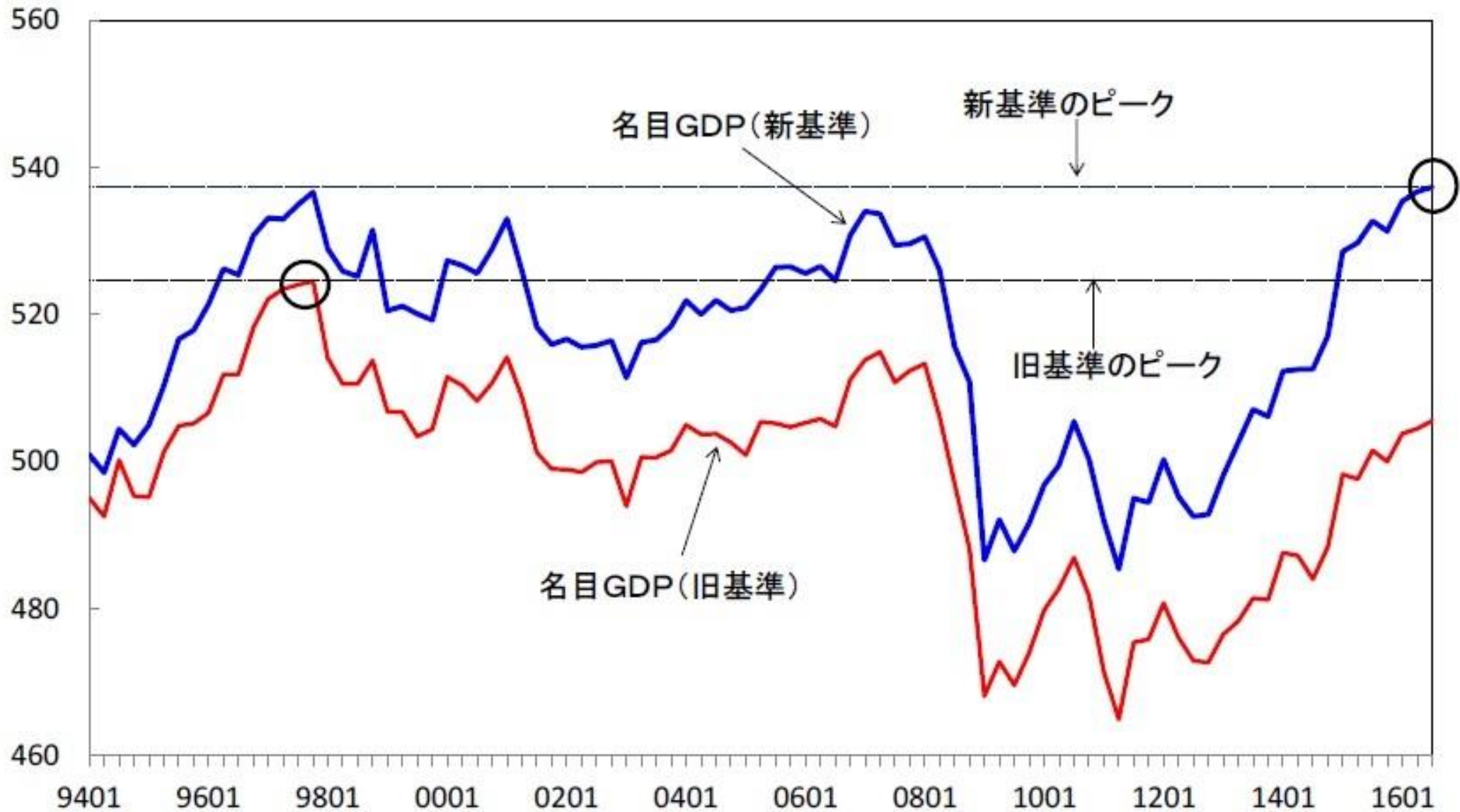


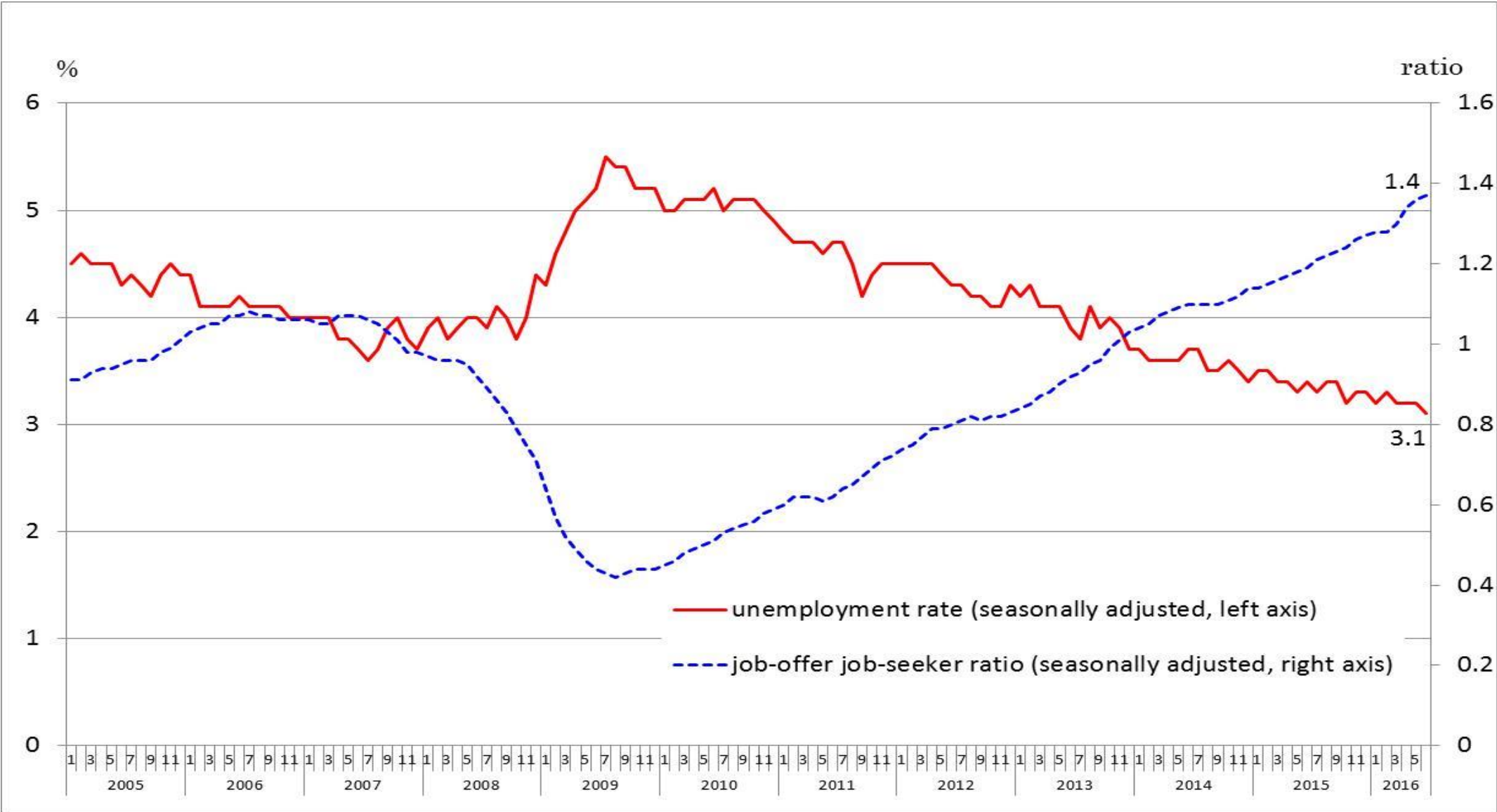
Global Economic trends and Japan-EU relations

Motoshige Itoh

Brief review of the Japanese economy(1); GDP



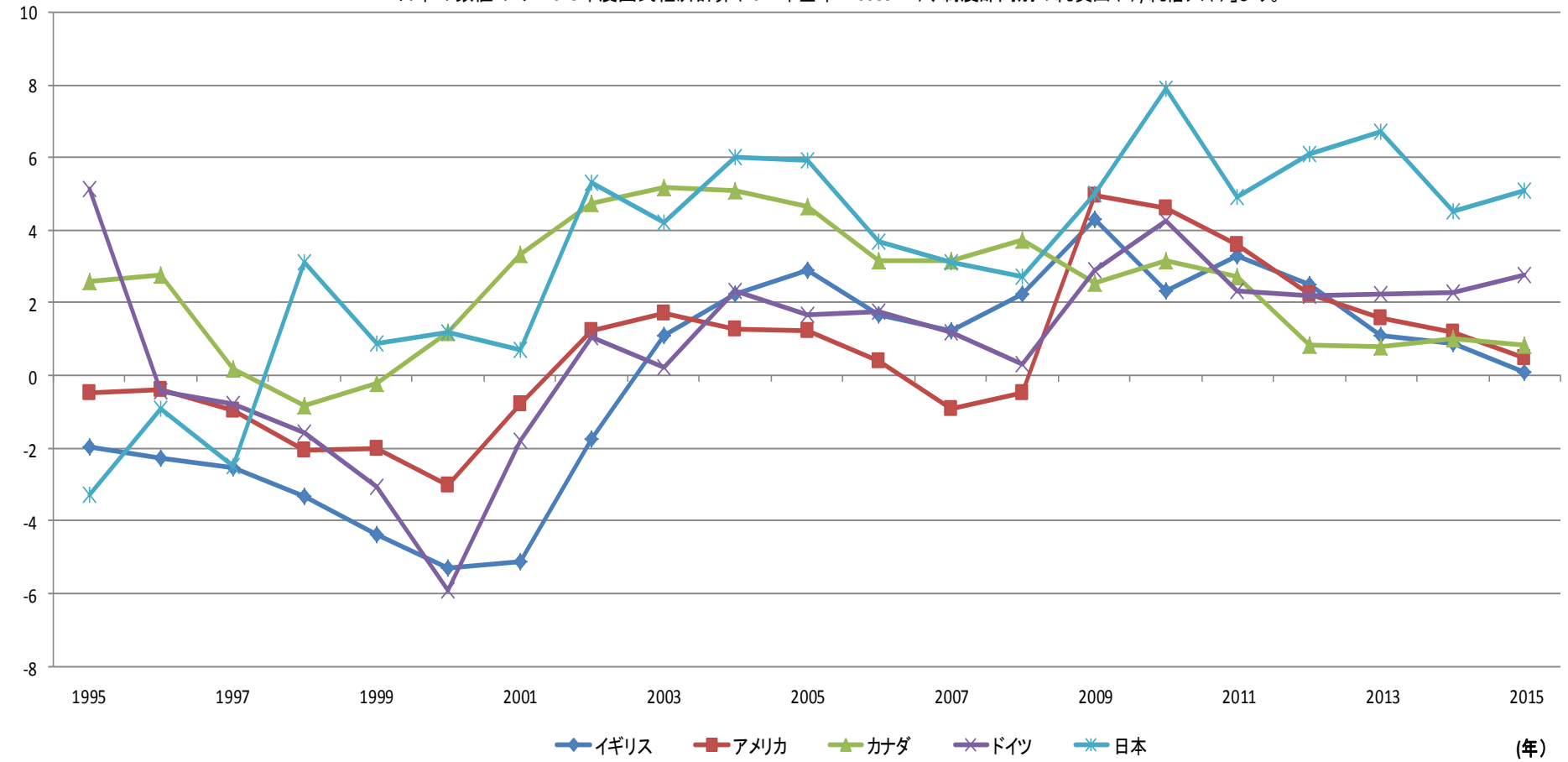
Brief review of the Japanese economy (2); employment



純貸出(+) ・純借入(-) (対GDP比)の国際比較 企業部門

(%)

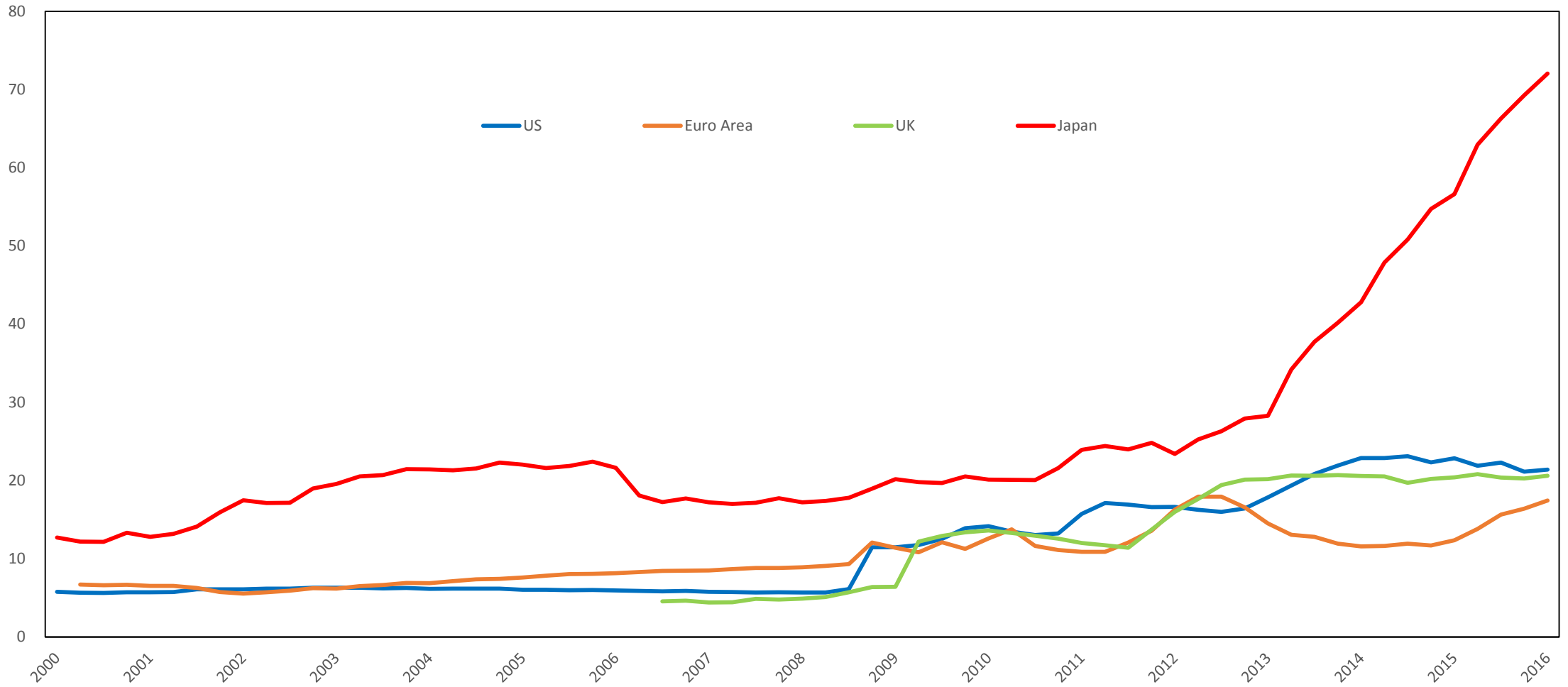
(出所) OECD (2017), Net lending/borrowing by sector (indicator). doi: 10.1787/693a515e-en (Accessed on 05 April 2017)
日本の数値のみ「2015年度国民経済計算(2011年基準・2008SNA)、制度部門別の純貸出(+)/純借入(-)」より。



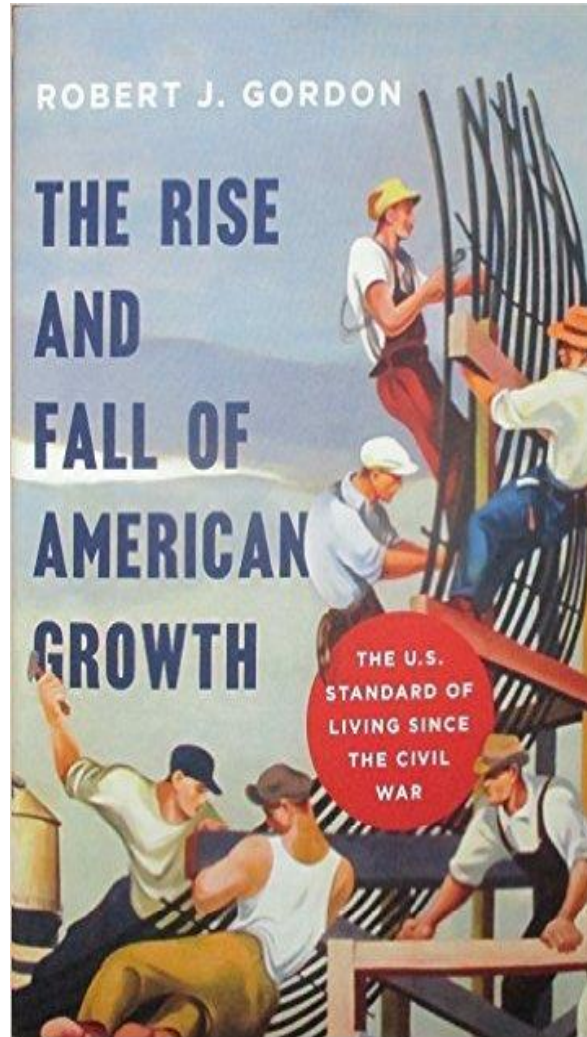
Expanding money base

Monetary Base

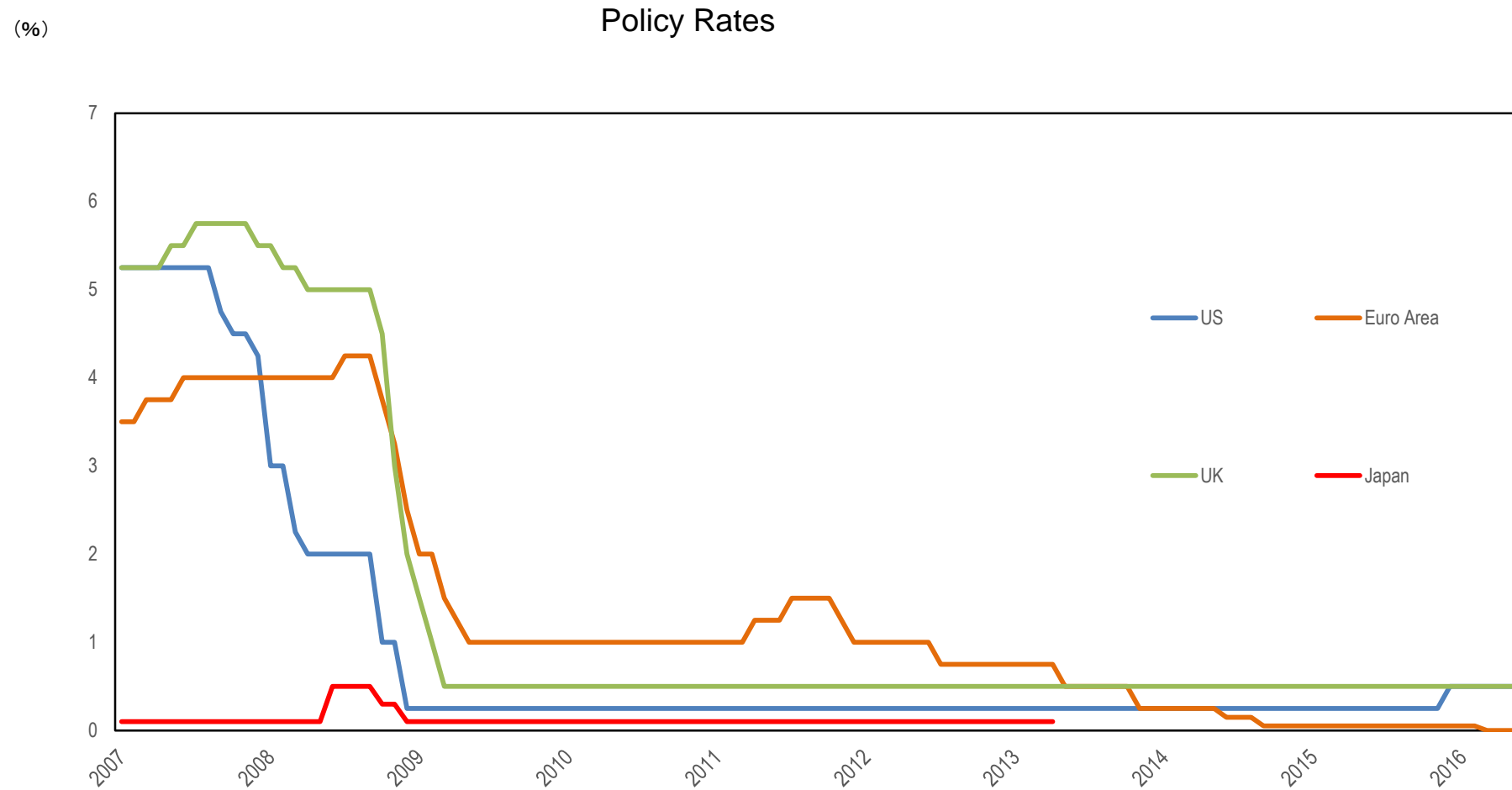
(% of GDP ratio)



Sluggshi innovation: TFP has been very low since 1980s

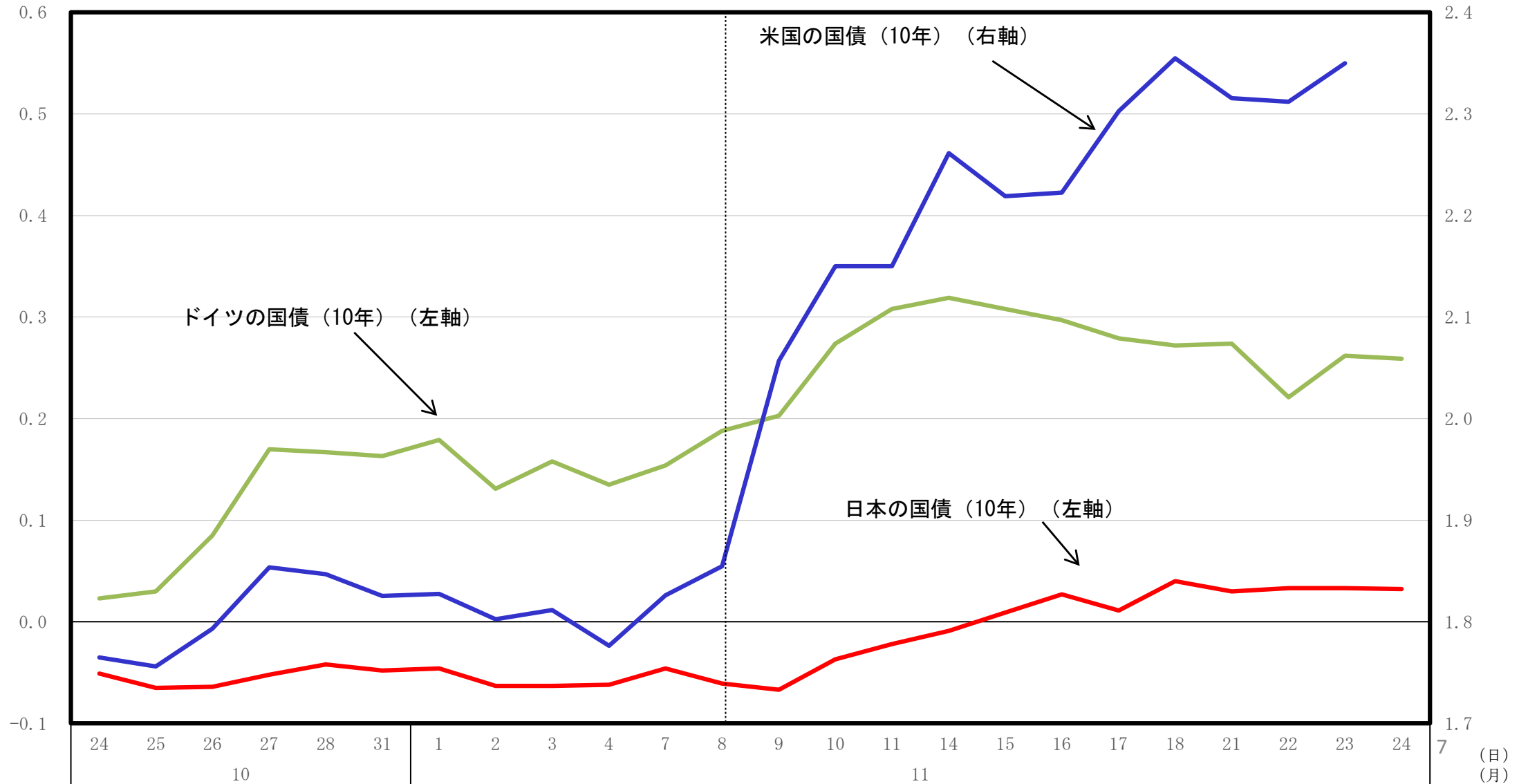


Low interest rates of major countries



Changing long-term interest rates of the major countries

Japan, USA, and Germany



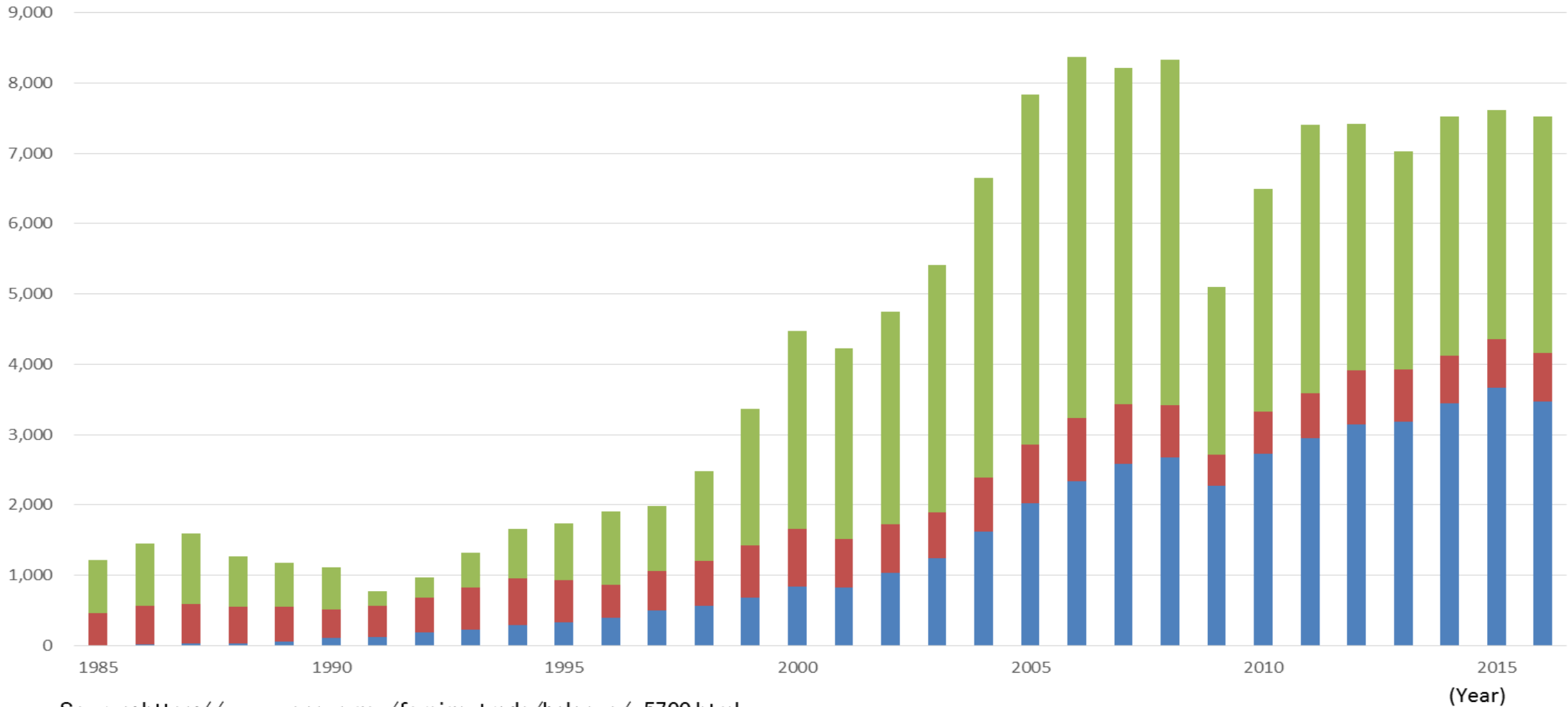
Three dimensions of trade regime

- Multilateral
 - Stalemate in Doha Round
- Regional and bilateral
 - Super-regional FTA/EPA
 - Japan-EU, TPP, TTIP
 - Mushrooming of bilateral EPA/FTA
- Unilateral actions
 - Trade policy of Trump Administration
 - America first?
 - Brexit and EU

US Trade Deficit with China & Japan 1985-2016

(100 million US dollars)

■ China ■ Japan ■ Others

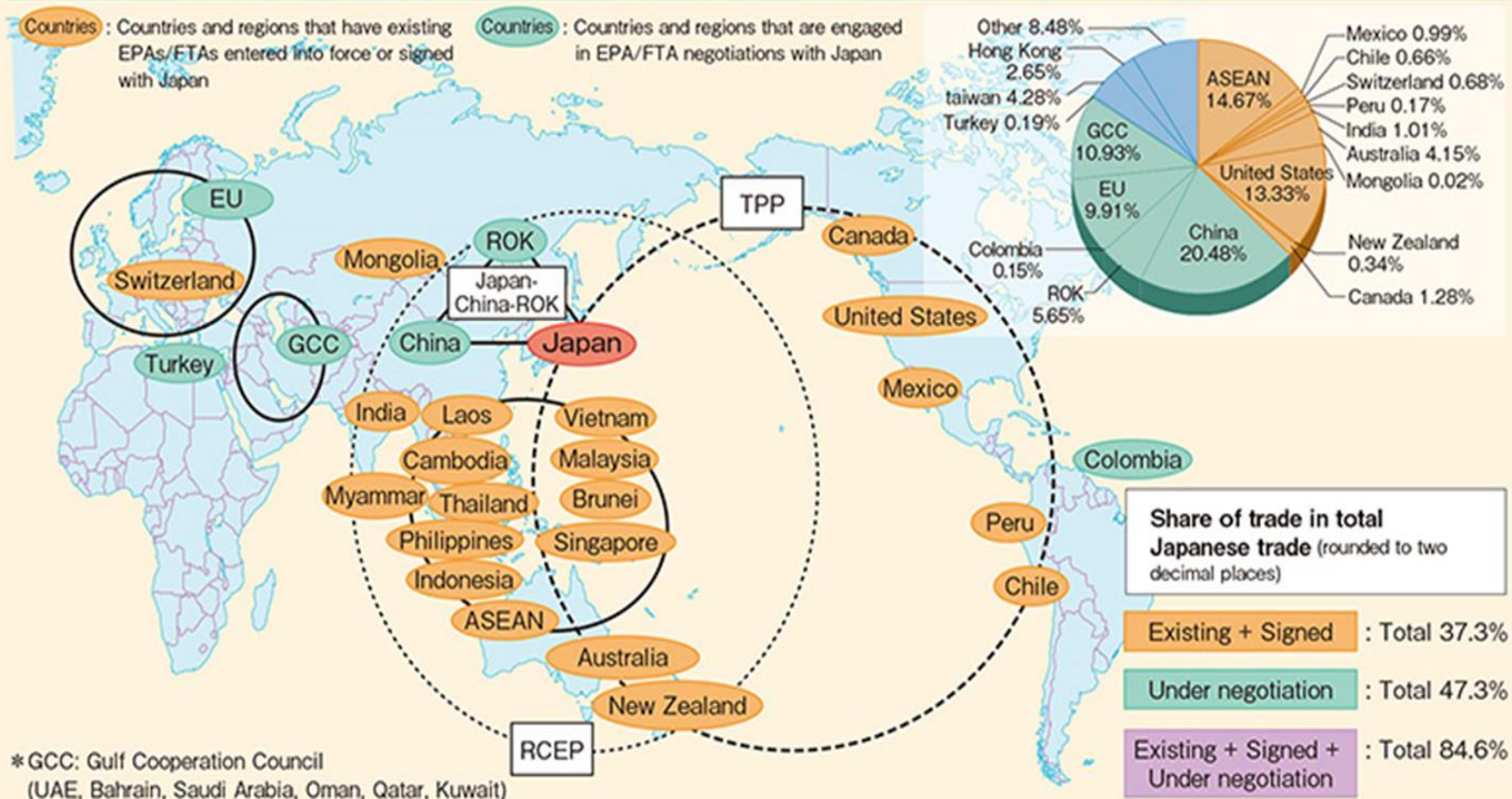


Source: <https://www.census.gov/foreign-trade/balance/c5700.html>

EPA/FTA; an important pillar of growth strategy for Japan

- Simulation studies suggest a large amount of economic gain, mostly coming from elevated growth path
- Increasing importance of intra-industry trade and cross border division of labor
- EPA/FTA negotiation will speed up domestic reforms
 - Agricultural policy in Japan is shifting gradually from import protection to export promotion
- EPA/FTA will change the mindset of exporting and importing firms and thus promote trade
 - The case of wine trade after Japan-Chili EPA
 - The case of beef trade after Japan-Australia EPA

- 16 Economic Partnership Agreements (EPAs) have entered into force or been signed with 20 countries.
 - 37.2% of Japan's overall trade is conducted with countries which have EPAs entered into force or signed with Japan.
(corresponding figures for other countries US: 47.4%; ROK: 62.5%; EU: 30.7%)
 - 84.6% of Japan's overall trade is conducted with countries which have EPAs entered into force, signed, or under negotiations with Japan.
- Reference: "Japan Revitalization Strategy" sets a policy goal of bringing up the FTA ratio to 70% by 2018.



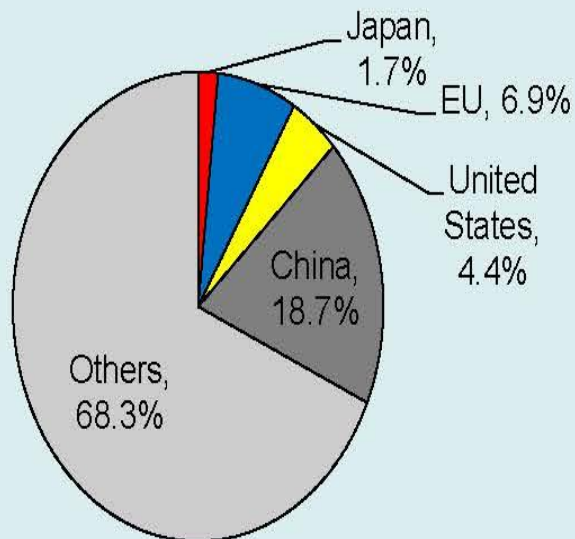
Source: Ministry of Finance, Trade statistics of Japan (2015); also IMF Direction of Trade Statistics (April 2015) was referenced for the US, ROK and EU data (The ratio of the trade amount of each country was rounded to two decimal places)

* Negotiations with ROK have been suspended since November 2004; GCC has been postponed since 2010

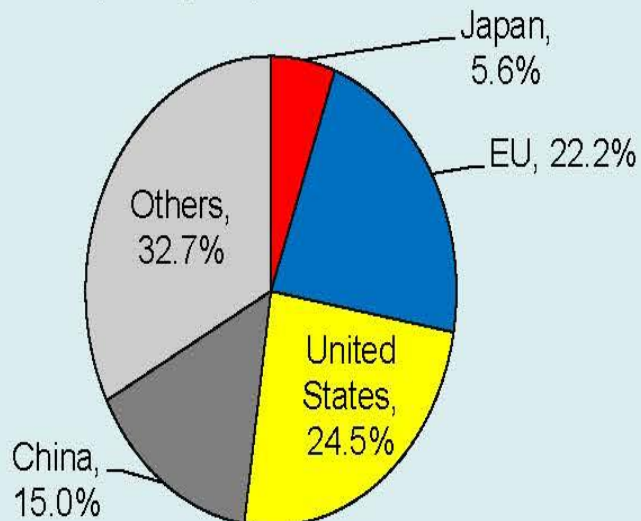
Benefits of the Japan-EU EPA

- Japan and the EU are important global partners which share fundamental values such as democracy, rule of law and basic human rights.
- The Japan-EU EPA will promote trade and investment of both sides through eliminating tariffs and improving trade and investment rules.
- It will contribute to boosting economic growth, creating employment and strengthening business competitiveness both in Japan and Europe.
- It is one of the important pillars of Japan's growth strategy and will promote inroads into the European market by Japanese companies.

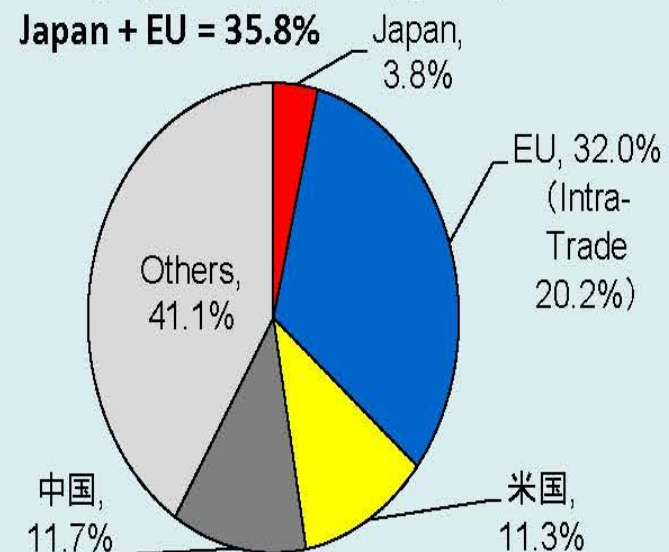
Population (2015) Japan + EU = 8.6%



GDP (2015) Japan + EU = 27.8%



Trade (Exports & Imports) (2015)



	Population (2015, million)	Proportion
Japan	127	1.7%
EU	510	6.9%
U.S.	321	4.4%
China	1,371	18.7%
Others	5,017	68.3%
World	7,347	-

	GDP (2015, \$ billion)	Proportion
Japan	4,123	5.6%
EU	16,220	22.2%
U.S.	17,947	24.5%
China	10,983	15.0%
Others	23,898	32.7%
World	73,171	-

	Trade(Exports & Imports) (2015, \$ billion)	Proportion
Japan	1,273	3.8%
EU	10,609	32.0%
Intra-trade	6,701	20.2%
U.S.	3,746	11.3%
China	3,882	11.7%
Others	13,614	41.1%
World	33,124	-

Source: http://www.mofa.go.jp/policy/economy/page6e_000013.html

F. World Economic Outlook Database, January 2017

出典: IMF, Direction of Trade Statistics, January 2017

But some barriers still remain...



1 High Japanese customs taxes



Nearly 40% on beef



Up to 30% on chocolate



15% on wine



Up to 40% on cheese



2 Awkward rules

For example, Japan has long and costly procedures to approve each variety of fruit.



This discourages EU exporters from trying to get all the necessary approvals.

The new EU trade pact with Japan would lower or remove these barriers. The future deal

Source: <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

are negotiating a trade deal

The two partners already export a lot to each other.
In 2015, EU companies exported to Japan...



But some barriers still remain...

Source: <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

EU-Japan EPA

Elimination of Customs Duties

	Trading items	Current tariff	Future tariff
EU → Japan	Wine	15% or 125yen/ 1liter	immediate elimination from day one
	Pork	low priced pork: 482yen/kg , high priced pork: 4.3%	gradual elimination or reduction
	Pasta	30 yen/kg	eliminate over 10 years
	Chololate	10%	eliminate over 10 years
	Cheese (Mozzarella, etc.)	29.8%	set the import quotas with low tarrifs (30 ~50 thousands ton) and lead it to zero tarrifs over 15 years
	Bag and leather items, etc.	maximum 30%	eliminate after a set period of time
Japan → EU	Automobile	10%	eliminate after 7 years
	Automobile components	3 ~4 %	immediate elimination from day one, over 90 % items
	Electric appliances	maximum 14%	immediate elimination from day one (TV: eliminate after 5 years)

€ The EU and Japan are negotiating a trade deal ¥

The two partners already export a lot to each other.
In 2015, EU companies exported to Japan...



Source: <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

Simulation analysis of benefit from Japan-EU EPA/FTA

- Compare the two growth paths, one without EPA and one with EPA.
- The two paths will reach a peak of the gap in ten to fifteen years (saturation of EPA effects on growth)
- Measure the gap as a percentage of GDP
- According to a recent study in RIETI (government think tank)
Benefit for Japan 0.8% and for EU 2.0 %

図表2：経済連携のマクロ経済効果

関税の撤廃

	TPP	RCEP	FTAAP	日EU	TTIP
日本	0.8	1.7	2.1	0.3	-0.1
中国	-0.3	1.8	4.1	-0.1	-0.1
韓国	-0.2	5.6	6.3	-0.1	-0.1
米国	0.1	-0.2	0.8	0.0	0.2
EU	-0.1	-0.2	-0.8	0.1	0.1

関税の撤廃および非関税措置の削減

	TPP	RCEP	FTAAP	日EU	TTIP
日本	1.6	2.8	3.2	0.8	-0.2
中国	-0.4	3.4	6.0	-0.2	-0.3
韓国	-0.6	6.4	7.1	-0.1	-0.2
米国	0.8	0.0	1.7	-0.1	0.4
EU	-0.1	0.0	-0.6	2.0	2.0

Simulation results by Mr, Kawasaki of RIETI on the economic benefit of EPA/FTA

TPP Agreement Participating Countries



Source: <http://www.mofa.go.jp/mofaj/files/000022863.pdf>