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**ADB Working Paper Series**

**Negotiations for the Trans-Pacific  
Partnership Agreement: Evaluation  
and Implications for East Asian  
Regionalism**

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**Abstract**

The Trans-Pacific Partnership (TPP) agreement seems to have reached a crossroads: it could either be a building block toward achieving economic integration in Asia and the Pacific, or trigger the formation of two large trade blocs which will work independently of one another. When the Government of Japan announced its participation in the TPP negotiations in March 2013, the partnership began to attract greater interest from other East Asian countries. This paper analyzes the progress and major issues regarding the current TPP negotiations which are being led by the United States, and draws implications for East Asian economic integration. The paper argues that the TPP should be promoted for its economic value, not for geopolitical purposes. It should be open to all Asia and Pacific countries, including the People's Republic of China, the second-largest economy in the world and a growth engine for the world economy. The scope and coverage of the TPP should also be wide and comprehensive enough to induce a domino effect for economic integration in Asia and the Pacific.

**JEL Classification:** F15, F53, O53

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## 1. INTRODUCTION

Many bilateral free trade agreements (FTAs)—such as a Japan–Republic of Korea FTA, a People’s Republic of China (PRC)–Republic of Korea FTA, and the PRC–Japan–Republic of Korea (CJK) FTA—have been officially discussed since 2003. Recently, East Asian countries have faced a new option: the Trans-Pacific Partnership (TPP) agreement. The TPP has several merits for East Asian countries. Firstly, the United States (US) leads the negotiations for the trade bloc. Secondly, its membership covers both sides of the Pacific (as the title suggests). Thirdly, it could be a milestone in realizing the Bogor goal of an Asia–Pacific Economic Cooperation (APEC) FTA,<sup>1</sup> which is known as the FTA in Asia and the Pacific (FTAAP). In fact, all of the TPP members belong to APEC, and the TPP summit was held during the Hawaii APEC summit in November 2011. Fourthly, when Prime Minister Shinzo Abe announced that Japan would participate in the TPP negotiations in March 2012, the importance of the TPP was enhanced and the TPP began to attract greater interest from other East Asian countries.

If the TPP progresses in the context of the APEC FTA, as Lohman and Warshaw (2011) predict,<sup>2</sup> the opportunity cost of not participating in the TPP may be significant and countries in the region will consider the TPP as an intermediate stage for an APEC FTA. If this occurs, other countries will join the TPP negotiations. This process can be viewed as the domino effect in economic integration literature. On the other hand, there are some concerns that the TPP may hinder the progress of East Asian economic integration, and that it may also result in a new struggle for regional hegemony between the US and the PRC.<sup>3</sup> The current TPP set-up “will keep [the PRC] out in the cold for a very long time” (Wang 2011). Given the way that it is being prosecuted, the TPP may not end up having a substantial impact after all.<sup>4</sup> The TPP will not only be costly for the PRC, but it will also hinder the PRC’s partners in the region and throughout the global economy.<sup>5</sup>

This paper analyzes the progress and the major issues surrounding the current TPP negotiations, which are being led by the US, and also draws implications for East Asian economic integration. The key issues regarding development of the TPP might be the value of the TPP to the US and expansion of the membership for East Asian countries, even though the PRC will be excluded. Section 2 analyzes major issues regarding the TPP, and a quantitative assessment of the TPP is provided in section 3. The TPP is evaluated from the viewpoint of the US in section 4. Section 5 discusses the feasibility of Japan’s participation in the TPP, and section 6 assesses the impact of the TPP on the Korean economy. Finally, a conclusion and policy implications are presented in section 7.

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<sup>1</sup> APEC leaders at the 1994 summit in Bogor, Indonesia, agreed to the common goals of free and open trade and investment by 2010 for industrialized economies and 2020 for developing economies.

<sup>2</sup> See Lohman and Warshaw (2011) for more detailed discussion. Researchers of the Heritage Foundation argue that “The nine-nation TPP seeks to liberalize trade and investment among parties, drive reform efforts among APEC economies not yet part of the negotiations, and ultimately serve as the basis for an APEC-wide free trade area of the Asia-Pacific. All eyes at APEC will be on two TPP-related developments: the unveiling of a broad outline of the agreement to serve as a marker for continued negotiations and Japan’s widely anticipated decision on whether to join the talks.”

<sup>3</sup> Wang (2011) writes, “if the TPP is to become a ‘value-based’ national community, it is likely to descend into the containment of [the PRC]’s Cold War-style geopolitical tool.”

<sup>4</sup> Refer to Drysdale (2011) and section 3 of this paper regarding the economic effects of the TPP.

<sup>5</sup> Refer to Armstrong (2011) for the PRC’s exclusion from formation of the TPP.

## 2. THE STATUS OF TRANS-PACIFIC PARTNERSHIP NEGOTIATIONS AND MAJOR SENSITIVE ISSUES

In order to predict the prospects for the TPP, this section analyzes the outline of the TPP negotiations, the progress of negotiations on market access, and the key sensitive issues. One of the most difficult factors in concluding an agreement is market access, including agriculture. Unless a trade agreement does not adopt broad market access, economic impacts will be mild, which will make it difficult for members to attract political support. A key precondition for achieving a high-quality FTA is political leadership. The TPP has nine members, implying the need for more powerful leadership if a trade agreement with comprehensive and broad coverage is to be achieved.

### 2.1 Outline of the Trans-Pacific Partnership

In March 2006, Brunei Darussalam, Chile, New Zealand, and Singapore introduced a four-way FTA, the Pacific-4 (P4).<sup>6</sup> Though the economic scale of the P4 countries is small, they stated their vision to develop the agreement as a basis for the future larger pan-Pacific trade bloc, and decided to implement trade liberalization between the member countries by 2015.

In 2008, five countries—the US, Australia, Malaysia, Peru, and Viet Nam—stated their intention to join the existing P4 agreement, and the nine member countries (TPP9—Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, United States, Viet Nam) agreed to change the title of the agreement to the TPP to reflect the expanded membership. The P4 member countries signed an agreement for a high level of liberalization of goods and services, but the trade bloc did not draw a lot of attention because the member countries were all small nations. However, when the US expressed its intention to join, the bloc was considered to have implications for Asia and Pacific economic integration.

**Table 1: Trans-Pacific Partnership Member Countries as of 2011**

Country		Nominal GDP <sup>a</sup> (\$ billion)	Population (‘000)	Area (‘000 km <sup>2</sup> )
P4 member countries	Singapore	2,227	5,170 <sup>b</sup>	7
	Chile	2,033	17,190	760
	New Zealand	1,404 <sup>b</sup>	4,370	270
	Brunei Darussalam	130 <sup>b</sup>	420	6
New member countries (as of 2010)	United States	146,578	309,990	9,630
	Australia	12,355	22,230	7,700
	Malaysia	2,380	28,250	330
	Peru	1,528	29,550	1,290
	Viet Nam	1,036	88,260	330

P4 = Pacific-4, GDP = gross domestic product, km<sup>2</sup> = square kilometer.

Note: <sup>a</sup> Nominal GDP and population as of 2010.

<sup>b</sup> Estimated figure as of 2010.

Source: IMF *World Economic Outlook* (WEO), United Nations statistics.

<sup>6</sup> The original name was the Trans-Pacific Strategic Economic Partnership Agreement (P4), which came into force in May 2006 in New Zealand and Singapore, in November 2006 in Chile, and in July 2009 in Brunei Darussalam.

Then President Bush announced that the US would join the P4 negotiations for financial services and investment in February 2008. He also announced negotiations for the US to accede into the P4 and invited Australia, Peru, and Viet Nam to join TPP negotiations 7 months later. After President Obama took office in early 2009, the TPP became a political issue, and the first round of TPP negotiations, scheduled for 30 March 2009, was cancelled. After US Congressional hearings and extensive consultations with the US Congress and stakeholders, the first round of TPP negotiations was held on 15–19 March 2010 in Melbourne, Australia.

The first round of negotiations was between the P4 countries and four potential member countries: the US, Australia, Peru, and Viet Nam. When Malaysia joined the negotiations in September 2010, there were nine countries (TPP9) participating in the TPP negotiations. At the Vladivostok APEC leaders' meeting in 2012, three additional countries—Canada, Mexico, and Japan—expressed their interest in becoming TPP members. Canada and Mexico were approved by the TPP9 members in late 2012, and Japan's participation was approved in April 2013. Since Japan has joined the TPP negotiations, the trade bloc has 12 members (TPP12), all of which are members of APEC. The Republic of Korea was officially invited to join the TPP negotiations by the US in December 2010 (*Dong-A Ilbo* 2010). The official position of the country is not to join, while it continues to promote bilateral FTAs.

The participating countries set a tentative deadline of completing negotiations on the 24 chapters of the TPP before the 2011 APEC summit meeting (held in November in Hawaii). They scheduled five 2-week rounds of intense negotiations in 2011. Although they reached an outline of the agreement, many sensitive issues remained unsettled, and the TPP was not able to hold a ceremony during the APEC summit. However, the TPP did gain significant attention because Japan, Canada, and Mexico showed interest in joining the TPP just before the summit.

**Table 2: Trans-Pacific Partnership Negotiation Progress**

Year	Progress
2006	The P4 agreement became effective.
2008	The US announced its intention to participate in the TPP negotiations.
2009	The US decided to join the TPP negotiations.
2010	P4 member countries and an additional four countries (the US, Australia, Peru, and Viet Nam) began TPP negotiations (March, in Australia). Malaysia joined (October).
2011	February, the fifth round of negotiations (in Chile). March, the sixth round (in Singapore). June, the seventh round (in Viet Nam). September, the eighth round (in the US). October, the ninth round (in Peru). Japan, Canada, and Mexico showed intentions of joining the TPP.

P4 = Pacific-4; TPP = Trans-Pacific Partnership, US = United States.

Source: I. Cheong. 2012. *Ataegiyok Gudae Muyokhyupjungui Choigeun Donghyang* (Recent Development of Large Trade Blocs in the Asia-Pacific Region). *Working Paper*. JRI, Inha University. 20 December. p. 12.



The TPP pursues extensive liberalization in goods and services, and comprehensive coverage including trade, services, investment, trade rules, government procurement, and other areas. However, there are still several areas of extreme conflict for some of the member countries which must be negotiated before additional progress can be made. For example, Viet Nam and Malaysia feel the burden of opening their markets for goods and services, and Australia has a political problem regarding investor-state dispute settlement (ISDS), especially with regards to the US participating in FTAs. While the US has insisted that the TPP should have the same level and quality as the Republic of Korea–US (KORUS) FTA, the P4 member countries have been adamant about pursuing the existing P4 agreement. These problem areas have hindered the negotiations so far.

Though the TPP member countries have set a goal of establishing the “21st-century Trans-Pacific Partnership agreement,” it is not likely that they will accede to an agreement comparable to the KORUS FTA in the areas of liberalization and coverage. It was impossible for TPP members to accomplish the first goal by November 2011, and increasing the number of member countries will add to the difficulties regarding the negotiations. Without strong leadership and/or close cooperation among members, it will be difficult for the TPP to conclude a high-quality agreement in a short time.

## 2.2 Negotiation Progress Regarding Goods Concession

It is difficult to predict the outline of the negotiations thus far, since they have been proceeding and no public information is currently available. According to various sources involved with the TPP negotiations,<sup>7</sup> the member countries have successfully agreed to draw the number of chapters and other major structures, but the specific contents and sensitive issues were not extensively negotiated, even in early 2013. The TPP negotiations are progressing slowly and producing partial outcomes, but the core issues have not yet been agreed. The negotiations are at an intermediate stage and a consolidated text of the agreement is currently being prepared, though there is negotiation over market access and concessions. Moreover, areas such as investment, services, ISDS, labor, environment, and intellectual property rights are fairly controversial issues for some member countries and the TPP agreement will be hard to attain.

The goods sector is being negotiated based on bilateral negotiation, and the other sectors are being discussed by making a single version of commitments that will apply to all member countries. The single version of commitments is similar to a multilateral agreement in that one country applies the version to the other eight member countries.

The concession of goods is progressing differently, depending on the existence of current bilateral FTAs. If an FTA exists among the TPP member countries, a goods concession of the FTA will be adopted for the liberalization schedule of the TPP. Otherwise, non-FTA countries are supposed to negotiate goods concessions bilaterally in the form of a request or an offer. In Viet Nam’s case, the country must reach an agreement with the US and Peru, but does not need to negotiate with countries for market access for goods if it has already concluded an FTA with that country. The US is currently negotiating with Brunei Darussalam, Malaysia, New Zealand, and Viet Nam. If the Republic of Korea joins the TPP negotiations, it can expect similar effects, as if the Republic of Korea–Australia FTA and the Republic of Korea–New Zealand FTA became effective with regard to only the goods sector.

The TPP member countries which have not concluded FTAs are currently focusing on negotiating for goods concession, implying that market access for the existing FTAs will be

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<sup>7</sup> The author interviewed several participants in the TPP negotiation and advisors to their governments. Some of them are high-ranked government officials who do not want their names to appear in this academic paper.

maintained regardless of the quality of the liberalization scheme. For example, Malaysia and Viet Nam have poor market access of goods in FTAs with Australia and New Zealand. The TPP agreed to two-track approaches for goods concession in an attempt to reduce the schedule and burden of the negotiations, but this may produce a serious problem in the form of decreasing the value of the TPP. That is, this may dilute one of the primary goals of the TPP, which is to merge the region into one large integrated market.

During the early negotiations, the US proposed to set up a modality for the goods sector, but the US has not demonstrated its leadership because of opposition from the other countries and its internal limits. The US began to talk about the TPP without first getting trade promotion authority from Congress, so it could not be confident about its position regarding market access. As its negotiator has not had detailed consultations with Congress, the US has only been negotiating uncontroversial issues. The US has also avoided negotiations related to sensitive issues, such as labor and the environment, which the Republican Party and the Democratic Party might disagree on.

### 2.3 Sensitive Issues

Predictably, many TPP countries face difficulties with the negotiations because the talks are fraught with sensitive issues. For Australia and Viet Nam, for example, the ISDS mechanisms are politically sensitive, and the US has taken a strong stand on this issue. Viet Nam is having difficulties regarding negotiations in almost every sector, particularly the areas of services, investment, government procurement, protection of intellectual property rights, ISDS, environment, and labor, in addition to political issues such as the protection of human rights in relation to the US. Since many countries such as the US, Australia, and New Zealand want to negotiate for concessions of services and investment in a way of negative listings, Viet Nam officially decided to negotiate in positive listings.<sup>8</sup> There has not been internal consensus on the negative listings approach yet, which can be a fundamental problem with other countries.

Although the ruling Labor Party in Australia is fairly flexible with regard to ISDS, it is still a politically sensitive issue because of the exclusion of ISDS from the previous US–Australia FTA. Meanwhile, the US has asked Australia to include ISDS in the TPP, arguing that the US Congress will not ratify the TPP without an ISDS clause. Viet Nam is strongly opposed to ISDS but has not presented its opinion other than going along with Australia's opposition. Some countries argue that it must be included in the agreement, emphasizing in a bond of sympathy that no countries can be exempt. While TPP countries are currently at a crossroads regarding whether to delete ISDS or to accept it despite domestic opposition, ISDS will be the biggest obstruction delaying an eventual settlement of the TPP negotiations, and it could turn out to be the ultimate deal breaker.<sup>9</sup> Recently, ISDS was one of the hot issues in Japan's consideration of TPP negotiations, and it is known that Japan will not include the clause in the TPP.

Viet Nam's primary concern regarding TPP participation is to secure entry into the US export market and improve security relations with the US. However, Viet Nam cannot actively participate in the negotiations because of insufficient human resources to thoroughly analyze the level of agreement, the contents as well as the ripple effect, and the sensitive issues. Since the negotiations are not significantly advancing and the related issues are not being delivered to

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<sup>8</sup> There are two approaches to making commitments for liberalizing services sectors. A negative listing means liberalizing all sectors except the sectors specified in the list, while a positive listing means liberalizing only those sectors in the list.

<sup>9</sup> Recently, a foreign-affiliated tobacco company sued the Government of Australia based on the ISDS which was written into the Australia–Hong Kong, China FTA. This has been a politically sensitive issue for Australia.

the country in sufficient detail to provoke active discussion, there seems to be little domestic opposition for now. But it is expected that Viet Nam will face domestic resistance on many issues such as the opening of its market, government procurement, ISDS, and protection of intellectual property rights when the government needs to ratify the agreement (if the TPP is concluded).

New Zealand is one of the countries participating most actively and is encouraging other countries to be more active regarding negotiations. However, New Zealand seems to be having trouble negotiating an agreement with the US and Viet Nam. The sensitive issue between the US and New Zealand is the opening of the dairy products market. Although both countries are currently negotiating towards an agreement based on the KORUS FTA and the PRC–New Zealand FTA, the differences between the positions of the two countries have been huge thus far. However, New Zealand’s negotiations regarding goods concession with Viet Nam, which were controversial in the early days of the negotiations, have advanced somewhat because New Zealand suggested an initiative granting special treatment and development support to Viet Nam.

Although the TPP presented the slogan “21st-century Trans-Pacific Partnership agreement” when it was introduced, negotiations have progressed poorly. TPP negotiators now have their doubts that ratification will be granted by the US Congress. Although they could agree to market access and World Trade Organization (WTO)-plus measures in some sectors,<sup>10</sup> it will most likely not be enough to persuade Congress to ratify the agreement. Congress will pay particular attention to ISDS, human rights, and intellectual property rights in addition to estimates of economic effects. If it demands a revision of the agreement, as it did for the KORUS FTA in 2007 and 2010, it will most likely end in a deadlock for the TPP, since it will be very difficult for other countries to accept.

### **3. ASSESSMENT OF THE ECONOMIC EFFECTS OF THE TRANS-PACIFIC PARTNERSHIP<sup>11</sup>**

#### **3.1 Overestimation in Previous Studies**

The economic impact of forming region-wide FTAs has been estimated in many studies, such as Urata and Kiyota (2005); Kitwiwattanachai et al. (2010); APEC (2010); Todsadee, Kameyama, and Ito (2012); and Petri, Plummer, and Zhai (2011). These studies estimated the economic impact of large trading blocs in East Asia and Asia and the Pacific, and reported gross domestic product (GDP) gains of 2%–3% for many countries. However, these previous studies did not take into account the fact that East Asian countries had implemented 99 FTAs as of September 2012, resulting in overestimation of the impact of the TPP.

As seen in Figure 1, 99 FTAs under current implementation could be marked in the matrix of the Association of Southeast Asian Nations (ASEAN) (Brunei Darussalam, Malaysia, Singapore, Viet Nam, and the rest of ASEAN [RASEAN]—Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Thailand), the Republic of Korea, the PRC, Japan, Australia, New Zealand, and India. A blank column indicates that no FTA has been concluded. Figure 1 demonstrates that, because of implementation of 99 FTAs, there are currently more countries that trade with each other without tariff barriers than there are countries that are subject to tariffs. The overestimation

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<sup>10</sup> “WTO-plus” means more commitments than those of the current WTO system.

<sup>11</sup> Most of this section is taken from Cheong and Tongzou (2013).

problem in previous studies can be noted because these have generally neglected existing FTAs in estimating the economic impact of the TPP.

**Figure 1: Free Trade Agreements Among Economies in Asia and the Pacific**

	Chile	NZ	SG	Brun	US	Austr	Peru	Malay	Viet	Canada	Mex	Jap	PRC	Korea	India	RASEAN
Chile		FTA	FTA	FTA	FTA	FTA	FTA			FTA	FTA	FTA	FTA	FTA	FTA	
NZ	FTA	---	FTA	FTA		FTA		FTA	FTA				FTA			FTA
SG	FTA	FTA	---	FTA	FTA	FTA	FTA	FTA	FTA			FTA	FTA	FTA	FTA	FTA
Brun	FTA	FTA	FTA	---		FTA		FTA	FTA			FTA	FTA	FTA	FTA	FTA
US	FTA		FTA		---	FTA	FTA			FTA	FTA				FTA	
Austr	FTA	FTA	FTA	FTA	FTA	---		FTA	FTA							FTA
Peru	FTA		FTA		FTA		---			FTA	FTA	FTA	FTA	FTA		
Malay		FTA	FTA	FTA		FTA		---	FTA			FTA	FTA	FTA	FTA	FTA
Viet		FTA	FTA	FTA		FTA		FTA	---			FTA	FTA	FTA	FTA	FTA
Canada	FTA				FTA		FTA			---	FTA					
Mex	FTA				FTA		FTA			FTA	---	FTA				
Jap	FTA		FTA	FTA			FTA	FTA	FTA		FTA	---			FTA	FTA
PRC	FTA	FTA	FTA	FTA			FTA	FTA	FTA				---			FTA
Korea	FTA		FTA	FTA	FTA		FTA	FTA	FTA					---	FTA	FTA
India	FTA		FTA	FTA				FTA	FTA			FTA	FTA	FTA	---	FTA
RASEAN		FTA	FTA	FTA		FTA		FTA	FTA			FTA	FTA	FTA	FTA	---

Note: NZ = New Zealand; SG = Singapore; Brun = Brunei Darussalam; Austr = Australia; Malay = Malaysia; Mex = Mexico; Jap = Japan; RASEAN = Cambodia, Indonesia, Lao People’s Democratic Republic, Myanmar, Philippines, Thailand.

Source: Cheong and Tongzon (2013), Figure 3.

### 3.2 Impact of the Trans-Pacific Partnership

The impact of forming the TPP under three scenarios was estimated using the GDyn, a recursive dynamic computable general equilibrium (CGE) model developed by the Global Trade Analysis Project (GTAP).<sup>12</sup> The three scenarios are TPP9 (nine TPP members), TPP12 (12 members), and TPP12+PRC (13 members). The simulation model employs the GTAP 8 database, which can be fully linked to the model with some modifications.<sup>13</sup> A dynamic CGE model is especially suitable for analyzing the spread of the impact of a policy change.<sup>14</sup> The starting point of the simulation is 2013, and it is designed in such a way that the impact can be estimated annually and accumulatively through 2027.

The simulation results indicate that trade liberalization through a newly formed TPP9 not only has little effect on the GDP of the disaggregated countries and/or regions but even has a negative effect on the GDP of some member countries. Non-TPP countries are likely to face economic losses because of trade diversions. If the number of TPP member countries increases, they can expect an overall increase in economic effects, but larger economic losses from sharing preferential margins with new members are a possibility. When the PRC joins the TPP, substantial economic gains are expected for most countries in the simulation.

Most of the member countries experience small economic gains under the TPP9 bloc, but there is a slight decrease in Australia’s GDP. In addition, Malaysia and Viet Nam, which have no bilateral FTAs with the US, receive modest economic benefits, and the trade agreement has

<sup>12</sup> For an introduction to the structure of the GTAP model, see Hertel (1997).

<sup>13</sup> The base year of the GTAP 8 database is 2007. For more information on the GTAP model and database, see <http://www.gtap.org/>.

<sup>14</sup> For more further details on the dynamic GTAP model, see Ianchovichina and Walmsley (2012).

little effect on Chile and the US. This is because Chile already has bilateral FTAs with many TPP countries, and the GDP of the US is not likely to be influenced by the TPP, which would account for a very small portion of the total trade volume of the US. Canada and Mexico already have tariff-free access to the US market through the North American Free Trade Agreement (NAFTA) and thus experience an unavoidable loss from the launch of the TPP9. The GDP of non-TPP countries such as the PRC, Japan, the Republic of Korea, and RASEAN members decreases slightly. Note that RASEAN member countries, which engage in free trade among ASEAN countries, face increased competition in some ASEAN markets with non-ASEAN TPP countries, and that non-TPP ASEAN countries face losses from implementation of the TPP.

**Table 3: Impact of the Trans-Pacific Partnership on the Gross Domestic Product of Economies in Asia and the Pacific**

Country/Region	(%)		
	TPP9	TPP12	TPP12+PRC
New Zealand	0.17	0.97	0.60
Chile	0.01	(0.13)	(2.40)
Peru	0.27	(0.04)	(0.35)
Singapore	0.41	0.48	(0.79)
United States	0.01	0.00	0.45
Australia	(0.01)	0.22	0.23
Malaysia	0.71	0.70	(0.24)
Viet Nam	0.29	0.18	0.08
Canada	(0.04)	0.02	(0.34)
Mexico	(0.13)	0.90	1.12
Japan	(0.01)	0.21	0.53
Korea, Rep. of	(0.03)	(0.11)	(1.73)
PRC	(0.03)	(0.11)	4.51
India	(0.01)	(0.05)	(0.38)
RASEAN	(0.06)	(0.37)	(1.59)
EU	(0.01)	(0.04)	(0.33)
ROW	(0.02)	(0.07)	(0.57)

( ) = negative value. PRC = People's Republic of China; EU = European Union; RASEAN = Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Philippines, Thailand; ROW = rest of world; TPP9 = Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, United States, Viet Nam; TPP12 = Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Viet Nam.

Source: Cheong and Tongzon (2013).

Canada, Mexico, and Japan experience economic benefits from their participation in the TPP12. Although the Obama administration wants Japan to participate in TPP negotiations, the US gains less in terms of GDP under the TPP12, which includes Japan. This result can be explained as follows: Although Japan has one of the lowest average tariff rates in the world, it is one of the world's most competitive countries. In addition, it should be noted that the US has to share its favored position in the market with other NAFTA countries if Japan becomes a member. Among TTP12 countries, Mexico experiences the largest increase in GDP (0.90%), New Zealand has an increase of 0.70%, and Malaysia 0.97%. This suggests that these three countries are likely to aggressively pursue expansion of the TPP to 12 countries, although this contradicts the economic logic of the US.

Economic losses for nonmember countries are greater under the TPP12 scenario (0.11%–0.37%) than under the TPP9 scenario (0.03%–0.06%). RASEAN countries such as Thailand, Indonesia, and the Philippines are the biggest losers under the expansion of the TPP. These results suggest that the losses of RASEAN countries increase to 0.37% of GDP as a subregion of ASEAN. This implies that these countries are likely to insist on strengthening the centrality of ASEAN and promoting the Regional Comprehensive Economic Partnership (RCEP) as a major policy option for ASEAN countries.

The participation of the PRC in the TPP has favorable as well as unfavorable effects on TPP member countries. The biggest winner is the PRC itself under the TPP12+PRC scenario (a 4.51% increase in GDP), and the GDP of the US also improves by 0.45% because of PRC participation. If the US evaluates the merits of the TPP based only on economic logic, the result of the quantitative analysis suggests that it is important to encourage the PRC, not Japan, to participate. In addition, participation of the PRC reduces the GDP of Chile, Singapore, Peru, Canada, and Malaysia because they have to share the US market with the PRC. Although Canada benefits under the TPP12 scenario, it loses under the other two scenarios, particularly under the TPP12+PRC scenario because of equal treatment for PRC exports in the US market.

The TPP12+PRC scenario is highly unlikely because it is difficult for the PRC to satisfy the contents of the TPP under current negotiation,<sup>15</sup> and based on the simulation results, a number of other countries may not welcome the PRC's participation. However, if this scenario is realized, the results imply that the Republic of Korea and RASEAN countries, which depend heavily on the PRC market, have no choice but to seek participation in the TPP to prevent declines in GDP by 1.73% (Republic of Korea) and 1.59% (RASEAN).

## **4. EVALUATION OF UNITED STATES PARTICIPATION IN THE TRANS-PACIFIC PARTNERSHIP**

In a February 2008 Democratic Party debate, then presidential candidate Barack Obama mentioned renegotiation of the NAFTA, and criticized the FTA with the Republic of Korea (KORUS FTA), saying it was "bad for American workers." One year later, the Obama administration announced its intention to join the TPP negotiation. Is this for economic gains in order to create jobs, or a countermeasure to cope with the rise of the PRC at a time when there was talk of a "Group of Two" (G2) relationship between the US and the PRC? This section analyzes the issues from the US viewpoint.

### **4.1 Background for Participation**

The motives for the US interest in the P4 negotiations are economic and geopolitical. The Office of the United States Trade Representative (2009) states that

the TPP will serve to strengthen US trade and investment ties to the Trans-Pacific region, which is a priority given the economic significance of the region to the United States now and in the future..... The TPP will also facilitate trade in the Trans-Pacific region, rationalize existing agreements, and support the multilateral trade agenda. In

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<sup>15</sup> According to Armstrong (2011), if the TPP proceeds based on the terms being set by the US, it may be very difficult for [the PRC] to join: "The US may drive the region apart with the systematic exclusion of nonmembers, including [the PRC]..... [the PRC] would then have to join the TPP on US terms as the TPP has now become a creature fashioned largely by Washington."

addition, it could serve as a vehicle for achieving the long-term APEC objective of generating a Free Trade Area in the Asia-Pacific.

The Obama administration's poor economic performance and its lethargy regarding trade policies has been met with criticism from the public, even though Barack Obama was elected with his criticism of the Bush administration's active and open trade policies, and his promise of refusal of the KORUS FTA. To respond to the criticism, the Obama administration has endeavored to examine TPP participation, with the long-term vision of materializing the APEC Bogor Goal (the concept of the FTAAP) by expanding the P4 for the TPP.

Geopolitical considerations are linked to the US containment policy regarding the PRC, in that

the US will vigorously promote the Trans-Pacific Partnership Agreement (TPP) in order to exclude [the PRC]. This situation is very strange. However, when put into geopolitical considerations, it is not very surprising since the TPP is on a much larger scale part of the "Empire Strikes Back". The United States re-engagement with Asia, and its attempting to address or contain a rising [PRC] are both attempts to consolidate its own dominance in the region. (*Straits Times* 2011)

Yet if the TPP proceeds on the terms being set by the US, it will be very difficult for [the PRC] to join, and the TPP itself, according to Christopher Findlay [of Adelaide University, Australia], may "drive the region apart with the systematic exclusion of nonmembers, including [the PRC]." This wedge through the middle of the Pacific will be political as well as economic. [The PRC] would have to join the TPP on US terms as the TPP has now become a creature fashioned largely by Washington." (Armstrong 2011)

Reacting to the US policy, the PRC reconfirmed its own naval drills in the Pacific and has been active in promoting an FTA with the Republic of Korea and trying to revive talks on a PRC–Japan–Republic of Korea (CJK) FTA in order to counterbalance the TPP. Although the real intention of the US regarding APEC trade liberalization has not been revealed, the US might pursue the TPP as a countermeasure for the CJK FTA, the ASEAN+3 (CJK) FTA, or the ASEAN+6 (CJK, Australia, New Zealand, India) FTA, which have been discussed in recent years, considering the fact that the US might be excluded from these agreements. The PRC has been a leader in establishing East Asian trading blocs, and this situation provided the US with a signal that PRC-centered economic integration in East Asia might be a threat to US interests. Based on this recognition, the US is promoting the TPP while excluding the PRC. This implies that the two super powers—the US and the PRC—will draw a line in Asia and the Pacific, which will disturb East Asian regional economic integration in the long run.

## 4.2 Evaluation of the Trans-Pacific Partnership in the United States

When President Barack Obama mentioned participation in the TPP during the 2009 APEC summit meeting in Singapore, international attention for the idea greatly increased. However, a bumpy road lay ahead for the TPP domestically. Despite the fact that President Obama officially informed US Congress of the US participation in TPP negotiations on 14 December 2009, an economic assessment of the TPP is still controversial. According to Kim (2011), the US administration underlined the TPP as "the most powerful measure to merge the Asia-Pacific economy" and "the ring to connect the US and the fastest-growing regions in the world." However, the anti-TPP group's opinions are as strong as those of the administration. Although the will of the US to encourage trade liberalization is admirable,<sup>16</sup> the TPP is grandiose without practical assessment of economic impacts. In addition, it was expected that the negotiation

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<sup>16</sup> The TPP could be understood as the extension of the US FTA network (Kim 2011).

process would be turbulent and that a substantially beneficial outcome of the negotiations would be almost impossible in the end.<sup>17</sup>

As the situations of the new member countries are all different (the US is the biggest economy with the most open trading regime, Viet Nam is a socialist country with a large public sector, and Australia and Peru are exporters of agricultural products), it is clear that conclusion of the TPP negotiations between the existing countries and the newly joined countries will not be easy. If Japan, Canada, and Mexico officially join the TPP negotiations, it will make the negotiations more complex. Based on the political sentiment of the Democratic Party in the US Congress regarding FTA issues, Viet Nam's participation will make the negotiations much more difficult. The issues of labor standards and intellectual property rights have been problematic during US negotiations with Viet Nam.

The negotiations have also been experiencing difficulties regarding the ISDS issue with Australia, and the dairy product issue with New Zealand. The US trade representative will take some time to reach a full settlement, but the negotiations will take much longer than this when three additional members join. Moreover, it will not be easy to coordinate all of the different opinions from the interested groups even within the US. For example, while US pharmaceutical companies insist on the strengthening of intellectual property rights, Oxfam criticizes this idea because it feels that it will raise the price of medicine in foreign countries. While the US cotton industry insists on a strict "yarn-forward" rule of origin, the US Chamber of Commerce and Industry and Walmart want less restrictive rules. With regard to accepting Japan as a new member, Detroit vehicle makers are urging the Government of the US to reject Japan's bid (Palmer 2012). Unlike other TPP members, it is expected that the Government of the US needs to get permission from Congress to allow Japan to participate in the TPP negotiations.

Even if the US participated in the TPP negotiations, diverse positions held across industries and the political spectrum might delay ratification of the TPP by Congress. Above all, if the negotiations are concluded without close consultations with Congressional leaders, this will lead to a significantly controversial problem as long as Congress' Trade Promotion Authority has not been given to the administration, and Congress evokes its legal right to ask for correction of the negotiated contents. Moreover, during the ratification process, serious political issues will inevitably arise because of Viet Nam's lack of human rights laws. The fact that the US is currently implementing bilateral FTAs with Australia, Chile, and Singapore will not bring extra economic gains to the country. These will also not force the Congress to ratify the TPP, even if the negotiations are concluded (Cheong 2012).

The administration of US President Barack Obama adopted re-engagement with East Asia as foreign policy, with the title of "Pivot to Asia", placing substantial importance on geopolitical factors of the TPP in coping with the rise of the PRC and the leadership of the PRC in East Asian economic integration (Emmerson 2012). This point is found in several articles.<sup>18</sup> Claiming the TPP to be the cornerstone for economic integration in Asia and the Pacific, the US invited many countries—such as Australia, Canada, Japan, the Republic of Korea, Mexico, Viet Nam, and others—but not the PRC.<sup>19</sup> The intentional exclusion of the PRC from the TPP may not be compatible with the interests of the US, since the US approach to the TPP would induce the

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<sup>17</sup> Regarding this pessimistic viewpoint on the TPP, refer to Volberding (2010).

<sup>18</sup> Refer to Kang (2011: 6–7) and Armstrong (2011). Armstrong says, "the TPP has been supported by two prominent US trade policy figures, Fred Bergsten and Jeffrey Schott of the Petersen Institute of International Economics, as a way, they say, for the US to engage in East Asia."

<sup>19</sup> Chen Deming, minister of commerce for the PRC, said that "[the PRC] has not been invited for the TPP. If invited, [the PRC] will review its participation." (*Xianggangwenhuibao*. 2011. "Zhongguo waijiaobu chanmingdui TPP lichang" [the PRC's position on TPP]. 15 November.)



PRC to speed up the PRC-centered regional bloc in East Asia.<sup>20</sup> *The Diplomat* (2011), a Japanese magazine, carried an article which gives three reasons why the US cannot effectively isolate the PRC from East Asia. First, the PRC is too large to be contained. Second, the PRC is one of the biggest regional players in economic terms, and East Asian countries have incentives for closer links with the PRC. Third, a power balance in East Asia is preferred to a single power in the region.<sup>21</sup>

The US Congress usually considers the economic effects or political considerations intensively before it ratifies an FTA. The TPP does not seem to be plausible in an economic context and also contains geopolitical implications. In summary, the present TPP is not very likely to be positively assessed and passed by the present US Congress.

## 5. JAPAN'S PARTICIPATION IN THE TRANS-PACIFIC PARTNERSHIP

Except for the US, many of the TPP countries are small to medium-sized economies which are economically small when compared with other countries in Asia and the Pacific. For these reasons, some TPP member countries are expecting Japan to join, since the Government of Japan has shown concern about its participation in the TPP negotiations since the second half of 2010. However, the Government of Japan announced its intention to participate in TPP negotiation several times under Japanese democratic ruling, but this did not happen.<sup>22</sup> Although the current Abe administration declared its intention to participate, it is not clear whether Japan will be active in the negotiations because domestic factors are deferring a political decision regarding the TPP.<sup>23</sup> This section reviews the background of Japan's participation in the TPP, and discusses the changes which have occurred in the Japanese trade policy system, which will give some insights into the prospects for the TPP negotiations.

### 5.1 Background

Former Prime Minister Naoto Kan "asserted that the impact of joining TPP, along with progress on other small trade initiatives, would constitute the third opening of Japan" (Takashi 2012: 1). The Kan administration understood that the TPP is a way of keeping up with rising regionalism in East Asia in a short period of time. Since the TPP is an agreement between nine Asia and Pacific countries, Japan's disadvantageous position regarding regionalism could be turned around in a single stroke. At the same time, Japan also has a chance to play a leading role in the various forms of regional trading blocs that APEC and other organizations have discussed.<sup>24</sup>

The pro-TPP movement in Japan points out the merits of the TPP as a countermeasure to speedy progress of the Republic of Korea in implementing FTAs with major trading partners such as the European Union (EU) and the US. While 36% of overall trade of the Republic of

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<sup>20</sup> The *Straits Times* writes, "[the PRC] is unlikely to be calm and accept the US-led containment of the fate of the TPP and will take counter-measures." (*Straits Times* 2011)

<sup>21</sup> Refer to *The Diplomat* (2011) regarding why the US cannot contain the PRC.

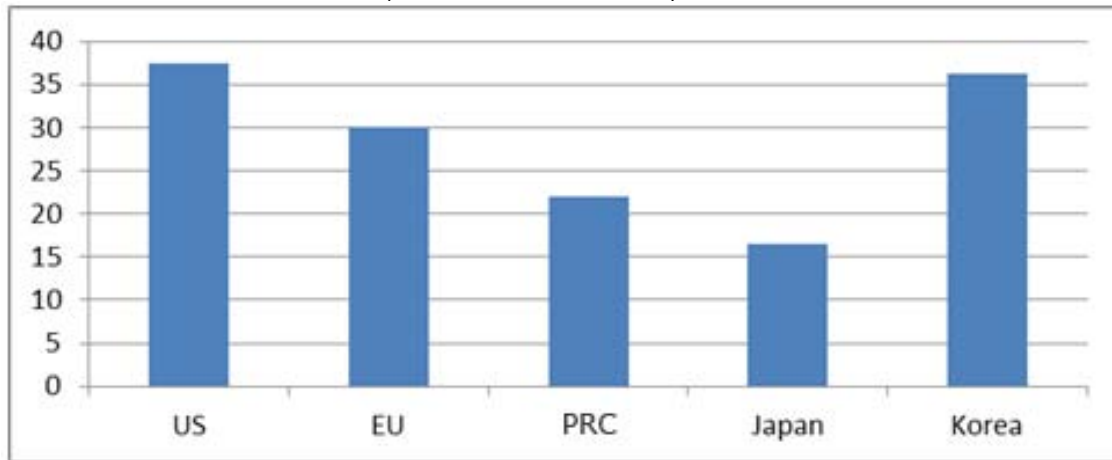
<sup>22</sup> Refer to Guen (2011: 4–7) regarding Japan's position on TPP participation.

<sup>23</sup> Professor Shujiro Urata mentioned that it is not easy for Japan to get the permission from the US Congress regarding the TPP, arguing that Japan should organize a national agency to manage TPP issues. (Remarks in the ERINA annual conference, Niigata, Japan, 12 March 2013.)

<sup>24</sup> To join the TPP negotiations, consent of the nine member countries is needed. Most TPP member countries are in favor of Japan's participation, although the automobile industry in the US objects.

Korea is carried out with FTA countries, the figure for Japan’s trade is only 17%, which means that Japanese companies are currently operating at a competitive disadvantage in terms of tariff burdens on their exports. Because a TPP including the US means that Japan will establish an FTA with the US, Japan expects the same effects as a US–Japan FTA from participation in the TPP, and it should be a useful countermeasure to the KORUS FTA, which became effective in March 2012.

**Figure 2: Free Trade Agreement Trade Shares of Major Economies**  
(% share of total trade)



US = United States, EU = European Union, PRC = People’s Republic of China, Korea = Republic of Korea.

Source: Author’s calculations based on the Korea International Trade Association (KITA)’s trade data.

The Japanese trade authority expects that the TPP can provide Japan with the impetus needed to reform the country’s trade policy scheme, and considers the TPP as an effective measure to help keep the PRC in check. Because the TPP negotiations are being led by the US, Japan feels less repulsed than it does by the ASEAN+3 FTA which is being led by the PRC, and considers the TPP a tool to help prevent the PRC from being the sole leader in East Asia. Moreover, Japan assesses positively economic gains from its participation in the TPP negotiations, based on its trade structure and competitiveness in the manufacturing industry, although there is political sensitivity surrounding the granting of agricultural market access to other countries. Japan’s Cabinet office expects the country to increase its GDP by 0.48%–1.39% (¥2.4 trillion–¥6.9 trillion) annually through creation of large trade blocs such as the TPP and FTAAP.<sup>25</sup>

**Table 4: Economic Effects of Japan’s Diverse Trade Blocs**

FTA	Economic Effects
TPP+Japan, EU FTA+Japan, PRC FTA	GDP 1.23%–1.39% (¥6.1 trillion–¥6.9 trillion)
FTAAP	GDP 1.36% (¥6.7 trillion)
TPP	GDP 0.48%–0.65% (¥2.4 trillion–¥3.2 trillion)

FTA = free trade agreement; TPP = Trans-Pacific Partnership; EU = European Union; PRC = People’s Republic of China; FTAAP = FTA in Asia and the Pacific.

Source: Nihon Naikaku-fu (Japan’s Cabinet Office). 2010. Houkatuteki keizairenkeini kansuru kentouzyouken (Assessment of Comprehensive Partnership Agreements). October 27, p.8.

<sup>25</sup> Japan finds economic gains from improving trade rules through the TPP (Gaimusyō [Japan’s Ministry of Foreign Affairs] 2011).

Meanwhile, Japan's Cabinet office has predicted that greater economic effects will be generated by expanding the TPP to other FTAs with the EU and the PRC or by forming the FTAAP. Though the Japanese report does not go into detail, it is believed that most of the TPP's positive effects will be achieved by the FTA with the US. Therefore, the effect of the TPP can be interpreted as being the same as signing a US–Japan FTA. The Japanese trade authority has shown a strong will to join the TPP by persuading Japanese politicians with promise of substantial economic gains and an alternative option for coping with the implementation of the KORUS FTA.

## 5.2 Changes in Japanese Trade Policy System

### 5.2.1 Japan's Bureaucratic System

In Japan, it is customary for the present members of Parliament to take the highest positions in ministries of national administration and make political decisions based on the parliamentary Cabinet system. Because most ministers and vice-ministers are present members of Parliament and work closely with the Parliament, the stakeholders' lobby is directly applied to the policies. The government officials who are accustomed to the Parliament's power and its customs accept the stakeholders' opinions rather than creating altercations, i.e., the Parliament and the government are, in fact, considered to be identical organizations. Parliament's power regarding sensitive trade issues is absolute and interested groups influence policies by preserving their vested rights and lobbying members of Parliament.

The Japanese bureaucratic system is channeled into trade negotiations. In most countries, national guidelines are set before official negotiations take place, and national representative(s) negotiate with foreign partners. Decision-making at the national level is critical when dealing with sensitive issues, since this allows rational options to be drawn in order to balance the interests of the nation and the concerns of the ministry. National strategy for a specific trade negotiation is carried out and headed by delegates. According to the author's experience in the negotiation of a Japan–Republic of Korea FTA (2003–2004),<sup>26</sup> regardless of the official title, a ministerial representative rather than a national one leads the negotiations, depending on the issue. Unlike in the Republic of Korea, Japanese ministries have special and powerful authority when dealing with sensitive issues. This means that sensitive issues may block any progress which could be made during negotiations, since the primary mission of the representatives is to protect ministerial interests at the expense of national interests.

Due to this bureaucratic practice, many past trade negotiations have been conducted at the ministerial level rather than at the national level. This has often led to postponement of important decisions related to sensitive issues. This policy practice has worked against Japan's promotion of FTAs, and major trading partners are now hesitant to even discuss bilateral FTAs with Japan. For these structural reasons, it is quite difficult for Japan to make a national decision, such as deciding whether to participate in the TPP negotiations.

### 5.2.2 The Democratic Party's Reform of the Trade System

With the Liberal Democratic Party having been in power almost without interruption since 1955, the linkage of interest groups and politics has been strengthened. Resistance against interest groups has been very difficult and has resulted in economic and social lethargy in Japan. Hence, as the Democratic Party took power in 2010, it confronted the problem of customary policymaking and realized the seriousness of stakeholder resistance to making trade policies.

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<sup>26</sup> Negotiations could not be concluded because of wide gaps on various issues between Japan and the Republic of Korea.

As a result, the new ruling party has decided that major trade policies will be decided by the Cabinet office within the prime minister's office.

The linkage between the Parliament and the administration has been weakened, and the participation of professional bureaucrats in decision-making has been minimized to let the ministers in charge make major decisions rapidly. In other words, the decision-making process which had previously been dependent on the joint system of the Parliament and related ministries has been changed in a way which respects the opinions of the Cabinet members. This implies that more consideration of Japan's national interests will be given during future trade policy negotiations. The ruling Democratic Party took a position to let the Cabinet office deal with the FTA issues, including the opening of the agriculture sector, because it felt that Japan's passive approach towards agricultural liberalization, which was based on ministerial interests, was one of the main reasons for Japan's recent slow FTA progress.

Despite the change in the decision-making process by the Democratic Party, there has not been any visible change in Japan's recent FTA policies with regard to negotiation staffing levels or decreased internal resistance. For example, the Government of Japan announced that it would make the decision regarding its participation in the TPP negotiations by June 2011, but the official decision was postponed indefinitely because of the earthquake and tsunami which hit northeastern Japan in February 2011. Although the government needed to concentrate its administrative power to help overcome the disaster, Japan's excuse for postponing a decision on TPP negotiations due to the restoration process is not that convincing, since it does not take a lot of time for ministers to decide whether or not to participate in negotiations.<sup>27</sup>

### 5.2.3 The Agriculture Sector Backlash

Japan could realize economic gains by participating in the TPP, and much higher gains under the TPP12+PRC scenario (Table 3). Thus, the Japanese industry sectors have asked the government to participate in the TPP negotiations. They have endeavored to suggest countermeasures to the Republic of Korea's expansion of its FTA network and the continuing strong yen situation. They have complained about the government's passive stance on trade liberalization because the government cannot get past the political interests of the voters in the agriculture sector. Moreover, if Japan cannot make a strong commitment to open its agriculture sector, the Government of Japan is well aware that the US will not support Japan's participation in the TPP negotiations.

In addition to ISDS, agricultural liberalization will be a key issue for Japan. Japan's Ministry of Agriculture, Forestry and Fisheries released quantitative research results showing that the TPP may place a considerable burden on agriculture, which is the complete opposite of the pro-TPP camp's estimate regarding economic effects. The Japanese agriculture sector says that if Japan opens its agriculture sector through the TPP negotiations, Japan's gross agricultural output may decrease by ¥4.1 trillion per year. The anti-TPP camp doubts that increased imports of agricultural products will improve national welfare.

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<sup>27</sup> The real reason is that the government is worried about farmers voting against the ruling party. Therefore, the recent restoration work did little to affect Japan's decision-making process.

**Table 5: The Effect of the Trans-Pacific Partnership on Japanese Agriculture**

Assumption	Effect on Economy
Tariff elimination on 19 major agricultural products (current average tariff rate is 10%).	Effect on agriculture: - Output: decreased by ¥4.1 trillion every year; - Decline of national food self-support: from 40% to 14%. Effect on agriculture and related industries: - GDP decrease: ¥7.9 trillion; - Job opportunity decrease: 3.4 million people.

GDP = gross domestic product.

Source: Nihon Nourin suisanshou (Japan’s Agricultural Ministry). 2010. Nourinsuisannsyousisan (Experimental assessment of agriculture, forestry and fishery). October 27. pp.1–7.

It is not known whether Japan has determined its position regarding agriculture, and it is not clear whether Japan will become an official negotiating member or not, even though the Abe administration officially announced its intention. “Sixty percent of Japanese support Prime Minister Shinzo Abe’s decision to participate in the Trans-Pacific Partnership free trade negotiations. However, 62% of respondents said rice and some agricultural products should be excluded from tariff elimination if the nation joins the TPP talks” (*Yomiuri Shimbun* 2013). Prime Minister Abe announced, “I pledge the government will make every effort to protect agriculture and food” at a press conference on TPP participation (*Jiji Press* 2013).

### 5.3 Prospects

Strong political will and administrative support will be preconditions for successful conclusion of an FTA within the scheduled time frame. Multicountry agreements such as the TPP are much tougher to establish than bilateral FTAs, and require more systemic support in order to reach a conclusion. While Japan’s announcement regarding the TPP may contribute to improving the prospects for agreement in forming a regionwide trading bloc in Asia and the Pacific, it could also complicate and delay the negotiation process. Moreover, the agriculture issues could be crucial because of Japan’s political dynamics, even though the trade policy system has been partially reformed. *Asaisinbun* (2011) reported that 44 out of 47 *tohukenngekai* (Japanese local congresses) adopted a negative or cautious position on the TPP.

After the politically weak Prime Minister Kan resigned, the former finance minister Yoshihiko Noda was elected prime minister on 30 August 2011. Noda’s administration chose TPP participation as one of the major goals of its political agenda. It was not easy for Noda’s administration to make a decision regarding the TPP, but the country announced its tentative position to participate in negotiations for the TPP just before the Hawaii APEC summit. However, it was later announced that Japan was not participating in the TPP leaders’ meeting on 12 November 2011 (at the Hawaii APEC summit).

With the Liberal Democratic Party regaining power in December 2012, Japan made a decision to join the TPP. However, it is not clear whether Japan can liberalize its agriculture market enough to satisfy existing member countries such as the US. Despite reforms to its trade policy system, it is not clear whether the current Abe administration will participate actively in the TPP negotiation. Since Japanese prime ministers in the five years before Mr Abe took up the post had served less than one year in office, it may be hard for him to attract attention to the TPP and trade issues, which need national support. Recently, an anti-TPP camp criticized Japan’s TPP participation, increasing the potential for aggravation in farming and fishing villages if Japan participates in the TPP negotiations. This will also increase the number of citizens who will vote against the ruling party in the general election scheduled for July 2013. Another serious burden is the counterargument of the Obama administration’s position. Even though Detroit car

makers support President Obama's goal of creating a TPP, "they do not believe that US negotiators can dismantle the non-tariff measures which Japan has long used to keep US autos out of the Japanese market" (Palmer 2012), so they strongly object to adding Japan to the TPP negotiations.

From Japan's national point of view, the TPP offers a highly beneficial outcome because of the US–Japan FTA. However, with the lack of political leadership needed to overcome the resistance of the agriculture sector, it is not likely that the government will be active in future negotiations.

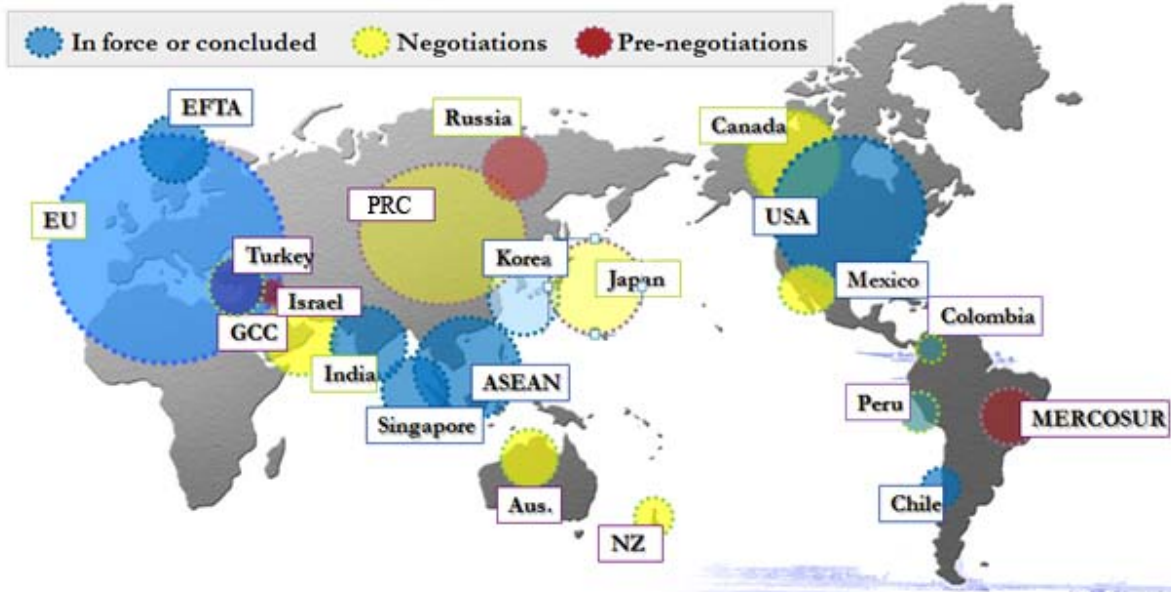
## **6. THE IMPACT OF THE TRANS-PACIFIC PARTNERSHIP ON THE ECONOMY OF THE REPUBLIC OF KOREA**

The potential effects of the TPP on the Korean economy will vary depending on the member countries and the contents of the completed TPP agreement. Wide membership in the TPP was suggested for economic and strategic purposes. Proponents of the TPP also proposed prioritizing Japanese and Korean membership, envisioning the use of this strong alliance as a way to help decrease the influence of the PRC.

The Republic of Korea has been successful in concluding 10 bilateral FTAs with major trading partners such as the US (implemented in March 2012), the EU (implemented in 2011), Peru (2011), India (2010), and ASEAN (2007). Also, the Republic of Korea's FTAs with the US and EU are highly valued with very high standards of market access, services, investment, and rule making. The country opened a substantial part of its agriculture market and adopted a politically sensitive clause for foreign investor protection, the so-called ISDS, in the KORUS FTA, despite domestic opposition. Even after the FTA was ratified by the Republic of Korea's National Assembly in December 2011, opposition parties have strongly argued for elimination of the ISDS. If the TPP is agreed without the ISDS, this will not be acceptable to the Republic of Korea because the country will lose its consistency regarding the ISDS in FTAs, and the KORUS FTA will become another political issue in Korean politics.

Considering the current negotiations, complete trade liberalization and improved regulatory systems of the TPP countries will be hard to achieve. Although Japan announced its participation in the TPP negotiations, some obstacles have emerged which will make TPP expansion difficult. One issue to be noted is that Japan has been promoting the Regional Comprehensive Economic Partnership (RCEP) with ASEAN. While the PRC is excluded from the US-led TPP, it will try to lead East Asian economic integration, and Japan needs to cope with the rising PRC. The prospect of US Congress regarding ratification is still unclear. Therefore, it is not likely that the TPP will be developed as the FTAAP, which would cover all countries of Asia and the Pacific.

**Figure 3: Republic of Korea’s Free Trade Agreement Performance**



Note: Aus. = Australia, PRC = People’s Republic of China, EFTA = European Free Trade Association, EU = European Union, GCC = Gulf Cooperation Council, MERCOSUR = South American Common Market, NZ = New Zealand, USA = United States of America, Korea = Republic of Korea.

Source: Republic of Korea’s Ministry of Foreign Affairs and Trade ([www.mofat.go.kr](http://www.mofat.go.kr)).

For the Republic of Korea, which has already formed bilateral FTAs with most of the TPP member countries, the only way to determine if membership will be beneficial is to analyze the TPP’s marginal impacts on its economy. The Republic of Korea’s total exports were US\$466 billion in 2010; nine TPP member countries absorbed 19.8% of these exports, for a total of US\$93 billion. While 80% of these exports go to the US, Singapore, and Viet Nam, the rest of the countries account for a small percentage. As Table 5 shows, the Republic of Korea has already concluded bilateral FTAs with most countries except Australia and New Zealand. The Australia–Republic of Korea FTA has nearly been concluded, apart from the beef issue (and possibly the ISDS), implying that the net impact of the Republic of Korea’s participation in the TPP9 will be that of the FTA with New Zealand. New Zealand is a small market, accounting for US\$0.9 billion in 2010, only taking 0.2% of global Korean exports. According to the government report which was released to the public when the negotiations for a Republic of Korea–New Zealand FTA began in 2009, if an FTA is concluded, the Republic of Korea’s GDP will increase by 0.05% and that of New Zealand by 0.25%.<sup>28</sup>

<sup>28</sup> The economic effects of the Republic of Korea–New Zealand FTA on the Korean economy can be found in *Newsis* (2009).

**Table 6: Relationship between the Republic of Korea and Trans-Pacific Partnership Member Countries**

<b>Country</b>		<b>Nominal GDP (\$ billion)</b>	<b>Korean Exports Value (\$ billion)</b>	<b>Proportion (%)</b>	<b>Status of FTAs with Rep. of Korea</b>
P4 member countries	Singapore	223	15.0	3.27	concluded
	Chile	203	3.0	0.63	concluded
	New Zealand	140	1.0	0.20	in negotiation
	Brunei Darussalam	13	0.1	0.01	concluded
New member countries	United States	14,658	50.0	10.68	concluded
	Australia	1,236	7.0	1.42	almost concluded
	Malaysia	238	6.0	1.31	concluded
	Peru	153	1.0	0.20	concluded
	Viet Nam	104	10.0	2.07	concluded
World			466.0	19.80	

P4 = Pacific-4, FTA = free trade agreement, GDP = gross domestic product.

Source: Assembled from IMF (*World Economic Outlook*) and Korea International Trade Association (KITA)'s Trade Data.

Since TPP negotiations regarding market access take a position that the existing FTA contents are all accepted, if the Republic of Korea joins the TPP9, the net economic effects will not be considerable. This is supported by the simulation results presented in Table 3. Although the country will be damaged mildly when the TPP12 is formed, this does not necessarily imply that the Republic of Korea should join the TPP. Basically, the Republic of Korea has no position toward an FTA with Japan. Even though the country began the negotiation for the PRC–Japan–Republic of Korea FTA in March 2013, the outlook for the FTA is not optimistic. The Republic of Korea has had bilateral FTAs with Canada and Mexico since 2003, but progress has been poor because of big differences on various issues. The Republic of Korea's participation in the TPP will be the issue of three bilateral FTAs rather than a regionwide trading bloc, noting the TPP will be built on multiple bilateral agreements. If the PRC joins the TPP12, the Republic of Korea is likely to be damaged substantially. In that case, the Republic of Korea will be more active in concluding a bilateral FTA with the PRC, reducing the losses to a negligible level.

A more fundamental issue is the impact on the Republic of Korea's FTA policy. The country's policy since September 2013, titled the National FTA Roadmap, has been to promote as many FTAs with major trading partners as possible in order to build a global FTA network, targeting development of the country as the FTA hub country. The Republic of Korea is the only country in the world with bilateral FTAs with the US, the EU, India, and ASEAN, and almost 90% of its total trade will be covered by FTAs when FTAs under current negotiation are concluded. It is about to be a world FTA hub country. Considering the competition for FTA hubs by other countries, realizing economic gains from the FTA hub has been a main factor in persuading the Korean people of the merits of the FTA policy. This point implies that the Republic of Korea needs to reap the current economic gains from the FTA hub position, since participation in a region-wide trade bloc such as the TPP means giving up its FTA hub position.



## 7. CONCLUSION: IMPLICATIONS FOR EAST ASIAN REGIONALISM

The TPP is at a crossroads as a building block. It could result in the establishment of economic integration in Asia and the Pacific, or it could trigger creation of two large trade blocs in the region. If “open regionalism” is chosen under the TPP, and the PRC is not excluded, it will contribute to regional integration. Exclusion of the PRC could encourage Beijing to develop its own Sino-centric trade bloc.

Baldwin (2011) argues that, assuming the TPP can pursue complete liberalization, “the great hope [of the TPP] is that the signing of the agreement will trigger a domino effect which draws in all APEC members (except perhaps [the PRC] and [Taipei,China]).” Lewis (2011) notes that “the TPP agreement has the potential to become a new paradigm for trade agreements, to help the US reassert its position in the Asia-Pacific, and to begin the process of defragmenting international trade.” A similar argument was made by Bergsten (2011), who wrote that the TPP will have “near-term expansion of its coverage to at least Japan and [the Republic of] Korea and the resultant pressure that this will put on the rest of Asia, including [the PRC], could enable the TPP to realize its ultimate goal of becoming a Free Trade Area in the Asia Pacific by 2020.”

However, these arguments seem to be too optimistic because they overestimate the possibility of expanding the TPP membership. First, can the PRC join the TPP? Armstrong (2011) states that “the biggest risk of the TPP is political: that it might divide the region strategically between its members and the rest, with [the PRC] being on the outside... Yet if the TPP proceeds with the terms being set by the US, it will be very difficult for [the PRC] to join.”<sup>29</sup> As analyzed in section 5, the Republic of Korea does not see sufficient incentives to participate in TPP negotiations. In fact, the TPP is not an urgent policy issue for the Republic of Korea. The country will not have serious problems joining the TPP later, since it is known that the TPP heavily depends on the text of the KORUS FTA.<sup>30</sup> Even though it announced its TPP participation in March 2013, it is not sure that Japan will be allowed into the TPP negotiation since the administration of Shinzo Abe promises to exclude sensitive agricultural products from liberalization.

If the TPP successfully progresses, the PRC will accelerate its FTA expansion with neighboring Asian countries. Its first and most important target will be an FTA with the Republic of Korea (currently under negotiation), while a PRC–Republic of Korea–ASEAN FTA may be promoted by the PRC at the same time. The PRC will lead its own version of East Asian economic integration. Zhang (2012) says that “though [the PRC] participates in all regional arrangements, it views ASEAN+1 as its core regional relationship, followed by ASEAN+3. [The PRC] worries that the recent enlargement of the East Asian Summit from ASEAN+6 to include the US and Russia may weaken the cooperative spirit of East Asia because of the different strategic interests.”

If the TPP is to become the cornerstone of an APEC-wide FTA, it should be promoted for its economic value, not for geopolitical purposes. It should be open to all countries of Asia and the Pacific, including the PRC, the world’s second-largest economy and a growth engine for the global economy. The scope and coverage of the TPP should be wide and comprehensive enough to induce a domino effect. If the TPP becomes a pan-Asia-Pacific FTA, and the quality of the agreement is high in terms of liberalization, the opportunity cost of not participating in the

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<sup>29</sup> The PRC will not be able to accept “US-designed intellectual property rights, labor and environment standards, and other commercial settings” in the current TPP (Armstrong 2011).

<sup>30</sup> Regarding the main reference of the US for TPP negotiation, refer to Kang (2011).

TPP would be significant. If the agreement is superior to existing bilateral FTAs in the region, it would create an opportunity to eliminate the existing “spaghetti bowl” of FTAs, inducing more countries to participate. This would be a natural way for the US to become more involved in East Asian economic integration, while at the same time avoiding the emergence of PRC-centered regionalism. It would also mean that East Asian countries would not be forced to choose between a US-led trading arrangement and one led by the PRC.

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