

New Developments in Japan's Free Trade Strategy and Their Implications

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In recent years, two significant trends have emerged in global trade. On one hand, based on the unilateral idea that puts their respective national interests first, a few countries have retreated from the position of equal and mutually beneficial trade, even at the cost of fierce trade frictions with other nations. On the other hand, several large economies have adopted a positive attitude toward their free trade strategies and are endeavoring to establish “mega-free trade agreements.”¹ Their efforts are particularly represented by the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), the Japan-EU Economic Partnership Agreement (EPA), and the Regional Comprehensive Economic Partnership (RCEP). These two seemingly contradictory trends are profoundly interconnected and interact with one another. As the most proactive country in promoting mega-FTAs, Japan shows its aggressive intention of dominating the process. The study of Japan's mega-FTA strategy is of practical significance and referential value in forecasting the trends of economic globalization and regional integration, as well as in promoting China's neighborhood diplomacy and regional cooperation.

Mega-FTAs: New Direction for Japan's Free Trade Strategy

Emerging around 2010, “mega-FTA” is a relatively ambiguous descriptive

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1 “US and Chinese Involvement Key to Mega-FTAs,” *Nihon Keizai Shimbun* (evening edition), December 15, 2017, p.2.

concept, also known as “mega-regional FTA” from the perspective of the integration of global supply and value chains. The United States’ active promotion of the TPP and the TTIP under the administration of President Barack Obama led to the term being widely used in the international academic circle. A mega-FTA has three main features compared with traditional FTAs. First, in terms of mechanism, the level of integration and rules coordination among mega-FTA members are further strengthened compared with the World Trade Organization (WTO) and current FTAs. Second, in terms of content, mega-FTAs cover more diversified issues, including a large number of emerging ones. Third, mega-FTAs have no regional limitations. Like-minded members are from different regions or even around the globe, making mega-FTAs remarkably trans-regional. In short, while cooperation scale is the appearance and the very point of mega-FTAs, depth of cooperation is the essence of and lays the foundation for mega-FTAs.

Since 2017, two mega-FTAs have made great progress and Japan is member of both. On March 8, 2018, the 11 countries that had been negotiating the TPP with the US before its withdrawal signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On July 17 the same year, the Japan-EU EPA was formally signed and is due to come into effect in the first half of 2019. Japan’s initiative in promoting mega-FTAs is reflected in three areas.

First, Japan is one of the first countries to pay attention to mega-FTAs and conduct continued and in-depth research on the concept. Some high-quality research has provided policy advice for the Japanese government and serves as professional support for Japan’s global advocacy campaign. Generally speaking, the research put forward two core policy proposals and values. One is to accelerate integration of global supply and value chains so as to decrease transaction costs, lower regulatory barriers, and realize larger scale effects. As early as 2011, Japan’s IDE-JETRO conducted joint research with the World Trade Organization on trade in value added (TiVA), which laid a critical theoretical foundation for the development of mega-FTAs and played a positive role in refining and promoting the concept. Michitaka Nakatomi,

who once served as Japan's principal trade negotiator for the Ministry of Economy, Trade and Industry, played an important role in research of this area. He authored or co-authored with internationally renowned scholars a large number of papers in Japanese and English within a short time. These papers elaborated the concept of mega-FTAs and their relations with the WTO and gained strong academic influence.² The other was to emphasize rules-making and agenda-setting. Since the WTO is unable to push forward the enforcement of new international economic and trade rules at the multilateral level for the moment, Japan and other countries hope to promote mega-FTAs as a substitute for multilateral agreements or at least an intermediate form, whose system of rules can eventually proliferate around the world.³ This will also appeal to participation of developing economies since it could ease their concerns.

Second, Japan is a major force in mega-FTA negotiations. Japan's substantial efforts in promoting mega-FTAs highlight how it proactively seeks the strategic initiative and to improve its international strategic status in the economic and trade field.⁴ Before the launch of the RCEP, Japan proposed establishing a Comprehensive Economic Partnership for East Asia (CEPEA). In fact, the RCEP is a mechanism based on the CEPEA and jointly proposed and advanced by China and Japan to promote Asia-Pacific integration. The steady progress of RCEP negotiations are crucial for easing conflicts among different trade architectures in the Asia-Pacific region and coordinating the interests of all parties concerned.⁵ In July 2018, the 5th RCEP intersessional ministerial meeting was held in Tokyo, which was the first of its kind held in a non-ASEAN country. It has been the common

2 Michitaka Nakatomi, "Global Value Chain Governance and Proposal of International Supply Chain Agreement (ISCA) in a Mega-FTA Era," Research Institute of Economy, Trade and Industry (RIETI), 2013, https://www.rieti.go.jp/jp/special/special_report/062.html.

3 Fukunari Kimura, "Construction of International Rules: Investment and Competition," *International Trade & Investment*, memorial supplemental issue to No.100, 2015, pp.54-62.

4 Richard J. Samuels and Corey Wallace, "Introduction: Japan's Pivot in Asia," *International Affairs*, Vol.94 No.4, 2018, pp.703-710.

5 He Ping, "From CEPEA to RCEP: Japan's Strategic Pivot in Asia-Pacific Economic Cooperation," *Japanese Studies*, No.2, 2013.

goal of all parties to accelerate negotiations and strive to make a package of achievements by the end of 2018. So far progress has been made in customs procedures, trade facilitation and government procurement.

Japan led the negotiating efforts after the United States withdrew from the TPP. The remaining 11 countries held a ministerial meeting in May 2017, and Japan held three of the five rounds of chief negotiators' meetings thereafter. The CPTPP's launch was also jointly announced by Japan and Vietnam, which was then the host of TPP-11 ministerial meeting. In the ministerial meeting held before the CPTPP signing ceremony, all parties agreed that Japan should continue playing a coordinating role and carry out necessary functions of a secretariat. Japan has also led in ratification of the CPTPP. According to the revised agreement, the CPTPP takes effect 60 days after ratification by six signatories. In June 2018, Japan became the second country to ratify the CPTPP, right after Mexico. With the agreement taking effect on December 30, 2018, the first ministerial meeting of the CPTPP Commission was held on January 19, 2019 in Tokyo.

Finally, on the issue of reducing tariff and non-tariff barriers, Japan has shown unprecedented resolution to promote market openness and reform. Take the CPTPP for example. Driven by Japan and some other CPTPP members, 95% of the original TPP content has been kept and only 22 provisions were suspended, including 11 provisions concerning intellectual property issues such as term of protection for copyright and clinical trial data. The most controversial clauses about the Investor-State Dispute Settlement (ISDS) were also suspended. Under the CPTPP framework, Japan's trade liberalization ratio will reach 95%. The Japan-EU EPA will also remove about 94% of Japanese tariffs on the EU. It is worth mentioning that at the last minute of pursuing consensus on the CPTPP, Japan did not even try to freeze clauses or re-negotiate "untouchable" issues concerning agriculture, forestry and fisheries.⁶ In its EPA with the EU, Japan has further lowered protection for traditionally sensitive sectors such

6 Shoko Uchida, "Limits of Mega-FTAs and TPP-11," *Sekai*, No.903, January 2018, pp.222-228.

as agriculture and made relatively strong commitments to market opening despite vocal opposition from farmers and producers of cheese and wine. These commitments make positive contributions to upgrading the levels of mega-FTAs, and are closely associated with Japan's domestic factors including Prime Minister Shinzo Abe's long-term governance, structural changes in the electorate, and changes to the Liberal Democratic Party's traditional base.

Japan's Strategic Considerations in Promoting Mega-FTAs

The above-mentioned trends in Japan's FTA strategy are out of the following considerations.

Advancing implementation of Abenomics

Based on estimates and calculation of the Japanese government, the CPTPP will mean a boost of 1.49% for Japan's GDP, creating another 7.8 trillion Japanese yen of output and 460,000 more jobs. The Japan-EU EPA will raise GDP growth by 0.99% and it is estimated it will generate economic benefits for Japan of about 5.2 trillion Japanese yen.⁷ As the largest economy among the TPP-11, Japan's GDP accounts for over 40% of the CPTPP's total output. Although Canada and New Zealand, its new FTA partners in the CPTPP, jointly account for only 1.8% in Japan's foreign trade, countries like Vietnam and Malaysia are promising markets since their opening of the service sector, including retailing, banking, telecommunications and entertainment, will present huge business opportunities for Japanese enterprises. Provided that the RCEP eliminates all tariffs, it is expected to generate a 1.5% growth in Japan's real GDP. And if 50% of current non-tariff barriers are removed, there will be a 2.8% boost for Japan's GDP.⁸

7 "Economic Effect Analysis of Japan-EU EPA," Headquarters for TPP Comprehensive Measures, December 21, 2017, https://www.cas.go.jp/jp/tpp/torikumi/pdf/20171221_eutpp_bunseki.pdf.

8 Kenichi Kawasaki, "Emergent Uncertainty in Regional Integration - Economic Impacts of Alternative RTA Scenarios," GRIPS Discussion Paper 16-27, National Graduate Institute for Policy Studies, January 2017.

Based on accomplishments of the CPTPP, the Japanese government has set more ambitious goals. According to the revised Comprehensive TPP-Related Policy Framework, Japan will take the opportunity of the CPTPP and the Japan-EU EPA to become a new major exporter, strengthen its domestic industries' competitiveness and usher in a new era for agriculture. Among these goals, Japan intends to realize one trillion Japanese yen in exports of food, agricultural, forestry and aquatic products by the end of 2019, and 30 trillion yen of infrastructure contracts by 2020.⁹

Japanese enterprises are looking forward to the prospects of mega-FTAs. According to a survey conducted by Sankei Shimbun in January 2018, up to 75% of the businesses surveyed held that the CPTPP will contribute to the Japanese economy. In its policy suggestions published in 2011 and 2013, the Japan Business Federation (Keidanren) called for the government to focus on the integration and reshaping of the global supply chain and adopt a more active FTA strategy. In October 2017, Keidanren, together with the Japan Foreign Trade Council and major Japanese economic groups such as the Japan Chamber of Commerce and Industry and Japan Association of Corporate Executives, jointly published a petition titled "Seeking Early Realization of TPP-11." The petition spoke highly of Japan's leading efforts in promoting TPP negotiations, and urged all parties concerned to make minimal amendments or suspensions to the original TPP text.

Promoting domestic transformation

To protect its agriculture and other special interest groups, Japan used to be inward-looking, prudent and even conservative in the regional trade integration process, and seldom put forward ingenious initiatives or practices at the multilateral level. Since the beginning of 21st century, with an increasing number of EPAs, the Japanese society seems to have gone through some kind of "cognitive shift." While interest group politics remains a major force in forming free trade policies, the status of public interest politics is

9 "Comprehensive TPP-Related Policy Framework," Headquarters for TPP Comprehensive Measures, November 24, 2017, https://www.cas.go.jp/jp/tpp/torikumi/pdf/20171124_tpp_taikou.pdf.

on the rise.¹⁰ According to the Public Opinion Survey on Diplomacy by the Japanese Cabinet Office, in 2013, 31.9% of respondents believed that Japan should give priority to actively promoting trade and investment liberalization in its foreign economic policy. The proportion increased to 41.9%, 39.4% and 40.5% respectively each year from 2016 to 2018.¹¹ In other words, traditional impediments to trade liberalization and market openness are declining, though not completely fading away. This is the basic background of Japan's substantial progress in high-level FTAs such as the CPTPP and the Japan-EU EPA.

Of course, there is still room for improvement in Japan's market opening and domestic reform process. Therefore, more pressure from its partners in mega-FTAs is necessary. Except the EPA with Mongolia, which realized full liberalization, there are exceptions in all EPAs signed by Japan to market openness. Japan's degree of liberalization is also generally lower than its partners. From a broader economic perspective, Abenomics has been put forward and implemented for years, but has not helped Japan escape from deflationary pressure. The situation stems from delay in structural reforms of the agricultural sector and the domestic regulatory system, but is also closely related to the stagnant domestic and foreign investment. Since the climax of Japan-US trade frictions in the 1980s, outside pressure for Japan's structural reforms has been significantly decreasing.¹² It is the Japanese government's responsibility to figure out how to implement mega-FTA mechanisms in policy practices and demonstrate it to the Japanese public.

Demonstrating “proactive diplomacy for peace” of a major power

With the abdication of US leadership in the international economic system and its sharp reorientation toward economic protectionism, the gains

10 Yoichi Sekizawa, "Japan's FTA Policy: Analysis of Political Process," Institute of Social Science, The University of Tokyo Research Series No.26, January 2008, https://www.rieti.go.jp/jp/events/bbl/08032801_2.pdf.

11 "Public Opinion Survey on Diplomacy," Public Relations Office of the Cabinet Office, <https://survey.gov-online.go.jp/index-all.html>.

12 "Report of Survey Results on Effect of Mega-FTAs in East Asia and Japanese Enterprises' Response," Institute for International Trade and Investment (ITI) research series No.65, February 2018.

for Japan's national image has partly surpassed those in preferential access to foreign markets.¹³

At the country level, Japan is striving to shift from “a passive responder” to “proactive pusher” under the external pressure in foreign trade. Japan's chief TPP negotiator Kazuyoshi Umemoto said that on the issue of trade liberalization, Japan had always positioned itself on the defensive side, but for the first time with the TPP-11, Japan was able to take the lead.¹⁴ With the US withdrawing from the TPP, it has become the most important matter for Japan to consolidate its leadership in the regional trading order.¹⁵ Even US officials have repeatedly encouraged Japan to play a larger role in regional economic cooperation.¹⁶

At the global level, Japan is endeavoring to shift from an “echoer” to a “shaper” in the economic and trade agenda-setting and rules-making process. Japan has always been wishing to set up and implement rules with the United States when providing international public goods, especially those standards related to the economic system and market competition.¹⁷ Mega-FTAs like the TPP provide such an opportunity. Japan and the European Union also attached particular importance to making high-standard international rules as developed economies during their EPA negotiations.¹⁸ It is noteworthy that by the end of September 2018, Japan, the US and the EU had held four rounds of trilateral trade ministers' meeting, and they had

13 Mireya Solís, “A New Meaning for TPP - Restrain Trump-Era Protectionism,” *Nikkei Asian Review*, January 28, 2017, https://asia.nikkei.com/Viewpoints/Mireya-Solis/A-new-meaning-for-TPP-Restrain-Trump-era-protectionism?n_cid=NARAN012.

14 Cory Baird, “TPP Remains Largely Unchanged in Attempt to Lure Back U.S., Japanese Official Says,” *The Japan Times*, February 21, 2018, <https://www.japantimes.co.jp/news/2018/02/21/business/tpp-remains-largely-unchanged-attempt-lure-back-u-s-japanese-official-says>.

15 Shujiro Urata and Kensuke Yanagida, “Recommendation,” in Japan Institute for International Affairs (JIIA), *New Developments of Asia-Pacific Economic Order in the Post-TPP Era*, March 2017, p.283, http://www2.jiia.or.jp/pdf/research/H28_Post-TPP/18-recommendation_urata_yanagida.pdf.

16 Michael Froman, “US-Japan Relations and Changing Trade Situation,” *World Economic Review*, Vol.61 No.4, July 2017, pp.14-19.

17 Shigeharu Nomura, “Economic Frictions and Japan-US Relations,” in Toshitaka Takeuchi, *Japan-US Alliance: History, Mechanisms and Perspectives of Neighboring Countries*, Kyoto: Minerva Shobo, 2011, pp.153-179.

18 Shigeyasu Osabe, ed., *What Does the Japan-EU Economic Partnership Agreement Mean? Challenges and Issues about New Mega-FTAs*, Kyoto: Minerva Shobo, 2016, pp.26-27.



On March 8, 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which involves the remaining 11 signatories of the original Trans-Pacific Partnership after withdrawal of the United States, was formally signed in Santiago, Chile.

tried to express a common position in joint statements on key issues such as non-market-oriented policies and practices of third countries, industrial subsidies and state-owned enterprises, forced technology transfer, and WTO reform.

Under the Democratic Party, Prime Minister Yoshihiko Noda called on Japan to “play a leading role in making 21st-century trade and investment rules,” and the TPP rules were likely to become a system of standards to be promoted in the Asia-Pacific and even around the globe. This concept was upheld when the Liberal Democratic Party came back into power. Abe clearly stated that the TPP is the initial core of an Asia-Pacific free trade zone, and that Japan’s dominant role is of great significance. In January 2017, then Japanese Foreign Minister Fumio Kishida pointed out that “there are three major purposes for Japan’s economic diplomacy. The first is to assist

Japanese enterprises' overseas expansion. The second is to ensure a stable supply of resources and energy and support inbound foreign investment and international visitors. The last is to participate in and dominate the rules-making processes related to the above-mentioned areas.”¹⁹ If the first two objectives have always been priorities in Japan's postwar economic diplomacy, then the third one is imbued with clear-cut features of the times. In the Future Investment Strategy 2017 approved by the Abe government in June that year, it is further stated that Japan should become “the standard bearer of free trade,” “play a core role” in building a new and comprehensive economic order, and advance the process of global rules-making that is comprehensive, balanced and of high standards.”²⁰

Impacts of Japan's New FTA Strategy

Since the WTO's Doha round of trade negotiations remains stagnant, it is still difficult for all relevant parties to rebuild consensus and promote negotiations. At the regional level, trade integration in the Asia-Pacific region has entered a bottleneck period after almost 15 years of FTA development. Against these backgrounds, the adjustment in Japan's FTA strategy will have a complicated impact on Asia-Pacific regional integration.

New uncertainties for leadership in Asia-Pacific integration

The TPP can be regarded as an effort led by the United States and some like-minded nations to build a regional or multilateral trade mechanism.²¹ The US withdrawal from the TPP under the Trump administration put this coalition of the willing on the verge of collapse. According to survey by the Pacific Economic Cooperation Council, there are rising concerns over the “lack of sustained political leadership” and its adverse impacts on Asia-Pacific

19 Fumio Kishida, “Outlook of 2017: The Year of Change,” *Diplomacy*, Vol.41, 2017, pp.6-15.

20 “Future Investment Strategy 2017: Reforms to Realize Society 5.0,” Prime Minister of Japan and His Cabinet, June 9, 2017, https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/miraitousi2017_t.pdf.

21 Keisuke Iida, *The Future of Economic Hegemony: The Era of Evenly Matched US and China, and Japan's Course*, Tokyo: Chuokoron Shinsha, 2013, p.101.

free trade and investment, and developed economies are far more pessimistic compared with developing economies.²²

On economic and trade issues, Japan is no longer a mere “follower” of the United States; instead, it is endeavoring to be a “leader” that can influence the policy stance of the US. The position and attitude of the US used to be a key factor that impacted the development of Asia-Pacific regional cooperation mechanisms, as well as one decisive variable that guided Japan and other nations’ positions. However, there have been some delicate changes. In the 1990s, Japan refused to join those regional cooperation initiatives which the US did not participate in, such as the East Asia Economic Caucus, and it supported US-inclusive frameworks such as the Asia Pacific Economic Cooperation and the East Asia Summit. By contrast, the signing of the CPTPP indicates that Japan has changed its previous practices and participated, even taking the lead, in Asian regionalism without the United States.²³ Some US experts hold that Japan’s participation in the TPP gives it credibility in practicing and promoting economic liberalization, namely leadership.²⁴ The US withdrawal from the TPP has further highlighted this leadership. At the same time, other regional powers such as Australia and South Korea are seeking to increase their autonomy, adopt proactive positions and expand strategic space in the regional economic order.

Demonstration and spillover effects on other regional trade negotiation processes

These effects are highlighted in the progress of the CPTPP and the Japan-EU EPA and their indirect pressure on RCEP negotiations. From May

22 Pacific Economic Cooperation Council, *State of the Region 2016-2017*, p.46, <https://www.pecc.org/resources/regional-cooperation/2390-state-of-the-region-2016-2017/file>.

23 Yoichi Funabashi, “In America’s Absence, Japan Takes the Lead on Free Trade,” *East Asia Forum*, March 1, 2018, <http://www.eastasiaforum.org/2018/03/01/in-americas-absence-japan-takes-the-lead-on-free-trade>.

24 Mireya Solís and Saori N. Katada, “Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion: The Effect of Japan’s Trans-Pacific Partnership Participation on Asia-Pacific Regional Integration,” *New Political Economy*, Vol.20, Issue 2, 2015, pp.155-177.

2013 to May 2016, Keidanren published petitions and policy proposals three times calling for early realization of high-level RCEP and China-Japan-South Korea FTA, where TPP provisions were frequently cited. Many Japanese experts and institutions suggest that Japan could be a connection between the TPP and the RCEP by transplanting the TPP's new rules concerning investment, competition and intellectual property into the RCEP.²⁵ It is also suggested that Japan be the hub of mega-FTAs and by playing a leading role, make the RCEP a high-level economic partnership agreement.²⁶ In 2017, while the Philippines and other countries hoped to finalize RCEP negotiations on ASEAN's 50th anniversary, Japan clearly stated that "a low-level conclusion of RCEP negotiations makes no sense."²⁷ The current Foreign Minister Taro Kono also remarked that the RCEP agreement should be a high-level one; besides market access, it should reach a high-standard agreement with rules concerning e-commerce and intellectual property as soon as possible.²⁸

Other developed CPTPP members including Australia and New Zealand are also expecting a RCEP agreement with high-standard rules and high-level market openness, indicating that developed economies are moving further apart from developing economies on such issues as e-commerce in RCEP negotiations. The long-term stagnation of RCEP negotiations has caused subtle changes in ASEAN countries' attitudes. Malaysia and Thailand made clear that they expect to first establish a 13-nation framework that excludes India, Australia and New Zealand, while Vietnam is losing interest in the RCEP.²⁹ How to steadily enhance the overall level of regional free trade through the inspiration of mega-FTAs will be a huge test for Japan and other

25 Yozumi Watanabe, "Active Regional Integration in the Asia-Pacific: Perspective of World and Regional Economy," *International Affairs*, No.622, June 2013, p.17.

26 "Possibility of Japanese Economy Opened by TPP," recommendations by the Economic Growth Forum, March 1, 2016, http://www.economic-growth-forum.jp/pdf/jegf_survey160301_01.pdf.

27 "Speech by Fumio Kishida, Chairman of LDP Policy Affairs Research Council: Policy Issues in the New Cabinet," *Monthly Report of Japan Foreign Trade Council*, No.764, December 2017, pp.4-7.

28 Taro Kono, "Prospects of Japan's Diplomacy in 2018," *Diplomacy*, No.47, January 2018, pp.6-19.

29 "RCEP Negotiations Become Difficult as ASEAN Countries Have Different Expectations," *Nihon Keizai Shimbun* (morning edition), April 26, 2018, p.9.

major regional powers' sense of responsibility and accountability.

New stage of debate over regionalism and multilateralism in trade liberalization

Mega-FTAs intend to ease the “spaghetti bowl effect” in each region, but create new and complicated obstacles for international trade governance instead. As a policy attempt by some countries, mega-FTAs still cannot generate rules that can be implemented around the globe. In this sense, mega-FTAs are eroding the functions and authority of the WTO and pose new challenges to its mechanism reform and decision-making process through package deals.³⁰ Major developing economies such as BRICS countries are generally excluded from mega-FTAs, let alone small and medium-sized developing economies, which are commonly marginalized in the global economic and trade rules-making process. In the short term, mega-FTAs may intensify the fragmentation and even the exclusiveness of global trade system. The extent of fragmentation depends on the discrimination against third-party countries by major economies such as the US and the EU in these mega-FTAs, and is also determined by the policy reactions of other economies.³¹ In the face of eroding preferential treatment, African, Caribbean and Pacific developing countries will have to seek in-depth regional integration besides their domestic reforms.³²

Restraints and Challenges

At present, each mega-FTA has still limited members and diversified standards, and several of them are facing the absence of key partners or a lack

30 Richard Baldwin, “WTO 2.0 Global Governance of Supply-Chain Trade,” *Policy Insight*, No.64, Centre for Economic Policy Research, December 2012.

31 Vinod K. Aggarwal and Simon J. Evenett, “A Fragmenting Global Economy: A Weakened WTO, Mega FTAs, and Murky Protectionism,” *Swiss Political Science Review*, Vol.19, No.4, December 2013, pp.550-557.

32 Peter Draper, Simon Lacey and Yash Ramkolowan, “Mega-Regional Trade Agreements: Implications for the African, Caribbean, and Pacific Countries,” European Centre for International Political Economy (ECIPE) Occasional Paper, No.2, 2014, https://ecipec.org/wp-content/uploads/2014/12/OCC22014_.pdf.

of advancing momentum. As a result, the mega-FTAs are far from integral and certain. Whether the rules of mega-FTAs will extend to countries all over the world is still largely unknown.³³ For Japan, its free trade strategy is facing three challenges.

Relatively weak position in agenda-setting and rules-making

Within the Japan-EU EPA, the European Union is stronger than Japan in negotiations on non-tariff barriers and domestic regulatory coordination. Despite US withdrawal from the TPP, the rules and provisions of the new CPTPP has retained a strong “American imprint.”³⁴ Besides the US, Australia, Canada and Chile have all played a critical role in making rules concerning corporate social responsibility, regulatory coherence, environment, government procurement, small to medium-sized enterprises, e-commerce, etc. Japan’s role on these issues is not outstanding; instead it has fallen behind, disproportionate to its economic size.³⁵ While factors such as Japan’s relatively late participation in TPP negotiations and the pressure of domestic special interest groups have contributed to the result, the situation has also demonstrated that the transformation of Japan’s identity from a “follower” to a “shaper” in the new round of global economic and trade rules-making has just started and has a long way to go.

Gap between market openness and regulatory integration

Under competitive liberalization, the levels of market openness and regulatory integration between inside and outside mega-FTAs and even among economies within a mega-FTA are different. Labels like “new era” and “high standards” are often attached to mega-FTAs. In CPTPP and RCEP

33 Fukunari Kimura, “Construction of International Rules: Investment and Competition,” pp.54-62.

34 Todd Allee and Andrew Lugg, “Who Wrote the Rules for the Trans-Pacific Partnership?” *Research and Politics*, July-September 2016, pp.1-9.

35 Rodrigo Polanco Lazo and Sebastian Gomez Fiedler, “A Requiem for the Trans-Pacific Partnership: Something New, Something Old and Something Borrowed?” *Melbourne Journal of International Law*, No.2, December 2017, pp.298-348.

negotiations, the Japanese government has for many times expressed its expectation to act as a “bridge” and “intermediary” between developed and developing economies, but there has been an ensuing problem for Japan: how to deal with the “advanced” and “progressive” policy orientations in the mega-FTAs?

The transition from the TPP to the CPTPP has reflected this paradox and its adaptation. The freezing of 22 provisions has given the CPTPP a progressive feature while maintaining an advanced level, which seems to be a greater advantage over the TPP. On one hand, this kind of progressive approach helps gain broad recognition in the participating countries. For some countries, the US withdrawal from the TPP has also brought more buffer space and more time for adjustment on some special issues. On the other hand, it will also help attract and incorporate more members. With the settlement of the 11-nation framework and the subtle changes in regulatory standards, the threshold for joining the CPTPP has been lowered, making its subsequent expansion once again become the focus of attention.

US factor still an important variable for Japan

The United States was the initiator of the TPP mega-FTA, but the Trump administration halted the policy orientation. Its withdrawal from the TPP and suspension of TTIP negotiations has dealt a major blow to the construction of mega-FTAs. The inclusion of a “poison pill” clause in the newly signed United States-Mexico-Canada Agreement (USMCA) sets a dangerous precedent, and the global free trade agreement faces new potential risks.

The five countries of Brunei, New Zealand, Malaysia, Japan and Vietnam in the CPTPP have yet to sign FTAs with the US, among which the latter three markets’ influence on the US economy cannot be underestimated. The US beef exports to Japan exceeded US\$1 billion in 2016, but the tariff was 38.5%. This tariff will eventually be lowered to 9% for CPTPP countries, and thus inevitably put enormous competitive

pressure on the US.³⁶ The Trump administration is unlikely to return to the TPP in the short term, but the US has not completely shut the door. The mega-FTA continues to be an important issue in Japan-US relations. On September 28, 2018, leaders of the two countries announced the launch of formal negotiations for a bilateral trade agreement. The bargaining in US-Europe TTIP negotiations and US-UK bilateral FTA talks deserves close attention.

The variable of US policy is difficult to control for Japan. Despite the intention to shape US policy proactively, Japan always ends up with a passive response. For example, the CPTPP chose to freeze, instead of modifying or removing, some provisions just to leave room for the US to join. Kazuyoshi Umemoto plainly pointed out that the CPTPP has narrowed its differences with the TPP to the maximum level for the purpose of luring the US back. It is also acknowledged by a US Congressional Research Service report that, to make the US retain its interest in the TPP, the Japan-led CPTPP process chose to freeze the provisions on which there was no consensus, rather than revising them. The CPTPP is more often called TPP-11 in Japan, as if the CPTPP is an intermediate state of the TPP in the temporary absence of the United States. However, there is a thorny paradox between comeback of the United States and unfreezing of the issues: the US is the main source of controversy over the temporarily suspended issues. If the US came back to the TPP, it would probably raise higher bids on issues such as currency manipulation, dispute settlement and intellectual property rights, which would undoubtedly pose new challenges for the other 11 members.

Conclusion

At a time when global trade protectionism is on the rise, the progress of mega-FTAs is an incentive for economic globalization, which is facing challenges. In terms of economic and trade partnerships and the rules-

36 Ian F. Fergusson and Brock R. Williams, "TPP Countries Sign New CPTPP Agreement without U.S. Participation," *CRS Insight*, March 9, 2018, <https://fas.org/sgp/crs/row/IN10822.pdf>.

making system, Japan is now engaging in the CPTPP, the Japan-EU EPA, the RCEP, as well as negotiations with the US for a bilateral trade agreement. There is essentially no conflict of interests between the various mega-FTAs, which is favorable for Japan to guide the new trend on the whole, making it conform to the common interests of neighboring countries and the Asia-Pacific region.

The progress of mega-FTAs has provided new momentum for Asia-Pacific countries to strengthen cooperation. Trade liberalization and regional integration are the policy priorities advocated by China and Japan, and they can be the core issues for both sides to explore new areas of cooperation and work together to promote regional prosperity and stability. Both China and Japan are beneficiaries of economic globalization and victims of trade protectionism. The similar experience can serve as an important bond for the stability of Sino-Japanese relations. Before and after Prime Minister Abe's visit to China in October 2018, leaders of the two countries have stressed on many occasions that China and Japan should maintain cooperation and make joint efforts to safeguard international trade rules and strengthen the multilateral free trade system. The trilateral cooperation between China, Japan and South Korea is "the ship of East Asian cooperation, the anchor for regional stability, and the source of global development,"³⁷ and promoting trade liberalization and opposing protectionism hold an important position in the cooperation. In May 2018, the three countries held their first summit in two and a half years, reaching a consensus to accelerate the RCEP and China-Japan-South Korea FTA negotiations. In the context of emerging mega-FTAs, Asia-Pacific trade liberalization and regional integration are facing a major decision, which tests the strategic planning and political resolve of all parties involved. 🇺🇸

37 Cheng Yonghua, "China-Japan-South Korea Cooperation: Anchor of Regional Stability," *Nihon Keizai Shimbun* (morning edition) May 17, 2018, p.9.