

Japan's Participation in TPP Negotiation: Prospect and Policy Implications for Korea

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Gyupan Kim Research Fellow, Japan Team, Department of International Economy (keiokim@kiep.go.kr)

Overview of the TPP Negotiations

Since March 2010, the Trans-Pacific Strategic Economic Partnership Agreement (TPP) negotiations have been taking place, where members have expanded into the 11 Asia-Pacific countries¹ from the original Pacific 4 (P4: Singapore, New Zealand, Chile, and Brunei). The P4 has rooted in the P5, where the United States initiated the liberalization of trade and investment among only P5 countries (the United States, Australia, Singapore, New Zealand, and Chile) to overcome the limits of APEC's open regionalism in the late 1990s. However, the United States and

Australia could not join the negotiations because of their respective domestic political problems. The current TPP negotiation is said to have been formally launched in March 2010 when the United States joined the P4 with Australia, Peru, and Vietnam. Meanwhile, Malaysia was approved to participate in the TPP negotiations since October 2010; Canada and Mexico joined in December 2012. The current 11 TPP negotiating countries aim to reach the framework agreement until the APEC summit that will be held in October 2013 in Bali, Indonesia, and the final agreement until the end of 2013. The TPP, as a part of the Free Trade Area of the Asia-Pacific (FTAAP), has been known as an open and multilateral FTA that aims to be a comprehensive and a highly liberalized agreement among the 21 APEC countries.

¹ Australia, Brunei, Chile, Canada, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam

The comprehensiveness of the TPP comes from the wide 21 negotiating scopes that include market access for goods, rules of origin, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), trade remedies, government procurement, intellectual property rights (IPR), competition policies, cross-border services, investment, labor, and environment.

The second characteristic of the TPP has stemmed from the 2005 P4 agreement that stipulates the elimination of all import tariffs immediately or within 10 years, and the fact that the United States concluded bilateral FTAs in the high level of liberalization above 95% with Australia, Chile, Peru, and Korea, for example.

However, the current TPP negotiations seem to proceed with difficulty as a result of conflicting interests among the negotiating countries. For example, in the sector of market access for goods, which is the most important negotiation sector to reach an overall agreement, difficult negotiations seem to lie ahead on exclusion lists of sensitive goods and time path of tariff elimination. Also, they disagree on whether the yarn forward rule should be introduced, whether the investor state dispute settlement (ISD) should be introduced, and how state-owned enterprises (SOEs) should be dealt with in terms of equal competition conditions with private enterprises.²

Japan's Declaration of Joining the TPP Negotiation: Background and Purpose

On March 15, Shinzo Abe, Japan's current Prime Minister, declared that Japan would formally join the TPP negotiation as soon as possible³. He emphasized that it would be the

last opportunity for Japan to join a global economic order led by the United States. From the political viewpoint, Abe's declaration implies that Japan would seek to curb China's expansion in the Asian region as Japan's participation would contribute to reinforce security in Asia-Pacific. In fact, the United States makes use of the TPP to check China under the "Return to Asia" strategy since the global financial crisis of 2008. Japan's participation in the TPP can be said to be consistent with the United States' intention of containing China.

Japan has been said to fall behind global economy in terms of trade and investment liberalization. The United States and the EU have strengthened their FTA policy, where the weight of trade with FTA countries in their total trade in 2012, respectively, showed 37.8% and 26.9%. Also, in case of Korea, the weight in 2012 increased to 33.9% mainly due to the conclusion of FTA with the United States and the EU. However, Japan's trade weight with FTA countries showed only 18.6%, contrary to the 23.9% of China.

Especially, the Japanese government realized that Korea's active FTA policy could jeopardize Japanese firms' competitiveness in the EU and the United States. In October 2010, the Japanese Ministry of Economy, Trade and Industry (METI) concluded that the Japan's real GDP in 2020 would decrease by JPY 10.5T (1.53% of 2020 GDP) if Korea would conclude FTA agreements with the United States, the EU, and China. This estimation seemed to strengthen the Japanese government's consciousness of crisis that the disadvantage from nonparticipation in the TPP could be larger than the advantages when they participate.

The first time Japan's participation in the TPP attracted international attention was when Naoto Kan, Democratic Party of Japan (DPJ) prime minister, expressed his interest in the

² For more outstanding controversial issues in the current TPP negotiations, see Appendix. Also, there seems to be lack of transparency regarding the release of information on TPP negotiation process.

³ See Nihon Keizai Shinbun, March 16, 2013

TPP in October 2010. In November 2011, Yoshihiko Noda, DPJ prime minister, also noted that he had decided to begin consultations with the TPP members with an eye to join the TPP negotiations. According to this resolution, the Japanese government began to consult with the nine TPP countries from January 2012. However, the DPJ administrations could not overcome their domestic agricultural sector's oppositions to joining the TPP mainly due to low political support from the public.

The Japanese government's attitude in joining the TPP has drastically changed since the U.S.–Japan summit in February, 2013. A joint statement by the United States and Japan that time made it clear that both countries have bilateral trade sensitive products, such as certain agricultural products for Japan and certain manufactured products for the United States. Furthermore, it is not required to make a prior commitment to unilaterally eliminate all tariffs upon joining the TPP negotiations. In fact, at least until the general elections in November 2012, Abe's Liberal Democratic Party (LDP) expressed very negative responses to joining the TPP without any exception about tariff elimination.

Japanese Government's Negotiation Strategy in the TPP talks

The Japanese Cabinet Secretariat announced the economic effects of their joining the TPP. According to estimation,⁴ Japan's participation in the TPP could bring them a GDP increase by JPY 3.2 trillion (0.66% of GDP) in spite of the decrease in agricultural production by JPY 3 trillion. They estimated the economic effects based on the hypothesis that tariffs of all products would be eliminated immedi-

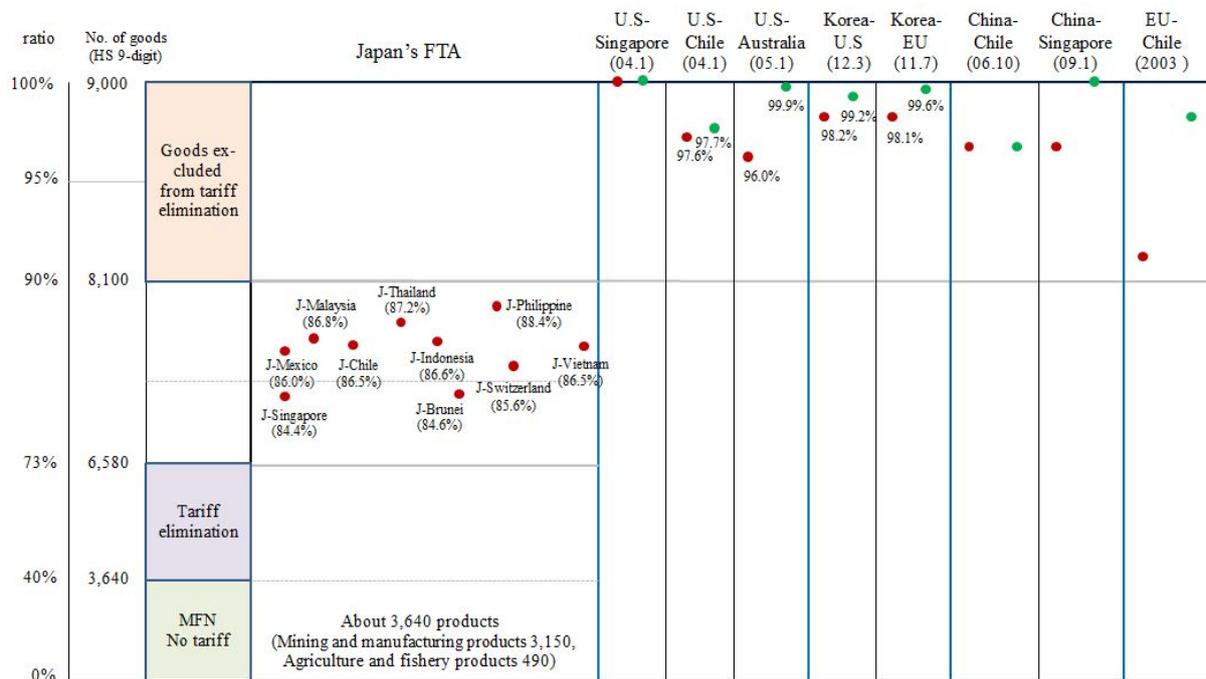
ately. However, long-term economic effects of investment liberalization and elimination of nontariff barriers could not be reflected in that estimation. This announcement has significant meanings in that they could coordinate conflicting interests among government organizations contrary to DPJ's ruling era, and they could pave way to joining the TPP in the soonest possible time.

Prime minister Shinzo Abe expressed his basic policy direction that includes six preconditions for joining the TPP talks, that is, ① opposition of joining the negotiations without any exception about tariff elimination, ② rejection of import quotas on the manufacturing goods, such as automobiles, ③ protection of public health insurance system, ④ maintenance of food security standards, ⑤ objection to introduction of the ISD violating national sovereignty, ⑥ adaption of appropriate strategy in fields of Government Procurement and Financial Services.

The Japanese government seemed to agree with the United States government on "trade strategy", which means Japan would protect their agricultural markets by excluding agricultural products from tariff elimination, while the United States would protect their automobile markets through longer maintenance of tariff on Japanese automobiles than in KORUS FTA. This trade strategy will be very useful and beneficial to Japan in joining the TPP, considering the very low liberalization levels of the past 13 Japan's FTAs. Figure 1 compares the liberalization levels in Japan's FTAs with other countries' ones, measured as the ratio of the number of products that tariffs eliminated immediately or within 10 years to all the products on the HS 9 digits. Japan's low liberalization level below 90% mainly came from the government's strong intention to protect the agricultural sector. For example, in the past 13 Japan's FTAs, they excluded 940 products in total from tariff eliminations, where 834 products belonged to the agricultural sector.

⁴ Japanese Cabinet Secretariat, Kanzei Teppaisita-baaino Keizai Koukani Tsuiteno Seihu Touitsu Shisan, March 15, 2013. (http://www.cas.go.jp/jp/tpp/pdf/2013/130315_touitsuishisan.pdf.)

Figure 1. Liberalization level in the Japan's FTA agreements



Note: The time in the parenthesis indicates when the agreement came into effect

Source: Ministry of Economy, Trade and Investment (2012), *White Paper on International Economy and Trade*. p. 390

Public opinion in Japan has accelerated and proclaimed to exclude five major agricultural products from tariff elimination in TPP talks since the U.S.–Japan summit's joint statement in February 2013. Table 1 shows the request list that should be excluded from the TPP negotiations. Furthermore, Koya Nishikawa, chairman of the TPP committee in ruling LDP, called for exit from the TPP talks unless the Japanese government realizes the exclusion of agricultural products from tariff elimination.

Table 1. Japan's request list for exclusion from tariff elimination: Five major agricultural and livestock products

Request lists	Tariff rates	Japan's domestic production (2011)
Rice	778%	JPY 1,824 bn.
Dairy	360%	JPY 661.3 bn.
Sugar	328%	JPY 146.1 bn.
Wheat	252%	JPY 29.6 bn.
Beef	38.5%	JPY 502.9 bn.

Source: Nihon Keizai Shinbun, February 26, 2013.

In the automobile sector, the United States government requests for the elimination of nontariff barriers in Japan besides the maintenance of tariff on Japanese automobiles in U.S. market. The U.S. government attributes the low level of imported automobiles market share in Japan to nontariff barriers in Japan, for example, vehicle certification system, vehicle inspection system, automobile registration system, tax preference for light car, and distribution system.⁵ The nontariff barriers in Japan's automobile market may be disputable in the U.S. congress as well as in the TPP talks.

⁵ For Preferential Handling Procedure for Imported Motor Vehicles (PHP), which is a simpler procedure applicable just only to automobiles sold in small quantities in Japan, the U.S. and Japan governments agreed to increase PHP unit of the U.S. automobiles from 2,000 to 5,000 per year. See Nihon Keizai Shinbun, March 6, 2013.

Table 2. Market share of imported automobiles in the Japan's domestic market

	2010		2011	
	Unit	Share (%)	Unit	Share (%)
Passenger Cars	180,255	4.5	203,800	6.1
Trucks	1,718	0.2	1,999	0.3
Buses	109	0.9	58	0.6
Total ¹⁾	182,082	3.7	205,857	4.9

Note: 1) The total number excludes automobiles Japanese manufacturers produced overseas and imported.

Source: Japan Automobile Importers Association (JAIA), Imported Car Market of Japan 2012, May 25, 2012.

For Japanese insurance market, the U.S. government requests equal footing on competition between state-owned Japan Post Holdings and private insurance companies. Especially, the U.S. government alert new entrance of Japan Post Insurance owned by Japan Post Holdings into cancer insurance market and educational endowment insurance market. Finally, the U.S. government seemed to get the concessions

from Japanese government, who agreed not to permit Japan Post Insurance to enter cancer insurance market that is dominated by U.S. companies, such as Aflac.⁶

Of course, the Japanese government would not take a defensive strategy in all the TPP negotiation sectors. Japan, as the third largest economic country, would stress the global trade and investment rules in the TPP talks. The Japanese government already made clear their TPP strategy in some trade and investment liberalization. For example, they would request deregulation of entry barriers to foreign capital in Vietnamese retailing sectors, the amendments of Malaysian Bumiputera policy and preferential treatment of local firms by U.S. state governments. Also, they insist on the construction of common framework on Rules of Origin (ROO) and the rigid enforcement of regulation on the pirated products and counterfeits (see Table 3).

Table 3. Japanese government's TPP negotiation strategy

Offensive Stances		Defensive Stances	
Sector	Focus	Sector	Focus
Cross-border Service	Request deregulation of entry barriers to foreign capital in Vietnamese retailing sectors	Customs Tariff	Protection of tariff on agricultural products. (ex. Rice: 778%, Beef: 38.5% etc.)
Government Procurement	Request for amendment of Malaysian Bumiputera policy, and preferential treatment of local firms by States government of the United States	Sanitary and Phytosanitary Standards (SPS)	Maintaining of domestic regulation on food safety and indications about GMOs
Rules Of Origin (ROO)	Insist on the construction of common ROO framework	Intellectual Property Rights (IPR)	Maintaining of domestic protection periods of IPR on pharmaceuticals against the United State's request for its extension.
Intellectual Property Rights (IPR)	Rigid enforcement of regulation on the pirated products and counterfeits	Investment	Objection of introduction of ISD.
Customs Tariff	Elimination of tariff on Japanese passenger cars. (ex. Vietnam:83%, U.S.: 2.5%)	Trade Remedies	Preventing overuses of safeguard.

Note: See Umada (2011)⁷ for the relationship between the TPP talks and the Japanese public health insurance system.

Source: Nihon Keizai Shinbun, March 17, 2013.

⁶ See NihonKeizaiShinbun, April 6, 2013

Prospect and Policy Implications for Korea

It is not clear whether Japan could join the TPP negotiations as they expect in July or September this year. In achieving their goals, the Japanese government needs to draw consent from Australia and New Zealand. Especially, Australia has suspended their FTA ne-

gotiations with Japan since April 2007 mainly because Japan could not meet Australia's request for the liberalization of agricultural products, such as wheat and beef. Australia still shows reservation to Japan's joining the TPP.⁸ Also, it is difficult to forecast which direction the U.S. Congress calls for additional requests despite the conclusion of consultations at government levels.

Table 4. Economic effects of joining the TPP for Korea and Japan

(Unit: bn. USD, 2007 constant prices)

Country	2025 GDP	GDP growth (rate, %)		Export growth (rate, %)	
		TPP 12 ¹⁾	TPP 13 ¹⁾	TPP 12	TPP 13
United States	20,273	76.6(0.4%)	77.5(0.4%)	123.5(4.4%)	124.2(4.4%)
China	17,249	-34.8(-0.2%)	-46.8(-0.3%)	-43.7(-1.0%)	-57.4(-1.2%)
Japan	5,338	104.6(2.0%)	119.4(2.2%)	139.7(11.2%)	175.7(14.0%)
Korea	2,117	-2.8(-0.1%)	45.8(2.2%)	-7.0(-1.0%)	88.7(12.4%)
World	103,223	223.4(0.2%)	294.7(0.3%)	305.2(1.1%)	443.7(1.6%)

Note: 1) TPP 12: the current TPP 11 countries plus Japan, TPP 13: TPP 12 plus Korea

Source: Petri, Plummer and Zhai (2012, 2013)⁹

Japan's joining the TPP talks could delay the conclusion of the TPP agreement, considering the entangling of interest conflicts among negotiating countries. Of course, it would be very timely for Japan to participate the TPP negotiation in July or September this year in that negotiation sectors in which Japan has highly interests, such as market access for goods, investment, intellectual property rights (IPR), have not yet reached conclusions.

The Korean government needs to examine carefully the political and economic effects of the TPP joining. First of all, Korea's joining the TPP could mean participation in the glo-

bal trade and investment standards led by the U.S. Recently, the United States sped up their intention to reorganize the global economic order, centering on the developed countries through the FTAs with EU (TTIP) and Japan (TPP).

Moreover, Korea's joining the TPP could expect potential economic effects of bilateral FTA conclusion with Japan, Australia, New Zealand, Canada, and Mexico. Table 4 shows the economic effects of Korea's joining in 2014 the TPP following Japan's joining. According to this scenario (in case of TPP 13 in Table 4), Korea also could expect the same GDP growth rate (2.2%) in 2025 as the Japan.

⁷ Keiichi Umada (2011), "Beikokuno TPP Senryaku To Nihonno Taiou (The TPP Strategy of the U.S. government and the response of Japan)," *Kokusai Boueki To Toshi (International Trade and Investment)*, Institute for International Trade and Investment, No. 85, pp. 16-17.

⁸ Nihon Keizai Shinbun (April 12, 2013) says Australia as well as New Zealand, Canada will soon approve Japan's joining the TPP.

However, it should be remembered that the estimation of Petri, Plummer, and Zhai (2012, 2013) hypothesize immediate elimination of tariffs of all products, investment liberalization, and elimination of all the non-tariffs that it could lead to extremely optimistic support to the Korea's joining the TPP. On the contrary, there is an argument that the economic effects of Korea's joining the TPP could be trivial ones because Korea already concluded bilateral FTA with the United States and is also on the negotiation with Australia, New Zealand, and Canada. It means bilateral FTAs with these countries are rather beneficial to Korea's economic interests.

Furthermore, Korea's joining the TPP could bring negative effects on the Korea-China

economic relationships, including the ongoing the FTA negotiations between the two countries. This could come from the political intention of Japan's participation in the TPP to curb China in Asia

Finally, from the perspective of East-Asia economic cooperation, the Korean government needs to consider the initiative competition between China and Japan. Japan's joining the TPP talks could stimulate China's more active involvement in multilateral FTAs in this region, for example, Korea-China-Japan FTA and RCEP (Regional Comprehensive Economic Partnership). Meanwhile, the East Asia FTA negotiations could be more difficult to conclude due to tougher stances of China and Japan. **KIEP**

⁹ Peter A. Petri, Michael G. Plummer, and Fan Zhai (2012), *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, Peterson Institute for International Economics; Peter A. Petri, Michael G. Plummer, and Fan Zhai (2013), *Adding Japan and Korea to the TPP*, Peterson Institute for International Economics, <http://asiapacifictrade.org>. (March 7)

Appendix. The current TPP negotiation situations and outstanding controversial issues

Negotiation Sector	Current situations and main Issues
Market access for goods	<ul style="list-style-type: none"> - Bilateral negotiations proceeded in the ways of exchange offer and request each other since January 2011. However, there are still disputes on exclusion lists of sensitive goods, and time path of tariff elimination. • Tariff negotiations among the TPP 11 base on the bilateral ways in which any country start to negotiate with countries that they have not yet concluded FTA¹⁾. • For sensitive goods, the argument that neither exclusion nor re-negotiation should be admitted has not yet reached conclusion²⁾. Also, the argument that tariffs on the 90–95% of goods should be immediately eliminated and the remaining ones be eliminated within 7 years has not yet reached conclusion. The controversial issue is the immediate tariff elimination level.
Rules of Origin (ROO)	<ul style="list-style-type: none"> - Negotiating countries are searching for common rules applicable to all the parties, and reaching conclusions on Product Specific Rules except sensitive goods. • For textile goods, whether yarn forward rule should be introduced not yet decided. • It seems to accept cumulative rules of origin, and “self-certification” procedures by exporters.
Investment	<ul style="list-style-type: none"> - For investment rules, differences exist on ① protection scope of investment property, MFN treatment, reasonable compensation in case of expropriation, bar performance requirement, and technology transfer request, ② introduction and application scope of ISD, the way in which balances the regulation authority by State and the investor protection. - For market access, negotiations are proceeding based on a negative list way.
Government procurement	<ul style="list-style-type: none"> - The main issues are ① whether TPP regulations should be stricter than WTO GPA, ② whether local governments and state governments should be subject to TPP regulations. • Malaysian Bumiputera policy and Vietnamese government procurement policy are disputable ones.
Intellectual property rights (IPR)	<ul style="list-style-type: none"> - Negotiations are focusing on ① whether TPP regulations should be stricter than WTO TRIPS, ② proposals on trademarks, geographical indications, copyrights, patents, trade secrets, data for the approval of generic resources and traditional knowledge. • New Zealand, Vietnam, Malaysia, and Brunei are opposing to introduction of WTO TRIPS+ regulations.
Competition policies	<ul style="list-style-type: none"> - TPP 11 countries are negotiating on the single text proposal. The proposal contains the principle of competition law, establishment, and maintenance of competition authority, enactment of competition law, consumer protection, technical cooperation among competition authorities, and so on. • Singapore and Vietnam are against the US' text proposals on the State-Owned Enterprises (SOEs).
Cross-border services	<ul style="list-style-type: none"> - For service trade rules, WTO GATS regulations are the main issues. For market access, negotiating countries are checking the negative lists each other. • The approval of licenses and certifications obtained abroad could be negotiated each other after the TPP agreement came into effect.
Financial Services	<ul style="list-style-type: none"> - For investment rules, main contents are ensuring protection of investments including ISD procedures, nondiscrimination, and transparency of regulation. • Controversial, particularly some advanced countries seek comprehensive services sector access.

Note: 1) Australia, New Zealand, and Singapore have favored multilateral ways where all the countries that have not yet concluded bilateral FTAs should negotiate together on the same table, and they could replace the old bilateral tariff reduction/elimination schedules with the new ones. Umada (2011, p. 13) insists that the United States favored the bilateral ways contrary to the above three countries because they wanted to keep the exclusion of sugar and dairy from tariff elimination in the same as the Australia-United States FTA (AUSFTA).

2) Australia and New Zealand are against United States' argument that exclusion lists of tariff elimination should include respectively sugar and dairy products. See Ito and Tanaka (2013)¹⁰, p. 9. On January 2010, 47 congressmen of the United States sent letters to Ron Kirk, representative of USTR, which requested dairy products should be included in the exclusion lists of tariff elimination in the TPP negotiations. See Congressional Research Service (2010)¹¹

Source: Cabinet Secretariat (2012), TPP Kyoutei Kousyou No Bunyabetsu Zyoukyou (Current situations of TPP negotiations) (http://www.cas.go.jp/jp/tpp/pdf/1/20120329_1.pdf) and Ito•Tanaka (2013)

¹⁰ Mashiho Ito and Nastuko Tanaka (2013), “Kantaiheiyo Keizai Renkei Kyoutei no Gaiyo (Overview of TPP),” *Chosa To Choho*, National Diet Library Issue Brief, No. 770.

¹¹ Congressional Research Service (2010), *The Trans-Pacific Partnership Agreement*, November 1, 2010.