

The EU Japan EPA/EIA: Great economic potential at a time of great economic need

On 9th March 2012 JETRO London held a symposium with international affairs think tank Chatham House on The Future of the EU-Japan Partnership. Entitled *Going for Growth*, the core focus of the event was the EU – Japan Economic Partnership Agreement(EPA)/Economic Integration Agreement (EIA). Speakers from government, academia and industry expressed three fundamental benefits of the EPA/EIA; it can drive mutual economic growth, it will be the world's largest FTA, and the settlement of high rules and standards through EPA/EIA will lead to innovation and provide a model to emerging economies and wider WTO rounds. In the context of wider global economic uncertainty the EPA/EIA poses massive potential gains on both sides.

Going for Growth

Hidehiro Yokoo, President of JETRO asserted “we are partners capable of growth” and highlighted the shared challenges of Japan and the EU. Dependence on emerging markets, the drive for growth and demographic changes such as aging populations all underline the need to deepen the economic relationship, benefitting from each other's markets and cooperating in third markets.

Weakness in the wider global economy has put additional downward pressure on the respective economies already constrained by deficit reduction; this drives a need to enhance economic partnership with urgency. The UK, for example, faces short term domestic demand constraints, a medium term trade deficit and an economy that has been driven far too much by debt fueled consumption. As such, investment is an imperative. Japan has a need to boost the economy and strengthen supply chains affected by last year's March 11th disaster and floods in Thailand. Growth can be achieved by securing both profitable outward and inward investment; the EPA/EIA will have a positive impact on this – as Director General of JETRO London, Mr Jun Arima describes “a two way expansion” – revitalizing both economies respectively.

In light of the current economic climate, “trade and investment has never been “more important” to both economies according to Chief Executive Officer of UK Trade & Investment, Nick Baird. Despite the fact that together The EU and Japan occupy a third of global GDP, both GDP growth and bilateral trade flow are stagnating. Both regions need to stimulate growth and the EPA/EIA is a route to the enormous untapped opportunities between the economies.

Largest FTA in the world

Glyn Ford, Director of political media consultancy POL.INT, spoke of the scale and urgency of negotiations. The EPA/EIA represents 30% of world trade and is bigger than any other current agreement negotiated by The EU. It provides the opportunity to create an enormous market with the potential to be the world's biggest trade agreement. Moreover, Mr.Ford suggests that “there

is a sense it is now or never,” highlighting that the Danish presidency of the European Union is said to have made it clear that they want to open negotiations in May/June 2012.

Sir David Wright, Vice Chairman of Barclays adds that Japan is not a high strategic priority for Europe at present. China and India have diverted attention in the last 6 to 8 years and the European sovereign debt crisis takes precedence. But he does see the need to put Japan back on the agenda and reiterated the size and importance of the Japanese economy, noting that the Tokyo economy alone is larger than that of Russia.

Dr Robin Niblett, Director of Chatham House identified non-tariff measures as being the perennial issue of the EPA/EIA negotiations. As for non-tariff measures (NTM), progress is being made on the side of business and policy makers. Dr John Swenson-Wright, Associate Fellow of the Asia Programme at Chatham House and Senior Lecturer at Cambridge University, pointed out that Prime Minister Noda has expressed his strong commitment to work on non-tariff measures as well as regulatory and institutional reform. The EU hopes that Noda’s “no future for Japan without reform” comments extend into his position in EPA/EIA negotiations and Europe is looking to Japan to show real ability not just willingness to overcome bureaucracy.

A presentation from the director of Japan Machinery Centre, Brussels, Takayuki Sumita showed that industry-industry discussion has made much progress recently, identifying real non tariff issues that can be tackled by Japan - EU institutions. Various discussions on the EPA/EIA between Business Europe + Keidanren (July 2011) ACEA + JAMA (Dec 2011) Digital Europe + JEITA (Sept 2011) EU railway manufacturers + Japanese railway companies (Oct 2011) have made progress; in addition, Mr Sumita’s talk shows that business caution can be unfounded.

For example, although European car makers are cautious of the EPA/EIA, they already make up more Japan market share than Japan does of the EU. Furthermore, Mitsubishi Research Institute estimates that EU companies can expect a 25% increase in auto sales in Japan from the EPA/EIA. Reciprocally, a standardization of rules within the EU will better the business environment for Japanese companies, raising inward investment and employment in Europe. Mr Michitaka Nakatomi, Principle Trade Negotiator at METI and Senior Fellow of Research Institute of Economy , Trade and Industry of Japan(RIETI), points out that RIETI research shows possible benefits of the EPA/EIA to the EU to be larger than the benefits of the Korea-EU or possible India-EU agreements.

Mr Arima added that although Japan faces a number of challenges including; currency appreciation, trade deficit, an aging society, financial deficit, energy security and a delayed economic recovery due to a slow down in global economic activity, Japan has great potential in innovation and large market volume. Only 36.5% of Japanese foreign trade depends on Japan’s current or planned FTA countries such as India or ASEAN countries, a lower proportion than

that of South Korea. He stressed that avoiding delay in the establishment of the EU – Japan EPA/EIA is necessary in order to boost growth and avoid continued economic stagnation.

Mr Arima does concede that Japan's low inward FDI, at 4pc, faces challenges such as the high price of land and the lack of English speaking staff but answers that the Japanese government has set a target of doubling investment in the next ten years and "subsidies unique to foreign companies in areas such as R&D and the stationing of Asian regional head quarter offices show completely positive discrimination. Sir David Wright commended the attitudinal change achieved in Japan's financial services sector in the last ten years and praised the dramatic progress he has seen. He asserted that "there is so much to be done in life science and bio chemical, healthcare, innovations in communication technologies, aeronautics, space, and defense;" and stressed a need to focus on new tech and advanced engineering.

Similarities and differences of structural and institutional issues were discussed by Professor Janet Hunter, London School of Economics. She brought up key Labour force issues including; the need to maintain educational collaboration to maintain the value of human capital seen as necessary in order to compete globally, the need for further continuing higher educational collaboration, and the need for Japan to further bring women into the workplace through institutional change. Professor Hunter also highlighted that "when negotiating the EPA/EIA there must be recognition of societal differences" and the fact that institutional and social change is slower than economic change. On issues of corporate culture, Sir David Wright noted that having leading foreign business people on Japanese boards would be very much welcomed by Europe and as FDI increases bilaterally, Mr Jun Arima noted that Japanese people will be exposed to foreign corporate culture and societal structures, hence indirectly the EPA/EIA will help remove societal and corporate differences.

The EU - Japan EPA/EIA in tackling the mutual challenges faced

According to Michitaka Nakatomi ,the EPA/EIA serves as a core element to wider global relations, able to strengthen multilateralism creating a framework to bring back to wider WTO discussions and "a win-win for economic integration." Jun Arima shares this view, expressing that The EU and Japan share common values and have a lot of room for cooperation in tackling issues such as aging societies, energy security, free trade and investment as drivers for growth, and collaboration in emerging markets. A comprehensive, fully realized EU-Japan EPA/EIA will provide a positive, mutually beneficial situation for trade and investment.

Further to Japan's strategic importance is its position as an access point to the wider East Asia economy. Professor Yorizumi Watanabe, Faculty of Policy Management Keio University points out that business driven integration through FDI is on course in East Asia through the establishment of the FTAAP by 2020, creating legally binding trade and investment liberalization. Professor Watanabe explained that the EU-Japan EPA/EIA will promote not only

mutual economic growth in The EU and Japan but will also serve as the core element of Asia - EU regional integration further deepening the Asia - EU relationship. In addition, Professor Watanabe compared the potential of the EPA/EIA with that of U.S. agreements and offered challenging statements on the need for progress. “The U.S. seems successful in associating herself with the dynamic development of the Asian economy through TPP and FTAAP. What will the EU do?”

There are many mutual challenges faced but Japan and the EU can make a positive contribution to the world by turning these challenges into opportunities; overcoming problems of low growth, natural disasters, aging population, energy efficiency and life sciences, by focusing on visionary multilateral trading and investment projects. The most effective tool to realize this potential is the EU-Japan EPA/EIA.

(Peter Kowalczyk, JETRO London and Ryo Koba, Europe, Russia and CIS division)