

RIETI-ANU Symposium

Japan and Australia:

Leading Asia Pacific regionalism in uncertain times

Handout



URATA Shujiro

Faculty Fellow, RIETI

Dean and Professor of Economics, Graduate School of
Asia-Pacific Studies, Waseda University

March 15, 2018

Research Institute of Economy, Trade and Industry (RIETI)

<https://www.rieti.go.jp/en/index.html>

Japan's Commercial Policies and Cooperation with Australia in Asia- Pacific



March 15, 2018


Shujiro URATA
Waseda University

Contents

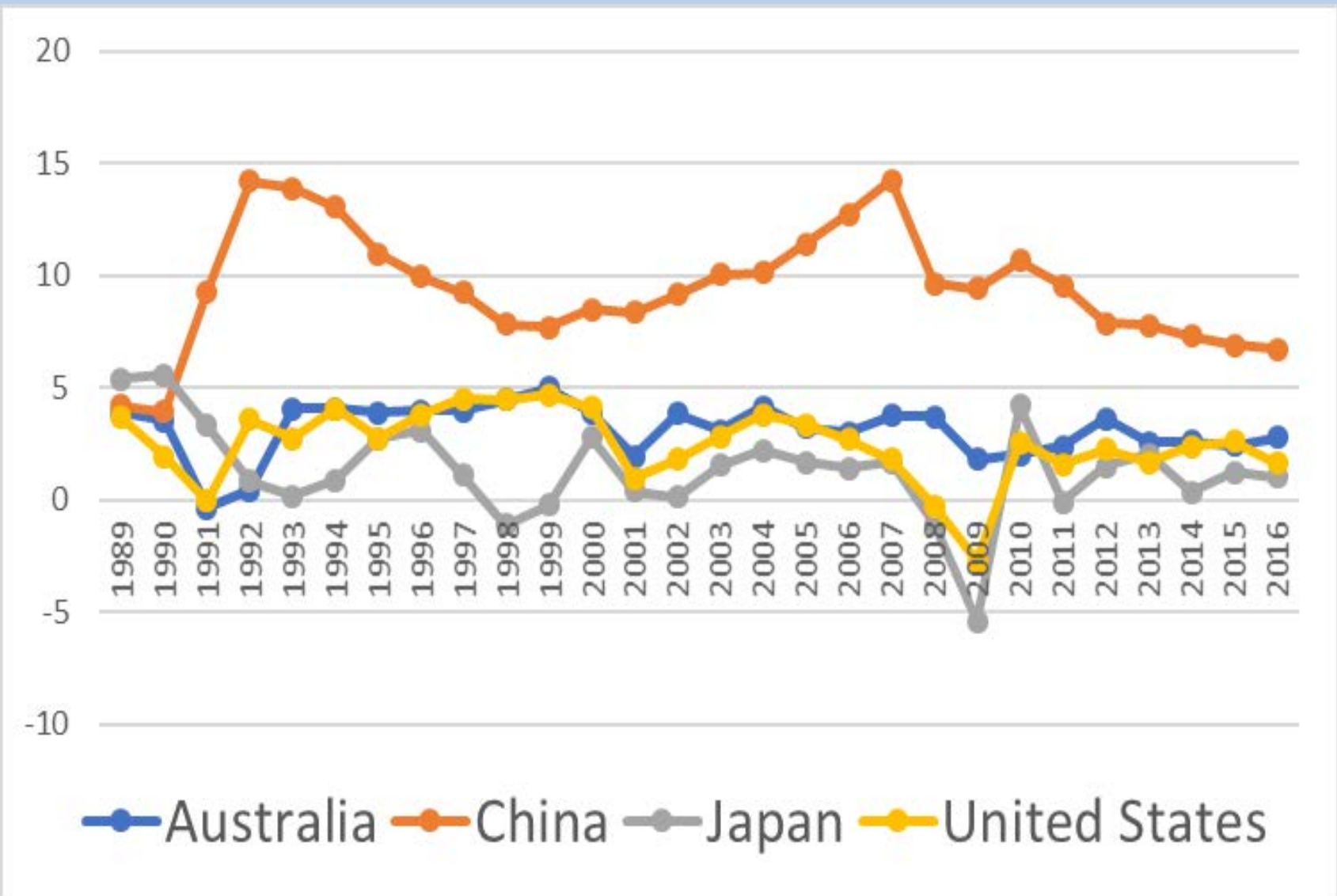
- 
- A stylized, layered illustration of Mount Fuji in shades of yellow, green, and blue, serving as a background for the text.
- I. Introduction: Japan's Structural Problems and Increased Uncertainty in Global Trade Environment
 - II. High Economic Growth in Asia-Pacific
 - III. Japan's Commercial Policy in Asia-Pacific
 - IV. Concluding Remarks: Japan's Cooperation with Australia in Asia-Pacific

I. Introduction

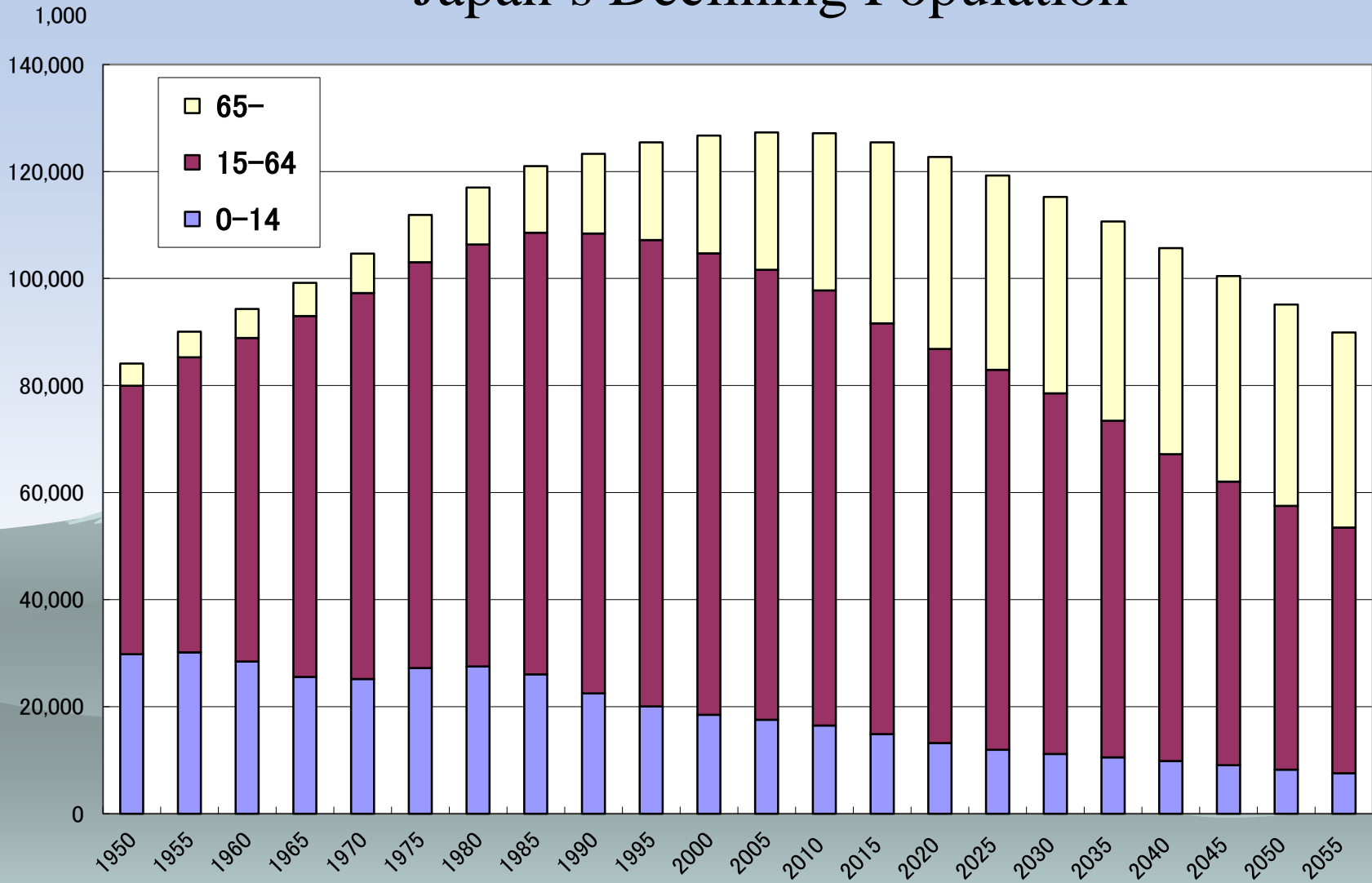
- ◆ Japanese economy has been recovering from a long recession but faced with various structural problems, including demographic problem (declining and ageing population), increasing government debt, and low level of inward foreign direct investment.
- ◆ Increased uncertainty in global trade environment: Brexit, US withdrawal from TPP, imposition of tariffs on steel and aluminum by the US, increasing application of non-tariff measures (NTMs) such as anti-dumping duties

- 
- The background of the slide features a stylized illustration of a mountain range. A prominent mountain peak is shown in the center, with a bright yellow sun or light source positioned behind it, creating a lens flare effect. The sky is a gradient of light blue, and the foreground consists of rolling hills in shades of green and blue.
- ◆ Possible solutions include increase economic relations with fast growing East Asia, improve business environment for Japanese firms in Asia-Pacific, promoting domestic policy reform in Japan, and contributing to building/improving infrastructure in Asia
 - ◆ In order to achieve these goals, Japan needs to actively establish free trade agreements (FTAs) and to cooperate effectively with Australia

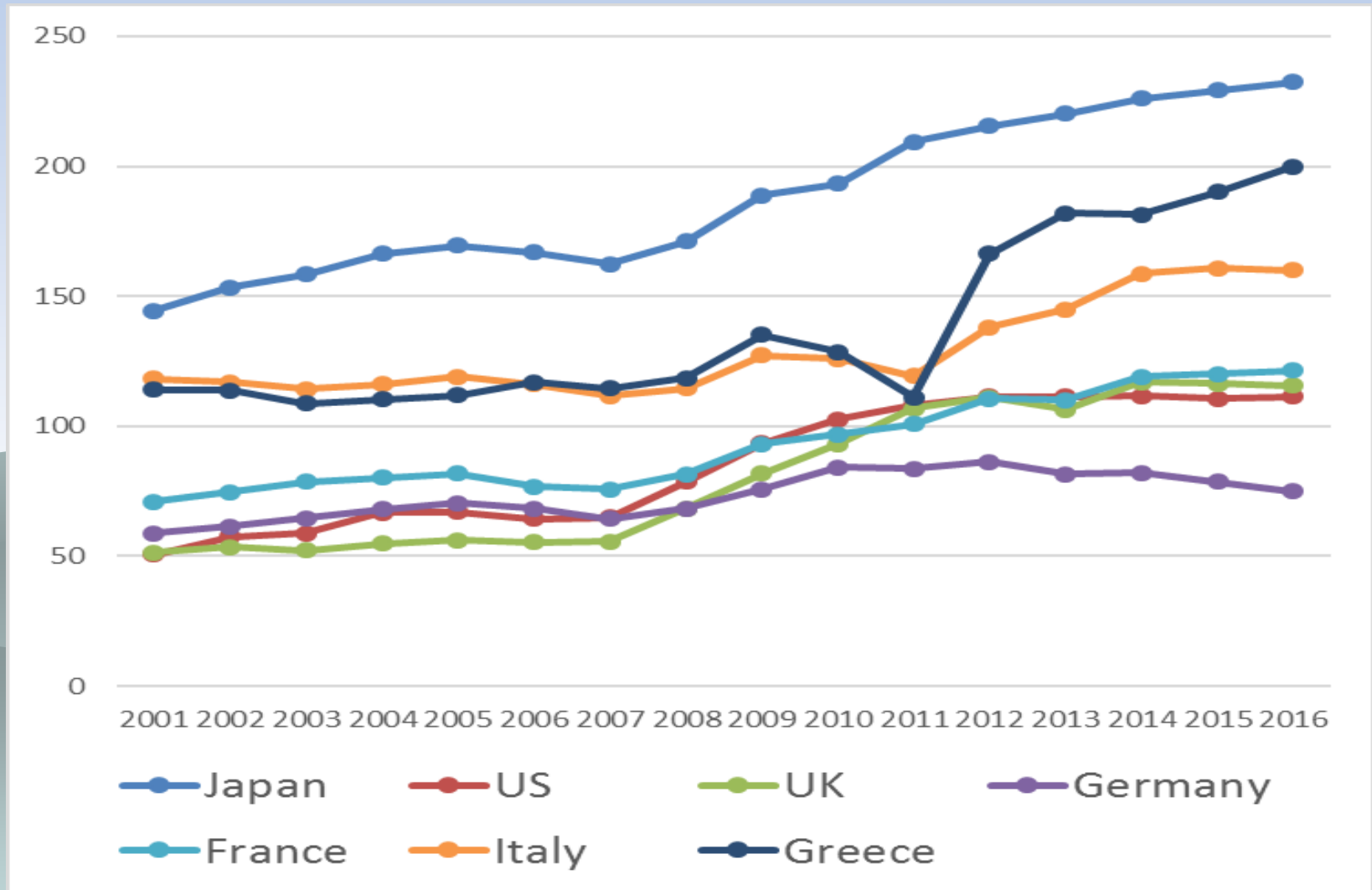
GDP Growth Rates (%)



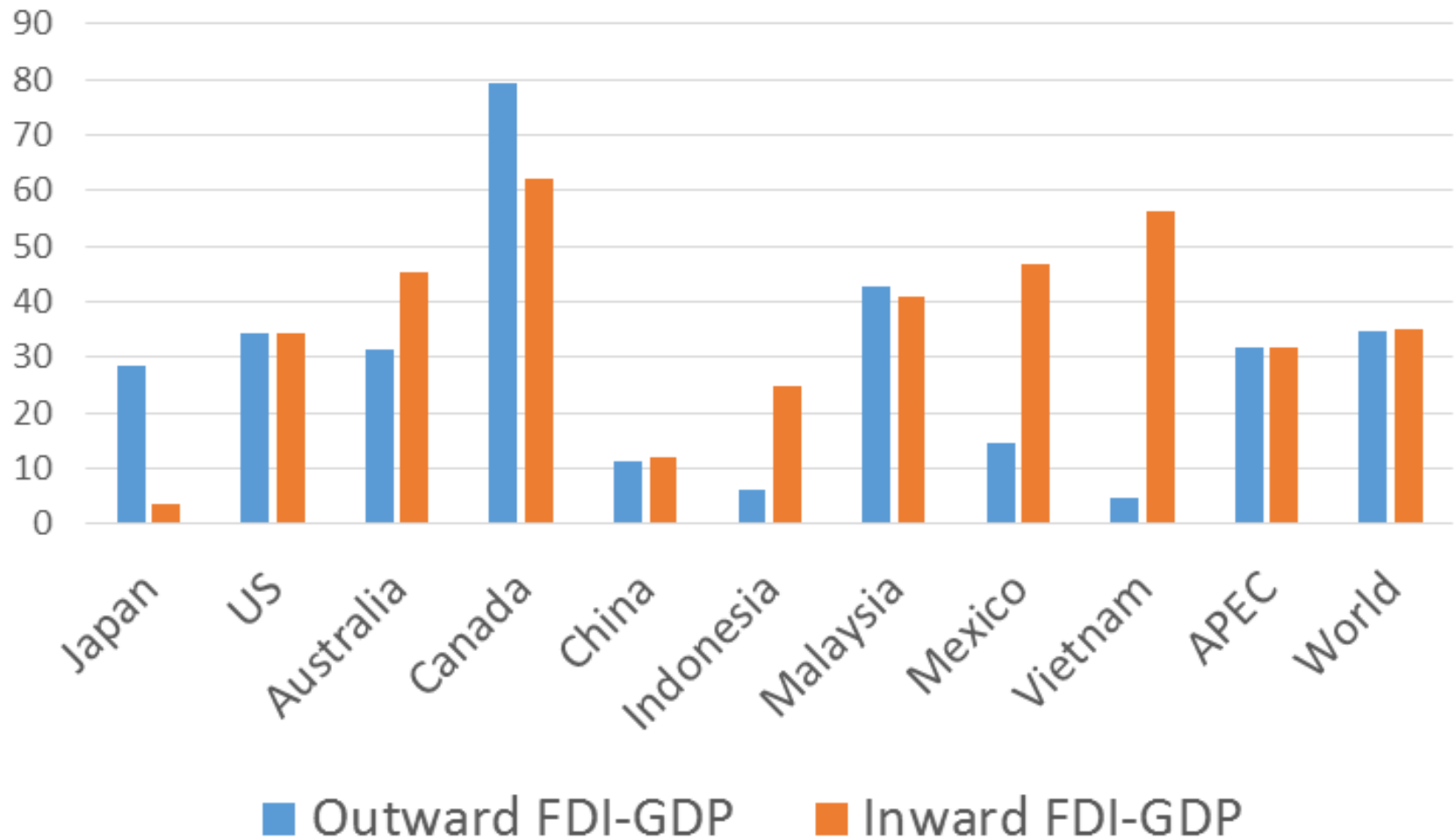
Japan's Declining Population



Government Debt-GDP Ratios (%)



FDI Stock-GDP Ratios (%): 2016



Labor Productivity:

OECD Member Countries (2016)

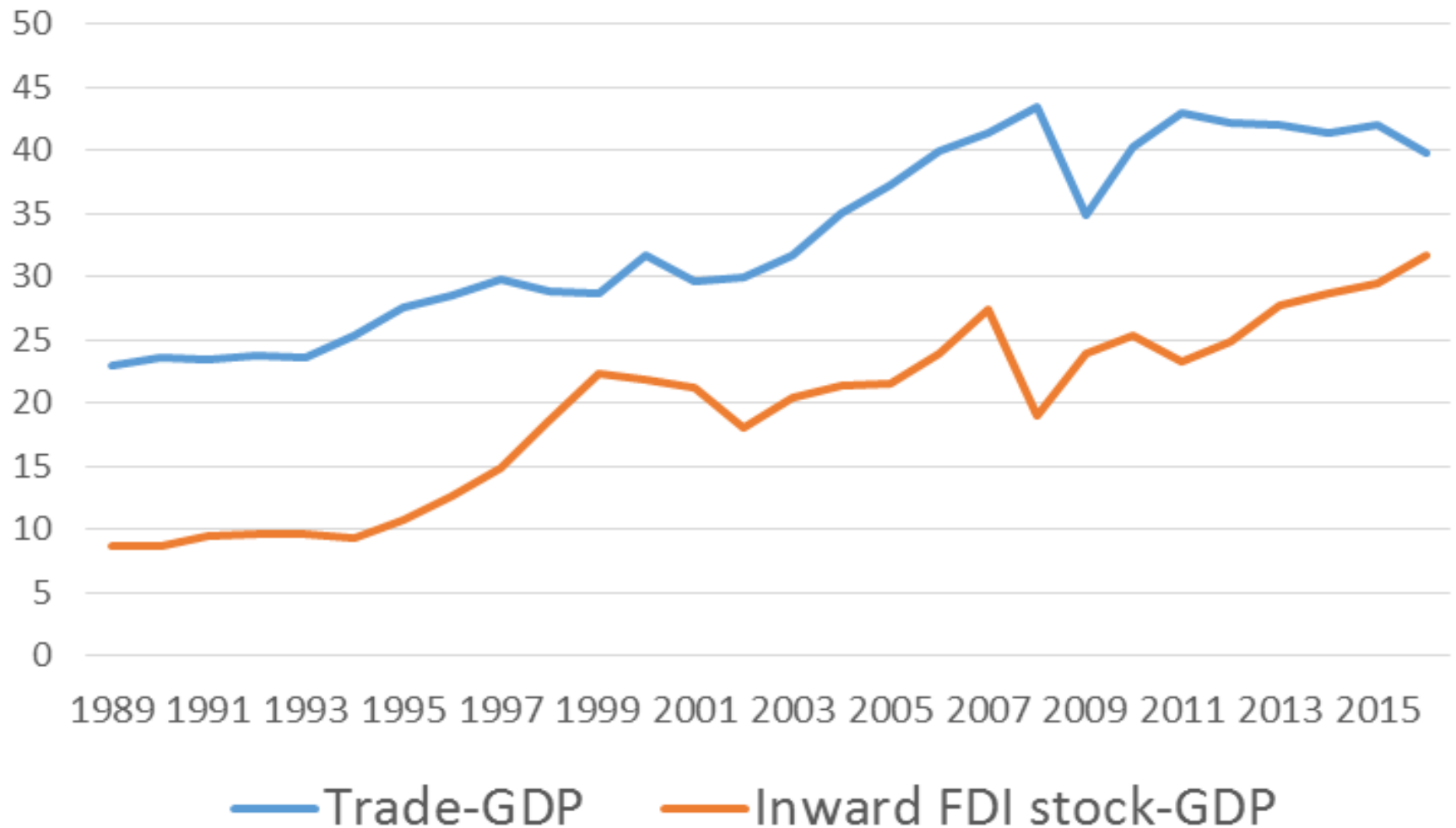
1	Ireland	168,724	19	Canada	88,359
2	Luxembourg	144,273	20	Israel	86,418
3	USA	122,986	21	Japan	81,777
4	Norway	117,792	22	Slovenia	75,420
5	Switzerland	115,900	23	New Zealand	74,327
6	Belgium	114,759	24	Czech Republic	72,225
7	Austria	104,971	25	Turkey	71,323
8	France	104,347	26	Greece	70,692
9	Netherland	103,639	27	Korea	69,833
10	Italy	102,107	28	Portugal	68,749
11	Denmark	100,491	29	Slovakia	66,728
12	Sweden	99,859	30	Poland	65,158
13	Australia	97,949	31	Estonia	60,491
14	Germany	97,927	32	Hungary	60,195
15	Finland	97,339	33	Latvia	56,923
16	Spain	92,328	34	Chile	52,881
17	Iceland	90,197	35	Mexico	44,177
18	UK	88,427		OECD average	92,753

Units: Purchasing Power Parity US dollars

II. High Economic Growth in Asia-Pacific

- ◆ Rapid expansion of foreign trade and foreign direct investment (FDI)
- ◆ Formation of production network/supply chains/value chains
- ◆ Reduction in trade cost due to technological progress, deregulation, trade and FDI liberalization/facilitation
- ◆ Need for further trade and FDI liberalization/facilitation, improving infrastructure

Increasing Importance of Trade and FDI for APEC Economies (%)

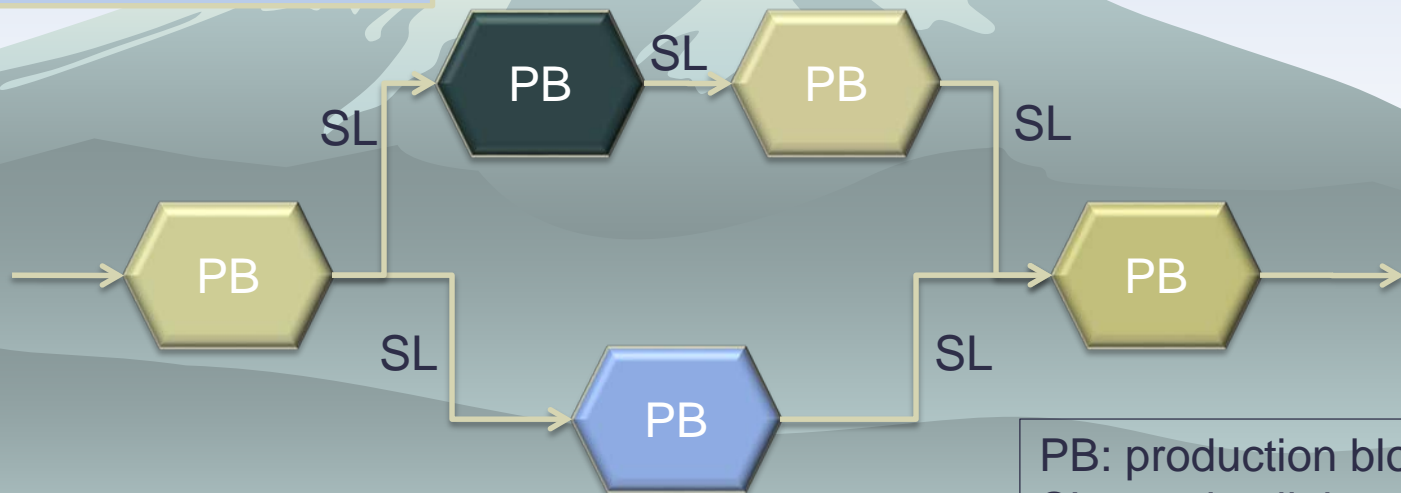


Fragmentation

Before fragmentation



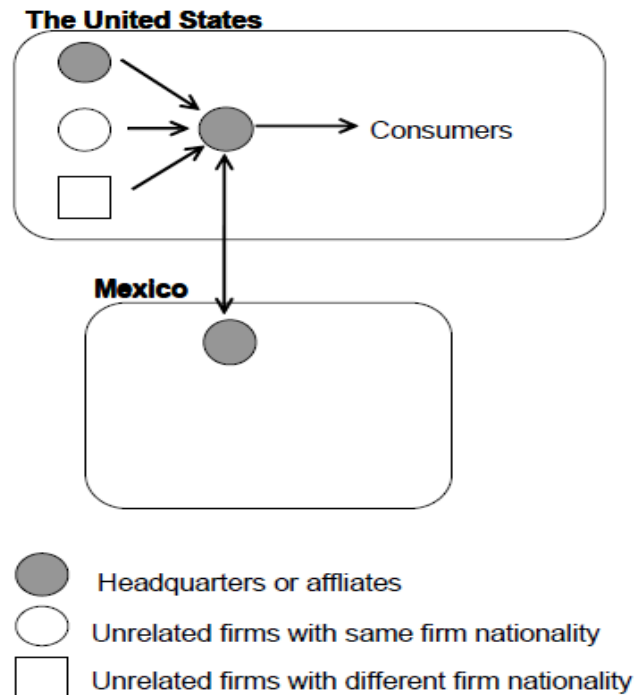
After fragmentation



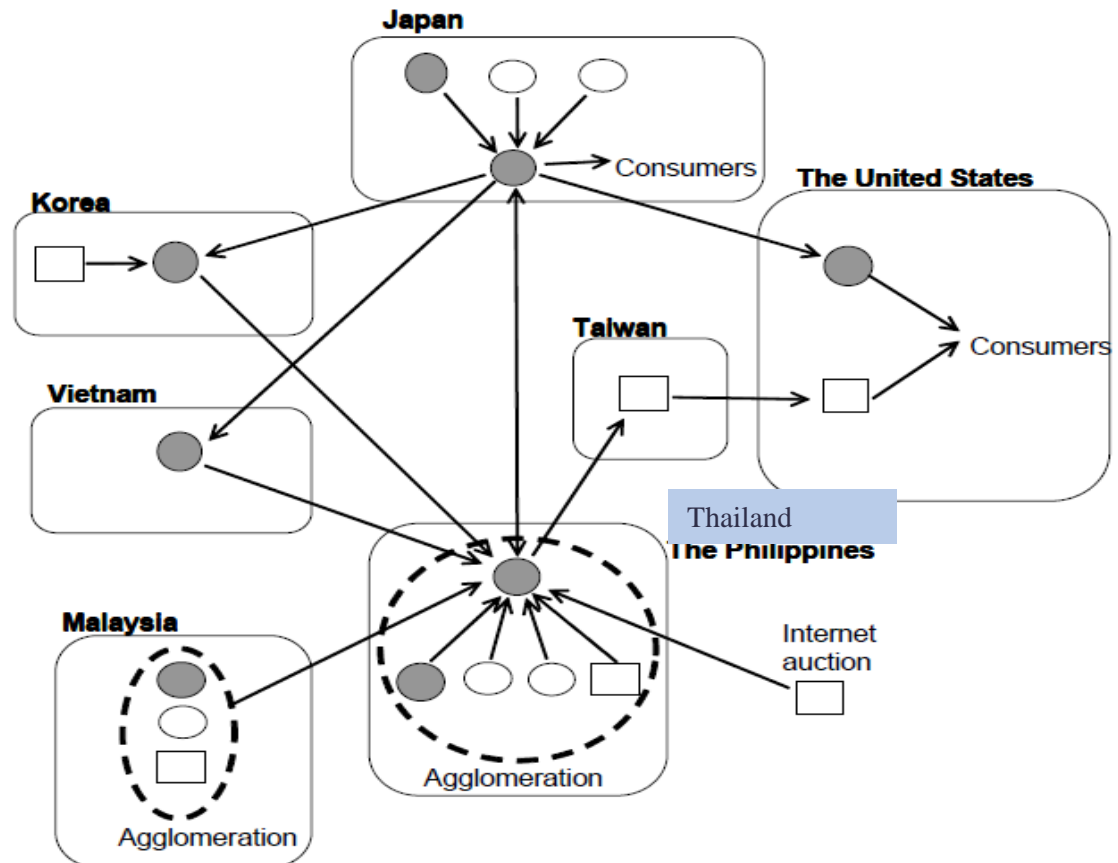
PB: production blocks
SL: service links

Production Networks: Supply Chains

Cross-border production sharing
(back-and-forth; intra-firm)



Production networks
 (“networks”; fragmentation and agglomeration;
 intra-firm in short distance, arm’s length in long distance)



Source: “ASEAN Connectivity and East Asia”, Economic Research Institute for ASEAN and East Asia (ERIA)

Trade Liberalization: Declining Tariff Rates (%)

		All products	Manufactured products	Primary products			All products	Manufactured products	Primary products
Japan	1988	4.11	3.42	7.14	Malaysia	1988	14.07	14.67	10.28
	2016	2.35	1.89	4.81		2016	5.22	5.71	2.91
Australia	1991	20.1	14.52	57.63	Philippines	1988	28.25	27.96	29.75
	2016	2.29	2.46	1.25		2016	5.12	4.86	6.73
China	1992	39.71	40.75	34.67	Thailand	1989	36.95	37.86	29.52
	2016	7.76	7.7	8.17		2015	7.67	7.2	10.58
India	1990	81.56	82.96	71.56	New Zealand	1992	14.73	14.71	14.37
	2016	8.55	7.41	16.65		2016	2.1	2.24	1.21
Indonesia	1989	18.74	18.91	17.66	US	1989	5.29	5.78	2.89
	2016	6.31	6.21	7.2		2016	2.79	2.87	2.42
Korea	1988	18.61	18.56	19.02	Vietnam	1994	14.5	13.68	21.77
	2016	10.14	7.29	25.39		2016	6.4	6.14	8.16

III. Japan's Commercial Policy in Asia-Pacific

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

Japan's FTAs (as of Jan 2018)

		Start of negotiation	Signing of agreement	Enactment of agreement
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
	Australia	Apr 2007	Jul 2014	Jan 2015
	Mongolia	Jun 2012	Feb 2015	Jun 2016
Signed	TPP*	Jul 2013	Feb 2016	
In negotiation	South Korea**	Dec 2003		
	GCC**	Sep 2006		
	Canada	Nov 2012		
	Colombia	Dec 2012		
	China-Japna-S.Korea	Mar 2013		
	EU	Apr 2013		
	RCEP	May 2013		
	Turkey	May 2013		
	TPP11	May 2017		

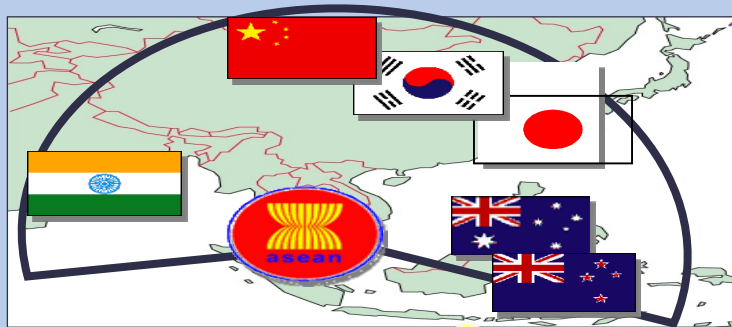
FTA Coverage Ratios:

Share of trade with FTA partners in total trade (%), 2015

		FTA coverage ratio					FTA coverage ratio		
		Total	Exports	Imports			Total	Exports	Imports
Japan		22.7	21.1	24.2	ASEAN		60.3	56.5	64.1
USA		39.6	47.3	34.4	Singapore		77.7	73.1	80.4
Canada		70.9	79.5	63.3	Malaysia		63.3	63.2	63.5
Mexico		80.2	93.5	67.3	Vietnam		61.5	43.1	75.5
Chile		92.1	90.6	93.8	Thailand		59.5	56.0	63.2
Peru		90.4	92.1	88.9	Indonesia		64.3	60.0	68.8
EU28	Total	73.8	74.8	729.0	India		18.3	19.9	17.2
	Extra-EU28	28.5	31.6	25.3	Australia		70.6	74.6	66.9
China		29.0	22.4	38.5	NZ		48.2	48.0	48.5
Korea		67.3	71.1	62.7					

Region-wide FTAs in East Asia: RCEP, TPP, China-Japan-Korea (CJK) FTA

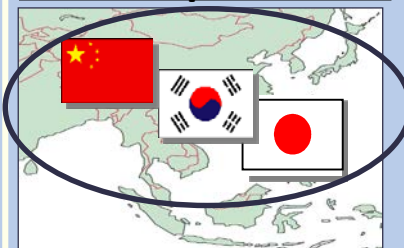
RCEP(ASEAN+6)
(ASEAN+CH, JP, KR, IND, AUS, NZ)



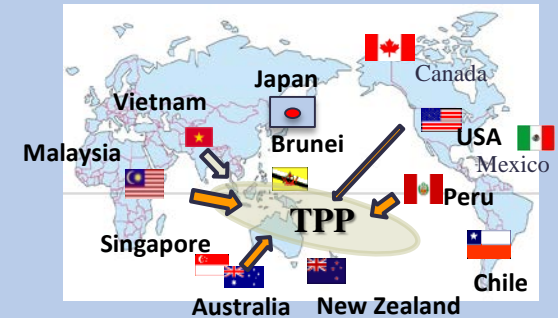
ASEAN+1 FTA



China-Japan-Korea



TPP



FTAAP (APEC)



Mega-regional FTA Negotiations: Competitive Regionalism

- ◆ Trans-Pacific Partnership (TPP) negotiations began with eight APEC member countries (March 2010)
- ◆ Japan announced to join TPP negotiations (March 2013)
- ◆ China-Japan-Korea FTA negotiations began (March 2013)
- ◆ Japan-EU EPA negotiation began (April 2013)
- ◆ Regional Comprehensive Economic Partnership (RCEP) negotiations began with 16 East Asian countries (May 2013)
- ◆ TPP negotiation was concluded in November 2015 and signed in February 2016.
- ◆ The US withdrew from TPP in January 2017
- ◆ TPP11 (Comprehensive and Progressive Agreement for TPP:CPTPP) without the US began to be discussed in May 2017
- ◆ CPTPP negotiation was concluded in January 2018 and signed in March 2018

Contents of TPP:

High level (trade and FDI liberalization) and comprehensive coverage: 21st century trade agreement

	Total	Agricultural products		Industrial products	
	Eventual elimination	Immediate elimination	Eventual elimination	Immediate elimination	Eventual elimination
Japan	95	51.3	81	95.3	100
US	100	55.5	98.8	90.9	100
Canada	99	86.2	94.1	96.9	100
Australia	100	99.5	100	91.8	99.8
NZ	100	97.7	100	93.9	100
Singapore	100	100	100	100	100
Mexico	99	74.1	96.4	77	99.6
Chile	100	96.3	99.5	94.7	100
Peru	99	82.1	96	80.2	100
Malaysia	100	96.7	99.6	78.8	100
Vietnam	100	42.6	99.4	70.2	100
Brunei	100	98.6	100	70.2	96.4

Issue Coverage: TPP, RCEP, WTO

	TPP	RCEP	WTO
Market Access for Goods	●	●	●
Rules of Origin and Origin Procedures	●	●	●
Textiles and Apparel	●	●	●
Customs Administration and Trade Facilitation	●	●	●
Trade Remedies	●	○	●
Sanitary and Phytosanitary Measures	●	●	●
Technical Barriers to Trade	●	●	●
Investment	●	●	▲
Cross Border Trade in Services	●	●	●
Financial Services	●	●	●
Temporary Entry for Business Persons	●		●
Telecommunications	●	●	●
Electronic Commerce	●	●	
Government Procurement	●		▲
Competition Policy	●	●	
State-Owned Enterprises and Designated Monopolies	●		
Intellectual Property	●	●	●
Labor	●		
Environment	●		
Cooperation and Capacity Building	●	●	
Competitiveness and Business Facilitation	●		
Development	●	●	
Small and Medium-Sized Enterprises	●	●	
Regulatory Coherence	●		
Transparency and Anti-corruption	●		
Administrative and Institutional Provisions	●	●	
Dispute Settlement	●	●	●

Note: ● indicates the issue is covered, ○ is likely to be covered, ▲ is partially covered.

Sources: TPP are taken from the TPP text and RCEP are based on the information given by RCEP "Guiding Principle and Objectives for Negotiating RCEP" and other sources

From TPP12 to TPP11(CPTPP)

- ◆ Suspended provisions: Annex of Comprehensive and Progressive Agreement for Trans-Pacific Partnership
- ◆ 22 provisions including:
- ◆ Intellectual property rights related provisions including data protection for new medicines including biologics, copyright term
- ◆ Investment: Investor-state dispute settlement (ISDS)
- ◆ Services: express shipments

Rationale for CPTPP

- ◆ Enacting a high-level and comprehensive agreement would promote economic growth
- ◆ Can be a model FTA for future FTAs
- ◆ Can be a step toward larger FTA such as FTAAP: Especially important as China is attempting to construct China-driven business environment by the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB)
- ◆ Fight against rising protectionism
- ◆ Prepare for a possible return of the US to the TPP

Economic Impacts of TPP11 and Other FTAs

	2030 income in \$bill.	Change in \$bill. (%)						
		TPP12	TPP11	TPP16	UJFTA	RCEP	T11+R	T16+R
Japan	4,924	125 (2.5)	46 (0.9)	98 (2.0)	60 (1.2)	56 (1.1)	93 (1.9)	128 (2.6)
Australia	2,590	15.0 (0.6)	12.0 (0.5)	17.0 (0.7)	0.0 (0.0)	5.0 (0.2)	15.0 (0.6)	20.0 (0.8)
United States	25,754	131 (0.5)	-2 (0)	-6 (0)	52 (0.2)	1 (0)	-2 (0)	-5 (0)
China	27,839	-18 (-0.1)	-10 (0)	-53 (-0.2)	-1 (0)	101 (0.4)	89 (0.3)	51 (0.2)
WORLD	133,801	492 (0.4)	147 (0.1)	449 (0.3)	120 (0.1)	286 (0.2)	408 (0.3)	667 (0.5)

RCEP and TPP

- ◆ Contents
- ◆ Issue Coverage: TPP > RCEP
- ◆ Level of liberalization: TPP > RCEP
- ◆ Objectives
- ◆ RCEP: equitable development, cooperation
- ◆ TPP: high aspiration, innovation
- ◆ Relationship
- ◆ Complementary: Low income and developing countries can join RCEP and achieve economic development and then can join TPP11

V. Concluding Remarks: Japan's Cooperation with Australia in Asia-Pacific

- ◆ Japan and Australia contributed substantially to successful conclusion of CPTPP negotiations
- ◆ Successful and speedy ratification of CPTPP
- ◆ Expansion of membership
- ◆ Successful conclusion of RCEP negotiations
- ◆ Provision of economic/technical assistance to ASEAN member countries
- ◆ Effective cooperation in APEC activities