

RIETI Special Seminar

# The New Landscape of World Trade with Mega-FTAs and Japan's Strategy

## Handout



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Research Institute of Economy, Trade and Industry (RIETI)  
<http://www.rieti.go.jp/en/index.html>

# Mega-FTA Negotiations and Japan's FTA Strategy

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# 1. Japan's Economic Situation

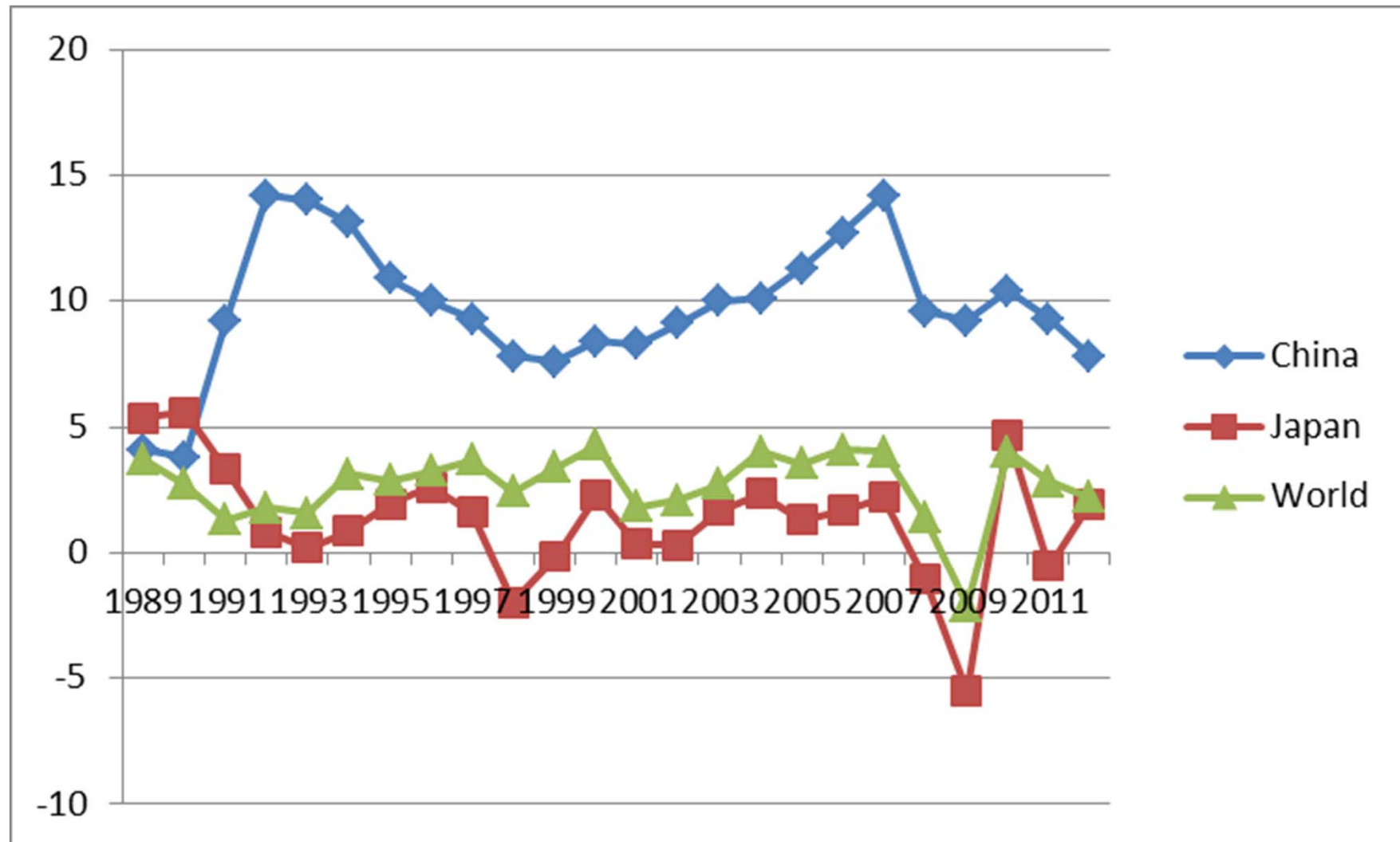
## Current situation

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

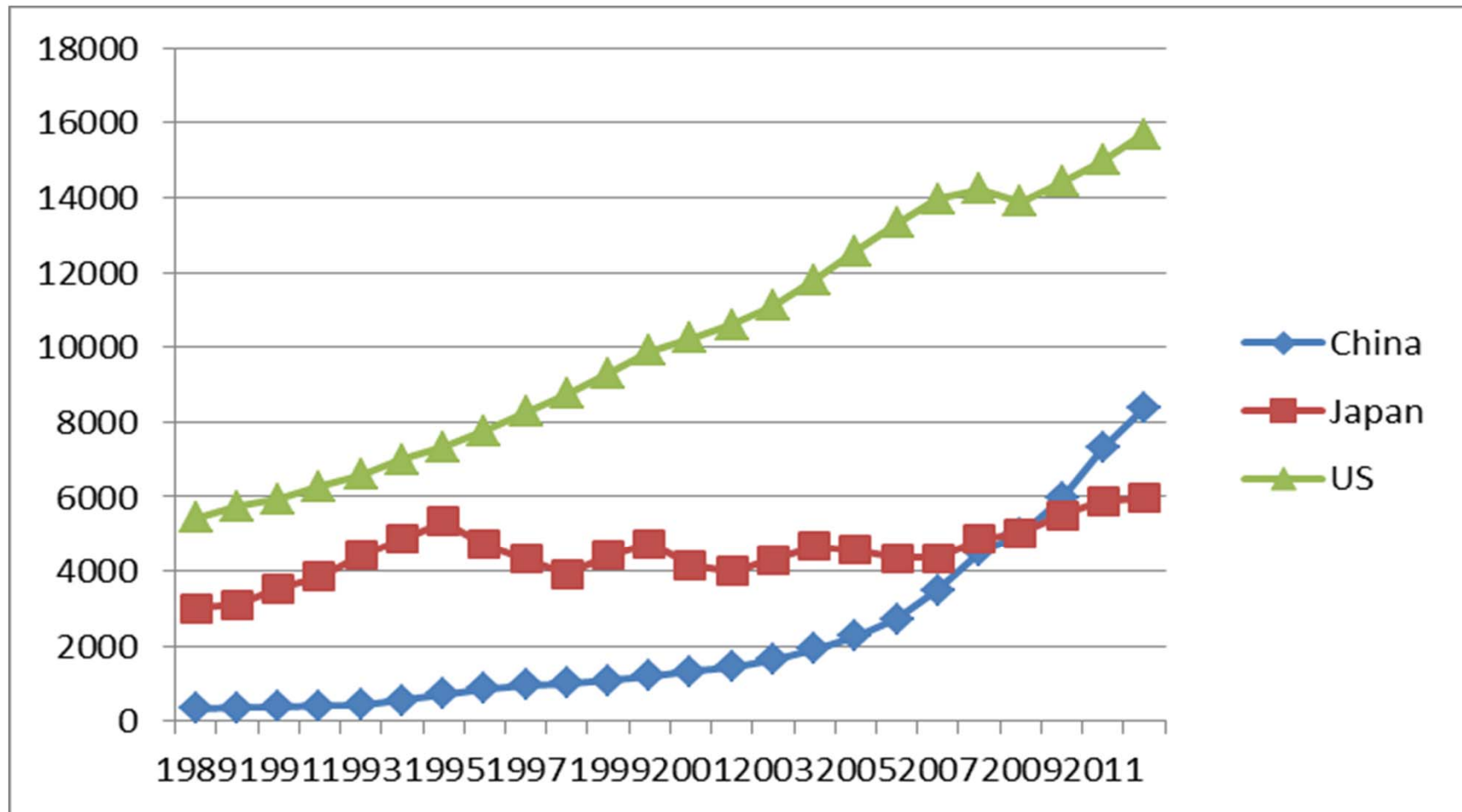
## Structural Problems

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

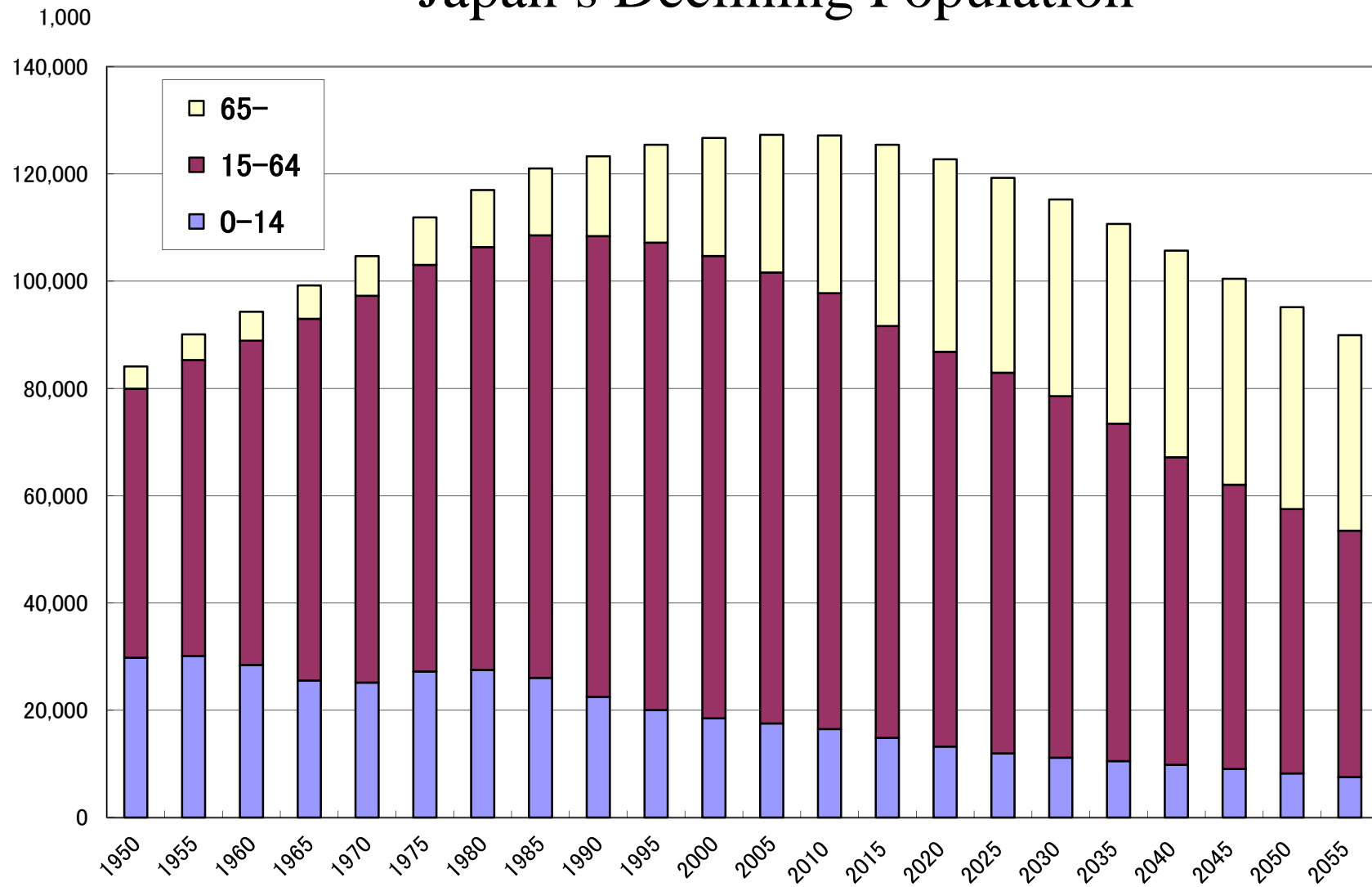
# GDP Growth Rates of Japan, China and the World (%)



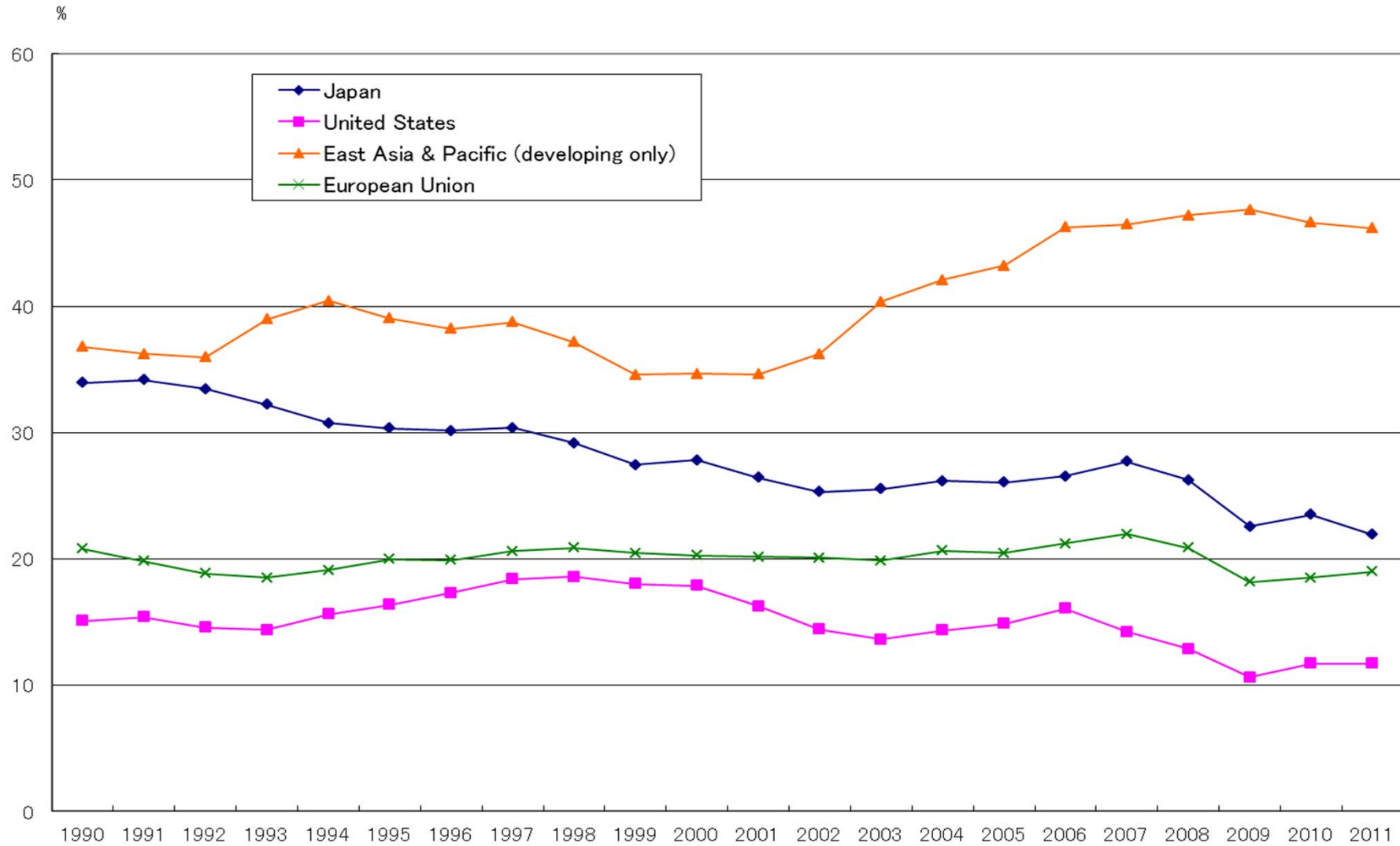
# GDP of Japan, China, and the US (\$ billion)



# Japan's Declining Population

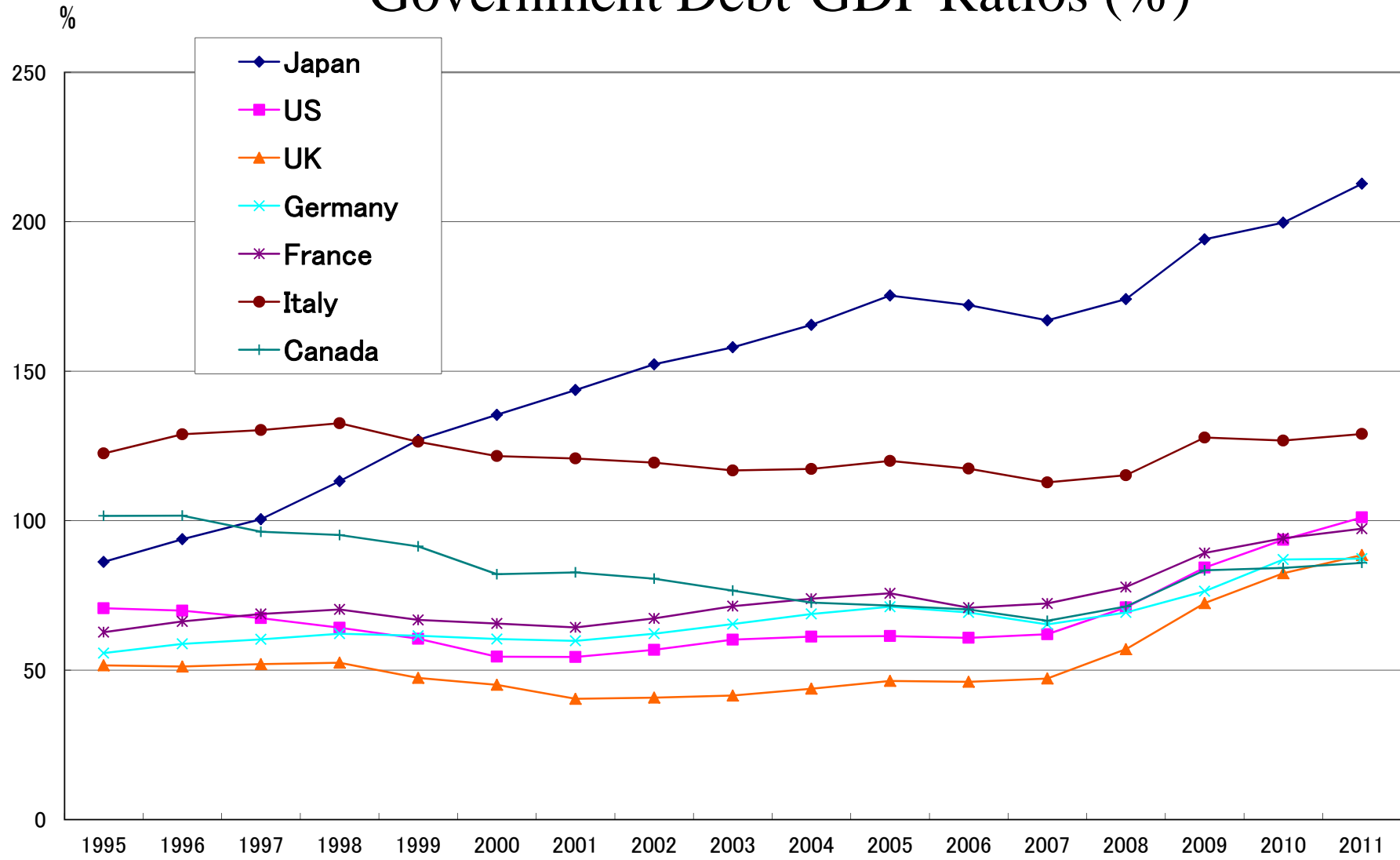


# Gross Savings-GDP Ratio (%)

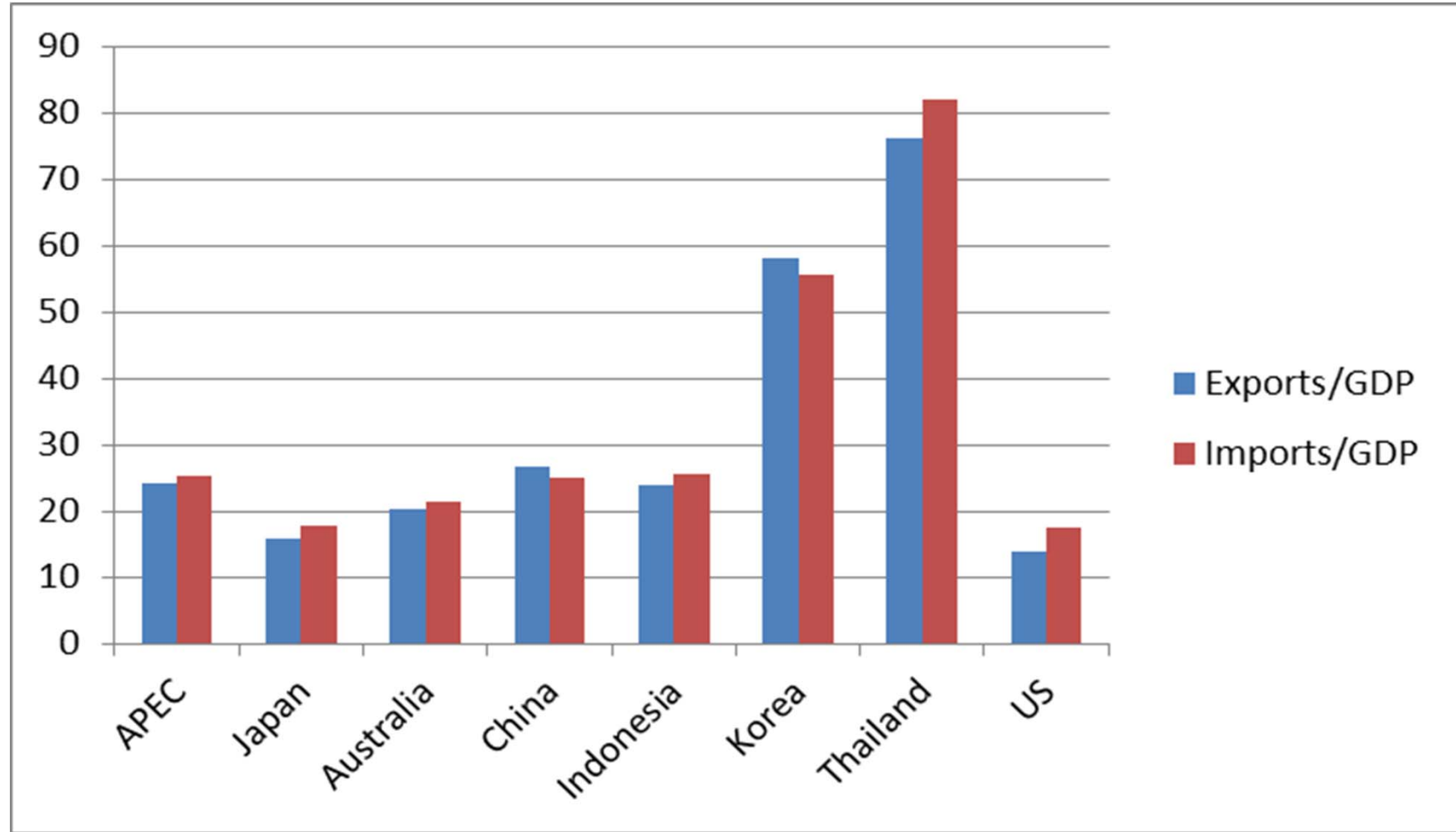




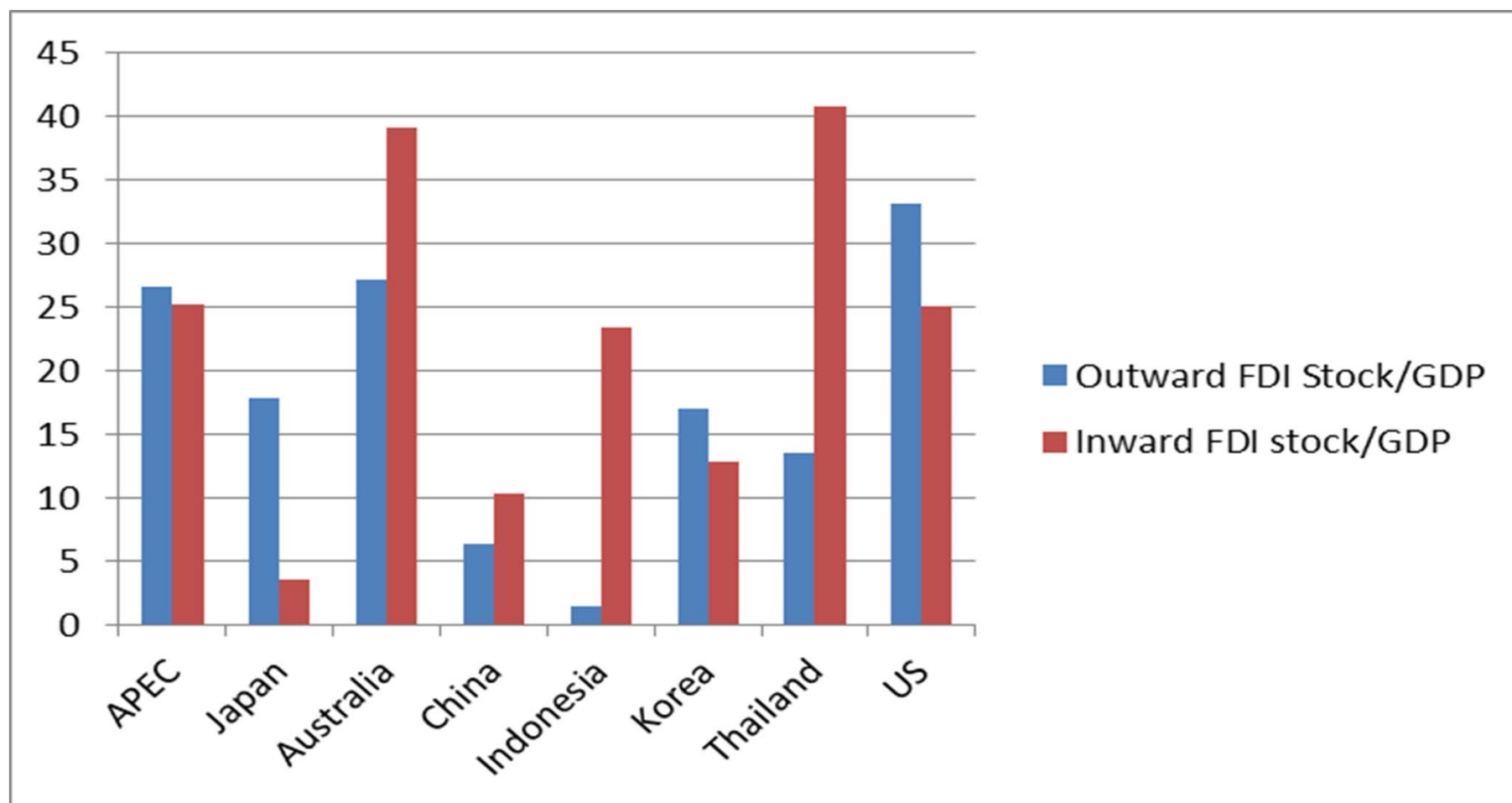
# Government Debt-GDP Ratios (%)



# Trade-GDP Ratios of Selected APEC Economies (%): 2012



# FDI Stock-GDP Ratios of Selected APEC Economies (%): 2012



## Challenge for achieving economic growth

- Increase productivity
- Increase economic interaction with growing Asia-Pacific countries and the EU

## Solutions

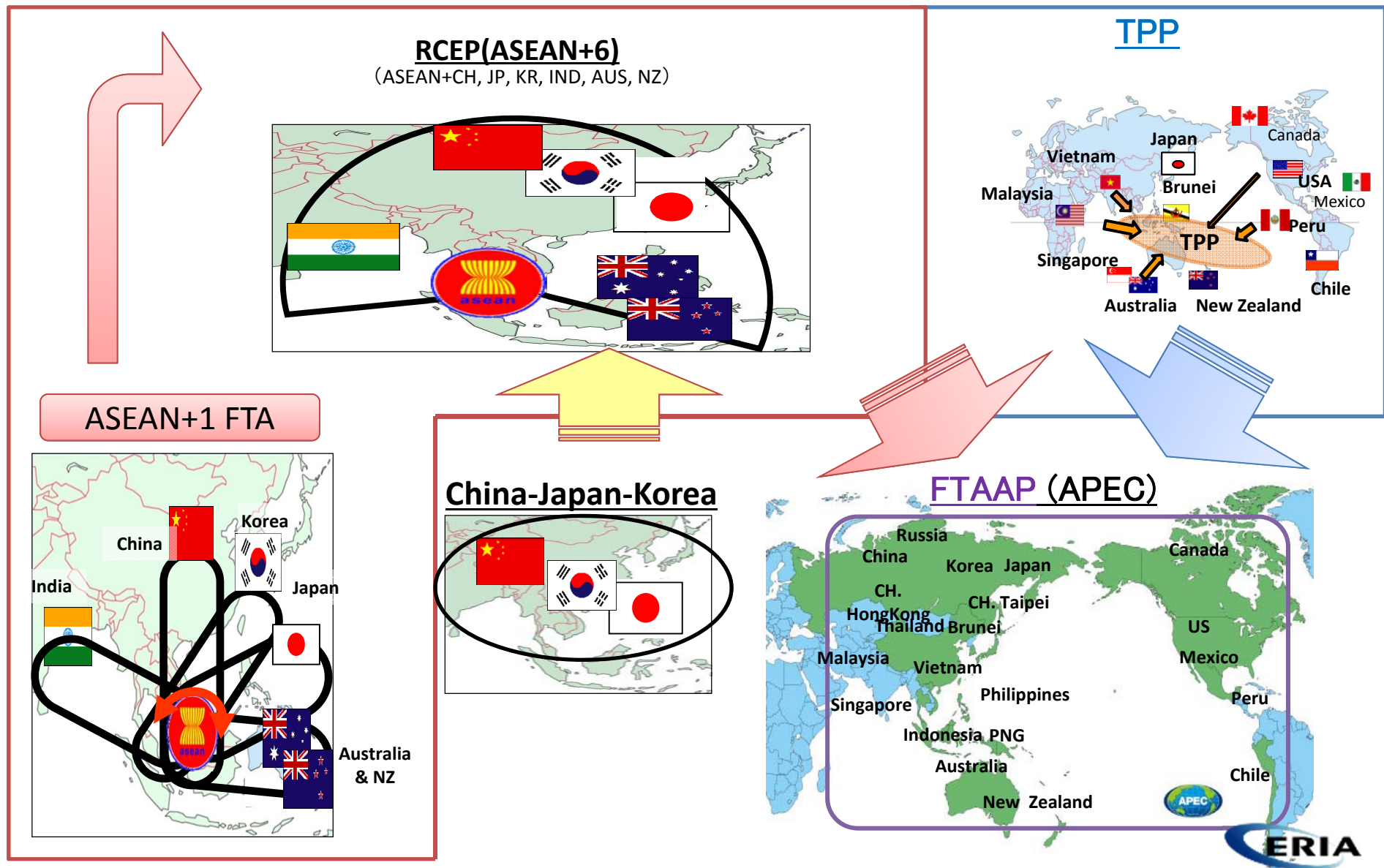
- Implement structural (policy) reforms
- Participate in mega-FTAs

## 2. Mega FTAs Negotiations

	<b>TPP</b>	<b>RCEP</b>	<b>Japan-EU</b>	<b>CJK</b>	<b>TTIP</b>
<b>Starting year</b>	<b>2010</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
<b>Target year for conclusion</b>	<b>2013</b>	<b>2015</b>			
<b># of countries</b>	<b>12</b>	<b>16</b>	<b>29</b>	<b>3</b>	<b>29</b>
<b>Leader</b>	<b>US</b>	<b>ASEAN</b>		<b>CK</b>	
<b>Model</b>	<b>KORUS</b>	<b>ASEAN+1</b>			
<b>Area coverage</b>	<b>21</b>	<b>8</b>	<b>broad</b>	<b>15</b>	<b>broad</b>
<b>Market access</b>	<b>high</b>	<b>medium</b>	<b>high</b>	<b>medium</b>	<b>high</b>
<b>Tariff concession</b>	<b>bilateral</b>	<b>common</b>	<b>common</b>		<b>common</b>
<b>Mode of agreement</b>	<b>single</b>				
	<b>undertaking</b>				
<b>Developing countries</b>	<b>No SDT</b>	<b>SDT</b>			

# Region-wide FTAs in East Asia:

## RCEPP, TPP, China-Japan-Korea (CJK) FTA



# III. Japan's FTA Strategy

## 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%

	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

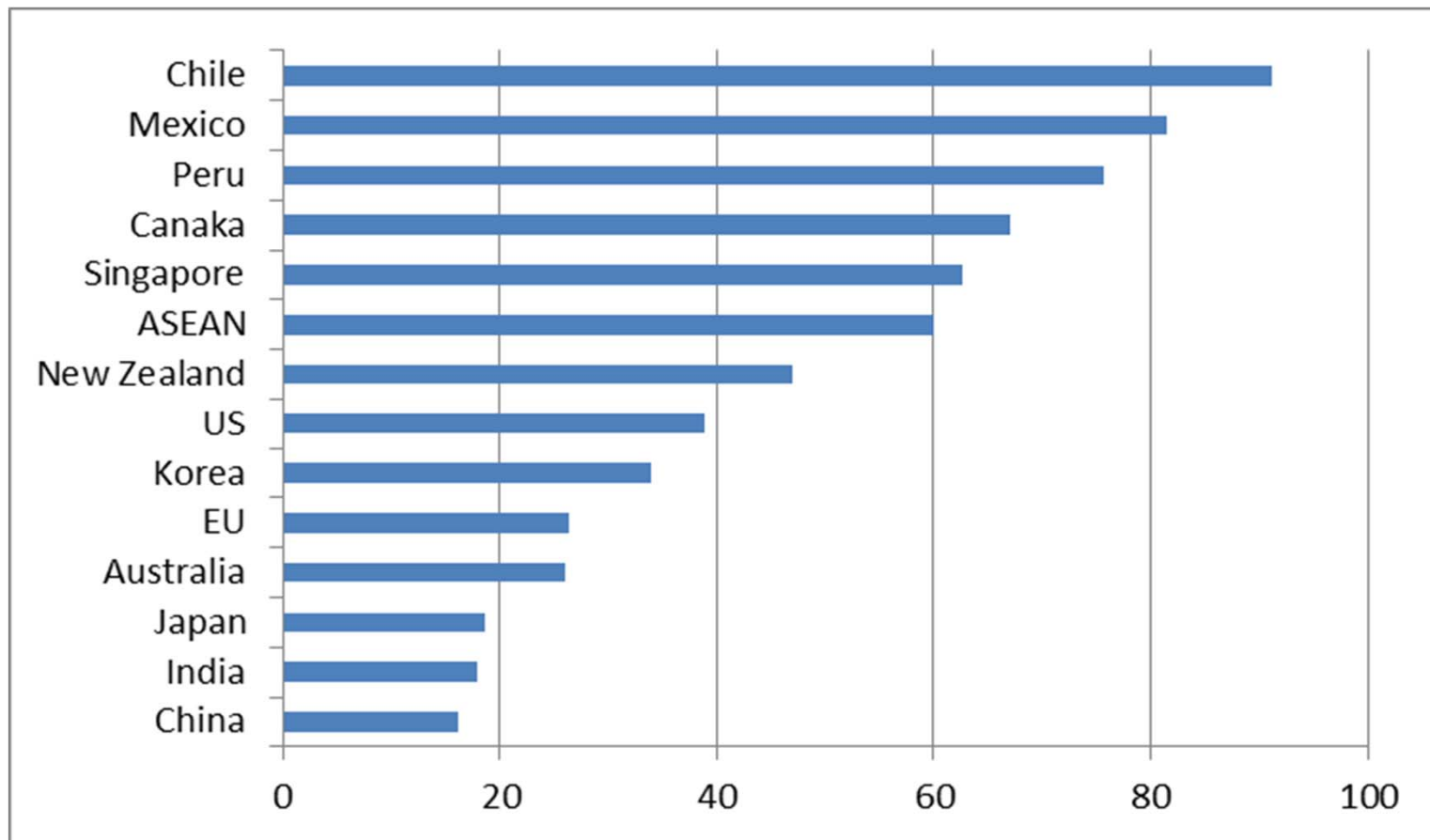
Source: Ministry of Foreign Affairs



# 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			Australi	100
Japan-Malaysia FTA					US	99
	Japan	86.8		US-Peru FTA		
Japan-Indonesia FTA					Peru	99
	Japan	86.6			US	98
Japan-Chile FTA				Korea-US FTA		
	Japan	86.5			US	99
Japan-Switzerland FTA					Korea	98
	Japan	85.6				

# Japan's Import Items Excluded from Tariff Elimination

Products that have never been subject to tariff elimination (929 tariff lines, 10.3%)	Five key items (586 tariff lines, 6.5%)	Rice (58)		
		Wheat (109)		
		Sugar (131)		
		Dairy products (188)		
		Beef (51) and pork (49)		
	Other items (343 tariff lines, 3.8%)	Agricultural, forestry and fishery products (248)	Fishery (91)	
			Beans (16)	
			Konyaku (3)	
			Prepared food (30)	
			Plywood (34)	
Manufactured products (95)				
Products that have been subject to tariff elimination (8089 tariff lines, 89.7%)				
Total number of Japanese imports (9018 tariff lines)				
Source: Masahiro Kawai				

## Motives behind FTAs

- 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
- Important component of Abenomics

# Abenomics

## 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, Japan-EU)

# 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, Japan-EU FTA)

\*Opposition from the agriculture sector

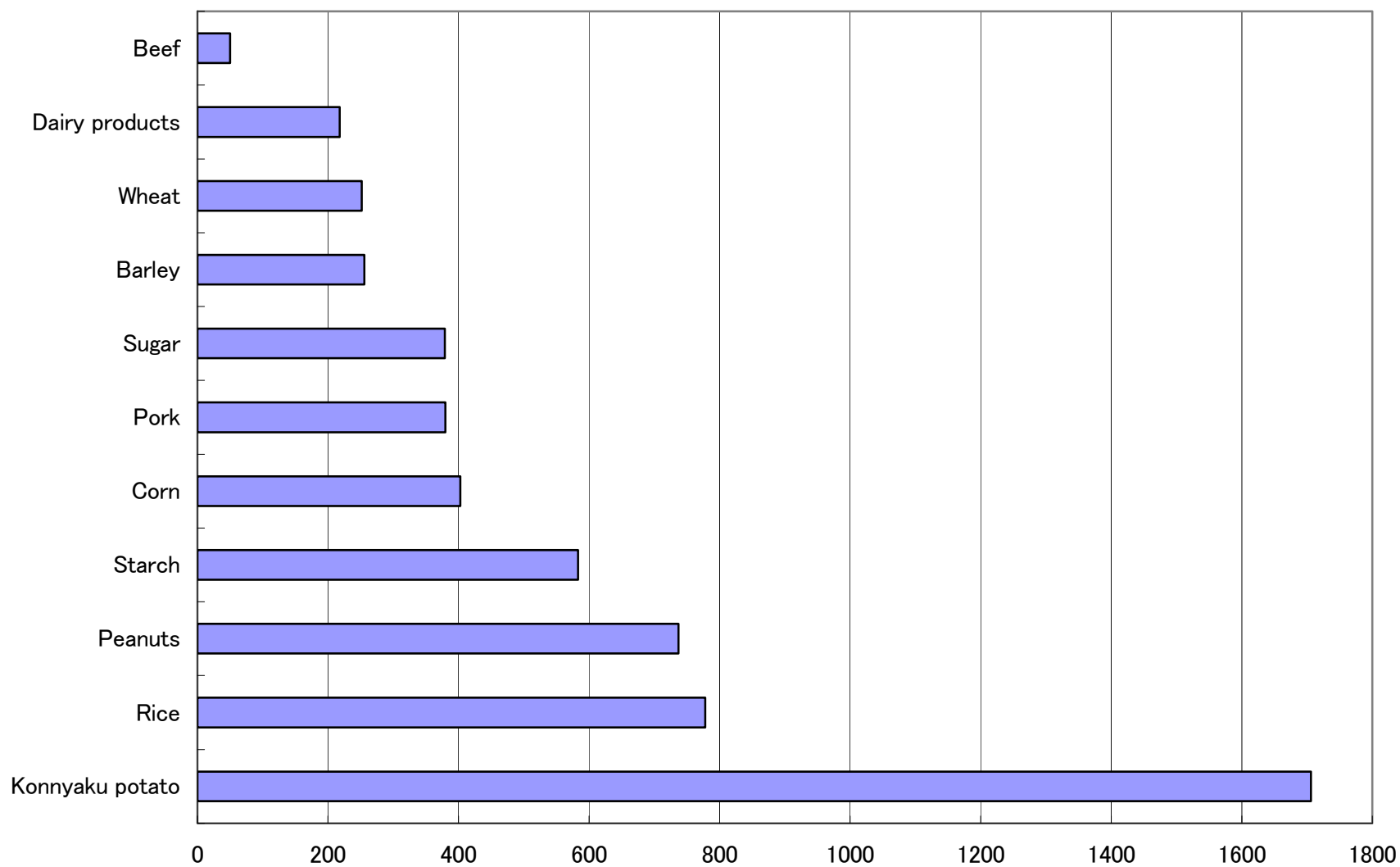
- Decline in already low self-sufficiency in food supply
- Negative impacts on environment
- Negative impacts on regional economy

\*Opposition from the service sectors including medical service sector and insurance service sector

\*Non-tariff barriers

Negative impacts on vested interest groups

## High Tariff Agricultural Products (%)





## 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 mega-FTAs: TPP, RCEP, CJK FTA, Japan-EU FTA by liberalizing its market

- Among them, TPP is most important, because it is high standard and comprehensive and because it puts pressure on other mega-FTAs
- 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
- Japanese and the US leaders have to compromise to conclude TPP negotiations by realizing its importance