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Japan's TPP Strategy

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Since 2013 the Japanese government has actively engaged in Mega-FTA negotiations such as the TPP (Trans-Pacific Partnership), Japan-EU FTA, RCEP (Regional Comprehensive Economic Partnership), and China-Japan-Korea FTA. Particularly, Japan initiated the TPP 11 negotiations in the absence of the U.S., following U.S. President Donald Trump's announcement it would be exiting from the TPP in January 2017, and reached an agreement in principle in November 2017.[1] The Japanese government envisions moving toward the conclusion of a final agreement in early March 2018. This research examines Japan's TPP strategy by focusing on the economic effects of the TPP and Japan's major issues of interest in the TPP agreement.

I. Economic Effects of the U.S. Withdrawal from the TPP on Asian Countries

Table 1 summarizes the estimation results of Peter A. Petri et al. (2017) on the economic effects of Mega-FTAs including the TPP, U.S.-Japan FTA, and RCEP using a CGE model. It shows Asian countries such as Malaysia, Vietnam, and Japan would lose more economic opportunities than Canada, Chile, Mexico, and the United States by the U.S.'s withdrawal from the TPP. For example, Malaysia, Vietnam and Japan would miss economic growth opportunities of, respectively, 4.5% point, 5.9% point, and 1.6% point while Canada and Mexico's loss would remain respectively at 0.5% point and 0.3% point. That means Asian countries more heavily depend on the U.S. in their consumer goods export.

Table 1. Economic Effects of TPP: Comparisons with Other Mega-FTAs

(Change Rate of Real Incomes in 2030, %)

Country	2030 Income[1)]	TPP12[2)] (2017)	TPP11[2)] (2018)	TPP16[2)] (2018)	U.S-Japan[2)] FTA (2018)	RCEP[2)] (2018)
United States	25,754	0.5	0.0	0.0	0.2	0.0
Canada	2,717	1.3	0.8	1.1	0.0	0.0
Chile	463	0.9	0.7	1.1	0.0	0.0
Mexico	2,169	1.0	0.7	1.5	0.0	0.0
Peru	442	2.6	2.2	2.5	0.0	0.0

[1] While this research uses the original title, TPP, the TPP 11 countries have agreed to change the official name of the agreement to CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership).

Japan	4,924	2.5	0.9	2.0	1.2	1.1
Brunei	31	5.9	2.6	3.7	0.1	0.9
Singa-pore	485	3.9	2.7	3.8	0.0	0.0
Malay-sia	675	7.6	3.1	5.4	0.0	0.9
Vietnam	497	8.1	2.2	5.1	0.0	0.5
Indone-sia	2,192	-0.1	-0.1	0.8	0.0	0.0
Philip-pines	680	-0.1	0.0	1.9	0.0	0.2
Taiwan	776	0.2	0.0	7.8	0.0	-0.4
Thai-land	812	-0.8	-0.6	3.6	-0.1	0.3
Korea	2,243	-0.3	-0.1	3.8	-0.1	1.1
China	27,839	-0.1	0.0	-0.2	0.0	0.4
Austral-ia	2,590	0.6	0.5	0.7	0.0	0.2
New Zealand	264	2.2	1.1	2.0	0.0	0.6

Note 1. Billions of 2015 U.S. dollars. 2. The year in brackets indicates the supposed take-effects year.

Source: Peter A. Petri, Michael G. Plummer, Shujiro Urata, and Fan Zhai (2017). "Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States", Working Paper 17-10. Peterson Institute for International Economics.

Kenichi Kawasaki (2017)[2] also points out how Asian countries would miss economic opportunities by the U.S.'s exit from the TPP, for example with costs amounting to 2.82% point real GDP growth rate for Malaysia, 7.31% point for Vietnam, and 0.26% point for Japan. However, according to him, these huge economic costs derive from the effects of non-tariff measures in the original TPP agreement rather than tariff reduction effects.

However, when including the five Asian countries of Indonesia, Philippines, Taiwan, Thailand, and Korea, which have expressed their interest in additionally joining the TPP 11 afterwards, the resulting TPP 16 could surpass the RCEP even though the economic effects remain less than the TPP 12. According to Table 1, Japan could expect a 2.0% economic growth rate in 2030 with the TPP 16, compared with a 1.1% growth rate with the RCEP. Korea also could expect a 3.8% economic growth rate in 2030 by joining the TPP 11 with the other four Asian countries.

[2] Kenichi Kawasaki (2017). "Emergent Uncertainty in Regional Integration-Economic impacts of alternative RTA scenarios", *GRIPS Discussion Paper 16-28.* January 2017.

II. Overview of Market Access for Goods and Services in the TPP Agreement

1) Tariff Elimination Schedules for Goods

According to the original TPP agreement concluded in October 2015, Japan's tariff elimination rate in terms of tariff lines remains 95%, while not only the U.S., Australia, New Zealand, Singapore, and Chile, but also Malaysia and Vietnam have committed 100% tariff elimination. The reason why Japan's tariff elimination rate remains the lowest among TPP 12 countries is its protection measures for the domestic agriculture and livestock market. Table 2 shows the TPP 12 countries' tariff elimination commitments in agriculture and livestock sectors. Japan has agreed to abolish tariffs on 81.0% of its imports in these sectors, the lowest level of 'ultimate' trade liberalization in these sectors among TPP 12 countries. Japan has succeeded in maintaining the current tariff rate in 443 tariff lines among a total of 9,018 lines. All of these 443 goods belong to the agriculture and livestock sectors and 439 of them have always been placed on the exclusion list during Japan's FTA negotiations. In particular, the Japanese government succeeded in excluding 412 items of so-called '5 sacred items' (586 HS-9 tariff lines) in agriculture and livestock sectors from tariff concessions in the TPP negotiations.

Table 2. Tariff Elimination Schedule in Agriculture and Livestock Sector

Country	No. of Tariff Lines[1)]	Tariff Elimination Rate			Tariff Elimination Rate (%)[2)]	Exclusion Rate (TRQ, Tariff Reduction)
		Immediate	During 2-11 years of coming into effect	After 12 years of coming into effect		
United States	2,058	55.5	37.8	5.5	98.8	1.2
Canada	1,566	86.2	7.9	0.0	94.1	5.9
Chile	1,634	96.3	3.2	0.0	99.5	0.5
Mexico	1,387	74.1	17.2	5.1	96.4	3.6
Peru	1,155	82.1	11.9	2.0	96.0	4.0
Japan	2,328	51.3	27.5	2.2	81.0	19.0
Brunei	1,400	98.6	1.4	0.0	100.0	0.0
Singapore	1,400	100.0	0.0	0.0	100.0	0.0
Malaysia	3,324	96.7	1.2	1.7	99.6	0.4
Vietnam	1,431	42.6	52.3	4.5	99.4	0.6
Australia	941	941	99.5	0.5	100.0	0.0
New Zealand	1,287	97.7	2.3	0.0	100.0	0.0

Note 1. Number of tariff lines belonging to agricultural and fishing, and livestock goods on HS 2007 code.
2. Ratio of tariff lines for which the country in question has agreed to eliminate tariffs ultimately, not necessarily within 10 years of the agreement coming into effect (as WTO rules stipulate).
Source: Cabinet Secretariat (2015), "Results of Tariff Negotiation" (in Japanese)

Further information on Japan's successful outcomes in TPP negotiations can be found in Takahashi (2017).[3] In this study, Takahashi estimated the tariff reduction effects that each TPP 12 country would benefit from, due to tariff reduction or elimination on the part of other countries, one year after the TPP agreement entered into force. According to him, Japan can expect not only the largest level of import protection, as it will permit just about 1.0% tariff reduction of its total import amount, but also the 3rd largest level of export expansion following Vietnam (4.7%) and Canada (1.8%), enjoying concessions of about 1.7% of other countries' tariff reductions on Japan's total exports. In particular, Japan can expect 'new' economic benefits from the countries that have not concluded multilateral or bilateral FTAs, such as the U.S., Canada, and New Zealand. For example, Japan's non-tariff manufacturing goods ratio for the U.S. would be expanded to 67% from 38%, and in the case of Canada and New Zealand, the ratio would be expanded to 68% from 47% and to 98% from 79%, respectively.

2) Market Access in Services Trade and Investment

The original TPP agreement accepted in principle a negative list approach in its Services Trade and Investment chapter, which requires that discriminatory measures affecting all included sectors be liberalized unless specific measures are set out in the list of reservations. Moreover, the ratchet clause which requires the already liberalized sectors be irreversible should be applied for the future reservation sectors. From the perspective of Japanese firms' overseas investment, the deregulation measures on foreign capital in some distribution sectors have significant implications. For example, the Vietnamese government was

[3] Thoshiki Takahashi (2017), "Search for Tariff Effects of U.S.-Japan FTA from TPP", *International Trade and Investment*, No.108. Institute for International Trade and Investment (in Japanese)

committed to getting rid of the economic needs test after a 5-year grace period, during which the government examines whether the foreign firms could open new supermarkets or convenience stores in domestic areas. The Malaysian government also agreed to expand the foreign investment cap to 30% and to deregulate procedures regarding opening foreign retail stores.

Moreover, in other service sectors, the Vietnamese government promised to expand the foreign investment cap to 75% from 65% in the telecommunication sector, and to 20% from 15% in the local banking sector, and to 51% from 49% in entertainment sectors such as theater and live house. The Malaysian government also promised to expand the foreign bank branch offices cap in the domestic market to 16 from 8, and to mitigate the foreign insurers' purchasing requirement from Malaysian state-owned re-insurers to 2.5% from 30%, and to limit reservation sectors concerning the Bumiputera policies

III. '21st Century' Global Trade Rules in the TPP 11 Agreement: Japan's Perspective

1) Government Procurement

The Japanese government's emphasis on the Government Procurement chapter of the TPP negotiations yields some meaningful implications for Japanese firms. They seek more opportunities to participate in overseas government procurement businesses not only in non-member countries of the GPA (Government Procurement Agreement in the framework of the WTO), such as Vietnam, Malaysia, and Brunei, but also WTO GPA member countries such as the U.S., Australia, Canada, and Singapore. For example, the original TPP agreement paved the way for Japanese firms to cooperate with Vietnamese public entities such as the Vietnam News Agency, Vietnam Academy of Social Science, Vietnam Academy of Science and Technology, public hospitals. And in the area of Malaysian government procurement, Japanese firms could have an opportunity to cooperate with the Malaysian Investment Development Authority, Malaysia External Trade Development Corporation, SME Corporation Malaysia, Malaysia Productivity Corporation, public hospitals, and public schools. Furthermore, in the case of GPA (WTO) member countries, these include some public entities that have not applied GPA or their FTA rules, resulting in 6 U.S. public entities, 10 Canadian public entities, 4 Australian public entities being added to the GPA lists of the TPP.

Table 3 compares the GPA thresholds of the TPP with that in the WTO by some TPP countries. As GPA (WTO) member countries, Japan, the U.S. and Canada all have the same thresholds for government procurement in the TPP and GPA (WTO). However, the Chilean and Peruvian governments, which already opened their government procurement markets to foreigners in their FTAs, have lowered their government procurement thresholds for almost all public entities as shown in Table 3.

Table 3 Comparisons of Thresholds between TPP and GPA (WTO)

(thousands SDR)

Country	TPP/GPA	Central Government Entities		Local Government Entities		The Others	
		Goods/Services	Construction				
Japan	TPP	100	4,500	200	15,000	130	4,500/15,000 1)
	GPA	100	4,500	200	15,000	130	4,500/15,000 1)
United States	TPP	130	5,000	-	-	160	5,000
	GPA	130	5,000	355	5,000	160	5.000
Australia	TPP	130	5,000	355	5,000	400	15,000
	FTA	130	5,000	355	5,000	450	5.000
Canada	TPP	130	5,000	355	5,000	355	5.000
	GPA	130	5,000	355	5,000	355	5.000
Chile	TPP	95	5,000	200	5,000	220	5,000
	FTA	100	5,000	200	10,000	300	10,000
Peru	TPP	95	5,000	200	10,000	300	10,000
	FTA	130	5,000	200	15,000	160	15,000
Singapore	TPP	130	5,000	n.a	n.a	400	5.000
	GPA	130	5,000	n.a	n.a	400	5.000
Vietnam	TPP	130	8,500	-	-	2,000	15,000
Malaysia	TPP	130	14,000	-	-	150	14,000
Brunei	TPP	130	5,000	n.a	n.a	130	5.000

Note 1. There can be grace periods for some sectors, and larger thresholds for some construction services.
Source: Cabinet Secretariat (2015), "Contents of TPP: Government Procurement-Annex" (in Japanese)

2) Rules of Origin and Origin Procedures

The Japanese government puts emphasis on the fact that the TPP introduced 'full cumulative' rules of origin, which allow for all steps in the manufacturing processes in the TPP countries to be considered as input for originating goods. While Japan has already introduced 'full cumulative rules' in its FTAs with Singapore and Mexico, these rules of origin are limited to bilateral FTA agreements.

According to the Rules of Origin and Origin Procedures chapter in the TPP, motor vehicles which adopt the build-down method of RVC (regional value content) should meet the criteria of above 55% RVC ratio to satisfy the rules of origin. The TPP rules of origin could be interpreted as in favor of Japanese motor vehicles in that Canada and Mexico insisted the RVC ratio should be over at least 60%, or the same level as NAFTA, during the TPP negotiations. Japanese counterparts whose global supply chains in Asia are not concentrated in TPP member countries, such as Malaysia and Vietnam, preferred the lower RVC ratio more than NAFTA member countries.

It should also be emphasized that importers or exporters (producers) could submit documents on certificate of origin to their customs according to TPP rules of origin procedure. The Japanese government introduced a self-certification system similar to the TPP for the first time in its bilateral FTA with Australia in January 2015. However, the Japanese government authorizes some entities, for example the Japan Chamber of Commerce, or exporters to issue a certificate of origin in its other FTAs. The introduction of self-certification on origin will be expected to facilitate trade with TPP countries.

3) Electronic Commerce

TPP rules on electronic commerce articulate firstly, no TPP countries shall impose customs duties on electronic transmissions between a person of one country and a person of another country. And secondly, no TPP countries shall accord less favorable treatment to digital products produced in another country than it accords to other digital products. Thirdly, TPP countries shall allow the cross-border transfer of information by electronic means when this activity is for the conduct of the business of a covered person (Cross-Border Transfer of Information by Electronic Means). Fourthly, no TPP countries shall require a covered person to use or locate computing facilities in its territory as a condition for conducting business (Location of Computing Facilities.) Lastly, no TPP countries shall require the transfer of, or access to, source code of software owned by a person of another country, as a condition for the import, distribution, sale or use of such software, or of products containing such software, in its territory (Source Code). Among these articles, the Japanese government evaluated very highly the introduction of the last three articles into the TPP since it never adopted these rules in already concluded FTAs.

IV. Prospects of the TPP

During the TPP 11 negotiations held following the U.S.'s withdrawal in January 2017, the Japanese government made a great effort not only to prevent TPP Asian countries such as Malaysia and Vietnam from leaving, but also to freeze the original TPP 12 articles in the hope of the U.S. returning. Following the principle agreement of TPP 11 reached in November 2017 and chief negotiators conference in January 2018, the TPP countries now aim to sign a trade pact without the U.S. on March 8, despite some differences on outstanding issues remaining, including a request by Canada regarding cultural protection. The TPP 11 countries agreed to freeze 22 articles, and to negotiate two articles with the parties bilaterally out of the TPP framework. In particular, most of the intellectual property rights articles included in the original agreement at the insistence of the U.S., such as data protection periods for biomedicines, copyright duration issues, and ISDS (investor state dispute settlement) provisions, were suspended.

The U.S. trade policy for Japan will be critical in determining the future of the TPP. The U.S. administration expressed its intention to engage in bilateral FTA negotiations with Japan at the U.S.-Japan Economic Dialogue commenced in April 2017. At the present the Japanese government is maintaining a very defensive attitude since the U.S. will strongly request for the further opening of Japanese domestic markets, especially the agricultural, livestock and automobile markets, in the U.S.-Japan FTA negotiations, not to mention the TPP 11 re-negotiations. However, if the U.S. returns to the TPP as President Donald Trump has mentioned before, or enters into bilateral FTA negotiations, the Japanese government will face very tough requests from the U.S.

Japan's enthusiastic leadership in the TPP 11 and the uncertainties in the U.S. trade policy for Japan are elements that complicate the Korean government's TPP strategy. Although the Korean government has expressed its interest in the TPP, it should wait for the outcomes of bilateral FTA re-negotiations with the U.S. However, it is necessary for the Korean government to prepare TPP strategies which can compensate for the tariff reduction effects arising mainly from the currently unbalanced tariff system between Korea and Japan, irrespective of the outcomes of the KORUS FTA re-negotiations. KIEP