

**The Japan-EU Economic Partnership Agreement (JEEPA) and the
future of the Liberal International Order**

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Dear Shimizu-san, Dear Members of Keidanren,

I had the opportunity to address Keidanren some five and a half years ago, when I was European Trade Commissioner.

Back then, we were starting the negotiations of a Free Trade Agreement between the European Union (EU) and Japan. Earlier this summer, I was happy to see that the process that we started back in 2013 was successfully concluded with the Economic Partnership Agreement (EPA). And it is now a pleasure for me to be back at Keidanren to continue with the conversation we started more than five years ago.

So many thanks for your kind invitation to share some thoughts with you on the Japan-EU EPA and the future of the liberal international order. I will try to put the EPA in its broader geopolitical context.

Europe and Japan are often described as ‘natural’ partners. As liberal democracies, market economies and close allies of the United States (US), they hold similar world views and share many interests. They also have a long history of cooperation, whose foundations go back to Japan’s

embracing of modernization and industrialization in the late 19th century, along European lines.

Both during and after the Cold War, Europe and Japan have worked closely to uphold and promote the institutions that make up the liberal, rules-based international economic order, such as the World Trade Organisation (WTO), the International Monetary Fund (IMF), the World Bank (WB) or the G7.

In more recent years, Europe and Japan have shown a keen interest in extending their cooperation to the political and security domain, both on a bilateral basis (between Japan and individual European countries) and through the EU and NATO.

Given their shared values and interests, the foundations for a meaningful strategic relationship between Europe and Japan appear to be strong. Yet, we both continue to focus primarily on our immediate neighbourhoods, and our respective relationships with the US.

For Japan and Europe, America has played an equally vital strategic role: that of guaranteeing security in their respective regions and upholding a liberal international political and economic order, from which we have enormously benefitted.

However, in recent years, important geopolitical developments have altered the context in which we - Europeans and Japanese - operate and may force both sides to change the way in which we look at each other.

Russia and China have begun to more openly challenge the rules-based liberal international order, regionally as well as globally.

The Russian and Chinese regimes are trying to build an international order that is more in line with the political and economic interest of their ruling elites.

They are both seeking to modernize their military capabilities, and are engaging in acts of political intimidation and economic blackmail that threaten to disrupt the status quo in Europe and East Asia, respectively.

At the global level, Moscow and Beijing reject the notion of a liberal and open system – a level playing field where economic and political actors can compete freely.

They prefer a controlled, top-down order instead. Geopolitically this translates into spheres of influence, whereby great powers call the shots and medium and small powers have no buy in, losing the certainty and protection offered by international rules and organisations, and being left with nothing but the prospect of submission.

At the same time, it has become less clear in recent years – especially since the election of Mr. Donald Trump as President – to what extent the US is willing to underwrite the current global trade and economic order.

This is a phenomenon that bears global implications – as seen by the Trump administration's apparent disdain for the WTO. But also regionally, given America's withdrawal from the Trans Pacific Partnership (TPP) and

equivocal position in relation to the Transatlantic Trade and Investment Partnership (TTIP).

These shifts are compelling Japan and Europe to adapt their respective foreign policy strategies.

Prime Minister Shinzo Abe's vision of a 'Free and Open Indo-Pacific' is partly a response to China's Belt and Road Initiative, an attempt to reorder the Indo-Pacific and Eurasian spaces according to China's priorities and rules.

Moreover, and in light of growing uncertainty about Washington's vision on trade, Tokyo has embraced the flagship of global free trade – evident by its strong defence of the WTO – and took the lead on TPP after the U.S. withdrawal.

Europe, for its part, remains committed to the reinvigoration of transatlantic trade and economic ties, and the notion that such ties can help raise global standards in key areas like free trade or environmental protection. Indeed, after European Commission President Jean-Claude Juncker's meeting with Trump in July 2018, the idea of some form of 'TTIP light' has emerged.

In the EU we have seen a major Member State - decided by referendum, albeit with the smallest margin - to leave the Union of which they have been a member for more than four decades. Brexit has proven to be a very painful process, especially for the leaving Member State, the UK. Some claimed this to be the beginning of the end of the EU. They were proven

wrong, as it actually brought the remaining Member States closer together. A remarkable sense of unity among Member States has been shown during the Brexit negotiation that has now led to the potential divorce agreement reached during last weekend's EU Summit. It has also become clear that leaving the EU is particularly difficult, precisely because of the strong level of integration within the EU. Let there be no doubt: the EU is here to stay and remains more open than ever for business.

It is in the context of these broader geopolitical changes that Europe and Japan have a growing interest in strengthening their strategic and economic ties.

I was just mentioning the recently concluded Japan-EU Economic Partnership Agreement, also known as JEEPA. This is the biggest bilateral trade agreement ever negotiated by the EU.

JEEPA entails direct economic benefits for both parties. More broadly, however, it signals that the EU and Japan consider free trade to be the backbone of a multilateral, liberal order.

In addition to JEEPA, the EU and Japan have concluded a Strategic Partnership Agreement (SPA), which aims at building a more solid foundation for deepening political and security ties between Japan and the EU.

But let me zoom in on JEEPA, and try to tease out what I believe are its key components and its broader geopolitical implications.

Agreed on July 2017, JEEPA is a landmark deal. It covers a third of the world's GDP, 37% of world trade, and over 600 million people. It strives to eliminate nearly all tariffs on products traded between two of the world's largest economies.

JEEPA is something both Europe and Japan must be very proud of. It just shows what respectful negotiation, perseverance and cooperation between allies can bring about. Just what the exchange of the Japanese *Daruma* dolls represented. A win-win agreement.

I must admit though, that when we started the negotiations, JEEPA was not the main priority of either Japan or the EU.

We both had placed our confidence in reaching an agreement with the US first. The EU was focused on the TTIP, the Transatlantic Trade and Investment Partnership and Japan was trying to make the most of the US pivot to Asia, by joining the negotiation of the mega-deal, the TPP, the Trans Pacific Partnership. TTIP and TTP seemed to take precedence over JEEPA.

But once Donald Trump became the 45th President of the US and deserted both TTIP and TPP, Europe and Japan began to prioritise their economic and trade relationship with each other. More importantly, perhaps, a void was left. The leadership role over world trade was up for grabs and both Europe and Japan could not risk others making a claim for it. JEEPA was given new political impetus.

The camaraderie was revived between Europe and Japan as they came to realise through the negotiations just how natural their partnership was. And the role they had to play - together as one - on the global market and in safeguarding the exposed rules-based system.

The timing of JEEPA may have political symbolism, especially as it also came after the US tariffs and threats on steel and aluminium. But the negotiation was still given due consideration, work and attention. Sensitivities and red lines from both sides had to be respected and addressed.

The main purpose behind JEEPA is to remove trade barriers and harmonise regulations, making it easier and more efficient for European and Japanese firms to trade in goods and services. This would bring countless of opportunities and benefits for all industries, sectors, firms and citizens.

High tariffs make products more expensive, limit diversity and choice for consumers. Regulatory differences cause misunderstandings, duplications and make it more expensive for firms to export, as it usually requires going through different customs procedures and separate production lines to be set up for often the same products. And that is not very cost or time effective. This is especially hard for Small and Medium Sized Enterprises (SMEs), who struggle to conduct business due to such regulatory barriers and opaqueness.

Diverging standards are however the biggest challenge and danger, especially when it concerns labour rights, safety, intellectual property, consumer and environmental protection.

The spirit of a trade deal is not to dilute the highest standard amongst trading partners. Instead, standards of a lower calibre have to be brought into line with the highest standard or international norm.

This not only makes it easier to trade with each other but also reinforces standards for the international community. This in a sense creates a type of global trade handbook, as third parties wishing to trade with either Europe or Japan would have to abide to these, resulting in a shaping of (common) global trade rules.

JEEPA has come to address these obstacles providing a foundation for reciprocity and building a level playing field between Europe and Japan.

The agreement achieves a high degree of trade liberalisation. *“The EU will liberalise 99% of tariff lines and 100% of imports and Japan 97% of tariff lines and 99% of imports. On the 3% of tariff lines not fully liberalised, Japan has given significant concessions in terms of tariff rate quotas and/or tariff reductions.”*

For Japan, JEEPA will provide concessions in its important export in cars and car parts. The automotive sector is sensitive for Europe. Currently, tariffs on Japanese cars are at 10%.

But JEEPA brought a compromise in the form of a transition period. Over 7 years these tariffs/customs duties will be lowered, ultimately eliminated. Another transition period is that for European exports of footwear, where Japanese tariffs will drop from 30%-40% to 21% to zero after 10 years.

For Europe, its biggest gains would be in its agri-food sector, by slashing Japanese duties on some cheeses like Gouda/Cheddar (currently 29.8%), beef (currently 38.5%), pork, wine (currently 15%), chocolate (currently 30%), pasta (currently 24%) and ensuring protection for more than 200 Geographical Indications (GIs) - distinctive regional foods and drinks (e.g. Roquefort, Prosecco, Parma).

This measure on Geographical Indications is very important for Europe, and has also become increasingly important for Japan. Japan has now registered about 50 of its own Geographical Indications, with a selection gaining protection in Europe. Respect for Geographical Indications provides another important export opportunity for new products, allowing producers – often niche ones – to gain a premium and prevent imitations. Geographical Indications reassure consumers they are buying genuine European or Japanese products.

Still the influence from TPP was felt in the ‘cheese debate’, where Camembert and Mozzarella were stumbling blocks. Firstly, cheese is not as popular in Japan’s diet as it is in Europe’s. However, Camembert is produced domestically, and Australia – a TPP partner – produces Mozzarella. Japan feared giving concessions to Europe would not only impact their domestic production – a niche - but the fear was bigger that it would incite Australia to demand the same and thus put TPP’s potential revival in jeopardy. A duty-free quota became JEEPA’s compromise and the agreement on cars was just too important for Japan to give-up for cheese.

Another very important result for the JEEPA is the regulatory cooperation outcome and chapter. During the negotiations around 90% of all listed non-

tariff barriers (NTBs) were eliminated. Some remain stuck on Sanitary and Phyto-Sanitary (SPS) grounds, which require the necessary attention and respect for consumer, animal or/and plant protection. It's true that the EU and Japan have the highest consumer protection standards in the world. But these should not become unnecessary barriers to trade. Nevertheless, 90% is an impressive realisation.

This result is also a progress for the Japanese car industry, as they are now fully aligned with international standards and it seems conforming is gaining momentum. Unfortunately Japan has chosen to join China on developing chargers for batteries for electrical vehicles, which in practice will lead to two different standards: one developed by China and now Japan, and another by the EU and the US.

Europe and Japan are also working on setting international standards on pharmaceuticals and textiles care labelling. Ideally this should be even extended to future technologies - like Artificial Intelligence (AI) and the Internet of Things (IoT).

It's clear that both Europe and Japan see the JEEPA as an ambitious and comprehensive agreement, going beyond the classical idea of trade. The two parties want to shape globalisation. A noticeable thread throughout the agreement is that of respecting and endorsing the highest as well as international rules and procedures. JEEPA shows the deep commitment Europe and Japan have to the rules-based system, and not only regarding trade. JEEPA reaffirms their shared commitment to sustainable development, SMEs and climate change with a novel reference to the Paris Climate Agreement. This is something new for a trade agreement. In a

sense this gives JEEPA political importance as it sends a strong nudge to others that Europe and Japan are true guardians of international agreements and institutions.

Something also to keep an eye on is data protection. This was not agreed upon in JEEPA, but came in a complementary reciprocal adequacy agreement. Europe and Japan agreed to recognise each other's data protection systems as 'equivalent', thus creating the world's largest area of safe data flows, which again symbolises what cooperation among allies can bring about.

JEEPA also covers services and prevents Europe and Japan from discriminating against each other's service providers. Again JEEPA will not change or affect the rules on safety, health, environmental standards, qualification requirements, labour rights and working conditions. Nor will it affect public services/goods – healthcare, education – or the way national governments choose to deliver and regulate them in the public interest.

JEEPA rather opens up services markets, in particular financial services, e-commerce, telecommunications and transport. Importantly – and something that was at a deadlock in Europe's and the US's TTIP negotiations – European companies through JEEPA gain an in to the large procurement markets of Japan. Reciprocity in procurement makes it easier for firms from both sides to bid for government contracts (apart from the sensitive public services/goods), allowing for fair competition, the creation of a level playing field and deeper economic integration.

JEEPA does not include investment, as the snag was agreeing on investment protection, the instrument and procedure in settling disputes between the investor and government. In recent trade agreements, the EU has moved away from the traditional ISDS system to the ICS (International Investment Court System) whereby the arbitrators/judges are nominated by the parties to the agreement - which are states - and not any longer jointly by the companies and state(s) concerned. The arbitrators/judges also become permanent instead of ad hoc. Japan continues to prefer the ISDS system because there is a fear that the new system would be biased in favour of government to the detriment of business. This discussion continues. Let me just add that the debate on this issue has started within UNCITRAL (United Nations Commission on International Trade Law).

Another reason for investment not being part of JEEPA is because as a result of the opinion of the European Court of Justice, JEEPA will be the first Europe only trade agreement only has to be ratified by the European Parliament. This is a remarkable progress whereas in the past ratification by all member states sometimes took years. But this goes only for trade, not for investment.

This does not mean investment will not be covered/negotiated between Europe and Japan. Investment is will be negotiated separately and will result in a separate agreement.

See even difficult situations bring compromises. The key is not to walk away, especially when negotiating between allies.

JEEPA was also just too important – politically – to continue to be negotiated in circles. Undoubtedly, more needs to be hashed out but this does not impact the essence of JEEPA. We now wait for the ratification by both houses of the Japanese Parliament and the European Parliament. The implementation of the deal will take time and tariffs will go through its transition periods before finally reaching zero. Patience but also dedication and keeping the momentum is fundamental to JEEPA's existence.

Nevertheless, JEEPA sends a powerful signal: that two of the world's biggest economies reject protectionism and unilateralism.

- *“We were able to demonstrate a strong political will to the effect that Japan and the EU will wave the flag of free trade high amidst protectionist trends,”* Prime Minister Shinzo Abe of Japan said at JEEPA's announcement. *“This is an achievement we should be proud of which also sends a strong message to the world.”*
- The deal *“sends a very powerful signal to the rest of the world that Japan and the EU are partners, are friends, and we want to stand up together to defend free and fair and sustainable trade in a climate where that is not taken for granted,”* said current European Trade Commissioner, Cecilia Malmström.

JEEPA is set to become a benchmark for future trade agreements, to further liberalise and better organise trade. Possibly JEEPA can bring the US back to the global negotiating table as the feeling of being left out is often the biggest motivator.

But I think there is a lesson to be learnt. That once the US rejoins the game of free trade and open markets, that Europe and Japan should not then pivot away again from each other. They should not put all their eggs in the US basket. Future partnerships between Europe and Japan should not be placed on the backburner for one with the US. These partnerships are just as important. And as we have witnessed : once one ally takes a step back, the rest needs a fall-back. Standards and a system need to be in place to fill the void and safeguard the liberal international order/rules-based order.

Here I cannot stress enough that Europe and Japan really need to join forces in reforming the multilateral system, the World Trade Organisation (WTO).

The objectives of multilateralism - the WTO for instance – clearly comes the closest to the ideal of free trade. Multilateralism is the reason for rapid growth and lifting hundreds of millions of people out of poverty. Even in times of economic recession, it has helped prevent trade wars and maintain economic peace. The more countries included in common agreements – albeit comprehensive and ambitious in nature - the more harmonisation, less regulations, less or zero tariffs and high moral standards. Members would be playing the trade game, fair, by universally set rules.

Global economic integration must be the objective. But the multilateral system needs a (common) rules handbook which is still largely incomplete since the last agreement reached on Trade Facilitation and Export Competition.

Also if the US decides to ignore the rules or question values and the existence of organisations then what leverage is there to keep others - like China who is more restrictive and expansionist in character - in line with WTO/international obligations? Europe and Japan must jump in, or risk losing influence in the decision-making on global trade. They must - together - provide and show the alternative. Not only set an example for the rest of the world but towards its ally the US too. Hold it accountable to its international obligations and show what it means to be a credible trade partner.

But let's also be honest, it's true that the multilateral trading system is stuck.

Where the disparity lies is between the expectations of developed, emerging and developing economies. Today the most important players are not necessarily the most economically advanced. More and more emerging countries, like China, India (and Brazil), number among the most competitive in the world. But these governments still see themselves as developing and therefore maintain they are not obliged to contribute concessions and to the liberalisation process. Instead they continue to claim special treatment despite being some of the worlds' largest and most dynamic economies. The system needs to mature in its approach to flexibilities and be more transparent.

Tensions have more recently heightened due to present government/administration changes and the step-back to imposing unilateral measures.

Still this does not mean key players should abandon the multilateral system. Shortcomings are there to be solved. The essence and foundation of the WTO are still in place.

The WTO is crucial in facilitating and safeguarding global trade. It creates an international system of economic governance. It was founded to promote trade cooperation and development among members but also allows holding each other accountable. This cannot be realised through unilateral measures. They do not encourage economic regime change - instead ignite a vicious circle of retaliations.

Real changes have to be achieved through the WTO/multilateral trading system. It's true that we cannot remain in the current status quo. It's not working. *"In essence, since 1995 the world has changed; the WTO has not."*

Recently, there has been an attempt for action.

Through a common approach between like-minded members, both developed and developing countries, including the EU and Japan, the aim is to work towards modernising the WTO to reflect current realities but also strengthen it by reenergising the dispute settlement system, enhancing the monitoring and transparency of member's trade policies and developing the negotiating pillar. Making the WTO sustainable and representative for all is the plan. Still for this to work all WTO members have to approve and be involved. The biggest world economies - the US and China - need to come on board so to give the initiative its political impetus and ensured commitments.

Also Europe and Japan cannot risk the US's departure from the WTO.

If President Trump wants the WTO to be more efficient and effective, revoking membership does not do this. Nominating members to the WTO Appellate Body will. Blocking appointments brings the dispute settlement system into paralysis, rendering enforcement of the rules impossible.

The recent EU concept note, following the Ottawa Joint Communiqué, could provide the necessary building blocks in encouraging WTO reform. The EU should work on it with Japan and other like-minded members. As a joint venture it could bring the US on board. But political commitment is needed. Europe and Japan cannot let this opportunity for WTO reform slip-by again. It's now time to move forward, find innovative ways to pump new life into the multilateral system. JEEPA can be a cornerstone in this.

The message is that allies must work together in transforming the WTO into what it has always been destined to be: a trade hub producing multilateral agreements endowed with a proper judiciary system to settle differences amongst its members.

For President Trump, the US is best served by concluding bilateral trade agreements – a one-on-one. But the US is the largest world economy and in such deals its clear who will own the advantage. A playing field between the US and France cannot be compared to that between the US and EU. For the EU trade is its competence and not of its members.

I do not think President Trump has really understood the implications of his trade policy and specifically of his trigger-happiness for tariffs and

fixation on clearing the US's trade deficits. He is not going to 'win' this way. He has not only upset his allies (Europe, Japan, Canada, Mexico) but he is playing with fire with regard to China, which impacts both Europe and Japan.

European or Japanese steel and aluminium imports are not the (biggest) problem. It's China's. It would be a better strategy for all if President Trump worked with Europe and Japan rather than chastise them, as together they can keep China's overcapacities and unfair trade practices in check.

The world cannot lose sight of China.

Today's environment and political atmosphere gives China some good opportunities, to even go as far as setting a new world order.

It is somewhat positive to see China taking a more pro-active role in promoting international – free – trade and even defending WTO rules. China is now trying to position itself as a global leader on free trade. We saw this clearly at DAVOS-2017 where China swiftly filled-in the noticeable gap left from the US's absence. Again, I reiterate if one wants to keep its title as a world economy and have a voice, it cannot revert to protectionism and neglect the international community or it will let opportunities slip by, which others will gladly seize.

Although it's positive to hear China reminding President Trump of the US's commitments to the WTO, it too has to be reminded of these. Demanding adherence asks for adherence. And in actual fact China is not playing the trade game according to the international rules.

Despite announcing reforms aimed at giving the market a more decisive, liberal, role in China, its actions and state-driven initiatives seem to contradict its rhetoric. The world still has to see China 'walk the talk.'

China has a gigantic production system, far too big for their current export, and this has to be viewed with caution. China is finding it challenging to balance its domestic and international economic obligations.

Thanks to the deliberate State interference and massive subsidisation practices, removing any responsibility and desire for producers to limit their production, China has overcapacities. Indeed, why stop if your surplus gets bought up anyway? But what is being produced needs to be sold and the domestic markets and consumption have been exhausted. So China resorts to dumping, where it sells – exports – products abroad far below the agreed production price, risking market distortions.

China's internationalisation, 'Go Global,' thus came at the right time for them.

China has unleashed its bevy of cheap products onto the world market, without any regard for international rules like respecting price commitments, reciprocity but also standards on health, inclusion, labour rights and the environment. It wasn't just (manufactured) products that China was exporting, it also had overcapacities in infrastructure, labourers and capital that all needed a market.

There is thus seemingly an overseas expansion underway. Ultimately China wants to *“achieve de facto integration into surrounding regions, to diversify foreign sources of energy supply, to export overcapacities abroad and to harness the increasing returns on currency reserves.”*

The Belt and Road Initiative (BRI) is such attempt. Introduced in 2013, President Xi’s ‘connectivity’ project has far-reaching economic, political and military consequences. It’s an enormous Chinese project, which extends over three continents, oceans, financial markets, gas-lines, technology, cyber-space and so forth. However, so far, the BRI has been a one-way initiative with many uncertainties as to the level of reciprocity and cooperation. Containers for instance seem to be leaving China full to the brim but mostly return back, empty, to China from Europe.

It is obviously designed for *“Chinese goods, technology, capital, people and culture [to] reach every corner of the globe.”*

President Xi thus understands very well the link between infrastructure and economic, political and military power. Not only will the BRI boost China’s trading position in Central Asia, Africa or even in EU Eastern Member States, but it will also provide a good PR opportunity so that China can emerge as a ‘friend’ rather than a threat. China also has a habit in using its own economic relations, its economic leverage, with other countries so to put pressure on their politics, security and allegiances.

We have also seen a surge in China flexing its military muscle in the region. For instance, it’s island-building in the South China Sea.

Financial funding for the BRI has been promised through the Silk Road Infrastructure Fund but notably also the Asian Infrastructure Investment Bank (AIIB), which surprisingly, includes many European countries as its founding members. As I see it, the AIIB has one mission: to compete directly with the US-controlled World Bank, Europe's spear-headed IMF and the Japan-led Asian Development Bank. China now has an outlet available to have its voice heard among the international financial institutions. We have yet to see whether the AIIB will be a success.

I am aware that agreements and joint projects have been approved or are forthcoming with the World Bank and the Asian Development Bank. One can only hope that this serves to bring the AIIB into the global liberal loop. Again this remains to be seen.

Despite the concerns, these projects are intriguing and the world continues to absorb everything Chinese. 'Made in China' is seemingly everywhere.

But what about the Chinese market? Who's there?

We continue to see that, despite China's ability to play on the world market, the world is not playing on China's.

International companies and producers do not have the same freedom on China's market. Reciprocity is hard to find. International – European and Japanese – companies continue to face restrictive trade barriers, talent/technology grabs, forced mergers and discrimination. They have a hard time setting up shop in China. Not to forget China copies and counterfeits. By using intelligence pinched from international companies it

can cheaply make and sell the same products to the same public on the same world market. And this is unfair.

China is thus a poster child for both globalisation and protectionism. It's engagement with the liberal, rules-based order is selective.

Free trade again is not one-sided. Reciprocity should be high on everyone's agenda when building a partnership with China. And China has to be genuine in its 'win-win cooperation.'

Unfortunately, solidarity and keeping to one voice on China does not come easy. In Europe countless of European Commission proposals like the important International Procurement Instrument and the review of Trade Defence Instruments (TDI) have been blocked in the European Council, with EU Member States opting for national interests rather than European ones. For instance, countries with significant steel industries want to protect them, others who have no own steel production want imports, cheap ones. And China knows how to play on this, play-out the divisions in Europe and now those with the US, masterfully.

The race for gaining Chinese investments is dividing the world on key economic decisions, such as possibly granting China the Market Economic Status. China is desperate to gain it. However, this entails meeting certain criteria, which China has not yet met. There is a responsibility for Europe, Japan and others to hold China accountable to meeting these criteria before it can be recognised as a Market Economy.

However tides are changing. Europe - its Member States finally - came to the realisation that the EU-TDI mechanism offered the appropriate safeguard against China's unfair and out-of-control trade advances into Europe. But it needed an update. As European jargon goes, it had to go through a 'TDI modernisation.'

The EU's TDI-system stands in accordance with WTO rules. It aims to re-establish a competitive environment for the EU's industry, temporarily granting them some relief if needed, when challenged by unfair trade practices, like dumping and excessive subsidies. But most importantly it holds trade disruptors accountable through investigations and urging change.

Also unlike the US, Europe is not threatening China with tariffs but is trying to negotiate an agreement that would give access and protect European firms over investments in China.

We will have to wait and see how Europe deals with these new legal standards, whether implementation is feasible and works in strengthening the WTO system. The prospects are promising but most important is that Europe has a unified system in place to keep China in check.

As liberal democracies and social market economies Europe and Japan must continue to stand tough and together in their support for a liberal, rules-based international system. This will also earn them more respect, even from China. They cannot risk losing the power to direct world trade and allow for setting global standards to become anyone's game.

A coherent and united buffer is needed to keep China and its seemingly expansionist intentions in check.

But this does not mean a containment policy. China is a world economy and its development must not be prevented. Europe and Japan need to become imaginative. They need to find new ways to match but also include China into the liberal international order. This does not mean to be naive. China must indeed be held accountable for unfair trade practices and disregard for international rules. This can best be done in cooperation with other like-minded economic players and through the international and WTO mechanisms in place. By supporting a rules-based system you not only give it strength, enhance cooperation but enforce compliance from others, like China.

And let me just conclude by emphasizing how timely the decision to sign an EPA and SPA by Japan and the EU is.

With a US President following a disruptive approach towards international trade, and the US commitment to the global economic order uncertain, Japan and the EU — the two other key pillars of the liberal global economic order — not only hold the fort, but actually deepen their economic, political and security ties.

The shared challenge in the years to come is to engage the US and bring it back into the fold of the liberal, rules-based international order. After all, and despite current problems, the US remains essential for the security of Europe and Japan, as well as for the integrity and stability of the liberal international order.

For too long, Europeans have looked at Asia primarily as a place for business. European business has built strong ties with China. And those economic ties have paved the way for political and diplomatic links between Europe and China. Therefore, a key question going forward for Europeans is how to balance their economic interdependence with China with their growing interest in developing economic and security ties with Japan, especially as Beijing's neo-mercantilist approach and challenging of international rules clashes with Tokyo's defence of a liberal, rules-based international order and vision of a 'Free and Open Indo-Pacific,' both of which are aligned with European values and interests.

Europe and Japan must ensure the liberal, rules-based international world order under which they have thrived remains in place.

This liberal, rules-based world order – along with the democratic values, rules-based economies, pluralistic societies and human rights that underpin it – has been the key driver of peace, prosperity and freedom across the globe. And Europe and Japan are amongst its core defenders. They cannot get distracted and let China and others rewrite the rules of international relations and international trade. Succumbing to the dissatisfaction over globalization, to discrimination, nationalism/unilateralism and protectionism is not the right way to adjust to the current global environment.

Overall, I believe it is in the ultimate interest of Europe and Japan to stand united. We cannot leave voids unanswered and let others undermine a

system that has given us so much, and that we have fought so hard to preserve.

Thank you very much for your attention. I am keen to hear your thoughts on these questions.

Karel De Gucht, 28 November 2018