

Video Transcript for “The Trans-Pacific Partnership”

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So you have probably heard the word Trans-Pacific Partnership, or TPP. And TPP is a trade agreement signed by 12 countries in the Pacific area, including U.S. and Japan, last October, or October 2015. And this is really the latest of Japan’s trade policy that emphasizes the importance of free trade agreement, or sometimes called FTA, or economic partnership agreement, or EPA. And TPP is considered to be a kind of FTA, a kind of EPA.

But TPP is supposed to be more than just FTAs. It includes many countries, rather than just a bilateral trade agreement. And it covers not only trade, which is a case for free trade agreement, but covers an area of like direct investment and to some extent some labor flows as well, the flows of people as well. So today I’d like to discuss what FTAs are, what EPAs are, and what TPP is, why that is important for Japan and the U.S., and how Japan’s policy towards a trade policy changed over time and got to this stage.

So TPP is the latest stage of Japan’s trade policy which emphasizes the roles of FTAs and EPA, but Japan wasn’t always keen on pushing FTAs and EPAs. Traditionally, Japan focused more on multilateral effort like WTO, the World Trade Organization, to achieve the free trade for the world. And Japan wasn’t sympathetic to the idea of creating regional trading blocs like NAFTA or the EU, the European Union. But what happened in 1990s was the European Unions and also the North American Free Trade Agreement was created, and it looked very successful. Especially from Japan’s point of view, who was left out of those trading blocs. And Japan lost some trade with those regions. So Japan switched the strategy and started to argue that FTAs and EPAs [are] actually complementary to the multilateral efforts to create a free trading world, and Japan started to sign lots of FTA with many other countries.

And this slide shows a list of FTAs Japan signed in 2000s and 2010s. And I don’t go through all of them, but you can see there have been a lot starting from Singapore-Japan Economic Partnership Agreement, EPA, and followed by Japan-Mexico FTA and so on.

And Japan’s list of FTAs continues. Here are some signed FTAs, but not yet effective, [such as] Japan-Mongolia EPA, and TPP is also one of them that Japan signed. Oh sorry,

Japan signed TPP, but TPP is not ratified or approved by each member country. So they are in the process of ratifying TPP. And there are some important potential FTAs and EPAs that Japan is in negotiation [on].

Coming back to TPP. So TPP is, as I said, signed by 12 countries, including Japan and the U.S. But the U.S. and Japan are really a late comer to the process of TPP negotiation. TPP was originally started by four countries, New Zealand, Chile, Singapore, and Brunei back in 2005. And they added more countries who want to join the TPP. And the U.S. started negotiation in late 2000s. And Japan only joined in November of 2011. So Japan was a late comer to the process of creating or negotiating the TPP. And the TPP, as I said, was signed in October 2015 and will come into effect if enough of the 12 countries agree on, sign on, or ratify the TPP agreement.

And this graph shows the coverage of the FTAs that Japan signed so far and how much TPP would add to that. So this is a percentage of the total trade. We just add export and import and call that total trade. So that's a percentage of total trade. How much of Japan's trade is with countries that Japan already has an FTA with, and this graph shows 23 percent of the total trade of Japan is already covered by FTA. But what happens with TPP is TPP adds 17 percent to that. And it's mainly because the TPP includes the U.S., which is a very important trading partner of Japan. But even with TPP, the coverage of FTA and TPP, all of Japan's Free Trade Agreements, only reaches 40 percent of the total trade. More than half of the trade are not covered by these trading blocs or Free Trade Agreements, yet.

And the reason is, of course, TPP excludes the largest trading partner of Japan, which is China. And as this graph shows, China explains 21 percent of Japan's total trade. So if one day China can join TPP or if Japan can establish a free trade agreement with China, then more than half of Japan's total trade will be covered by FTAs or TPP. So for Japan and the rest of East Asia, the joining or encouraging of China to incorporating, or involving China, to join the Free Trade Agreement, will be an important step toward freer trade in the world.

The TPP will have an impact. And if you studied economics, you can understand the gains from trade: each country can gain by concentrating on the production of the goods and services that they are good at. And they can import the goods, which are very costly for them to produce or impossible for them to produce. For example, for Japan, it's impossible for Japan to have enough oil. They don't produce oil, so they have to import oil. And the trade is beneficial for that. So that type of impact, the gains from trade, is well understood.

But the recent economic research shows that increasing trade actually has a more beneficial impact. Not only there is a gain from trade, but also there is a dynamic impact, which increases the growth rate of the economy by introducing more competition to the

domestic economy so that each company in Japan has to improve. They have to implement more innovation and technological progress or productivity growth, so that can increase the growth rate. And also, more flows of goods and investment and people lead to more ideas for innovation, which increases the growth rate as well. And these dynamic effects of free trade are not often discussed, but it's very important.

And here I'd like to introduce a very interesting paper by Yasuyuki Todo. He's an economist in Japan. And based on many economic papers, economic research, he does a kind of back of envelope calculation, a simple calculation, which shows how much of the impact the TPP has on Japan's growth rate. Not only the level of GDP, but the growth rate, which happens every year from now on. And there are many calculations or simulations about the impact of TPP.

And overall, the mini paper seems to imply or seems to predict if Japan moves on to TPP, the trade to GDP, the trade ratio of Japan increases by 6.8 percent. And using some other economic resource papers, that can translate into the growth rate of GDP per capita by 0.18 percent. So by increasing the trade it increases the competition of the market and exchange of ideas. And that leads to the growth rate increase of .1 percent. And more important is the impact of TPP on direct investment, foreign investment, especially into Japan. And many papers estimate the inward FDI to GDP—foreign indirect investment coming into Japan—in terms of GDP, in relation to GDP is likely to increase by about 3 percent, 3.1 percent according to Todo as a result of TPP. And that means the growth rate of real GDP per capita increases by 1.3 percent.

And Japan has been growing very slowly in the last 20 years, maybe one percent or so every year. So in total, the TPP seems, is expected to increase a growth rate by 1.48 percent or 1.5 percent, which is huge for the Japanese economy. So TPP's impact on Japan is definitely positive, and most of the positive impact comes from the so-called dynamic impacts of the TPP or the trade opening to the growth rate of the economy.