

Japan's Approach to TPP

**Masahiro Kawai and
Ganeshan Wignaraja
Asian Development Bank Institute**

**CNCPEC Seminar
“TPP 2012 Progress and Challenges”**

Beijing, 7 December 2012

Outline

- 1. Introduction: Importance of TPP for Japan**
- 2. TPP in Japan's Trade Strategy**
- 3. Domestic Issues in TPP Negotiations**
- 4. Economic Impact of TPP**
- 5. Conclusion**

1. Introduction:

Importance of TPP for Japan

- Japan is considering to join TPP negotiations despite strong oppositions from the domestic agricultural lobbies
- Why is TPP important for Japan?
- How is it consistent with Japan's EPA policies towards East Asia?
- What are important challenges for Japan to successfully reach a TPP agreement?
- What is next after TPP?

2. TPP in Japan's Trade Strategy

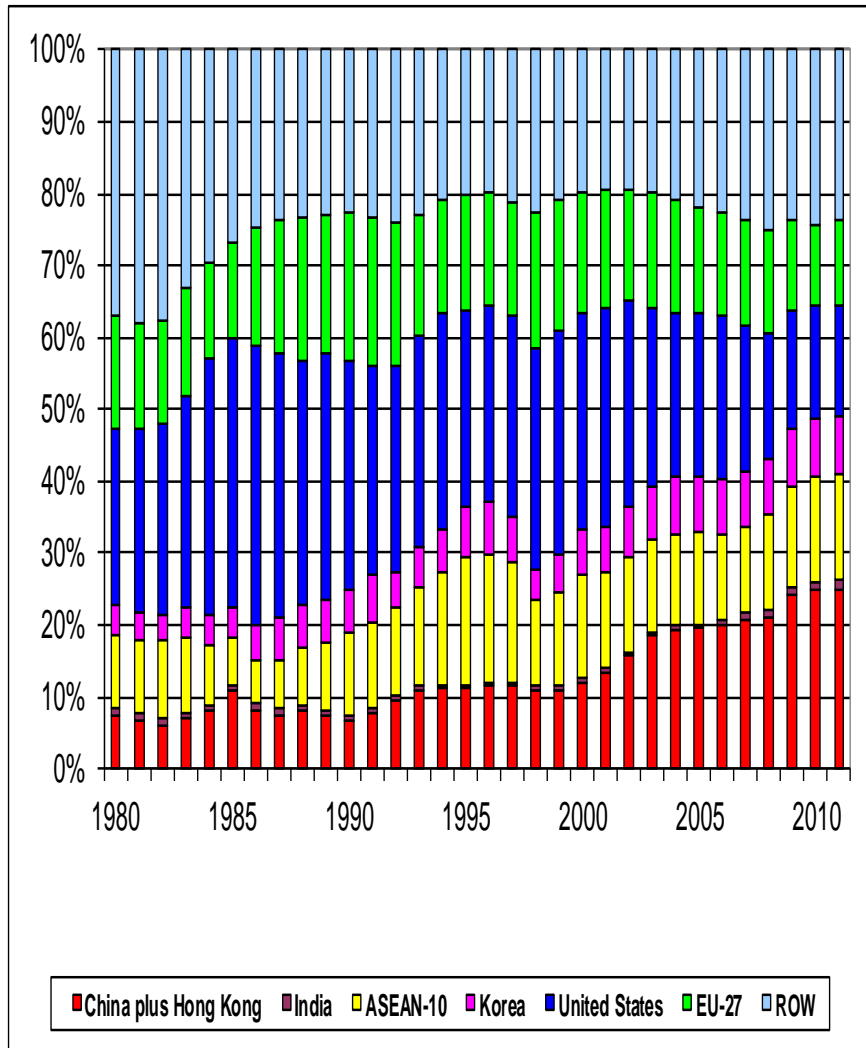
- **Japan's trade and FDI**
- **Japan's trade strategy**
- **Pros and cons of TPP**

(1) Japan's trade and FDI

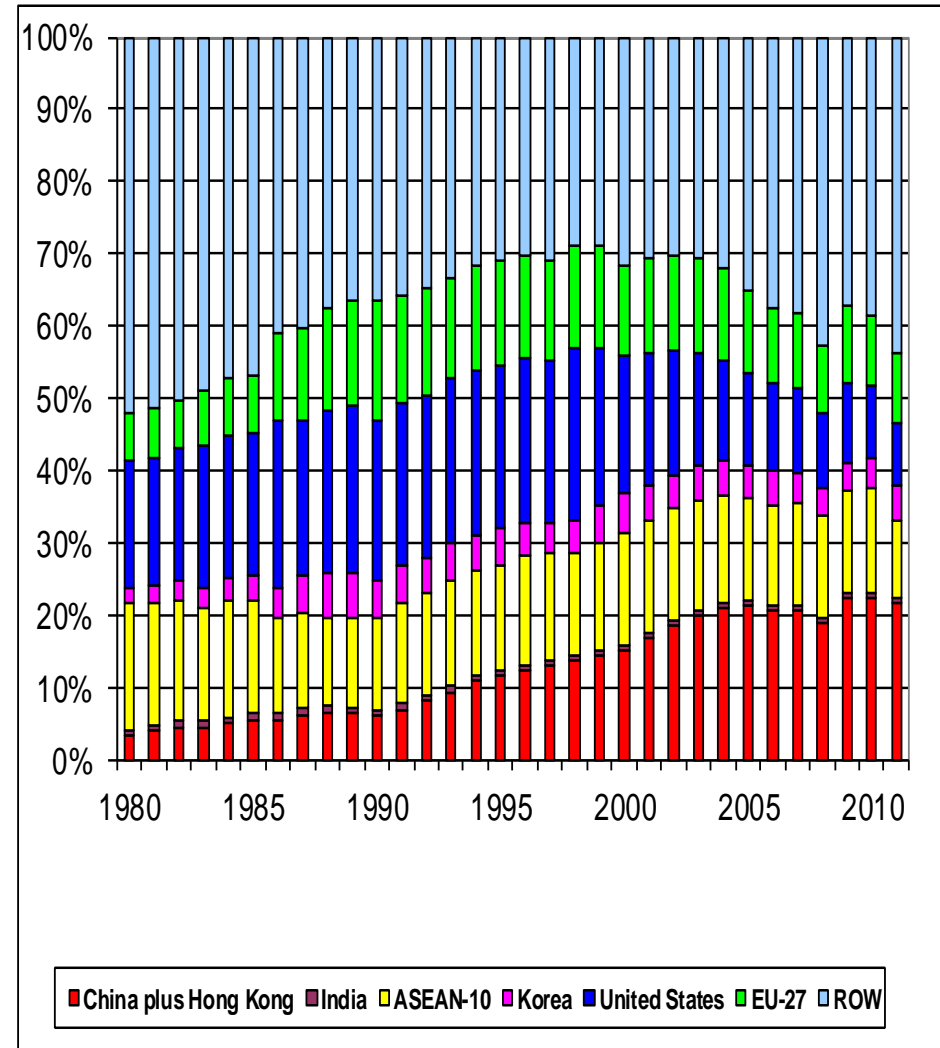
- Japan has benefitted from trade and FDI expansion over the last 30 years
- Japanese MNCs were the first that developed production networks and supply chains throughout emerging Asia, leading to factory Asia through their technological capabilities
- Japan's three major trading and FDI partners are emerging Asia, EU and USA
- Japan's trade dependence on China has been rising fast, and so are the "fear of over-dependence on China" and the perceived "China risk"
- From international comparative perspectives, Japan's trade and FDI (both outward and inward) are still low, suggesting further needs to integrate with the global markets

Japan's trade shares with various regions

Japan's exports



Japan's import



Japan's exports shifting to emerging Asia

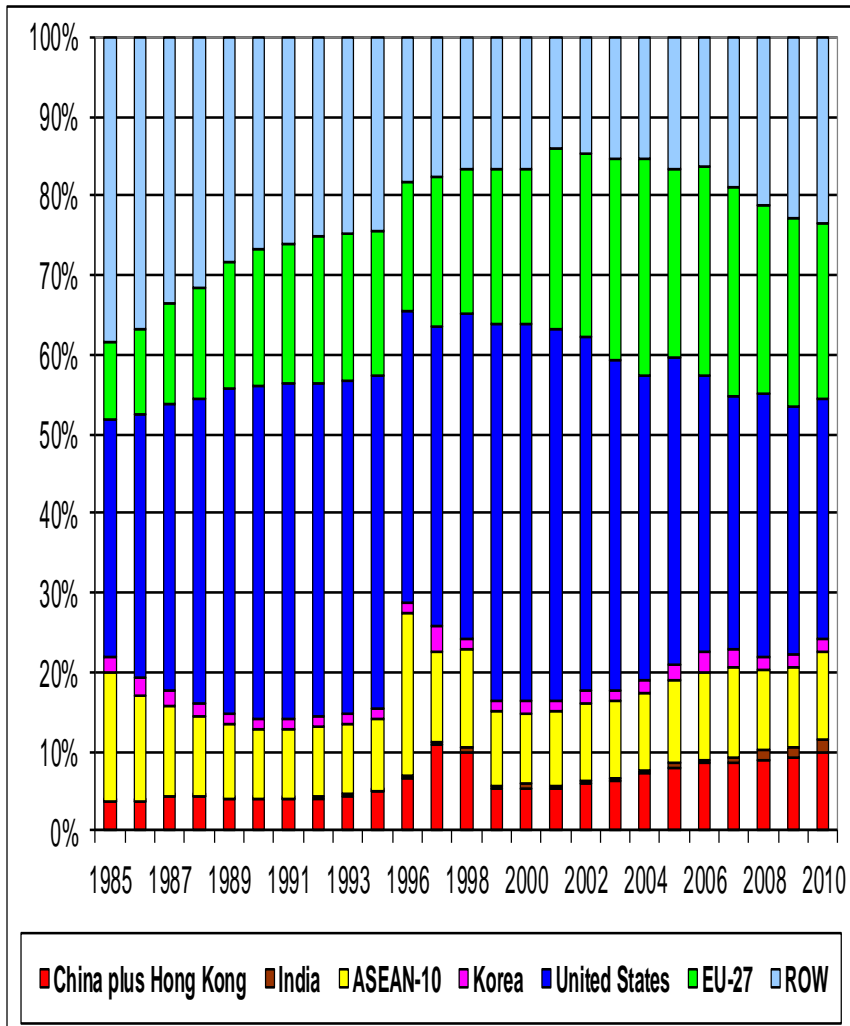
	Export share,	Export share,	Export share,
	1990 (%)	2000 (%)	2011 (%)
World	100.0	100.0	100.0
People's Republic of China	2.1	6.3	19.6
Republic of Korea	6.1	6.4	8.0
ASEAN	11.6	14.3	14.9
India	0.6	0.5	1.3
Emerging Asia	25.0	33.3	49.1
United States of America	31.6	30.1	15.5
European Union	20.8	16.8	11.6
TPP-9	40.4	40.0	25.1
TPP-11	43.5	42.7	27.4

Notes: Association of Southeast Asian Nations (ASEAN) is composed of its 10 member countries; Emerging Asia includes the 10 ASEAN countries; PRC; Republic of Korea; India; and Hong Kong, China; European Union is composed of its 27 member countries; Transpacific Partnership Agreement/TPP-9 is composed of Singapore, New Zealand, Chile, Brunei Darussalam, United States of America, Australia, Peru, Viet Nam, and Malaysia; TPP-11 is TPP-9 plus Mexico and Canada.

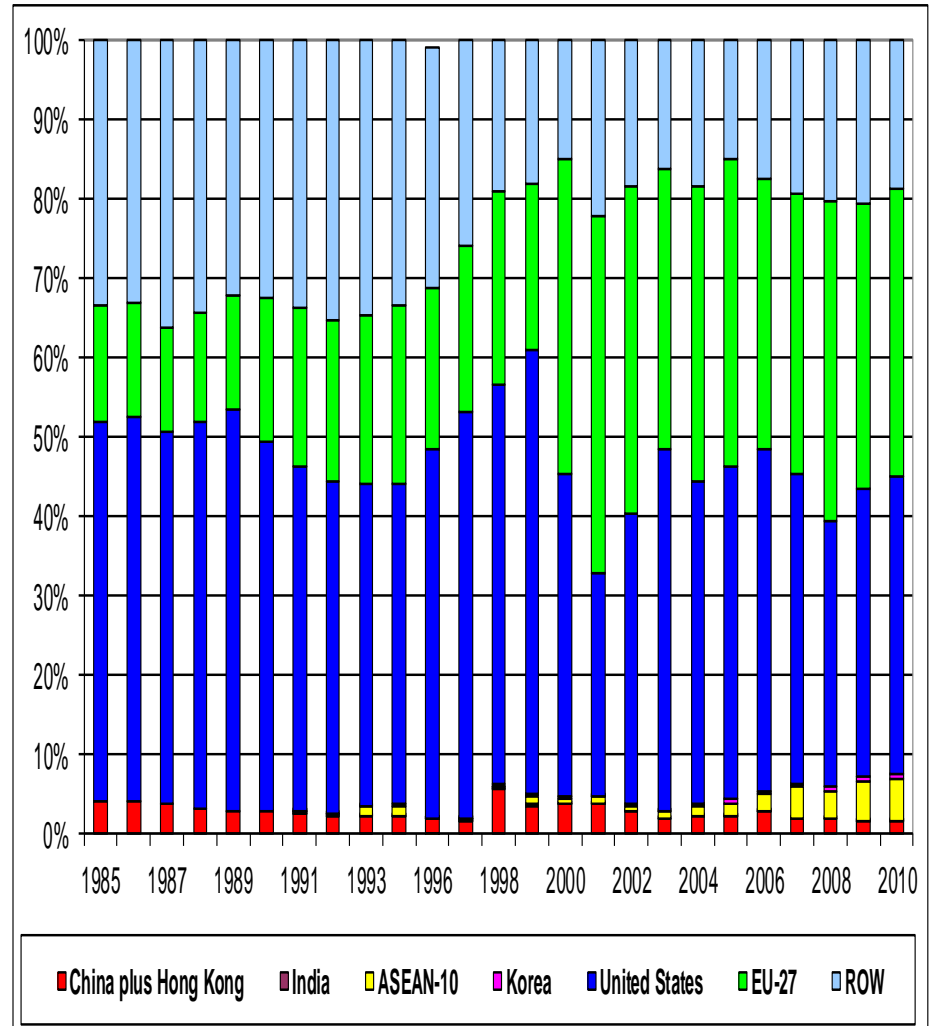
Source: Calculated from IMF, Direction of Trade Statistics; accessed on November 2011

Japan's FDI shares with various regions

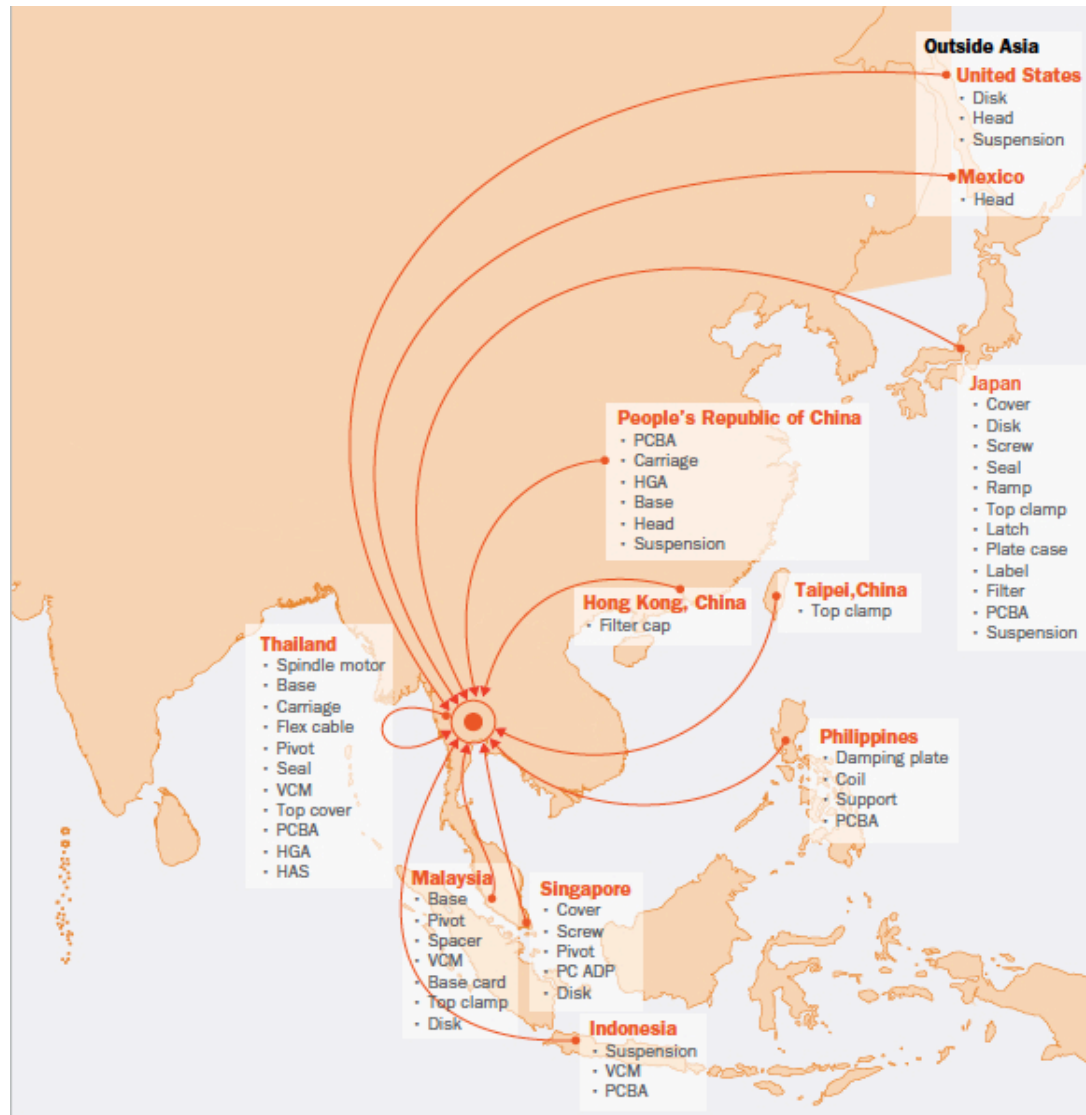
Japan's outward FDI stock



Japan's inward FDI stock

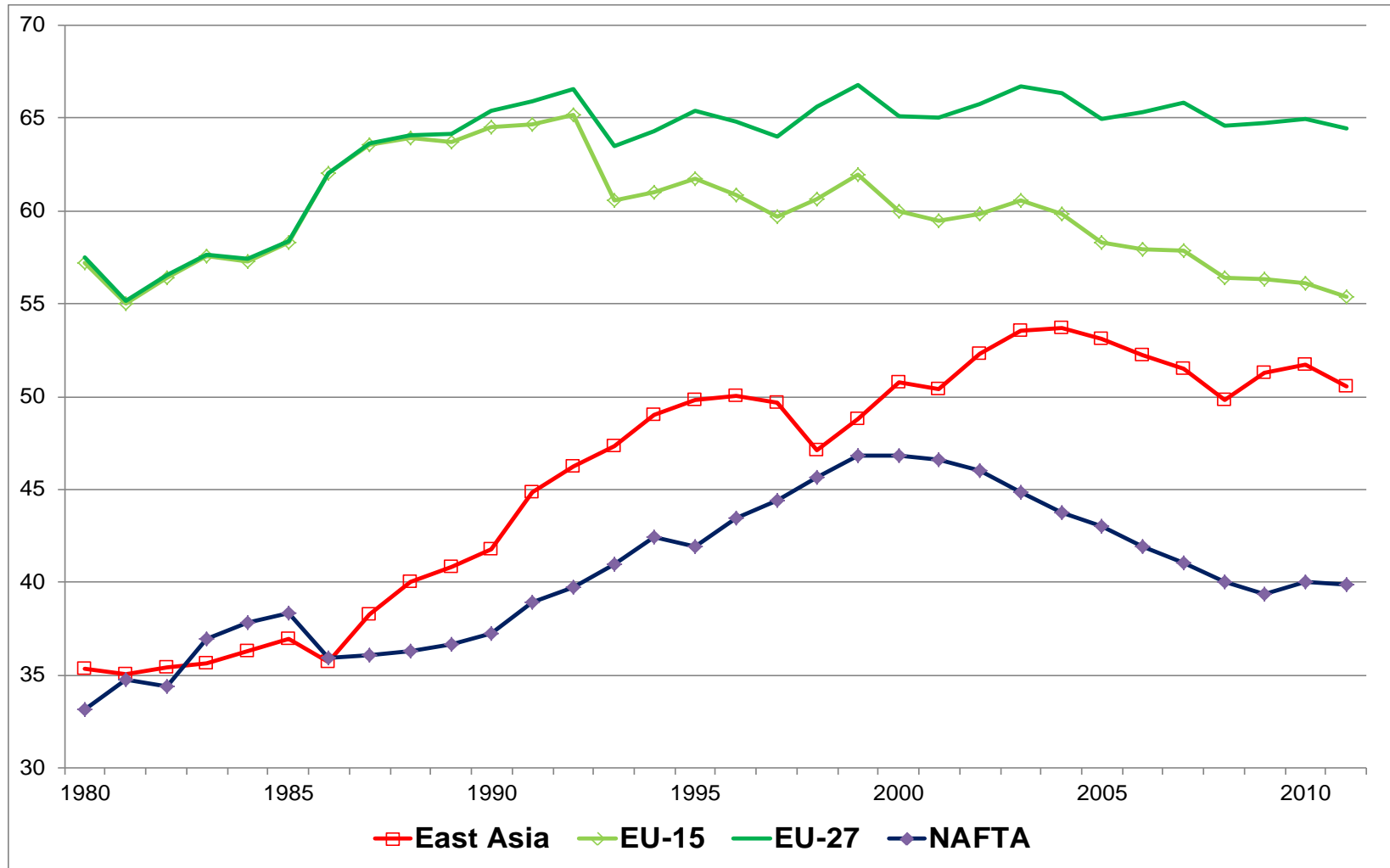


Emergence of the Global Factory



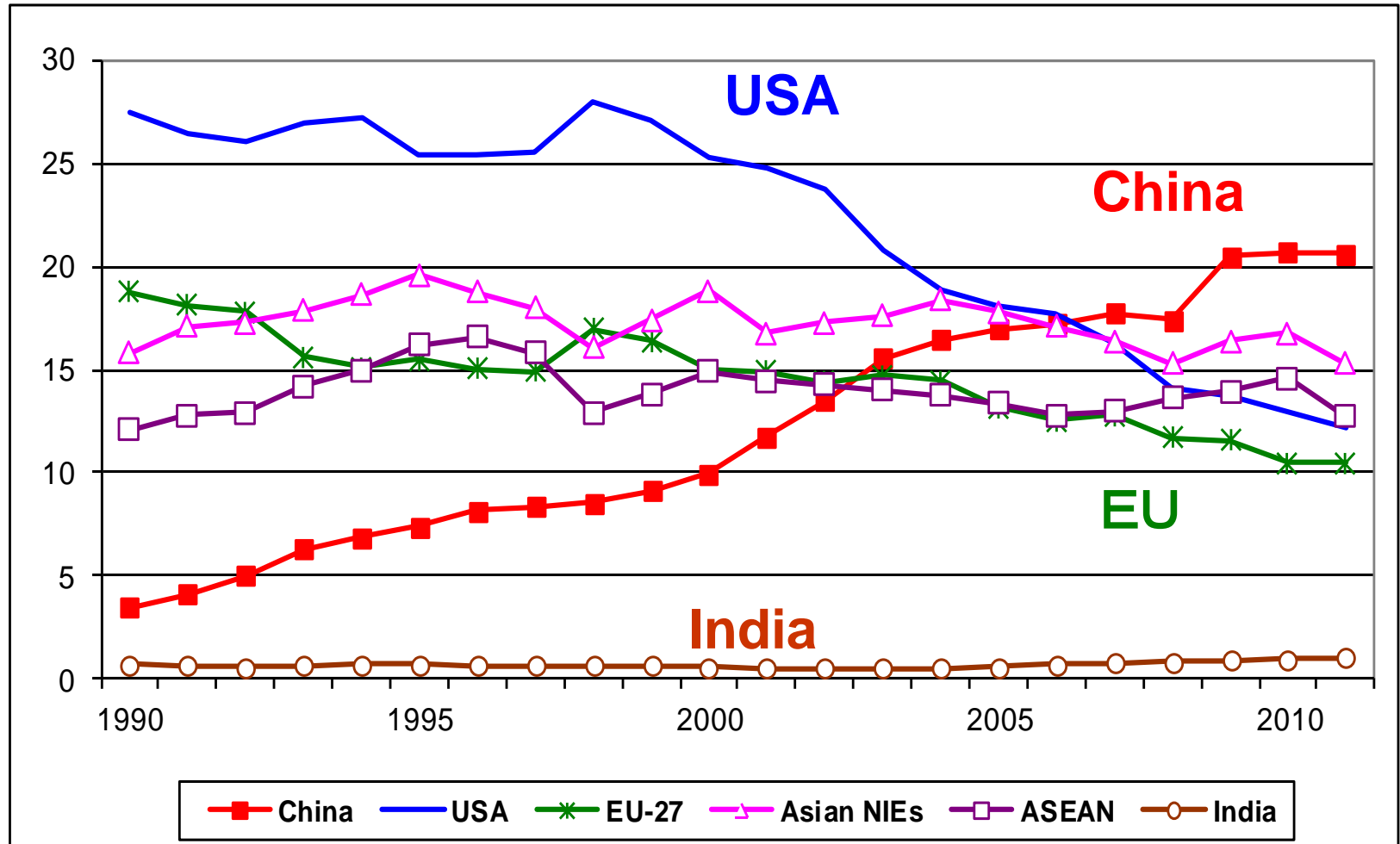
- Openness and export-led model has created supply chains—forming a regional hub of global production networks
- Japanese MNCs with advanced technologies have played a key role in boosting productivity and cutting costs

East Asia's intra-regional trade dependence rising over time, 1980-2010



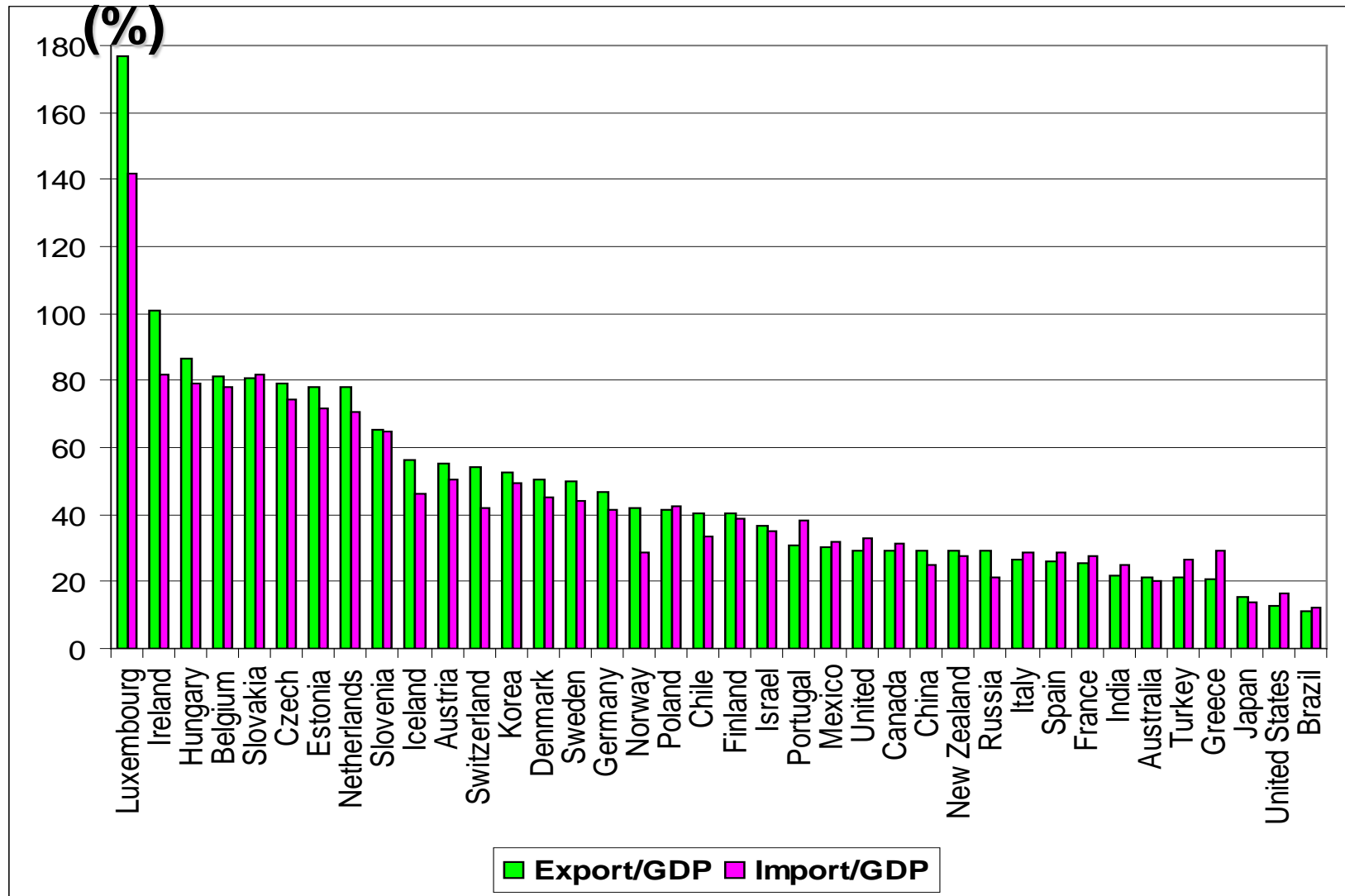
Source: International Monetary Fund, *Direction of Trade Statistics*

Japan's rising trade dependence on China (%)

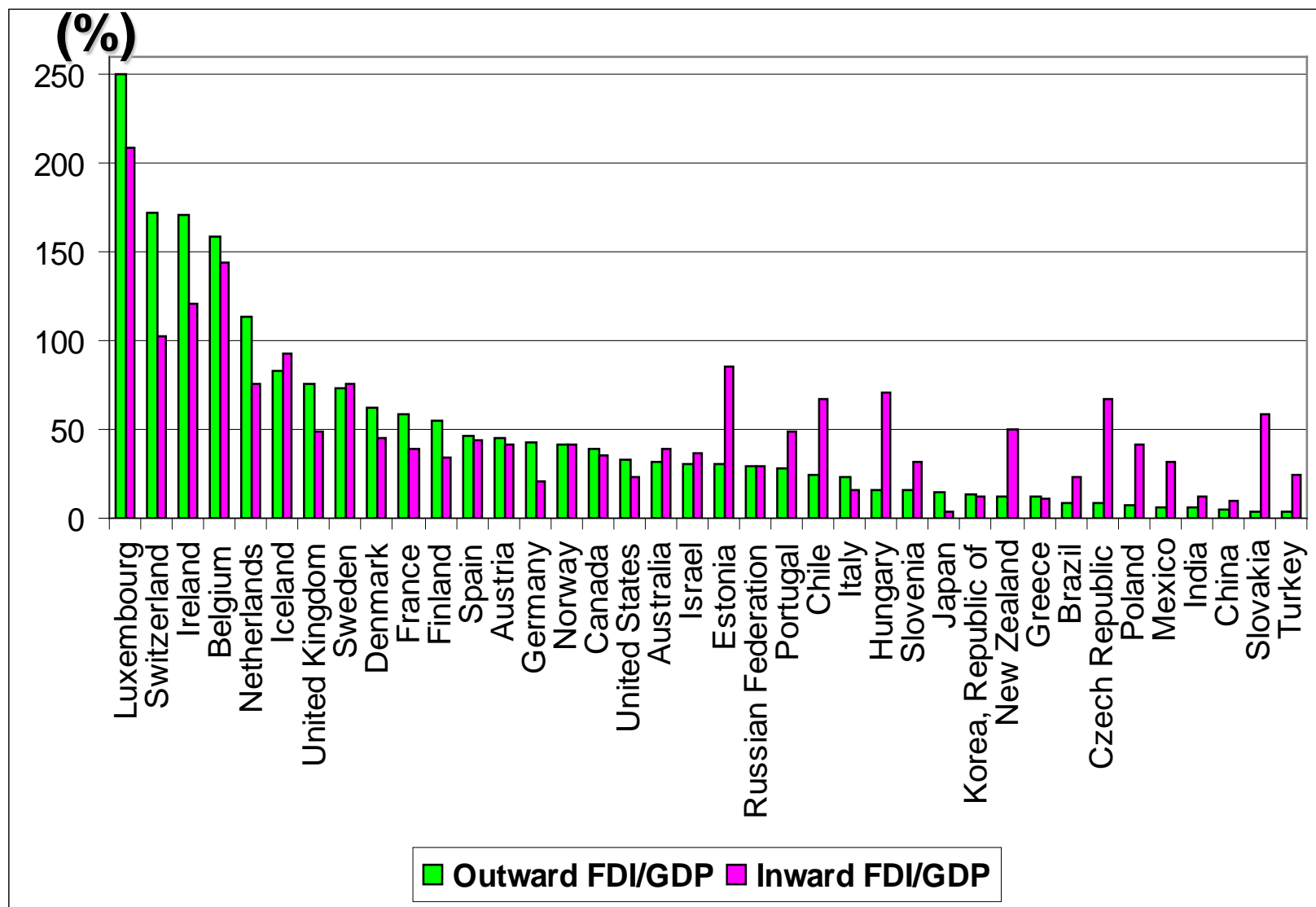


Source: International Monetary Fund, *Direction of Trade Statistics*, CD-ROM

Japan's trade/GDP ratios are low in comparison to other OECD countries



Japan's FDI (stock)/GDP ratios are also low



(2) Japan's trade strategy

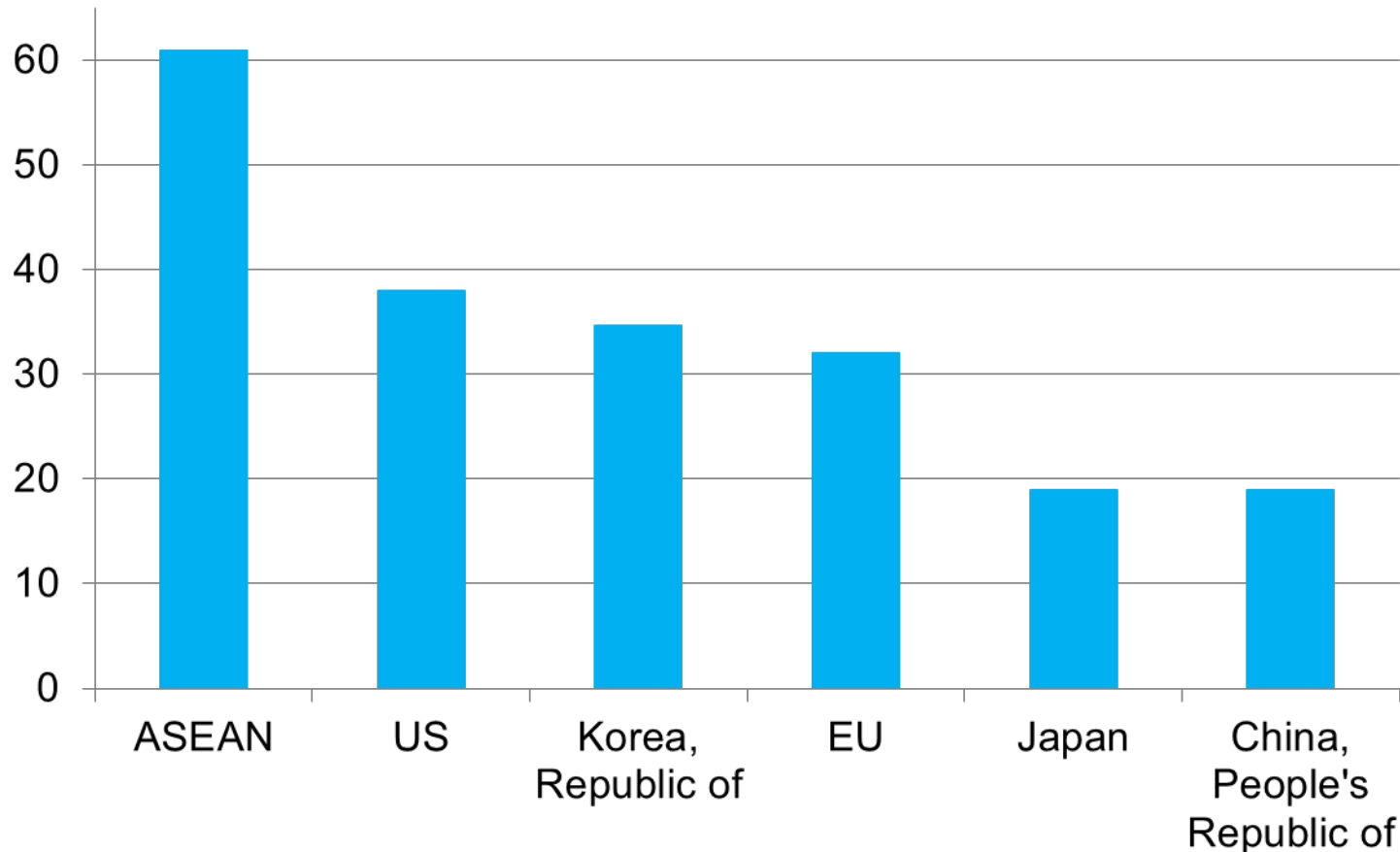
- There has been a shift from a WTO-only approach to a multi-track approach of using the WTO process as well as EPA policies
- So far Japan has implemented EPAs with 1 region (ASEAN) and 12 countries
 - Under official negotiations with Australia, Canada, GCC, Korea (suspended), and Mongolia
 - Official negotiations to begin with ASEAN+6 countries (for an RCEP), China & Korea (for a CJK EPA), Colombia and EU
- Problems with the current EPA approach
 - Low trade coverage with FTA partners (only 19%)
 - Low liberalization rate (in the range of 84-88%)

Japan's FTAs implemented

FTAs in Effect	Year	FTA Partners(15)
Japan-Singapore Economic Agreement for a New-Age Partnership	2002	Singapore
Japan-Mexico Economic Partnership Agreement	2005	Mexico
Japan-Malaysia Economic Partnership Agreement	2006	Malaysia
Japan-Chile Economic Partnership Agreement	2007	Chile
Japan-Thailand Economic Partnership Agreement	2007	Thailand
Japan-ASEAN Comprehensive Economic Partnership	2008	ASEAN-10
Japan-Brunei Free Trade Agreement	2008	Brunei
Japan-Indonesia Economic Partnership Agreement	2008	Indonesia
Japan-Philippines Economic Partnership Agreement	2008	Philippines
Japan-Switzerland Economic Partnership Agreement	2009	Switzerland
Japan-Viet Nam Economic Partnership Agreement	2009	Viet Nam
Japan-India Comprehensive Economic Partnership Agreement	2011	India
Japan-Peru Economic Partnership Agreement	2012	Peru

FTA trade coverage

Comparison of FTA Coverage of Total Trade (%), 2011



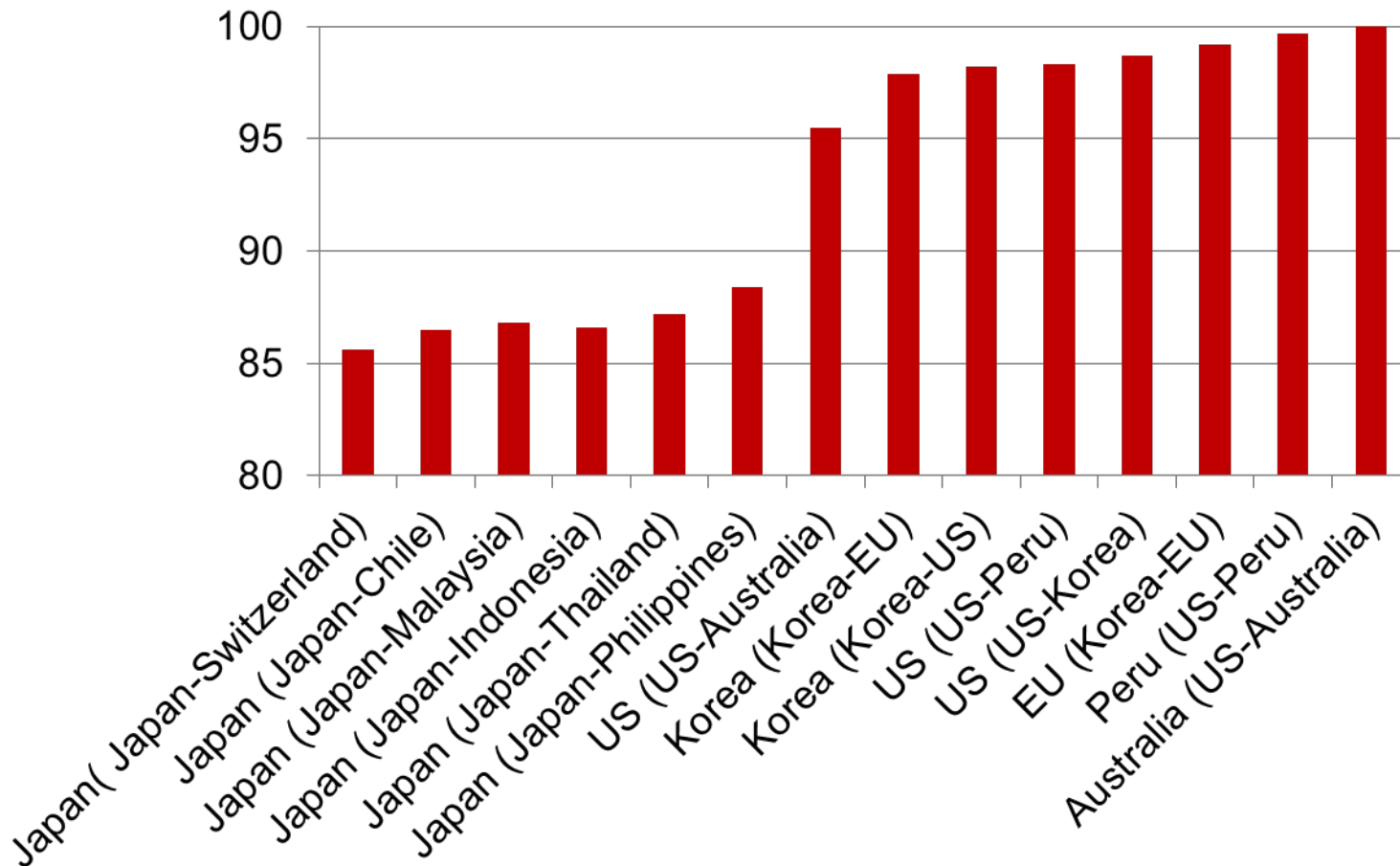
Notes: (1) ASEAN data include intra-ASEAN trade

(2) EU data exclude intra-EU trade; if intra-EU trade were included, the EU data would be 78%.

Source: Calculated from IMF, Direction of Trade Statistics (DOTS).

FTA liberalization rates

Comparison of FTA liberalization rates (%), based on no. of tariff lines to become zero tariffs in 10 years

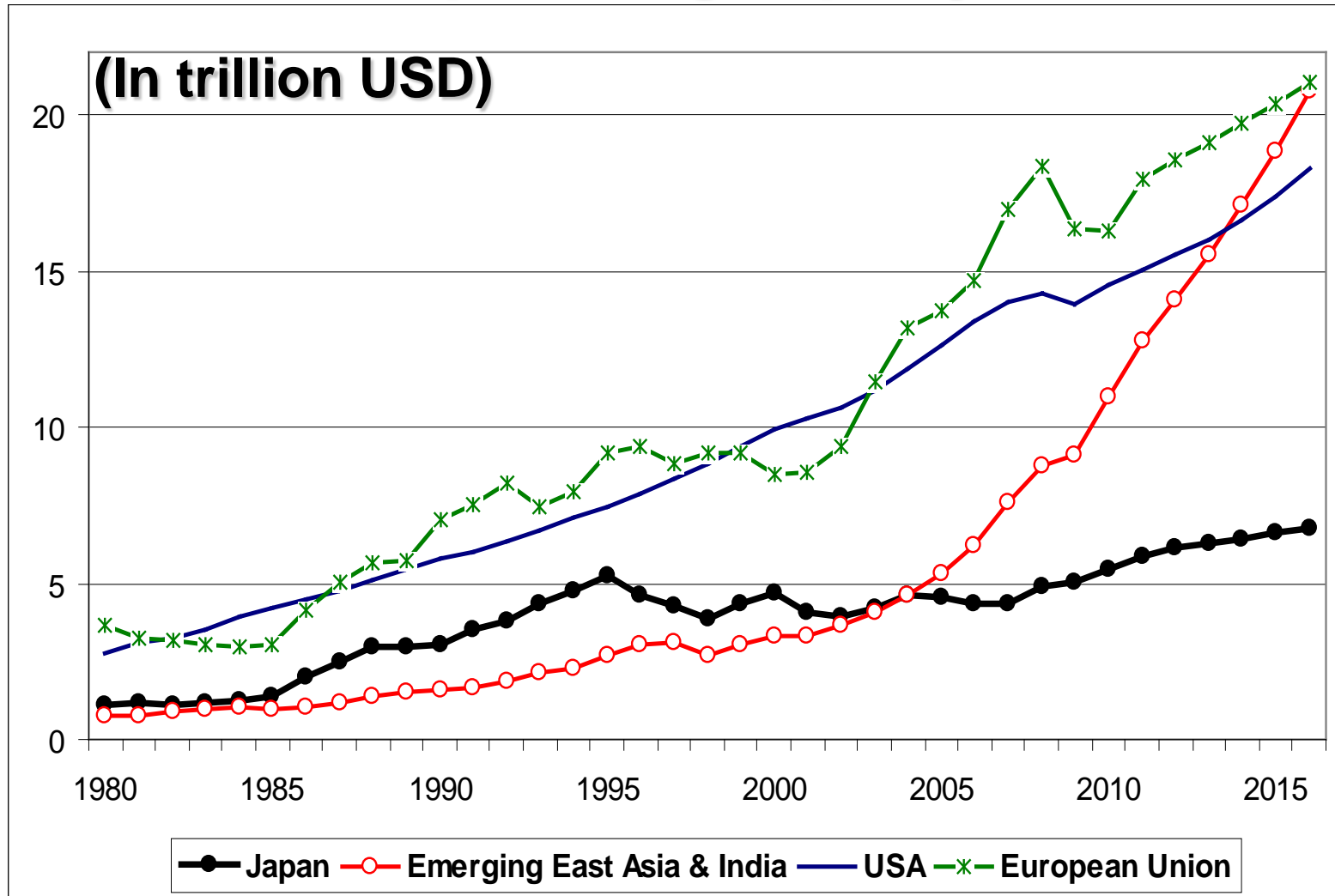


Source: Cabinet Office, Japanese Government

Need to forge EPAs with the three major economic regions

- Given that the EU, USA and emerging Asia are the largest trade and FDI partners, Japan needs to strengthen economic ties with each of these
 - TPP provides an excellent opportunity to connect with the US and the Americas
 - Forging a Regional Comprehensive Economic Partnership (RCEP) should also be a priority as emerging Asia is the most dynamic economic region in the world
 - A Japan-EU EPA would require Japan to address behind-the-border issues
- These EPAs will help Japan in achieving greater diversification of trade relationships

Emerging economy markets are expanding rapidly



Note: The data are nominal GDPs measured at current exchange rates. Those for 2011-15 are IMF projections.
Source: International Monetary Fund, *World Economic Outlook*, September 2011.

(3) Pros and cons of TPP

Benefits of TPP for Japan

- TPP can be an initial step towards an FTAAP so that Japan's participation allows it to have voice in setting future common rules in the Asia-Pacific region
- TPP promotes trade among member countries through reduction of trade barriers
- TPP protects intellectual property rights (technologies, brand names, etc) of Japanese firms in member countries
- TPP protects Japanese firms' investment from discriminatory treatment
- TPP provides opportunities for Japanese SMEs in conducting business through simpler trade procedures and movement of business persons

Other perceived benefits

- TPP can strengthen the Japan-US relationships and allow diversification of Japan's trade, given the fear of over-dependence on China and the perceived China risk
- Japan can rectify Japanese firms' disadvantageous positions in the US markets relative to Korean firms which enjoy preferential tariffs
- TPP negotiations can induce: (i) China to be firmly committed to RCEP negotiations; and (ii) the EU to accelerate official negotiations on a Japan-EU EPA
- TPP provides an opportunity to reform the agricultural sector in a fundamental way

Concerns over TPP

- TPP would require immediate tariff elimination on all products in principle, thereby leading to the stagnation of agriculture and further declines in food self sufficiency
- TPP could increase unsafe food imports or lead to relaxation of food safety standards
- TPP could limit scope for publicly supported medical insurance
- TPP could allow inflows of low-quality foreign professionals (medical doctors, lawyers, etc) and manual workers
- TPP would force opening of procurement for local governments' public works, thereby moving business opportunities away from domestic to foreign firms
- TPP would allow foreign investors' legal disputes to expand and lead to changes in domestic laws or undermine national sovereignty

3. Domestic Issues in TPP Negotiations

- **Manufacturing sector's interest**
- **Agricultural sector's resistance**
- **Other sector's concerns (Japan Post Insurance, automobile market, etc)**

(1) A need for a new growth strategy

- The Japanese economy needs to recover on a sustainable basis from the triple disasters
- Without growth, Japan cannot solve various important problems:
 - Securing and expanding employment
 - Creating positive prospects of a reliable social security system in an aging society
 - Reducing the public debt to a sustainable level
- Japanese firms suffer from “six pains”:
 - Strong yen
 - High corporate tax rates
 - Constraints of electricity supply
 - Delay in trade liberalization through EPAs
 - Restrictive labor regulation
 - Climate change regulations: needs to be internalized

TPP as a key part of a new growth strategy

- Economic growth requires more labor inputs, capital investment, and technological innovations:
 - TPP can stimulate foreign firms' investment in Japan
 - TPP forces domestic reforms which can revitalize economic activity and increase productivity
 - Availability of foreign skilled labor
- External demand can stimulate economic growth
- For this matter, an RCEP with ASEAN+6 countries is also vital for Japan

(2) Manufacturing sector interests

- Without joining the TPP, Japan is likely to suffer from Korea's competitiveness due to the implementation of the Korea-US FTA (January 2012)
 - Korea can enjoy preferential tariffs in the US (and in the EU with whom Korea implemented an FTA, the Korea-EU FTA, in July 2011)
 - Japan's FTA coverage ratio (the ratio of trade with FTA partners in total trade) is 19%, while Korea has 35%
- TPP would allow greater market access to countries with whom Japan has not had EPAs, particularly the US
- Protection of Japanese investment and IPRs in Malaysia, Vietnam

Japanese firms face keen competition from Korean firms in the EU and US

High-tariff products in the EU		
	Japan	Korea
Automobiles	10%	0%
TV	14%	0%
Electronic oven	5%	0%

High-tariff products in the US		
	Japan	Korea
Automobiles	2.5%	0%
Trucks	25.0%	0%
Bearing	9.0%	0%
Polyethylene; Polyester	6.5%	0%
LCD monitor; Color TV; DTV	5.0%	0%
Electric ampere; Speakers	4.9%	0%

(3) Agricultural sector's opposition

- MAFF estimates that TPP will make significant damages to Japan's agriculture as well as the overall economy:
 - Decline in GDP by 7.9 trillion yen (agricultural production by 4.1 trillion yen; loss of agriculture's multi-functions by 3.7 trillion yen)
 - Loss of job opportunities by 3.4 million
 - Decline in food self-sufficiency from 40% to 14%
- However, Japan's agricultural sector has been declining over time (with the average age of farmers being 66 years old). Not joining TPP would not stop the decline in agriculture. The agricultural sector needs fundamental reforms to make it competitive industry:
 - Concentrate farmland in the hands of professional farmers with management skills, and farmer's income compensations should be used for this purpose
 - Need to protect farmers, not through tariffs but through income transfers
 - "Food safety" is one of the most competitive factors for Japanese agriculture

(4) Other issues

- Services sector can benefit by having greater access to TPP member markets
- There is a fear that TPP may destroy the Japanese social security system, particularly its universal health and medical insurance system
 - US demand for private firm entry into hospital management
 - Higher protection of pharmaceutical IPR could result in higher costs of medical drugs (generics)
- There is a fear that postal savings and insurance services and cooperative credit institutions will be forced to become equal to private competitors
- There could be some changes in domestic laws (potentially IPR law, etc)

Japan Post Insurance

The US insists on “national treatment” in the insurance sector

- Japan Post Insurance (JPI) is a government-owned insurance supplier and enjoys a number of statutory, regulatory and other governmental privileges, which distort competition with the private sector
- Insurance businesses operated by cooperatives (kyosai) enjoy business, tax and regulatory advantages over US insurance suppliers, reflecting the fact that a number of kyosai are not regulated by the Financial Services Agency (FSA)
- More specifically, the US wants JPI not to provide new or modified products (eg, cancer insurance) until equivalent conditions of competition have been established between JPI and US insurance supplies (like Aflac)

JPI seems ready not to introduce new insurance products such as cancer insurance

Japan's automobile market

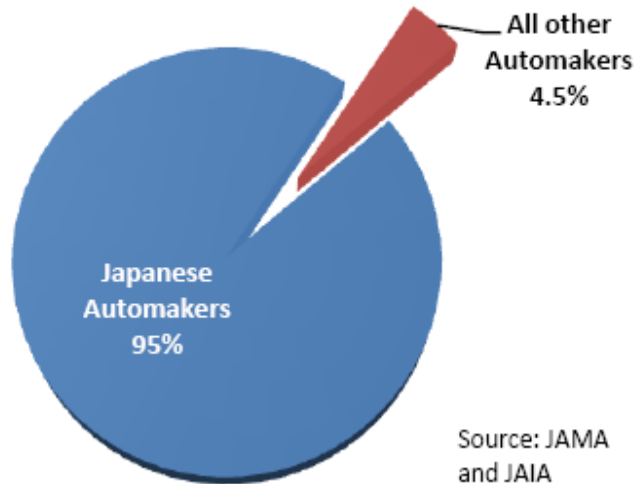
The US insists that the Japanese automobile market is closed

- Data show that Japan's automobile market is closed, even though Japan's tariff on auto imports is zero, mainly through non-tariff barriers to trade
 - Japan's automotive regulations make auto imports difficult
 - Auto rules and regulations in Japan are often developed in a non-transparent way
 - Japan provides preferential treatment to a specific car segment, "kei" super mini car, that is manufactured only in Japan
- With Japan's participation in TPP, the US overall auto trade deficit with Japan/Korea will increase (KORUS FTA has already increased the deficit with Korea)
- Japan's closed nature of the auto market cannot be negotiated away in TPP negotiations. So, in advance of any consideration of allowing Japan to join the TPP, Japan must demonstrate a multi-year commitment to opening its auto market to imports

Japanese automakers believe the market is fully open, and more bilateral discussions are needed to find out what the US really wants—perhaps regulatory transparency, etc

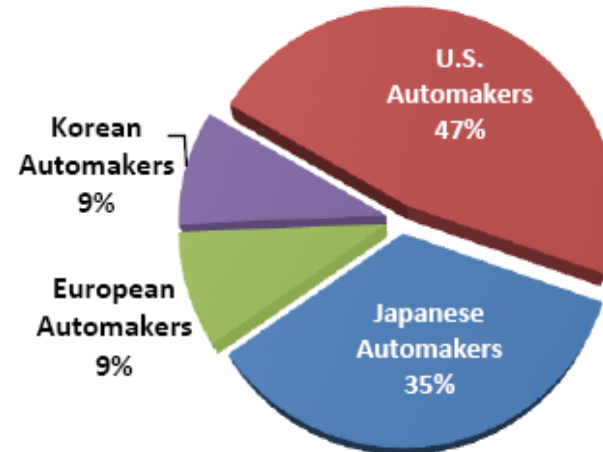
Auto markets in Japan & US, and the US trade deficit with Japan

Japan Auto Market (2010)



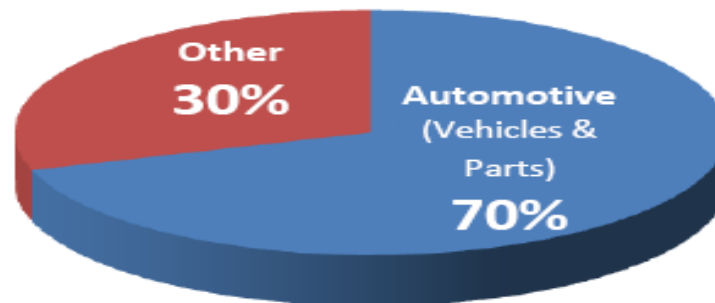
Source: JAMA and JAIA

U.S. Auto Market (2010)



Source: Automotive News Database 2010 Sales

U.S.-Japan Trade Deficit (2010)



Auto trade drove 70% (\$42 billion) of the total \$60 billion trade deficit

Source: U.S. Department of Commerce

4. Economic Impact of TPP

- **Existing analysis**
- **Simulation exercise**

(1) Existing analyses

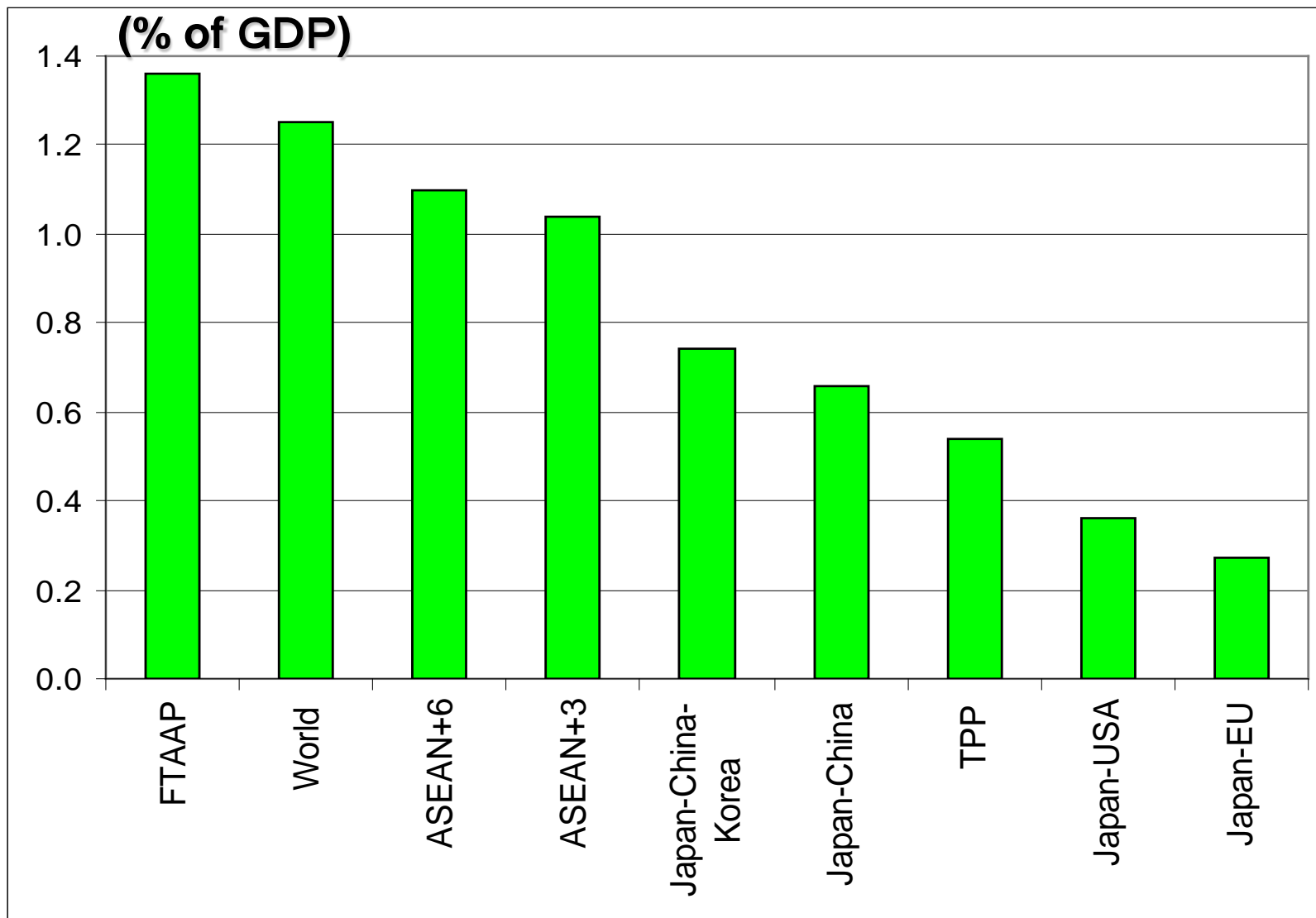
Cabinet Office

- If Japan joins TPP and reduces tariffs to zero, then its real GDP will increase by 0.48% - 0.65% (Kenichi Kawasaki, Economic and Social Research Institute, Cabinet Office).
- The benefit of forming an FTAPP will be large at 1.36% of GDP, while the benefit of ASEAN+6 FTA is 1.10% of real GDP and that of ASEAN+3 FTA is 1.04% of real GDP
- The impact of Japan's non-participation in TPP (while Korea implements FTAs with the US, EU and China) is a decline of Japan's real GDP by 0.13%.
- These computations do not reflect the impact of elimination of non-tariff barriers that would affect services and investment or of harmonization of rules and procedures.

Analysis by the Ministry of Economy, Trade and Industry (METI)

- If Japan does not participate TPP nor conclude an EPA with the EU and China, while Korea implements FTAs with the EU (already done), US and China, then Japan's real GDP in 2020 will be 1.53% lower than the benchmark case. There will be a loss of employment by 812 thousand jobs
- The reason is that Japan's exports and production of automobiles, electric and electronic products, and machinery will decline (exports by 8.6 trillion, production by 20.7 trillion, and GDP by 10.5 trillion yen) as these sectors will lose market shares in the US, EU and China
- These exercises do not include the impact of services, trade facilitation, regulatory harmonization, etc., so the negative impact could be bigger

Benefits to Japan of various FTAs/EPAs



Source: Kawasaki, Ken'ichi (2011)

(2) Preliminary CGE Estimates

- Real GDP impacts of TPP with and without Japan
- Database taken to 2020, includes full tariff liberalization and trade costs reduction
- Japan gains about 0.5% increase in real GDP from joining TPP and loses otherwise
- Other countries also gain: Viet Nam (2.7%), Malaysia (0.7%), New Zealand (0.3%) and Australia (0.2%)
- US and all TPP members gain more from TPP if Japan joins
- PRC sees loss from non-membership

Impact of Japan's membership on others

Japan's joining the TPP makes a big difference to some Asian members in the agreement, particularly competitive economies

- Viet Nam: In a TPP scenario without Japan but all the others in, the gain to Viet Nam is 1.27% of GDP; but if Japan joins TPP, then Viet Nam's gain rises to 2.7% of GDP
- Malaysia: In a TPP scenario without Japan but all the others in, the gain to Malaysia is 0.2% of GDP; but If Japan joins TPP, Malaysia's gain rises to 0.7% of GDP
- Services are not yet included in our simulations and we expect the gains to rise if services liberalization is included in the model
- If all aspects of TPP, including harmonization of rules, could be modeled, gains are even higher

TPP and RCEP members' trade shares (%)

Countries/Groups	Japan	China	RCEP	US	TPP11	TPP11 + Japan	TPP15	EU	World (US\$ Bill)
Australia	13.6	23.0	63.4	7.5	20.4	34.1	43.7	12.5	531
Brunei Darussalam	29.9	7.4	92.8	1.3	26.6	56.5	71.9	4.6	18
Cambodia	2.7	14.2	62.5	14.4	41.6	44.3	63.5	10.1	19
China	9.4	--	31.5	12.2	24.3	33.7	43.1	15.6	3,643
India	2.2	9.7	26.1	7.3	16.5	18.7	22.2	14.3	770
Indonesia	14.0	12.9	66.8	7.2	30.4	44.3	57.5	8.7	381
Japan	--	20.6	47.5	12.1	26.6	26.6	37.8	10.5	1,679
Korea	9.9	20.3	47.0	9.3	22.1	32.0	34.3	9.5	1,087
Lao, PDR	2.2	16.1	84.3	1.1	11.8	14.0	68.4	7.4	8
Malaysia	11.5	13.2	61.1	8.9	28.0	39.6	50.2	10.3	416
Myanmar	5.0	31.1	90.3	0.2	11.7	16.7	49.9	1.9	22
New Zealand	6.7	14.3	56.5	9.4	37.7	44.3	50.8	13.2	74
Philippines	14.2	11.2	55.4	12.6	29.1	43.3	54.3	9.6	108
Singapore	5.7	10.4	53.9	8.0	25.1	30.8	40.5	11.0	778
Thailand	14.7	12.6	56.1	7.8	24.8	39.5	44.2	9.2	449
Vietnam	10.7	18.1	60.0	10.9	22.7	33.4	47.8	12.3	197
RCEP	7.9	10.6	43.7	10.3	24.2	32.1	40.8	12.5	10,182
Canada	2.7	7.4	14.3	61.1	66.7	69.4	71.3	10.4	948
Chile	7.7	20.0	36.6	15.4	24.0	31.7	37.0	15.8	156
Mexico	2.8	8.6	16.7	63.4	68.6	71.4	74.4	8.1	736
Peru	4.0	15.8	27.4	19.5	34.6	38.6	43.8	15.3	78
United States	5.3	13.9	30.0	--	33.8	39.1	43.2	17.2	3,746
TPP11	5.9	13.1	34.5	16.3	38.6	44.5	49.9	13.9	7,678
TPP15	5.9	14.9	38.8	14.6	34.5	40.4	46.4	12.7	11,002

Source: IMF, Direction of Trade Statistics

(3) Asia-Pacific economic integration

- There are two pathways towards Asia-Pacific economic integration
 - (i) ASEAN-led RCEP(US excluded)
 - (ii) US-led TPP (China excluded)
- For Japan both are important:
 - First, there is a need to forge a CJK EPA and combine it with ASEAN+1 FTA's to come up with an RCEP
 - Second, it is possible to combine RCEP with TPP
 - Third, it is desirable to combine the RCEP with EU
- The benefit for Japan from TPP itself might be limited, but if it can be combined with RCEP to form an FTAAP, the benefit can be very large
- A great opportunity exists for Japan to recover from the “two lost decades” and to reform the agricultural sector

5. Conclusion

- Japan needs to further open and integrate the economy with the global economy, particularly with the USA, the EU and emerging Asia.
- TPP, now led by the USA, aims to achieve high levels of openness among the like-minded countries and is a key step towards an FTAAP together with an RCEP
- A major challenge for Japan to join TPP is to improve the productivity and competitiveness of the agricultural sector through comprehensive reforms
- Another challenge is to remove or reduce behind-the-border regulations, which would also be required for a Japan-EU EPA

Thank you
For more information:

Dr. Masahiro Kawai
Dean & CEO
Asian Development Bank Institute

mkawai@adbi.org

+81 3 3593 5527

www.adbi.org