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THE GEOPOLITICS OF EPAs IN THE ASIA-PACIFIC

The New Post-TPP Economic Order in the Asia-Pacific

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In shaping the new global trade architecture, the Trans-Pacific Partnership (TPP) talks that currently involve 12 countries have reached a final stage. Their aim is to create a “21st-century agreement” that will achieve a high level of trade liberalization and comprehensive rules. Focused on the Asia-Pacific region as the engine of global economic growth, the TPP will become the first “mega-cross regional FTA.” TPP member countries accounted for 37% of world GDP and 25% of world trade in 2013. In the long run, the TPP will potentially open the way for the creation of the APEC-wide FTA named the Free Trade Area of the Asia-Pacific (FTAAP) in the Leaders’ Declaration at the APEC meeting in Yokohama. APEC member economies were collectively responsible for 57% of world GDP and 46% of world trade in 2013.

The TPP is an important element in promoting economic growth in the Asia-Pacific region through boosting trade and investment. The benefits of the TPP stem not only from reducing on-the-border-barriers such as tariffs and customs costs, but also from addressing behind-the-border-barriers such as regulatory and transparency issues. The latter would boost foreign direct investments (FDI) in TPP countries. According to the estimates of Peter Petri et al., the income gains of the TPP would increase by about 40% when including FDI effects. Thus, it is expected that effectuation of the TPP would cause major changes in the trade and investment flows in the Asia-Pacific region.

From a politico-economic point of view, it is plausible that mega-cross-regional FTA will play a leading role in shaping the new global trade architecture while the Doha Round negotiations are at an impasse. A successful conclusion to the TPP negotiations will definitely affect the negotiation processes of the other mega-cross-regional FTA such as the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP), as well as the future of the WTO system.

The TPP also has geopolitical implications. Undeniably, there are countries that would find it difficult to keep up with the high levels of liberalization and the ambitious extent of rulemaking sought by the TPP. Even though the TPP is a multinational trade agreement, it still inherently differentiates, if not

discriminates, against non-member countries. This is evident from estimates showing that, in the TPP12 scenario, Japan would gain US\$105 billion and the USA would gain US\$77 billion whereas China would lose US\$35 billion in 2025 from the baseline. Beyond the scope of economic benefits, this has important implications for political and security circumstances in this region.

From this perspective, particular attention is being given to moves taken by China, the world's second largest economy. The prevailing view is that China will face difficulties in satisfying the levels of liberalization as well as the various sets of rules demanded by the TPP. China can be seen as actively striving to advance alternative options such as the RCEP and FTAAP and more recently the establishment of the Asian Infrastructure Investment Bank (AIIB) to counterbalance the TPP. On the other hand, there is growing pressure on the US, which regards the TPP as a means for the US to rebalance toward the Asia-Pacific. President Obama in his recent interview with the Wall Street Journal said, "If we don't write the rules, China will write the rules out in that region."

There are also concerns about the risk of economic disparities within the region growing even larger when some countries, especially developing countries whose markets are not very open, are excluded from the TPP. In this regard, ASEAN may be divided between TPP participants and non-participants, and there are concerns that the least developed ASEAN member states will be left behind.

Attention must also be paid broadly to the trade strategies of other countries such as South Korea and Taiwan as well as those of Latin America. Consequently, analysis of the directions in which trade strategies are being steered, and especially the positions of major countries and regions toward the TPP, will help us to better understand each country's foreign policy and shed light on the path toward regional stability and prosperity.

On the domestic side, intense market competition is expected in the wake of trade liberalization. The risks need to be mitigated by putting in place structural reform policies such as labor market reform, promotion of small and medium enterprises, regulatory and governance reforms, as well as social safety nets. These are, in fact, in line with the so-called third arrow of "Abenomics."

Thus, it is necessary to analyze accurately the dynamic changes in a post-TPP scenario as well as the risks arising therefrom, and thereby make clear the issues to

be addressed and the paths to be taken to ensure sustained economic growth and inclusive economic integration in the Asia-Pacific region.