

# Japan's Economic Recovery and Regional Economic Integration in Asia-Pacific: Implications for Latin America

A stylized, layered illustration of Mount Fuji in the background. The mountain is depicted with soft, overlapping layers of light green and yellow at the top, transitioning into darker green and grey layers as it descends. The overall style is minimalist and artistic, serving as a backdrop for the text.

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# 1. Japan's Economic Situation

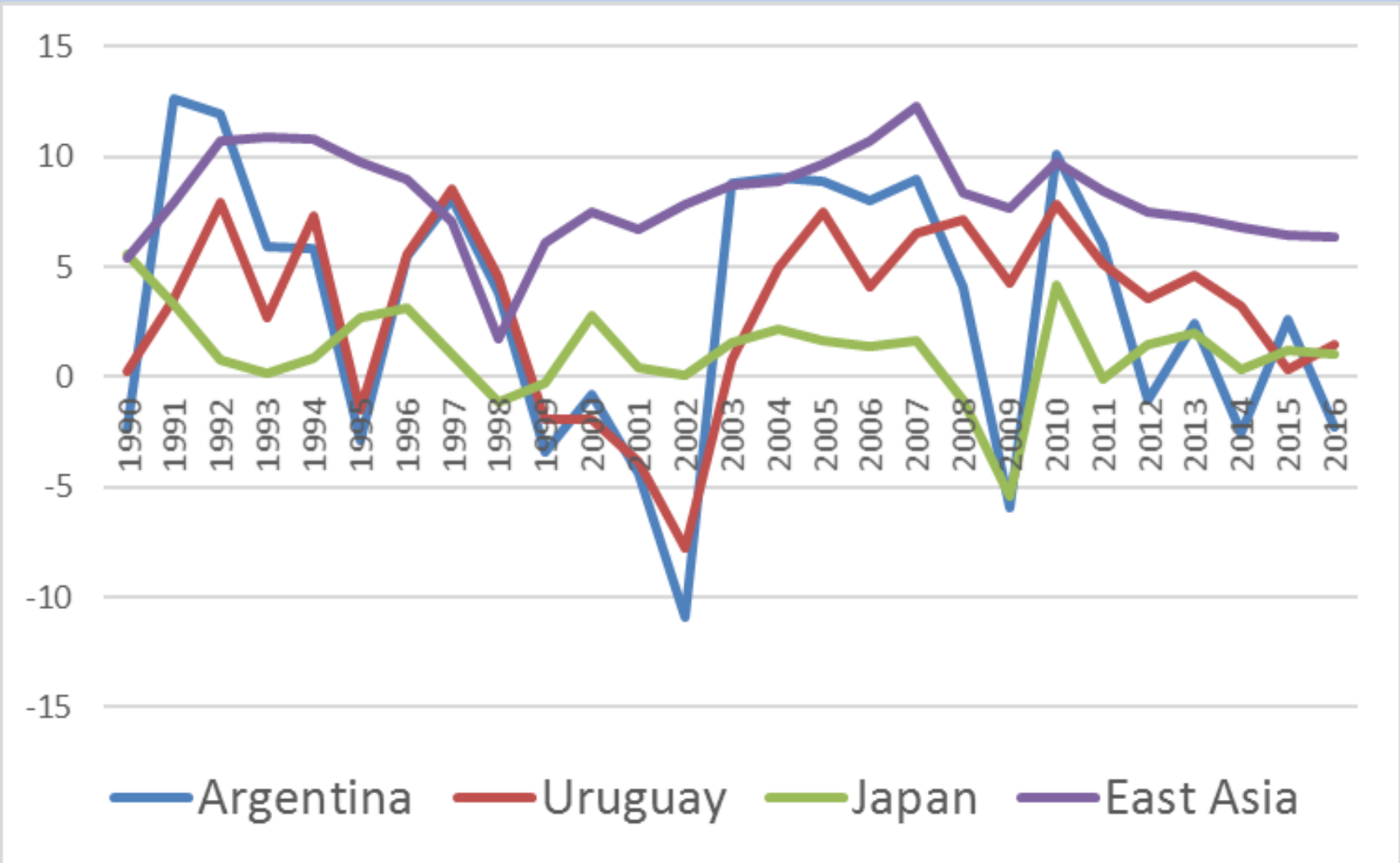
## Current situation

- ◆ Low economic growth
- ◆ Shortage of demand (low consumption and investment)
- ◆ Uncertain/pessimistic future economic prospects

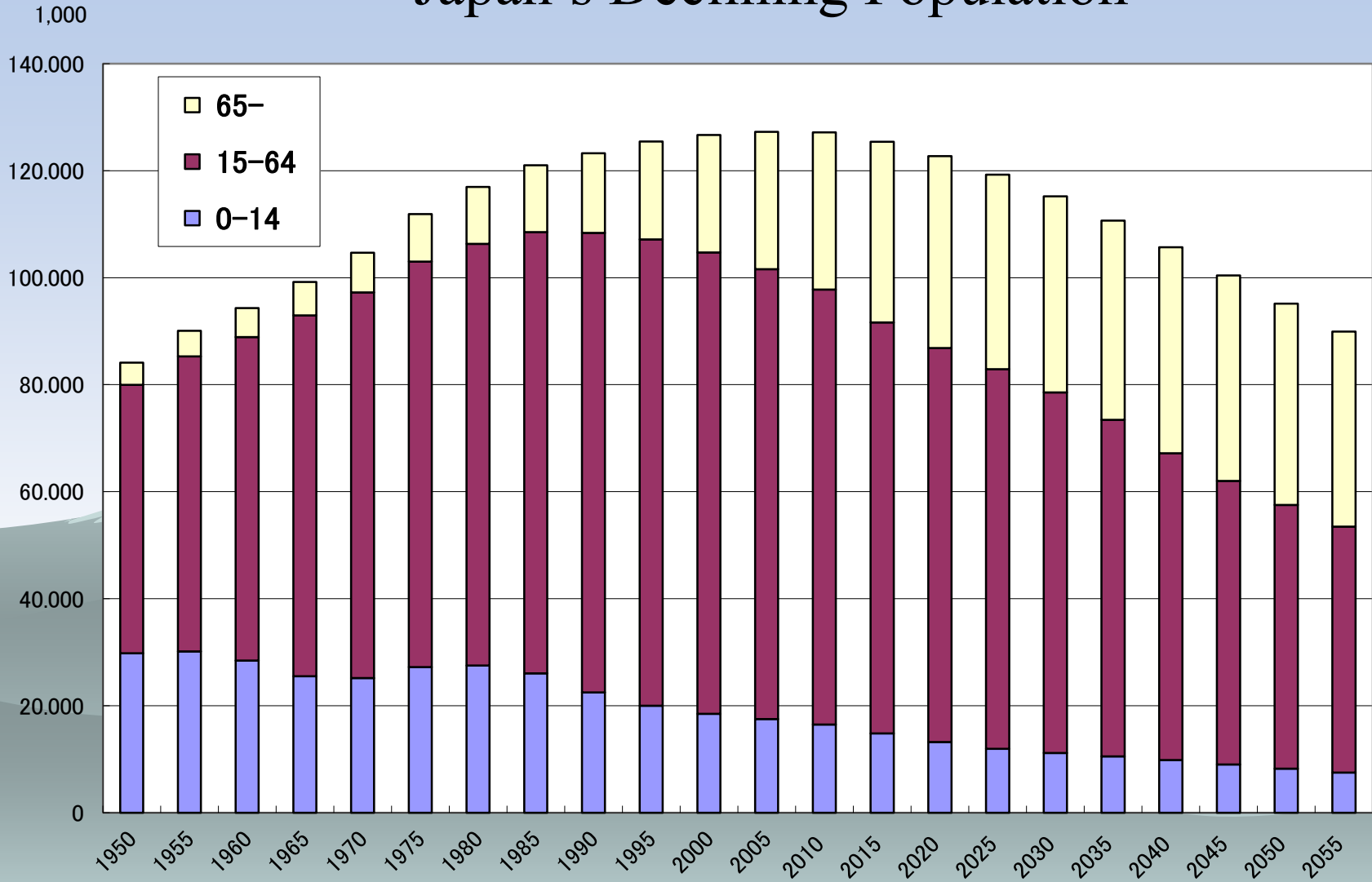
## Structural Problems

- ◆ Declining and aging population
- ◆ Declining savings rate
- ◆ Increasing government debt
- ◆ Closed economy
- ◆ Regulated sectors (agriculture, medical services, etc)
- ◆ Low productivity

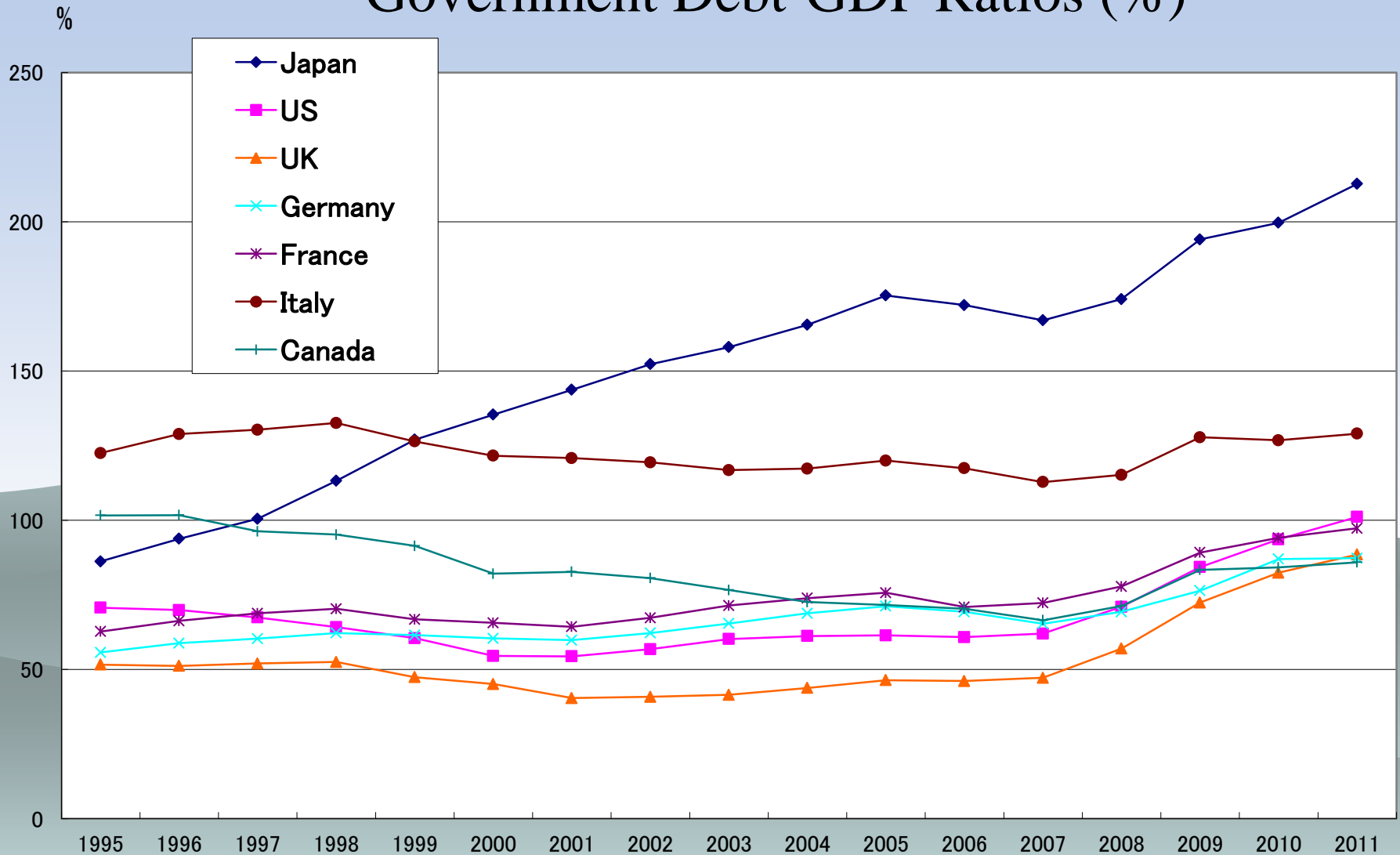
# GDP Growth Rates (%)



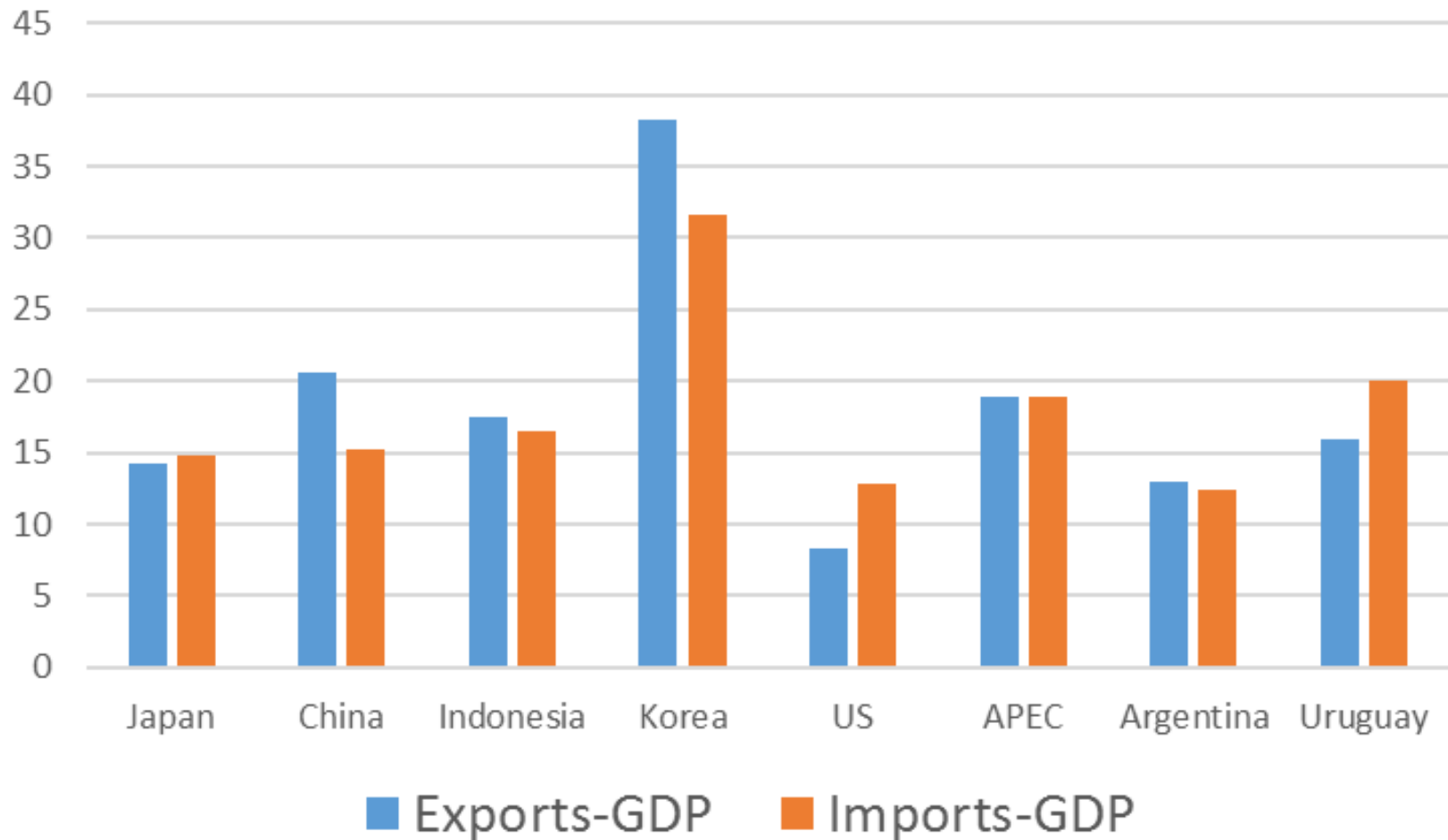
# Japan's Declining Population



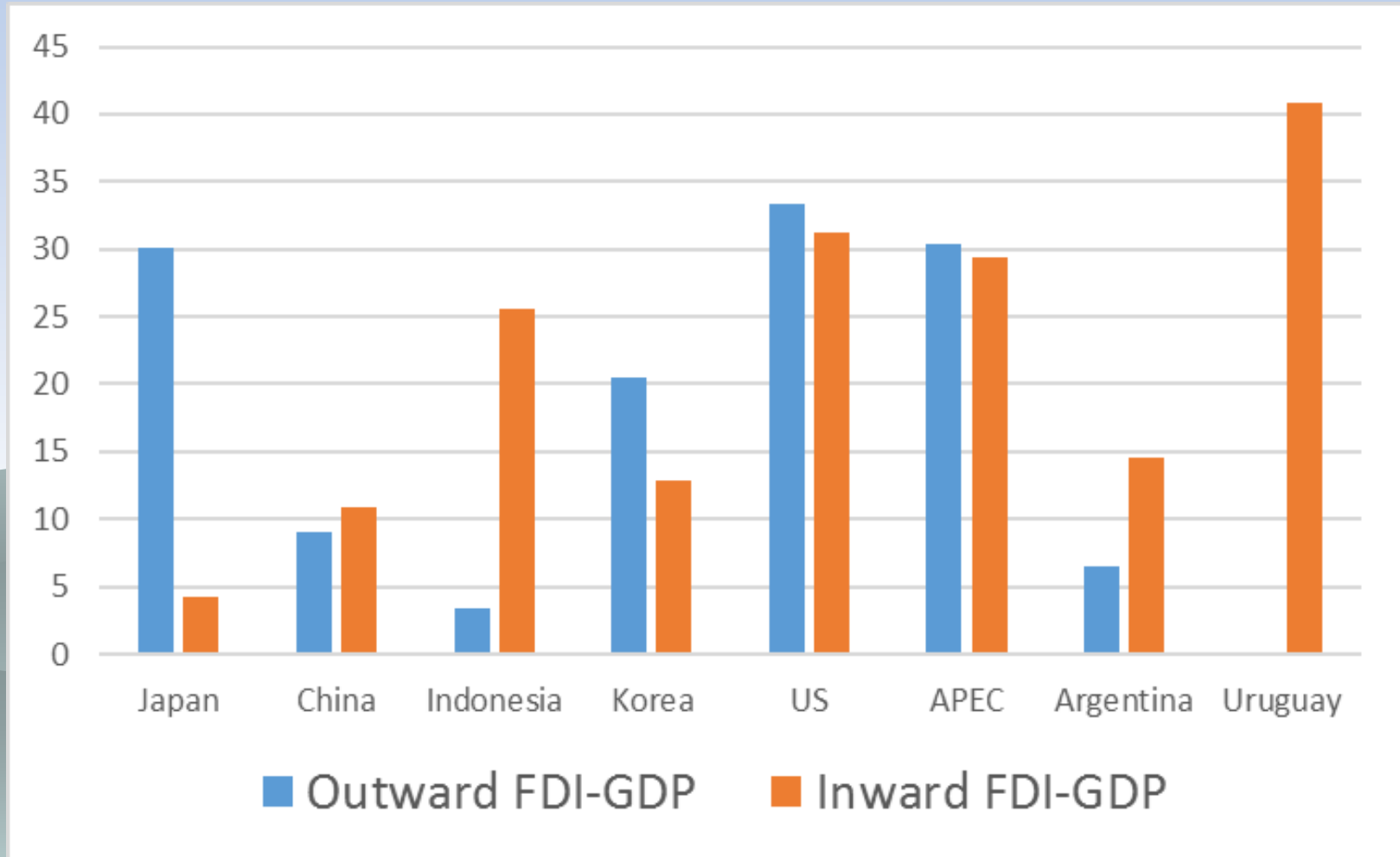
# Government Debt-GDP Ratios (%)



# Trade-GDP Ratios (%): 2015



# FDI Stock-GDP Ratios (%): 2015





# Labor Productivity:

## OECD Member Countries (2015)

1	Luxembourg	102,101		19	New Zealand	36,780
2	Ireland	65,123		20	Italy	36,072
3	Norway	61,255		21	Israel	35,436
4	Switzerland	61,042		22	Korea	34,549
5	USA	56,077		23	Spain	34,521
6	Netherlands	48,326		24	Czech Rep.	32,785
7	Austria	48,091		25	Slovenia	31,151
8	Germany	47,221		26	Portugal	29,186
9	Sweden	46,702		27	Slovak Rep.	29,114
10	Iceland	46,606		28	Estonia	27,780
11	Denmark	46,574		29	Greece	26,596
12	Australia	45,821		30	Poland	25,825
13	Canada	44,310		31	Hungary	25,596
14	Belguim	44,281		32	Latvia	24,245
15	UK	41,452		33	Chile	22,197
16	Finland	40,990		34	Turkey	19,917
17	France	39,813		35	Mexico	18,078
18	Japan	37,372			OECD ave	40,089

Notes: Purchasing Power Parity \$US, Source: OECD

## Challenge for achieving economic growth

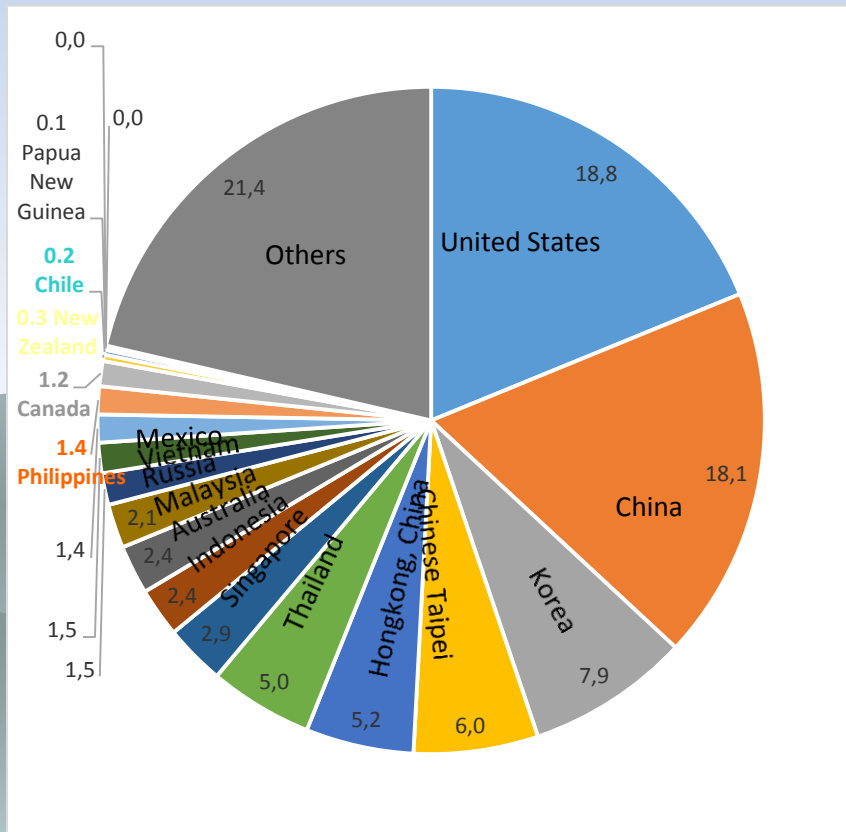
- ◆ Increase productivity
- ◆ Increase economic interaction with growing Asia-Pacific countries (trade, foreign direct investment (FDI), people exchange): Japan's dependence in foreign trade on Asia-Pacific region is already very high but it could increase and intensify further

## Solutions

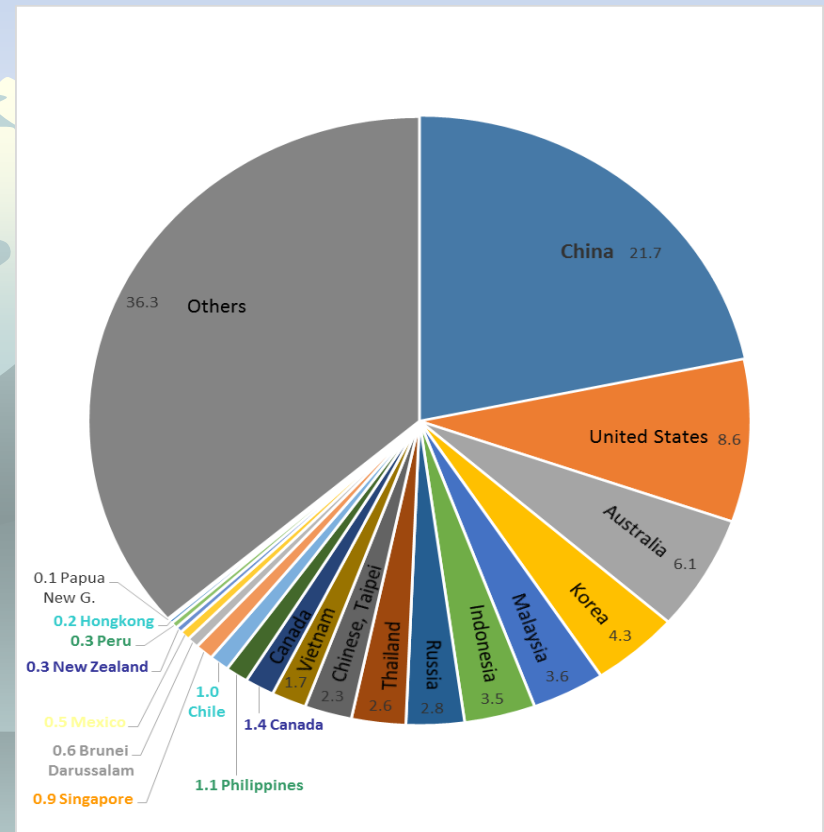
- ◆ Abenomics: 3 arrow strategy. 1<sup>st</sup> arrow (aggressive monetary policy), 2<sup>nd</sup> arrow (flexible fiscal policy), 3<sup>rd</sup> arrow (growth strategy)
- ◆ Implement structural (policy) reforms
- ◆ New Foreign Economic Policy in Asia-Pacific: the Trans-Pacific Partnership (TPP) Agreement ? RCEP

# Japan's Trading Partners (%): 2013

## Exports



## Imports

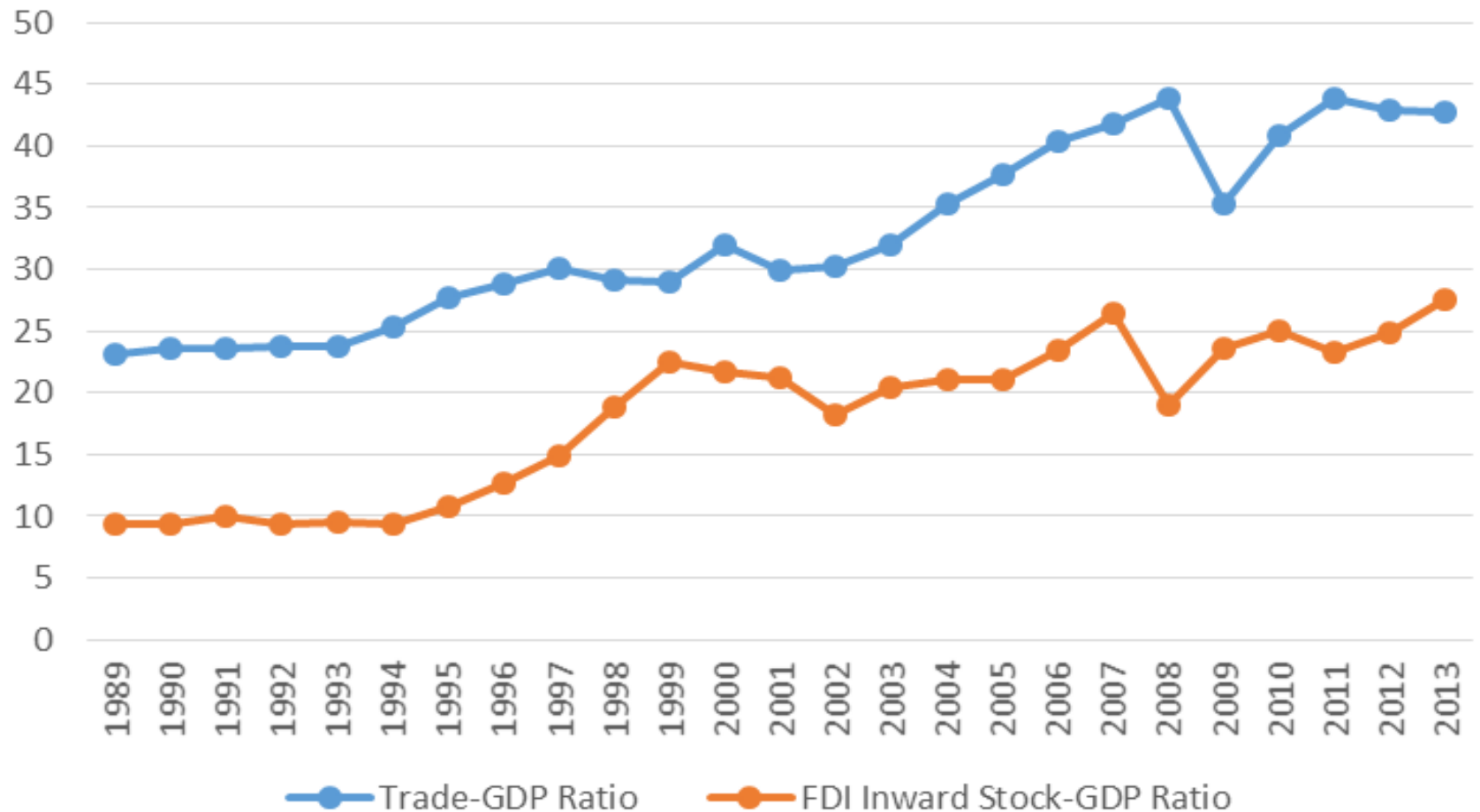


## II. High Economic Growth and Regional Economic Integration in Asia-Pacific

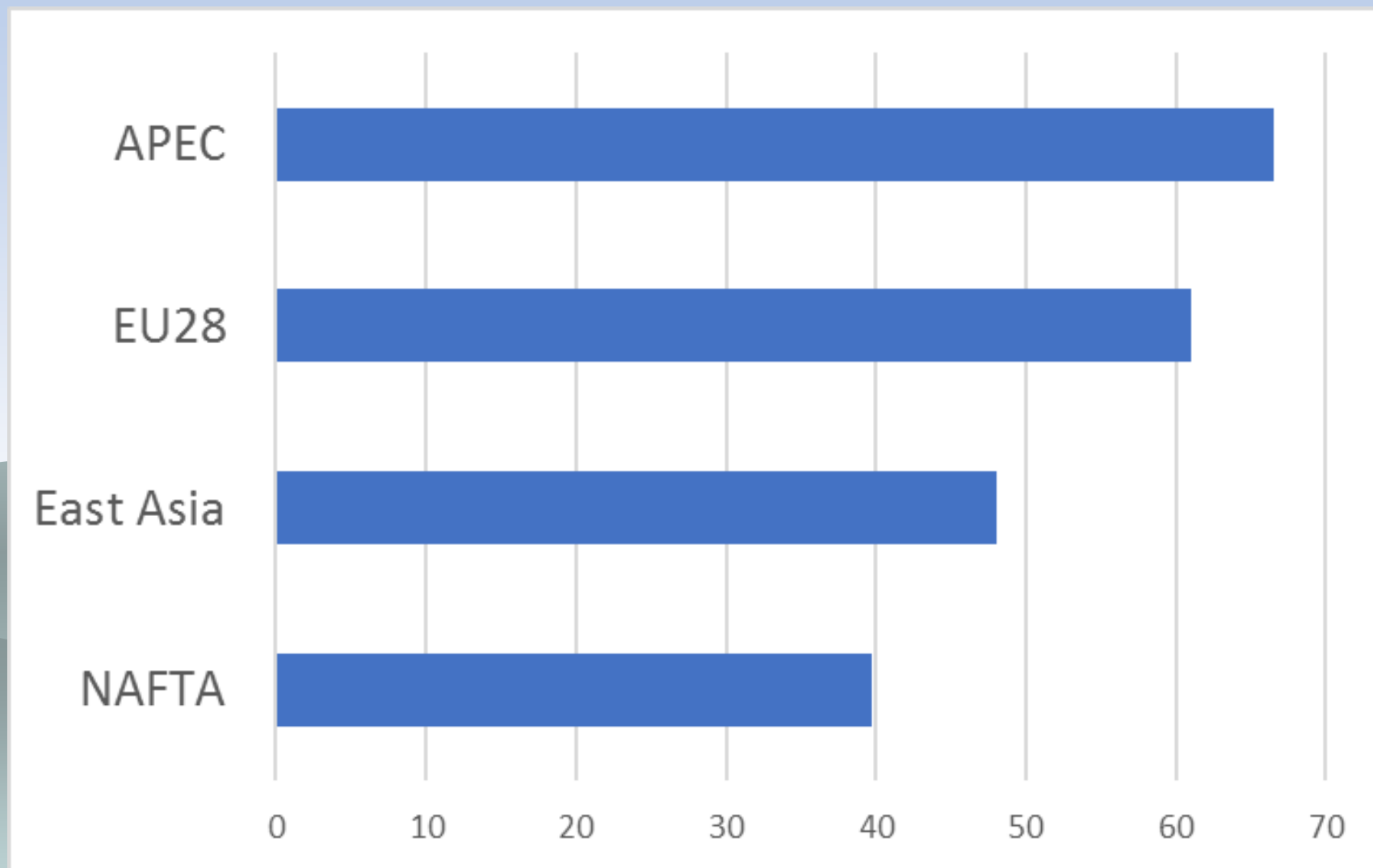
### Market-driven Regional Economic Integration

- ◆ High economic growth achieved by rapid expansion of foreign trade and foreign direct investment (FDI)
- ◆ Advances in regional economic integration
- ◆ Expansion of trade and FDI in machinery sector
- ◆ Increase in parts and components trade
- ◆ Fragmentation strategy by multinational corporations: formation of regional production networks (supply-chains)
- ◆ Liberalization of trade and FDI policies
- ◆ Further trade and FDI liberalization and facilitation is needed to promote economic growth<sup>12</sup>

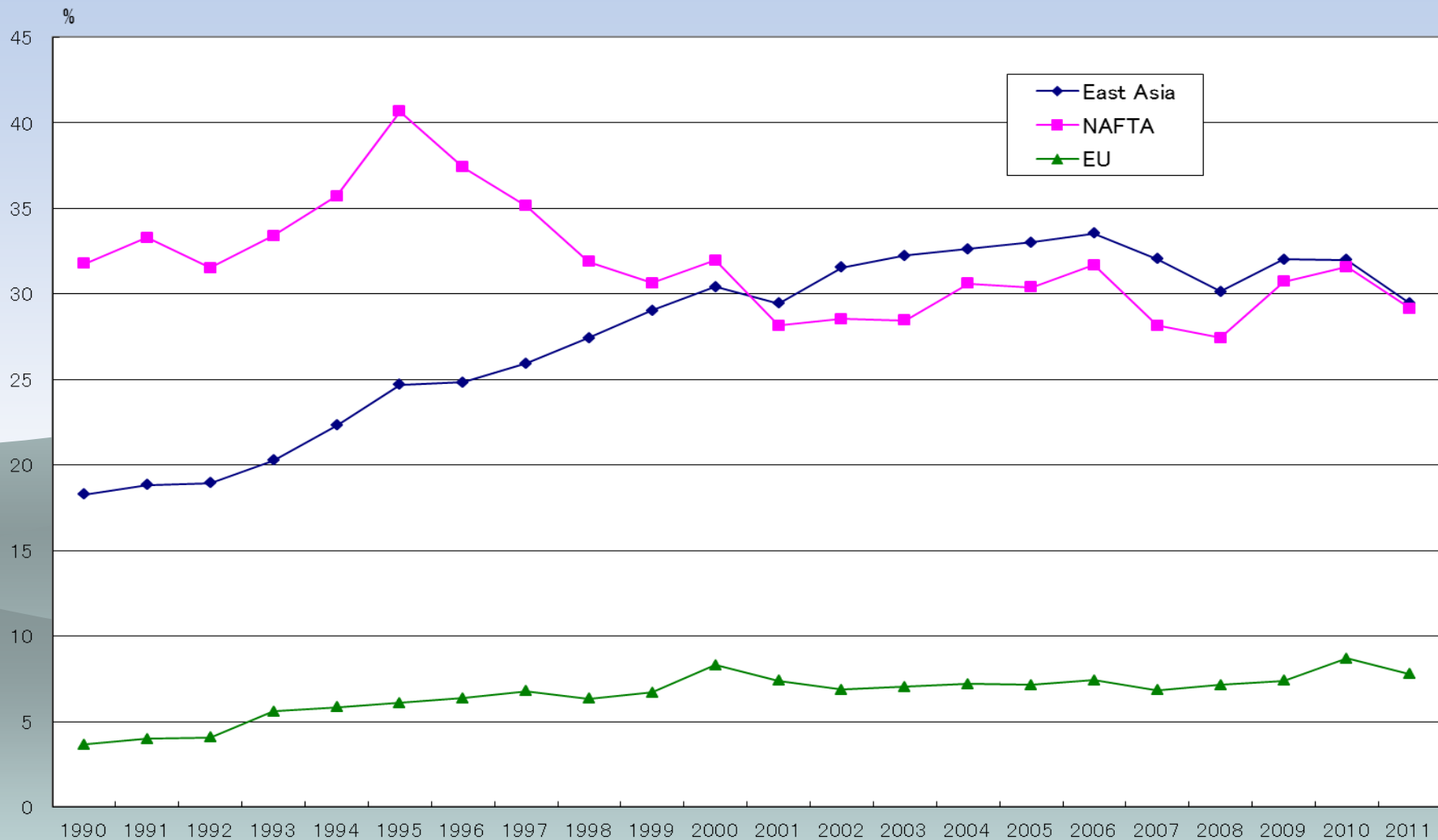
# Increasing Importance of Trade and FDI for APEC Economies (%)



# Intra-regional Trade Ratio (%): 2014

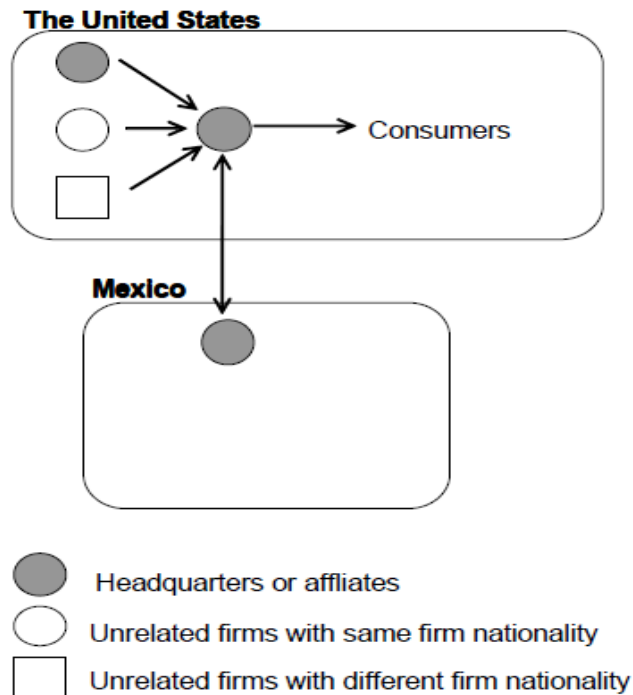


# Share of Parts and Components in Intra-regional Trade (%)

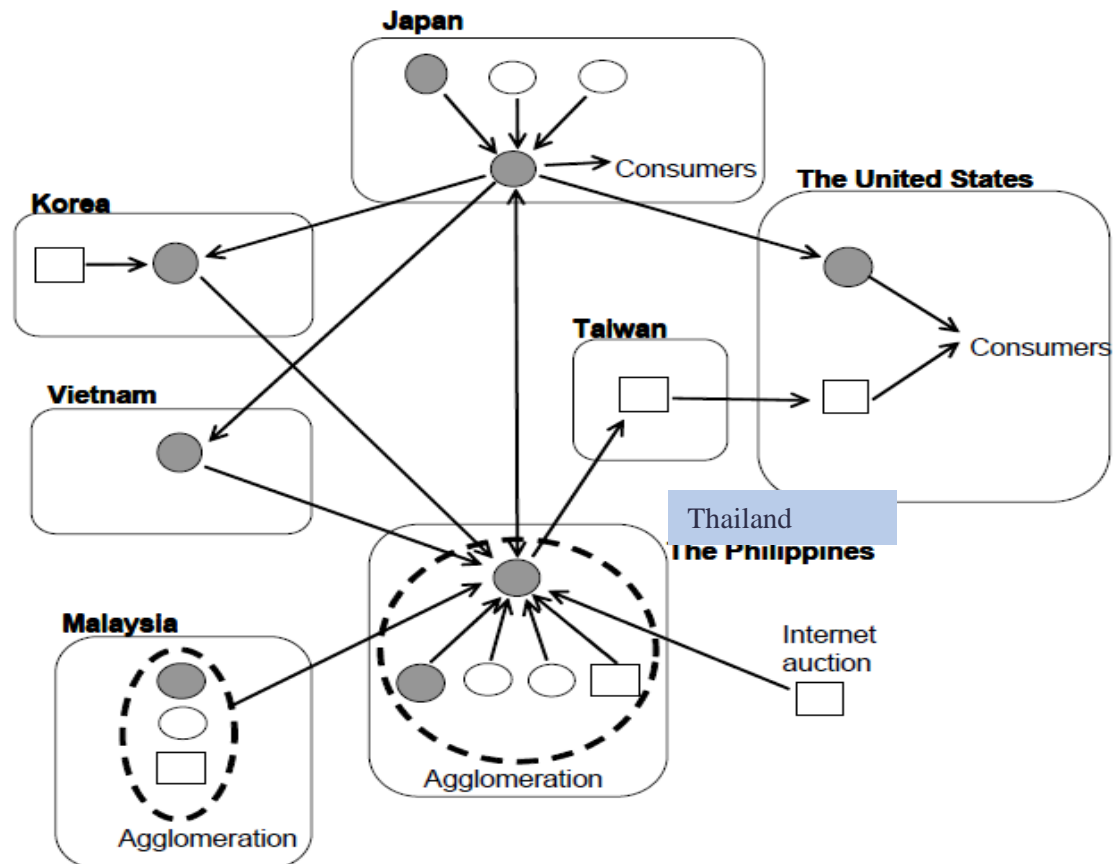


# Production Networks: Supply Chains

## Cross-border production sharing (back-and-forth; intra-firm)

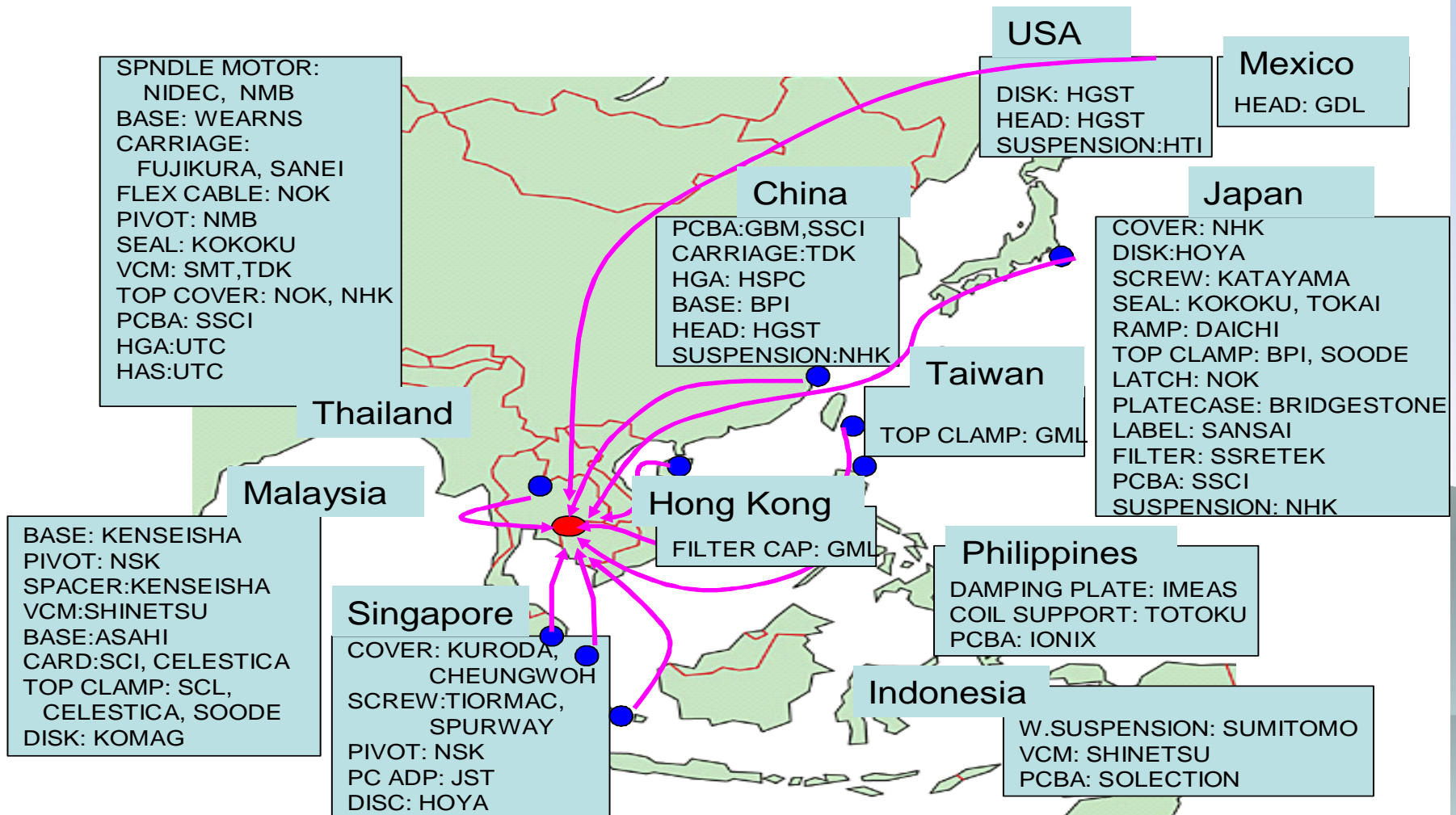


## Production networks ("networks"; fragmentation and agglomeration; intra-firm in short distance, arm's length in long distance)





# Procurement of Parts by a Hard Disc Drive Producer (Production Network)



# Trade Liberalization: Declining Tariff Rates (%)

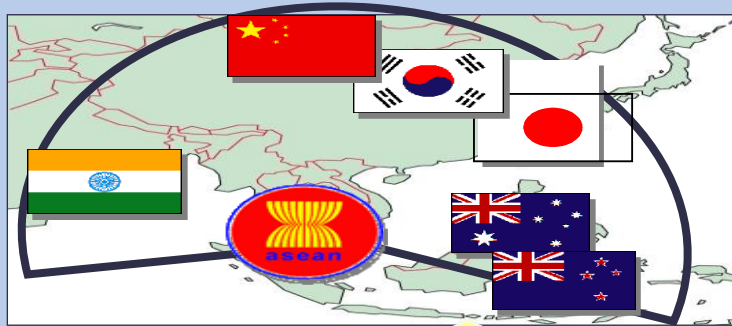
		All products	Non-manufacturing	Manufacturing				All products	Non-manufacturing	Manufacturing
Japan	1990	3.69	7.4	2.88		Brazil	1990	33.5	23.27	34.91
	2015	2.35	4.82	1.88			2015	13.66	8.6	14.21
China	1992	39.71	34.67	40.75		Colombia	1991	5.98	7.12	5.86
	2015	7.55	7.79	7.51			2014	5.15	6.7	4.99
India	1990	81.56	71.56	82.96		Argentina	1992	14.18	8.06	14.81
	2013	10.1	19.62	8.7			2015	12.48	7.52	12.93
Korea	1990	12.98	13.8	12.87		Chile	1992	10.99	11	10.99
	2015	5.23	18.95	2.67			2015	1.17	1.26	1.16
Indonesia	1990	16.83	16.48	16.88		Mexico	1991	14.29	12.98	14.45
	2013	5.03	3.39	5.23			2014	3.02	4.95	2.82
Malaysia	1991	13.62	9.14	14.31		Uruguay	1992	6.95	6.85	7.98
	2014	3.37	1.8	3.7			2015	9.81	10.08	6.51
Philippines	1990	19.54	20.86	19.32		US	1990	5.2	2.8	5.68
	2013	3.95	5.4	3.71			2015	2.79	2.44	2.87
Thailand	1991	37.8	29.57	38.78		Canada	1989	9.72	4.68	10.65
	2015	7.67	10.58	7.2			2015	2.65	1.81	2.83

## Emergence of institution-driven regional economic integration

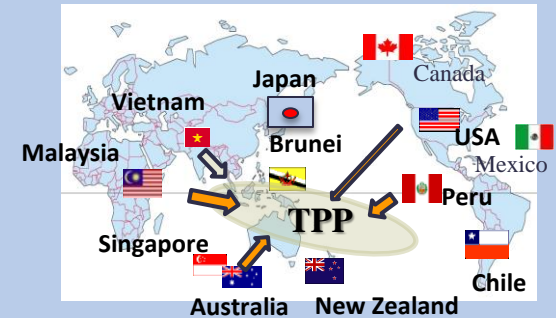
- ◆ Rapid expansion of free trade agreements (FTAs) in East Asia in the 21<sup>st</sup> century
- ◆ FTA (free trade agreement): free trade (elimination, reduction of tariff and non-tariff barriers among FTA members)
- ◆ In East Asia ASEAN has become a hub of FTAs:
  - 5 ASEAN+1 FTAs have been implemented
- ◆ Long term goal: Free Trade Area of Asia-Pacific (FTAAP)  
APEC-wide FTA
- ◆ 2 major initiatives (mega-FTAs): Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP, ASEAN+6)

# Region-wide FTAs in East Asia: RCEPP, TPP, China-Japan-Korea (CJK) FTA

**RCEP(ASEAN+6)**  
(ASEAN+CH, JP, KR, IND, AUS, NZ)



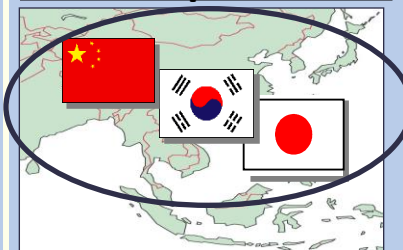
**TPP**



**ASEAN+1 FTA**



**China-Japan-Korea**



**FTAAP (APEC)**



# Mega-FTAs in Asia-Pacific: TPP and RCEP

## Current Status of Negotiations

- ◆ TPP negotiations began in March 2010, reached an agreement in October 2015, signed in February 2016, under the ratification process. The US withdrew from TPP, making it impossible to enact TPP. TPP11 (TPP-US) is being discussed.
- ◆ RCEP negotiations began in May 2013, aiming to conclude by the end of 2017.
- ◆ China-Japan-Korea FTA negotiations began in March 2013 but limited progress.

## Positions in FTAAP

- ◆ FTAAP: Long-term goal of regional economic integration in Asia-Pacific
- ◆ TPP and RCEP are both pathways to FTAAP
- ◆ TPP and RCEP should be complementary

## Issue Coverage

- ◆ TPP: comprehensive coverage not only trade in goods and services, and investment but also labor, environment, government procurement, intellectual property right (IPR), state-owned enterprises (SOEs), and cross-cutting “horizontal issues” such as regulatory coherence, and Small and Medium Enterprises (SMEs)
- ◆ RCEP: limited coverage, trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, other areas

# Tariff Elimination Ratios in the TPP

(% share of products, whose tariffs will be eliminated, in total number of products)

	Total	Agricultural products		Industrial products	
	Eventual elimination	Immediate elimination	Eventual elimination	Immediate elimination	Eventual elimination
Japan	95	51.3	81	95.3	100
US	100	55.5	98.8	90.9	100
Canada	99	86.2	94.1	96.9	100
Australia	100	99.5	100	91.8	99.8
NZ	100	97.7	100	93.9	100
Singapore	100	100	100	100	100
Mexico	99	74.1	96.4	77	99.6
Chile	100	96.3	99.5	94.7	100
Peru	99	82.1	96	80.2	100
Malaysia	100	96.7	99.6	78.8	100
Vietnam	100	42.6	99.4	70.2	100
Brunei	100	98.6	100	70.2	96.4



## Expected Impacts of FTAs

- ◆ Trade and FDI expansion between and among FTA members
- ◆ Promotion of structural reforms
- ◆ Economic growth



### III. Japan's Foreign Economic Policy in Asia-Pacific

- ◆ Participate in comprehensive Economic Partnership Agreement (EPA) including trade and foreign direct investment (FDI) liberalization, facilitation, economic cooperation
- ◆ Export infrastructure such as transportation system and water supply system including hard and soft infrastructure
- ◆ Export agricultural products
- ◆ Attract foreign direct investment inflows and high skilled personnel
- ◆ Attract foreign tourists

## Current Status of Japan's FTAs

- ◆ Enacted relatively a large number of FTAs, but
- ◆ Low country coverage in terms of trade: FTA coverage ratio
- ◆ Low tariff elimination: lower than 90% in terms of tariff lines, whereas for the US, Australia, other developed countries, higher than 95%

# Japan's FTAs (as of July 2017)

	FTA Partners	Start of negotiations	Signing of agreement	Enactment of agreement
In action	Singapore	Jan 2001	Jan 2002	Nov 2002
	Mexico	Nov 2002	Sep 2004	Mar 2005
	Malaysia	Jan 2004	Dec 2005	Jul 2006
	Chile	Feb 2006	Mar 2007	Sep 2007
	Thailand	Feb 2004	Apr 2007	Nov 2007
	Indonesia	Jul 2005	Aug 2007	Jul 2008
	Brunei	Jun 2006	Jun 2007	Jul 2008
	ASEAN	Apr 2005	Apr 2008	Dec 2008
	Philippines	Feb 2004	Sep 2006	Dec 2008
	Switzerland	May 2007	Feb 2009	Sep 2009
	Vietnam	Jan 2007	Dec 2008	Oct 2009
	India	Jan 2007	Feb 2011	Aug 2011
	Peru	May 2009	May 2011	Mar 2012
	Australia	Apr 2007	Jul 2014	Jan 2015
	Mongolia	Jun 2012	Feb 2015	Jun 2016
Signed	TPP*	Jul 2013	Feb 2016	
In negotiation	South Korea**	Dec 2003**		
	GCC***	Sep 2006***		
	Canada	Nov 2012		
	Colombia	Dec 2012		
	China-Japan-S.Korea	Mar 2013		
	EU	Apr 2013		
	RCEP	May 2013		
	Turkey	Dec 2014		

# FTA Coverage Ratios:

Share of trade with FTA partners in total trade (%), 2015

		FTA coverage ratio					FTA coverage ratio		
		Total	Exports	Imports			Total	Exports	Imports
Japan		22.7	21.1	24.2		ASEAN	60.3	56.5	64.1
USA		39.6	47.3	34.4		Singapore	77.7	73.1	80.4
Canada		70.9	79.5	63.3		Malaysia	63.3	63.2	63.5
Mexico		80.2	93.5	67.3		Vietnam	61.5	43.1	75.5
Chile		92.1	90.6	93.8		Thailand	59.5	56.0	63.2
Peru		90.4	92.1	88.9		Indonesia	64.3	60.0	68.8
EU28	Total	73.8	74.8	729.0		India	18.3	19.9	17.2
	Extra-EU28	28.5	31.6	25.3		Australia	70.6	74.6	66.9
China		29.0	22.4	38.5		NZ	48.2	48.0	48.5
Korea		67.3	71.1	62.7					

# Motives

- ◆ Expand export market for Japanese firms
- ◆ Improve investment environment for Japanese firms
- ◆ Obtain energy and natural resources
- ◆ Promote structural reforms in Japan
- ◆ Improve and establish good relationship
- ◆ Provide economic assistance to developing countries

# Impacts of TPP on Japanese Economy (GDP)

- ◆ Japan's Cabinet Office (2015):  
2.59% (TPP 12 countries)
- ◆ Petri, Plummer and Zhai (2012):  
2.0% (TPP 12 members)  
1.8% (RCEP)  
4.3% (FTAAP)
- ◆ Petri and Plummer (2016):  
1.9% (2020), 2.5% (2030),  
TPP 12 members

# IV. Implications for Latin America

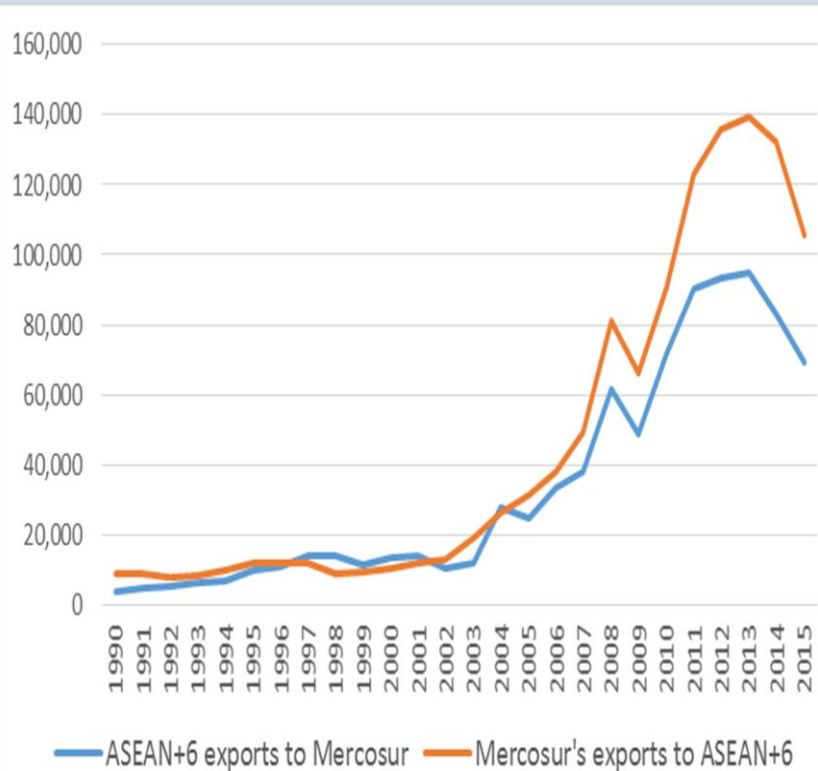
- ◆ Trade with East Asia is growing in value as well as the share in world trade
- ◆ Considering that the shares of Mercosur and ASEAN+6 in world trade are 1.6 and 27.1 percent in 2015, their relationship (intensity) is more or less average of the world
- ◆ Trade relationship is complementary in that Mercosur exports primary goods and primary material processed goods, while East Asia exports industrial goods.

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- ◆ Similar complementary trade relationship is found for Argentina-East Asia and Uruguay-East Asia
  - ◆ Latin America should increase and strengthen relationship with rapidly growing East Asia
  - ◆ To promote trade, it is important for Mercosur to develop the manufacturing sector by attracting foreign direct investment (FDI) (Lessons from East Asia's experience)
  - ◆ To attract FDI, an open, free, transparent, stable, and fair business environment needs to be established.

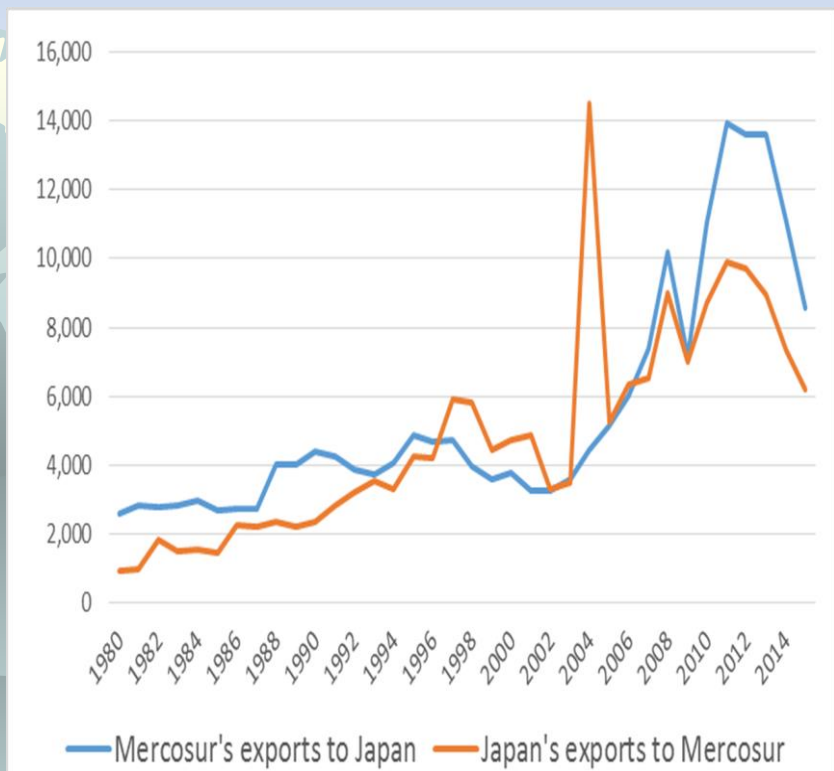


# Trade between Mercosur and East Asia (\$million)

## ◆ Trade between Mercosur and ASEAN+6

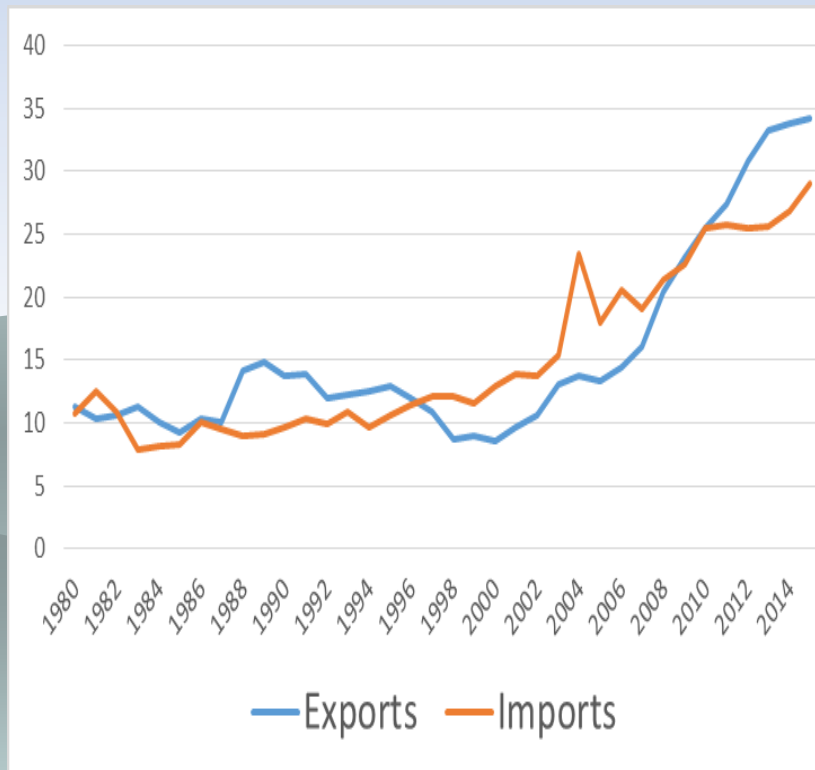


## ◆ Trade between Mercosur and Japan

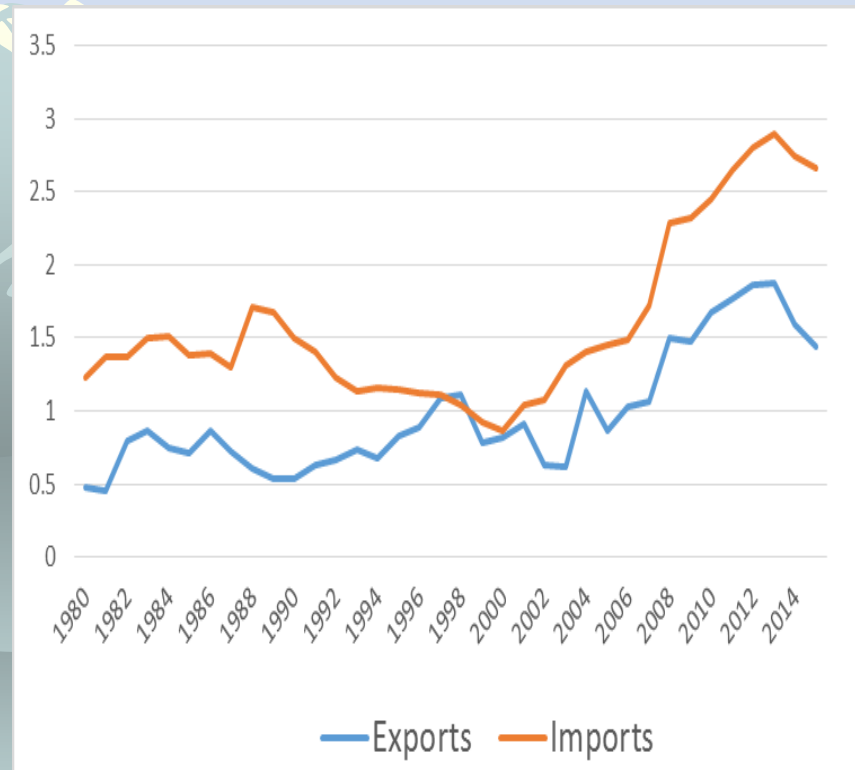


# Trade Relations between Mercosur and East Asia

- ◆ Share of ASEAN+6 in Mercosur's total trade (%)

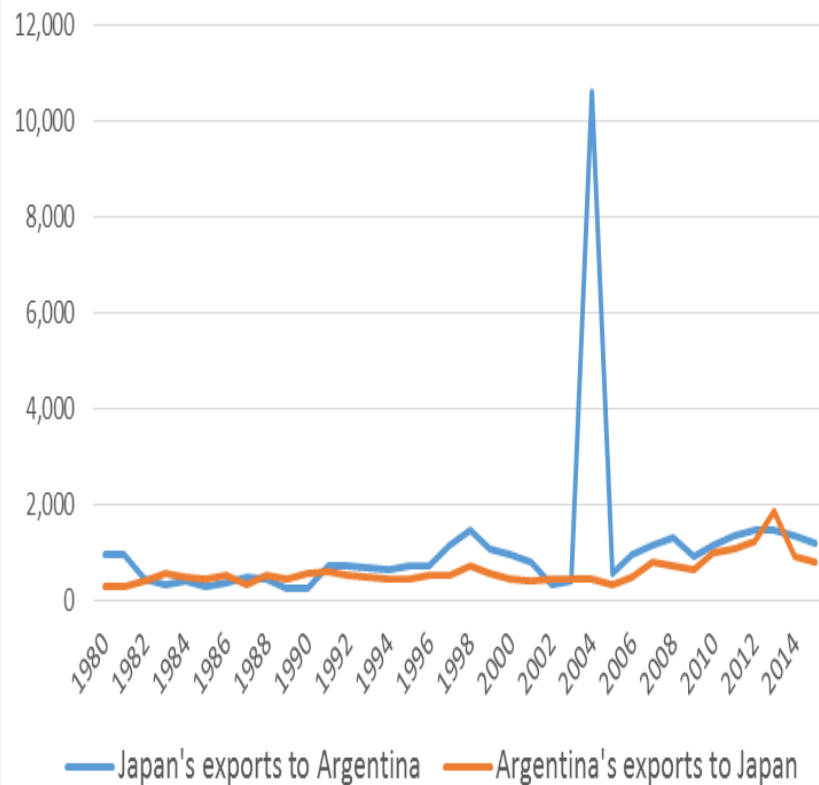


- ◆ Share of Mercosur in ASEAN+6's total trade (%)

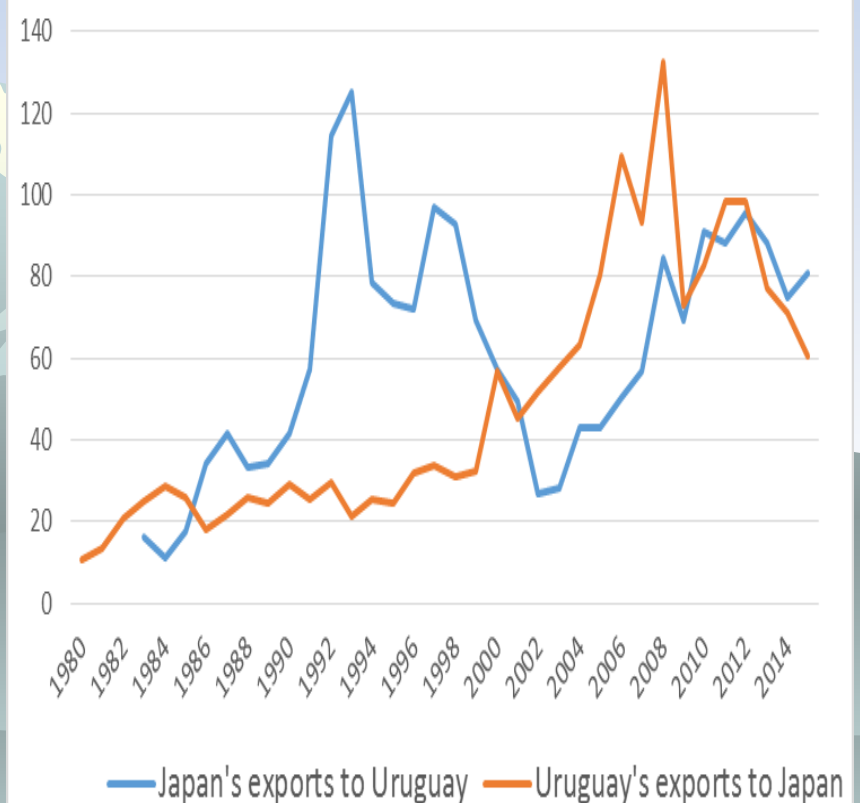


# Japan's Trade with Argentina and Uruguay (\$ million)

## ◆ Japan's trade with Argentina



## ◆ Japan's trade with Uruguay



# Product Composition of Trade between Mercosur and East Asia

	Mercosur -> ASEAN6		ASEAN6 -> Mercosur	
	value(\$million)	share (%)	value(\$million)	share (%)
Foods	19,686	18.6	959	1.4
Textile	1,361	1.3	5,578	8.0
Pulp,Paper and Wood	33,954	32.1	4,041	5.8
Chemicals	2,586	2.4	11,027	15.9
Oil and Coal	22,970	21.7	2,918	4.2
Stone, clay, glass products	429	0.4	932	1.3
Iron and steel , Nonferrous metals	22,704	21.5	5,299	7.6
General machinery	675	0.6	11,828	17.0
Electrical machinery	346	0.3	12,932	18.6
Household electric appliances	9	0.0	2,486	3.6
Transportation Equipment	749	0.7	7,470	10.7
Precision machinery	55	0.1	1,306	1.9
Toys and Miscellaneous goods	165	0.2	2,713	3.9
Industry Total	105,688	100	69,487	100

# Product Composition of Trade between Argentina and East Asia

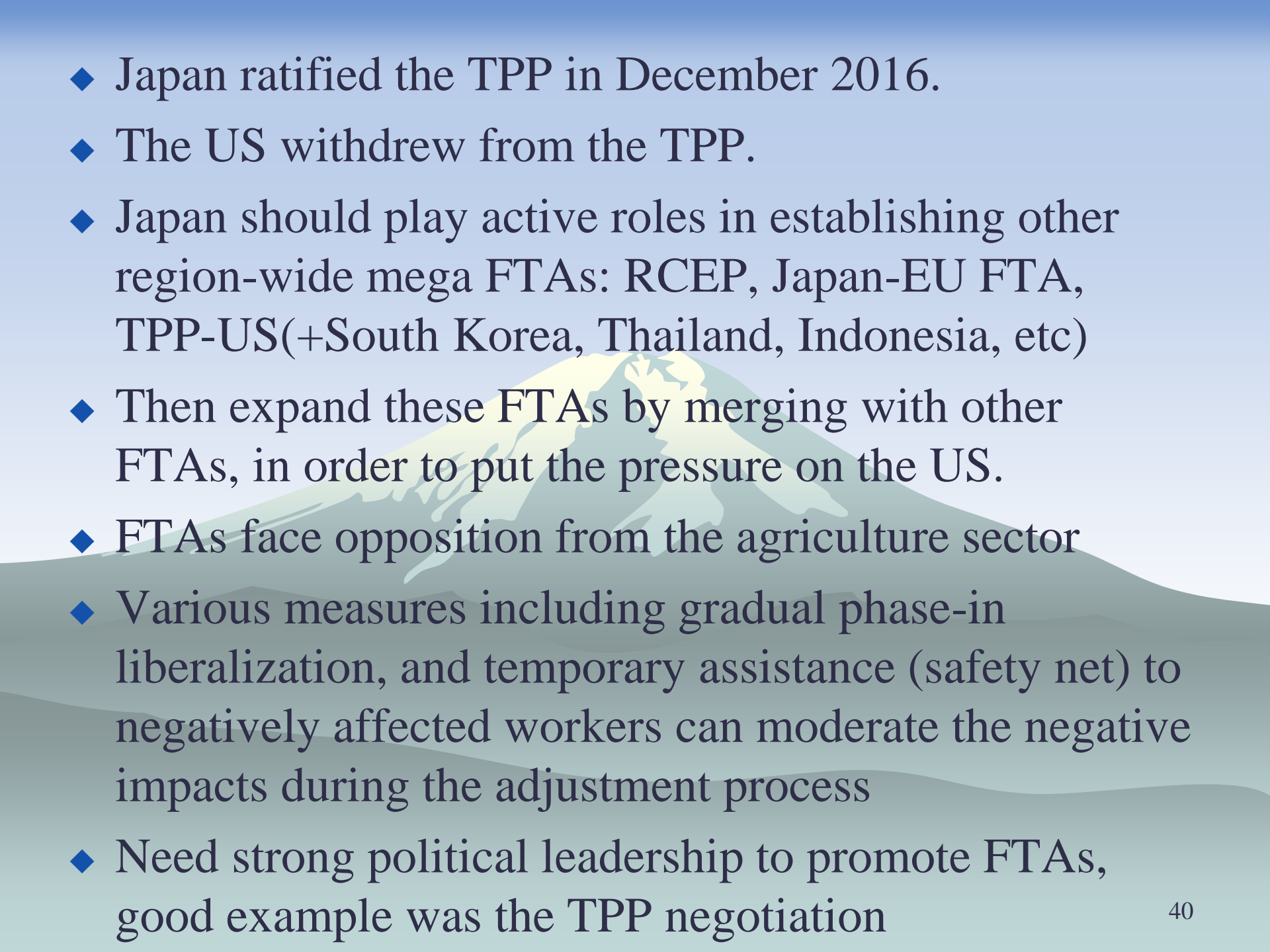
	Argentina->ASEAN+6		ASEAN+6 ->Argentina	
	Value (\$million)	Share (%)	Value (\$million)	Share (%)
Foods	6,727	43.0	102	0.7
Textile	139	0.9	782	5.4
Pulp,Paper and Wood	7,458	47.6	849	5.8
Chemicals	396	2.5	2,490	17.1
Oil and Coal	253	1.6	155	1.1
Stone, clay, glass products	5	0.0	178	1.2
Iron and steel , Nonferrous metals	346	2.2	1,043	7.2
General machinery	45	0.3	3,100	21.3
Electrical machinery	4	0.0	2,537	17.4
Household electric appliances	2	0.0	597	4.1
Transportation Equipment	273	1.7	1,721	11.8
Precision machinery	6	0.0	313	2.2
Toys and Miscellaneous goods	2	0.0	676	4.6
Industry Total	15,655	100.0	14,542	100.0

# Product Composition of Trade between Uruguay and East Asia

	Uruguay ->ASEAN+6		ASEAN+6 ->Uruguay	
	Value (\$million)	Share (%)	Value (\$million)	Share (%)
Foods	711	24.8	32	1.3
Textile	164	5.7	258	10.6
Pulp,Paper and Wood	1,849	64.4	185	7.6
Chemicals	126	4.4	439	18.0
Oil and Coal	0	0.0	4	0.1
Stone, clay, glass products	8	0.3	29	1.2
Iron and steel , Nonferrous metals	11	0.4	144	5.9
General machinery	1	0.0	277	11.4
Electrical machinery	0	0.0	455	18.7
Household electric appliances	0	0.0	148	6.1
Transportation Equipment	0	0.0	311	12.8
Precision machinery	0	0.0	22	0.9
Toys and Miscellaneous goods	0	0.0	128	5.3
Industry Total	2,872	100.0	2,432	100.0

## V. Concluding Remarks

- ◆ Faced with many difficult challenges, Japan has to open up its economy and implement structural reforms, in order to achieve economic growth and to maintain high living standard, and to contribute to economic growth in Asia-Pacific and in the world.
- ◆ WTO liberalization being stalled, free trade agreements (FTAs) are second-best solution for promotion of trade and FDI
- ◆ Japan can gain a lot from FTAs not only in East Asia but also with countries in other parts of the world such as the US, the EU, and Latin American countries
- ◆ Japan contributed to a conclusion of TPP negotiations

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- ◆ Japan ratified the TPP in December 2016.
  - ◆ The US withdrew from the TPP.
  - ◆ Japan should play active roles in establishing other region-wide mega FTAs: RCEP, Japan-EU FTA, TPP-US(+South Korea, Thailand, Indonesia, etc)
  - ◆ Then expand these FTAs by merging with other FTAs, in order to put the pressure on the US.
  - ◆ FTAs face opposition from the agriculture sector
  - ◆ Various measures including gradual phase-in liberalization, and temporary assistance (safety net) to negatively affected workers can moderate the negative impacts during the adjustment process
  - ◆ Need strong political leadership to promote FTAs, good example was the TPP negotiation



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- ◆ Japan should expand its economic relationship with Latin American countries.
  - ◆ Japan has FTAs with Mexico, Chile, Peru, and it should expand its FTA network by establishing FTAs with other Latin American countries including Colombia and Mercosur countries.
  - ◆ Japan should play a role in promoting business relations between Latin America and East Asia by leading the discussions involving the two regions