Trans-Pacific Strategic Economic Partnership (TPP) and Japan's Economic Growth Strategy

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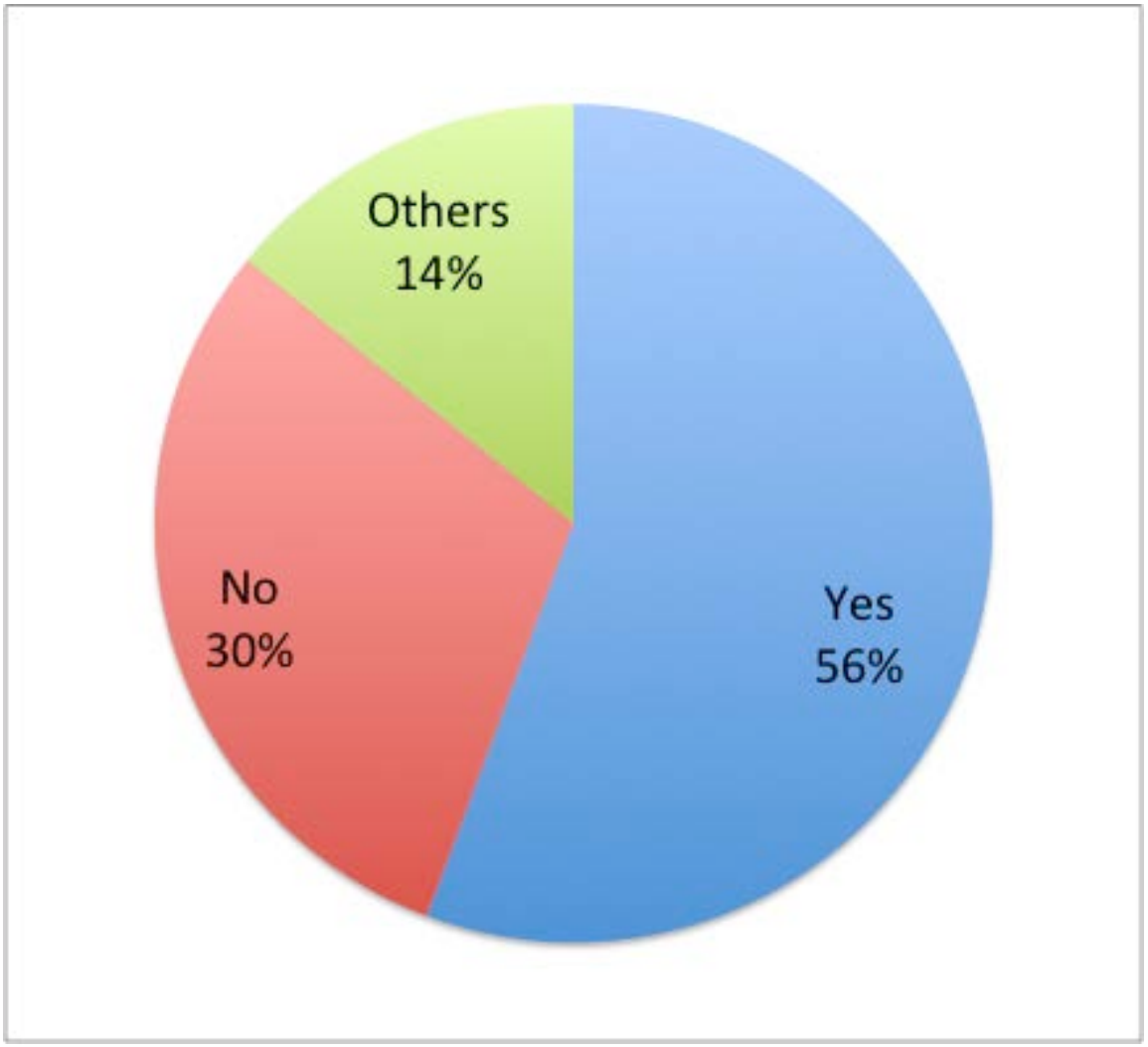
1. Current status of TPP negotiation

- Negotiations are going very fast; virtually every week; much faster than usual FTA negotiations.
- Areas in discussion: tariffs, intellectual property right protection, competition, environment
- Recent focus on tariffs indicates a progress in negotiation.
  - Besides the US domestic politics, Japan's border measures on five major agricultural products are the bottleneck.
- Public support on TPP in Japan has continuously been strong.
  - Not necessarily "agriculture vs. manufacturing" anymore.

FNN Public Poll (April 29, 2014)

(Phone interviews with 1,000 persons at 20 years old and above)
"Do you support Japan's participation in TPP?"

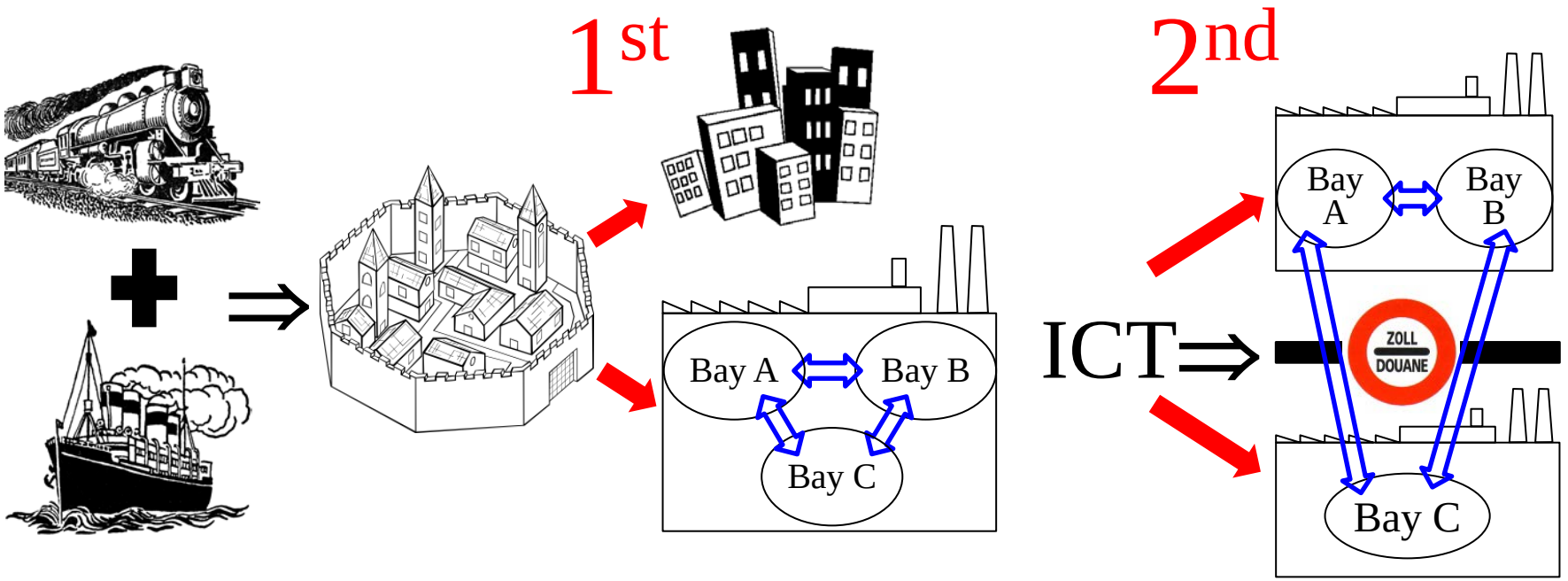


2. Why TPP for Japan and East Asia?

- "The 2nd unbundling" in machinery industries, most advanced in East Asia.
- Achieving both the deepening of economic integration and the narrowing of development gaps.
- The international division of labor may "increase" domestic employment in Japan.
  - Even SMEs, local governments, and labor unions support globalizing corporate activities.

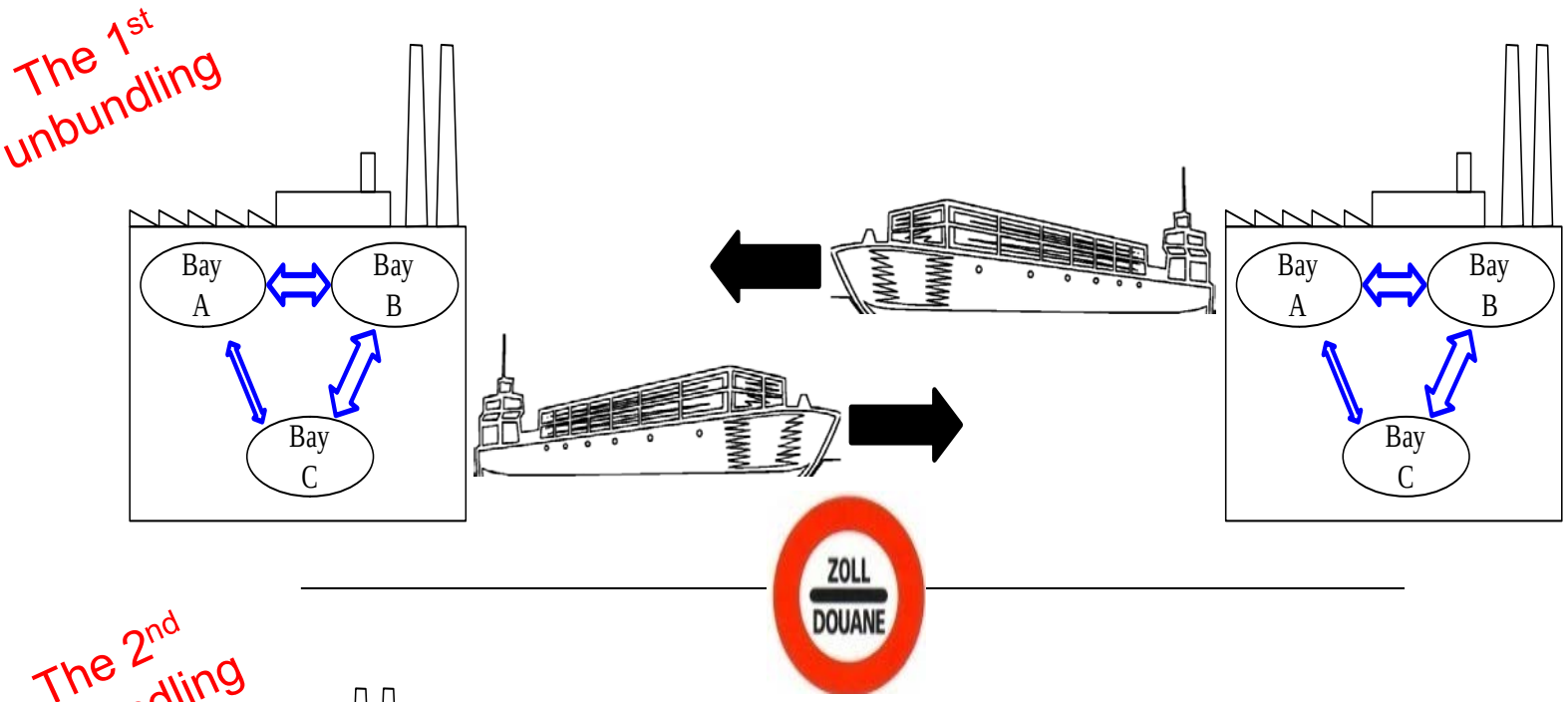
The 2nd Unbundling

- The 2nd unbundling, i.e., international division of labor in terms of production processes and tasks, has developed since the 1980s, based on drastic reduction in coordination costs due to ICT revolution.
- The 2nd unbundling in the manufacturing sector is most advanced in East Asia.



Source: Baldwin (2011).

The 1st and the 2nd unbundling



Connecting factory & doing business abroad: The "trade-investment-services nexus"

1) Two-way flows of goods, ideas, technology, capital, and technicians.
2) Investment and application of technical, managerial and market know-how abroad.

Source: The original is in Baldwin (2011), slightly modified by the author.

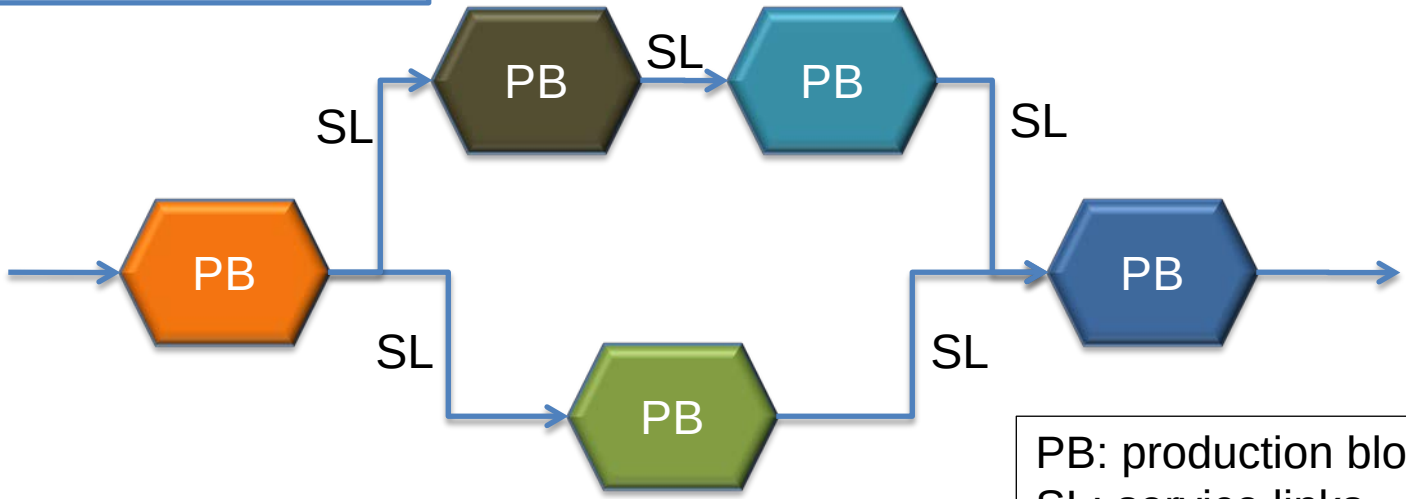
The fragmentation theory: Production blocks and service links

Tradeoff between the reduction in production costs in PB and the enhancement of SL costs. Fragmentation of production occurs particularly between countries at different development stages (Jones and Kierzkowski (1990)).

Before fragmentation

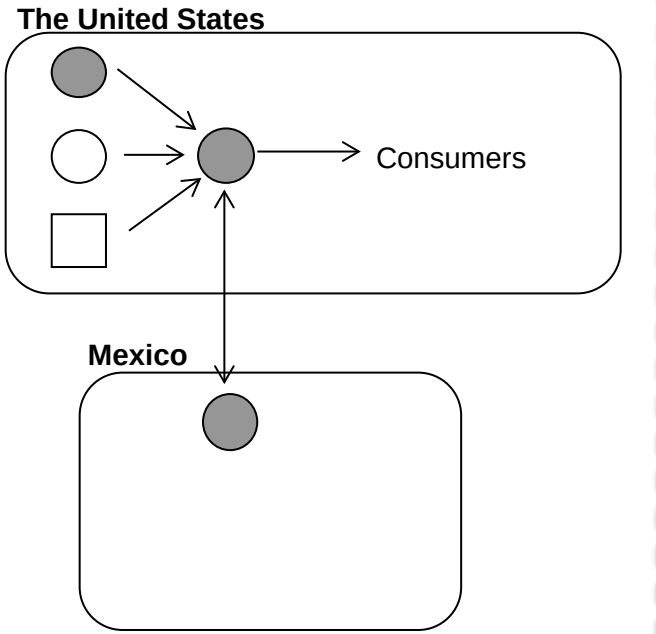
Large integrated factory

After fragmentation



The evolution of the 2nd unbundling

Cross-border production sharing
(back-and-forth; intra-firm)



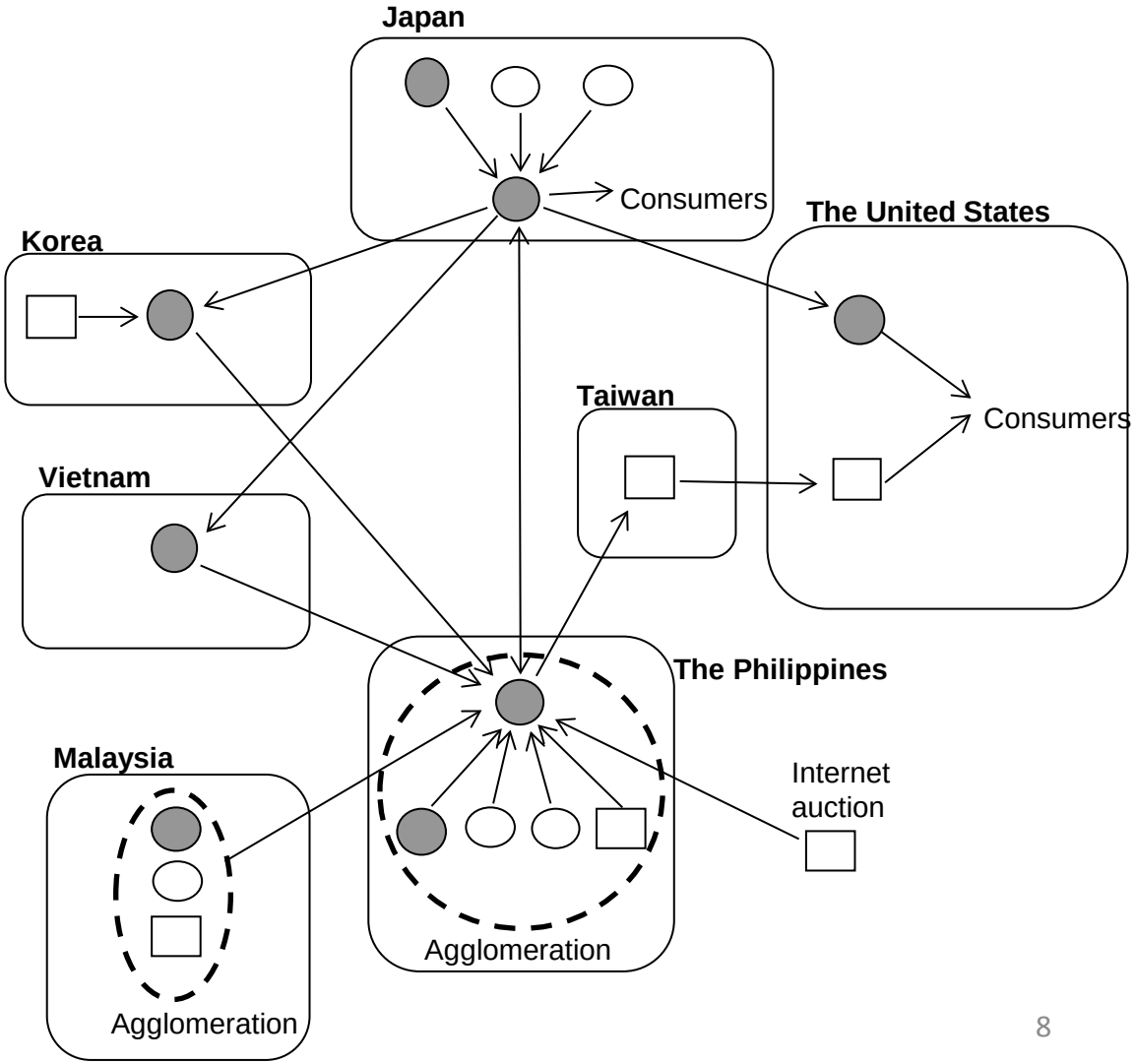
Headquarters or affliates

Unrelated firms with same firm nationality

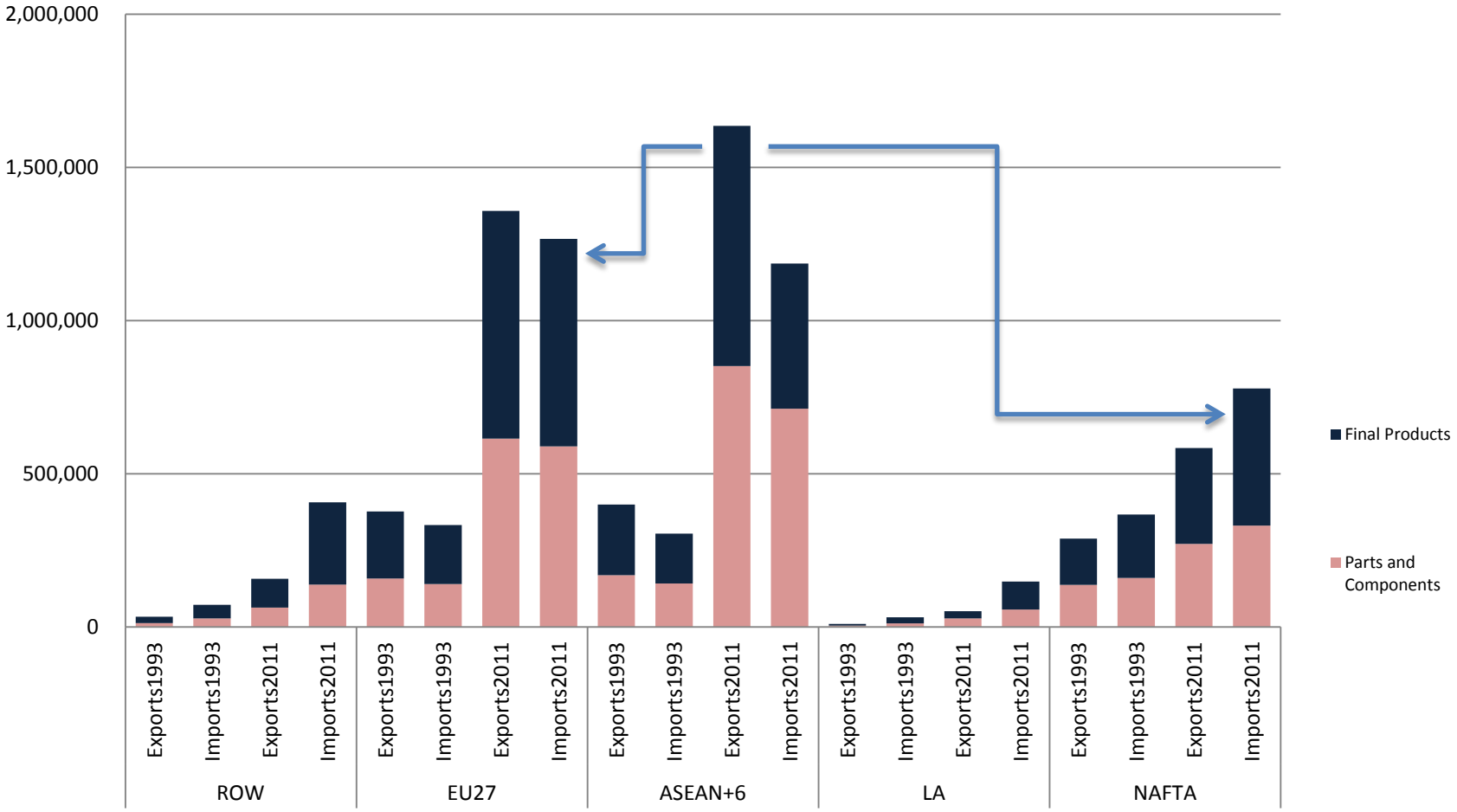
Unrelated firms with different firm nationality

Source: Ando and Kimura (2010).

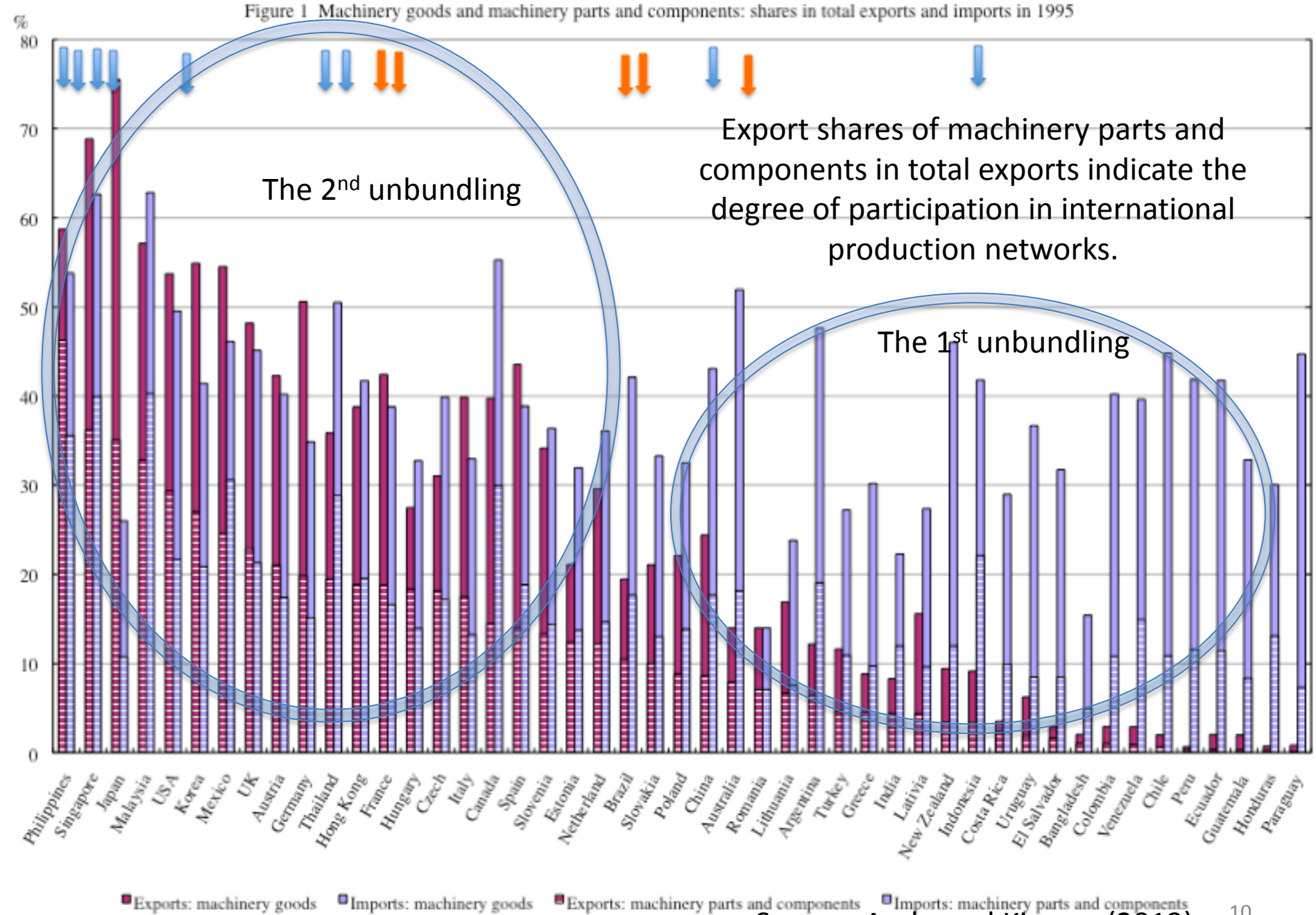
Production networks
("networks"; fragmentation and agglomeration;
intra-firm in short distance, arm's length in long distance)



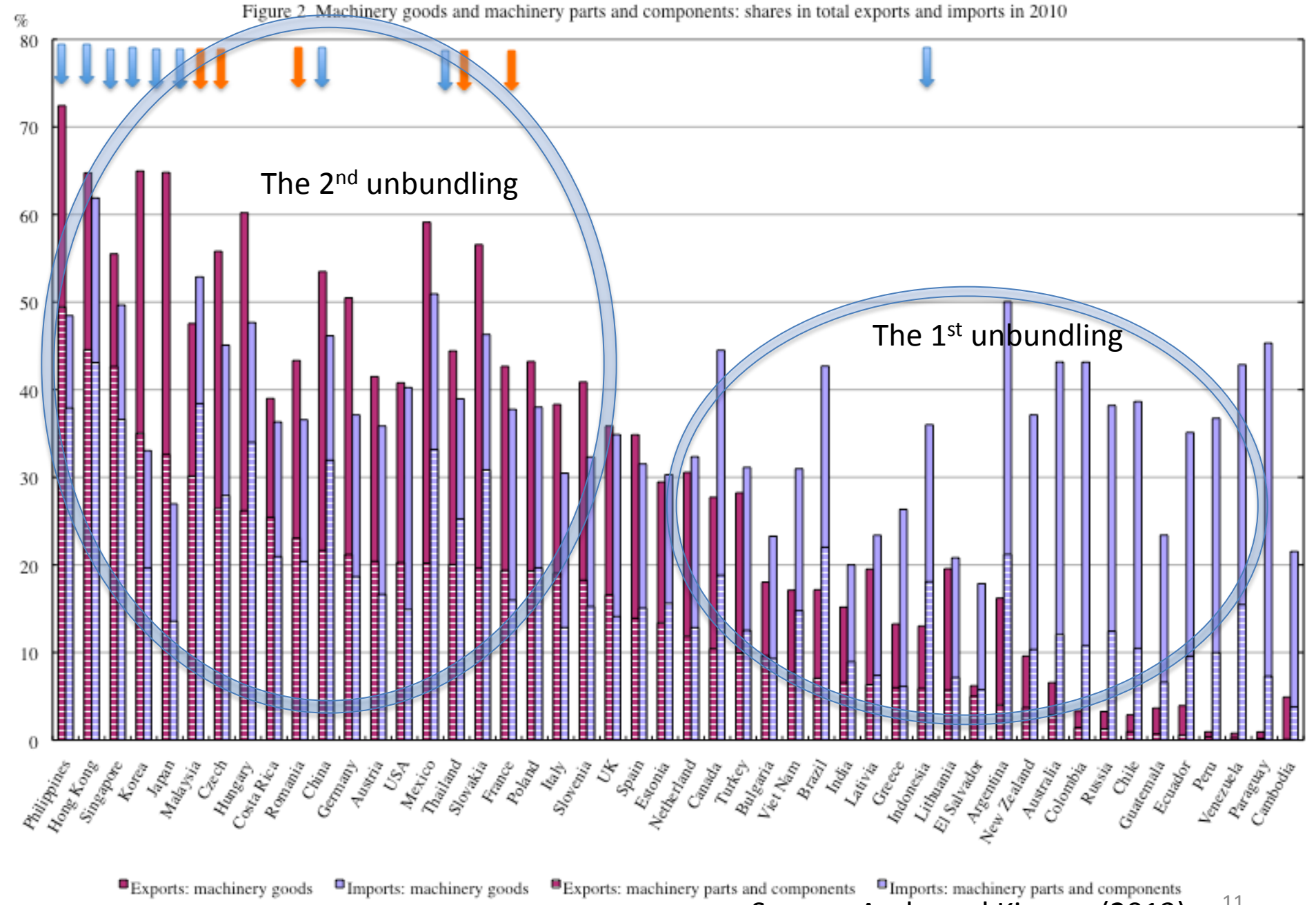
Machinery exports and imports by regions (US$ millions)



Source: Chang and Kimura (2013).



Source: Ando and Kimura (2013).



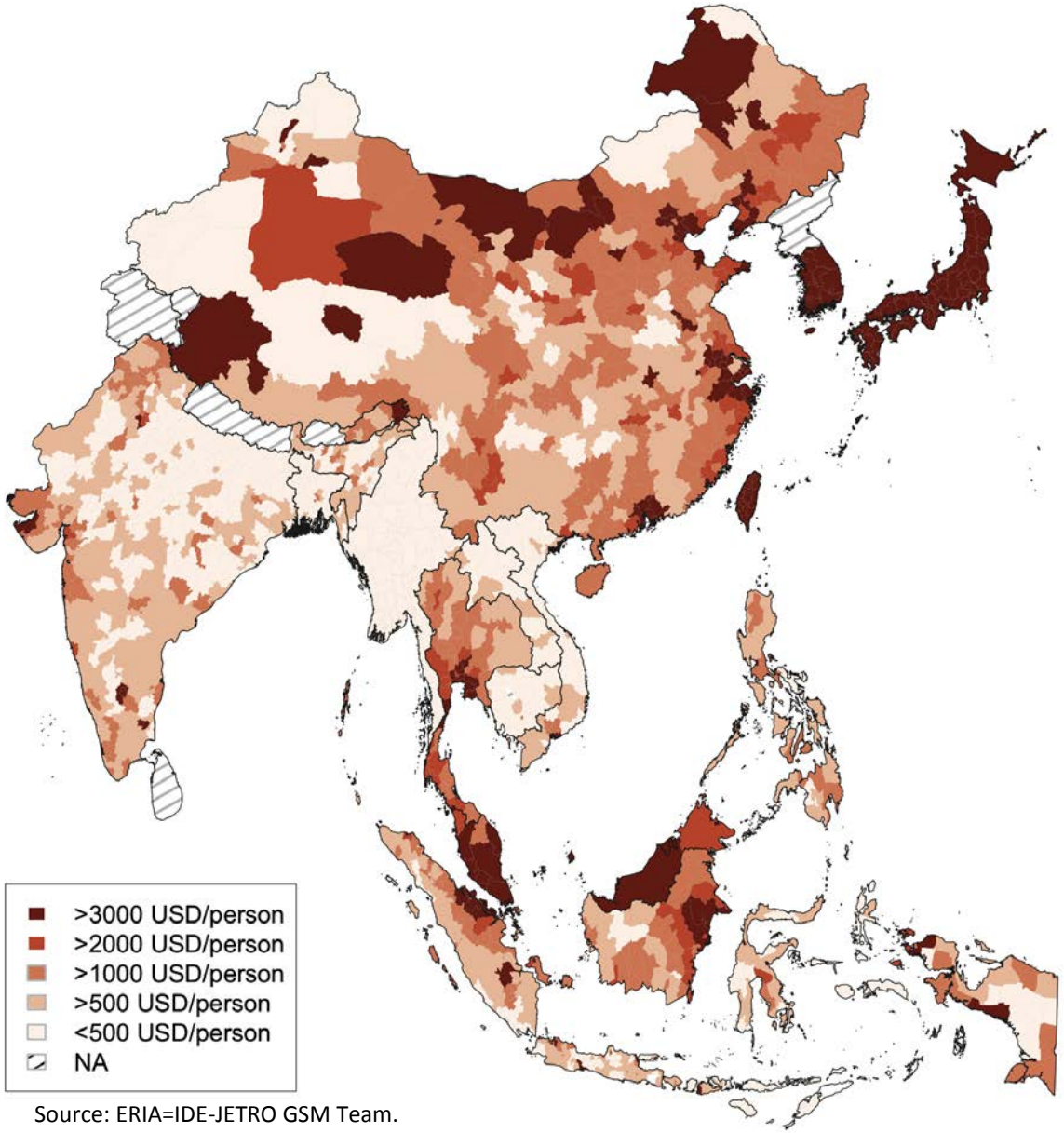
Source: Ando and Kimura (2013).

GDP per capita in 2018 in extended East Asian countries

GDP / capita (USD)	2000	2005	2010	2018 Estimate
Singapore	22,791	28,498	44,697	57,134
Brunei	18,477	26,587	31,982	43,537
Malaysia	3,992	5,421	8,634	14,567
Thailand	1,983	2,825	4,992	9,284
Indonesia	800	1,291	2,986	5,569
Philippines	1,055	1,209	2,155	4,191
Vietnam	402	637	1,174	2,474
Lao PDR	308	474	1,105	2,354
Cambodia	288	455	753	1,583
Myanmar	178	216	742	1,218
Australia	20,734	35,570	56,220	74,635
Japan	37,304	35,781	42,917	47,281
New Zealand	13,833	27,118	32,455	44,527
South Korea	11,347	17,551	20,540	33,644
China	946	1,726	4,423	10,711
India	465	727	1,356	2,249

Source: World Economic Outlook, International Monetary Fund.
Notes: grey indicates GDP per capita ≤ USD 1,000; yellow indicates USD 1,000 < GDP per capita ≤ USD 3,000; light orange indicates USD 3,000 < GDP per capita ≤ USD 10,000; green indicates GDP per capita ≥ USD 10,000.

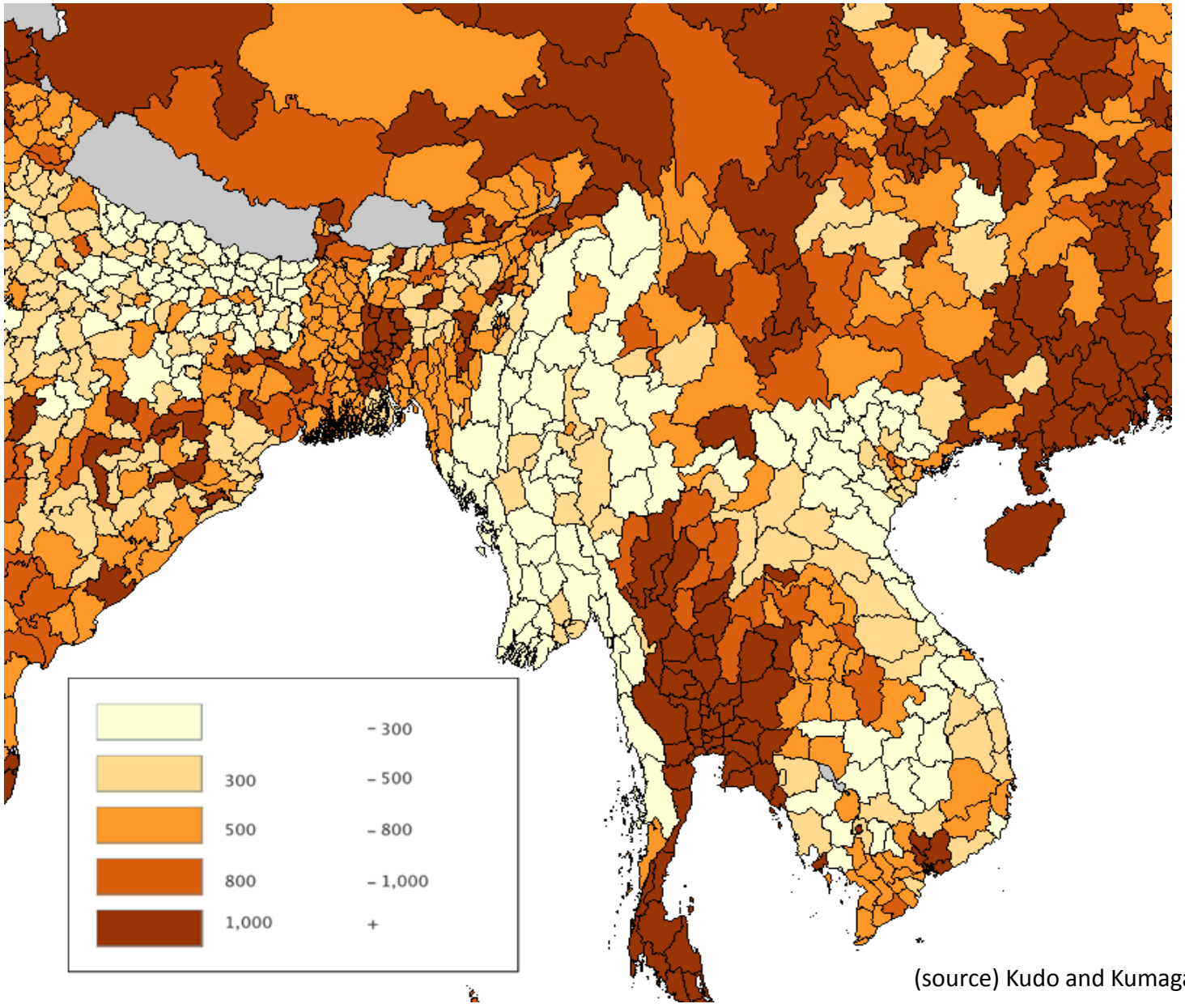
Income levels at the provincial level (2005)



Source: ERIA=IDE-JETRO GSM Team.

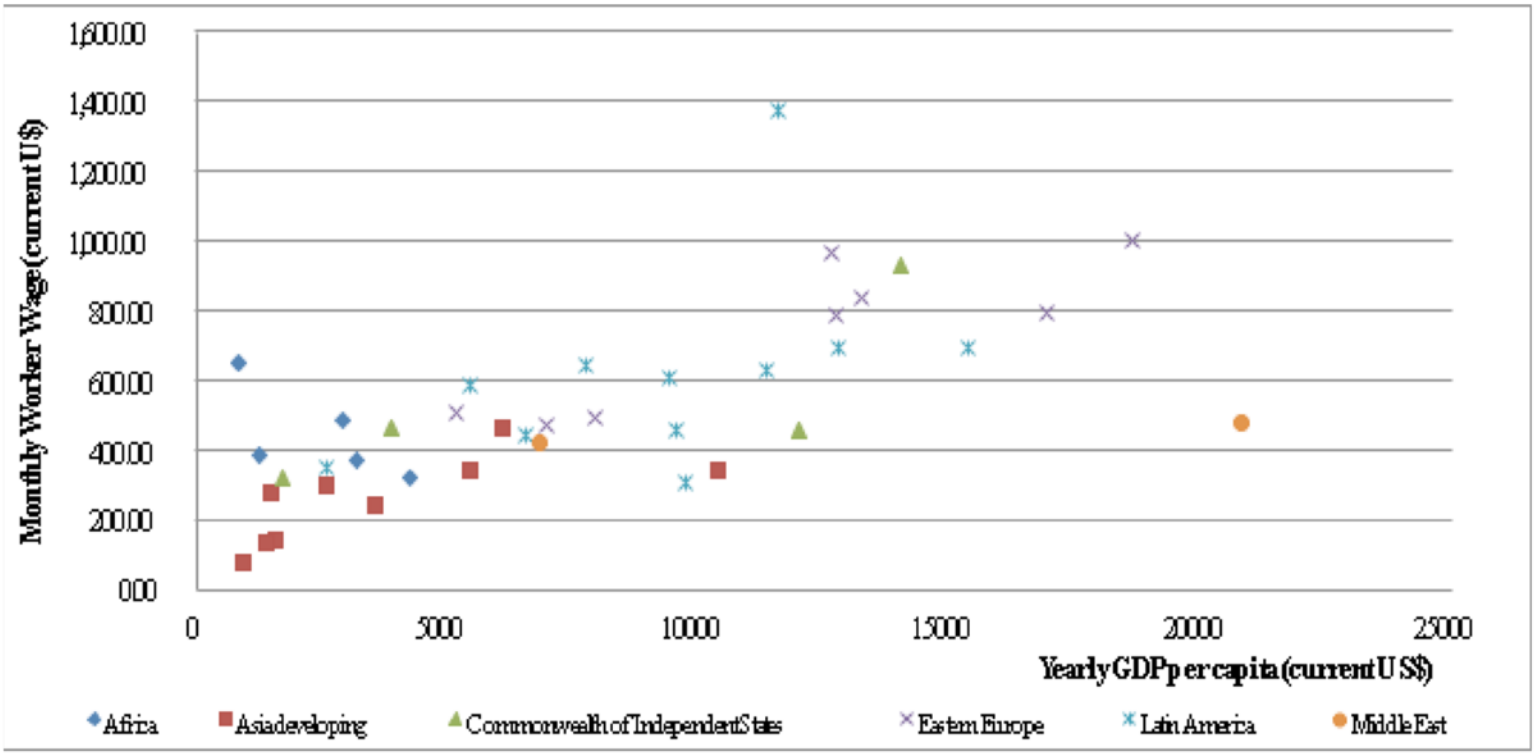
Border Development with Enhancement of Connectivity

GDP per capita (2005)



(source) Kudo and Kumagai (forthcoming)

図６　１人当たり所得とワーカーの１月当たり賃金



出所：Chang and Kimura (2014).

List of the cities per region: Africa – Nairobi (Kenya), Casablanca (Morocco), Abidjan (Ivory Coast), Cairo (Egypt), and Tunis (Tunisia);

Asia developing – Beijing (China), Bangkok (Thailand), Kuala Lumpur (Malaysia), Manila (Philippines), New Delhi (India), Jakarta (Indonesia), Hanoi (Vietnam), Vienciana (Lao), and Phnom Penh (Cambodia);

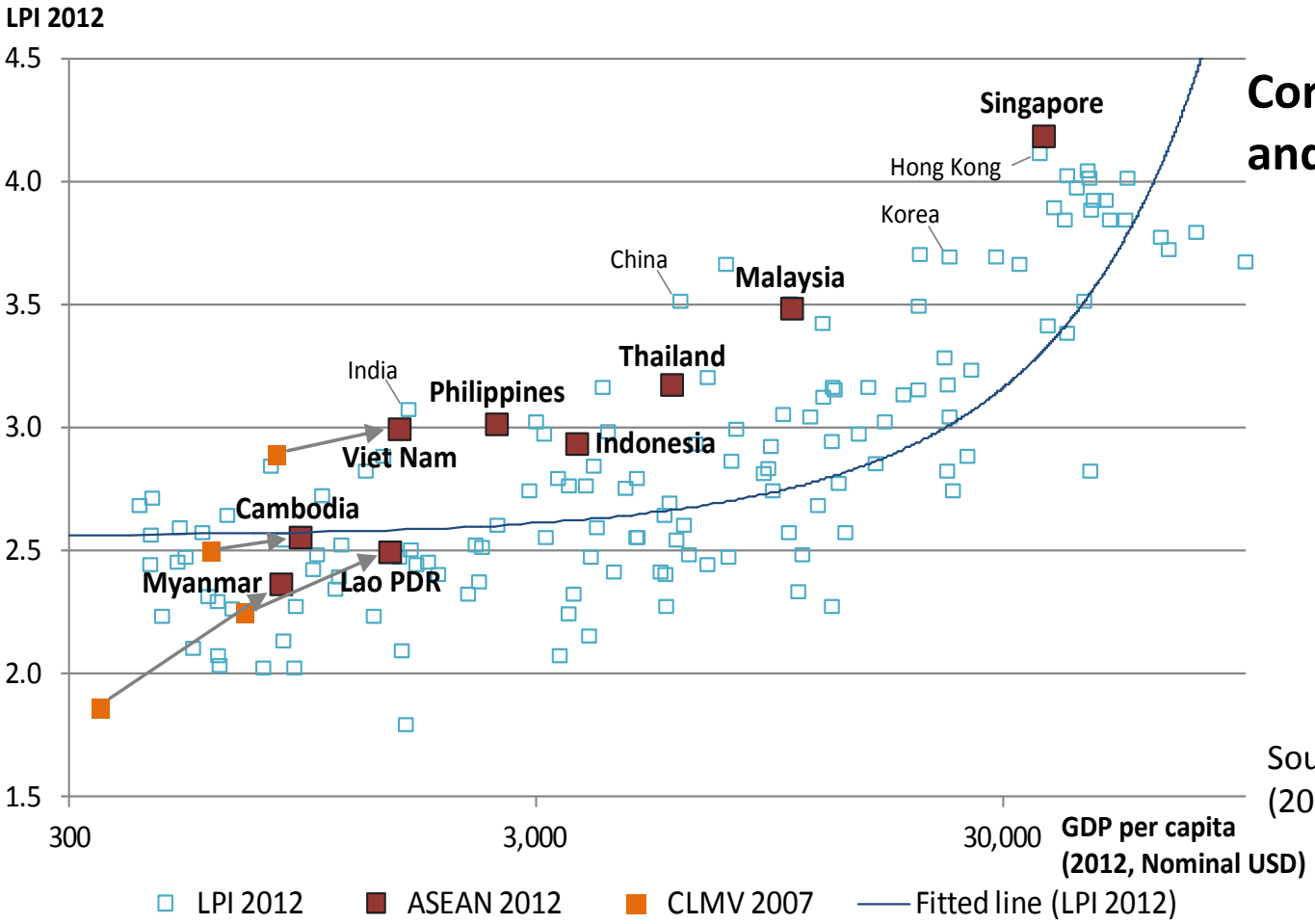
Commonwealth of Independent States – Moscow (Russia), Kiev (Ukraine), Almaty (Kazakhstan), and Tashkent (Uzbekistan);

Eastern Europe – Prague (Czech Republic), Budapest (Hungary), Zagreb (Croatia), Bratislava (Slovakia), Warsaw (Poland), Belgrado (Serbia), Bucharest (Romania), and Sofia (Bulgaria);

Latin America – Buenos Aires (Argentina), Caracas (Venezuela), Santiago (Chile), Bogota (Colombia), São Paulo (Brazil), San Jose (Costa Rica), Guayaquil (Ecuador), Panama City (Panama), Lima (Peru), La Paz (Bolivia) , and Mexico City (Mexico);

Middle East – Riyadh (Saudi Arabia) and Tehran (Iran).

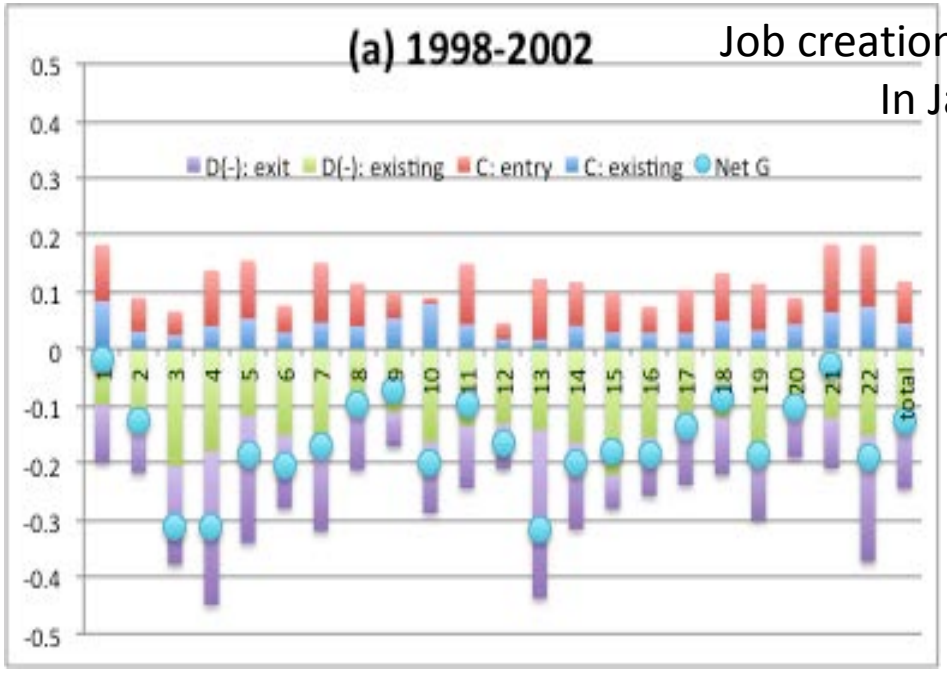
Correlation between LPI and GDP per capita

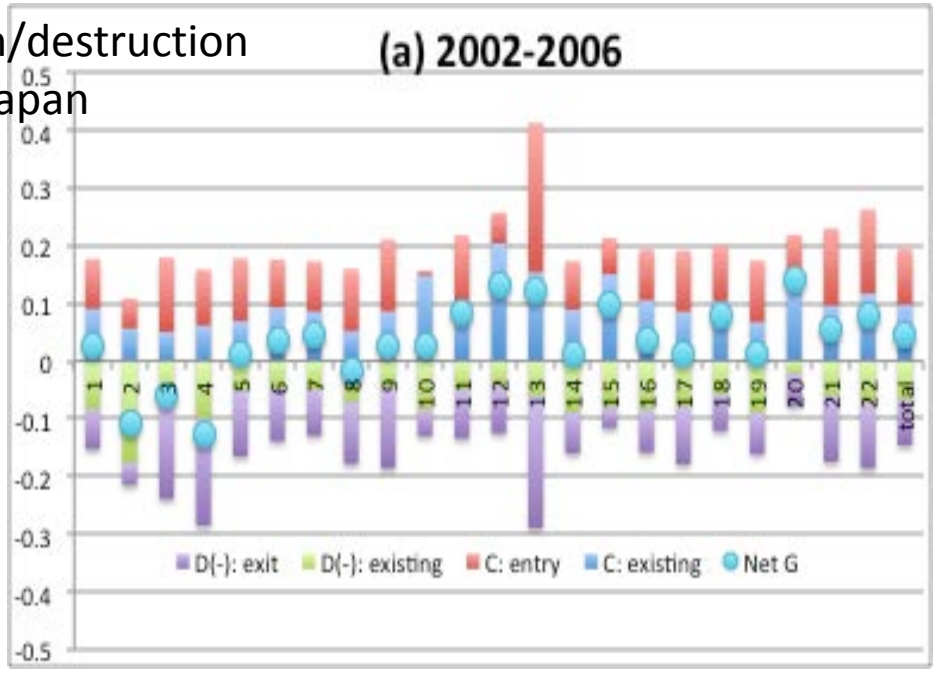


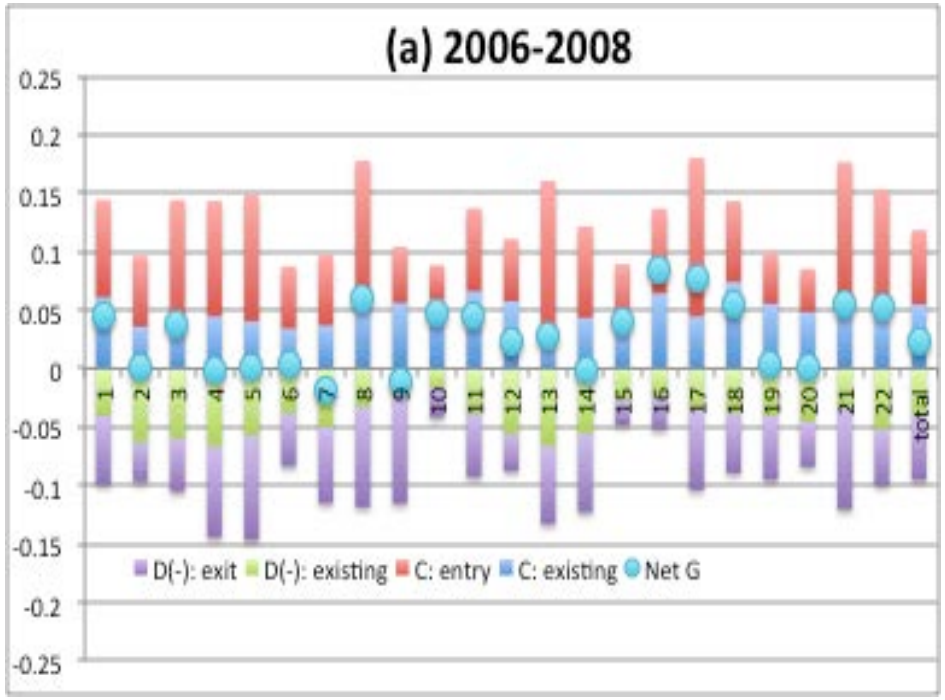
Source: Modified from ERIA (2010)

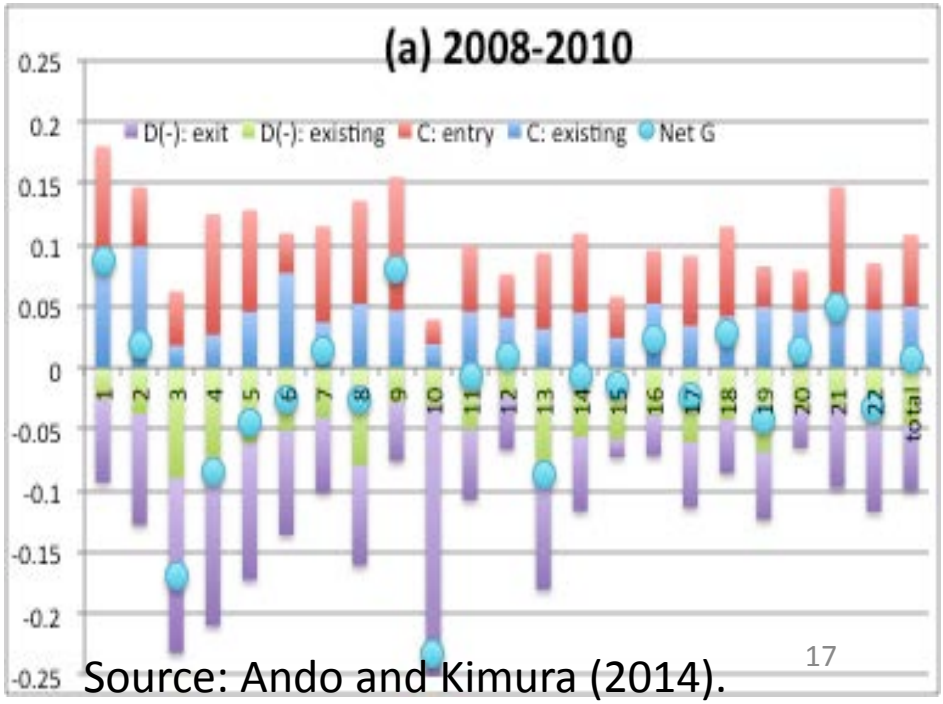
- LPIs in forerunner ASEAN and East Asia are relatively higher compared with the indices obtained by regression
  - = higher LPI compared with GDP/GNI per capita
  - = better access between primary cities to primary ports
  - = high competitiveness in the global market

Job creation/destruction In Japan

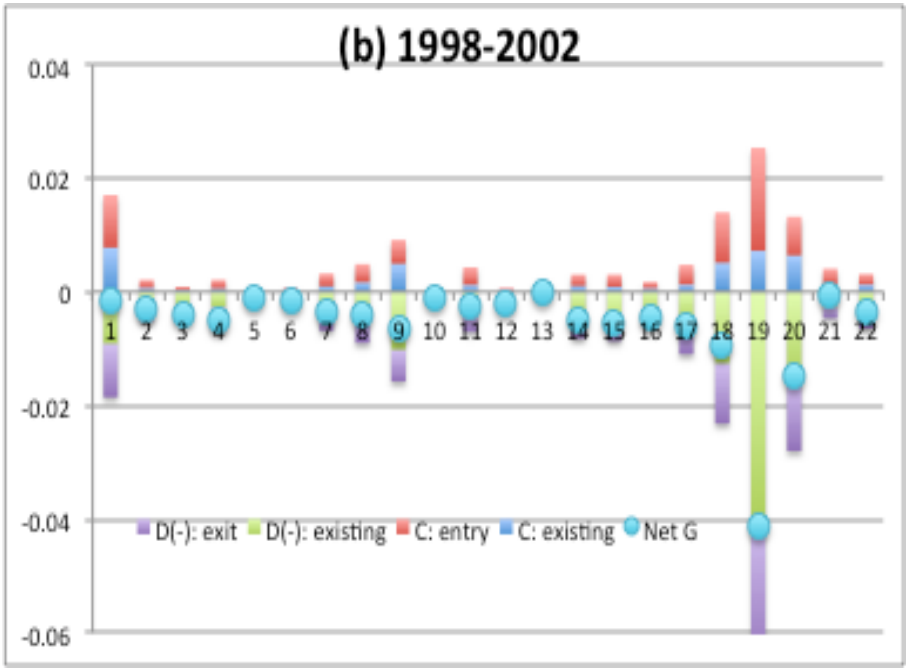


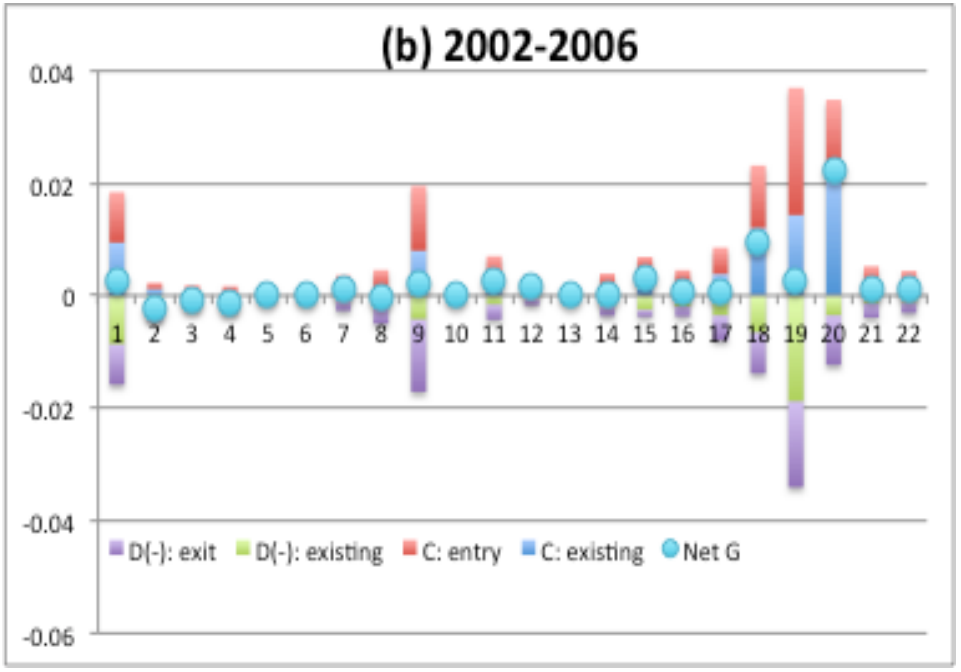


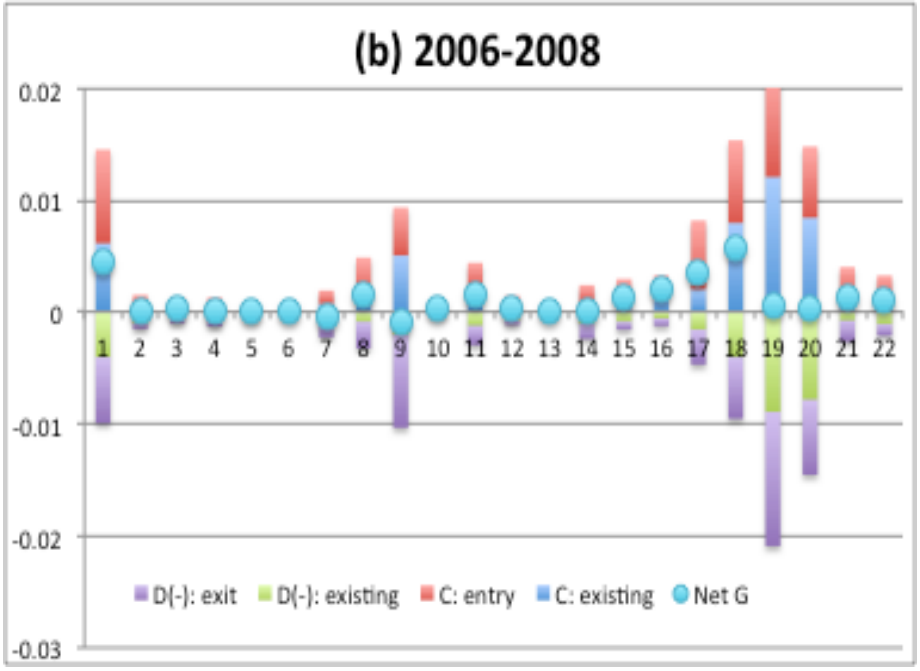


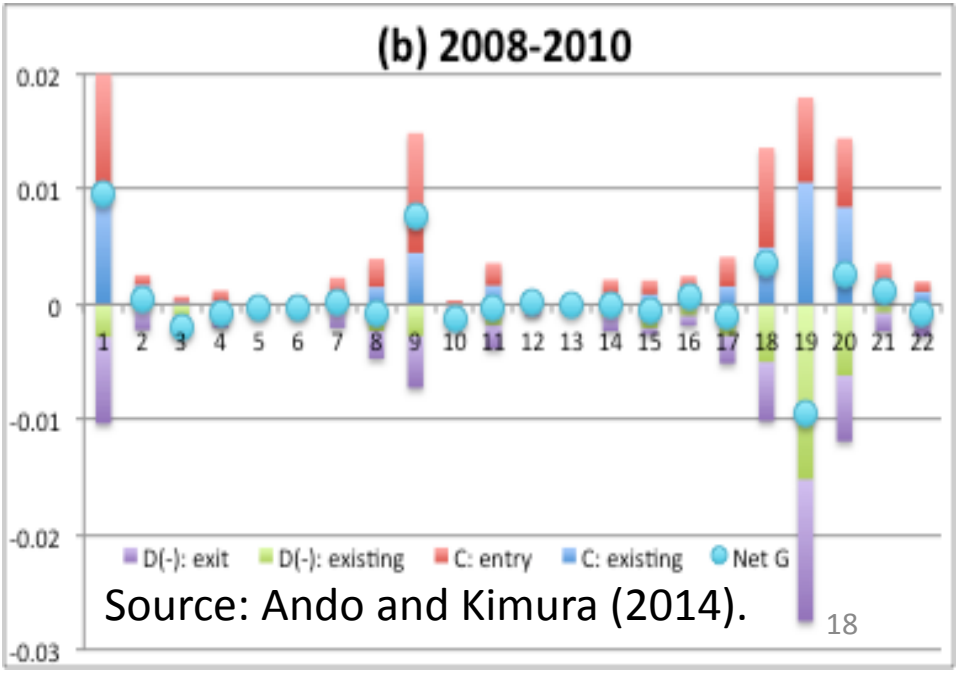


Source: Ando and Kimura (2014).









Source: Ando and Kimura (2014).

Table 6 Changes in domestic operations and trade: dom employment

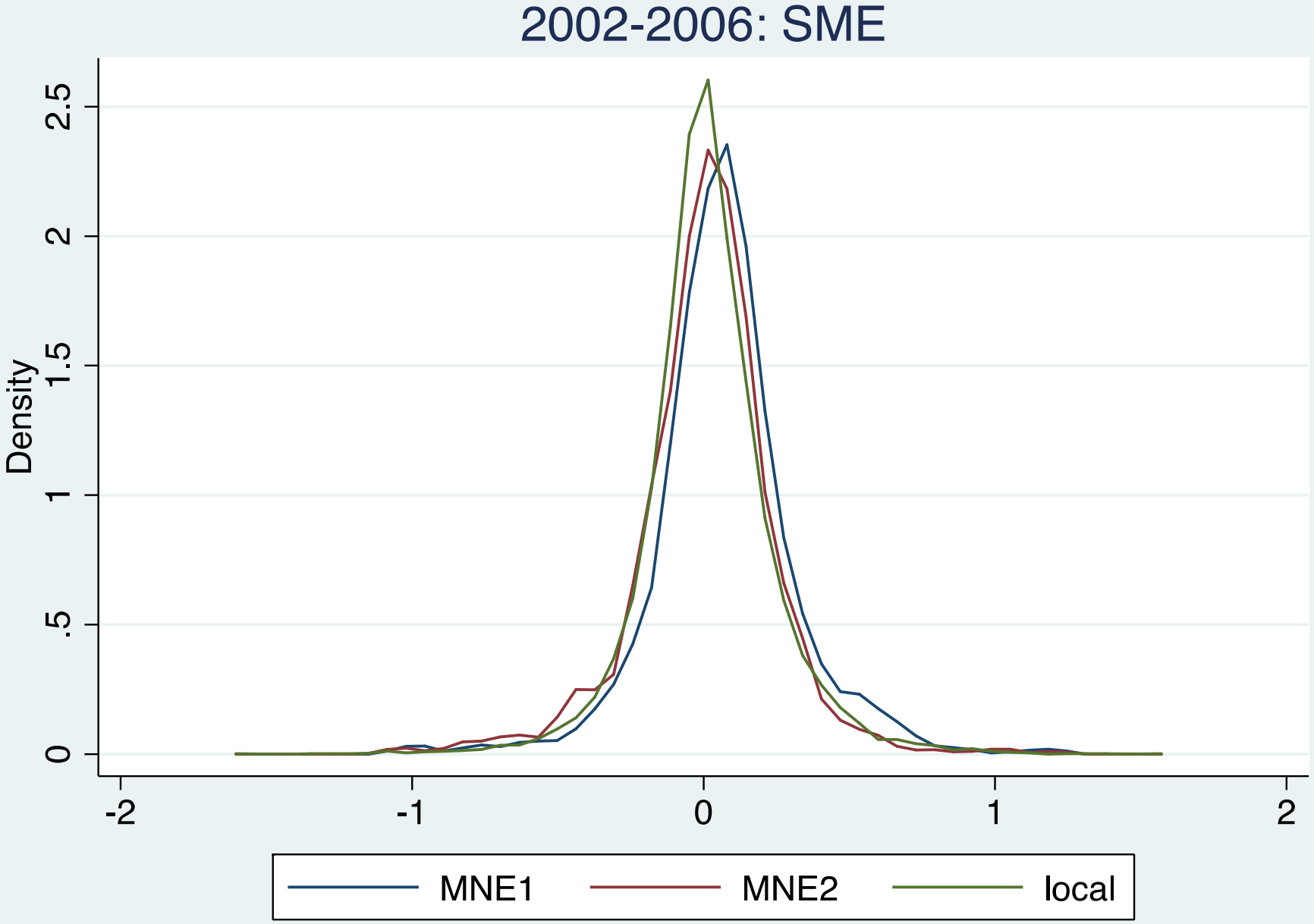
	MNE1			MNE2			Local		
	C	D (-)	Net G	C	D (-)	Net G	C	D (-)	Net G
(a) SMEs									
Dom employment									
1998-2002	0.072	-0.126	-0.054	0.046	-0.168	-0.123	0.058	-0.130	-0.061
2002-2006	0.129	-0.052	0.077	0.085	-0.084	0.001	0.092	-0.072	0.020
2006-2008	0.072	-0.046	0.026	0.049	-0.060	-0.010	0.054	-0.054	-0.001
2008-2010	0.051	-0.058	-0.007	0.046	-0.072	-0.026	0.051	-0.058	-0.007
HQ employment									
1998-2002	0.183	-0.269	-0.087	0.140	-0.293	-0.154	0.143	-0.295	-0.152
2002-2006	0.249	-0.137	0.112	0.180	-0.187	-0.007	0.188	-0.171	0.017
2006-2008	0.177	-0.124	0.053	0.138	-0.123	0.015	0.131	-0.130	0.001
2008-2010	0.140	-0.146	-0.006	0.095	-0.142	-0.047	0.123	-0.132	-0.009
mfg employment									
1998-2002	0.114	-0.183	-0.069	0.075	-0.231	-0.156	0.102	-0.165	-0.063
2002-2006	0.145	-0.147	-0.002	0.119	-0.152	-0.033	0.113	-0.150	-0.038
2006-2008	0.124	-0.126	-0.003	0.094	-0.120	-0.026	0.099	-0.110	-0.011
2008-2010	0.106	-0.129	-0.023	0.104	-0.104	0.000	0.104	-0.095	0.009

Source: Ando and Kimura (2014).

Table 6 Changes in domestic operations and trade: dom employment

	MNE1			MNE2			Local		
	C	D (-)	Net G	C	D (-)	Net G	C	D (-)	Net G
(b) Large firms									
Dom employment									
1998-2002	0.045	-0.164	-0.119	0.043	-0.166	-0.123	0.076	-0.126	-0.061
2002-2006	0.113	-0.064	0.049	0.077	-0.097	-0.020	0.135	-0.076	0.060
2006-2008	0.057	-0.030	0.027	0.050	-0.046	0.005	0.079	-0.041	0.037
2008-2010	0.051	-0.035	0.016	0.045	-0.051	-0.006	0.073	-0.054	0.019
HQ employment									
1998-2002	0.106	-0.332	-0.227	0.098	-0.294	-0.196	0.124	-0.286	-0.162
2002-2006	0.172	-0.124	0.048	0.143	-0.190	-0.048	0.190	-0.174	0.016
2006-2008	0.107	-0.060	0.047	0.131	-0.084	0.048	0.148	-0.116	0.032
2008-2010	0.115	-0.053	0.062	0.144	-0.088	0.057	0.136	-0.131	0.005
mfg employment									
1998-2002	0.050	-0.225	-0.175	0.035	-0.270	-0.235	0.107	-0.188	-0.082
2002-2006	0.100	-0.144	-0.043	0.098	-0.194	-0.097	0.168	-0.158	0.010
2006-2008	0.089	-0.069	0.020	0.090	-0.082	0.007	0.123	-0.107	0.016
2008-2010	0.067	-0.064	0.004	0.081	-0.082	0.000	0.127	-0.079	0.047

Source: Ando and Kimura (2014).



Source: Ando and Kimura (2014).

Table 8 KS test for expanding MNEs: dom employment

	MNE1 v.s. MNE2				MNE1 v.s. Local			
	Two-sided		One-sided		Two-sided		One-sided	
	Coef.	P value	Coef.	P value	Coef.	P value	Coef.	P value
(a) SMEs								
Dom employment								
1998-2002	0.117	0.001	0.001	1.000	0.090	0.001	0.020	0.684
2002-2006	0.127	0.000	0.002	0.998	0.157	0.000	0.006	0.962
2006-2008	0.081	0.066	0.007	0.975	0.080	0.038	0.018	0.827
2008-2010	0.059	0.256	0.010	0.947	0.038	0.698	0.017	0.816
HQ employment								
1998-2002	0.083	0.030	0.013	0.909	0.067	0.024	0.015	0.812
2002-2006	0.121	0.000	0.006	0.980	0.113	0.000	0.005	0.969
2006-2008	0.076	0.100	0.013	0.919	0.098	0.005	0.013	0.910
2008-2010	0.085	0.030	0.028	0.638	0.062	0.136	0.035	0.433
Mfg employment								
1998-2002	0.104	0.003	0.007	0.976	0.057	0.089	0.043	0.181
2002-2006	0.083	0.017	0.000	1.000	0.106	0.000	0.034	0.304
2006-2008	0.062	0.300	0.044	0.410	0.058	0.274	0.057	0.163
2008-2010	0.053	0.423	0.039	0.459	0.051	0.346	0.051	0.188

Source: Ando and Kimura (2014).

Table 8 KS test for expanding MNEs: dom employment

	MNE1 v.s. MNE2				MNE1 v.s. Local			
	Two-sided		One-sided		Two-sided		One-sided	
	Coef.	P value	Coef.	P value	Coef.	P value	Coef.	P value
(b) large firms								
Dom employment								
1998-2002	0.080	0.019	0.000	1.000	0.073	0.015	0.073	0.009
2002-2006	0.144	0.000	0.003	0.993	0.145	0.000	0.016	0.769
2006-2008	0.098	0.002	0.007	0.971	0.091	0.003	0.023	0.665
2008-2010	0.087	0.009	0.000	1.000	0.060	0.127	0.027	0.575
HQ employment								
1998-2002	0.041	0.580	0.016	0.831	0.027	0.883	0.020	0.692
2002-2006	0.113	0.000	0.008	0.956	0.086	0.001	0.017	0.753
2006-2008	0.087	0.010	0.018	0.798	0.091	0.003	0.027	0.571
2008-2010	0.094	0.004	0.013	0.890	0.118	0.000	0.020	0.735
Mfg employment								
1998-2002	0.093	0.004	0.000	1.000	0.093	0.001	0.093	0.001
2002-2006	0.081	0.017	0.012	0.898	0.054	0.106	0.018	0.720
2006-2008	0.057	0.218	0.005	0.983	0.056	0.192	0.021	0.734
2008-2010	0.045	0.490	0.008	0.962	0.053	0.252	0.053	0.138

Source: Ando and Kimura (2014).

3. Bilateral FTAs/CUs vs. mega FTAs

- Bilateral FTAs
  - Sometimes try to take advantage of trade diversion coming from preferential arrangements
- Customs unions
  - The memberships tend to be rigid
- Mega FTAs
  - Include many countries with shared policy directions, allow newcomers to participate
  - Can be flexible channels to do trial-and-errors with various groupings and construct a new international rule in a competitive manner

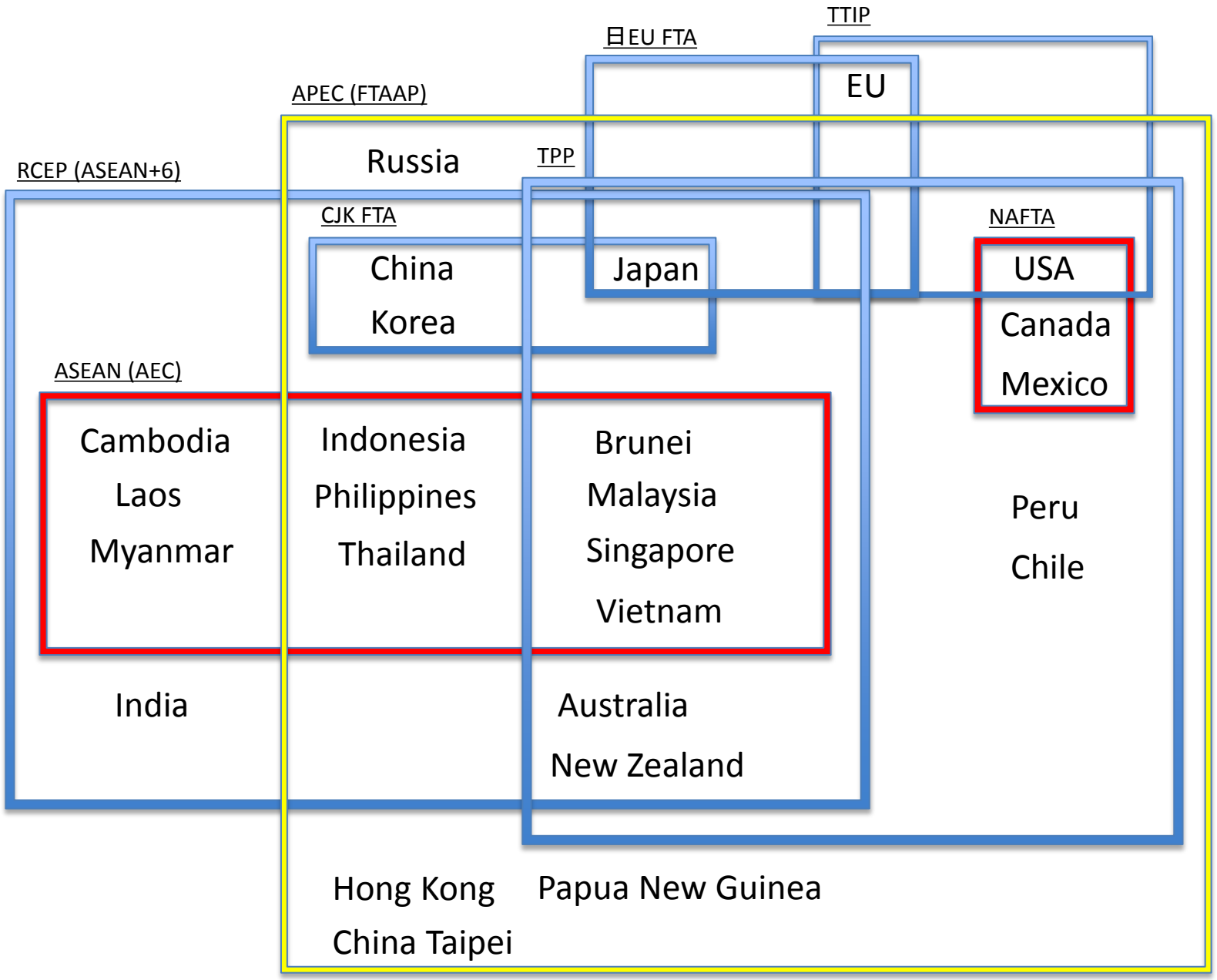
Policies for enhancing the 2nd unbundling

	Reduction in network set-up cost	Reduction in service link cost	Reduction in production cost per se
High-level FTAs	• Investment liberalization • IPR protection • Competition policy	• Tariff removal • Trade facilitation • Enhancing institutional connectivity	• Liberalization of production-supporting services • Investment liberalization
Development agenda	• Investment facilitation/promotion	• Enhancing physical connectivity (including hard and soft logistics infrastructure development) • Reducing transaction cost in economic activities	• Upgrading infrastructure services such as electricity supply and EPZs • Enhancing agglomeration effects through SME development • Strengthening innovation

4. TPP as a leading mega FTA

- WTO+ and WTO-x in TPP
  - High-level liberalization
    - Tariffs, services, investment
  - International rules
    - Government procurement, (standard and conformance,) intellectual property right protection, competition, dispute settlements, …
  - Three difficult areas to negotiate
    - Tariffs, intellectual property right protection, competition
- TTP as an attractor (domino effects)
  - Canada, Mexico, Japan
  - Korea
  - China??
- TPP as an accelerator for other mega FTAs
  - TTIP, RCEP, CJK FTA, Japan-EU FTA, …

Mega-FTAs negotiations in East Asia and Asia-Pacific



5. How is the TPP negotiation changing Japan?

- A sign of reform in agricultural protection
  - The first substantial reform in a quarter of century
  - Tariff removal ratios: 85%+ to 95%.
  - LDP's commitment "keeping tariffs for major five agricultural products (rice, wheat, meat products, dairy products, sugar)" is losing support.
  - Not enough for TPP to conclude though.
- Strategic thought in negotiating mega FTAs
  - The progress of TPP negotiation accelerates and upgrades negotiations of other mega FTAs.
    - RCEP, CJK FTA, Japan-EU FTA, TTIP

6. Other FTA negotiations

- RCEP
  - If ASEAN behaves rational, RCEP should be negotiated from the basis of ASEAN Economic Community (AEC) rather than five ASEAN+1 FTAs.
    - Tariff removals, services and investment liberalization
  - Possible advantages over TPP
    - Common tariff concession, ROOs, trade facilitation, link with development agenda (logistics and economic infrastructure, SMEs, the formation of industrial agglomerations, and others)
    - Including China and India
- China=Japan=Korea FTA
  - Cannot be strategic….
- Japan-EU FTA
  - EU should notice that the Japan-EU FTA could be a venue for EU to participate in international rule making in East Asia and Asia-Pacific.

Tariffs – Based on Final Preferential Tariff Rates

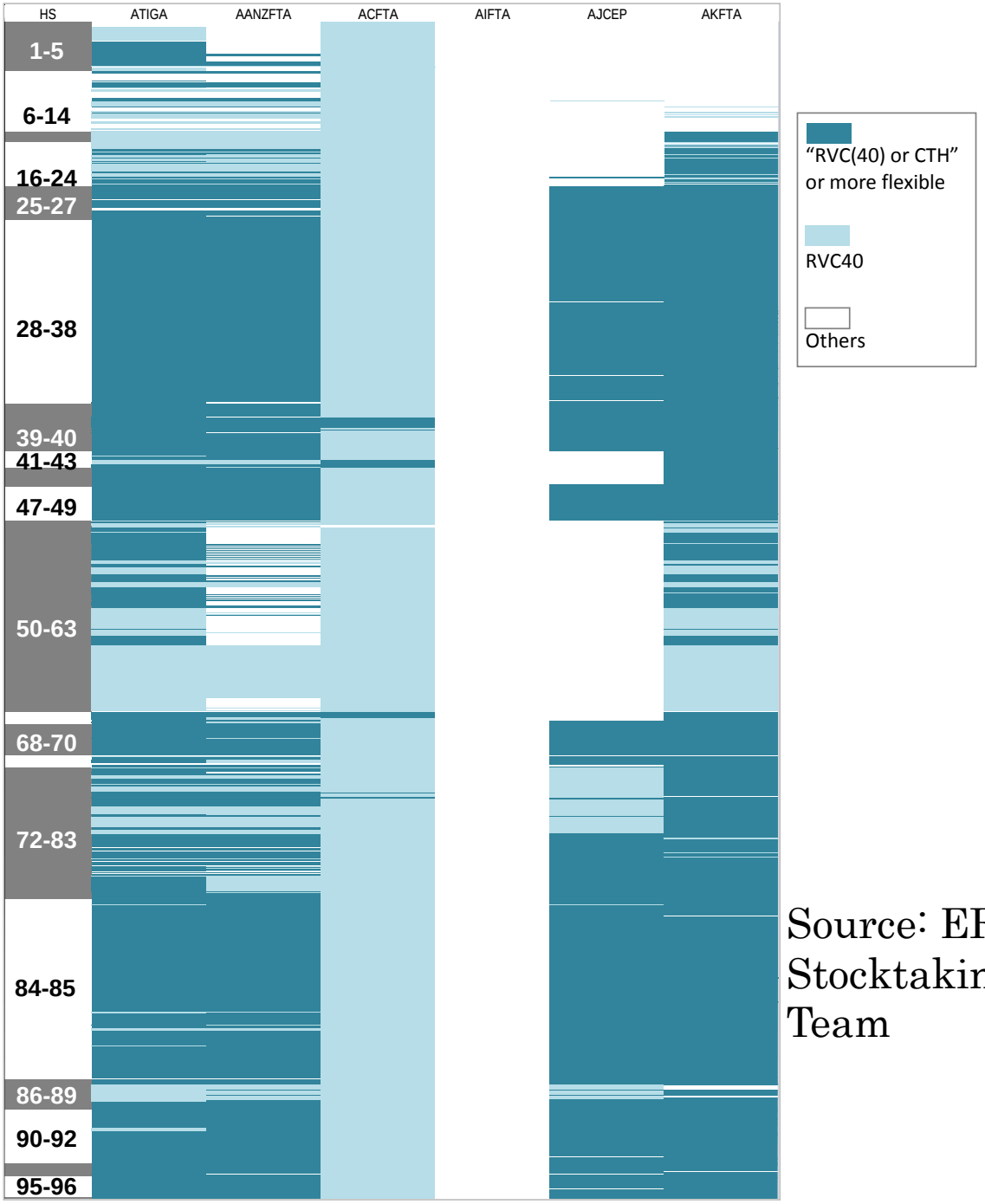
Elimination coverage by country under the ASEAN+ FTAs (HS 6-digit Base)

	ASEAN-Korea	ASEAN-China	ASEAN-ANZ	ASEAN-India	ASEAN-Japan	Average	(Excluding AIFTA)
SGP	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	**100.0%**
BRN	99.2%	98.3%	99.2%	85.3%	97.7%	**95.9%**	**98.6%**
MLS	95.5%	93.4%	97.4%	79.8%	94.1%	**92.0%**	**95.1%**
THA	95.6%	93.5%	98.9%	78.1%	96.8%	**92.6%**	**96.2%**
IDN	91.2%	92.3%	93.7%	48.7%	91.2%	**83.4%**	**92.1%**
PHI	99.0%	93.0%	95.1%	80.9%	97.4%	**93.1%**	**96.1%**
VTN	89.4%	na	94.8%	79.5%	94.4%	**89.5%**	**92.8%**
CAM	97.1%	89.9%	89.1%	88.4%	85.7%	**90.0%**	**90.4%**
LAO	90.0%	97.6%	91.9%	80.1%	86.9%	**89.3%**	**91.6%**
MYA	92.2%	*94.5%*	88.1%	76.6%	85.2%	**87.3%**	**90.0%**
KOR	90.5%						
CHN		94.1%					
AUS			100.0%				
NZ			100.0%				
IND				78.8%			
JPN					91.9%		
Average	**94.5%**	**94.7%**	**95.7%**	**79.6%**	**92.8%**		

Source: ERIA FTA Stocktaking Study Team
Note: Data on Myanmar under the ASEAN-China FTA is missing for HS01-HS08.

Source: Fukunaga and Kuno (2012).

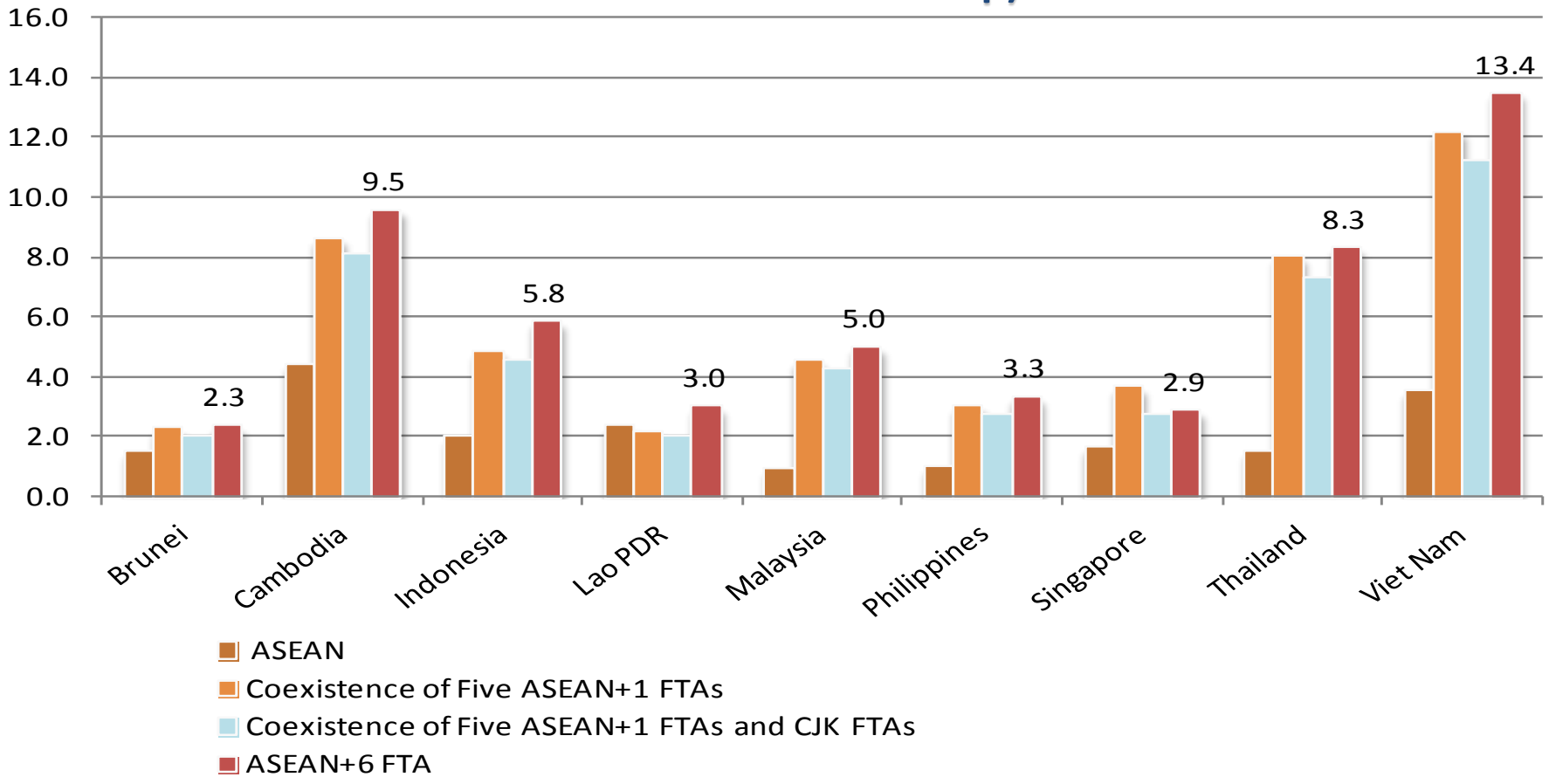
Commonality of ROOs



Source: ERIA FTA Stocktaking Study Team

East Asia Integration Matters:

Economic Impacts of Development of ASEAN++ FTA (Regional Comprehensive Economic Partnership)



NOTE: *Cumulative Percentage Point, deviation from baseline, 2011 to 2015; NA for Myanmar due to data availability*

Source: *Dynamic GTAP Simulation by Itakura (2012)*

7. Conclusion

- Our mission: establishing novel international economic order for the new international division of labor.
  - High-level liberalization and international rule
- Considerable probability for Japan to overcome the last century's homework, border measures for agriculture.
- Solid commitment of the US is the key.

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