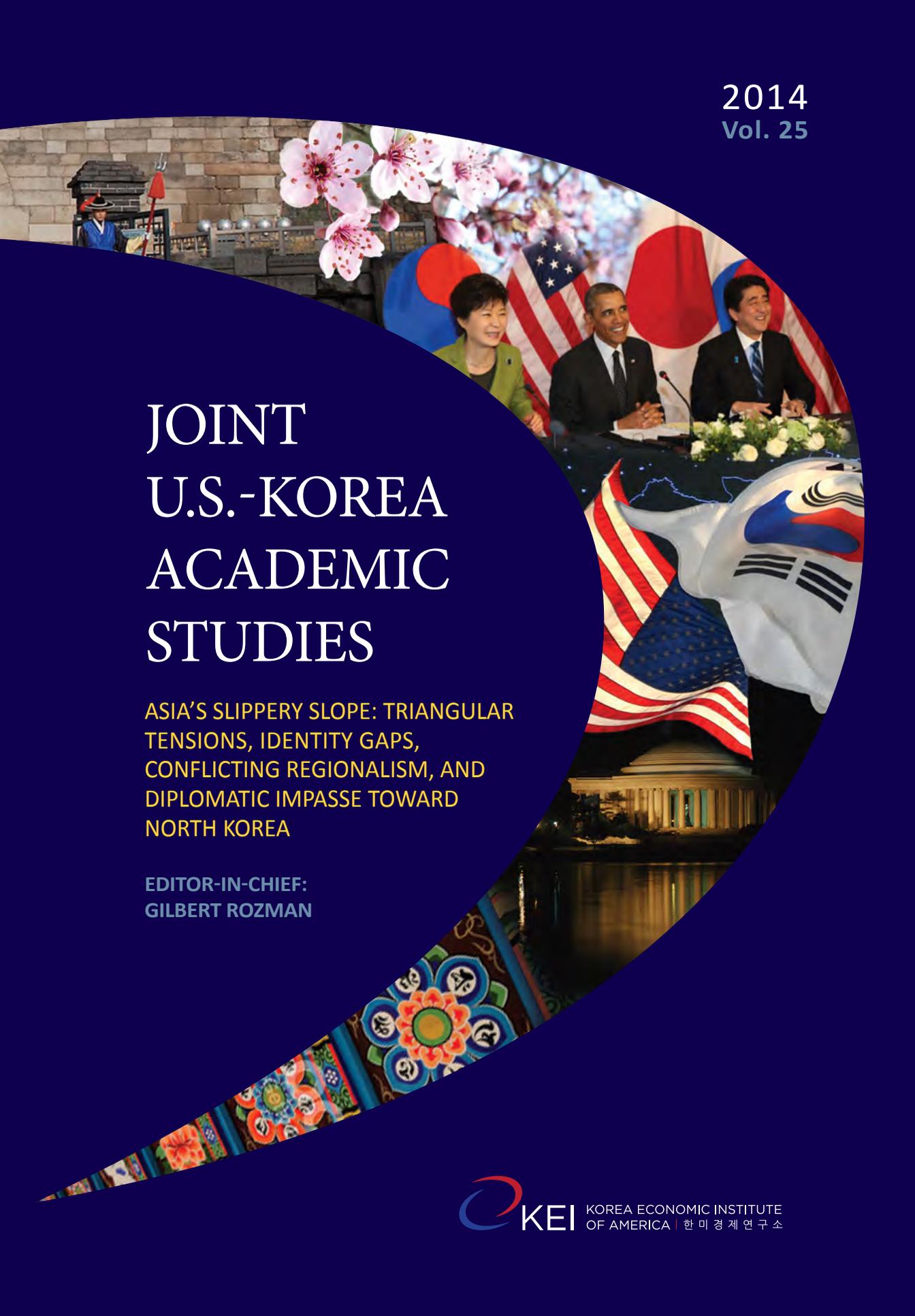


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ASIA'S SLIPPERY SLOPE: TRIANGULAR  
TENSIONS, IDENTITY GAPS,  
CONFLICTING REGIONALISM, AND  
DIPLOMATIC IMPASSE TOWARD  
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EDITOR-IN-CHIEF:  
GILBERT ROZMAN

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EDITOR-IN-CHIEF  
GILBERT ROZMAN  
PRINCETON UNIVERSITY





# DIVERGENCE ON ECONOMIC REGIONALISM



# Japan and Regional Integration Dominoes: Golden Opportunity or Another Political Failure?

Takashi Terada

The re-election of Abe Shinzo as prime minister has led to a drastic change in the economic landscape of Japan through the implementation of “Abenomics.” Abe’s decision to promote monetary easing as a tool to help Japan overcome deflation, which had stalled the Japanese economy for more than a decade, greatly contributed to a 50 percent surge in the Nikkei stock index and to a nearly 20 percent depreciation of the yen against the U.S. dollar by the end of year 2013. A key remaining element of Abenomics is to participate in a regional integration framework and utilize it as an effective vehicle to push a domestic reform agenda, including agricultural liberalization, while expanding export markets for further economic growth. Several such frameworks have emerged since 2010, and Japan has entered negotiations in all of them, presenting a golden opportunity for its trade and investment. With ASEAN aiming to establish an economic community in 2015, four frameworks are being negotiated in East Asia and the Pacific, including the three-way CJK FTA, the 16-nation RCEP, and a U.S.-led TPP. Japan also began FTA negotiations with the EU in 2013, which has entered into TTIP negotiations with the United States, possibly disseminating trade and investment policy norms based on those of the developed countries.

A principal factor behind the emergence of the multiple regional integration initiatives is the power competition between the United States and China. Though the United States long remained on the sidelines of East Asian integration initiatives, it is now seeking high-quality “WTO-plus” regional integration through TPP, while China’s commitment to regional integration frameworks such as RCEP is strongly oriented towards developing countries and would allow for more exemptions in the form of tariff elimination duties, with few deregulation requirements for the reform of domestic economic systems. As ASEAN has also shown an interest in RCEP, in which the speed and level of liberalization would be based on the standard that developing countries generally prefer, the dissimilarities in these integration models in East Asia and the Pacific make any future merger of TPP and RCEP difficult. This means that the Sino-U.S. competition over trade and investment rule-making is likely to continue.

This article examines how these intertwined regional integration frameworks arose and what kind of trade policy Japan has adopted under these circumstances through an analysis of its views on the development of TPP, RCEP and CJK FTA, respectively. This profusion of regional integration initiatives seems to present a “golden opportunity” for the Japanese economy, but it results, as argued below, from the U.S. push for TPP. This caused China to quickly make concessions that enabled trilateral FTA talks with Japan and South Korea, as well as RCEP, to commence. While the emergence of multiple regional integration frameworks is seen as desirable for Japan, it needs to surmount challenges in domestic politics including agricultural liberalization to play a proactive role in any regional integration framework.

## FTA DOMINOES AND JAPAN’S REGIONAL INTEGRATION POLICY

A domino theory, often used to explain FTA proliferation, focuses on trade diversion from the exclusive nature of FTAs. Benefits brought to a party through an FTA, such as the elimination of tariffs, generally victimize a third country not included in the agreement. This means a third country’s products that are more competitive in terms of quality and price will

be replaced by the FTA country's less competitive products thanks to the FTA, which will negatively affect consumers of the FTA countries, while exports from the third country to the FTA countries will be blocked and reduced.<sup>1</sup> While tariff-free privileges will be granted to companies in the FTA countries, third country companies will be placed at a competitive disadvantage, which will spur business and interest groups to lobby the government to conclude an FTA, and as a result, FTA negotiations will begin, which in turn will cause a domino effect of proliferating FTAs.<sup>2</sup>

The crux of this argument is the difference in economic power of FTA negotiating countries. As Bhagwati indicates, all countries do not wield an equal amount of power; one country may be a major military or economic power, and thus have greater influence on another, so we often see a pattern where FTAs move forward due to the interest and influence of such hegemonic powers.<sup>3</sup> In the case of FTAs signed by powerful countries, since certain third countries will have their market access inhibited, trade diversion concerns become clearer, which motivate another country to conclude an FTA with the same major power. In this sense, even if small and medium-sized countries conclude an FTA together, this will not necessarily cause trade diversion concerns, and even if a major economic power were inhibited as a third country, this major power can be said to have few motivations to conclude FTAs with these small and medium-sized countries. In other words, the FTA domino effect will not occur.

Before the intertwining of frameworks took place, regional integration in East Asia and the Pacific was characterized by a proliferation of bilateral FTAs. They can be grouped into four categories: 1) bilateral FTAs centered on Japan with individual countries of ASEAN; 2) ASEAN+1 FTAs centered on ASEAN (with Japan, China, South Korea, India, and Australia/New Zealand); 3) FTAs in Northeast Asia including Taiwan centered on China; and 4) FTAs started by South Korea with the non-Asian large economies including the United States and the EU. Each of the four types has its own central country (or region), but proliferation can be explained using the domino theory.

For instance, the proliferation of bilateral FTAs centered on Japan with individual countries of ASEAN was a result of major ASEAN members' selection of Japan as their first bilateral FTA partner.<sup>4</sup> For example, Malaysian Trade Minister Rafidah Aziz sharply criticized Singapore's moves to conclude discriminatory FTAs with major powers outside the region as an action that would damage the solidarity of ASEAN, and stated that Malaysia, unlike Singapore, is "not interested in having bilateral FTAs with anybody."<sup>5</sup> However, Malaysia and Indonesia, both of which had been considered to be the most hesitant in the region toward bilateral FTAs, began to study the strengths and weaknesses of the Japan-Singapore FTA after the negotiations for a Japan-Singapore FTA started, and showed an interest in an FTA with Japan. For Malaysia and Indonesia, Japan was already one of their most important trade and investment partners, and was also the largest provider of economic assistance. Both countries considered Japan's huge market and purchasing power in recognizing the importance of being able to access this market tariff-free through concluding an FTA, and also anticipated that such an FTA would make it possible to shift capital and technology from Japan to each. As a result, Prime Minister Mahathir announced that Malaysia had begun negotiations with Japan for an FTA when he visited Japan in December 2002, while President Susilo Bambang Yudhoyono had agreed to negotiate Indonesia's first FTA with Japan upon his visit to Japan in June 2005.

It was South Korea that spurred Japan to develop an interest in TPP centered on the United States and an FTA with the EU, Japan's two major trading partners apart from China. Although South Korea is an exception to the above-mentioned explanation of FTA proliferation, its decision to sign bilateral FTAs with the United States and the EU resulted in a situation where Japan, which competes in major export goods, particularly automobiles and electric appliances, was forced to follow suit. South Korea's FTA strategy targeted its large export markets. Having FTAs with 45 countries including the United States, "the economic territory of South Korea is the best in the world,"<sup>6</sup> said President Lee Myung-bak.

A source of real concern to Japanese industry was the FTA concluded between South Korea and the EU. Japanese companies had yet to establish extensive production bases in the EU, while the tariff rate on competing products was relatively high (LCD TVs at 14 percent, automobiles at 10 percent). Preventing price disadvantages with South Korean competitors was a major motivation for Japan to sign a similar FTA with the EU. The day after FTA negotiations began between South Korea and the EU in May 2007 the Japanese Business Federation (*Keidanren*) called for a Japan-EU EPA.<sup>7</sup> However, the EU judged that an FTA with Japan would not be advantageous, and so did not respond to Japan's requests for a long period of time. Of the automobiles exported to the EU in 2009, Korean ones made up 12 percent of the total, while Japanese were 36 percent. It was felt that if tariffs were eliminated for Japanese automobiles, which had advanced green technology such as hybrid vehicles, it would be a threat to similar types of European cars. Also, along with the normalization of the EU trade deficit with Japan (€32.8 billion in 2008, €19.9 billion in 2009), about 70 percent of EU exports were already tariff-free. As a result, the EU considered the benefits of an FTA with Japan to be small.<sup>8</sup> However, after Japan showed an interest in TPP in October 2010, the EU's attitude began to change. It was interested in regulatory easing in non-tariff barriers, as seen in the lower level of inbound investment in Japan, and not being able to bid in government procurement. Easing or eliminating domestic regulations is a major task in TPP led by the United States, heightening EU expectations that it could also put the elimination of non-tariff barriers for exports and investment on the negotiating table.

The EU has chosen potential Asian FTA partners who have participated in TPP talks, such as Singapore, Malaysia, and Vietnam or signed an FTA with the United States such as South Korea, so the EU FTA strategy can be seen to have the characteristic of "chasing the US."<sup>9</sup> Accordingly, Japanese participation in TPP opened the path to an FTA with the United States and the EU, signifying responsiveness to the requests made by exporting industries in Japan to catch up to Korea's aggressive FTA policy.

## JAPAN AND TPP

The Obama administration's "rebalancing to Asia" stresses the importance of TPP as a major trade policy. Secretary of State Clinton stated that the United States would strengthen its economic leadership in order to maintain its strategic leadership in the Asia-Pacific region,<sup>10</sup> signifying determination to incorporate as many countries as possible in TPP to build the desired economic order in the region. Ian Bremmer writes, the United States "encouraged Japan to join hands with the U.S. and strive to nurture the TPP into a new WTO, with a belief that if the TPP becomes a strong presence, China will eventually have no choice but to

submit to its rules.”<sup>11</sup> China’s large presence looms behind the U.S. intention to proceed with economic leadership. It is seen as the “shadow negotiating partner” of the TPP. For example, in April 2011, six industry groups sent a letter to U.S. Trade Representative Kirk requesting that a punitive obligatory provision with legal binding force be added to the TPP in response to overseas state-influenced entities that improperly obstruct the economic activities of private businesses. Although state-operated corporations exist in highly-liberalized countries such as Singapore too, a U.S. business participant stated that “limiting business practices and subsidies to state-owned corporations through the TPP would act as a weight on the active ties of Chinese businesses in the Asian market, and in the future, will provide a policy framework that will be the cornerstone of trade negotiations at the bilateral, regional, and global level with China.”<sup>12</sup> In other words, there exists a sense of hope that the TPP will be a means for applying legal shackles to China, whose business practices are not free capitalist ones. The participation in TPP by Vietnam, another socialist country where state-operated enterprises are rampant, is construed by the United States as playing the role of a virtual China. With Japan’s economy twice the size of the then eight countries participating in TPP negotiations with the United States, Japan’s potential entry was viewed as important for the pact’s emergence as the preeminent trade agreement in the Asia-Pacific.

Prime Minister Noda Yoshihiko announced Japan’s participation in the TPP in November 2011 by stating “I have decided to enter into consultations toward participating in the Trans-Pacific Partnership negotiations with the countries concerned.” Japan focused on the pact’s WTO-plus orientation with a belief that unless it joined soon, it would have no influence in shaping the agreement, including on matters of critical importance to Japanese companies such as rules of origin and intellectual property rights.<sup>13</sup> The LDP’s Abe made the final decision on Japan’s participation in TPP soon after his meeting with Obama in February 2013. A key factor making it possible to commit to negotiations was Obama’s assurance of no preconditions for tariff elimination, interpreted in Japan as U.S. approval for the maintenance of tariffs on sensitive agricultural products such as rice to be shielded from TPP’s free trade package.

Although Japan expected to work together with the United States to complete TPP negotiations, it faced a dilemma stemming from American power. As a newcomer to the negotiations, it was required to establish bilateral pre-negotiations with all existing members individually to obtain approval for entry. This condition is a weapon the United States can utilize to require any newcomer, even China, to deal with areas that are of specific interest to it, meaning, in effect, it has veto power over the newcomer. The United States established three major conditions for Japan’s entry to the TPP, and one of them was that Japan’s state-owned life insurance company, Kampo, should not expand its insurance operations. TPP is a multilateral negotiation, and an agreement can only be reached through give and take among all participating countries, but the preliminary negotiation is bilateral, unilaterally obliging applicants to accept specific demands by the existing members, especially the United States, as a condition for entry to TPP.

Another feature of bilateralism in TPP is related to market access negotiations. Japan’s expectations from a change from bilateral FTAs to regional integration is the expansion of countries that are the subject of cumulative origin, which have the benefit of increasing the number of goods for which no tariff is applied, simplifying the rules for that purpose, and

ultimately contributing to an expansion in exports. Japan's Ministry of Economy, Trade and Industry also emphasizes this merit for companies which have expanded their supply-chain networks in the region.<sup>14</sup> The different product coverage and distinctive time framework of liberalization in a number of bilateral FTAs would make it difficult for those multinational companies as potential FTA users to identify which FTA or regional integration frameworks could be most effective in cost-saving for their business. Thus, a “spaghetti bowl” effect, meaning a large number of rules of origin with specific standards and involving specific procedures, would follow, and different rules applied to a single commodity would emerge as one of the most significant concerns. Yet, the United States has little intention to help address this issue, and the market access negotiations in TPP have been established as bilateral rather than multilateral tracks among 12 countries. This leads to preparation of more than 50 to 60 bilateral agreements, simply confusing multinational companies and greatly reducing the TPP's usefulness and Japan's interest.

## TPP, CHINA, AND ASEAN: BETTER EMERGING CONDITIONS FOR JAPAN

Japan's inclination toward TPP contributed to China making concessions over the issues long contested by Japan, culminating in the emergence of favorable trading circumstances for Japan's regional integration policy. The level of China's concerns about the negative impact TPP might have on its regional integration policy is seen in the fact that as soon as Japan expressed an interest in joining TPP, China quickly became more flexible in its own talks with Japan. For example, China accepted a proposal from Tokyo to conclude a trilateral investment agreement first among China, Japan, and South Korea, a framework that Beijing had previously resisted due partly to required protections for Japanese and South Korean investors. China has also moved away from exclusive pursuit of an ASEAN + 3 regional framework, toward interest in the ASEAN + 6 framework, Japan's preferred arrangement. These two concessions led to the start of official negotiations for the trilateral FTA and RCEP in 2013.

These concessions can be viewed as a way for China to limit America's regional influence, a significant outcome of Washington's push for, and Japanese participation in, TPP. The extent of China's concerns is evident in the frequent requests it has made to participants, especially the United States, to be open and transparent about the TPP negotiations—something that so far has not really happened. The dilemma that China faces is straightforward: to join TPP is difficult, because it includes a range of so-called 21<sup>st</sup> century issues such as regulatory convergence, treatment of state-owned enterprises, the issue of supply chains, and intellectual property rights. Yet, the cost of not participating could quickly escalate as more countries, especially major economies like Japan, create a critical mass toward a truly Asia-Pacific trade arrangement.

The TPP development has also caused ASEAN to more strongly push for a single market because TPP splits ASEAN. Since the Philippines has now studied all the pros and cons of TPP, the likelihood of there soon being five participating countries from ASEAN has increased. This division would cast doubt on ASEAN's ability to continue to place a high priority on ASEAN centrality, adding to the impression of an ASEAN rift. The then

Indonesian Trade Minister Gita stated that TPP is not a threat to ASEAN, and the selection of an integration framework differs according to the conditions in each member of ASEAN, but since TPP allows virtually no exceptions to tariff elimination, Indonesia would have many problems; so there are no plans to participate.<sup>15</sup> This statement indicates that as a result of the advent of TPP, countries sharing a vision for regional integration will proceed with domestic reforms and a high level of liberalization as they participate, and the “lowest common denominator” approach to liberalization will no longer be applied. This is encouraging for Japan’s regional integration policy. Japan, especially METI, was well aware of the lowest common denominator problem, where the actions of liberalization-oriented countries are blocked by the least enthusiastic country, limiting regional integration in ASEAN. Japan and China, which had until then been competing over whether ASEAN + 3 or ASEAN + 6 should be the framework for East Asian integration, set their dispute aside in August 2011 and jointly proposed the founding of a working group to promote the liberalization of trade and investment in East Asia. This joint initiative stemmed from concerns on the part of both large economies that while TPP negotiations were progressing (Japan had not been a member yet at that time), East Asian integration frameworks would not make progress if left up to ASEAN. ASEAN’s sense of urgency for the creation of a single market triggered by the TPP development was welcomed by Japan.

RCEP, unlike TPP, places a higher priority on development, technical cooperation, and flexibility on liberalization because it is based on ASEAN + 1 FTAs. Japan’s interest in RCEP stems partly from its desire to be involved in the growth of the ASEAN economy, one of the most potentially promising markets in the world. Abe sees it as “a growth center of the world” and stressed that Japan has two major goals for its ODA to the region: ASEAN’s own economic development and Japan’s renewed economic growth. This interest has also been demonstrated by its private sector. According to a survey by the Japan External Trade Organization (JETRO), by value, 17 percent of Japanese multinational companies’ overseas deals in 2013 have been made in ASEAN member economies, compared with 3 percent in 2012.<sup>16</sup> Their FDI in ASEAN has also been rapidly growing, reaching \$13 billion in the first nine months of 2013, more than the \$10.6 billion for the whole period of 2012. Assistance in ASEAN’s integration projects is relevant to Japan’s own interests. In sum, Japan does not see ASEAN as a regional integration project similar to the EU or NAFTA, and thus it is not interested in developing RCEP, based on ASEAN’s flexibility approach, into a rule-making framework like TPP. Yet, Japan is well aware that RCEP cannot be an attractive regional integration framework without ASEAN’s sound development. This is a rationale behind Japan’s commitment to assisting ASEAN’s effort to promote regional integration or the formation of a single market to attain higher economic growth.

## TRILATERAL COOPERATION AND JAPAN

Japan has also participated in talks about a trilateral FTA with China and Korea. The growth of Northeast Asian regionalism has become more sluggish because of Japan’s relationships with both of them. Yet, at the 5th Trilateral Summit held in Beijing in May 2012, the Trilateral Investment Treaty, after thirteen rounds of negotiations since 2007, was signed and it became effective on May 17, 2014. Japan was deeply reluctant to sign a trilateral FTA without this, while China long asserted the reverse sequence. This difference was one source of delay

in commencing official FTA negotiations, and as mentioned earlier, China's concession occurred only after Japan's interest in TPP surfaced in 2011.

Japan's interest in an investment treaty rather than an FTA in Northeast Asia was already revealed in 2004 when Koizumi proposed at the Trilateral Summit in Bali in October 2004 that research on a trilateral investment arrangement be conducted through an industry-government-academia collaboration. For Japan, an FTA has long been considered difficult; liberalization of agricultural products has been the chief stumbling block. This would be the case in deals with China and Korea too, whereas the investment treaty is greatly desired by the business community and, moreover, it entails no comparable political sensitivity. However, China was hesitant to promote an investment treaty because of its content, such as regarding "national treatment," in which foreign companies receive equal treatment to domestic companies in terms of taxation and bidding procedures. The investment chapter, which all of Japan's bilateral FTAs include, prohibits preference for local contents and certain investment restrictions, as well as the protection of intellectual property. Cui Tiankai, Director of Asian Affairs at the Ministry of Foreign Affairs, thus said, "a normal procedure should first be the trade liberalization, and then the investment arrangement."<sup>17</sup>

Narrowing the gap among the three countries on trilateral cooperation was a lengthy process. Official negotiations toward a trilateral investment treaty finally commenced in March 2007, but some events slowed progress on FTA negotiations, such as the China-Japan clash in the East China Sea in September 2010 and the Great East Japan Earthquake in March 2011. This impasse was finally broken by the U.S. and Japanese push for TPP. China suddenly encouraged Korea to pursue a China-Korea FTA during the visit of Lee Myung-bak in January 2012, which the two sides had never seriously considered before,<sup>18</sup> partly as a means of pressuring Japan into approaching the trilateral FTA more seriously, given the prospect of Japanese exports being disadvantaged in the gigantic Chinese market because Korean manufacturing products would enjoy non-tariff status, as already had happened in the EU and U.S. markets.<sup>19</sup>

Japan's expectations for the trilateral investment treaty seem overstated. According to METI, while the treaty would accelerate investment among the three countries and contribute to their economic growth, it was expected to achieve high-standard protection for investments through clauses on the protection of intellectual property rights (IPR), prohibition of unauthorized technology transfer and rejection of local content requirements, as well as the fulfillment of the Investor-State Dispute Settlement (ISDS) and fair and equitable treatment.<sup>20</sup> However, while the treaty's function of investment protection can go forward, investment liberalization would be limited since the treaty could only apply to future investment. As for pre-establishment national treatment, which eliminates barriers for newly arriving businesses, it cannot resolve Japanese enterprises' longstanding problems in China, including discriminatory requirements for foreign investors on the need to establish a joint venture with their Chinese counterparts.<sup>21</sup> This passage remains in the treaty thanks to China's strong insistence.

The treaty's effectiveness for the protection of IPR is unclear. Admittedly, Article 9 of the trilateral investment treaty (paragraph 1) stipulates, "Each Contracting Party shall, in accordance with its laws and regulations, protect intellectual property rights" and "Each Contracting Party shall establish and maintain transparent intellectual property rights regimes." Although this provision had not been included in either the previous Japan-

Korea nor the Japan-China bilateral investment agreement, Foreign Minister Kishida states that the joint effort by Japan and Korea led to the inclusion of this IPR provision.<sup>22</sup> With regard to the provisions of the ISDS, however, METI's brief on the trilateral investment agreement elucidates that Article 9 (paragraph 2) covers exemptions from ISDS,<sup>23</sup> while Yasushi Masaki, Deputy Director-General of the Economic Affairs Bureau of MOFA, states that all breaches of duty qualify for arbitration.<sup>24</sup> Moreover this agreement did not establish common rules for IPR among the three countries, as written in Article 9 (paragraph 2). In short, though provisions for IPR should be seen as owing to Japan's efforts, it is still unclear whether they effectively protect the IPR of Japanese companies.

This treaty is not retroactive, on the basis of Article 27 (paragraph 7). Its effect is expected to enable Japanese companies to claim compensation for lost investments as a result of damage from anti-Japanese movements, based on Article 12, after the treaty comes into force. Masaki stated that investors would be able to submit the issue to international arbitration if property were destroyed by riot or fire.<sup>25</sup> An assessment of the effectiveness of this important provision has to wait until the next incident.

What Japan sought to achieve in the trilateral investment treaty can be summarized as binding China to the rule of law, increasing legal stability, and predictability for Japanese investors as seen in the cases of national treatment, IPR, and ISDS. However, the contents of the treaty reveal that Japan made compromises with China. This is a factor that makes Japan more enthusiastic about TPP. Nevertheless, in spite of political and historical tensions that are not easily resolved, both economic cooperation arrangements have continued to elicit the cooperation of senior officials. Japan's expectations for trilateral cooperation remain positive for maintaining dialogue with its nearest neighbors over their shared economic interests, as a way of improving relations. In fact, in the midst of China and the ROK's vehement criticism of Abe's visit to the Yasukuni Shrine, the three countries' negotiators met to discuss the trilateral FTA in Malaysia on the occasion of RCEP negotiations in January 2014. They agreed that trade negotiations and political issues should be separated, adding that trilateral FTA negotiations would keep advancing,<sup>26</sup> reflecting Japan's approach of separating politics from economics.

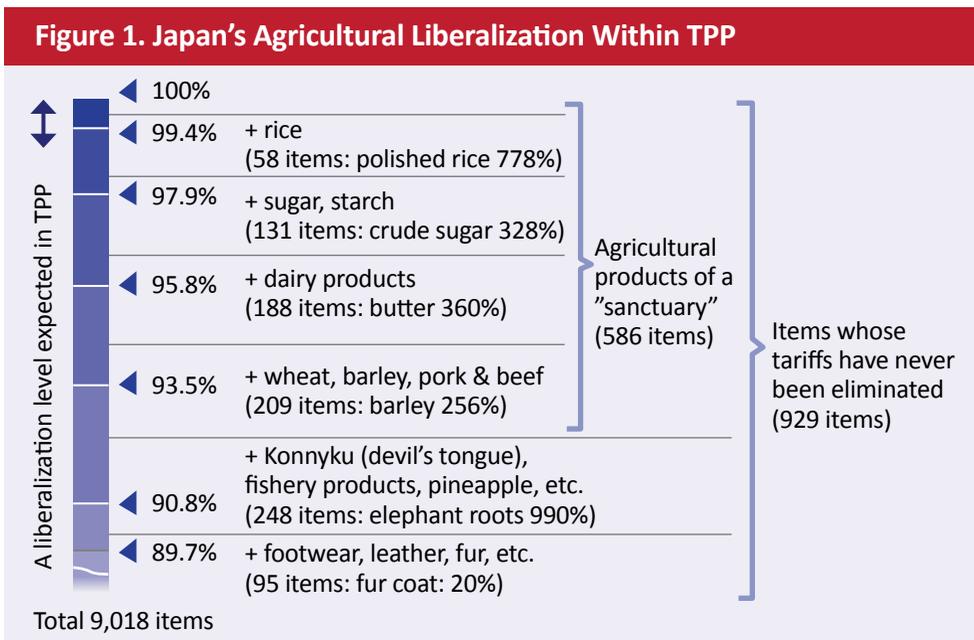
## REGIONAL INTEGRATION AND JAPAN'S AGRICULTURAL LIBERALIZATION CHALLENGE

Agricultural liberalization is the unresolved issue for Japan's further commitment to any regional integration framework or FTA. Japan has established FTAs with ASEAN and seven ASEAN member nations, but given its dominant trade and economic position it has an overwhelming advantage over partner countries in terms of bargaining power. As a result, in the majority of cases Japan has been able to shelve consideration of the elimination of its agricultural tariffs, and it has in return used its economic power to offer benefits in the form of economic cooperation. This pattern enabled Japan to conclude a series of bilateral FTAs that have avoided any promise of agricultural liberalization. Moreover, in FTAs concluded between Japan and ASEAN member nations, overall Japan has a lower percentage of items for which tariffs have been eliminated, despite the other party being a developing country. For this very reason, however, during negotiations over TPP blocs are likely to be formed

between the numerous exporting nations that share a common objective of gaining access to Japan’s agricultural markets.

The diagram below indicates the products that Japan has never touched in an FTA that it has signed, and most are agricultural products. Of the 930 items for which tariffs were not eliminated in FTAs Japan has so far concluded, 850 were agricultural, forestry, or fisheries products, including rice. Farmers and the Central Union of Agricultural Cooperatives (known as *Zenchu*), which have worked against FTAs in the past, have been particularly vehement in their stance against TPP as, in principle, it would eliminate all tariffs.<sup>27</sup> Abe, who made a decision on Japan’s participation in the wake of his talks with Obama in February 2013, has encountered strong resistance from his own LDP, which became adamant in calling for the complete protection of products categorized as “sanctuary.” Some LDP members urge the cabinet to follow the Diet resolution on Japan’s participation in the TPP negotiations, which stipulates that “sensitive agriculture, forestry and fisheries products—including rice, wheat and barley, beef and pork, dairy products, sugar and starch crops—are either to be excluded from the negotiations or to be subject to renegotiation in order to maintain sustainable domestic production. Even the gradual elimination of tariffs over a period of more than ten years is unacceptable.”<sup>28</sup> LDP Secretary General Ishiba Shigeru promised to protect these five sensitive products from tariff elimination by TPP in the course of the campaign for Upper House elections in July 2013.<sup>29</sup>

In TPP negotiations, nations who share some interest tend to form a coalition to realize it. Japan is being pressured to concede agricultural protection, including the “sanctuary” products, given the liberalization rates of the FTAs signed by TPP members such as the United States, Australia, and New Zealand, which range from 95 to 100 percent. Japan desperately needs farm reform in the process of signing TPP, and Japan is now preparing for eliminating tariffs on almost all fisheries as a part of it.<sup>30</sup>



Source: *Nihon Keisai Shimbun* (September 5, 2013)

Another major agricultural reform the Abe government seeks to implement in preparation for its commitment to the conclusion of TPP concerns *gentan*, curtailing rice production through a reduction in the acreage of rice paddies in exchange for subsidy payments. This system has been in place for more than 40 years to maintain a higher price of rice through limiting the crop. It sacrifices consumers' interests, while stabilizing rice farmers' income, especially for small-scale, part-time farmers who usually work in factories, retail shops, or local governments during the regular work week. This means that the portion contributed by agriculture in their total income is rather small, and that agricultural liberalization, especially in rice, would not deprive them of a primary source of income. In fact, their annual income is slightly, but consistently higher than that of average non-agricultural workers. *Gentan* can thus be regarded as a political tool for politicians to stably receive votes and funds from those part-time farmers at a time of local and national elections. Abe expressed his determination to carry out this agricultural reform in his keynote speech at the Davos Forum,<sup>31</sup> indicating that *gentan* would be abandoned five years from now. This means that the LDP may be able to soothe part-time rice farmers' resentment in the next elections of both the Upper House and Lower House—unlikely to be held for two and a half years—and not running the risk of losing their votes. This illustrates Abe's lukewarm commitment to farm reforms, anticipating the continued existence of the major obstacle to Japan's leadership in the multiple regional integration initiatives.

Given that market access is generally viewed as “the heart and soul of the trade agreement,” as Tim Groser, New Zealand trade minister explains,<sup>32</sup> the stalled bilateral negotiation on market access between Japan and the United States have served as the most serious hurdle for the conclusion of TPP. If this trend continued, Japan's strong resistance to tariff reductions or elimination in five “sanctuary” agricultural products, as well as America's resistance to proposals for the liberalization of the automobile sector, are possible reasons for negotiations bogging down.

To move forward the TPP market access negotiations with the United States, Japan appears to rely on the operational logic of the domino theory. Japan's best interest in this sense was to minimize the level of its agricultural liberalization, especially beef and pork products, for which the United States has strongly demanded to eliminate or substantially reduce tariffs, while gaining a timetable from the United States to lower current levels of tariffs on imports of passenger cars (2.5 percent) and light trucks (25 percent). Japan decided to complete a bilateral FTA with Australia, America's largest competitor over beef in Japan, ahead of the TPP by giving Australia preferential market access to its own beef market as a way for getting concessions from the United States during the bilateral market access negotiations. Under the agreement Japan promised Australia that the 38.5 percent tariff on *beef* from *Australia* would be scaled down to 19.5 percent for frozen and 30.5 percent for fresh meat. This Japanese tactic appeared to be effective as Wendy Cutler, Acting Deputy USTR, acknowledged that an Australia-Japan FTA deal would possibly “put U.S. agricultural exporters at a disadvantage in the Japanese market.”<sup>33</sup> Yet, the U.S.-Japan bilateral deal was not concluded and the joint statement of April 25, 2014 failed to include any sign of a breakthrough in the bilateral negotiations for TPP, despite the two ministers in charge of the trade negotiations unprecedentedly spending more than 40 hours together over a few weeks. A reason behind the failure of the domino logic is Japan's persistent hesitation

towards agricultural liberalization. *Japan's promised* tariff reduction on frozen *beef* is limited to 19.5 percent with gradual implementation over 18 years. That is not considered sufficient for American negotiators; a more substantial tariff cut under a shorter time frame was presumably needed.

The delay in TPP negotiations has also influenced the domino effect in regional integration in East Asia and the Pacific. Making two significant concessions to Japan with a view to promoting its preferred regional integration frameworks after finding potential harm to its trade strategy caused by Japan's participation in TPP, China is now taking a "see how it goes" approach due to the stalled TPP negotiations.<sup>34</sup> This may signify China's disinclination toward a regional integration framework involving Japan such as CJK FTA, consequently exerting a negative impact on Japan's "golden opportunity" in its regional integration strategy. Since China also finds it attractive to gain preferential market access to Japan's agricultural sector, one of the world's largest agricultural import markets, Japan's liberalization in this sector is a decisive step in moving forward the negotiations on both TPP and CJK FTA.

## CONCLUSION

After reviewing Japan's interest in and approach to TPP, RCEP, and CJK, this article concludes that they offer different potential benefits, given Japan's relatively unique economic structure in East Asia. Japan's markets and exports differ substantially from those of China and other countries of East Asia. It continues to specialize in high added-value commodity exports, its international-oriented business sectors have expressed a great deal of interest in the liberalization of services and investment in the region, its machinery and automobile companies have extended their production networks broadly across East Asia and the Pacific, and the strong competitiveness of its manufacturing products, as demonstrated by an average tariff rate of less than 3 percent at home, illustrates the openness of domestic markets. Given the trade and market features that Japan enjoys, the cost of non-participation in TPP would be high, failing to secure maximum trade and investment benefits as more countries sign on to form a "critical mass." Liberalization of the service and investment sectors, for example, is quite unlikely to make significant progress under RCEP and CJK FTA, partly because China and developing nations of ASEAN strongly resist this, which would require transparency about business activities in state-owned companies.

Japan has a significant volume of trade with major Asian countries such as China, India, Thailand, and Indonesia, which do not currently participate in TPP (South Korea announced its interest in joining in December 2013), and many Japanese companies have set up a wide range of production networks involving these countries. These non-TPP members in Asia tend to protect some of their key industries (e.g., China imposes a 25 percent tariff on automobiles); so progress in RCEP or CJK FTA is also important as a tool to open these key markets to Japanese exports. Accordingly, this complex profusion of regional integration initiatives presents a "golden opportunity" for the Japanese economy. The best scenario is obviously to conclude all of these agreements, increasing the coverage ratio of Japan's overall trade by regional integration partners, including the EU, from approximately 20 to 85 percent. This figure would surpass that of Korea. In summary, RCEP provides Japan a market expansion traditional mechanism through eliminating

higher tariffs imposed by its larger trading partners such as China, India, and Indonesia, which more heavily protect their markets, while TPP offers a rule-making, cutting-edge mechanism through establishing more developed-nation-oriented trade and investment rules. CJK has a distinctive function for Japan due to its frustrated relations with Korea and China over history and territory issues; a political management mechanism through enhancing ways for increasing mutual economic interdependence.

Yet, agricultural liberalization remains the largest barrier to Japan's leadership role in any of these regional integration frameworks, and its protective position over rice, sugar, pork/beef or dairy products, together with America's automobiles, have caused the delay in the TPPs market access negotiations. If Abe, who enjoys relatively high public support and does not need to hold national-level elections over the next few years, cannot carry out the elimination of tariffs on some, not all, agricultural products categorized as "sanctuary," there is little hope for Japan's regional integration policy.

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