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Hard-won Agreement of the TPP

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On October 5, 2015, Ministers of the 12 Trans-Pacific Partnership (TPP) countries¹ reached a broad agreement on the TPP negotiations.

The Agreement not only deals with tariffs (customs duties) on merchandise goods but it incorporates a wide range of fields such as services, investment, intellectual property, rules of origin, government procurement, and dispute settlement, as well as such new areas as labor and environment that the previous Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) have not dealt with. The negotiations have had a rough going since they covered a wide range of issues and each country in the negotiation had many sensitive sectors to protect as represented by Japan's five sacred products, but the mutual concessions by the participating countries finally brought about an agreement after 5 years of hard negotiations (2 years after Japan's participation)

It can be highly appreciated that the countries that account for 40 % of the world economy have agreed on the comprehensive rules on trade and investment even if there are some criticisms that say the agreement has been watered down due to the compromises and it will take a longer time to complete the liberalization process. And the Agreement is expected to play a role of making a model case for the rules of the world trade.

The Japanese consumers will have a benefit of lower prices of food and other products from this agreement while the companies will be benefited not only by an expanding export but also by easier access to build supply chains within the region through the unified rules of origin and other standards as well as facilitated outward investment in services and financial sectors. On the other hand, there is a strong concern that the agriculture and livestock industry will be adversely affected by the Agreement and therefore there will be a need for government bailout measures. In that case, however, it is highly desired that the government will take measures that will contribute to the improvement of productivity of these industries.

With the conclusion of the TPP, the Japan's FTA coverage ratio (a share of FTA participating countries in the total trade amounts of a country) will go up to 37%. Korea already has a higher

¹ Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. These twelve countries account for nearly 40% of the world's GDP with a total population of 800 million.

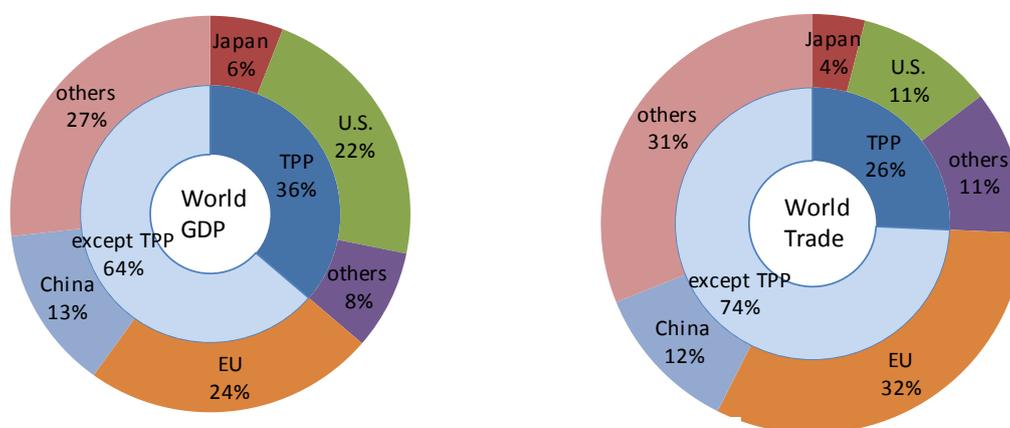
ratio of 63% as Korea, competing with Japan in the area of trade, has actively concluded FTAs with major trading partners including the US and the EU. It is longed for Japan also that it will continue to promote the current process of negotiations for Japan-EU EPA, Japan-China-Korea FTA, and the Regional Comprehensive Economic Partnership (RCEP) in East Asia which includes the participation of China and India and increase the ratio. .

The US is now under negotiation with the EU on the Trans-Atlantic Trade and Investment Partnership (TTIP). Some of the observers see the TPP as a part of containment network against rising China, but without China that accounts for more than 10% of the world trade it is hard to expect a stable expansion of the world trade. The best way for Japan to take in this environment will be to strengthen the relationship with China through negotiations of Japan-China-Korea FTA and RCEP, and entice China to participate in the TPP.

For the advanced countries that suffer from common challenges of aging and slower growth, promotion of trade and investment is one of the important growth strategies. At the same time the increase in trade and investment will bring a win-win relationship to the emerging and developing countries by helping them to achieve enhanced economic development. Although the Japanese economy seems to be finally coming out of the long tunnel of deflation, it is still stalled with a strong sense of stagnation. It is strongly expected that the TPP will provide a spark to Mr. Abe's growth strategy for Japan.

This agreement defines that the TPP will enter into force with the ratification of at least 6 countries with the total share of 85% of the GDP even if all the signing countries will not complete the needed domestic legislation within 2years. This means that the TPP will be stalled unless the US and Japan ratify the Agreement. Both countries have various vested interests domestically and there is a possibility they will face a tough negotiation toward ratification. But it should be avoided by all means that the domestic conflicts of interest will abort the successful implementation of the TPP.

The Share of TPP countries in the world (2014)



(Source) Cabinet Secretariat

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