

**THE CPTPP: A KEY STRATEGIC ADVANTAGE FOR JAPAN TO
ADVANCE ITS LEADERSHIP IN THE PACIFIC**

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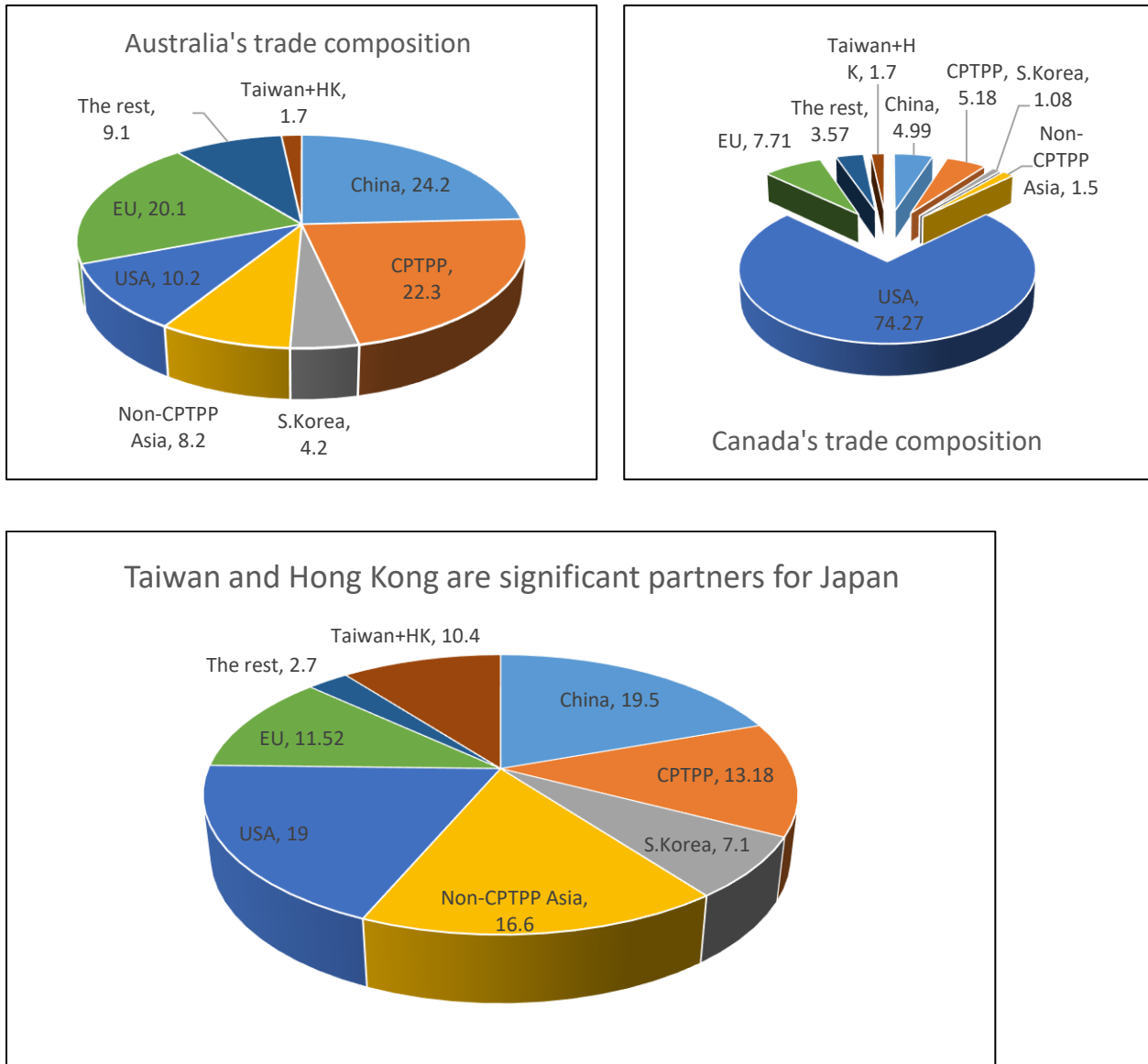
Introduction

The new trade architecture settled by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) seems a distant reality in the midst of the crisis created by the COVID-19 pandemic. This mega free trade agreement (FTA) was posed to expand not only economic integration in the Pacific Rim but also the international liberal order, as Professor Hiroki Takeuchi asserts in this volume. The CPTPP became a rule-setting benchmark difficult to surpass by its main competitor, the China-led Regional Comprehensive Economic Partnership (RCEP). If anything, the pandemic has exacerbated lingering protectionist instincts in most countries in the Asia Pacific. Decisions to reshore key industrial supply chains, especially ones feeding medical and pharmaceutical needs, are already trumping the idea of building regional supply chains enshrined in the agreement.

It is too early to tell what the significance of the CPTPP in the near future will be. The CPTPP created an architecture of trade liberalization like no other, and Japan was the principal catalyzer of this outcome. Japan managed to convince the other 10 remaining partners (after the United States withdrawal) that the only road to make the United States come back is through a TPP-11. As Mireya Solís stated, “Japan’s resurrection of the Trans-Pacific Partnership is to date its most transformative display of trade leadership.”¹ Without question, Japan’s leadership and commitment to a high-standard free trade agreement paved the way to finish a difficult negotiation and to a successful ratification of the majority of the member parties.

This article argues that after ratification, Japan holds the balance of power within the CPTPP for three important reasons. First, Japan has a unique strategic advantage. It had the most diversified portfolio of trade partnerships among the leading economies within the agreement. This is an enviable situation, considering that the other two middle powers within the CPTPP had a rather sloped distribution of partnerships: Canada excessively depends on the United States and Australia’s exports are significantly tilted toward China. Japan has strategically played these cards, either toward securing better access and benefits from China due to the significant weight of Taiwan and Hong Kong in its own trade and investment portfolio, or by holding its support of future admissions as part of a broader agenda with the United States in the Pacific Rim, including its willingness to counterbalance any security threat coming from China. This position undoubtedly helped Japan fast-forward a bilateral FTA with the United States at a moment when the Trump administration was closing the door on FTAs in general. The graphs below illustrate how the structure of export partnerships gives an edge to Japan over Australia and Canada.

Figure 1. Trade composition

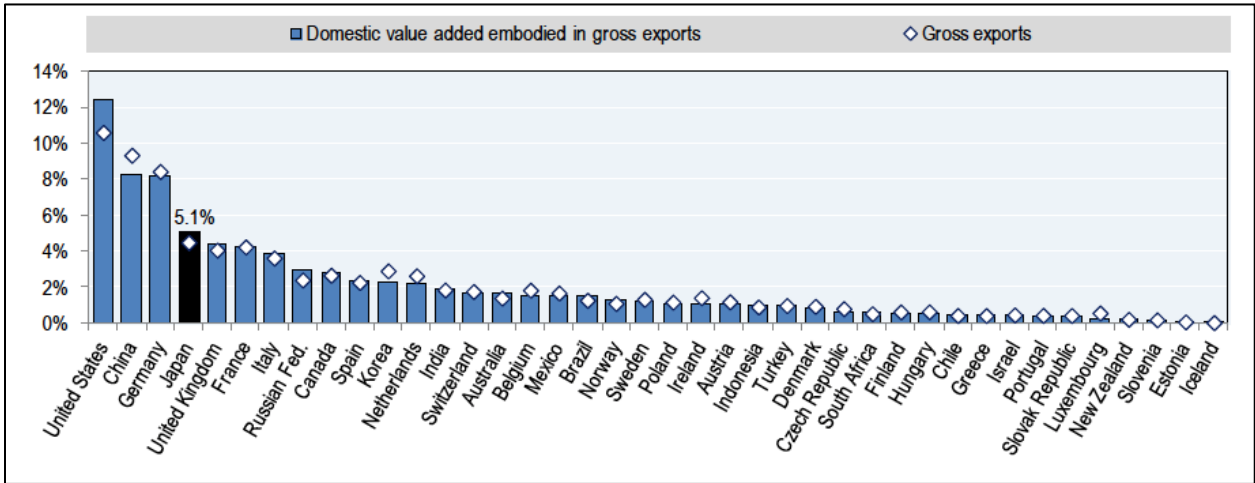


Source: ITC Trade Map (2019), <https://www.trademap.org/Index.aspx>

Moreover, Japan has become one of the main advocates for new accessions to the CPTPP for Thailand, Indonesia, and the Philippines, which are represented in the large non-CPTPP Asian countries, where 16.6 percent of Japan's exports go. However, the main balancing act depends on the significant weight of Taiwan and Hong Kong. The distribution of trade shows a clear reason why: together, the two represent more than 10 percent of Japanese exports. Japan can leverage these cards both ways—to secure the relationship with China, but also to counterbalance the United States with a promise to support the autonomy of both territories against the One-China policy.

Second, Japan is the leader in all global value chain (GVC) related exports in goods and services within the CPTPP partnership. A close look at the composition of exports to the area shows that at least 70 percent of exports are value chain related. Within that 70 percent, Japan is leading value creation across the different tiers of the production network. Japan leads the creation of value in the automotive sector and the transportation industry including tracks, trains, and heavy-duty equipment. Even more, Japan controls the branding, the knowledge production, and the machineries to produce many industrial lines. In the absence of U.S. membership, no other country comes close to this significant advantage within the CPTPP. According to the 2019 World Bank Report on the subject, Japan controls the largest GVC in Asia.² Japan is the fourth-largest contributor of value-added in gross exports among OECD members.³

Figure 2. Export shares across countries, gross and value-added terms, 2009



Source: OECD, *Global Value Chains: Japan (2013)*, <http://www.oecd.org/sti/ind/GVCs%20-%20JAPAN.pdf>

In addition to controlling the top tiers of global value chains, Japan is also the leading investor of information and communication technologies in the Pacific, with significant investments in this sector in mainland China and Hong Kong. Japan is the largest provider of foreign direct investment in the Asia Pacific, and half of that investment goes to China and Hong Kong. President Donald Trump’s demand of repatriation of foreign assets and investments strengthened Japan’s position in developing Asia as a source of investment on innovation more than ever before.⁴

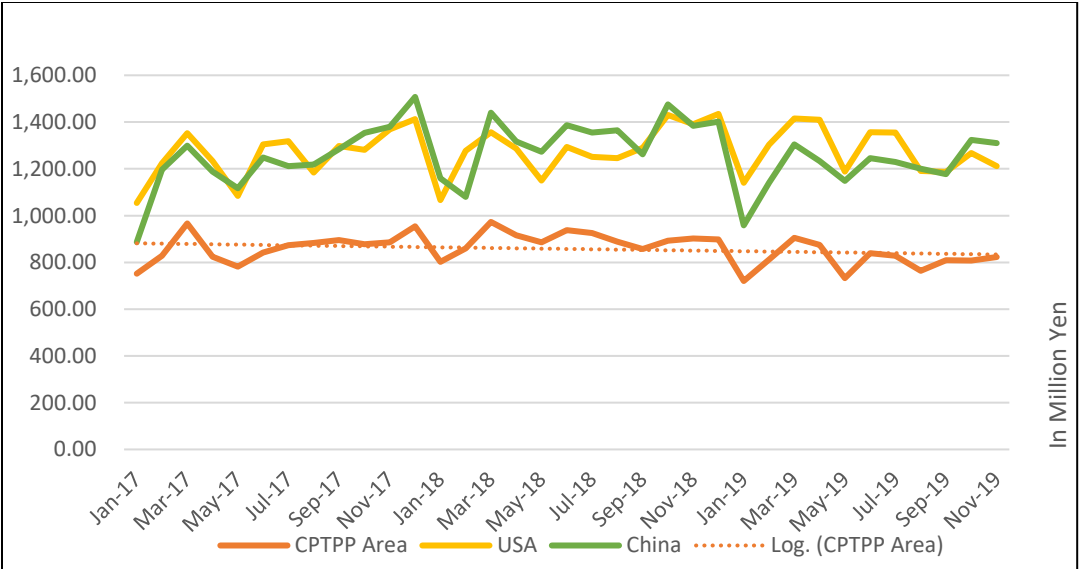
Third, Japan holds the leadership in knowledge creation in the Pacific, and now it is the largest source of monetization of knowledge for its economy. According to ESCAP, Japan captures more than 60 percent of royalties coming from intellectual property rights in the Pacific. South Korea is at a distant second place with 11 percent.⁵ This makes Japan the most important player not only in trade and investment, but also in knowledge creation and trade in services in the new partnership. In the future, this element alone will give Japan an edge in the partnership. It will

also maintain its leverage vis-à-vis the United States and China, as Japan is transitioning faster than any other partner in the Pacific into the area of automation and artificial intelligence (AI) and has become the largest exporter of automated machinery in the Pacific. Japan’s market for AI is calculated at US\$4B.

Japan’s Performance Under the CPTPP in the First Year of Implementation

Holding the balance of power within the partnership does not necessarily mean improved exporting performance. The structural conditions that had enabled Japan to roll out the partnership have not helped to boost exports within the area, at least not in the first year after the agreement entered into force. Japan is facing the same stasis from three years ago, with the compound average growth rate (CAGR) barely above 0.4 percent. This detrimental performance has, of course, been worsened by the U.S.-China trade war, as Japan heavily depends on both for its largest export sector, the automotive and transportation industry. As the graph below shows, exports to the CPTPP area slowed down at the same pace as exports to the United States and China did. The slowdown evidenced Japan’s strong connections in the technology sector and the strong reliance on global value chains.

Figure 3. Japan’s exports to the CPTPP, China, and the United States

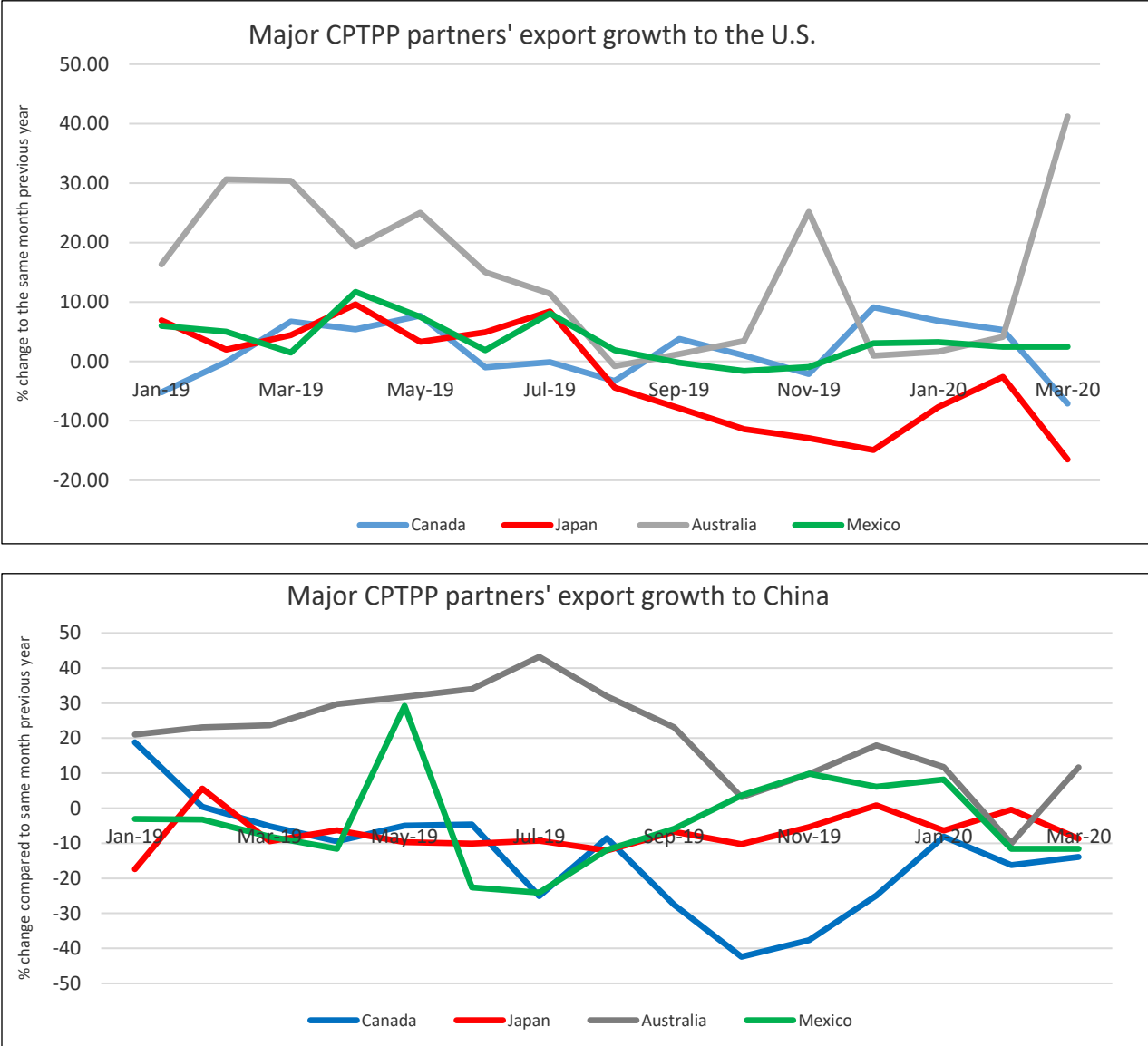


Source: Japan Bureau of Statistics, Trade Statistics (2020), <https://www.e-stat.go.jp/en/>

And since Japan is one of the leaders of GVCs in the Pacific (the other being China), it was little surprise the performance was so dim. To be sure, it seems the CPTPP did not change the long-term trends of Japan’s trade performance. In fact, export growth remains stagnant since 2017 in terms of volume, albeit it grew in value by double digits by 2018. Export growth was unfavourable even compared to the other two fellow large economies of the partnership, Canada and Australia. Canada had a better turnout despite being dragged into the U.S.-China trade war

through the arrest and consecutive trial of Huawei’s executive, Meng Wanzhou.⁶ Australia did increase its trade within the CPTPP, but not by much. The general trend of the last 36 months can be seen in the graphs below, where a cyclical trend line is evident for the three countries when measured against their exports to China and the United States. The graphs below show Japan’s export growth compared to other major CPTPP economies. The immediate takeaway from the trend line is that China has become a steady and predictable market for Japan, while the U.S. market is eroding rapidly even after Japan secured a trade deal with the Trump administration. Japan’s major partners seem to be facing similar challenges, with the exception of Australia, which has managed to increase exports to both the United States and China.

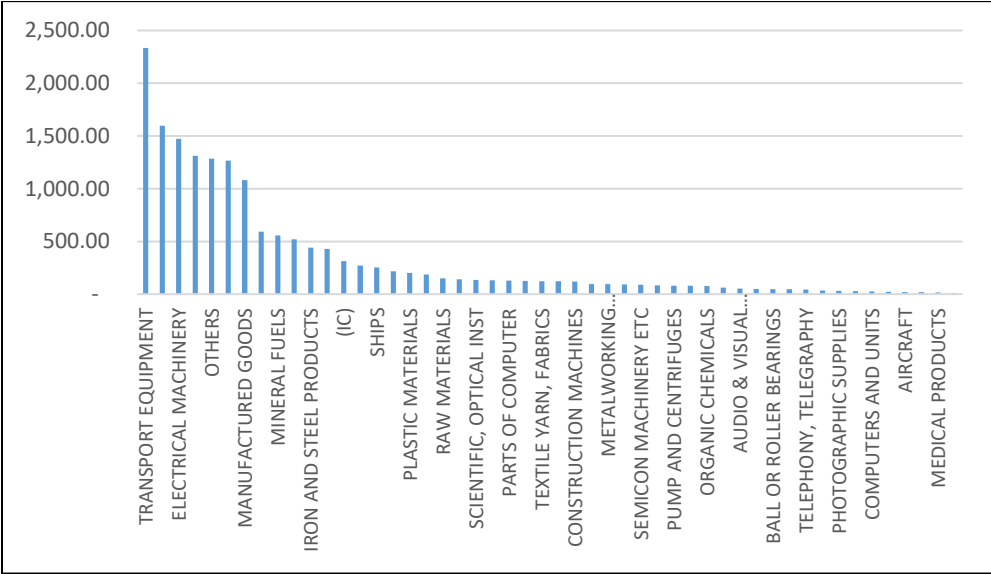
Figure 4. Major CPTPP partners’ export growth to the United States and to China



Sources: Bureaus of Statistics of Japan, Australia, Canada, and Mexico, 2020⁷

It is also clear that exports to the United States have suffered more disruptions than the ones going to China in the first quarter of 2020—the first months where the impact of COVID-19 was felt across the globe. Although the general trends do not indicate any strong increase in export growth, the good news for Japan is that the most successful export sectors within the CPTPP area are all heavy-duty and advanced manufacturing, all related to global value chains.

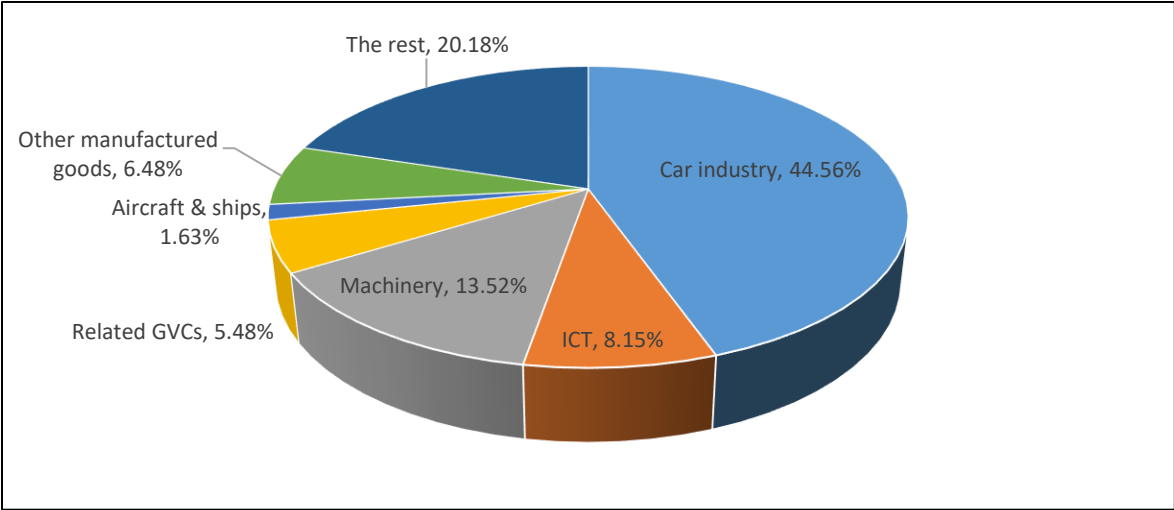
Figure 5. Japan’s most successful exports to the CPTPP area in 2019



Source: Japan Bureau of Statistics, Trade Statistics (2020), <https://www.e-stat.go.jp/en/>

The graph below illustrates how the automotive sector is the largest beneficiary, followed by the information and communications technology (ICT) industry and heavy-duty processing machinery inside and outside of Japan.⁸

Figure 6. Composition of Japan exports to the CPTPP area in 2019 by FOB value



Conclusions

There is a lot to say about Japan and the CPTPP in its first year of implementation. There is bad news in terms of export growth and developing of new markets. The most impacted one, the automotive and transportation sector, reached almost a standstill. However, it was definitely excellent news in terms of Japan's ability to leverage the agreement to its advantage on numerous fronts, the most important being Japan's signed FTA with the United States and the balancing act it was able to play with China. Japan has become the hegemonic stability of the CPTPP partnership, because it has leveraged investment and co-operation to keep global value chains alive in the Pacific during one of the most trying periods for trade liberalization and globalization as a whole. The CPTPP became a perfect example of political economy brinkmanship, where Japan still holds the most important key to grant access to new members, to calm China's anxiety, and above all, to keep the GVC working well despite the pressures of protectionism from both sides of the Pacific. Japan has stated that the rules and networks of policy convergence the CPTPP provides are worth preserving as a benchmark for the future. However, the COVID-19 pandemic is exerting an incredible pressure on trade liberalization. By April 2020, even Japan had decreed the nationalization of the manufacture of key medical and pharmaceutical supplies under the crisis. The CPTPP will definitely have to reassert the framework of rules and procedures it envisioned after the crisis has ended. It remains to be seen how much of the ideal framework of rules survives the great recession that will ensue.

Notes

¹ M. Solís, “Follower No More? Japan’s Leadership Role as a Champion of the Liberal Trading Order,” in *The Crisis of Liberal Internationalism: Japan and the World Order*, eds. Y. Funabashi and G. J. Ikenberry (Brookings Institution Press, 2020): 92.

² World Bank. “Global Value Chain Development Report 2019” (2019), <https://www.worldbank.org/en/topic/trade/publication/global-value-chain-development-report-2019>.

³ OECD, “Global Value Chains: Japan,” *Country Studies* (2013), <http://www.oecd.org/sti/ind/GVCs%20-%20JAPAN.pdf>.

⁴ UNCTAD, *World Investment Report 2019* (New York: United Nations Publications, 2019).

⁵ ESCAP, “Asia Pacific Trade and Investment Report 2018: Recent Trends and Developments” (2018), <https://www.unescap.org/publications/asia-pacific-trade-and-investment-report-2018>.

⁶ Asia Pacific Foundation of Canada, “The CPTPP Tracker 2019: The First Year” (2019), <https://www.asiapacific.ca/publication/cptpp-tracker-assessing-canadas-first-year-participation>.

⁷ Australia Bureau of Statistics, “Trade” (2019), <https://www.abs.gov.au/>; Secretaría de Economía de México, “Información Estadística y Arancelaria,” [http://www.economia-](http://www.economia-snci.gob.mx/sic_php/pages/estadisticas/)

[snci.gob.mx/sic_php/pages/estadisticas/](http://www.economia-snci.gob.mx/sic_php/pages/estadisticas/); Statistics Canada, “Canadian International Trade Merchandise Database,” <https://www5.statcan.gc.ca/cimt-cicm/home-accueil?lang=eng>; Japan Statistics Bureau, “Trade Statistics” (2020), <https://www.e-stat.go.jp/en/>.

⁸ K. Ito, I. Deseatnicov, and K. Fukao, *Japanese Plants’ Heterogeneity in Sales, Factor Inputs, and Participation in Global Value Chains* (2017): RIETI Discussion Paper 17-E-117.