamanashi Prefecture, and so on (more than 5 billion yen in total since 2009)

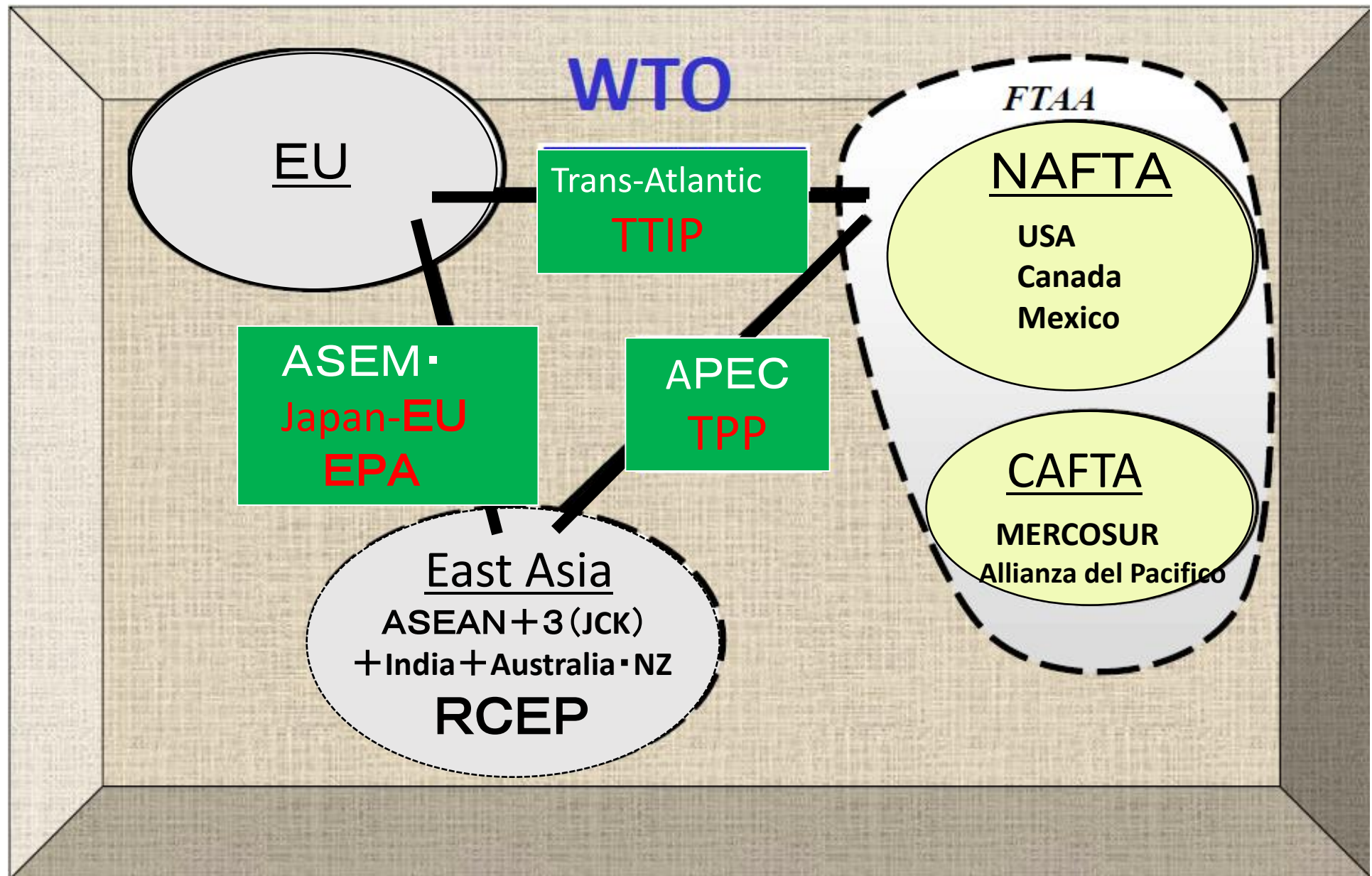
# More procurement information available in English

Providing tender information from all relevant government entities in English



# Other Rule Areas

- **Investment**: The EU has never taken the negative-list approach
- **Competition**: Beyond the Anti-monopoly Cooperation
- **Geographical Indication**: Japan to play an intermediary role between the EU and the US
- **Trade Facilitation**: a follow-up of the WTO/MC9 Agreement



# Multilateralizing Regionalism

- **Convergence of Liberalization Efforts** in 3 Mega FTAs, i.e. TPP, TTIP, and the Japan-EU EPA
- **A New Momentum** to reinforce the Trade Multilateralism embodied in the WTO
- **Japan, the EU, and the US/Canada should work together** for Multilateral as well as Inter-regional Trade/Investment Liberalization





Thank you for Your Attention  
--- Free Trade for  
a Better Future ---

