



What does the Japan-EU Trade Agreement Mean for Serbia?

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Background

After nearly five years of negotiations, on July 17, 2018, Japan and the European Union formally signed the Japan-EU Economic Partnership Agreement (EPA). The EPA is the biggest bilateral trade deal ever negotiated, and once the agreement entered into force on February 1, 2019, it established simpler and faster trade within a market that contains around 640 million consumers and about a third of global gross domestic product.¹ The agreement represents the culmination of a longstanding cooperative process between the EU and Japan, creating the largest free trade zone in history.

The EPA stands in stark contrast to the emerging global trends of protectionism and unilateralism that are undermining the open trading system and international rules-based order. Due to these unique circumstances, the EPA has the potential to place the EU and Japan at the forefront of global rule-setting surrounding trade. The sheer magnitude and strategic timing of this agreement give it considerable geopolitical significance.

Benefits of the EPA

The EPA is expected to boost the European Union's GDP by around 0.14%, save EU companies \$1 billion annually, and provide a total income gain of around \$11 billion per year.² From an ideological standpoint, the EPA represents a substantial reaffirmation of the principles of multilateralism and economic freedom upon which the European Union was founded.

These benefits have both immediate and long-term implications for Serbia. Serbia will likely experience immediate benefits from the EPA-driven uptick in EU exports to Japan, which will increase demand for Serbian raw materials and intermediate goods to sustain the increasing production. Serbia will also likely benefit from the influx of Japanese businesses and investors to Europe. In fact, there are already 32 Japanese companies operating in Serbia, a number which could increase considerably if Serbia takes advantage of the opportunities presented by the EPA.

Serbia has a variety of characteristics that make it attractive to Japanese businesses and investors. First, it is centrally-located within the region. Second, Serbia and Japan share electronic equipment and cars as their most popular exports to the European Union, meaning that the supply chains and manufacturing base for these exports already exists in Serbia for Japanese companies to utilize. Finally, Serbia has largely liberalized its trade, with around 86% of its trade covered by free trade agreements.

Yet, Serbia cannot enjoy all the benefits of this historic economic agreement since it is not a part of the European Union (EU). In this paper we are considering how to intensify integrations in order to truly maximize the positive impact of the EPA. Some of the major obstacles in this process are Serbia's status regarding the WTO (Chapter 30), guaranteeing the security of investments (Chapters 23 and 24) and overall determination of Serbia's foreign policy to remain on the European path (Chapter 31).

1) "Bilateral trade deal with Japan – largest to date for EU", European Parliamentary Research Service, February 2019, Internet [retrieved 10 June 2019], [http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633164/EPRS_BRI\(2019\)633164_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/633164/EPRS_BRI(2019)633164_EN.pdf)

2) *Ibid*

What should Serbia do?

As the issue is very deep and complex, this policy paper is aimed at three ministries that we see as main actors in bringing this topic up: Ministry of Trade, Tourism and Telecommunication; Ministry for Foreign Affairs and Ministry of European integration.

We recommend that Serbia take the following key steps:

First, Serbia should change its Law on Genetically Modified Organisms (GMO) in order to join the World Trade Organization (WTO). The Law implies an absolute ban of trade of GM products which is unacceptable from the standpoint of the WTO. It is important to emphasize that allowing trade of GMO does not mean their uncontrolled import, rather it would lead towards aligning with European practices which are very strict in controlling and monitoring the overall process from cultivation to selling GM products. Consequently, adopting EU practices in regulating GMO would improve protection of Serbia's market and control of products that contain GM traces. Joining the WTO would go a long way towards increasing Serbia's appeal to Japanese businesses.

Serbia's negotiations with the WTO halted in 2013, making Serbia one of the few countries relegated to observer status. Being a member of the WTO would give Serbia much greater market access and provide it with an efficient dispute resolution process. This resolution process would be especially beneficial due to the continuous trade disagreements Serbia has with neighbouring countries and the lack of such a process within the Central European Free Trade Agreement. Finally, membership in the WTO will bring Serbia closer to EU accession (Chapter 30 cannot be closed unless Serbia is a member of the WTO for at least 2 years).

Second, Serbia should intensify reforms within Chapters 23 (Judiciary and Fundamental Rights) and 24 (Justice, Freedom and Security) in order to act as a safe and reliable partner for foreign investors. Stable and safe investing environment demands an independent and efficient judiciary and operative rule of law which have to be established and strengthened. Through the process of economic liberalization mandated by the accession process, Serbia will become better suited to engage in direct trade with Japan, the EU, and other countries around the world. Additionally, Serbia would be able to reap direct benefits of the EPA if it were an EU member state.

Finally, Japanese investors have advised that a clear foreign policy course towards joining the EU is key to increasing Japanese investments in Serbia. Serbia must definitively turn its foreign policy towards Europe, explicitly choose the European path, and show political will to remain and move forward on that track. This is overwhelmingly sought after by investors for two main reasons. First, the regulatory system preferred by investors is that of the EU. Currently, investors in Serbia have identified a lack of enforcement of regulations as a key obstacle to successful, continued investments. Second, EU accession would link Serbia to the global manufacturing chain, opening the door for closer cooperation with Japan and other countries. Serbia should work to prepare to open and meet benchmarks as quickly as possible in all of the economic aspects of EU integration, especially the areas which deal with competition law and state aid, free movement of goods, capital and services. Together with an effective judiciary, as well as clearly established rules which align with the EU, reforms in these areas will strengthen Serbia's image as a place where investments are safe and profitable.

Conclusion

The Japan-EU EPA is a critical economic development not only for the global economy as a whole, but also for Serbia specifically. As the largest bilateral free trade agreement in human history, the EPA has the potential to significantly increase market access and foreign investment in Serbia. Many Japanese companies already choose Serbia as their management seat for the Balkans, but the EPA has given Serbia an opportunity to drastically improve its position. In order to maximize the benefits that this agreement offers, it is key for Serbia to embrace European business standards and integrate itself into organizations such as the World Trade Organization and the European Union. As membership to the EU is still many years away, Serbia should in the meantime concentrate on undertaking all of the relevant reforms and aligning itself as quickly as possible with the EU *acquis communautaire*.