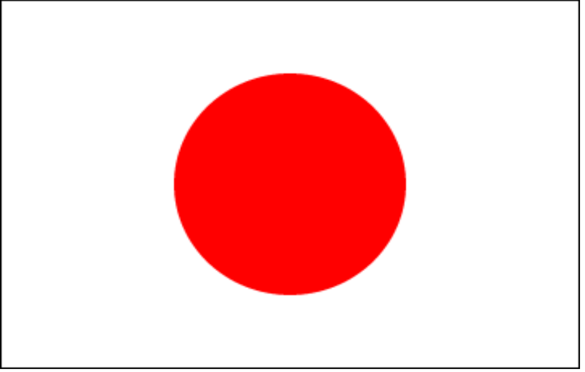

Japan’s Trade Strategy in Troubled World Market:

Development of the Japan-Mexico Economic Partnership Agreement (EPA) and Economic Integration in the Asia-Pacific Region

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Professor Emeritus, Keio University

Mexico-City, September 17 2019

Today’s Content

- 1. Introduction
- 2. Japan’s FTA Policy and the TPP
- 3. Japan and Mexico: a renewed partnership
- 4. How does Japan cope with this new trend ?
- 5. Conclusions

1. Introduction

Two major uncertainties in the world economy;

Brexit and Trump

Two Major Sources of Uncertainty

BREXIT & Trump Shock

Asia edition

FT Weekend

Britain breaks with Europe

Cameron quits, sterling plunges and Scotland hints at independence vote

Roar of rage from Leave voters alienated by London and globalisation

White House lies endanger global security — GIDEON RACHMAN, PAGE 9

Why democracy is making gains in Africa — BIG READ, PAGE 7

Trump puts protectionism at heart of US economic policy

• Order signed to pull out of Pacific trade deal • Executives warned over offshoring jobs

Donald Trump with, from left, Corning chief Wendell Weeks, J&J head Alex Gorsky and Michael Dell

DEMETRI SEVASTOPULO, SHAWN DONNAN AND COURTNEY WEAVER — WASHINGTON

President Donald Trump signalled he would put protectionism at the heart of economic policy, withdrawing the US from a historic Pacific trade pact and threatening to punish companies for moving production overseas on his first working day in office.

Mr Trump said pulling out of the 12-nation Trans-Pacific Partnership, a signature initiative of predecessor Barack Obama's "pivot" to Asia, was a "great thing for the American worker".

His signing of the TPP executive order came shortly after he warned a White House gathering of US business executives that he would place a "very major" border tax on companies that moved production overseas and exported products back into the country.

While Mr Trump made clear during the campaign that he would withdraw from the TPP, the move was a potent signal that he will use his first days in the Oval Office to plough ahead with the populist, antitrade agenda that catapulted him to the White House.

Mr Trump is also expected to formally tell Canada and Mexico that he wants to renegotiate the North American Free Trade Agreement, which was signed by then-president Bill Clinton in 1993.

Republican senator John McCain criticised the TPP move as a "serious mistake", highlighting how Mr Trump's agenda is at odds with decades of Republican trade policy. "It will create an opening for China to rewrite the economic rules at the expense of American workers," Mr McCain said. "And it will send a troubling signal of American disengagement in the Asia-Pacific region at a time we can least afford it."

Japan and several other TPP signatories — which include some of the closest US allies along the Pacific Rim — have vowed to press ahead with the pact.

Shinzo Abe, Japan's prime minister, told parliament yesterday that he would press the US leader to rejoin the pact. "President Trump understands the importance of free and fair trade, so I'd like to pursue his understanding on the strategic and economic importance of the TPP," Mr Abe said.

Steven Ciobo, the Australian trade minister, said going forward with the remaining 10 nations still made economic sense for his country.

In his inaugural speech on Friday, Mr Trump said the US had "made other countries rich while the wealth, strength and confidence of our country has disappeared over the horizon".

In his first White House meeting since the inauguration, Mr Trump put companies on notice that he intended to match his rhetoric with action, telling chief executives that he would look harshly on companies that moved production out of the US. He also said those that wanted to open US plants would face fewer regulations and lower tax.

During the session, which included Elon Musk of Tesla and Marilyn Hewson of Lockheed Martin, Mr Trump said he would impose a "substantial border tax" on goods made overseas by US companies, but would offer "advantages" to those who manufactured domestically.

"A company that wants to fire all of its people in the United States and build some factory someplace else and then thinks that that product is gonna just flow across the border . . . that's not gonna happen," he said.

Additional reporting by Jamie Smyth in Sydney

Janan Ganesh & Gideon Rachman page 9

Trump hotel Room to improve

President Donald Trump's luxury hotel at Washington's historic Old Post Office building has lost $1.16m in its first two months of operation, falling short of internal projections that it would turn a small profit, according to senior House Democrats. The Trump Organization had projected a $397,000 profit on revenues of $6.3m.

• Trump presidency page 2

Barra quits Xiaomi after Beijing life

“Trump puts protectionism at heart of US economic policy” (F.T. Jan. 24)

- Executive order signed to withdraw from the TPP (Jan. 23 2017)
- US Business leaders warned over offshoring jobs: border tax to be imposed
- John McCain: ” (the TPP move is) a serious mistake. It will create an opening for China to rewrite the economic rules at the expense of American workers. And it will send a troubling signal of American disengagement in the Asia-Pacific region at a time we least afford it”
- Unwinding the NAFTA would hit Mexico hard, but Japan and the EU would be adversely affected as well
- Germany accused by Peter Navarro of “grossly undervalued” euro to “exploit” the US and its EU partners (Feb. 1)
- Navarro: “Germany was one of the main barriers to a US trade deal with the EU.” “the talks with the EU over the TTIP declared dead”

Trump opts for “bilateral trade deals”

- “bilateral deals” does not mean necessarily Free Trade Agreement (FTA): the only FTA Trump mentioned was the one with the UK
- “bilateral deals” with countries which run trade surplus with the US; e.g. Japan($68.6 billion), Mexico($58.4 billion), China ($365.7 billion)
- The deals could imply balancing trade account via political interventions by governments: “numerical targets” of auto imports by Japan until “reciprocity” to be achieved
- Revival of “procedural protectionism” of 1980’s by way of Section 301 type of “unilateralism” ⇒⇒⇒WTO inconsistent

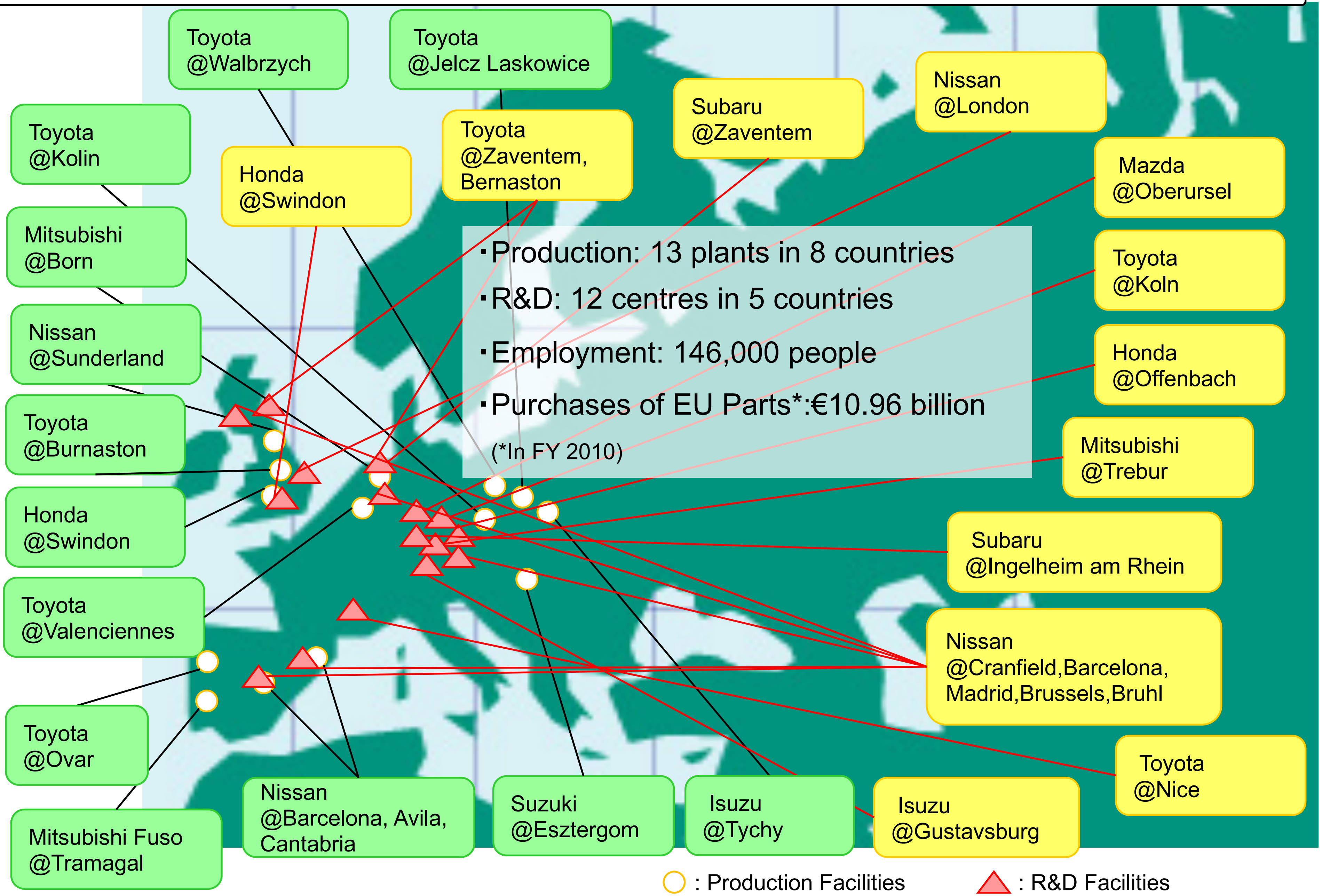
Why Brexit matters ?: Major Japanese Companies Presence in the UK

company	Sales in the EU（Oku Yen）	British Employee	Export to the EU
Toyota	23,233	3,000	**75%** of the UK production to the EU
SONY	18,813	5,000	Headquarters function for the EU
Nissan	17,481	8,000	**80%** of the UK production to the EU
Canon	10,743	2,800	Camera, Multi-function equipment
Hitachi	9,511	5,000	8000 OkuYen awarded order trains
Toshiba	5,599	n.a.	Headquarters Function for the EU
Ricoh	5,310	3,000	Overall sales in the EU
Mitsubishi Electric	3,699	n.a..	Air conditioning system in the EU
KonicaMinolta	3,197	1,300	Multifunction office equipment
Takeda Pharma.	3,093	n.a.	Experiments for the entire EU market
Nomura HD	1,458	2,500	Supporting M&A、security, banking

What happens if the UK fails to keep free market access to the EU Single Market ?

- The UK should resume a full membership of the WTO: British products become subject to the MFN duties imposed by the EU Common External Tariff; e.g. 10 % on passenger car, 14% on Plasma TV, etc.
- The UK should establish its own national tariff schedule in accordance with the GATT Art. II, which implies inevitable tariff negotiations with the WTO Members including the EU
- Likewise, the UK should negotiate its own commitment in trade in services under the GATS (General Agreement on Trade in Services, WTO)
- Accordingly, the UK shall be obliged to negotiate its national commitment on Government Procurement under the WTO/GPA to establish its own entity list

Japanese Auto Producers' production sites and R&D centres in the EU



2. Japan’s FTA/EPA Policy and the TPP/CPTPP

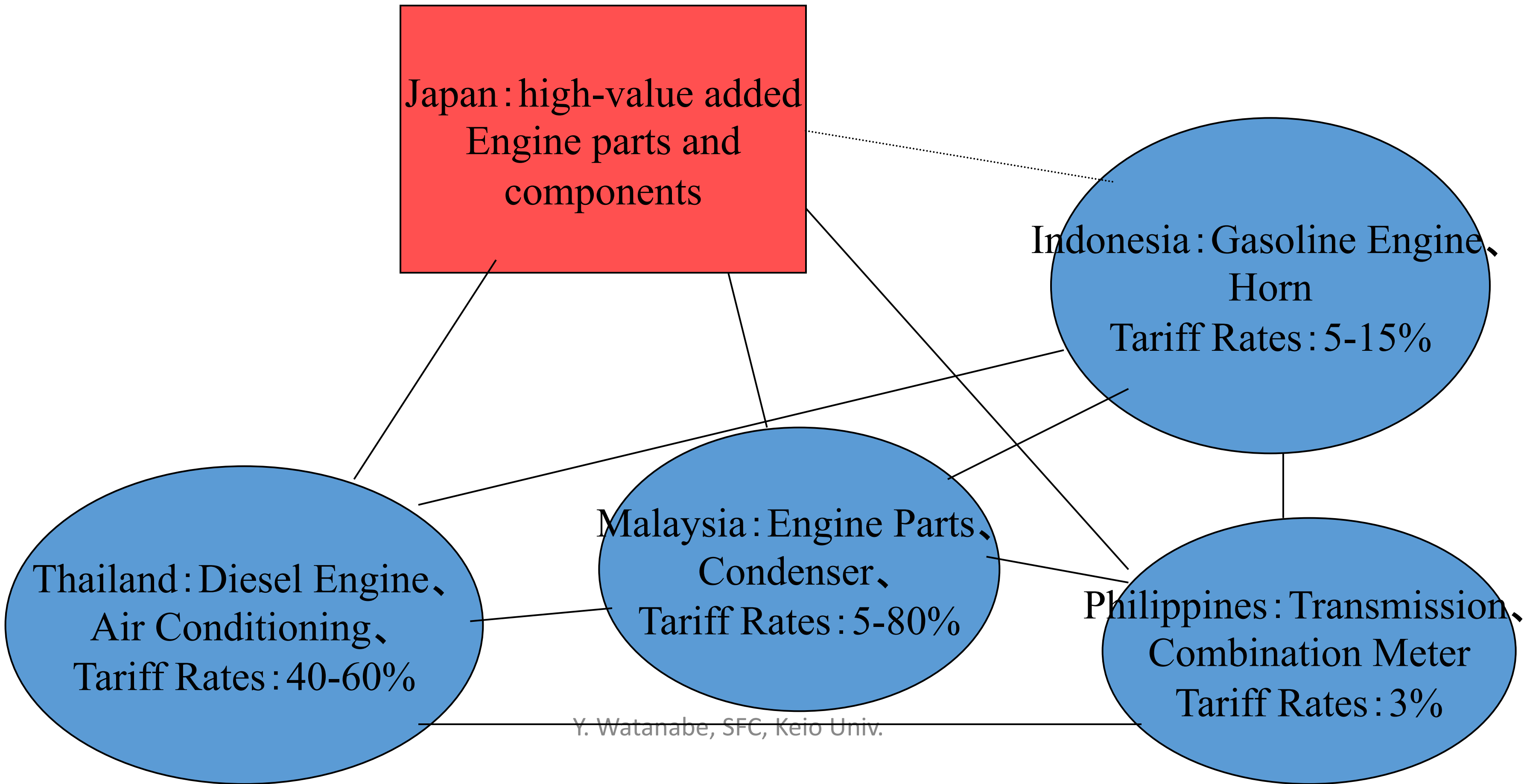
From “*de-facto*” Business-driven Integration

To “*de-jure*” Institution-driven Integration:

2001-2019

Japanese Car Industry:
Optimal Supply System in East Asia after **the Plaza Accord** (Sept. 1985)

<u>*De-facto* Business-driven Integration</u>



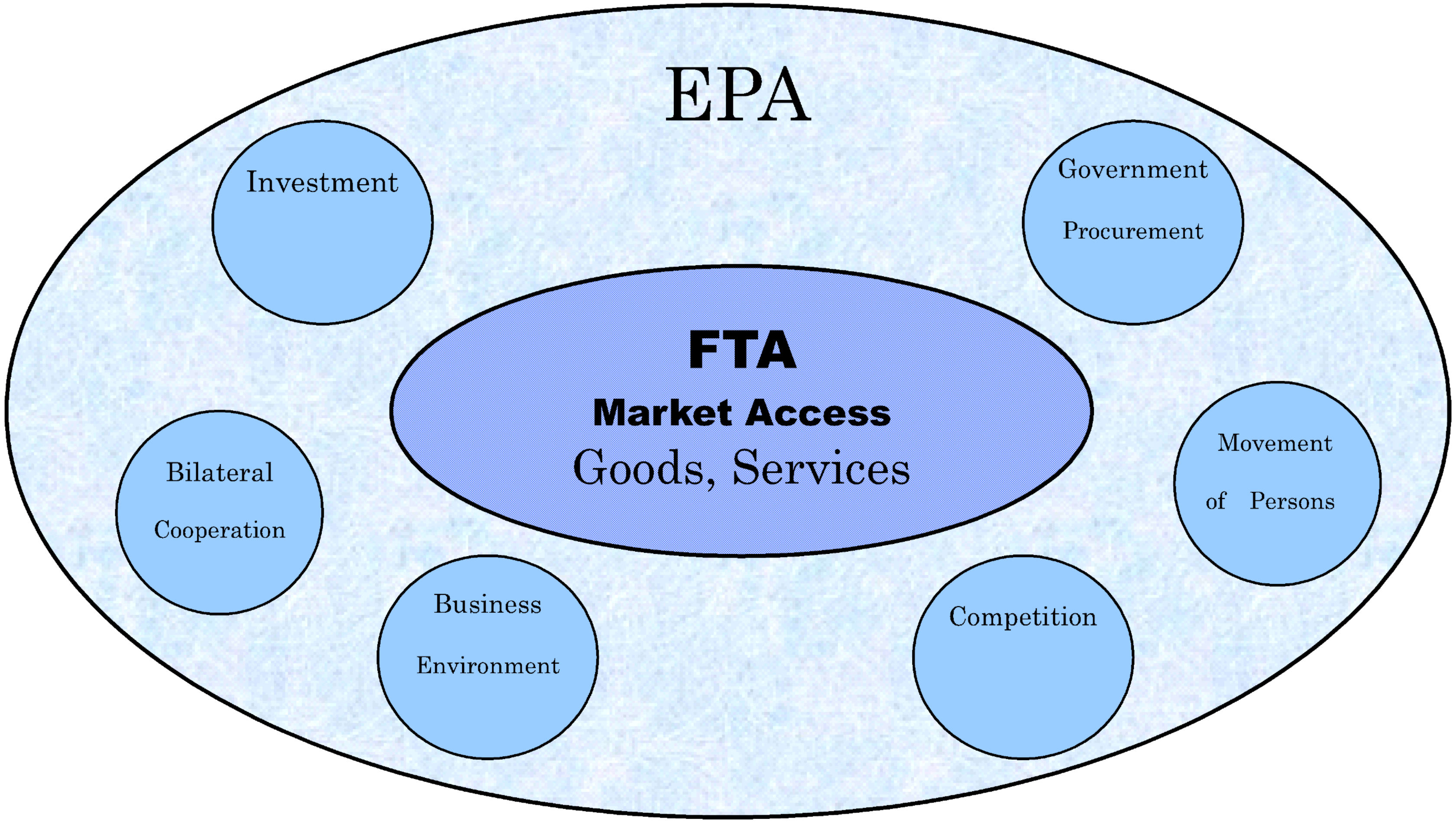
Market Integration in Asia-Pacific

- The Plaza Accord (G5) as an “ignition key” in September 1985
- De-facto Business-driven Integration through FDI establishing Supply-chain and Production Networks in the region
- FTA/EPAs to consolidate the merits of the De-facto Integration
- From Bilateral FTA/EPAs to Wider Regional FTA/EPAs: (ASEAN+1)x5, ASEAN+3, ASEAN+6=RCEP, Japan-China-Korea EPA
- Beyond Regional FTA/EPAs ⇒⇒⇒ the TPP as an inter-regional FTA
- CPTPP(TPP11) to keep momentum of trade liberalism in the aftermath of the US departure from the TPP in force since Dec.2018

Japan's EPAs: achievements so far (as of August 2017)

- Japan-Singapore EPA (in force since 2002.11)
- Japan-Mexico EPA (negotiations started in 2002.11, in force since 2005.4)
- Japan-Malaysia EPA (in force since 2006.7)
- Japan-Chile EPA (negotiations started in 2006.2, in force since 2007.9)
- Japan-Thailand EPA (agreement in substance 2005.9, in force 2007.11)
- Japan-Indonesia EPA (negotiations started in2005.7, in force 2008.7)
- Japan-Brunei EPA (negotiations started in 2006.6, in force 2008.7)
- Japan-ASEAN EPA (negotiations started in 2005.4, in force 2008.12)
- Japan-Philippines EPA (agreement in substance 2004.11, in force 2008.12)
- Japan-Switzerland EPA (negotiations started in 2007.5, in force 2009.2)
- Japan-Vietnam EPA (negotiations started in 2007.1, in force 2009.10)
- Japan-India EPA (negotiations started in 2007.1, in force 2011.8)
- Japan-Peru EPA (negotiations started in 2009.5, in force 2012.3)
- Japan-Australia EPA (negotiations started in 2007.4, agreement in substance in 2014.04, in force 2015.01)
- Japan-Mongolia EPA (negotiation started in 2012.6, signed in 2015.02, in force 2016.06)
- Japan-EU EPA (negotiation started in 2013.03, agreement in principle reached in 2017.07, in force since 2019.02)
- Japan-Korea EPA (negotiations started in 2003.12, suspended in 2004.11)
- Japan-GCC EPA (negotiations started in 2006.9)
- Japan-Canada EPA (negotiation started in 2012. 10)
- Japan-Colombia EPA (negotiation started in 2012. 12)
- Japan-Turkey EPA (negotiation started in 2014.12)

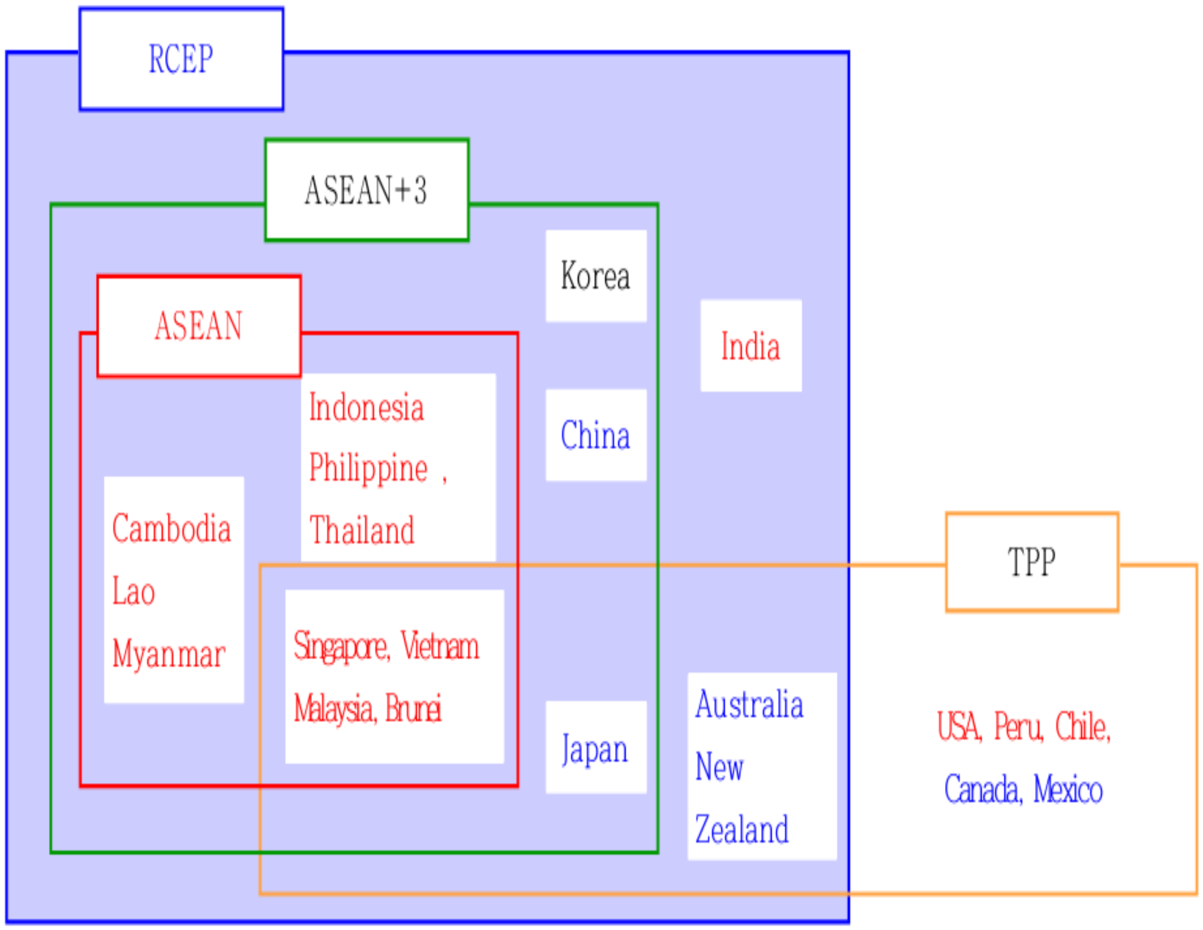
Economic Partnership Agreement EPA: Japan's FTA Strategy



Substance of Japan’s EPA

		Trade in goods			Trade in service				Investment				Government Procurement	Intellectual Property	Competition	Improvement Of Business Environment	Cooperation	Energy and Mineral Resources
		Market Access	SPS/TBT	Mutual Recognition	Market Access	National Treatment	MFN Treatment	Movement of Natural Person	National Treatment	MFN Treatment	Prohibition of performance requirements	Dispute Settlement between state and investor						
ASEAN	Vietnam	○	○		○	○		○			○				○	○	○	
	Philippine	○		○	○	○	○	○	○	○	○			○	○	○	○	
	ASEAN	○	○														○	
	Brunei	○			○	○	○	○	○	○	○	○				○	○	○
	Indonesia	○			○	○	○	○	○	○	○	○		○	○	○	○	○
	Thailand	○		○	○	○	○	○	○	○	○	○		○	○	○	○	
	Malaysia	○	○		○	○	○	○	○	○	○	○		○	○	○	○	
	Singapore	○		○	○	○		○	○		○	○	○	○	○			
Latin America	Chile	○	○			○	○	○	○	○	○	○	○	○	○	○		
	Mexico	○	○			○	○	○	○	○	○	○	○		○	○	○	
Europe	Switzerland	○	○		○	○	○	○	○	○	○	○	○	○	○	○		

Membership and Economic Importance of Regional Integration Frameworks in Asia-Pacific

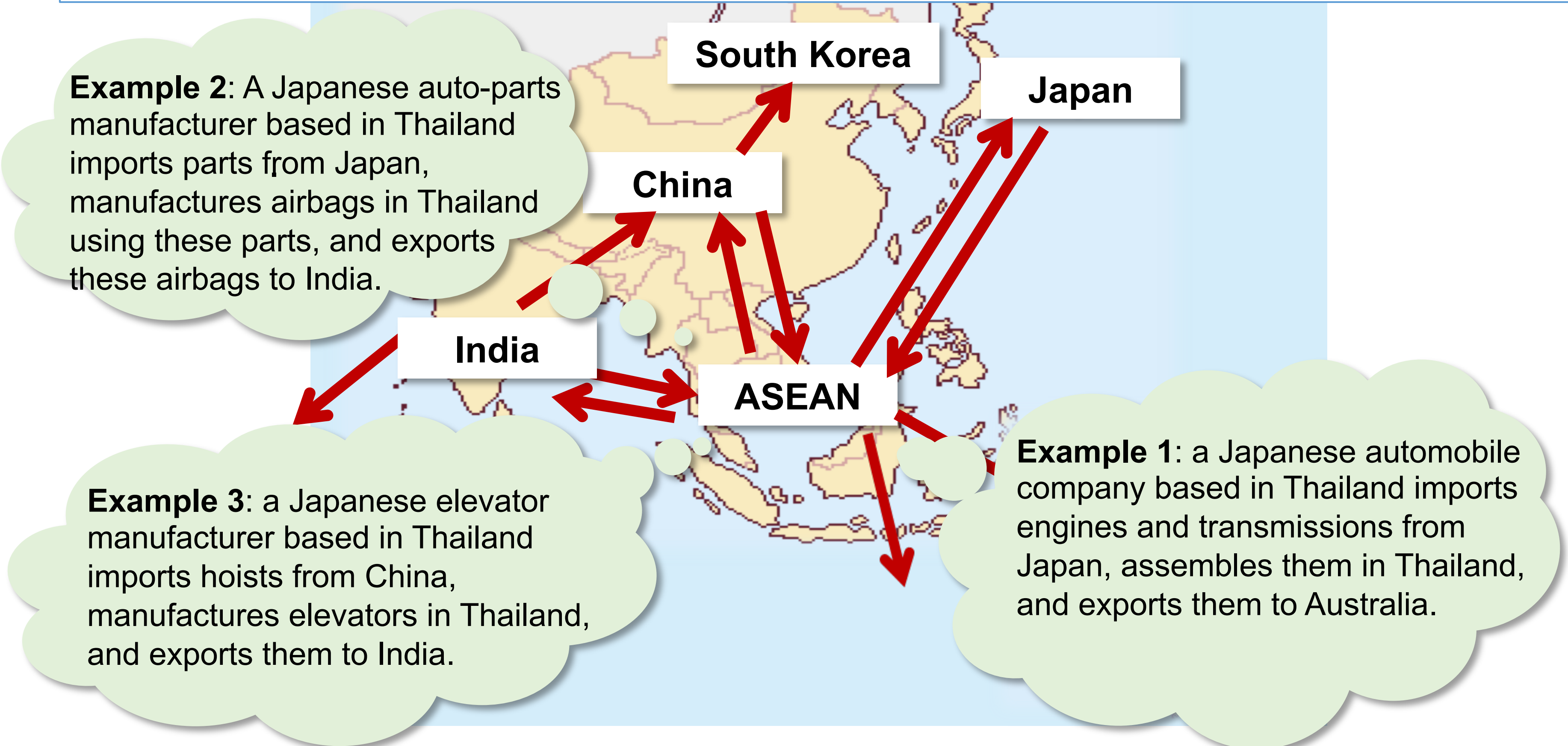


	Trade (2012)	Trade (2012)	GDP (2011)	GDP (2011)
	Billion US $	Share (%)	Billion US $	Share (%)
JCK FTA	6,619	17.9	14,280.9	20.4
RCEP	10,470	28.4	19,929.9	28.5
TPP	9,545	25.9	26,593.4	38.0
TTIP	15,602	42.3	32,686.5	46.8
World	36,890	100.0	69,899.2	100.0

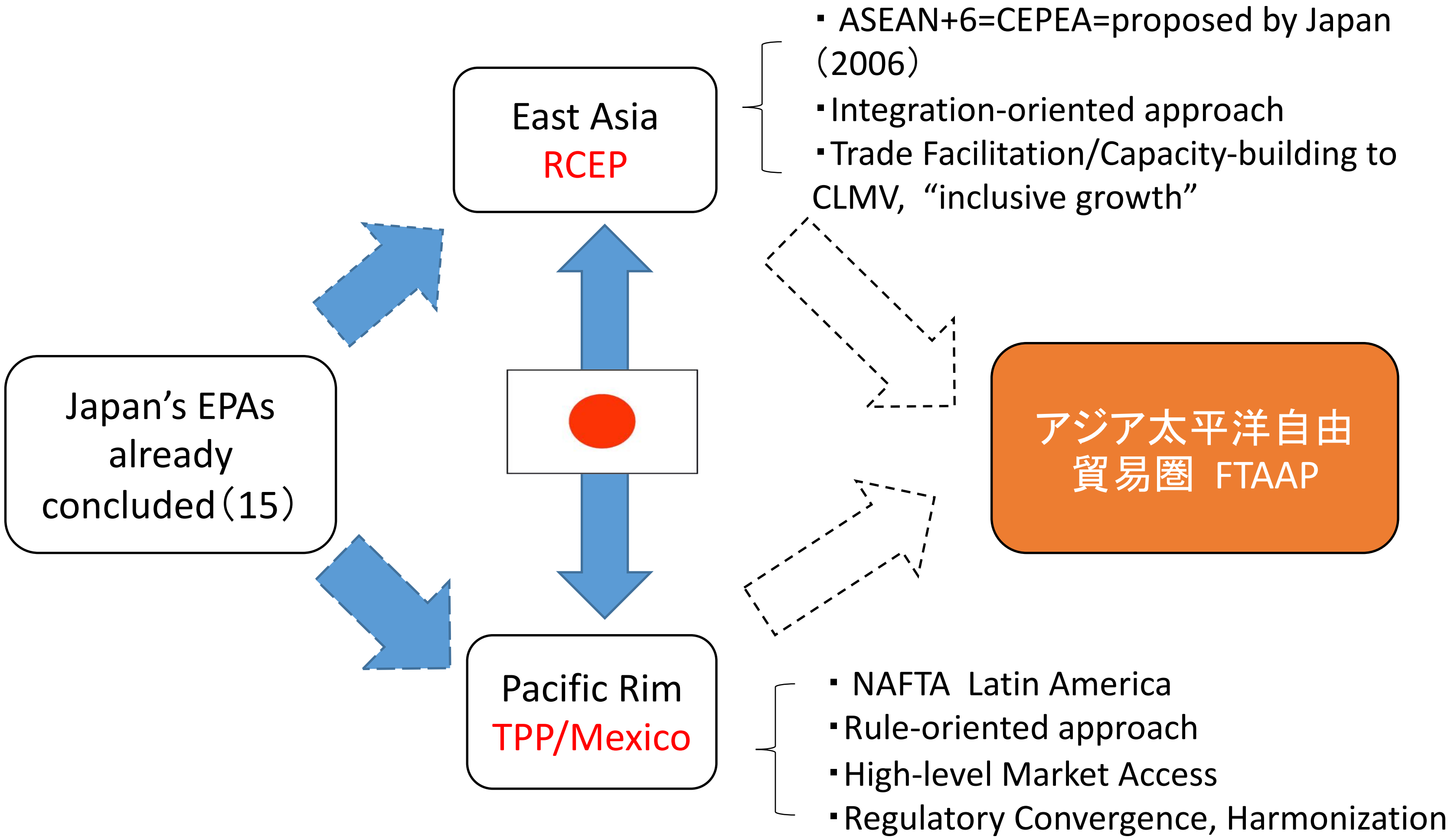
The significance of participation in RCEP

Unification of supply chain networks in the East Asia region

- In order to increase exports to growth markets both inside and outside the East Asia region, the unification of corporate supply chains is essential.
- At present, each EPA has its own set of regulations (e.g. rules of origin), and the differences between these regulations hinder corporate activities. By unifying these regulations into a single set of simple, easy-to-use rules for corporations, RCEP will facilitate the establishment of an trans-national supply chain network.



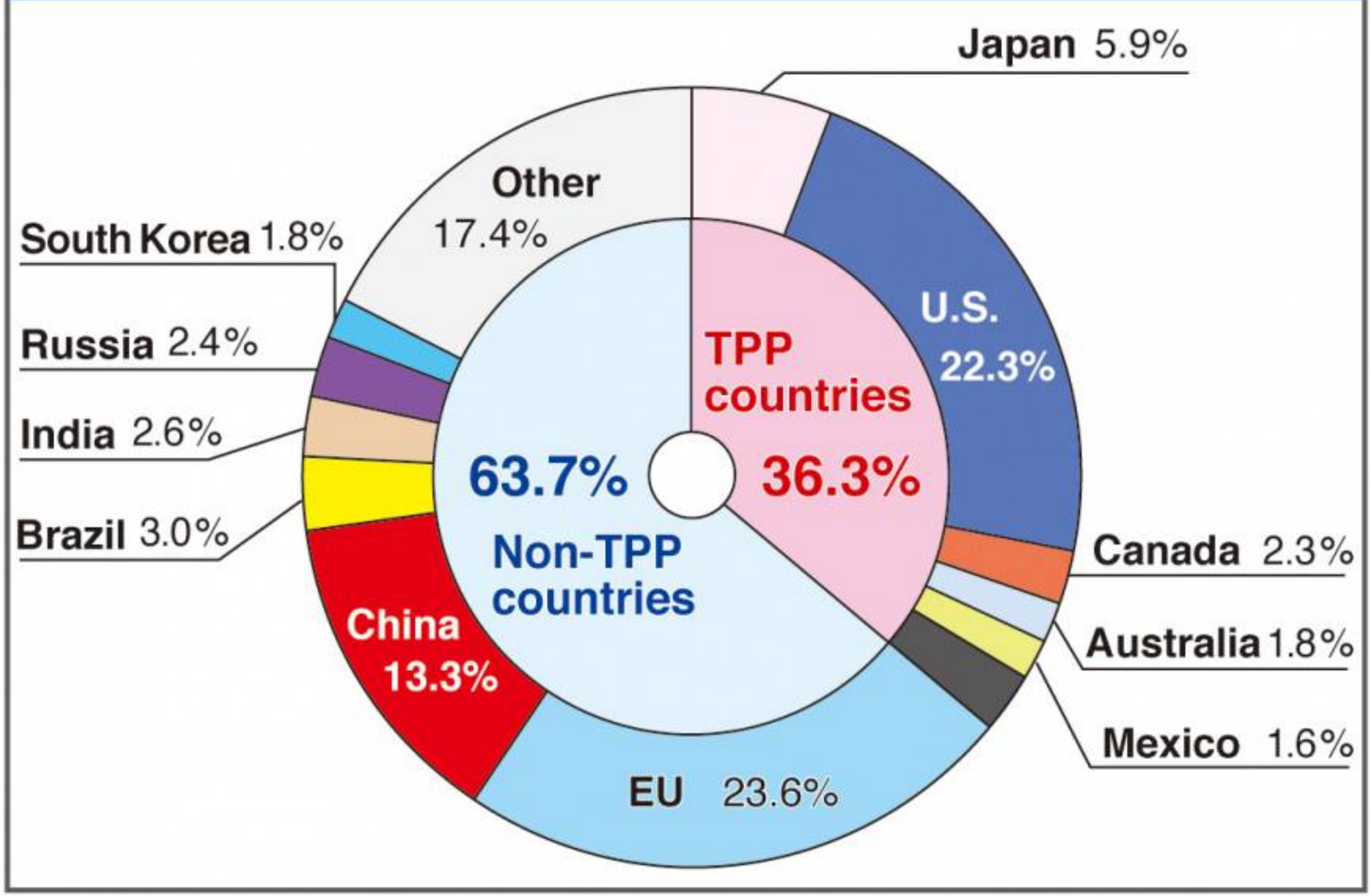
Japan’s EPA Strategy
-- Japan as a Pivotal Centre between TPP &RCEP --



TPP an Agreement on Substance, Atlanta, Oct. 5 2015 ⇒signed in Feb. 2016

- Tariff Elimination: ① 99.9% on Industrial Products, ② 97.1% on Agricultural Products
- New Rules: ① SOEs (regulations on non-commercial assistance by government), ② Labour and Environment (subject to dispute settlement procedures), ③ Government Procurement (obligations extended to non-WTO/GPA signatories)
- User-friendly Rules: Rules of Origin, Trade Facilitation, SMEs-related provisions, Investment (ISDS)
- Membership requested by: Korea, the Philippines, Thailand, Taiwan, and Indonesia

Share of global GDP (2014)



SOURCE: World Economic Outlook Database April 2014

Now the US withdraws from the TPP, China will ･･･

- take advantage of the US withdrawal from rule-making in trade and investment across Asia-Pacific by imposing its own power-oriented trade policies: aggressive use of anti-dumping measures, state subsides on steel
- lose incentives to enhance FTAs (RCEP, JCK) in absence of the TPP jeopardizing further trade liberalization in East Asia: China-Korea FTA(2015)
- instead accelerate the "One Belt, One Road" Initiatives by making full use of the AIIB as well as the BRICS Bank

⇒⇒⇒　Market economy principles are to be irreversibly pushed back and diminished if not completely abandoned

⇒⇒⇒　a major crisis for the free democracy in the region

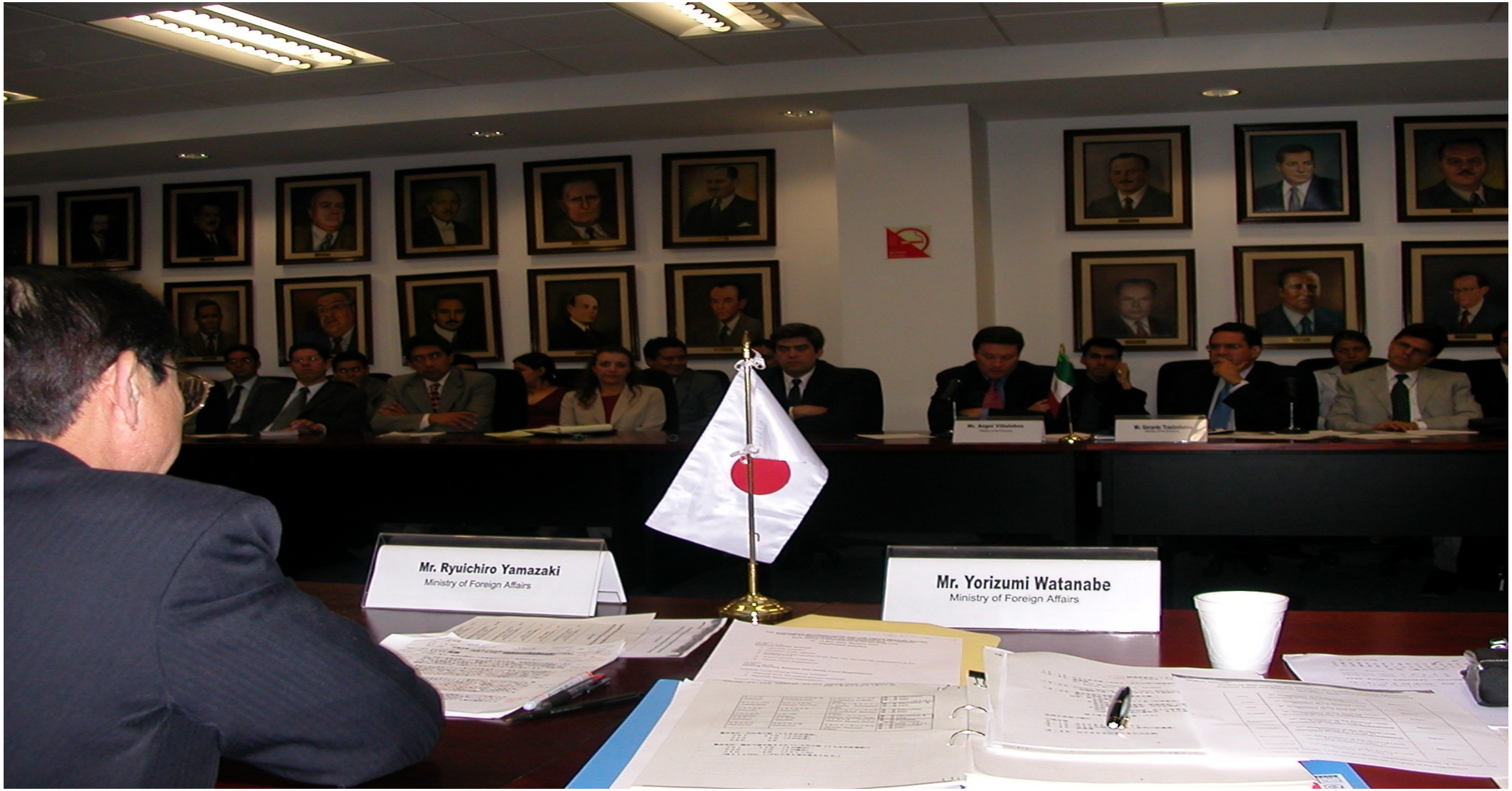
⇒⇒⇒⇒⇒　"TPP-minus US" (or TPP/11) pursued as the template for the 21st century trade rules across Asia-Pacific to keep momentum

3. Japan and Mexico:
a renewed partnership

Japan-Mexico Renewed Partnership

- 2002.7 Joint Study Group concluded its work
- 2002.11 Negotiation started on the Officials' Level
- 2003.10 President Fox's State Visit to Tokyo （negotiation broken down）
- 2003.11 Negotiation resumed （"Compare-notes"）
- 2004.3 Agreement on Substance reached
- 2004.9 Agreement signed（PM Koizumi & President Fox,　Mexico City）
- 2005.4 Coming-into-effect of the Agreement
- 2007.4 Coming-into-effect of the Protocol for Improved Market Access
- 2008.9 Negotiation for Amendment started
- 2011.2 Agreement reached on Amendment of the Agreement
- 2011.9 Signature on the Amended Agreement
- 2012.4 Coming-into-force of the Amended Agreement

Japan-Mexico EPA Negotiations: Nov.2002 – March 2004

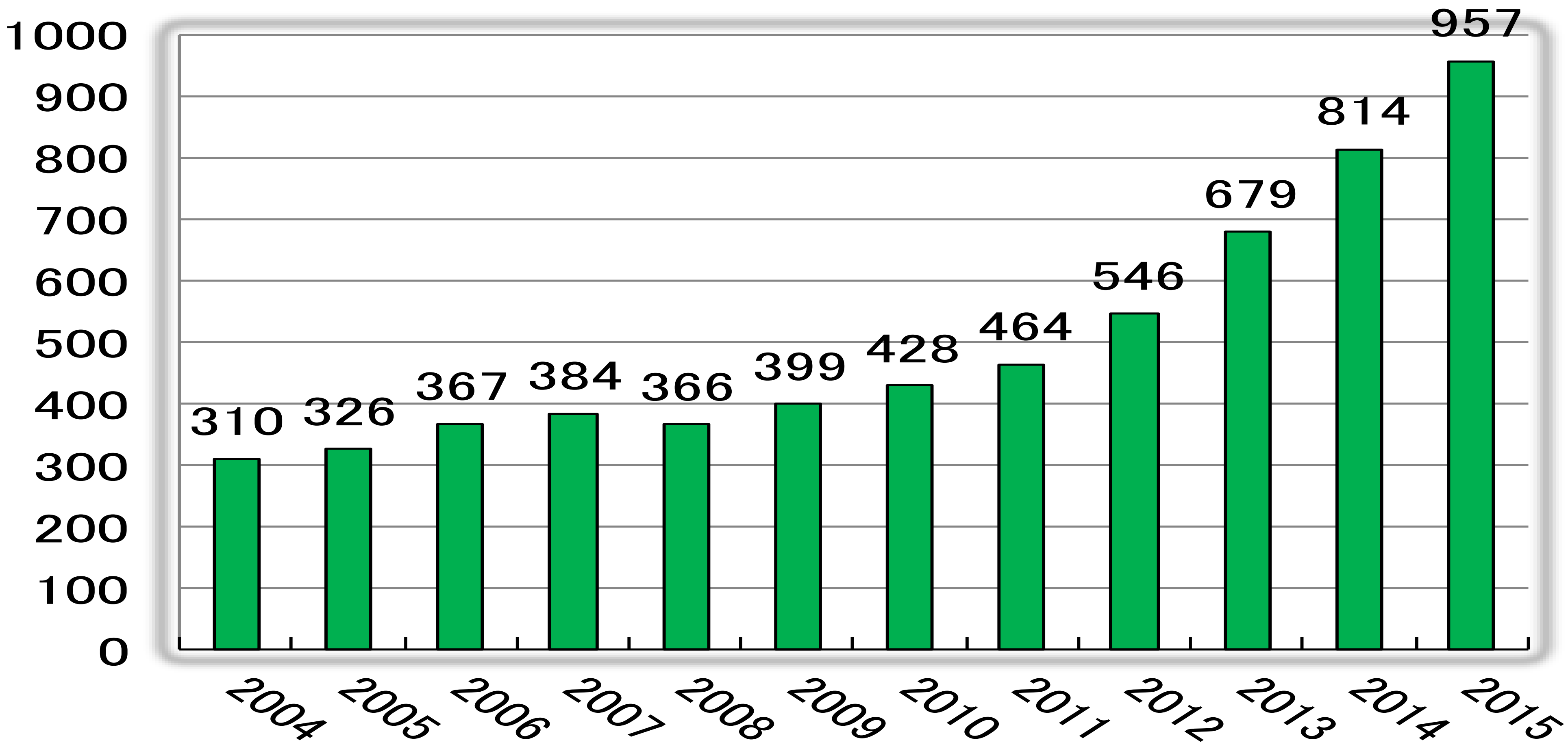


Agreement on Substance reached on 5th Mar. 2004

Renewed Partnership between Japan and Mexico

- Mexico looks at the TPP as an opportunity to reinvigorate the NAFTA while opening up some of the preeminent markets in East Asia
- In the merchandise trade, the TPP might streamline the rules of origin by allowing accumulation between participating countries for value-added percentages as well as for change in tariff classification (CTC) ⇒⇒⇒ more connectivity across the Asia-Pacific region
- Potential of the Pacific Alliance: trade between the countries of the Pacific Alliance and Mexico has grown from US$ 0.9 billion (1993) to US$ 12.1 billion (2014) in the past two decades

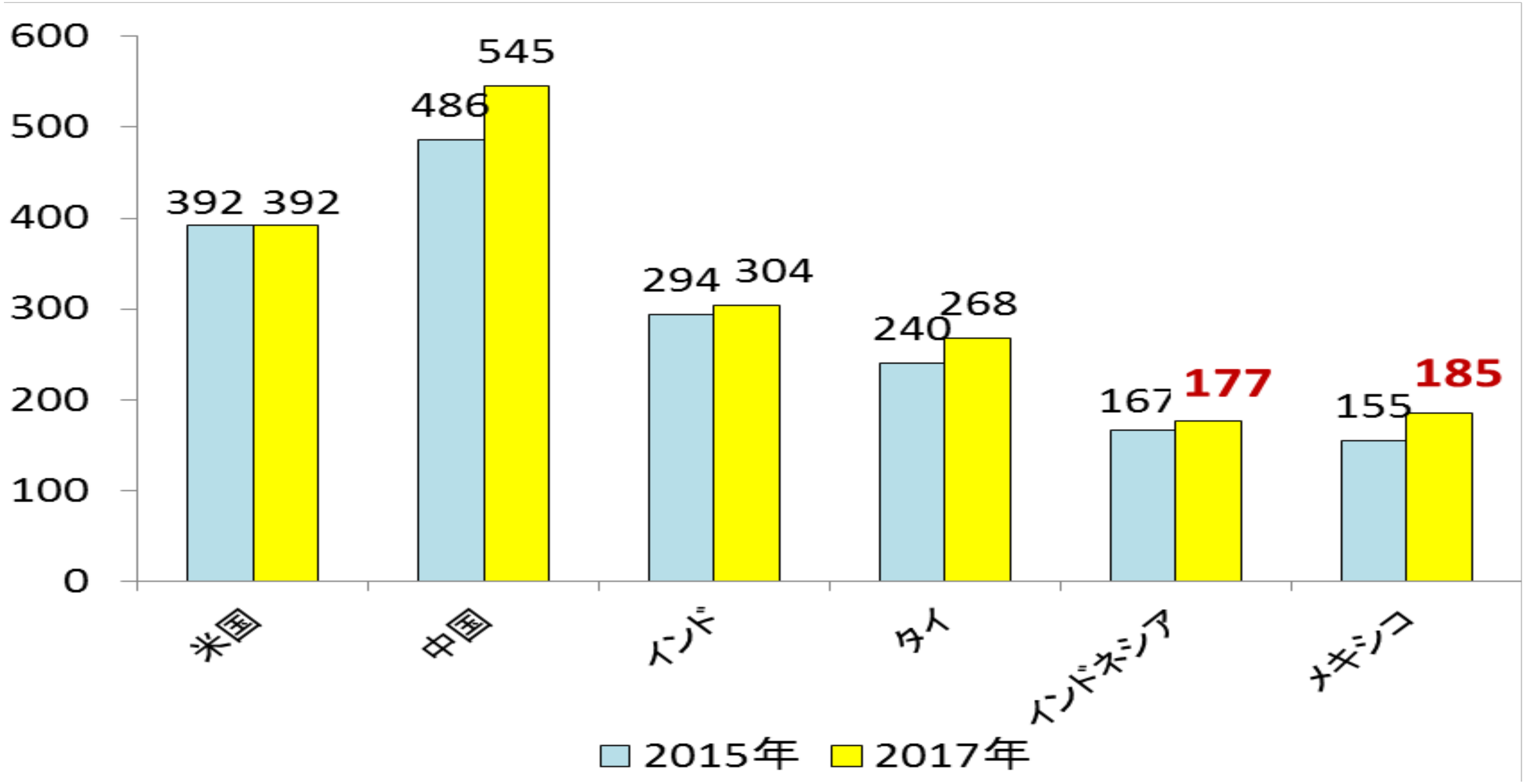
Japanese Companies in Mexico (2004-2015)



World Car Production Top 15 (2005-2014)

	2005	million unit	2013	million unit	2014	million unit
1	USA	11.9	China	22.1	China	23.7
2	Japan	10.8	USA	11.1	USA	11.7
3	Germany	5.8	Japan	9.6	Japan	9.8
4	China	5.7	Germany	5.7	Germany	5.9
5	ROK	3.7	ROK	4.5	ROK	4.5
6	France	3.5	India	3.9	India	3.8
7	Spain	2.8	Brazil	3.7	Mexico	3.4
8	Canada	2.7	Mexico	3.1	Brazil	3.1
9	Brazil	2.5	Thailand	2.5	Spain	2.4
10	UK	1.8	Canada	2.4	Canada	2.4
11	Mexico	1.7	Spain	2.2	Russia	1.9
12	India	1.6	Russia	2.2	Thailand	1.9

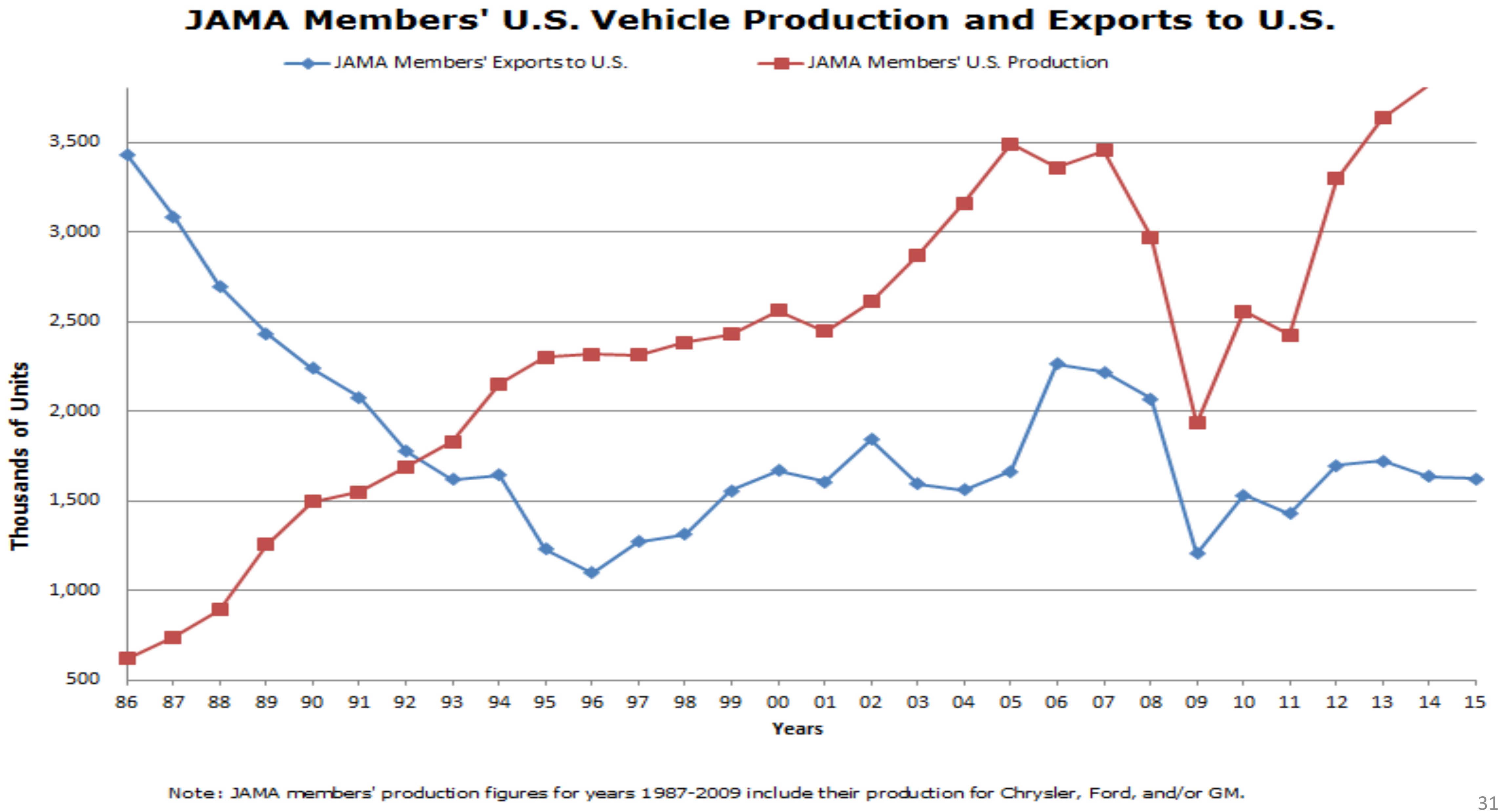
Japanese Car Manufacturers Overseas Production

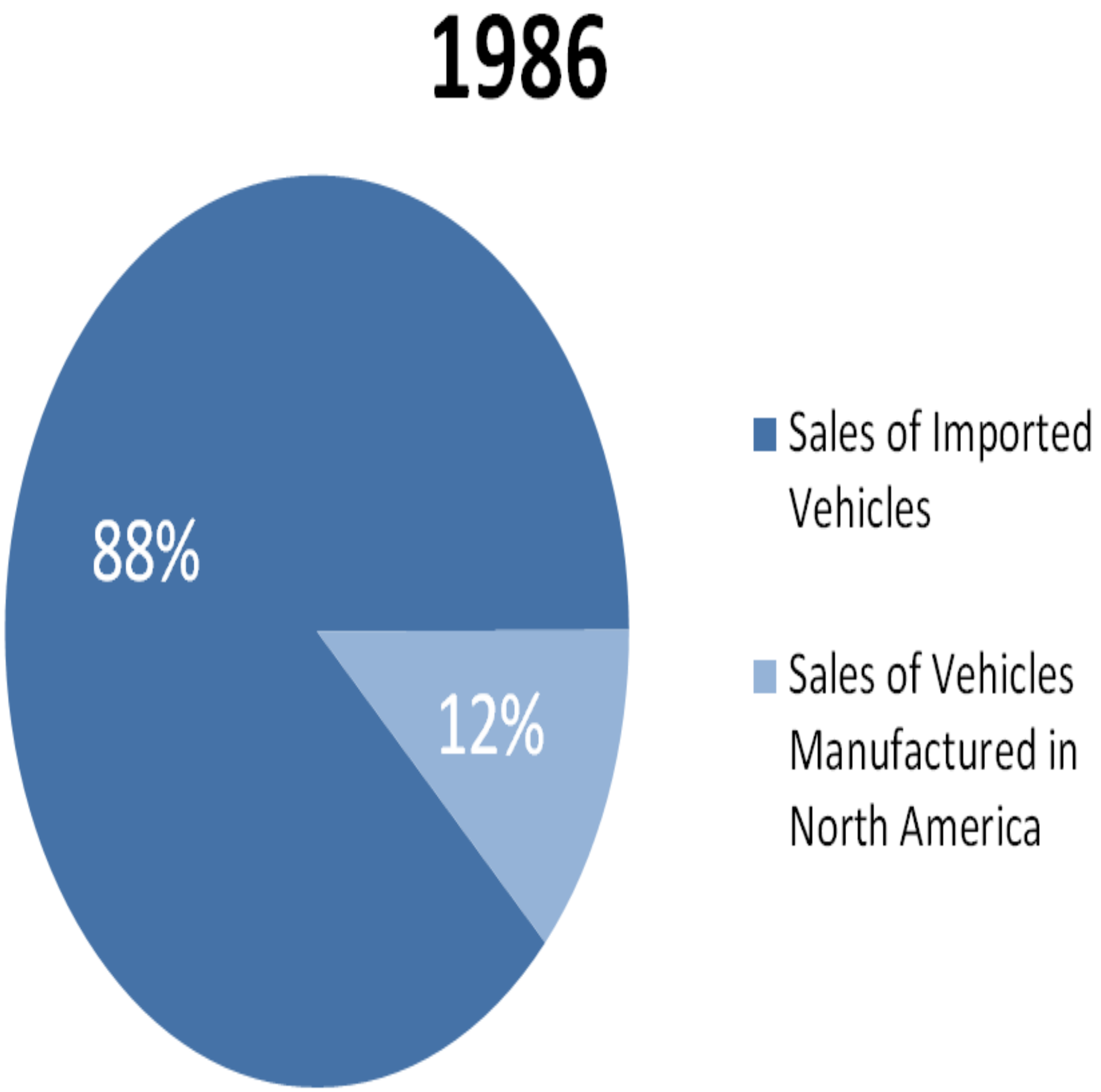


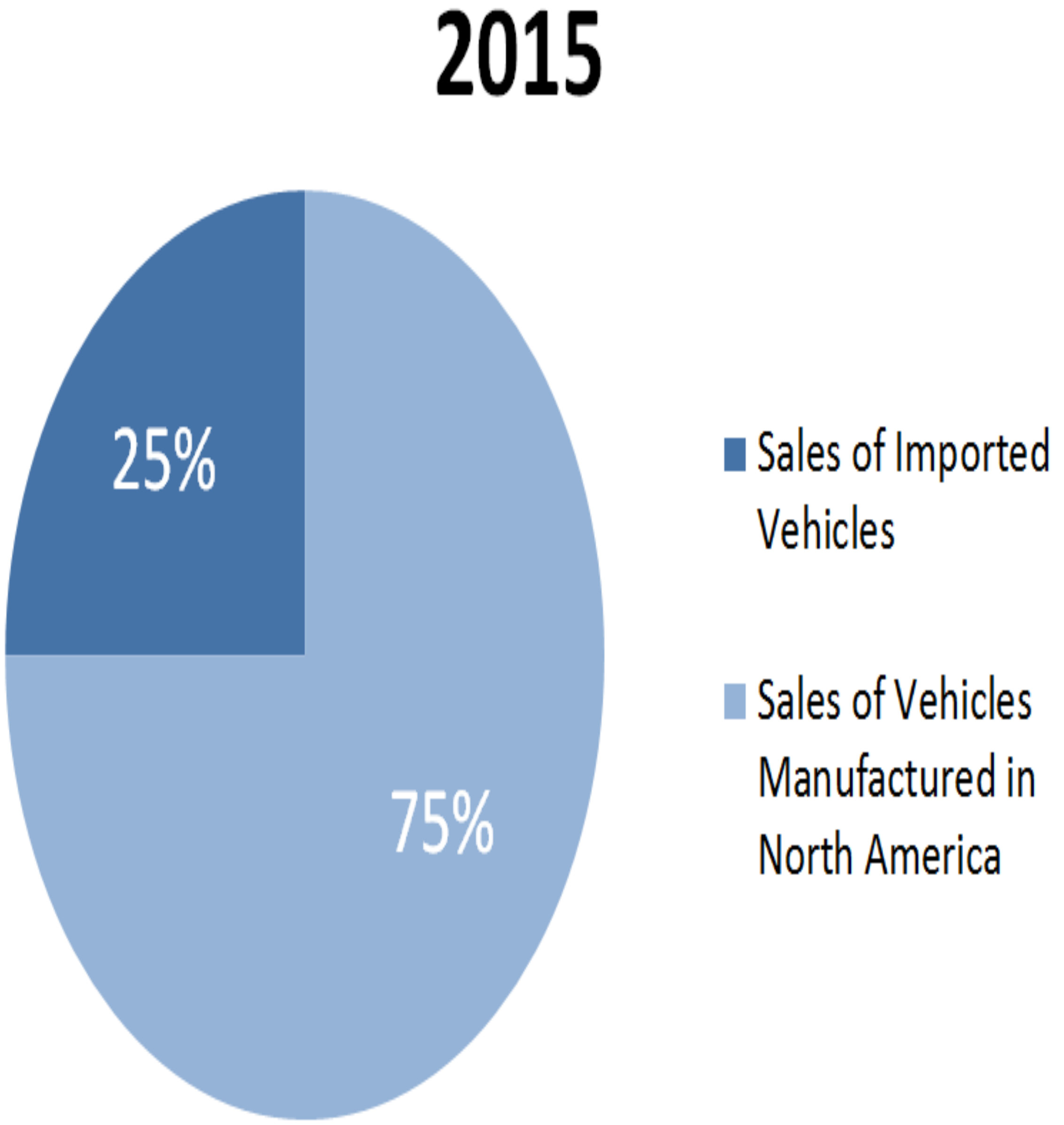
4. How does Japan cope with this new trend ?

In case of Car Industries: changing patterns of trade and local production in the US

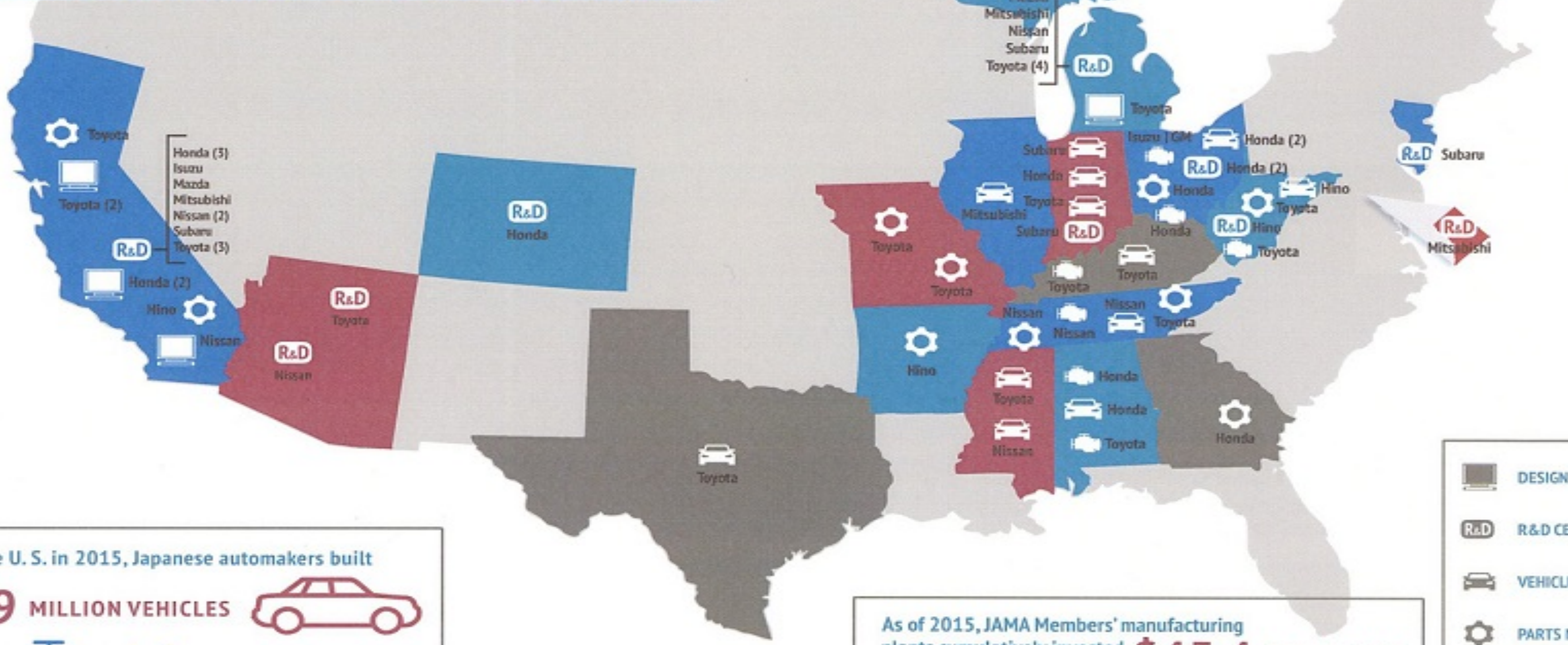
Japanese car producers deploy 26 factories and 36 R&D centers in the US making 3.9 million passenger vehicles as well as 4.6 million engines and creating jobs for 1.5 million people.


JAMA Members' U.S. Vehicle Production and Exports to U.S.
JAMA Members' Exports to U.S.
JAMA Members' U.S. Production
Thousands of Units
3,500
3,000
2,500
2,000
1,500
1,000
500
86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15
Years
Note: JAMA members' production figures for years 1987-2009 include their production for Chrysler, Ford, and/or GM.


1986
88%
12%
Sales of Imported Vehicles
Sales of Vehicles Manufactured in North America


2015
25%
75%
Sales of Imported Vehicles
Sales of Vehicles Manufactured in North America

Japanese Automakers Operate **26** Manufacturing Plants and **36** R&D Facilities in **17** States and DC



In the U. S. in 2015, Japanese automakers built
3.9 MILLION VEHICLES
and **4.6** MILLION ENGINES

As of 2015, JAMA Members' manufacturing plants cumulatively invested **$45.4 BILLION** in the U. S. Economy

DESIGN CENTER
R&D CENTER
VEHICLE MFG. PLANT
PARTS MFG. PLANT
ENGINE MFG. PLANT

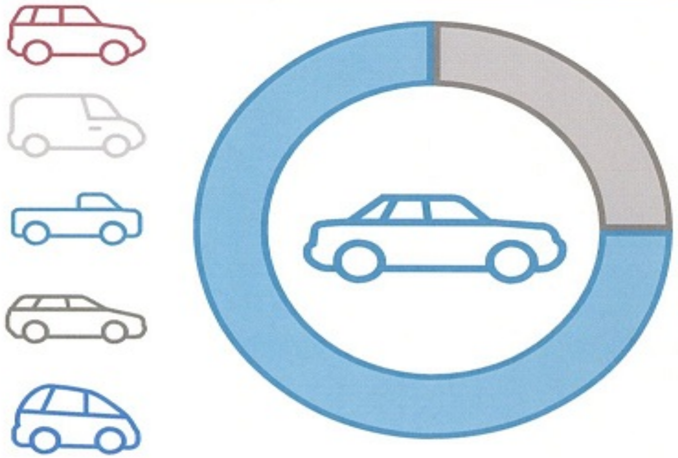
87,788 DIRECT EMPLOYEES

375,143 NEW VEHICLE DEALERS' EMPLOYEES

1,043,000 INTERMEDIATE & SPIN-OFF

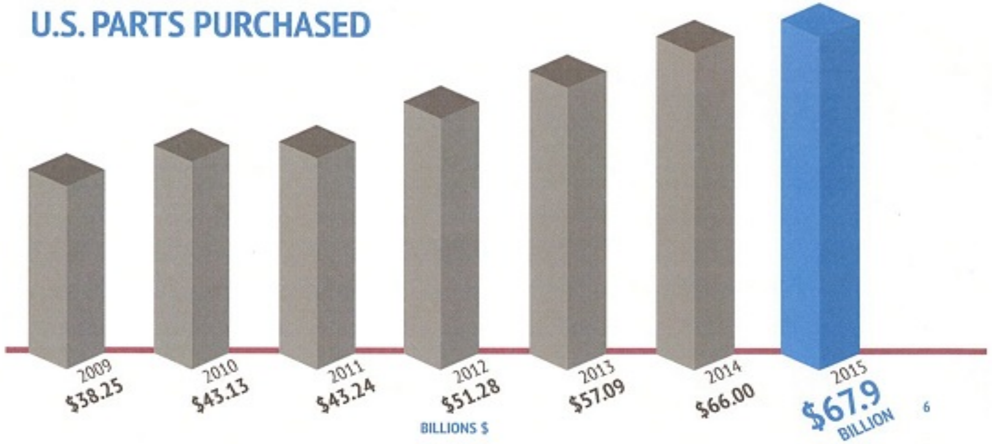
1,505,931 TOTAL AMERICAN JOBS

EMPLOYMENT 2015	AUTOMAKERS	NEW VEHICLE DEALERS	TOTAL
Manufacturing	60,640		
R&D/Design	5,086		
Headquarters, Sales & Others	22,062		
Subtotal	87,788	375,143	462,931
Suppliers	231,000	122,000	353,000
Spin-Off	409,000	281,000	690,000
Grand Total	**727,788**	**778,143**	**1,505,931**



75% of Japanese-Brand Vehicles Sold in the U.S. are Built in North America

U.S. PARTS PURCHASED



HONDA

Accord Coupe | Accord Sedan | Accord Hybrid
Civic Sedan | Crosstour | CR-V | Odyssey
Acura (ILX, MDX, RDX, TLX)

NISSAN

Altima | LEAF | Maxima | Rogue | Pathfinder
Frontier | Armada | Titan | NV Cargo
NV Passenger | Murano | Infiniti QX60

SUBARU

Legacy | Outback

TOYOTA

Avalon | Camry | Corolla | Highlander | Sequoia
Sienna | Tacoma | Tundra | Venza

417,699

Cars & Trucks Exported from Japanese Auto Plants in the U.S. in 2015

5. **Concluding Remarks**: from a Japanese Perspective

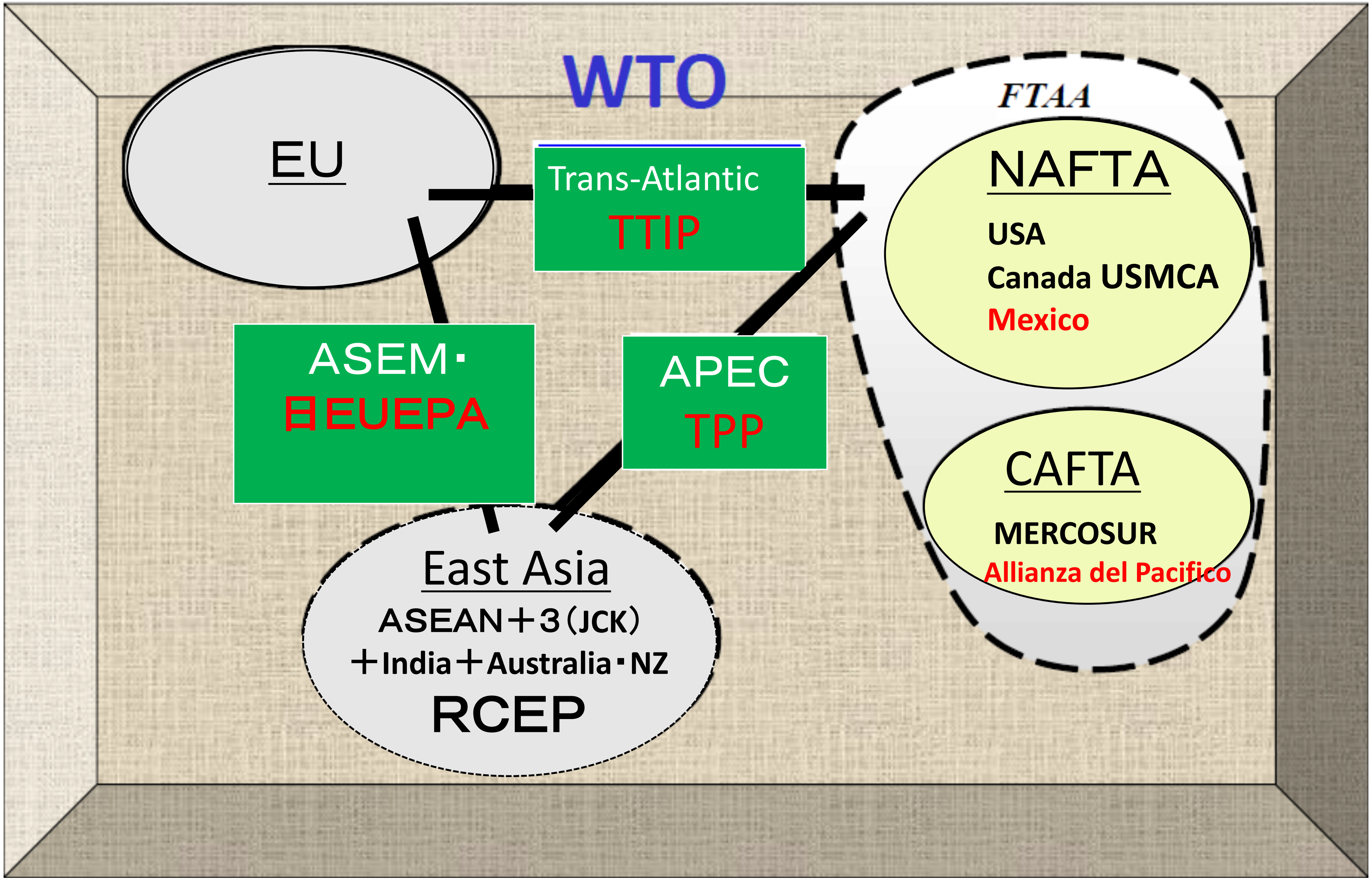
- **TPP/12** as a template for 21st Century-type trade agreements
- **TPP/11** to keep momentum for freer trade in Asia-Pacific
- **RCEP/JCK FTA** for updating the production network in East Asia
- **Japan-EU EPA**: the major inter-regional Mega-FTA connecting East Asia and the EU via Japan
- Japan-Mercosur EPA to be further explored as a subsequent policy agenda

⇒⇒⇒ to keep trade multilateralism embodied in the **WTO,**

and thus to maintain **predictability** in international business

Multilateralizing Regionalism

- Convergence of Liberalization Efforts in 3 Mega FTAs, i.e. TPP, TTIP, and the Japan-EU EPA
- A New Momentum to reinforce the Trade Multilateralism embodied in the WTO: rule-making in the digital trade, cooperation in the WTO Reform discussions
- **Japan and the Mexico should demonstrate leadership in TPP/11 and beyond**


WTO
EU
Trans-Atlantic
TTIP
FTAA
NAFTA
USA
Canada USMCA
Mexico
ASEM・
日EUEPA
APEC
TPP
CAFTA
MERCOSUR
Allianza del Pacifico
East Asia
ASEAN＋3（JCK）
＋India＋Australia・NZ
RCEP

Thank you for Your Attention
--- Free Trade for a Better Future ---