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TPP a risky venture for Japan

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PULLMAN, WASHINGTON – The Trans-Pacific Partnership (TPP) trade negotiations are a major topic in Japan, but few Americans even know about it or understand it. Those who do know about it, mainly in the business world, are quite leery of it. The TPP is not a priority for the Obama administration or Congress, both of which, like Japan, are absorbed with jobs and security. That is one reason very little attention was given to it in discussions between President Barack Obama and Prime Minister Shinzo Abe during their recent summit.

Strident calls for protection within the United States is a big reason for the Obama administration backing off from the "no exceptions to completely free trade" rule. Much more important, yet hardly touched on in events surrounding the summit, is that Obama is now focused on a trade agreement with the European Union.

The deal, titled the Trans-Atlantic Free Trade Agreement (TAFTA), would represent about 40 percent of global domestic product. It is relatively uncomplicated compared with other free trade deals like the North American Free Trade Agreement (NAFTA) and the TPP because the U.S. and EU have comparatively similar economies, and language is not an issue.

America also sells three times more to the EU than it does to China.

Two major topics that dominated the summit were jobs and security. Both the U.S. and Japan increasingly share deep concerns about China. Thus, an indirect benefit of TAFTA would be substantial power in dealing with China.

For example, a tight knit union with unified standardization of regulations on product safety, labeling, sizes and so forth would lead to encouragement for China to play by TAFTA rules, revision of the protectionism and state capitalism now in place—and strength in dealing with East Asian security issues.

One important concern about the TPP in the U.S. is that the negotiations would undermine NAFTA, the North American Free Trade Agreement passed by the U.S. Congress in 1993, and a cornerstone of North American trade policy.

Clyde Prestowitz, the trade negotiator under President Ronald Reagan, warns that the TPP would result in a loss of 200,000 jobs in the U.S., and a million jobs in the Caribbean nations that have a similar free trade agreement with the U.S. The culprit: TPP member Vietnam with its low textile production costs.

Another vexing problem on the business side is that some U.S. critics call the TPP plan "NAFTA on steroids." New Balance, for example, which produces its shoes in the U.S., also says that Vietnam would take away the jobs from Americans.

America's biotech industry is determined that any agreement must have strict "data-exclusivity" protection for biotechnology and biopharmaceutical drugs.

The TPP was founded on classic textbook free trade theory bolstered by the policy of completely zero tariffs being nonnegotiable among the members.

Imperceptibly that approach has changed dramatically over the last several months to the extent that, at the summit, the two governments released a joint statement saying that, because both countries have bilateral trade sensitivities, Japan "is not required to make a prior commitment to unilaterally eliminate all tariffs upon joining the TPP negotiations," and "the final outcome will be determined during the negotiations."

The TPP part of the summit must be vexing to the original TPP members Brunei, Chile, New Zealand and Singapore. A good question is their opinion as well as newer countries involved in the negotiations such as Australia about relaxation of strict adherence to a completely tariff free agreement. It undoubtedly is difficult for them to understand since the U.S. joined later, quickly assumed the leadership role and has espoused a hard core complete free trade policy until just recently, now that TAFTA has emerged as the focal point.

It is difficult to conceive of any quick finalization of the TPP if, indeed, the negotiating protocol does change to allow some exceptions for sensitive products.

Japan has quickly taken action on TPP following Abe's meeting with Obama. On Feb. 27, the Liberal Democratic Party Policy Research Council and Research Commission on Foreign Affairs and Economic Partnership released the "Resolution on Japan's Participation in the Negotiations of Trans-Pacific Partnership," which calls for a careful approach toward Japan's participation.

The document is a strong demand for the government to identify and protect national interests and to present clear strategies to do so. Most important is that tariffs on products of agriculture, forestry and fisheries is the lead of six issues identified, and there is great clarity about tariffs related to this sector.

The resolution states: "Sensitive products of agriculture, forestry and fisheries, such as rice, wheat and barley, beef, dairy products, and sugar, must be excluded from negotiation or subject to renegotiation for the purpose of maintaining their sustainable domestic production."

There are many good reasons that Abe should not rush into being a TPP partner. One is that if Japan aligns itself with one selected group of disparate Asia-Pacific nations, it will cause unrest with its other trade and FTA partners.

Might not Japan be 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 11 (or more) other trading partners with which it may have no common cause?

An interesting question is what will happen to the Doha Development Agenda of multilateral trade negotiations that has been ongoing since 2001.

Entering into either giant regional free trade agreement will inevitably undermine the global, multilateral trading system as Japan, the U.S. and the EU have all benefited from the World Trade Organization. And let's face it, 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?

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 is being put on them in a crisis mode? 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?

Agriculture is the real game player. The tough position in the LDP resolution regarding the TPP is the correct one because it is inconceivable that Japan lose what little remains of its food security.

That is exactly what will happen if there is significant reduction in tariffs on the commodities listed. The food self-sufficiency rate would be in danger of 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 important is for the Japanese people to ask themselves how well they will sleep at night knowing that 87 percent of their food is imported, and that they have little control over it?

In brief, the TPP problem is really an all- citizen problem and a consumer issue — not one simply related to food producers.

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 that the risk of becoming a food trade prisoner is just too high. Paradoxically China, the combatant 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 six 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. 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 the government's 12th Five-Year Plan (2011-2015).

If tariff levels are set much lower, 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 host of foods that are not traded internationally or may ultimately be available only from a low-cost neighboring country specializing in it.

Not to denigrate China, but what happens if the producing country suddenly becomes bellicose with the other and halts food shipments or shuts off exports due to production problems?

The solution for Japan is to strongly support the LDP resolution on national interests and, for very sound economic and social reasons, to strongly back Japan's multifunctional agriculture based on a system of small and medium-size farms.

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