

Source: European Journal of East Asian Studies, Vol. 17. No 1. 2018. pp. 158 – 175. <https://doi.org/10.1163/15700615-01701008>

Mega-FTAs in the Asia-Pacific region: a Japanese perspective

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Abstract

The emerging wave of mega-FTAs during the global economic crisis era has so far attracted considerable academic attention. This paper primarily investigates two of the mega-FTAs, namely TPP and RCEP, from the perspective of Japan. It focuses on Japan's role and interests in the launch of mega-FTAs and how Japan tries to keep them on track, with protectionism on the rise worldwide (particularly on the US side).

Keywords: mega-FTAs; TPP; RCEP; Japan; trade policy.

Introduction

The aim of this study is to investigate two mega-FTAs, namely TPP and RCEP, from the point of view of Japan, which has played a crucial role in launching the newly emerged wave of mega-FTAs. Japan's accession to TPP negotiations and its participation in other mega-FTAs marked a bold change in its trade policy. Japan is aiming to boost its economic growth through external relations.

Since US withdrawal from TPP in early 2017, Japan has undertaken a leading role in keeping TPP and other mega-FTAs on track and contributed much to their launch. The development of regionalism in the Asia-Pacific (including FTAs) has been mainly formed by the interplay among China, Japan and the United States, the results of which can also be recognised throughout the whole study, which is structured as follows: the first section gives a short overview on the emergence of mega-FTAs and the main motivations behind their

launch; the second section compares TPP and RCEP by considering their antecedents, progress, aims and content and the current stage of their development; the third section focuses on the main shifting points of Japan's trade policy from multilateralism (GATT/WTO) to bilateralism (bilateral FTAs) and finally to mega-FTAs; the fourth section reveals the main economic (political) interests of Japan in participating in mega-FTAs and keeping them on track during the global rise of protectionism; and the final section closes the study with some conclusions.

Mega-FTAs in the world economy

Since 1990 (and especially since 2000), parallel to the deceleration of multilateral trade liberalisation in the framework of GATT/WTO negotiation rounds, the number of regional trade agreements (RTAs) has seen rapid growth. The cumulative number of RTAs reported to the GATT/WTO increased from 86 in 1990 to 266 in 2000, then to 659 in 2017.¹ And this emerging wave of RTAs has recently culminated in the appearance of mega-FTAs such as the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the EU–Japan EPA and the China–Japan–Korea (CJK) FTA. The EU and NAFTA can be considered as original mega-regional agreements covering two of the three biggest regional economic blocks (or regional concentrations of global value chains/global production networks) of the world economy which have become interconnected through the TTIP in the recent wave of mega-FTAs. In terms of state-led integration, East Asia had lagged behind Europe and North America; the negotiations on the region-wide FTA in East Asia, namely RCEP, started only in 2013. In the new wave of mega-FTAs, East Asia has also become interconnected with the EU and the NAFTA through the EU–Japan EPA and TPP, respectively.

Mega-FTAs are deep integration partnerships in the form of FTAs between countries or regions with a major share of world trade and FDI, and in which two or more of the parties serve as hubs in global value chains/global production networks (i.e. the US, the EU (Germany), Japan, China). Because of these characteristics, Richard Baldwin² predicted that mega-regionals would establish global trade governance over the most dynamic segment of the world trade, i.e. the supply chain trade which the WTO rules in their current form could not regulate and support adequately. Mega-FTAs can also stop the rapid proliferation of

¹ The cumulative number of RTAs includes RTAs which are in force or inactive. Agreements on goods, services or accession to an RTA are counted separately. RTAs include not only free trade agreements but also customs unions.

² Richard Baldwin, 'WTO 2.0: global governance of supply chain trade', *CEPR Policy Insight* 64 (2012): 1–24.

FTAs, consolidating them and resolving their negative ‘noodle bowl effects’. Their coverage of different issues far beyond the removal of tariffs will facilitate the more efficient functioning of supply chains. In addition to this, we can identify several other economic motivations behind the creation of mega-FTAs: improved and/or preferential access to new markets; upgrading or refreshing old agreements; achieving higher ambition agreements; economic stimulus in an era of tight budgets (after the global economic and financial crisis), etc.³ According to Schwab and Bhatia,⁴ the decision to launch a mega-regional agreement is often informed by geopolitical considerations. However, the ultimate success of the negotiation and the long-term viability of the arrangement are based more on economic and commercial considerations (see the aforementioned motivations). In this study, we will also focus primarily on the economic motivations of Japan regarding the two mega-FTAs (RCEP, TPP) in the Asia-Pacific. Japan has had a strong influence on the launch of the present era of mega-FTAs. Akira Amari, Japan’s former state minister in charge of TPP, strongly believes that Japan’s participation in TPP has triggered the era of mega-FTAs, because there are interests in Japan that are sensitive about agricultural products, among others. The country was an entire one or two rounds behind its peers in terms of bilateral FTAs⁵ when it declared that it would participate in TPP and, furthermore, take a leading role in making rules with a consequent large impact globally, bringing about full-scale launches of geographically broad economic partnerships and mega-FTAs – including the Transatlantic Trade and Investment Partnership (TTIP) between the USA and the EU, the Regional Comprehensive Economic Partnership (RCEP) in East Asia and the Japan–EU Economic Partnership Agreement.⁶

Comparison of RCEP and TPP

RCEP and TPP, mega-FTAs which overlap each other, represent a significant share of global GDP, trade and population. Three of the world’s four largest economies (China, India and Japan) are member countries in RCEP and two of them are the world’s first (China) and second (India) most populous countries. In 2015, RCEP member countries’ share in global GDP (PPP), world population and global trade was 37.4 per cent, 47.8 per cent and 29 per

³ Susan C. Schwab and Karan Bhatia, ‘Why mega-regionals?’ in *Mega-regional Trade Agreements: Game-changers or Costly Distractions for the World Trading System?* ed. Global Agenda Council on Trade & Foreign Direct Investment (Cologne/Geneva: World Economic Forum, 2014), 18–20.

⁴ Schwab and Bhatia, ‘Why mega-regionals?’ 18–20.

⁵ We can measure Japan’s lag in terms of FTA coverage rate (how much trade is covered by FTAs) which in 2013 was 18.9 per cent, compared with 39.4 per cent in the USA, 67.7 per cent in Canada, 35.3 per cent in South Korea and 26.9 per cent in Australia; JETRO, *2013 JETRO Global Trade and Investment Report* (2013), www.jetro.go.jp/ext_images/en/reports/white_paper/trade_invest_2013_overview.pdf.

⁶ Akira Amari, ‘The Trans-Pacific Partnership (TPP) Agreement’, *Asia-Pacific Review* 23, 1 (2016): 11–20.

cent respectively. TPP partner countries represent a lower share in global GDP, trade and population than do RCEP member countries,⁷ but TPP covers the trading block of NAFTA (plus Japan), so the difference between their economic weight (measured in percentage points) is not so large, especially in terms of trade (3.1 per cent). RCEP is under negotiation by ten ASEAN countries and Japan, China, South Korea, India, Australia and New Zealand. The original 12 signatories of TPP are the United States, Canada, Mexico, Japan, Vietnam, Malaysia, Brunei, Singapore, Peru, Chile, Australia and New Zealand. In terms of income level, the member countries of RCEP are more diverse than those of TPP. RCEP countries range from advanced to least developed. In the case of TPP, developed countries outnumber developing countries, while for RCEP the reverse is true. This difference between RCEP and TPP is reflected in their aims, commitments and method of negotiation (see below). However, before going into more detail, a short overview on the origin and antecedents of RCEP and TPP is given.

The East Asian Free Trade Area (EAFTA) and the Comprehensive Economic Partnership for East Asia (CEPEA) can be considered the predecessors of RCEP. After the Asian financial crisis of 1997–98, East Asian countries turned from APEC to ASEAN+3⁸ cooperation and focused on the building of the vaguely defined East Asian Community. The initial special feature of East Asian regionalism was that relations among ASEAN and Northeast Asian countries evolved in a bilateral rather than regional form. However, the creation of a region-wide FTA was studied by East Asian countries and had been on the agenda from the first (2001), initially only in the form of the East Asian Free Trade Area (EAFTA) with ASEAN+3 countries, and later in the form of the Comprehensive Economic Partnership for East Asia (CEPEA), which included ASEAN+6⁹ countries as well. EAFTA was supported by China. CEPEA was proposed in 2006 and supported by Japan, whose aim was to counterbalance China's growing regional influence by inviting Australia, New Zealand and India to join the East Asian cooperation (East Asia Summit, CEPEA).¹⁰ After several years of study on EAFTA and CEPEA, in 2011 ASEAN countries recommended the creation of RCEP (ASEAN+6), the idea of which came from ASEAN retaining its central role in East Asian regionalism at a time when the trilateral cooperation among Japan, China and South Korea

⁷ That is, 27 per cent of global GDP (PPP), 25.9 per cent of global trade, 11.1 per cent of global population.

⁸ ASEAN+China, Japan, South Korea

⁹ ASEAN+China, Japan, South Korea, India, Australia, New Zealand

¹⁰ Australia is always considered to be a reliable partner for Japan in regionalism (see APEC and its predecessors). India was taken into account as a promising investment destination for Japanese companies where they could extend their regional production networks. Both countries were also targeted by Japan to strengthen its security relations with countries other than the USA.

was growing stronger during the global economic crisis. China decided to support the creation of an ASEAN+6 FTA in the form of RCEP. The change in China's approach to a region-wide FTA in East Asia was largely influenced by the new Asia-Pacific strategy of the USA, which included the creation of TPP, an Asia-Pacific FTA. In relation to this, Japan's intention to participate in TPP negotiations, which was announced by Japanese PM Naoto Kan in October 2010, was also an important influencing factor. Japan joined TPP negotiations in July 2013, with the negotiations on RCEP starting in May 2013.

The starting point of TPP was the Trans-Pacific Strategic Economic Partnership (TPSEP), which was concluded by New Zealand, Chile, Singapore and Brunei in 2005. The USA joined the TPSEP negotiations on investment and financial services in 2008. In the end the USA did not join the TPSEP agreement but opened negotiations on a new agreement (TPP) with TPSEP member countries and other countries (Peru, Vietnam, Australia) in March 2010. Later, four additional countries (Malaysia, Mexico, Canada and Japan) joined the TPP negotiations. The timing of the launch of TPP was strongly influenced by the development of East Asian regionalism. First, the improving political relations between Japan and China and between Japan and South Korea led to the initiation of the Trilateral Summits in 2008. The strengthening trilateral relations among the three biggest economies in East Asia predicted the possibility for launching negotiations on the missing trilateral FTA and a region-wide FTA in East Asia. Second, in 2009 China became the leading export market for Japan, overtaking the USA,¹¹ and the Japanese PM, Yukio Hatoyama, advocated the formation of an East Asian Community envisaging deeper regional economic cooperation at a time when the global financial/economic crisis reinforced doubts about the continuing economic predominance of the United States.¹²

The USA called on Japan to join the TPP negotiations in September 2009 but, fearing a backlash from agricultural organisations, Japanese PM Hatoyama avoided giving a straightforward response to the suggestion.¹³ Japan joined the TPP negotiations only in July 2013. The delay in Japanese participation was partly because of the protracted internal debate in Japan, but Japan's accession was also prolonged partly because the country was powerful enough to affect the course of TPP negotiation as a whole.¹⁴ The fundamental aim of the USA

¹¹ Only until 2013.

¹² Ralf Emmers and John Ravenhill, 'The Asian and global financial crisis: consequences for East Asian regionalism', *Contemporary Politics* 17, 2 (2011): 133–49.

¹³ Taizo Miyagi, 'Asia and Japan in the 21st century – the decade of the 2000s', *Japan's Diplomacy Series – Japan Digital Library* March 2016, http://www2.jiia.or.jp/en/digital_library/japan_s_diplomacy.php.

¹⁴ Shintaro Hamanaka, 'TPP versus RCEP: control of membership and agenda setting', *Journal of East Asian Economic Integration* 18, 2 (2014): 163–86.

in inviting Japan was to significantly expand the scale of TPP from the Asian side. And with the launch of TPP the USA wanted to set the trading rules for the Asia-Pacific, and avoid being excluded from those preferences which East Asian countries would give each other by concluding an FTA, with the US ending up in a disadvantageous position in the fastest growing region (with an increasing number of middle-class consumers). Although TPP was not initiated within the framework of APEC, it had the potential to become a tool to achieve that legally binding trade agreement which was the aim of the USA in the 1990s, when APEC started to evolve, or later with the proposal of the Free Trade Area of the Asia-Pacific (FTAAP) at the Hanoi APEC Economic Leaders' Meeting in 2006.

The aim, content and method of negotiations of RCEP and TPP, as previously mentioned, are significantly determined by participant countries' development (income) level and also by who is initiating mega-FTAs (ASEAN or the USA). According to the initial aims, in terms of depth of liberalisation and scope of commitments, RCEP will not be as ambitious as TPP. It mainly concentrates on the liberalisation of trade in goods and has a WTO-consistent approach that strengthens compliance only on the existing global trading rules.¹⁵ RCEP consists of 18 chapters which, beyond trade in goods, cover trade in services, investment, e-commerce, IPR, competition policy, ECOTECH (economic and technical co-operation), ROOs (rules of origin), CPTF (customs procedures and trade facilitation), SPS (sanitary and phytosanitary measures), STRACAP (standards, technical regulations and conformity assessment procedures), financial and telecommunication services, trade remedies, MNP (movement of natural persons), small and medium enterprises, government procurement, and dispute settlement.¹⁶ RCEP will be built on the consolidation of five ASEAN+1 FTAs, which is somewhat complicated because the commitments of ASEAN+1 FTAs are different. Like ASEAN+1 FTAs, RCEP will give special treatment to the least developed countries, and for this reason the schedule and depth of tariff elimination can differ by country, and differentiations can also be expected on a bilateral level.

TPP includes deep and wide-ranging liberalisation. According to the US WTO-plus concept, TPP establishes new global rules and standards for world trade. It is also often said that TPP is a twenty-first-century agreement, meaning that it fits the needs of global value

¹⁵ Christopher M. Dent, 'East Asian integration towards an East Asian Economic Community', *ADB Working Paper Series* 665 (2017): 1–48.

¹⁶ Australian Government, *Joint Leaders' Statement on the Negotiations for the Regional Economic Comprehensive Partnership, 14 November 2017, Manila, the Philippines, RCEP: A Vehicle for Economic Integration and Inclusive Development* (2017), <http://dfat.gov.au/trade/agreements/negotiations/rcep/news/Documents/joint-leaders-statement-on-the-rcep-negotiations-14-november-2017-manila-philippines.pdf>.

chains of transnational companies which account for 60–80 per cent of global trade. TPP member countries have agreed not only on an elimination of 99–100 per cent¹⁷ of customs tariffs but also on an extensive elimination of non-tariff barriers.¹⁸ Although the schedules for phasing out or lowering tariffs differ by country (especially in agriculture) and most of its tariff schedules treat partners equally, some schedules, most notably those of the United States and Japan, retain differences among them.¹⁹ TPP consists of 30 chapters, covering, among other things, liberalisation of trade in goods and services, investments, competition policy, government procurement, labour market, intellectual property rights, environment, state-owned companies, etc. TPP negotiations were concluded in Atlanta, USA, in October 2015 and the agreement was signed in Auckland, New Zealand, in February 2016. The process of ratification began after the signing. Member countries have two years to ratify the agreement, which will come into force only after being ratified by six or more partner countries whose combined GDPs amount to more than 85 per cent of the total. Because of the high share of the USA and Japan, ratification by these two nations is essential. But holding true to his campaign promises, the new US president, Donald J. Trump, who took office on 20 January 2017, signed a presidential memorandum directing the US trade representative to withdraw the country as a signatory to TPP and from TPP negotiations. Ironically, on the same day Japan officially completed its domestic procedure for the ratification of TPP.²⁰ But on the side-lines of a meeting of APEC countries in Hanoi on 21 May 2017 the trade ministers of the other 11 TPP countries, led by Japan, agreed to try to resuscitate the free trade pact. Officials from the 11 countries met again three times (in Japan in July and September, in Australia in August) to discuss their further efforts and bring proposals to the table before they could reach an almost final agreement at the APEC Summit in November 2017. And later, in January and March 2018, they managed to conclude and ink the so-called Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is a new trade agreement among the 11 countries based on the original TPP Agreement with 22 provisions modified or suspended.

¹⁷ With 75 per cent of non-zero tariff lines falling to zero immediately and 99 per cent eventually. Peter A. Petri and Michael G. Plummer, 'The economic effects of the TPP: new estimates', in *Assessing the Trans-Pacific Partnership, Vol. 1: Market Access and Sectoral Issues*, ed. PIIE (Washington: PIIE, 2016), 6–30.

¹⁸ According to the CGE model estimations of Kawasaki, TPP countries can expect larger economic benefits from the reduction of non-tariff barriers than from tariff removals, because tariffs have already been lowered as a result of former trade liberalisation (especially in the case of industrial products of developed countries); Kenichi Kawasaki, 'The relative significance of EPAs in Asia-Pacific', *RIETI Discussion Paper Series 9* (2014): 1–37.

¹⁹ Petri and Plummer, 'The economic effects of the TPP: new estimates', 6–30.

²⁰ Tsuyoshi Kawase, 'Legal perspective of the United States' withdrawal from the Trans-Pacific Partnership (TPP) Agreement and the possibility of the TPP11', *RIETI Column*, 16 February 2017.

CPTPP is now in the ratification process. Regarding the ‘successor’ of TPP, it is still unclear if the 11 countries can lure the largest original TPP signatory, the USA, back to the negotiating table. The other uncertainty surrounding the mega-FTAs of the Asia-Pacific region is the slow progress of negotiations on RCEP. RCEP is still under negotiation,²¹ although the conclusion of negotiations was planned by the end of 2015.

In April 2017, Iman Pambagyo, who is the Chair of the RCEP Trade Negotiating Committee and ASEAN Coordinator for RCEP Negotiations, stated in his lecture at ISEAS in Singapore that only 10 per cent of the legal text of RCEP had been completed, and that only the drafts of the chapters on ECOTECH and competition had been ready by that time.²² One year later, Philippine Lead for RCEP Trade Negotiations Anna Robeniol said that ‘while not much information on the RCEP negotiations’ was available publicly, there were reports that a number of chapters had been completed. However, chapters on the larger issues of market access, investment, intellectual property rights, e-commerce and others were still ‘far from completion’.²³ Negotiation on market access is the most challenging issue, especially among those big economies which have not concluded any FTAs so far (e.g. Japan–China, Japan–South Korea, China–India). The conclusion of negotiations on RCEP can now be expected only by late 2018.

Nowadays there are some uncertainties around mega-FTAs in the Asia-Pacific region, evidenced in the slow progress of RCEP and US participation in CPTPP. Regarding this issue, the next part of the study will investigate what kind of role and interests Japan has played in keeping mega-FTAs on track, but first considers how Japan’s trade policy has shifted towards mega-FTAs.

Japan’s FTA policy

Japan can be considered a latecomer in the field of FTAs. The country concluded its very first FTA with Singapore only in 2002, and exclusively supported the multilateral liberalisation in the framework of GATT/WTO until the end of the 1990s. After the Second World War, Japan

²¹ The latest (22th) round of negotiations was held in Singapore, between 28 April and 8 May 2018.

²² Iman Pambagyo, ‘The Regional Comprehensive Economic Partnership (RCEP): progress, challenges and outlook’, ISEAS, ASEAN Lecture (2017), <https://www.iseas.edu.sg/images/centres/asc/pdf/RCEPIman.pdf>

²³ Anna Robeniol, *RCEP: Progress, Outstanding Issues and Outlook. The 17th ASEAN Lecture* (forthcoming), 8 June 2018, ISEAS, Singapore, <https://www.iseas.edu.sg/events/upcoming-events/item/7631-the-17th-asean-lecture-rcep-progress-outstanding-issues-and-outlook>.

was the first East Asian country to set foot on the path of export-oriented industrialisation and rapidly became a global trading nation, interested in the development of a free and open global trading system to secure market access for its manufacturing products. Nevertheless, during the Cold War Japan proposed and/or started several formal or informal regional initiatives (e.g. PAFTA,²⁴ PAFTAD, PBEC and PECC)²⁵ in the Asia-Pacific region, but all of them were declaredly consistent with the global trading rules manifested in the GATT system and showed no intention to create a closed trading bloc discriminating against outsiders. At the end of the Cold War, the new wave of regionalism hallmarked by NAFTA and the European single market urged Japan (with Australia) to initiate APEC²⁶ in 1989. With the creation of APEC, besides counteracting the discrimination of closed trading blocs, Japan wanted both to avoid the increase of US economic protectionism and bilateral trade frictions because of its (and other Asian developing countries`) huge trade surplus, and to rectify this imbalance. And third, because of the possibility of US military withdrawal from Asia at the end of the Cold War, the creation of APEC was also aimed at upholding and strengthening the USA's stake in the Asia-Pacific. Like the former regional initiatives, the Japanese concept of APEC was characterised by non-exclusiveness, non-discrimination, openness and compatibility with GATT.²⁷ The United States stood for a contrary concept and (with other free-trader nations) was pushing for legally binding commitments for trade and investment liberalisation, facilitation and cooperation. And in the second half of the 1990s, APEC became a backwater in regional trade negotiations, because of the confrontation (on the method of liberalisation) among member countries, especially between Japan and the USA. From the Japanese side there was strong resistance to the liberalisation of agriculture.

The stalled development of cooperation in the framework of APEC and the lack of adequate help from the USA and the IMF to resolve the Asian financial crisis of 1997–98 caused Japan to turn from Asia-Pacific (APEC) to East Asian (ASEAN+3, ASEAN+6) cooperation. And the failure to start a new WTO round in 1997, and later the slow progress of multilateral trade negotiations, resulted in a shift in Japan's trade policy from multilateralism

²⁴ The motivation behind PAFTA was, among other things, to counterbalance the formation and consolidation of European integration and to increase the Pacific orientation of the USA when a North Atlantic Free Trade Area was also under consideration. In the end, PAFTA was not achieved because of weak US interest. Pekka Korhonen, *Japan and the Pacific Free Trade Area* (New York: Routledge, 1994).

²⁵ PAFTA (1967): Pacific Free Trade Area; PAFTAD (1967): Pacific Trade and Development Conference Series; PBEC (1971): Pacific Basin Economic Cooperation; PECC (1980): Pacific Economic Cooperation Council.

²⁶ Asia Pacific Economic Cooperation.

²⁷ Yoshinobu Yamamoto and Tsutomu Kikuchi, 'Japan's approach to APEC and regime creation in the Asia-Pacific', in *Asia-Pacific Crossroads: Regime Creation and the Future of APEC*, eds Vinod K. Aggarwal and Charles E. Morrison (New York: St. Martin's Press, 1998), 191–211.

to bilateralism (EPAs²⁸): bilateralism, because East Asian countries did not start any negotiations on a region-wide area until at least 2013. Instead of a region-wide FTA, ASEAN+1 FTAs were concluded and, in addition to these, East Asian economies concluded several other intra- and extra-regional bilateral FTAs. Between 2002 and 2015 Japan concluded 15 EPAs which are now in effect.²⁹ After decades of support for multilateral trade liberalisation, Japan started to slowly embrace the wave of the rapid spread of FTAs. But the 15 EPAs cover only 22.3 per cent of Japan's total trade.³⁰ In addition to this, they do not contain full liberalisation of trade in goods. Japan has eliminated 86–87 per cent of customs tariffs in its EPAs but has failed to interconnect EPAs with long-awaited and needed domestic reforms and productivity enhancement (to support long-term economic growth). The EPAs have kept Japan's agricultural sector and service industries largely protected and excluded. Japanese EPAs have been especially designed to facilitate the operation of Japanese companies in foreign markets, to further the foreign investments of Japanese companies and to secure access to the markets of partner countries who have little leverage in opening Japanese markets.³¹ Thus, it can also be stated that the development of Japan's bilateral FTA policy has been primarily influenced by the strong agricultural lobby (agricultural cooperatives, ruling party politicians and farm bureaucrats) in keeping up protectionism, and by large companies, with their peak association Keidanren, which pushed for EPAs to respond to the prior FTAs of other countries deemed to put Japanese companies at a disadvantage in overseas markets.³² Finally on EPAs, Japan was motivated not only by economic but also by political reasons. Its contest with China for leadership in East Asian regionalism played an important role in the conclusion of EPAs with individual ASEAN countries and with ASEAN itself. Japan has not concluded any FTAs with China and South Korea. It started negotiations with South Korea in 2003, but South Korea withdrew from the discussions, afraid that an FTA would increase its trade deficit with Japan, and instead started FTA negotiations with its main export market, the USA. Japan and China did not initiate any negotiations on a bilateral FTA. But despite the lack of an FTA, Japan's economic integration with China accelerated rapidly

²⁸ Economic partnership agreement.

²⁹ Singapore (2002), Mexico (2005), Malaysia (2006), Chile, Thailand (2007), Indonesia, Brunei, the Philippines, ASEAN (2008), Switzerland, Vietnam (2009), India (2011), Peru (2012), Australia, Mongolia (2015).

³⁰ METI, *White Paper on International Economy and Trade 2015* (2015),

<http://www.meti.go.jp/english/report/downloadfiles/2015WhitePaper/3-1-1.pdf>.

³¹ Shiro Armstrong and Peter Drysdale, 'Japan's foreign economic policy strategies and economic performance', *Columbia Business School, Center on Japanese Economy and Business, Working Paper Series 340* (2014): 1–30.

³² Mireya Solís, 'Japan's competitive FTA strategy: commercial opportunity versus political rivalry', in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, eds Mireya Solís, Barbara Stallings and Saori N. Katada (Basingstoke: Palgrave Macmillan, 2009), 198–215.

and this was the most important driving force for Japan's export-led economic growth between 2002 and 2007, before the global economic crisis. The missing link of an FTA among Northeast Asian countries explained the lack of a region-wide FTA. During the Koizumi era Japan's deteriorating political relations with China and South Korea also contributed to this situation.

The next shift in Japan's trade policy happened in the post-global crisis era and was characterised by subdued global economic and trade growth and the poor results of the Doha round of WTO negotiations. In 2013, Japan started negotiations on RCEP (CJK FTA) and on EPA with the EU, and joined the TPP negotiations. In the case of Japan, mega-FTAs will significantly increase the trade coverage ratio of FTAs from 22.3 per cent to 70 per cent.³³ So Japan has made the decision, bold in comparison to the earlier EPAs, to start FTA negotiations with its biggest trading partners. While Japan was unsuccessful in gaining multilateral trade preferences in the framework of GATT/WTO, as a second-best solution it is trying to accomplish this with mega-FTAs, on separate and parallel tracks.

Japan's role and its interests in keeping RCEP and TPP on track

Japan's general economic aim of participating in TPP and RCEP is to boost its exports, which led the country's economic growth before the global financial and economic crisis, and to provide a more efficient functioning of Japanese companies investing abroad. In the case of former EPAs, Japan's aim was the same. The difference is that mega-FTAs will extend unified procedures, requirements and rules (like ROOs) of former EPAs to a bigger market, covering more countries. And mega-FTAs also cover countries with sizeable domestic markets (USA, China) which have not previously concluded any EPAs with Japan. Japan's participation in TPP has been highly motivated by the USA, which is Japan's most important (consumption goods) export market and outward FDI destination country. In case of RCEP, China in particular represents a significant economic factor for Japan because China is its largest trading partner and second biggest export partner. The statistics of direct export from Japan or at the local sales of Japanese affiliates³⁴ also make clear China's growing role as a

³³ METI, *White Paper on International Economy and Trade 2015*. If any additional EPAs (which are still under negotiation) were to be taken into consideration, the ratio would be nearly 85 per cent.

³⁴ For example, according to the Quarterly Survey of Overseas Subsidiaries of the Ministry of Economy, Trade and Industry, local production by Japanese companies in China (including Hong Kong) increased from 25.1 billion US dollars to 221.3 billion US dollars between fiscal 2001 and fiscal 2015, while local sales surged from 8.7 billion US dollars to 150.9 billion US dollars, and the local sales ratio rose from 34.6 per cent to 68.2 per cent. This is largely a result of the expansion of automobile production targeting the local market, which is now the largest in the world. Chi Hung Kwan, 'The rise of China and transformation of Japan-China relations: opportunities and challenges for Japan', *RIETI, China in Transition*, 5 August 2014.

consumption goods market. In addition, China is one of the few countries from the RCEP partner countries which has not concluded an EPA with Japan (as mentioned earlier), meaning there is no ongoing scheduled tariff elimination between them; only 8 per cent of China's customs tariffs against Japanese products are zero now,³⁵ making RCEP an important tool for Japan in increasing its market access to China.

Japan's economic growth strategy, the so-called Abenomics announced in 2012, has placed much emphasis on mega-FTAs, especially TPP, which can promote economic growth through export expansion. The extraordinary significance of TPP among FTAs for Japan was revealed by the creation of a TPP task force inside the Cabinet Office and the assignment of a state minister in charge of TPP (Mr Akira Amari). Japan's liberalisation commitments in TPP have been the highest ever, in comparison to those of former EPAs.³⁶ Since the whole TPP is a very ambitious FTA in terms of depth of liberalisation and scope of fields of commitments, it has become an important part of the 'third arrow' of Abenomics, which has linked TPP to long-awaited domestic structural reforms regarding agriculture, service industries and inward direct investments. The low productivity of agriculture and some service industries in comparison to the manufacturing sector is often cited as one of the reasons for Japan's low economic growth. The opening up to international competition through liberalisation and deregulation of these sectors (especially the service sector, because agriculture represents only a tiny part of the whole GDP) could create higher economic growth.

According to the CGE model estimations of Kawasaki,³⁷ Japan may expect higher income gains from RCEP than from TPP. Yet when we compare the expected depth of liberalisation and scope of obligations of RCEP, which is still under negotiation, to the assumption of the model (regarding tariff removal and a decrease in non-tariff barriers), the estimates of Japan's income gains from RCEP seem to be too optimistic. In terms of depth of liberalisation and scope of commitments, RCEP is expected to be less ambitious than TPP. As already mentioned, preferences in the framework of RCEP, which China will provide, can be significant for Japan, but the other important interest of the country related to RCEP, which JETRO and MOFA officials emphasise,³⁸ is the unified ROOs for the whole of East Asia to provide more efficient functioning of the wide and complex regional production networks which Japanese companies have been building in the region since the mid-1980s. In addition

³⁵ Information provided by MOFA officials during an interview on 29 September 2016.

³⁶ Mireya Solis, 'The high stakes of TPP ratification: implications for Asia-Pacific and beyond', *Japan Spotlight* March/April (2016): 46–49. Japan has committed to eliminating 95 per cent of customs tariffs (100 per cent and 81 per cent of customs tariffs in the case of industrial and agricultural products, respectively).

³⁷ Kawasaki, 'The relative significance of EPAs in Asia-Pacific', 1–37.

³⁸ Interviews with JETRO and MOFA officials, 16 May and 29 September 2016.

to this, the global economic crisis showed that East Asian countries should reduce their economic dependency on extra-regional final demand and rely more on the regional or domestic final demand. A region-wide FTA would provide a new final-demand market for East Asia through trade creation. Japan could rely more on the final demand of the growing middle class in neighbouring countries (not only in China).

Beside the economic factors, we can also identify some of the political factors which motivated Japan to participate in RCEP and TPP. The pre-history of RCEP and the development of East Asian regionalism has been primarily characterised and formed by the contest between Japan and China for regional leadership. In 2005, Japan expanded East Asian cooperation to India, Australia and New Zealand to counterbalance China's growing regional influence. The negotiations on RCEP with ASEAN+6 countries could thus begin in 2013 when China became supportive mainly through Japan's accession to TPP negotiations, which significantly increased TPP's economic scale from the Asian side.

In the last 15 years, Japanese–Chinese political relations have experienced several ups and downs. After the short interlude of the Hatoyama government, efforts to create a foreign policy of 'independence from the USA' and 'growing closer to China' in 2009³⁹ and the recurrence of conflicts in political relations with China from 2010, Japan assured the USA of its political support for the USA's new Asia-Pacific strategy by announcing its intention of participating in TPP in 2010 and effectively joining the negotiations in 2013. In the framework of the new Asia-Pacific strategy, the USA launched a series of Strategic and Economic Dialogues with China in 2009, but in general the practice shows that the whole strategy rather interfered with China's interests and was targeted to contain China's rising power. The agreement on TPP was an important economic part of this strategy which was signed in February 2016.

In Japan, the session of the Diet which decided on the ratification of TPP started at the end of September 2016, when uncertainty around the US ratification of TPP was already very high. Japan was the first country to ratify TPP, on 20 January 2017 when, ironically, the new US president, Donald J. Trump, announced the withdrawal of the USA from the TPP Agreement. After that, Japan – as the second largest economy among the TPP original signatories – undertook a leading role to keep TPP on track and put it into effect. The remaining 11 TPP countries were looking at whether and how much to revise the substance of the TPP Agreement. After several meetings, the trade officials of the TPP11 group were able

³⁹ Miyagi, 'Asia and Japan in the 21st century – the decade of the 2000s'.

to reach broad agreement on the side-lines of the APEC Leaders' Meeting in Da Nang, Vietnam, in November 2017. Only some issues remained unresolved, and these were successfully addressed in Tokyo in January 2018. The 11 countries inked the so-called Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in Santiago, Chile, in March 2018, a separate treaty that incorporates, by reference, the provisions of the Trans-Pacific Partnership Agreement with the exception of a limited set of provisions to be suspended.⁴⁰ This is a list of 22 items (constituting only a small fraction of the overall agreement) that officials from the 11 member countries agreed to remove temporarily from the free trade agreement texts. In other words, these elements of TPP may come back into the agreement as originally negotiated.⁴¹

The conclusion and the signing of CPTPP has not been left without any reaction from the United States. In January 2018, after one year of announcing the US withdrawal from TPP, US President Donald J. Trump stated in an interview at the World Economic Forum in Davos that he would reconsider the massive TPP trade deal if the United States could make a substantially better deal.⁴² And in April 2018, he told White House National Economic Council Director Larry Kudlow and US Trade Representative Robert Lighthizer to look into joining the agreement of CPTPP signed in March which is now in the ratification process.⁴³ This signals that the United States may have a change of heart and wish to participate in the 'successor' of TPP. It is predictable that Japan will continue to put significant effort into the successful realisation of mega-FTAs (CPTPP, Japan–EU EPA, RCEP) which could contribute to the country's economic revitalisation.

⁴⁰ Australian Government, *Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11): Outcomes at a Glance* (2017), <http://dfat.gov.au/trade/agreements/not-yet-in-force/tpp-11/outcomes-documents/Documents/tpp-11-outcomes-at-a-glance.pdf>.

⁴¹ Deborah Elms, *TPP11: Unpacking the Suspended Provisions*, Asian Trade Centre, Policy Brief, November 2017, <https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5a0a27b1f9619a1bb0564c62/1510614967962/Policy+Brief+17-11+TPP11+Suspensions.pdf>.

⁴² Jacob Pramuk, Jacob, 'Trump: I would reconsider a massive Pacific trade deal if it were "substantially better"', CNBC, 25 January 2018, <https://www.cnbc.com/2018/01/25/trump-says-he-would-reconsider-trans-pacific-partnership-trade-deal.html>.

⁴³ Jordan Fabian and Vicki Needham, 'Trump to explore entering Pacific trade pact he once called "a disaster"', *The Hill*, 12 April 2018, <http://thehill.com/homenews/administration/382867-trump-orders-officials-to-look-into-re-entering-tpp-trade-pact>.

Conclusion

It is Japan's aim to boost its economic growth in the post-global crisis era. One of several tools is the trade policy in which there has been a sharp shift in comparison to the pre-crisis period characterised by bilateralism (bilateral FTAs) with smaller trading partners. This shift did not happen quickly, as there had been a long domestic debate (especially in the field of agriculture) even before Japan joined the TPP negotiations, but the move has caused a domino effect, the launch of other mega-FTAs. The withdrawal of the USA from TPP in early 2017 has urged Japan, which has high economic expectations regarding mega-regional FTAs (see Abenomics), to take a leading role in the realisation of TPP and the fulfilling of its original aim. By inking CPTPP with the other 10 countries in March 2018, Japan has already taken a great leap forward on this path. Japan will continue to work on keeping TPP, through CPTPP, and other mega-FTAs on track and leaving the door open for a possible return of the USA to the 'successor' of TPP.

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