



Japan & the European Union Forge a Major Trade Deal

What are the implications of this new treaty?

Provided by, North Shore Capital Group, Inc.

On July 6, the eve of a G-20 summit, a global trade pact planned for four years took a major step toward reality. In Brussels, Japanese Prime Minister Shinzo Abe, European Commission President Jean-Claude Juncker, and European Council President Donald Tusk unveiled a sweeping free trade treaty strengthening economic ties between east and west. ¹

The yet-unnamed pact is slated to take effect in early 2019, after details are finalized. It will create the globe's largest economic area: a market of roughly 640 million people, accounting for about a third of the world economy. ^{1,2}

What is this trade accord designed to accomplish? Besides sending out what Prime Minister Abe terms "a strong message to the world," the agreement will phase out E.U. import taxes of up to 10% on Japanese cars and trucks and Japanese tariffs of up to 30% on food exports coming from E.U. nations. European taxes on most Japanese electronics products will also be dropped as soon as the accord is in effect. ^{1,2}

Who may benefit the most? Certainly, Japanese automakers have much to applaud now because their makes and models currently command a smaller market share in Europe than they do in America. European food and beverage firms also stand to be in a better position, and the deal will probably make it easier for European transportation companies to bid on Japan's lucrative government contracts. As an addendum, Japan and the E.U. will work together to create stronger barriers to cybercrime affecting their economies as well as address climate protection. ³

One potential hitch remains for the new trade pact. That is the ratification process in the European Union; the accord must pass muster with its many members. The E.U. has never struck such a massive trade deal in its history; the trade bloc emerging from it would approximate the North American Free Trade Agreement (NAFTA) in size. Both Japanese and European officials, however, expect to put the last touches on the agreement within months. ³

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Citations.

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