



*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

## Economic Development in Developing Countries and the Future of Trade Agreements

Seiichi Fukui<sup>1</sup>

Developing countries have enjoyed the benefits of a free trade regime under the WTO in the 21st century. President Trump, who pledged to exercise an “America First” policy, has made policies which devolve such a liberalization of trade and investment. In this paper, we try to predict the future course of trade and investment liberalization under the “America First” policy. For that purpose, first, we examine the reasons that WTO negotiations for trade liberalization have begun to flounder. Then, we investigate the future course of FTA/EPAs, especially, the TPP and RCEP which are considered to influence the success of multilateral trade negotiation. For the TPP, we discuss whether the number of countries which participate in the TPP will increase, without the USA, and whether the USA will participate in the TPP again. For the RCEP, in which 16 countries have held meetings for promoting negotiations, we compare the existing bilateral EPAs between two among those 16 countries to reveal the factors which prevent a negotiation consensus. Further, we also examine whether the plans for WTO reform proposed by the EU and Japan can induce the USA and China, who are the most influential countries, to comply with WTO regulations. Finally, we make a prediction about the future course of trade agreement, standing in the position of developing countries.

*Key words:* WTO, FTA/EPA, developing countries, “America First” policy

### 1. Introduction

The income gap between developed and developing countries continued to widen until around the 1990s, however, the economies of developing countries began subsequently expanding at a spectacular pace. By the dawn of the 21st century, many of these developing countries had attained remarkable economic development and the income gap between developed countries and the developing countries has been reduced (Table 1).

One of the factors that propelled these countries on the growth path is trade and investment liberalization, and the World Trade Organization (WTO) has significantly contributed to the progress of this liberalization.

However, as Hagiwara (2018) mentions, conflicts between developing countries and developed countries have stalled the WTO trade liberalization talks since the launch of Doha Round negotiations.

Furthermore, regional economic partnership agreements aimed at liberalizing trade and investments, such as the economic partnership agreements (EPA) and

free trade agreements (FTA), have rapidly flourished, culminating in the signing of the wide-ranging the Trans-Pacific Partnership (TPP) a few years ago, although WTO trade liberalization talks have faltered.

However, President Trump adopted the “America First” policy as a presidential campaign promise, subsequently announcing the USA’s withdrawal from the TPP, as he has launched a series of trade policies to fulfill this promise.

Thus, in the midst of leveraging trade and investment liberalization for enhancing economic development, many developing countries are now focusing on how “America First” trade strategies will influence their course of progress in trade and investment liberalization.

Against such a backdrop, this study elaborates on the future of trade and investment liberalization that will significantly impact Japanese agriculture by analyzing the current state of affairs of the WTO, TPP, and RCEP (Regional Comprehensive Economic Partnership).

The organization of this paper is as follows: The

---

<sup>1</sup> Osaka Sangyo University  
seifukui@hotmail.com

**Table 1. Economic development of developing countries (2005/2017)**

Income group	Population (million)		Per capita GDP (PPP:USD)	
	2005	2017	2005	2017
Low income	2,352	732	2,486	1,984
	0.365	0.097	0.096	0.012
Lower middle income	2,475	2,973	6,314	6,764
	0.384	0.395	0.256	0.165
Upper middle income	600	2,576	10,931	16,524
	0.093	0.342	0.108	0.35
High income	1,011	1,249	32,550	46,053
	0.157	0.166	0.54	0.473
Total	6,438	7,530	60,941 (billion)	121,648 (billion)

Source: World Bank, World Development Indicators.

Note: The figures under the population numbers indicate % of population in each income group. The figures under the per capita GDPs indicate % of the GDP in each income group.

next section explains the reason that WTO negotiation has not progressed and whether the expansion of EPA/FTA will further the multilateral trade negotiations in the future. Section three presents the argument whether TPP and RCEP can be building-blocks for multilateral trade negotiations.<sup>1)</sup> Section four discusses recent advances in WTO reform. The final section concludes.

## 2. Regional Economic Agreements and the WTO

The General Agreement on Tariffs and Trade (GATT) and WTO systems were established to foster peace and international economic development by promoting global trade liberalization.

However, since the launch of the WTO's Doha Round, which was attended by a higher number of developing member countries, one of the factors that have steered WTO trade negotiations into a stagnant impasse has been the division of opinions on trade liberalization between developed and developing countries—interests that are not easy to reconcile (Mukunoki, 2016).

The gap between the opinions of developed and developing countries is because of the difference in their economic statuses and cannot be easily bridged at the WTO negotiating table.

Then, will EPAs and FTAs, expand in the future? It

is difficult to predict the future expansion of EPAs/FTAs, because whether the merits of EPAs/FTAs exceed demerits depends on the situation of each case (Fukui, 2008); it is possible that the impacts of trade liberalization on investment might exceed the negative impacts of trade liberalization itself; and for some countries, the geopolitical international relationships may be more important than the economic impacts of trade liberalization.

Furthermore, conditions such as 1) the low-level liberalization of rules and regulations, and 2) the incidence of losses among non-participants will facilitate the expansion of EPAs/FTAs (Mukunoki, 2016). The possibility that China's "One Belt and One Road" initiative combined with FTAs<sup>2)</sup> may promote regional economic agreements with low tariff reduction rates and loose investment regulations is consistent with condition 1),<sup>3)</sup> while the manifestations of interest in TPP membership from the ASEAN members outside the TPP, prompted by their fears of being left behind by Malaysia and Vietnam, reflect condition 2).

## 3. Future Course of TPP11 and RCEP

### 1) TPP11

The TPP was an attempt to reach an agreement on rules covering the trade of goods and services; investment liberalization; intellectual property rights and electronic commerce; state-owned enterprises; and environment. If the USA had remained in the partnership, then the scale of the pact would have been massive; this continued partnership would have also fulfilled hopes for the high-level liberalization of rigorous rules and regulations (high tariff reduction rates for goods and services, rules of origin; rules and regulations governing intellectual property rights, investor-state dispute settlement (ISDS); prohibition of performance requirements, such as technology transfers in foreign direct investments; and the regulation of preferential treatment of state-owned enterprises).<sup>4)</sup>

However, the USA's withdrawal resulted in the contraction of the scale, the prolongation of negotiations on the preferential treatment of state-owned enterprises, and the suspension of ISDS negotiations and intellectual property rights due to demands from developing countries that had originally agreed to concessions in anticipation of benefits from the USA's TPP membership.<sup>5)</sup> Nevertheless, although lower than that in the TPP12, the level of liberalization in TPP11 is

1) Bhagwati (1993) calls the regional trade agreement which promotes multilateral trade liberalization a "building bloc".

2) Ehara (2017).

3) Mukunoki (2013).

4) Cabinet Office (2015).

**Table 2. Economic partnership agreements of RCEP member countries**

Negotiation item	Trade in goods and services	Elimination rates of customs duties * (on the basis of items : %)	Rules of origin	Performance requirements	State enterprise	Intellectual property rights
EPA						
ASEAN + Japan	GATT 24 · GAS 5	89.8 : 91.9	Partial cumulative origin	Not included	Not included	TRIPS level
ASEAN + China	Enabling Clause · GAS 5	92.5 : 94.6	Partial cumulative origin	Not included	Not included	Not included
ASEAN + Korea	Enabling Clause · GAS 5	89.8 : 92.1	Partial cumulative origin	Not included	Not included	Unclear
ASEAN + India	Enabling Clause · GAS 5	77.0 : 74.2	Partial cumulative origin	Not included	Not included	Not included
ASEAN + Australia/ New Zealand	GATT 24 · GAS 5	93.5 : 100	Partial cumulative origin	Included	Not included	TRIPS level
Japan + India	GATT 24 · GAS 5	97 : 90	Partial cumulative origin	Included	Not included	Above TRIPS level
Japan + Australia/ New Zealand	GATT 24 · GAS 5 (TPP11)	95 : 100	Perfect cumulative origin	Included	Suspended	Prolonging negotiation
China + Korea	GATT 24 · GAS 5	91 : 92	Partial cumulative origin	Not included	Not included	Protection of IPR Enforceability is limited
China + India	APTA	0			Not included	Not included
China + Australia/ New Zealand	GATT 24 · GAS 5	97 : 100	Partial cumulative origin	Not included	Not included	Below TRIPS level
Korea + Australia/ New Zealand	GATT 24 · GAS 5	92.4 : 100	Partial cumulative origin	Included	Not included	Above TRIPS level
Korea + India	Enabling Clause · GAS 5	88.6 : 71.5	Partial cumulative origin	Included	Not included	TRIPS level
Japan + China	Unconcluded			Included in investment agreement	Not included	Protection of IPR Enforceability is limited
Japan + Korea	Unconcluded			Included in investment agreement	Not included	Protection of IPR Enforceability is limited
India + Australia/ New Zealand	Unconcluded					
TPP11	GATT 24 · GAS 5	95–100	Perfect cumulative origin	Included	Suspended	Prolonging negotiation

Source: Trade in goods and services: WTO Regional Trade Agreements Database. Tariff Reduction Rates: Sukegawa (2016), Table 5-2, MUFJ Bank (2017), and Sugawara (2009). Rules of origin: ASEAN Secretariat, JETRO, Korea Ministry of Foreign Affairs and Trade, Australia Ministry of Foreign Affairs and Trade. TPP: Cabinet Secretariat. Investment (performance requirements, state enterprise, intellectual property rights): ASEAN Secretariat, JETRO, Korea Ministry of Foreign Affairs and Trade, Australia Ministry of Foreign Affairs and Trade. Agreement among Japan, China and Korea for promotion, facilitation and protection of investment; Terada (2016). TPP11; Sugawara (2017).

Note: The figures in the item of Elimination Rates of Customs Duties indicate the ratios of goods and services items on which customs duties are or will be eliminated, to total number of items. The figures on the left are the ratios of countries or region on the left, while the figures on the right are the ratios of countries or region on the right.

higher than that in the previously existing EPA between Japan and ASEAN.

The USA's withdrawal may be attributed to small benefits from TPP membership and the fulfillment of a campaign pledge to working-class Americans, who were facing intense competition with the Asian industrial products in the traditional "Rust Belt" industrial area (Kilibarda and Roithmayr, 2016).

Then, may we expect that the USA will rejoin the TPP?

The USA's rejoining of the TPP may moderate the discontent of farmers' groups and apply pressure on China who is trying to impose retaliative tariff. Although the revival of TPP membership would favor the agricultural sector, the potential for losses in the automobile, steel, and textile manufacturing sectors would

5) For the suspension items, see Cabinet secretariat; <http://www.cas.go.jp/jp/tpp/tpp11/index.html>.

be high.

Therefore, in order to predict the re-entry of the USA into TPP, we must observe the current situation.

Another question that may emerge is whether there is any possibility that countries now outside the TPP, aside from the USA, will sign up for the TPP; Thailand, Indonesia, the Philippines, Colombia, Great Britain, Taiwan, and South Korea are among the countries reportedly interested.<sup>6)</sup>

Given their interest in joining the TPP, the possibility of increased membership and expanded regional economic agreements pivoting on the TPP still remains, despite the USA's absence.

## 2) RCEP

Consisting of 16 countries, including the ASEAN countries and Japan, China, South Korea, Australia, New Zealand, and India, RCEP is a regional economic agreement that will, similar to the TPP, incorporate a comprehensive FTA including trade in goods and services, investment, economic/technological cooperation, intellectual property rights, and dispute settlement (Table 2). However, from the outset, differences in opinions have pitted countries (such as Japan, Australia, and New Zealand) who are desirous of a high-quality FTA against those (such as China) who are negative about regulating intellectual property rights and electronic commerce and those (such as India, Myanmar, and Cambodia) who are negative about free trade itself (Terada, 2016). Further, in recent years, the various ASEAN countries that originally proposed creating a wide-ranging economic bloc, no longer appear so monolithic (the Nikkei, April, 2018).

The RCEP negotiations cover trade in goods/services, investment, intellectual property rights, economic/technological cooperation, competition, dispute settlement, electronic commerce, and other areas. Although their goal assures a more extensive and profound liberalization that substantially enhances those areas on the basis of ASEAN+1 (Japan, China, South Korea, Australia, New Zealand, or India) regional economic agreements currently in effect, the liberalization envisioned also embodies flexibility toward the developing ASEAN nations (Ministry of Foreign Affairs, 2013).

Since ASEAN+1 EPAs show varying levels of liberalization, the differences are significant; additionally, the yardstick used needs to be moved considerably, depending on which agreement is involved.

Among these ASEAN+1 EPAs, the tariff reduction

rate is the highest in the EPA with Australia and New Zealand, while it is lowest for the EPA with India.

As described above, even among ASEAN+1 agreements that should rightfully be the starting point of negotiations for relatively high levels of liberalization in RCEP, sizable differences among agreements have engendered an immense gap between levels advocated by developed countries participating in TPP11 and those espoused by developing countries.

Additionally, although it behooves Japan to spur these negotiations in its current role, it has yet to conclude an FTA with China and South Korea, two countries exerting an enormous influence on ASEAN countries.

Further, it has recently been reported that Malaysia, Thailand, China, and Vietnam are negative about RCEP negotiations based on the ASEAN+6 framework (the Nikkei, April 26, 2018).

As all of the above indications portend numerous obstacles that will hinder negotiations, forging a consensus to finalize the RCEP will be a difficult task.

## 4. WTO Reform

Several proposals have been advanced for the WTO reform in the areas of electric commerce, intellectual property rights, industrial subsidies and technology transfer, the consensus decision-making, dispute settlement, trade policy review mechanism, and the WTO Secretariat's functions.

The reform of WTO rules in electric commerce, intellectual property rights, and industrial subsidies focuses on the establishment of new rules to enforce prohibitions on activities censured by many countries, including the USA, the Chinese government's subsidies and low-interest financing for state-owned enterprises, and forced technological transfers in foreign direct investments. Further, the issue of trade policy review mechanism pertains to lack of transparent review on trade policies by the Chinese government to the WTO Secretariat (the Nikkei, September 18, 2018).

Japan, the USA, and the EU agreed with the WTO reform to cope with the violation of the rules by China (JAPAN, the USA and the EU Joint Trade Ministerial Meeting, September 25, 2018). However, it is not really possible that China will agree to the proposals of WTO reform, given the ongoing intensification of the US-China trade war, though China does not necessarily uncompromise (the Nikkei, September 4, 2018).

6) For Thailand, see "Nikkei Business", April 23, 2018. Cerdeiro (2016) predicts Colombia will have the largest benefit among the South American countries if she joins the TPP. For Great Britain, Indonesia, Philippines, and Taiwan, see the Nikkei, March 9, 2018.

Additionally, reconsideration of consent decision rule made in order to avoid bringing disadvantages to developing countries, and of dispute resolution system of which deliberation substantially delays, have become key reform targets that will, however, not necessarily be effective (Yamashita, 2018).

Whether WTO reform can make progress or not undoubtedly depends on the actions of China, who refers to itself as a “developing country,” although it is the second largest economy in the world.

## 5. Conclusion

If the USA rejoins the TPP, then it is highly possible that a number of countries will also join TPP. Moreover, the USA’s participation in the TPP can induce China to accelerate RCEP negotiations.

Although the conclusion of an RCEP agreement with a high level of liberalization similar to the TPP will result in the possibility of promoting multilateral trade negotiations, this will depend on the responses of China and India.

On the other hand, if the USA does not rejoin the TPP, then China might try to expand FTAs with less stringent rules relative to the TPP, thereby entailing the possibility that EPAs with low levels of liberalization will be concluded during this period.

From the perspective of developed countries which have obtained higher technology and richer human resources, the conclusion of multilateral trade agreements with the same rules among the member countries is equitable according to their criteria and is accompanied by economic benefits. However, if developing countries will accept the free trade rules equal to those for developed countries, they cannot compete with the developed countries in the sectors with higher technology and their goal of someday attaining the same standard of living that developed countries enjoy recedes into the distance.

To break the deadlock of a strategic substitute relationship where their conflicting interests are pitted against each other, a transition into a strategic complement relationship between developed countries and developing countries is essential. However, the path is not in sight.

## References

- Bhagwati, J. N. (1993) Regionalism and Multilateralism: An Overview, in J. DeMero and A. Panagariya, eds., *New Dimensions in Regional Integration*, New York: Cambridge University Press.
- Cabinet Office (2015) Overview of Trans-Pacific Partnership Agreement (TPP Agreement), <https://www.kantei.go.jp/jp/headline/tpp2015.html> (in Japanese).
- Cerdeiro, D. A. (2016) Estimating the Effects of the Trans-Pacific Partnership (TPP) on Latin America and the Caribbean (LAC), IMF Working Paper, 16–101.
- Ehara, N. (2017) FTA Strategy and Belt and Road Initiative of China, The Japan Institute of International Affairs, A New Direction of Economic Order in Asia-Pacific Region Post TPP, March, 2017, 93–116 (in Japanese).
- Fukui, S. (2008) Economic Development and Trade, in M. Takahashi and S. Fukui, eds., *Theories and Practices in Economic Development*, Tokyo: Keiso Shobo, 145–160 (in Japanese).
- Hagiwara, H. (2018) Recent Developments and the Outlook for Trade Negotiations: Report from Responsible Organization, *Japanese Journal of Agricultural Economics* 21: 37–43.
- Kilibarda, K. and D. Roithmayr (2016) The Myth of the Rust Belt Revolt, SLATE, December 1, 2016, [http://www.slate.com/articles/news\\_and\\_politics/politics/2016/12/the\\_myth\\_of\\_the\\_rust\\_belt\\_revolt.html](http://www.slate.com/articles/news_and_politics/politics/2016/12/the_myth_of_the_rust_belt_revolt.html).
- Ministry of Foreign Affairs (2013) Negotiations of Comprehensive Regional Economic Partnership Agreement (RCEP) in East Asia, August, 2013 (in Japanese).
- MUFJ Bank International Division (2017) Process of FTA in Asia, AREA Report 485.
- Mukunoki, H. (2013) Economics of Regional Trade Agreement, in J. Ishikawa, H. Mukunoki, and T. Kikuchi, eds., *The Essentials of International Trade*, 2nd ed., 223–231.
- Mukunoki, H. (2016) Economics of Regional Trade, in F. Kimura and H. Mukunoki, eds., *Frontier of International Economics*, Tokyo University Press, 375–419 (in Japanese).
- Sugawara, J. (2009) Korea=India Comprehensive Economic Partnership Agreement (CEPA): From View Point of Export to India, <WTO/FTA Watch 09–05>, Mizuho Research Institute, August 14, 2018 (in Japanese).
- Sugawara, J. (2017) Agreement in Principle of TPP11, Mizuho Research Institute, November 13, 2017 (in Japanese).
- Sukegawa, S. (2016) Significance and Challenges of RCEP, in K. Ishikawa, K. Umada, and Y. Watanabe, eds., *Mega FTA and World Order*, Tokyo: Keiso Shobo, 63–86 (in Japanese).
- Terada, T. (2016) TPP and Economic Order in Asia-Pacific Region: Why Regional Integrations

Compete? *Nogyo to Keizai*, A Special Issue, June 2016, 126–133 (in Japanese).

Yamashita, K. (2018) Should Utilize TPP for WTO Reform!: WTO Reform Will Be Necessary for

Regulating China's Breaches, WEBRONZA, August 6, 2018, <https://webronza.asahi.com/> (in Japanese).