

Turbulence in the world trade regime and the Japan-EU Economic Partnership

Fukunari Kimura

Professor, Faculty of Economics, Keio University

Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

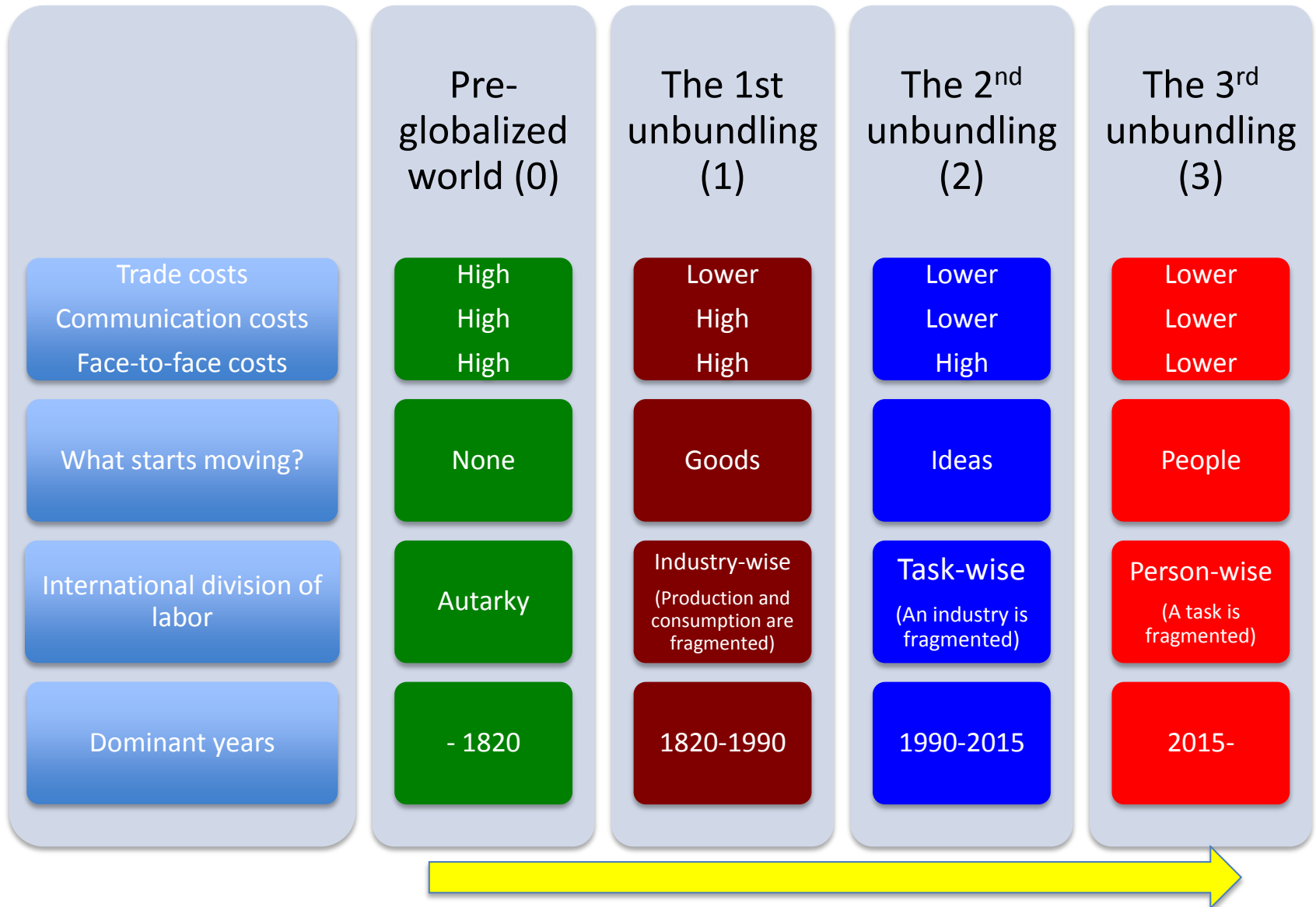
1. Danger to the rule-based trade regime

- Problematic trade policy by the US Trump administration
 - Re-negotiations of free trade agreements (FTAs)
 - New KORUS, USMCA (new NAFTA)
 - Voluntary export restraints, safety regulation, asymmetric rules of origin, labor cost, exchange rate manipulation, non-market economies...
 - Trade measures inconsistent with the WTO policy discipline
 - Section 232 of the Trade Expansion Act of 1962 (cf. GATT XXI)
 - Aluminum (10% tariff) and Steel (25% tariff); only for nominated countries; rebalancing measures by EU, Canada, and others planned/imposed.
 - Automobiles (announced to start investigation on June 21)
 - Section 301 of the Trade Act of 1974 and related articles
 - Claiming IPR issues against China, tariffs will be imposed (25% for 1,333 tariff lines from July 6; possibly extended); China announced to impose retaliatory tariffs (25% for 545 tariffs on July 6; possibly extended); and
 - Retaliation/rebalancing measures and safeguards by other countries; also need to check the WTO consistency.
- Concern about not only direct losses from trade shrinkage but also the degradation of rule-based trade regime
 - “Not rules but deals”: approaching to “managed trade.”
 - Links with politics and security issues are also dangerous.

2. Tariff war is anachronism

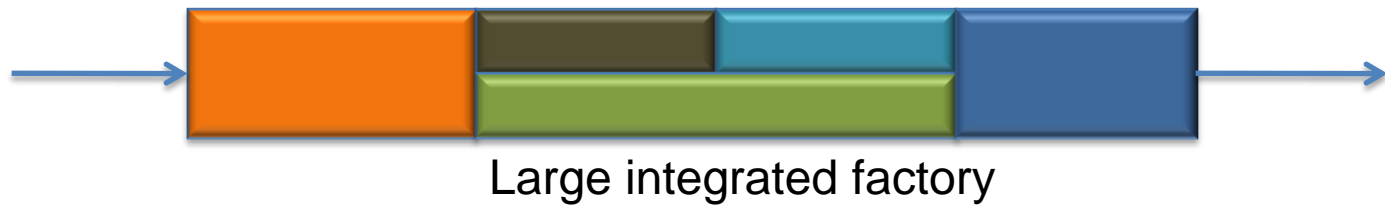
- Bilateral trade balance (the 1980s), mercantilism (18th c.), ...
- Since 1990, production process-wise or task-wise international division of labor (the second unbundling) has dominated in East Asia.
 - Globalization of production activities, expansion of international trade in parts and components
 - Beyond tariff cuts, we have pursued the higher level of liberalization and facilitation (goods, services, investment)
- Moreover, the digital economy has recently emerged.
 - Drastic reduction in B2C or C2C matching costs
 - New business models in retail services, transportation, tourism/lodging, financial sector, and others.
 - Soon extensive “service outsourcing” (the third unbundling) will come.
 - New international rules needed
 - E.g., “free” flow of data and back-up policies
- Emergence of newly developed economies including China
 - Subsidies, state-owned enterprises, IPR, e-commerce

“Unbundlings” to overcome distance a la Baldwin (2016)

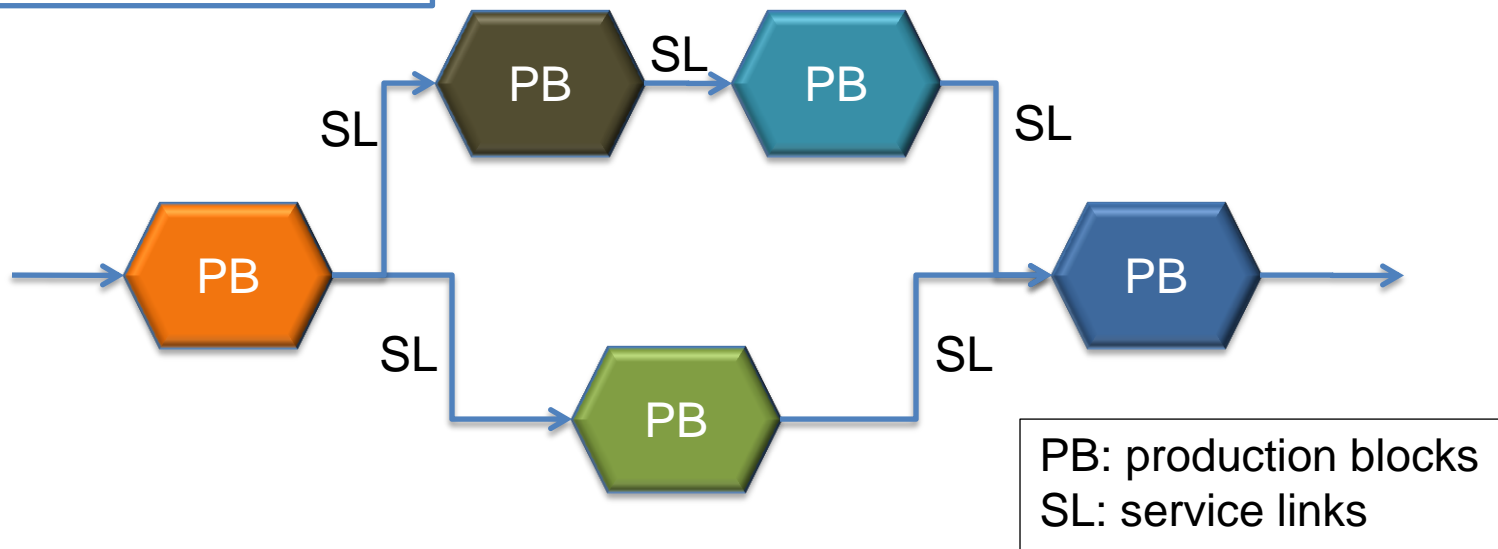


The 2nd unbundling a la Jones and Kierzkowski (1990)

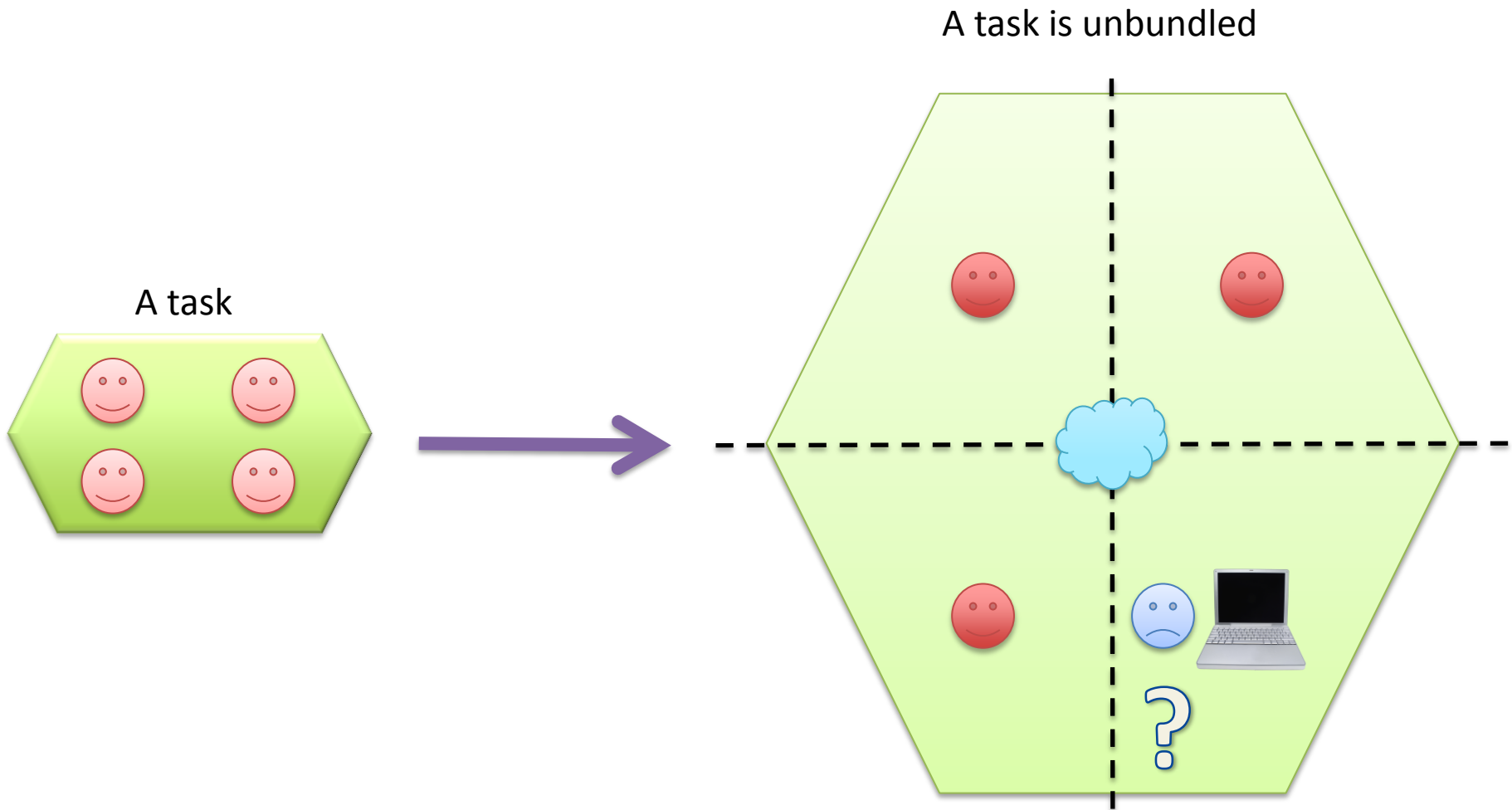
Before fragmentation



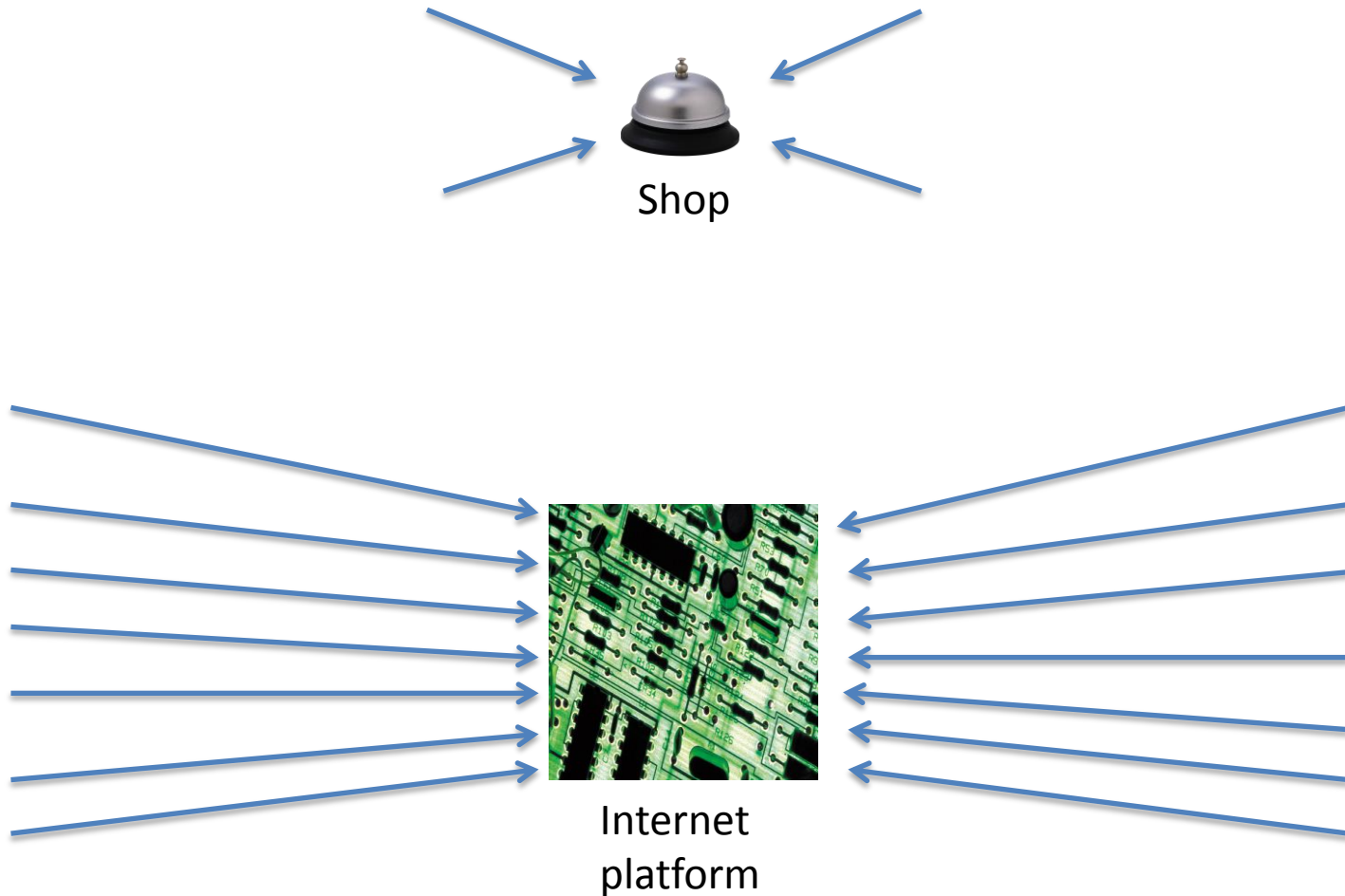
After fragmentation



The 3rd unbundling



The 3rd unbundling: Reduction in B2C, C2C matching costs



3. Japan's FTA strategy

- Mega-FTAs: accelerated in order to push back protectionism
 - Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP11)
 - 30 Dec. 2018: validation with six countries; others would follow.
 - Japan-EU EPA
 - Signed on 17 Jul. 2018.
 - Try to be validated on 1 Feb. 2019.
 - Regional Comprehensive Economic Partnership (RCEP)
 - May 2013: neg. started
 - Very important to retain “ASEAN centrality.”
 - Negotiations accelerated?
 - China-Japan-Korea FTA
 - March 2013: neg. started
 - Can it support RCEP negotiation??
- Trade talks with the US
 - Japan tries to narrow down the scope of negotiation and earn time.
 - Trade Agreement on Goods (TAG) negotiation will start in Jan. 2019.
 - Old homework “agricultural protection” and automobiles are going to be at issue.
 - How to avoid dirty deals? With a link to national security??

4. CPTPP and Japan-EU EPA

- Path-breaking mega-FTAs for Japan
 - Level of liberalization (market access)
 - Starting points for international rule-making
- Support the second unbundling and the digital economy
- Set standards for newly developed and developing economies
- Encourage the US to come back to a normal track

CPTPP

- Mar. 2010: P4 (Brunei, Chile, NZ, Sing.)+(US, Aus., Vn., Peru) started neg. over TPP
- Malaysia, Canada, Mexico joined
- July 2013: Japan participated in TPP neg.
- Feb. 2016: TPP signed
 - 2017: Japan, NZ, ratified
- Jan. 2017: US walked away
- May 2017: CPTPP (TPP11) neg. started
- Mar. 2018: CPTPP signed
- 31 Oct. 2018: Mexico, Japan, Sing., NZ, Canada, Aus. completed ratification
- 30 Dec. 2018: to be validated with six countries; each of the other five (Vn!) can join after 60 days of its ratification
- 2019?: accession neg. may start with some countries

Jp-EU EPA

- Apr. 2013: started neg.
- 17 Jul. 2018: signed
- 6 Nov. 2018: Jp, cabinet endorsement; ratification process is going to the lower house
- 5 Nov. 2018: EU, International Trade Committee endorsed; European Parliament in Dec.
- 1 Feb. 2019: validation?
 - 29 Mar. 2019: Brexit?
 - 23-26 May 2019: European Parliament election?

The contents of CPTPP

- Covers 500 million people, 13% of the world GDP
- Carry over most of the text of TPP except 22 suspended items (mostly minor except IPR)
- Market access
 - Tariff removal: 99-100% except Japan (95%; agriculture!)
 - Services, investment: negative list method, ISDS
- Rule-making
 - Government procurement, IPR, competition
 - Novel elements (looking at China and others)
 - E-commerce
 - Basic principle: free flow of data and no data localization requirements (cf. EU: GDPR)
 - Back-up policies needed
 - SOEs
 - Globalization of corporate activities and the leveling of the playing field
 - May need to reconsider disciplines on foreign aid in the future.
 - Global agenda
 - Labor (ILO Guideline+)
 - Environment (esp. fishery)
 - Regulatory practice, transparency and promptness in administrative procedure

The contents of Japan-EU EPA

- Covers 640 million people, 28% of the world GDP
- Market access
 - Tariff removal
 - Japan: 94% (ag. 82%, manu. 100%); EU: 99%
 - Services, investment: negative-list method
 - Movement of natural persons
 - GATS+ including investors, contractual service suppliers and independent professionals, short-term business visitors, family members...
- Rule-making
 - “Nontariff barriers”: automobiles and auto parts, ...
 - E-commerce
 - No tariffs, prohibition of forced disclosure of source codes, electronic recognition/signature, ...
 - GDPR: separate negotiation (on-going)
 - Government procurement: WTO-GPA+ (re. railways)
 - SOEs: non-discrimination, commercial consideration
 - IPR
 - Geographical indication: EU 210 items, Japan 56 items (based on laws newly introduced)
 - Dispute settlements on investment: separate negotiation
 - Regulatory cooperation
 - “Animal welfare”

Economic effects (simulation)

CPTPP

- Jp. Cabinet Office, Dec. 2015* [GTAP+] for TPP12
 - Jp.: GDP 2.6% increase
- Jp. Cabinet Office, Dec. 2017** [GTAP+]
 - Jp.: GDP 1.49% increase

Japan-EU EPA

- Jp. Cabinet Office, Dec. 2017* [GTAP+]
 - Jp.: GDP 0.99% increase
- Felbermayr, et al. (2018) [Eaton-Kortum model+]
 - Jp.: 0.31% of GDP, EU: 0.10% of GDP
 - Welfare gains: 14% from tariffs, 86% from NTB reform (parameters from the EU-Korea FTA)

• https://www.cas.go.jp/jp/tpp/kouka/pdf/151224/151224_tpp_keizaikoukabunnseki02.pdf (in Japanese only)

** http://www.cas.go.jp/jp/tpp/torikumi/pdf/20171221_eutpp_bunseki.pdf (in Japanese only)

5. RCEP and CJK FTA?

- Regional Comprehensive Economic Partnership (RCEP)
 - ASEAN10 + 6 (CJK, Aus., NZ, and India)
 - Important to support East Asian production networks; to keep “ASEAN Centrality”
 - So far, 5 areas out of 18 conclude; difficult to reach rough agreements this year
 - Negotiations accelerated, but still huge differences in core issues such as tariffs, IPR, and e-commerce
- China-Japan-Korea FTA
 - Originally expected to lead the RCEP negotiation in terms of the timing and the contents.
 - Not much progress though.

6. Negotiation with the US...

- Japan has so far been successful in earning time for the ratification of CPTPP and Japan-EU EPA.
- But Japan has to negotiate with the US anyway.
- Japan has negotiated with the US already in the TPP negotiation; tries to minimize the scope of new negotiation.
 - Agriculture (political cost...; need to liberalize)
 - Automobiles
 - Section 232? Bilateral FTA? In any case, once new NAFTA is validated, the US needs tariffs.
 - Mr. Lighthizer = Mr. VER!
- Afraid of a link with national security issues (cf. Korea)
- Some uncomfortable statements in new NAFTA on non-market economies

7. Conclusion

- The US trade policy seems to be continuously dangerous; not only for direct economic damage but also for maintaining the rule-based international trade regime.
- The mega-FTA strategy is what we can do against the rising protectionism.
- Newly developed economies have a bunch of trade issues, but these must be solved by asking them to come into international rules.
- Japan and EU must continuously collaborate with each other to further promote rule-based trade regime.

References

- Baldwin, Richard. (2016) *The Great Convergence: Information Technology and the New Globalization*. Cambridge, MA: The Belknap Press of Harvard University Press.
- Falbermayr, Gabriel; Kimura, Fukunari; Okubo, Toshihiro; and Steininger, Marina. (2018) “Quantifying the EU-Japan Economic Partnership Agreement.” CESifo Working Papers 7241 (September)(www.cesifo-group.de/DocDL/cesifo1_wp7241.pdf).
- Jones, Ronald W. and Kierzkowski, Henryk. (1990) “The Role of Services in Production and International Trade: A Theoretical Framework.” In Ronald W. Jones and Anne O. Krueger, eds., *The Political Economy of International Trade: Essays in Honor of Robert E. Baldwin*, Oxford: Basil Blackwell: 31-48.