

# The TPP as a Crucial Piece of Abenomics

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# 1. Abenomics in the first year

- The 1<sup>st</sup> arrow: bold monetary policy
  - Successful in changing people's expectation in the short run, going back to 2008
    - Foreign investors, domestic investors, the real economy
- The 2<sup>nd</sup> arrow: flexible fiscal policy
  - Going with consumption tax increases
    - Huge government debt as inter-generational income distribution
- The 3<sup>rd</sup> arrow: growth strategies
  - Promotion of investment, strengthening utilization of human resources, creation of new markets, global economic integration
    - Electricity, labor market, ...
  - Mega FTAs (TPP, RCEP, CJK FTA, Japan-EU FTA)
    - Agriculture
    - Enhancing competitiveness with international production networks

# Nominal exchange rates: Yen to the Dollar

America Dollar

2014/2/7



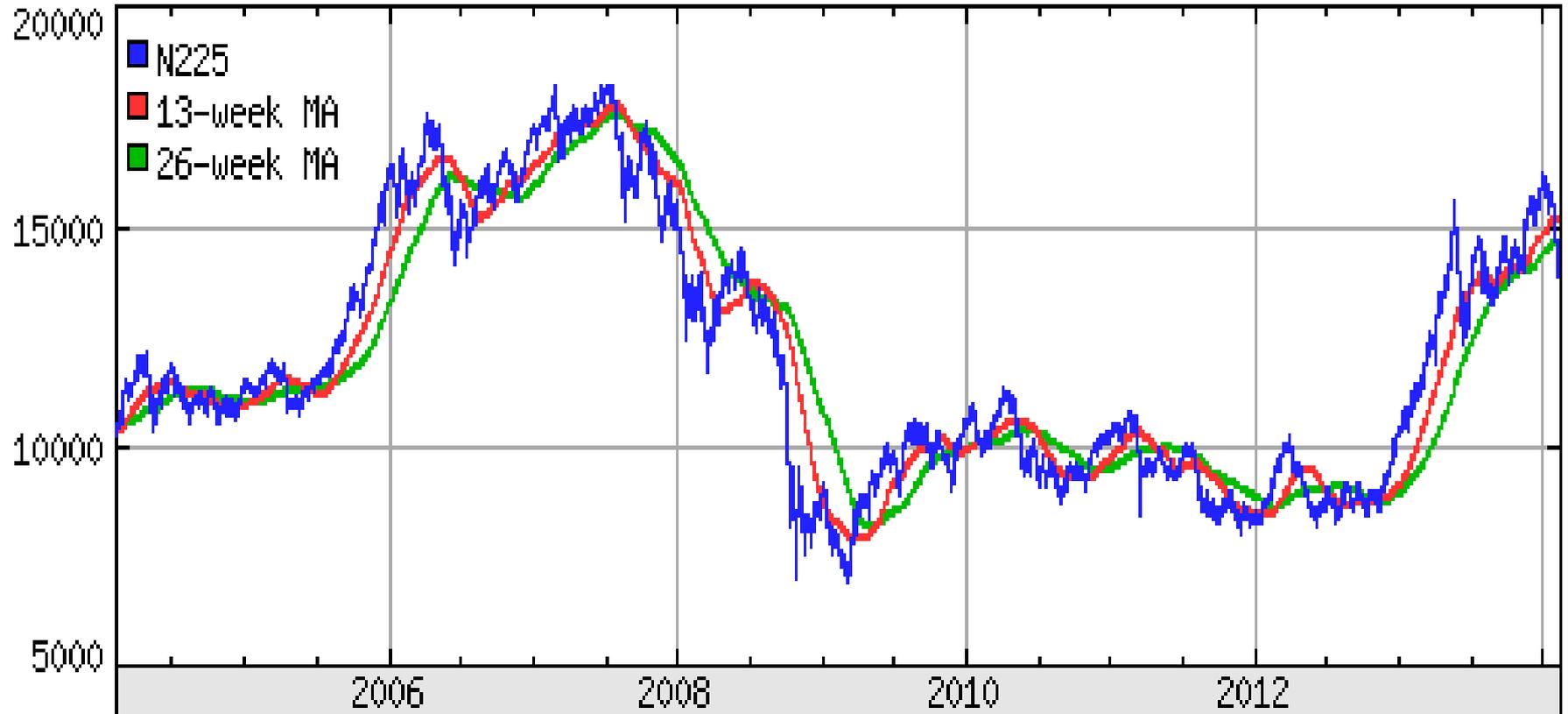
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<http://stocks.finance.yahoo.co.jp>

# Stock prices: Nikkei average

Nikkei 225

2014/2/7



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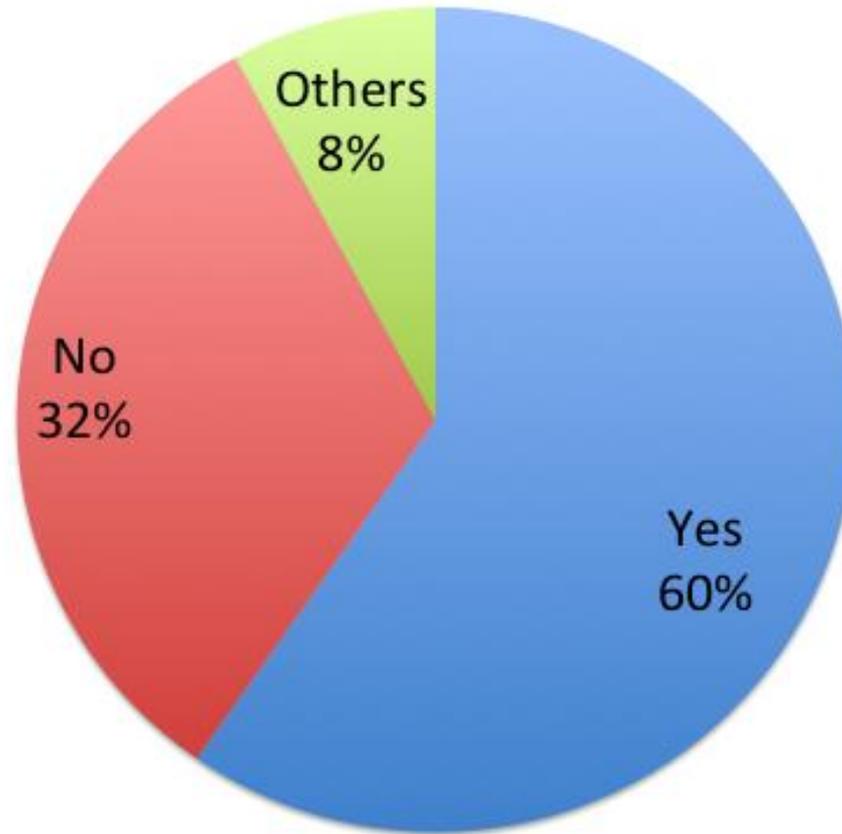
## 2. Why TPP for Japan and East Asia?

- Public polls in Japan have consistently supported TPP.
  - Not necessarily like agriculture vs. manufacturing.
- The Japanese believe in international production networks.
  - “The 2<sup>nd</sup> unbundling” in machinery industries, most advanced in East Asia.
  - Achieving both the deepening of economic integration and the narrowing of development gaps.
  - The international division of labor “increases” domestic employment in Japan.
    - Even SMEs, local governments, and labor unions support globalizing corporate activities.

# FNN Public Poll (January 4-5, 2014)

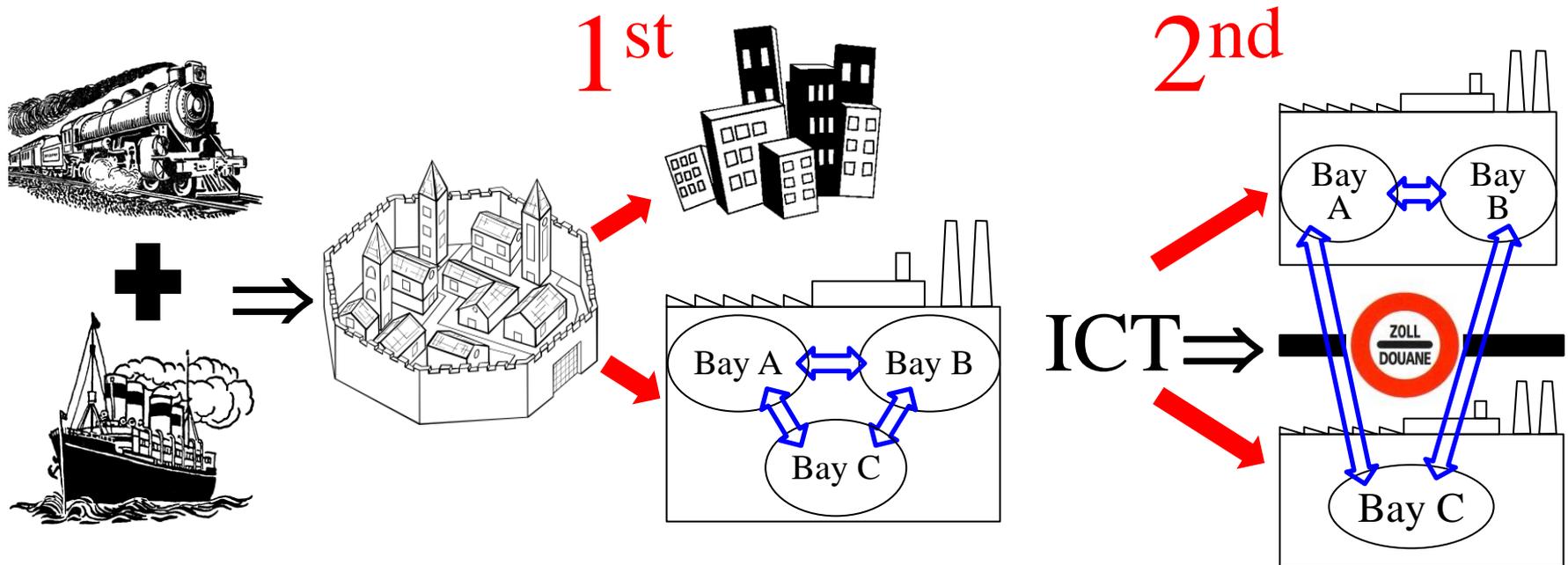
(Phone interviews with 1,000 persons at 20 years old and above)

“Do you support Japan’s participation in TPP that will substantially liberalize trade with Asia-Pacific countries with tariff removals in principle including agriculture?”



# The 2<sup>nd</sup> Unbundling

- The 2<sup>nd</sup> unbundling, i.e., international division of labor in terms of production processes and tasks, has developed since the 1980s, based on drastic reduction in coordination costs due to ICT revolution.
- The 2<sup>nd</sup> unbundling in the manufacturing sector is most advanced in East Asia.

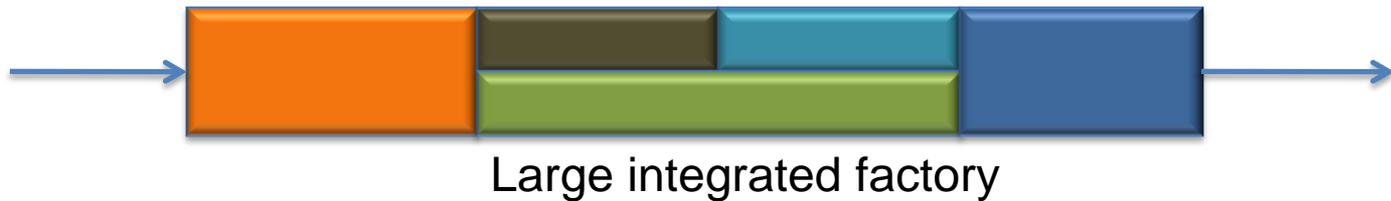


Source: Baldwin (2011).

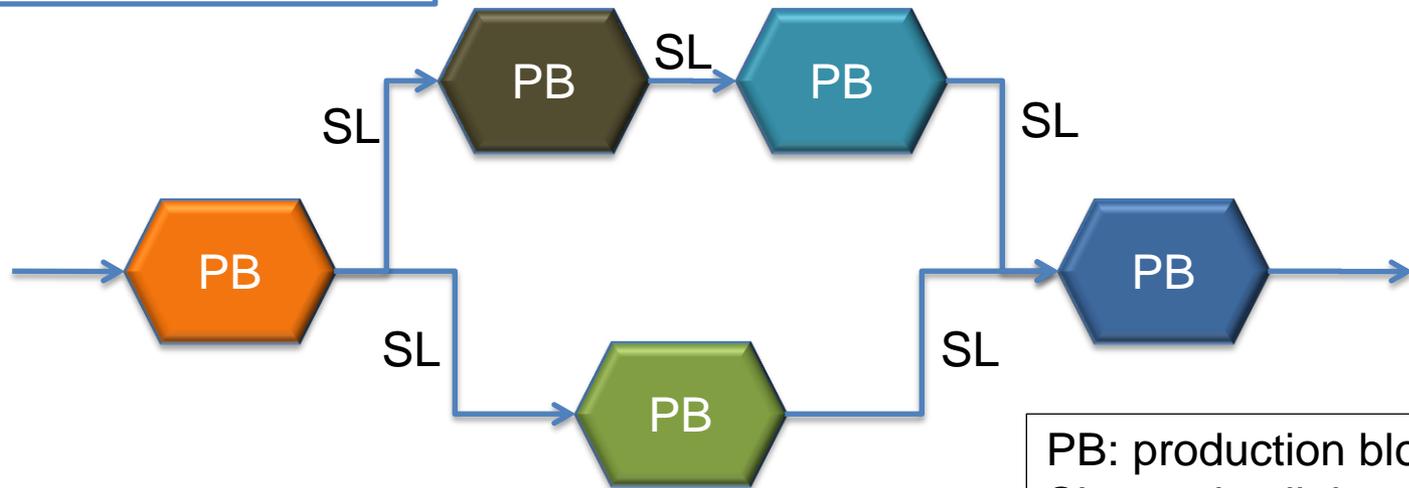
# ➤ The fragmentation theory: Production blocks and service links

Tradeoff between the reduction in production costs in PB and the enhancement of SL costs. Fragmentation of production occurs particularly between countries at different development stages (Jones and Kierzkowski (1990)).

## Before fragmentation



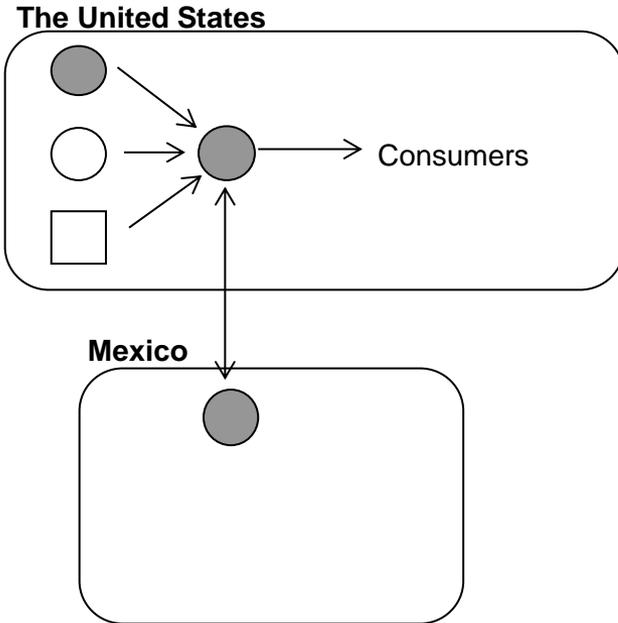
## After fragmentation



PB: production blocks  
SL: service links

# The evolution of the 2<sup>nd</sup> unbundling

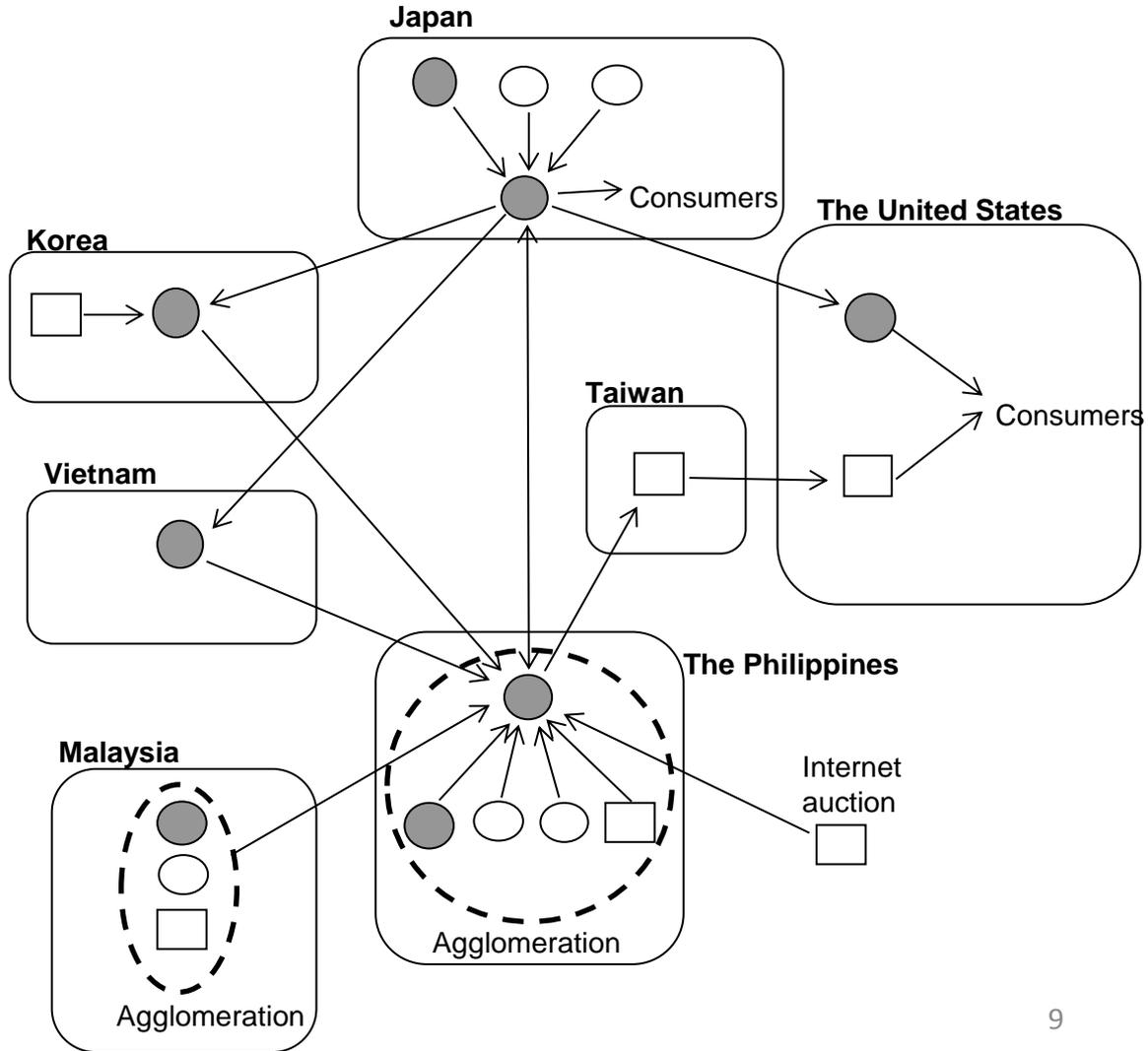
Cross-border production sharing  
(back-and-forth; intra-firm)



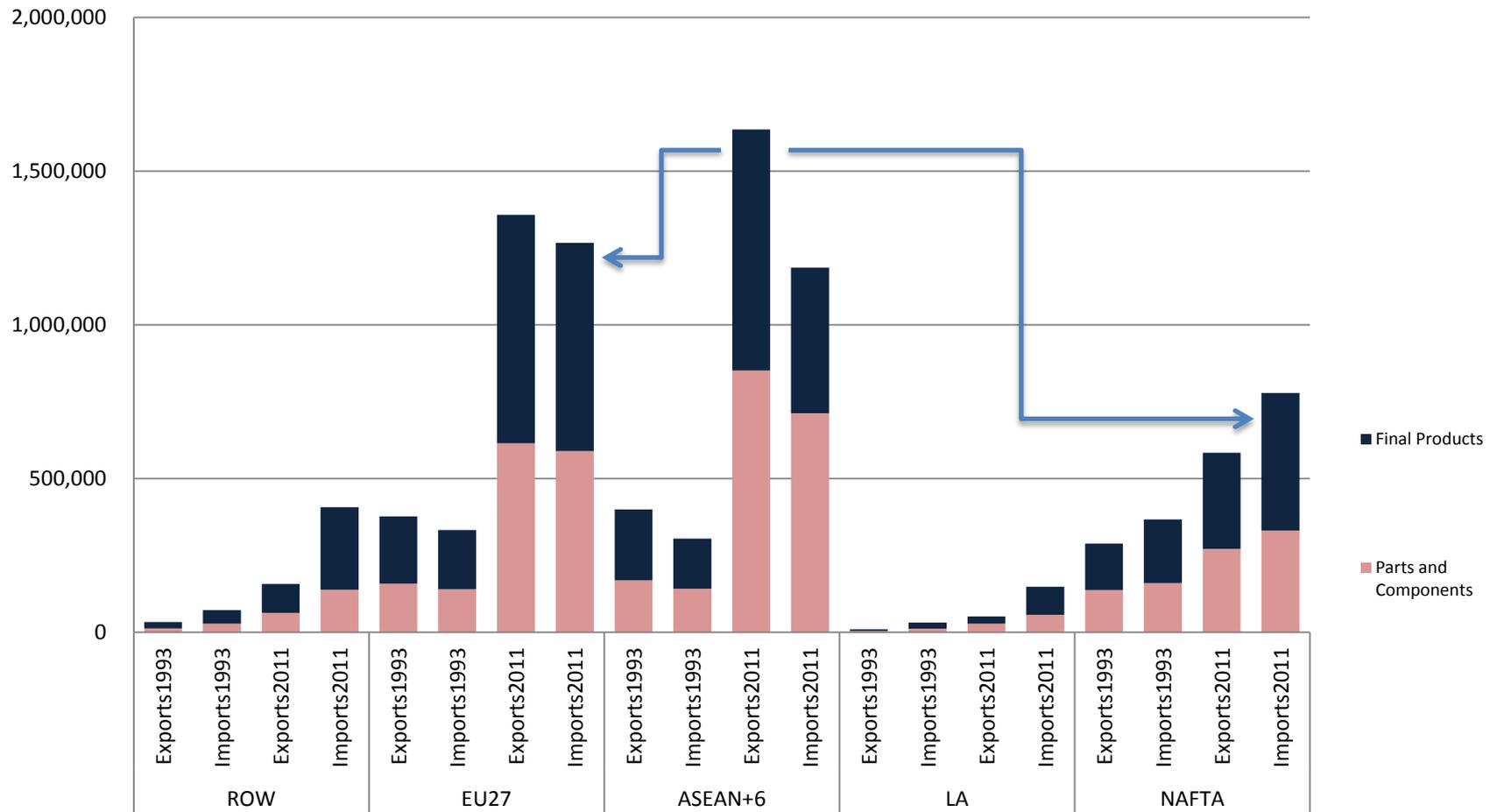
-  Headquarters or affiliates
-  Unrelated firms with same firm nationality
-  Unrelated firms with different firm nationality

Source: Ando and Kimura (2010).

Production networks  
(“networks”; fragmentation and agglomeration;  
intra-firm in short distance, arm’s length in long distance)

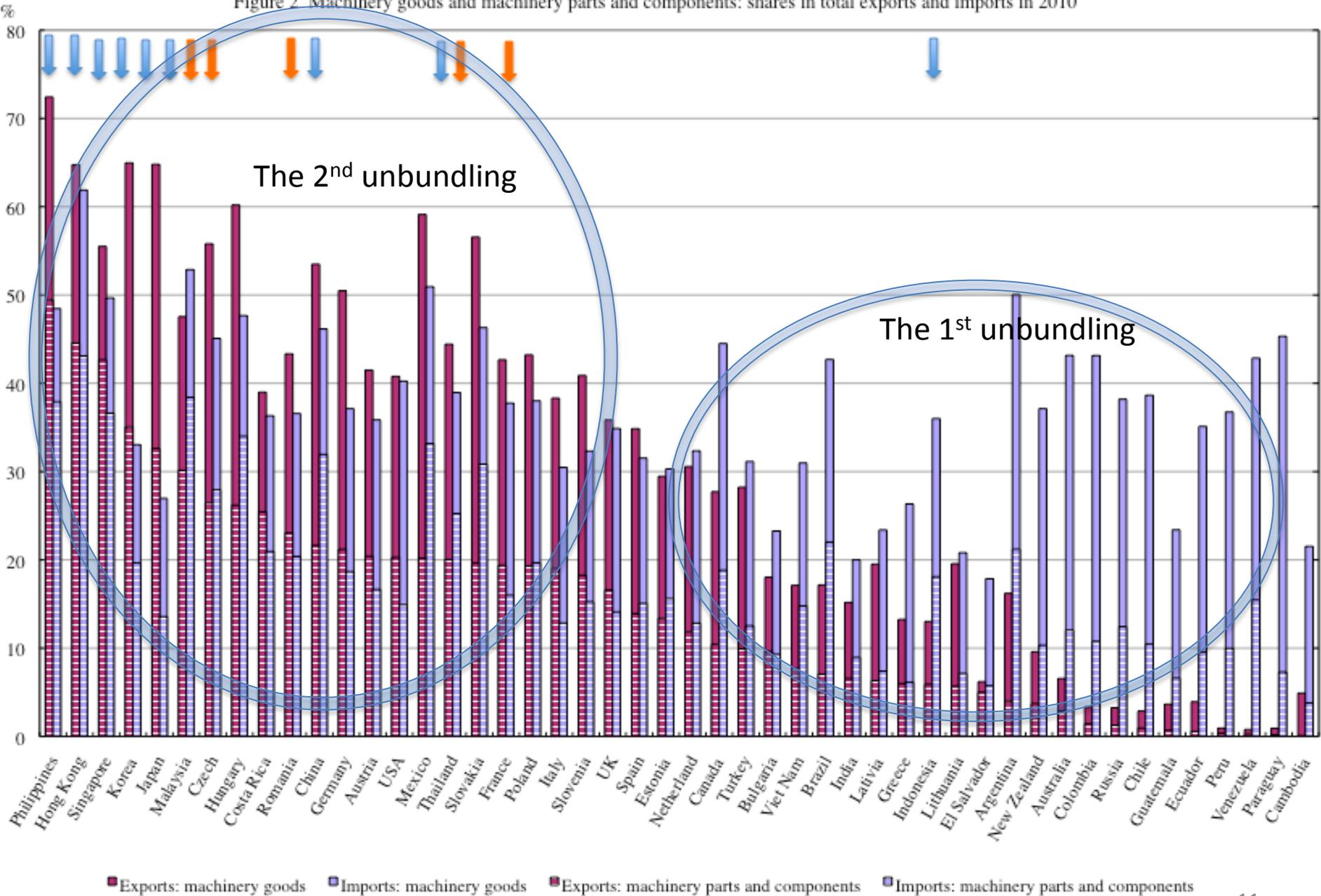


# Machinery exports and imports by regions (US\$ millions)



Source: Chang and Kimura (2013).

Figure 2 Machinery goods and machinery parts and components: shares in total exports and imports in 2010



Source: Ando and Kimura (2013).

## Outward foreign direct investment and domestic employment by Japanese manufacturing firms:

### Changes in the number of affiliates in East Asia and changes in domestic employment

		1998-2002	2002-2006	2007-2009
The number of affiliates in East Asia	Increases (including the first direct investment)	4.3%***	6.6%***	3.6%***
	Keep the same number	-1.5%	-0.4%	-0.6%
	Decreases (including withdrawal)	0.5%	-0.8%	-3.3%***

Reporting a part of regression results *with Kigyo Katsudo Kihon Chosa*. Employment changes during each period relative to firms without affiliates in East Asia. \*\*\* indicates the statistical significance of the sign at 1%.

Source: Ando and Kimura (2012).

# 3. How is the TPP negotiation changing Japan?

- A sign of reform in agricultural protection
  - The first substantial reform in a quarter of century
  - Tariff removal ratios: 85%+ to 95%.
  - LDP's commitment "keeping tariffs for major five agricultural products (rice, wheat, meat products, dairy products, sugar)" is losing support.
  - Not enough for TPP to conclude though.
- Strategic thought in negotiating mega FTAs
  - The progress of TPP negotiation accelerates and upgrades negotiations of other mega FTAs.
    - RCEP, CJK FTA, Japan-EU FTA, TTIP

# 4. Conclusion

- Our common mission: establishing novel international economic order for the new international division of labor.
  - High-level liberalization and international rule
- Considerable probability for Japan to overcome the last century's homework, border measures for agriculture.
- Solid commitment of the US is the key.