



JAPAN UPDATE: Abenomics, the Trans-Pacific Partnership, and Economic Opportunities for Texas

Program Summary

Introduction

“Abenomics, The Trans-Pacific Partnership, and Economic Opportunities for Texas” was the theme of a special half-day program organized and hosted by the Japan-America Society of Dallas-Fort Worth (JASDFW) on February 11, 2014. With generous support of a grant from the Sasakawa Foundation and travel sponsorship provided by American Airlines, JASDFW brought together four premier experts to speak at its Japan Update program at the Westin Galleria Hotel in Dallas, Texas.

Important economic reforms, commonly referred to as “Abenomics,” are underway in Japan to revive an economy that has been stagnant for nearly two decades. The Trans-Pacific Partnership (TPP) free trade agreement, currently in its final stage of negotiation, involving the United States, Japan, and 10 other countries in the Asia Pacific region will open a new era of free trade among these economies that already account for 40% of the global GDP and 26% of the world’s trade. For the U.S., this would be the most important free trade agreement since the North America Free Trade Agreement (NAFTA) was signed with Canada and Mexico 20 years ago. For Japan, it would be an unprecedented opening of its domestic market and deepening of its integration into the global economy. Bilateral trade in goods and services between the U.S. and Japan, the world’s first and third largest economies, is valued at \$267 billion annually. And Texas, which has the second largest GDP among U.S states and \$45 billion in exports of goods and services to Asia in 2012, stands to benefit enormously from passage of the TPP.

Therefore, JASDFW was honored to have Ambassador Wendy Cutler, Acting Deputy U.S. Trade Representative who is responsible for U.S. trade negotiations and enforcement in Asia and Africa; Dr. Fukunari Kimura, Professor of Economics at Keio University in Tokyo and Chief Economist of the Economic Research Institute for ASEAN and East Asia; Dr. Michelle Michot Foss, Chief Energy Economist at the Center for Energy Economics, Bureau of Economic Geology, at the University of Texas at Austin; and Mr. Christopher A. Poinsette, Executive Vice President and Chief Financial Office for Dallas/Fort Worth International Airport, speak at the Japan Update program.

Highlights from “Abenomics, The Trans-Pacific Partnership, and Economic Opportunities for Texas”

TPP: A Historic and Strategic Free Trade Agreement for the U.S. and Japan

Former U.S. Trade Representative and Mayor of Dallas Ambassador Ron Kirk introduced Deputy Cutler, whom he noted had worked closely with him at USTR during his tenure from 2009 to 2013. He lauded her professionalism, dedication, and the deep experience she brings to the complex and complicated international trade negotiations, and remarked that these are strengths much needed to bring the historic TPP to its conclusion and to secure passage by the U.S. Congress.

In her speech, Deputy Cutler called attention to the fact that, unlike in the past when outside pressure had a major role in pushing Japan to liberalize trade, Japan’s decision to enter the TPP negotiations is driven by the recognition that it must spur greater competitiveness in its economy. Japan’s entry into the TPP talks, though much later than most other parties, made the TPP even more potential impactful because Japan is the world’s third largest economy and an ally of critical strategic importance to the United States. Japan, in her view, came well prepared to the talks because it shares interests in key issues like intellectual property protection in an increasingly knowledge-driven global economy.

For the United States, Deputy Cutler underscored the TPP is the “cornerstone” of the Obama administration’s economic policy in the Asia Pacific and its strategy to rebalance to Asia. As the U.S. economy continues to regain its momentum, passage of the TPP has the potential to generate an estimated \$124 billion in exports to the region. For Texas where one in six jobs is linked to international trade—or about 1.2 million jobs—and some 53% of its exports are going to TPP countries, this free trade agreement will open new markets, create new jobs, and bring in new investments (about 1,000 companies from TPP countries already have a presence in Texas).

TPP talks are entering the final stage after three-and-a-half years of intensive work for all the parties involved. As is typical in negotiations, she noted that some complex issues are left to the end stage so there is still much to be done in the coming weeks when parties will reconvene. At this point, agricultural issues are the main sticking points with Japan. While Prime Minister Shintaro Abe of Japan acknowledges that agricultural sector reform is important, this is a sector that has traditionally been most resistant to trade liberalization. Japan wants exceptions for five key farm products: rice, wheat, beef and pork, dairy products, and sugar. However, granting Japan these exceptions would allow other parties to the TPP to claim similar exceptions. The result would be a lower level of trade liberalization than the parties had hoped for.

Beyond concluding the TPP with negotiating parties, there is one more critical step: getting the U.S. Congress to ratify it. Towards this end, Deputy Cutler said she and her USTR colleagues are in intensive consultation with members of Congress and various important U.S. stakeholders to secure bipartisan support for the TPP. Further, the Obama administration hopes to use trade promotion authority, a fast-track procedure that gives the U.S. Congress an up-or-down vote without amendment to the agreement, to secure ratification of the TPP.

Interest in Japan's economic reform and the TPP was clearly strong among the event's participants. Representatives from business, research, and government organizations had many questions for Deputy Cutler. Among them was a call for more engagement with the U.S. public to educate them about the TPP. At present, it seems there is general broad ignorance about TPP in the U.S. and the voices that have spoken out are mainly against it. Public support for the TPP will help persuade the U.S. Congress to ratify the TPP. As for the quality of the TPP, Deputy Cutler explained that it would be more comprehensive (29 chapters) than all previous free trade agreements to create a leveled playing field. The TPP will address issues such as state-owned companies and digital trade and intellectual property protection in addition to traditional concerns like tariff and non-tariff trade requirements. As for concerns that the TPP might undermine the current round of global trade liberalization talks, Deputy Cutler took the view that the TPP can spur bilateral and multilateral trade talks as what is agreed to in TPP can be leveraged in the multilateral trade system. Finally, Deputy Cutler noted that although China is not a negotiating party to the TPP, it appears to have taken a positive interest in it since new leadership took the reigns in Beijing in spring 2013. She reported receiving more queries from the Chinese about the TPP, including how China might become a party to the TPP. As a result, USTR is providing updates on the TPP to China and it continues negotiation with Beijing for a comprehensive bilateral investment treaty.

TPP: A Crucial Piece of Abenomics

As emphasized in Deputy Cutler's keynote address, the TPP has a vital role in economic reforms underway in Japan under the government of Prime Minister Abe. Known commonly as "Abenomics" in Japan, the economic reforms center on three "arrows." The first two are monetary and fiscal policies. By devaluing the Japanese yen and raising consumption tax to 8% starting April 1, 2014 and eventually to 10% by October 2015, these actions have sparked an increase in exports and investor confidence. Yet, these two arrows are necessary but not sufficient. A third arrow is needed: growth strategies. Japan needs to promote investment, strengthen utilization of its human resources, create new markets, and increase integration in the global economy. For these reasons, Japan needs TPP and decided to be a part of it—belatedly, though, in March 2013 (but barely four months after Abe took office in 2012).

In contrast to the United States, the TPP is a widely known in Japan. A majority of people in Japan across the nation and all age groups seem to be in favor of the TPP

as they recognize that economic reforms, including trade liberalization, are essential to re-energize the Japanese economy and create new jobs. Japanese industry, too, is more willing to embrace trade liberalization than ever before as Japanese businesses are expanding their production networks in East Asia and embracing globalization as a way to stay competitive when the domestic population in Japan is shrinking. And it's not just big business supporting globalization. Small- and medium-size enterprises and labor unions, too, support globalization. They recognize a new international division of labor is the new reality for Japan. Japan must go higher up the value chain to have well-paid jobs at home.

Thus, even as there are more than 30 books produced by the Japan's National Federation of Agricultural Co-operative Associations to oppose agricultural trade liberalization, public opinion is not on their side. Dr. Kimura cited a public opinion polls in Japan consistently found support for TPP, including one in January 2014 that reported 60% of respondents favoring TPP and agricultural trade liberalization. Indeed, the TPP would bring about the first substantial reform to the agricultural sector in Japan in a quarter of a century. Dr. Kimura reported that resistance to agricultural trade liberalization is coming from Abe's own party, the ruling Liberal Democratic Party, which has long relied on votes from farmers. Thus, Japan asks to maintain protection for rice, wheat, beef and pork, dairy products, and sugar, but that would only remove up to 95% of the tariff lines, short of the 99% or 100% targeted.

Given broad public support for the TPP in Japan, Dr. Kimura is not worried about Japan backing out of TPP. Rather, in his view, "solid commitment of the U.S. is the key" to concluding the TPP when the U.S. public is by comparison largely uninformed about the TPP and political support for it is weak.

As in the keynote address by Deputy Cutler, many questions and comments followed Dr. Kimura's presentation. Of particular note is his observation that Abe has made reform the centerpiece of his administration but it is not clear how far reformists can make change happen. The Japanese government bureaucracy, responsible for rule making and enforcement, is a powerful force. Also, the increase in consumption, in his view, is a way to get the rich to pay more taxes when income tax in Japan is already progressive. While it would ease the country's fiscal situation, more importantly in the long term, consumer confidence has to grow and that requires a stronger, more competitive economy.

(See Dr. Kimura's slide presentation.)

Many Factors Will Affect the Future of U.S. Energy Exports

Recently the gravity of energy supply has shifted from the Middle East to North America while the gravity of energy demand has shifted from the Western countries to the Asia-Pacific. The negotiation of the TPP will influence trade and energy flows in the Asia-Pacific. Should we expect changes in the potential trade flows of energy? What is the perspective of infrastructure to make oil and gas reserves deliverable? Dr. Foss emphasizes that reserves of oil and gas do not necessary mean that they are available resources. She argues that for the export of U.S. oil and gas, the U.S. definitely needs strategic decision-making.

(See Dr. Foss's slide presentation.)

DFW Airport is a Partner for Economic Growth in North Texas

The DFW Airport is recognized as the premier inland cargo hub of the U.S. and is connected to 17 major cargo hubs around the world. Japan is the third largest trading partner for the DFW, next to China and South Korea. Oil field equipment, industrial goods and equipment, and machinery account for 55% of exports from the DFW area to Asia. The large share (31% of the total export) of oil field equipment is unique in the DFW area. The DFW is reaching its 40th anniversary and has started a major renovation beginning with Terminal A.

(See Mr. Poinsette's slide presentation.)

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