Japan’s Approach to Mega Regionals and WTO Reform

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The 67th GSDM Platform Seminar
"Global Trade Order after the TPP: Opportunities and Challenges for Japan"

Tokyo
14 December 2015

1. Japan’s EPA Policies

- Japan a late-comer as an FTA (or economic partnership agreement [EPA]) player globally
- Initially focused on EPAs with relatively small trading partners (Mexico, ASEAN member countries)
- Recently focusing on mega regionals with larger economies, like the US (through TPP), China (through CJK FTA and RCEP), and the EU (through Japan-EU EPA)
- These initiatives are part of Abenomics

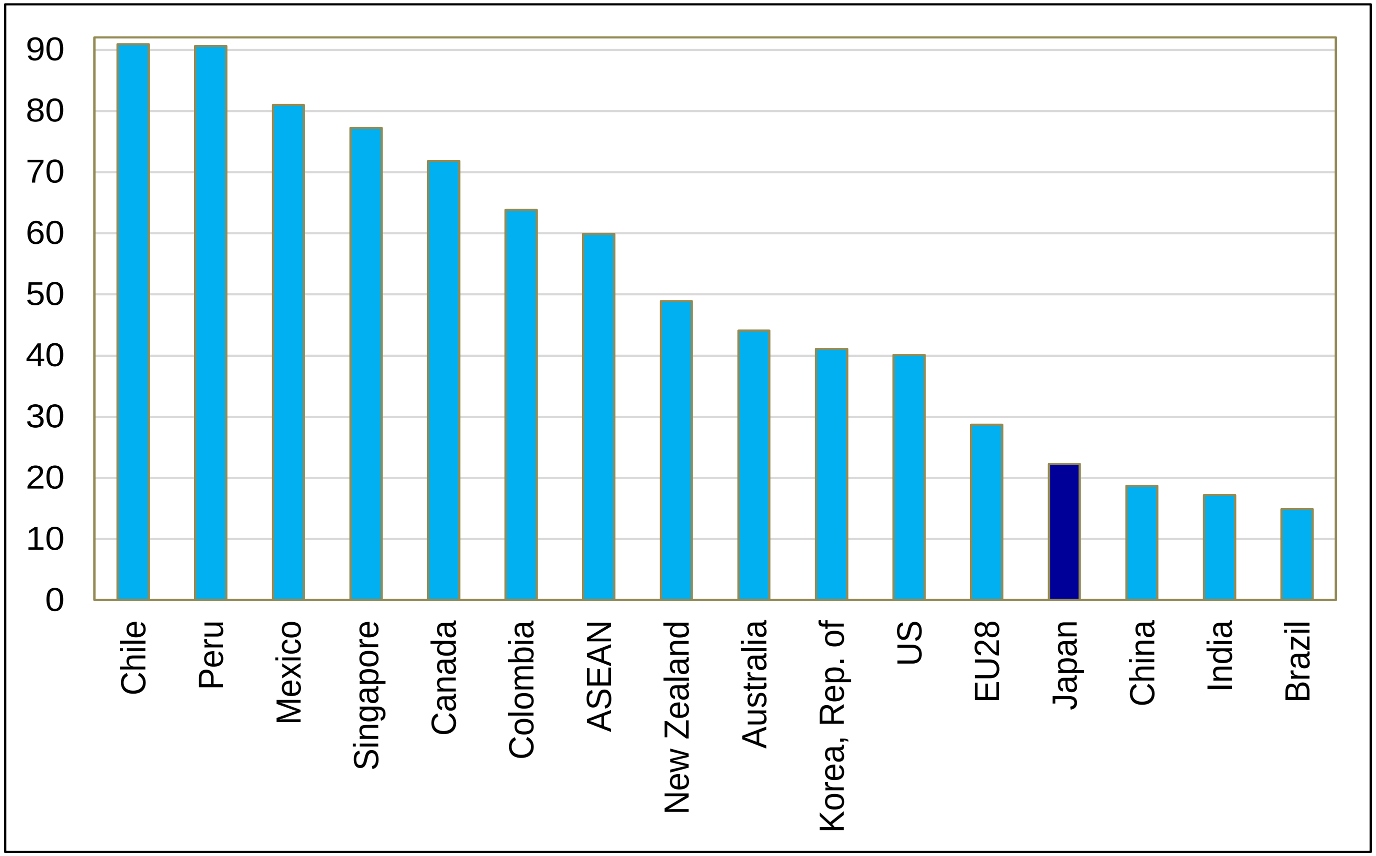
Japan's EPAs

In Effect	Under Negotiations
Singapore (Nov. 2002)	ASEAN (investment & services)
Mexico (Apr. 2005)	Canada (Oct. 2012)
Malaysia (Jul. 2006)	Colombia (Dec. 2012)
Chile (Sep. 2007)	China-Japan-Korea (Mar. 2013)
Thailand (Nov. 2007)	European Union (Apr. 2013)
Indonesia (Jul. 2008)	RCEP (May 2013)
Brunei Darussalam (Jul. 2008)	TPP (Jul. 2014) broadly agreed
ASEAN (Dec. 2008 - Jul. 2010)	(Oct. 2015)
Philippines (Dec. 2008)	Turkey (Dec. 2014)
Switzerland (Sep. 2009)	Korea (Dec. 2003 - Nov. 2004)*
Vietnam (Oct. 2009)	GCC (Sep. 2006)*
India (Aug. 2011)	
Peru (Mar. 2012)	
Australia (Jan. 2015)	
Mongolia (Feb. 2015, signed)	

Note: * indicates EPA negotiations that have been suspended.
Source: ADB, *Asia Regional Integration Center*

FTA/EPA trade coverage

Comparison of FTA Coverage of Total Trade (%), 2014

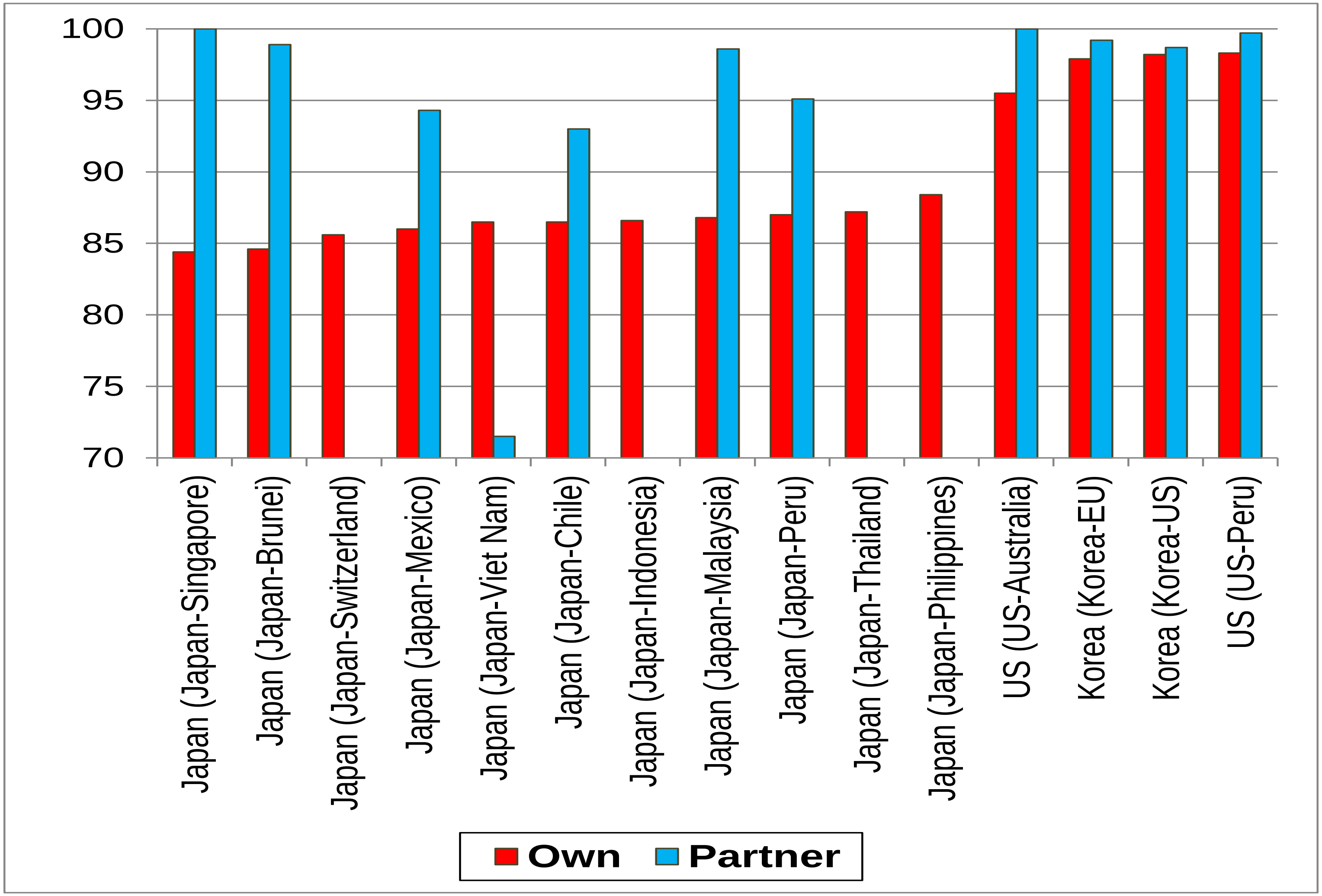


Notes: (1) ASEAN data include intra-ASEAN trade

(2) EU28 data exclude intra-EU trade; if intra-EU trade were included, the EU28 data would be 75.6%.

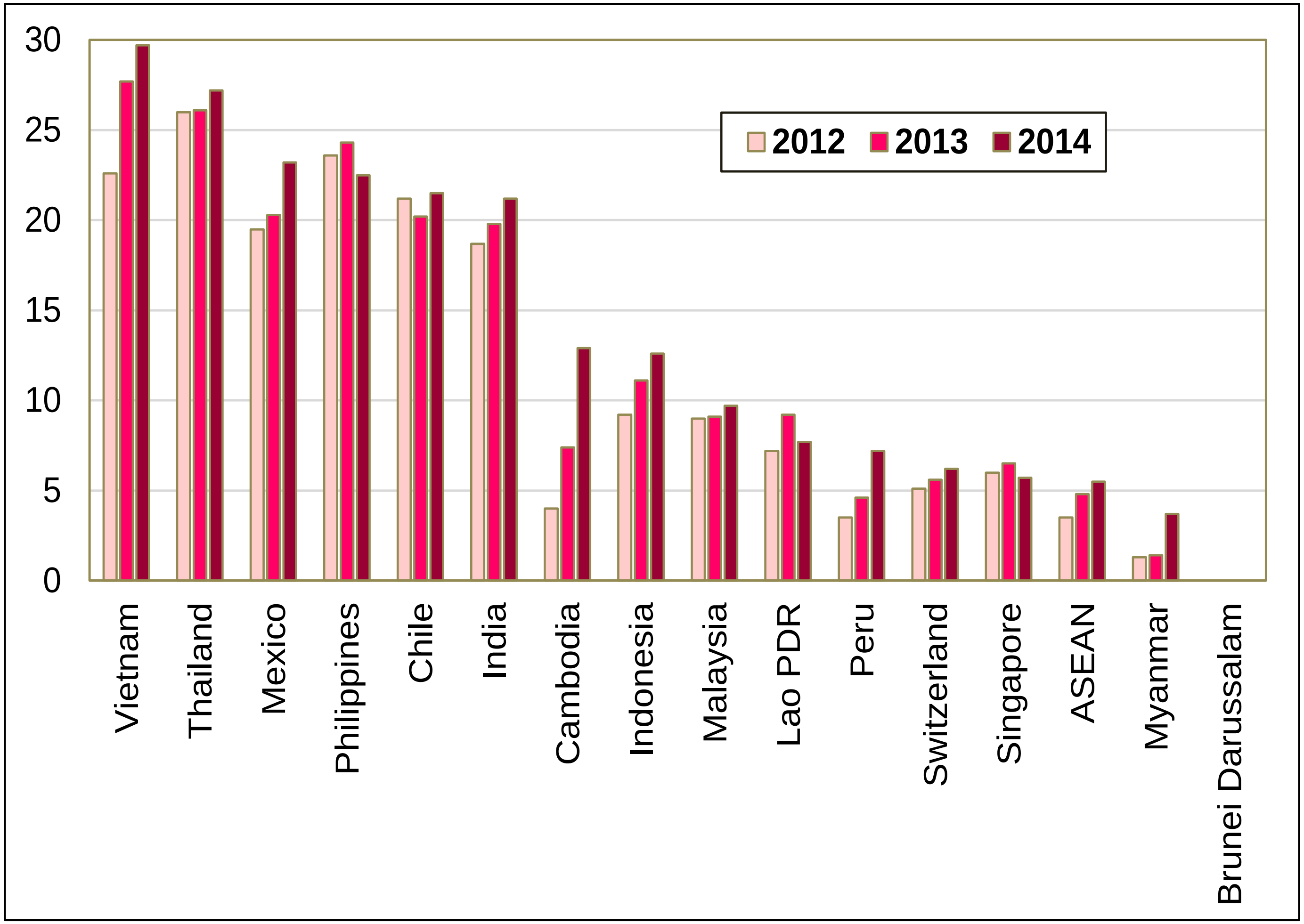
Source: Calculated from IMF, Direction of Trade Statistics (DOTS).

Japan's EPA liberalization rates: low so far



Source: Cabinet Office, Japanese Government

Japan's EPA utilization rates with EPA partners (%), 2012-14, import value basis



Source: Computed from Ministry of Finance, *Trade Statistics*

Two tracks in Asia-Pacific: TPP and RCEP

- Both TPP and RCEP are important for Japan's growth strategy:
  - Forge a CJK EPA and combine it with ASEAN+1 FTA's to build RCEP
  - Combine TPP with RCEP to forge an FTAAP
- The direct economic benefit for Japan from TPP itself is limited, but if combined with RCEP to form an FTAAP, its benefit can be large
- Combined with a Japan-EU EPA, they provide a great opportunity for Japan to re-energyze the Japanese economy

Distinctive characteristics of TPP

An FTA between the US and Japan

- Market access in agricultural products in Japan
- Market access in automobiles in the US

An FTA between developed and developing countries

- Intellectual property rights (IPR), competition policy (level-playing field in the market where SOEs have a significant presence), government procurement, and environmental & labor standards

An FTA to embrace China in the future

TPP has the potential to become a model for a new 21st century WTO

RCEP under negotiation

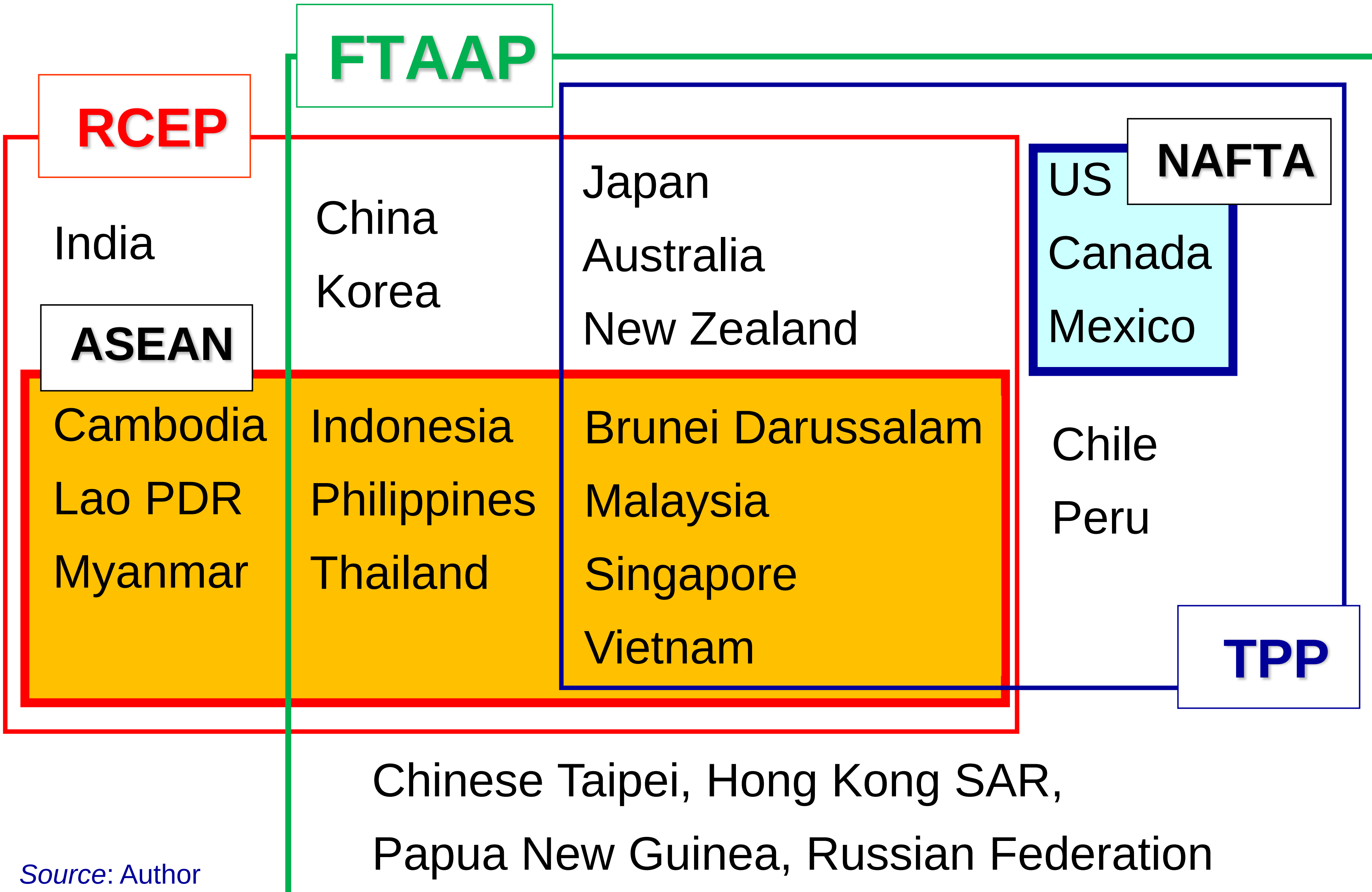
- RCEP: An extension of AFTA (and the AEC to be forged by end-2015) to wider East Asia, that combines the 5 ASEAN+1 FTAs
- Will support East Asia's supply chains
- Not as ambitious as TPP, but it includes both developed and middle-income and low-income developing countries
- Negotiations include: trade in goods, trade in service, investment, economic & technical cooperation, intellectual property, competition, dispute settlement, and other issues

Tariff liberalization rates for ASEAN+1 FTAs (%)

	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
Brunei Darussalam	99.2	98.3	85.3	97.7	99.2	95.9
Cambodia	89.1	89.9	88.4	85.7	97.1	90.0
Indonesia	93.7	92.3	48.7	91.2	91.2	83.4
Lao PDR	91.9	97.6	80.1	86.9	90.0	89.3
Malaysia	97.4	93.4	79.8	94.1	95.5	92.0
Myanmar	88.1	94.5	76.6	85.2	92.2	87.3
Philippines	95.1	93.0	80.9	97.4	99.0	93.1
Singapore	100.0	100.0	100.0	100.0	100.0	100.0
Thailand	98.9	93.5	78.1	96.8	95.6	92.6
Viet Nam	94.8	n.a.	79.5	94.4	89.4	89.5
ASEAN6	97.4	95.1	78.8	96.2	96.8	92.8
CLMV	91.0	94.0	81.2	88.1	92.2	89.0
ASEAN	94.8	94.7	79.7	96.2	94.9	91.3
Australia–New Zealand	100.0	–	–	–	–	100.0
PRC	–	94.1	–	–	–	94.1
India	–	–	78.8	–	–	78.8
Japan	–	–	–	91.9	–	91.9
Korea, Rep. of	–	–	–	–	90.5	90.5
Average	95.7	94.7	79.6	92.8	94.5	91.3

Source: Authors' compilation from Fukunaga and Isono (2013).

Negotiating countries for TPP & RCEP; FTAAP



Source: Author

Forging an FTAAP

Large benefit of forging an FTAAP

- An FTAAP not completed without China and all of ASEAN members participating
- Asia-Pacific supply chains fully covered

An FTAAP can be forged either by

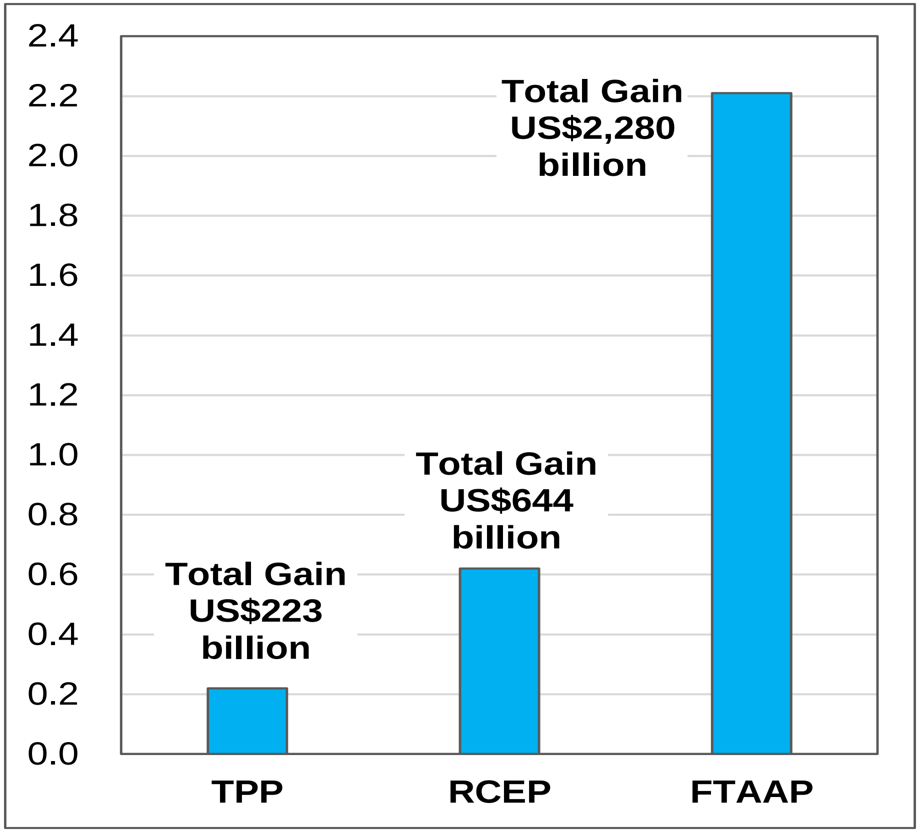
- Combining RCEP and TPP under a single umbrella – Not much substance
- Convergence of the two – Difficult
- TPP’s absorption of advanced members of RCEP (while RCEP to expand membership to other Asian developing countries) – Most plausible

RCEP as a stepping stone toward TPP membership

- Countries like China and India are not ready to join TPP
- They should forge RCEP and other trade and/or investment agreements (such as BITs with the US and EU) to go through structural reforms first
- After sufficient preparations are ready, they can join TPP
- RCEP may continue to exist and expand membership to other Asian developing countries

Trans Asia-Pacific cooperation will be increasingly important

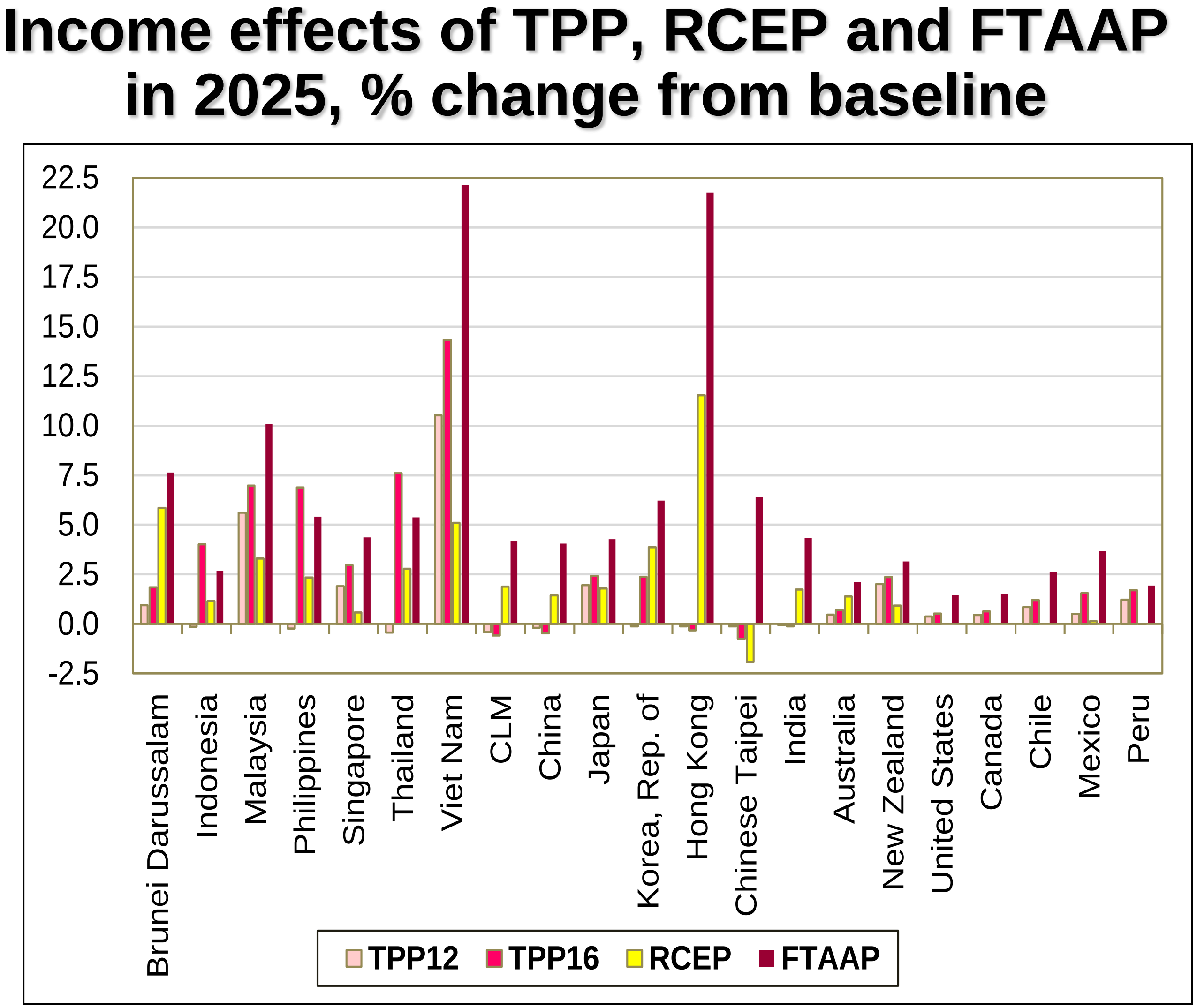
World income gains in 2025 % change from baseline



- RCEP offers more gains to world income than TPP
- TPP is emerging as a major interregional FTA
- An eventual FTAAP offers much larger gains than RCEP & TPP individually
- Insiders gain while outsiders loose little

Source: Petri and Plummer (2014)

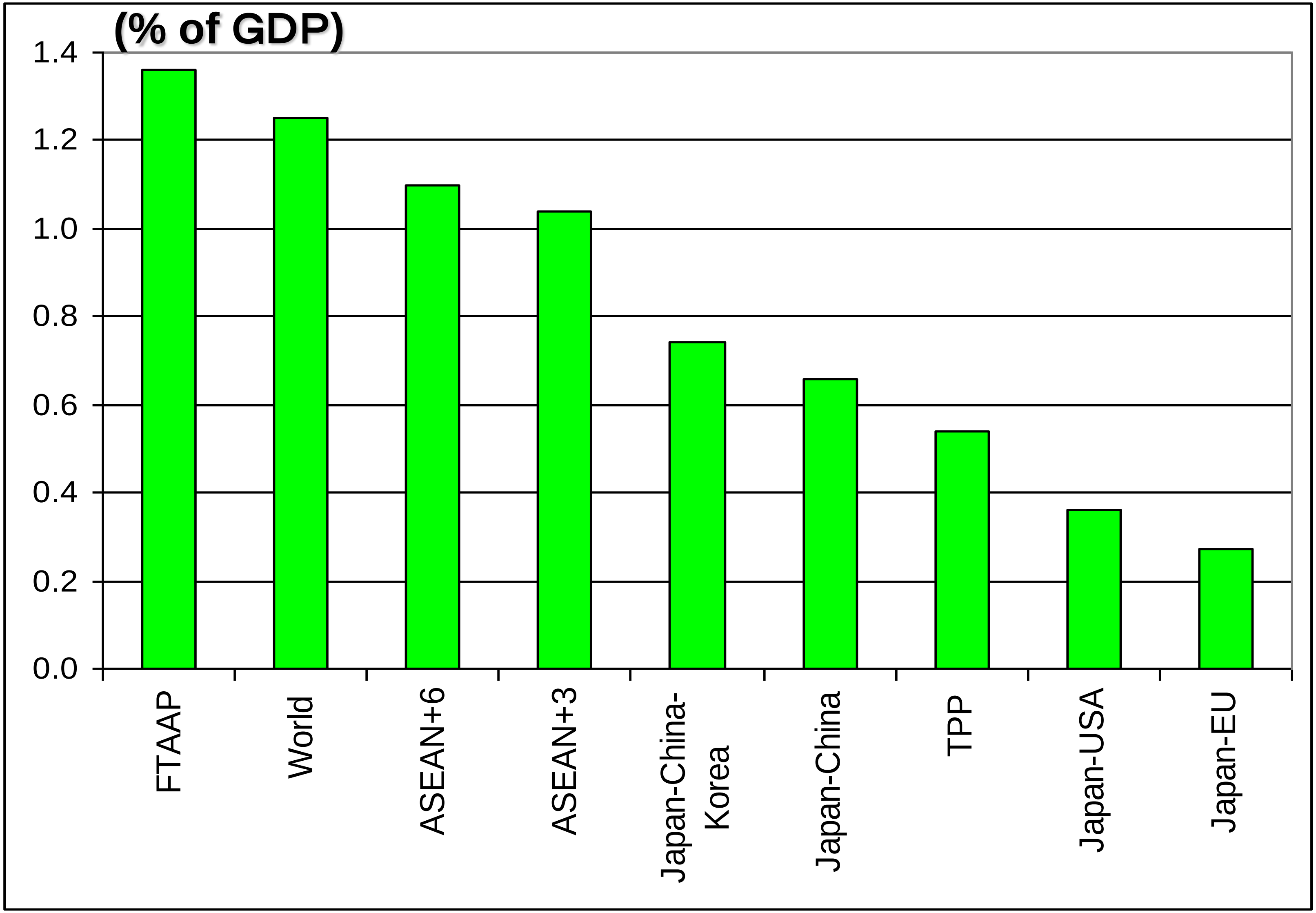
Income effects of the RCEP, TPP, FTAAP



- RCEP is a major regional FTA in East Asia
- TPP is emerging as another major cross-regional FTA
- An eventual FTAAP offers much larger gains than an Asia FTA & TPP
- Insiders gain while outsiders loose little

Source: Petri and Plummer (2014).

Benefits to Japan of various FTAs/EPAs



Source: Kawasaki, Ken'ichi (2011)

2. Challenges for the WTO

- Erosion of WTO relevance in global trade governance:
  - The lack of progress on the WTO Doha Round, despite the agreement on the Bali Package
  - Rise of emerging economies (BRICS, etc) with new interests
  - Spread of supply chains, demanding global rules beyond WTO
  - Mega regionals (TTIP, TPP, RCEP, Japan-EU) to address supply chain issues
- Risks of relying on FTAs for trade liberalization and rule-making, and on WTO for monitoring & dispute settlement:
  - Trade policy review and dispute settlement, disconnected from regional trade rules, with further erosion of the WTO
  - Suboptimal use of WTO global knowledge & expertise on trade
  - Developing countries may get marginalized in mega-FTA moves
- WTO reform needed to address the 21st century agendas

DDR trade negotiations

- Abandoning the Doha Round would further damage WTO credibility
- The Bali package focusing on trade facilitation, some agricultural issues (food security, subsidy reduction), and considerations for LDCs, i.e., a limited Doha deal, was supposed to be a starting point, but even this encountered difficulties
- A comprehensive WTO Doha agreement, including NAMA, agriculture and services, is unlikely for some time
- Plurilateral agreements on single specific issues among like-minded countries (e.g., the Information Technology Agreement [ITA], Environmental Goods Agreement, Trade in Services Agreement [TiSA]) and open accession are an option

WTO comparative advantage

Trade dispute settlement mechanism

- Dispute settlement regarded by the WTO as the central pillar of the multilateral trading system, and as a “unique contribution to the stability of the global economy”
- WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally

Trade policy review

- All WTO members subject to review, with the frequency of review depending on the country's size
- Member countries’ trade and related policies examined and evaluated at regular intervals.
- Significant developments (rising protectionism) having an impact on the global trading system also monitored

Issues

Dispute settlement mechanism (DSM)

- Working reasonably well, but only a few countries in Asia (Japan, China, Korea and India) have used the DSM
- Key gaps in the DSM:
  - Resource constraints and costs of dispute settlement
  - Only governments (not exporters) can bring disputes in the WTO
  - DSM panelists are part-timers, which may reduce quality and consistency of reports
  - Lack of compensation for damages incurred

Knowledge and capacity building

- WTO has the world’s largest concentration of trade experts and notable convening power on new trade issues and rules, FTA multilateralization, etc

Multilateralizing regionalism

- FTAs and the WTO multilateral trade system are likely to continue to coexist for the foreseeable future
- TPP in a broad agreement and RCEP, TTIP, EU-Japan FTA, etc under negotiation with differing trade rules and depth
- Need to make mega-FTAs multilateral friendly and coherent with each other, creating a path towards multilateralization at the global level
- While discriminating against third parties and diverging from one another, the mega FTAs have some common features, for instance in anti-dumping, SPS and TBT
- Ultimately, common rules across mega-regionals should be established through multilateral harmonization

Role of WTO in multilateralization

- WTO may work to connect mega regional FTAs as:
  - Setter and enforcer of soft law—spreading best practices and sharing information on trade, trade rules and FTAs
  - Facilitator of harmonizing trade rules and provisions among mega regionals
  - Advisor for large region-wide FTA negotiations and dispute settlement
- WTO may work with regional institutions (ASEAN, ADB, IDB, AfDB) to support developing and emerging economies in promoting regional FTAs

WTO reform essential

To remain relevant, the WTO needs to

- Continue to work on the DDR
- Pursue plurilateral agreements on sector-specific issues for like-minded countries with open accession (Nakatomi, 2013/14)
- Develop a new program to tackle behind-the-border issues relevant to supply chain trade, e.g. trade facilitation, investment policy and non-tariff barriers (Baldwin, 2013/14)
- Work on FTAs to support developing countries and help coordinate among regional FTAs for their multilateralization (Kawai-Wignaraja, 2013)
- Be a think tank on new trade issues, rules and best practices (Messerlin, 2012), and play a greater role in capacity building (negotiating and implementing FTAs, etc)

3. Conclusion

- Japan has embarked on EPA/FTA policies since around 2000 and mega regionals more recently
- A broad agreement reached for TPP aiming to achieve high levels of openness among like-minded countries; a key step towards an FTAAP, and may include China in the future
- Japan currently works on RCEP, CJK FTA, and Japan-EU EPA
- RCEP based on the principle of ASEAN centrality, which requires a strong AEC, a CJK FTA and a China-India FTA
- The WTO needs to reform itself to restore its global trade governance role and support global trade and investment liberalization

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Thank you
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