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# The Trans-Pacific Partnership

*Japan's Possible Early Ratification and Implications for the United States*

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## **Abstract**

*The "Abenomics Acceleration Diet" opened in September with, passage of the TPP as one of their goals. Will TPP be ratified in this Diet session? It is difficult to predict, but the Abe administration has made TPP and passage of its implementing bills a high priority. The Diet debate will surely be heated, and among the contentious issues will not only be TPP's impact on Japan and its agriculture industry but also the status of ratification in the United States. Despite opposition arguments, there are a number of reasons to believe that the Abe administration will push aggressively for early approval from the Diet. TPP's sheer enormity, potential to create predictable business opportunities in the Asia-Pacific, likely accelerating effect on other FTAs in the region, role in bolstering Japan's place in regional security, and disastrous consequences in the event of failure all make its passage desirable to Japan.*

In Japan, a sixty-six-day extraordinary Diet session opened on September 26. Dubbed the “Abenomics Acceleration Diet,” the Abe administration is seeking approval of the Trans-Pacific Partnership (TPP) and its implementing bills, which have been pending since their introduction last March. Japan’s ratification, like that of the United States, is essential for TPP to take effect.

There are two ways for TPP to go into force.<sup>1</sup> First, if all twelve signatories ratify the agreement, it becomes effective sixty days after the last signatory provides notification of completion. Second, if two years elapse from the time the agreement was signed on February 4, 2016, but not all signatories have ratified the deal, TPP will enter into force if at least six of the original signatories have ratified, and if those six, together, account for at least 85 percent of the combined gross domestic product (GDP) of all the signatories.<sup>2</sup>

The United States accounts for roughly 60 percent of the signatories’ total GDP and Japan accounts for about 20 percent. Thus, if either nation fails to complete ratification, it will be impossible for TPP to enter into force.<sup>3</sup>

The Diet debate on TPP started on October 14th. Will TPP be ratified in this Diet session? It is difficult to predict, but the Abe administration has made TPP and passage of its implementing bills a high priority. At a meeting with Japanese business groups, prior to the opening debate in the Diet, Prime Minister Abe said that Japan would ratify TPP to build momentum for the agreement’s early entry into force.<sup>4</sup> In another speech, at the beginning of the extraordinary session, he highlighted the tremendous opportunities for exports of Japanese agricultural products that would be created by TPP in the context of agricultural policy reforms, which suggests that TPP’s early entry into force is already built into new agricultural policies.

The Diet debate will surely be heated, and among the contentious issues will not only be TPP’s impact on Japan and its agriculture industry but also the status of ratification in the United States. Members of Japan’s opposition parties have argued that ratification by Japan should await U.S. ratification, noting their concern over the United States pushing for renegotiation of TPP to gain Congressional approval rather than approving the existing agreement. In response, the prime minister and other members of his cabinet have said Japan will not accept renegotiation since TPP is exceedingly complicated, and it would be

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<sup>1</sup> Article 30.5 of the Trans-Pacific Partnership Agreement.

<sup>2</sup> The original TPP signatories are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

<sup>3</sup> The percentages are as of 2013, according to the International Monetary Fund’s *World Economic Outlook Database*, April 2016.

<sup>4</sup> *Keidanren Times*, No. 3279, July 21, 2016.

impossible to select only a few issues for renegotiation without other countries demanding renegotiation of their own preferred matters.<sup>5</sup>

Despite opposition arguments, there are a number of reasons to believe that the Abe administration will push aggressively for early approval from the Diet.

First, TPP is an enormously important trade deal. It covers 40 percent of world trade; liberalizes the flow of goods, services, and investment in what would be the world's largest free trade zone; and sets new rules for electronic commerce, regulatory coherence, state-owned enterprises, and temporary entry for business persons, including improved visa processing. The establishment of these rules is particularly significant, as TPP includes countries with different levels of economic development, and promotes free and fair trade among countries with which Japan shares basic values—one of the key motivations for Japan to participate in TPP negotiations.<sup>6</sup>

Second, the agreement is also expected to create business opportunities in ways that are transparent, predictable, and stimulative throughout the Asia-Pacific, including Japan. In the face of such potential, TPP is already serving as a driving force for agricultural policy reform in Japan, which is sorely needed due to the aging population of Japanese farmers. Indeed, negative prospects for TPP's entry into force could cause Japan's agricultural policy reform to lose momentum.

Third, TPP will establish a precedent for subsequent trade agreements and provide momentum for other potential FTAs in Asia. Japan, which has been negotiating the Regional Comprehensive Economic Partnership (RCEP),<sup>7</sup> Japan-China-Republic of Korea Free Trade Agreement, and the Japan-EU Economic Partnership Agreement, has been using TPP as leverage for improving these agreements. If the prospect of TPP's early entry into force is lost, the pressure for significant progress in liberalization through these other agreements will surely be weakened. For example, even if the RCEP negotiating countries can reach an agreement in principle this year (the goal for concluding RCEP was originally set for 2015 but delayed to 2016),<sup>8</sup> its terms will very likely be less liberalizing absent TPP's implementation.

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<sup>5</sup> These points were raised, for example, at the plenary session of the House of Councillors on January 27, 2016; at the plenary session of the House of Representatives on September 27, 2016; and at the second meeting of the special House of Representatives committee on the TPP on October 17, 2016.

<sup>6</sup> These rules are often cited in speeches of and informational materials from Japanese government officials. For example, the prime minister noted the importance of rule-making at his March 15, 2013, press conference announcing Japan's TPP participation.

<sup>7</sup> The other RCEP negotiating countries are the ten ASEAN members, China, the Republic of Korea, Australia, New Zealand, and India.

<sup>8</sup> Joint Statement on the RCEP Negotiations, delivered by Kuala Lumpur and Malaysia on November 22, 2015.

Fourth, U.S. leadership in Asia is of utmost importance to Japan as the regional security environment becomes more precarious. In this context, TPP is not just a trade agreement but also a potent symbol of U.S. engagement in Asia and of the promise of more rules-based economic relationships among diverse countries. Its provisions for trade and investment liberalization exceed those of other existing and potential Asian FTAs—and those provisions could not have been accomplished in TPP without U.S. participation.<sup>9</sup> In addition, if TPP takes effect, we can expect that disputes between and among participating states will be resolved more effectively through a specially designed arbitration process. For RCEP, it is unclear how such issues will be addressed.

Finally, the consequences of TPP's failure would be serious and widespread. There would be negative, short-term economic effects on businesses that have already planned to take advantage of enhanced, TPP-driven supply chains. Long-term effects, such as lost growth opportunities, would arise from delayed liberalization and a less predictable business environment across the region. In terms of the political and economic situation in Asia, the impact would be gradual but irreversible. The United States would remain a leading power, but there would be more instances where Asian nations were forced to focus greater attention on anticipating or responding to China's actions.

RCEP, whose negotiations may or may not be concluded this year, could help the process of trade liberalization in Asia to some degree, particularly if TPP fails to pass. Yet, since the United States is not a party to RCEP, its success could further undercut U.S. influence in the region. It is important to note, however, that even without RCEP, East Asian economic integration will continue to some extent. Sophisticated supply chains have been established in Asia, and active intra-regional investments will endure. In addition, an incremental approach to trade liberalization can be crafted on the basis of existing agreements to foster integration. However, there simply is no substitute for the breadth and scope of TPP, and its failure would not be desirable for Japan or the United States.

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<sup>9</sup> Japan's existing Economic Partnership Agreements with individual ASEAN countries have fewer World Trade Organization (WTO)-plus aspects in other areas of trade.