

# The Significance of the EU-Japan EPA from a European Perspective

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The EU-Japan EPA in action: First experiences and further steps

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- I. Introduction: Japan Turning Bilateral and Regional
- II. Key Characteristics of EU-Japan Economic Relations since 1995 (the beginning of the WTO era)
- III. The Significance of the EPA for the Global Trading System
- IV. The Better is the Enemy of the Good: Combining the Best from the EPA, CETA, and the CPTPP (TPP11)
- V. Conclusions

# I. Introduction:

## Japan Turning Bilateral and Regional

- EU the forerunner, Japan the latecomer in bilateralism: By the turn of the millennium, Japan had zero bilateral FTAs, the EU 17 (highest number of all WTO members). By April 2020, Japan has 17, the EU 40 FTAs
- As seen by Europe, Japan is a key driver in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP-11) and thus in open regionalism
- Japan is the first country to conclude a trade agreement with EU-28 as well as with the UK.
- Given the strong interdependencies between EU-27 and the UK, a “European Perspective” on the EU-Japan EPA should not exclude the UK

## II. Key Characteristics of EU-Japan Economic Relations since 1995 (the beginning of the WTO era)



- Foreign direct investment, in particular from Japan into the EU, has been more dynamic than goods trade (Japanese surplus). This is important for policy reasons: The future battleground of conflicts is more likely to be in FDI than in trade
- EU Service trade (EU surplus) is mostly supplied by EU service exports via cross-border trade, consumption abroad and movements of natural persons while Japanese service exports are mostly supplied by Japanese multinationals in the EU (mode of supply 3). Again, this is important if FDI should become subject to restrictions for reasons of national security

## II. Key Characteristics of EU-Japan Economic Relations since 1995 (the beginning of the WTO era)



- Implementation of an EU-internal market for Japanese cars by the end of the nineties of last century left the EU with a relatively high MFN-tariff on cars (10%). The Japan-EU EPA includes a phasing out of the car tariffs over seven years. This can stimulate direct trade over horizontal FDI
- Brexit confronts Japan with a high risk of cutting global value chains between the EU-27 and the UK. The value of the UK-Japan agreement for Japan is highly contingent on the outcome of the UK-EU negotiations.

### III. The Significance of the EPA for the Global Trading System



- The EPA addresses controversial trade-offs between trade liberalization and non-trade related issues which have remained unsolved in the vague WTO framework of Article 20 GATT
- Such issues encompass sustainable development, workers' rights, the environment, and climate change with a dispute settlement mechanism which includes both experts, members of the civil society and international NGOs. A commitment to the Paris Climate Agreement is explicitly given

### III. The Significance of the EPA for the Global Trading System



- In the absence of a global investment agreement, the EPA aims at linking trade and investment issues through convergence of EU and Japanese investment protection laws. The EU aims at an Investment Court System departing from the old ISDS (Investor-to-State-Dispute Settlement). Again, this is very important for the EU as solving disputes on investment will be very controversial in bilateral economic relations (see China-US, China-EU, US-EU). Negotiations are not yet finished but if successfully concluded they could create the world's largest safe investment area.

### III. The Significance of the EPA for the Global Trading System



- World's largest safe data flow area: Mutual recognition of each partner's personal data protection regulations
- Access to procurement markets in sub-national constituencies (cities), liberalization of e-commerce and financial services
- Support for small and medium-sized businesses
- The EPA is embedded into a wider framework of political cooperation with respect to regional and global challenges (SPA: Strategic Partnership Agreement)

## IV. The Better is the Enemy of the Good: Combining the Best from the EPA, CETA, and the CPTPP (TPP11)



- The EPA must be assessed from the target: defending Europe's economic sovereignty against IT-tech challenges, geopolitically motivated “divide and rule” tactics from the US and China, and negative-sum games. Japan could face similar challenges.
- To leave their footprint in the rising fragmentation of global economic relations through setting up new walls and raising local content, Japan and the EU need like-minded partners

#### IV. The Better is the Enemy of the Good: Combining the Best from the EPA, CETA, and the CPTPP (TPP11)



- Such a partner could be Canada (eventually also South Korea) linked to Japan via the CPTPP and to the EU via CETA (or if South Korea would join, the EU-South Korea FTA)
- The three should check the three agreements on common minimum standards in non-traditional issues such regulating digital trade, defending intellectual property and personal data rights , settling disputes, protecting the environment, facilitating access to public procurement and supporting SMEs.

## IV. The Better is the Enemy of the Good: Combining the Best from the EPA, CETA, and the CPTPP (TPP11)



- Beyond common minimum standards, each partner would be free to pursue their own regulations
- To expand the three partners initiatives towards global rules, Japan and Canada could encourage other CPTPP countries to join them while the EU would envisage the same targets in their bilateral agreements.

## V. Conclusions

- The critical perspective of Europe on the EPA is its suitability for defending Europe's economic sovereignty
- Under this target, the EPA is necessary but not sufficient
- The EPA could become a core in a wider web of like-minded countries to establish new trade rules beyond tariffs and on-tariff barriers
- Such web could have sufficient clout to match aggressive geopolitically rooted bilateralism of the US or divide- and -rule games of China, both targeted against the EU

# Thank for your attention!



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