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Abe's TPP Strategy: Overcoming Domestic Division through Reform?

By Theresa Robles

Synopsis

Abe's recent announcement of Japan's intention to join the TPP is seen not only as an important vehicle to expand trade and investment opportunities but also as a way to reposition the country as a major regional power.

Commentary

THE ANNOUNCEMENT by Prime Minister Shinzo Abe on 15 March 2013 of Japan's intention to join the Trans-Pacific Partnership (TPP) has stepped up the momentum of negotiations for the trans-oceanic trade and investment arrangement. The prospective entry of the world's third largest economy will significantly broaden the TPP's reach and impact on the Asia-Pacific trading system.

Promoted by US President Obama as the linchpin to foster economic integration in the region by enhancing trade and investment among the partner countries, the TPP was touted as a "high quality" agreement. It seeks to go beyond reduction of tariffs to required stricter labour and environmental standards and liberalisation of the services sector among others.

Abenomics in action

Until Abe's announcement, the momentum since the TPP was launched in 2011 had risen and dipped as negotiations stalled on contentious areas such as textiles and regulation. More pressing domestic concerns have also pushed the TPP down the agenda of some partner countries, as seen in the United States during the run-up to the 2012 presidential elections.

Proponents of the TPP view Japan's accession as essential for the country's ailing economy to tap into the expanding trade and investment opportunities in the Asia Pacific. Abe is not the first to acknowledge the benefits of TPP membership as his two predecessors, Naoto Kan and Yoshihiko Noda, also tried to sell the idea of joining the TPP. But their efforts failed, mainly due to opposition from politically powerful agriculture groups who fear that the influx of cheap produce will harm the farming sector.

While it may seem that Japan's stake in the TPP is mainly driven by trade concerns, Abe's approach to the TPP belies this notion. A closer look reveals that what transpires following the recent announcement will have deeper implications on Japan's future beyond greater trade opportunities and stiffer competition in agriculture

products.

Abe was elected in December 2012 as Japan's seventh prime minister in six years, with the hope that the country's economy can finally break out of years of sluggish growth under his leadership. "Abenomics", the prime minister's grand plan to lift the economy to recovery, consists of "three arrows" with the first two already underway. Abe's bold moves to push for monetary easing and fiscal stimulus earned widespread public support, helping put his approval ratings to around 70% in recent polls. Markets have also responded positively with stronger share prices and a lower yen.

The third arrow is long-term economic growth, of which participation in the TPP is a key component. Aside from the trading opportunities it will bring, it is also hoped that joining the TPP will provide the needed push for Japan to embark on structural reforms to improve the country's competitiveness. Keidanren (Japan Business Federation) one of the country's largest business groups counting membership from over 100 local industry associations, also made a strong case for the TPP, arguing that Japanese exporters will benefit from easier access to foreign markets.

Bridging rhetoric and reality

However, unlike the first two arrows which faced minimal political opposition as it did not encroach on any powerful vested interests, joining the TPP risks antagonising the agriculture sector. Japanese farmers benefit from one of the highest levels of agricultural protection in the world, with half of average incomes drawn from subsidies and price supports. Even before Abe issued a formal announcement, 4,000 people representing Japan's largest farm lobby and consumer groups staged a rally to protest against the country's participation in the TPP.

The ruling Liberal Democratic Party has long counted on support from this group and its endorsement was given with the condition that Abe secure exemptions for certain agricultural products such as beef, rice and wheat.

Despite the sharp division in support from local industry groups, general public support for the TPP is high. A survey conducted by local newspaper Asahi indicates that 71% of voters agreed with how Abe is handling Japan's participation in the TPP. But the positive response is not a simple reflection of the public's perceptions of the effects of TPP on the country's economy. The Japanese government released projections of the actual economic impact of TPP participation and the net effect shows a relatively small increase in Japan's GDP by 0.66% (roughly US\$33 billion).

'Japan is back'

Beyond this, Abe's strategy and rhetoric show that the TPP is valued as a precursor to the revival of Japan, not just as an economic force but also as a major regional power. As Abe emphasised in a speech he delivered during his trip to Washington last February, "Japan is back". The repercussions of this positioning are two-fold:

Firstly, Abe's strategy helped shape his image as a decisive, reform-oriented leader and this has encouraged the public to consider the TPP as a first step towards the implementation of long-overdue structural reform in the country. Some are sceptical that Abe will have the wherewithal to carry out such deep changes—the real test of reform commitment will not come till much later as the announcement alone does not carry any obligations. Abe will avoid stoking further tensions as the Upper House elections in July draws closer.

Secondly, the TPP is also seen as an important tool to strengthen US-Japan alliance and key to the country's geopolitical strategy vis-a-vis China. The public is cognisant of the fact that economic revival also hinges on Japan's security and the TPP will cement the country's status as a key economic and geopolitical leader in the region.

Viewed through these lenses, it can be argued that expectations may be difficult to manage. Japan still has several hurdles to overcome before it is fully recognised as a TPP member country. While Abe's strategy might work now the success of his second term as prime minister will be determined by his ability and commitment to follow through.

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