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TRADE TALKS AND NATIONAL SECURITY

By: Vinod K. Aggarwal and Simon J. Evenett



Photo Credit: The Australian

The stream of revelations about American spying in Europe—and the backlash they have produced—threatens ongoing EU-US trade talks. This column assesses that threat, highlighting often-overlooked factors, not the least of which is the poor record of allowing security policy concerns to influence trade relations.

■ It was all going so well. In June 2013, at the G8 Summit in Northern Ireland, the EU and United States formally launched negotiations for a Transatlantic Trade and Investment Partnership (TTIP). The optics were great. Substantively, the launch was taken as further interest in trade policy by the Obama Administration, whose only trade initiative so far had been the Trans-Pacific Partnership (TPP) negotiations in the Asia-Pacific. On the European side, American interest in working with Europe in view of the “pivot to Asia” was clearly welcome. Berlin provided decisive support for the negotiations and the inevitable French tantrums were contained. One leading study estimated that the benefits to signatories of the ambitious deal totaled €214 billion.^[1]

No one could have anticipated that just six months later, leading European politicians, including some from the European Parliament that must eventually approve the deal, would call for the suspension of the talks. Ostensibly, they were responding to revelations to reports, if possibly exaggerated, about the extent of US spying in Europe. News that the German Chancellor’s mobile phone was bugged for almost 10 years unleashed a barrage of criticism of US national security

policy.^[2] Here our focus is on the implications for the TTIP talks of linking trade and security.

TTIP looked shaky before the spying row

TTIP’s prospects had already dimmed before the revelations about the extent of US spying in Europe.^[3] Despite giving regulatory cooperation prominent billing as a negotiating priority at TTIP’s launch, the EU and the US have engaged in a “dialogue of the deaf” on this matter. Both are demanding changes in the other’s regulatory structures that have profound legal, if not in some cases constitutional, implications. Once again, independent regulators are lining up legislative and other support to chase off encroachment on their turf by trade policy types that they don’t trust.

Such intra-governmental rivalries, which are an important part of the policy formation in trade talks involving so called behind-the-border regulations, garner more press in the United States. The Obama Administration has put off telling the EU which sectors it wants to see regulatory alignment in until December. Just like in the Doha Round, key elements of the negotiating agenda weren’t agreed on before the talks were

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launched.

The timetable for TTIP has also slipped. The second round of formal negotiations had to be postponed because of the US government shutdown. Rescheduling them has been made more difficult because the US is giving the Trans-Pacific Partnership talks priority. Despite claiming that it can “walk and chew gum”, evidently the US doesn’t have the capacity to manage two large trade talks simultaneously. Market access negotiations are not even scheduled to start until the first half of 2014. Not surprisingly, officials have begun to distance themselves from completing the TTIP negotiations before the end of 2014, the original deadline.

What the NSA revelations mean for TTIP

From a trade policy perspective, the significance of the revelations about the US National Security Agency (NSA) is that it has encouraged Europeans to link national security concerns to the TTIP negotiation. Those links differ in subtlety. At its bluntest, opposition to the ratification of any deal may grow, although the revelations may just provide those opposed to TTIP with further ammunition.

Given the heightened uncertainty over the composition of the European Parliament after the May 2014 elections, where nationalist and anti-EU parties are expected to do well, it is premature to conclude that a parliamentary veto is inevitable. Yet a veto can’t be ruled out either. After all, in July 2012 the European Parliament threw out a global anti-counterfeiting treaty that was negotiated in secret by the leading trading powers by a vote of 478 to 39.

Attempts may be made to change the scope of the negotiation. Germany is reported to have suggested adding data protection to the negotiating agenda.^[4] This complicates matters by requiring new intra-EU agreement on the terms of the negotiation and may prompt the US to add another item or two. At a minimum, this will be a time-consuming distraction.

A substantive concern is that the goal of using TTIP to devise templates of new trade rules for the global economy will be compromised, at least they relate to rules on state-linked companies. Reports of strong ties between leading American internet, IT, and telecoms companies and the US government cast in a different light criticisms of links between Chinese companies and Beijing. Let’s not forget that Huawei, a Chinese telecoms equipment company with apparent strong links to the Chinese military, was forced to exit the American market after a US congressional committee recommended in October 2012 that no government agency or private firm should buy from it. Which firm-state links should be included in trade talks? Can a fine line really be drawn between commercially-rewarding links between firms and states and other links? None of this will be lost on Beijing, Brasilia, New Delhi, or Moscow.

The trade and national security boomerang

European criticism of US security policy, and related calls for the suspension or modification of the TTIP negotiation, should be seen in the light of repeated attempts by the United States to link trade and security since World War II.^[5] Such linkage has been elevated in the past decade, first with the adoption of the strategy of “Competitive Liberalization” during the administration of George W. Bush^[6] and, more recently, as part of the “securitization” of US policy towards the Asia Pacific.^[7]

Under “Competitive Liberalization,” free trade agreements (FTAs) were initially reserved for allies with a reliable record on cooperating with Washington DC on security matters. Consequently Australia, which sent troops to Iraq and Afghanistan, got a FTA deal with the United States, while nearby New Zealand didn’t. Another important factor that sank Wellington’s chances was its longstanding ban on visits by nuclear US warships. Competitive dairy exports didn’t help either.

Having seen a key feature of its trade policy through a national security lens, how can the US object to European politicians doing so too? Other major trading partners could emulate US practice. A compromised TTIP effort would show that the trade and security policy linkage has boomeranged on its principal advocate, the United States.

It is probably naïve to think that trade policy can be completely divorced from foreign and security policy concerns. When it comes to small arms, nuclear proliferation, etc, the EU linked security concerns to its FTAs.^[8] Still, there is a long tradition of trying to compartmentalize trade matters as much as possible. Departures from that tradition haven’t served America’s trading partners well. Again, Australian experience is instructive. First, Canberra rebuffed several American overtures to negotiate a free trade agreement, without apparently undermining its cooperation on national security matters with the United States. Second, despite being war allies, Australia got such terrible terms from the United States in its free trade agreement that Prime Minister John Howard had to overrule advice from his trade negotiators not to sign it.^[9]

The reward for being a good national security ally of the United States can include the launch of a free trade agreement, but concluding such an accord on favorable terms cannot be assured. This is due to the fact that US administration can launch negotiations but ultimately it is the US Congress that legislates the terms of the deal. Now that the European Parliament has the right to reject trade deals proposed by the European Commission, certain parallels to the US institutional set up—that distinguish initiation from negotiation and ratification—can be found on the other side of the Atlantic.^[10]

In sum, the reactions of many European politicians and interest groups to the revelations about the scale of the NSA’s

spying in Europe imply that the trade-and-security policy linkage is alive and kicking. Whether such linkages ultimately serve national commercial interests is another matter entirely—as US companies with overseas operations are learning.^[11]

It may be too late to push the security policy genie back into the bottle, but it may be worth trying. The uncertainties associated with international commerce are large enough without another element of political risk entering into the equation. An understanding between governments is needed to prevent sectors such as telecommunications and those that rely on extensive data transfer, as well as those firms that undertake many state contracts, from being effectively excluded from international commerce. National security arguments could once again provide cover for more commercially-driven murky protectionism. TTIP, probably in diminished form, will likely survive the European backlash against NSA spying, but there's more at stake. ■

For endnotes to article, please go to page 17.

This article is reprinted from Vox.^[12]

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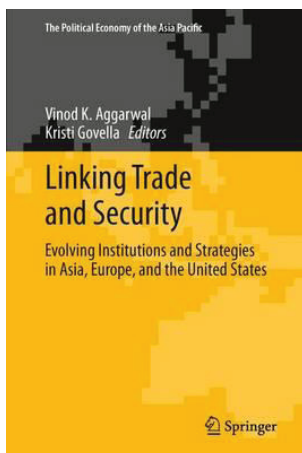
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DIRECTOR'S NOTE

Dear Colleague,

Thank you for your continued interest in the Berkeley APEC Study Center (BASC). We carry out interdisciplinary research on politics, economics, and business in the Asia-Pacific and collaborate with scholars from around the world on Asia-Pacific issues. This newsletter brings to you our most recent research on the linkage between trade and national security, Google's role in the Asia-Pacific, the three arrows of Abenomics, ASEAN's balancing act between the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP), and US-EU relations with regard to their current trade negotiations.

The newsletter opens with an analysis of trade and national security that Simon Evenett and I published on Vox (reproduced here). We analyze the implications of US national security policy for US-EU relations. Specifically, we examine the Transatlantic Trade and Investment Partnership (TTIP) negotiations in light of NSA revelations and argue that this may damage commercial interests on both sides of the Atlantic.

Chris Hussey surveys rising intra-ASEAN protectionism since the Great Recession and analyzes how the ASEAN Economic Community (AEC) goals and ASEAN-Centrality interact with the RCEP and TPP trade groupings.

Yosha Huang reviews Japan Prime Minister Shinzo Abe's economic policies at the one-year mark. Huang analyzes the three arrows of Abenomics—monetary, fiscal, and structural policies—and draws attention to the long-awaited reform and challenges that Abe faces domestically and internationally. She also highlights differences in the political landscapes of Abe's current and previous terms.

Eric Wong examines TTIP, of which he reviews two major areas of contention—the agricultural and financial sectors—and discusses the distribution of economic gains and political implications of TTIP for both the United States and Europe.

Jake Lerner analyzes the issue of state sovereignty in cyberspace in which Google emerges as a major actor in the Asia-Pacific. Lerner argues that through its market and non-market interests, Google is inadvertently playing an active role in Asia-Pacific politics. Lerner examines Google's direct lobbying efforts for bills on online freedom and cyber security as well as the recent Google Ideas Projects—uProxy, Digital Attack Map, Project Shield—and how they interact with the politics of Asia-Pacific countries.

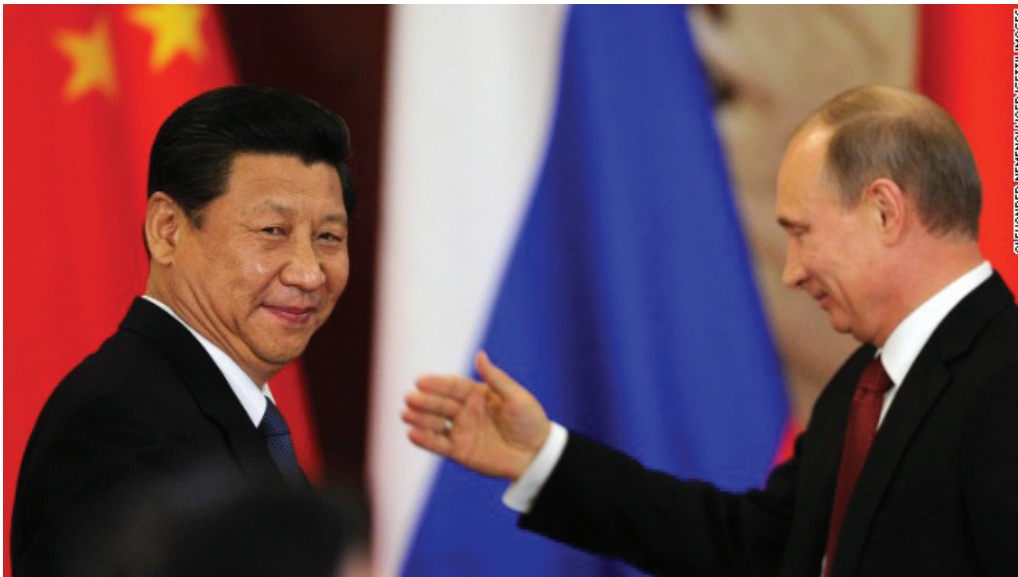
In our APEC Update section, Jake Lerner reports on the APEC Summit in Bali, Indonesia in October 2013. The leaders gathered under the theme of “Resilient Asia-Pacific, Engine of Global Growth” and focused on physical, financial, and digital connectivity to liberalize movements of goods, services, capital, and people. This year's APEC Summit took a different tone from previous summits as China's President Xi Jin Ping took center stage in the absence of US President Obama due to the domestic budget crisis.

I hope this newsletter will help you develop an enriched understanding of politics, economics, and business in the Asia-Pacific. The Berkeley APEC Study Center is grateful for support from the EU Center for Excellence and the Institute of International Studies at UC Berkeley and to the University of St. Gallen for our cooperative projects. We are also deeply grateful for the sustained support of the Ron and Stacey Gutfleish Foundation.

Vinod K. Aggarwal
Director, Berkeley APEC Study Center

APEC UPDATE

RESILIENT ASIA-PACIFIC, ENGINE OF GLOBAL GROWTH



With President Obama's absence, President Xi Jinping and President Putin took center stage at the 2013 APEC Summit in Bali.
Photo Credit: CNN/AFP/Getty Images

By: Jake Lerner, BASC Research Assistant

On October 8, 2013, leaders and representatives of APEC member economies met in Bali, Indonesia for the 25th APEC summit. Over the year, Asia-Pacific economies have seen an increasing number of negotiations for multinational trade agreements, namely the current twelve-nation Trans-Pacific Partnership (TPP) and the sixteen-nation Regional Comprehensive Economic Partnership (RCEP). Although the specter of these agreements loomed large in Bali, with parties to both agreements meeting on the sidelines for negotiations, this year's APEC summit nevertheless pursued a comprehensive and independent institutional agenda. Notable commitments made at the summit included attaining the Bogor Goals, pursuing sustainable growth and equity, and promoting connectivity throughout the region.

The Bogor Goals, which aim for free trade and investment throughout the Asia-Pacific region by the year 2020, have been a long-term commitment of APEC.

To bring the region closer to such liberalization, leaders of the summit established the Public Private Partnership on Environmental Goods and Services (PPEGS) to stimulate trade and investment in environmental goods and services, and bring the region closer to its commitment to reduce tariffs on Environmental Goods to less than five percent by the beginning of 2016. The summit also acknowledged the critical role WTO negotiations might play in achieving these goals, and issued

a statement calling for continued liberalization through the WTO and recognizing the Doha negotiations as being at a "critical juncture." The leaders' declaration from the summit even paid tacit homage to the trade agreements flowering in the region, promising to "advance actions to address the next generation trade and investment issues." As APEC looks to harness growth to pursue liberalization, it seems willing to welcome large, multinational trade pacts made by member states.

Sustainability and equity were also key themes of this year's APEC summit. The leaders' declaration laid out key stepping stones towards equitable growth, focusing mainly on initiatives to expand the participation of women and small and medium enterprises (SMEs). These initiatives included gender-specific structural reform measures and improving government ties with SMEs through financing, anti-corruption, and inter-state collaboration. They also pursued sustainability measures, recognizing the problems of regional resource scarcity and pledged to implement an "APEC Food Security Roadmap" by 2020, to phase out fossil fuel subsidies, combat wildlife trafficking, and improve regional emergency response capabilities. While focusing on sustainability and equity, these pledges were also framed as ways to diversify and sustain regional growth, consistent with this year's summit theme of "Resilient Asia-Pacific, Engine of Global Growth".

Obama's decision to skip the summit to solve a domestic budgetary crisis had many worrying his 'pivot to Asia' was a thing of the past, and that America was no longer committed to a cohesive Asia-Pacific region.

Leaders of member economies also pledged to increase physical, financial, and digital connectivity in the region. As part of the “Bogor and Beyond” plan to create a cohesive Asia-Pacific, leaders at the summit recognized the need for a “more efficient flow of goods, services, capital and people” in the region, and developed a slough of short and long-term measures to achieve this end. These included establishing the APEC Trade and Investment Liberalization Sub-Fund on supply chain connectivity, increasing one million intra-APEC University students per year by 2020, and creating a Public Private Partnership (PPP) center in Indonesia to study means for increasing regional connectivity. APEC leaders also emphasized their commitment to institutional connectivity and reiterated commitments from previous years to improve transparency and regulatory practices within the organization. APEC is directly addressing the risk of factionalism within its ranks posed by competing trade agreements.

However, some still worry about the partnership’s future, and US President Barack Obama’s decision to skip the summit to solve a domestic budgetary crisis had many worrying his ‘pivot to Asia’ was a thing of the past, and that America was no longer committed to a cohesive Asia-Pacific region.

Even more worrying than Obama’s absence is the extent to which media outlets focused their coverage of the summit on his absence. Nevertheless, APEC does continue to prove its relevancy and resiliency, and heads into 2014 more than capable of marshaling a “Resilient Asia-Pacific” to be the “Engine of Global Growth.” ■

For endnotes to article, please go to page 17.



Photo Credit: APEC

BASC PROJECTS | Industrial Policy in the Financial Crisis Era

Since the Great Recession, we have seen a turn to industrial policy in both emerging and developed markets. To gain a deeper understanding of sectoral industrial policy across countries, the Berkeley APEC Study Center held a series of two conferences on industrial policy in 2013.

In May, we organized the first conference, “Industrial Policy in the Financial Crisis Era,” in Berkeley and brought together scholars to discuss the public-private nexus and discrimination in leading sectors, such as petroleum, wind energy, auto, and finance, through fact-driven and comparative analyses.

In November, we held our second conference, “Industrial Policy Since the Onset of the Financial Crisis,” in Brussels, Belgium. Scholars from around the world and European government officials gathered together to discuss the motivations, consequences, and trends of industrial policymaking. Scholars are now revising their papers for publication. These conferences were generously funded by the EU Center of Excellence at UC Berkeley and the University of St. Gallen.

Our website has more information on our current projects, scholarly research articles, books, and commentary. Please visit us at basc.berkeley.edu. We also have four talented undergraduate research assistants who bring unique perspectives on a variety of topics from sustainable tourism in Burma to Mongolia’s bid for APEC membership. You can find more of their analyses in this newsletter and blog posts on our website. We hope you will find their fresh perspectives enlightening!

Bora Park
Project Director, Berkeley APEC Study Center

ASEAN ECONOMIC COMMUNITY: HOW ASEAN'S STRENGTH IS CHALLENGED BY INTERNAL AND EXTERNAL FORCES

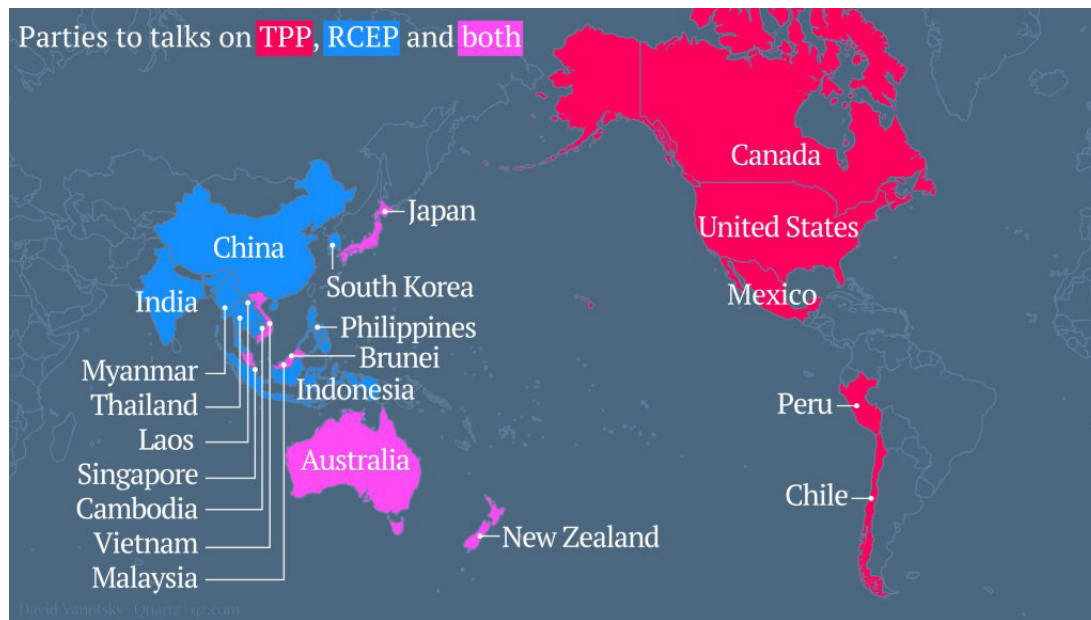


Photo Credit: Huffington Post

By: Christopher Hussey, Assistant Managing Editor, Business and Politics

The Association of Southeast Asian Nations^[1] (ASEAN) presented the ASEAN Economic Community (AEC) Blueprint on November 20, 2007 at the 13th ASEAN Summit in an attempt to create “(a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy” by 2015.^[2] Despite reaching 80% integration in April 2013 according to ASEAN leaders, many analysts and even a few member-state governments have admitted that the target goals of the AEC will not be met by 2015^[3] due to the economic differences hindering tariff integration among Southeast Asian states as well as growing protectionism since the 2008 financial crisis. The following analysis will focus on the increased implementation of protectionist measures among many of the ASEAN members, which has further prevented integration and will explore the potential undermining relationship between the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) with the ASEAN Economic Community.

ASEAN member states have achieved tremendous progress towards full economic integration of the region. The ASEAN Economic Community attempts to create one of the world's largest trading blocs—representing almost 600 million people—by integrating 10 member states together within a single market. All together they accounted for \$2.3 trillion of the world's GDP in 2012.^[4] However, due to the large wealth disparities among member countries, there have been concerns over integration. In order to address these concerns and provide “equitable economic development,” ASEAN implemented the Initiative for ASEAN Integration (IAI) in 2000, where-

by Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) have separate deadlines for gradually reducing tariffs, quotas and non-tariff barriers (NTBs).^[5] Although the economic divide is a considerable hurdle to get over, ASEAN's commitment to addressing these concerns shows its adherence to the AEC goals.

Another, but more important area for concern with regards to the AEC is growing protectionism since the 2008 financial crisis. Data from Global Trade Alert (GTA) shows increasing protectionism within ASEAN since 2008.^[6] GTA tracks measures such as bailouts and stimulus packages, tariffs, quotas, local content sourcing, employment restrictions, etc. and classifies them into three categories—Green, Amber and Red—based on their effects towards global commerce. Green measures are liberalizing and non-discriminatory; Amber measures have the potential to be discriminatory; and Red measures “almost certainly discriminates against foreign commercial interests.”^[7]

Protectionism by ASEAN member states can be broken down into two broad categories: general and ASEAN-specific. Measures put in place that discriminate against any foreign commerce are considered ‘general’ while those that exclusively affect other ASEAN members are ‘ASEAN-specific.’ **Table 1** shows that a handful of ASEAN members have engaged in discriminatory trade practices ranging from export bans to local sourcing requirements.^[8] Indonesia and Vietnam have implemented the highest number of protectionist measurements at 69 and 33 respectively.^[9] According to the AEC Blueprint, the AEC must be based on “the principles of an open, outward-looking, inclusive, and market-drive economy,”^[10] yet the

Table 1

ASEAN MEMBER 'GENERAL' TRADE MEASURES (SINCE 2009)			
Implementing Jurisdiction	Number of Implemented Measures (non-discriminatory)	Number of Implemented Measures (potentially discriminatory)	Number of Implemented Measures (discriminatory)
Brunei Darussalam	0	0	0
Cambodia	1	0	0
Indonesia	10	4	69
Lao PDR	1	0	0
Malaysia	5	10	10
Myanmar	2	0	1
Philippines	7	3	4
Singapore	5	2	15
Thailand	12	5	11
Vietnam	13	8	33
ASEAN	56	32	143

Source: Global Trade Alert 2013

evidence shows that some ASEAN members are engaging in exclusive, inward-looking and protectionist trade practices.

In addition to the 'general' protectionist measures, 'ASEAN-specific' protectionism contradicts the AEC goal of a single market based on non-discrimination between each other. This 'ASEAN-specific' protectionism may not be an intentional policy, but it certainly affects other members. The evidence presented in **Table 2** argues that certain countries have implemented policies that discriminate against other ASEAN members, thus hindering integration. Again, Indonesia and Vietnam, followed by Singapore have instituted 50, 26, and 11 protectionist measures against other ASEAN nations respectively. For example, Indonesia has protectionist measures put into place such as "import requirements on more than 800 products," "imposition of safeguard duties on the imports of iron and steel wire," "divestment of foreign mining companies" and others that affect both intra-ASEAN and general

Table 2

ASEAN MEMBER 'ASEAN-SPECIFIC' TRADE MEASURES (SINCE 2009)			
Implementing Jurisdiction	Number of Implemented Measures (non-discriminatory)	Number of Implemented Measures (potentially discriminatory)	Number of Implemented Measures (discriminatory)
Brunei Darussalam	0	0	0
Cambodia	1	0	0
Indonesia	7	4	50
Lao PDR	0	0	0
Malaysia	4	3	7
Myanmar	1	0	1
Philippines	4	1	4
Singapore	3	2	11
Thailand	7	3	4
Vietnam	7	5	26

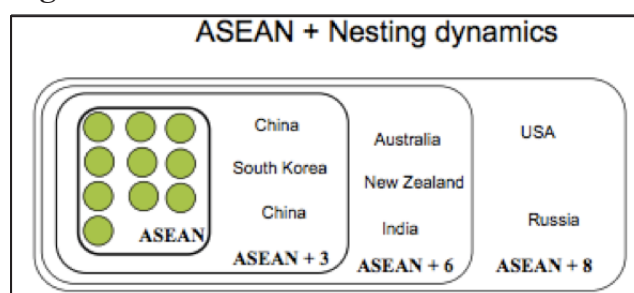
Source: Global Trade Alert 2013

trade.^[11] How is it that amidst integration of member economies, some countries have opted to pursue protectionist policies? The answer may lie in domestic politics ASEAN cannot control because of its meta-regime, or the norms and values of non-interference and consensus decision-making.^[12] Then, what would help to further integrate ASEAN?

A likely solution can be found in the RCEP. Considered by many to be a way to fully integrate the ASEAN Economic Community, RCEP is a potential trade grouping that encompasses the ASEAN+6 countries (Australia, China, Japan, India, New Zealand, Korea). It would consolidate and harmonize the 'noodle bowl' of ASEAN's free-trade agreements with the '+6' states as one free-trade area. The ASEAN-centrality in RCEP would 'nest' the AEC within the RCEP regime, requiring the AEC single market to be fulfilled before any institutionalization of RCEP is carried out. (see **Figure 1**)^[13] Therefore, the success of RCEP is contingent upon the success of AEC integration, and "the external influence provided by the ASEAN trading partners may even supply the discipline and rigor needed for ASEAN to implement the ASEAN Economic Community by the end of 2015."^[14] Therefore, some analysts argue that the pursuit of RCEP would (a) fully integrate ASEAN member nations within the AEC and, clearly, (b) provide exclusive access to Australia, China, India, Japan, Korea and New Zealand for ASEAN countries and vice-versa.

On the other hand, some have also argued that the insti-

Figure 1



Source: Dupont 2013

tutionalization of RCEP may not ensure ASEAN-centrality. In fact, trade expert Cédric Dupont argues, using the nesting dynamic theory, that RCEP will likely reduce the role of ASEAN and render it ineffective in comparison to the '+6'; ASEAN-centrality "would be the best response that the organization could give to a growing concern with its potential 'irrelevance' (Ravenhill 2008)".^[15] Using lessons from Europe's integration, Dupont argues that both RCEP and TPP can undermine ASEAN integration and its centrality. For RCEP, Dupont explains that "a successful example of the nesting dynamic has yet to be found," and that the institutionalization of ASEAN+3—China, Korea, and Japan—has made it the "most natural focal point,"^[16] thus taking the focus away from ASEAN.

As for the TPP, Dupont argues of its potential to undermine ASEAN integration. TPP is a high-standard transregional free-trade agreement that goes beyond tariffs and non-tariff barriers (NTBs) and incorporates intellectual property, labor and environmental agreements, among other measures. And Dupont notes that "shifting allegiance from ASEAN to TPP would signal a clear, and long-lasting, lack of respect for the 'centrality of ASEAN.'"^[17] As stated directly in the AEC Blueprint, "External rules and regulations must increasingly be taken into account when developing policies related to AEC" and

all economic agreements beyond the region must represent ASEAN-centrality.^[18] With Singapore, Vietnam, Brunei and Malaysia on board to join TPP, and Thailand in consideration, TPP may prove to undermine the ASEAN Economic Community.

In conclusion, if ASEAN intends on maintaining and pursuing more free trade agreements and economic partnerships with other countries and regions, its member states must first move to draw down its numerous protectionist measures between each other and with the rest of the world. If AEC wants to be outward-looking, its member states must also be outward-looking and inclusive. Instead, we are seeing policies implemented by certain countries that are inward-looking as evi-

denced notably by the protectionist policies of Indonesia and Vietnam. Despite assurances from ASEAN leaders that RCEP and TPP talks will not affect ASEAN's integration,^[19] Dupont makes the case that there are potential problems facing the AEC.^[20] Thus, ASEAN countries will have to balance between RCEP and TPP while furthering regional integration—this is a challenging task. ASEAN's leaders must look beyond the ideal of the AEC and ASEAN-centrality and address problems they currently face—increased protectionism by members and external trade negotiations undermining the AEC. ■

For endnotes to article, please go to page 17.

THREE ARROWS OF ABENOMICS: ABE'S POLITICAL COMEBACK



Photo Credit: The Telegraph

By: Yosha Huang, BASC Research Assistant

■ It has been a year since Japanese Prime Minister Shinzo Abe returned to office after his one-year stint in 2006-2007. As the seventh prime minister in just six years, Abe faces tremendous pressure from his constituents and party members, as well as international partners, to deliver the promises of long-awaited economic revitalization. Fully aware of these expectations, he laid out his “Three Arrows” vision for Abenomics and boldly pushed forward the first two parts—monetary easing and fiscal stimulus—in his first six months of office. As a result of these policies, the first two quarters of Abenomics saw the yen depreciating rapidly, boosting export-driven growth and stock prices.^[1] However, as the initial highs of Abenomics are wearing off, all eyes are on his upcoming “third arrow” policies: structural reform for sustainable productivity growth. The current political momentum is in his

favor, but how he delivers third arrow reforms will determine whether Japan's recent economic turnaround is just another short-term relief or a path to long-term recovery. Keeping optimistic expectations afloat will be crucial for Abenomics and Abe's own political vitality. I analyze the three arrows of Abenomics and the challenges Abe faces in pursuing domestic and foreign policies.

In September 2007, Abe resigned two months after the ruling Liberal Democratic Party lost 30 seats in the House of Councillors through a humiliating defeat. It was the first time that the party had been ousted from its upper house majority in nearly 50 years of LDP history. When Abe took office again in 2012, he clearly asserted his focus on economic reform. This has proved to be working; after 11 months in office, Abe's cabinet approval rating stands at around 57.9%^[2] compared to

22% in August 2007.^[3] Although the political outlook for Abe and the LDP-NKP (New Komeito Party) coalition has largely been positive since the party saw a gain of 31 seats in July 2013 upper house elections,^[4] much of the popularity is attributed to gains in stock prices, which are highly volatile.^[5] In perspective, real economic output, capital spending and real wages did not rise in the first six months.^[6] However, now that the LDP has reclaimed the majority in both Diet houses and next general and upper house elections are not anticipated until 2016, Abe may be able to experiment with the more controversial but sustainable structural reform plans.

Under his first two “arrows,” namely monetary easing and fiscal stimulus, he appointed Haruhiko Kuroda, a well-known advocate of aggressive policy easing, as the governor of the Bank of Japan (BOJ) in March 2013.^[7] As expected, the BOJ applied bold monetary easing measures to foster inflationary expectations and expand spending and investment with a consumer price inflation target of 2%. The early successes—weakening of the yen and rising Nikkei 225 index—have been credited to the bank’s quantitative and qualitative easing policies (**Figure 1**).^[8] However, some say that the actual results of the aggressive easing policies have been deceptive since growth figures have been exaggerated by the BOJ’s massive money-pumping operations.^[9] Real growth has not been nearly as optimistic since the monetary base increase has largely ended up in reserves, while real wages, and hence household purchasing power, have been declining.^[10]

The second arrow, a massive 13 trillion-yen stimulus package allocated to infrastructure developments, has had far less impressive results, perhaps stunted by consumption tax hikes.^[11] The 2014 tax raise from 5% to 8% was approved in October, with another 2% increase scheduled for 2015.^[12] The approval of the tax raise points to Japan’s massive fiscal debt, at nearly 250% of domestic GDP, which has led some to question the long-term sustainability of Abe’s fiscal policy.^[13]

While the Japan’s inflationary success is encouraging at a time when many developed countries are stuck in the zero-interest rate liquidity trap and Japan’s economic growth is desirable to the global economy, some of Japan’s trade partners have expressed dissent against the BOJ’s bond purchasing

which weakened the yen and made exports more competitive.^[14] For the year up to October, the yen has fallen 14% against the dollar while exports have increased by 18.6% (**Figure 2**).^[15] Export-led countries, such as China, Germany and Korea, are expected to be most affected. China and Korea could lose their lower cost-base advantage in international trade while Germany faces revamped competition in certain industries, such as automobiles.^[16] If the BOJ’s activities are not carefully considered, they could fuel greater hostility abroad—with the possibility of a ‘currency war’—and undermine domestic reform efforts.^[17] As Michael Pettis, professor of finance at Peking University’s Guanghua School of Management, claims,

So far this all looks like an attempt by Abe to increase Japanese competitiveness and to increase its total share of global demand, but not by increasing Japanese productivity, which is the high road to growth, but rather by reducing the real Japanese household income share of what is produced. Japan (like Germany and China have done over the past decade) is attempting to increase employment by reducing wages, and this means that its workers will be able to purchase a declining share of what they produce. This effectively means Japan will be growing at the expense of its trading partners. As the Japanese become less able to consume all they produce, the excess must be exported abroad.^[18]

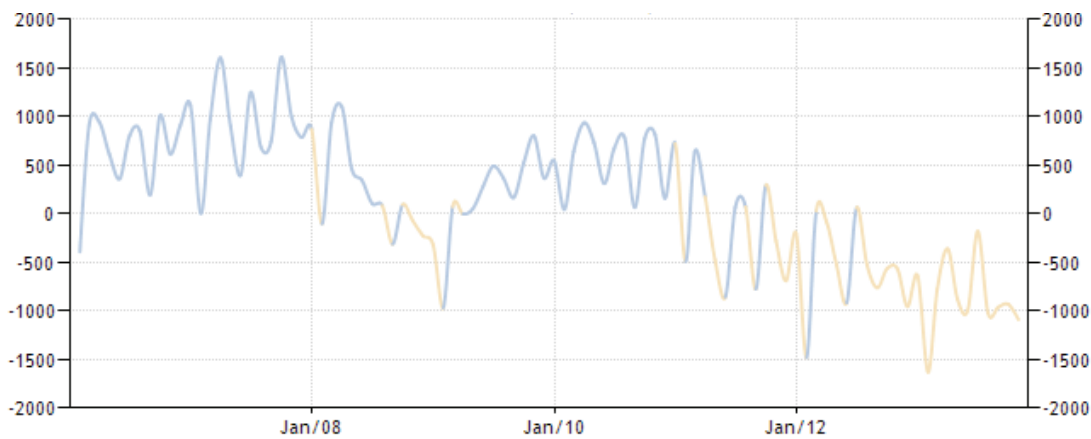
Abe, while riding the wave of political popularity generated by the first two arrows, also recognizes the limitations of stimulus and gains of trade, and thus has been paving way for much-anticipated third arrow reforms. The third arrow aims to overcome the deflation spiral and accelerate private sector-led growth through structural reform.^[20] Central pillars of the strategy include labor market, healthcare and agricultural reform. The planned measures intend to increase labor flexibility, encourage female participation in the workforce, promote innovation in healthcare, and strengthen the agricultural industry.^[21] These proposed reforms have faced strong opposition from vested interests in the agricultural and healthcare sectors, as well as the elderly and small businesses that

Figure 1: USD to JPY



Source: Google Finance^[19]

Figure 2: Japan Balance of Trade
(Billion JPY)



Despite rising exports, Japan's trade deficit has widened to 1090 billion yen as of October 2013, marking the 16th consecutive month of deficit, the longest period since 1979. Source: Ministry of Finance, Japan, www.tradingeconomics.com^[25]

comprise a majority of the LDP's voters. In healthcare, Abe is pushing for market-oriented changes to the country's universal healthcare system in order to encourage demand for advanced treatments, technological development and new drugs.^[22] Such changes would enable the private sector to tap into the country's rapidly aging population. However, the LDP is split between supporters of deregulation, which would simultaneously reduce the burden on public finances, and supporters of the current system, protecting the interests of smaller clinics.^[23] Perhaps the most contested reforms have been in the agricultural sector, especially in rice production. The current *gentan* system sustains the country's highly fragmented agricultural system of small rice-growers through subsidies and high tariffs. On November 26, the agricultural minister stated that the subsidy to reduce rice crops will be phased out by 2018.^[24] In a highly risky move, this announcement showed that Abe is putting his political stamina to test for further reform.

While Abenomic's first two arrows are similar to stimulus efforts by previous administrations, which faced short-lived successes, Abe's highlighted decision to join the US-led Trans-Pacific Partnership Agreement (TPP), as part of the third arrow, diverged from the beaten path.^[26] Despite persistent resistance from domestic agricultural groups against the TPP's premise of tariff abolition without exceptions, Abe seems willing to overturn Japan's protectionist traditions.^[27] Abe acknowledged the sensitivities of his constituents but insisted that Japan take advantage of the TPP as "this last window of opportunity" to maintain its economic might in Asia.^[28] In fact, the announcement came before the July upper house elections, and despite widespread anti-TPP sentiment in the countryside, the LDP-NKP coalition still saw a landslide victory, perhaps indicating that the time is ripe for more radical changes.^[29] Through continuous pressure from the US and other TPP member countries, Japan is now seriously considering removing its "sacred five"—rice, wheat and barley, beef and pork, sugar, and dairy—from the tariff list.^[30] While

the ultimate results of the third arrow have yet to be realized, Abe's push for the TPP and other potentially painful structural reforms over the past eleven months have shown his commitment to aggressive changes.

Moreover, the success of Abenomics would benefit not only Japan but also the US as it would increase market opportunities for US firms. In addition, Japanese participation in the US-led TPP has been a key development in US-Japan relations as well as Abe's push for firmer ties with the US as a counterweight to future security threats from China and North Korea.

^[31] An economically resurgent Japan would be able to meet the needs of the longstanding US-Japanese alliance and serve as an important lever to the US for its "pivot to Asia." In addition to its engagements in the TPP and the China-led Regional Comprehensive Economic Partnership (RCEP), Japan has notably been engaged in bilateral trade talks with the EU and a trilateral free trade negotiation with China and South Korea. These efforts demonstrate Japan's

keen interest in repositioning itself in the global economy; political disputes seem to have been put on hold.^[32] However, the currency issue stemming from Abenomics may turn fragile partnerships sour yet again. While Japan is evidently working hard to expand markets to sustain its export-driven growth, cooperative engagement in the trade talks will require possibly painful concessions, and Abe will have to optimize his political might with the support of both Diet houses under LDP control to ride through it all.

Treading a thin line among special interest groups, LDP factions, and foreign stake holders, Abe faces dangers of either doing too much or too little. However, the newfound confidence and decisiveness of a leader might be what Japan needs to break out of its short-lived prime ministers and two decades of stagnation. ■

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A LOOK AT TTIP: TRADE, CONTENTIONS AND THE FUTURE



The G8 leaders pose for a group photograph. (l-r) Commission President Jose Manuel Barroso; Japanese Prime Minister Shinzo Abe; Angela Merkel; Vladimir Putin; David Cameron; Barack Obama; Francois Hollande; Canada's PM Stephen Harper; Italy's PM Enrico Letta and European Council President Herman Van Rompuy. Photo Credit: Suzanne Plunkett, Reuters

By: Eric Ja Wong, BASC Research Assistant

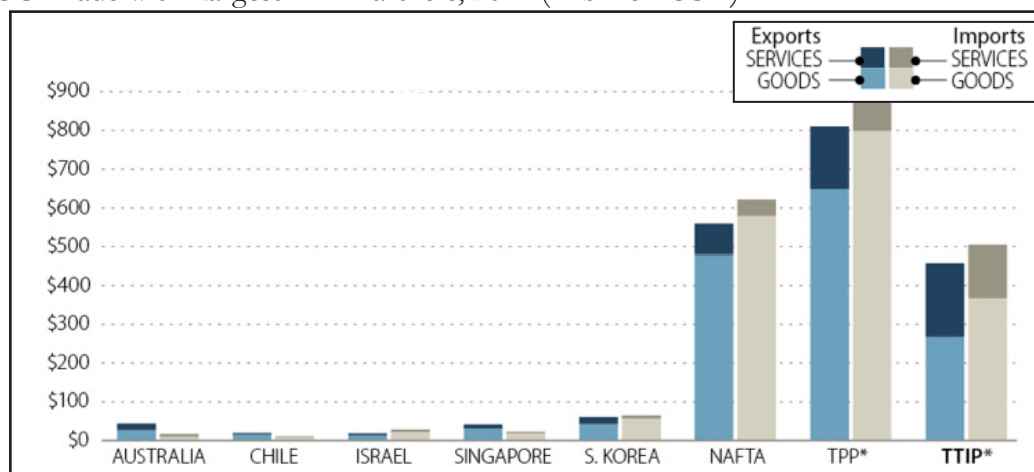
Currently, the US trade agenda has two arms: the Trans-Pacific Partnership (TPP) in the Asia-Pacific, and the Transatlantic Trade and Investment Partnership (TTIP) in the European Union (EU). Unlike the TPP, where greater emphasis is placed on establishing and enforcing intellectual property rights, TTIP aims to eliminate market distortions caused by government intervention and regulation. Two main areas of contention between the US and EU are agricultural and financial regulations. This article explores these areas of contention and suggests the political implications of TTIP stemming from increased economic integration between the U.S. and the EU.

The completion of TTIP would link the U.S. in a trade

network that encompasses 45% of total world GDP and 23% of total world trade (**Table 1**). TTIP would embed the United States with the ever-enlarging European Union and link the U.S. market to European markets more seamlessly. Moreover, increased network ties could also enhance political integration in the long run. To do so, the US must reconcile their differences among overlapping industries across negotiating partners especially in the agricultural sector and financial sector.

First, the agricultural industry has been a major point of contention for TTIP, especially in regard to genetically modified organisms (GMOs). A bipartisan group of 76 House members have called upon the United States Trade Represen-

Table 1: U.S. Trade with Largest FTA Partners, 2011 (in billion USD)



Source: Congressional Research Service 2013^[1]

tative (USTR) Michael Froman to “ensure that rules on sanitary-and-phytosanitary (SPS) measures [rules regarding food safety and animal/plant health] are fully enforceable in both the TPP and TTIP trade agreements.”^[2] In TTIP negotiations, the extent of the inclusion of SPS measures is a major issue of contention. Indeed, USTR Froman acknowledges that “most of the difficult trade barriers that U.S. exporters face in the EU have to do with SPS measures affecting trade in agricultural products.”^[3] U.S. agricultural industry leaders claim that the EU wants to keep its ‘precautionary principle,’ which “essentially states that health-related preventative measures can be applied, including import restrictions, when it is scientifically uncertain but possible that a risk exists.”^[4] The U.S. demands the full inclusion of the SPS Agreement, in which agricultural products that pass “a science-based approach to risk management and health-related import restrictions”^[5] are qualified for trade, while the EU wants to adopt a more selective approach. If fully implemented, American farmers, especially corn and soybean farmers of GMO crops, which brought in \$63.9 and \$37.6 billion in sales cash receipts in 2011,^[6] stand to profit immensely from increased market access to the EU at the expense of EU farmers. It remains to be seen how negotiations will unfold, given high European reticence towards allowing any genetically modified crop into the EU market.

In the financial sector, however, the U.S. is not so open to uniform application of regulations. Although the EU hopes to negotiate financial services regulations in the TTIP talks, the U.S. wants to keep financial regulations off the negotiating table. EU officials cite the need to include financial regulation in TTIP talks because “divergent rules in both economies could undermine any market access commitments that are made in the scope of the trade and investment talks.”^[7] But the U.S. opposes negotiating financial regulations because it “risks watering down or abandoning new safeguards that are part of the 2010 Dodd-Frank financial law.”^[8] The disagreement arises despite potentially conflicting rules between the EU and the U.S. because the scars of the 2008 financial crisis still linger in the American political psyche, and a redux of financial deregulation only stokes the fear of possible financial instability in the future. Balancing between financial risk and the necessity to harmonize financial regulation to conduct business abroad

and bring in foreign business will be a challenging task for negotiators to resolve.

Moreover, while regulatory bodies such as the Securities and Exchange Commission (SEC) and the Commodity Future Trading Commission (CFTC) in the U.S. and their EU counterparts wrestle over the inclusion of financial regulation in



Britain's Prime Minister David Cameron welcomes U.S. President Barack Obama on his arrival to the Lough Erne golf resort where the G8 summit is taking place in Enniskillen, Northern Ireland on June 17, 2013
Photo Credit: Yves Herman, Reuters

TTIP negotiations, Wall Street firms have voiced their opposition to the exclusion of financial regulation negotiation that the application of U.S. regulation abroad could “constitute an extraterritorial application of U.S. law.”^[9] Ambiguity in rules and regulations could restrict investment flow. However, given that financial deregulation on Wall Street is seen as one of the main causes of the 2008 financial crisis, there may be less room for negotiation on financial regulation in the current trade talks. Nevertheless, Wall Street’s

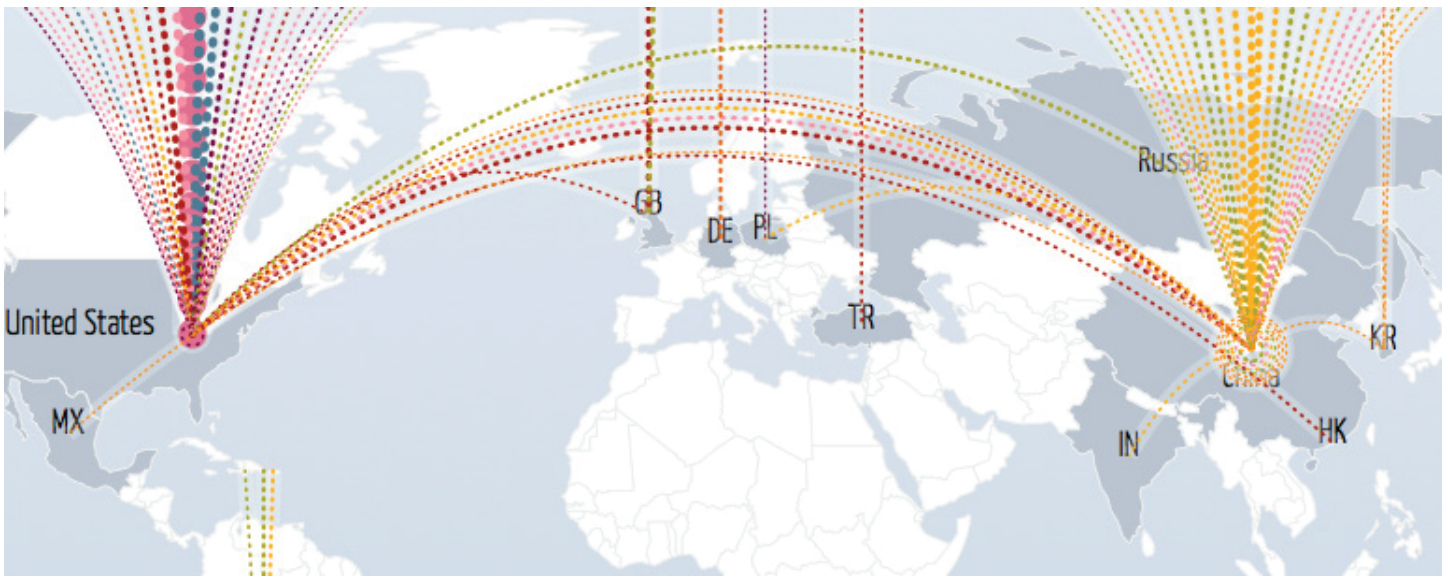
concern underscores the need to avoid conflicting regulations that may hamper financial flows and activity between the two regions.

Overall, negotiators face tough challenges over compromises in the agricultural and financial sectors. Moreover, domestic industries that benefit from TTIP would have greater political weight due to their gains from increased trade on both sides of the Atlantic. However, there is no doubt that TTIP lowers trade barriers between the U.S. and the EU in tariffs and non-tariff barriers. Liberalized trade between the two largest markets would further increase the scale of goods and services flowing across the transatlantic and politically connect the EU and the U.S. closer. Politicians on each side of the Atlantic would not want to disrupt the economic gains derived from TTIP. The enormous volume of trade induces political unity between the EU and the U.S. in order to facilitate the flow of trade between the two regions.

In conclusion, TTIP aims to unify the two largest markets of the world. However, despite the prospect of increased wealth and economic growth, entrenched stakeholder interests in domestic politics may prove a high obstacle to overcome not only at the domestic level but also at the international level. We must consider the economic and political consequences of the trade talks to truly assess the value TTIP will provide to the United States and the European Union. ■

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THE NEW CYBER-SOVEREIGN: GOOGLE AS AN ACTOR IN ASIA-PACIFIC INTERNATIONAL RELATIONS



This Digital Attack Map from Google Ideas depicts denial of service (DDoS) attacks around the globe. Different colors represent different mechanisms of attack, and larger streams indicate more powerful attacks.

By: Jake Lerner, BASC Research Assistant

■ The Internet is both forum and agora of the global city. Thus, who can access what parts of the Internet is becoming one of the most important questions of international political economy in the 21st century. This question is particularly poignant in the Asia-Pacific region, where Internet censorship is an integral part of regime maintenance for some of the largest economies in the world. As much as these countries are interested in control over their networks, so too are increasingly powerful Internet corporations, who see fettered access as hampering the moral or economic potential of some of the fastest internet growth regions in the world. Of these corporations, only Google seems to be approaching power parity with regional powers. Indeed, Google Inc., the Internet search giant founded in 1998 and now the most visited website in the world,^[1] seems to be taking a profound interest in the question of global Internet access. Google is acting on this interest both indirectly, through massive domestic lobbying campaigns, and directly, through the work of its elite “think/do tank”—Google Ideas. Whether or not this Palo Alto tech company will succeed in liberalizing the web in the Asia-Pacific remains to be seen, but Google’s political means and motives paint the picture of company on the verge of becoming an active, State-parity actor in regional International Relations.

Why does Google want an open Internet and how is this desire put on a collision course with Asia-Pacific states? One motive is certainly profit: a freer internet means more internet searches and more ad revenue for Google, as well as giving Google a serious edge over regional competitors which serve only State-approved content. On the other hand, Google’s pursuit of an open web could be a genuine, altruistic expression

of core company values like “Democracy on the web works,” “You can make money without doing evil,” or “The need for information crosses all borders.”^[2] In reality, these motives are tightly linked—profit is key to Google’s ability to fulfill its core values without investor pressure, while staying true to its values is key to building confidence among a Western consumer base disillusioned by apparent conspiracy with the NSA and large media companies.

Unfortunately, these goals are directly opposed to those of some Asia-Pacific powers, who see their censorship regimes as key to preventing the moral and political instability from western media bias. However, for Google, there are political benefits behind the pursuit of an open internet: buttressing its role as a driver of global internet policy and forcibly inserting itself as an actor in Asia-Pacific politics. The self-preservationist models of multinational corporations emphasize an organizations’ institutional desire to expand and self perpetuate. If Google is one of the major powers of the Internet, it is only natural for it to seek to cement its control and expand its reach. Indeed, Hegemonic stability theory predicts that the largest power would seek to enforce rule of law in its sphere both for self-preservation and lubricated economic development. In this light, Google’s pursuit of an open and free web can be seen as a power struggle between the national sovereignty of nation-states, and the cyber sovereignty of Google, Inc.

With what arsenal might Google pursue these goals? Even if Google had the cash and clout of the British East India Company, today’s international political environment makes direct involvement in national politics by foreign corporations difficult. Rather, Google’s forays into Pacific Rim politics have

relied on proxies, namely the US Government (through lobbying) and similar-minded Internet Users and Civil Society organizations (through a series of innovative projects by Google Ideas). The rest of this article is devoted to an analysis of this political arsenal.

That Google has focused its lobbying efforts in the United States, the corporation's headquarter and largest market, is not surprising. Google has far outstripped other tech companies in lobbying efforts and spent \$18.2 million on domestic lobbying in 2012, more than Cisco Systems, Apple Inc., Amazon.com, Facebook.com, and Twitter combined.^[3] This level of spending makes Google the 8th largest US Lobbying group by spending, even outpacing traditional "heavy hitters" like Verizon Communications and Lockheed Martin. Google has proven more than capable of protecting its interests through lobbying (often augmented by drumming up grassroots support among concerned net users) in the past: it is credited as a major

contributor to the defeat of the Stop Online Piracy Act (SOPA) and Protect IP Act (PIPA) in early 2012. However, the extent to which Google is outspending other tech companies indicates a scope of lobbying beyond basic self-preservation or candidate support. Publicly available lobby request forms filed by Google show that the company has influence on foreign policy legislations as well, namely cyber-security bills in the House and Senate and the "global online freedom act," a House bill, which would make pursuit of an open internet an explicit priority of American foreign policy and prohibit exports of technology used to suppress free internet access. Such bills would bring America's role in the Asia-Pacific more in line with Google's vision for the region, but also risk increased tension between the United States and countries like China, Vietnam, Malaysia, and North Korea. As seen above, the depth of Google's lobbying efforts has allowed it to expand its issue scope to include American foreign policy.

As a 21st century company, however, Google can hardly be expected to limit itself to the 20th century political engagements like lobbying. Google Ideas, the company's "Think/Do Tank" based in New York City, has created a slough of data visualizations and working software products, which serve to advance open access to the web. Whereas Google's lobbying efforts seek to indirectly influence politics, the work of Google Ideas is itself directly political, using Google's considerable resources to empower net users, disseminate information to the public, and defend civil society groups from censorship or shutdown.^[4] The political nature of the branch is reflected in its institutional structure: it is led by Jared Cohen, who

worked on the policy planning staff of the State Department,^[5] and despite its non-market nature, it is not part of Google's non-profit arm, Google.org. The three most recent Google ideas projects—uProxy, Digital Attack Map, Project Shield—each released in late October 2013, show the ability of the think/do tank to effect information liberalization, or otherwise promote Google's market and non-market interests.

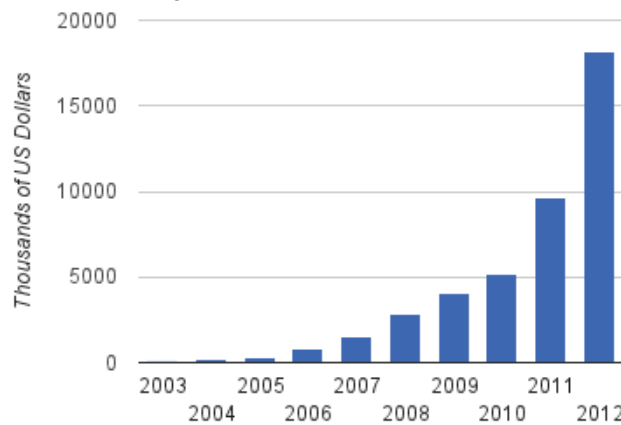
The first of these projects is uProxy, a "browser extension that lets users share alternative more secure routes to the Internet."^[6] By allowing users to utilize their social network as potential routes to uncensored Internet, uProxy makes it drastically easier for Internet users under repressive information regimes to circumvent Internet censorship. Proxies route a user's Internet traffic through an external computer, concealing which sites that user is visiting from malicious individuals or authoritative countries. Proxies are already somewhat common among Internet users in China^[7], but uProxy allows Internet

users to proxy their Internet through someone they physically know and trust rather than an external service. As proxies are generally much easier to use than to create, authoritarian regimes generally shut down or block access to these external services wherever they find them; uProxy renders this approach outdated and ineffectual by allowing users to create new proxy services quickly. By thus making safer and more resilient proxies, Google has drastically increased the reliability of (and decreased the technical thresholds for obtaining) unfiltered

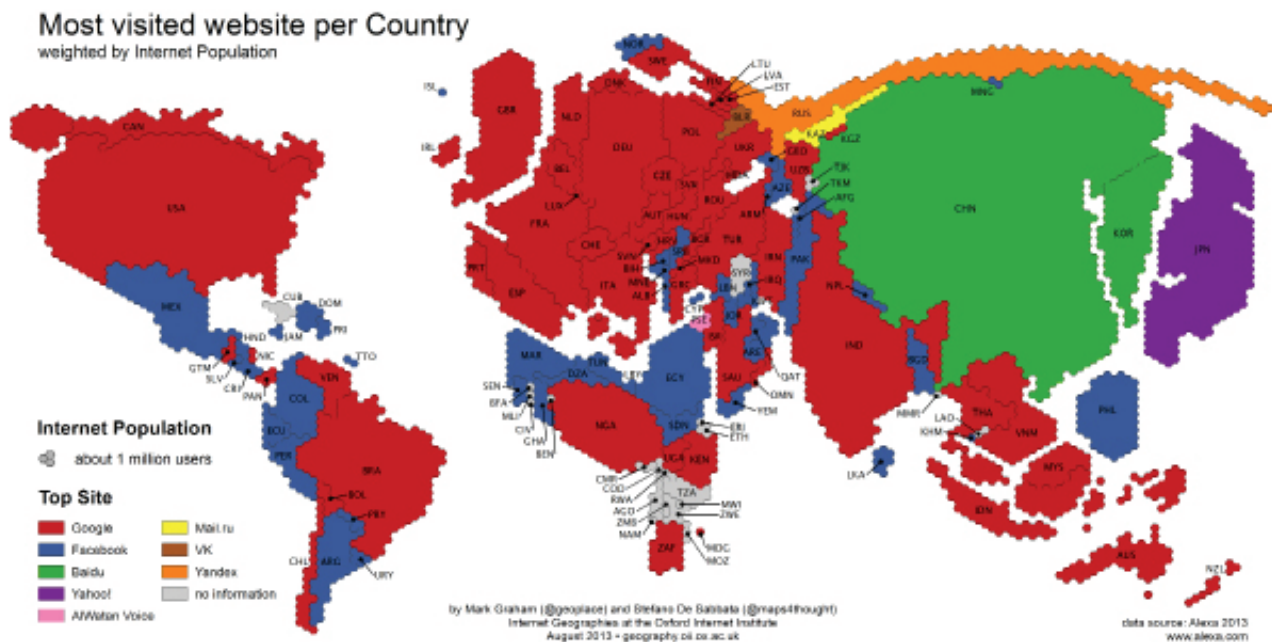
Internet around the globe. While uProxy empowers Internet users in ways that are politically advantageous to Google's corporate goals and corporate model, it presents a real and present danger to authoritarian states that rely on a censored web.

A second project by Google Ideas, a "Digital attack map" which provides a coherent visualization of denial of service (DoS) attacks around the globe, has a more subtle political or corporate goal. Denial of Service attacks are cheap, brute force Internet attacks against the computer serving a website and use various techniques to request so much information from a server that it is unable to upload a given page to its users. When these attacks utilize many machines to attack a single target, they are called Distributed DoS (DDoS) attacks. The goal of the visualization was to raise awareness surrounding the prevalence of DoS attacks. Moreover, the new Google Digital attack map pins DoS attacks to specific nationality, and claims to represent the present state of "digital conflict."^[8] Although a vast majority of attacks shown on the map stem from private sources,^[9] the map paints an ongoing and escalating conflict along national lines, with most attacks flowing

Google Domestic Lobbying Expenditures



Google's lobbying efforts have accelerated dramatically over the past decade, placing the company among the biggest spenders in domestic lobbying.
Source: OpenSecrets.org



Map of most popular websites by country, weighted by internet population. Google sees expansion in Pacific Rim countries as key to growth, and is pursuing several projects to help net users bypass state-based censorship regimes. Source: Oxford Internet Institute

among Russia, China, and the United States. Data visualizations are a powerful political tool for Google in that they render raw data, something it may be hard for citizens to digest, as a conceptually simple image. Moreover, they serve a similar purpose towards the general public as lobbying does towards elected officials. Google Ideas' statement on the purpose of the visualization is precisely to this effect "that more informed decisions can be made that can reduce the threat of digital attacks."^[10] This crowd-sourced pacifism makes sense if Google is the most powerful actor in the Internet sphere: hegemonic stability theory predicts that Google will create a "Pax Google" in cyberspace.

Bringing attention to the breadth and scope of DoS attacks also serves to promote a final project by Google ideas- Project Shield. It trumpets itself as "using Google's infrastructure to protect freedom of expression" by protecting vulnerable "media, elections and human rights related" websites from DoS attacks. DDoS attacks have historically played an important role in limiting freedom of speech throughout Asia, with recent attacks against oppositional websites or non-government news sources during elections in Malaysia,^[11] South Korea,^[12] Russia,^[13] and China.^[14] These attacks are not overtly backed by the governments, but are strong-arm tactics of choice in the digital age. By routing traffic of free-speech websites through its own servers, Google can shelter these 'allied' sites from such under-the-table intervention. This takes away the authoritarian states' option of ensuring de-facto censorship at critical junctures, and pushes them to legislate any censorship they may desire.

This analysis showed that these three projects, combined with continued lobbying efforts, paint a convincing picture of a corporation pursuing more open Internet access on a glob-

al scale. This will have serious effects on the Asia-Pacific as shown through the existing politics around censorship in the region. Google chief executive Eric Schmidt has taken a direct interest in the restrictive Internet regimes of the region, and in 2013 visited Myanmar,^[15] North Korea,^[16] and Beijing, even going so far as to tell his Beijing audience he saw China as key to the company's growth.^[17] How Pacific powers react to this new actor in their sphere of influence remains to be seen, but Google's quest for an open Internet asks the region's repressive regimes to respond. If the cyberspace is a fourth global commons after sea, air, and space, then it has found its hegemon. ■

For endnotes to article, please go to page 18.

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