

**RULES AND ORDER AS NATIONAL INTEREST:
EXPLAINING JAPAN'S LEADERSHIP IN THE CPTPP AND
OTHER TRADE INITIATIVES**

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Introduction

These are clearly difficult times for global governance. Not only does humanity face unprecedented systemic risks and global challenges, many of which result from the astonishing connectivity built over the last decades through globalization, but the principal model of a U.S.-centred global order is eroding both due to increased diffusion of power and populist backlash within the United States itself, as well as within its European allies.¹ The global liberal order may have peaked and the political capacity and will to keep generating necessary rules of the game and respond to crises appear to be crumbling.

How is Japan responding to such developments? Interestingly, the nexus of Japan's contribution to global economic governance has come to concentrate on one dimension: the Trans-Pacific Partnership (TPP), especially between 2013 and 2018.² By 2019, the actions undertaken by Japan to bring the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to fruition despite the U.S. withdrawal are proving to have a very large economic and governance impact. Japan has extended such leadership to other trade relationships (EU, Asia) and to other domains (G20, regional governance, infrastructure governance, data governance). This may be the most significant Japanese leadership contribution to the global order in a decade or more. This paper explains the Japanese actions under Prime Minister Abe as a strategic response to systemic shifts from both China and the United States.

No moment illustrates this crisis better than the COVID-19 shock in 2020. The crisis combines one of the worst pandemics since 1918, the steepest global economic recession since 1930, and the worst global geopolitical confrontation since the end of the Cold War.

According to Eurasia Group's *Top Risks 2019* report,³ we have currently entered a deadly geopolitical cycle that is eroding domestic institutions in key countries, all global institutions and alliances, and even trust among people from various parts of the world. This is happening precisely when we are facing more intense climate and environmental risks, social and migration risks, cyber risks, and other global economic risks.⁴

I see five great forces reshaping the geopolitical environment for a country such as Japan:

- Peak globalization and the start of de-globalization, due to the failure of global rules and national systems to fairly distribute the gains of globalization;
- Conflicts over global governance: systematically important countries today (starting with the U.S. and China) are unable to agree on fixing, improving, or even maintaining fundamental rules of the co-operative game;
- A turn against the liberal international order (LIO) by its chief architect, the United States;
- A turn toward harder authoritarianism and regional assertion by China; and

- An ever-increasing conflict between the U.S. and China that is gradually encompassing technology, trade, human flows, security, and regional governance in the context of a great shift in economic power.

After decades of rule-creation and common efforts, the global trading order is currently in grave danger of fragmentation, or even crippling erosion. This development is particularly significant, given that the post-1995 WTO-centred trading order had risen as the de facto “cathedral” of global economic governance, in the words of former WTO Director-General Pascal Lamy.⁵

This paper focuses on the following key puzzle: why did Japan turn around from opponent to a great advocate of the TPP and leader of the CPTPP in 2017–2018?

Existing domestic explanations in the literature focus on three types of variables:

- The conservative revolution (from Koizumi to Abe) is finally victorious, thanks to domestic forces;
- The neo-liberal transformation started under Nakasone is reaching an end point and solid victory;⁶ and
- Electoral reforms have failed to generate a solid two-party system with a credible alternative to the Liberal Democratic Party (LDP).⁷

I argue that these approaches offer some explanatory power, but fail to represent the amount of interaction between domestic politics and the global political economic environment surrounding Japan.

International relations offer three opposing, but plausible, explanations. First, a realist explanation would relate Japan’s behaviour on the TPP to the tightening security environment, particularly the rise of China and the North Korean threat. Realist narratives emphasize the toxic spillover of security rivalry and the inexorable reality of power transition. Although the explanation involves some cross-issue linkages (from pure alliance responses to global trade), it is plausible. I argue in this paper that it is not sufficient on its own, but that it is a significant part of the story.

Another IR hypothesis could see Japan’s conversion to free trade as part of a spread of global neo-liberal norms.

A third approach to our understanding of Japan’s shift may be found in the insights of the constructivist school. This approach tends to see preferences and interests as a function of social interactions. It is a more elastic and fluid approach, with room for learning. There is clearly a learning and conversion process in the behaviour of METI officials. However, the changes described in this paper are highly political and quite rapid. Social interactions, reputation, and battles over framing are slow and gradual. Something else must be happening.

In this paper, I analyze Japan's behaviour under a lens of "mediated strategic interactions" and argue that Japan's policy departure on global trade governance is a strategic response to a combination of great changes in the global economic order (constraints arising from the rise of China, the erosion of global economic stability, and the great shift in position in the United States), subject to domestic constraints in Japan on dimensions of legitimacy and salience to domestic audiences.

Japan's postwar global positioning has always been a stable binary position: realist reliance on the United States for defence and primary economic links, coupled with a growing commitment to the liberal international order⁸ in all its dimensions.

Events in 2015–2017 have not just increased the security threats to Japan, they have also eroded Japan's trust in the resilience of the liberal international order and started a process of unbundling trade and security interests.

Therefore, I see Japan as a canary in the coal mine: due to its positioning between China and the United States and high dependence on the global economic order as a trading nation, Japan finds itself in the eye of a great storm caused by the interaction of global forces, particularly the U.S. turn against the global order it created and the Chinese rise as a new and flawed protector of the global order, a protector that Japan does not trust.

A Framework to Analyze Change in the Liberal International Order: Mediated Strategic Interactions

Given the many concurrent disruptions outlined above and the observation of intense negotiation among systemic players over global rules, we need a new framework to analyze change in the global order. The current period is not one of gradual negotiations for marginal gains within stable rules, but a period of fundamental competition over the rules of the global order, even if at least some of the underlying norms remain accepted by most.

I advance here a framework of *mediated strategic interactions*. This framework broadly fits within a constructivist or social framework. It assumes that preferences and interests are not just the result of power and positioning (as realists would assume), but are constantly updated through interactions with systemically important opponents and partners in the system. The system itself evolves according to the actions and interactions among its key players.

Under this framework, change in the global order depends on the combination of choices made by a small group of systemically important states in mediated interactions with each other.

Thus, I see Japan's behaviour in the TPP episode as that of a *rule entrepreneur* in a situation of high risk and uncertainty. When the dominant state and protector of the LIO shifts the rules of the LIO again and turns to a power-based approach, and when an unfriendly rising power claims

the leadership mantle in global economic governance, a powerful regional leader and middle power such as Japan finds itself under radically different conditions.⁹ Assumptions for its default position as rule-follower are suddenly questioned.

Overcoming domestic costs (estimated by most policy observers and even METI insiders as too high as late as February 2017), it becomes rational for such a state to take leadership to defend a fundamental order on which it depends.

This action is not predicated on domestic politics—neither interest group politics nor bureaucratic politics—but primarily by a shifting international system and the new incentive structure within that system.

More precisely, it is a strategic response to the actions taken by the two first players, the hegemon in the system and the rising power. That action is mediated by domestic frames that have established the trading order as fundamental to the survival of the nation (going back to Meiji).

Phase 1: TPP Turnaround in 2013–2016

Japan joined TPP negotiations in 2013. In the context of a tightening global economic order, Prime Minister Abe became convinced that the TPP was not just one more trade agreement to liberalize trade. Instead, he gradually saw it as a tool to create new global rules and as a tool to tighten a liberal order coalition in competition with a rising China, with related security benefits. He also saw the TPP as a good anchor for Abenomics reforms.

With these much higher goals, he was able to convince the LDP that the stakes were very high and to stake his entire political credit on the TPP. Of course, his negotiators also adroitly manoeuvred to shelter the essential “sacred” domains, particularly rice, from the TPP outcomes.

Phase 2: Trump and China Shocks—TPP Reinforcement

In the face of the twin threats from China (and North Korea) and a United States turning against its own multilateral creation, the LIO, Abe convinced domestic interest groups and the LDP that Japan is in an emergency situation and must bet everything on the survival of the TPP.

As reported by officials in Japan, the entourage of the prime minister became convinced that the TPP had become his top priority in 2017–2018 and the anchor of a larger multilateral trade strategy, which included the EU-Japan Partnership and the Regional Comprehensive Economic Partnership (RCEP) as the next steps. In the process, Japan emerged as a regional institutional leader and a replacement to the absent United States. This was not entirely new,¹⁰ but a great new moment nonetheless.

The extraordinary Japanese shift in position in global trade governance from a careful follower to proponent of the TPP despite domestic oppositions, and to the global leader of the TPP in 2017–2018, is a response to an extraordinary shift in the global economic order on which Japan has depended since 1950. Japan suddenly faced not just one global shock (the competitive rise of China as an economic power and rule-maker in the region), but two global shocks, when the United States turned into an opponent of the liberal international order in November 2016 after the election of Donald Trump to the presidency.

Prime Minister Abe came to see the TPP as a silver bullet to play a proactive, counteractive role in the crumbling of the global economic order and to demonstrate leadership and reassurance to its domestic audience, as he also tried to complete a conservative transformation that is not naturally supported by the Japanese public. After a crucial meeting at the White House with President Trump on February 10, 2017, that gave him a green light for a CPTPP that the United States wanted nothing to do with, Abe and his team at METI and MOFA organized a strategy that came to encompass prioritization of TPP completion, parallel acceleration of the EU-Japan Partnership and RCEP, and intense management of side effects with the United States.

A key episode was the Canadian hesitation at the Danang APEC summit in November 2017, which led Japan to exert significant pressure and leverage over Canada. Ultimately, the CPTPP partners reached agreement and signed the deal in Chile on March 8, 2018.

Strikingly, the Abe bet on the CPTPP in 2017 despite domestic costs proved a winner in the general election that took place that year. At least, the general approach of Prime Minister Abe to world affairs, including the TPP, earned the support of Japanese voters. On September 25, 2017, Japan's Prime Minister Abe Shinzo rolled the dice and called a general election on October 22, a full year ahead of schedule. Global issues also hung in the balance: the future of the CPTPP, Japan's role in support of the global liberal order, the Paris Agreement on climate change, and Japan's role in global security.

That election took place in a very uncertain global context. Abe won a great victory, not primarily because of support for some of his particular domestic policies. Rather he won in large part because of the great uncertainty faced by the Japanese public, as it realizes that the global liberal order, which provided the safe context for Japan's postwar rebirth, is in great trouble. Japanese voters flocked to reassurance and certainty, not out of love, but out of fear.

Japan's Further Leadership at the G20 in Osaka, June 2019

Japan led an additional spirited effort during its G20 presidency from December 2018 to the Osaka summit on June 27–28, 2019. Abe and his ministers pushed for the consolidation of the global trading order and advances in e-commerce regulation, data with trust, and environmental progress. Some results were hard to achieve. But the final outcome on trade was better than expected by most, with a consensus paragraph on the importance of trade and a clear reference to

the WTO and its dispute settlement mechanism. Japan also obtained a consensus commitment to reforms of the WTO by the June 2020 Ministerial in Astana. The key part of the Leaders' Declaration reads as follows:

Article 8. We welcome the G20 Ministerial Statement on Trade and Digital Economy in Tsukuba. We strive to realize a **free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open**. International trade and investment are important engines of growth, productivity, innovation, job creation and development. We reaffirm our support for the **necessary reform of the World Trade Organization (WTO)** to improve its functions. We will work constructively with other WTO members, including in the lead up to the 12th WTO Ministerial Conference. We agree that **action is necessary regarding the functioning of the dispute settlement system consistent with the rules as negotiated by WTO members**. *(Emphasis added by the author.)*

Policy Implications: CPTPP as Potential Anchor in a Larger Effort to Upgrade Global Trade Rules and Bring Change with China

Facing a perfect storm in the trading order and tensions with both the United States and China, all trading nations that rely on the rules-based international order have been searching for a vehicle to push back and support the global trading order within the LIO. Japan invested massively in the completion of the CPTPP to secure the rule-making gains embedded in the TPP and secure the global trading order. It also served as a counteracting force to populist forces.

From the momentum created by the CPTPP and the EU-Japan FTA, one novel idea has emerged: a CPTPP-EU partnership that would create credible momentum and a critical mass to incentivize the EU to return to multilateralism and mercantilist China to enter in a great reform reset, while advancing the rule-making work that the WTO has not been able to promote in recent years.¹¹

The CPTPP, the EU-Japan Partnership, and the Canada-EU Trade Agreement (CETA) all played a role in developing new rules fit for the 21st century in areas like digital trade, environmental protection, labour protection, procurement regulations, intellectual property rights, regulation of state subsidies, and a fair playing field with state-owned enterprises. What is now needed is a focused effort to ensure convergence among these three efforts at progressive and advanced rule-making. Of course, this effort would be much stronger with the United States on board. Such convergence would generate momentum toward the uploading of these new necessary rules to a greater number of countries, and possibly toward new global standards. For the countries leading this effort, it would offer the benefit of first mover advantage and rule-making. Yet, for the rest of the world, this work could serve as a much needed public good at a time of crisis.

Interestingly, China is already sensing that the CPTPP platform could be a powerful medium-term tool to defuse tensions with Western countries over subsidies, IP, SOEs, and other elements

emanating from its political economic models. Several think tanks and policy analysts, as well as Prime Minister Lee Hsien Loong of Singapore, have recently suggested that a process of negotiation between CPTPP countries and China could offer an elegant avenue for credible reforms in China around fair new rules, in a way that the current U.S.-China negotiations or WTO discussions are currently unable to work. In late June 2019, Dr. Yu Yongding, former Director of the IWEP at the Chinese Academy of Social Sciences and former adviser to the Chinese Central Bank, made the case for China applying to join the CPTPP publicly.¹² He is quoted as saying: “The CPTPP entry is expected to benefit China economically and push China to reform.” Premier Li Keqiang expressed his formal interest in May 2020. And given how high the stakes have become for China’s reforms, it urgently needs an institutional anchor.¹³

Separately, the April 2019 EU-China summit led to a series of commitments over reforms of subsidies and other key features within a shared commitment to the rules-based international order. Combining this EU-China work and CPTPP-China effort would offer the chance over time to empower Chinese reformers to generate the next wave of necessary reforms in China and secure China within the trading order in a way that does not threaten its partners or distort competition.

This new interest in the CPTPP as an anchor agreement for the strengthening of the world trade system vindicates Prime Minister Abe’s investment of precious leadership into saving the TPP after the U.S. withdrawal in 2017–2018. The current developments place Japan, by necessity, at the heart of global efforts to save the rules-based trading order.

Notes

¹ Richard Haass, *A World in Disarray: American Foreign Policy and the Crisis of the Old Order* (New York: Penguin Press, 2017); John Judis, *The Populist Explosion: How the Great Recession Transformed American and European Politics* (New York: Columbia Global Reports, 2016); Darrell West, *Mega Change: Economic Disruption, Political Upheaval, and Social Strife in the 21st Century* (Washington, DC: Brookings Institution Press, 2016).

² For a wonderful review of Japan's approach to trade governance, see Mireya Solis, *Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order* (Washington, DC: Brookings Institution Press, 2017).

³ Eurasia Group, *Top Risks 2019*, <https://www.eurasiagroup.net/issues/top-risks-for-2019>.

⁴ World Economic Report, *Global Risks Report 2019*, <https://www.weforum.org/reports/the-global-risks-report-2019>.

⁵ Pascal Lamy, speech at the Berlin Global Solutions Summit (March 18, 2019).

⁶ Ronald Dore, *Stock Market Capitalism: Welfare Capitalism*. (Oxford: Oxford University Press, 2000); Yves Tiberghien, "Thirty Years of Neo-Liberal Reforms in Japan," in *The Great Transformation of Japanese Capitalism*, ed. Sebastien Lechevalier (London: Routledge, 2014): 26–55.

⁷ Yosuke Sunahara, *Fragmentation and Integration of Japanese Politics: Government Structure Reforms and Political Party System Changes* [Bunretsu to Togo No Nippon Seiji: Tochi Kiko Kaikaku to Seito System No Henyo] (Tokyo: Chikura Shobo, 2017).

⁸ G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton, N.J.: Princeton University Press, 2011).

⁹ Yoshihide Soeya, *Japan's "Middle Power" Diplomacy: Decisions and Initiatives of Postwar Japan* [Nihon No "Midoru Pawa" Gaiko: Sengo Nihon No Sentaku to Kousou] (Tokyo: Chikuma Shinsho, 2005).

¹⁰ Yves Tiberghien, ed., *Leadership in Global Institution Building: Minerva's Rule* (London: Palgrave MacMillan, 2013).

¹¹ See <https://www.project-syndicate.org/commentary/euro-pacific-partnership-support-for-multilateralism-by-zaki-laidi-et-al-2019-07> and the response by Koichi Hamada (a senior Abe adviser): <https://www.project-syndicate.org/commentary/thucydides-trap-sino-american-trade-war-by-koichi-hamada-2019-08>.

¹² Source: <https://www.scmp.com/news/china/politics/article/3017298/chinas-academics-join-calls-reform-and-opening>.

¹³ See <https://www.project-syndicate.org/commentary/china-2020-economic-reform-agenda-real-or-just-rhetoric-by-kevin-rudd-and-daniel-rosen-2020-06>.