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JAPAN-EU EPA MOVING TOWARDS RATIFICATION: ITS SIGNIFICANCE AND PROSPECTS

Soko Tanaka

- The Japan-EU EPA is a “21st-century-style” trade agreement based on rules that ensure free and fair trade. Together with the TPP11, it will support Japan’s economic growth over the long term.
- The Japan-EU EPA and the TPP11 as model multilateral free trade regimes are important means of withstanding the Trump administration’s protectionist offensive, and they will take on historical significance globally in establishing whether protectionism or free-trade principles will win out over the long term.
- The Japan-EU EPA will provide backup for Japan’s position in the RCEP negotiations, and could serve as a useful guide when Japanese trade policy calls for an EPA with Latin America.

The views expressed in this piece are the author’s own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.

The economic partnership agreement between Japan and the EU (Japan-EU EPA) is due to be signed in Tokyo on July 17. The Japanese government will thereafter submit a bill to the extraordinary Diet session requesting approval of the Japan-EU EPA, which is expected to go into effect early in 2019. The aim is to have the EPA in place before the UK exits the EU.

The Japan-EU EPA is a trade agreement suited to the 21st century that is based on rules ensuring free and fair trade, and is both wide and deep in scope. For trade in goods, Japan, the fourth largest destination for the EU's exports of agricultural and food products, will open its own markets considerably. Meanwhile, the EU will lift its tariffs on Japanese automobiles and electronic products. EU-produced wine, cheese and beef will become cheaper in Japan, which will also see its handicap in car exports vis-à-vis South Korea disappear (duties on automobiles will be reduced to zero eight years after the agreement goes into effect).

Liberalization will also make major headway in postal, telecommunications, financial and other services. As investment is liberalized, visits by companies and company officials engaged in foreign direct investment (FDI) will become easier. Additionally, government procurement will be opened up, and the two parties mutually guarantee that they will act only out of commercial considerations with respect to subsidies and state-owned enterprises so that the other party is not disadvantaged. A high level of protection will also be accorded intellectual property, and geographical indications (GI) will be newly approved to safeguard food and alcohol products specified by both sides.

Once it goes into effect, a major free trade zone will be created with a population of about 600 million that accounts for around 30% of global GDP and about 20% of world trade (excluding internal trade within the EU). Japan entered into talks on both the Japan-EU EPA and the TPP in 2013, and at the time these were seen primarily as pillars that would support Japan's economic growth policy. When the Trump administration withdrew from the TPP, the Japanese government took the lead in arranging for the signing of the TPP11, and hurried to reach a final accord on the Japan-EU EPA.

If the TPP11 and the Japan-EU EPA both go into force, estimates contend that Japan's economic growth will be pushed up by 2.5% over the long term, putting the Japanese economy on a rapid growth trajectory; these agreements would thus still serve as pillars of support for Japan's growth policy. However, the Japan-EU EPA and the TPP11 will take on historical significance globally for maintaining and developing the world's liberal trade system, countering the Trump administration's aggressive protectionism, and establishing whether protectionism or free-trade principles will win out over the long term.

The Trump administration prefers bilateral approaches and has been seeking to push Japan into an FTA, but Japan can assert the advantages and benefits of multilateral agreements. While it does depend on the US for security, Japan should demonstrate firm leadership when it comes to trade policy. The Japan-EU EPA, together with the TPP11, will serve as an important tool in doing so, and Japan's assertions will be backed up by the Regional Comprehensive Economic Partnership (RCEP) talks being pursued by the ASEAN+6.

As for future prospects, South America offers a new arena for Japanese trade policy. Priority should perhaps be placed on reaching a trade agreement with Brazil, home to one million residents of Japanese heritage. Both Brazil and Argentina have new center-right administrations favorably disposed toward free trade, and this offers a chance to begin EPA negotiations with Mercosur (*Mercado Común del Sur*, or Southern Common Market). The EU has been engaged in trade talks with Mercosur for many years, and the Japan-EU EPA is expected to play a guiding role in Japanese negotiations with Mercosur. 

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