

Introduction and Purpose of the Study

In October 2007, Canada and Japan published the *Report of the Canada-Japan Joint Study on Benefits and Costs of Further Promotion of Bilateral Trade and Investment*. The Study covered the overall economic relationship between the two countries and included a positive qualitative and quantitative assessment of further economic integration, suggesting potential value in a bilateral free trade initiative. At the time, Canada and Japan agreed to revisit the idea of pursuing the possibility of a possible bilateral free trade agreement (FTA) at a future date.¹

Following Japan's November 2010 announcement of the "Basic Policy on Comprehensive Economic Partnerships," which includes Japan's commitment to promote high-level economic partnerships with major trading powers, the Prime Ministers of Canada and Japan met at the Asia-Pacific Economic Cooperation (APEC) Summit 2010 hosted in Yokohama, Japan, where the two leaders concurred to positively consider the promotion of an economic partnership. During the subsequent Canada-Japan Joint Economic Committee in February 2011, consensus was reached to launch the "Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement."

Government officials from both Canada and Japan attended four Joint Study meetings:

Joint Study Meeting 1	March 15, 2011	Toronto
Joint Study Meeting 2	April 14-15, 2011	Vancouver
Joint Study Meeting 3	July 11-14, 2011	Tokyo
Joint Study Meeting 4	January 23-24, 2012	Tokyo

During these meetings, officials engaged in substantive discussions on elements of a possible Canada-Japan EPA and welcomed the views of private sector stakeholders on a possible EPA. The findings of the Joint Study are presented in this report, which was jointly drafted by the Government of Canada and the Government of Japan.

During this period, the Great East Japan Earthquake hit Japan in March 2011, seriously affecting not only the residents of the affected areas but also the Japanese economy at large. While taking into consideration the recovery and reconstruction efforts from the Earthquake, the Prime Ministers of Canada and Japan reaffirmed their commitment to press forward with the Joint Study when they met in Deauville, France, in May 2011 and in New York, USA, in September 2011. As a result, the Governments of the two countries continued forward with the Joint Study exercise.

¹ For the purposes of this Canada-Japan Joint Study, without prejudice to the final results, the terms economic partnership agreement (EPA) and free trade agreement (FTA) are used interchangeably, reflecting normal terminology in Japan and Canada respectively, where both refer to a trade liberalisation agreement covering substantially all trade.

Executive Summary

Canada and Japan have long been important political and economic partners, with significant two-way trade in goods and services, investment, flows of technology and knowledge, and movement of people. In 2010, Japan was Canada's fifth largest trading partner while Canada was Japan's 18th largest trading partner. Total merchandise trade stood at approximately \$22.6 billion Canadian (JPY1,774.6 billion).

In recent years, Canada and Japan have enjoyed complementary economic relations. Canada is rich with natural resources, while Japan is a major importer of these resources and has developed cutting-edge technologies for energy conservation and clean energy, among others. Despite the substantially expanded bilateral ties between the two countries, the Joint Study found that there remains much untapped potential in the relationship.

Merchandise Trade: Trade in goods between Canada and Japan is largely complementary, with each specializing in products that the other does not intensively export.

Services Trade: Given Canada and Japan's well developed, knowledge-based economies, as well as sophisticated and competitive services industries, there is strong potential to further grow bilateral trade in services.

Investment Relationship: Japan is one of the largest foreign direct investors in Canada. The bilateral investment relationship is responsible not only for creating a significant number of jobs, but also for enabling the large amount of trade between the two countries.

Economic Effects: Simulations using the Global Trade Analysis Project (GTAP) model and database were carried out by both Canada and Japan. Though the simulations rely on a set of assumptions, estimates of gross domestic product (GDP) gains would be between US\$4.4 billion and US\$4.9 billion for Japan, and between US\$3.8 billion and US\$9.0 billion for Canada. The results also showed that gains from the bilateral trade between Canada and Japan would increase significantly as a result of a possible EPA.

Analysis of Major Areas: Canada and Japan analysed fifteen major economic areas of an EPA. Through these analyses, it became clear that a possible WTO-consistent EPA between Canada and Japan would bring significant benefits to both countries. Moreover, both countries reconfirmed their commitment to resist protectionism and to strengthen economic relations.

Stakeholder Consultations: Both Canada and Japan conducted stakeholder consultations. Representatives and experts from various sectors were invited to express their views on the existing measures in the two countries that may hinder the full potential of trade and investment, as well as to provide suggestions to enhance the existing economic relationship between the two countries.

Conclusion: This Joint Study found sufficient common ground to launch the negotiation of a comprehensive and high-level EPA, leading to additional trade flows and economic gains for both Canada and Japan. Such an EPA should not only be WTO-consistent but, wherever possible, should strive to reach WTO-plus provisions. In addition, a possible EPA should be negotiated as a ‘single undertaking’ to achieve a balanced outcome. The findings presented in the Joint Study are without prejudice to the final outcome of negotiations for any future comprehensive EPA.