



BRAZILIAN CENTER FOR  
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REPORT

# Japan's Trade Strategy in the 21st Century and Economic Partnership with Latin American Countries

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On November 30, 2017, the Brazilian Center for International Relations (CEBRI), in partnership with the Consulate of Japan in Rio de Janeiro, hosted a fruitful debate with Dr. Yorizumi Watanabe, Professor at Keio University in Japan. Among other topics, the Professor emphasized Japan's strategy of negotiating bilateral Economic Partnership Agreements with countries in Asia and beyond, complementing its liberalization commitments under the World Trade Organization (WTO). In this respect, participants reiterated Brazil's strong interest – particularly among the private sector – in negotiating such an agreement with Japan; recommending, thus, the creation of bilateral mechanisms and working groups aimed at studying this possibility.

From the outset, the Professor emphasized Japan's active engagement with multilateral trade, since the signing of GATT and continuing under the WTO. Since 2001, however, Japan has adopted a consistent strategy of complementing its trade liberalization efforts through the negotiation of regional and bilateral preferential agreements. In Asia, the Professor highlighted the strategic importance of RCEP – Regional Comprehensive Economic Partnership – which encompasses about 28.5% of global trade, reuniting ASEAN members with Japan, China, South Korea, India, Australia and New Zealand. RCEP's significance is associated to its potential of promoting the unification of regulations in the region, contributing to a “de facto business driven integration” through the unification of Asian supply chains.

From Japan's perspective, the TPP – the Transpacific Partnership – also represents a strategic regional agreement and, ultimately, a template for FTAs in the 21st century; currently reuniting RCEP parties with India, Peru, Chile and Mexico (TPP/11). Beyond including chapters on market access, investments, rules of origin, etc, the TPP would notably regulate issues such as competition for State-Owned Enterprises' (SOEs) and support to Small and Medium-sized Enterprises (SMEs). Since the U.S. withdrawal from TPP, the Professor notes, the main purpose of negotiations under TPP/11 – which is expected to enter into force soon – has been to bring the U.S. back to the agreement, by ensuring that minimal changes are made to the original TPP/12 agreement. Moreover, even though TPP excludes China, the agreement was stressed as an important driving force towards further liberalization in China through other FTAs such as RCEP. Ultimately, there are expectations for a future Chinese adhesion to TPP/11 or TPP/12. The Professor also highlighted the strategic importance of Japan-China bilateral trade, where 60% of Japanese exports to China – as well as about 70% of ASEAN exports to China – represent intermediate goods; indicating a high degree of value chain integration in the region.

Furthermore, from the perspective of multilateral trade, the Professor highlighted two main concerns and sources of uncertainty in the current global landscape: First, the repercussions of Brexit, considering the significant presence of Japanese investments in the United Kingdom. Second, Trump's protectionist rhetoric and its potential impacts not only in bilateral trade with Japan, but also in the overall multilateral trade regime. Nonetheless, the Professor emphasized that the Trump Administration is unlikely to significantly revise U.S. commitments under the WTO or NAFTA – although the U.S. constitutional framework gives priority to domestic law over international law, presidential acts cannot revise acts passed by Congress. The U.S. withdrawal from TPP was only possible due to its lack of congressional approval, constituting a draft proposal, differently from other supposedly threatened trade agreements. Furthermore, the U.S. represents a regular user of the WTO's dispute settlement mechanism, both as defender and complainant, despite Trump's criticism of the multilateral trade regime.

On the topic of a possible Japan-U.S. bilateral trade agreement, the Professor argued in favor of the negotiation of a bilateral FTA, as supported by the U.S. Embassy in Japan – however, highlighting that such an agreement could not deliberately aim at reducing the U.S.'s deficit with Japan, which would contradict market principles. One possibility for the U.S. to accomplish this goal would be to request Japan to adopt voluntary export restraints – a measure strictly forbidden by current WTO norms.

## **Japan's bilateral Economic Partnership Agreement Policy**

Furthermore, a central point raised by the Professor refers to Japan's strategy of negotiating Economic Partnership Agreements (EPAs), which transcend trade liberalization by also including provisions on government procurement, business environment, competition, movement of persons, trade in services and, notably, investments – with the establishment of investor-state dispute settlement (ISDS) mechanisms. Since 2001, Japan has signed 16 EPAs with partners in Asia, Europe and Latin America, covering around 34-35% of Japan's external trade – including with Chile, Mexico and Peru in Latin America, with negotiations underway with Colombia. The Atlantic coastline and Africa, however, would represent remaining areas of expansion for Japanese EPAs. The Japan-Mexico EPA, moreover, was highlighted as a possible model for future EPAs with other Latin American countries – including Brazil – having resulted in the significant expansion of Japanese companies' presence in Mexico. However, striking differences were identified between Mexican and Brazilian economic structures, as well as the degree of openness of both economies to foreign trade and investments. The Professor also noted that the negotiation of most EPAs was preceded by the establishment of preparatory bilateral working groups, comprising stakeholders from the public sector, private sector and academia.

In this respect, participants mentioned the strong interest of the Brazilian private sector in engaging in negotiations for an eventual Brazil-Japan EPA. Accordingly, a roadmap for a Brazil-Japan Economic Partnership Agreement was jointly developed by the Brazilian National Confederation of Industries (CNI) and the Japan Business Federation (Keidanren) in 2015. Considering the Brazilian obligation to negotiate trade agreements alongside other Mercosur members, a roadmap for a Mercosur-Japan EPA was also developed by the same institutions. Indeed, the Professor highlighted the importance of the private sector as a main driving force in the conclusion of bilateral EPAs, as observed in previous negotiations. On the topic of a possible Brazil-Japan EPA, the Professor stressed a series of untapped potentialities in the bilateral relationship, particularly associated to Brazilian natural resources, agriculture and energy potential. Participants highlighted, additionally, the currently ongoing negotiations towards a Mercosur-European Union Association Agreement as a top priority for Brazilian trade and foreign policy in the medium term – which does not exclude the possibility of engaging in negotiations for a Brazil-Japan EPA.

## **Remarks on geopolitics in Asia**

Lastly, participants inquired as to Japan's stance on pressing geopolitical issues in the region: First, discussions revolved around the effects of the Chinese Belt & Road Initiative (BRI) for Japan. On this matter, the Professor noted that, as long as Chinese infrastructure investments and market access efforts are conducted on the basis of most favored nation treatment (MFN), according to WTO rules, Japan should not be concerned with BRI. Furthermore, this strategy would resemble Japanese infrastructure in-

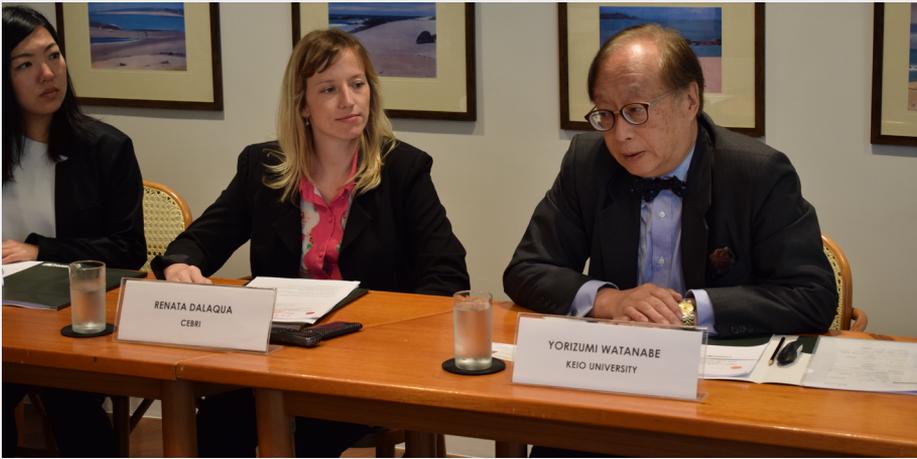
vestments in Southeast Asian countries during the 1970s, through official development assistance (ODA), which resulted on the overall expansion of trade to the benefit of all the region.

Second, on the matter of North Korean nuclear threats, the Professor reiterated the high security risk faced by Japan, noting the recent tests conducted within Japanese Exclusive Economic Zone. The Professor recalled an agreement signed between Japan and North Korea in 1994, through which the Korean regime received financial aid from Japan in order to develop nuclear plants with supposedly peaceful purposes. Regrettably, North Korea would have disobeyed the agreement by engaging in the development of nuclear weapons. As such, although Japan is situated within the U.S. security umbrella, the North Korean regime would represent an imminent threat, for which Japan would prefer to see a diplomatic solution.

# Biography

## **Yorizumi Watanabe**

Following several appointments in Japan's foreign service, specializing in international trade policy issues, Professor Watanabe has now brought those skills and experience to the senior academic post he has filled at Keio University since 2005. Prof. Watanabe's distinguished career has featured significant engagement in all the major bilateral and multilateral trade negotiations in which Japan has been involved in the past two decades. This included the role of policy advisor to relevant Ministers, and postings to Japan's diplomatic missions in Brussels and Geneva. He was Deputy Director-General of the Economic Affairs Bureau, Ministry of Foreign Affairs of Japan from 2002-2004 and served as Chief Negotiator for the Japan-Mexico Economic Partnership Agreement (EPA) and the Working Party on Russia's Accession to the WTO. He was Special Assistant to the Minister for Foreign Affairs of Japan in 2004. He has been a member of the Task Force on Japan-India Economic Partnership, Japan Chamber of Commerce and Industry since 2006. Prof. Watanabe completed his BA and MA and was PhD candidate in International Relations at Sophia University, Tokyo. He also studied at the College of Europe in Bruges under Belgian Government Scholarship. He is the author of a number of publications on GATT/ WTO and trade and economic partnership agreements. His most recent book on the TPP (Trans-Pacific Strategic Economic Partnership Agreement) has been ranked one of the top-ten best-selling books on economics in December, 2011 in Tokyo.





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