



EU Japan Economic Relations Lecture No.11

– Addressing Global Agendas –

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Review of Lecture No.10

- Japan and the EU's mutual interests extend beyond economic considerations and include a growing number of issues, including security matters.
- The first ASEM Summit was held in Bangkok in March 1996. Its process has remained informal but its coverage has extended well beyond the economic aspects of the EU-ASEM relationship.
- Hyundai's strategies in Europe have been different from those of Japanese firms. South Korean firms like Hyundai are much more active in emerging markets in Europe, such as the former 'Eastern block' and Turkey.

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Agenda for Lecture No.11

- Addressing Global Agendas
(pp. 147–165)
- WTO
- FTA
- Case study: ZARA

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The WTO and FTAs (1)

- The 1991 Hague Declaration refers to plans to 'strengthen cooperation within international organisations' and is underpinned by principles of organisations such as the UN, GATT and the OECD. (text, p.147)
- Established in 1947, GATT (which became the World Trade Organisation in January 1995) was set up with the aim of ensuring that trade should be unhindered by government intervention. (p.148)

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The WTO and FTAs (2)

- Its principles include the granting of **Most Favoured Nation** (MFN) status to a member, under which rule **Contracting Parties undertake to grant equally favourable tariff conditions to their GATT partners.**
- Many bilateral disputes between Japan and the EU have been due to the perceived or actual contravention of this, or other, GATT rules.
- For this reason, GATT/WTO has been an important, if often contentious, component of Japan-EU relations for a long time.
(p.148-149)

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The WTO and FTAs (3)

- Over time, the EEC became an 'established fact' within GATT ... (p.149)
- From its inception (in 1947), GATT — and now the WTO (since 1995) — has allowed member countries to conclude customs unions and free-trade areas (**FTAs**), as an exception to the fundamental principle of non-discrimination set out in the **most-favoured-nation** clause of GATT's Article 1.

http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief12_e.htm

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The WTO and FTAs (4)

- **FTA:** Free Trade Agreement

An agreement, within a region or states, to reduce or to eliminate tariffs on goods and other barriers on trade in services;

a major component of an EPA (Economic Partnership Agreement)

<http://www.meti.go.jp/english/information/downloadfiles/FTAprogrss200503.pdf>

- Conditions for trade in goods within these agreements were set in GATT **Article 24.**

http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief12_e.htm

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The WTO and FTAs (5)

- Essentially, a regional trade agreement should aim to boost trade between its member countries and not to raise barriers against the trade of other WTO members.

http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief12_e.htm

Article 24+8. For the purposes of this Agreement:

- (a) A **customs union** shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXXIV

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The WTO and FTAs (6)

- (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to **substantially all the trade** in products originating in such territories, and,
- (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXXIV

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The WTO and FTAs (7)

- (b) A **free-trade area** shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on **substantially all the trade** between the constituent territories in products originating in such territories.

http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXXIV

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The WTO and FTAs (8)

- **'Substantially all the trade'** between the constituent territories in products originating in such territories --- what is the definition of 'substantially all'?
- Trade in agricultural goods, along with trade in labour services (especially nursing) is an important issue in all FTA/**EPA** negotiations in which Japan is a negotiating partner.

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The WTO and FTAs (9)

- Preferential trade arrangements on goods between developing-country members are regulated by an "Enabling Clause" dating from 1979. For trade in services, economic integration agreements are governed by GATS Article 5.
- Non-reciprocal preferential agreements generally involve selected developing and developed countries. WTO members that have signed an agreement of this kind have to seek a waiver from WTO rules.

http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief12_e.htm

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The WTO and FTAs (10)

- There is dispute over whether FTAs are desirable in terms of enhancing free trade and increasing economic welfare
- Economists have written many papers on this issue
- A seminal work:
Jagdish Bhagwati, David Greenaway & Arvind Panagariya (1998)

Trading Preferentially: Theory and Policy
<http://www.blackwell-synergy.com/links/doi/10.1111/1468-0297.00334>

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The WTO and FTAs (11)

- Question 1:
What happens to the global trading system, and trade policies of each country/region, as the number of countries/regions covered by FTAs increase?
For instance, if a country is in ten different FTAs, there will be ten different sets of rules. As this number (ten) increases, would FTAs remain manageable?
Would the proliferation of FTAs eventually lead to a multilateral agreement at WTO level?

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The WTO and FTAs (12)

- Question 2:
What are the **dispute-settlement mechanisms** of these FTAs?
Should they be uniform or case-by-case?
The WTO has a solid, well-functioning dispute settlement mechanism.
If disputes arise between the FTA partners, how will they be settled, on grounds of which set of rules, involving what kind of sanctions if any?

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The WTO and FTAs (13)

- Question 3:
Which would be bigger, the **trade-diversion** effect or the **trade-creation** effect of an FTA?
Trade-diversion effect:
trade between a country/region inside the FTA with a country/region outside the FTA is diverted to trade within the FTA
Trade-creation effect:
trade within the FTA is increased

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The WTO and FTAs (14)

- If the countries/regions forming the FTA lower trade barriers against the trading partners outside the FTA, then all countries/regions can gain from this FTA

= Kemp-Won-Ohyama proposition

Reference:

Ohyama, Michihiro (2002), "The Economic Significance of the GATT/WTO Rules" In: Woodland, A. (ed.) *Economic Theory and International Trade: Essays in Honours of Murray C. Kemp* Edward Elgar, Cheltenham

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FTAs and EPAs (1)

- **EPA**: Economic Partnership Agreement

Bilateral or multilateral agreement among states to ... facilitate the free movement of natural persons, goods, and capital within a region.

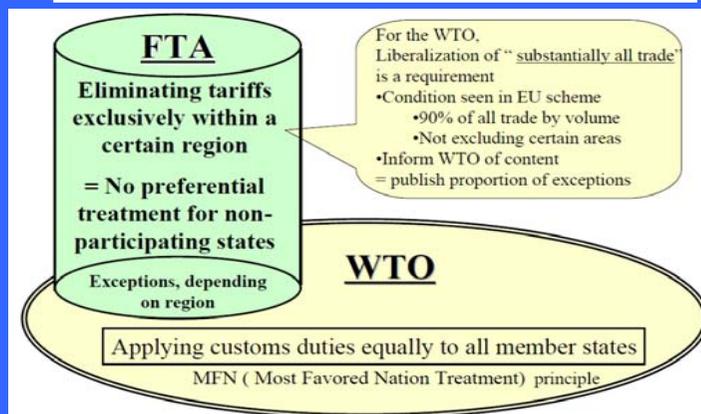
<http://www.meti.go.jp/english/information/downloadfiles/FTAprogrss200503.pdf>

- In addition to reduction/elimination of tariffs on goods and barriers on trade in services, EPA includes such factors as **relaxation/elimination of domestic regulations, harmonization of economic systems, and facilitation of movement of natural persons.**

[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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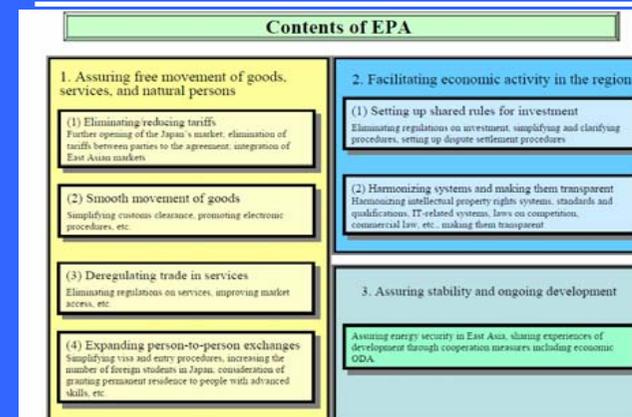
FTAs and EPAs (2)



<http://www.meti.go.jp/english/information/downloadfiles/FTAprogrss200503.pdf>

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FTAs and EPAs (3)



[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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FTAs and EPAs (4)

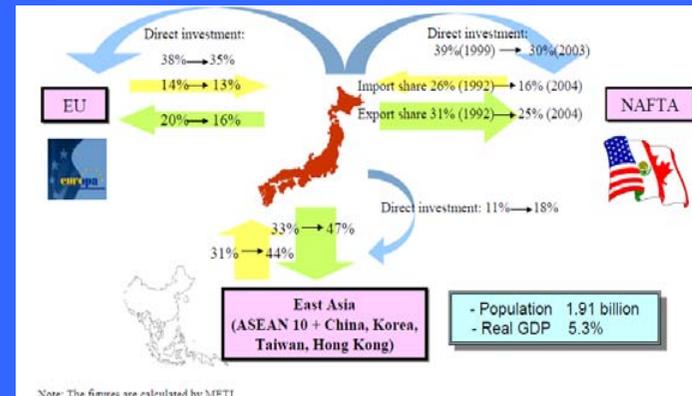
- According to the WTO, there are 148 FTAs/EPAs in the world as of June 2006
- Percentage of world trade

| | |
|-------------------------------------|-------|
| China and Taiwan: | 25.9% |
| USA: | 17.8% |
| EPAs in negotiations: | 17.3% |
| EU: | 13.1% |
| Completed or nearly completed EPAs: | 11.0% |
| Potential EPAs: | 10.3% |

Source: Nihon Keizai Shimbun 3rd November, 2006

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FTAs and EPAs (5)



[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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FTAs and EPAs (6)

- The private sector has already strengthened Japan's economic ties with East Asia considerably
- The Japanese government is aiming to institutionalise this de-facto economic integration
- Negotiations involve elimination of tariffs on components/parts rather than final products
- Negotiations also involve measures to improve the investment climate in East Asian countries through establishing investment-rules and frameworks for discussion between governments and investors

[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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FTAs and EPAs (7)

Status of Japan's EPA negotiations, as of October 2005

ASEAN countries

Japan-The Philippines

- Negotiations started in February, 2004.
- Both parties agreed in principle at the Japan-Philippines Summit in November 2004.

Japan-Malaysia

- Negotiations started in January, 2004.
- Both parties agreed in principle at the Japan-Philippines Summit in May 2005.

Japan-Thailand

- Negotiations started in February, 2004.
- Both parties agreed in principle in September 2005.

Japan-Indonesia

- Negotiations started in July, 2005.

Japan-ASEAN

- Negotiations started in April, 2005.
- Economic Ministers committed to endeavour to conclude the negotiation within two years.

[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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FTAs and EPAs (8)

Status of Japan's EPA negotiations, as of October 2005

Other countries

Japan-Korea

- Negotiations started in December, 2003.
- Aim to achieve a substantial agreement in 2005.
- 6 negotiation meetings were held.

Japan-India

- The first Joint Study Group (JSG) meetings were held in July.
- Both parties agreed to establish a Working Group.

Japan-Chile

- 4 JSG were held.

Japan-Australia

- Both leaders agreed to establish JSG to reinforce the economic relationship between two countries.

Japan-Switzerland

- Both leaders agreed to establish JSG to reinforce the economic relationship between two countries.

[http://www.kiep.go.kr/inc/download.asp?fnm=\(2005-10-21-853711757076371\)%20Session1_Mr%20Sasaki.pdf](http://www.kiep.go.kr/inc/download.asp?fnm=(2005-10-21-853711757076371)%20Session1_Mr%20Sasaki.pdf)

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FTAs and EPAs (9)

Japan's EPAs --- As of December 2006

■ already concluded:

| | |
|-------------|-------------------------|
| Singapore | effective November 2002 |
| Mexico | effective April 2005 |
| Malaysia | effective July 2006 |
| Phillipines | signed September 2006 |

■ in broad agreement with:

| | |
|----------|----------------|
| Thailand | September 2005 |
| Chile | September 2006 |

Source: Nihon Keizai Shimbun 3rd November, 2006

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FTAs and EPAs (10)

Japan's EPAs --- As of December 2006

■ in negotiations with:

ASEAN, Indonesia, Brunei, Gulf Cooperation Council (UAE, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia), South Korea

■ negotiations to start with:

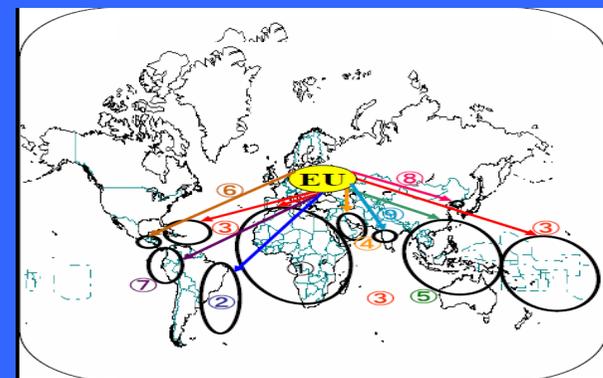
India (in 2007), Australia (in 2007), Vietnam

Source: Nihon Keizai Shimbun 3rd November, 2006

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FTAs and EPAs (11)

The EU's EPAs



http://www.mofa.go.jp/mofaj/area/eu/pdfs/jijyou_kankei.pdf

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FTAs and EPAs (12)

The EU's EPAs --- As of October 2006

■ already concluded: ①

European Communities(1958), Overseas Territories(1971), Switzerland/ Liechtenstein, Iceland, Norway(1973), Algeria(1976), Syria(1977), Andorra(1991), Romania, Bulgaria(1993), Turkey(1996), Farrow Islands, Palestine(1997), Tunisia(1998), South Africa, Morocco, Israel, Mexico(2000), Macedonia, Croatia(2001), Jordan(2002), Chile, Lebanon(2003), Egypt(2004)

http://www.mofa.go.jp/mofaj/area/eu/pdfs/jijyou_kankei.pdf

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FTAs and EPAs (13)

The EU's EPAs --- As of October 2006

■ in negotiations with: ②③④

②Mercosur (Argentina, Brazil, Paraguai, Uргуai): in negotiations since 2000

③Africa/Carib/Pacific countries and regions (ACP): aiming at completion of FTA negotiations by 2020

④Gulf Cooperation Council (GCC): in negotiations since 1990

http://www.mofa.go.jp/mofaj/area/eu/pdfs/jijyou_kankei.pdf

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FTAs and EPAs (14)

The EU's EPAs --- As of October 2006

■ movements towards negotiations with: ⑤⑥⑦⑧⑨

⑤ASEAN: 'Vision Group' (formed in April 2005) declared expansion of economic co-operation and FTA in line with WTO in May 2006

⑥El Salvador, Guatemala, Costarica, Nicaragua, Panama, Honduras: discussion to start negotiations began in March 2005

http://www.mofa.go.jp/mofaj/area/eu/pdfs/jijyou_kankei.pdf

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FTAs and EPAs (15)

The EU's EPAs --- As of October 2006

⑦Columbia, Peru, Bolivia, Equador, Venezuela: decision taken in May 2006 to discuss start of negotiations

⑧South Korea: pre-negotiations for FTA began in July-September 2006

⑨India: High-level agreement in October 2006 to start negotiations

http://www.mofa.go.jp/mofaj/area/eu/pdfs/jijyou_kankei.pdf

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FTAs and EPAs (16)

- In the trade policy review released in October 2006, the European Commission proposed to put priority on completion of negotiations with the following countries
 1. ASEAN, South Korea, Mercosur
 2. India, Russia, GCCat the same time as emphasising the importance to prioritise the WTO and ODA
http://www.mofa.go.jp/mofaj/area/eu/pdfs/ijiyou_kankei.pdf
- The Japanese government also underlines the benefits of the rule-based multilateral trading system
<http://www.mofa.go.jp/policy/economy/wto/min01/position.html>

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WTO negotiations (1)

- The Timeline of the most recent WTO trade liberalisation negotiation ('Round')

Nov 01 The most recent Round, the Doha Development Agenda Round, starts

Sept 03 Ministerial Meeting in Cancun, the Round collapses without agreement on the way forward

July 04 Framework Agreement for conducting future Doha Round negotiations

Dec 05 Hong Kong Ministerial Declaration

July 06 Doha Round negotiations suspended

<http://www.meti.go.jp/committee/materials/downloadfiles/g61019b03j.pdf>

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WTO negotiations (2)

- The three main issues of the Doha Round:
 - ① Market Access in Agriculture
 - lowering tariffs on agricultural products
 - ② Domestic Agricultural Support
 - lowering domestic subsidies on agricultural products
 - ③ Market Access in Non-Agricultural products (NAMA)
 - lowering tariffs on non-agricultural products such as industrial and mining products<http://www.meti.go.jp/committee/materials/downloadfiles/g61019b03j.pdf>

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WTO negotiations (3)

- What is behind the difficulty in concluding the Doha Round?

Japan, EU and India --- jointly maintaining a protectionist stance with regard to ①, asking the US for ②

The USA --- will not make any moves unless the EU compromises with regard to ①, asking Brazil and India for both ① and ③

Japan, EU and the USA --- asking Brazil, India and others for ③

Brazil --- asking the EU and Japan for ①

<http://www.meti.go.jp/committee/materials/downloadfiles/g61019b03j.pdf>

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Case Study: ZARA (1)

- Zara is part of the Inditex group which has seven other retail chains and is one of the largest fashion retail groups worldwide.
- At Zara, consumer responses and demands are taken into account in the designing process. Retail stores submit consumer responses and comments to the creative team, which is made up of over 200 professionals.
- Wherever Zara sell their products in the world, they consciously locate their boutiques in fashionable districts in order to create the 'brand' image.

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Case Study: ZARA (2)

- Zara Japan was incorporated in 1997 as a 50%-50% joint venture between Inditex and Bigi. In May 2004, Inditex raised its stake to 85%.
 - Zara launched its first store in Tokyo in 1998 and has hence increased its presence with new openings in the capital, Osaka, Fukuoka, Yokohama, Nagoya, Kyoto, Hiroshima and Sapporo, to total 18 outlets.
 - In Dec 2005, Inditex acquired the remaining 15% in Zara Japan, thus reaching a stake of 100% in the share capital of the subsidiary in Japan. This acquisition meant a step forward for Inditex in Japan.
- <http://www.zara.com>

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Conclusions

- The WTO rules allow member countries to conclude customs unions and FTAs as an exception but there is debate over the desirability of FTAs/EPAs.
- Japan and the EU are both actively pursuing completion of FTAs/EPAs with many countries, all the while emphasising the importance of the WTO.
- Zara's strategy is to maintain production costs low by shortening the time between product development, production and final sales, and employing low-cost labour. It maintains the image of a high-quality brand by opening boutiques close to other high-quality/high-price brand boutiques.

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ASSIGNMENT

Please choose one of three topics.

- (1) Why is the EU welcoming new members and what are the costs and benefits?
- (2) What are the implications of EU enlargement to Japan and EU-Japan relations?
- (3) What are the characteristics of Yazaki Sogyo's European strategies?

<http://www.yazaki-group.com/e/nonflash.html>

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Agenda for Lecture No.12

- Partnership for the Twenty-First Century?

(pp.166-172)

- Enlargement of the EU
- The enlarged EU and Japan
- Case study: Yazaki Sogyo