Era of Mega FTAs
-Challenges and Global Governance

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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!
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.

<table>
<thead>
<tr>
<th>Summary of Impact</th>
<th>EU</th>
<th>Japan</th>
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<tbody>
<tr>
<td>Export Effects (Tariffs)</td>
<td>+€14bn</td>
<td>+€25bn</td>
</tr>
<tr>
<td>Export Effects (NTMs)</td>
<td>+€29bn</td>
<td>+€28bn</td>
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<tr>
<td>Welfare Effects</td>
<td>+€33bn</td>
<td>+€18bn</td>
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</tbody>
</table>
Huge Job Creation by Japanese Companies in Europe

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
- Netherlands: 58,227
- Germany: 59,304
- Belgium: 33,226
- France: 25,319
- Italy: 21,545
- Spain: 12,848

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
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

Mega FTA 1

Mega FTA 2

Mega FTA 3

Lasagna 1

Lasagna 2

WTO

New WTO

【Existing Rules + Rules in New Areas/Issues】
Scenario 2  WTO 2.0 (Baldwin’s Scenario)

- Mega FTA 1
- Mega FTA 2
- Mega FTA 3

WTO 2.0

Rules in New Areas/Issues

Existing Rules
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)

Mega FTA 1  Mega FTA 2  Mega FTA 3

Issue-Based Plurilateral Agreement

New WTO
【Existing Rules + Rules in New Areas/Issues】
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


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 Hoeckman 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:
- 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.