

Supplemental Teaching Materials (5)  
[Exhibit 30]

# Participation of Japan in the TPP Negotiation

Mitsuo Matsushita

# 1. What Has Happened?

- 2011:11:9 Prime Minister Noda announced that Japan would seek TPP negotiation.
- 2011:11:12 U.S./Japan Summit: President Obama said that he would welcome entry of Japan to TPP.
- 2013: 2: 23 Obama/Abe (New Prime Minister) issued a joint statement: no exception for negotiation but whether tariff is eliminated on specific items could depend on negotiation
- 2013:3:15 Abe announced that Japan would seek negotiation to get into TPP.

## 2. TPP – a New Experience for Japan

- TPP is different from previous FTAs in which Japan entered. There are 13 FTAs: most of them are FTAs between Japan and developing countries in Asia. Bargaining position of Japan was relatively favorable to Japan and Japan was able to exclude agricultural items from liberalization.
- In 13 FTAs, a total of 940 items are exempted from liberalization and 850 items are on rice, wheat and other agricultural items.
- In TPP, negotiating parties are U.S., Canada, Australia and so on and the Japanese bargaining position is relatively weaker than it was when negotiation FTAs with Asian countries.

# 3. Arguments for TPP

## Business Groups and METI etc.

- ① early participation is essential, ② strengthen U.S./Japan relationship generally and contribute to promotion of national security, ③ equal footing with Korea (Korea/U.S. & Korea/EU FTA), ④ facilitate domestic reform especially in agriculture.
- Only 17.4% of the Japanese trade is covered by FTA (in Korea, 35.6%) and, in FTAs in which Japan is a party, the rate of liberalization is 84-88% and the worldwide average is 96-100% . Participation in TPP would drastically improve liberalization.
- MITI's estimate: TPP would increase export by JPY 8 trillion and GDP will increase by JPY 3.2 trillion if all of tariffs and other trade barriers are eliminated in TPP. Too optimistic?
- Export will increase by 14% compared with the situation where Japan did not participate in TPP. Too optimistic?

# 4. Arguments against TPP

## Agriculture Groups and MOAF

- Domestic agriculture will be badly damaged and local communities which depend on agriculture will collapse.
- If tariff is zeroed, 90% of price consumption will be replaced by foreign-produced rice.
- Domestic agriculture products will decrease by 3 trillion JPY and GDP declines by 8 trillion JPY annually.
- This will lower self-sufficiency rate from 40% to 14 %.
- This estimate by MOAF stands on the assumption that tariffs on agricultural products are zeroed all over the world and no agrarian reform is undertaken.  
(Unrealistic assumption?)

# 5. What Should We Do?

- Many commentators say, on the whole, there is more advantage to Japan by joining TPP rather than by not joining.
- Catch up with Korea in FTA. Korea's share in trade covered by FTA is 35.6% and that of Japan is 17.4%. Korea is ahead of Japan in FTA, i.e., Korea/U.S. and Korea/EU FTA
- Help export from Japan to other markets, especially to U.S. (tariff on cars in U.S. is 2.5% but 25% for pickup trucks).
- Joining TPP is a good basis for negotiating other FTAs including Japan/EU and RCEP.
- Help solidifying U.S./Japan relationship including national security

## 6. High Tariffs on Agricultural Products

- Average Japanese tariff → about 16% but high in agricultural products.
- Examples of high tariffs: rice 778%, wheat 252%, dairy products 482%, sugar 325%, konjak potatoes 1706%. Among them, rice is most important.
- High tariffs hamper negotiations on FTA (reciprocity) and this is why the rate of liberalization in FTA in which Japan is a party is low.

# 7. Rice Policy

- Japan's policy toward rice: ① setting aside policy (control of production) + subsidy, ② high tariffs.
- Rationale for this policy: ① food security (self sufficiency), ② multi-functionality
- Because of this policy, less supply and higher price.
- Paradoxical consequences, e.g., protect inefficient farmers, exit barrier, lack of new entry (unattractive sector) and aging farmers (on average, 66 years old)
- Decline of self-sufficiency: more than 80% in 1960's and 40% today



## 8. Can Rice Farming Survive TPP? (Some Economists Say “Yes”.)

- Assumption: large scale agrarian reform, 10 year transition period and openness of rice market in other TPP countries.
- Japanese rice is “brand rice”, e.g., quality rice which does not compete with non-brand rice: different markets.
- Comparison of quality rice prices between U.S. and Japan in 2011: U.S. rice → 143 JPY for 1 kg, Japanese rice → 235JPY for 1 kg. Japanese rice is about 40% higher than U.S. rice.

# 9. How Do We Fill this Gap?

- ① Do away with setting aside policy. Increase of production and decline of domestic price
- ② High tariffs should be zeroed or reduce drastically.
- ③ Direct payment of subsidy to farmers to make up the difference between the domestic price and international price
- ④ Condition direct payment on relative efficiency of farmers and the size of farm land
- ⑤ Encourage corporate entity in agricultural sector.
- ⑥ Reduction of the number of farmers, concentration of production entities and larger scale farming

# 10. Negotiation with U.S. Beef Market

- Three major problems: ① Beef market, ② Kampo (postal and insurance services), ③ Auto market
- Beef market: Japanese standard was that animal from which meat is taken must be 20 months old or younger whereas Codex standard is 30 months.
- The Japanese Food Safety Commission recommended that the regulation should be relaxed to 30 months and so the problem is generally resolved.

# 11. Kampo

- Kampo used to be part of the government dealing with postal services and insurance. Later Kampo was privatized and turned into a corporation. But the government holds stocks of Kampo.
- U.S. argues that the entry of Kampo into the cancer insurance market in Japan would unduly disadvantage U.S. companies which hold large share in Japan because Kampo is guaranteed that any loss will be compensated by the government. No level playing field.
- Politicians are supported by Kampo and it is difficult for the Japanese government to compromise. But Kampo has announced that it would not enter the cancer insurance market. So maybe the problem has been resolved.

# 12. Auto Market Issues

- This is the most difficult issue when negotiation with U.S. U.S. argues that Japanese auto market is too closed.
- U.S. cars has market share of 0.3% in Japan.
- Market share of all foreign cars in Japan is 6%.
- In U.S., foreign car's share is 22.4%. In Germany, 29.2% and, in Korea, 7.4%.
- U.S. exports more cars to Chile than to Japan. Chilean market is 1/12 of the size of Japanese market. What is wrong with Japanese market?.

# Cont'd

- U.S. claims: ① currency manipulation, ② burdensome regulation and ③ preferential treatment of domestic cars.
- U.S. auto industry argues that \$1= JPY70 is the right balance.
- U.S. claim on burdensome regulation (emissions and environmental standards) somewhat lacks specificity.
- U.S. claims that Japanese government provides tax breaks and subsidy on smaller cars and large U.S. cars are disadvantaged.

# Cont'd

- Japanese car market is mature and little prospect for future growth. So why worry?
- Real barrier to entry may be tightly-nit vertical distribution system in Japan.
- Some commentators speculate: the real intention of U.S. auto industry is to keep off Japanese car exports.
- A proposal for solution: the role of private associations as in auto industry trade associations activities in the 1995 U.S./Japan Auto Dispute and the role of Japanese auto manufacturers (Example of DUO).
- “Uneasy bed relationship” but the dispute was resolved.

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- Newspaper reports: U.S. keeps 2.5% tariffs on cars and 25% tariffs on trucks and Japan is allowed to keep tariffs on agricultural items. It is not known yet what are the exempted items and how much would be tariffs.
- There is a slight change in the attitude of the Federation of Agricultural Cooperatives .
- Opinion surveys: People above age 30 are favorable to TPP and those below 25 are against it.



# 11. Role of Japan in TPP

- Japan can act as balancer and middle power within TPP.
- GDP: U.S.→\$15.08 trillion, Canada→\$1.74, Australia→\$1.49, Mexico→\$1.15, all other participants combined→\$1.27: “Gulliver in Lilliput”!
- Japan’s GDP→\$5.87 If Japan joined, the shares in GDP would be U.S.→57%, Japan→ 22%, Canada→6%, Australia→6%, Mexico→ 4% and all others→5%.
- U.S. and Japan would occupy almost 80% of GDP within TPP. This will be almost like U.S./Japan FTA!
- Japan can act as moderator so that Gulliver would not be too predominant over Lilliputians.

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- In relation to RCEP, Japan can act as moderator also.
- Background of RCEP, ASEAN+3 (Chinese proposal), ASEAN+6 (Japanese proposal)
- After announcement by Prime Minister Noda that Japan would seek for TPP negotiation, China changed policy and proposed RCEP.
- TPP will be led by U.S. and RCEP will be led by China, two superpowers. It is important to keep conciliatory relationship between TPP and RCEP. Japan will be members of both and would act as moderator.