

Era of Mega FTAs -Challenges and Global Governance

July 12, 2013

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I Emergence of Mega FTAs

1 Why?

Stalemate in the WTO and Doha Round

- “Slowness” and “Narrowness” of the Round
- Flaw of decision making system based on consensus and single undertaking

2 Proliferation of FTAs

381 RTAs are in force according to the WTO.

I Emergence of Mega FTAs

3 Mega FTAs

TPP

RCEP

Japan-China-Korea

Japan- EU (EIA)

EU-US (TTIP)



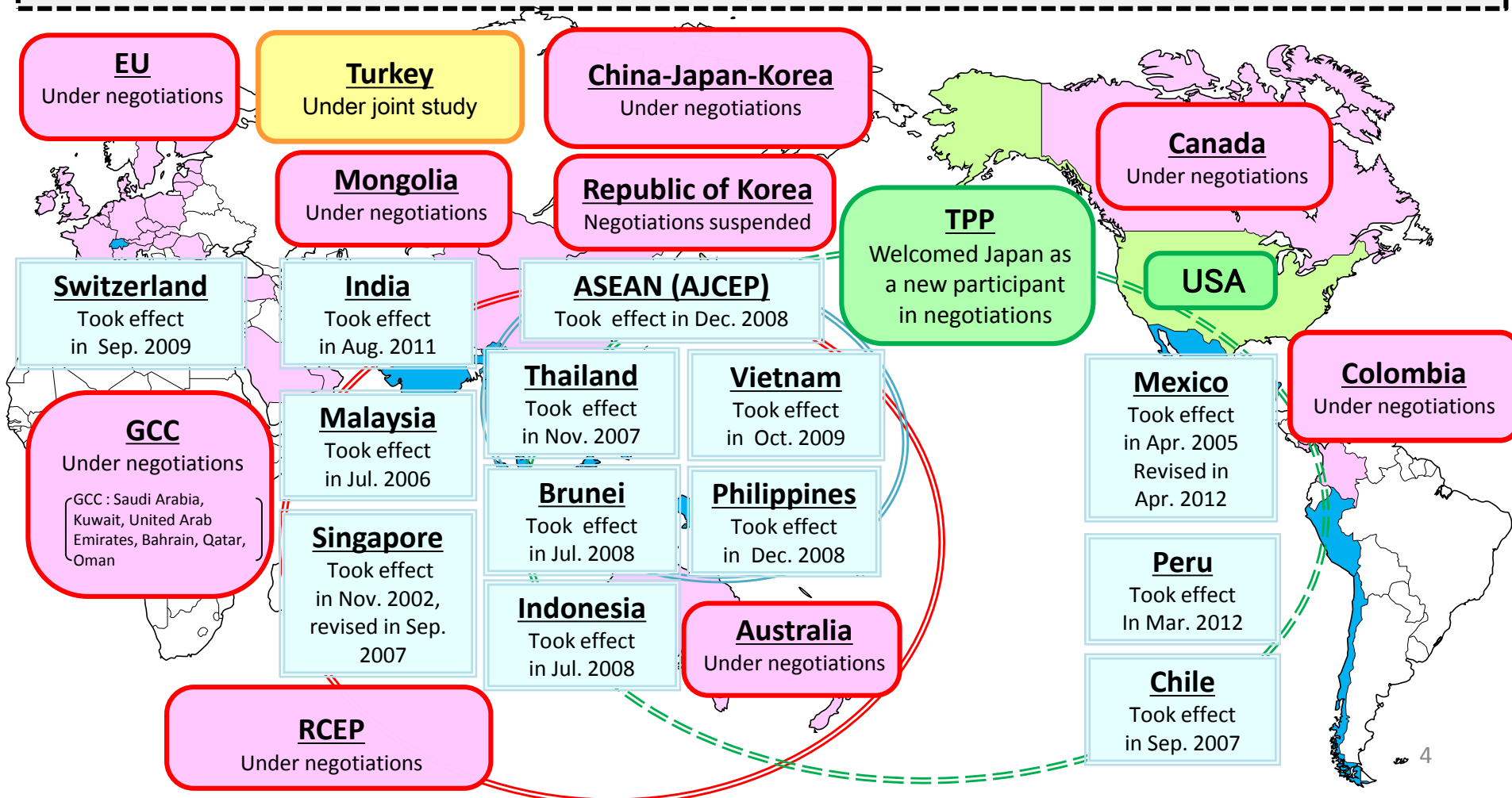
Japan is involved in 4 of them!

Development of Japan's EPA/FTA Networks

Took Effect/Signed 12 countries and 1 region

Under Study/discussion 1 country

Under Negotiations 5 countries and 4 regions



I Emergence of Mega FTAs

Importance of Japan-EU FTA (EIA)

- Growth
- Trade and Investment
- Employment
- Innovation
- Global Value Chains
- Third Country Collaboration, etc.

Benefit of EIA for EU and Japan through Reducing Tariffs and NTMs

“Assessment of barriers to trade and investment between the EU and Japan” (February 3, 2010) prepared for the European Commission, DG Trade, by Copenhagen Economics

- While tariff dismantling would be beneficial to both economies, the real gains would be reaped by lowering regulatory differences.
- The study focuses predominantly on regulatory measures in seven key sectors in Japan.
(Pharmaceuticals, medical devices, processed foods, cars, transport equipment, telecoms, and financial services)
 - The study estimates that trade flows could increase by €43 billion for the EU and €53 billion for Japan.
 - e.g.) - EU motor vehicles exports to Japan could increase by up to 84% (by up to €4.7 billion)
 - EU pharmaceutical exports to Japan could increase by 60-100% (by up to €3.4 billion)
 - EU medical devices exports to Japan could increase by 51% (by €1.1 billion)
 - While more than half of the trade benefits go to Japan, two-thirds of the welfare benefits go to the EU (€33 billion for the EU and €18 billion for Japan).
- The study uses information on the trade costs of regulatory barriers obtained through a survey of European firms operating in Japan.

Summary of Impact	EU	Japan
Export Effects (Tariffs)	+€14bn	+€25bn
Export Effects (NTMs)	+€29bn	+€28bn
Welfare Effects	+€33bn	+€18bn

Huge Job Creation by Japanese Companies in Europe

EU: No. 1 Investor in Japan 7,314 billion yen(2011)
Japan: No. 4 Investor in the EU 129 billion euro(2010)

Source: BOJ, Eurostat

Japanese overseas affiliates in the EU

Survey of Overseas Business Activities as of 2011(FY), METI

Number of employees: over 437,000

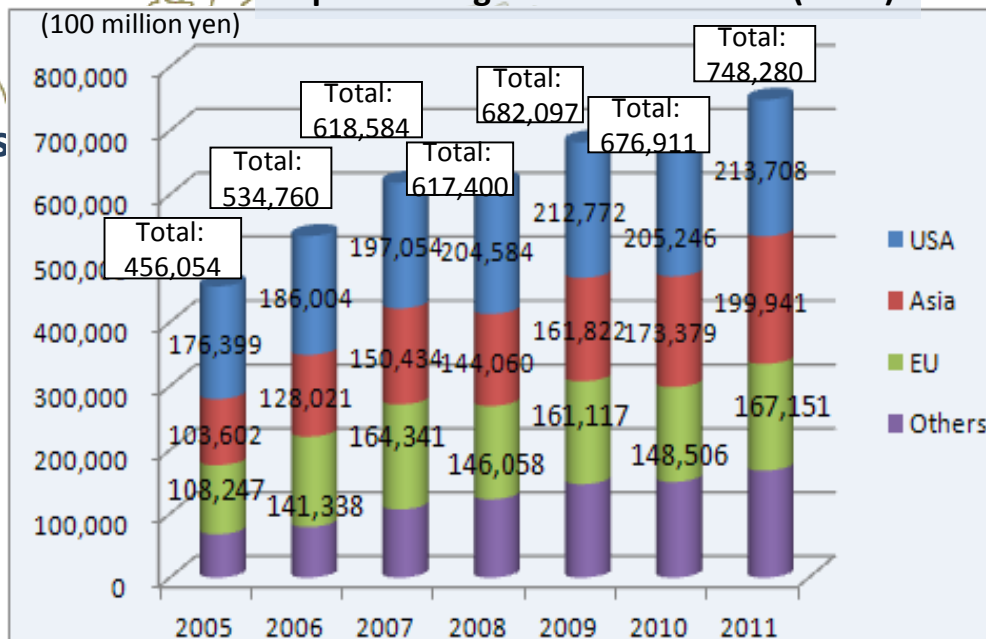
Sales: 27,437 bln yen

Intraregional procurement: 5,646 bln yen

*Number of Employees by Japanese affiliates

UK	140,705
Netherland	58,227
Germany	59,304
Belgium	33,226
France	25,319
Italy	21,545
Spain	12,848

Japan's foreign direct investment(stock)

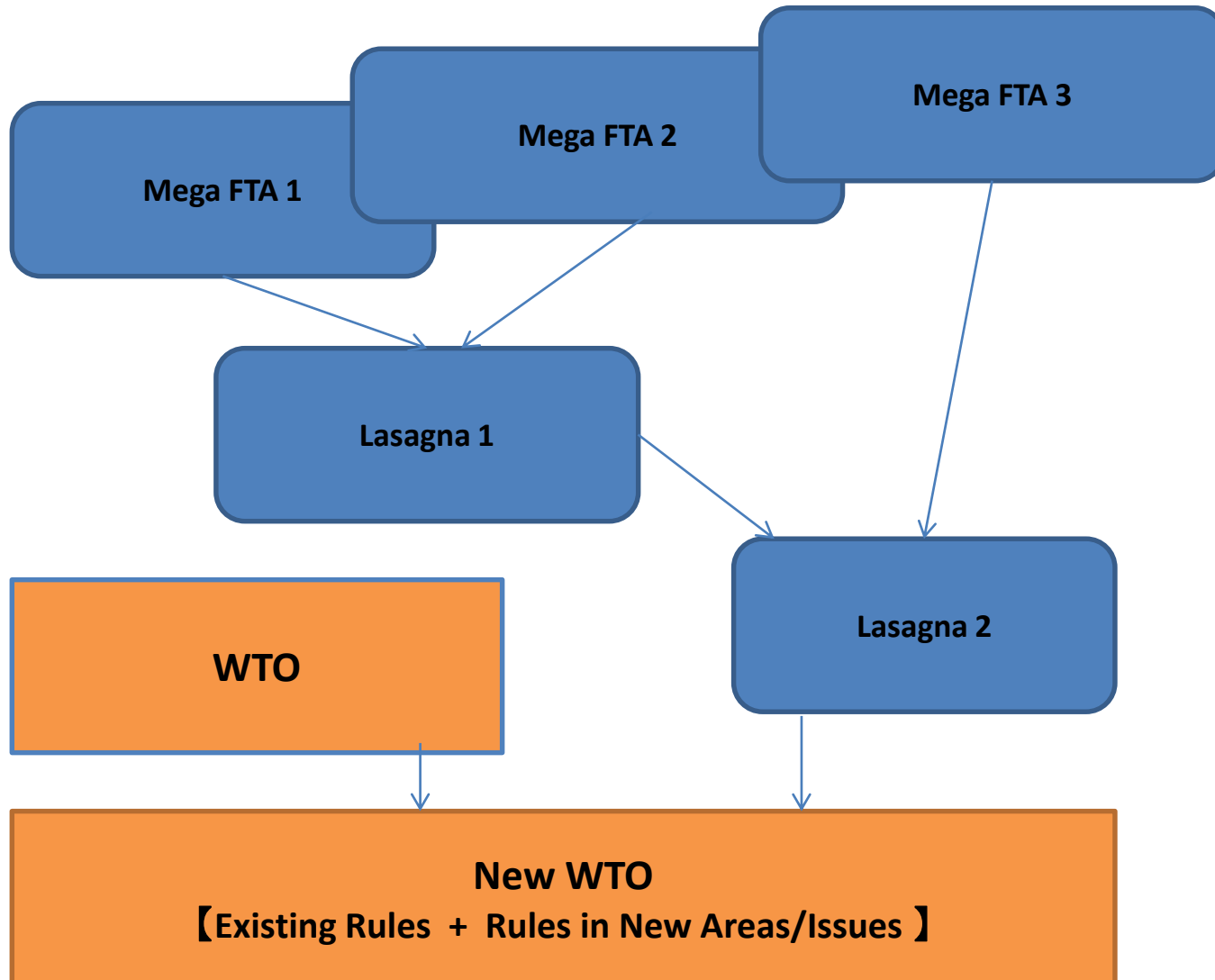


Source: Bank of Japan

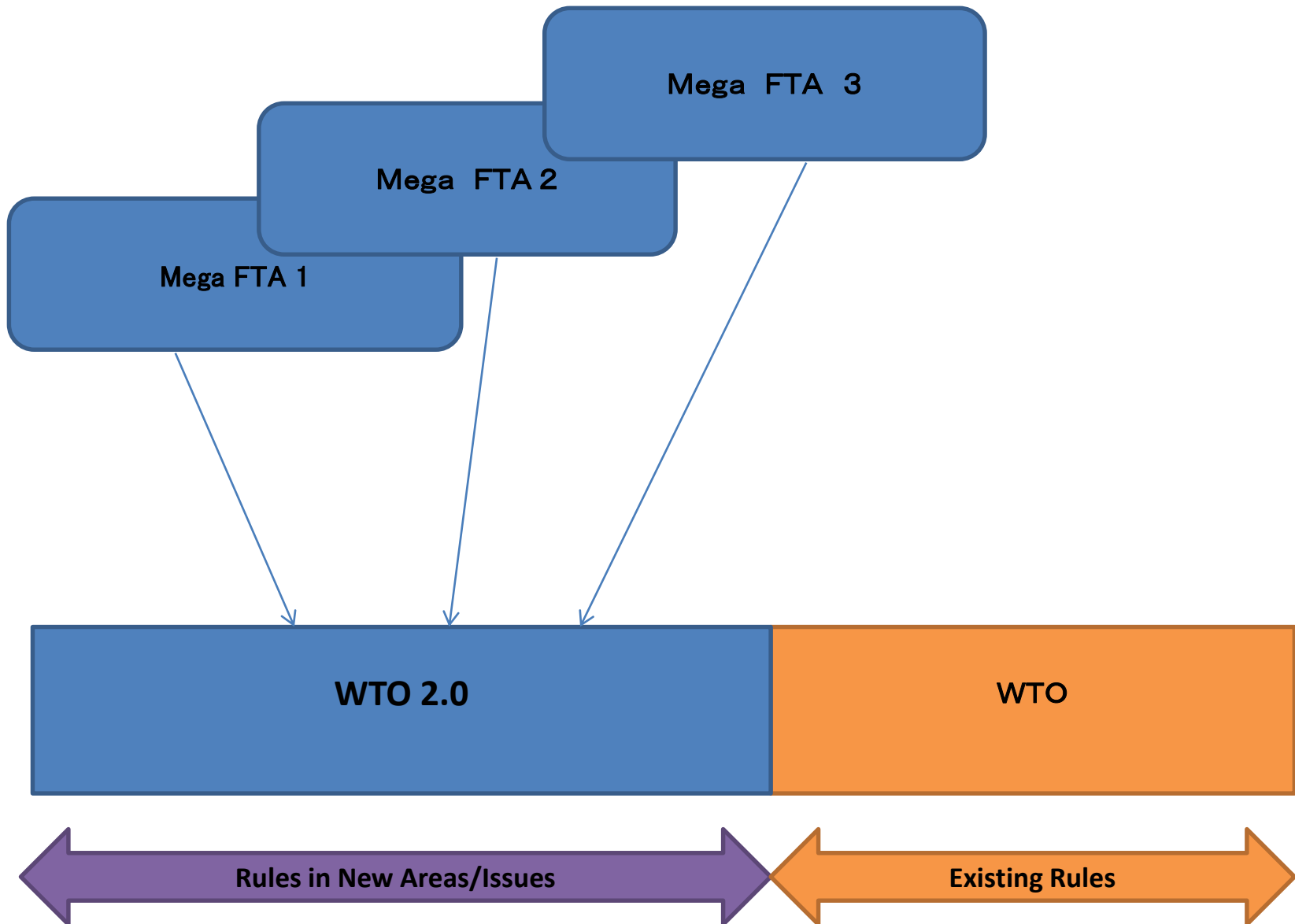
II 4 Possible Scenarios for Global Governance in the Era of Mega FTAs

- 1 Euphoric Scenario
- 2 WTO 2.0 (Richard Baldwin's Scenario)
- 3 Fragmentation Scenario (Spaghetti Bowl in Rules)
- 4 Scenario for avoiding Fragmentation
e.g. Utilization of Issue-Based Plurilateral
Agreements

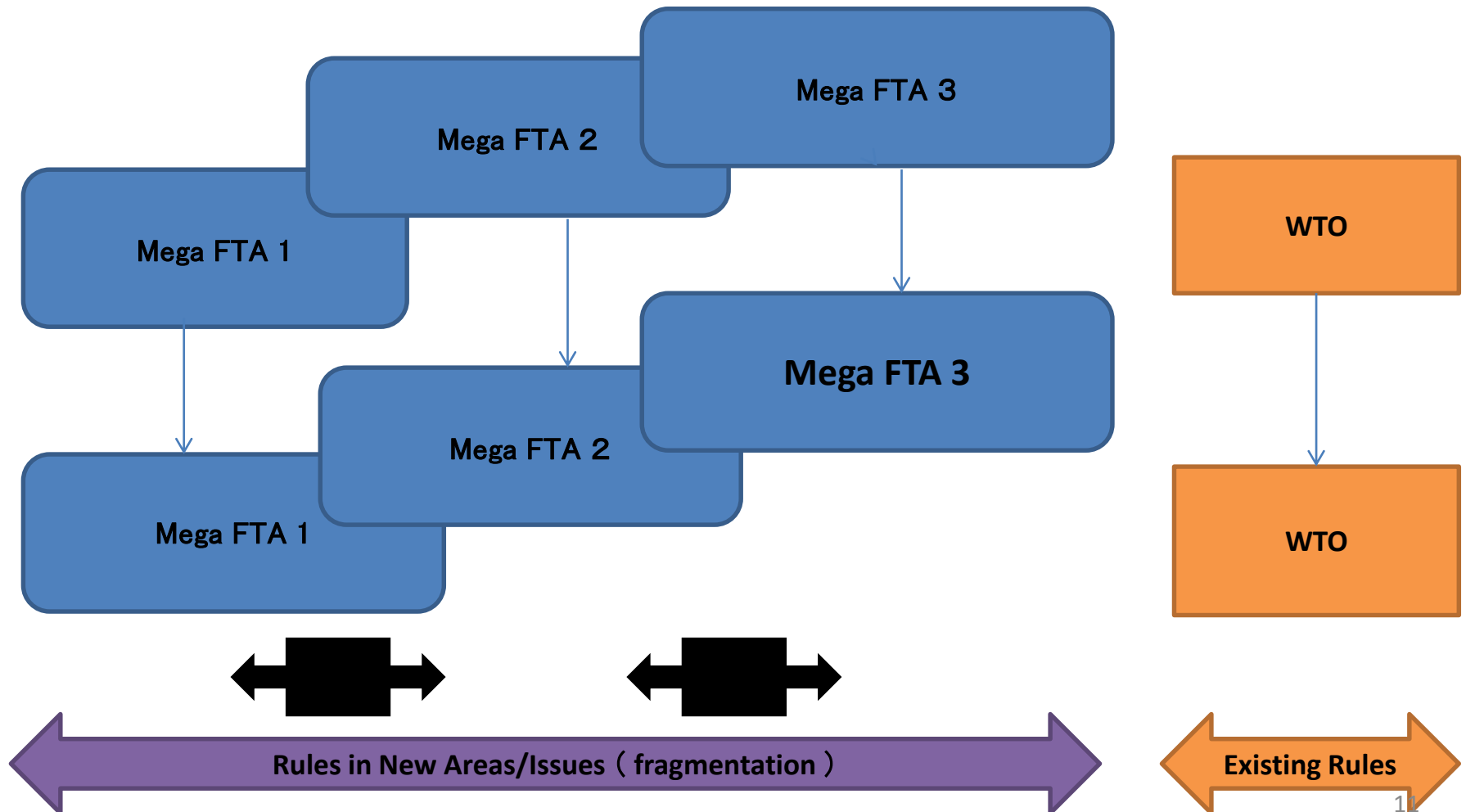
Scenario 1 Euphoric Scenario



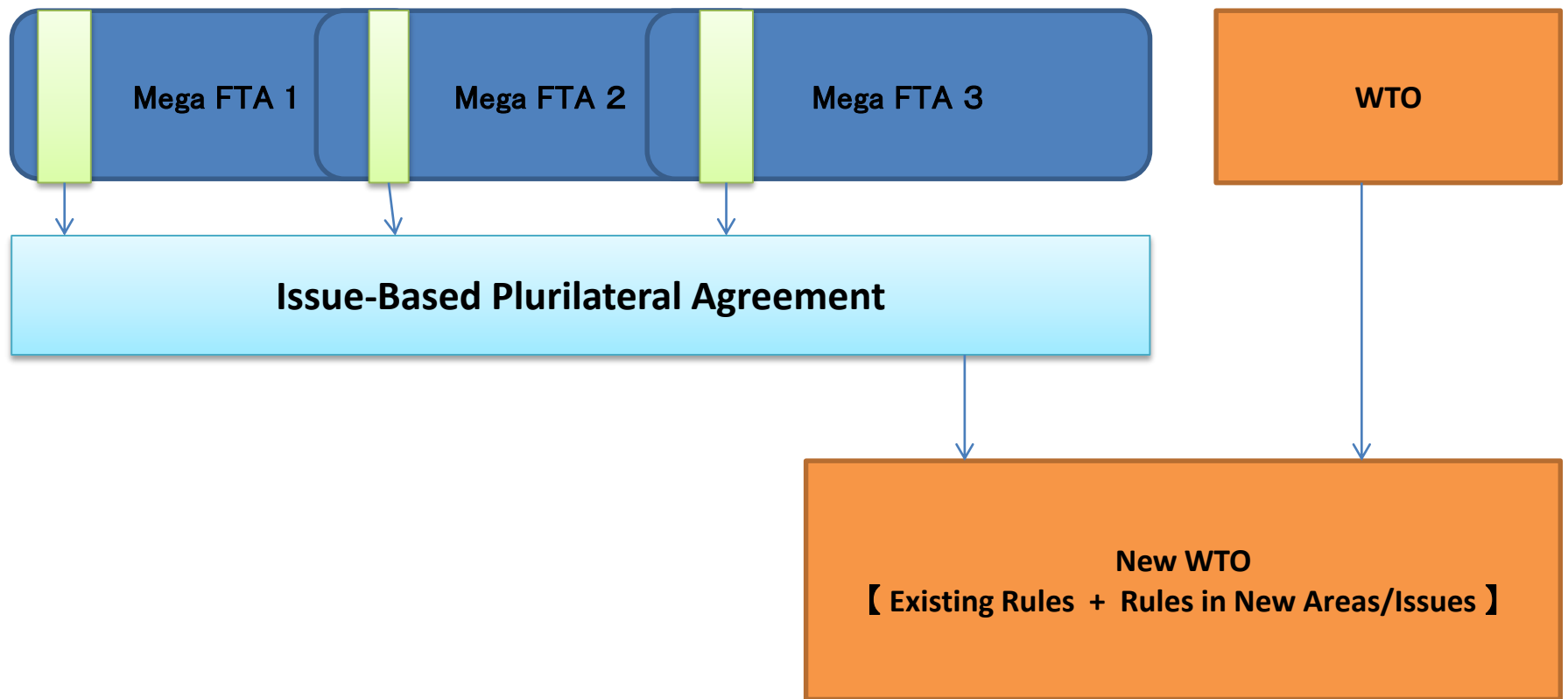
Scenario 2 WTO 2.0 (Baldwin's Scenario)



Scenario 3 Spaghetti Bowl in Rules (Fragmentation Scenario)



Scenario 4 Scenario for avoiding Fragmentation e.g.Utilization of Issue-Based Plurilateral Agreements (e.g. ISCA)



III What should we do to avoid “Spaghetti Bowls” in Rules?

- 1 To have a clear vision on the future of the global trade system
 - Avoidance of “hegemonic” trade games
 - Importance of the WTO system
- 2 Collaboration toward a “global solution”
 - FTAs are “regional” in definition
- 3 Concept of “Global Value Chains” based on government-business collaboration
 - e.g. Creation of Industry Advisory Body to the WTO
- 4 Issue-based rulemaking
 - Utilizing issue-based plurilateral agreements as well as FTAs to complement the WTO
 - e.g. ITA, ACTA, ISCA

III What should we do to avoid “Spaghetti Bowls” in Rules?

See

Michitaka Nakatomi, “Plurilateral Agreements: A viable alternative to the WTO?” (in Richard Baldwin, Masahiro Kawai, Ganeshan Wignaraja, eds, *The Future of the World Trading System: Asian Perspectives*, VoxEU eBook (June 11, 2013))

Michitaka Nakatomi, “Exploring Future Application of Plurilateral Trade Rules: Lessons from the ITA and the ACTA” (2012, RIETI)

5 Transparency

- Internal transparency in FTAs and external transparency to non-members

IV International Supply Chain Agreement (ISCA)

- A trial to regain global governance in the era of mega FTAs
See ISCA Concept Paper by the author (Research Institute of Economy, Trade and Industry, 2012)

Key Concepts

- Issue-based plurilateral agreement covering multiple supply chain related issues
- Complementary to WTO agreements
- Issues are selected in close consultation by the major countries and their industries
- MFN extension to provide the basis for future rules
- Avoiding the fragmentation of trade rules and the spaghetti bowl phenomenon
- Conclusion within a maximum of 3 years

IV International Supply Chain Agreement (ISCA)

- WEF Enabling Trade Report 2013 and World Bank blog by Bernhard Hoekman and Selina Jackson referred to ISCA as a possible “holistic approach” to GVC issues

Recent Sweden National Board of Trade Report also referred to ISCA

References:

World Economic Forum, “Enabling Trade: Valuing Growth Opportunities” (2013), P27

Bernard Hoekman and Selina Jackson, “Shifting Focus in Trade Agreements-From Market Access to Value Chain Barriers” (2013) (<http://blogs.worldbank.org/trade>)

National Board of Trade, Sweden, “Global Value Chains and the Transatlantic Trade and Investment Partnership” (2013), P6

V China in Global Trade Regime

- 1 Recent changes and challenges
 - Deceleration of Growth
 - Cost Overhang
 - Environmental and Sustainability Issues
 - Demography (Aging Population)
 - Tensions with Neighboring Countries
- 2 Necessity for collaboration among major players (EU, US, Japan, etc.) to encourage China to become a stakeholder in the global system

V China in Global Trade Regime

3 Illustrations of possible collaborations in trade areas

- Enforcing WTO compatibility
e.g. Rare Metals Case, Anti-dumping Cases
- Investment Regime
e.g. Plurilateral Investment Agreement
- Intellectual Property
e.g. Inviting China to the ACTA

4 RCEP and Japan-China-Korea FTA are paving the way for the future in integrating China as a real stakeholder in the global trade regime and value chains.