

Dialogue on TPP

By Noboru HATAKEYAMA

The TPP was the first thing Prime Minister Noda referred to in his short speech at a recent new year's meeting with the media and businesspeople. There are many pros and cons on this issue. To facilitate and deepen understanding, I came up with a dialogue between A and B, as follows:

A: Since the TPP is a plot against Japan by the US to have its industries collapse, Japan should not join.

B: Your comment is absolutely wrong. Which industry are you talking about, in the first place? If you are talking about the manufacturing industry, then even as of now Japanese tariff rates are much lower, except for leather products, than those of the US. Therefore, the US does not need the TPP for manufacturing products other than leather products, and the US would not be engaged in a plot against Japan just for the leather industry. If you are talking about the agricultural industry, I guess the Government of Japan will provide money to compensate farmers for their income reduction deriving from gaps between the lower prices of imported goods and the higher prices of domestic goods.

Finally, if you are talking about the service industry, it would be good for Japan to expose its fragile service industry to foreign competition.

Since service prices of Japan are higher in most cases than those of services provided outside of Japan, the service industry of Japan does not have competitiveness. Higher prices of the service industry along with higher prices of agriculture should be rectified through fierce competition in the former case, and through a farmers' income compensation system in the latter, so that Japan's high cost structure disappears.

By the way, the US is an ally of Japan. It will never have a plot against Japan, as Japan, an ally of the US, will never plot against the US.

A: While the US is a chartered member of the TPP, Japan is a latecomer. Therefore, even if the US succeeds in exempting some products, the US may argue that Japan's position is just "to take it or leave it" without the right to ask for exceptions.

B: I don't think so. Japan's position is not that weak. As you know, the US is negotiating with eight other countries as of now. However, the weight of those eight countries in the total US exports is only 6.8% - and, if the exports to countries with whom the US has an FTA is deducted, only 1.9%. The USTR cannot sell this amount of exports to the Congress. However, if

Japan joins, the weight will go up by 4.8%. Japan's participation in the TPP will enhance its quality and significance.

A: It is often said that Japan will obtain Asian markets through its participation in the TPP. The biggest Asian market for Japan is the Chinese market or South Korean market. But they are not members of the TPP. So, Japan's participation in the TPP will not contribute to increasing exports to China or South Korea.

B: Certainly, China and South Korea are not members of the TPP, nor participating in negotiations to expand it to nine countries. But nobody knows whether they will change their minds tomorrow.

In addition, the TPP alone is not a measure to eliminate import tariffs of China and South Korea. Joining TPP is not a zero-sum game. Japan can join the TPP as well as the East Asia Free Trade Area (EAFTA) or the Comprehensive Economic Partnership of East Asia (CEPEA) and the China, Japan and Korea FTA (CJK). For these three FTAs, Japan as well as China and South Korea are members. Therefore, we can enjoy zero tariffs in China and South Korea through these FTAs.

A: Despite strong opposition to the TPP domestically here in Japan, Japan seems to be interested in joining the TPP negotiations. Why?

B: Since Japan's population has been declining and will continue to do so, the only way to increase our employment is to increase our exports in addition to FDI into Japan. The dependency ratio of Japan's exports to its entire GDP is the second lowest (11.5 %) after the US (7.5 %) among major countries in the world. One of the reasons for Japan to have less export dependency can be attributed to its exports being covered less by FTAs.

The FTA-covering ratio of Japan to its total exports was 15.6% in 2007 as compared to the 72.8% of Germany, 72.5% of France, 64.2% of the UK, and 40.2% of South Korea. Therefore, Japan will conclude from now as many FTAs as possible, including regional ones such as EAFTA and CJK. For these two regional FTAs, China is supposed to be a member while the US is not. With this background, Japan will try hard to join the TPP if the US, an ally of Japan, really wishes it to do so. **JS**

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