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1. Significance of Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA)

While the negotiations of the Doha Round of the World Trade Organization (WTO) have been in deadlock and look unlikely to proceed, countries have moved toward bilateral and regional FTAs/EPAs. EU, NAFTA and MERCOSUR are prominent examples of regional FTAs. The number of FTAs/EPAs reported to the WTO has been rapidly increased by 20 times from only 27 in 1990 to 546 in 2013.

Contrary to the global trend, Japan was late in making the shift to bilateral and regional FTAs/EPAs because Japanese trade strategy places priority in strengthening the General Agreement on Tariffs and Trade (GATT) regime, the multilateral trading system based on the most favored nation treatment principle, which leads to balanced universal growth of trade. It

became evident, however, in light of the spread of FTA network, particularly those FTAs/EPAs including major markets such as the U.S. and EU that Japanese exports are falling behind as they could not enjoy the preferential treatment available to FTA partners. Korea, for example actively promotes FTAs with large markets. In terms of the number of FTAs concluded, Japan appears to have a similar number of effective FTAs to that of the U.S. and Korea since Japan has 13, Korea 10 and the U.S. 14. The trading FTA ratios composing of trade volume with FTA partners over aggregated trade volume of a country, however, are 38% for Korea, 39% for the U.S. and 29% for EU, which are almost double the Japanese ratio of 19%.

Under Abe government, promotion of EPAs has become a priority in Japan's growth strategy of Abenomics aiming at integrating the growth overseas toward the economic growth in Japan. With a specific target of raising the trading FTA ratio to 70% by 2018 compared with 19% of today, Japan is engaged in economic partnership negotiations including the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the Japan-Korea-China-FTA, and the Japan-EU EPA. Under the leadership of Prime Minister Abe, the Japan-Australia Economic Partnership Agreement (JAEPA) was signed when he visited Australian Prime Minister Abbott early this month.

A study on the effects of FTAs indicates that FTAs substantially affect tariff rates, and that delay in concluding FTAs results in loss of competitiveness against products receiving preferential tariffs through FTAs. The United States-Korea Free Trade Agreement (KORUS FTA), for

example, eliminated the U.S. auto tariff of 2.5%, providing Korean automakers with a competitive advantage over Japanese automakers. In a nutshell, the price difference caused by the tariff difference imposes an indirect tariff on Japanese automakers. Researchers in the United Nations Conference on Trade and Development (UNCTAD) break the effects of trade liberalization through FTAs on export into (1) a direct change in tariff rates from a conclusion of a FTA between home country and other country and (2) an indirect change in tariff rates from a conclusion of a FTA between other countries and show that the latter exceeds the former. Specifically, a barrage of conclusions of the FTAs between other countries substantially lowered Japanese export by 0.94% which was reduced by a positive effect from the FTAs Japan concluded to 0.22% in 2009.

Let me turn now to our basic approach to trade. MFN tariff rates on industrial products and auto in EU are 3.9% and 10%, respectively while those in Japan are 2.5% and 0%. Finished car trade, inter alia, accounts for 13% of export from Japan to EU, 8% of export from EU to Japan, 4.3% of the aggregated world trade and 23% of Japan's total export. Among major auto exporters – EU, Japan, Korea and the U.S – Japan is the only country whose MFN tariff rates on importing autos is 0. Japan eliminated its car tariff in 1978, and has succeeded in raising the most competitive car industry in the world. For example, Toyota produced 9 million cars and earned 22 trillion yen in 2013. This success has been achieved by exposing the Japanese car industry to competition with foreign makers and they had no choice but to make all possible efforts to compete in the global market because no protection was available in Japanese market. As seen in the remaining auto tariffs in car producing nations, Japan eliminated auto tariffs unilaterally without requiring

reciprocity and tried to have other countries follow by demonstrating leadership. No one followed unfortunately, and eliminating auto tariffs in other countries remains a difficult negotiating task as we cannot reciprocate by elimination.

In my view, it is wrong to claim victory when you managed to maintain tariffs in trade negotiations. Protecting an item by keeping a tariff rate hinders streamlining and leaves the item internationally uncompetitive. The victim of unchanged tariff rates is not the exporting country but the importing country which lost the chance of obtaining incentives to reform the economy. I believe that this has been proven by low tariff rates and high international competitiveness of Japanese industrial goods and the track record of economic growth in Japan.

2. 21st Century Economic Partnership to Strengthen Global Value Chains

The 21st century economic partnership is a framework that realizes a more efficient economy by combining strengths of countries around the world which contributes to the stability of international societies. Whereas the 20th century economic partnership aims to create an efficient international division of labor at an industrial unit in the sense of comparative advantage by facilitating cross-border movements of goods through tariff reduction, the 21st century economic partnership aims to create an efficient international division of labor at an enterprise unit by facilitating cross-border movements of goods, people, money, service, information and technology through not only tariff reduction but also new rules on a broad range of areas such as

services, investment, temporary entry, intellectual property rights, financial services, e-commerce and state-owned enterprises (SOEs). The ultimate goal is the integration of markets and economies of the participating countries.

This transition reflects the reality of globalization which has been advancing in the two-stage processes.

The first stage of globalization started in the mid-19th century. The spread of steam power drastically reduced the cost of physical movements, thus cross-border movements of raw materials and final goods burgeoned exponentially. The nature of division of labor in this stage is a separation between lands of production and consumption. Trade liberalization and cost reduction of long haul through elimination of border measures accelerated export of final goods to and direct investment in overseas markets by multinationals. Professor Richard Edward Baldwin at the Graduate Institute of International and Development Studies in Geneva, calls this phenomenon as “first unbundling”.

The second stage of globalization started in the late 20th century. The development of information and communication technology reduces the cost of telecommunication, which lowered coordination costs inside and outside the company. This ongoing “second unbundling” stimulated manufacturing companies to disperse multistep processes of finishing a product

geographically and to manage and integrate operations easily, thus an economic integration of countries has advanced through cross-border chains of import and export of intermediate goods.

A global value chain is related to the “second unbundling.” It is an international division-of-labor system of a production process that divides corporations and businesses into individual production tasks and allocates and manages business resources optimally to pursue the economy of scale and competitiveness of a site location for each modularized production unit. To put it simply, it is an international division-of-labor system that optimally utilizes production processes inside and outside the territory.

The value and profits earned in different processes required for products to reach the market is higher in related services such as design, marketing, supply chain management, sales and after-sales service than the production of the item itself. Therefore, it is important to specialize in high value-added processes to maximize profits and to relocate other tasks to locations that minimize the cost. Japanese companies have been taking advantage of global value chains by focusing in Japan on product development, marketing, R&D and service.

In short, effective global value chains liberalize cross-border flows of people, goods, money, information and technology, streamline resource allocation, promote economic growths and consequently improve the welfare of the constituencies.

Abenomics looks at economic partnerships with multiple countries including EU as a vehicle that not only eliminate tariffs but also establish a new economic order which builds an economic region that ensures free competition under fair and effective rules with countries sharing fundamental values.

Abenomics also emphasizes regulation reform that breaks rock-hard regulations in addition to promotion of economic partnership. In the agricultural sector, for instance, last fall Prime Minister Abe decided to abolish the 40 year old policy of controlling rice production through limiting land used for rice harvest with a view to enabling private companies to participate in agriculture without barriers and to produce crops they want to make without control of supply and demand. At the World Economic Forum in Davos, He declared, “I will act as a drill bit to smash rock-hard regulations,” and “no vested interests will remain immune from my drill.”

3. History and Features of the Trans-Pacific Partnership (TPP)

What the TPP pursues is a new 21st century economic integration agreement. The TPP is an ambitious attempt to build extensive value chains of free flows of people, goods, services, investment, information and technology across borders in the rapidly growing Asia Pacific region by setting new rules on a wide range of areas such as market access not only on goods but

also on services, investment and government procurement as well as intellectual property rights, e-commerce, SOE and environment. Current participants in the TPP negotiations are 12 countries: Singapore, New Zealand, Chile, Brunei, the U.S, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan.

The TPP negotiation was launched in 2011 among 9 countries including the U.S, Australia, Peru, Vietnam and Malaysia, building on the Pacific 4 agreement concluded in 2006 by Singapore, New Zealand, Chile and Brunei.

The basic concept of the TPP is presented in the TPP Leaders Statement and “Outlines of the Trans-Pacific Partnership” released in Honolulu in 2011. First, in terms of the level of ambition, the TPP aims to adopt high standards and achieve robust market liberalization. Second, in terms of the coverage, the TPP aims to comprehensively cover new and emerging trade issues and cross-cutting issues. Based on those purposes, the TPP has been negotiated as an ambitious and comprehensive agreement covering a broad range of areas including not only existing FTA fundamentals such as market access in goods and service trade but also rules on non-tariff areas including investment, competition, intellectual property rights and government procurement as well as new areas such as labor and environment.

Prime Minister Abe expressed his intention to participate in the TPP negotiations in March 2013, and Japan formally participated in the 18th round of the negotiations in Malaysia in July 2013. If

he had not decided to join the TPP negotiations, Japan would have not been able to participate in making world-standard rules of the TPP. Although Japan came late to the negotiation, many important rules are still subject to negotiation, and we are taking part in formulating a high standard agreement which will become global standard.

The global value chains will not be truly effective without a plurilateral and not bilateral approach. On top of that, a comprehensive and cross-cutting approach across all issues related to trade is necessary for covering a variety of activities in a production process along a value chain. A segmented silo style approach that addresses specific issues such as a bilateral investment treaty (BIT) has its limitation in coverage.

When the TPP enters into force, it will boost export by tariff elimination of industrial goods as well as establish common rules on the economic activities such as intellectual property rights, services, investment, financial services, government procurement and e-commerce. This will promote domestic companies to embark on foreign markets to enhance business chances, stimulate foreign direct investment and enable Japan to tap into the growth in APEC region.

The TPP is also an ambitious attempt to construct new 21st century economic integration rules with countries sharing the fundamental values such as freedom, democracy and the rule of law. Deepening economic interdependence within the region has a significant benefit on national security of each country. In the long run, the TPP will form the basis for the Free Trade Area of

the Asia-Pacific (FTAAP) and contribute to realizing prosperity and stability in the Asia-Pacific region.

While we aim at a high standard, comprehensive and ambitious goal, TPP member countries have sensitivities in relation to their stakeholders. Nothing will be achieved by ignoring domestic political realities. The U.S. needs Congress to approve TPP, and Japan needs Diet approval. In order for Japanese government to obtain approval from the Diet, we need TPP to respect the requirements in the resolutions by the House and Senate Standing Committee on Agriculture, Forestry and Fisheries of the National Diet. These resolutions demand Japanese government to withdraw from TPP negotiations if total elimination of tariff is required for such agricultural products as rice and wheat, beef and pork, dairy products and sugar.

Japan's agriculture has structural problems such as an aging and decreasing agricultural population and a small scale of operation. For example, the number of houses and working population of farmers dramatically declined by 50% and 75%, respectively. The working population has also been aging, and small business still has been predominant in land use-type agriculture such as rice farming. The ratio of full-time rice growers in the value of rice produced is less than 40%, and only 15% of all farmers are full-time farmers, half of which are aged over 65. The total cultivated acreage has been consistently declining since the peak year of 1961, and deserted arable land has been increasing since 1985.

Therefore, regardless of the outcome of the TPP negotiations, it is an urgent challenge to reactivate agriculture, forestry and fishery. Last year, Japan summarized “The Plan for Vitalization of Agriculture, Forestry, Fisheries, and Rural Areas” that aims to energetically address the issues of (1) increasing value-added by promoting export and facilitating “sextiary sectorization (rokuji-sangyo-ka),” which means diversification of business into agricultural-related manufacturing and service such as processing food and managing restaurants, and (2) enhancing productivity by consolidating farmlands in order to realize “strong Agriculture, Forestry and Fisheries” and “beautiful and vibrant rural areas.”

I have described Japan’s limitation on our negotiating position regarding 5 agricultural products and the reason behind this. I must emphasize, at the same time, that on other areas of negotiation, the Japanese position is one of the most advanced, if not the most, by seeking the least carve out for products or measures to be covered by the agreement.

Japan’s participation enlarged the TPP coverage into 40% of the global GDP and 1/3 of the aggregated value of trade across the world. The TPP lays a foundation for the FTAAP that accounts for 60% of the global GDP. Japan as well as other TPP members will be able to reap profit from developed and expanded activities of Japanese companies within the TPP region through strong rules on intellectual property rights and investment, e-commerce and financial services. Our TPP partners could profit from having rule based, predictable and fair access to the large Japanese market.

Japan's participation in the TPP also stimulated Japan and EU to launch an economic partnership negotiation. Moreover, the Transatlantic Trade and Investment Partnership (TTIP), an economic partnership between the U.S. and EU, has also been launched. Whereas the negotiations of the WTO Doha Round remain stalled, the TPP will serve as a platform to formulate global standard of rules on future economic partnerships for the rest of the world.

Prime Minister Abe and President Obama had a meeting in Tokyo this April. They fully agreed that the TPP will establish a major economic zone in the rapidly-growing Asia-Pacific region and create new rules with countries sharing universal values such as basic human rights, the rule of law and democracy, and is strategically important for the region as a whole.

I would now like to mention two important features of TPP.

First, when completed, TPP will be a living agreement. Living agreement has two meanings. First, the TPP aims to expand its members and incorporating the APEC region. Currently, Korea and Taiwan are expressing positive interests in participating in the TPP agreement. Second, the TPP is oriented to enhance the level of ambition even further after the entry into force adding on to its initial ambition. The concept of living standard is a distinctive feature of the TPP.

Second, TPP is to be a user-friendly agreement for the private sector as well as for the governments. Business communities are seeking a meaningful economic partnership agreement that sets clear, predictable and fair rules, eliminates regulatory measures that hinder trade and investment, offers the Investor-State Dispute Settlement (ISDS) that contributes to a rapid dispute resolution between a state and a private entity in case of trade or commercial activity is disrupted in breach of the agreement. We will encourage the private sector including individuals and small and medium sized firms to take advantage of additional opportunities created by TPP in the Asia-Pacific region.

4. Closing Remark

12 countries participating in TPP have been negotiating extensively to conclude the agreement as soon as possible. Since Japan joined the negotiation last July, 4 Ministerial Meetings have been held. October in Bali, then December in Singapore trying to close the negotiation, then in February this year also in Singapore for another try, and then in May again in Singapore to take stocks of the latest situation of negotiation. Upon instructions from Ministers, the chief negotiators met in Ottawa last week to prepare for the conclusion of negotiation.

As successive Ministerial Meetings have failed to close the deal, we have not set a firm date for the next Ministerial since Ministers can only meaningfully engage when issues are ripe for political decisions. Two major pillars of the negotiation needs further work. One is market access

of goods, services and investment, government procurement and temporary entry of business persons. The other pillar is the text of the various chapters setting rules, including intellectual property, environment and state owned enterprises.

Negotiations on market access are conducted on bilateral basis and it is well known that negotiations between Japan and the U.S. on agricultural products and auto are continuing. On the side of rules, difficult issues remain unresolved, for example, in intellectual property and environment among others. Because of the comprehensive nature of TPP negotiation and because many issues are interrelated, concluding negotiation becomes an enormous challenge on time, political assets and intellectual capacity of negotiating team in each country.

In Ottawa, we were able to agree on working to the best of our abilities to resolve outstanding technical issues among the officials, identifying clearly and specifically what are political issues for political masters to decide and set a working hypothesis that would enable the Ministers to report to the Leaders when they meet for the APEC Summit in November. Obviously what Ministerial Report will say depends on progress that will be achieved by that time.

Prime Minister Shinzo Abe is fully committed in concluding TPP as soon as possible. This month, he traveled to Australia and New Zealand in the first half and will visit Latin America in the latter half when he will visit Mexico and Chile, all four countries participating in TPP. Prime Minister Abe has, and will confirm with the Leaders of these countries that Japan is committed

to working closely with these countries to conclude TPP as soon as possible. I see no shortage of political will among our TPP partners to conclude the negotiation. The remaining task is to resolve the political and technical outstanding issues, and I am confident that the results of our meeting in Ottawa will allow us to make steady progress as we move closer to the APEC Leaders' Meeting in November.

Thank you for your attention.