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*Japan, China and the Trans-Pacific Partnership (TPP) as a
Strategic Tool of Choice*

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Abstract

This paper discusses the role of the Trans-Pacific Partnership (TPP) agreement as a strategic tool for Japan in pursuing its national and regional interests. While it is undeniable that the economic benefits to be accrued from the agreement in terms of boosting Japan's economic growth are important and well argued, Tokyo's motivation to engage the TPP is driven more by its geopolitical and strategic calculations. The former serves middle to long term ambition while the latter takes on short to middle term goals. Centering on the latter, the paper discusses three major motivations: 1) the use of the TPP to exert innovation and drive change at home in maintaining its strategic competitiveness; 2) the perceived importance of the TPP as a rule setter for regional economic cooperation; and 3) the significance of the TPP in balancing Beijing's strategic influence in the region. China's move to fortify its relations with neighboring countries through its own initiatives in an unending tussle with the US could see the formation of two opposing trade blocs in the Asia Pacific region. Japan can play a significant role in bridging the gap and contribute to the possibility of convergence.

Keywords: Japan, China, Trans-Pacific Partnership, free trade agreement, geopolitical.

Introduction

The Trans-Pacific Partnership (TPP) has often been billed as a highly ambitious 21st century regional free trade agreement not simply because of having the objective to address new global trade and investment challenges in the new millennia but also to push cooperation beyond the World Trade Organization (WTO) in many areas including the protection of intellectual property, environment and labor. With 30 chapters, the TPP agreement (TPPA) is promoted as a "high-standard, ambitious, comprehensive, and balanced agreement that will promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labor and environmental protections" (USTR, 2015).¹ The TPPA was finally signed on 4 February 2016 after twelve participating

¹ For the history and more detailed discussions on the components of the TPP, see Lim, Elms and Low (2012).

countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam concluded negotiations that lasted for 5 and a half years.²

The significance of the TPPA to smaller participating nations such as Malaysia, Vietnam, Peru and Chile lies in their ability to take advantage of the perceived economic benefits in enhancing their national economic development and thrusting them ahead of non-TPP countries by increasing their competitiveness in international trade. Malaysia's Trade Minister Mustapa Mohamed foresees that the TPP will add a further 9% in preferential access that would allow Malaysian exporters "to enjoy a better footing than neighboring competitors" (*New Straits Times*, 2014). While bigger and more advanced member countries such as the US and Japan would benefit economically as well, the TPP's contribution to them lies more in its perceived role as a strategic tool in great power rivalry. For the US, the TPPA forms a vital part of its 'rebalancing' policy that would position the US as an economic leader in the Asia Pacific region (See Froman, 2014; Bader and Dollar, 2015). Hence, the TPPA becomes the litmus test of "U.S. credibility as a regional leader" (Williams, et. al., 2016: 3). The failure of the agreement will not only weaken US's leadership role but could provide opportunity for China to take the lead in developing a regional order. The strategic significance of the TPP has not only been argued by scholars and observers but acknowledged by leaders as well. At the 2015 Shangri-la Dialogue in Singapore, Prime Minister Lee Hsien Loong spoke that "[b]ecause whatever the merits or demerits of individual line items of trade covered in the TPP, the agreement has a wider strategic significance. Getting the TPP done will deepen links on both sides of the Pacific. Failing to get the TPP done will hurt the credibility and standing of the US not just in Asia, but worldwide" (Lee, 2015).

Considering that the TPP contains a key geo-economic element, what then would be the motivational factors for Japan to join the TPP? To what extent was China's rise and economic prowess a major concern for Japan in its deliberations to participate in the TPP? Although Japan is a strong ally of the US, it did not commit itself to the TPP until July 2013, the last member to join. The argument advanced in this paper is three fold. Firstly, Tokyo realizes that external pressure is needed in recalibrating its economy to drive change at home and enhance its strategic competitiveness vis-à-vis Beijing. Secondly, the high standards set by the participants and the wide coverage of chapters under negotiation captured Tokyo's attention despite realizing the difficulties ensued. Thirdly, China's rapid economic transformation and its geostrategic role in the region featured prominently in Japan's calculation to participate in the TPP. The objective of this paper is primarily to elucidate insights into Japan's approach of using the TPP as a strategic tool of choice. This paper is thus divided into four subsequent sections with the first three sections discussing the three arguments respectively and the last section concludes the paper.

The TPP as a Pressure for Economic Revitalization

Ever since the 2006 Pacific-4 Free Trade Agreement (officially called the Trans-Pacific Strategic Economic Partnership Agreement) between Brunei, Chile, New Zealand and Singapore was expanded into the TPP

² Although the negotiation process started in March 2010, not all countries joined the TPP at the same time. Malaysia joined the TPP in October 2010 while Canada and Mexico joined in October 2012. Japan only started negotiations in July 2013 and therefore took less than 3 years to complete.

with the US's involvement in 2008, Japan has been seriously debating the advantages and disadvantages of joining the grouping. Arguably, Japan was caught unprepared by the move of the US to develop the TPP. Tokyo did not pay much attention to the P-4 FTA because it was focusing instead on realizing its idea of a Comprehensive Economic Partnership for East Asia or CEPEA (involving 16 nations including China) and establishing an Economic Research Institute for ASEAN and East Asia (ERIA) that was to serve as a crucial support mechanism to the development of CEPEA. These two proposals were known as the Nikai Initiative (named after the then Trade Minister Toshihiro Nikai) and were meant to demonstrate Japan's leading role in regional economic integration as well as to aid in achieving the final goal of a Free Trade Area of the Asia Pacific (FTAAP) (Teh, 2011).

By the time the US had expressed its commitment to the TPP, CEPEA was undergoing two phases of feasibility study (the final report of Phase II Track 2 Study Group on CEPEA was submitted in October 2009 at the 4th EAS Summit in Cha-am, Thailand), ASEAN was undecided in adopting the China-supported East Asia Free Trade Area (EAFTA) or the Japan-proposed CEPEA, Thailand as host was undergoing one of its worst political crisis in 2008-09 that caused the 4th East Asia Summit (EAS) to be rescheduled several times, and the sudden introduction of new proposals – the “Asia Pacific Community” by then Australian Prime Minister Kevin Rudd and the “East Asian Community” (EAC) by then Japanese Prime Minister Yukio Hatoyama. With the various regional economic ideas and frameworks remained at the drawing board, the attractiveness of the P-4 FTA to the US seemed rather clear – a high-quality agreement that was already in force and welcomed accession by other economies. Meanwhile, the push factor for the US, argues Tashiro Yoichi of Otsuma Women's University, was the 2008 economic recession and the need to reassert its political economic leadership in the Asia Pacific (Yoichi, 2012). Interestingly, the TPP is the only region-wide economic framework that has the potential to expand and is not under ASEAN's leadership. Japan was torn between promoting its interest in CEPEA, which would be deemed ‘friendlier’ since it is perceived as less ambitious and would allow an exclusion list, and joining the US in the TPP, which is highly ambitious and require all sectors to be included in negotiation.

In November 2010, two years after the US confirmed its participation in the TPP, then Prime Minister of Japan Naoto Kan pledged to bring Japan into the TPP. His decision irked his predecessor, Yukio Hatoyama, who had promoted a closer Sino-Japanese relation through his EAC concept. At the Foreign Correspondence's Club in February 2011, Hatoyama had mentioned that:

“I'd like to ask [Naoto] Kan why his administration has dumped the concept of an East Asian community in favour of the Trans-Pacific Partnership. While I agree with Kan that Japan should be opened up, I don't agree with his method. It seems to be the thinking of the bureaucracy, especially the Foreign Ministry with its strong inclination to join the TPP... It's a reversion to the situation under (former Prime Minister Junichiro) Koizumi. Everyone is focused on the US rather than Asia. I feel that rather than pushing forward with the TPP, it's better for Japan to focus on relations with Asia” (quoted in Sharp, 2011).

Hatoyama's disapproval of Kan's decision on the TPP highlighted two important points. Firstly, the TPP was viewed as a US-led initiative capable of negatively affecting Japan's relations with its Asian counterparts, particularly China. Secondly, the Foreign Ministry of Japan is seen as playing a prominent role in trying to enhance the nation's strategic interests through trade by moving Tokyo closer to Washington. In contrast to the position of the Foreign Ministry, Japan's Ministry of Economy, Trade and

Industry (METI) saw the economic importance of including China and the cost for excluding it. It pushed for the realization of CEPEA but at the same time acknowledged the TPP as one of the plausible routes to an FTAAP (see METI, 2010).

Naoto Kan's decision to engage the TPP countries marked a significant turning point. The Basic Policy on Comprehensive Economic Partnerships released in November 2010 made clear Japan's posture of engaging in higher quality FTAs and commitment to domestic reforms. It mentioned that "...the Government of Japan is absolutely resolved to "open up the country" and "pioneer a new future"... With regard to EPAs or broader regional economic partnerships that are politically and economically important and will be of especially great benefit to Japan, the Government of Japan, while taking into consideration the sensitivity of trade in certain products, will subject all goods to negotiations for trade liberalization and, through such negotiations, pursue high-level economic partnerships" and in order to do so, it "will first promote appropriate domestic reforms with respect to areas of the agricultural industry, movement of natural persons from abroad to Japan, and regulatory reforms" (MOFA, 2010).

The importance of the TPP and its relations to the call for domestic reforms is captured by then Foreign Minister Seiji Maehara's remarks that "[i]f we don't seriously consider opening the nation up, we could soon lose our competitive edge... (By not joining the TPP) aren't we sacrificing much of the 98.5 percent (of the economy that isn't primary industry) for the 1.5 percent that is?" (Sharp, 2010). In January 2011, Kan reshuffled his cabinet, replacing Trade Minister Akihiro Ohata who had opposed agricultural trade liberalization with Banri Kaieda who was strongly in favor of Japan's participation in the TPP (Mulgan, 2011). Much of the debates that transpired in Japan were centered on those who saw the TPP as the golden arrow that would lift Japan's competitiveness and create value added in non-competitive sectors, and those who saw the TPP as a force that will undermine Japan's long held protected sectors and threaten traditional customs and practices caused by sudden influx of cheap foreign goods. The Central Union of Agricultural Cooperatives (JA-Zenchu) saw the TPP as counterproductive, foreseeing that agricultural production would decrease by 4.1 billion yen and self-sufficiency rate will plummet from 40% to 14% (JACOM, 2010). The Nishoren or Consumers Union of Japan warned of possible food safety issues caused by the loosening of food regulatory policies due to the TPPA. However, the unfortunate Great East Japan Earthquake in March 2011 further intensified domestic debates over the country's direction on the TPP issue.

METI's 2011 White Paper on International Economy and Trade discussed the value of the TPP as one of the key strategies for the revitalization of Japan by referring to the strengthening of "kizuna" (bonds of friendship) with other countries through the promotion of high-level economic partnerships, namely the TPP. This strategy was based on two key reasoning. Firstly, Japan was falling behind in terms of its ratio of trade covered by the signed and in effect FTAs to its total trade value which was at 17.6%, lower than China's at 21.5%, South Korea's at 35.8%, and the US's at 38.0%. Secondly, Japan's EPAs were of lower liberalization rate at about 86-87% on a tariff line basis compared to US-Australia FTA, US-Peru FTA, US-South Korea FTA and South Korea-EU FTA which were all above 95% (METI, 2011).

Although the earthquake incident exposed the government's lack of preparedness and caused Kan his top position, the TPP idea was kept alive under Yoshihiko Noda's leadership and further pursued under the current Prime Minister Shinzo Abe as part of his third arrow growth strategy. One of Abe's aims is to increase the FTA trade ratio by 3.7 times to 70% by 2018 (Kantei, 2013: 128). To achieve this rather ambitious aim, the TPP is given greater emphasis as it serves to propel Japan's FTA proliferation,

particularly of those with higher standards, and catch up with other trading nations apart from augmenting its economic competitiveness.

In order to utilize the TPP to boost Japan's liberalization rate, Tokyo will need to dismantle obstacles to its domestic reforms. South Korea's high liberalization rate in its FTA with the US, for example, did not come without protest and painful reforms. According to Aurelia George Mulgan, Professor of Politics at the University of New South Wales, the main obstacles to Japan's trade reform "have been a divided bureaucracy, politically well organized and entrenched protectionist interests, and institutionalized opposition from ruling party politicians, who have acted directly to block their own government's trade policy initiatives from within the policy making process" (Mulgan, 2014a: 27). She further adds that "[a]s a result, trade negotiations involving Japan have often taken years to complete, with the results falling far short of the levels of trade liberalization desired by Japan's trading partners (Ibid). The tug of war between ministries and the domestic debates between pro- and anti-TPP camps were most pronounced when compared to any other FTAs that Japan has engaged in. In making the case for Japan's TPP participation, METI for example came out with their estimation that the country would see its GDP rise by 10.5 trillion yen with 812,000 new jobs while MAFF (Ministry of Agriculture, Forestry and Fisheries) countered with their own calculation showing a decline of 7.9 trillion yen in GDP and 3.4 million job losses (Ibid: 27).

Therefore, a successful TPP negotiation for Japan hinges on the Abe administration's ability to reduce internal obstacles to trade reform before it is able to leverage on the TPP as an external tool to exert pressure for more structural changes. One of the biggest challenges in objecting to Japan's inclusion in the TPP is in the agricultural sector. Although political observers such as Adam Posen, president of Peterson Institute for International Economics and Richard Katz, editor of *The Oriental Economist Alert*, have suggested that Abe lacks political will despite "conditions are ripe for a determined prime minister to override the powerful farm lobby" (*Xinhuanet*, 2014; Katz, 2014), there has been progress in agricultural reforms such as the consideration to increase corporate involvement in agriculture to boost competitiveness (Takada, 2014) and the role of electoral reforms in the 1990s in reducing the political influence of the Japan Agricultural Cooperatives (JA) (Pollmann, 2014) to a point whereby "the focus of debate is no longer *whether* to reform agriculture but rather *when* and *how* to do it" (MacLachlan and Shimizu, 2014). The appointment of Hiroshi Moriyama, founder of an anti-TPP caucus with 63% of the 408 LDP representatives in both Houses in the Diet as members, as the head of the Liberal Democratic Party's Task Force on the TPP in September 2014, taking over from Koya Nishikawa, may have appeared as if Abe lacks the willpower but it instead showcased the delicate balance that the Abe administration has to tread to earn the support of anti-TPP policymakers in dismantling the old agricultural regime represented by the JA. Nishikawa and Moriyama recognized the need for reform but were adamant to maintain protection of the five sacred sectors (rice, beef and pork, sugar, wheat, and dairy) of which the Abe administration did acknowledge as a pre-condition to Japan's participation in the TPP process. To further ensure Japan's commitment in the TPP, the government removed JA-Zenchu's legal mandate "to audit and guide regional cooperatives across the country" as the first step in reducing the power that JA wields since it is considered as the "keystone of the whole anti-TPP movement in Japan" (*The Japan Times*, 2015a; Matthews, 2015).

The stalling of the TPP negotiation process due to Japan's adamant request for exemptions and special quotas of sensitive agricultural products not only underlines the tough negotiations particularly

on the bilateral track between the US and Japan but equally perhaps as a strategy for Japan to hold back from conceding too much until Tokyo could confirm that Washington possesses the Trade Promotion Authority needed to push the deal through Congress. With the signing of the TPPA, it has become clear that leveraging on the TPP to push for domestic structural reforms remains a challenge since Tokyo was only able to attain 95.1% of tariff removal compared to nearly 100% for the other members (*The Japan Times*, 2015b). On agricultural products alone, Japan will eventually remove tariffs on 81% of products (compared to 90% and above for the other TPP members) and 30% of items under the five sacred sectors (*Nikkei Asian Review*, 2015). Rice remains protected with import quota set at 56,000 tons, and 78,400 tons from the 13th year onwards. Despite the shortcomings, they are the highest tariff removal rates that Japan has ever achieved in its FTAs. Japan will still need to table the TPPA in the Diet for ratification where key figures such as Morihiro Hoshino who has been appointed as the Minister for Agriculture, Forestry and Fisheries in October 2015 will be expected to play their crucial roles in defending the TPPA against anti-TPP protesters.

The TPP as a Rule Setter in Advancing Japan's Regional Interests

The second strategic value of the TPP is the perceived rule-making aspect of the agreement. The TPPA is, argues proponents, a high-level new age agreement that includes many WTO-plus issues, hence goes beyond simple tariff elimination. Apart from the ambitious goal of the TPPA to achieve 100% liberalization rate, it is in the area of non-tariff barriers that provides a vital opportunity for TPP members to play a critical role in setting trade rules that could potentially affect future economic activities covering the whole of the Asia Pacific. Those trade rules would cover areas such as competition, labor, government procurement, intellectual property, investment and services.

The nation's most powerful business lobby, the Japan Business Federation or more commonly known as Keidanren issued a statement titled "Recommendations on Japan's Trade Strategy" in 2011 urging the government not to waste time in joining the TPP in order to be directly involved in the rule-making process and secure Japan's long term business interests and economic growth in the Asia Pacific region (Keidanren, 2011). In June 2013, the government answered the call with its blueprint for structural reform titled "Japan Revitalization Strategy: Japan is Back". Issued a month before Tokyo's official participation in the TPP negotiations, the document states that "the government will draw up new rules in Asia Pacific region by working positively on the Trans-Pacific Partnership (TPP) negotiations and use these rules as a basis for discussion of rule-making for Free Trade Area of the Asia-Pacific (FTAAP)" (Kantei, 2013: 128).

The perceived potential of the TPP obviously sets it apart from other bilateral and regional FTA frameworks including the Regional Comprehensive Economic Partnership (RCEP) currently under negotiations. While Tokyo would have preferred more time to iron out differing opinions on the TPP at home prior to entry, the rapid progress made in the TPP negotiation rounds add urgency and pressure on the Japanese government to take the big leap and start its negotiation process with the other TPP member countries. This action was primarily motivated by two key factors. Firstly, Tokyo was concerned that the new rules agreed under the TPPA could adversely affect its economic growth and cloud its political influence in the region should it decide not to join. Secondly, Tokyo did not want to lose the

golden opportunity to be part of the rule-making process and be forced to accept the TPP rules should it decide to participate after the negotiation process has ended and the agreement enforced.

These concerns would most likely derived from the conviction that the TPP represents the most promising route to an FTAAP that Tokyo has been supporting since the idea came about in 2006. The opportunity to create a common set of rules under the TPP would not only help to address the issue of overlapping bilateral FTAs that affects the operation of business supply chains but also to go beyond the constraints of the WTO by establishing rules in areas not covered by the WTO and further expanding them beyond the TPPA to form “a global set of rules” (Urata, 2016). However, it is similarly the rule-making factor that some TPP opponents saw as the danger for which Japan should rightly avoid. Anti-TPP protesters were justifiably worried about the secretive nature of the negotiation process. By keeping the public in the dark, opponents were concerned that their government may compromise too much in the negotiation process, or may use the TPPA to push for subsequent unpopular reforms or to dismantle powerful interest groups that threatens the power base of the ruling party. In other words, to whom rule-making is for?

There is thus an enduring issue of trust for the present government. Undeterred, Shinzo Abe was reported to have said a day after the TPPA text was released for public scrutiny that “[r]ules should not be something that are imposed on you – you make them. The TPP is the structure where Japan and the US can lead in economic rule-making” (*The Japan Times*, 2015b). However, the effectiveness of the TPPA in charting new trade rules for the region remains to be seen since the signed document will need to go through the legislative process of each of the member countries before it could be legally enforced and most importantly whether US President Barack Obama will be able to have the TPPA ratified by Congress without further renegotiations before his term ends in January 2017.

The TPP as a Balancer to China’s Strategic Influence in the Asia Pacific

China’s rapid economic rise and the political clout that it commands in the Asia Pacific region creates unease in Tokyo and Washington. The development of the TPP is therefore seen as a response to check China’s growing influence in the region. However, is the TPP designed to contain China by keeping it out or to include it under US-Japan determined rules? Some scholars and observers such as David Piling (2013) have argued that the TPP is an economic containment strategy to prevent China from developing its own regional economic order (see also Drysdale, 2011).³ Arguing that the TPP deliberately targets China, Professor of International Studies at Peking University, Wang Yong, argued that China’s rise is eroding “the economic foundation of the US-led security order in East Asia” and by centering on the TPP, where the US could take the lead, instead of the EAFTA or RCEP, it hopes to thwart “the emergence of a China-centered East Asian economic bloc”, constraint “the centrifugal tendencies of allies Japan, South Korea and Australia, which are attracted by China’s growing economic power”, and have “a decisive say over the direction of the multilateral trading system, and dealing with the challenges from China and other emerging economies” in order to wrestle back control of the region (Wang, 2013).

Contrary to such arguments, the strategic intent of the TPP was never to deny China entry but to welcome it under US-Japan leadership. While member countries such as Australia and New Zealand do

³ For a counter argument to David Piling, see Solis (2013).

not want the TPP to be turned into a “project to isolate and antagonise China” (*New Zealand Herald*, 2014), Japan and the US do not want to see China create its own rules in the region that could undermine or run contrary to their interests. Japan’s then Economy Minister Akira Amari remarked in May 2014 that “China is the world's second largest economy but rules governing the economy have been extremely opaque and unpredictable. This extreme opacity would hinder trade... It's inevitable that China would have to join the TPP... The TPP can play a major role to eliminate that opacity” (Waki and Sithole-Matarise, 2014). Barack Obama made it even clearer in an interview with Wall Street Journal that “if we don’t write the rules, China will write the rules out in that region. We will be shut out” (Seib, 2015).

For the US, China is the prized money and getting Japan to come onboard the TPP was fundamental. As aptly emphasized by Aurelia Mulgan, “Japan’s participation amplifies both the economic and strategic importance of the TPP for the US. Japan’s involvement enables the TPP to effectively compete with the China-led Regional Comprehensive Economic Partnership (RCEP), which involves Japan but not the US. Absent Japan, the TPP becomes a bit of a sideshow in the US strategic game against China and hardly the vehicle to facilitate the US rebalancing to Asia that America would like it to be” (Mulgan, 2014b). Tokyo is fully aware of the strategic role that Japan plays in the TPP as reflected by then LDP Secretary General Shigeru Ishiba’s comment to Akira Amari that “the TPP without Japan is pointless” (Ibid). In no ambiguous terms, Japan recognizes the strategic value of the TPP and uses it as a tool to further its national interests.

The rule-making factor not only brings Tokyo closer to Washington and indirectly help realize the Structural Impediments Initiative (SII) set out 25 years ago (Parker, 2014) but more significantly functions to pressure Beijing to reform its economic policies by putting in place clearer trade rules and regulations in line with internationally accepted norms so as to enable it to join the TPP and reap the economic benefits on offer. Instead of trying to contain China, the main strategy is for the US and Japan to complete writing the rules and then pull China into the regional grouping by having it sign on to the agreed rules after the agreement comes into effect. It is thus necessary to promote and maintain the TPPA negotiations at a high standard to thwart China’s interest to participate until the deal is sealed. Despite the TPP being proclaimed for its economic benefits, it is not originally designed to be fully inclusive (Tiezzi, 2015). The aim of using the TPP to pressure China in realigning its policies is evident from Obama’s remarks that “we hope that then China actually joins us in not necessarily formally being a member of TPP but in adopting some of the best practices that ensure fairness in operations” (The White House, 2014).

The question however is whether the TPP wields enough power to entice China to join and accept the new rules or will Beijing opt to develop its own trading bloc. As Mireya Solis have aptly pointed out, “The most fundamental challenge to the TPP project vis-à-vis China is not that it is built around a faulty notion of containment, but rather that it may not constitute a powerful enough enticement to propel China to sign on to these new standards on trade and investment (Solis, 2013). Indeed, China has not been sitting idly as the TPP took shape but has instead shown greater resolve to push for progress in the China-Japan-Korea FTA, prioritizing its FTA with South Korea and actively promoting and supporting the RCEP, which have entered their 11th round of negotiations (as of February 2016) (Jin, 2013; Yoshimatsu 2014).

Even with the TPP in place, China may still diffuse some of the TPP's perceived impact on its economy through the promotion of competing regional integration concepts. In May 2014, China, Japan and South Korea signed and put into effect their agreement for the Promotion, Facilitation and Protection of Investment, and more significantly a report on Beijing's proposal to set up a mega FTAAP as an alternative to the US-led TPP was issued at the Asia-Pacific Economic Cooperation (APEC) senior officials' meeting (*The BRICS Post*, 2014). Three months later in August, China and ASEAN came to an agreement to start negotiations on upgrading their existing bilateral FTA. China is not only focusing on East Asia but is building up its influence in Central Asia under the Shanghai Cooperation Organization (SCO) which has recently expanded to include India and Pakistan. Beijing has also strengthened its presence by leading the BRICS Development Bank and BRICS Contingency Reserve Arrangement to provide loans and combat currency crises (*The BRICS Post*, 2015). In October 2013, China proposed the establishment of a new USD100 billion Asian Infrastructure Investment Bank (AIIB) and it has begun its operations in January 2016. With the US and Japan as chief shareholders of the World Bank and the Asian Development Bank (ADB) respectively, it is not surprising that they saw the AIIB as a "lending rival" (Aiyar, 2015).⁴ The AIIB and the One Belt, One Road (OBOR) initiatives are strategic ideas that could challenge the TPP's strategic role and lead to competing models of regionalism with the US and China on opposing ends (see Takashi, 2015).

These various endeavors are meant to promote China's interests and reduce the perceived disadvantage of being excluded from the TPPA. While China does not dismiss the TPP altogether, it rejects the idea of the TPP being the main, if not only, route to an FTAAP. This demonstrates its refusal to be subjugated. There is thus a need to carefully consider the long term risk of an East Asian region splitting into two blocs instead of a single unified FTAAP, perhaps similar in some ways to the failed FTAA when Brazil strongly objected to US's attempt to extend its "rules and regimes across the Americas" (Steinbock, 2014).

RCEP vs. TPP

Will Tokyo's plan to get Beijing on board the TPP works? This may depend on how China views not only the economic cost but also the political and strategic implications involved. A 2014 study by Peter Petri, Michael Plummer and Fan Zhai estimated that if the TPPA is expanded into 17 countries with the additional inclusion of China, Indonesia, South Korea, Philippines and Thailand, China will benefit as much as USD808.6 billion by 2025 compared to USD249.7 in the RCEP (Petri, Plummer and Zhai, 2014: 84). Other existing TPP members will see their income gains increase too. US's income gain will quadruple from USD76.6 billion to USD327.6 billion while Japan will see an increase from USD104.6 billion to USD237.3 billion (Ibid: 84). Much of the gains would come from China's participation. However, the economic cost to China for not joining the TPP is estimated at USD34.8 billion (Ibid: 84). Noticeably, China's entry into the TPP will not merely bring economic value for itself but will generate enormous benefits to the other TPP members as well.

⁴ Aiyar (2015) argues convincingly that it is not because the AIIB will become a political tool of China that the US and Japan are against it since the ADB and the World Bank have been used by Japan and the US in promoting their own foreign policies respectively but the notion that the AIIB will reduce the dominating role of the World Bank and the ADB.

Considering that the TPP negotiations have been finalized and remained a high standard agreement, it will prove difficult for China to accede without major economic reforms. Joining the TPP will mean bringing China's policies in line with the beliefs, norms and interests of the US and Japan. This is the ultimate strategic feature of the TPP. Japan did not participate in the TPP simply to reduce tariffs but to build common values with likeminded states and to reduce overreliance on the Chinese economy (Takashi, 2015). The latter will not be an easy task to achieve since China's economy is well entrenched in the international system.

China will most likely speed up negotiations in the RCEP (pushed by China and excludes the US) which is scheduled to be completed by the end of 2016. This comes after China managed to reinstate the FTAAP idea as host of the APEC summit in November 2014 despite strong objections from the US to exclude it from the joint communique for fear that it would derail progress made in the TPP (Davis, 2014). The importance of realizing an FTAAP was once again reiterated by Beijing at the APEC summit in November 2015.⁵ The main reason for China to keep the FTAAP concept alive is to prevent the TPP from becoming the ultimate vehicle for the realization of an Asia-Pacific wide FTA since it would mean acceding to the TPPA and hence subscribing to American leadership (Solis, 2014). If China decides not to hop on the TPP bandwagon, a possible outcome would be a competition in rule-making between the RCEP and the TPP towards the aim of achieving an Asia-Pacific wide FTA (FTAAP). While a convergence between the RCEP and the TPP would be an ideal solution, "[d]ifferences not only in levels of ambition, but also in the nature of those ambitions, loom as potentially the largest obstacles to convergence between the TPP and the RCEP" (Scollay, 2014: 243-244). This differences is aptly elaborated by Terada Takashi when he commented that "[a]s ASEAN has also shown an interest in RCEP, in which the speed and level of liberalisation would be based on the standard that developing countries generally prefer, the dissimilarities in these integration models in the Asia Pacific region make any future merger of TPP and RCEP difficult. This also means the US and China will continue to compete against each other over trade and investment rule-making in East Asia and the Pacific" (Takashi, 2013).

Japan, however, can play a significant role in closing the gap since it is party to both frameworks. With its experience in the TPP negotiations and its ability to increase its liberalization rate, Japan is poised to push for higher liberalization rate and cover more WTO-plus issues in the RCEP. It will have the backing of ASEAN countries such as Brunei, Malaysia, Vietnam and Singapore who are already members of the TPP and may gain support from Indonesia, Philippines, Thailand and South Korea who could be willing to improve their trade liberalization rate since they have expressed their interest to join the TPP. China's economic slowdown could also lead to greater deregulations and policy improvements. Reducing the gap as much as possible between the two frameworks will contribute to the future possibility of convergence in the forming of an FTAAP. Furthermore, the fact that Japan views the new rules in the TPP not as a zero-sum game but as "a basis for discussion of rule-making" for the FTAAP enables it to play a vital role in bridging the concerns of the US and China (Kantei, 2013: 128).

Conclusion

⁵ A 'collective strategic study' on the FTAAP is currently underway and is expected to be completed by the end of 2016.

The key factor that affects China's assessment of the TPP is not the US but a combined US-Japan. China had earlier dismissed the TPP idea as a containment policy of the US but softened its position when Japan decided to officially join the TPP negotiations (see Li, 2014). Admittedly, China lost the opportunity to join hands with Japan in constructing an East Asian region when Tokyo extended an olive branch to Beijing. As Yoichiro Sato, Professor of International Strategic Studies at Ritsumeikan Asia Pacific University observed, "China's failure to fully embrace Hatoyama's half-cooked 'East Asian Community' concept at the East Asian Summit meeting in October 2009 was perhaps the beginning of Japan's return to normalcy" (Sato, 2010). Far from its trade value, the TPP provides an opportunity for Japan to rebuild and enhance if not to seal its relations with the US, starting with Naoto Kan and continuing with Shinzo Abe.

The TPP, pushed by the Abe administration as part of its third arrow strategy, serves Abe's commitment to domestic structural reforms and his realization of the need to open up the country to enhance Japan's strategic and economic competitiveness. Beyond that, the TPP solidifies Japan's relations with likeminded countries particularly the US and to check China's growing regional influence. Containing China is neither Washington's nor Tokyo's plan but getting Beijing to join and subscribe to the TPPA after its completion is. While Japan's involvement in the TPP process has contributed to China's reassessment of the TPP potential due to its rule-making factor, setting the bar too high may only discourage Beijing and may cause it to move away from engaging the TPP as its present initiatives seems to suggest. This may eventually lead to an unwanted division of the region into two powerful trade blocs – one led by China and the other by the US.

Japan, unlike Australia or New Zealand, or even Malaysia, values the strategic worth of the TPP and is therefore in support of the US's strategic objectives. Tokyo is not merely concerned with China's economic and military assertiveness but as Ichiyo Muto, the founder of People's Plan Study Group and an anti-war activist, observes, Tokyo needs Washington's unwavering support in realizing Abe's plan to move the nation towards full 'normalization' (Personal communication, 25 October 2014). The TPP, if successfully enforced, will undoubtedly strengthen US-Japan's geopolitical and geoeconomic interests and stands to threaten China's economic prowess. Converging the TPP and the RCEP to form an FTAAP would be the best solution if only Beijing, Tokyo and Washington are willing to put their political calculations and tactical differences aside for the sake of the region's integration and the prosperity of its people.

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