



Japan - EU Trade Relations: What can Serbia learn from this partnership?

Conference conclusions

The International and Security Affairs Center (ISAC), in cooperation with the Embassy of Japan in Serbia, successfully organized the conference “**Japan-EU trade relations: What can Serbia learn from this partnership**”, held on February 28, 2019, at the Hotel Radisson Collection in Belgrade.

The main theme of the conference was **the Economic Partnership Agreement (EPA)** between Japan and the European Union (EU) which entered into force on February 1, 2019. With this agreement, the largest open trade zone in the world has been created, covering over 600 million people, approximately 30% of the world GDP and 40% of world trade. The EPA represents an answer to protectionist movements and measures that threaten free trade as it removes trade barriers and sends a powerful signal that two of the world’s biggest economies reject protectionism.

The EPA contains a number of provisions that will simplify investment and trade procedures, reduce export and investment related costs and will therefore enable more small enterprises to do business in both markets. The Agreement will eventually eliminate custom duties by 100 percent for industrial products, as well as agriculture, forestry and fisheries products. Among the expected benefits are increased transparency, less burdensome technical rules, including compliance requirements, customs procedures and rules of origin, as well as enhanced protection of geographical indications, better access to procurement tender procedures, and a special chapter to enable SMEs to maximise the benefits from the EPA. In principle, all trade in services and investments are liberalized, with some exceptional measures and areas.

At the conference discussions were held about the importance of the agreement for both the EU and Japan, as well as global trends and trade, but also about its importance for EU associated states and partners in terms of trade and investment from Japan. The conference also dealt with the positive impact that this agreement can have for Serbia, both as a candidate country and a future EU member state.

Below you can find the key conclusions, arguments and points made during the conference. A more detailed conference report is available on the ISAC website (www.isac-fund.org)

On the global trade environment and the importance of the EPA:

- Currently, the biggest challenge for global trade includes tendencies towards closing the markets and introducing protectionism. However, those countries that are being most vocal about protectionist measures are also the ones that largely depend on their respective markets' openness to other countries. As products are nowadays rarely manufactured in a single country, all countries, especially the world's strongest economies, depend on global trade chains, i.e. trade in intermediate goods. This means that by putting in place protectionist measures countries will imminently increase prices of their own final products.
- Instead of closing the economies and spreading doubt in the validity of the system of the World Trade Organization (WTO), which is a global regulator that sets the rules of trade, there is a need for reform of the WTO to enable it to respond to new issues and challenges.
- The WTO is essential for both Japan and the EU as it guarantees the survival of rules-based free trade. The European Partnership Agreement (EPA), as such, is a step forward and a response to new challenges. Hence, the EPA may also serve as a platform for joint creation of new norms and rules, and as a platform for future regional free trade agreements.
- The EPA demonstrates the willingness of both Japan and the EU to act together in defending common values, such as democracy, rule of law and human rights. Therefore, this agreement is a shining example of fight against protectionism and the "light at the end of the tunnel".
- Japan and the EU are natural partners, given their historic ties and cooperation. The EPA did not only strengthen economic ties between Japan and the EU, but it also solidified their bilateral relations with a view to creating a joint global foreign policy and economic agenda based on advocacy for multilateralism.

On the importance of the EPA for both Japan and the EU

- Japan is faced with a number of internal economic and demographic challenges. The domestic market is shrinking and needs international trade partnerships and investments. Hence, free trade, based on clear-cut rules, is essential for economic growth, coupled with productivity growth and domestic market reform.
- The main challenges that the Japanese trade is facing include the latest U.S. approach to global trade, Brexit and China. Japan responds to the challenge of the "America first" approach by promoting the WTO and regional trade consolidation by means of the EPA and other agreements. It is particularly important to note that Japan remains ready for a free trade agreement with the United States, i.e. the latter's rejoining the Trans-Pacific Trade Partnership (TTP) that it had unilaterally opted out of. Brexit is an issue that Japan cannot have a proactive impact on, but in case that Brexit happens, its reflection will definitely be a shrinking of the market for Japanese products and investors in the EU. With respect to China, it is important for Japan that China should stay a 'peaceful' country with economic growth and that China's participation in global trade should be based on compliance with all international rules, especially those on copyright.
- Free trade based on clear-cut rules is one of the principles of foreign policy approach. Apart from further support to the WTO and its reform, EU negotiations with New Zealand, Vietnam, Mexico and other countries on new agreements modelled on the EPA can be expected.

- From the EU perspective, the EPA is a response to the growing challenge of China in international trade and to the trade conflict between China and the United States. Thus, the EPA should also be perceived as an international policy instrument which is trying to shape the international scene and which is based on foreign policy interests of both the EU and Japan.
- The EPA will enable greater competitiveness of the EU-Japan trade as it will prompt the harmonization of rules and standards and liberalize trade even further. Some segments of the Japanese market, like the food processing segments, have so far been closed to EU products.
- Investments and protective measures are not covered by the agreement and the signing of an additional agreement is pending.

The EPA and EU candidate states - An opportunity to attract foreign investments and the importance of the EPA for Serbia.

- European countries have strong economic and trade ties regardless of whether they are EU members or not. The same goes for Serbia, which mostly exports its goods to neighbouring countries and EU member states. As EU exports to Japan are likely to increase as a result of the EPA, which will, in turn, stimulate greater production, the EU is also likely to import more raw materials and intermediate goods from other partner countries. More Japanese business people are also likely to come to Europe, including Serbia, which may have a positive impact on future growth of Japanese investments in Serbia and other EU candidate states.
- Once they join the EU, all candidate states will feel the direct impact of the EPA, i.e. they will be able to export their goods to Japan in line with EPA provisions. But, the candidate states will feel the impact of the EPA in the accession period as well, because they will have to align with the standards promoted by the EPA, which will, in turn, make them better prepared to participate in direct trade with Japan.
- Serbia has largely liberalized its trade, with more than 86% of its trade being covered by free trade agreements. With the above benefits and its geographical location in the centre of the region, Serbia can be interesting for Japanese companies in terms of exports to both the EU and other countries.
- Serbia's exports to the EU mostly include electronic equipment and cars, which are the very same products as those that Japan exports to the EU. This can additionally motivate Japanese companies to invest in Serbia because the base for manufacturing the same products already exists there.
- It is important for investors that Serbia should join the WTO because membership will open new markets to the Serbian economy. Moreover, the WTO has an efficient dispute resolution mechanism (unavailable within CEFTA), which the Serbian economy badly needs due to continuous trade disagreements primarily with neighbouring countries. Finally, membership of the WTO enables accession to the EU. Negotiations with the WTO stopped in 2013 and Serbia is one of the few countries that are not WTO members (other European non-WTO members include Bosnia and Herzegovina, Belarus and Azerbaijan). Accession to the WTO will require changes of regulations governing trade in GMO products and completing open bilateral negotiations.

- Serbia should become a functional economy, able to withstand pressure. This primarily requires macroeconomic stability, rule of law, smaller state influence on the economy, reducing bureaucracy, fight against corruption, reducing corruption and finally investment in education and science.
- The best regulatory framework for foreign investors, including those from Japan, would entail alignment of the regulatory framework with that of the EU and consistent compliance with it, i.e. practical implementation of regulatory provisions that will be enacted. Enforcement of regulations is a key problem that foreign investors in Serbia are faced with today.
- It is important for Serbia to liberalize its market and become a part of global manufacturing chains, which is currently not the case. This would open up more room for cooperation with companies from Japan and other countries. Without its presence in the global manufacturing chains, Serbia will continue to linger on the margins of economic development.
- When making their investments, Japanese investors are interested in long-term business operations. Their work is based upon the principle of cohesive partnership that the *kaizen* philosophy personifies. Figuratively speaking, this concept means 'work for common benefit'. Thus, Japanese investments are focused on long-term integration into the community and on generating productivity and added value for the benefit of everyone involved: the investor, employees and the host country alike.
- There are currently 32 Japanese companies operating in Serbia, which indicates a growing interest in this particular market. Many Japanese companies choose Serbia as their management seat for the Balkans, as part of wider Japanese business groups. In order to increase investments, it is key for Serbia to take advantage of the reforms and the EU accession process to embrace European business standards.
- Finally, a clear foreign policy course towards joining the EU and political and macroeconomic stability are key to increasing Japanese investments in Serbia.