

# Japan-EU EPA: Why Is It Important?

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# 1. Why Japan-EU EPA?

- Recent advancement
  - EU-Korea FTA being effective in July 2011
  - Japan-EU EPA: based on the joint study, agreeing the start of the process toward negotiations in May 2011, “scoping” started
  - Prof. Mario Monti visited Tokyo in March 2012
  - EU Commission formally started the process of obtaining negotiation mandate over Japan-EU EPA on July 18, 2012
- Three-fold motivation
  - Direct effects of the Japan-EU EPA
  - Avoiding trade diversion in East Asian integration
  - Participating in a new rule making in East Asia through regulatory reform in Japan

## 2. Direct effects of the Japan-EU EPA

- “Scoping” set a wide range of negotiation items for a high-level EPA
- Japanese interests
  - High tariff removal for manufactured goods (e.g., automobiles 10%, electronic products 14%)
  - Regulatory barriers and others for Japanese FDI in EU
- EU’s interests
  - Removal of redundant non-tariff measures in automobiles, chemicals, electronic products, food safety, processed food, alcoholic beverages, medical equipment, and others.
    - Regulation and System Reform announced on July 10, 2012 by the Government of Japan to accelerate the initiation of Japan-EU EPA negotiations.
      - including “harmonization of automotive technical requirements and certification procedures with international standards,” “easing of the area size restrictions for automobile service shops,” and “streamlining and acceleration of the procedures for designation of food additives”
    - Raising potential GDP growth rates is a must in the globalizing setting.

# Excerpts from MOFA-GOJ document

## ***The current status of Japan-EU economic relations***

- The total amount of Import & export of goods between Japan and the EU in 2010 was about 11.5 billion euro, or 13 trillion yen. (The EU is the third largest trading partner for Japan, while Japan is the sixth largest trading partner for the EU.)
- Japan is ranked as the fourth largest investor to the EU, with its FDI stock of about 120 billion euro, or 15 trillion yen in 2010.
- The EU is ranked as the largest investor to Japan, with its FDI stock of about 57.6 billion euro, or 7 trillion yen in 2010.
- While roughly 3,300 Japanese companies operate their businesses in the EU, creating over 400,000 employment, about 2,500 European companies registered at the European Business Council (EBC) operate in Japan.
- Japan has cooperated since May 2010 with G20 members in response to the European debit crises through an IMF program.

## ***Expected Economic Impacts by a Japan-EU EPA***

- European exports to Japan could increase by as much as 43.4 billion euro (a 71 percent increase in 2008 baseline exports to Japan).
- In the long run, increased investment drives 0.14 percent increase in EU's GDP (inclusive of the short-run effects), while for the Japan a 0.31 percent increase in GDP is estimated.
- For the EU, the estimated long-run gain in real income is as much as 33.2 billion euro. For Japan, the estimated long-run gain in real income is between 18.2 and 9.7 billion euro. (From Copenhagen Economics, "Assessment of Barriers to Trade and Investment between the EU and Japan," November 2009)

***Japan and the EU are facing two common challenges: fiscal consolidation and economic growth. Japan-EU EPA is a high-priority policy agenda for both sides, since it leads to economic growth through further expanding bilateral trade and investment.***

# 3. Avoiding trade diversion in East Asia

- Completion of ASEAN+1 FTA's in 2010
  - ASEAN as a hub; prioritizing “integrated production base” rather than “single market.”
- Trans-Pacific partnership (TPP) negotiations stimulate China, accelerating movements toward East Asia-wide economic integration.
  - CK FTA (negotiation started in May 2012)
  - CJK FTA (negotiation will start by the end of 2012; uncertainty with politics)
  - ASEAN++ FTA (RCEP) (negotiation to be announced in Nov. 2012)
  - TPP (negotiation started in March 2010; 9+2 countries in negotiation)
  - FTAAP?
- East Asia has continuously grown and gained partial “de-coupling.”
- EU would suffer from negative trade diversion effects due to a series of integration efforts in East Asia.

## GDP per capita in 2020 in extended East Asian countries

GDP/capita (USD)	1995	2000	2008	2020 Estimate
Australia	19,915	19,508	45,062	66,073
Singapore	24,220	23,073	39,422	58,006
Brunei	16,050	17,996	35,626	57,858
Japan	41,833	36,835	38,581	49,164
New Zealand	16,640	13,613	29,860	42,080
South Korea	11,581	11,488	19,295	33,648
Malaysia	4,314	4,030	8,197	14,454
Thailand	2,794	1,968	4,055	10,531
China	601	946	3,235	8,671
Indonesia	1,056	804	2,247	6,859
Philippines	1,059	977	1,847	6,675
Vietnam	284	396	1,041	3,800
India	350	411	960	3,584
Cambodia	303	287	754	2,336
Laos	370	303	852	1,948
Myanmar	125	191	529	1,172
East Asia Average	2,847	2,660	4,277	8,579

Figures for past (nominal) GDP per capita are from ADB, *Key Indicators for Asia and the Pacific 2009* and UN, *World Population Prospects: The 2008 Revision*. Future forecasts are ERIA estimates, taking into account the trends, impact analysis of development policies etc.  
Source: Fujimoto, Hara, and Kimura (2010).

## Intra-regional trade in East Asia: values and shares in 2007–2011

Destination/origin	Exports					Imports				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
<b>(a) All products</b>										
Value (nominal): 2007=1										
World	1.00	1.14	1.16	1.47	1.54	1.00	1.02	1.02	1.33	1.52
East Asia	1.00	1.13	1.18	1.52	1.61	1.00	1.14	1.13	1.48	1.64
Share: World=100										
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
East Asia	46.4	45.9	47.2	48.1	48.6	49.5	46.6	46.7	46.5	45.3
<b>(b) Machinery parts and components</b>										
Value (nominal): 2007=1										
World	1.00	1.06	1.19	1.52	1.55	1.00	1.05	1.03	1.31	1.35
East Asia	1.00	1.03	1.18	1.51	1.54	1.00	1.04	1.01	1.33	1.36
Share: World=100										
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
East Asia	60.5	58.7	59.9	60.1	59.8	66.2	65.5	65.2	67.3	66.8
<b>(c) Machinery final products</b>										
Value (nominal): 2007=1										
World	1.00	1.11	1.19	1.46	1.48	1.00	1.12	1.22	1.53	1.76
East Asia	1.00	1.12	1.21	1.56	1.70	1.00	1.14	1.21	1.58	1.79
Share: World=100										
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
East Asia	29.2	29.4	29.6	31.1	33.6	53.9	54.7	53.4	55.6	55.0

Note: East Asia (reporting countries) includes Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

East Asia (partner countries) includes Japan, Korea, China, Hong Kong, ASEAN10, and Other Asia, nes.

Original data source: UN Comtrade.

Source: Excerpted from Ando (2012).

Table 2 Current FTA networking from the viewpoint

(As of May 2012)

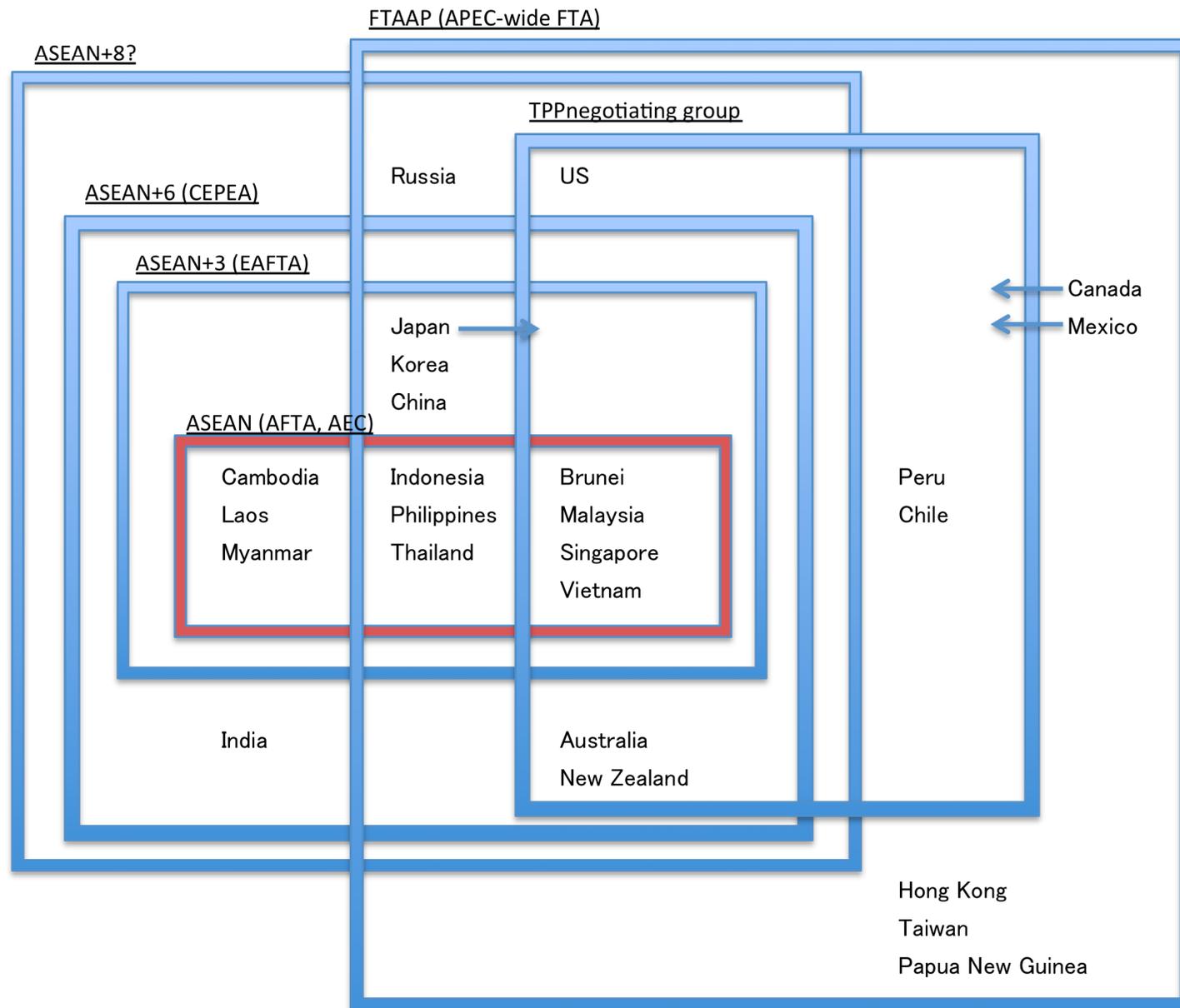
	Japan	Korea	China	ASEAN	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	CLM	India	Australia	New Zealand	USA	Canada	Mexico	Colombia	Peru	Chile	EU	EFTA	Switzerland
Japan		○	○	⊙: 2008 - ⊙: 2008	⊙: 2008	⊙: 2008	⊙: 2006	⊙: 2008	⊙: 2002	⊙: 2007	⊙: 2009		⊙: 2011	○			△	⊙: 2005		⊙: 2012	⊙: 2007			⊙: 2009
Korea	○		○	⊙: 2007 -		△			⊙: 2006		△		⊙: 2010	○	○	⊙: 2012	○	○	○	⊙: 2011	⊙: 2004	⊙: 2011	⊙: 2006	
China	○	○		⊙: 2005 -					⊙: 2009				△	○	⊙: 2008					⊙: 2010	⊙: 2006			○
ASEAN	⊙: 2008 -	⊙: 2007 -	⊙: 2005 -	⊙: 1993 -	(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)	⊙: 2010 -	⊙: 2010 -	⊙: 2010 -									
Brunei	⊙: 2008			(1992)		(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)		○	⊙: 2006	○				○	⊙: 2006			
Indonesia	⊙: 2008	△		(1992)	(1992)		(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)	△	○								△	○	
Malaysia	⊙: 2006			(1992)	(1992)	(1992)		(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)	⊙	⊙	⊙: 2010	○				○	⊙	○		
Philippines	⊙: 2008			(1992)	(1992)	(1992)	(1992)		(1992)	(1992)	(1995)	(LM:1997/C:1 999)				△								
Singapore	⊙: 2002	⊙: 2006	⊙: 2009	(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)	⊙: 2005	⊙: 2003	⊙: 2001	⊙: 2004	○	○		⊙: 2009	⊙: 2006	○	⊙: 2003	
Thailand	⊙: 2007			(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1 999)	△	⊙: 2005	⊙: 2005	○					○	△	○	
Vietnam	⊙: 2009	△		(1995)	(1995)	(1995)	(1995)	(1995)	(1995)	(1995)		(LM:1997/C:1 999)		○	○	○					○	○	△	
CLM				(LM:1997/C:1 999)																				
India	⊙: 2011	⊙: 2010	△	⊙: 2010 -		△	⊙		⊙: 2005	△				○	○		○				⊙: 2007	○	△	
Australia	○	○	○	⊙: 2010 -	○	○	⊙		⊙: 2003	⊙: 2005	○		○		⊙: 1983	⊙: 2005				○	⊙: 2009			
New Zealand		○	⊙: 2008	⊙: 2010 -	⊙: 2006		⊙: 2010		⊙: 2001	⊙: 2005	○		○	⊙: 1983		○				○	⊙: 2006			
USA		⊙: 2012			○		○	△	⊙: 2004	○	○			⊙: 2005	○		⊙: 1989	⊙: 1994	⊙	⊙: 2009	⊙: 2004			△
Canada	△	○							○				○				⊙: 1989		⊙: 1994	⊙	⊙: 2009	⊙: 1997	○	⊙: 2009
Mexico	⊙: 2005	○							○								⊙: 1994	⊙: 1994		⊙: 1995	○	⊙: 1999	⊙: 2000	⊙: 2001
Colombia		○															⊙	⊙	⊙: 1995	⊙: 1969	⊙: 2009	○	⊙: 2011	
Peru	⊙: 2012	⊙: 2011	⊙: 2010		○		○		⊙: 2009	○	○			○	○	⊙: 2009	⊙: 2009	○	⊙: 1969	⊙: 2009	⊙: 2009	○	⊙: 2011	
Chile	⊙: 2007	⊙: 2004	⊙: 2006		⊙: 2006		⊙		⊙: 2006	△	○		⊙: 2007	⊙: 2009	⊙: 2006	⊙: 2004	⊙: 1997	⊙: 1999	⊙: 2009	⊙: 2009	⊙: 2009	⊙: 2003	⊙: 2004	
EU		⊙: 2011				△	○		○				○				○	⊙: 2000	○	○	⊙: 2003	⊙: 1958	⊙: 1994	⊙: 1973
EFTA		⊙: 2006				○			⊙: 2003	○	△		△				⊙: 2009	⊙: 2001	⊙: 2011	⊙: 2011	⊙: 2004	⊙: 1994	⊙: 1960	(1960)
Switzerland	⊙: 2009		○														△					⊙: 1973	(1960)	

Notes: ⊙: signed or being effective, ○: under negotiation or agreed to negotiate, △: feasibility study or preparatory talks. The year indicates when the concerned FTA was in force. "\*" after the year means that some ASEAN countries are under the corresponding FTAs in force and other countries follow later. Dark blue indicates FTAs signed before or in the 1990s, blue indicates FTAs signed in the first half of the 2000s, and light blue indicates FTAs signed in the second half of the 2000s. For some FTAs, their status in this table is based on the agreement of trade in goods; negotiations may be still ongoing over other areas such as investment and services even if the agreements are identified as those signed or being effective here. The year in parenthesis shows the year for the corresponding ASEAN country to be the member of ASEAN/AFTA.

Countries with yellow background are current participants in TPP negotiations.

Sources: Websites of trade ministries in each country.

Figure 1 Proposed consolidated FTAs in East Asia and Asia-Pacific



# 4. Leading rule making in East Asia through regulatory reform in Japan

- Whether Japan would participate in the TPP negotiations is crucial in the speed and quality of Asia-Pacific and East Asian economic integration.
  - Can Japan show a path of removing border measures on agriculture?
- Regulatory reform in Japan
- Setting up a new international rule for the 2<sup>nd</sup> unbundling in East Asia (Jones and Kierzkowski (1990), Kimura and Ando (2005), Baldwin (2011))
  - TPP and high-level FTAs
  - Development agenda
- Can EU participate in the rule making?

# Excerpts from MOFA-GOJ document

## ***Joint initiative in global rule-making in the trade and economy***

- Amid the change in the international economic order with the dramatic growth of emerging economies, Japan and the EU could take the lead in global rule-making.
- Japan is well positioned to capitalize on the economic growth of the Asian region including China. For the EU, Japan can be a gateway to Asia. This enables the EU to take advantage of the economic growth of Asia through Japan-EU EPA.

***Joint Japan-EU initiatives in global rule-making will give the edge for European and Japanese companies in accessing the global market. Japan's network with South East Asian countries through the existing EPAs and planned Japan-Korea-China FTA and Regional Economic Partnership make Japan an ideal "base camp" for European business interested in Asian markets. Japan-EU EPA will further provide a platform for European companies' working into Asian markets.***

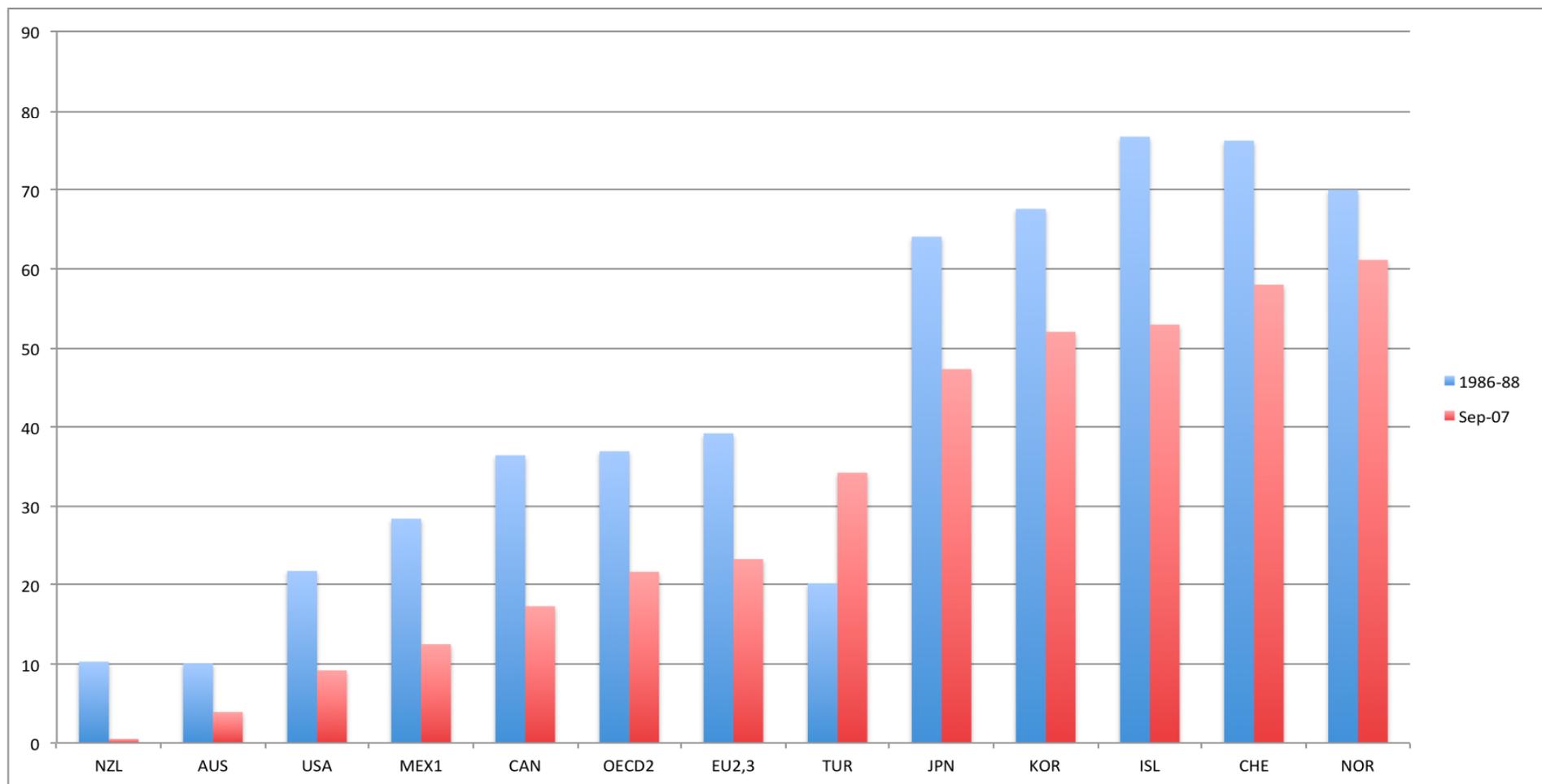
## ***Comprehensive strengthening of Japan-EU relations: constructing strategic partnership***

- As partners who share fundamental values such as democracy, rule of law, and basic human rights, Japan and the EU can further collaborate in tackling climate change, energy security, the war on terror, nuclear issues, and other global challenges as well as regional issues in the Middle East, Africa, and Asia.
- Japan and the EU can further extend the scope of cooperation in various fields from the broader perspective beyond trade and investment. A Japan-EU EPA is conducive to the comprehensive strengthening of the bilateral relationship.

***Reducing the risks from global issues such as energy insecurity and terrorism and stabilizing political and economic situation in each region can lower business risk and commercial loss for EU companies. Thus, comprehensive strengthening of Japan-EU relations will lead to expanding business opportunities in different regions for both Japanese and European companies.***

Title: Figure 3.5. International comparison of Producer Support Estimate for agriculture

Subtitle: Per cent of gross farm receipts



1. For Mexico, 1986–88 is replaced by 1991–93.

2. Austria, Czech Republic, Finland, Hungary, Poland, the Slovak Republic and Sweden are included in the OECD total for both time periods and in the EU for 2007–09. The OECD total does not include the non-OECD EU member states.

3. EU12 for 1986–88 and EU27 for 2007–09.

Source: OECD (2010a), Agricultural Policies in OECD Countries 2010: At a Glance.

Table 2 Liberalization coverage under the ASEAN+n FTAs (at HS 8-10 digits)

	ASEAN-Korea	ASEAN-China	ASEAN-ANZ	ASEAN-India	ASEAN-Japan	Average
<b>SGP</b>	100.0%	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
<b>BRN</b>	97.9%	97.8%	98.5%	82.6%	96.4%	<b>94.6%</b>
<b>MLS</b>	93.5%	93.7%	95.5%	79.6%	92.1%	<b>90.9%</b>
<b>THA</b>	93.7%	88.3%	98.8%	74.3%	96.9%	<b>90.4%</b>
<b>IDN</b>	90.3%	89.0%	93.4%	50.4%	88.7%	<b>82.3%</b>
<b>PHI</b>	97.7%	86.5%	94.8%	75.8%	96.0%	<b>90.2%</b>
<b>VTN</b>	84.3%	na	90.9%	69.7%	84.7%	<b>82.4%</b>
<b>CAM</b>	85.5%	86.7%	86.2%	84.1%	76.0%	<b>83.7%</b>
<b>LAO</b>	85.4%	96.4%	90.7%	77.5%	84.2%	<b>86.8%</b>
<b>MYA</b>	87.5%	86.9%	86.1%	73.6%	79.4%	<b>82.7%</b>
<b>KOR</b>	92.2%					
<b>CHN</b>		94.6%				
<b>AUS</b>			100.0%			
<b>NZ</b>			100.0%			
<b>IND</b>				74.3%		
<b>JPN</b>					86.2%	
<b>Average</b>	<b>91.6%</b>	<b>92.0%</b>	<b>94.6%</b>	<b>76.5%</b>	<b>89.1%</b>	

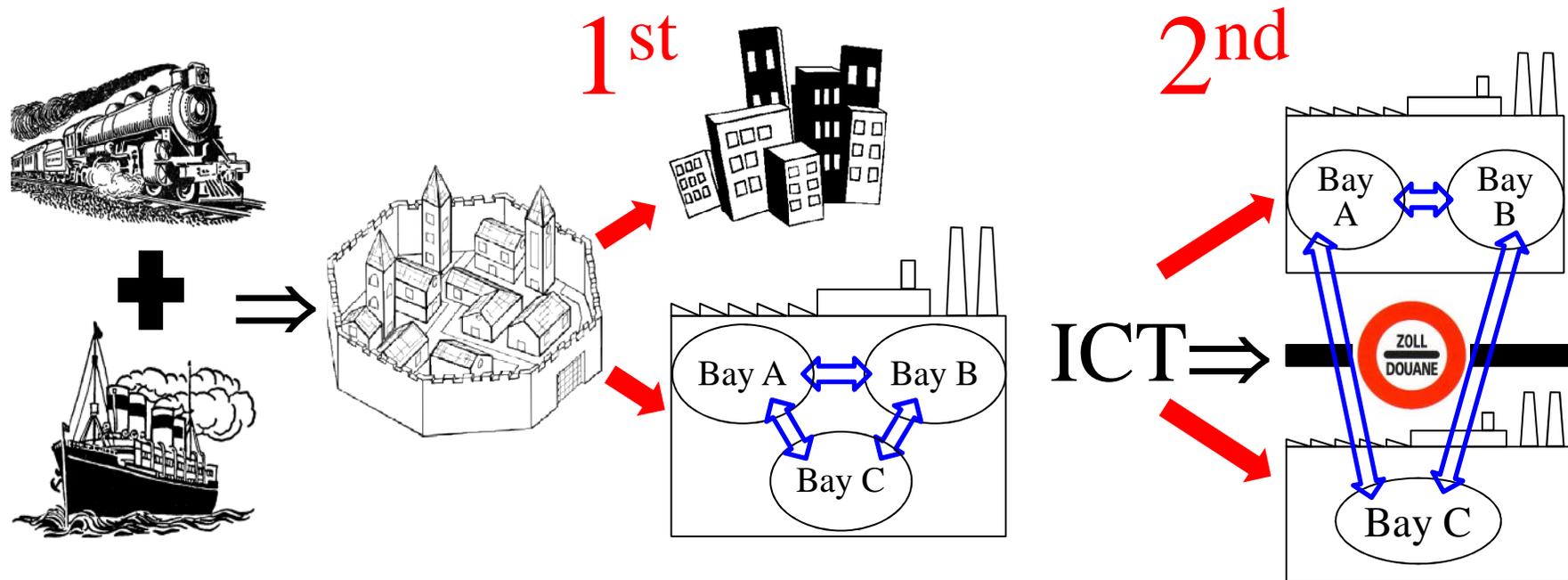
Note: Data on Vietnam under the ACFTA is missing due to data availability.  
 Data on Myanmar under the ASEAN-China FTA is missing for HS01-HS08.

Source: Kuno (2011).

05/10/2012

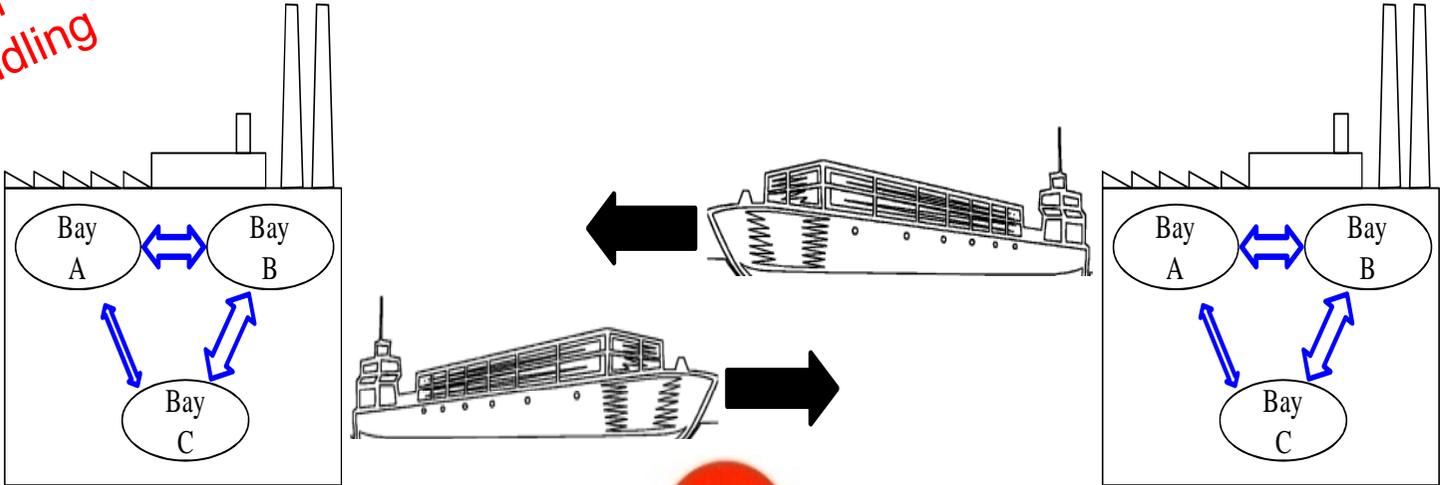
# The 2<sup>nd</sup> Unbundling

- The 2<sup>nd</sup> unbundling, i.e., international division of labor in terms of production processes and tasks, has developed since the 1980s.
- The 2<sup>nd</sup> unbundling in the manufacturing sector is most advanced in East Asia.



# The 1<sup>st</sup> and the 2<sup>nd</sup> unbundling

The 1<sup>st</sup> unbundling



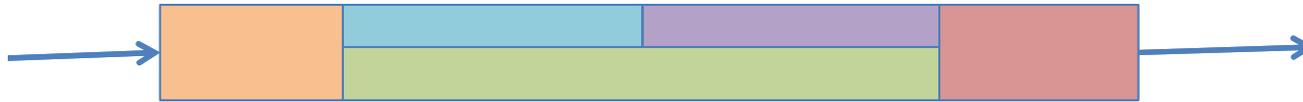
The 2<sup>nd</sup> unbundling



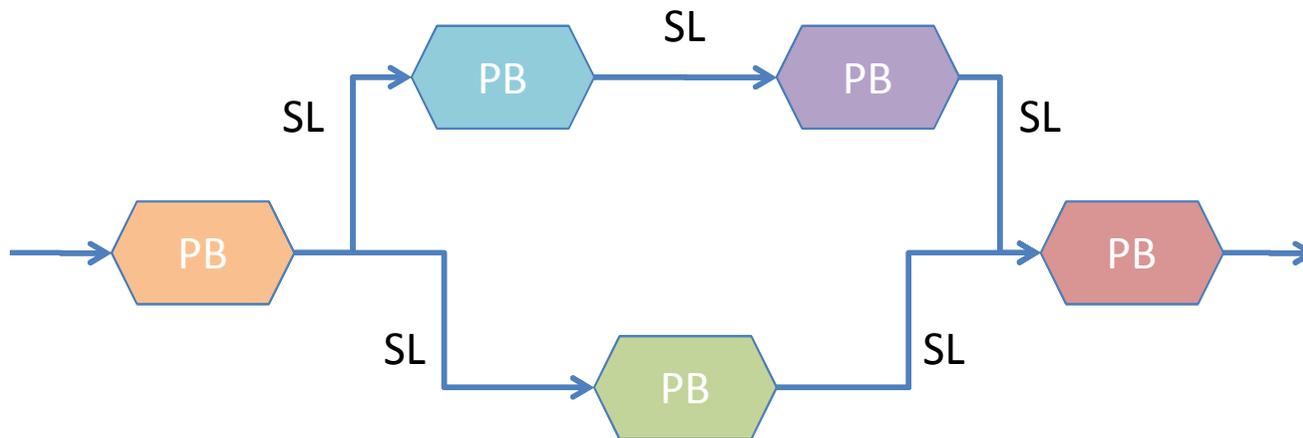
Source: The original is in Baldwin (2011), slightly modified by the author.

# The fragmentation theory: production blocks and service links

Before fragmentation

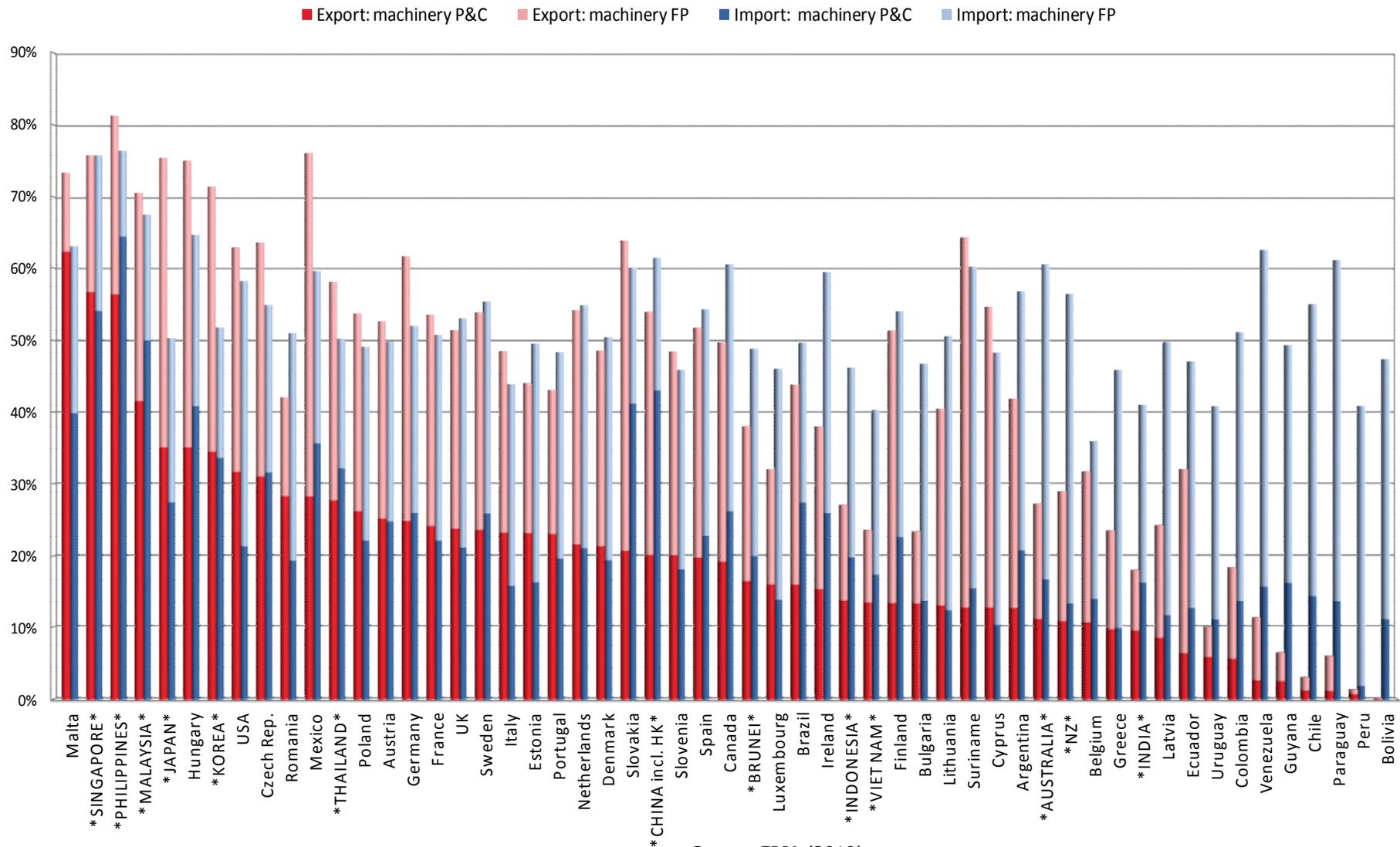


After fragmentation



PB: Production block  
SL: Service link

# Shares of Machineries in Total Exports/Imports of Manufacturing Goods to the World in 2007



Source: ERIA (2010)

## Policies for enhancing the 2<sup>nd</sup> unbundling: examples

	Reduction in network set-up cost	Reduction in service link cost	Reduction in production cost per se
<b>High-level FTAs</b>	<ul style="list-style-type: none"> <li>• Investment liberalization</li> <li>• IPR protection</li> <li>• Competition policy</li> </ul>	<ul style="list-style-type: none"> <li>• Tariff removal</li> <li>• Trade facilitation</li> <li>• Enhancing institutional connectivity</li> </ul>	<ul style="list-style-type: none"> <li>• Liberalization of production-supporting services</li> <li>• Investment liberalization</li> </ul>
<b>Development agenda</b>	<ul style="list-style-type: none"> <li>• Investment facilitation/promotion</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing physical connectivity (including hard and soft logistics infrastructure development)</li> <li>• Reducing transaction cost in economic activities</li> </ul>	<ul style="list-style-type: none"> <li>• Upgrading infrastructure services such as electricity supply and EPZs</li> <li>• Enhancing agglomeration effects through SME development</li> <li>• Strengthening innovation</li> </ul>

# 5. Conclusion

- We should initiate the Japan-EU EPA negotiation in a timely manner.
- Not only direct effects of the EPA but also benefits in a regional/global setting must be properly evaluated.
- EU should participate in rule-making processes in East Asia.

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