INTRODUCTION TO THE EU-JAPAN ECONOMIC PARTNERSHIP AGREEMENT

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NEW EP STUDY

The EU - Japan Economic Partnership Agreement

Read more here https://bit.ly/2QoXnXe
INTRODUCTION

- The EUJEPa is the largest bilateral deal for the EU
- An agreement between ‘peers’ - high income levels, high regulatory standards, shared values
- Impetus for a deep and comprehensive trade partnership
  1. Promote EU-Japan trade
  2. Facilitate bilateral investment
  3. Expand EU’s economic presence in Asia-Pacific
  4. Promote an open, rules-based international trade regime
- Complements the EU-Japan Strategic Partnership Agreement
- Complements the EU-Japan mutual adequacy decision on data flows
NEGOTIATION TIMELINE

- **Nov 2012**: Official mandate to start negotiations
- **April 2013**: First round of negotiations held
- **April 2017**: Political agreement in principle
- **Dec 2017**: Consolidated text finalized, following 18 rounds
- **April 2018**: Submitted for Council’s approval
- **July 2018**: Signed at the 25th EU-Japan Summit
- **Dec 2018**: European Parliament expected to vote
- **Feb-March 2019**: Expected entry into force
BILATERAL TRADE

Composition of the EU's trade with Japan, 2016

<table>
<thead>
<tr>
<th>EU imports from Japan</th>
<th>EU export to Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>Services</td>
</tr>
<tr>
<td>17.5%</td>
<td>32.3%</td>
</tr>
<tr>
<td>68.9%</td>
<td>65.7%</td>
</tr>
</tbody>
</table>

Note: Data for 2017 is provisional.
Source: Eurostat.

EU's services trade with Japan (EUR billion)

Note: 2017 data is provisional.
Source: International trade in services (since 2010) (BPM6); own illustration.
EU’s outward stock in Japan stable
Substantial increase in the inward stock
Japan accounted for only 1.1% of the total extra-EU FDI in 2016
Return was 5.1% in 2016, higher than the extra-EU average
MARKET OPENNESS

Japan’s tariff profile

<table>
<thead>
<tr>
<th>Summary</th>
<th>Year</th>
<th>Total</th>
<th>Ag</th>
<th>Non-Ag</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple average final bound</td>
<td>4.5</td>
<td>18</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Simple average MFN applied</td>
<td>2017</td>
<td>4</td>
<td>13.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Trade weighted average</td>
<td>2016</td>
<td>2.5</td>
<td>12.9</td>
<td>1.4</td>
</tr>
</tbody>
</table>


Policy Environment

- Services Trade Restrictiveness Index
- FDI Regulatory Restrictiveness Index (OECD, 2017)
- Trade Facilitation Indicators (OECD, 2018)
OVERVIEW OF COMMITMENTS

**Tariff Elimination**

- Japan will eliminate 86% of TLs upon EIF, 97% within 15 years
- EU will liberalise 96% of TLs upon EIF, 99% of TLs within 15 years

*Industrial goods*

- Japan: Eliminate duties such as on chemicals, textiles, plastics. Footwear quotas will be eliminated at EIF
- EU: Eliminate tariffs on Japanese cars over 7 years, on Japanese car parts between EIF-7 years
COMMITMENTS CONTD.

Non-tariff barriers

- Japan aligns with international standards (textile labelling, medical devices, vehicle safety, pharma).
- Simplifies SPS procedures; reforms notification system for pharma, cosmetics, medical devices.

Investment

- National and MFN treatment
- Prohibits performance requirements
- Free movement of capital, payments and transfers

Services

- Telecommunications (mobile roaming, number portability and confidentiality); Financial Services (deeper regulatory cooperation); E-commerce (keep electronic transmissions duty-free); Postal (build a level-playing field)
- Mode 4 service providers: Similar to CETA, two new profiles of short-term business visitors and investors

Public Procurement

- Japan will provide non-discriminatory access to 48 core cities, new categories of services, government entities. Ease qualifying conditions by recognizing supplier accomplishments outside Japan.
- Set up single portal for notices
**Intellectual Property**
- National and MFN treatment in IPR protection
- Protection of copyrights, trademarks, patents, industrial designs, trade secrets
- Japan’s recognition of GIs for 205 EU agri-food products

**SMEs**
- Designated SME Contact Points
- Cooperation on increasing awareness

**Trade & Sustainable Development**
- Maintain high standards for protecting human, animal and plant health
- Sustained efforts to ratify fundamental ILO conventions, reaffirm obligation to UNFCCC, Paris Agreement
- Civil society dialogues, domestic advisory groups, government consultations and expert panels

**Corporate Governance**
- Commitment to develop an effective corporate governance framework
- First international trade agreement to include such provisions
### COMPARISON WITH NEW GEN. EU FTAs

- **Methodology:** Horn, Mavroidis and Sapir (2010) – WTO+ and WTO-X provisions. Study coverage and legal enforceability.

  **Observations**

  - **WTO+:** High degree of coverage and LE in WTO+ areas.
  - **WTO-X:** Similar coverage. Majority are not LE. Exceptions are i) competition policy; ii) intellectual property rights; iii) investment; and iv) movement of capital.
  - **EUJEPA** belongs to the family of new generation FTAs

#### Classification of WTO+ areas

<table>
<thead>
<tr>
<th>Provisions/FTA</th>
<th>EUJEPA</th>
<th>CETA</th>
<th>EUKFTA</th>
<th>EUSFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTA Agr</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FTA Ind</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Customs admin</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Exp. Tax</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>SPS</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TBT</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>STE</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>AD</td>
<td>1</td>
<td>0.5</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Subsidies &amp; CVM</td>
<td>1</td>
<td>0.5</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>State Aid</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Pub. Proc (GPA)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TRIMs</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>GATS</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TRIPs</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Source:** Bruegel.

**Note:** AC: area covered; LE: legally enforceable.
COMPARISON OF BILATERAL TRADE PATTERNS

- Similarity index between vector of imports of EU (HS-2 digit level)
- Values between 0 (no overlap) and 1 (identical to EU-Japan)
- South Korean exports to the EU are most similar to Japan’s exports to the EU.
- Singapore is less similar to Japan and Canada is least similar

**Key Findings**
- Provisions of EUJEEA similar to the EUKFTA.
- South Korea’s exports to EU are most similar to Japan’s exports to EU.
- Draw on EUKFTA to examine the likely impact of the EUJEEA.

**Similarity index based on EU imports and selected trade partners**

<table>
<thead>
<tr>
<th>year</th>
<th>tradeflow</th>
<th>reporter</th>
<th>JPN</th>
<th>KOR</th>
<th>SGP</th>
<th>CAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Import</td>
<td>EU-28</td>
<td>1</td>
<td>0.722</td>
<td>0.539</td>
<td>0.316</td>
</tr>
<tr>
<td>2016</td>
<td>Import</td>
<td>EU-28</td>
<td>1</td>
<td>0.733</td>
<td>0.513</td>
<td>0.333</td>
</tr>
<tr>
<td>2017</td>
<td>Import</td>
<td>EU-28</td>
<td>1</td>
<td>0.707</td>
<td>0.455</td>
<td>0.305</td>
</tr>
</tbody>
</table>

*Source: Bruegel based on Eurostat Comext*
Meta-analysis of existing studies

Estimate causal impact using CGE, NQTT models. Different baseline assumptions, liberalization scenarios. Common limitation - Dynamic welfare gains, FDI flows not typically analyzed

DG Trade (2018): +0.14% in EU’s GDP

EUKFTA as proxy (Ifo 2018): Expected EU GDP growth +0.10%

Ex-post evaluation, EUKFTA led to +0.03% increase in EU GDP
### Sectoral Impact

- **Agri-food**: Positive impact across studies.
- **Automobiles**: Model-dependent. DG Trade 2018 (-0.01%). Expert interviews - risks of contraction are limited.
- **Textiles, apparel, leather**: Exports increase by 220% or EUR 5 bn (DG Trade 2018)

<table>
<thead>
<tr>
<th>Study</th>
<th>EU Exports</th>
<th>EU Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG Trade (2018)</td>
<td>+13.2%</td>
<td>+23.5%</td>
</tr>
<tr>
<td>Ifo (2018)</td>
<td>+73%</td>
<td>+63%</td>
</tr>
<tr>
<td>EUKFTA (2017)</td>
<td>+42%</td>
<td>+25%</td>
</tr>
</tbody>
</table>

### Labour market

- **Employment**: Modest impact. Limited employment shifts under EUKFTA.
- **Real wages**: Gains similar across skill spectrum. TSIA (2016) reports wage increases of 0.68% (low-skill) and 0.70% (high-skill).

### Trade policy changes

- **Brexit**: Reduces gains for Japan by 20%, increases gains for EU-27, Germany benefiting most
- **CPTPP-11**: Slightly higher gains for Japan
**PROJECTED SOCIAL IMPACT**

### Distribution of Gains
- All Member States expected to benefit (Ifo 2018)
- No sector experiences noticeable losses (DG Trade 2018)
- SMEs: 88% of EU exporters to Japan. Expected to gain from liberalization in agri-food, textiles, retail trade.

### Environment
- Provisions on sustainable management of forests, marine systems, cooperation on low-carbon technologies.
- $\text{CO}_2$ Emissions: +0.28% for EU and -0.14% for Japan (TSIA 2016).

### Human and Labour Rights
- EUJEPA encourages ratification of core ILO Conventions. EUKFTA had neutral impact.
- Gender: No significant impact on Japan’s gender gap through economic channels.
- Privacy: EUJEPA should not compromise confidentiality of personal information. EU individuals have equivalent rights over data processed in Japan.
OPPORTUNITIES AND THREATS

Frequency of opportunities for EU producers based on RCA and MFN tariff levels

Source: Bruegel calculations based on UNCTAD.
Note: Opportunities identified as HS 6-digit products where EU RCA>1 and Japan MFN tariffs>10%.

Frequency of threats for EU producers based on RCA and MFN tariff levels for KOR and JPN

Note: Threats identified as HS 6-digit products where Japan’s RCA>1 and EU’s MFN tariffs>10%, and HS product categories where also KOR has an RCA>1.
IMPLEMENTATION ROADMAP

Source: Bruegel calculations based on data from the WTO Regional Trade Agreements Information System and the Agreement between the European Union and Japan for an Economic Partnership.

Note: Tariff lines are on the CN 8-digit level. Tariffs are counted as eliminated only if tariffs on all sub-categories are eliminated.
POTENTIAL CHALLENGES

1. Investment liberalisation and promotion
2. US investigation on auto imports
3. Auto Safeguards Clause
4. Tariff rate quotas (TRQs)
5. Japan’s future trade ties with UK
6. NTB elimination
POLICY CONSIDERATIONS

- EPA will benefit both parties.
- Given their similar income levels, much of the additional trade can be expected to occur within sectors, and therefore few losses in production and employment.
- EPA will boost the economic presence and political relevance of the EU in the Asia-Pacific area, which is likely to host most of the world’s economic growth and activity in the years ahead.
- All in all, the EUJEPAs is a well-crafted agreement that will help promote the economic and non-economic cooperation and interests of both Parties, not only in their bilateral relations but also in the multilateral context.