

# Japan and the Trans-Pacific Partnership

Jeffrey J. Schott  
Senior Fellow

Peterson Institute for International Economics  
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# TPP-12: Like-minded but Not Alike

	2012 GDP (\$US billions)	Population (millions)	Human Development Index <sup>a</sup>	Economic freedom in the world index <sup>b</sup>
Australia	1,586	23	0.929	7.97
Brunei	18	0.4	0.838	n.a.
Canada	1,805	34.9	0.908	7.97
Chile	272	17.6	0.805	7.84
Malaysia	306	29.2	0.761	6.96
Mexico	1,208	114.9	0.77	6.66
New Zealand	181	4.5	0.907	8.27
Peru	185	30.5	0.725	7.61
Singapore	270	5.4	0.866	8.69
United States	15,610	314.7	0.91	7.69
Vietnam	135	90.4	0.593	6.54
Japan	5,981	127.3	0.901	7.64
<b>Total: TPP -12</b>	<b>27,557</b>	<b>793</b>		
Korea	1,164	49.1	0.897	7.40
<b>WORLD</b>	<b>71,897</b>			

<sup>a</sup> The Human Development Index (HDI) is published by the United Nations Development Program. The index comprises six indicators: life expectancy at birth, mean years of schooling, expected years of schooling, per capita gross national income (GNI), GNI rank, and non-income HDI value. The index is on a scale of 0 to 1, where 0 is the lowest and 1 indicates the highest level of human development.

<sup>b</sup> The index measures the degree to which the policies and institutions of countries are supportive of economic freedom. The index assesses five broad areas: size of government, legal structure and security of property rights, access to sound money, free to trade internationally, and regulation of credit, labor and business. Countries are ranked on a scale of 0 to 10, with 10 representing more economic freedom.

# The TPP: A Big Deal in the Making

- TPP-12 countries account for 38 percent of global output (\$28 trillion) and 24 percent of global exports of goods and services (\$5.4 trillion).
- TPP-12 are like-minded in seeking comprehensive deal covering trade and investment in goods and services, but have different priorities and sensitivities (e.g. Japan rice; US maritime services).
- Substantial upgrading of existing trade pacts among participating countries.
- Important stepping stone to broader Asia-Pacific and multilateral trade accords.

## TPP talks advanced but not ready to close

- 17 negotiating rounds since launch in March 2010.
- Japan will join talks at end of next round in July.
- New members can join after TPP is signed using accession clause but big countries will likely have to renegotiate terms of entry. Reason why Korea may ask to participate later this year.
- TPP leaders seek to finish talks in 2013 but unlikely due to large number of “sticking points” on farm/services reforms, investment, intellectual property, among others.
- Negotiators must reduce these differences before pursuing end-game negotiations. US negotiators will need new fast track authority to secure best deal.

## TPP Sticking Points: Market Access Issues

- Liberalization of trade barriers protecting dairy, sugar, and rice.
- Tariffs and origin rules affecting textiles, clothing, and footwear.
- Services trade reforms, especially financial services, insurance, and labor services.

## TPP Sticking Points: Rulemaking Issues

- Intellectual Property Rights including pharmaceutical patents, copyrights covering the new digital economy.
- Investor-State Dispute procedures.
- Disciplines on State-Owned Enterprises to ensure “competitive neutrality.”
- Rules and enforcement of environmental policies including conservation and climate change.
- Rules and enforcement of labor standards and practices, including linkage to ILO Commitments.
- Disciplines on the use of capital controls.

# Japanese Interests and Objectives

- Strategic interest in strengthening the bilateral alliance with the United States.
- Reinforce efforts to reform domestic economic policies.
- Upgrade and expand bilateral and regional trade arrangements.
- Avoid discrimination from other trade pacts.

# Japan's prospective income and export gains

Agreement	<u>2015</u>		<u>2020</u>		<u>2025</u>	
	Billions	Share (%)	Billions	Share (%)	Billions	Share (%)
<b>Income</b>						
-TPP 11	-0.1	negl	-1.0	negl	-1.2	negl
-TPP 12	11.2	0.2	84.8	1.7	104.6	2.0
-RCEP	negl	negl	50.3	1.0	95.8	1.8
-FTAAP-hybrid	27.9	0.6	155.2	3.1	228.1	4.3
<b>Exports</b>						
-TPP 11	-0.2	negl	-3.8	-0.3	-3.8	-0.3
-TPP 12	15.7	1.6	133.6	11.8	139.7	11.2
-RCEP	negl	negl	151.0	13.4	225.1	18.0
-FTAAP-hybrid	71.4	7.1	328.5	29.1	423.1	33.8

Source: Petri and Plummer (2013), [www.asiapacifictrade.org](http://www.asiapacifictrade.org).

\*All figures in constant 2007 dollars unless otherwise noted

Negl = less than 0.05

RCEP = ASEAN + 6

FTAAP hybrid = consolidation of the TPP and Asian tracks to cover all 21 APEC economies.

## TPP: Japan's Pre-Nuptial Agreement (1)

- Like other entrants, Japan accepted text of already completed chapters.
- Japan announced that Japan Post Insurance would not receive approval to offer new/modified cancer insurance and other medical insurance until competitive conditions improve in the Japanese market.
- Increased number of imported US vehicles eligible for Preferential Handling Procedures (PHP) to 5,000 from 2,000.

## TPP: Japan's Pre-Nuptial Agreement (2)

- No exceptions but acknowledged sensitive areas where reforms likely to be limited.
- Back-end loading of elimination of US motor vehicle tariffs.
- Negotiation of special motor vehicle safeguard with snap-back provisions à la KORUS FTA.
- Parallel bilateral talks on non-tariff measures (NTMs) affecting motor vehicle trade to be completed before the end of TPP negotiations and appended to TPP market access schedules.
- Parallel bilateral talks on NTMs in other areas (insurance, investment, trade facilitation, IPRs, standards, government procurement, competition policy, express delivery and sanitary/phytosanitary measures) – implemented when TPP pact enters into force but not necessarily part of the TPP.

## Japan's entry complicates talks but makes a big deal more likely

- Substantial increase in US gains from Japanese participation in TPP due to investment reforms and liberalization of insurance and other services and farm products.
- Japan supports US goals of strong provisions on investment and intellectual property.
- Japanese participation also provides big gains to other TPP countries; should make it easier for them to be more flexible regarding US requests on trade reforms/rules.
- More competition from Japanese manufacturers in TPP markets.

# Why Korea should follow Japan into the TPP

- Additionality: new partners (Japan, Australia, Canada, Mexico and New Zealand); regional forum for addressing Japan-Korea vs. bilateral.
- Additionality: upgrade old pacts, especially ASEAN but even KORUS in some areas like SOEs.
- Leadership role in bridging TPP and RCEP – complements effort to craft Korea-China pact.
- Limited entry cost:
  - Korea already pursuing many of the policy reforms likely to be required by the TPP as it implements the KORUS and KOREU FTAs.
  - Risk of losing rice exemption from KORUS is minimal with Japan at the table.
  - Additional dairy access for Australia/New Zealand exporters but those products will mostly compete with US and EU suppliers.
- Significant cost of non-participation.

# Korea's prospective income and export gains

Agreement	<u>2015</u>		<u>2020</u>		<u>2025</u>	
	Billions	Share (%)	Billions	Share (%)	Billions	Share (%)
<b>Income</b>						
-TPP 11	0.1	negl.	-0.4	negl.	-0.4	negl.
-TPP 12	-0.1	negl.	-2.4	-0.1	-2.8	-0.1
-TPP 13	3.5	0.2	34.9	2.0	45.8	2.2
-RCEP	negl.	negl.	42.6	2.5	82	3.9
-FTAAP-hybrid	16.0	1.1	82.0	4.7	129.3	6.1
<b>Exports</b>						
-TPP 11	negl.	negl.	-2.5	-0.4	-2.4	-0.3
-TPP 12	-0.3	-0.1	-7.1	-1.1	-7.0	-1.0
-TTP-13	10.9	1.9	85.9	13.0	88.7	12.4
-RCEP	negl.	negl.	112.4	17.1	173.6	24.2
-FTAAP-hybrid	45.7	7.9	193.5	29.4	245.2	34.1

Source: Petri and Plummer (2013), [www.asiapacifictrade.org](http://www.asiapacifictrade.org).

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Negl = less than 0.05

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## Are the TPP countries keeping China out?

- Countries have to ask to join the talks. China hasn't done so and isn't ready for TPP obligations on transparency and disciplines on government intervention in the marketplace.
- China's priority is deepening pacts with Asian neighbors for political and economic reasons.
- TPP countries don't want to "contain" China. Many participate in both the TPP and RCEP.
- Rather, countries want to use TPP obligations to spur domestic economic reforms so that they can better compete with China.
- China-Japan-Korea investment pact shows willingness of China to commit to incremental but substantive economic reforms in regional pacts. China-Korea FTA could contribute further.