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REGIONAL TRADE AGREEMENTS**

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Liberalization of Services for improving an investment climate

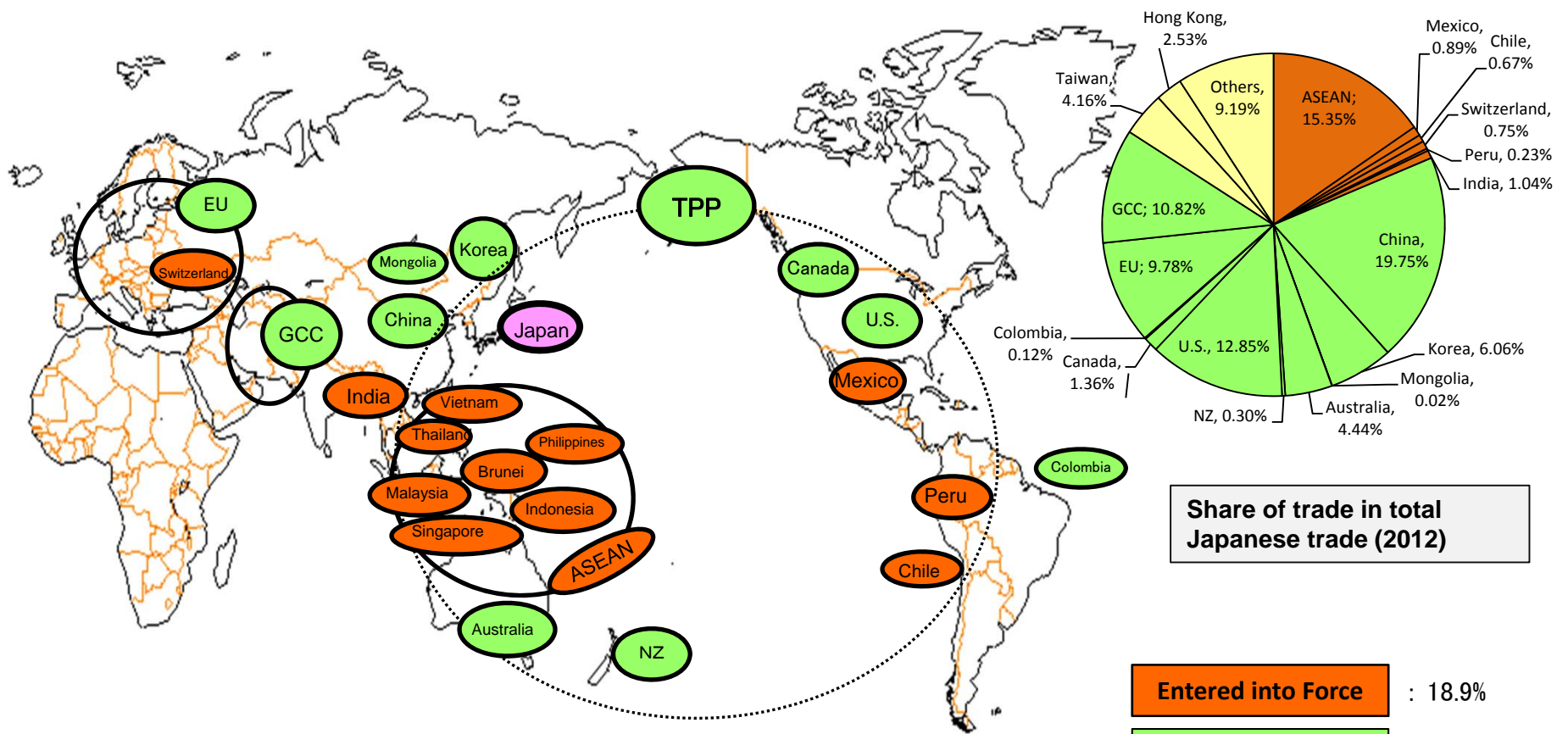
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Japan is making steady progress in promoting EPA/FTAs

13 EPA/FTAs mainly with ASEAN countries have entered into force, which covers about 19% of Japan's overall trade. In its growth strategy, "Japan Revitalization Strategy" (released June 2013), Japan set a target of trading FTA ratio of 70% by 2018.



※GCC: Gulf Cooperation Council (UAE, Bahrain, Saudi Arabia, Oman, Qatar, Kuwait)

Entered into Force : 18.9%
Under Negotiation : 65.5%

Creating an Investment Climate

--a role for infrastructure services--

- In the modern era of regional and global value chains, most important is how to participate in those chains.
- Investment plays a critical role.
- How to improve an investment climate is essential.
- Various factors could contribute to the investment climate but international commitments through WTO and RTAs would be an important factor.
- What role services can play in that context? Core services commitments could contribute to improving an investment climate, functioning like infrastructure, to encouraging various business activities.

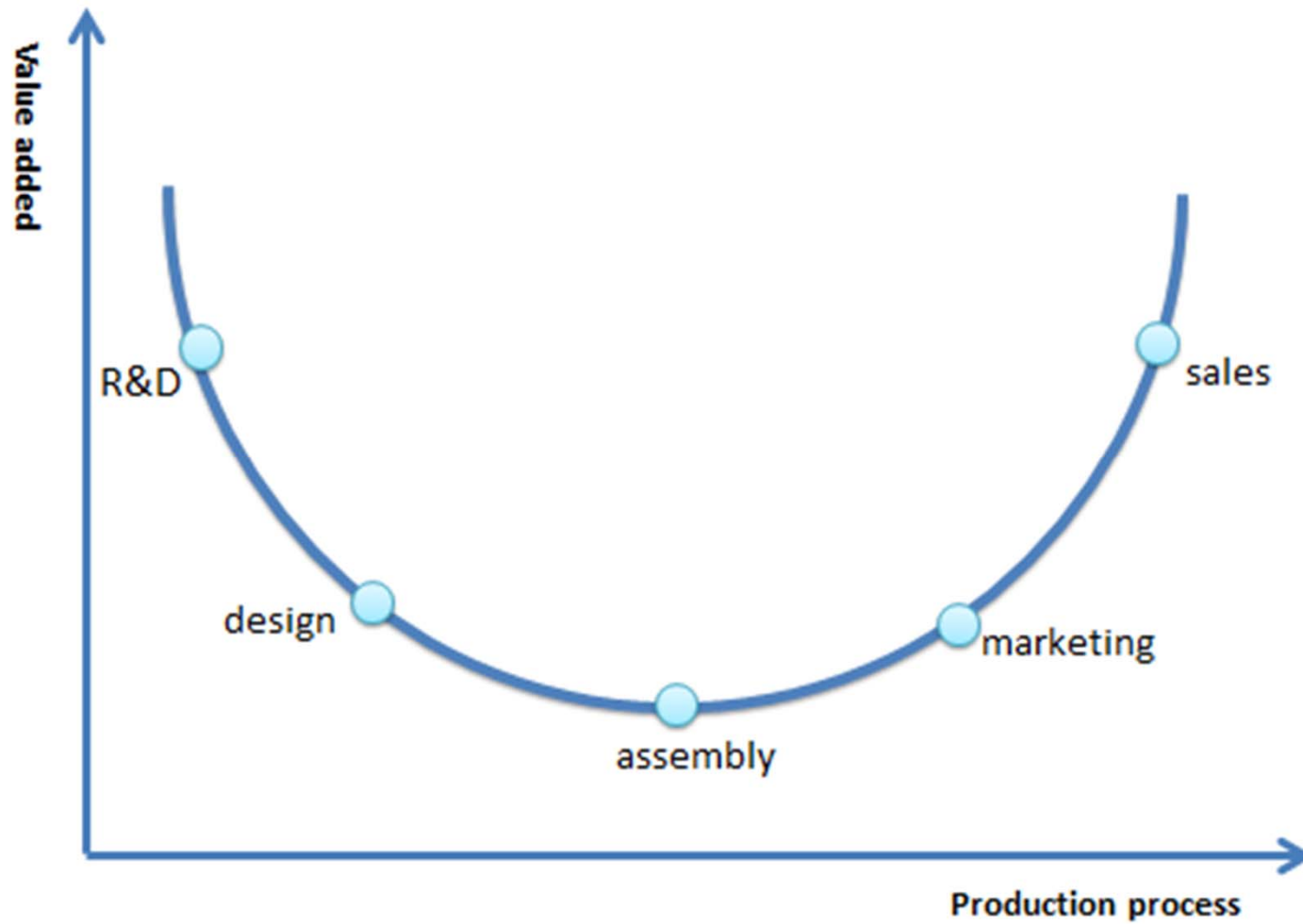
Values of Services (1)

- Traditional distinction between trade in goods and trade in services
 - Trade in Goods governed by GATT
 - Trade in Services governed by GATS
 - Therefore, “manufacturing” was not considered as services
- Values of services are recognized as core element of economic activities.
- For example, services industries occupy:
 - 74.5% of GDP in Japan; and
 - 70.2% of employment in Japan

Value of Services (2)

- Trade in value added further changed the nature of services in economic activities
- Services are considered as part of a “manufacturing” process.
 - Assembly
 - Parts and components
 - R&D and Design
 - Marketing and Sales
- Basic services, like finance, telecoms and transport supports the process from the bottom.

A Smile Curve



Regional and Global Value Chains

- Different parts of manufacturing processes now constitute regional and global value chains.
- **Services components also are part of such chains.**
- Trade liberalization is important in the global scale as well as in various regional context.
- Therefore, in many cases, **trade in services constitute an important part of RTAs.**

Role of RTAs

- RTAs: a built-in exception of MFN.
- Wider and deeper liberalization for trade in goods on a discriminatory basis.
- Border regulations on trade in services are non-discriminatory in nature, so the liberalization in trade in services is likely on an MFN basis.
- So, RTAs will provide wider commitments to rock in the existing level of liberalization.
- This is a part of a whole RTA which contributes improving an investment climate of the country concerned.

Negative List or Positive List?

- GATS: a positive list for MA and NT commitments
- **Wider and deeper liberalization would be likely if parties introduce a “negative list” approach** in RTAs.
- The “negative list” approach could include:
 - Transparency
 - Standstill
 - Ratchet
- But, the choice of approach only defines the way commitments are described and not necessarily the content of commitments.

Japan Philippines EPA

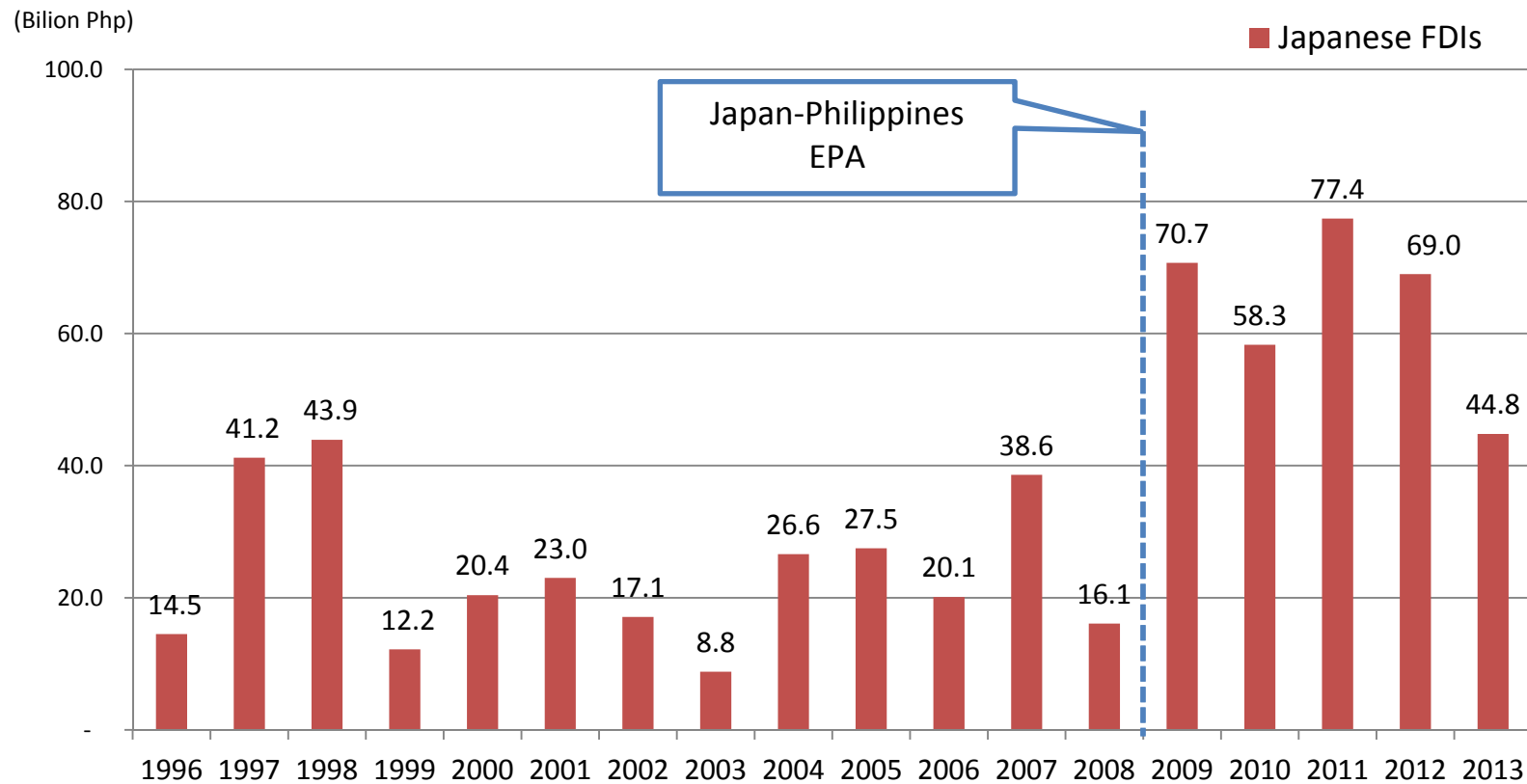
- An integrated framework agreed:
 - A positive list.
 - Elements like standstill and transparency list are introduced from the negative list approach.
- Very extensive commitments from Japan
- Substantial improvements of commitments of the Philippines (next page)

The Philippines commitments

- **65 sub-sectors under standstill**
 - e.g. certain services related to computer, lease, energy, telecoms, maintenance, advertisement, mining, commercial banks, tourism and transport
- **Around 100 subsectors of liberalization commitments.** cf. 30 at the GATS

Japan's FDIs to the Philippines

on an approval basis



Japan's EPAs

- **Negative list** with Mexico, Chile, Switzerland and Peru.
- **Positive list** with Singapore, Malaysia, Thailand, Indonesia, the Philippines, Vietnam, and India.

Merit of RTAs

- Negotiations are held at capitals, there are **frequent opportunities to meet** not just with negotiators but also with regulators of each sector.
- More opportunities to focus in each sector to **learn about regulatory environment**, including laws and regulations, for each party.
- Also there are opportunities to **meet with commercial and industrial representations** to hear about real bottlenecks in doing business

Infrastructure services as an investment climate

- For business people, trade pacts like WTO and RTAs are part of various factors that affect business environment.
- **Liberalization commitments of key services, like finance, transport and telecoms are important.**
- More important would be **such key services are in operation in the real world.**

For improving an investment climate

--Beyond RTAs

- Most effective is government's own reform efforts, in particular a governance reform.
- Also important is for the government to have a constant dialogue with business communities to find bottlenecks and ways for solutions.
- On such a basis, support by governments of partners could play a role to bridge a gap, by providing ODAs (aid for trade), capacity building, trade insurance and Exim bank loans.
- Attention should be paid to recent trend of private initiatives, like PPPs for building and operating a big infrastructure