

# Japan-US EPA: Benefits and Obstacles

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# 1. Desirable Contents of Japan-US EPA

## Comprehensive Contents

- Trade and FDI liberalization
- Trade and FDI facilitation
- Harmonization of Economic Systems:  
Intellectual Protection System, Accounting  
Standard, etc
- Cooperation: Exchange of people, young  
students, Joint Research Projects
- Dispute settlement mechanism

## 2. Restrictions on Imports, FDI, and Service Trade for Japan and the US

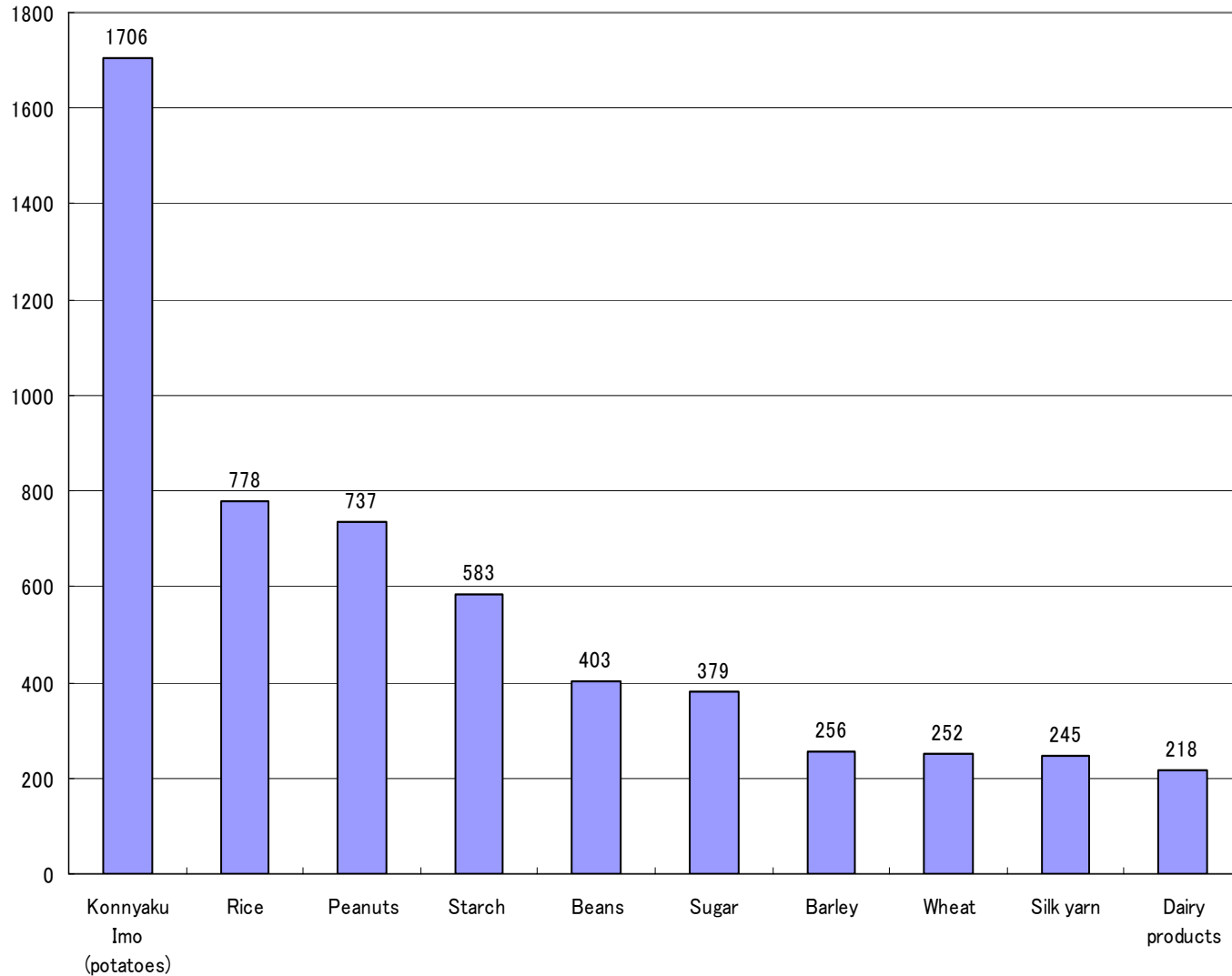
### 2.1 Foreign Trade

- The Level of Import Protection in Japan and the US
- High Import Protection Items in Japan
- Coverage of Free Trade in FTAs
- Japan-US EPA: Simulation Analysis
- Ways to Overcome the Opposition from Agricultural Sector

# Tariff Rates in Japan and the US on their Bilateral Imports

	Japan	US
1 Rice	788.08	7.45
2 Grain	73.88	0.90
3 Othcrop	3.95	0.91
4 Meat	50.50	1.03
5 Othfood	13.35	3.68
6 Forestry	0.03	0.54
7 Fishery	5.10	0.19
8 Mineral	0.0	0.06
9 TexWapLea	9.23	8.35
10 Paperwood	0.52	0.23
11 Chemical	1.20	2.50
12 Metal	1.03	2.28
13 Automobile	0.0	2.39
14 Machinery	0.27	1.46
15 Electronics	0	0.49
16 Othservice	0	0
17 Construction	0	0
18 Trade	0	0
19 ComInsFin	0	0
20 Transport	0	0

# High Tariff Items: Japan (%)



# Import Liberalization Ratio for FTAs Involving Japan and US: Measured in terms of import value (%)

Japan	Singapore	US	Australia
94.7	100	98.6	100
Japan	Mexico	US	Korea
86.8	98.4	100	99.3
Japan	Malaysia		
94.1	99.3		
Japan	Chile		
90.5	99.8		
Japan	Thailand		
91.6	97.4		

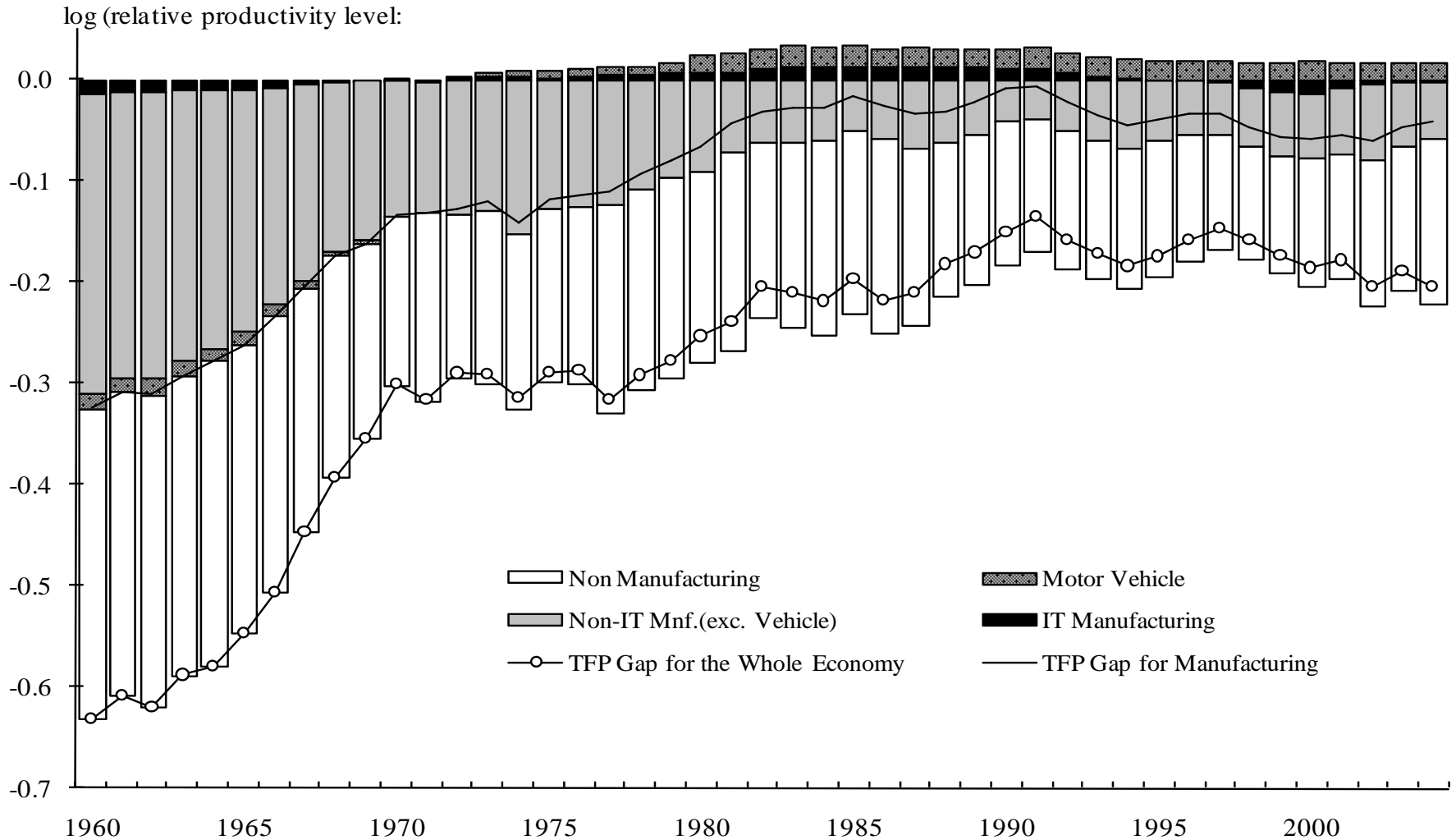
# Impacts of Japan-US EPA: Import Liberalization

- Simulation
  - + Elimination of price differentials (tariff and non-tariff barriers) on goods in the US and Japanese markets (FTA)
  - + Reduction of TFP gap because of the harmonization of economic systems and structural reform (FTA+TFP Gap Reduction)

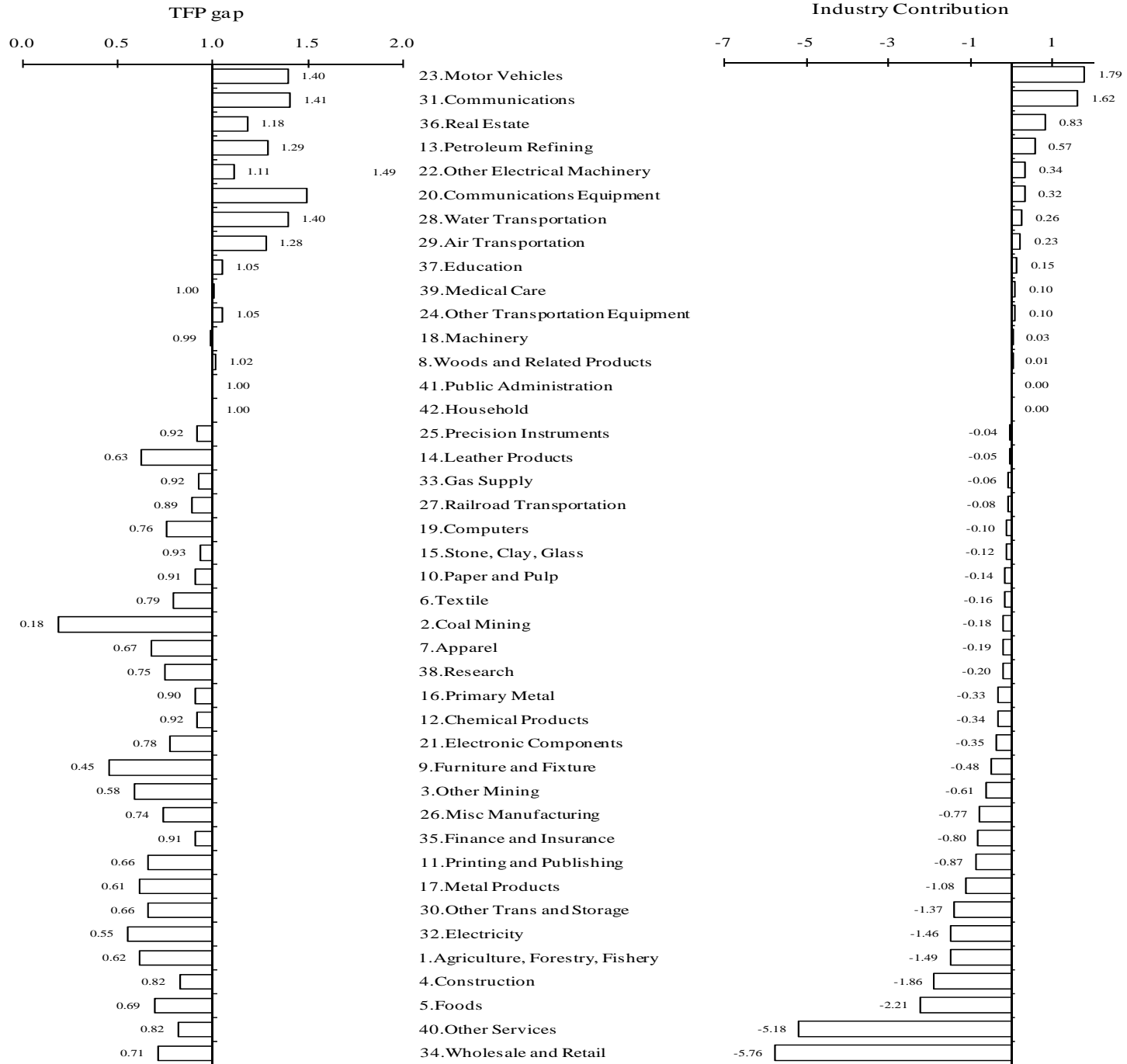


# U.S.-Japan TFP Gap

Total Factor Productivity	1960	1973	1980	1990	1995	2000	2004
	52.4	72.5	75.4	86.1	82.6	81.7	79.5



# Industry Origins of TFP Gap in 2004



# Simulation Results

- Overall effects: Japan and the US gain from Japan-US EPA. The gains are larger for Japan compared to the US because of the large increase in TFP in Japan
- Sectoral effects: Wide variations among the sectors regarding the effects of Japan-US EPA

# Impacts of Japan-US EPA

	EPA	EPA + TFP Gap Reduction			
		10%	25%	50%	100%
<b>Economic Welfare (% change)</b>					
<b>Japan</b>	<b>0.45</b>	<b>1.93</b>	<b>4.03</b>	<b>7.27</b>	<b>12.96</b>
<b>USA</b>	<b>0.03</b>	<b>0.34</b>	<b>0.78</b>	<b>1.49</b>	<b>2.78</b>
<b>GDP (% change)</b>					
<b>Japan</b>	<b>0.43</b>	<b>1.60</b>	<b>3.27</b>	<b>5.86</b>	<b>10.47</b>
<b>USA</b>	<b>-0.02</b>	<b>0.28</b>	<b>0.71</b>	<b>1.40</b>	<b>2.66</b>

# Impacts on Output by Sector (%):

## EPA+TFP 25% Reduction

	<b>Japan</b>	<b>USA</b>
<b>Rice</b>	<b>-82.14</b>	<b>266.86</b>
<b>Grain</b>	<b>-48.03</b>	<b>5.32</b>
<b>Othcrop</b>	<b>3.18</b>	<b>-3.39</b>
<b>Meat</b>	<b>-15.44</b>	<b>5.43</b>
<b>Othfood</b>	<b>3.29</b>	<b>0.52</b>
<b>Forestry</b>	<b>4.05</b>	<b>-0.17</b>
<b>Fishery</b>	<b>3.99</b>	<b>0.09</b>
<b>Mineral</b>	<b>6.96</b>	<b>-0.05</b>
<b>TexWapLea</b>	<b>4.44</b>	<b>-0.27</b>
<b>Paperwood</b>	<b>1.04</b>	<b>0.02</b>
<b>Chemical</b>	<b>0.18</b>	<b>1.10</b>
<b>Metal</b>	<b>1.75</b>	<b>-0.44</b>
<b>Automobile</b>	<b>0.69</b>	<b>0.89</b>
<b>Machinery</b>	<b>1.38</b>	<b>-0.96</b>
<b>Electronics</b>	<b>-1.14</b>	<b>-0.03</b>
<b>Othservice</b>	<b>1.08</b>	<b>0.18</b>
<b>Construction</b>	<b>3.63</b>	<b>0.17</b>
<b>Trade</b>	<b>2.67</b>	<b>0.28</b>
<b>ComInsFin</b>	<b>1.03</b>	<b>0.63</b>
<b>Transport</b>	<b>0.40</b>	<b>1.14</b>

# Obstacle to Japan-US EPA: Agriculture Liberalization

- + Reasons for agricultural protection
  - Multi-functionality (food security, environmental protection, preservation of tradition, etc)
  - Protection of farmers (political factors): agriculture employs only 4 percent of labor force but it has substantial political influence

# Ways to Overcome the Obstacle

- Implement both domestic structural reform and trade liberalization in agriculture including sensitive items such as rice (domestic structural reform is not well formulated or implemented effectively)
- Introduce phased out trade liberalization schedule for the sensitive items
- Introduce safeguard measures
- Provide temporary income compensation for negatively impacted workers

## 2.2 Foreign Direct Investment

- Assessment of Investment Liberalization in Selected FTAs
- US is more open to FDI compared to Japan



# Methodology

□ This study used a modified Golub (2003) method of analyzing restrictions on FDI.

- **Restriction on Ownership and Market Access (0.4)**

- No foreign equity is allowed **0**
- 1-19 percent is allowed **0.1**
- Reservation on ownership and market access **0.25**
- 20-34 percent is allowed **0.4**
- 35-49 percent is allowed **0.5**
- 50-74 percent is allowed **0.7**
- 75-99 percent is allowed **0.8**
- No restriction but unbound **0.9**
- Commercial presence is required **0.9**
- No restriction **1**

- **National Treatment (0.20)**

- No national treatment **0**
- Reservation on national treatment **0.25**

- **Screening and Approval (0.10)**

- Objections in case the investment is contrary to national interest **0**
- Investment are required to show economic benefits before approval **0.1**
- Reservations for future limitations **0.25**
- Objections based on the size of investment **0.5**
- Prior or post notification **0.9**
- No restrictions **1**
- No restrictions **1**

# Methodology (...cont.)

- **Board of Directors and Management Composition (0.10)**

- All members of the management should be locals 0
- Reservations for future restrictions 0.25
  - Majority should be locals 0.5
  - At least one is local 0.75
- Should be locally license 0.9
- No restrictions 1

- **Movement of investors (0.10)**

- No entry 0
- Less than one year 0.1
- Reservations for further measures on entry 0.25
- One to two years 0.4
- Three to four years 0.5
- More than four years but less than ten 0.8
- No restrictions 1

- **Performance requirements (0.10)**

- Local contents 0.75
- Others 0.9

All in all, twenty one sectors that includes 158 ISIC three-digit subsectors were evaluated in this study.

	Limitation of Foreign Ownership Market	National Treatment	Screening And Approvals	Board of Directors	Movement of people	Performance Requirements	Total	Rank
<b>US- Australia</b>							<b>0.838</b>	<b>1</b>
<b>US</b>	<b>0.340</b>	<b>0.174</b>	<b>0.098</b>	<b>0.097</b>	<b>0.100</b>	<b>0.096</b>	<b>0.905</b>	
<b>Australia</b>	<b>0.273</b>	<b>0.164</b>	<b>0.047</b>	<b>0.089</b>	<b>0.100</b>	<b>0.097</b>	<b>0.770</b>	
<b>US- Singapore FTA</b>							<b>0.825</b>	<b>2</b>
<b>US</b>	<b>0.326</b>	<b>0.172</b>	<b>0.098</b>	<b>0.096</b>	<b>0.100</b>	<b>0.096</b>	<b>0.888</b>	
<b>Japan-Singapore EPA</b>	<b>0.278</b>	<b>0.157</b>	<b>0.096</b>	<b>0.039</b>	<b>0.100</b>	<b>0.093</b>	<b>0.763</b>	
<b>Japan</b>	<b>0.276</b>	<b>0.157</b>	<b>0.086</b>	<b>0.088</b>	<b>0.048</b>	<b>0.095</b>	<b>0.750</b>	<b>3</b>
<b>Singapore</b>	<b>0.343</b>	<b>0.158</b>	<b>0.089</b>	<b>0.045</b>	<b>0.050</b>	<b>0.098</b>	<b>0.784</b>	
<b>Korea- Singapore FTA</b>							<b>0.741</b>	<b>4</b>
<b>Korea</b>	<b>0.259</b>	<b>0.156</b>	<b>0.082</b>	<b>0.083</b>	<b>0.075</b>	<b>0.038</b>	<b>0.693</b>	
<b>Singapore</b>	<b>0.310</b>	<b>0.173</b>	<b>0.095</b>	<b>0.046</b>	<b>0.075</b>	<b>0.088</b>	<b>0.788</b>	
<b>NAFTA</b>							<b>0.710</b>	<b>5</b>
<b>Canada</b>	<b>0.280</b>	<b>0.158</b>	<b>0.009</b>	<b>0.025</b>	<b>0.100</b>	<b>0.049</b>	<b>0.621</b>	
<b>Mexico</b>	<b>0.222</b>	<b>0.135</b>	<b>0.023</b>	<b>0.089</b>	<b>0.095</b>	<b>0.089</b>	<b>0.654</b>	
<b>US</b>	<b>0.292</b>	<b>0.180</b>	<b>0.092</b>	<b>0.094</b>	<b>0.100</b>	<b>0.096</b>	<b>0.855</b>	
<b>Korea- Chile FTA</b>							<b>0.689</b>	<b>6</b>
<b>Korea</b>	<b>0.271</b>	<b>0.146</b>	<b>0.063</b>	<b>0.082</b>	<b>0.050</b>	<b>0.091</b>	<b>0.704</b>	
<b>Chile</b>	<b>0.272</b>	<b>0.142</b>	<b>0.095</b>	<b>0.069</b>	<b>0.050</b>	<b>0.045</b>	<b>0.673</b>	
<b>Japan- Mexico EPA</b>							<b>0.687</b>	<b>7</b>
<b>Japan</b>	<b>0.305</b>	<b>0.162</b>	<b>0.084</b>	<b>0.084</b>	<b>0.048</b>	<b>0.090</b>	<b>0.773</b>	

# Results and Discussions: *By Country Assessment*

	Limitation of Foreign Ownership Market	National Treatment	Screening and Approval	Board of Directors	Movement of people*	Performance Requirements	Total	Rank
							0.88	
US	0.319	0.175	0.096	0.095	0.100	0.096	0.77	1
Singapore	0.310	0.163	0.094	0.043	0.075	0.093	0.77	2
Australia	0.273	0.164	0.047	0.089	0.100	0.097	0.76	3
Japan	0.291	0.159	0.085	0.086	0.048	0.093	0.69	4
Korea	0.265	0.151	0.073	0.083	0.063	0.064	0.67	5
Chile	0.272	0.142	0.095	0.069	0.050	0.045	0.62	6
Mexico	0.228	0.139	0.023	0.077	0.071	0.089	0.62	7
Canada	0.280	0.158	0.009	0.025	0.100	0.048	0.60	8

	Primary Sectors	Secondary Sectors	Tertiary Sectors
<b>US- Australia</b>			
<b>US</b>	<b>0.920</b>	<b>0.940</b>	<b>0.901</b>
<b>Australia</b>	<b>0.805</b>	<b>0.850</b>	<b>0.761</b>
<b>US- Singapore FTA</b>			
<b>US</b>	<b>0.940</b>	<b>0.940</b>	<b>0.879</b>
<b>Singapore</b>	<b>0.873</b>	<b>0.885</b>	<b>0.743</b>
<b>Japan-Singapore EPA</b>			
<b>Japan</b>	<b>0.310</b>	<b>0.780</b>	<b>0.797</b>
<b>Singapore</b>	<b>0.825</b>	<b>0.775</b>	<b>0.779</b>
<b>Korea- Singapore FTA</b>			
<b>Korea</b>	<b>0.675</b>	<b>0.675</b>	<b>0.696</b>
<b>Singapore</b>	<b>0.900</b>	<b>0.880</b>	<b>0.789</b>
<b>NAFTA</b>			
<b>Canada</b>	<b>0.395</b>	<b>0.685</b>	<b>0.643</b>
<b>Mexico</b>	<b>0.210</b>	<b>0.555</b>	<b>0.708</b>
<b>US</b>	<b>0.890</b>	<b>0.900</b>	<b>0.848</b>
<b>Korea- Chile FTA</b>			
<b>Korea</b>	<b>0.695</b>	<b>0.750</b>	<b>0.702</b>
<b>Chile</b>	<b>0.520</b>	<b>0.650</b>	<b>0.691</b>
<b>Japan- Mexico EPA</b>			
<b>Japan</b>	<b>0.393</b>	<b>0.730</b>	<b>0.817</b>
<b>Mexico</b>	<b>0.213</b>	<b>0.545</b>	<b>0.648</b>

## 2.3 Trade in Services

- GATS Commitments
- Japan is relatively more open in service trade than the US

# Service Trade: GATS Commitments

		Japan	US
Business Services	Professional	*	*
	Computer and related	*	*
	R&D	*	
	Real estate	*	*
	Rental/leasing	*	*
	Other	*	*
Communication services	Postal		
	Courier		*
	Telecommunications	*	*
	Audio-visual	*	*
	Other		
Construction services	Building	*	*
	Civil engineering	*	*
	Installation and assembly	*	*
	Completion and finishing	*	*
	Other	*	*

# Service Trade: GATS Commitments (continued)

		Japan	US
Distribution services	Commission agents	*	*
	Wholesale trade	*	*
	Retailing	*	*
	Franchising	*	*
	Other		
Education services	Primary	*	
	Secondary	*	
	Higher	*	
	Adult	*	*
	Other		*
Environmental services	Sewage	*	*
	Refuse disposal	*	*
	Sanitation	*	*
	Other	*	*
Financial services	Insurance	*	*
	Banking	*	*
	Other		



# Service Trade: GATS Commitments (continued)

		Japan	US
Health services	Hospital	*	*
	Other human health		
	Social		
	Other		
Toursim and travel services	Hotels and restaurants	*	*
	Travel agencies	*	*
	Tourist guides	*	*
	Other		*
Recreational, cultural, sports	Entertainment	*	*
	News agency	*	*
	Libraries, archives, museums	*	*
	Sporting	*	*
	Other		
Transport services	Maritime transport	*	
	Internal waterways	*	
	Air	*	*
	Space		
	Rail	*	*
	Road	*	*
	Pipeline	*	
	Auxiliary	*	
	Other	*	

# 3. Concluding Comments

- Establish a High Level EPA with Comprehensive Coverage
- Include System Harmonization / Behind-the Border Measures
- Adopt Phase-in Gradual Trade and FDI Liberalization to Deal with Adjustment
- Provide Temporary Relief for Negatively Affected Workers
- Need Strong Political Leadership