

# **Japan's Contribution to Trade Rules: TPP, Mega FTAs, and Ahead**

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# I Japan and Trade Rules

1. Japan is an advanced country in trade rules
2. Contributing to many advanced areas and committed firmly to establishing better trade rules (A little known fact)
3. Specifically...

- 1) Investment

Promoted Doha Round negotiations on investment

FTA investment chapters and bilateral investment agreements (Japan-China-Korea, etc.) → Promoting both protection and liberalization

Investor-to-state dispute settlement (ISDS provisions included in all FTAs/EPAs concluded by Japan except for the Japan-Philippines EPA)

- 2) Services

Japan is a member of the Really Good Friends of Services (RGF) group negotiating a Trade in Services Agreement (TISA) → Japan submitted its proposal

Negative list approach → Adopted in FTAs/EPAs (in combination with the positive list approach)

Japan has no MFN exemptions under GATS

# I Japan and Trade Rules

## 3) Trade facilitation

Japan cooperated for achieving an agreement at the WTO

## 4) Issues relating to the digital economy

- Actively contributing to the Information Technology Agreement (ITA1 + ITA2) (See Nakatomi 2012b)
  - ITA is a productive result of Japan-U.S. cooperation
  - Seeking to expand the scope of items covered by the ITA (in cooperation with the United States)
- E-commerce
  - Promoting the concept of “digital products”; customs duty moratorium on electronic transmissions
  - E-commerce chapter (Japan-Switzerland EPA)
- Japan-U.S. Trade Principles for Information and Communication Technology (ICT) Services
  - Confirming the Japanese and the U.S.’ common position

# Japan-U.S. Trade Principles for ICT Services

1. Transparency
2. Cross-border information flows
3. Open networks, network access and use
4. Interconnection
5. Unbundling of network elements
6. Local infrastructure and local presence
7. Foreign ownership
8. Use of spectrum
10. Regulatory authorities
11. Authorizations and licenses
12. International cooperation

# I Japan and Trade Rules

## 5) Intellectual property rights

→ Anti-Counterfeiting Trade Agreement (ACTA): Enforcement of copyright and trademark protection

Japan is the only country that has ratified the ACTA

## 6) Technical barriers to trade (TBT)

→ 2nd triennial review: Definition of international standards, etc.

→ Japan attempted to bring TBT issues into the Doha Round agenda

## 7) Competition

Promoted Doha Round negotiations on competition

## 8) Procurement

Japan is party to the Agreement on Government Procurement

One-stop website for information on procurements by local governments (JETRO)

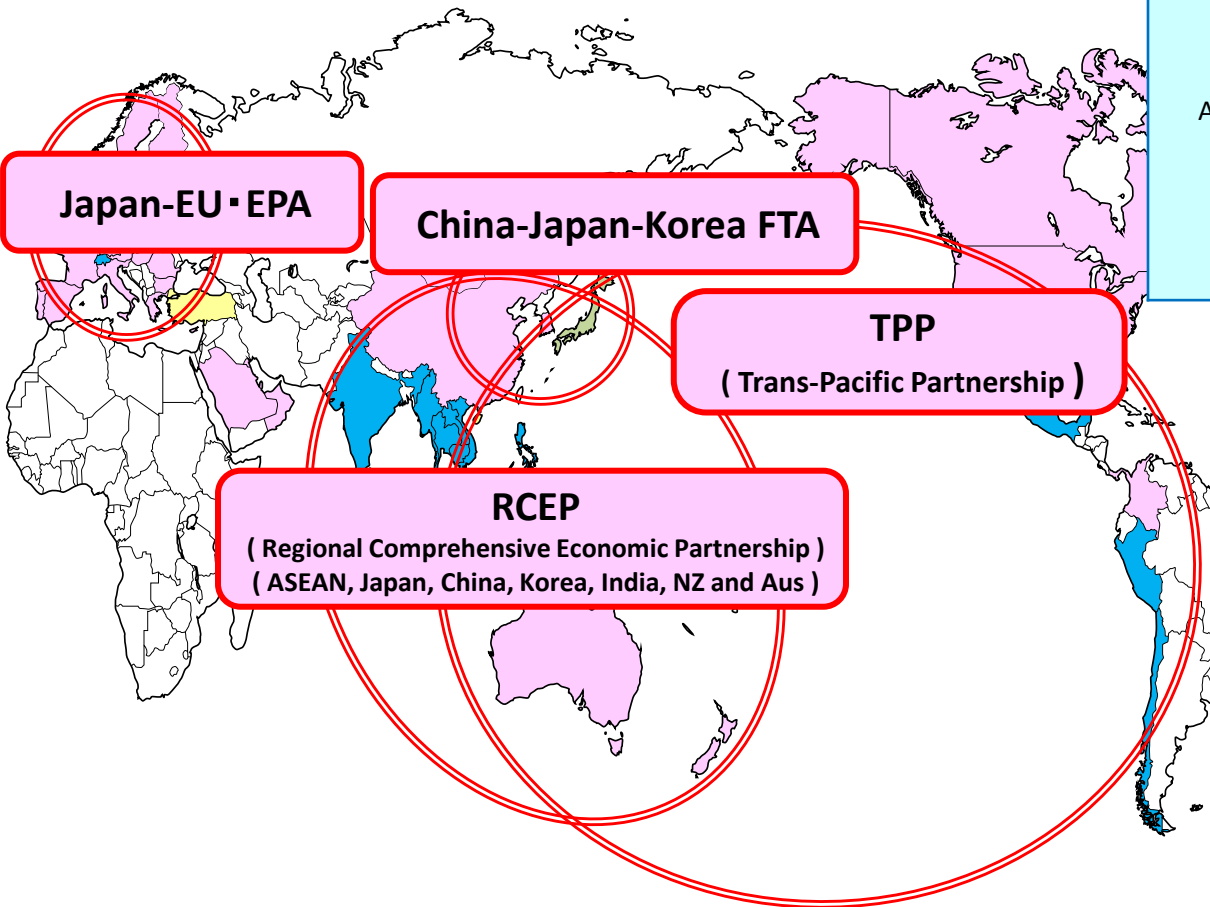
# I Japan and Trade Rules

## 4. Conclusion of high-level FTAs/EPAs

A network of comprehensive, high-level FTAs covering a broad range of items

Seeking to expand the network of FTAs/EPAs (TPP, RCEP, Japan-EU, Japan-China-Korea)

# Development of Japan's EPA/FTA Network



In force/Signed ( 12 countries and 1 region )			
Asia	Singapore	Asia	Vietnam
	Malaysia		India
	Thailand		Mexico
	Indonesia	Latin America	Chile
	Brunei		Peru
	ASEAN	Europe	Switzerland
	Philippines		

Under Negotiation ( 5 countries and 5 regions )			
Asia	Mongolia	Pacific	Australia
	C-J-K	Europe	EU
	RCEP	North America	Canada
	Republic of Korea (Negotiation suspended)	Latin America	Colombia
Asia/Pacific	TPP	Middle East	GCC*

Joint Study ( 1 country )	
Middle East	Turkey

\* GCC: Gulf Cooperation Council (UAE, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia) 7

## II Commitment to Global Rules

- The WTO and FTAs/EPAs are the two pillars of Japan's trade policy
- Concept of “unified axis” (coherent approach)
  - “Proposals for Redefining of Trade Strategy: Towards a proactive new trade strategy that takes the initiative to establish global rules”

April 16, 2013, Keidanren



## II Commitment to Global Rules

- a. Pursue regional FTAs (TPP, Japan-China-Korea FTA, RCEP as a step towards FTAAP, Japan-EU EPA)
- b. Establish a common approach as a “unified axis” for Japan to negotiate trade and investment rules to ensure coherency across Japan's various FTAs with a view to establishing rules that can be adopted in the future multilateral regime (part of WTO agreement)
- c. Proactively pursue issue/sector-specific agreements (e.g., revision of WTO Information Technology Agreement [ITA], the Trade in Services Agreement [TISA]) and encourage developing country involvement in such agreements
- d. Continue utilization of WTO functions (compliance monitoring and dispute settlement) and efforts to amend and formulate rules

# III Importance of Global Value Chains and Japan's Contribution

Analysis of trade in value added (TiVA)

→ Joint study by the WTO and IDE-JETRO (July 2011)

Connectivity support

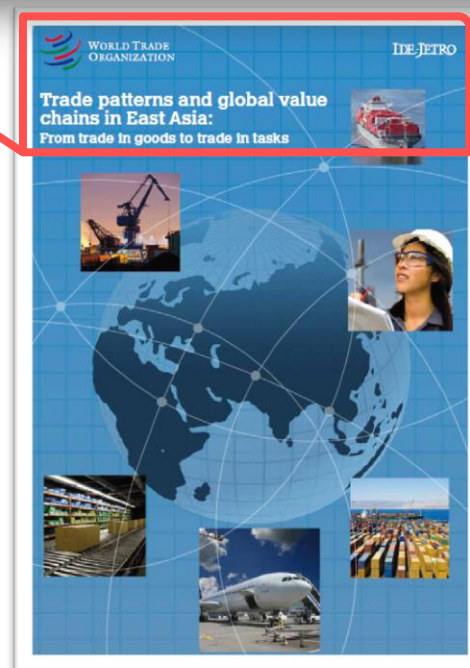
→ Support physical, institutional, and people-to-people connectivity

→ From ASEAN to Asia Pacific

▪ Business community's commitment (See Keidanren's proposal)

# WTO/ IDE-JETRO Study on Global Value Chains

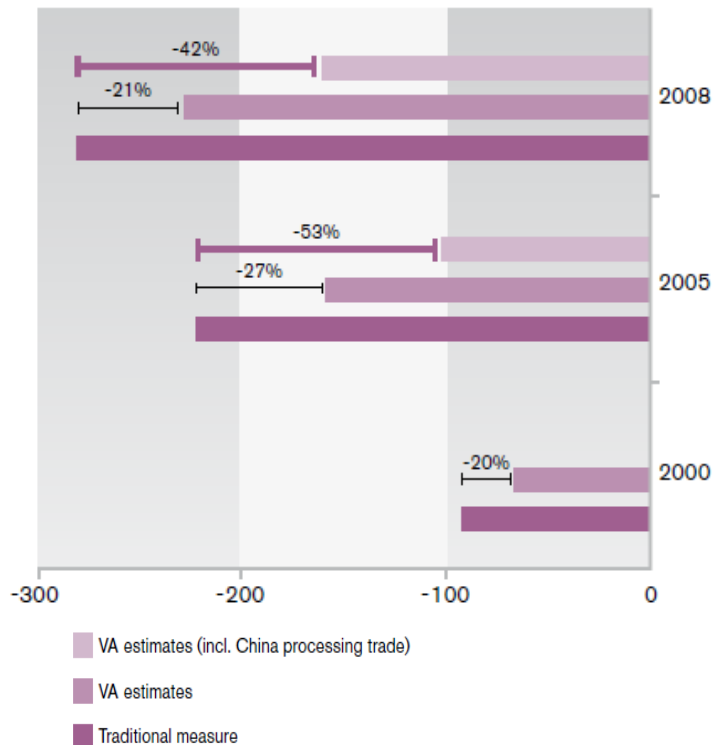
- Joint report was published in June 2011
- The report analyzes the development of global value chains (GVCs) in the east Asian region  
([http://www.wto.org/english/res\\_e/booksp\\_e/stat\\_tradeprat\\_globvalchains\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/stat_tradeprat_globvalchains_e.pdf))



# Global Value Chains (WTO/ IDE-JETRO Report)

- Issues of “global value chains” and “vertical specialization” highlighted
  - Diversity and complementarities of production networks cause “fragmented value chains”
  - Applying the concept of “country of origin” is becoming increasingly difficult
- Importance of lowering trade barriers
- A new trade regime is needed, as firms go beyond national boundaries

United States-China trade balance :  
 Traditional statistics versus value added (VA) terms  
 (in billions of US\$)



Note: China’s processing trade data not available for 2000.

Sources: UN Comtrade Database and WTO estimates.

Sources: IDE-JETRO

Development of cross-national production linkages, 1985-2005



# IV Japan's Contribution to the TPP

Issues pointed out in Sections I through III are elements forming a basis upon which to complete and expand the TPP

A basis for cooperation with other participants, in particular, the United States

Key priorities in the rules area

Japan's priorities in the TPP and other mega FTAs are closely related with issues discussed in Sections I through III. Japan is interested in establishing highly ambitious rules in such areas as:

- 1) Not only market access but also trade rules; behind-the-border measures are quite important
- 2) Investment rules (liberalization + protection)
- 3) Services (market access, national treatment +  $\alpha$ )
- 4) Protection of intellectual property
- 5) Domestic regulations (TBT)
- 6) Making rules for information society (e-commerce, telecommunications +  $\alpha$ )

Japan-U.S. cooperation is possible and important

# V Direction for Cooperation: TPP and beyond

## 1. GVC perspective

- 1) Avoid the fragmentation of trade rules; cooperation both within and outside of FTAs is indispensable

A spaghetti bowl of trade rules is indigestible (far more serious than that of rules of origin)

Case of South Korea on international standards for electronics and electrical products, and automobiles → Different definitions adopted in FTAs with the United States and the EU

What the business community is looking for is global rules; GVCs are changing day by day

Cooperation with an eye on the development of international public goods is needed

- 2) Japan-U.S.-EU cooperation is indispensable

United States: TPP, TTIP

Japan: TPP, Japan-EU, Japan-China-Korea, RCEP

EU: Japan-EU, TTIP

} → Harmonization of  
mega FTAs is an  
urgent issue

- 3) Whole of the supply chain approach (See the WEF Enabling Trade Report 2013)

Think supply chain!

- 4) Concept of connectivity (Importance of support measures for GVC development)

# V Direction for Cooperation: TPP and beyond

## 2. Addressing 21st century challenges

Both coverage and speed are needed; the mistake of the WTO round must not be repeated

## 3. Global solution and a perspective of making multilateral rules for the future

Cooperation and joint initiatives both within and outside of FTAs are needed

Cooperation with an eye on future multilateral rules (WTO rules) and the selective and efficient use of tools are crucially important (Not only mega FTAs but also an issue-based plurilateral framework should be considered)

(See Nakatomi 2013b for the plurilateral approach, Nakatomi 2012b for cases of ACTA and ITA, and Nakatomi 2012a and 2013a for the International Supply Chain Agreement)

## 4. Full-scale government-business and business-business cooperation

Full-scale cooperation and dialogue between governments and business communities, and within business communities themselves are needed

In particular, it is essential for the Japanese and U.S. business communities to strengthen cooperation

# V Direction for Cooperation: TPP and beyond

## 5. Proving economic benefits is crucial

Elimination of non-tariff barriers has a significant economic impact (See Petri et al. 2012)

Further development of economic models is needed

## 6. Approach to developing countries

Addressing the interest of developing countries by giving due consideration to their needs is the key

Capacity Building

Technical Assistance

Connectivity

Dispute Settlement?

Discriminatory agreements or MFN extension of benefits to non-members?

→ MFN extension is a crucial issue for consideration; ITA, Basic Telecommunication Services Agreement, and Financial Services Agreement are based on critical mass and the MFN extension of benefits to non-members

→ Securing an appropriate balance between the universality of rules and the prevention of free-riding is important



# V Direction for Cooperation: TPP and beyond

## 7. Conflicting three pillars (See the chart used in the ACTA negotiation)

Ambition level

Speed of negotiation

Number of participating countries

Achieving the three goals of “highly ambitious rules,” “early conclusion,” and a “large number of participants”

→ Big challenge going forward

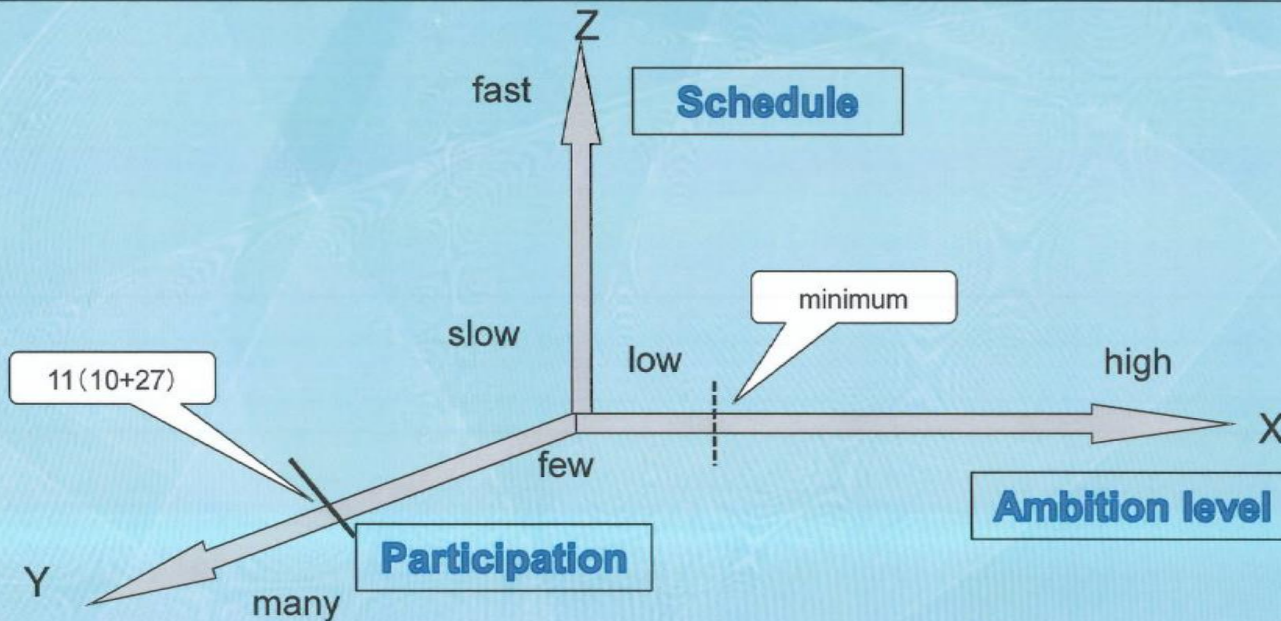
→ Requires full-fledged cooperation between the governments and business communities of Japan and the United States

# Basic Parameters for ACTA

- 'Ambition Level', 'Number of participants' and 'Schedule for Conclusion' should be considered as essential parameters to achieve ACTA.

Members should maximize:

$$F = \alpha X \times \beta Y \times \gamma Z$$



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