Japan and the Trans-Pacific Partnership

by

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On November 11, 2011, the day before the United States hosted the Asia Pacific Economic Cooperation Leaders' Summit in Honolulu, Prime Minister Yoshihiko Noda announced, “I have decided to enter into consultations toward participating in the Trans-Pacific Partnership negotiations with the countries concerned.” While the Prime Minister’s announcement was less than a forceful articulation of intent, with Japan’s economy twice the size of the eight countries currently participating in TPP negotiations with the United States, Japan’s potential entry is important for the pact’s emergence as the preeminent trade agreement in the Asia Pacific. TPP, moreover, has developed into the most important issue on the U.S. trade agenda and is vitally linked to Washington’s new “rebalancing” strategy toward the Asia Pacific. Japan’s potential entry into the agreement has thus become a focal point of the U.S.-Japan relations with important implications for the future of that relationship and the region’s broader economic architecture. Japan’s decision on TPP likely will also be viewed as an indication of the direction the country chooses to take as its population ages and decreases in size, its economy declines relative to that of China and much of the rest of East Asia, and as the country seeks to rebuild in the aftermath of the Great East Japan Earthquake.

To examine the economic, political and strategic implications of Japan’s potential entry into TPP, the Sasakawa Peace Foundation USA, in cooperation with the Brookings Institution, convened a half-day conference on December 2, 2011. Senior current and former government officials, representatives of the business and academic communities from both countries, the first director general of the World Trade Organization and other experts participated. The commentary below builds on the results of that conference.

Prime Minister Noda’s predecessor, Naoto Kan, asserted that the impact of joining TPP, along with progress on other smaller trade initiatives, would constitute “the third opening of Japan.” In effect, he viewed Japan’s accession to TPP and the implementation of a final agreement as comparable to the revolutionary changes the country undertook first in the Meiji era, and second, in the aftermath of World War II. While Kan’s description exaggerates the impact of TPP on Japan, current member countries—Singapore, Malaysia, Australia, New Zealand, Brunei, Vietnam, Chile, Peru and the United States—are seeking a highly ambitious trade and investment accord addressing regulatory convergence, issues posed by state-owned enterprises, supply chains, intellectual property and other so-called “21st century” issues that in some cases go beyond current World Trade Organization rules. Participating countries are seeking to make TPP a model free trade agreement, one that will be open to new members and will serve as a stepping stone to a Free Trade Area of the Asia Pacific (FTAAP) encompassing the world’s most dynamic region and economies representing more than half of global economic output and trade.

Within Japan, support for the country’s accession to TPP is led by the business community. As Kiyoaki Aburaki, the U.S.
Representative of Keidanren, the Japan Business Federation, noted at the SPFUSA/Brookings conference, TPP will provide Japan opportunities for global business and domestic reforms that will benefit Japan’s economy, enhance U.S.-Japan economic integration and strengthen the overall trans-Pacific trade architecture. The Ministry of Economy, Trade and Industry (METI), has asserted that if Japan fails to join TPP, the country would lose ¥10.5 trillion yen in gross domestic product as of 2020 (about 2% of GDP), while the Cabinet Office has estimated that participation in TPP would boost Japan’s real GDP by ¥2.5-3.2 by 2018.

Supporters of TPP in Japan have focused on the pact’s WTO-plus orientation, and they argue that unless Japan joins soon, it will have no influence in shaping the agreement, including on matters of critical importance to Japanese companies such as rules of origin and intellectual property rights. They further contend that since Japan will likely enter TPP at some point in the future as the agreement enlarges toward an FTAAP, Tokyo’s interests will be better served if the country joins the negotiation in time to affect its outcome.

Opponents of TPP have highlighted its implications for Japan’s highly-protected agricultural sector. Within the ruling coalition, former Prime Minister Yukio Hatoyama, People’s New Party President Shizuka Kamei and former Minister of Agriculture, Forestry and Fisheries Masahiko Yamada have led the opposition to TPP. The three organized a group of Diet Members against TPP, and at the group’s first meeting on October 21, 2010, 120 members of the Democratic Party of Japan (DPJ) participated. The strength of the opposition they mustered led then Prime Minister Naoto Kan to avoid making a planned announcement before the Yokohama APEC Summit in November 2010 that Japan would seek to join TPP.

Agricultural interests in Japan have bolstered the efforts of TPP opponents in the Diet. Farmers and the Central Union of Agricultural Cooperatives (known as Zenchu), which have worked against free trade agreements in the past, have been particularly vehement in their stance against TPP as, in principle, it would eliminate all tariffs on agricultural and other products. Zenchu demonstrated its political clout on the issue just before the 2011 APEC Summit convened in Honolulu by gathering 11.7 million signatures on a petition opposing Japan’s participation in TPP.

Reflecting the views of the interests it regulates as well as the politicians who depend on votes from those interests, the Ministry of Agriculture, Forestry and Fisheries (MAFF) opposes TPP. Indeed, MAFF completed its own study on the impact of TPP which, in contrast to the estimates produced by METI and the Cabinet Office, concluded that an agreement would lower Japan’s agricultural output by ¥4.1 trillion annually and the country’s GDP would decline by ¥8 trillion. MAFF’s estimates, however, were based on highly unlikely assumptions that agricultural tariffs would be reduced to zero and all agricultural products would be freely traded in the global market—which in turn led MAFF to predict a 90 percent decrease in domestically-produced rice and a complete end to Japan’s sugar cane and sugar beet production.

When the DPJ set up an intra-party committee in 2011 to make recommendations to new Prime Minister Yoshihiko Noda on joining TPP, opponents seized on the MAFF estimates, using them in deliberations that dragged on for 50 hours through 20 meetings. Many opponents of TPP also fanned conspiracy theories about plans the United States allegedly developed using TPP to force Japan and other member countries to “Americanize.” In terms of medical care, for example, opponents of TPP have asserted that the United States would use an agreement to doom Japan’s national health system and engender discriminatory treatment between rich and poor.

While such assertions have little basis in fact, the origins of such conspiracies can be traced to the Structural Impediments Initiative (SII) talks between Japan and the United States in 1989-90, which sought to redress bilateral trade imbalances. Those who remember the SII talks point to a U.S. negotiating style in which Washington would make ever increasing demands of Japan even as Tokyo acceded to initial American objectives. What these critics seem to forget, however, is that unlike SII,
which was bilateral, TPP is a multilateral negotiation, and an agreement can only be reached through give and take among all participating countries. Moreover, given the importance the United States has assigned to TPP as an instrument supporting American exports and jobs and as critical to Washington’s efforts to “rebalance” its foreign policy toward the Asia Pacific, the United States is unlikely to run the risk of collapsing TPP by failing to seek compromise.

Within the Democratic Party of Japan, the division over TPP reflects more fundamental intra-party battles originating with the DPJ’s September 2010 presidential election fought between Naoto Kan and Ichiro Ozawa. Kan won that election by only six votes. Rather than seek to repair ties with Ozawa and his supporters, however, Kan widened the rift by failing to appoint any politicians from the Ozawa group to key leadership posts in the cabinet or party. The ongoing intra-party struggles contributed directly to anti-TPP sentiment within the DPJ since many of those affiliated with Ozawa also come from rural constituencies where farmers’ votes play a significant role.

When Yoshihiko Noda won the DPJ presidential election in September 2011 and took over as Prime Minister, he sought to mollify the Ozawa group by taking the opposite tack in selecting key members of the group for cabinet and party posts. The most important appointment Noda made in this respect was the selection of one of Ozawa’s closest allies, Upper House Member Azuma Koshiishi, as secretary-general of the DPJ. Historically, the position of secretary-general has been reserved for members of the Lower House, so Koshiishi’s selection demonstrated the extent of Noda’s willingness to work with Ozawa.

Koshiishi, arguably the most powerful figure in the Upper House, also openly supported Noda’s goal of realizing Japan’s participation in TPP. Indeed, it was Koshiishi who made the suggestion to Noda that he change the text of his planned announcement on TPP before the Honolulu APEC Summit from one that would lay out his determination to pursue Japan’s participation in the pact to one that demonstrated more careful consideration of the views of those opposed to TPP. Koshiishi also advised Noda to delay his announcement by a day to soothe the anti-TPP Diet Members. Noda agreed to both suggestions, demonstrating his willingness to work with opponents of TPP.

When Noda announced that he had “decided to enter into consultations toward participating in the Trans-Pacific Partnership negotiations,” supporters of TPP interpreted the Prime Minister’s words as indicating his desire to join TPP. Opponents, however, noted the absence of a straightforward declaration of intent to participate, and so did not have to concede defeat. Noda’s more inclusive approach served to lower the hurdles Noda faced in promoting Japan’s participation in TPP within the DPJ.

What Noda underestimated, however, was the strength of opposition within his party to his highest policy priority as Prime Minister—raising the consumption tax in an effort to reduce the growing national debt. As a result, Noda was forced to link his plans on taxes to a possible dissolution of the Lower House and a general election. As Noda said in January, “I am ready to risk my political life... I will carry out the comprehensive reforms for the future of the survival of the nation, rather than for the DPJ administration.”

In the run-up to such an election, discussion of the agricultural liberalization implicit in TPP could become something of a taboo subject for the DPJ as both the ruling and opposition parties seek out votes in rural constituencies. Pursuing both an increase in the consumption tax and entry into TPP thus may become politically untenable, and Noda may ultimately be forced to choose to pursue only the tax increase, his higher priority.

In considering such a choice, Noda will no doubt take into account other important trade initiatives Japan is pursuing in addition to TPP including bilateral economic partnership agreements (EPA) with Australia and Korea, a trilateral trade agreement with China and Korea, an EPA with the European Union and an ASEAN+6 arrangement including the 10 countries of ASEAN as well as Japan, China, Korea, Australia, New Zealand and India. In fact, Japan’s focus on TPP appears to
have spurred greater interest in these trade arrangements among some of the participating countries. For example, after recognizing Japan’s serious consideration of TPP, China has become more active in urging Japan to conclude a trilateral FTA with South Korea, an agreement China proposed in 2002, but which remained relatively dormant for years. China also moved away from its almost exclusive pursuit of an ASEAN+3 (including the 10 countries of ASEAN along with Japan, China, and Korea) toward greater interest in ASEAN+6, Japan’s preferred arrangement. In effect, by signaling its interest in joining TPP and thereby spurring developments on other significant trade initiatives, Japan has advanced a broader strategy of engaging in multiple regional integration schemes. More to the point, in case Japan does not enter TPP, it will have kept its FTA options open.

Toward this end, Prime Minister Noda busily engaged in Asian diplomacy at the end of 2011 through meetings with President Lee Myung-bak of South Korea, President Hu Jintao of China and Prime Minister Manmohan Singh of India. Noda’s Asian summit diplomacy partly served to blunt criticism that Japan’s pursuit of TPP would come at the expense of Tokyo’s continued pursuit of greater economic integration with dynamic Asian economies outside the pact such as China, Korea, India, Indonesia and Thailand. Indeed, Noda sought to use summit diplomacy to demonstrate his commitment to strengthened economic and business links between Japan and other Asian economies as both a complement and a possible alternative to TPP.

In his policy speech to the Diet in January 2012, Noda underscored his pursuit of a multifaceted trade policy: “In specific terms we will advance the EPA negotiations with the ROK and Australia, and we will aim to initiate negotiations in the near term for a Japan-EU EPA and a Japan-China-ROK EPA. In addition, with regard to participation in the negotiation of the Trans-Pacific Partnership agreement, we will conduct thorough discussions with a view to reaching a conclusion as soon as possible.”

Japan, of course, cannot unilaterally decide to join TPP. It must gain the approval of all nine countries currently engaged in the negotiations. As of early February, 2012, Japan successfully gained the support of Brunei, Vietnam, Chile, Peru and Singapore, and Malaysia. Discussions with Australia and New Zealand are scheduled to start soon, and while Tokyo expects their approval may prove to more difficult given both countries’ large agricultural industries, the United States is viewed as Japan’s biggest challenge.

In particular, the U.S. auto industry has been vocal in its criticism of Japan joining TPP. In a January 13, 2012 submission of its views to the U.S. government, the American Automotive Policy Council, an association representing industry, stated that, “The AAPC opposes Japan joining the Trans-Pacific Partnership negotiations at this time. Japan remains the most closed auto market to imports in the developed world and the automotive sector currently represents 70% of the total U.S. bilateral trade deficit with Japan. Japan’s trade barriers in the auto sector cannot be addressed easily or quickly, and will needlessly slow down the negotiations.”

Left unsaid by AAPC are the current protections enjoyed by U.S. manufacturers as Japanese cars exported to the United States face a 2.5% tariff and light trucks one of 25%, both of which would be eliminated over time under TPP, as they were for Korean cars and light trucks under the Korea-U.S. FTA.

The U.S. automobile sector enjoys substantial support on Capitol Hill, and Reps. Dave Camp and Sander Levin, both from Michigan, serve as Chairman and Ranking Member respectively of the House Ways and Means Committee, which has jurisdiction over trade matters. Chairman Camp, however, has taken a more open stance than AAPC. As he stated in the aftermath of Noda’s November 11, 2011 announcement on TPP, “I welcome Japan’s historic announcement of its interest in joining the Trans-Pacific Partnership. Hopefully Japan’s decision is a sign that it is firmly committed to resolving the outstanding barriers to trade between the United States and Japan, especially as it relates to our auto exports. We must also address barriers to U.S. agriculture—such as beef and cherries—and barriers to U.S.
manufacturing and services exports... I look forward to consulting closely with [USTR] Ambassador Kirk and his team as we begin our domestic process to evaluate Japan’s candidacy and determine the appropriate time and circumstances of Japan’s joining the TPP.” As with any trade agreement, TPP can only come into effect after Congress passes implementing legislation.

As Camp’s statement suggest, beyond the auto sector, concerns have been raised in Washington about existing market barriers in Japan to agricultural products, as well as insurance, drugs and medical devices. Questions have also been raised over whether Japan’s entry into TPP will slow down the negotiations. At the same time, TPP is generally viewed as providing a significant opportunity to reduce longstanding trade barriers, and core constituencies of the Democratic Party including labor interests would likely view any precipitous conclusion of TPP negatively, regardless of Japan’s participation. With U.S. elections taking place in November 2012, the Obama Administration would be taking clear political risks if it sought an agreement before voters cast their ballots.

U.S. supporters of Japan’s entry onto TPP contend that Tokyo’s accession will help promote greater exports of goods and services to Japan and will expand opportunities for U.S. foreign direct investment. In addition, given the size of its market, Japan’s entry would make TPP more commercially valuable for the United States and greatly enhance the prospects that TPP will lead more quickly to the establishment of a region-wide FTA. Finally, if the United States were the only country among the current nine that chose to veto Japan’s entry into TPP, U.S.-Japan relations would come under strain at a time when the bilateral relationship is critical to plans to make Asia a higher priority.

While the stakes for both Washington and Tokyo in Japan’s potential entry into the Trans-Pacific Partnership are high, the prospects remain unclear. Opponents of Japan’s participation, led by the agricultural industry in Japan and the auto industry in the United States, are powerful, and the political schedules and priorities of the administrations of both countries do not present a notably positive environment for Japan’s early accession to TPP. At the same time, as Japan attempts to chart its future after 20 years of sluggish growth and one year after the March 11 disaster, and as the United States moves to enhance its position in the Asia Pacific, the broader interests of both countries would be advanced by Japan joining TPP. Regardless of the choices made by the United States and Japan on this matter, the impact will be both consequential and lasting domestically, bilaterally and regionally.

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