

UDC 339.5(520)  
Bibliid 0543-3657, 68 (2017)  
Vol. LXVIII, No. 1168, pp. 7–22  
Original Scientific Paper

## THE ADVANTAGES AND CHALLENGES OF JAPANESE MEMBERSHIP IN THE TRANS-PACIFIC PARTNERSHIP

Nataša STANOJEVIĆ<sup>1</sup>  
Mahmoud MASADEH<sup>2</sup>

*Abstract:* Joining of Japan to the Trans-Pacific Partnership has attracted the attention and launched controversy in the Japanese and international community. The essence of the disagreement is a question whether the membership in this wide integration will provide more benefits or disadvantages to the highly developed, but also highly protected Japanese economy.

The advantages of joining of Japan to the TPP have been identified using two basic quantitative tools: the *real effective exchange rate*, which suggests the potential export markets, relying on its purchasing power, and second, the *coefficient of conformity* to calculate structural adjustment between the Japanese export and the import of the suggested markets. The results of both analyses, like a previous analysis of other authors and institutions, show a great opportunity for Japanese industry.

Some of the expected challenges for Japanese economy are also analysed, especially the danger of excessive opening of some of the most protected sectors of the Japanese economy and weak agriculture facing strong competition from other members.

This paper shows the sidedness and simplification of both kinds of previous assessment about “great” perspective of Japanese industry, but also of the “collapse” of Japanese agriculture.

---

<sup>1</sup> Nataša Stanojević, High school of academic study “Dositej”, Trg Nikole Pašića 7, 11000 Belgrade, Republic of Serbia, natasa1171@gmail.com

<sup>2</sup> Mahmoud Masadeh, General Directorate of Gendarmerie of Kingdom of Jordan, Amman, Jordan  
The paper is a part of research on the Ministry of Science project: *Enhancing public policies in Serbia as a function of the improvement of social security of citizens and sustainable economic development*, III47004.

Second, the same results of the research show that, in the light of the recent abandonment of Partnership by new American President Donald Trump, Japan found itself in an unenviable position. Further implementation of the Agreement can have only harmful consequences on the Japanese economy.

*Key words:* Trans-Pacific Partnership, Japan, tariffs, agriculture, industry.

*JEL codes:* F15, F17

## INTRODUCTION

The Trans-Pacific Partnership (TPP) has its origins in a trade agreement established in 2006 between Singapore, New Zealand, Chile, and Brunei. Seeing the potential gains of a rule-based international order in Asia, the United States, Australia, Peru and Vietnam joined the negotiations in March 2010. They were followed by Malaysia, Mexico, Canada, and finally, Japan which began the talks on participating in the TPP with other countries in 2011 and formally joined the negotiations in July 2013.

In October 2015, twelve participating countries reached an agreement and the TPP Agreement was signed on 4<sup>th</sup> February 2016. Today the Trans-Pacific Partnership is the largest existing free-trade area, bigger than the European Union, with around 40% of the world GDP.

Like other trade deals, the Trans-Pacific Partnership implies a significant reduction of tariffs and other barriers between the member countries. The Preamble of TPP Agreement states that "the Parties resolving to establish a comprehensive regional agreement that promotes economic integration to liberalize trade and investment, economic growth and bring social benefits, create new opportunities for workers and businesses, contribute to raising living standard, benefits consumers, reduce poverty and promote sustainable growth." Simply said, the objective of Trans-Pacific Partnership is relaxing regulations for foreign companies entering the partners' markets. Each member country, including Japan, expects that the membership will provide the new opportunities to their companies.

The most important goal is to identify potential markets and domestic products which can increase Japanese export as a result of opening the markets of TPP members. This will be calculated by two standard economic tools: competitiveness indicator and coefficient of conformity.

The general opinion is that trade liberalization would deepen the gap between its "winning" and "losing" industries. The benefits can be expected from eased export regulations and the rise in domestic production of automobiles, electronic, optical and photo equipment, steel products could be expected.

However, Japanese economic activities are weak, uncompetitive and overprotected. One example is agriculture. When it comes to farm products, the increase in import and devastation of domestic production is expected.

The potential advantages and challenges of eliminating tariffs and tariff-rate quotas in Japan and other TPP members will be assessed. The aim of this research is not just to investigate and describe the potential benefits and disadvantages of Japanese membership in TPP, but to show sidedness and simplification of both perceptions.

Further, following a decision of the new president of USA Donald Trump, from January 23, 2017 to leave the TPP (just one month after the adoption of the resolution on joining the TPP in the Japanese parliament), the second aim of this research is to assess whether there are still reasons for Japan's membership in the Partnership.

### **PREVIOUS ASSESSMENT OF EFFECTS OF JAPANESE MEMBERSHIP IN TPP**

According to the Japanese government forecast, the participation of Japan in the TPP will increase the growth of GDP by 0.66% (Cabinet Secretariat, 2013). The assessment is based on a standard equilibrium model and includes direct impacts of lowering or removal of trade and investment barriers. The positive effects, such an increase of export of favourite Japanese industries (around 6 trillion yen), a possible growth of import in weak parts of the Japanese economy, particularly agriculture, and decrease of agriculture production for 3 trillion yen, is calculated.

In one of the significant researches of the TPP effect on the Japanese economy, Lee and Itakura (2014) used a dynamic general equilibrium model, similar to a standard general equilibrium used by the Japanese government. The difference between the static and dynamic general equilibrium model is in the inclusion of ownership and international capital mobility in the dynamic model. In this way “it captures important FTA effects on investment and wealth that are missed by a static model” (Lee and Itakura, 2014, p. 4). The results are similar. These authors estimated the income gains to be 0.8 percent.

Kawasaki K. (2011) has also got similar results of 0.8% of Japanese GDP growth. “Trade liberalization would not boost the economy by around 1% each year, and its effects should not be overestimated.”

Some other researchers are more optimistic. Petri and Plummer (2012) included some other factors such an inward investment and improving services productivity in their model. They estimate that Japan's GDP in 2020 will be about 2% bigger if Japan participates in the TPP (Petri and Plummer, 2012, p. 80).

All of the authors mentioned ignore the exchange-rate impact. The absence of exchange-rate in many actual researches is noticed only by Kawasaki (2011) who said: “Furthermore, with regard to effects on prices, the impact of exchange-rate fluctuations is probably larger than that of the removal of tariffs.”

Therefore, we will use the standard economic tools, such a *competitiveness indicator* for eliminating too uncompetitive economies like potential markets for Japanese products, and *coefficient of conformity*, which will show the compatibility between the export of Japan and the import of other TPP member countries.

### **ASSESSMENT OF JAPANESE ADVANTAGES OF TPP MEMBERSHIP**

One of the basic tools for assessing a potential export of one country to another is the competitiveness indicator - the ratio of currency of potential trading partners (the real effective exchange rate). The competitiveness indicator will give us a preliminary assessment about a potential export of Japan to other members of TPP. Since the other members of TPP will also deregulate and open their economies, it is necessary first to separate “rich” from “poor” economies from the perspective of Japan and, in fact, to assess their capacities for import of Japanese products. If some TPP member countries have extremely lower value of currency than Japanese yen, they will be left out from further research.

The real effective exchange rate as one of the basic competitiveness indicators is calculated using the following formula:

$$q = E \times P / P^* \quad (1)$$

where:

q = real effective exchange rate

E = nominal effective exchange rate (currencies per unit of JPY in December 2016)

P = index of domestic prices in Japan

P\* = index of foreign prices

The expected results are strong competitiveness of Japan in economies with higher purchasing power: Brunei, with the highest income per capita among the TPP members, followed by the USA, Australia and Canada. The other members have a weaker performance per capita than Japan, but that does not necessarily show weak competitiveness in these markets because it is highly dependable on the nominal exchange rate.

The real effective exchange rate is already given in the World Bank Database, but we cannot use it for two reasons. First, there are no data for three out of the twelve member countries of TPP: Vietnam, Peru and Brunei. Second, the latest

data in the WB Basis are related to 2014, and as we see later, the currency of some members, including Japanese yen, was significantly decreasing, with the TPP negotiations coming to an end.

A price level is the average of current prices across the entire spectrum of goods and services produced in the economy. The most common price level index is the Consumer Price Index (CPI), but in this case, maybe a more appropriate (but not too different) is the *Producer Price Index*- the average change in the price of goods and services sold by manufacturers and producers in the wholesale market. It will be used during the last quarter of 2016.

The results of competitiveness indicator (given in table 1) are partly unexpected.

Table 1. The real effective exchange rate of Japan and other members of TPP

Country	E	P	P*	RER
Australia	0.012	99.5	106.1	0.011
Canada	0.012	99.5	109.1	0.011
Malaysia	0.037	99.5	99.6	0.037
Mexico	0.161	99.5	105.8	0.151
Peru	0.031	99.5	104.10	0.030
US	0.009	99.5	109.6	0.008
Vietnam	208	99.5	99.3	208.419
Chile	6.19	99.5	109.8	5.609
Brunei	0.013	99.5	103.2	0.013
Singapore	0.013	99.5	71.4	0.018
New Zealand	0.013	99.5	103.7	0.012

Source: Author's calculation based on Trading economics for P and P\*

The expected results are that Japanese goods are not competitive in the market of Vietnam and Chile due to their weak economies and therefore a low value of their currency (Vietnamese Dong - VND and Chilean peso – CLP). The expected results are also the competitiveness of Japan in economies with higher purchasing power: Brunei, the USA, Australia and Canada. But, Japanese competitiveness in Malaysia, Peru, New Zealand, and even in Mexico is really surprising. The explanation is (again) in undervalued Japanese yen.

So, the real effective exchange rate suggests Japanese competitiveness in the markets of New Zealand, the USA, Brunei, Singapore, Malaysia, Canada, Mexico

and Peru. These nine economies will be taken for further analysis. The remaining two will not be analyzed in this part of research because of extremely lower real effective exchange rate and low competitiveness of Japan in these markets. Economies of Vietnam and Chile have a great advantage over Japan because of the significantly lower price. These economies will appear rather as an exporter to Japan, and a serious threat to Japanese producers.

Using the competitiveness indicator, we find WHERE Japan has a chance to increase its export, but it is not enough for a successful trading strategy. It is necessary to find WHAT Japan can export to each of the selected countries. The next analysis relates to the structural compatibility of Japanese export with the import demand of the selected nine members of TPP. That could be explained by a classical statistical economic apparatus, using a *coefficient of conformity* (CC), which is calculated according to the following formula:

$$CC = \frac{\sum_{i=1}^n X_i M_i}{\sqrt{(\sum_{i=1}^n X_i X_i)(\sum_{i=1}^n M_i M_i)}} \quad (2)$$

where:

X is exports,

M is imports,

*i* shows different product groups.

The coefficient of conformity of Japanese export will be applied on nine TPP members, marked as targets for increasing export. But, the calculation of export potential for the all Japanese goods in these countries is too extensive and useless. Instead, the focus will be on five most important export products of Japanese industry, which already have a significant advantage and a special place in the world market. This product group is the only one that is expected. This is the only group likely to increase the export to the selected TPP members.

We defined these groups of products on the basis of UN Comtrade data on the export of particular products, and by calculating its share in overall Japanese export. Table 2 shows only the average value since the complete data on the value and share of import of selected goods in the TPP partners in the 2012-2015 period will be given in Annex 1.

Table 2. Share of the key Japan export commodities in overall export (%)

Year	HS 87	HS 85	HS 90	HS 72, HS 73	HS 89
2012	20.390	15.745	6.799	6.883	2.784
2013	20.773	15.119	6.584	6.823	2.151
2014	20.648	15.053	6.904	6.727	1.871
2015	21.447	15.271	6.821	6.043	1.825

Source: Author calculation based on UNCOMTRADE database

**Legend**

HS 90 - Optical, photo, medical apparatus

HS 87 - Vehicles other than railway, tramway

HS 72 - Iron and steel

HS 73- its` articles

HS 85 - Electrical, electronic equipment HS 89 - Ships, boats and other floating structures

The most competitive and the most developed Japanese industries, measured by its share in overall Japanese export are the following: vehicles industry, electronic equipment and machine production, optical, photo and medical apparatus, iron and steel products, and ships and boats industry. The significant advantage of the chapter of the Agreement allows buying more parts from Asia, even from non-TPP members. Japan expects benefits for its auto-industry, buying cheaper parts from countries such as China, and then selling vehicles with reduced tariffs to the markets such as the U.S.

On the basis of these data, the *coefficient of conformity* for every of five selected types of goods in every of nine potential export partners in the TPP will be calculated. Theoretically, the value of the coefficient of conformity is in the 0-1 range, where the value closer to 1 signifies the higher structural similarity between the export of the one country and import of another country. In other words, the higher the values of the conformity coefficient, the more compatible the export/import structures of the two countries will be.

*Table 3. Contribution of selected commodities to the CC between Japanese exports and TPP member-countries*

	<b>HS 87</b>	<b>HS 85</b>	<b>HS 90</b>	<b>HS 72,HS 73</b>	<b>HS 89</b>
Australia	0.9935	1.0000	0.9989	0.9990	0.9376
Brunei	0.9996	0.9914	0.9886	0.9715	0.5974
Canada	1.0000	0.9998	0.9997	0.9972	0.9866
Malaysia	0.9983	0.9998	0.9977	0.9950	0.9635
Mexico	0.9998	0.9999	0.9985	0.9966	0.8894
New Zealand	0.9979	0.9994	0.9999	0.9999	0.9335
Peru	0.9943	0.9970	0.9985	0.9981	0.9222
Singapore	0.9981	0.9998	0.9993	0.9999	0.8072
USA	0.9991	0.9995	0.9997	0.9980	0.9743
Average	0.9978	0.9985	0.9979	0.9950	0.8902

Source: Author calculation based on the UN COMTRADE data

As it is expected, the most important industries of Japan show an extremely high structural similarity between Japanese export and other members' import. When it comes to cars, electronics, optical and photo equipment and iron and steel, the coefficient of conformity is almost 1, which is the highest possible value. The production of ships and boats alone has a slightly lower value of CC, amounting 0.89, which is also very high. By inclusion of the remaining two countries, Vietnam and Chile, we will probably get a similarly high value of the coefficient of conformity because these countries also have a significant import of cars and electronics, but not from Japan.

The high coefficient of conformity itself does not mean that Japan will increase export to the TPP member countries simply by joining this integration. In reality, there are some circumstances which complicate this seemingly shiny perspective of Japanese industry. Actually, international economic relations (trade and investment) between Japan and the analysed countries have specificities-some of them support, and some deny the statistical results obtained, and some are very blurry for an accurate prediction. So, Japan has to make a particular export strategy for each analysed country. Despite the high coefficient of conformity, it does not have a prospect for increasing export in all of these countries.

In the first part of the research, we have excluded Vietnam and Chile due to the elementary competitiveness indicators - the real effective exchange rate. Mexico and Peru also have relatively weak economies and the overall import. The prediction

about increasing export of Japanese relatively expensive products on these markets is not realistic.

The main specificity of trade relations between Japan with North and South America is the Japanese production at the territory of the United States. So, the coefficient of conformity shows that Japanese export perfectly matches Canada and Latin Americas` countries, it is close to the maximum of 1. But, in reality, these countries import a relatively low number of vehicles from Japan. In the case of Mexican or Peruvian import of Japanese goods, it happens across the USA, and thus is not visible in trade statistics. Let us take Mexico, for example. According to the data of the UN Comtrade, the overall value of imported vehicles in Mexico in 2015 was around 37 billion USD, but the import of vehicles from Japan was only 3.7 billion USD, or 10%. However, the import from the US was 20 billion USD, respectively more than 55%. Canada imported in 2015 cars for 67 billion USD, and 44 billion or 66% was imported from the USA.

The trade of electronics additionally reinforces the fact that Japanese products are actually not a significant part of the import of TPP countries. According to the UN Comtrade, Canada and Australia import around 55-60% of electronics from the USA and China, while the import from Japan amounts only 0.025%. It is important to point out that the coefficient of conformity of electrical and electronic equipment for Canada is 0.9998.

According to the theory, the facts we have calculated and displayed – a favourable real effective exchange rate, high value of coefficient of conformity and disproportional low value of export should be and can be interpreted as the unused potential of Japanese industry in these countries, with recommendation for Japan to find ways to increase export to them. But this would sound like a very simple conclusion.

A range of the TPP agreement in the respect of promoting Japanese industry is quite limited.

First, the main target of Japanese industry is the U.S. and Canada, but its tariffs on electronics, cars and automobile parts were relatively low and before the TPP agreement, so further lowering of customs cannot provide a significant export increase. Besides, the phase-out period for the duty on cars, specified in the TPP agreement is too long (25 years in the U.S.). On the other hand, the tax on other targeted industries such as trucks, pickups and commercial vans, will remain 25% in the U.S. for the next 30 years.

The second reason for the absence of optimism for the increasing export of Japanese industry is the fact that Japanese cars are usually made in the place of demand. In the contemporary globalized, “borderless” world, as Kenichi Ohme called it, the trade statistics and consequently the most economic tools manifested many weaknesses.

When it comes to Japanese vehicles, a great deal of them that is imported from South and North America is actually the import from Japanese car companies which are based in the US - Honda, Nissan, and Toyota. Japanese FDI in the United States started an impressive growth during the 1980s and continued to increase until now. The cumulative Japan's FDI in the United States in 2013 was 342 billion USD (OII, 2014, p. 3). These were mostly investments of Japanese electronics companies and auto producers. According to official reports of these Japanese companies, about 94% of all Honda vehicles, 71% of all Toyota vehicles and 76% of Nissan vehicles sold in the U.S. were made in the U.S. That means that a certain amount of Mexican 55% and Canadian 66% import from the U.S. is actually the import of Japanese vehicles.

As we can see, the U.S. appears as a major producer in the region, but it is well known that the U.S. no longer manufactures that much at home. Even the production of foreign companies in the U.S. is a small part of the goods which American firms produce in the less developed countries and sell worldwide.

Back in 1990, in his famous books *Borderless world* and *The End of the Nation State*, Kenichi Ohme revealed that there is neither American trade deficit nor Japanese surplus in their exchange, as is commonly thought. He said: *the flows of activity measured by official trade statistics represent a tiny and steadily diminishing share of the economic linkages between the two countries. These data, remember, do not count the revenues from services, license or from goods manufactured by U.S. firm in third countries but sold in Japan, or from goods both manufactured and sold in Japan by U.S. firms* (Kenichi, 1996, p. 17). It is clear that this also applies to the opposite situation—the Japanese goods manufactured and sold in the U.S. or manufactured in the U.S. and sold to the third countries which are not included in any statistics.

Similar doubts are present in the case of Japanese export to Asian countries—Malaysia, Singapore, and Vietnam. The origin of all produced, exported and imported goods is under a question in these countries. Namely, a few countries of East and Southeast Asia besides Japan, such as China, South Korea, Singapore, Hong Kong, Taiwan, and partly Thailand, Malaysia, Philippines, are so intertwined that they make a global production chain of electric devices (TV, computers, mobile phones, etc.) and parts for those electric devices, automobile and automobile parts, including those made of iron and steel, as well as car electronics, etc. So, a lot of countries are involved in the production of goods selected as favourites of Japanese industry, and all of them have cheaper production than Japan.

However, it is not our intention to deny the advantage that provides matching Japan's exports and imports of the TPP countries, as well as the reduction of tariffs and non-tariff barriers in the context of integration. We intend only to point out the rather limited positive effect of international integration general.

## THE ASSESSMENT OF JAPANESE CHALLENGES OF TPP MEMBERSHIP

The management of the Japanese economy has always been largely centralized. The close cooperation of the Government and the private industrial sector is one of the most important features of the Japanese economy.

The policy of industrialization carried out by the Japanese government has led to the emergence of excessive borrowing (the practice which continues nowadays) and which implies that the central bank has issued loans to city banks that lend to industrial conglomerates.

The government granted bank loans and import licenses to favoured industries and companies, which would protect them from foreign competition in the initial period. The aim was to improve this branch of the domestic market first, and then focus on large export activity. During this period, companies have been worried about profitability because the government stood behind their business. “Japanese companies did not care much about the share price or market confidence since they are rarely funded by selling their shares or bonds” (Krugman, 2010, p. 61) because they are funded by central bank loans.

Because of high profit of healthy and strong Japanese industries, the government had resources for keeping alive unprofitable industries. The weak parts of the Japanese economy, protected from any kind of competition, have never grown and through the decades became just more dependent on state subsidies.

The radical opening within the TPP can be a serious threat to Japanese uncompetitive industries. We should have in mind that Japan has the highest protective measures (tariff and non-tariff barriers) since the existing barriers in the US, Canada and Australian market are already quite low. So, removing all barriers is a big opportunity for the US, Canadian and Australian highly productive agricultures to take advantage of the Japanese market, with their twice cheaper agricultural products. The usual consequences (temporarily theoretical) of deregulation and elimination of subsidies are “high unemployment, declining tax income, an extensive corporate restructuring – this is not the kind of to which the Japanese system can easily adapt” (Kenichi, 1996, p. 66).

The discussions between the United States and Japan focused on trade in automobiles and car parts, seen as a Japanese advantage since manufacturing is not so important in American business, but also in insurance and other financial services and market access to agricultural goods, which are the strengths of the American economy (Congress, p. 12).

Agriculture is the most sensitive part of the Japanese economy and society. The main characteristic of Japanese agriculture is the fragmentation of landholdings (the average size of a rural possession ranges from 0.7 ha to 3.5 ha from south to

the north of the country), which is a major obstacle to productivity. The government encourages agriculture by national security, in order to have a certain degree of self-sufficiency in the supply of food. Subsidies are much higher than in other developed economies and the customs and non-tariff restrictions on the import of certain products have reached the world record.

Japan has agreed to abolish tariffs on 81% of 2,328 agricultural, forestry and fisheries imports. This is more than in any other free trade agreement concluded by Japan, but it is lower than any other participating country. Tariffs will be “abolished to 30% of imports and the five so-called *sensitive* categories (rice, wheat and barley, beef and pork, dairy products, and sugar)” (Mulgan, 2015).

Rice is the most important and most widespread agricultural product. This is also the most important food of the Japanese population. Import of rice is thus the most protected, the tariffs are extremely high (778%). Also, the import is quantitatively limited. The long history of excessive state support and protection, in addition to small plots and old population, which is typical of the entire Japanese agriculture, has resulted in the uncompetitive and poorly equipped production of rice, although intense, in comparison with other sectors of the Japanese economy and with international development. The international rice prices are about half of the domestic ones. This may force some Japanese buyers to give up the procurement of local varieties of rice. The influx of cheaper rice may lower the price of the domestic variety, and a further decline would harm the producers.

That is the reason why Japanese farmers, especially rice farmers, and their representatives argued against the TPP membership. The Japan Agricultural Cooperative (JA) organization also took the offensive. That organization claims that farmers will certainly face the competition with major exporters such as the United States (Mulgan, 2015). They believe that, in the case that Japan’s government did not put the high tariffs and other protective measures on food import, Japanese agriculture would be significantly harmed by foreign competition (Cooper, 2014, p. 12).

In contrast to the general panic and negative expectations of Japanese farmers and their organizations, the Ministry of Agriculture, Forestry and Fisheries (MAFF) concluded that there will be no significant increase in imports. That conclusion is based on the fact that Japan, during the negotiations, achieved an important advantage by lowering tariffs on agricultural products significantly less in comparison with other members. The Japanese government summarized the obligation tacked under the TPP agreement and Akira Amari, the economy minister in charge of the TPP negotiations, announced (October 20, 2015) that only about 30% of 586 sensitive (agriculture) products will become tariff-free.

In the TPP negotiations, Japan adhered to the position of not allowing the elimination of its rice tariffs, just to increase import quotas (TPP Deal, Appendix A, p. 41). The potentially higher import will be weighed with the same tariff (778%)

so, it will be uncompetitive for Japanese production like it was before joining the TPP. Safeguard measures are predicted for oranges, rice, and soya powder.

The only serious problem for Japanese farmers is the import of meat. Joining the TPP, Japan agreed to decrease the customs duty on beef imports from the current 38.5% to 27.5% in the first year after the TPP takes effect, and will then be gradually lowered to 9% (TPP Deal, Appendix B1). This is a significant reduction in customs and, according to the assessment of US Congressional Research Service (McMinimy, 2016, p. 2) “Japan is likely the leading agricultural market opportunity (for American farmers) in the TPP due to its highly-protected farm and food markets, large population, and high per capita gross domestic product.” Japan is even now a leading market in the world for U.S. wheat, beef, pork and pork product exports and second for rice export.

## 5. CONCLUSIONS

The “shiny” perspective of Japanese industry, the “collapse“ of agriculture, especially rice production as an “Achilles Heel” of its economy, expected in the Japanese and the world public, predicted in the majority of previous researches and proved in this one, are a bit blurred.

Speaking of weak industries, we mentioned that Japan’s tariff elimination on some vulnerable agriculture productions under the TPP is smaller than those of other members. Just about 30% of sensitive products will become tariff-free. Additionally, in the TPP negotiations about the trade status of rice, as more important Japanese crop, food, and a source of great social turmoil and protests, Japan has succeeded in requesting a huge advantage of not allowing the elimination of its rice world record customs duties, just a slight increase in import quotas. Japan provided relatively high protection to other important agricultural products, so it is not realistic to expect any agricultural disasters.

Despite the results of many statistical analyses using dynamic and standard general equilibrium, and two different statistical analyses in this research, it is not realistic to expect that the Japanese industry will become significantly more competitive in the market of developed TPP members just because of certain tariff reductions in these countries. The all cited and calculated statistical analyses are correct, but this can be used just as an indicator for potential export markets and products, and not as a solution or a conclusion.

There are a few economic and non-economic factors which undermine the assumptions.

First, in the contemporary globalized world, because of the “borderless” production, the trade statistics show many weaknesses in the reality of every open world economy. The benefit of Japanese membership in the TPP is not the

inevitability, which would have been the case earlier, before the process of globalization that has led to almost erased borders in economic activity. Today, the majority of Japanese products of the automobile, electronic and steel industry, which are sold in other TPP member countries, are not exported but produced on the territory of demand country or in the third countries. That is the reason why lowering already low customs duties in the USA, Canada, Australia, does not have a special significance.

Second, as a compensation for a special treatment of its weak parts of the economy, Japan will remove tariffs to almost all of its “strong” industrial products imported from the TPP nations. Additionally, there is one more disadvantage for the Japanese automobile industry. It has increased quotas for import of American automobiles, which means that all the potential benefits in this industry will be probably annulled.

In fact, it is more realistic to expect the advantage of non-member countries in the production chain of East and Southeast Asia, which will sell their semi-products and various parts to the TPP market over Malaysia, Singapore and Vietnam more easily.

As we have shown, the economic benefits of Japanese TPP membership are modest and involve many risks. But, it is not our intention to argue that Japan entered the Trans-Pacific Partnership carelessly without any benefits. The Japanese government is never careless, and it joined the TPP after years of doubt, planning, making strategies, and struggles with internal resistance. Judging by the measures undertaken (devaluation of yen, agreements with non-member countries in the region, introducing Japanese technology in the value chain out of the region and the TPP group, etc.), the Japanese government is perfectly aware of the potential losses that some weaker sectors of agriculture will suffer. It is probably also aware that the economic benefits for Japanese favourite industries are not so significant.

The only explanation of Japanese joining to the TPP is that its motivation is not just economic by its nature. The great importance of the Trans-Pacific Partnership lies more in its strategic potential than in trade liberalization. A great Japanese problem, but also American, is a growing China’s economic and security role in the Asian-Pacific region for more than 20 years, significantly degrading Japanese and American regional leadership role. The Japanese government gave a priority to strengthening relations and the security alliance with the USA.

Following the decision of the new US President Donald Trump to give up on the TPP membership, Japan stays without the only promised advantage – a potential expansion to the highly attractive American market. On the other hand, the risks of “opening” of agriculture as the weakest sector, will not disappear, due to the stronger competition of all other member countries.

In light of the abandonment of the Trans-Pacific integration by the USA, it can be said that the further implementation of the TPP agreement could have disastrous consequences for the Japanese economy.

## LITERATURE

- Cooper, W. (2014). U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options, *Congressional Research Service*, RL32649.
- Kawasaki, K. (2011). Truths and Falsehoods about TPP: Revitalizing the economy by “opening up the country”, *RIETI*, Research Institute of Economy, Trade and Industry - [www.rieti.go.jp/en/columns/a01\\_0301.html](http://www.rieti.go.jp/en/columns/a01_0301.html) (accessed May 2, 2017).
- Krugman, P. (2009). *The Return of Depression Economics and the Crisis of 2008*, W. W. Norton & Company.
- Lee, H., & Itakura, K. (2014). TPP, RCEP, and Japan’s Agricultural Policy Reforms, Osaka School of International Public Policy OSIPP Discussion Paper, DP-2014-E-003, Osaka.
- McMinimy, M. (2016). American Agriculture and the Trans-Pacific Partnership (TPP) Agreement, *Congressional Research Service* R44337.
- Mulgan, A. (2015). What does the TPP mean for Japan’s agricultural sector? *East Asian Forum* - [www.eastasiaforum.org/2015/11/19/what-does-the-tpp-mean-for-japan-agricultural-sector](http://www.eastasiaforum.org/2015/11/19/what-does-the-tpp-mean-for-japan-agricultural-sector) (accessed May 07.2017).
- Ohmae, K. (1999). *The borderless world, Power and Strategy in the Interlinked Economy*, Harper Business.
- Ohmae, K. (1996). *The End of the Nation State*, Harper-Collins Publisher.
- Organization for International Investment (2014). *Foreign Direct Investment in the United States - 2014 Report*, Organization for International Investment, Washington, DC.
- Petri, P., & Plummer, M. (2012). The Trans-Pacific Partnership and Asia-Pacific integration: Policy implications, *Asia-Pacific Trade*, Peterson Institute for International Economics, Policy Brief PB12-16 - [http://asiapacifictrade.org/?page\\_id=2](http://asiapacifictrade.org/?page_id=2) (accessed May 15.2017).
- Petri, P., Plummer, M. & Zhai, F. (2011) The Trans-Pacific Partnership and Asia-Pacific Integration: a Quantitative Assessment, *East-West Centre Working Papers* No. 119.
- Petri, P., & Plummer, M. (2016). The Economic Effects of the Trans-Pacific Partnership: New Estimates, Peterson Institute for International Economics, *Working Paper* No. 16-2.
- Trans-Pacific Partnership Deal* – available on <https://ustr.gov/tpp> (8. May 2017).
- UNCOMTRADE database - <http://comtrade.un.org/>.S. Department of State (2016). U.S. Relations with Japan, Bureau of East Asian and Pacific Affairs [www.state.gov/r/pa/ei/bgn/4142.htm](http://www.state.gov/r/pa/ei/bgn/4142.htm)

Nataša STANOJEVIĆ  
Mahmoud MASADEH

### **PREDNOSTI I IZAZOVI JAPANSKOG ČLANSTVA U TRANS-PACIFIKOM PARTNERSTVU**

*Apstrakt:* Pridruživanje Japana Trans-pacifičkom partnerstvu (TPP) privuklo je pažnju i pokrenulo brojne kontroverze u japanskoj ali i međunarodnoj zajednici. Okosnica neslaganja je pitanje da li pridruživanje ovoj širokoj međunarodnoj integraciji donosi više koristi ili šteta visoko razvijenoj, ali i veoma zaštićenoj japanskoj privredi.

Prednosti ulaska Japana u TPP su identifikovane korišćenjem dva osnovna kvantitativna alata: realni efektivni kurs, koji predlaže potencijalna izvozna tržišta, oslanjajući se na kupovnu moć, i drugo, koeficijent podudarnosti, kojim se izračunava strukturna usaglašenost japanskog izvoza sa uvozom predloženih tržišta. Rezultati obe analize, kao i prethodnih istraživanja drugih autora i institucija, ukazuju na značajne mogućnosti za napredovanje japanske industrije.

Takođe su analizirani neki od očekivanih izazova za japansku privredu, naročito opasnost od prekomernog otvaranja nekih od najzaštićenijih sektora japanske ekonomije i slabe poljoprivrede, koje bi se suočile sa snažnom konkurencijom drugih članica TPP.

Ovaj rad ukazuje na jednostranost i pojednostavljenje prethodnih procena o „sjajnoj” perspektivi japanske industrije, ali i „kolapsu” japanske poljoprivrede.

Drugo, isti rezultati istraživanja pokazuju da se, u svetlu nedavnog napuštanja Partnerstva od strane novog američkog predsednika Donalda Trampa, Japan našao u nezavidnom položaju. Dalja primena Sporazuma može imati samo štetne posledice na japansku ekonomiju.

*Ključne reči:* Trans-pacifičko partnerstvo, Japan, carine, poljoprivreda, industrija.

Received: 25.05.2017.

Revised: 09.08.2017

Accepted: 05.09.2017