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An insight on the EU - Japan Economic Partnership Agreement

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The Forum is a nonpartisan and independent organization, founded in 2013 in Fukuoka, Japan, where it is currently based.
Its members are representatives of the most important areas of Europe and Asia and are provided by the Forum the opportunity to confront and discuss over issues connected with the role of Western Japan in the international stage.

The annual reunion represents the climax of this permanent debate. It is composed of various seminars and bilateral meetings over specific topics.

This report is the result of a multidisciplinary work in order to provide an overview on the consequences of the signing of the Economic Partnership Agreement between the European Union and Japan.
Starting from the press conference held in Brussels on July 6th 2017, the analysis will cover some of the economic consequences for the two parties and will delve into the political meaning of the upcoming Japan - European Union Free Trade Agreement.

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This brief analysis will inquire the consequences of the reaching of the Economic Partnership Agreement between the European Union and Japan, which will be the herald of the forthcoming Japan European Union Free Trade Agreement (JEFTA).

The following text covers two different aspects: on the one hand, it provides an overview of the economic importance of the Agreement. It has to be noted, however, that given the nature of the document, which refers only to the finalization's announcement not to the Agreement itself, it will not be possible to draw a precise conclusion on the real economic impact of the JEFTA.

On the other hand, it inquires the political significance of this Agreement, and how it could affect the international community.

1. The economic effects of the Agreement

On July 6th, 2017, the president of the European Commission Jean Claude Junker, the president of the European Council Donald Tusk and the Prime Minister of Japan, Abe Shinzō held a press conference to announce the reaching of an Early Partnership Agreement (EPA) that will prelude to the Japan European Union Free Trade Agreement (JEFTA).

Despite not having polarized public opinion as the Transatlantic Trade and Investment Partnership (TTIP) or the Trans Pacific Partnership (TPP) did, it could be argued that the importance of this Agreement surpasses both.
The reaching of the EPA marks a fundamental moment for both partners, in two aspects: it has a profound political meaning as well as a remarkable economic impact.
Let us start from the latter.

In understanding the importance of an agreement between the two economies it would be useful to examine a few figures. Japan is the 3rd largest economy in the world, and the 2nd in Asia, while, if the EU were considered a single entity, it would be the 2nd biggest economy on Earth, bigger than the People's Republic of China and second only to the United States of America.
In 2016, the EU and Japan accounted for the 28.4% of the world's GDP and the 8.6% of the planet's total population, while the USA and the PRC, the two biggest national economies, amounted respectively to the 24.7% and 14.9% of the global GDP and the 4.3% and 18.5% total population.[1]
Japan and the EU are important commercial partners. In 2016, the EU exports to Japan amounted to little more than €58 billion, while the imports amounted to €66.5 billion.[2] This makes Japan the Union's second biggest trading partner in Asia, after the PRC, while the EU is the archipelago's third most important economic partner, amounting to the 10% of Japan's foreign trade.[3]
The decision to discuss and finalize this deal stems from the conviction that these figures can be increased. In particular, after various studies, the EU came to the conclusion that after the deal exports to Japan could be risen of one third, increasing the EU output of 0.76%.[4]

In order to do so, the deal has been designed to liberalize in both countries more than 90% of imports at entry into force. Japan and the EU will liberalize at entry into force the 91% and 75% of the imports respectively, up to 99% and almost 100% in the following years. In both countries the gaps are justified by the concerns harboured by the governments in certain sectors: for example a full liberalization of cars and car parts in the EU will not be achieved before 7 years, while some products in Japan will be partly liberalized using quotas and tariff reductions. Some products such as rice and seaweeds will be excluded from the Agreement.[5]
Analyzing the nature of the current exchange of goods between the two countries, it is possible to identify the sectors that will be affected the most by the upcoming Agreement. More than half of Japan's export to the EU consists in motor vehicles, parts of motor vehicles and machinery, both conventional and electrical ones.[6] The sectors that in the EU will benefit the most are pharmaceutical and medical devices, motor vehicles and the agri-food sector.[7]
The latter is particularly important, as it is made up of some of the most recognizable and famous products that the EU exports. In order to grant the European farming community an easier access to the Japanese market, the Agreement has been devised to

eliminate tariffs on these products at entry into force. Furthermore, with its adoption, Japan will recognize 250 European Geographical Indications, which will assure that only products with this status can be sold under certain names, like Italian *Prosecco* or French *Roquefort*. This measure prevents the diffusion of counterfeit products, protecting producers and providing quality products for Japanese consumers.[8]

The impact on the agricultural export is going to have a special meaning for Italy. Considered that roughly 87% of current imports value in the agricultural sector will experience a total liberalization over time, and that the value of Italian export in this exceeded €700 million,[9] Italian agriculture firms will be positively affected by the Agreement. Just to understand how Italian firms could benefit from the abolition of tariffs, it is sufficient to consider the two most important kinds of products exported Japan: pig meat and wine. Both products are acknowledged Italian gastronomic excellences, with wine being one of Italy's most recognizable and famous export products. According to the International Organization of Vine and Wine, in 2016 Italy has been the biggest producer of wine in the world;[10] in this year Italian wine exports in Japan alone amounted to $167 million,[11] a figure that is certainly destined to rise.

Other important products that have been central during the negotiating phase have been diary products and cars and machinery, to the point that the Agreement has been dubbed by media the "*cars for cheese deal*".[12]

Diary products, cheese in particular, had high tariffs before the deal, close to 40%, that were intended to help Japanese producers maintain a presence in the internal market, which has always been supported by strong demand for these products. Due to this reason, some products will benefits zero tariffs only on certain amounts of imported goods.

Cars, on the other hand, are one of Japan's most exported products, amounting to 15% of the total, with a value of $90.3 billion.[13] As with dairy products, tariffs on cars will be gradually reduced in the next 10 years, which will allow European car producers to gradually adapt to the new environment and will give a boost to their Japanese counterparts, that are now facing falling demand due to the ageing population of the archipelago.[14]

Part of the Agreement has also been dedicated to the assistance to small and medium enterprises (SMEs). A special emphasis has been given to information sharing, since the lack of proper information on foreign markets could constitute a trade barrier. This aspect has been part of a more wide and complex approach on non-tariff measures (NTM), which will be finalized in the following months.

2. A significant political signal

On the political side, the significance of the Agreement is even deeper. A testimony of this is that during the press conference held in Brussels, both parts chose to focus their remarks not on the economic aspects of the agreement, but on its political implications.

As President Donald Tusk said: "*It's not just about common trade interest, it's above all about shared values*",[15] which are liberal democracy the rule of law, basic human rights and environment protection. The latter is particularly significant since the JEFTA will be the first FTA to use the Paris Climate Agreement as part of its core principles.[16]

The signing of the joint declaration on July 6th sent clear messages to the international community, messages that could only be reinforced the day after, when the three leaders repeated them at the G20 meeting in Hamburg.

The most important one can be found in the words of President Junker, when he stated that "*There is no protection in protectionism. Only by working together will we be able to set global standards when it comes to safety, environmental or consumer protection*".[17]

It is undeniable that the growing challenges the international community has been facing originate from some sort of delusion shown towards globalization and internationalism. Challenges such as the sovereign debt crisis or the problems posed by the recent refugees crisis had an even stronger impact on the European Union, since they hit and deteriorate critical aspects of the Union's basic features, such as freedom of movement of men and goods.

Thus, this Agreement is also an answer to the various voices that in these years rose to challenge the founding values of the Union, or even its existence. It has to be clear, however, that these challenges are not exclusively European, but the very structure of the Union contributed to their deterioration when facing them.

Among them, one has undoubtedly a global reach: climate change.

As the unprecedented hurricane season that hit the Caribbean and the southern part of the United States showed, it is not possible anymore to deny that global warming and climate change will have a profound effect on states and economies. Damages in 2017, with almost half of the seasons yet to be experienced, were second only to those in 2005, when hurricane Katrina hit the US.[18] This year a stage 3 hurricane, Ophelia, even hit the British isles, a phenomenon that broke a record set in 1980.[19] As far as Japan is concerned, data also show that over the past 37 year typhoons have been increasing of 12-15% in East Asia.[20] Taking into account how climate change is becoming something that has to be dealt with on a more frequent basis, the fact that two of the most advanced economic zones in the world decided to include the Paris Climate Agreement within a Free Trade Agreement that covers almost 30% of the global GDP will certainly send a strong message to the international community.

Besides climate change there is another important phenomenon that has been faced by the international community in the last years.

Due to structural elements it has proven to be more evident in western democracies, with a particular emphasis in the European Union. This phenomenon could be described as some sort of protectionist withdrawal that has been influencing the policy-making processes and the elections in the EU and in the United States of America. Its main manifestation in these countries has been the common spread perception in parts of the population of being on the "losing end" of globalization, which has led to the demand for more protectionist policies as economic sanctions, in order to contain the perceived damage caused by imported goods, or even the restriction of long-established rights such as the limitation of free movement of people in the Schengen Area.
In the last two years, it has been possible to connect with this phenomenon various European electoral results. Of course ascribing to it all the internal aspects of the states taken into account would be an oversimplification, nonetheless from an analysis of the various political agendas and the rhetoric employed by some party leaders while campaigning, a common framework is undeniable.

This aspiration to withdraw within the nation-state borders, as if international problems could be kept at bay imposing a more rigid access to one's own country, has been present in both national elections and referendums.
The most unexpected events among these votes, and this should be a signal of how the phenomenon at first has been underestimated by many analysts, took place in 2016, with the United Kingdom European Union membership referendum and the US presidential elections. They were then followed by the general elections in many countries of the EU, from the Netherlands to Austria.
Before indulging in an analysis of these votes, it has to be clarified that the use of the word "unexpected" does not imply a desired outcome, it simply recognizes the fact that the decision of the UK's citizens to leave the EU and the election of President Trump were considered highly unlikely.
As said before, all these events share common causes and it could also be argued that they are only moments where a latent feeling harbored by big parts of the population rose to the surface, as part of a long lasting trend that started in liberal democracy with the loss of confidence originated by economic crises in the US and the EU.

There are however various differences. The most striking is as said before that some elections completely opposed what could be defined as the internationalist mainstream: voters chose to sever all ties with the perceived problem, in Brexit's case the EU and in the US's by choosing a vocal presidential candidate whose promises strongly averse to globalization. The latter has been the first case of a prominent member of the international community openly criticizing the effects of globalization and taking effective measures in favour of a newfound isolationism.

In 2017 things turned out differently. Given the unprecedented twists in 2016 many observers waited for the victory of the anti-euro, anti-mainstream parties at general elections all over the EU, but in the end they found their predictions to be erroneous. In these votes there has been a common pattern: in every country the anti-establishment parties, as Alternative for Germany (*Alternative für Deutschland)* or the National Front (*Front National)* managed to drastically increase their votes but ultimately failed to reach the victory, while socialist parties all over the EU experienced a deep crisis. In some cases Europeanists leaders managed to attain a relative majority, but they still had to reach some sort of agreement with more Eurosceptic forces, which could lead to a partial weakening of the core values of the Eurozone, such as the Schengen Convention, vital in maintaining an open border policy within the Union.

In this environment Italy could be considered some sort of exception. Despite the government change that took place in 2016 the Democratic Party (*Partito Democratico*) managed to express a new Prime Minister, Paolo Gentiloni, and to complete its mandate. The Democratic Party is also one of the few ruling parties in the EU that are part of the Party of European Socialists. The turnout of the Italian Referendum on Constitutional Change supported by the ruling Democratic Party, which resulted in a loss and forced the former Prime Minister to resign, might seem part of the phenomenon described before but there are other factors that need to be considered. The overwhelming negative vote against the reform (roughly 60%) can probably be seen as a vote against former Prime Minister Matteo Renzi, who had declared on various occasions his intention to resign, in case his reform would not have been accepted by the population. This vote should not be directly translated into a vote against the Europeanist government, given the involvement of internal dynamics that pushed parts of the Democratic Party and opposition parties, part of the European People's Party, to vote against the reform in order to oppose the then Prime Minister. With this in mind, it will surely be interesting to observe whether the upcoming Italian general elections will abide to the pattern observed so far.

Thus, nowadays the EU seems to be facing a difficult political situation. Many of its countries are experiencing the rise of internal political forces which strongly oppose Brussels's policies and sometimes even resent the European institutions. Furthermore, one of its major country, which is also part of the G7 and a permanent member of the UN Security Council, has expressed the will to leave the Union, leading troubled negotiations with no clear indication concerning the pacing of the exit procedure, nor the future arrangements necessary to maintain meaningful economic and political ties. The Union's only consolation could be the realization that the political chaos that followed the Brexit vote has probably had an impact on the 2017 elections and could have been responsible in at lest partially redirecting votes from Eurosceptic candidates towards figures with a more Europeanist approach. This perception is not easily demonstrable, but evidence in its favour could come from the fact that no vocal anti-Europe, anti-establishment party has been able to win any election since. The post-Brexit chaos even improved the position of the troubled Labour party, the only leftist party that managed to increase its consensus in the last years.

As for Japan the situation is different: in light of the recent general elections, it is fairly safe to assume that the political continuity that has been preserved since the election of Abe Shinzō in the end of 2012 will continue. Still, what has been described so far as the mounting withdrawal sentiment in the west had an impact on the archipelago as well. Its major victim has been, almost a year ago, the Trans Pacific Partnership. After the election of Donald Trump, the new leadership in Washington D.C. decided to withdraw from the TPP to respect the President's electoral promises. This has been a major shock to the other parties of the agreement: the abandonment of the world's and Pacific's biggest economy seriously undermined the significance of the Agreement, to the point that many wondered whether a TPP without the United States would have had any impact at all. Japan has always been a strong advocate of the Agreement and Prime Minister Abe, who has also been the first international leader to meet with President Trump after his election, has on various occasions highlighted the importance of the Agreement and how the inclusion of the US would benefit all parties, Washington *in primis*.

Having discussed these phenomena, how are they connected to JEFTA?

For a start, in such a difficult time for the Union, showing the cohesion and the political strength necessary to carry out this Agreement is with no doubt a strong signal. It shows that while the EU has undoubtedly had many issues, it can also muster the strength to overcome them, displaying the cohesion necessary to sign a vast and in-depth deal with the world's 3rd biggest economy.

This signing tackles the internal delusion present in many countries in the EU, but it is also a strong call to the international community. Since the last presidential elections, the United States have adopted a stance in international affairs that in some ways marks a strong difference with the preceding administrations. The announcements of the will of renegotiating many of the Free Trade Agreements and international deals signed in the last decades has had a profound impact on the international community, which has always perceived the US as the main sponsor of free trade and globalization.

Both Japan and the EU have been affected by this new course of US foreign policy, given the White House's decision of scrapping both the Transatlantic Trade and Investment Partnership (TTIP) and the TPP. The most troubling signal underneath these decision has probably been the non-willingness of the new administration of supporting international commerce as its predecessors did.

Hence, the fact that in the last year the EU managed to finalize two important trade agreements, the Comprehensive Economic and Trade Agreement (CETA) and the EPA that will lead to the JEFTA, shows the Union's resolution in carrying on this path. In a similar way Japan decided to keep on supporting the TPP after the USA withdrew from it on January 23rd this year, while the Japanese Diet had ratified the Agreement just a few days before.

Whereas both Japan and the EU will have a great economic return from JEFTA, it is important to highlight that the political implication of the EPA and the FTA have the potential to go beyond the economic ones.

The simple fact that along with the EPA, during July 6th summit, the three leaders also agreed to the institution of a Strategic Partnership Agreement (SPA), which will reinforce cooperation on a higher level, allowing a coordinated response to global and regional crises.[21]

As said at the beginning of this analysis, it is probably too early to fully determine the impact that JEFTA will have on the economic aspects of the EU-Japan relationship, or how it will affect the global economy. What can be said is that this Agreement, having been conceived in a moment where a growing part of the international community seems to start to doubt the usefulness of free trade and globalization, sets a new ambitious standard, in terms of environmental protection, market access and of course extent of the Agreement itself. On a political level, instead, it sets an important precedent: it shows that two of the richest and most important areas in the world disagree with their strongest ally, the USA, by going in the opposite direction of the current administration; in this sense the most important element has been the inclusion of the COP21 in the FTA, while President Trump never concealed his negative view of the agreement.[22]

As in the case of the economic aspects, it is too early to draw some conclusion but one could not help to wonder whether this Agreement could be one of the first elements of a burgeoning multipolar system, where the United States of America are not the only champion of liberal democracy and free trade.

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