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## Japan has viable options on the TPP conundrum: Why not use one?

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PULLMAN, Washington — U.S. President Barack Obama will soon head to Hawaii for the 2011 Asia-Pacific Economic Cooperation Forum, November 8-13. Hosted by the United States, it and eight other APEC economies are holding talks to reach broad outlines of a Trans-Pacific Partnership (TPP) trade agreement.

Japan has been singled out to attend with the expectation that Prime Minister Yoshihiko Noda will do as the U.S. wishes, and align Japan with APEC and the free-trade agreement.

At first blush the issue seems to be a win-win economic one for all signatories and a huge step in the right direction of nudging the world back from the protectionist sentiment that has prevailed for the past decade or more. Nothing could be further from the reality, at least for the Japanese people. One reason is that the TPP would essentially be a Japan-U.S. economic partnership because they will account for about 90 percent of the members' total GDP.

The stark reality is that the seeming economic issue has morphed into a globalization realignment between ascending superpower China and declining, debt-ridden America. Japan seems to be caught between a proverbial rock and a hard place in the struggle over military and economic dominance in East Asia. But is it really that bad?

The nine countries aligned with the TPP are Brunei, Chile, New Zealand and Singapore — who signed the original agreement, which came into force in 2006 — and five others, Australia, Malaysia, Peru, United States and Vietnam, who are negotiating to join the group.

On the last day of the APEC summit in Singapore in 2010, Obama's proposal that a target for settlement be reached at the 2011 APEC meeting was endorsed by the leaders. Obama then offered to host the meeting in Hawaii.

There are many good reasons Noda should not rush into being a TPP partner. One is that Japan has always benefited from and supported the

global trading system administered by the World Trade Organization (WTO). Entering into a giant regional free-trade agreement will inevitably undermine the global, multilateral trading system. Aligning itself with one selected group of disparate Asia-Pacific nations will cause unrest with Japan's other trade and FTA partners.

Another reason to delay the TPP is that Japan is not in a position to do anything until the WTO Doha agenda of trade negotiations is resolved. The Doha Development Agenda of multilateral trade negotiations has been ongoing since 2001. Agricultural trade reform is the centerpiece of this negotiation. Entering into a huge regional free-trade agreement involving agricultural trade should wait on the outcome of the broader Doha negotiations involving 153 WTO members. Concluding the TPP first would appear to put the cart before the horse.

A third reason is that Japan is better off just negotiating trade pacts with other individual countries so that it can be in complete control of its destiny rather than depending on the whims of nine (or more) other trading partners with which it may have no common cause.

A fourth reason is that the U.S. is leaning heavily on Japan to be a signatory, not for the benefit of the Japanese people, but for helping America's position as its self-anointed role as world manager and defender. In simple terms, why give away the store when Japan can be free and in control of its destiny?

There are four critical aspects to the above reasons why Japan should argue for more time to deliberate joining the TPP. The first is that Japan is being rushed into making a decision about facing East or West because Obama decreed that an agreement be finalized this coming November, and because the U.S. administration and Congress are at a panic point about China's rapid growth in economic and military clout. Related to that is the question: Exactly why does Japan have to continue its long held policy of bending to U.S. demands, and sign on to the TPP just because pressure being put on them in a crisis mode?

Third, and very important, does Japan have the willpower to take advantage of what actually is an opportunity to take a strong leadership position in the region rather than acting like a pawn in this giant chess game? Fourth is agriculture, which is the real game player.

The TPP is founded on classic textbook free-trade theory bolstered by the policy of completely zero tariffs being nonnegotiable among the members. Apart from Japan's tariffs on nearly all non-agricultural commodities traded with the U.S. already being very low, is that the agreement demands zero tariffs on all commodities within 10 years. The problem for Japan is that while two of its three economic sectors, manufacturing and services, might have something to gain, agriculture is its Achilles tendon. This is because signing the TPP would essentially bring about the demise of Japan's food security, reflected in its food self-

sufficiency rate plunging from the current incredibly low 39 percent to about 13 percent. Think of the cost in human capital as well as the value of land and capital stock.

Most importantly, Japanese should ask themselves how well they will sleep at night knowing that 87 percent of their food is imported, that they have little control over it.

There is a lot of rhetoric from TPP crusaders that Japan can simply solve the food security issue by restructuring its way into great economies of scale allowing it to compete in commodities in which it enjoys competitive advantages. The reality is that due to geography and lack of natural resources its cost of production in nearly all agricultural commodities and the food marketing chain will still leave it in a very high production cost position — one that cannot be overcome regardless how much the government initiates restructuring and subsidies.

A natural question still might be: Why does Japan need to have an agricultural sector anyway? The simple answer is its food-trade prisoner risk is just too high. And paradoxically China, combatant of the U.S. for domination in the region, has the ability to become a major supplier of food to Japan. This is because China is an agricultural superpower.

The fact is that Japan's cost of Japonica rice production is 6 times greater than in China. Its milk production cost is \$0.62 per kg compared with \$0.16 per kg on a medium size farm in Jilin Province near the Sea of Japan. As audacious as it might seem, but a perfect example of technological development, conceptually fresh fluid milk slurry can be flown to Tokyo for recombining with water competitively or cheaper than the same product transported there from domestic production areas.

It is a myth to believe that the U.S. and other major agricultural producing countries have the lock on agricultural systems and production. And it is a misconception that China will not grow as a powerhouse of agricultural knowledge and production so that it can continue to be more than 95 percent self-sufficient in food needs, as targeted in its recently enacted Twelfth Five-Year Plan (2011-2015). China's Plan also calls for 100 percent self-sufficiency in corn, as well as rice and wheat. It has been either a net exporter or essentially self-sufficient in rice and wheat for a decade, so meeting the plan's targets should not prove to be problematic.

If tariff levels are set too low, Japan will have crossed a bridge with no return and it will be a prisoner to one system. While loss of human, capital and other resources are an integral aspect of "trade prisoner risk" a very real problem is the potential for disruptions in securing specialized commodities and products such as Japonica rice, as well as a whole host of foods not traded internationally, or which may ultimately only be available from a low cost neighboring country specializing in it. For example, what happens if the producing country suddenly becomes

bellicose with the other and halts food shipments, or shuts off exports due to production problems as in the case of the world 2010 wheat crisis?

The point of all this is that food and agricultural commodities are not immune to use as weapons, deterrents and threats in policy application. In effect, with its technical and infrastructure development in agricultural and food production, China will increasingly have the power to influence trade decisions and leverage that power as it develops economically. This is not to denigrate China. Rather, it is to point out the reality that simply relying on any country to be a "good neighbor" or "to do the right thing and be nice" is unrealistic.

The solution to China's obligations as an agricultural superpower is to fight in the Doha WTO negotiations for the right of all countries to identify "special" and "sensitive" commodities to protect their agricultural and food security just as China essentially has, and in all likelihood, will continue to do so.

China's economic and social development also confer on it the obligation — as an agricultural superpower — to accept leadership in assuring that globalization does not lead to trade prisoner risks by a nation regardless of size, level of economic development or structure of its agricultural sector.

Conversely, the Japanese government has an obligation to its citizens to ensure they do not confront trade prisoner risk. The most compelling reason to avoid signing the TPP is that in deliberately giving away what remains of its food security Japan will lose the respect of China. Doing so will have dire consequences for its position in East Asian relations.

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