

Japan's New Trade Policy

in Asia-Pacific
Semana Asia

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1. Japan's Economic Situation

Current situation

- ◆ Low economic growth
- ◆ Deflation
- ◆ Shortage of demand
- ◆ Sign of recovery (Favorable impacts of Abenomics?)

Structural Problems

- ◆ Declining and aging population
- ◆ Declining savings rate
- ◆ Increasing government debt
- ◆ Regulated sectors (agriculture, medical services, etc)
- ◆ Closed economy

Challenge for achieving economic growth

- ◆ Increase productivity
- ◆ Increase economic interaction with growing Asia-Pacific countries

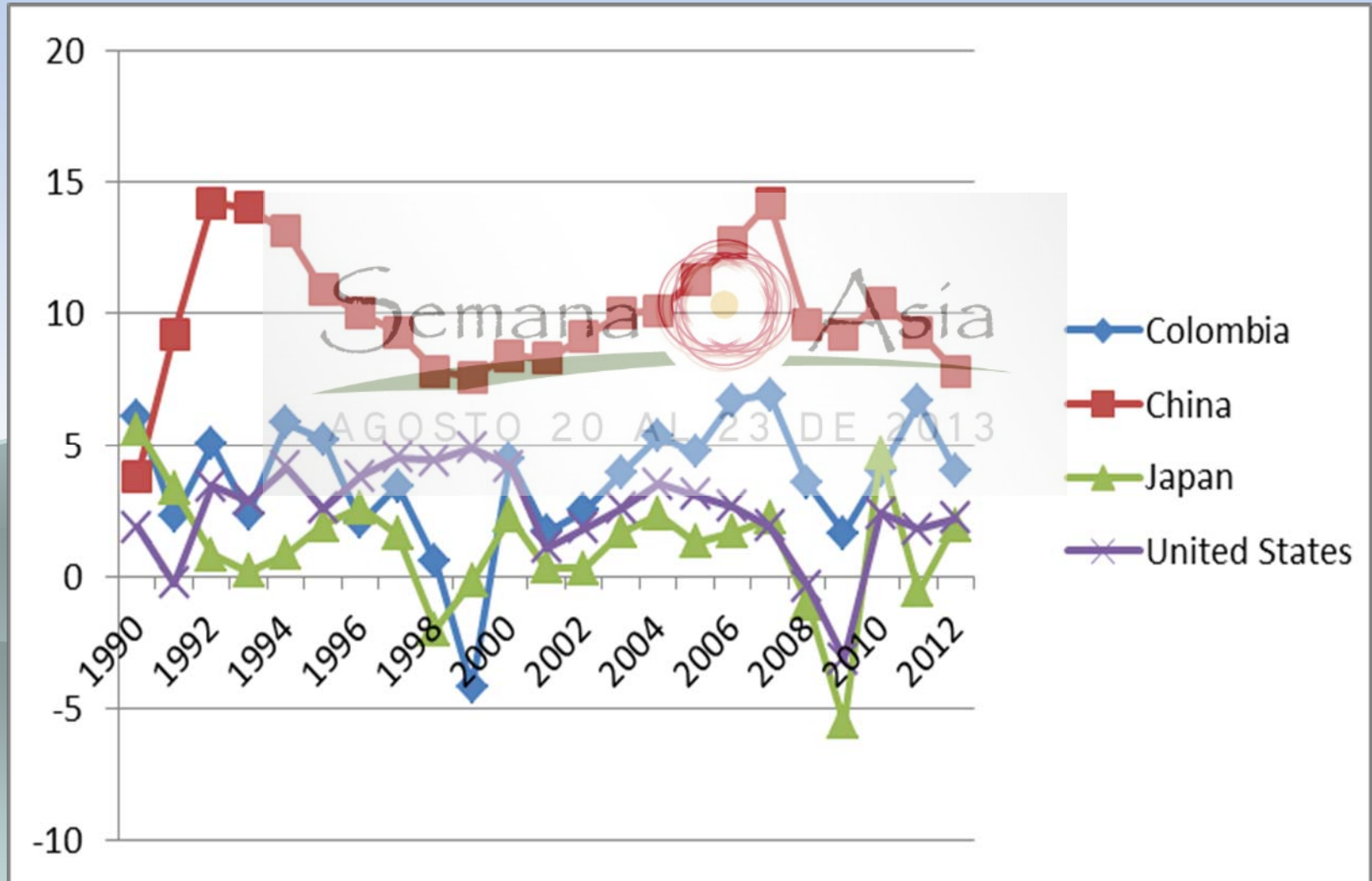
Solutions

- ◆ Implement structural (policy) reforms
- ◆ New Trade Policy in Asia-Pacific



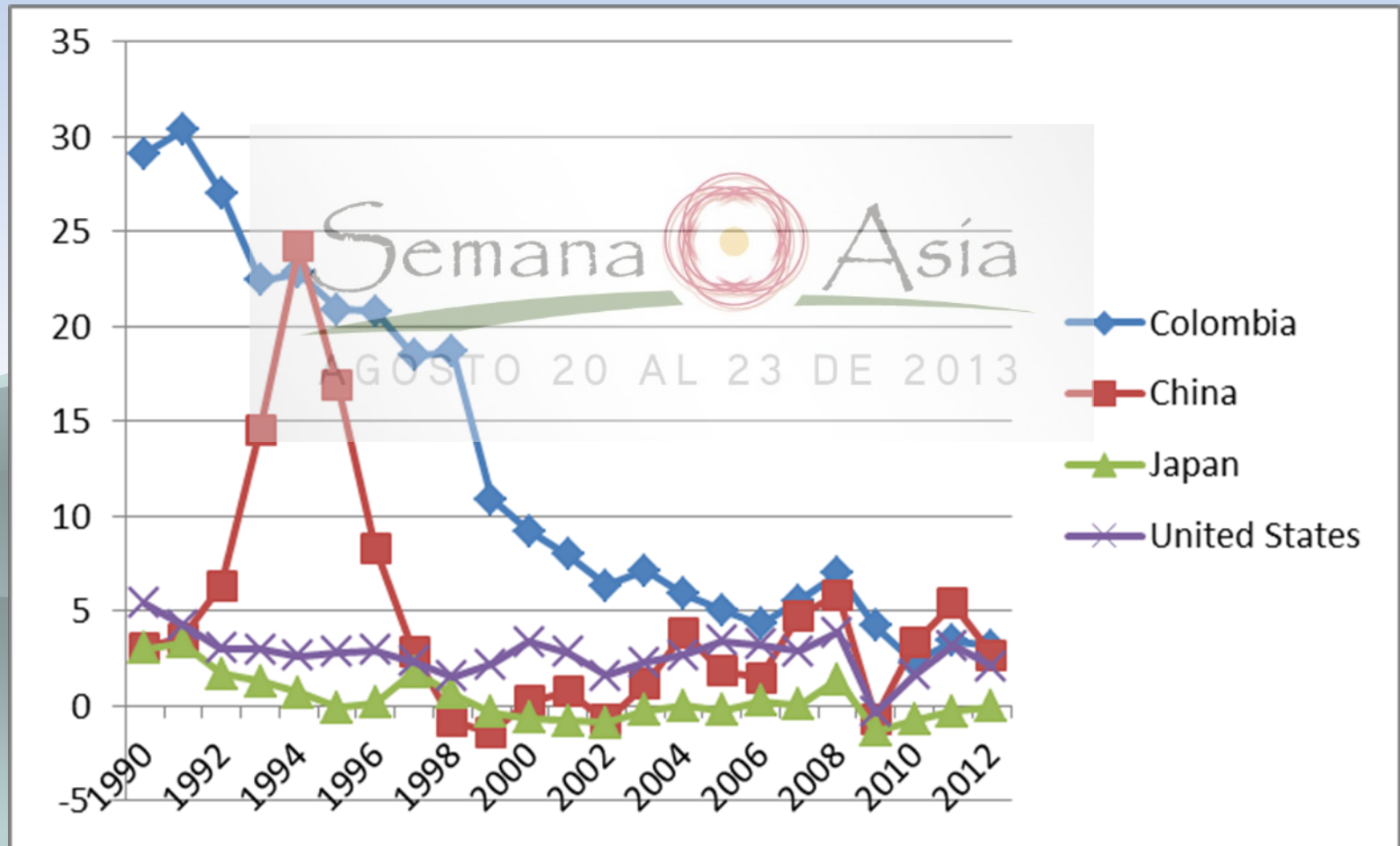
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GDP Growth Rates (%)

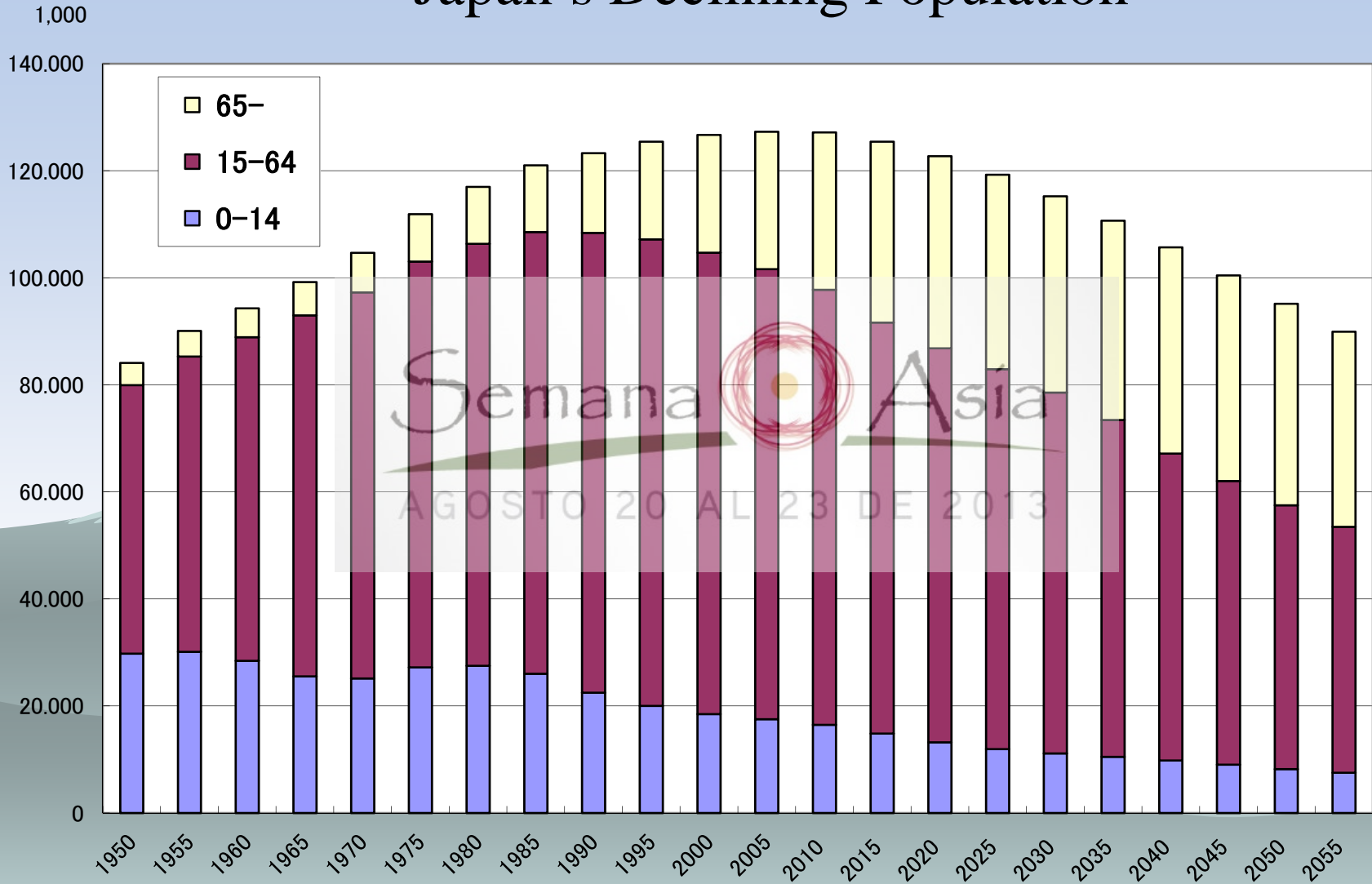


Inflation/Deflation

(% change in consumer prices)

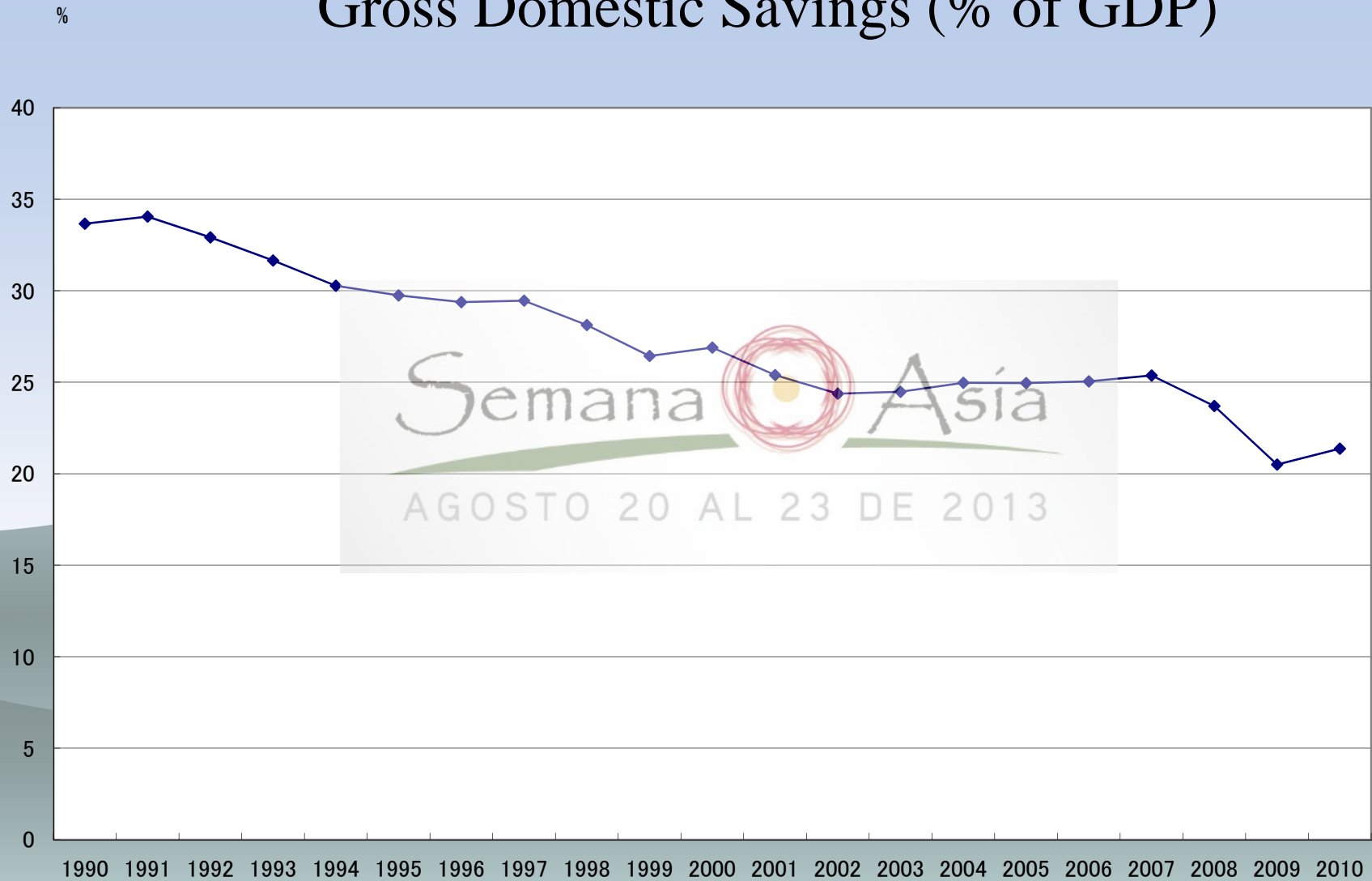


Japan's Declining Population

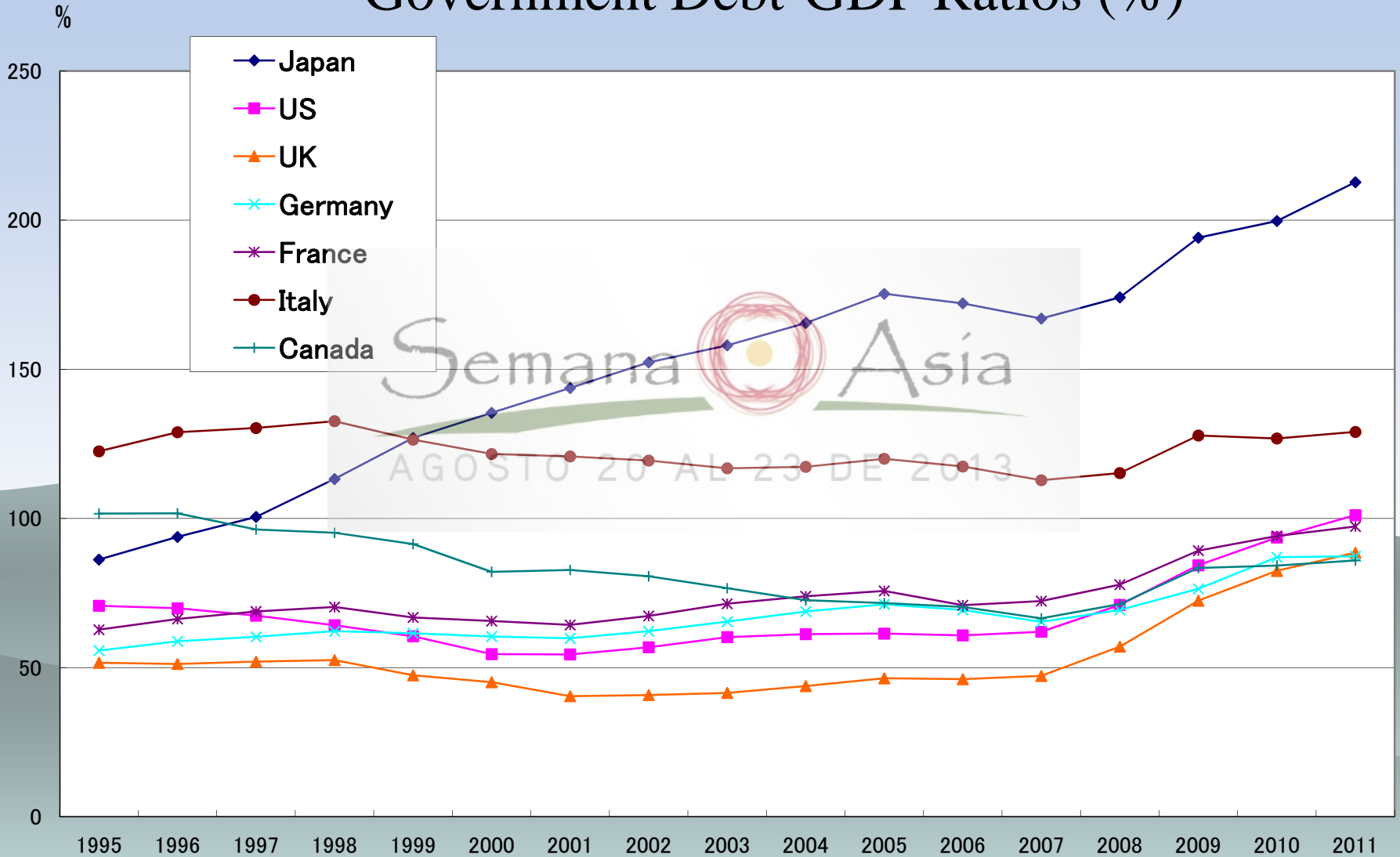


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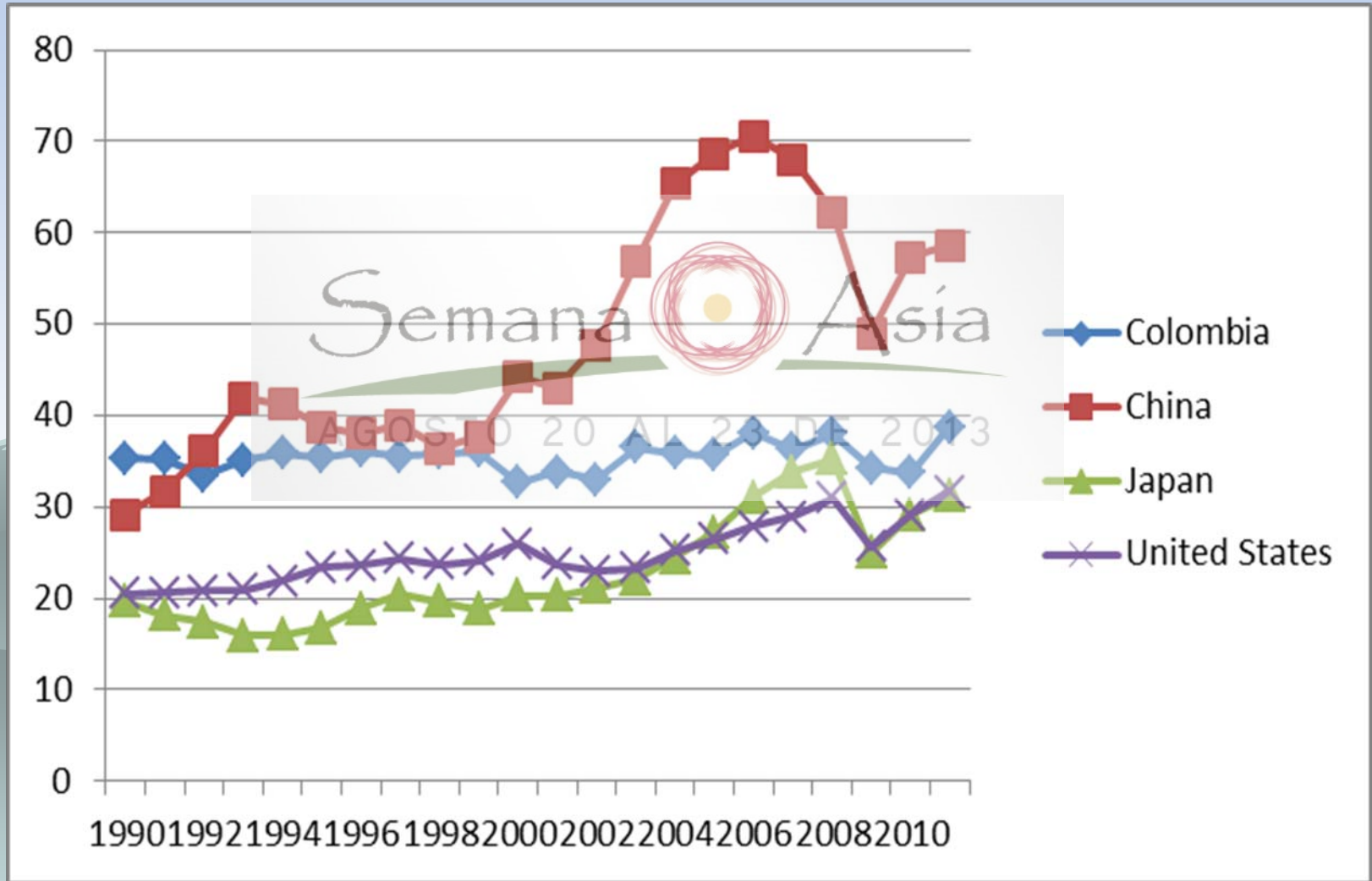
Gross Domestic Savings (% of GDP)



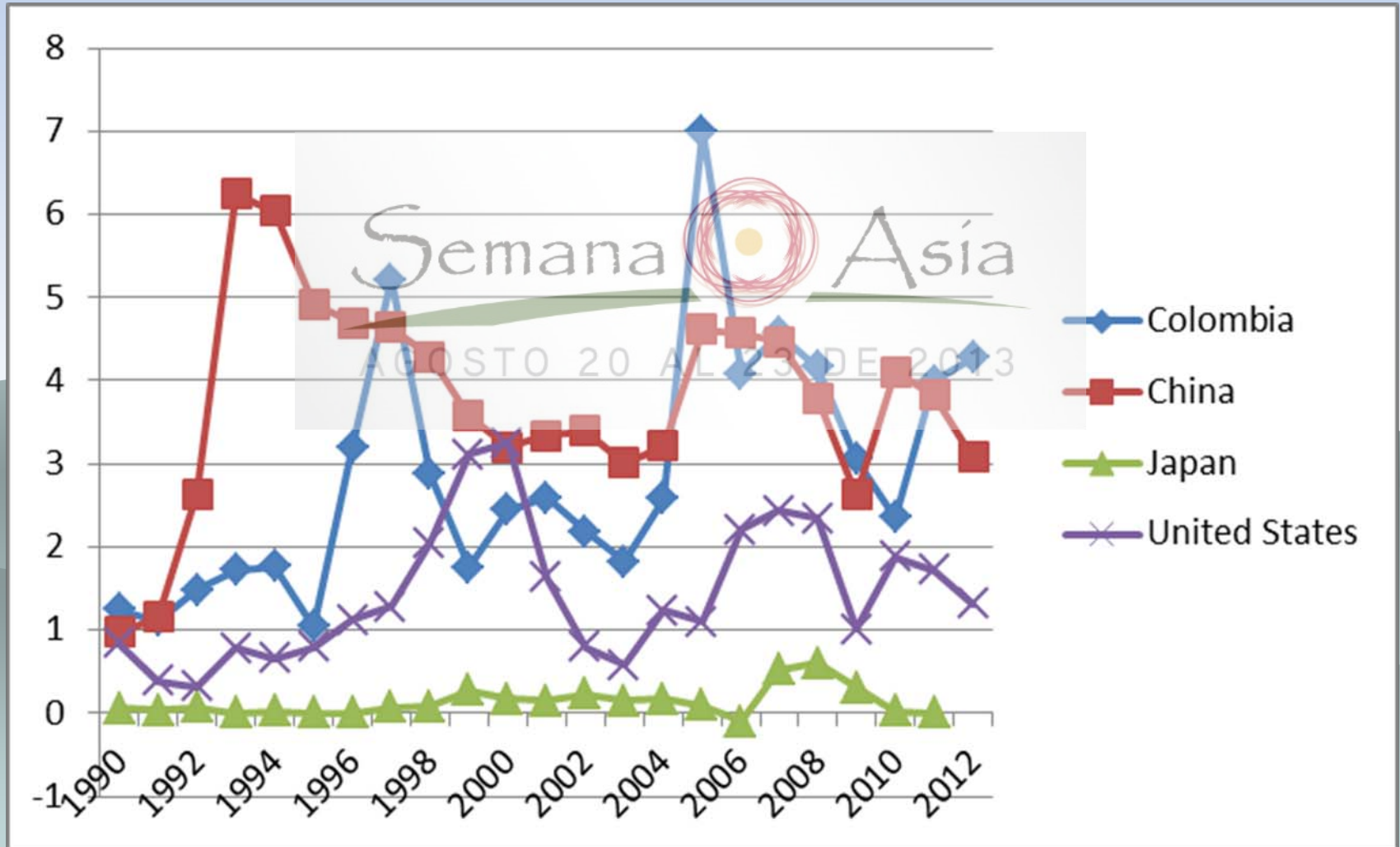
Government Debt-GDP Ratios (%)



Trade-GDP Ratios (%)



Inward FDI Inflows-GDP Ratios (%)

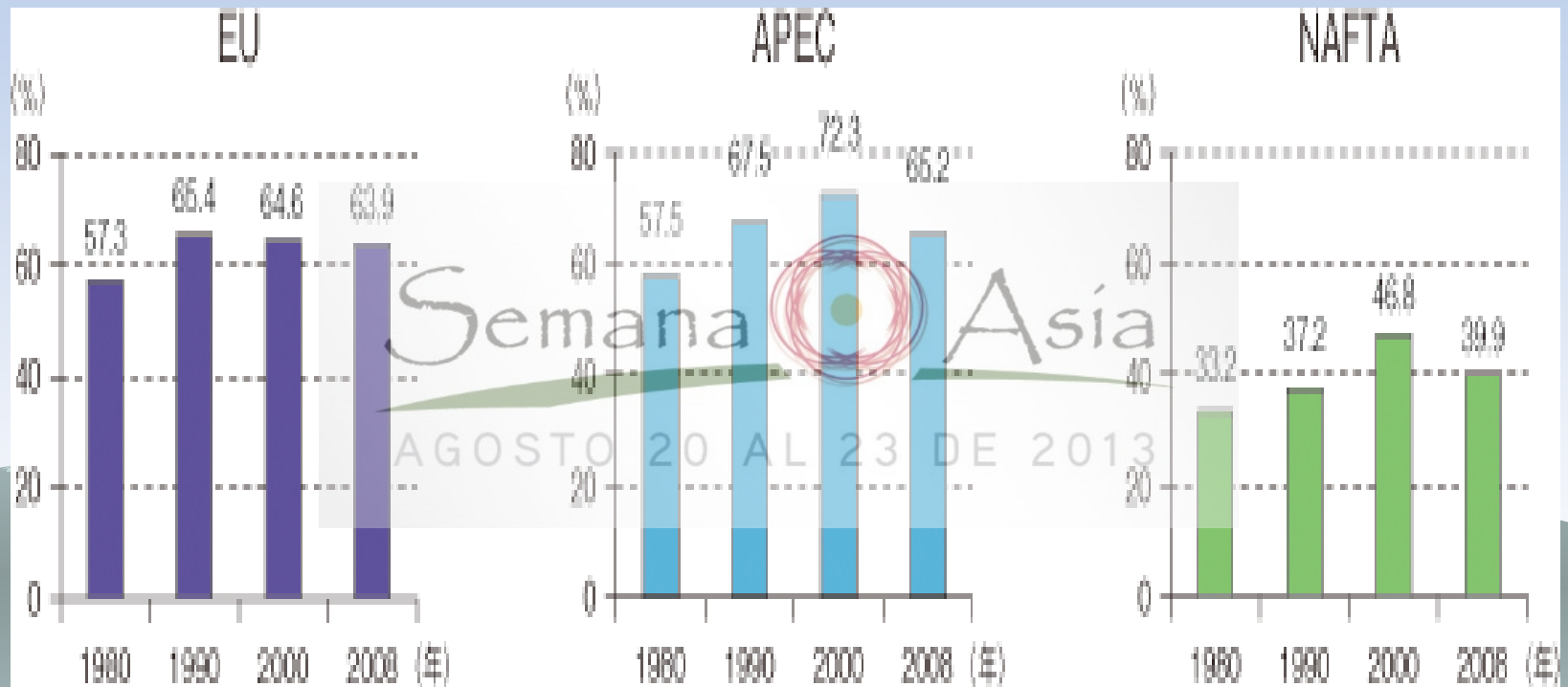


II. High Economic Growth and Regional Economic Integration in Asia-Pacific

Market-driven Regional Economic Integration

- ◆ High economic growth achieved by rapid expansion of foreign trade and foreign direct investment (FDI)
- ◆ Advances in regional economic integration
- ◆ Expansion of trade and FDI in machinery sector (electronic machinery, transportation machinery)
- ◆ Increase in parts and components trade
- ◆ Fragmentation strategy by multinational corporations: formation of regional production networks (Supply-chain)
- ◆ Liberalization of trade and FDI policies

Intra-regional Trade Ratio (%)

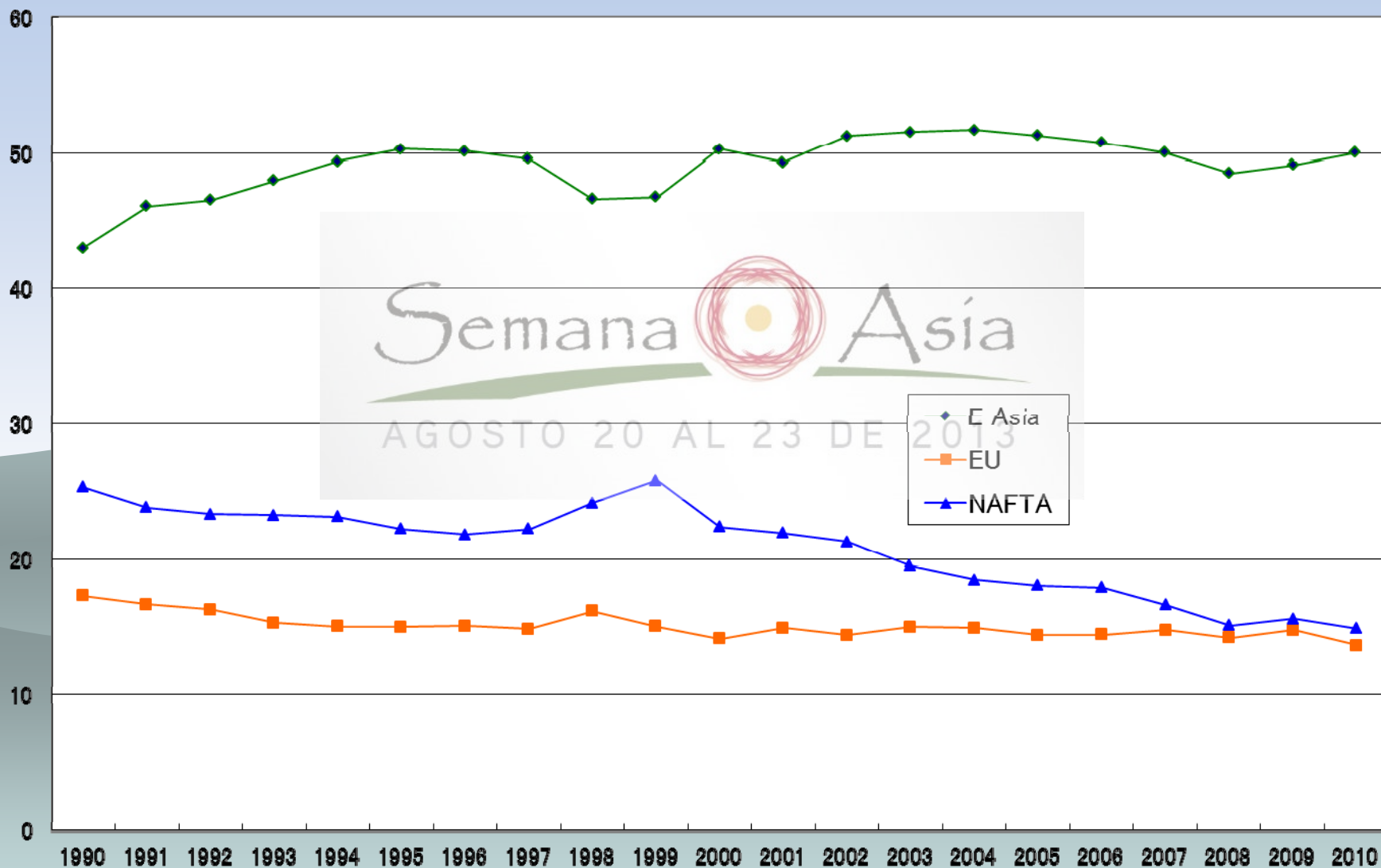


備考：域内貿易比率は、(域内輸出額+域内輸入額) / (対世界輸出額+対世界輸入額) × 100。

資料：JETRO「2009年版ジェトロ貿易投資白書」から作成。

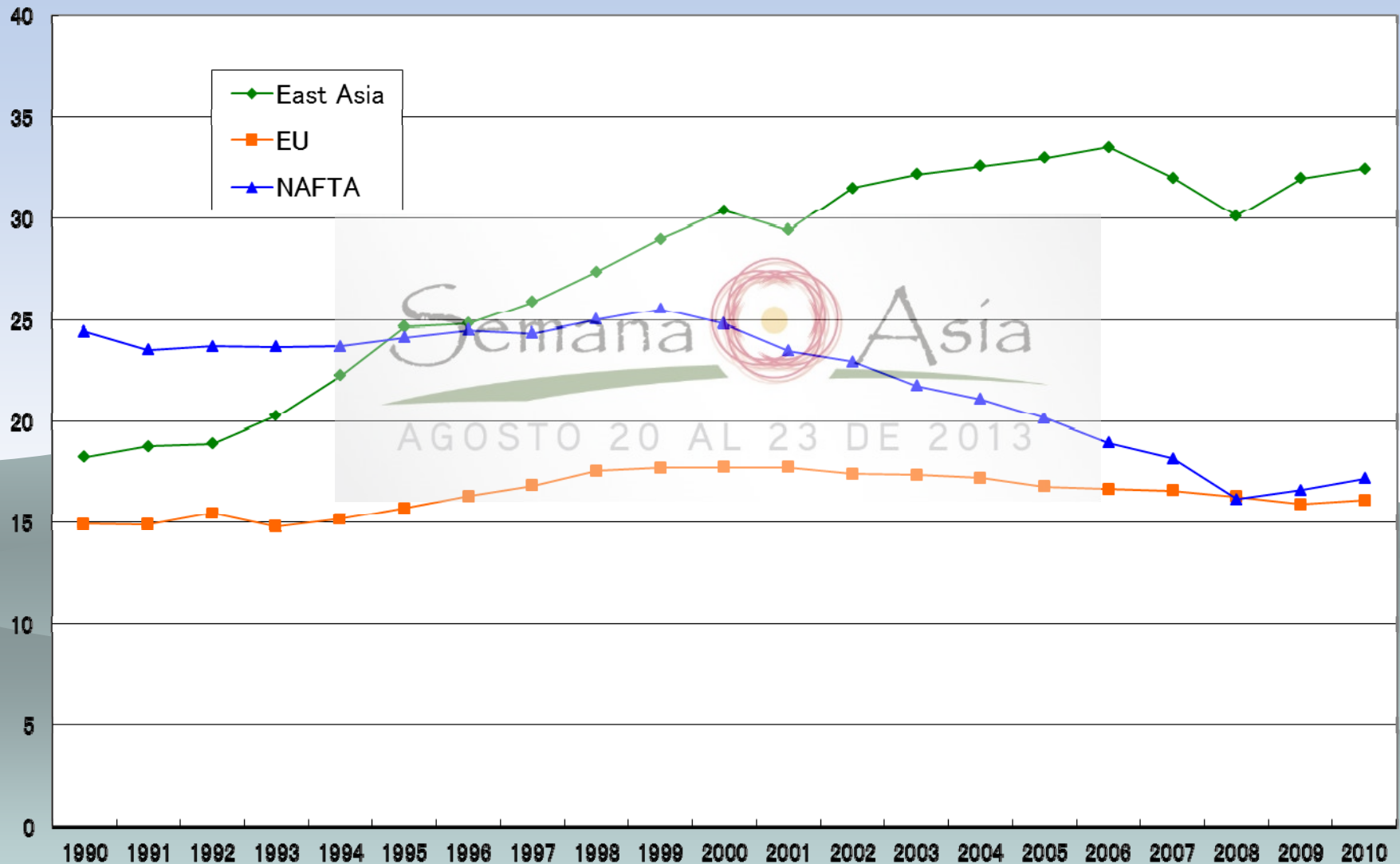
原出所：IMF「DOT」、台湾貿易統計、香港貿易統計、シンガポール貿易統計。

Shares of East Asia's Trade with Regions (%)



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Share of Parts and Components in Intra-regional Trade (%)



Trade Liberalization: Declining Tariff Rates (%)

		Primary products	Non-Primary products	Total products			Primary products	Non-Primary products	Total products
China	1992	35.1	40.6	40.4	Thailand	1989	30	39	38.5
	2010	15.6	8.7	9.6		2010	22.8	8	9.9
Indonesia	1989	18.2	19.2	19.2	Australia	1991	9.5	14.2	13.1
	2010	8.4	6.6	6.8		2010	1.3	3	2.8
Japan	1988	8.3	3.5	4.2	US	1989	3.8	5.9	5.6
	2010	17.3	2.5	4.4		2010	4.9	3.3	3.5
Korea	1988	19.3	18.6	18.6	Canada	1989	6.1	9.2	8.6
	2010	48.5	6.6	12.1		2010	11.3	2.6	3.7
Malaysia	1988	10.9	14.9	14.5	Mexico	1991	12	13.4	13.4
	2009	10.9	7.6	8		2010	21.5	7.1	9
Philippines	1988	29.9	27.9	28.3	Chile	1992	11	11	11
	2010	9.8	5.7	6.3		2010	4.38	4.91	4.85
Singapore	1989	0.2	0.4	0.4	Colombia	1992	11.8	12	12
	2010	0.2	0	0		2011	7.49	6.73	6.8

Emergence of institution-driven regional economic integration

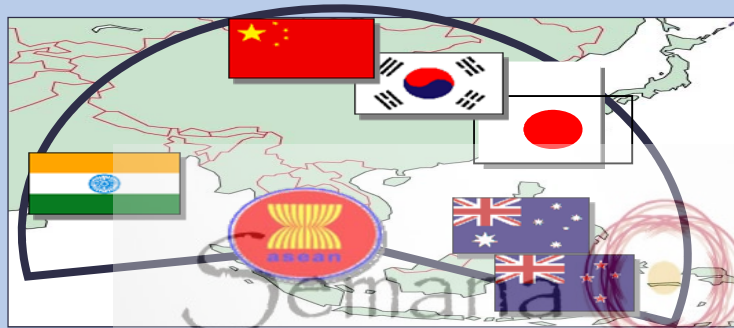
- ◆ Rapid expansion of free trade agreements (FTAs) in East Asia in the 21st century
- ◆ FTA (free trade agreement): free trade (elimination, reduction of tariff and non-tariff barriers among FTA members)
- ◆ In East Asia ASEAN has become a hub of FTAs:
 - 5 ASEAN+1 FTAs have been implemented
- ◆ Long term goal: Free Trade Area of Asia-Pacific (FTAAP)
APEC-wide FTA
- ◆ 2 major initiatives have been negotiated: Trans-Pacific Partnership (TPP), RCEP (ASEAN+6)

FTAAP: Free Trade Area of the Asia-Pacific

Efforts under various frameworks

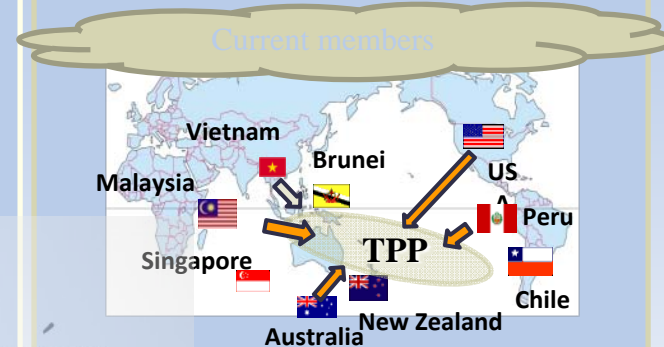
RCEP(ASEAN+6)

(ASEAN+JP, CH, KR, IND, AUS, NZ)



TPP

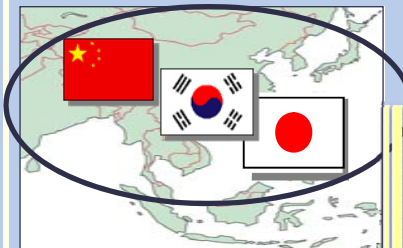
Current members



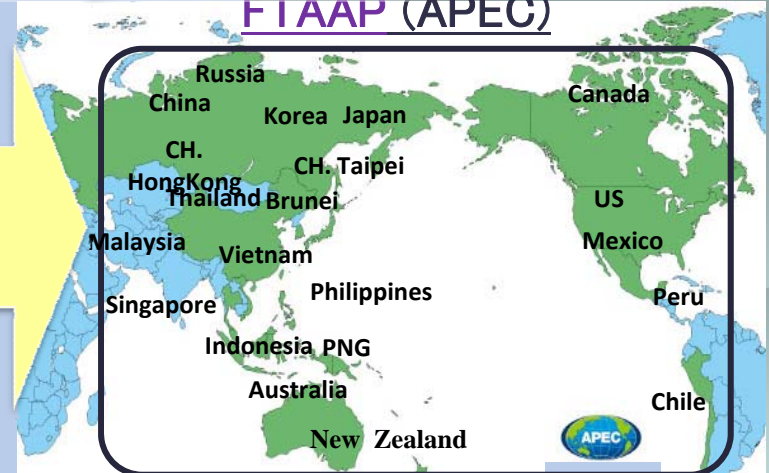
ASEAN+1 FTA



Japan-China-Korea



FTAAP (APEC)



(Source: METI, Japan)

TPP vs. RCEP

Positions in FTAAP

- ◆ FTAAP: Long-term goal of regional economic integration in Asia-Pacific
- ◆ TPP and RCEP are both pathways to FTAAP
- ◆ TPP and RCEP should be complementary

Issue Coverage

- ◆ TPP: comprehensive coverage not only market access, services, and investment but also labor, environment, and cross-cutting “horizontal issues” such as regulatory coherence, competitiveness and business facilitation, development and Small and Medium Enterprises (SMEs)
- ◆ RCEP: limited coverage, trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, other areas

Objectives

- ◆ TPP: To establish a high standard, regional agreement that addresses new and emerging issues, incorporates new elements reflecting our values and priorities, and responds to the 21st century challenges our citizens face. (USTR website)
- ◆ RCEP: To support and to contribute to economic integration, equitable economic development, and strengthening economic cooperation among the participating countries (Guiding Principles and Objectives)

Some Comparisons

Level of trade and FDI liberalization:

- ◆ TPP: high
- ◆ RCEP: ?

Mode of Agreement

- ◆ TPP: Single undertaking
- ◆ RCEP: Stepwise, gradual (?)

Developing and Least-developed countries

- ◆ TPP: Capacity building, staging of commitments
- ◆ RCEP: Flexibility, special and differential treatment



Expected Impacts of FTAs

- ◆ Trade and FDI expansion between and among FTA members
- ◆ Economic growth



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III. Japan's New Trade Policy in Asia-Pacific

- ◆ Comprehensive Economic Partnership Agreement (EPA) including trade and FDI liberalization, facilitation, economic cooperation
- ◆ Export infrastructure such as transportation system and water supply system including hard and soft infrastructure
- ◆ Export agricultural products
- ◆ Attracting foreign direct investment inflows and high skilled personnel
- ◆ Attracting foreign tourists
- ◆ etc.



Abenomics: Abe Economics

Three Arrows Strategy

- ◆1) Aggressive monetary policy: radical quantity easing, inflation targeting
- ◆2) Flexible fiscal spending: large scale public works
- ◆3) Growth strategy (Japan Revitalization Strategy, June 14, 2013): (1) industry revitalization plan, (2) strategic market creation plan, (3) strategy of global outreach (FTAs, TPP, RCEP)

Current Status of Japan's FTAs

- ◆ Enacted relatively a large number of FTAs, but
- ◆ Low country coverage in terms of trade: FTA coverage ratio
- ◆ Low tariff elimination: lower than 90% in terms of tariff lines, whereas for the US, higher than 95%

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Japan's FTAs (as of August 2013)

	Partners	Start of negotiation	Signing of FTAs	Enactment of FTAs
In action	Singapore	Jan 2001	Jan 2002	Nov 2002
	Mexico	Nov 2002	Sep 2004	Mar 2005
	Malaysia	Jan 2004	Dec 2005	Jul 2006
	Chile	Feb 2006	Mar 2007	Sep 2007
	Thailand	Feb 2004	Apr 2007	Nov 2007
	Indonesia	Jul 2005	Aug 2007	Jul 2008
	Brunei	Jun 2006	Jun 2007	Jul 2008
	ASEAN	Apr 2005	Apr 2008	Dec 2008
	Philippines	Feb 2004	Sep 2006	Dec 2008
	Switzerland	May 2007	Feb 2009	Sep 2009
	Vietnam	Jan 2007	Dec 2008	Oct 2009
	India	Jan 2007	Feb 2011	Aug 2011
	Peru	May 2009	May 2011	Mar 2012
Under negotiation	Korea*	Dec 2003		
	GCC	Sep 2006		
	Australia	Apr 2007		
	Mongolia	Jun 2012		
	Canada	Nov 2012		
	Colombia	Dec 2012		
	CJK	Mar 2013		
	EU	Apr 2013		
RCEP	May 2013			
TPP	Jul 2013			

Notes: *FTA negotiations with Korea have been suspended.

For the TPP, the date of Japan's entry to negotiations

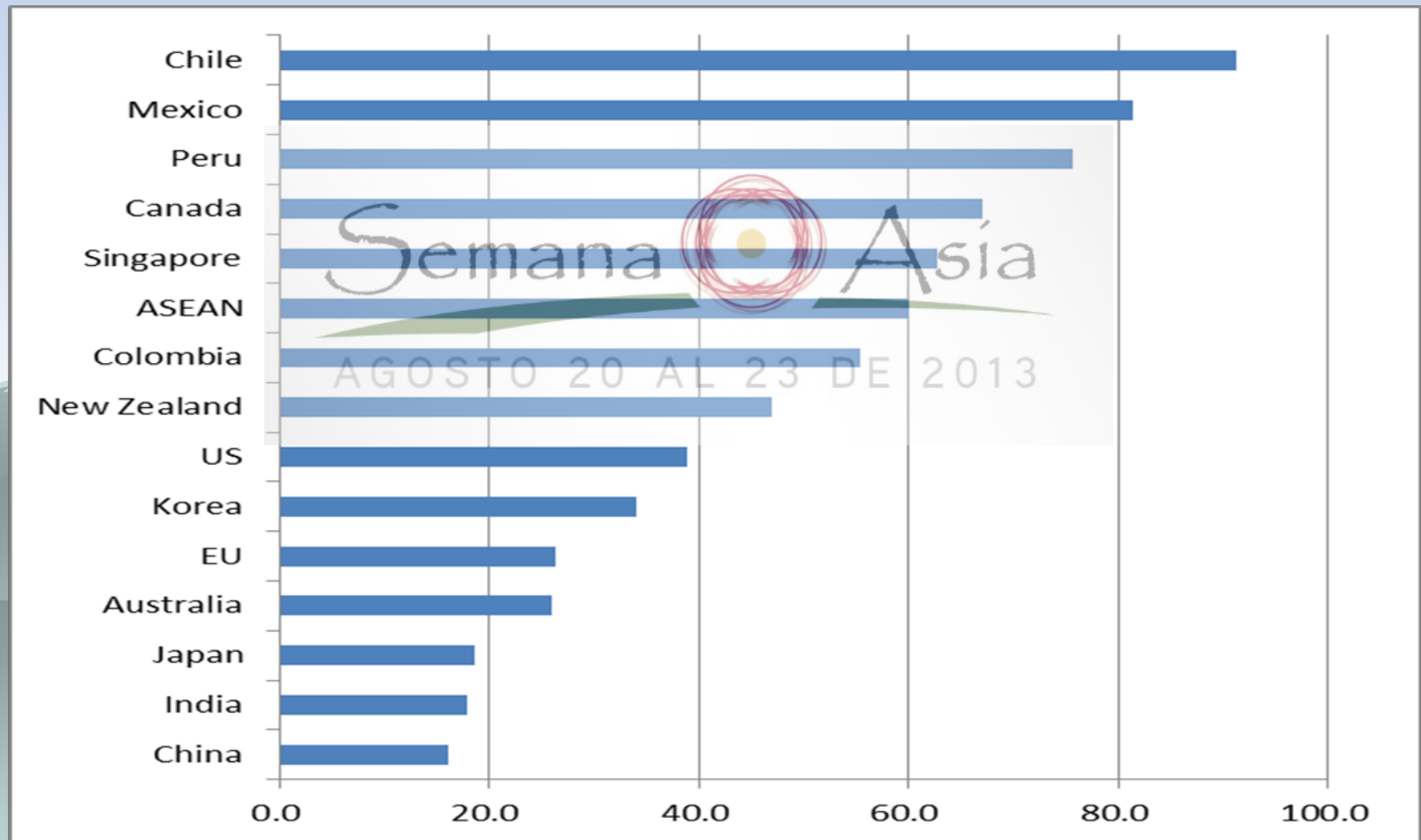
Source: Ministry of Foreign Affairs

Motives

- ◆ Expand export market for Japanese firms
- ◆ Improve investment environment for Japanese firms
- ◆ Obtain energy and natural resources
- ◆ Promote structural reform in Japan
- ◆ Improve and establish good relationship
- ◆ Provide economic assistance to developing countries

FTA Coverage Ratios:

Proportion of trade with FTA partners in total trade (%),
FTA (July, 2012), Trade data (2011) Source: JETRO



FTA Trade Liberalization Ratio (%)

Japan-Philippines FTA			Australia-US FTA		
	Japan	88.4		Australia	100
Japan-Malaysia FTA			US		
	Japan	86.8	US-Peru FTA		
Japan-Indonesia FTA			Peru		
	Japan	86.6	US		
Japan-Chile FTA			Korea-US FTA		
	Japan	86.5	US		
Japan-Switzerland FTA			Korea		
	Japan	85.6			

Impacts of TPP on Japanese Economy (GDP)

- ◆ Japan's Cabinet Office:

0.66% (TPP 12 countries)

- ◆ Petri, Plummer and Zhai (2012):

2.0% (TPP 12 members)

1.8% (RCEP)

4.3% (FTAAP)

The Trans-Pacific Partnership and Asia-Pacific
Integration: A Quantitative Assessment,
Petersons Institute of International Economics

Economic Obstacles to FTAs, TPP

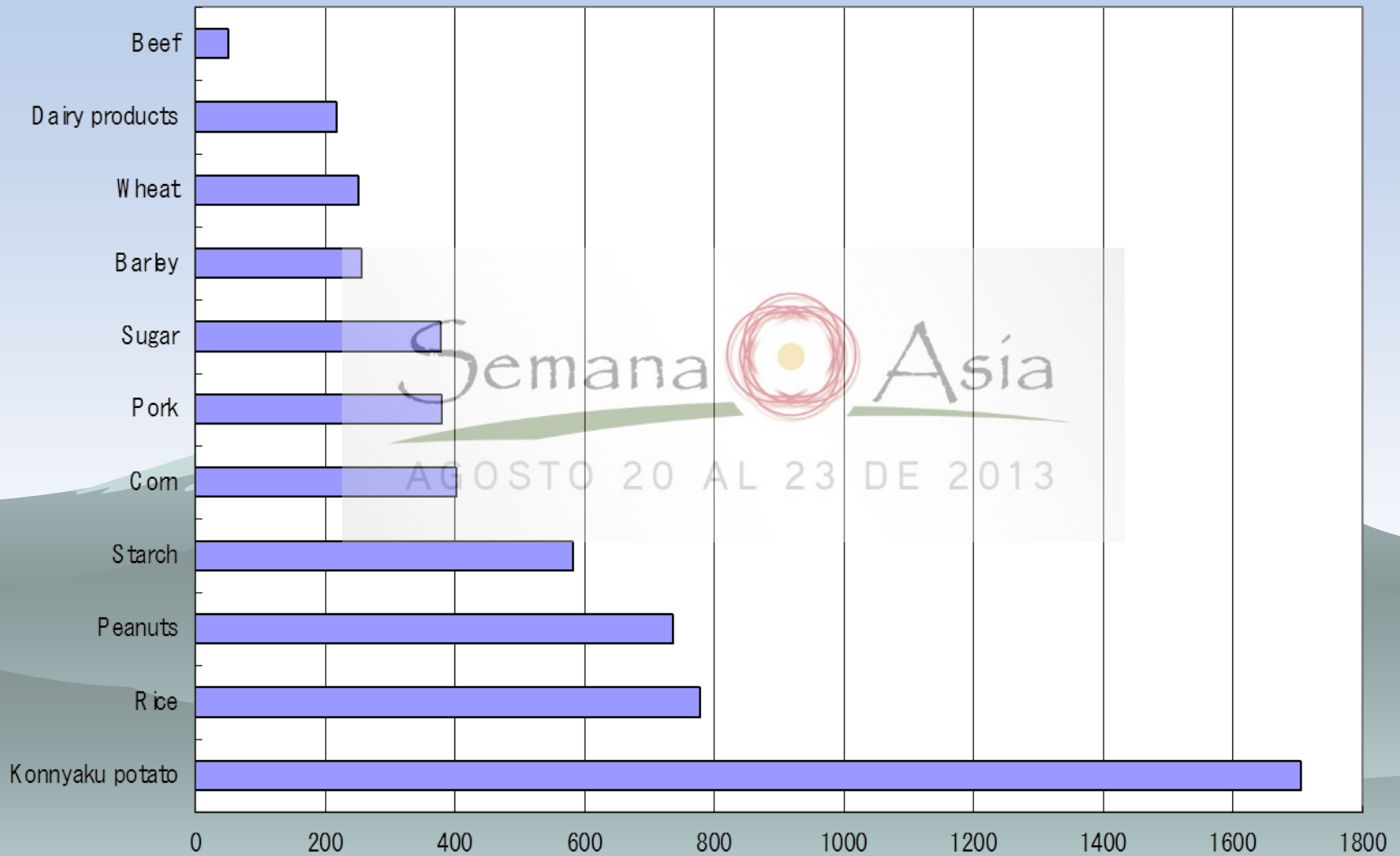
Opposition from the agriculture sector

- ◆ Decline in already low self-sufficiency in food supply
- ◆ Negative impacts on environment
- ◆ Negative impacts on regional economy
- ◆ Negative impacts on vested interest groups

Opposition from the medical service sector

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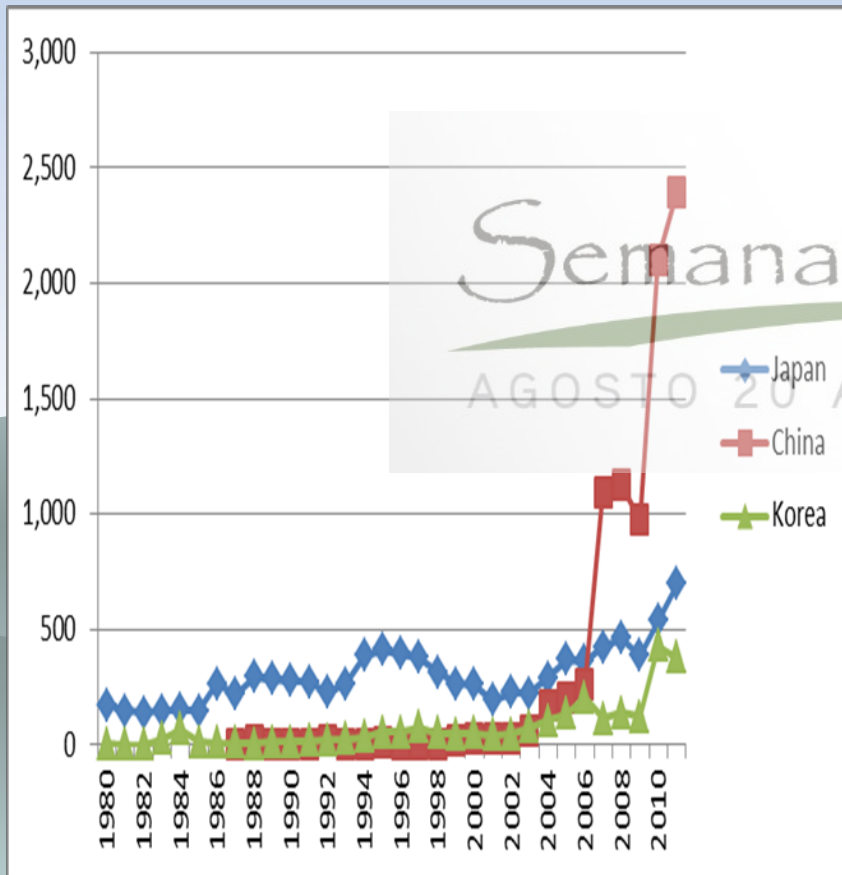
High Tariff Agricultural Products (%)



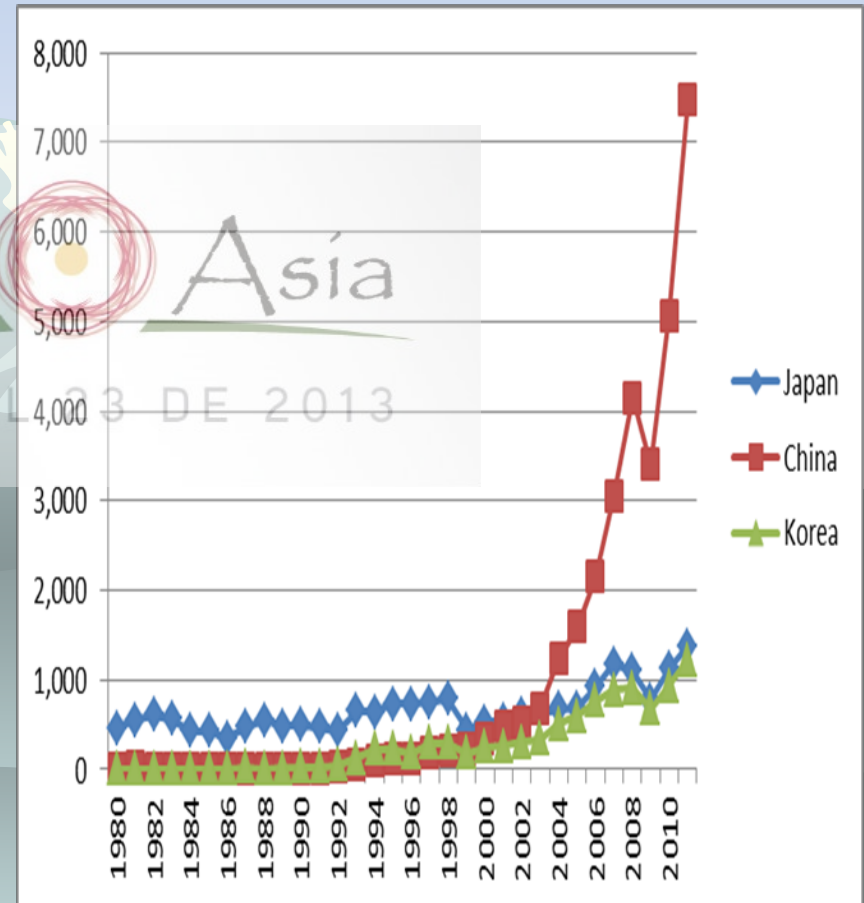
IV. Japan-Colombia Bilateral Economic Relations

- ◆ Bilateral trade has not been growing fast (for 2011, 0.9 percent of Colombia's exports, 2.6 percent of Colombia's imports): Challenge, establish Japan-Colombia FTA.
- ◆ Japan's FDI in Colombia has been rather limited (0.3 percent of total cumulative FDI inflows from 1994 to 2011)
- ◆ Challenge, increase in human exchange at various levels such as college student, which would promote bilateral economic relations

Colombia's exports to Japan, China, and Korea (\$million)



Colombia's imports from Japan, China, and Korea (\$million)



IV. Concluding Remarks

- ◆ Faced with many difficult challenges, Japan has to open up its economy and carry out structural reforms, in order to achieve economic growth or to maintain high living standard, to contribute to economic growth in Asia-Pacific and in the world.
- ◆ WTO liberalization being stalled, free trade agreements (FTAs) are second-best solution for promotion of trade and FDI
- ◆ Japan can gain a lot from FTAs not only in East Asia but also with countries in other parts of the world such as the US, the EU, and Latin American countries

- ◆ Japan should play active roles in establishing region-wide FTAs: TPP, RCEP by liberalizing its market
- ◆ Then expand these FTAs by merging with other FTAs, leading to global trade liberalization
- ◆ FTAs (particularly TPP) face opposition from the agriculture sector
- ◆ Various measures including gradual phase-in liberalization, and temporary assistance (safety net) to negatively affected workers can moderate the negative impacts during the process of transition
- ◆ Need strong political leadership to promote FTAs, particularly TPP