

***Japan in the EU in the Global Economy:
Challenges and Opportunities***
Panel 1 Discussants' Comments

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Introductory Comments

- First, I am delighted to be here! This conference is dealing with an extremely important topic and I am very much looking forward to the day's presentations.
- I saw in advance the Powerpoint presentations by André and Kinyo-san and believe that they offer excellent data reviews and make some very interesting points.
- However, as I haven't seen the papers, it is difficult to deliver insightful comments!
- Hence, I would like to just mention a few issues from their presentations, and offer my own input to the deliberations.

Outline of Comments: T. Kinkyo

- Very nice empirical review
- Effective to underscore the importance of value-added in trade; TiVA is a great resource! Hopefully it will continue to expand.
- A few points on AEC and Europe: Lessons go both ways!
- And important not to confuse real with monetary integration, as is often done.
- What about regional aid for trade?

Outline of Comments: A. Sapir

- Also some really great, disaggregated data and analysis. I look forward to seeing the paper so I can digest it better.
- On Abenomics: TPP, in my view, needs to be a key part of the Third Arrow (which is the most important one).
- On the TTIP, EU-JPN, TPP: «band-width» problems in Japan?

CONTEXT

for EU-Japan, EU-Asia

1. Doha Development Agenda on Hold (again)

- The December 2011 8^o WTO Ministerial Conference did not generate any new liberalisation package: Doha Development Agenda (DDA) put on hold (again). Prospects for a breakthrough this year in Indonesia are dim.
- The DDA constituted a decade of hard negotiations, at a crucial time for the international trading system.
- Hence, big disappointment, but not unexpected.

Origins of Flop

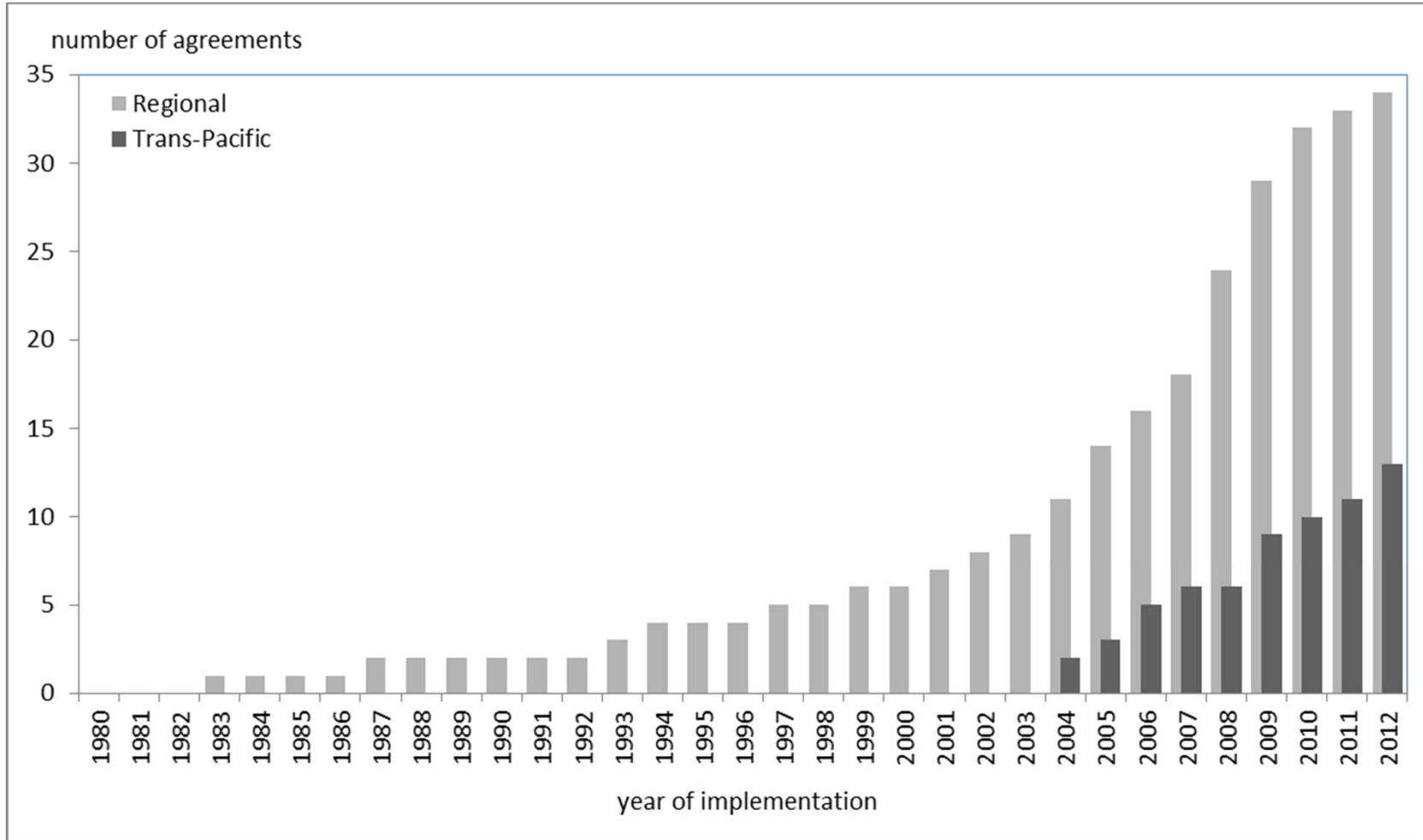
- A successful, deep DDA has been strongly supported by economists as well as policymakers, so it is important to understand where the bottlenecks are:
 - a. Traditional argument (North-South explanation)
 - b. New realities: South-South Issues, political manifestation of economic power shifts.
- Whichever arguments dominate, they would both suggest a while before a single-undertaking deal can be made.
- At 8° Ministerial, there wasn't even an agreement on (innocuous) partial deliverables. One exception: services?
- ***In the meantime, private sector is demanding new strategies.***

2. Regionalism: Full Steam Ahead

- Consequently, the liberalization push is manifesting itself in the form of regional trading arrangements (RTAs), especially FTAs.
- The second-best nature of RTAs is well known, but arguably outward-oriented regionalism can enhance efficiency as well as the multilateral system, which remains strong. Still, can be costly to outsiders due to trade and investment diversion, as well as knock-on policy effects (e.g., production chains).
- Europe has always been a major player in the process; Asia is newer to the game, but is an enthusiastic convert.

Asia-Pacific Trade Agreements, 2012

(Petri, Plummer, and Fan, PIIIE, 2012)



3. The New Regionalism

- The oft-criticized «spaghetti bowl» of these RTAs in Asia (and elsewhere) due to divergent rules of origin renders them quite inefficient in reaching the goal of advancing production networks, as underscored by Kinkyo-san.
- This goes a long way (at least in terms of economics) of explaining the move toward consolidation of these bilateral FTAs into regional arrangements.
- The TPP is by far the most advanced (just finished 19^o round) but RCEP has started, having just finished its second round.
- Japan is in both; the EU is in neither.
- What does this mean to the EU in terms of economics?

Economic Consequences of the New Regionalism for the EU

1. TPP, Japan and Europe

- I would like to give two empirical examples of the costs of Asian integration sans EU using a CGE model (Petri, Plummer and Fan, forthcoming as PIIE/EWC publication) and a partial-equilibrium approach. I focus on the TPP, as RCEP is a long way off (and content quite uncertain).

1. CGE Modeling approach

- 18-sector, 24-region model
heterogeneous-firms CGE
- Calculate annual baseline, 2010-25
includes effects of 47 existing agreements
- Simulate effects of new agreements: Two Tracks (TPP, Asia); we only report TPP here:
change tariffs, NTBs, etc.
- Add investment effects (side model)
- Includes realistic assumptions of, e.g., less than 100 percent cuts in trade barriers, costs of rules of origin, and assumes incomplete utilization of preferences.
- **For Details, see www.asiapacifictrade.org**

Income gains under Alternative Scenarios (Petri, Plummer, Zhai, 2013)

(www.asiapacifictrade.org)

Economy	GDP 2025 (\$bill. 2007)	(\$bill. 2007) and % Change from Baseline					
		+Japan TPP12	+Korea TPP13	+ASEAN3 TPP16	+Japan TPP12	+Korea TPP13	+ASEAN3 TPP16
TPP track economies	26,502	112.4	128.7	175.3	0.4	0.5	0.7
United States	20,273	76.6	77.5	108.2	0.4	0.4	0.5
Asian track economies	20,084	-40.7	-55.9	43.1	-0.2	-0.3	0.2
China	17,249	-34.8	-46.8	-82.4	-0.2	-0.3	-0.5
Two-track economies	8,660	169.9	245.9	270.5	2.0	2.8	3.1
Japan	5,338	104.6	119.4	128.8	2.0	2.2	2.4
Korea	2,117	-2.8	45.8	50.2	-0.1	2.2	2.4
Others	47,977	-18.2	-24.0	-38.0	0.0	0.0	-0.1
Europe	22,714	-3.7	-3.4	-4.9	0.0	0.0	0.0
India	5,233	-2.7	-3.8	-6.9	-0.1	-0.1	-0.1
World	103,223	223.4	294.7	450.9	0.2	0.3	0.4
<i>Memorandum</i>							
ASEAN+3	28,828	128.9	189.5	313.1	0.4	0.7	1.1
APEC	58,951	239.2	313.7	479.5	0.4	0.5	0.8

2. The disaggregated matching approach

- The CGE modelling offers aggregated effects that are useful but might hide product-specific effects, which are key in the political economy of commercial policy.
- Hence, we use a “matching technique” to identify the most important EU exports that will be potentially affected by Asian regionalism (and prospective accords with non-regional members, e.g., the US).
- Hypothesis: The higher the protection in Asian markets in products which are important to the EU, the greater the potential for trade and investment diversion. Moreover, the more competition the EU faces in key product areas, the greater the potential for trade and investment diversion (due to greater elasticity of substitution).
- Note: no Japanese export made the cutoff.

EU27 Exports to East Asia, X>US\$ 1 B, T>5%

Commodity Description	(\$US bil)	Avg tariff (%)
EU exports to China (2012)		
Vehicles >1500cc, <3000cc	16.1	25,0
Vehicles >3000cc	6.8	25,0
Gear boxes and parts thereof	3.1	9,0
Motor vehicle parts	2.0	10,0
Electronic control or dist<1000v	1.8	6,1
Taps, valves, appliances	1.3	6,7
Other motor vehicle parts	1.2	14,1
Parts of switches and breakers	1.1	7,0
Aromatic hydrocarbon mixtures	1.1	7,0
Measuring instruments	1.1	5,0
Light petrol oils	1.0	7,0
Machining centers for metal	1.0	9,7
EU exports to Korea (2012)		
Machines for semiconductors	1.3	8
Vehicles transport persons	1.3	8

Concluding Remarks

Economics of EU-Asian FTAs

1. The EU-Japan FTA is being hashed out in the context of a rapidly changing global and, especially, Asia-Pacific economic context.
2. The results and the presentations of André and Kinkyo-san underscore the importance of the EU-Asian economic relationship, but barriers to interaction sap trade and FDI potential, which in many areas are on downward trends in terms of shares.
3. EU and Asian economic integration programs will no doubt reinforce a “separation” trend due to trade and investment diversion, as well as “policy preferences” trend (e.g., Asian integration with itself, other OECD; EU with its economic enlargement and EPAs).

Benefits and Best Practices

4. While CGE results of EU-Asia are small, we suggest they are downward-biased. Moreover, as noted, certain EU exports will be particularly vulnerable to Asian integration without EU.
5. EU-Asian forms of FTAs would likely generate relatively large benefits to both sides (the dual: disengagement could lead to T&I diversion but also “preference exclusion”).
6. EU-Asian accords: more inclusive preferable to less inclusive, *ceteris paribus* (but, in my view, India may be a problem). But this would lead to weak agreements.
7. Still, the type of FTAs formed will be key. This brings us to the “Best Practices” mentioned by Kinkyo-say.