Japan, Canada and the TPP

Donald Trump was not the only political figure who made a speech on January 20. A few hours earlier, Japanese Prime Minister Abe Shinzo did so as well. The PM’s annual Government Policy Speech is a cross between the US State of the Union and the speech from the throne of British parliamentary practice. It’s a chance for the government to brag about its past achievements and promise more to come. This year’s exercise is prominent for two reasons. After four years of Abenomics, there is much to consider in terms of achievements and failures. Conversely, there is much less that is certain for Japan in the unpredictable world that is being banged together by the new US administration.

There is Canadian interest in how the Japanese government will move forward at this new juncture: both Canada and Japan are heavily dependent on the US economy, Japan is our third trading partner, and we both had high hopes for the Trans Pacific Partnership. Out of this mix, there is, between our two countries, opportunity to be had or, at a minimum, damage to minimize.

But first comes domestic policy. Abenomics has enjoyed some positive outcomes: 9% overall nominal growth in GDP over the four year of Abe’s administration; bankruptcies of small and medium enterprises are down 30%, to a 25 year low. The ratio of job offers to job seekers is up throughout the country, which is good news overall; unemployment is at 3.1%. Abe flagged these statistics, but unmentioned was the fact that under Abe, GDP growth has hovered between negatives and, when positive, an average of less than a percent. Deflation and its history of negative expectations, undoubtedly the most pernicious and persistent of Japan’s current economic weaknesses, is a 25 year story, give or take brief upturns, and has not been reversed by the Bank of Japan’s interest rate or quantitative easing initiatives. Nor have government deficits worked to improve things: the government has added to the national debt every year since 1992. Of this, economic stimulus packages have added 100 *trillion* yen to the national debt – over 1 trillion in Canadian dollars, with no take-off effect.

The good news, and there is good news, is the attention the Japanese government is finally giving to the restructuring agenda, the third of Abe’s self-styled policy ‘arrows’. Broad reform principles, a staple of Abe’s past speeches, are replaced by sets of specific, practical and promised to be legislated measures to address, head-on, weaknesses in areas such as the labour market, the education system, the pension system and, most contentiously, agricultural policy, whose existing rules have delayed the modernization and globalization of this small but politically significant sector. Proposed legislative changes range broadly from lowering tax burdens on the working poor and small and medium enterprises, to increased funding for vocational training, to extending the retirement age for private sector employees without reducing their salary levels, to equal pay for equal work. Leaving farmers free to chose the sources of agricultural inputs and freeing sales channels from the clutches of Japan Agriculture, the all-devouring industry control mechanism, could bring the ‘new era’ in agricultural policies that Abe says he wishes.

If the Abe government achieves half of what is promised, they could lay claim to a reform legacy. But even at their most extensive, these structural changes will take time to achieve any significant macro-economic impact. This realization is no doubt behind Abe’s active diplomacy to keep the Trans Pacific Partnership alive. According to Japanese estimates, a fully implemented TPP would contribute 2.4% to Japanese growth rates, far surpassing even the most ambitious reform agenda. Abe is also committed to furthering negotiations for the Asia-based Regional Comprehensive Economic Partnership, which includes China and India. Abe addressed these potential agreements in his policy statement, as well as the Japan/EU Economic Partnership Agreement, in negotiation since 2011. They are essential to Japan’s growth and reform objectives.

The Canadian hook is the Trans Pacific Partnership. Despite the Trump victory, Japan has ratified the agreement and had been pursuing efforts to convince the US to reconsider its withdrawal, however quixotic that may have appeared. But now that the Trump/Abe and Trump/Trudeau have launched the re-sets of bilateral relations with little of the expected (or feared) drama, the space for multilateral negotiations remains in place. Indeed, the US/Japan statement suggests that the two countries will ‘explore’ some of the TPPs substantive objectives, while Japan will continue ‘to advance regional progress on the basis of existing initiatives’.

Japan believes that the TPP, as a negotiated package among the trans-Pacific grouping, is only dead if it’s signatories let it die. Chile has called a meeting of TPP committed countries to consider possible next steps, and it has invited China and the RoK, non-TPP countries, to attend.

Canada has taken the position, so far at least, that pursuing some alternative TPP is not an option, given the fact that the US economy is larger than that of all of the other TPP countries combined, and thus crucial to the pact. But this is a mistake.

Canada’s trade future with the United States will be developed against the backdrop of NAFTA and continentalism. We don’t have a similar established framework in place for Asia. Thus, all options should remain under consideration by Prime Minister Trudeau’s government, in order to maintain our Asia Pacific trade and economic momentum. We are not at the RCEP table. Canada/China, Canada/Japan and Canada/India bilateral negotiations may, in time, produce results. But none of these will have the scope of a regional agreement, even one without the United States. At the moment, and to quote a phrase, we have no alternative.

Japan and Canada will work their respective deals with the United States. But the Asia Pacific will remain the world’s most significant growth area for the foreseeable future. The TPP bridge has been damaged, but it’s architecture and ambitions – expanded regional trade, progressive standards harmonization, greater investment – remain essential to our future. Geopolitical headwinds will not provide an alternative, any time soon. The United States has made a significant strategic error in withdrawing from the TPP. Canada, Japan and the other TPP partners must reshape the partnership so that the benefits of the liberal international order continue to expand.

Joseph Caron

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