

No Agreement Is Better than a Bad Agreement — or “Time Is Money” (Benjamin Franklin)

By Kazumasa Kusaka

United States Trade Representative Michael Froman and his predecessors have constantly said that it is better to accept no agreement than a bad agreement. However, one can find a key phrase in the Trans-Pacific Partnership trade ministers' statement: “TPP Trade Ministers have agreed to develop the TPP as a living agreement. While we are establishing a state-of-the-art agreement, we want to ensure that we have the ability to update the agreement as appropriate. At the same time, we remain cognizant of our goal to eventually expand the TPP to include other economies from across the Asia-Pacific region.” “Living agreement” is defined as updating the original in terms of contents and membership, though the original is expected to reflect the state of the art.

I recall a discussion I had with scientists of the Scripps Institution of Oceanography several years ago on global warming. They challenged my proposal of a possible path for international cooperation together with China, India and the US, all of whom were outside the Kyoto Protocol emissions reduction obligation. Their point was that my proposal would fall short of filling the gap between the necessity of a two degree increase limit, as science suggests, and actual emission levels. My argument was “start small, and let it grow.”

Against the backdrop of natural science, my experience of negotiation, communication and policy implementation taught me that the people who will be affected are susceptible to growing alarms over maximum potential damage and resist any drastic change. It requires Herculean energy to first move a rock, but to keep rolling and accelerating is much easier. The same applies to trade liberalization. It may be less difficult to overcome initial resistance from stakeholders in bilateral free trade agreements, but once they discover their concerns were groundless we can move on to regional FTAs and finally global trade liberalization.

The psychology behind this is “ownership of the process”. We tend to defend and support the original decision in order to make it a success. If we do not compromise on our goal, starting small is not that bad when it needs big political capital, now scarce in democratic countries, at different level of economic development.

Why are we anxious to start as soon as possible? From the government point of view, to pursue structural reforms we need the peer pressure embodied in FTA negotiations. More importantly these regional FTAs are an engine of growth similar to the mindset change created by the European Union's Single Market deadline of 1992. For users of trading systems “time is money”, as they have waited too long to see a successful conclusion to the Doha Development Agenda (DDA). The Uruguay Round that concluded in 1995 took eight years of negotiations to reflect the economic reality of the early 1980s. The DDA started in 2001, but lost the Singapore issues in 2003 after failing to address so-called behind

the border measures.

Therefore, business welcomes recent developments in the TPP, Japan-EU Economic Partnership Agreement (EPA), the Regional Comprehensive Economic Partnership, and the Japan-Australia EPA. Why are they so significant? Because governments have been falling behind the economic realities. The rules of the game business is engaged in are not an international “FIFA World Cup” kind of championship, but a club team championship, though each club, of course, consists of multinational players. The business community has increasingly common interests regardless of national borders. Accordingly, global value chains need clear and predictable rules on trade, investment, intellectual property rights, finance, the environment, state-owned enterprises, and so forth. Therefore the zero-sum type negotiator's mindset has to be replaced by an approach that seeks solutions.

Economically, a larger impact lies in the harmonization of standards as well as fewer bureaucratic borders. This means that the business community is not divided by national borders but rather fights against their own government (home) or a foreign government (away) for more business and an investment-friendly environment. But is it sufficient for business to blame governments and pray for a miracle? How can business views be heard or translated into political action?

Small and medium-sized enterprises (SMEs) are key: they are the backbone of the economy and local politics. And they have niche market export opportunities. Big business can afford to choose to export to or invest in the country of its operations. The utilization ratio of FTAs among Japanese companies engaging in foreign trade rose seven percentage points from 36% in 2009 to 43% in 2013. Obtaining further economic gains requires expanding FTA-users to include SMEs, as FTAs are too complicated and differentiated in the application of their rules of origin, and have not been SME user-friendly. It is essential to find user-friendly ways to provide information in order to minimize the company-side costs of searching for information. We have to turn local SMEs into active and powerful supporters of FTAs.

Also institutionally, it would make a difference to create an APEC Business Advisory Council type of organization for mega FTAs, in order for common, not divisive, international business views to be heard.

Kazumasa Kusaka is chairman and CEO of the Japan Economic Foundation (JEF), as well as being a professor of public policy at the University of Tokyo. He previously served as special advisor to the prime minister on global warming after having been vice minister for international affairs at the Ministry of Economy, Trade and Industry.