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Reducing Trade Barriers through Trade Agreements

Case Study

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ABSTRACT:

Japan has recently signed a trade agreement with eleven countries as part of the Comprehensive Progressive Partnership Agreement and one with the 28 member European Union, it is also part of RCEP negotiations and currently negotiating a trade agreement with the United States. Together these agreements place Japan, a country producing the third highest GDP, in the middle of the largest trading blocs in the world, connecting East and West. In exchange for access to the Japanese market Japan has reduced tariffs on its most guarded agriculture sectors while advocating for new rules concerning digital privacy and intellectual property. This case study explores how Japan has reduced trade barriers through negotiating trade agreements.

WHY CAN JAPAN PARTICIPATE IN TPP?

Until now, the Asia-Pacific region has been leading the way in de facto integration into the world economy, and since the mid-1990s cooperation between ASEAN and major economic powers has been promoted. However, Japan's participation in the TPP negotiations was being considered by the government led by the Democratic Party of Japan, as Japan seeks to establish a Free Trade Area of Asia- Pacific (FTAAP).

For the Japanese government, the biggest barrier to entry into a free trade agreement is the agricultural sector. Farmers form a huge voting constituency and are one of the main supporters of the Liberal Democratic Party. Therefore, the establishment of a non-Liberal Democratic Party government in Japan following the change of government in 2009 was a major factor in Japan's entry into the TPP.

In fact, in the 2012 general elections, the Liberal Democratic Party, which came back to power, declared that they "oppose Japan's participation in TPP negotiations on the premise of eliminating tariffs without sanctuaries". In particular, the Liberal Democratic Party's manifesto placed rice and wheat among the five major farm product categories, indicating strong political pressure from agricultural organizations.

In reality, however, the TPP is an agreement that emphasizes the level of liberalization and rulemaking, as well as extremely strong content on intellectual property, competition policy, the environment, and labor. Taking these merits into consideration, Japan made a decision to join the TPP without hesitation to make concessions in the field of agriculture.

In the end, the Trump administration's withdrawal from the TPP resulted in the TPP being issued as TPP 11, at the time of the signing the combined GDP of 11 countries was \$10 trillion, or 13% of the world total. According to estimates by the government in 2015, Japan's real GDP is expected to rise by about 1.5% compared to the case without the TPP 11. In terms of the level of GDP in fiscal 2016, it was worth about 8 trillion yen, and the labor supply was expected to increase by about 0.7% (Approx. 460,000 people).

For Japan, the TPP 11 is also expected to deter China's growth and influence in the region by integrating high-value trade in the region to TPP-11 partners and gold-standard rules. The entry into force of TPP 11 has become extremely important in keeping China in check and maintaining a high level of liberalization momentum in the Asia-Pacific region.

The biggest obstacle for the Japanese government in promoting multilateral free trade agreements is the agricultural issue. Farmers have a strong political influence in Japan and are one of the biggest voting constituency in the ruling party, Liberal Democratic Party.

INTELLECTUAL PROPERTY RIGHTS AND ISD CLAUSES AS LEAVES BEHIND THE TPP

While the agricultural issues discussed above are major political issues in Japan, the key elements of TPP 11 will be the inclusion of intellectual property rights and government procurement reforms.

Japan's trade surplus from intellectual property has become very large due to the transformation of its industrial structure. Japan's trade surplus for the use of intellectual property rights is the second largest in the world following the United States, and the advancement of the intellectual property rights system in the Asia-Pacific region was an extremely important item in forming a free market.

Strengthening of copyright term of protection was a significant component in TPP 11. This is largely due to the growing importance of the content industry as electronic technology adoption in the world. Successful application of strict rules in Asia-Pacific countries would put pressure on other players, such as China, that are not members of the TPP to reform.

It is regrettable that many items related to intellectual property rights were frozen in the TPP 11 after the withdrawal of the United States compared to the original TPP. We hope that a review will continue to be made to demand that the high-level protections agreed to in negotiations are eventually adopted.

It cannot be denied that the side letter freezing Investor State Dispute System (ISDS) chapters with New Zealand has made it somewhat difficult to make foreign investment decisions.

It is important that companies are guaranteed arbitration by an international third party if they make some kind of massive investment (Natural resources, etc.) in a partner country and then suffer a loss due to a breach of agreement by the partner government.

Although some groups in Japan have reacted negatively to the introduction of the ISDS, it is essential to remove trade barriers and to urge governments to operate regulations in a transparent manner. We expect to see more of this in future deals.

JAPAN-EU EPA AND RCEP

The Japanese government has concluded the Japan-Europe EPA as a multilateral agreement and is promoting the RCEP including China and India. Japan and the United States also reached an agreement on a bilateral trade agreement.

On December 8, 2017, Japan concluded negotiations with the EU, an important global partner sharing fundamental values such as democracy, the rule of law and fundamental human rights, and a major trading and investment partner that accounts for approximately 500 million people in total, approximately 22% of global GDP, and approximately 12% of our country's total exports and imports.

It is expected that the Japan-EU EPA will increase our country's actual GDP level by about 0.99% compared to the case without the EPA. This translates into a boost of about 5.2 trillion yen in real GDP in fiscal 2016. At that time, labor is expected to increase by about 0.45%, which is equivalent to about 292 thousand people when converted into the number of employees based on the number of workers in fiscal 2016.

Meanwhile, the Japanese government is promoting the Regional Comprehensive Economic Partnership (RCEP), a free-trade agreement covering a wide area encompassing 16 countries including China, South Korea, India, Australia and New Zealand. Although the level of liberalization is lower than that of the TPP, rules are being drawn up for promising growth markets, which account for about half of the world's population.

There is a possibility that the RCEP will be a China-led agreement, and the Japanese government is trying to strike a balance by attracting India out of concern over the balance of power in terms of security. As a result, the interests of major powers such as China and India have not been well coordinated, and efforts to conclude negotiations are continuing.

The Trump administration, which withdrew from the TPP, began bilateral negotiations with Japan, and in September 2019, the two countries reached an agreement on the negotiations. The Trump administration has used the threat of tariffs on Japanese car exports to the United States, while at the same time calling for a more open Japanese market.

Against the backdrop of sluggish exports by U.S. farmers due to the intensifying negotiations between the United States and China, the Japanese government has agreed to lower import tariffs on agricultural products to the level of TPP, successfully avoiding tariffs on U.S. auto exports. However, the agreement did not include the gradual reduction of U.S. auto tariffs, which Japan won in the TPP negotiations.

The Japanese government hopes that a bilateral agreement between Japan and the United States will trigger the United States to rejoin the TPP, but it is unclear whether such incentives will work.

TRADE CONFLICTS BETWEEN JAPAN AND SOUTH KOREA

The Japanese government has been actively working to conclude agreements aimed at reducing trade barriers, however it did not avoid being entangled in a trade dispute with South Korea which started early in 2019.

Japan had given preferential treatment to certain countries in export procedures, but decided to lower the criteria for preferential treatment to South Korea. The Japanese government said that South Korea failed to provide security for parts and materials exported from Japan, such as hydrogen fluoride (Mainly used in semiconductor production). Japan's exports of hydrogen fluoride to South Korea were zero in August 2019.

South Korea claims that Japan has strengthened its export controls as a retaliatory measure to deal with historical issues. The Moon administration formed a sharp confrontation with the Japanese government over the interpretation of the validity of treaties and declarations concluded with the Japanese government. In turn, the Japanese media reported that the Japanese government had clearly stated that it would make a list of retaliatory measures against South Korea over war-time laborers issue.

Japan's export control measures that restrict trade to South Korea will also negatively impact Japanese companies which are reliant on South Korean exports. Some export operations will be resumed after the export control measures procedures are completed. In addition, the possibility of a review of the export control system due to changes in the Korean government's response to the issue has not disappeared.

MID-AND-LONG TERM DIRECTION OF JAPAN

The Japanese government's mid- and long-term goal is to achieve a high degree of liberalization in the Asia-Pacific region over a wide area by encouraging the United States to return to the TPP. At the same time, it is encouraging regional powers such as China and India to take the first steps under the RCEP as a preliminary step toward gradually bringing their economies closer to the TPP level.

In East Asia, however, China's pursuit of hegemony is intensifying, and the balance of power in terms of security is becoming an important factor to consider when discussing future trade liberalization. It should be noted that the security environment surrounding Japan is also an important indicator of trade liberalization in Asia.

In recent years, the influence of agricultural organizations in Japan has been gradually declining, and trade barriers in the future will shift from simple tariff issues to opening services markets in the infrastructure sector, which is strongly influenced by the government. Legislation has already been revised to introduce a concession system for airports and water supplies, but discussions on other areas have become mid-and- long term issues.

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