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## **Joining TPP: A Key to Japan's Economic Recovery and Prosperity**

***Shujiro Urata***

Time is running out fast for Japan to join the TPP (Trans-Pacific Partnership Agreement) negotiations. The TPP is the only Asia-Pacific-wide free trade agreement (FTA) that is currently under negotiation involving nine APEC (Asia-Pacific Economic Cooperation) member economies: Singapore, New Zealand, Chile, Brunei, the US, Australia, Peru, Vietnam and Malaysia. The negotiations started in March 2010 and so far eight rounds of negotiations have been completed. The broad outlines of an agreement are expected to be made available at the APEC meetings in Honolulu this November.

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

Characterized as a high-standard 21<sup>st</sup> century agreement, the TPP is an ambitious project with an objective of establishing an open business environment in the Asia-Pacific to achieve deep integration. TPP's coverage is broad and comprehensive, and 24 working groups have been established in the following areas: market access in industrial goods, agriculture, textiles, technical barriers to trade, sanitary and phytosanitary measures, rules of origin, customs cooperation, investment, services, financial services, telecommunications, E-commerce, business mobility, government procurement, competition, intellectual property, labor, environment, capacity building, trade remedies, and legal and institutional frameworks. In addition to these issue-specific areas, cross-cutting "horizontal issues" such as regulatory coherence, competitiveness, development, and small and medium enterprises are also addressed. Comprehensive coverage is necessary as business activities nowadays are conducted in an environment where goods, services, and capital actively move across national borders.

Prime Minister Naoto Kan of Japan indicated his interest in the TPP at the APEC meetings in Yokohama last fall. However, because of strong opposition from agricultural protectionist groups, Kan postponed a decision on joining the TPP negotiations until June of this year. The decision was postponed again without a target date because of the Great Tohoku Earthquake/Tsunami in March this year.

Various reasons may be presented for Japan to join the TPP negotiations as soon as it can. Let me discuss the two most important economic reasons. First, the TPP is going to establish economic rules and systems for the Asia-Pacific region. The TPP covers the rules and systems not only on international economic activities such as foreign trade and investment, but also on domestic economic activities such as competition policy, government procurement policy, and intellectual property rights protection policy.

Construction of fair, stable and transparent economic rules and systems in the Asia-Pacific region is important for several reasons. One is to establish a level playing field in the region, where fair competition between firms is ensured. The growing importance of emerging economies such as China, where fair

competition is problematic, would hamper economic development as competitive firms may be forced to exit the market due to unfair competition. Another reason is the growing importance of Asia and the Pacific in the world economy, in that the rules and systems that are established and practiced in the region have a good chance of becoming global rules and systems. In light of these observations, policy makers in the Asia-Pacific region will have to set up desirable rules and systems that promote global economic growth. Japan should have joined the negotiations from the beginning so that Japan could have influenced the discussions in such a way that Japanese firms would gain benefits. It is too late now for that, and the best Japan can do is to join the negotiations as soon as possible.


Second, trade liberalization under the TPP would benefit Japanese firms and economy as it would increase Japan's exports and imports. Japanese firms stand to gain as the TPP enables Japanese firms to increase their exports in other TPP member economies with the reduction/elimination of trade barriers such as import tariffs. Although tariff barriers have come down significantly in many Asia-Pacific economies in recent decades, there still exist high tariff barriers for some products, such as a 25 percent tariff rate on trucks for the US and a 30 percent tariff rate on automobiles for Malaysia. If, on the other hand, Japan were to remain a non-member to the TPP, Japanese firms would be discriminated against in TPP members' markets vis-à-vis firms from the TPP member economies. Such discriminatory treatment would reduce the export opportunities of Japanese firms, contributing negatively to Japan's economic growth. Increased export expansion under the TPP would be very important for the Japanese economy, which is faced with the problems caused by the Great Tohoku Earthquake/Tsunami and the global economic slowdown. Specifically, shortages in electricity supply, the appreciation of the yen, and expected tax increases would discourage Japan's exports as they would lead to increased production costs in Japan. Under such circumstances, Japanese firms may move to foreign countries, leading to the hollowing out of the Japanese economy. To stop such developments, Japan should aggressively pursue FTAs, including the TPP.

Import expansion resulting from the reduction or removal of tariff and non-tariff barriers in Japan under the TPP would benefit consumers through lower prices and greater variety. Although the immediate impact of import expansion might be to reduce the sales of Japanese firms that are producing goods competing with imports, thereby possibly leading to greater unemployment, in the medium to long term Japanese firms under competitive pressure from the increased imports would improve their competitiveness by upgrading their technological capabilities and by introducing new products. This process is facilitated if the Japanese government undertakes domestic policy reforms such as deregulation.

Despite these benefits of the TPP that would enable Japan to recover from a long recession and the earthquake/tsunami disasters, the Japanese government has to overcome strong opposition from an overly protected agricultural sector in order to join the negotiations. Several policy measures may be considered to deal with opposition. First, Japan may be able to adopt special measures to deal with sensitive products if Japan can successfully persuade other countries in the negotiations to accept them. Specifically, Japan may adopt a phase-in gradual tariff reduction over 10 years. Although the TPP in principle calls for tariff elimination on all products, Japan may be able to exclude a small number of products from liberalization. The chances of having these measures adopted are high as other negotiating members have asked for such treatment as well.

Second, a safety net is needed to provide assistance to those disadvantaged by the TPP by way of unemployment or reduced income. Like the trade adjustment assistance programs adopted in the US and Korea, however, this safety net need not be specific to the TPP; instead, it can be more general in nature in dealing with the problems caused by sharply increased imports.

Finally, it is very important for the Japanese government to explain convincingly to the Japanese people the importance of the TPP in achieving its future vision of an open and dynamic economy in which the Japanese people can enjoy high standards of living and economic prosperity.

Yoshihiko Noda, who took office as the new prime minister on August 30, indicated in his first policy speech to the Diet on September 2 his intention of making a decision on joining the TPP negotiations as early as possible after sufficient deliberation. Prime Minister Noda needs to set a target date for his decision on the TPP negotiations, as otherwise there will be no end to “sufficient deliberation.” I would like to propose that he make an announcement to join the negotiations at the APEC meetings in Honolulu after settling issues with the opposition by adopting appropriate measures such as those discussed above. The APEC meetings provide an opportune occasion for seeking to join the TPP negotiations, as nine negotiating members, whose approval is required for Japan’s participation, will be present. 

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