

PART VI  
NATIONAL POLITICS OF  
MEGAREGULATORY AGREEMENTS



## 26

# Japan: Interest Group Politics, Foreign Policy Linkages, and TPP

*Christina L. Davis\**

## I. Introduction

After years of reluctantly opening its markets in the face of pressure from abroad, Japan led the campaign to save the Trans-Pacific Partnership (TPP). How did this happen? In a marriage of diplomatic necessity and domestic reform agenda, Prime Minister Abe has taken the lead role to advocate for TPP. Agreeing to liberalize in response to US pressure has been a standard pathway to opening Japan's markets, and only in the past decade did the Japanese government begin to selectively pursue limited economic partnership agreements. TPP confronted Japan with an unusual scenario where the United States pushed forward a high level agreement and then unexpectedly withdrew. Instead of backing out or watering down the agreement the Japanese government led negotiations for the new TPP11 agreement that preserves the core provisions of the original text and holds open the door for the United States to re-enter the agreement in the future. Japan's commitment to TPP despite the exit of the United States reflects its new role as the broker between East Asia and the United States. Furthermore, the embrace of the liberalizing agreement by the Abe Administration shows how megaregulation can be embedded within domestic political reform agendas.

This chapter will assess the agreement from the perspective of Japan to ask why the government chose to join TPP negotiations after years of delays, and why it became one of the first members to ratify the agreement even as US support for the agreement wavered amidst a fraught presidential campaign. Japan had been late to start negotiating free trade agreements at all, and even the thirteen agreements that it concluded since the year 2000 were with smaller partners and covered only 19% of Japan's exports.<sup>1</sup>

TPP represents by far the most ambitious free trade agreement undertaken by Japan. It has been subject to tremendous resistance from farm groups and other interests, and moderate advocacy from industry. Against this backdrop, the value of the agreement as part of a geopolitical strategy was essential to Japanese support of TPP. This chapter argues that foreign policy interests were necessary to overcome domestic obstacles to liberalization. But the role of geopolitics in Japanese trade policy has moved beyond reaction to US pressure for liberalization. In the proactive use of economic statecraft, Japan seeks to deepen regional

\* Christina Davis is Professor of Government, Harvard University (cldavis@harvard.edu). I am grateful to Diana Stanescu, Shun Yamaya, and Kouta Ohyama for valuable research assistance.

<sup>1</sup> Mireya Solís and Saori N. Katada, "Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion: The Effect of Japan's Trans-Pacific Partnership Participation on Asia-Pacific Regional Integration" (2015) 20 *New Pol Econ* 155, 156.

integration in East Asia and balance against China. Changes in the administrative process within the Japanese government and the decision to position the international trade agreement within the framework of policies for domestic economic restructuring further strengthened the resilience of Japanese commitment to the agreement. Section II provides an overview of why Japan sought to participate in TPP, and section III examines the domestic political process that accompanied the decision to join the negotiations and uphold the commitment in the face of a reversal of US policy. A fourth section briefly discusses the significance of the new TPP11 agreement for trade in East Asia.

## II. The Economic and Geopolitical Roots of Japanese Trade Policy

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Trade has long been a source of mutual interest and tension between the United States and Japan on both the strategic and economic sides of the bilateral relationship. As its patron during the post-war Occupation, the United States took a direct interest in the economic development of Japan and its return to the comity of nations. This meant both urging Japan to suspend trade with China after the communist revolution and sponsoring Japanese membership in the General Agreement on Tariffs and Trade over the reluctance of other members. Trade between the United States and Japan surged, along with the Japanese economic miracle which introduced new problems with rising trade friction. Signs of the difficult times ahead were apparent when the Nixon administration threatened to link critical security talks over reversion of Okinawan territory to Japan with concessions on textile negotiations. The first proposal for a free trade agreement between Japan and the United States was made by US Ambassador Mike Mansfield in the late 1980s when the countries were mired in worsening trade disputes.<sup>2</sup> But it would take thirty years for this vision to reach fruition with the TPP. The US pivot toward Asia and Japanese concerns about rising Chinese assertiveness in the region provided a critical backdrop to their support for this agreement. In a surprising turn of events, Japan is on the side of advocating deeper trade liberalization while the United States backs away.

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The twelve countries that would eventually come to sign TPP in February 2016—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam—are an unlikely assortment of countries that span wide geographic regions, as well as diversity in their political and economic characteristics. From a starting point based around talks among Chile, New Zealand, and Singapore, the cooperative enterprise came to include many more countries than ever anticipated at the outset. In particular, even after the United States announced in December 2009 that it would join the negotiations, there was no expectation for Japan to be a part of the project. Longstanding resistance by Japan to the liberalization of agricultural trade along with the persistent trade deficit between the United States and Japan in auto trade contributed to deep skepticism on the US side that Japan would engage in a deep free trade agreement. Far from the United States pressuring Japan to join, it was up to the Japanese government to convince others that it was resolved to undertake liberalization and should be allowed to join.

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<sup>2</sup> Bernard K. Gordon, “The Trans-Pacific Partnership and the Rise of China” *Foreign Affairs* (New York, Nov. 7, 2011) <https://perma.cc/86TU-R5PC>.

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The question of whether Japan would join TPP first arose in 2010 when the Democratic Party of Japan led the government. Prime Minister Naoto Kan declared in an October speech that he would consider whether Japan should join the talks. TPP participants were planning a meeting on the sidelines of the upcoming APEC Summit meeting to be hosted in Japan in November, which would serve as a catalyst for Japan's interest in joining. The government was already negotiating an economic partnership agreement with Australia that was quite difficult, given the strong agricultural export interests of Australia that directly confronted Japan's protectionist policies in this sector. Prime Minister Kan said the Australia agreement could break Japan's *sakoku* (closure) policy for a second re-opening.<sup>3</sup> His successor to represent the Democratic Party of Japan (DPJ), Prime Minister Yoshihiko Noda, continued the support for free trade agreements and declared that TPP was one of the three priorities of his administration. Ultimately, Noda would be unable to formally join TPP negotiations as he faced fierce resistance from agricultural interest groups and his own Agriculture minister threatened to resign if he entered the negotiations.<sup>4</sup> Nevertheless, his administration took a critical step that helped to convince the United States that Japan might be able to join TPP when it initiated a review in 2011 of the health-related restrictions on beef imports from the United States that had been a major source of tensions between the countries.<sup>5</sup> After release of the study finding no health risk, the government began consultations with the United States in November 2012 toward lifting the restrictions. A former United States Trade Representative (USTR) official at that time commented, "What turned me around to believe they were serious about TPP—was Japan's agreement to re-open its beef market to cattle below thirty months of age. It showed they were on the right track and willing to tackle tough issues."<sup>6</sup> These confidence-building measures helped open the door for Japan's eventual entry into TPP. The DPJ campaigned on a pro-TPP platform during the December 2012 election, which it lost in a landslide defeat that brought the Liberal Democratic Party back to power.

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Surprisingly, the change in ruling party did not influence Japan's position on TPP. The incoming LDP government formally accepted the deal with the United States to revise beef market regulations in January 2013 which signaled continued commitment to TPP. The government undertook intense consultations at home about the question of joining TPP, and it received briefings by other participants that outlined the broad contents of the agreement and ongoing issues. When Prime Minister Abe announced the government would join the TPP negotiations in March 2013, his speech emphasized three main points: the importance of the agreement to revitalize Japan's economy, reassurance that the government would support the interests of the agricultural sector in the face of liberalization, and the need for Japan to join with the United States as its ally and other countries with shared values to create new rules for the economic order.<sup>7</sup> He called for Japan and the United States as economic powers to participate in establishing a new economic order. The Liberal Democratic

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<sup>3</sup> "Opening Japan in the Heisei Period, Will the TPP Go Forward?" *Asahi Digital* (Tokyo, Jan. 26, 2011) <https://perma.cc/5PW7-A4QR>.

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<sup>4</sup> Takumi Sakuyama, *Nihon no TPP kōshō sanku no shinjitsu: sono seisaku katei no kaimei* (*The Truth of Japan's Participation in the TPP Negotiations: Revealing its Policy Process*) (Bunshindō 2015) 166.

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<sup>5</sup> Following the discovery in 2003 of bovine spongiform encephalopathy (BSE) in a US cow, Japan banned US beef imports completely in 2003. The ban was relaxed in 2006 to allow cattle under twenty months of age, but this remained a major impediment to US beef exports.

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<sup>6</sup> Telephone interview by author, May 16, 2017.

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<sup>7</sup> Prime Minister of Japan and his Cabinet, "Negotiations for Participation in the TPP (Trans-Pacific Partnership)" (Official Statement of Prime Minister Shinzō Abe, Mar. 15, 2013) <https://perma.cc/D2E3-6ZLH>.

Party statement went even further to emphasize explicitly that the agreement was not only a commercial agreement, but also contributed to national security.<sup>8</sup> In discussions before the Diet, Prime Minister Abe and others would repeatedly return to the need for the agreement as a matter of national interest on both economic and security dimensions.

### A. Economic Merits of the Agreement

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TPP stands out as a high quality trade agreement that would open a larger share of foreign markets with comprehensive tariff liberalization and deepening disciplines on trade and investment with WTO-plus rules. The United States has been at the forefront of pushing higher standards of liberalization through preferential trade agreements, while Japan presents a mixed picture with many agreements having less tariff coverage even as the government supports deeper rule commitments.<sup>9</sup> Upgrading the standards for the trade architecture promises gains in terms of both market access and business efficiency for investment.

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The economic studies of the original TPP12 agreement showed positive effects on Japan's economic growth. The Japanese government Cabinet Office study estimated 2.6% increase of GDP from the 2014 level of the annual GDP.<sup>10</sup> Yasuyuki Todo, an economist at Waseda University, suggested that at an annual per capita rate of GDP increase of 1.5%, the gains could accumulate to meet the targeted goal for Japan to achieve nominal GDP of 600 trillion yen.<sup>11</sup> Gains go far beyond the traditional emphasis on market access—indeed, auto concessions by the United States had such a long phase-in time that benefits would not have been achieved for decades even if the United States joined the agreement, and other participants already held preferential trading arrangements with each other such that there was relatively less new access. Todo claims that the agreement matters because it could spur innovation in Japan through channels such as inward FDI and raise Japan's exports of technology and cultural goods through improved protection of intellectual property rights in member states. The new provisions of TPP on e-commerce, labor, and state-owned enterprises were supported by the Japanese government. In particular, a Japanese government official gave as an example that there are rules initiated by Japan and incorporated into the electronic commerce chapter.<sup>12</sup> Japan shared the US priority to resist practices such as requiring domestic location of servers, forcible transfer of source code, and discriminatory tariffs on digital trade. Investigating projected TPP income gains, World Bank researchers also highlight that larger gains accrue from liberalizing non-tariff measures and services than traditional market access.<sup>13</sup>

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<sup>8</sup> Liberal Democratic Party, "The Decision to Participate in TPP Negotiations" (Official Party Statement, Mar. 15, 2013) <https://perma.cc/F2ZC-DBF6>.

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<sup>9</sup> Mireya Solís, *Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order* (The Brookings Institution 2017) 21.

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<sup>10</sup> Cabinet Office TPP Headquarters, "Analysis of the Economic Effects of TPP Agreements" (Dec. 24, 2015) <https://perma.cc/9S8P-S6Q3>.

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<sup>11</sup> Yasuyuki Todo, "How Will the TPP Change the Japanese Economy?" Research Institute of Economy, Trade, and Industry Report (Dec. 24, 2015) <https://perma.cc/H6UR-M5JW>.

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<sup>12</sup> Interview by author, Tokyo, July 5, 2017.

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<sup>13</sup> The World Bank estimated that the original TPP would generate an overall lift of 1.1% in annual GDP by the year 2030. These studies rely on simulations utilizing the Global Trade Analysis Project (GTAP) model, which is a widely used macroeconomic model that incorporates trade into forecasts of economic growth. Assumptions about key relationships between prices and inputs underlie such modeling exercises. World Bank, "Global Economic Prospects: Spillovers and Weak Growth" (Jan. 2016) <https://perma.cc/5MBY-AA9A>.

C26.P10 Japanese manufacturing industries supported Japan's decision to join TPP negotiations in 2013. Industry organizations such as Keidanren and the Japan Automobile Manufacturers Association urged the government to conclude negotiations quickly. The Japan Electronics and Information Technology Industries Associate Chairman Ryōji Chūbachi emphasized that, for his industry to succeed amid fierce international competition, the industry needed the government to push forward more free trade agreements with high level standards going beyond tariff reductions to include intellectual property rights and investment rules.<sup>14</sup> Although Japanese firms have not been users of investor–state dispute settlement (ISDS) provisions in investment treaties, they value having these provisions as a source of leverage for better investment conditions.<sup>15</sup>

C26.P11 Multinational firms favor efforts to consolidate rules. More regulatory coherence would facilitate their investments and lower the costs of complying with rules of origin across multiple overlapping agreements. APEC leaders have advocated the Free Trade Area of the Asia-Pacific (FTAAP) as one solution to the problem. Yet this has not been a primary factor driving TPP, in part because it does not include all countries in the region. Moreover, the weak utilization of earlier preferential trade agreements (PTAs) by firms operating in the Asia-Pacific has meant that businesses did not consider it a priority to lobby for their consolidation.<sup>16</sup> Since the participants have not agreed that TPP would replace their existing PTAs, it would simply add on another layer with mixed membership and a new set of procedures for rules of origin. To the extent that regional production chains are deeply embedded in China as well as some of the smaller countries outside of TPP such as Thailand, TPP would be an inadequate tool to achieve full harmonization of rules.

C26.P12 Smaller but still significant economic gains remain for TPP11. Petri's study estimates that TPP would have increased global income by USD 492 billion, while TPP11 would generate a much reduced annual income gain of USD 147 billion.<sup>17</sup> The loss of US participation reduces gains to Japan by almost one-third. Yet enlargement to include the five countries that have indicated they would like to join TPP (Indonesia, Korea, the Philippines, Taiwan, and Thailand) would bring overall global income gains back to nearly the level of the original agreement because many are important economies for regional trade that do not yet have overlapping free trade agreements.<sup>18</sup> Following US withdrawal, the business community reaffirmed its support for Japan to pursue TPP11. The chairman of Keidanren praised the government efforts to push forward: "Japan is taking leadership in Trans-Pacific Partnership (TPP) talks aimed at creating a TPP11 agreement following the withdrawal of the United States. Prime Minister Abe's diplomatic initiatives have succeeded in bolstering the presence of Japan in the global economy and international politics, and these achievements

P6.N14 <sup>14</sup> Japan Electronics and Information Technology Industries Association "Regarding Participating in Negotiations for the TPP" (Statement of Associate Chairman Ryōji Chūbachi, Mar. 15, 2013) <https://perma.cc/ER5E-MT2Q>.

P6.N15 <sup>15</sup> Takashi Terada, "The Abe Effect and Domestic Politics" (2015) 39 *Asian Perspective* 381, 396.

P6.N16 <sup>16</sup> Ann Capling and John Ravenhill, "The TPP: Multilateralizing Regionalism or the Securitization of Trade Policy" in C. L. Lim, D. K. Elms, and P. Low (eds.), *The Trans-Pacific Partnership: A Quest for a Twenty-First Century Trade Agreement* (CUP 2012) 279–98

P6.N17 <sup>17</sup> Peter Petri and others, "Going It Alone in the Asia-Pacific: Regional Trade Agreements without the United States" (2017) Peterson Institute for International Economics Working Paper No. 17-10 <https://perma.cc/S4ND-N32F>. This is the high end of estimates for total income gains based on estimates for the year 2030 including both tariff and NTB liberalization. Furusawa, Gilbert, and Scollay show lower estimates, while noting that many aspects of the expected gains are not calculated in the different modeling scenarios that have been completed. John Gilbert, Taiji Furusawa, and Robert Scollay, "The Economic Impact of the Trans-Pacific Partnership: What Have We Learned from CGE Simulation?" (2016) ARTNeT Working Paper Series No. 157 <https://perma.cc/DZ65-X298>.

P6.N18 <sup>18</sup> *ibid.* 8.

should be rated highly.”<sup>19</sup> In a January 2018 survey of 121 firms, 75% reported expectations that TPP11 would have a positive effect on the Japanese economy and 18% said they would seek out new business opportunities as a result of the agreement.<sup>20</sup>

C26.P13 Although TPP promises to deliver economic gains to Japan, these gains are modest in scope. Alone, they failed to motivate entry over strong domestic opposition by entrenched agricultural interests. Even the business community frames the agreement within its diplomatic context. It is necessary to consider a broader array of interests to get the full picture of Japan’s decision.

## C26.S4 B. China Balancing

C26.P14 Proponents of TPP explicitly emphasized its role as an instrument of foreign policy. This “securitization” of the agreement can be seen in the United States which has long used PTAs to reinforce its alliances and indeed lies behind many of the earlier PTAs in the Asia Pacific region.<sup>21</sup> TPP represents an economic partnership that reinforces ties among allies.<sup>22</sup> Speaking at the ASEAN Business and Investment Summit on November 21, 2015, President Obama declared, “TPP is more than just a trade pact; it also has important strategic and geopolitical benefits. TPP is a long-term investment in our shared security and in universal human rights.” He went on to emphasize the role of the agreement in building trust among members and deepening US ties to its allies in the region, concluding that the “TPP sends a powerful message across this region—across the Asia Pacific. It says that America’s foreign policy re-balance to the Asia Pacific will continue on every front. It says that the United States will keep its commitments to allies and partners, and that we are here to stay and that you can count on us.”<sup>23</sup>

C26.P15 The connection to security interests was equally present in Japan. For Prime Minister Noda, TPP helped foreign policy on two dimensions by strengthening ties with the United States and by responding to Chinese challenges in the region.<sup>24</sup> The Democratic Party of Japan had poor relations with the United States due to difficulties over the question of the Okinawa military bases. The DPJ had issued an election pledge in 2009 to close the Futenma base and then confronted increasing local hostility when the United States insisted upon the existing relocation plans that are deeply unpopular in Okinawa. Unable to turn the base issue around, the government hoped that supporting TPP talks would appease the US administration. It was especially important to restore good relations with the United States

P6.N19 <sup>19</sup> Keidanren (Japan Business Association), “Chairman Sakakibara Statements and Comments at Press Conference” (Public Statement, Sept. 25, 2017) <https://perma.cc/9KKM-Q4NW>.

P6.N20 <sup>20</sup> “75% of Companies Surveyed Believe TPP will be a Plus to the Japanese Economy” *Sankei Shimbun* (Tokyo, Jan. 4, 2018) <https://perma.cc/3573-7AYA>.

P6.N21 <sup>21</sup> Edward Mansfield and Rachel Bronson, “Alliances, Preferential Trading Arrangements, and International Trade” (1997) 91 *Amer Pol Sci Rev* 94–107; Capling and Ravenhill, “The TPP”

P6.N22 <sup>22</sup> The United States has formal alliances with Canada, Australia, and Japan. Capling and Ravenhill note that Malaysia and Brunei Darussalam have defense arrangements with the United States, and the US military engages in cooperative exercises with New Zealand, Vietnam, and Singapore. Canada, Peru, and Chile engage in US regional cooperation and collective security as part of the Organization of American States. Other allies such as Korea, Taiwan, and the Philippines were not included—geopolitical ties helped some move forward but alone were not enough to bring entry for all allies. Capling and Ravenhill, “The TPP”

P6.N23 <sup>23</sup> White House Office of the Press Secretary, “Remarks by President Obama at ASEAN Business and Investment Summit” (Nov. 20, 2015) <https://perma.cc/DWW5-2NQM>.

P6.N24 <sup>24</sup> Takumi Sakuyama, *Nihon no TPP kōshō sankā no shinjitsu: sono seisaku katei no kaimei* (*The Truth of Japan’s Participation in the TPP Negotiations: Revealing its Policy Process*) (Bunshindō 2015) 192.

in the face of growing hostility with China. In 2010, Japan confronted a dramatic increase in tensions over the Senkaku/Diaoyu islands off the coast of Okinawa that are claimed as Japanese territory and disputed by China. Following the arrest of a Chinese fishing boat captain, widespread protests in China vandalized Japanese companies and were connected to restrictions on exports of rare earth minerals that are a vital input for some industries in Japan. Nationalization of the islands by the Japanese government in 2012 was interpreted by China as escalation of the dispute and led to challenges from China through repeated incursions into Japanese territorial waters by both fishing boats and government surveillance ships. Additional confrontations took place in the South China Seas over disputed islands with China taking an aggressive approach that heightened alarm in the region.

C26.P16 These security concerns loomed even larger for the new LDP administration upon election in December 2012. Having lambasted the DPJ for harming diplomatic relations with the United States and neighbors through weak foreign policy, the newly elected Prime Minister Abe needed something to demonstrate an immediate foreign policy success. The US rhetoric about TPP as a strategic agreement to shore up its own commitment to regional partners facing a hostile China reinforced the impression in Japan that security cooperation should naturally lead to economic cooperation, and that Japan joining TPP was a corollary to supporting the US–Japan alliance.<sup>25</sup> Given his strong security orientation as a policy priority, Abe was naturally inclined to support the linkage between TPP and national security interests.<sup>26</sup> He made this explicit in his statements to the Diet announcing entry into negotiations, and government officials within the ministries negotiating the agreement acknowledged their perception that the agreement was a strategic tool worth more than the balance of market access concessions.

C26.P17 The trade agreement was integrated within a strategy to build US–Japan relations and counter China’s influence in East Asia at both an economic and strategic level. The post-war focus of Japanese foreign policy on close ties with the United States and the priority of achieving economic growth—the Yoshida doctrine—remains the consensus today even as the government calls for taking on a stronger role in the defense arena.<sup>27</sup> The alliance retains high levels of public support with over 80% of the Japanese public reporting support for in a 2012 survey.<sup>28</sup> Especially for an LDP Prime Minister, support of the US–Japan alliance is a high policy priority. Strategic and economic goals were overlapping to reinforce the interest in balancing against China. As China has grown in economic size and world market shares, so have Japanese fears of Chinese economic competition. TPP would support preferential access to the critical US market as China’s manufacturing industry began to develop more domestic capacity in areas of Japanese strength that could emerge as future threats. Furthermore, easing customs procedures and providing higher levels of support to data and intellectual property rights in Southeast Asia would counter the allure of the Chinese market. Terada suggests that the high level rules of TPP were viewed by the government as a way to make markets outside of China attractive to Japanese investors and thereby reduce dependence on China.<sup>29</sup>

P6.N25 <sup>25</sup> “TPP ha anpo” (“TPP is the alliance”) *Nihon Keizai Shimbun* (Tokyo, Dec. 23, 2012).

P6.N26 <sup>26</sup> Takuya Akiyama, “Hantai ha ni yoru bōeki jiyūka” (“Winning Over the Opposition to Free Trade: Negotiation Linkages and the Influence on Opposition Preferences”) (2015) 1276 *Kokusai Kinyū* 46, 49.

P6.N27 <sup>27</sup> Gerald Curtis, “Japan’s Cautious Hawks” *Foreign Affairs* (New York, Mar./Apr. 2013).

P6.N28 <sup>28</sup> *ibid.*

P6.N29 <sup>29</sup> Terada, “The Abe Effect and Domestic Politics” 383.

C26.P18 The agreement does not exclude China, but rather sets high standards that would be difficult for China to accept in the near term. In particular, the mandate for collective bargaining rights for labor goes beyond anything contained in the WTO to impinge on domestic policies. Provisions on transparency and competition policies with regard to state-owned enterprises would also force changes in sensitive policies in China. The digital trade provisions further strike at issues that have been sources of tensions in other negotiating fora as the Chinese censorship regime motivates emphasis on domestic server requirements while TPP promotes free flow of data and restricts such data localization requirements. Yet even as these rules challenge China, they are put in place on the premise that China should join some day in the future. As described by a former US government official who was involved in TPP negotiations, “In some respects, having China outside the TPP would be sub-optimal because the ideal was to use trade as an enticement for reform and high standards in Asia-Pacific commerce, including in China.”<sup>30</sup> Yet the rhetoric of the US administration has clearly pointed the agreement against China. For example, in his 2016 State of the Union address to Congress, President Obama urged support for TPP: “With TPP, China does not set the rules in that region—we do. You want to show our strength in this new century? Approve this agreement.”<sup>31</sup>

C26.P19 Certainly from the Chinese perspective, the agreement has been perceived as hostile to its interests. An editorial in the *China Daily* at the time of Japan’s entry into TPP stated that “TPP has been heavily criticized for its spirit of confrontation and containment, as China, the world’s second-largest economy and a traditional powerhouse in the eastern Pacific, is excluded from the Pacific trade pact. By participating in the talks Japan will further alienate its geographic neighbor and closest economic partner.”<sup>32</sup> Another article by a professor at the China Foreign Affairs University analyzed Japan’s decision to join talks, noting that, “At the same time, considering the Japan–US military alliance and its need for political counterbalance against China, the Japanese government has prioritized the US-led TPP, because it believes joint participation by Japan and the US can guarantee future prosperity in the Asia-Pacific region and the development of a framework for a new economic order.”<sup>33</sup> Alongside the warnings of “encirclement,” many in China also note that it could someday join and benefit from the high standards set in the agreement.<sup>34</sup>

C26.P20 Japan’s government would welcome future participation by China. It has engaged in TPP negotiations as part of a foreign policy strategy to contain, shape, and entice China toward cooperation. By joining as a founding member in TPP, the government hoped to assure its own role in writing the rules that would set the standard for China to later join. Speaking at a press conference in Tokyo, Japan’s lead TPP negotiator and Minister of Economic Revitalization Akira Amari emphasized the importance of setting rules for investment transparency and other critical topics, and holding them out as the entry requirements for the agreement—he commented that many other countries were lining up to enter but would

P6.N30 <sup>30</sup> A. Panda, “Trans-Pacific Partnership: Prospects and Challenges” *The Diplomat* (Washington DC, Oct. 9, 2015).

P6.N31 <sup>31</sup> Barack Obama, “Final Presidential State of the Union Address” (Jan. 12, 2016) <https://perma.cc/H3WU-8SQZ>.

P6.N32 <sup>32</sup> Hong Cai, “Japan Looks to Board US Black Ship” *China Daily* (Beijing, Mar. 28, 2013) <https://perma.cc/QGS7-ARGC>.

P6.N33 <sup>33</sup> Fan Ying, “Bilateral Rewards from New FTA” *China Daily* (Beijing, July 22, 2013) <https://perma.cc/6KEK-9LH3>.

P6.N34 <sup>34</sup> Qifang Tang, “TPPs High Standards Conflict with Goal of Expanding Membership” *Global Times* (Beijing, Apr. 22, 2013) <https://perma.cc/QQ5H-2APE>.

be told they must accept the rules as a condition to join.<sup>35</sup> The large role of state capitalism and state-owned enterprises competing directly with Japanese firms worries METI officials, but coercing China to moderate its industrial policy would be difficult for any country let alone Japan, given that tense bilateral relations cast a shadow over Sino–Japanese negotiations. Far better for Japan is to hold up the TPP rules, leaving the choice to China about whether it will make the necessary reforms to join.

### C. TPP as Stepping Stone to FTAAP

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TPP is but one of many trade agreements under negotiation in the Asia Pacific region. Over the top of the existing agreements with ASEAN and a web of bilateral agreements, APEC leaders called for a Free Trade Area of the Asia-Pacific (FTAAP) at an APEC meeting in 2010, and ASEAN leaders joined China to initiate the Regional Comprehensive Economic Partnership (RCEP). Japan stands in the middle as the pivotal country included in all three of these potential groupings, whereas the United States is outside of RCEP and China is outside of TPP.

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The long-term economic interests of Japan encourage further integration with China, which remains the natural trading partner for Japanese business. Kenichi Kawasaki, Senior Fellow of the National Graduate Institute for Policy Studies and former senior economist of the Economic Planning Agency of the Japanese government, conducted a comparative study of gains from different forms of free trade agreements in terms of selection of partners. In the study, he estimates that Japan would gain the most from pursuit of both TPP12 and RCEP agreements.<sup>36</sup> Whereas many of the income gains to Japan from TPP come from its own contribution of liberalization measures, the RCEP agreement brings additional gains achieved through participation of China.

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While the Chinese perception has been that TPP is directed against it, Japan's economic interests make it unable to consider excluding China from its trade strategy. From the beginning, the Japanese government offered assurances that it would pursue multiple strategies with continued interest in RCEP even as it joined TPP. In his March 2013 speech about joining TPP negotiations, Prime Minister Abe explicitly mentioned the hope to see RCEP concluded and eventually a broader Free Trade of the Asia and Pacific Region.<sup>37</sup> Never did he mention China, and the Japanese position has been one of openness to favor deepening trade with China. This comprehensive approach found broad-based support. When business associations endorsed the decision to join TPP, they also explicitly referenced RCEP as another goal. Similarly, even while urging the government to protect agricultural interests in the negotiations, the criticism of the government from the Democratic Party Leader Banri Kaieda on March 15, 2013 noted that the Democratic Party of Japan had planned to simultaneously negotiate TPP, the trilateral agreement between Japan, South Korea, and

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<sup>35</sup> Cabinet Office of the Government of Japan, "Akira Amari Press Conference" (Oct. 7, 2015) <https://perma.cc/G4J5-C4T8>.

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<sup>36</sup> Kenichi Kawasaki, "The Relative Significance of EPAs in Asia-Pacific" Research Institute of Economy, Trade, and Industry Report (January 2014). See also Kawasaki and others, "Japan: Leveraging National Regulatory Reform and the Economic Modeling of Trade Agreements," ch. 20 in this volume.

P6.N37

<sup>37</sup> Prime Minister of Japan and his Cabinet, "Negotiations for Participation in the TPP"

China, as well as RCEP with the long-term objective of creating an Asia-Pacific free trade zone.<sup>38</sup>

C26.P24

TPP itself was seen as a launching point for other free trade agreement (FTA) talks rather than an alternative path. When Prime Minister Noda engaged in preliminary talks about the possibility of joining TPP in November 2011, it sparked interest by China in the trilateral talks and also triggered engagement by the EU to push forward talks with Japan for an EU–Japan FTA.<sup>39</sup> There are two reasons for this effect. First, Japan’s decision to enter TPP negotiations surprised many who had seen the government as only weakly committed to liberalization of trade and investment.<sup>40</sup> From this perspective, Japan looked like a better partner based on the new information about the government intentions. Second, each new agreement can spur others as firms and governments fear trade diversion and losing market access when rival traders pursue new agreements. Here, it was the actual threat of deepening integration among TPP members that pushed others to action for their own negotiations to gain access. In an ironic turn of events, Japan and the EU announced the conclusion of their agreement on the eve of the July 2017 summit of G20 leaders in Hamburg as a clear message from Japan and Europe to President Trump that they would continue forward on trade liberalization, irrespective of US reluctance.

C26.P25

It remains uncertain whether the alternative agreements in East Asia will eventually come together. The trilateral talks for China, Korea, and Japan have stalled over politics; TPP would offer a back door to circumvent these problems and allow Japan to join a free trade agreement with Korea and eventually China. When only negotiating on their own, political tensions between these countries loom large on both sides. In the context of the larger regional agreements, however, both can portray concessions as part of regional cooperation rather than zero-sum exchanges. Competitive liberalization may also see talks for approval of TPP push forward RCEP as another intermediary step. With TPP prospects dim, the greatest impact of the negotiations may be their effect to have spurred forward these other talks. Some aspects of the rules negotiated as part of TPP may serve as a template in future agreements.

C26.S6

### III. Building Support for TPP in Domestic Politics

C26.P26

These foreign policy strategies played an important role at the domestic level to counterbalance resistance to the agreement. Long before TPP had become a rallying point for political attention in the United States, it was widely discussed in Japan. Indeed, it has been called the “debate dividing the nation into two” with a close split in public opinion and fierce opposition from farm groups.<sup>41</sup> Any American visiting Japan in 2011 would have been surprised to note that there were more books prominently on display in bookstores and more extensive television commentary offered on the subject in Japan as a non-member considering the agreement than in the United States, which had joined years earlier. Yet despite

P6.N38

<sup>38</sup> Democratic Party of Japan, “Response to the Statement of Participation in TPP Negotiation” (Mar. 15, 2013) <https://perma.cc/3G4R-YPPF>.

P6.N39

<sup>39</sup> Keichi Umada and others (eds.), *TPP Kōshō no renten to nihon (Key issues of TPP negotiations and Japan)* (Bunshindō 2014) 231.

P6.N40

<sup>40</sup> Solís and Katada, “Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion” 155–77.

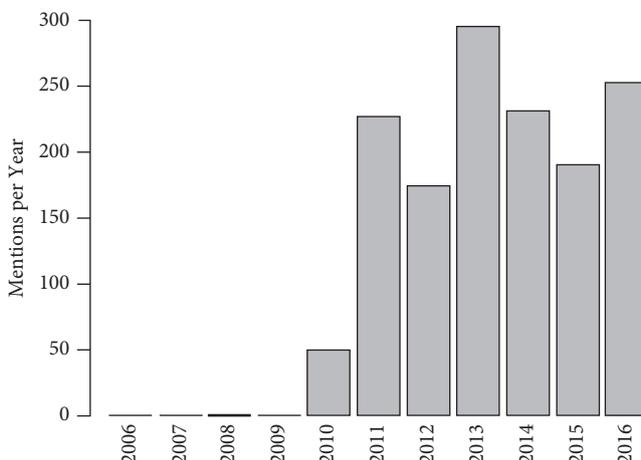
P6.N41

<sup>41</sup> Megumi Naoi and Shujiro Urata, “Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement” (2013) 8 *Asian Econ Policy Rev* 326, 326.

the controversy over the agreement, Japan emerged as one of the most committed advocates and among the first to push forward the domestic ratification process. How did Prime Minister Abe overcome the fierce domestic resistance?

C26.P27

First, Abe had the benefit that the prior administration under the Democratic Party of Japan had already supported the prospect of joining TPP. In the early rounds of discussion about TPP in the Diet (Figure 26.1), which were quite extensive in 2011, the DPJ had been on the side promoting the agreement. Tables had then turned in 2013 with Prime Minister Abe’s decision to join the talks. From the opposition party position, DPJ criticism focused on the inconsistency of the LDP, which campaigned in the election with the position that it would oppose any agreement that would erode protection of agriculture and harm national interest. The LDP had to defend the agreement itself on those terms, but not fight a full battle over the merits of free trade or deepening integration with the United States. Moreover the 2012 election victory afforded the LDP, in coalition with the Komeito party, two-thirds of the seats in the Lower House of the Diet, which would allow it to adopt legislation over the House of Councilors.



C26.F1

**Figure 26.1** *Diet mentions of TPP*: The figure displays the number of references to TPP in the Japanese Diet from the start of the agreement in 2006 until November 21, 2016.

C26.P28

Abe was able to make this policy shift appear consistent by his emphasis on the national gains. TPP fit easily into the overall economic growth strategy termed “Abenomics” that has been central to the LDP administration. In the common description, the “three arrows” of the policy consist of monetary easing, fiscal stimulus, and economic restructuring. The third arrow has been highlighted as the most important foundation for a growth strategy and the most difficult to deliver. Abe seized on TPP as the concrete policy that would force competition and globalization on Japanese industries from abroad. This pattern follows a long tradition of Japanese liberalization under foreign pressure, *gaiatsu*, and is consistent with theories of free trade agreements as a domestic commitment device.<sup>42</sup>

P6.N42

<sup>42</sup> Leonard Schoppa, “Two-level Games and Bargaining Outcomes: Why Gaiatsu Succeeds in Japan in Some Cases But Not Others” (1993) 47 *Intl Org* 353–86; Christina L. Davis and Jennifer Oh, “Repeal of the Rice Laws in Japan: The Role of International Pressure to Overcome Vested Interests” (2007) 40 *Comp Pol* 21–40.

C26.P29 Absent the geopolitical logic of the agreement, however, it is less apparent that this would have emerged as the core policy for economic restructuring. TPP promises only limited economic gains for Japan, with the largest income benefits attributed to Japan's own liberalization of its markets.<sup>43</sup> The fact that China and Thailand, both critical cogs within Japan's regional production networks, are outside of the agreement, substantially weakens the benefits of harmonization. As a post-hoc rationalization, TPP took on a larger role within Abenomics than might have been expected. While useful in promoting the agreement, this status also makes it more difficult for Abe to simply treat it as another trade agreement to be signed or not signed in light of changing interests of the partners.

C26.P30 From the outset, opposition from Japanese agriculture interest groups formed the major obstacle. The sector has been steadily contracting through a combination of structural factors related to small-scale production and demographic shifts along with liberalization. But it nevertheless continues to win high levels of protection.<sup>44</sup> The Japanese agricultural cooperative organization Nokyo criticized the decision to join the negotiations, challenging both the threat to agriculture and warning of incursions on sovereignty and other interests.<sup>45</sup> Specific sectoral organizations such as the dairy farmer association and pork farmer association linked their political campaign contributions with TPP policy positions.<sup>46</sup> In massive mobilization against the agreement, "agricultural cooperatives collected more than 11 million petitions against Japan's participation in the TPP within a 10-month period since 2011, which constituted more than 10 percent of Japan's total eligible voters."<sup>47</sup>

C26.P31 The primary goal of agricultural groups was resistance to liberalization of the five sensitive commodity groups: rice, wheat/barley, beef, dairy products, and sugar. The protection of these "sanctuaries" was the rallying cry to hold the line against threats to the sectors that held low competitiveness and retained substantial shares of farm employment. Nokyo insisted that all five should be off the table for any negotiation.<sup>48</sup> The Diet passed resolutions opposing liberalization of these five important commodity groups. Additional demands related to food production included concerns that country of origin indications and GMO labels preserve food safety regulations in place.

C26.P32 Reflecting this pressure, the government insisted that it could not promise zero tariffs, and Japan preserved 19% of its agricultural commodities from any tariff elimination.<sup>49</sup> Nonetheless, the government accepted major new cuts for agricultural protection in the agreement for the most ambitious liberalization to date. TPP represents the first of Japan's preferential trade agreements to reach the WTO standard for liberalization of 90% of tariff lines, and this included the immediate elimination of tariffs on 51% of agricultural commodities.<sup>50</sup> This came at a political cost, with agricultural groups portraying the tariff cuts on sensitive products as a violation of the Diet resolutions and surveys showing low support for the administration among farm voters.<sup>51</sup>

P6.N43 <sup>43</sup> Kawasaki, "The Relative Significance of EPAs in Asia-Pacific."

P6.N44 <sup>44</sup> The Japanese agricultural sector continues to receive generous government assistance with 48% of farm income over the years 2013–2015 coming from government policies, which stands three times higher than the OECD average. OECD, *Agricultural Policy Monitoring and Evaluation 2016* (OECD 2016).

P6.N45 <sup>45</sup> Nokyo, "Statement against Participation in TPP Negotiations" (Tokyo, Mar. 15, 2013) <https://perma.cc/3UHX-RC7G>.

P6.N46 <sup>46</sup> *Asahi Shimbun*, (Nov. 29, 2014).

P6.N47 <sup>47</sup> Naoi and Urata, "Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement" 334.

P6.N48 <sup>48</sup> Nokyo, "Statement Against Participation in TPP Negotiations."

P6.N49 <sup>49</sup> Solis, *Dilemmas of a Trading Nation* 186.

P6.N50 <sup>50</sup> *ibid.*

P6.N51 <sup>51</sup> *ibid.* 208.

C26.P33 Several factors undermined the ability of the agricultural groups to achieve these rigid demands. The demographic shift of an aging sector on top of the 1994 electoral law change emphasized larger-sized districts and national policy-making interests. Internal dynamics of the agricultural iron triangle also changed with retirement of leading politicians in the hard core *norin zoku* faction of the LDP representatives tied to agricultural interests and the erosion of the JA monopoly through several deregulation measures. Starting with the Koizumi administration, the government began to focus more on consumer interests. Yet after noting these trends in the long-term decline of influence for agricultural interests, Akiyama points to the importance of the security linkage to place agricultural groups on the defensive.<sup>52</sup> He writes that

C26.P34 the growing importance of the US-Japan alliance associated with the rising anxiety about the security environment in Asia became linked to the TPP and, combined with the conservative beliefs of Prime Minister Abe, created a situation in which opponents had no choice but to recognize that Japan would accept the agreement even if forced to undertake some liberalization of the five critical products.<sup>53</sup>

C26.P35 Similar to the Uruguay Round negotiations that ended the ban on rice imports, farm groups came to recognize that compromise was necessary to avoid blame for a major international setback for Japanese national interests.<sup>54</sup>

C26.P36 Those conservative LDP politicians most likely to support agricultural interests are also susceptible to the appeals for security gains. With the DPJ weakened and on the record as having supported TPP in the past, LDP politicians were safe in the knowledge that angry farm groups had no alternative party to choose. The coalition partner in the LDP administration was a small religion-based party, Komeito, which had a lower-income urban base and historically was the most favorable to agricultural liberalization. Indeed, to the extent that the Komeito party was more supportive of TPP even as it was reluctant on some of the more ambitious security policy reforms planned by Abe, the trade agreement strengthened the policy mix for the coalition.

C26.P37 The Abe administration changed the tone of agricultural liberalization with emphasis on the positive imaging that a strengthened Japanese farm sector could increase agricultural exports and take advantage of the Japanese food culture boom. Some argued that the liberalization of agricultural markets would promote consolidation of land as smaller farmers retire, and a stronger agricultural sector would raise living standards.<sup>55</sup> At the same time, the government has continued the long tradition of using subsidies to ease the transition even at the cost that such policies undercut sector reform. Budget allocations for TPP adjustment have targeted the rural sector with public works and subsidies. This strategy successfully diffused opposition to the agreement. In the October 2017 Lower House election, TPP was largely absent as an issue.<sup>56</sup>

P6.N52 <sup>52</sup> Akiyama, “Hantai ha ni yoru bōeki jiyūka.”

P6.N53 <sup>53</sup> Author’s translation from Japanese, *ibid.* 50.

P6.N54 <sup>54</sup> See Christina L. Davis, *Food Fights Over Free Trade: How International Institutions Promote Agricultural Trade Liberalization* (Princeton University Press 2003) for an analysis of the domestic politics in Japan related to agricultural liberalization in the Uruguay Round.

P6.N55 <sup>55</sup> Kazuhito Yamashita, “TPP Kōshō no ronten to nihon” (“Key Issues of TPP Negotiations and Japan”) in *TPP no Nōgyō Rikkoku (TPP and the Agricultural Country)* (Bunshindō 2014) 19–32.

P6.N56 <sup>56</sup> A comparison of the campaign policy platform of the major eight parties reveals a brief mention from LDP about helping rethink agricultural policies to adapt to the impact of TPP, while the Communist Party urged

C26.P38 The US negotiators also appreciated the importance of the agreement for strategic logic, which had been a major point in the US rationale for the agreement at home. A former USTR official noted the emphasis on regional strategy of rule-making as a theme that was repeatedly underscored in Prime Minister Abe’s speeches and something that came up in some of the meetings with Diet members, both in Japan and when they visited Washington.<sup>57</sup>

C26.P39 The final consideration that facilitated Japan’s participation in the TPP negotiations was the greater centralization of policy authority within the Cabinet office. Japan has long been notorious for turf wars among rival ministries. It is not uncommon for the government to send ministers from two or even three ministries as part of the negotiation team. While the Ministry of Foreign Affairs holds the formal role of lead negotiator, the Ministries of Finance, Agriculture, and, of course, Economy, Trade and Industry (METI) all take strong interest in trade agreements. Even the assessment of the economic impact of TPP had competing studies issued from different ministries.<sup>58</sup> This ended with the decision by Abe to locate TPP negotiations within the Economic Revitalization Headquarters, which was the Cabinet-level organization established to formulate economic growth strategy. The appointment of Akira Amari in December 2012 assigned him the role of lead negotiator for TPP as part of his duties as minister of economic revitalization. He helped to assure that there would be one voice for the Japanese negotiating team and one authoritative Cabinet source to assess the impact of the agreement.<sup>59</sup> According to a former USTR official,

C26.P40 The TPP negotiations were completely different than prior negotiations with Japan. In TPP, all of the Ministries were on board and Japan played a leadership role. They were committed to finding creative solutions, and worked hard to bring other countries on board. Moreover, it was important that Minister Amari was reporting straight to Prime Minister Abe and he could see the totality of negotiations, not just through the lens of individual issues affecting one Ministry.<sup>60</sup>

C26.P41 If this unified process continues, a lasting legacy of TPP for Japan could be a more centralized approach to trade negotiations. Dealing with the complexity of megaregional agreements spanning such a range of issue areas and partners forces domestic institutional adaptation in ways that may persist.

C26.P42 TPP instigated a process within Japan that has entrenched support for the agreement in the government. Linking the agreement to Prime Minister Abe’s centerpiece economic reforms and geopolitical strategy made this an irreversible commitment. Attributing economic gains from the deal to domestic structural reforms of the Japanese economy created an economic rationale that was not contingent on market access gains per se. Furthermore,

withdrawal from the agreement. The six other main opposition parties failed to even mention the deal. “Summary of Campaign Platforms” *Mainichi Shimbun* (Tokyo, 2017) <https://perma.cc/C4M5-EEG7>.

P6.N57 <sup>57</sup> Telephone interview by author, May 16, 2017.

P6.N58 <sup>58</sup> The Ministry of Agriculture study concluded that the agreement would cause 3.4 million job losses in the agriculture sector, while a METI study instead concluded that the net impact on the economy was positive such that not joining would cause 0.8 million lost jobs—and analysis indicates that the choice by a regional government to publish one study over the other correlated highly with opinion toward the agreement by firms in that region. Megumi Naoi and Arata Kuno, “Framing Business Interests How Campaigns Affect Firms Positions on Preferential Trade Agreements” (Aug. 2012) Kyorin University and UCSD Working Paper 6 <https://perma.cc/D2KF-YGT9>.

P6.N59 <sup>59</sup> Amari’s resignation in January 2016 over a corruption scandal left a temporary leadership vacuum, but came after the agreement had been signed.

P6.N60 <sup>60</sup> Interview by author, May 16, 2017.

the two-pronged geopolitical role to deepen ties within the region and exercise rule-making authority over economic governance represented a nuanced strategy toward balancing Chinese influence that went beyond the US–Japan alliance. Compensating losers helps to soften the distributional impact on weak sectors. These factors reinforced Japan’s support for TPP.

#### IV. Countering the Anti-TPP Turn in American Politics

While the Japanese government was pushing the agreement through the Diet ratification process, the US Presidential campaign openly condemned TPP as a bad agreement. After the victory of Donald Trump in the 8 November election, Congressional Republicans said they would not bring the agreement to the floor. At the time, the US House Ways and Means Committee member representative Lloyd Doggett (D-TX) remarked that “TPP in its current form is dead . . . and the only question is will it come back in some zombie trade agreement to stalk us next year?”<sup>61</sup> Nevertheless, the Diet voted to approve the agreement in December 2016, and the Japanese government issued its formal notification of ratification on January 20, 2017—President Donald Trump’s inauguration day.<sup>62</sup> Fulfilling his campaign promise, Trump declared the exit of the United States from the agreement as one of his first acts in office.

The decision to bring TPP forward for ratification in the Diet during the Fall of 2016 even as the US government turned against the agreement raises important questions. If the primary motive of the agreement was to support US–Japan relations, why did Prime Minister Abe advance the agreement with uncertainty over its ultimate future? Of course, the decisive win in the 2016 July elections gave him a surplus of political capital so that the party was assured of the votes to win passage over opposition. Nevertheless, in a consensus-driven society ramming through legislation over objections risks a negative public reaction and could potentially freeze out cooperation on other issues coming before the legislature. Nonetheless, Prime Minister Abe went ahead with the ratification process in the hopes to encourage other TPP signatories to follow suit. His stated goal was to “send a message about the TPP’s strategic and economic significance of creating a fair economic grouping.”<sup>63</sup> Where Japan has often been the last reluctant party at the table of negotiations, taking years to go forward with TPP, it now emerges as the most stalwart defender of the agreement. With remarkable persistence, the Abe administration expresses its commitment to persuade the United States to go forward with the agreement. During a meeting with Vice President Michael Pence in Tokyo on April 18, 2017, Deputy Prime Minister Tarō Asō urged the importance of establishing high standard rules at a regional level as in TPP.<sup>64</sup> In many ways, the geopolitical framing has created a momentum of its own. Having once portrayed the agreement as the lynchpin of US–Japan cooperation against a hostile China, the failure of TPP is feared to represent a signal of weakening ties. In addition, by choosing to integrate TPP within his Abenomics plan, Abe made it more costly to step away from the agreement.

<sup>61</sup> “TPP Opponents Tout Deal’s Defeat, Urge Trump to Take New Approach” *Inside US Trade* (Arlington VA, Nov. 16, 2016).

<sup>62</sup> “Japan Taking Final Step for TPP Ratification Friday” *Nikkei Asian Review* (Tokyo, Jan. 20, 2017).

<sup>63</sup> “Japan’s Ratification of the TPP” *Japan Times* (Tokyo, Dec. 14, 2016) <https://perma.cc/964U-4GTR>.

<sup>64</sup> Fumiko Kuribayashi, “Japan-US Trade Negotiations: Economic Dialogue Between Vice Presidents” *Asahi Digital* (Tokyo, Apr. 19, 2017).

C26.P45

One alternative is to abandon TPP in favor of a bilateral US–Japan free trade agreement. This was first proposed by Senate Finance Committee Chairman Orrin Hatch (R–UT) and has gained widening support as US industries fear loss of market access in Japan’s agreement with Australia and its near completion of a new agreement with the EU.<sup>65</sup> Negotiating stricter rules of origin for autos and more binding language on currency manipulation would allow Trump to claim he had bargained for a better deal and avoid the challenges of renegotiating with twelve countries while reassuring a close US ally of ongoing commitment. But the geopolitical logic of binding Vietnam, Malaysia, and other countries closer to the United States would be shattered with this abrupt differentiation among the partners. From the Japanese perspective, it is unclear if economic gains would remain if the auto industry faces a choice between using regional production networks or a FTA with the United States. This is one reason that Japan insisted on lower regional content requirements in TPP rules of origin.<sup>66</sup> The addition of binding commitments on currency policy would likely meet strong resistance within the Abe administration as a challenge to Japanese monetary policy intervention—a policy central to the administration effort to halt deflationary pressures. Moreover, the geopolitical gains for Japan were not only about proximity to the United States but also countering China’s regional leadership, and the rebuff to other TPP participants would push them closer to China. For the limited goals of US–Japan relations, the bilateral option is a realistic solution to the current political problem for both leaders, but it is clearly second best from the Japanese perspective. Deputy Prime Minister Asō stated, “The US will soon realize that it could gain much less from a bilateral FTA with Japan than under the TPP.”<sup>67</sup>

C26.P46

Japan has instead favored adopting TPP11 among the remaining parties to the agreement.<sup>68</sup> Filling the vacuum left by the United States to bring the agreement to fruition increases Japan’s regional leadership role. A series of bilateral meetings were followed with the December 2017 meeting when negotiators from eleven parties gathered in Tokyo to draft an agreement before the upcoming APEC meeting. Japan’s push to conclude TPP11 holds open the door for the United States to later join. The Japanese government resisted efforts from other governments to change the terms of the agreement, understanding that this would complicate US entry. An official with Japan’s Cabinet Secretariat noted that “The only option is to convince them not to renegotiate,” in response to suggestions that New Zealand would introduce a new restriction on foreign real estate investment and a series of requests from Vietnam on textile tariffs and other matters.<sup>69</sup> Japan was largely successful in this goal—the parties removed twenty-two clauses in the original text but retained the core principles and all tariff schedules. The rules on digital trade, state-owned enterprises, environment, and labor have not been changed. Most of the suspended clauses relate to items that had been reluctantly accepted at US insistence such as some aspects in the investor-state dispute mechanism and specific items related to intellectual property rights protection.<sup>70</sup> In a clever legal maneuver, these provisions have been “suspended” in TPP11 but

P6.N65

<sup>65</sup> *Inside US Trade* (Arlington VA, Nov. 16, 2016).

P6.N66

<sup>66</sup> “Rules of Origin TPP Dispute Blocking Japan-US Auto Deal” *Japan Times* (Tokyo, Apr. 3, 2015).

P6.N67

<sup>67</sup> Mitsuru Obe, “Tokyo to Push for TPP Without US, Says Aso” *Nikkei Asian Review* (Tokyo, Apr. 27, 2017) <https://perma.cc/PC2Q-MTFV>.

P6.N68

<sup>68</sup> The terms require that the TPP will go into effect when six original signatories who account for 85% of the total member GDP have ratified the agreement, but leaders could lower this threshold if they wanted to go forward in absence of the United States.

P6.N69

<sup>69</sup> “TPP11 Faces New Challenges as Clock Ticks Down” *Nikkei Asian Review* (Tokyo, Oct. 29, 2017).

P6.N70

<sup>70</sup> See Asian Trade Centre, “CPTPP: Unpacking the Suspended Provisions” Policy Brief 17-11 (Nov. 2017) <https://perma.cc/7S63-DJB7>.

could be reinstated if the United States rejoins. On 8 March 2018 in Santiago Chile, the eleven remaining countries signed TPP11, renamed as the Comprehensive and Progressive Trans-Pacific Partnership.

C26.P47

Now, TPP11 will induce pressures on the United States to eventually join or face trade diversion. Petri's study estimates that US gains from joining TPP would have stood at as much as USD 131 billion in the year 2030 relative to the baseline of no agreement, while the United States risks an annual loss of USD 2 billion when the agreement among the eleven remaining countries goes into effect.<sup>71</sup> Others will not only have preferential market access, they will also gain first-mover advantage for investment and setting product standards. The threat to US interests is especially severe as both TPP11 and the new Japan–EU agreement go into effect. US agricultural exporters have already begun to lobby the government about the expected disadvantage. For example, US beef exports will continue to face a beef tariff rate of 38.5% while Canada and Australia would benefit from the lower 9% rate negotiated under TPP. In a role reversal to practice the art of two-level game diplomacy on the United States, Japanese trade officials were reported to comment, "Tokyo hopes that US meat industry leaders will speak up in favor of rejoining the trade deal."<sup>72</sup> Japan's lead negotiator Kazuyoshi Umemoto affirmed that "Putting the TPP 11 into effect will not only give us an open and free Trans-Pacific trade system, but it will also act as a strong message to the US to return to the trade pact."<sup>73</sup> Keidanren Chairman Sakakibara stated, "The Japanese business community is anticipating the United States will rejoin in the future."<sup>74</sup>

C26.P48

Ultimately, Japan could still pursue a bilateral FTA with the United States while simultaneously implementing TPP and engaging with the China-led RCEP. Shujiro Urata, who is a leading scholar of Japanese trade policy, advocates that Japan should consider TPP and broader regional integration agreements as a necessary condition for its bilateral talks with the United States.<sup>75</sup> Robert Zoellick at USTR coined the term "competitive liberalization" as the administration of President George Bush launched a series of FTA negotiations, and ironically it may be up to other countries to pursue this approach in the hopes of challenging the United States. Yet there are some concerns within the Abe administration that going forward with RCEP could abandon chances for bringing the United States around to join TPP. A METI official was quoted during a round of meetings on RCEP expressing the belief that the government should prioritize the talks with the United States over the RCEP negotiations.<sup>76</sup> As a fallback position, TPP will help Japan to achieve the level it would prefer in its bargaining with other states. In its talks with the United States TPP may deflect bilateral pressure for additional concessions while in RCEP negotiations TPP may push China to accept more ambitious liberalization.

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Such pressure on other countries will arise because TPP rules now form a template for future agreements. When states negotiate free trade agreements, they often start from the terms in their last one. The text of TPP draws heavily on previous US trade agreements.<sup>77</sup>

P6.N71

<sup>71</sup> Petri and others, "Going It Alone in the Asia-Pacific" 8.

P6.N72

<sup>72</sup> "Revived TPP May Exclude Trade Concessions Sought by US" *Nikkei Asian Review* (Tokyo, Aug. 24, 2017).

P6.N73

<sup>73</sup> "TPP 11 negotiators make headway before crucial summit next week" *Nikkei Asian Review* (Tokyo, Nov. 1, 2017).

P6.N74

<sup>74</sup> Adam Behsudi, "Morning Trade" *Politico* (Arlington VA, Nov. 3, 2017).

P6.N75

<sup>75</sup> He made the remarks when speaking at an event on February 27, 2017 at the Brookings Institute. *Inside US Trade* (Arlington VA, Mar. 6, 2017).

P6.N76

<sup>76</sup> *Asahi Shimbun* (Feb. 25, 2017).

P6.N77

<sup>77</sup> Todd Allee and Andrew Lugg, "Who Wrote the Rules for the Trans-Pacific Partnership?" (2016) 3 Research & Politics 1–9; Todd Allee and Manfred Elsig, "Are the Contents of International Treaties Copied-and-Pasted? Evidence from Preferential Trade Agreements" (Presentation at the 8th Annual Conference on the Political Economy of International Organizations, Berlin, 2015).

Even without the United States as a member, its preferences remain locked into the draft and may find their way into future agreements negotiated by the other TPP members who now have embraced TPP11 as a new model in their own toolkit of trade agreements. Bringing trade commitments into a common framework eases the cost to business, and from the perspective of domestic ratification, new agreements that hone closely to prior agreements that have already been approved are less likely to raise objections. Using this status of previous agreements as the focal point for future negotiations has been effective to support a progressive trade agenda. Certainly one sees that negotiation of TPP reflected an expectation that the rules on SOEs would someday apply to China through either its subsequent entry into TPP or through the SOE chapter of TPP finding itself into an FTAAP deal in the future. One Japanese government official explained that “the terms of the TPP agreement could serve as standards for RCEP. We hope that TPP can raise the level of the RCEP agreement.”<sup>78</sup>

C26.P50 The phrase “same bed, different dreams” has come to characterize US–Japan views on free trade agreements.<sup>79</sup> The new strategic economic talks are viewed by the Japanese government as a means to manage trade friction and support existing initiatives including TPP, while the Trump administration sees them as the entry point for its preferred bilateral negotiation strategy to make stronger demands on Japan that would lower its bilateral trade deficit. In an apparent role reversal, Japan aspires for economic interdependence that would lead to a new ordering within East Asia, while the United States seeks immediate returns for industries at home.

## V. Conclusion

C26.S8

C26.P51

What are the domestic consequences for the content of an agreement that is motivated and approved on the basis of geopolitical motivations? Will there be a reverse impact as the dissatisfaction with low economic returns leads to trade friction harmful of relations? Absence of adjustment assistance could lead to blame shifting, and we see the rhetoric of Trump during the election campaign to blame Japan for US problems and call for more payments to support US military bases. While the linkage between security and trade helps to overcome domestic resistance, it also raises fears in China and ultimately risks sending the wrong signals. Is it possible now to walk back the language about this trade agreement representing a critical test of alliance relations? The rhetoric issued to rally support for the agreement also raised the costs of its failure.

C26.P52

The experience of negotiating TPP reveals a more complex form of *gaiatsu* as Japan navigates both its relationship with the United States and China. In the past, Japanese liberalization has been largely responsive to US pressures such that one would expect the withdrawal of the United States demands for liberalization to immediately end Japanese participation in the agreement. Instead, Japan became a leader to support TPP. The nature of the megaregional agreement brought a more comprehensive policy response in Japan that built support for the agreement based on strategies for economic restructuring at home and diplomacy within its region. Even the nature of leadership within the government adapted to

P6.N78

<sup>78</sup> Interview by author, Tokyo, July 5, 2017.

P6.N79

<sup>79</sup> “*Keizai mondai ha ‘Dōshyō imu’* (Economic Problems are ‘Same bed, different dream’)” was the headline for an article about the first formal summit meeting between Prime Minister Abe and President Trump in the *Asahi Shimbun*. “*Keizai mondai ha ‘Dōshyō imu’*” *Asahi Shimbun* (Tokyo, Feb. 14, 2017)

accommodate a more centralized approach capable of dealing with the complex negotiations. From Japan to the United States, this agreement has triggered strong responses in favor and in opposition. The process of deciding to join and ratify TPP and then lead in its renegotiation as TPP11 indicates that changes lie ahead in how Japan approaches globalization and its role in the world.