

# EU-Japan Agreement and the World Trade Disputes

Cheaper wine and cheese for Japan, cheaper cars for the EU - part of what the EU-Japan trade deal, now in force, means. The world's biggest such deal, it covers nearly a third of global GDP and 635 million people. However there are warnings that the UK could lose its benefits if it leaves the EU without an agreement.

It comes as a trade war rages between the US and China, who have slapped tariffs on each others' products. The move contrasts sharply with actions by the US Trump administration. The US was in talks with Japan and other Asian countries 18 months ago about a wide-ranging free-trade agreement, the Trans-Pacific trade agreement, but Donald Trump withdrew from this in one of his first moves after becoming president. Since then, his "America First" policy has seen tariffs introduced on a range of items, including steel, which both Japan and the EU export to the US.

The EU's Jean-Claude Juncker said the pact, which took years to agree, was about "values and principles", and Japan's Minister for Economic Revitalisation, Toshiimitsu Motegi, added that: "At a time when protectionist measures are gaining steam globally, the signing of the Japan-EU deal today will show the world once again our unwavering political will to promote free trade."

The deal's headline is about scrapping duties on 97% and 99% of Japanese and European imports respectively. Dairy and other food products are among the EU's biggest exports to Japan and the progressive reduction of nearly €1bn of tariffs - nearly 40% on beef, up to 30% on chocolate, 15% on wine and up to 40% on cheese - could boost exports and create jobs.

Going the other way, the EU will reduce the 10% duties on car imports to zero by 2027. Japan's government estimates it could increase GDP by 1%. However, the deal also provides better access for services firms, allowing them to bid for more public contracts. European service exports to Japan are currently worth €28bn a year. The EU says firms selling business, financial, telecoms, transport and distribution services stand to benefit most. Japan has not historically been that active in free trade talks internationally - but that has now changed. It led negotiations to salvage a Pacific trade deal - the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or Trans-Pacific Agreement - after the US pulled out.

Trans-Pacific Agreement came into force in 2019 and slashes tariffs between 11 states - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam - with 500 million inhabitants. That and its EU deal mean 2019 has already seen Japan enter a free trade sphere of a billion people.

Last year Jun Yamazaki, Japan's ambassador to Singapore, told the BBC what was behind Japan's new approach: "Our country does not produce natural resources. Our strength is that we have people - a quite well-educated

population that is fairly diligent in doing things, and in order to utilise that asset, we do have to have interaction with the outside world, and that definitely means free trade, and creating a more liberalised investment climate."

The economic agreement will strengthen cooperation between Europe and Japan in a range of areas. It will reaffirm their shared commitment to sustainable development, and include for the first time a specific commitment to the Paris climate agreement. The deal is the first struck by the EU to include a specific provision on the Paris climate agreement, which - until the US announced its intention to withdraw - united the world in a single agreement to prevent global warming by reducing emissions. The EU and Japan have agreed that trade could make a "positive contribution" in the fight against rising temperatures. Last February EU trade commissioner Cecilia Malmstrom said a reference to the Paris deal would be required in all new trade deals. However, some campaigners have questioned whether the EU would be willing to risk trade by insisting on compliance.

In December a report from the Institute of International and European Affairs said that the US withdrawal had created political cover for others to go slow on their commitments.

There have been important changes on the political and economical scene, and as Japan, Europe and Pacific-bordering nations dismantle tariffs, the world's two biggest economies are busy putting them up. President Donald Trump's trade war with China is not the only conflict with a major trading partner raging ahead of his reelection bid. Trump, who campaigned in 2016 on cracking down on what he calls unfair trade practices, has stirred trade conflict on even more fronts. From Canada and Mexico to the European Union and Japan, the president faces pivotal moments in his crusade to reshape U.S. trade relationships ahead of the 2020 election.

Here are the areas where the president will have to navigate trade conflicts in the coming months: the US has slapped tariffs on \$250bn of imports from China and is threatening to increase most of them from 10% to 25%, while China has put tariffs on \$110bn of imports from the US. Still, the conflict could widen even more after retaliation from China. Trump has already threatened to put 25% tariffs on the \$325 billion in Chinese goods that remain untaxed. He said that he has not decided yet whether to levy the duties. But their companies could lose out in other markets too. US beef may lose some appeal in Japan now that European beef is cheaper, while US cars may become less competitive in Trans-Pacific Agreement nations where Japanese cars have become cheaper.

Last year, the Trump administration decided not to spare its neighbors from tariffs of 25% and 10% on steel and aluminum, respectively. Both Canada and Mexico retaliated. Canada retaliated by putting duties on more than \$12 billion worth of U.S. exports, including whiskey and maple syrup. Mexico also slapped tariffs on about \$3 billion worth of American goods. Both countries have reportedly considered new retaliatory measures to pressure the U.S. to drop the metals duties.

The U.S. and EU are working to avoid an escalation in a limited trade conflict. Last year, after Trump put tariffs on steel and aluminum from the European bloc, the EU levied duties on \$2.4 billion worth of products such as whiskey and motorcycles. The EU has prepared another round of retaliatory tariffs to put in place if Trump goes through with the auto duties.

The Trump administration has to handle other trade negotiations as it tries to deescalate conflict with China, its North American neighbors and the EU. The White House hopes to reach a bilateral trade deal with Japan that could increase U.S. agricultural access to the country and stop potential U.S. tariffs on Japanese cars.

Trump hopes the tariffs will force China to strike a trade agreement. But the longer the conflict goes on, the more it could hurt American consumers and businesses. Farmers — a key political constituency for Trump — have suffered from lower crop prices caused in part by the trade war. Trump said he will meet with Chinese President Xi Jinping at the G-20 summit in Japan, June 2019, and Treasury Secretary Steven Mnuchin said that trade talks with China are ongoing.

Meanwhile some rage and break bonds, together the EU and Japan's economies seem to account for about a third of global GDP where the new trade agreement will bolster the global economy, as well as mark a strong commitment to multilateralism by two of the world's biggest economies. The EU-Japan Economic Partnership Agreement removed the vast majority of the €1 billion of duties paid annually by EU companies exporting to Japan, as well as a number of long-standing regulatory barriers. It has also opened up the Japanese market of 127 million consumers to key EU agricultural products and is supposed to increase EU export opportunities in many other sectors. In addition, the agreement will strengthen cooperation between Europe and Japan in a range of areas, reaffirm their shared commitment to sustainable development, and include for the first time a specific commitment to the Paris climate agreement.

Japan and the EU share a strong commitment to democracy, the protection of human rights, free and open trade, multilateralism and a rules-based order. Japan is a long-standing Strategic Partner for the EU and an important ally on the international scene.

The Strategic Partnership Agreement will lead to further deepening of EU-Japan relations, strengthened foreign and security policy dialogue, and engagement across a wide range of global, regional and bilateral thematic issues. The Agreement re-affirms the shared values and common principles that form the basis of the EU-Japan partnership, including human rights, democracy, multilateralism and the rule of law.

"Japan is a country with which we already work very closely. Following the new agreement, our partnership will become even stronger. Japan is an important partner for the EU in multilateral fora. Our new agreement will help us cooperate even more closely in many areas and increase people-to-people contacts," said High Representative Federica Mogherini. The Strategic Partnership Agreement

will boost dialogue and cooperation between the European Union and Japan on topics of mutual interest such as foreign and security policy, connectivity, climate change, environment, energy, cyber issues, employment and social affairs, as well as people-to-people exchanges.

Essay questions:

- 1. What are the most important issues regarding the “world's biggest deal” and what implications it may have on the USA and China?**
- 2. How a US - China trade war would impact global growth, in your opinion?**