

Challenges in Asia-Pacific Trade Architecture and Japan's Trade Strategy in 2018

Japanese Policy Orientation towards
a New Trade Multilateralism

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Two Major Sources of Uncertainty for Japan

BREXIT & Trump Shock



Why Brexit matters?: Major Japanese Companies Presence in the UK



company	Sales in the EU (Oku Yen)	British Employee	Export to the EU
Toyota	23,233	3,000	75% of the UK production to the EU
SONY	18,813	5,000	Headquarters function for the EU
Nissan	17,481	8,000	80% of the UK production to the EU
Canon	10,743	2,800	Camera, Multi-function equipment
Hitachi	9,511	5,000	8000 OkuYen awarded order trains
Toshiba	5,599	n.a.	Headquarters Function for the EU
Ricoh	5,310	3,000	Overall sales in the EU
Mitsubishi Electric	3,699	n.a..	Air conditioning system in the EU
KonicaMinolta	3,197	1,300	Multifunction office equipment
Takeda Pharma.	3,093	n.a.	Experiments for the entire EU market
Nomura HD	1,458	2,500	Supporting M&A, security, banking

“Trump puts **protectionism** at heart of US economic policy” (F.T. Jan. 24)

- Executive order signed to withdraw from the TPP (Jan. 23)
- US Business leaders warned over offshoring jobs: border tax to be imposed
- John McCain: ” (the TPP move is) **a serious mistake**. It will create an opening for China to rewrite the economic rules at the expense of American workers. And it will send **a troubling signal of American disengagement in the Asia-Pacific region** at a time we least afford it”
- Unwinding the **NAFTA** would hit Mexico hard, but Japan and the EU would be adversely affected as well
- **Germany** accused by Peter Navarro of “grossly undervalued” euro to “exploit” the US and its EU partners (Feb. 1)
- Navarro: “Germany was one of the main barriers to a US trade deal with the EU.” “the talks with the EU over the **TTIP declared dead**”

Trump opts for “bilateral trade deals”

- “bilateral deals” does **not** mean necessarily Free Trade Agreement (FTA): the only FTA Trump mentioned was the one with the UK
- “bilateral deals” with countries which run **trade surplus** with the US; e.g. Japan(\$68.6 billion), Mexico(\$58.4 billion), China (\$365.7 billion)
- The deals could imply balancing trade account via political interventions by governments: “**numerical targets**” of auto imports by Japan until “**reciprocity**” to be achieved
- Revival of “**procedural protectionism**” of 1980’s by way of Section 301 type of “**unilateralism**” ⇒⇒⇒WTO inconsistent

Agenda of the TPP

Trans-Pacific Strategic Economic Partnership Agreement

-”P4”: a comprehensive FTA including elimination of all tariffs among Chile, Brunei, New Zealand, and Singapore

-TPP/12:

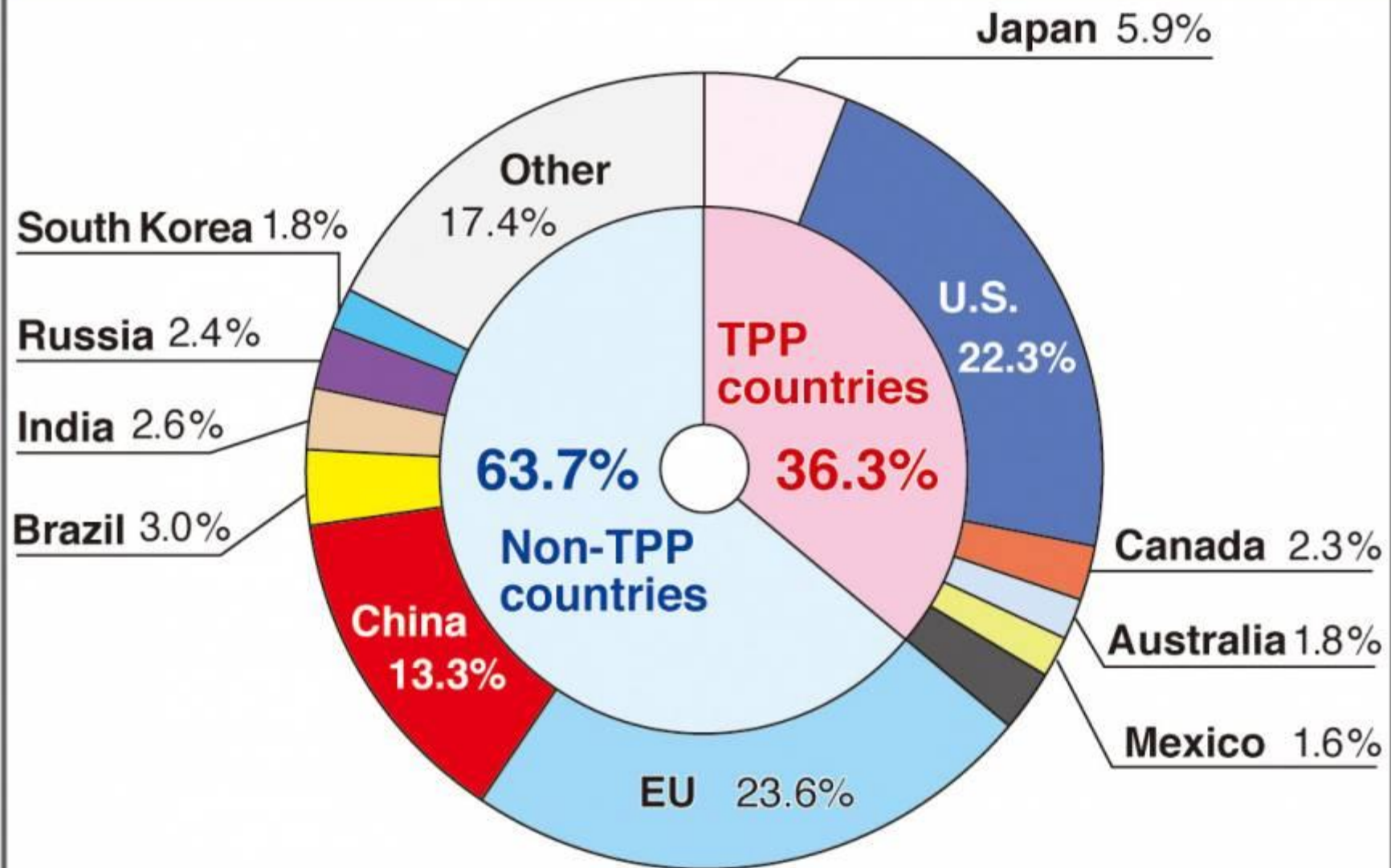
▪ **Participants:** US, Canada, Mexico, Peru, Chile, Vietnam, Malaysia, Singapore, Brunei, Australia and New Zealand, Japan

▪ **Goal (missed):** to be completed by the end of 2013

▪ **Negotiating Agenda:** 31 chapters including 4 cross-cutting issues

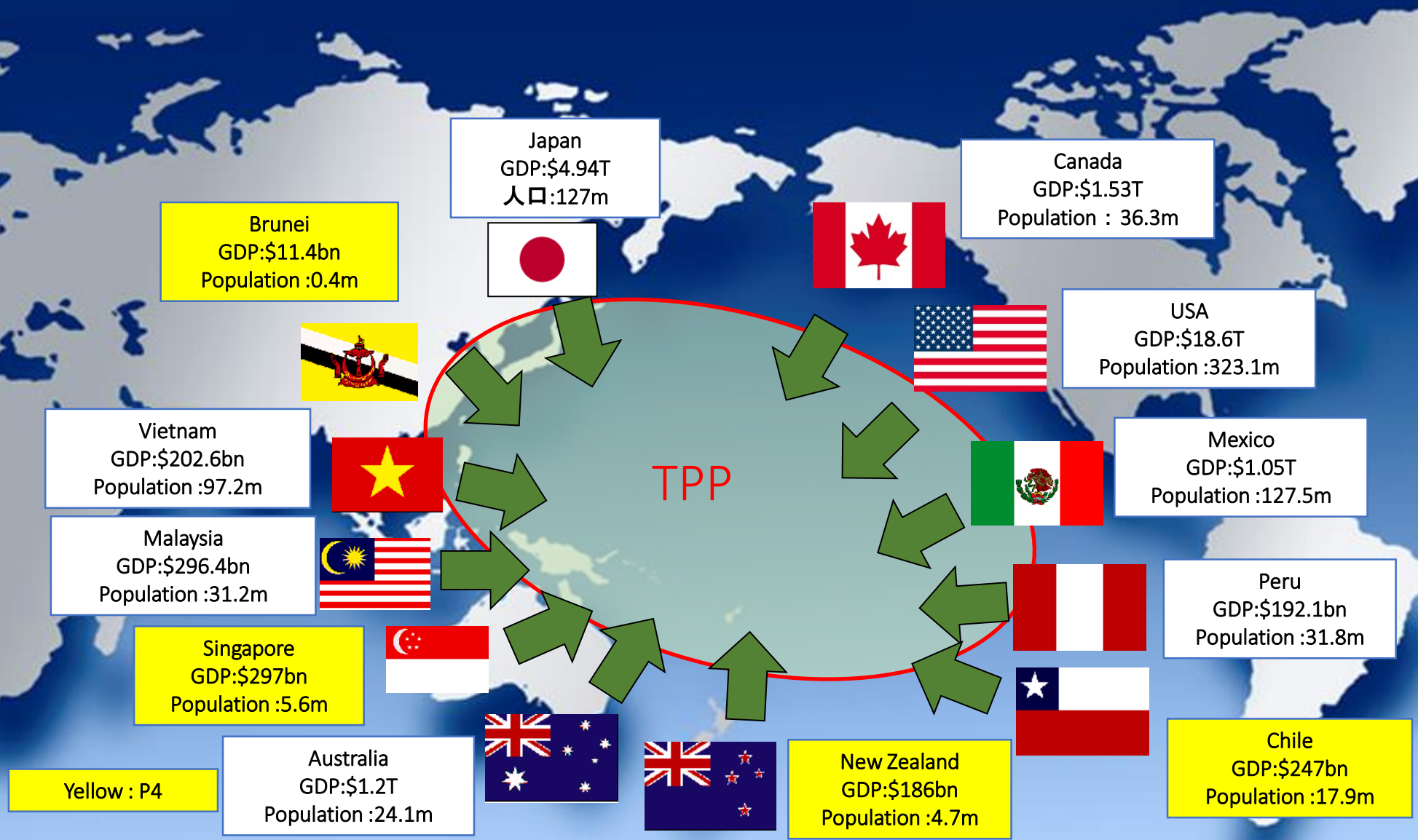
- Competition (**SOEs**)
- Market Access for goods (**sugar, beef, rice,..**)
- Cooperation and Capacity building
- Cross-border services
- Customs
- E-commerce
- Environment
- Financial services
- Government Procurement
- **Intellectual Property Rights**
- Investment (**ISDS**)
- **Labour**
- Legal issues
- Rules of Origin (**textiles and apparel**)
- Sanitary and Phytosanitary Standards (SPS)
- Technical Barriers to Trade (TBT)
- Telecommunications
- Temporary Entry
- Textiles and apparel
- Trade remedies
- **Regulatory coherence**
- **Competitiveness and business facilitation**
- **SMEs**
- **Development**

Share of global GDP (2014)



SOURCE: World Economic Outlook Database April 2014

TPP : Trans-Pacific-Partnership



Japan and the TPP

- President **Obama** Visit in Tokyo, November 2009: a wake-up call
- PM Kan(DPJ) on the TPP at the Diet, October 2010: a strategic failure provoking strong opposition against the TPP, inter alia, from Agriculture Lobby
- PM **Noda**(DPJ) to step forward, November 2011/2012: influence on China (ASEAN+3 \Rightarrow ASEAN+6/RCEP) and the EU (FTA with Japan)
- Canada, Mexico joined TPP Negotiations 2012
- PM **Abe** (LDP) to join TPP Negotiations, March 2013
- Japan-US Agreement on Bilateral Talks on **Cars & NTMs**, April 2013
- Japan joined TPP Negotiations, July 2013

President Obama's Visit in Tokyo, 23-25 April 2014: “a key milestone in the TPP negotiations”

- No “Agreement on Substance” Announced
- “We have **identified a path forward** on important bilateral TPP issues.” (Joint Statement, 25/04/2014)
- “This marks **a key milestone** in the TPP negotiations and will inject fresh momentum into the broader talks” (idem)
- A major breakthrough in sensitive products: tariffs on beef, pork, dairy, rice, wheat, and sugar/sugar-contained products
- **Exchange of “Sensitivities”**; agricultural tariffs for Japan and tariffs on cars/trucks for the US

TPP an Agreement on Substance, Oct. 5 2015

- Tariff Elimination: ① 99.9% on Industrial Products, ② 97.1% on Agricultural Products
- New Rules: ① SOEs (regulations on non-commercial assistance by government), ② Labour and Environment (subject to dispute settlement procedures), ③ Government Procurement (obligations extended to non-WTO/GPA signatories)
- User-friendly Rules: Rules of Origin, Trade Facilitation, SMEs-related provisions, Investment (ISDS)
- Further Membership: Korea, the Philippines, Thailand, Taiwan, and even Indonesia !

Rules of Origin in TPP (most generous **accumulation rule** to facilitate supply chain)

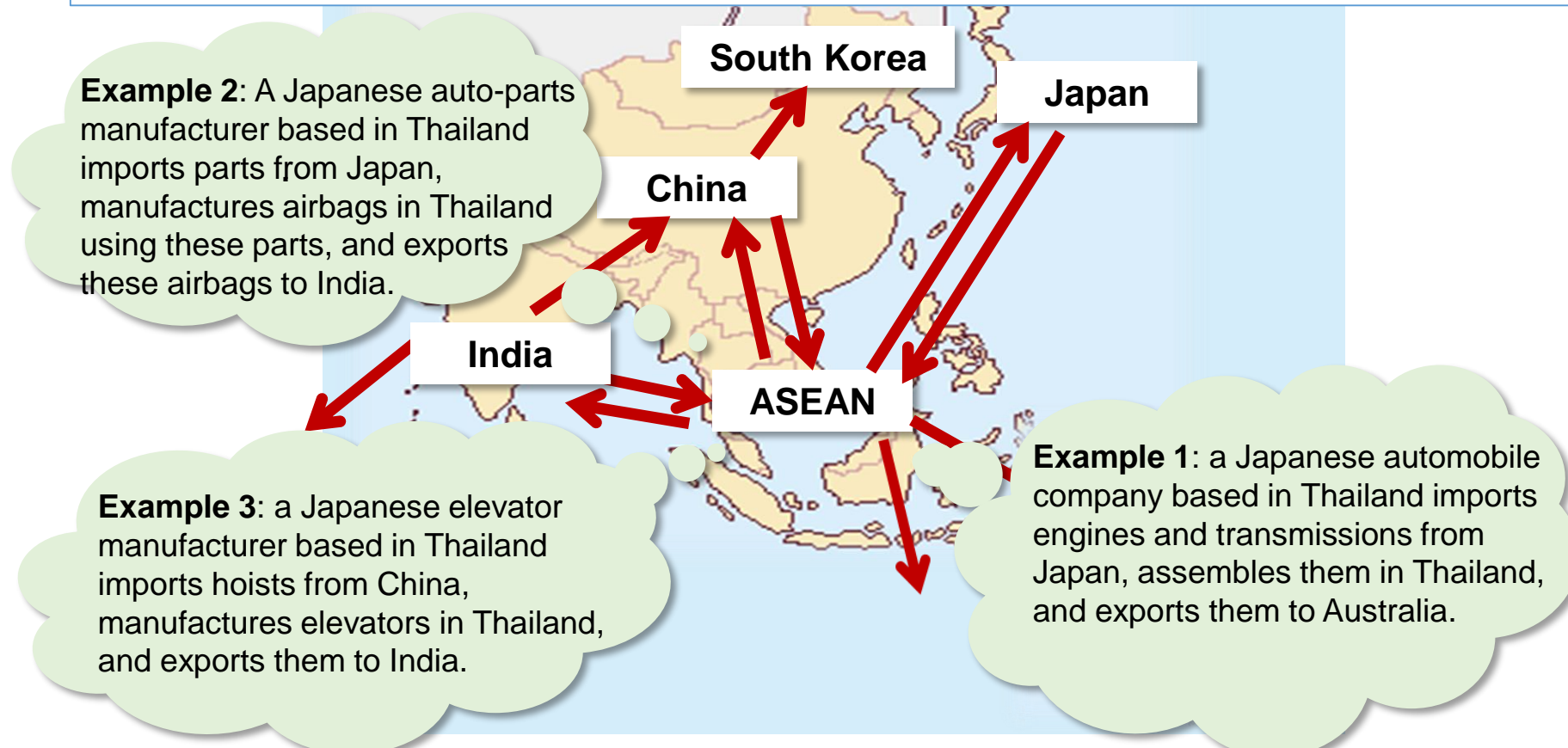
- ASEAN CEPT scheme: 40%
- NAFTA scheme: 62.5% (in case of auto/auto-parts)
- Completed Passenger Vehicle: **55%** (exceptions where special considerations provided to such items as; tempered glass, car-body for passenger vehicle, car-body of commercial vehicle, bumper, door, axle)
- Car Parts/Components: Change in Tariff Classification Criteria or Value-added Criteria (**45~55%**)

⇒⇒⇒ some shift of production might take place from non-TPP countries to TPP member countries

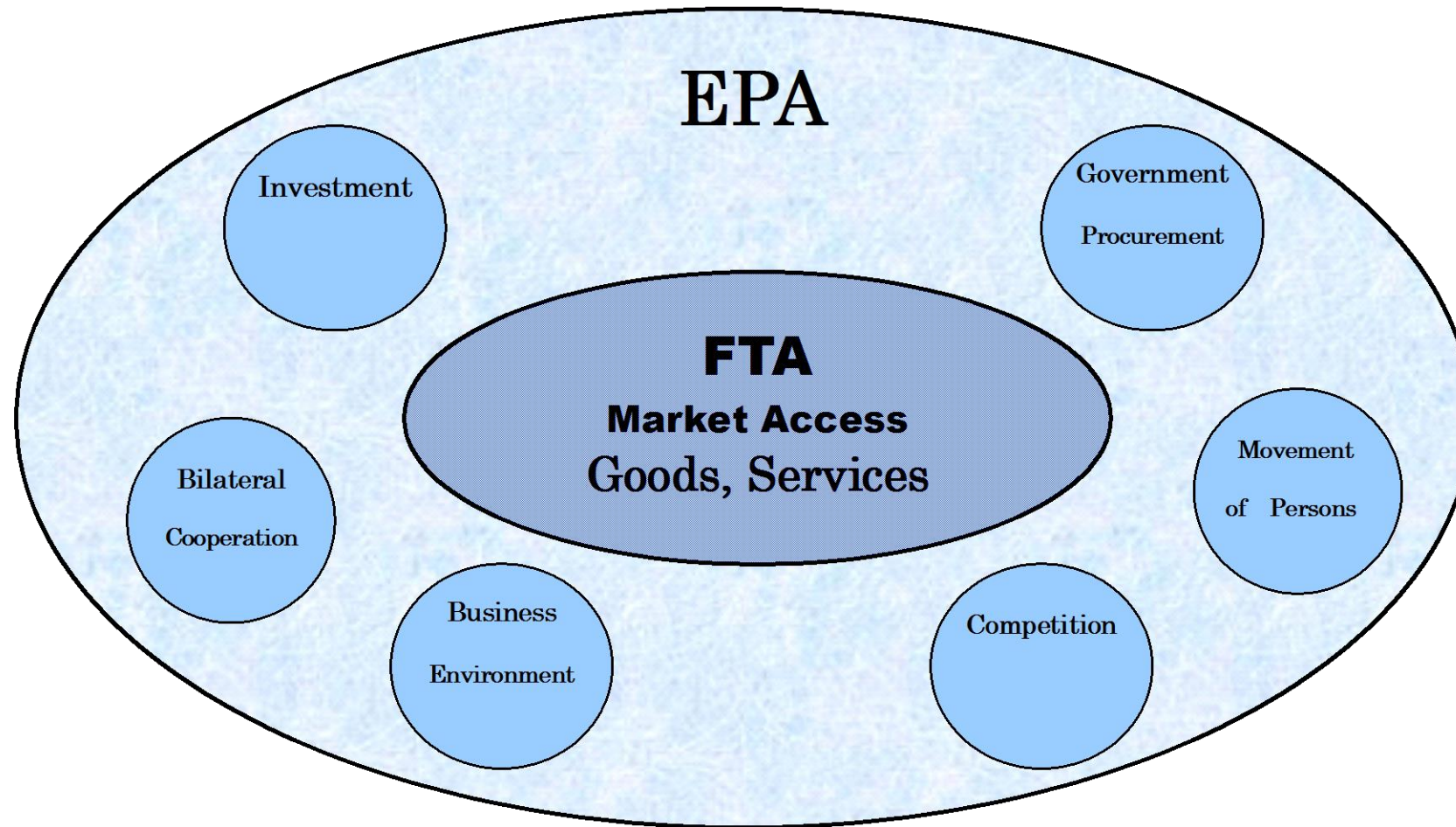
The significance of participation in RCEP/TPP

Unification of supply chain networks in the East Asia region

- In order to increase exports to growth markets both inside and outside the East Asia region, the unification of corporate supply chains is essential.
- At present, each EPA has its own set of regulations (e.g. rules of origin), and the differences between these regulations hinder corporate activities. By unifying these regulations into a single set of simple, easy-to-use rules for corporations, RCEP will facilitate the establishment of an trans-national supply chain network.



Japan's EPA : Economic Partnership Agreement (EPA)



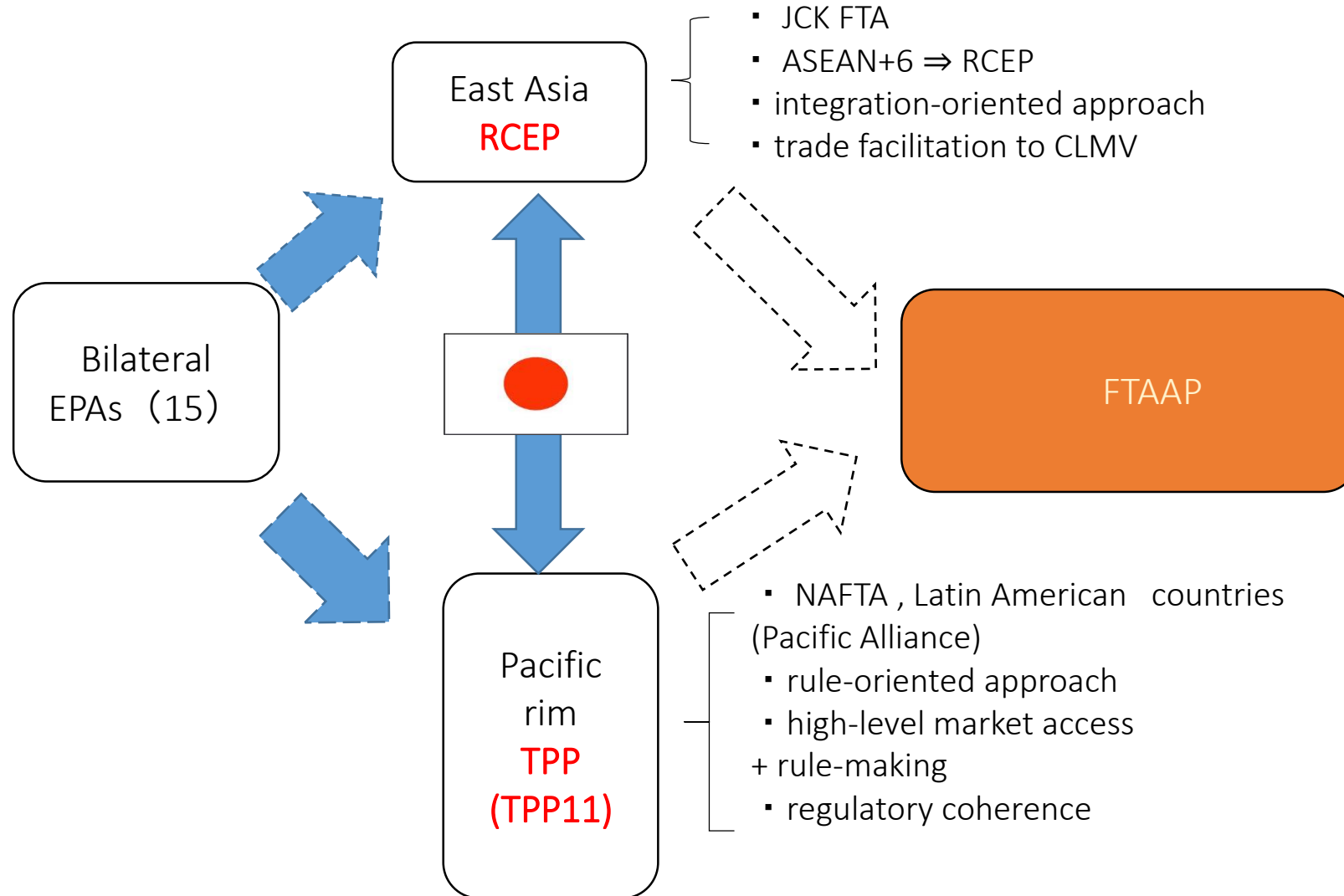
Japan's FTA/EPA Achievement so far

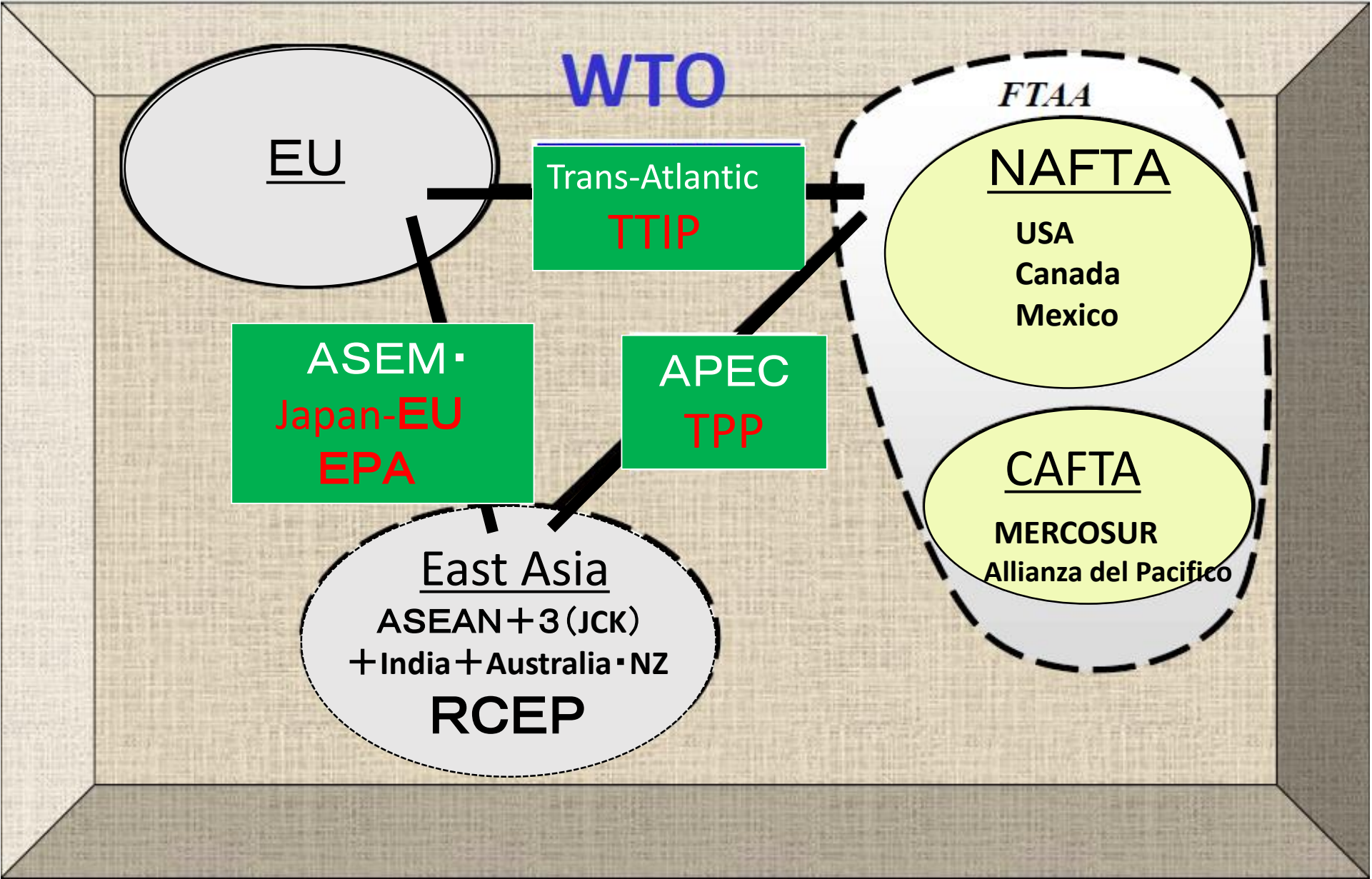
- Japan-Singapore EPA (in force since 2002.11)
- Japan-Mexico EPA (negotiations started in 2002.11, in force since 2005.4)
- Japan-Malaysia EPA (in force since 2006.7)
- Japan-Chile EPA (negotiations started in 2006.2, in force since 2007.9)
- Japan-Thailand EPA (agreement in substance 2005.9, in force 2007.11)
- Japan-Indonesia EPA (negotiations started in 2005.7, in force 2008.7)
- Japan-Brunei EPA (negotiations started in 2006.6, in force 2008.7)
- Japan-ASEAN EPA (negotiations started in 2005.4, in force 2008.12)
- Japan-Philippines EPA (agreement in substance 2004.11, in force 2008.12)
- Japan-Switzerland EPA (negotiations started in 2007.5, in force 2009.2)
- Japan-Vietnam EPA (negotiations started in 2007.1, in force 2009.10)
- Japan-India EPA (negotiations started in 2007.1, in force 2011.8)
- Japan-Peru EPA (negotiations started in 2009.5, in force 2012.3)
- Japan-Australia EPA (negotiations started in 2007.4, agreement in substance in 2014.04, in force 2015.01)
- Japan-Mongolia EPA (negotiation started in 2012.6, signed in 2015.02)
- Japan-EU EPA (negotiation started in 2013.03, agreement in principle on July 6th 2017, final agreement 2017.12.08)

- Japan-Korea EPA (negotiations started in 2003.12, suspended in 2004.11)
- Japan-GCC EPA (negotiations started in 2006.9)
- Japan-Canada EPA (negotiation started in 2012. 10)
- Japan-Colombia EPA (negotiation started in 2012. 12)
- Japan-Turkey EPA (negotiation started in 2014.12)

Japan's FTA/EPA Strategy

— a pivotal centre between TPP & RCEP —



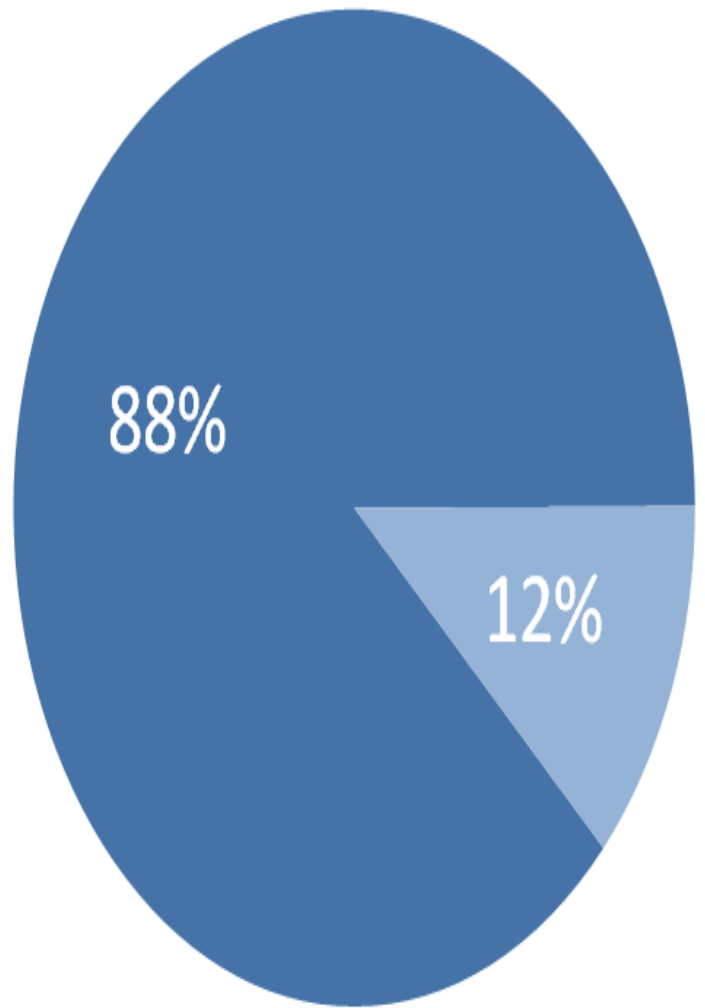


Japan-US Partnership in Job-creation and Trade

In case of Car Industries

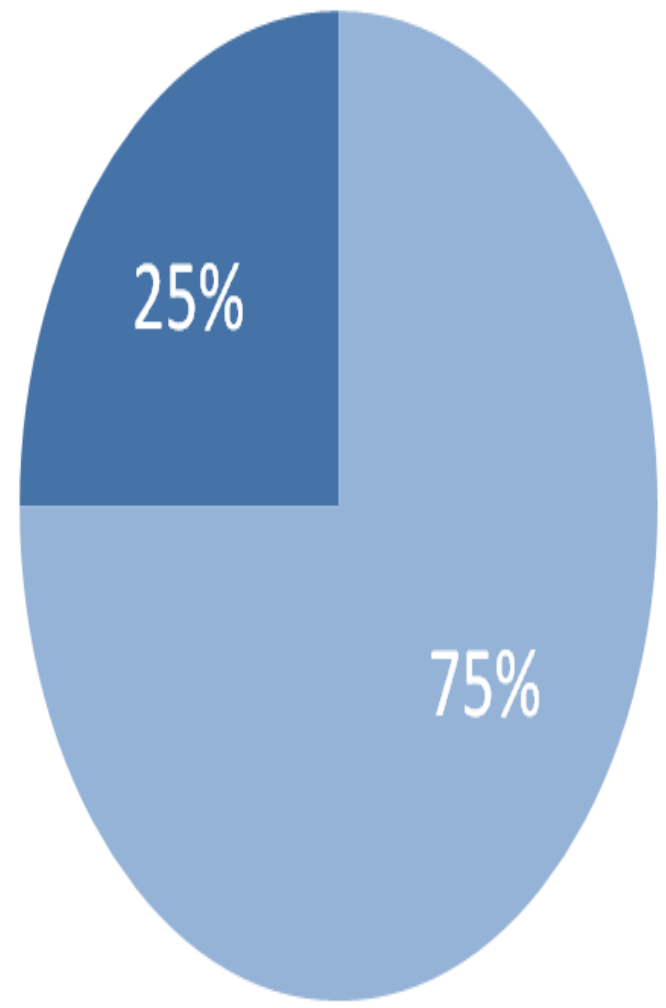
Japanese car producers deploy 26 factories and 36 R&D centers in the US making 3.9 million passenger vehicles as well as 4.6 million engines and creating jobs for 1.5 million people.

1986



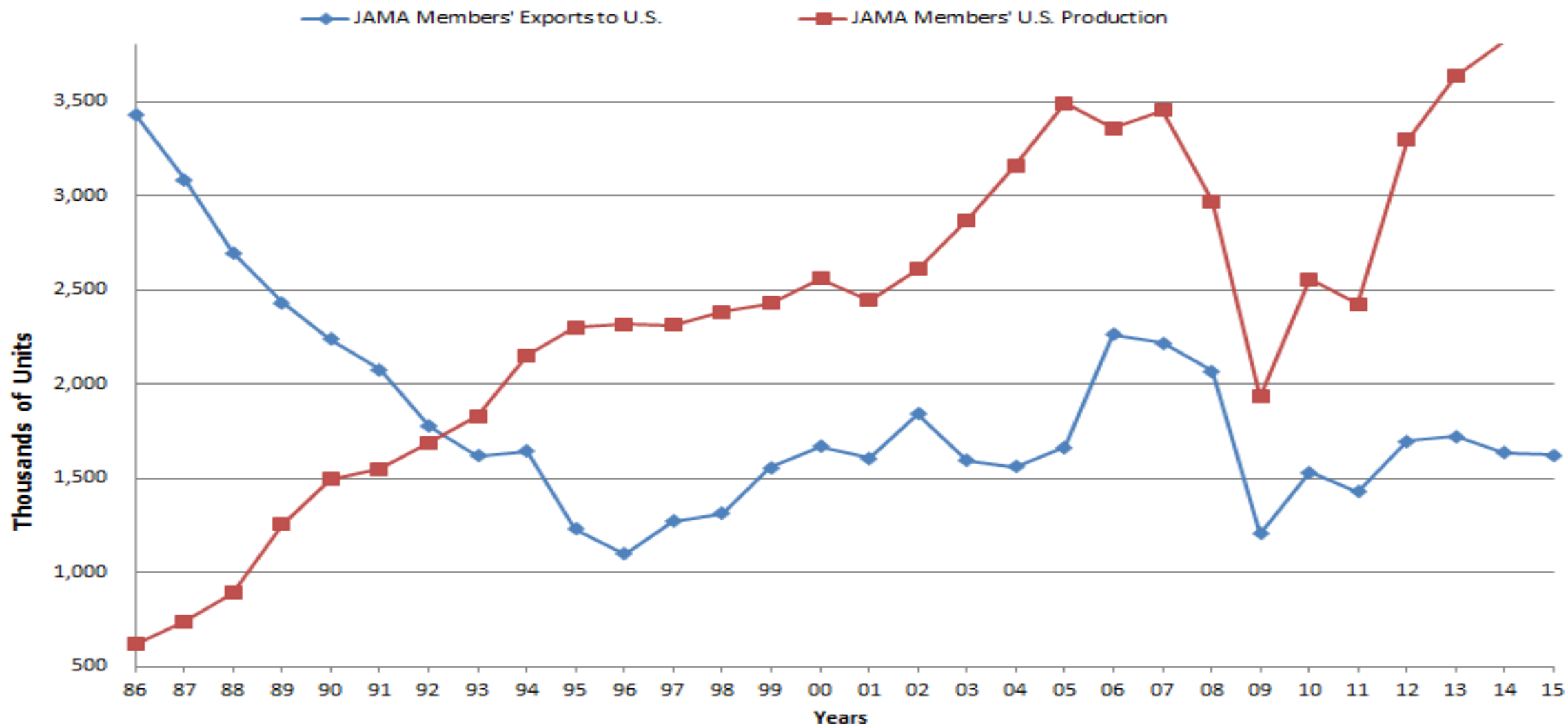
- Sales of Imported Vehicles
- Sales of Vehicles Manufactured in North America

2015



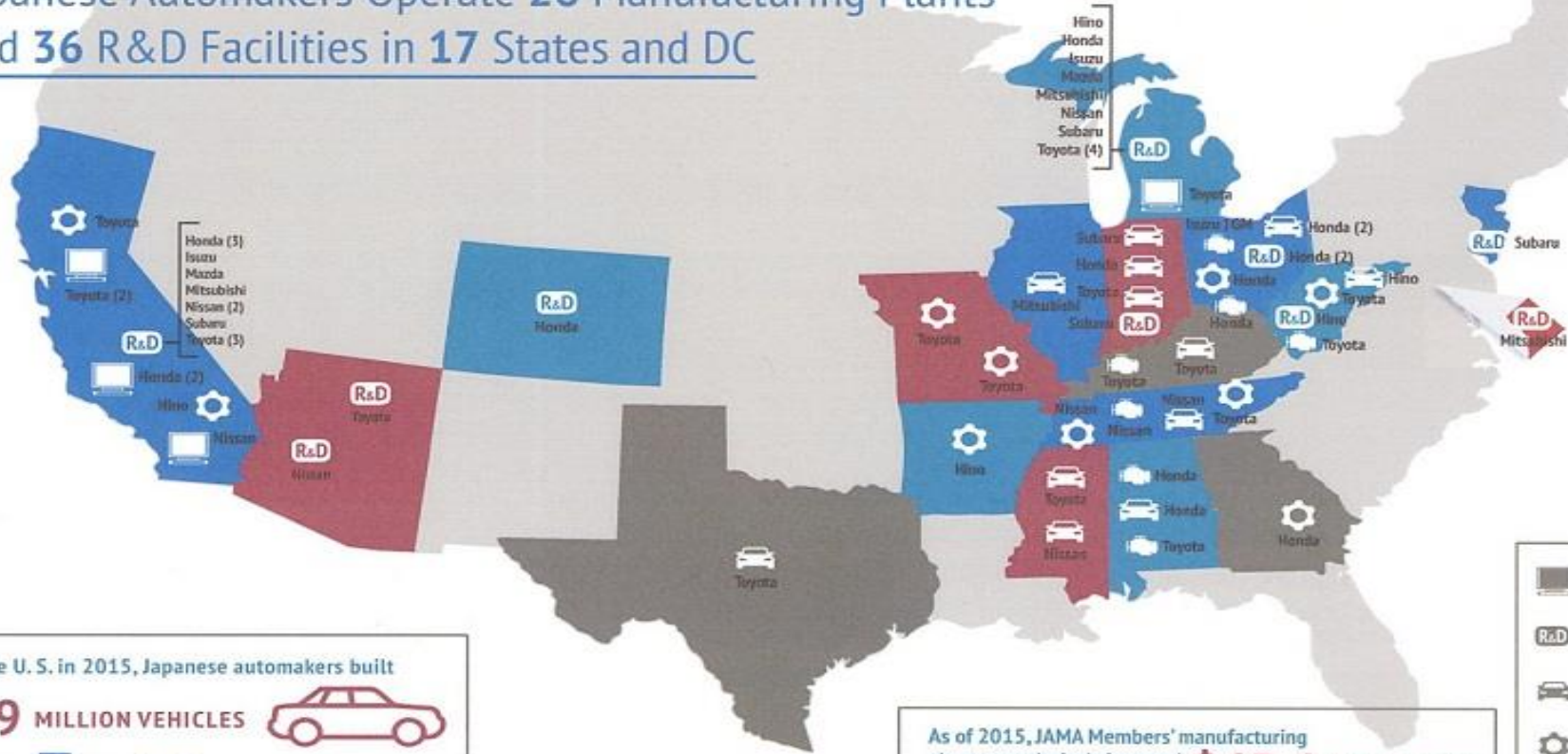
- Sales of Imported Vehicles
- Sales of Vehicles Manufactured in North America


JAMA Members' U.S. Vehicle Production and Exports to U.S.



Note: JAMA members' production figures for years 1987-2009 include their production for Chrysler, Ford, and/or GM.

Japanese Automakers Operate **26** Manufacturing Plants and **36** R&D Facilities in **17** States and DC



In the U.S. in 2015, Japanese automakers built **3.9 MILLION VEHICLES**  and  **4.6 MILLION ENGINES**

As of 2015, JAMA Members' manufacturing plants cumulatively invested **\$45.4 BILLION** in the U.S. Economy

-  DESIGN CENTER
-  R&D CENTER
-  VEHICLE MFG. PLANT
-  PARTS MFG. PLANT
-  ENGINE MFG. PLANT



87,788 DIRECT EMPLOYEES

375,143 NEW VEHICLE DEALERS' EMPLOYEES

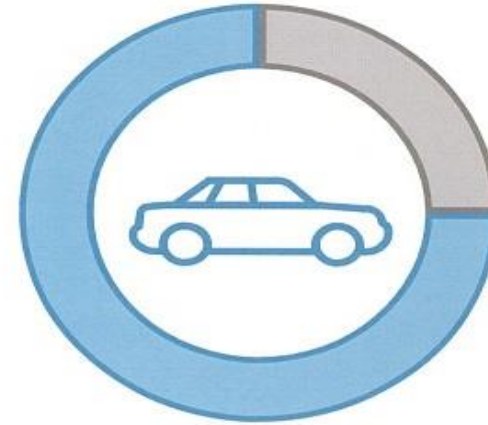


1,043,000 INTERMEDIATE & SPIN-OFF

1,505,931 TOTAL AMERICAN JOBS

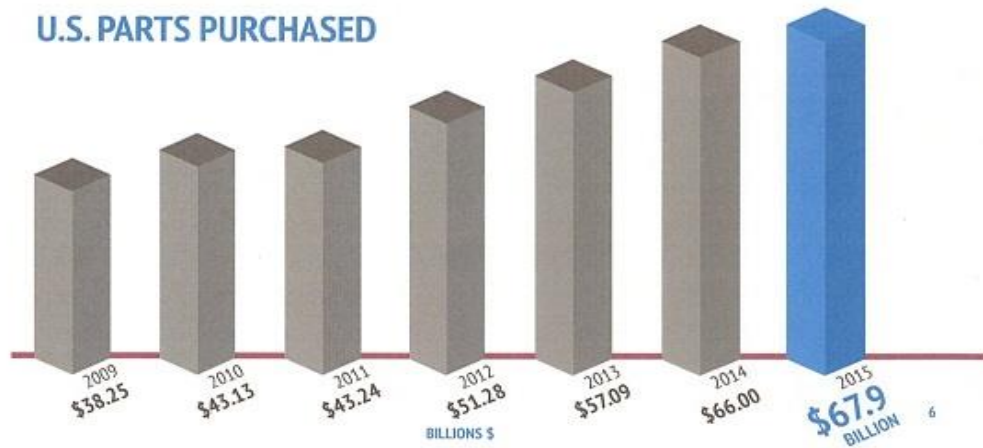


EMPLOYMENT 2015	AUTOMAKERS	NEW VEHICLE DEALERS	TOTAL
Manufacturing	60,640		
R&D/Design	5,086		
Headquarters, Sales & Others	22,062		
Subtotal	87,788	375,143	462,931
Suppliers	231,000	122,000	353,000
Spin-Off	409,000	281,000	690,000
Grand Total	727,788	778,143	1,505,931



75%
of Japanese-Brand
Vehicles Sold in the
U.S. are Built in
North America

U.S. PARTS PURCHASED





HONDA

Accord Coupe | Accord Sedan | Accord Hybrid
Civic Sedan | Crosstour | CR-V | Odyssey
Acura (ILX, MDX, RDX, TLX)



NISSAN

Altima | LEAF | Maxima | Rogue | Pathfinder
Frontier | Armada | Titan | NV Cargo
NV Passenger | Murano | Infiniti QX60



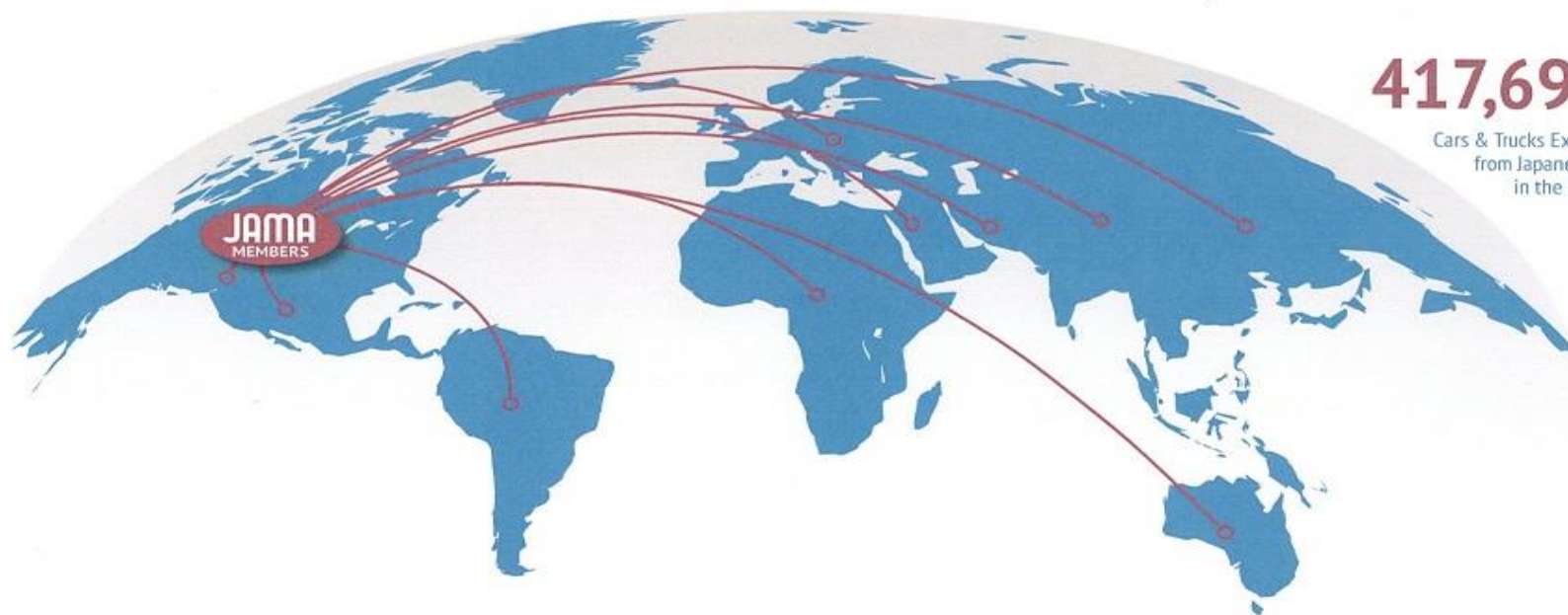
SUBARU

Legacy | Outback



TOYOTA

Avalon | Camry | Corolla | Highlander | Sequoia
Sienna | Tacoma | Tundra | Venza



417,699

Cars & Trucks Exported
from Japanese Auto Plants
in the U.S. in 2015

Trump at Davos: “America is open for business”

(January 26, 2018)

- “The US is prepared to negotiate mutually beneficial, bilateral trade agreements with all countries.”
- “This will include the countries within **TPP**, which are very important.”
- “We have agreements with several of them already.”
- “We would consider negotiating with the rest either individually or perhaps **as a group** if it is in the interests of all.”
- “Today, I am inviting all of you to become part of this incredible future **we are building together.**”

Concluding Remarks: from a Japanese Perspective

- **TPP/12** as a template for 21st Century-type trade agreements
 - **TPP/11** to keep momentum for freer trade & bring US back
 - **RCEP/JCK FTA** for updating the production network in East Asia
 - **Japan-EU EPA**: the only surviving inter-regional Mega-FTA to be concluded by the end of the year 2017 ⇒⇒⇒ a **breakwater** against the US protectionism/bilateralism
- ⇒⇒⇒ to keep trade multilateralism embodied in the **WTO**, and thus to maintain **predictability** in international business

Thank You for Your Attention
-- Free Trade for a Better Future --

