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**The determinants of Preferential Trade Agreements:  
The case study of Vietnam, Japan and Indonesia and the Trans-Pacific  
Partnership**

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## **ABBREVIATIONS & ACRONYMS**

**ACJEP:** ASEAN-Japan Comprehensive Economic Partnership

**AFTA:** ASEAN Free Trade Area

**APEC:** Asia-Pacific Economic Cooperation

**ASEAN:** Association of Southeast Asian Nations

**BBC:** British Broadcasting Corporation

**BRICS:** Brazil – Russia- India- China- South Africa

**CET:** Common external tariffs

**COMECON:** Council of Mutual Economic Assistance

**CVCP:** Communist Vietnamese Party

**DDA:** Doha Development Agenda

**EFTA:** European Free Trade Association

**EU:** European Union

**FDI:** Foreign Direct Investment

**FSW:** Frankel, Stein and Wei

**FTA:** Free Trade agreement

**GATT:** General Agreement on Tariff and Trade

**GDP:** Gross National Product

**HQ:** High quality

**ILO:** International Labour Organization

**IMF:** International Monetary Fund

**IPR:** Intellectual Property Rights

**ISDS:** Investor State dispute settlement

**ITO:** International Trade Organization

**KORUS FTA:** Korea-U.S. Free Trade Agreement

**MoFA:** Ministry of Foreign Affairs

**MoT:** Ministry of Trade

**NAFTA:** North-America Free Trade Agreement

**NGO:** Non-Governmental organization

**NTB:** Non-Trade Barrier

**OECD:** Organization for Economic Cooperation and Development

**P-4:** Pacific-4 (Brunei, Chile, New Zealand, Singapore)

**PTA:** Preferential Trade agreement

**PM:** Prime Minister

**RCEP:** Regional Comprehensive Economic Partnership

**RTA:** Regional Trade agreement

**SBY:** Susilo Bambang Yudhoyono

**SDT:** Special and differential treatment

**TBT:** Technical trade barrier

**TPP:** Trans-Pacific Partnership

**TTIP:** Transatlantic Trade and Investment Partnership

**U.S.:** United States of America

**UNCTAD:** United Nations Conference on Trade and Development

**WTO:** World Trade Organization

**WWI:** World War I

**WWII:** World War II

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## **Chapter one: Introduction**

In the last decades, the world has experienced incredible waves of economic development since the industrial revolution of the late 18th and early 19th centuries. Each trend has been attended by a similarly increase of international trade by faster growth than the previous wave. The first wave presented early industrializing European and North America pull away from the rest of the world while expanding their commerce. After the Second World War, a second wave was pushed by regular post-war re-establishment of open trade and saw countries as Japan and other newly industrialized economies quickly competing with the West, whose development was also accelerating. The current and most extensive wave began in the late 1980s and has seen more nations, comprising China and India, opening their borders and trade. In the past, the Europe was the centre of commerce and the international gold standard was led by the Great Britain, the most important economic power of that time. After the 1945, the situation changed and the United States inaugurated a multilateral system of rules, comprising the the General Agreement on Tariffs and Trade (GATT) and Bretton Woods institutions. An expansion of trade and global economic development was made possible by these institutions. Today, the international trade is seen as a device to push national growth and relevance around the world. In the last year, the World Trade Organization has suffered a gridlock concerning innovations and reforms. For these reasons, countries have started to rely on other forms of trade arrangements. One of the most innovative form of trade agreement is the Mega-regional deal, including countries from different continents and different economic power. But, which are the country reasons to participate in these agreements? For sure, the economic profits. Of course, these reasons are important but not sufficient to explain the phenomenon of mega-regional agreement. Indeed, it is fundamental to investigate other factors that could determine the country participation in such trade agreements. In this work, the domestic factors will be investigated. First of all, it is important to develop the context in which the Mega-Regional agreements has developed and analyse their characteristics. Then, there will be an analysis of the Trans-Pacific Partnership, one of most prominent Mega-regional accord. Finally, this work will focus the attention on the research question of the work.



## **1.1 The context: the world today**

Since its birth in the 1995, the World Trade Organization (WTO) has habitually been on the news. It is worth to focus the attention on the birth of the organization, on the major trends in the last decades and the challenges that the WTO has to face. For this reason, this chapter has been divided into four sections. The first reviews the born of the GATT and the establishment of the WTO. The second part explains why the WTO stopped to work efficiently and tried to expose the causes of the stalemate. The third section analyses the major trade developments in global trade: namely, the growing presence of the developing countries in the global economy, the growth of the phenomenon of supply chain trade and the use of foreign direct investment as a driver of economic growth. Finally, it is important to resume the challenges that the multilateral organization has to face in the following years.

### **1.1.1 Before Doha: from GATT to WTO**

With the end of the World War II, fifteen countries started to talk about the reduction and the binding of customs tariffs in order to prevent protectionist measures that government had decided to apply in the 1930s. The international debate about trade policy and duties has its origin in the Bretton Woods Conference in which financial ministers discussed the establishment of a new international monetary system in order to sustain the post-war reconstruction and solidity. The Bretton Woods Conference created two important institutions: International Monetary Found (IMF) and the World Bank even if they required the formation of a new third structure – the International Trade Organization – that controlled trade and its related policies. In the following months, new ministerial talks had been placed with two major objectives: the draft of a charter for the ITO and the establishment of an international general agreement about trade and tariffs. This came true in the 1947 when a group of 23 countries<sup>1</sup> reached an agreement that developed in “a package of trade rules and 45,000 tariff concessions affecting 10 billion dollars of

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<sup>1</sup> Australia, Belgium, Brazil, Canada, Czechoslovakia, Ceylon, Chile, China, Cuba, France, India, Italy, Lebanon, Luxemburg, Myanmar, Norway, New Zealand, The Netherlands, United Kingdom, Pakistan, Southern Rhodesia, Syria, United States of America and South Africa.

trade, about one fifth of the world's total"<sup>2</sup>. The GATT came into effective in 1948 even if it did not provide a formal institution but just a Secretariat with the task of the administration of problems and criticisms that might result from members. At the same time, the charter of the ITO never came to life because of the U.S. Congress decided to avoid the American participation. Without the American presence, the new institution would be destabilized and would not properly manage problems relating trade<sup>3</sup>. In the following decades, GATT grew in membership and the reduction of the global walls to trade was a success. The members of the agreement decided to meet regularly in what came to be known as *negotiating rounds*<sup>4</sup>. These rounds focused the attention on discussions about the reduction in maximum tariffs that countries could apply. These rounds were considered a success and it is evident if we see the data of the period. Tariffs on manufactured products fell from a trade-weighted average of 35% before the creation of the GATT to about the 6.4% at the beginning of the Uruguay Round in 1986<sup>5</sup>. In the same period, we can note that the trade volume among the GATT members increased about twenty-five times its equivalent in the 1950. One of the most important round was the Tokyo Round which began in 1973 and was enacted by Trade Agreements Act of 1979. Anyway, by the 1980 some problems arose within the GATT structure<sup>6</sup>. First of all, the dispute resolution mechanism of GATT was not functioning so well and countries, caught in disagreement, were without possibility to reach a resolution. In second instance, the GATT did not cover some commodities as the agricultural products and textiles. Then, the trade in some areas was restricted and distorted because of the presence of antidumping duties, export curbs and duties. Finally, the GATT did not provide rules for what concerned trade in services and intellectual propriety rights. A solution to these problems must be find. For this reason, a new round of negotiation was launched in 1986.

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<sup>2</sup> See *The GATT years: From Havana to Marrakesh*, World Trade Organization, [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm) (last visited Nov.28,2016)

<sup>3</sup> Crowley A.M. (2003), *An introduction to the WTO and GATT*, Economic Perspectives, Federal Reserve Bank of Chicago

<sup>4</sup> *Ibi idem*

<sup>5</sup> Hoekman B.M., Kostecky M.M. (1995), *The Political economy of the World Trading System: from GATT to WTO*, Oxford University Press, Oxford, p.20

<sup>6</sup> Crowley A.M. (2003), *An introduction to the WTO and GATT*, Economic Perspectives, Federal Reserve Bank of Chicago

The Uruguay Round<sup>7</sup> set an agenda that included the reform of the agricultural and textile sector and the inclusion of the new areas as the trade in services and intellectual propriety rights as said before. In the December 1988, an important result was reached: an early agreement included a more effectual dispute settlement mechanism and a trade policy appraisal device on reviewing “national trade policies and practices of GATT members”<sup>8</sup>. The most important result of the Uruguay Round was, without doubts, the establishment of the World Trade Organization (WTO), which came to life on January 1, 1995<sup>9</sup>. The news of the WTO was the new dispute settlement mechanism and the new expanded authority over the areas that the GATT did not cover. It is clear the WTO replaced the GATT as an international organization but “the General Agreements still exists as the WTO umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations”<sup>10</sup>. After this incredible result, some countries decided to meet again the following century and it happened with the Marrakesh Agreement in the early 2000. With the task to re-discuss the areas of agricultural and services, the event was incorporated in the Doha development agenda. According to the WTO, some benefits of the multilateral trading systems are evident<sup>11</sup>. One of the most important regards the fact that the system of the WTO should promote peace among the member nations. Free trade flows and liberalist policy should prevent protectionist measures that in the past provoked, in concomitance with other factors, war. Another important benefit of the WTO is the dispute settlement mechanism which has the task of solving disputes. It works appointing independent experts in order to define “whether the accused party successful followed the rules as set forth in the applicable WTO agreements”<sup>12</sup>. Finally, the rules of

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<sup>7</sup> See *The Uruguay Round*, World Trade Organization  
[https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact5\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm) (last visited Nov.28,2016)

<sup>8</sup> *Ibi idem*

<sup>9</sup> Dickinson E.M. (2013), *The Doha Development Dysfunction Problems of the WTO Multilateral Trading System*,3 Global Bus.L.Rev.229

<sup>10</sup> See *The Uruguay Round* World Trade Organization  
[https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact5\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm) (last visited Nov.28,2016)

<sup>11</sup> See *10 benefits of the WTO trading systems*, World Trade Organization  
<https://depts.washington.edu/wtohist/Research/documents/10benefits.pdf>

<sup>12</sup> Dickinson E.M. (2013), *The Doha Development Dysfunction Problems of the WTO Multilateral Trading System*,3 Global Bus.L.Rev.229

the WTO system have made the life easier for the members: smaller countries have now more power in bargaining, because, under the multilateral trading system umbrella, all nations have equal rights. It is important also for what concerned the dispute settlement mechanism because the smaller developing countries can now challenge developed countries. Even if these benefits, some problems arose around the early 2000's.

### **1.1.2 The Doha Round: explanations for the deadlocks**

As said before, the problems came with the first negotiations round in the early 2000s. The Doha Round, called the Doha Development Agenda (DDA), was launched in the 2001 and reflected the major influence of developing countries in the WTO. After the born of the multilateral institution, some developing countries started to reflect about the necessity to implement the WTO agreements that could restraint the possible use of national policies to foster growth. Both developed and developing countries have different goals<sup>13</sup>:

- Developing countries sought to include making special and differential treatment (SDT) provision more operational and effectual. They included among their objectives improving preferential entree to major markets or increasing financial and technical assistance to progress trade volume;
- On the other hand, the developed countries sought to improve access for their exports of goods and services to the expanding markets of developing economies. The most important goal that the developed countries wanted to assure was the removal of the high barriers to trade that still remain in countries like Brazil, China and India (especially for what concern manufactured and agricultural goods).

Several factors impeded an agreement for a liberalisation set in the DDA and it is worth to analyse some of these. Among the more convincing opinions there is the one of Everett. The scholar, trying to explain the failure of the Doha Round, states that negotiations failed because:

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<sup>13</sup> Hoekman B.M., Kostecky M.M. (1995), *The Political economy of the World Trading System: from GATT to WTO*, Oxford University Press, Oxford, p.5

*“the cost of non-agreement is low and the potential upside from agreeing on a deal spanning the issues that are on the table”<sup>14</sup>.*

Another important cause of the failure of negotiations has been the differences in the desires of the OECD countries. The final controversy was between the United States of America and the BRICS<sup>15</sup> because the first one wanted to obtain the maximum from their market, especially from ones of Brazil and India without offering equal returns. The United States could not offer what these countries sought and still seek: in the case of India to restrict agricultural imports and in the case of Brazil to maintain the level of protection for national industries. Under this umbrella, an agreement seemed difficult to reach. At the same time, also the poorest countries had some requests. They focused the attention on gaining concessions in crucial areas as the agricultural one. Even in this case, an accord seemed impossible because of the role of lobbies in the rich countries and the behaviour of developing countries, which were and still are seeking to defend their agricultural sector<sup>16</sup>. These areas are characterized by high peak tariffs in elevated-income countries and are under the stress of politics. Due to the factor that those sectors are ones of political sensitivity, greater concessions in agricultural and manufactured market access are unlikely. The stalemate reached in the WTO is a consequence of the Doha Round and even the following negotiations round were not able to success.

Anyway, the lack of a determined package of trade liberalisation has had a great cost for the world economy. After the 2001, the agricultural prices grew drastically and nonetheless an agreement on lower protection in this sector has not been reached. The financial crisis of the 2008 has been the proof of the fact that the developed countries need to apply structural reform to be more competitive. The most important case is the European Union case, which it missed to liberalise the service markets because of the presence of national political economic forces<sup>17</sup>. The post Doha developments have

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<sup>14</sup> *Ibi idem*, p.7

<sup>15</sup> BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

<sup>16</sup> *Ibi idem*, p.8

<sup>17</sup> *Ibi idem*, p.6

shown the reality: the absence of a set of liberalisation has been a missed opportunity for all the players in the multilateral chessboard. A last effort to rescue the WTO from the *impasse* was made in the Bali Ministerial Meeting of 2013 in order to redefine the core rules of the multilateral institutions, new reciprocal market access commitments and the policies on trade in agricultural products, services and manufactures. However, an accord still remains unlikely.

### **1.1.3 Developments in global trade: the situation today**

Today, the international commerce is increased and usual. The drivers of this phenomenon are basically: the fall in trade costs, the technological change and the implementation of export policies. In the last decades, the increase of trade has been followed by a real per capita incomes rise around the world and even if the global financial crisis of the 2008, growth rates of several developing countries continued to increase. The main affected by this phenomenon has been the East Asian and Pacific countries, as you can see in the table (Table 1) below. In order to assure a more accurate analysis, it is important to evaluate the major trends of the last decades in the global trade. This examination could help to explain the motives of the gridlock after Doha and could help to find a definitive and more efficient framework in which the WTO could transform itself and implement new effective trade policies.

An important trend in global economy is the growth in “vertical specialisation” and “supply chain trade”<sup>18</sup>. The decrease of the costs of trades, telecommunications and information have “allowed” to the firms to split their production process in different countries. It has been possible to systematize this mechanism through international supply chains and production networks. In fact, firms can reduce their costs of productions locating activities and tasks in different countries, using their comparative advantage<sup>19</sup>. This type of instrument has several implications for economic policy. First of all, it simplifies the entry of low-income countries into the sector of manufactured products and the “vertical specialisation” helps the poorest countries to participate in this area at global

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<sup>18</sup> Hoekman B. (2014), *Supply Chains, Mega-Regionals and Multilateralism. A Road Map for the WTO*, Center for Economic and Political Research Press, London, United Kingdom, p.15

<sup>19</sup> *Ibi idem*

level. Supply chain trade has permitted the poorest and developing countries to enter in a new market, creating benefits and exploiting specific regional comparative advantage<sup>20</sup>.

This phenomenon is correlated with the increase of the cross border movement of capital and know-how<sup>21</sup>. According to a document by UNCTAD, Foreign Direct Investment (FDI) is fundamental for supply chain trade and it has been essential in cross border flows of parts and components – the regional SCT. After the 2000, the portion of the inflows of FDI increased from the 1% to over 13% especially in the emerging economies. Furthermore, developing economies comprise a significant share of streams of FDI into low income countries that happens through mergers and acquisitions<sup>22</sup>. Indeed, also the number of Merger and Acquisitions has increased in the last decades within emerging economies and now accounts for around one-half of all deals. These “events” show that matters correlated to investment policies are not only under the interest of multinationals HQs in OECD countries but also under the one of developing countries.

Finally, one of the most notable trend in these decades regards the the increase of developing countries membership. Over the years, more than thirty countries have decided to join the organization and over twenty are negotiating entry. This phenomenon has led to changes, as the establishment of a multipolar economy and has started to look to to new areas – such as intellectual property rights, services, standards – which require incessant participation by members. The first effect of this new trend could be seen in the Doha negotiation rounds. Even if an agreement had not been found, developed countries have focused the attention into sectors that the developing countries consider as vital. Of course, the major role of the developing countries is a consequence of the shift from anti-trade policies of the '50 and '60. In particular, the larger developing countries – BRICS first of all – have started to ask more concessions and started to play a greater role in the negotiations rounds due to their more power in the world economy. For example, China in the 2010 became the world's largest exporter in gross terms with a 10.4% share of global merchandise exports<sup>23</sup>. This economic power has changed his status and now

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<sup>20</sup> Baldwin R. (2015), *Supply-chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses*, The World Economy Volume 38, Issue 11, John Wiley & Sons Press

<sup>21</sup> Hoekman B. (2014), *Supply Chains, Mega-Regionals and Multilateralism. A Road Map for the WTO*, Center for Economic and Political Research Press, London, United Kingdom, p.18

<sup>22</sup> *Ibi idem*

<sup>23</sup> If we considered the EU as a block, the UE-28 could be considered the larger exporter with his 15%.

China has become a leading actor among the developing countries and it contributed to create an important third pole in the world economy<sup>24</sup>. This position is helping the emerging countries to be unit, strong and to reach their goals. Anyway, it has also strengthened their bargaining power and position, contributing to the proliferations of Regional Trade Agreements.

**Table 1: Average annual growth rate of per capita GDP (constant 2005 US \$)  
Expressed in %**

<b>Developing Country Groups</b>	<b>1982-2012</b>	<b>2001-2012</b>
East Asia and Pacific	7.2	7.5
Europe and Central Asia	1.8	3.8
High- income countries	1.8	1.0
Latin America and Caribbean	1.1	1.9
Least Developed Countries	1.5	3.3
Middle East and North Africa	1.5	2.5
Sub-Saharan and North Africa	0.4	1.9

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<sup>24</sup> The other poles are the United States of America and the European Union as a block.



South Asia	4.0	4.9
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Source: Hoekman B.M., Kostecky M.M. (1995), *The Political economy of the World Trading System: from GATT to WTO*, Oxford University Press, Oxford, p.13

### 1.1.4 The challenges of WTO

As we have seen before, the WTO has faced severe and several challenges to his authority in these years. With the Doha Round, the apparatus and legitimacy of the institutional body of the multilateral creature started to be effective. In order to rescue its precedent efficiency, the WTO has to cope with a series of challenges. The most relevant are: resolving the Doha Round combined with a new definition of renewed agenda for multilateral cooperation, reforming the institutions and find a way in which regional trade agreements could be complementary of multilateral ones.

In order to find a solution for the gridlock that the Doha Round has created, some scholars have proposed the fragmentation of its issues into new configurations<sup>25</sup>. New suggestions as plurilateral negotiations could review and replace the round as initially configured. According to this faction, the round should cover areas that now are on the table of mega-regionalism and are not covered by the WTO. Possible subjects for deliberation could be the global chain values, according to Nakatomi, the digital trade and data flows and the sustainable energy policies<sup>26</sup>. On the other side, the High Level Trade Expert Group in the 2011 warned against these temptations and stated that the member of the Doha Round has to finish what they have started in the 2001. According with the Director General Peter Sutherland and Bhagwati “an effort to re-lunch a WTO agenda around new negotiating objectives would be extremely unlikely to succeed”<sup>27</sup>. These scholars focused the attention on the behaviour that G20 level political leaders should have. They have to set a deadline to conclude the talks that would be “inflexible

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<sup>25</sup> Van Grastek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland

<sup>26</sup> Hoekman B. (2014), *Supply Chains, Mega-Regionals and Multilateralism. A Road Map for the WTO*, Center for Economic and Political Research Press, London, United Kingdom

<sup>27</sup> Van Grastek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland, p.552

and bind all all players at the level of the Head of Government”<sup>28</sup>. This point is seen differently, both with ambition and scepticism. One example could be the Indian Trade Minister Kamal Nath who resisted to left the Doha Round in the 2008 because in his opinion the WTO is not “a buffet that you pick up what you want and go”<sup>29</sup>. A solution must be found and the member nations are split.

The second important challenge the WTO must address is its institutional reform. The number of the proposals of renewal of the institution grew drastically after the ministerial talks of 1999 and 2003 and the stoppage in negotiations with the Doha round. A first step in order to reach a solution was made by a commission guided by Peter Sutherland. This board was very cautious<sup>30</sup>, refusing radical changes, and was criticized by some scholars. In fact, authors and commissions have planned changes for what concern not only the institutional construction, but also for the management and resources of WTO, focusing the attention on greater transparency and closer talks with NGOs and legislatures. A cornerstone in the development of the WTO could be the WTO Panel on Defining the Future of Trade of 2012. The twenty members of the Panel<sup>31</sup>, representing regional institutions, have had the task of identifying a series of problems of the WTO and the future of trade. They have identified a series of “convergence” problems<sup>32</sup>: the multilateral institution must encourage conjunction among multilateral trading system

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<sup>28</sup> *Ibi idem*

<sup>29</sup> “Kamal Nathan explains how the Geneva talks failed”, TWN Info service, (31 July 2008) at [www.twinside.org.sg/title2/wto.info20080754.htm](http://www.twinside.org.sg/title2/wto.info20080754.htm)

<sup>30</sup> Van Grastek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland

<sup>31</sup> The members of the group were: Talal Abu-Ghazaleh, chairman and founder, TalalAbu-Ghazaleh Overseas Corporation (Jordan); Sharan Burrow, secretary-general, International Trade Union Confederation; Helen Clark, administrator, United Nations Development Programme; Frederico Pinheiro Fleury Curado, president and CEO, Embraer S.A. (Brazil); Thomas J. Donohue, president and CEO, US Chamber of Commerce; Yoshiaki Fujimori, president and CEO, LIXIL Group Corporation and LIXIL Corporation (Japan); Victor K. Fung, chairman, Fung Global Institute (Hong Kong, China), honorary chairman of the International Chamber of Commerce; Pradeep Singh Mehta, secretary-general, CUTS International (India); Festus Gontebanye Mogae, former president (Botswana); Josette Sheeran, vice chairman, World Economic Forum; Jurgen R. Thumann, president, BUSINESSEUROPE; and George Yeo, former foreign minister (Singapore), vice chairman of Kerry Group Limited (Hong Kong, China).

<sup>32</sup> Van Grastek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland, p.564

and others regimes, international trade policies and domestic ones and finally the policy non tariff measures. The most important proposal of the Panel is to strengthen the authority and initiative of the Secretariat, in order to make effective the institutional capabilities of the WTO. The member of this board believe that the Secretariat should table proposals to reach speeder deliberative processes and help to catch consensus by providing information and ideas<sup>33</sup>. The Secretariat could be the medium of this member driven organization but only if members decide to support strongly this figure. Even if the well done work made by the Panellists, an agreement about the reform of the WTO is far to be reached.

The third important challenges that the institution have to face is the proliferation of Regional Trade agreements. Because of the lack of efficiency and effectiveness of the WTO, members have looked to alternative ways to negotiate. As we have have said before, the main option has been the RTAs that have one thing in common: the involvement of the crumbling of the talks by issues and partners<sup>34</sup>. Supporters of these new types of agreements see the ones as complementary to the multilateral trading system, in which an accord could not be found in a form of “variable geometry” or fragmenting issues or partners. On the other hand, opponents see these as alternatives to WTO deals, making the latter less reliable than the alternatives. The relationship between multilateral and regional agreements is quite complex and it is worth to analyse it in the following section.

## **1.2 Why are the Regional Trade Agreements so important today?**

As said before, countries have started to being part of Regional Trade agreements in the last decades in order to find a reliable framework in which they can negotiate and implement new economic policies. From about 50 in the 1990, the number of the RTAs

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<sup>33</sup> Statement of the Panel on “Defining the Future of Trade” in the 2013.

<sup>34</sup> Van Grassek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland, p.552

engaged is increased and today is over 300<sup>35</sup>. Countries are taking into account these agreements in order to find solutions to endless WTO problems and to rationalize trade policies.

This section will analyse the ascent of Regional Trade agreements and it will describe all the main features. In the final paragraph, it is worth to investigate the difficult relationship between the multilateral trade system and the regional one.

### **1.2.1 Preferential Trade agreements: a definition**

According to Pal, Regional Trade agreements are groups of countries which decided to create a common framework in order to reduce barriers to trade between member countries. Even if the name suggests a regional denominator, these groups or unions may be formed among countries that not share the same continent or geographical region. There is a classification of the RTAs and depend on their level of integration. From the most to the least discriminatory, it is possible to distinguish five categories<sup>36</sup>:

1. Preferential Trade Agreements. Its are unions in which member could enforce lower trade barriers on goods produced within the union. Every member has some flexibility on the degree of the reduction.
2. Free Trade Agreements are special PTAs characterized by the total abolition of trade barriers (both tariff and non-tariff barriers) for goods origination in one of the member countries. It is important to say that most sensitive areas are excluded by the accord and so on trade barriers are not completely eliminated even with the Free Trade Areas.
3. Customs Unions is an evolution of FTAs. Its provide greater integration than FTAs. It imposes a common external tariff (CET) on good imported from outside countries. This tariff can differ among goods but not across the members of the union.

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<sup>35</sup>See *The WTO and Regionalism*, World Trade Organization, [http://www.wto.org/english/tratop\\_e/region\\_e/regfac\\_e.htm](http://www.wto.org/english/tratop_e/region_e/regfac_e.htm) (last visited 12 Dic.2016)

<sup>36</sup> Pal P. (2011), *Regional Trade Agreements in a Multilateral Trade Regime: An Overview*, Survey Paper

4. The first type of “deep integration” arrangement is Common Market, which provided a first organization in order to match institutional arrangements and regulation among financial and commercial laws. This accord is inspired by “closed regionalism”<sup>37</sup>. The most preminent characteristic is the free movement of capital and labour<sup>38</sup>.
5. Economic Unions are the last stage of economic integration. The member countries implement the same economic policies, regulation and they share a common currency.

The various degrees of regional agreements are exemplified by the figure below.

**Figure 2: Various forms of Regional Trade Agreements.**



**Source: Das (2001)<sup>39</sup>.**

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<sup>37</sup> Van Grassek G. (2013), *The History and the Future of the WTO Organizations*, WTO Publications, Geneva, Switzerland, p.553

<sup>38</sup> Pal P. (2011), *Regional Trade Agreements in a Multilateral Trade Regime: An Overview*, Survey Paper

<sup>39</sup> Das D. (2001), *Regional Trading Agreements and the Global Economy: An Asia-Pacific Perspective*, Asia Development Bank, Mandaluyong, Philippines

Today, the most conspicuous agreements are among the the shallow integration agreements, mostly FTAs or PTAs. Anyway, the most famous agreement is the European Union, an economic union with 28 members. It is consequence of two deep arrangements: The Treaty of Maastricht and the EU Single Market. The most notable Customs Union is the MERCOSUR<sup>40</sup>.

A recent study has shown that 145 out of 146 member countries are currently part and are negotiating Preferential Trade agreement. The scope and the extension of these agreements have expanded in these years and now have reached an intra- continental perspective. The new generations of accord included more sensitive areas, that usually WTO ones do not cover, rules on investments, standards and competitions. Two important trends are increasing: the emergence of Agreements among countries of different continents like the TPP or the TTIP and the commitment of promoting trade to regional agreements instead of multilateral ones. In the next section, we will analyse the causes of these trends.

## **1.2.2 The proliferation of Preferential Trade Agreements**

One of the keystone of the WTO is the principle of non-discrimination<sup>41</sup> and initially the multilateral institution stimulated the creation and development of these type of agreements. It was public opinion that regional integration initiatives could help and complement the multilateral regime<sup>42</sup> but today things are different. Regional Trade Agreements, in particular the Preferential ones in various forms, are now in vogue and it has been claimed that they are posing a danger to multilateralism. One of the most prominent scholars of this stream is Bhagwati which provided a systematic critique of the PTAs during his academic career. On the other hand, the assessors of such agreements have argued that these would complement multilateral liberalization. An important cornerstone of the proponents of Preferential Trade agreements is the rapidity of

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<sup>40</sup> MERCOSUR is a sub-regional bloc. Its full members are Argentina, Brazil, Paraguay, Uruguay and Venezuela (which was suspended on December 1, 2016).

<sup>41</sup> Member countries may not discriminate against good entering their borders based upon the country of origin.

<sup>42</sup> Pal P. (2011), *Regional Trade Agreements in a Multilateral Trade Regime: An Overview*, Survey Paper

liberalization that this category of agreements can be achieved instead of the multilateral ones. They also supported a “WTO plus” approach to trade liberalization<sup>43</sup>. Indeed, the phenomenon is creating a certain apprehension about the role of the regional agreements within the WTO and the WTO itself. There is a diversion from the classic route of multilateralism and it is not clear if there would be positive effects.

According to the scholars, there are three types of explanations of the proliferation of Regional Trade Agreements<sup>44</sup>.

The first relies on the classic welfare cost-benefits analysis. A simple investigation could lead us to assert that the removal of the trade barriers could permit producers and consumers to buy from the competitive and most inexpensive source of resources. Following this theory, the regional trade blocs may produce gains from trade if member countries decide to reduce trade barriers among themselves. Anyway, this view was criticized by Viner<sup>45</sup> with the introduction of two terms: trade creation and “trade diversion”<sup>46</sup>, showing that the outcome of trade liberalization on a regional basis is not always positive.

However, this traditional analysis does not explain why regionalism has become so famous. According to the economist, the crisis of the multilateral trade regime is one of the causes of the progress of a wave of regionalism. In an interview of 1993, the Nobel Prize Krugman asserted that the multilateral agreements are less reliable than the regional ones because they have created rigidity in the system and because the large number of countries in the negotiations round could decrease the cost of non-cooperation. The trade barriers make the negotiations more complicated than in the past and most of countries prefer to negotiate on sensitive issues on bilateral and regional level<sup>47</sup>. Several countries,

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<sup>43</sup> *Ibi idem*

<sup>44</sup> *Ibi idem*

<sup>45</sup> Viner J. (1950), *The Custom Union Issue, Carnegie Endowment for International Peace*, New York

<sup>46</sup> Trade diversion is an economic term related to international economics in which trade is diverted from a more efficient exporter towards a less efficient one by the formation of a free trade agreement or a customs union. Trade creation is a term related to international economics in which trade flows are redirected due to the formation of a free trade area or a customs union.

<sup>47</sup> Krugman P. (1993), *Regionalism versus Multilateralism: Analytical Notes*, New Dimensions in Regional Integration, De Melo and Panagariya Edition, CUP Cambridge

in particular developing countries, have felt a sense of disaffection with the progress of WTO after the Uruguay Round. The multilateral organization have dishonoured the promises made in the negotiation rounds to developing countries: first of all, the promise to expanse trade in area like the manufactural, agricultural and textile ones. Moreover, emerging countries have started to seek regional alternatives as a reason of protectionism and absence of enthusiasm to offer market access on a multilateral basis<sup>48</sup>.

The last one source of explanation refers to the bandwagon effect of Regionalism. According to Bhagwati<sup>49</sup>:

*“the main driving forces for regionalism today is the conversion of the United States, hitherto an abstaining party to Article XXIV”.*

As we can see, in the last decades the USA and the European Union have increased their involvement in Free Trade Agreements, Partnerships and regional accords with both other developed and developing countries. The latters has been also pushed to seek accords with developed countries because of the possible exclusion from some markets. The fear to be excluded in a particular market and the anxiety to be overwhelmed by competitors in supply goods to the developed markets are motivations for developing countries to go for a Regional Trade Agreements with advanced nations. Furthermore, also the excluded countries are tempted to create their own markets forming regional agreements among themselves. This situation has led a bandwagon effect: no countries desire to be left of some regional grouping.

### **1.2.3 Regionalism in the current Global Trade System**

Today, there is a big debate about the role of regionalism in the multilateral trading system. Using terminology of Bhagwati, scholars are questioning whether regional trading blocks are “the building blocks” or “stumbling blocks” of the multilateral trading system. One faction asserts the positive role of regional trade blocks, focusing the attention on their welfare improvement in nature and their neutral impact on the

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<sup>48</sup> Pal P. (2011), *Regional Trade Agreements in a Multilateral Trade Regime: An Overview*, Survey Paper

<sup>49</sup> Bhagwati J. (1993), *Regionalism versus Multilateralism: Analytical Notes*, New Dimensions in Regional Integration, De Melo and Panagariya Edition, CUP Cambridge, p.29



multilateral trading system<sup>50</sup>. Along with this line, other authors as Baldwin<sup>51</sup> and Lawrence<sup>52</sup>, do not recognize regionalism as a threat for the multilateral establishment. As said by Baldwin, because trade is

*“already quite free in major trading nations, few regional liberalizations are capable of creating anti-liberalization forces”*.

Hence, he claimed the promotion of multilateral trade liberalization could be co-assisted by the fact that the most regional trade arrangements will deteriorate the enemies of trade liberalization<sup>53</sup>.

Anyway, the dominant view among scholars and economists asserted the negative impact of regionalism on the multilateral trading system. According to Bhagwati and Krueger, this new wave could lead to a confront among the different regional blocks, domination of small countries by bigger ones and finally it could be the cause of the lack of enthusiasm for participation in the multilateral trade regime<sup>54</sup>. These scholars have expressed anxieties about the proliferation of the various forms of PTAs and their negative effects, as the trade discrimination that its can lead and the threat to the WTO. The Indian economist is the father of the term “spaghetti bowl” through which he has tried to explain the complexity of regulatory structures and preferences which arises from the application of domestic “rules of origins” in the ratification of regional accords. One consequence of this phenomenon may direct to lack of transparency and complication in the ongoing trade system. In other analysis he has focused the attention on the relationship between developed and developing countries in PTAs, assuring the developed countries

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<sup>50</sup> Krugman P. (1991), *Is bilateralism bad?*, International Trade and Trade Policy, E.Helpman and A.Razin Editions, Cambridge, Mass.:MIT Press

<sup>51</sup> Baldwin R.E. (1997), *The causes of Regionalism*, World Economy 20(7): 865-88

<sup>52</sup> Lawrence R. (1996), *Regionalism, Multilateralism and Deeper Integration*, Brookings Institutions, Washington DC

<sup>53</sup> Baldwin accepts the logic might not work for South-South Free Trade Agreements

<sup>54</sup> Bhagwati J., Krueger A. (1995), *The dangerous drift to Preferential Trade Agreements*, American Enterprise Institute, Washington

manage to reach an aggressive liberalization<sup>55</sup> and to force developing countries to abandon issues both on regional and multilateral level. It could drive developed forces to obtain more advantages in the WTO and at the same time to broke alliances among developing actors in the multilateral negotiations. It is interesting to note the nature of critics. All of these are against Preferential Trade Agreements where a developed country is involved. It is worth to remind that after the Uruguay Round also these countries have not gained any new market access in the main sectors in which they have a comparative advantage.

Before the last decades there was two options for developing countries: an unbalanced multilateral trading system and regional agreements, mostly South-South, through which support the expansion of markets without compromises and totally national policy independence. Today there is a third option: economic Partnerships among both developed and developing countries. The most important exponents of this type of agreements are the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). These are characterized by the inclusion of key areas for market access and new paradigms for trade. In the next section, this dissertation is going to analyse the TPP, its key features and innovative capacity.

### **1.3 The Trans-Pacific Partnership: A form of Mega-Regionalism?**

As said before, after the establishment of the WTO many members have chosen to institute selective associations with other fellows aspiring to integrate deeper their economy. Even if the economic aspects are important, the geopolitical implications have his significance. New RTAs are planned around a set of profounder integration matters including services, competition policies, regulatory capability and customs cooperation. According to their nature, today, tendencies in integration reflect three typologies of Regional Trade Agreements<sup>56</sup>:

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<sup>55</sup> For “aggressive liberalization” we intend strong clauses, investment protection clauses and extraneous issues in the agreements.

<sup>56</sup> Gonzalez A. (2014), *Setting the stage*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

- FTAs of potential trade and FDI value. Examples could be US-South Korea FTA, EU-Singapore or Bilateral Investment Treaty between the US and China.
- Strengthening of RTAs or rather the expansion of existing RTAs with new membership or inclusion with other agreements. An example is the Pacific Alliance that in the 2014 basically merges six pre-existing FTAs among Mexico, Colombia, Peru and Chile, focusing the attention on tariffs, services, rules of origins and exports.
- Mega-Regional RTAs which include countries or regions with a major portion of FDI and world trade. This type of arrangements is characterized by the presence of countries as drivers of negotiations and in the global value chains. TPP and TTIP can be included under this umbrella.

TPP is now considered an alternative pillar in the trade global governance to the traditional multilateral framework. Some scholars have pointed out some criteria to classified its. These new types of agreements affect an incredible share of world trade in goods and services and FDI<sup>57</sup>. Countries are willing to enter in these accords because its content coverage deeper the existing contractual responsibilities and disciplines of WTO and other RTAs. For this reasons, this work will analyse the state of play of Transpacific Partnership, its element package and its potential implication on the world economy.

### **1.3.1 State of play**

The TPP includes a representation of East Asian and both North and South America countries. It is the evolution of an initiated four-way Free Trade Agreements – the Pacific-4 - in the 2006 among Brunei, Chile, New Zealand and Singapore with the goal of complete trade liberalization by the 2015. In the 2010, five countries<sup>58</sup> decided to join the agreement creating the basis for the establishment of the TPP. Since then, also Canada, Mexico and Japan have requested to enter into the treaty and their participation has been approved while the one of South Korea is already under investigation. Anyway, the country finished the first round of bilateral talks with each member. Today, the agreement has been signed on the 4<sup>th</sup> February of 2016, concluding seven years of discussions, and it is currently awaiting ratification of each member to enter in force. However, there are

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<sup>57</sup> TPP: 26.3%; TTIP: 43.6%

<sup>58</sup> The United States, Australia, Malaysia, Peru and Vietnam.

some problems. First of all, On November 11, 2016, it was reported that, due to Donald Trump's election to President, the White House would not pursue passing the agreement<sup>59</sup>.

The goal of the TPP is to ensure wide liberalization of both services and goods and to involves comprehensive coverage of trade in several sectors. The chapters of the accord aim to "promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in the signatories' countries; and promote transparency, good governance, and enhanced labour and environmental protections"<sup>60</sup>. TPP is characterized by the profound diversity among the member states in terms of wealth, GDP, services and goods and production structures. Because of the complexity and the variety of areas, the negotiation has been extensive and prolonged. This scenario has led to a far-reaching agreement. Furthermore, the goods sector has been characterized by negotiations based on existed current bilateral FTAs. Indeed, where FTAs were in force between countries, they are expected to be implemented within the new framework. At the same time, countries without a current agreements between them have inputed into talks on a bilateral basis<sup>61</sup>. Temporarily, the other issues have been discussed among all the members in order to reach an applicable and effective agreement.

Economically, the treaty could impact significantly the world economy given the goods trade among TPP members that sums near to \$2 trillion of dollars<sup>62</sup>. In this sum, the largest portion of the trade is among Japan and the North American Free Trade Agreement<sup>63</sup> countries. Trade flows between the other countries accounts only for \$180

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<sup>59</sup> Needham V. (2016), *White House gives up on passing the TPP*, The Hill. News Communications, Inc.

<sup>60</sup> Office of the United State Trade Representative, *Summary of the Trans-Pacific Partnership Agreement*, Last visited 28-12 2016  
<https://ustr.gov/about-us/policy-offices/press-office/pressreleases/2015/october/summary-trans-pacific-partnership>

<sup>61</sup> Cheong, I. (2013), *Negotiations for the Trans-Pacific Partnership Agreement: Evaluation and Implications for East Asian Regionalism*, Asian Development Bank Institute

<sup>62</sup> Drapee P., Lacey S. and Ramkolowan Y. (2014), *Mega- regional Trade Agreements: Implications for the African, Caribbean, and Pacific Countries*, European Center for International Political Economy, Brussels

<sup>63</sup> NAFTA – composed by the United States, Canada and Mexico

billion of total TPP trade. It is evident the pivotal role of Japan and US in TPP negotiations. According to Baldwin, these two powers push supply and transnational organization and assist as local “hubs”<sup>64</sup>.

The effects of such agreements are mixed. Economically, the enormous number of FTAs being applied between Asian and Pacific countries advises that the outcomes of bill liberalization could be low notwithstanding the substantial share of global trade for the region. For what concern goods trade, the TPP confronts a situation in which several countries have already traded goods under free trade arrangements. Indeed, many scholars have estimated that the previous studies have overestimated the GDP and the gains possible to be reached<sup>65</sup>. According to Cheong, the gains for most TPP countries from signing the agreement could be insignificant: all countries, but not US, Peru and Chile, are going to experience a negligible growth of GDP. Furthermore, the increase will less than the 1%<sup>66</sup>. Canada will experience the lowest increase while the New Zealand the biggest<sup>67</sup>. At the same time, United State will not face any change while Chile and Peru are likely to involve an insignificant change between the 0.4% and the 0.13% of the GDP<sup>68</sup>.

For what concern the systemic effect of TPP, scholars assert that this agreement could be a cornerstone to the formation of free trade agreement among all the APEC<sup>69</sup> member. As said by Williams, the TPP will benefit from the creation of an APEC free trade area and the domino effects of such creation could fall into the TPP. Anyway, it is worth to investigate the systematic effects of the TPP deeper in the following section.

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<sup>64</sup> Buiters W., Rahbari E. (2011), *Trade Transformed: The Emerging New Corridors of Trade Power*, Citi GPS, available at: [https:// www.citivelocity.com/citigps/ReportSeries.action?recordId=1](https://www.citivelocity.com/citigps/ReportSeries.action?recordId=1)

<sup>65</sup> Cheong, I. (2013), *Negotiations for the Trans-Pacific Partnership Agreement: Evaluation and Implications for East Asian Regionalism*, Asian Development Bank Institute

<sup>66</sup> Draper P., Melendez-Ortiz R. (2014), *The Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) – Key Issues and Potential Impact on Members*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

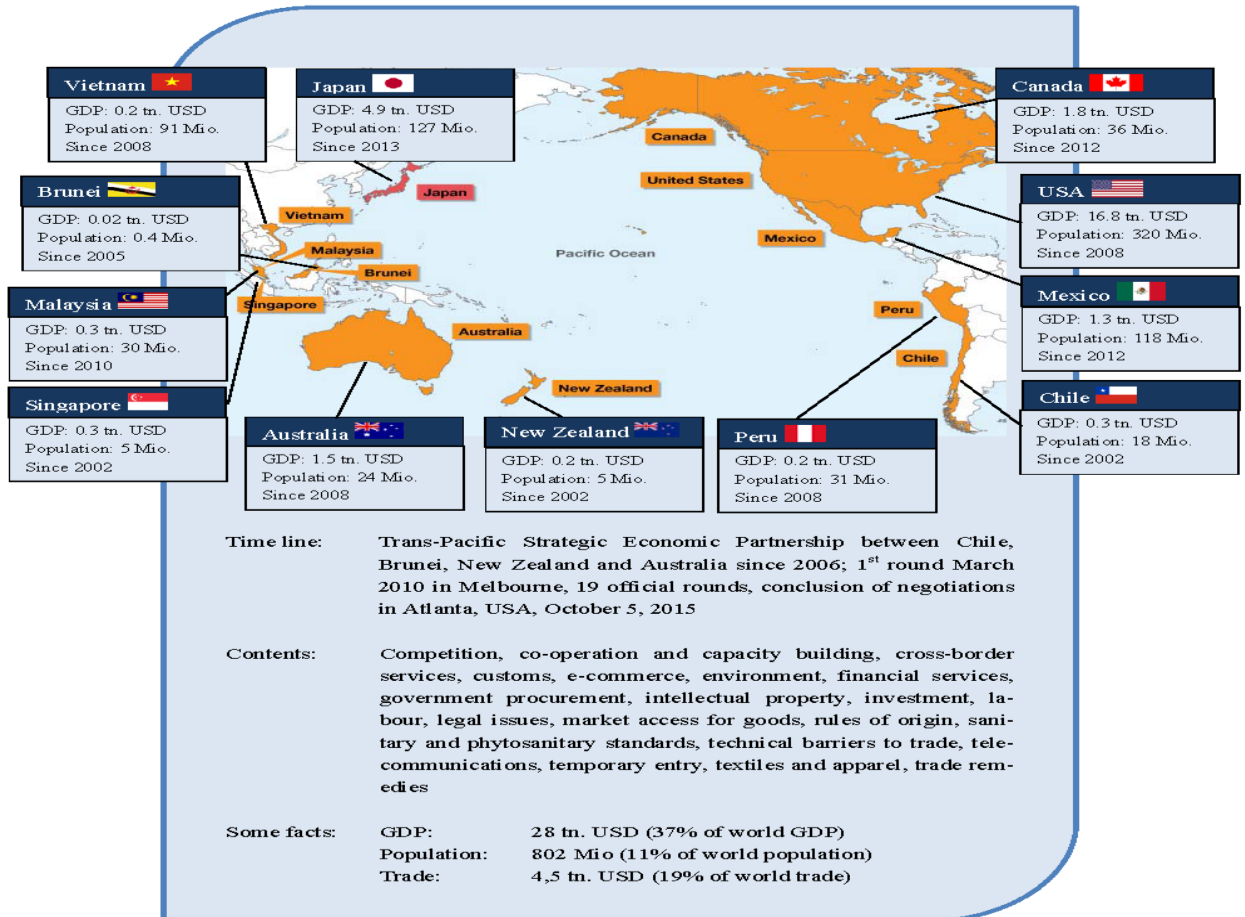
<sup>67</sup> Canada (0.02%) and New Zealand (0.97%)

<sup>68</sup> Cheong, I. (2013), *Negotiations for the Trans-Pacific Partnership Agreement: Evaluation and Implications for East Asian Regionalism*, Asian Development Bank Institute

<sup>69</sup> Asia-Pacific Economic Cooperation (APEC) is a forum for 21 Pacific Rim member economies that promotes free trade throughout the Asia-Pacific region.

### Figure 3: The Trans-Pacific Partnership

Source: Ifo Institute. Data from World Development Indicators.



### 1.3.2 Elements of the TPP package<sup>70</sup>

The TPP could be defined as “living agreement” because it allow regular and on-going debates and revisions in order to embrace trade tendencies<sup>71</sup>. The draft of the agreement is composed by 29 chapters that cover two main components:

- The first includes rules, disciplines, dispute settlement, institutional arrangements
- The second focus the attention on market access for goods, services, procurement and investments.

The TPP is particular because the agreement does not only encompass trade issues as a normal FTA but also non-trade issues that could be fundamental for a future economic integration. Anyway, some developing countries may find difficulties in face these criteria. The following matters are part of the official draft. The most important are related to the market access for agricultural and industrial goods. On of the most important measure the countries have decided to take is the duty free access for goods in this sector. They are also disposable to includes in the accord export and import licensing product, trade simplification and customs issues. For what concern the services, the agreement would engage a negative list approach and cover financial services, including banking and related services like financial ones. The provisions follow the so called “NAFTA model”, through which the services chapter embrace “cross-border sector” whereas investment sections cover assets in sector. An important chapter is dedicated to the government procurement: common principles and procedures are established and regulate procurement markets for developing countries. To make the agreement clearer the countries have decided to establish chapters and provisions that are shape on the regulations contained in the Uruguay Round agreement on Technical Barriers to Trade (TBT) and intellectual property rights (IPR) enforcement. For example, the TPP TBT text presents rules that would eliminate limitations for testing, inspection and certification of

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<sup>70</sup> Draper P., Melendez-Ortiz R. (2014), *The Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) – Key Issues and Potential Impact on Members*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

<sup>71</sup> Elms D.K., *The Trans-Pacific Partnership agreement: Looking ahead to the next steps*, ADBI Working, Paper Series, No. 447

services providers. About intellectual proprieties (IP), following the collective commitment to the Doha Declaration on TRIPS<sup>72</sup> and Public Health, the treaty comprises advanced provisions<sup>73</sup>:

- Patents, for example available for diagnostic for the treatment of humans and animals
- Undisclosed data. Its embrace “exclusive protection for the five years of the medicinal safety and usefulness information, from the date of marketing authorization, in the territory of a party involving similar protection for care and efficiency of a product before permitted in another territory”.
- Copyright
- Enforcement measures. It comprises the development of existing standards in TRIPS on civil and administrative practices, such as the border measures, criminal procedures and penalties.

In order to foster regional production networks, members of TPP have stipulated that contributions originating from a TPP country that are integrated in a final good distributed by another TPP party to a third TPP fellow must be considered inventing in such nation. This phenomenon is called “Cumulation of origin”. Furthermore, countries have agreed to create provisions of investment protection and to ensure a minimum standard of treatment. The TPP ensures formation and maintenance of competition rules and authorities, transparency and the possibility to use private rights of action and technical cooperation. Finally, the treaty focuses the attention of new problems as the marine fisheries and the conservation of biodiversity, climate change and environmental services.

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<sup>72</sup> The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO Members. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

<sup>73</sup> Draper P., Melendez-Ortiz R. (2014), *The Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) – Key Issues and Potential Impact on Members*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum



### 1.3.3 The systemic impact of TPP

As said before, mega-regionalisms are both good and bad news for the world trade arrangement: on one hand it will sort-out the “spaghetti bowl” of Regional Trade Agreements but, on the other hand, its are corroding the importance of WTO as the centre to establish new trade rule. It may lead to troublesome consequences<sup>74</sup>.

In order to evaluate the positive or negative of such agreement, this section evaluates how the effects of the TPP on the global trade. This agreement is likely to figure bilateral and regional trade proposals, like the trade meetings in the Asia-Pacific Region and create examples for the new multilateral initiatives in order to invigorate the World Trade Organization. His role as bridge to wider liberalization both regionally and globally varies highly on responses by key TPP outsiders because countries like China, India and some developing countries in South Asia are not elements of the accord. The TPP, creating a more unified and comprehensive pattern for trade reorganization in all the accord markets, will improve bilateral trade agreements among partners and will reduce common exclusion of the other free trade agreements. Anyway, full coherence has not been realized and precedent agreements remain along with the Trans-Pacific Partnership. But overall, it has set the standards for Regional Trade agreements in the global trading system. As said before, several Asian-Pacific countries are evaluating the pros and cons of a future entry to the TPP when it will enter in force. Motivations are simple: first of all, countries would avoid risks of possible trade and investment diversion and also a likely disturbance of production links within countries through TPP rules of origin and other necessities. Secondly, countries accession to the TPP would and its high standards could endorse domestic economic reform in order to foster the competence of domestic firms and push productivity development across the economy. In order to reach the entry into the agreement, excluded countries have to reform substantially the existing policies. Nevertheless, due to the intensity of the US congressional debate on the agreement, policies of new proponents would be put under an accurate analysis when they will pursue TPP entry. Anyway, these countries are questioning the fact that such an agreement will

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<sup>74</sup> Baldwin R., Simon E. and Low P. (2009), *Beyond Tariffs: Multilateralizing Non-Tariff RTA Commitments*, In *Multilateralizing Regionalism: Challenges for the Global Trading System*, ed. Richard Baldwin and Patrick Low. Cambridge: Cambridge University Press.

weaken the multilateral framework over time. Furthermore, it is worth to analyse deeper the likely consequences of TPP.

The most noticeable near-term impact will be determining regional integration struggles in the Asia-Pacific region<sup>75</sup>. Scholars argue that the TPP will be a fly-wheel for the creation of a FTAAP among APEC members. According to a meeting of 2014 held in Beijing, two possible paths are being investigated: the first consist in an enlargement of TPP – the US would prefer this scenario- and the second involves a different agreement that would function as umbrella that should cover different integration forces in the region<sup>76</sup>. The former one essentially would be a Free Trade Agreement, comparable to the TPP. The latter is a project that would include new consultative and rulemaking responsibilities that would be less comprehensive and stringent than the TPP ones. Nonetheless, the approach countries will choose depends on the ratification of the US, the step of accession of the new members when the agreement will enter in force and the inclusion or not of China. Today the latter path seems more realistic because of the first is linked to the ratification of the United States within the 2018. This event because the election of President Trump would be unrealistic.

Regarding the economic impact, scholars have valued that the TPP will be a bonus for the rest of the world. The abundant growth effect trough little net profits and trade for reminders is bigger than hypothetical discrimination. For what concern TPP members, gains come from the liberalization of non tariff barriers (NTBs) for services and goods and just in little part from the tariff liberalization<sup>77</sup>. Thank to this action, also non-member countries could advantage via “spill-over effect”, in other words the fact that TPP arrangements will liberalize trade with non members. According to Petri and Plummer, with the reduction of 20% of NTBs there will be an increasing of estimated profits and non-members countries that would tackle losses do so because of good provisions. Making an example, the European Union will face a little gain of 0.2% of his GDP because of the both American and Japanese deregulation of NTBs in services and assets and growth outcome of TPP. In the Asian continent, countries like India, China and

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<sup>75</sup> Schott J.J., Cimino-Isaacs C., and Jung E. (2016), *Implications of the Trans-Pacific Partnership for the World Trading System*, Policy Brief, Peterson Institute for International Economics

<sup>76</sup> The ongoing APEC study probably will not draw such a specific conclusion at this point, but we regard these two pathways as the most realistic and practical options for a regional agreement.

<sup>77</sup> It accounts for less than 10 percent

Indonesia would go to find real losses in areas in which they will have to compete with TPP members. The positive fact is that the costs will be small relative to the GDP<sup>78</sup>. In particular, China will suffer just a little decrease compared to the estimated growth but these little undesirable outcomes could become bigger if other Asian economies will join the TPP in the future. It is worth to say the TPP's accession clause have the possibility to alleviate likely trade and investment diversion. Actually, scholars have shown that the advantages of an enlarged TPP, both for members and non –members, far surpass the current ones. The accession clause if successfully used could transform the TPP in a significant guide in this area.

Focusing on other aspects, the new regulations of TPP could inspire following negotiations within the WTO framework. Indeed, this agreement could reinforce and develop the future agenda of the multilateral organization setting precedents in areas as digital trade, environment and State owned firms. Overall, the most important impact of TPP on global trade could be to stimulate “competitive liberalization”<sup>79</sup>. This means both promotion of reforms by TPP members and at the same time a stimulus for other countries – not part of the agreement – to remove commerce and investment barriers pursuing their own bilateral or regional accords. According to the promoters of the Transpacific agreement, in order to reinvigorate the multilateral framework, enough countries should take this specific path. Furthermore, the TPP might redefine the agenda of future trade negotiations. In selected areas, the Partnership has made a little progress trying to solve problems that have not permitted a settlement in the WTO background. In other WTO-plus areas<sup>80</sup>, the TPP will arrange negotiating models with the task of create support for a new plan with WTO talks and complementary negotiations. In the 2015, in Nairobi during the latest WTO ministerial talk an unpretentious set on agriculture, cotton market entry and preferential rules for least developed countries has been adopted but a compromise above the Doha Round subject has not been found, perpetuating so the ongoing stalemate. In this context, the TPP has decided to treat with problems concerning

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<sup>78</sup> Petri P.A., and Plummer M.G (2016), *The Economic Effects of the TPP: New Estimates. In Assessing the Trans- Pacific Partnership*, Volume 1: Market Access and Sectorial Issues. PIIE Briefing 16-1, Peterson Institute for International Economics, Washington

<sup>79</sup> Schott J.J., Cimino-Isaacs C., and Jung E. (2016), *Implications of the Trans-Pacific Partnership for the World Trading System*, Policy Brief, Peterson Institute for International Economics

<sup>80</sup> WTO-plus refers to areas in which the TPP goes beyond existing WTO provisions.

agricultural and non-agricultural market access, for example avoiding the combative issues of agricultural subsidies, in order to interrupt the impasse. However, even if the Transpacific agreement members have decided to liberalized several tariffs, they would still maintain obstacles on sensitive goods<sup>81</sup> continuing to use tariff rate quotas<sup>82</sup>. For what concern the Doha Development Agenda, the TPP reinvigorates and develops assurances made in Trade Facilitation Agreement but it does not grant a secure innovative due to its incomplete chapters on important matters as development, small and medium firms or regulatory coherence<sup>83</sup>. Particularly, member of Transpacific agreement have negotiated with the aim to achieve major transparency and a “core good regulated process” but generally speaking, the TPP does not match with the harmonization of mutual recognition of regulations<sup>84</sup>. The TPP includes the remedies for WTO revival, indeed if the WTO member will decide to embrace several of innovative rulemakings of the agreement so as to counterpart the traditional problems that have been under discussion in the Doha Round. These new rules on domestic policies, going beyond standards set by WTO and early FTAs, could create precedents for both multilateral and bilateral trade talks due to the opportunity to distort trade and assets in goods and services. Anyway, today the scenario remains obscure because TPP is not in force and his impact on the global trading system is full of doubts.

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<sup>81</sup> Dairy, sugar and meat products.

<sup>82</sup> Schott J.J., Cimino-Isaacs C., and Jung E. (2016), *Implications of the Trans-Pacific Partnership for the World Trading System*, Policy Brief, Peterson Institute for International Economics

<sup>83</sup> Freund C. (2016), *Other New Areas: Customs Administration and Trade Facilitation, Anticorruption, Small and Medium-Sized Enterprises, and More*, In *Assessing the Trans-Pacific Partnership, Volume 2: Innovations in Trading Rules*. PIIE Briefing 16-4 (March), Washington: Peterson Institute for International Economics

<sup>84</sup> *Ibi idem*

## 1.4 Research question

Today, regional trade agreement and regionalism are part of the global trade regime. Anyway the causes of countries participation are different and of diverse origins. Some scholars have tried to identify the determinants of countries in Preferential Trade Agreement or Regional Trade Agreement while mega-regionalism are not studied so well. This chapter have investigated the context in which members of FTAs or mega-regionalism move, from the lack of effectiveness of WTO to the insurgence of the TPP. This context may help to explore and define better my research question: which are the determinants of a country enter in a Mega-regionalism. Why does country decide to become member of intra-continental FTA? The aim of this work is to examine both economic and domestic policy factors of this phenomenon in trade framework.

My analysis will start with an examination of the State of the arts, including a literature review of the most important scholars in this field. Even if the move from protectionist stances to a free trade policy is a modern phenomenon, some scholars have spent their academic life investigating the ratios of this new tendency. As said before, the lack of effectiveness of the WTO and the growing disaffection toward this institution only could not explain the proliferation of all types of Preferential Trade Agreements or alternative solutions to WTO. Today, there is a general accord over the conditions under which an agreement could increase or lower participants and world welfare but there is regrettably no such consensus as to what group of assumptions is suitable for the today world. Scholars are divided: while some support comprehensive liberalization over regional method concerning Preferential Trade Agreements, others assert that these agreements can be used to drive along a stationary multilateral process due to competitive liberalization. Nonetheless they are second-best choice, it quite clear that the Regional Trade agreements and all their forms will contribute to shape the international trade scenery and that in the future WTO will have to face with this trend. However, once one admits that PTAs will still have in the future an important economic place, then the shortage of investigated intended at studying regional agreements creations independently of their economic effect has became worrying. The aim because these researchers are important depends on the fact that international trade is not a zero-sum game and the economic assimilation and endowments that countries face when it takes part of the agreements direct to lastingly improved level of exchange, even if non-participants will eventually achieve an equal purchase. Frankly speaking, even if other

countries reach global trade advantages thanks to the multilateral framework, the directive in which regional trade agreements are established has a tangible influence on all parts implicated. This topic and its empirical analysis are relevant and could lead to better investigate predictions about which countries arrange a Regional Agreement, but also offer more understanding into which subjects should take a central position in the following multilateral rounds. One of the aim of this work is also to fill the gap in this knowledge. This section will focus the attention of various theories as the one of Baier and Bergstrand or the theory developed by Mansfield and Milner that are considered pioneers in this sector. Then it is worth to analyse other areas of relevance that are not covered by the existing literature but are essential to survey deeper the research. The chapter concludes with the critics to the literature. These critics are essentially econometric and with the aims to depreciate the domestic policies factors.

The third chapter is the core of the work. It will investigate first the political economic of Preferential Trade agreement, studying better the affirmative and offensive reasons of why countries decide to take part of these accords. In the second part of this elaborate, three hypotheses will be developed. These hypotheses linked independent and dependent variables: the first are different among different suppositions while the dependent variables are the formation and ratification of FTAs. Hypotheses take in consideration domestic institutional and interests actors, few sectors of country economies and the need of a country to make an institutional or economic reform. According to the variables, the hypotheses are:

- *H1: As the number of institutional veto player increases, the possibility for the government to establish and ratify the agreements decreases.*
- *H2: Economies of governments with large portions of GDP focused in the agricultural sector will be less likely to form PTAs.*
- *H3: As the need or the willingness of economic or institutional reform of a country increases, the possibility of the government to establish and ratify the agreements increases.*

Finally, it is worth to test the hypotheses on a specific case: The Transpacific Partnership. Initially, it is important to explore the motivations under the choice of this particular

Mega-Regionalism and of these countries – Vietnam, Japan and Indonesia – in which this work is going to test suppositions. Vietnam and Japan are two of Asian countries that have decide to join the TPP and to ratify as soon as possible. The particularity of the Vietnam is that it is a country that is not totally democratic and it is going to change fundamentally his economy from a centralized planned economy to a market one. At the same time, the Prime Minister of Japan, Shinzo Abe, want strongly this agreement in order to fortify the Japanese economy and to create an anti-Chinese front. The last but not the least – Indonesia – is a country that never declared his intention, even if the possibility, to join the negotiations of the agreement, prefers to stay on another side – the isolation one.

Then, it is important to operationalize the variables to make the analysis clear and then the work will focus the attention on a prospective of future economic performance under TPP. Finally, the elaborate will test the hypotheses on the countries, investing the three factors and the variables.

## **Chapter two: State of the Art**

### **2.1 Literature review and criticism**

The literature presents various theories that try to explain economic or domestic conditions that lead countries to enter in Regional Trade agreements. It is possible to distinguish two types of literature for the same purpose: the literature that relies only on economic determinants and academics that have tackle the challenge in a different manner, focus the attention on political factors or domestic determinants. So in this chapter, this work will report the most prominent theories about the country participation in Preferential Trade agreements. First, the economic literature related to the research question will be investigate and then the “Domestic factors” literature will be explored. Then, this work will focus the attention on how other arguments of relevance may help the existing literature to be more clear and complete. In conclusion, the elaborate will discuss the motivation of the literature, focusing on why the research question would be analysed and what is missing in the literature.

#### **2.1.1 The economic literature**

One of the most prominent scholar in this field is Krugman that has shaped the discussion on the comparative qualities of regional Free Trade agreements. In his work, he has parted debates of the “economics of trading blocs” and the “political economy of Free Trade Agreement”. indeed, after the 1990s talks about in this field has followed these two paths. For example, collected works on “economics on trading blocks” essentially tackles Regional agreements in a framework build up by Beir ad Bergstrand.

Similarly, Baldwin and Venables<sup>85</sup> have discussed economics determinants of these types of agreements. These two authors synthetize the approaches to Free Trade agreements in three categories: the first-generation collects static perfect competitions with persistent returns to scale. The second is characterized by static monopolistic

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<sup>85</sup> Baldwin R.E., Venables A, (1995), *Regional Economic Integration*, in Gene M. Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, Volume 3. Amsterdam: Elsevier Science, 1597–1644.



competition with rising revenues and the third model includes dynamic competitive factor models. The scholars let note that the original study about the economics of trade agreements can be attributed to Viner, who as said before adopted the terms of trade creation and trade diversion within a completely competitive industry. The ambiguous qualities of an FTA were resulting setting no transportation costs and untouched tariffs of partners on non associates countries. This ambiguous benefit effect would apply both to member and non member countries. Tackling the economics of FTAs, Krugman discussed the relative benefits of FTAs in a stationary monopolistically competitive background, like to the “core” second generation prototypes analysed by Baldwin and Venables, even if he identified the importance of economic geography<sup>86</sup>. If the intercontinental transport costs are zero, continental FTAs reduce welfare definitely. When the intercontinental transportation costs rise, such accords improve welfare unambiguously, giving the results depending on the grade of transportation of goods. According to Krugman, “despite the potential for trade diversion”<sup>87</sup> due to fact that these kinds of agreements are composed by “natural” trading partners, the probability of abundant trade diversion was little and “prospective moves toward regional free trade would almost surely do more good than harm to the members of the free trade areas”<sup>88</sup>. Nevertheless, Bergsten<sup>89</sup> has noted that Krugman has left a little supportive indication in his empirical question and he has asserted that the goal of scholars is to give support to this evidence. This debate has led Frankel<sup>90</sup> alone and Frankel with Stein and Wei (henceforth FSW)<sup>91</sup> to make a distinction among three types of FTAs: natural,

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<sup>86</sup> Krugman P. (1991), *Is Bilateralism Bad?*, in Elhanan Helpman and Assaf Razin, eds., *International Trade and Trade Policy*. Cambridge, MA: MIT Press, 9–23.

<sup>87</sup> *Ibi idem*

<sup>88</sup> *Ibi idem*

<sup>89</sup> Bergsten, C. F. (1991), *Commentary on The Move Toward Free Trade Zones*, in *Policy Implications of Trade and Currency Zones*, proceedings of a symposium sponsored by the Federal Reserve Bank of Kansas City, 43–58.

<sup>90</sup> Frankel, J. A., (1997), *Regional Trading Blocs*, 1997. Washington, DC: Institute for International Economics.

<sup>91</sup> Frankel J.A., Stein E., and S.J. Wei S.J., (1998), *Continental Trading Blocs: Are They Natural or Supernatural?*, in Jeffrey A. Frankel, ed., *The Regionalization of the World Economy*. Chicago:

supernatural and unnatural. The first kind of agreements are characterized by the geographic proximity and by the fact that are welfare boosting. When transnational transportation expenses are zero, governments are driven to accept FTAs because of the supremacy of large intra-continental over little intercontinental trade diversion. Second, independently on intercontinental transportation costs, FTAs among distant countries, the so called unnatural Free Trade agreements, are described as welfare decreasing. Social planners usually avoid these types of economic agreements because the welfare costs from intra-continental trade diversion surpass welfare benefits from intra-continental trade creation. Finally, the supernatural FTAs are agreements composed by countries geographically close and with little transports costs. Its are welfare reducing and governments usually avoid these due to the domination of inter-continental trade diversion over trade creation. In this framework<sup>92</sup>, the investigation of FSW and its effects propose two supposition. Primarily, maintaining other things constant, the proximity of two countries influence positively the formation of FTAs because of more prospective trade creation. Second, more distant are the trading associates, more probable will be made due to less potential trade diversion. So, this model is characterized by two economic features that may stimulate formation of these kinds of agreement: the distance among countries and the inaccessibility of continental trading companions<sup>93</sup>. Anyway, the reality is different because not all countries are the same for what concern the economic size or the relative factor endowments. Furthermore, the intra-continental transportation expenses are not zero. As Krugman has noted, the assumption about the identical economic size is not inoffensive<sup>94</sup>. In fact, in the today world the size dimension of GDPs is extremely imbalanced and this make a big difference in the creation of a model. Nevertheless, both models by Krugman and FSW suppose a world with just a single factor and a single industry. This supposition goes against the elaborated model of Heckscher-Ohlin, precluding conventional comparative advantage. Finally, these models,

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University of Chicago Press, 91–113.

<sup>92</sup>A context of a qualitative choice framework with social planners.

<sup>93</sup> Baier, S. L., Bergstrand J. H. (2002), *Economic Determinants of Free Trade Agreements*, Working Paper n.290, The Hellen Kellogg Institute for International Studies

<sup>94</sup> Krugman P. (1998), *Comment on 'Continental Trading Blocs: Are They Natural or Supernatural?'*, in Jeffrey A. Frankel, ed., *The Regionalization of the World Economy*. Chicago: University of Chicago Press, 114–15

as said before, adopt a context in which transportation costs are nothing. Consistent with Nitsch, the introduction of these expenses could be to the end of the phenomenon of “supernatural FTAs”. Another theory that tries to explain the possible variables that could influence a country to enter in a such agreement is the one of Baier and Bergstrand<sup>95</sup>. Their theory is build on the theoretical work done by Krugman and investigates six factors concerning the country formation of RTAs. The first element is the distance between trading partners, according to the Krugman vision that asserts the transportations costs would be central in establishing whether Preferential Trade agreements were, in general, trade creating or trade diverting<sup>96</sup>. According to the two scholars, the greater the distance between countries, the lesser the possible welfare profit from the agreement and for the same reason there is fewer possibility to create a PTA as the distance between associates countries rises. In second instance, the grade to which two business partner is physical distant from the rest of the world deserves importance. This outcome depends on the relative alterations in intra- and inter-continental transportations in addition to the general notion that if the distance between two countries and their other trading associates increases, the possibility that a trade agreement between the two initial countries will redirect trade from those other partners’ decreases.

A second fundamental element regarding PTA creation is the interaction between the relative and absolute sizes of GDPs of countries. On one side, the bigger the average dimension of GDP between associates, greater the welfare gain deriving from a trade agreement will be. This outcome does not depend by the presence of natural trading partner or not. On the other side, supposing that Gross National Product of one county is larger than its partner, fewer quantities of trade increase will be produced with the removal of trade barriers than if they have more comparable size.

The others factors delineated by Baier and Bergstrand are linked with the traditional concepts of labour and capital ratios and the notion of comparative advantage. Broadly speaking, the greater the variation in relative factor endowments among them, leads to Heckscher–Ohlin trade and the smaller the difference in the relative factor endowment ratios relative to those of the rest of the world, leads to minus inter-industry

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<sup>95</sup> Baier, S. L., Bergstrand J. H. (2004), *Economic Determinants of Free Trade Agreements*. *Journal of International Economics*, 64 (1): 29–63

<sup>96</sup> Vomocil J. (2011), *Domestic Determinants of Preferential Trade Agreements*, Research Paper of Clemson University

trade diversion. Furthermore, this outcome is correlated to intercontinental transportation costs. According to Venables<sup>97</sup>, if there is big difference of relative factor endowments between trade partners and the rest of the world, the less possible PTA develops due to the fact that the trade diversion from the other countries of the world to the associate country reduces the likely welfare achievements. In order to conclude the review about the most important theories on economic determinants of trade agreements, it is worth to categorize trade creation and trade diversion factors in three groups<sup>98</sup>:

- Economic geography factors
- Intra-industry trade determinants
- Inter-industry trade determinants

Other variables concern the degree of legal protection among trade partners particularly regarding environment, labour and intellectual propriety rights<sup>99</sup>, the idea that specific types of regional trade agreements could boost bargaining power with third parties and other includes geopolitical factors as sources of PTAs attractiveness<sup>100</sup>. Anyway, these potential factors have been studied in the theoretical framework but there are several problems that make them problematic to evaluate empirically. In fact, regarding labour and environmental laws, the difference between existing regulations and their implementation can be quite marked. This fact turns what should be a justly analogy of legislation into an extended field application in data set<sup>101</sup>. Nonetheless issues resulting from negligent implementation or even the sporadic concealment, environmental and labour laws in Regional Trade agreements are more than often not comprised because of the veto imposed by import firms in developed countries that expect to circumvent rising

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<sup>97</sup> Venables, A., (2003), *Winners and Losers from Regional Integration Agreements*, The Economic Journal 113 (490), 747-761

<sup>98</sup> Baier, S. L., Bergstrand J. H. (2004), *Economic Determinants of Free Trade Agreements*. *Journal of International Economics*, 64 (1): 29–63

<sup>99</sup> Hefeker, C., (1996), *Regional Free Trade and Social Integration*, *Public Choice* 87 (3/4), 379-393.

<sup>100</sup> Especially in the case of North- South arrangements.

<sup>101</sup> Vomocil J. (2011), *Domestic Determinants of Preferential Trade Agreements*, Research Paper of Clemson University

competition. Furthermore, import industries, asking to their government to act in order to modify violations throughout protective processes, want to impose standards above those that yet last in the associate country<sup>102</sup>. Anyway, neither may one just make a comparison whether or not trade agreements include writings specifying minimum standards due to the unclear effects of these kinds of clauses vary from agreement to agreement<sup>103</sup>. Even if the inclusion of likely text has been the variable of interest, rather than the current modifications in environmental and labour conditions that have led to inclusion, no one can evaluate the net outcome regarding the probability of various form of Regional Free Trade agreement without associating existing FTAs that include such dispositions again failed PTAs without comparable provisions<sup>104</sup>.

Moreover, most of the academics have discussed the importance of the economic factors as stimulus for the creation or the entry of a country in regional trade agreements, there are scholars that have focused their attention on geopolitical motivations or that have linked domestic policies factors to the entrance in a particular kinds of trade agreements. Some scholars have separated the general idea that countries entry in FTAs only for economic gains or because improvement of their market access. In the history, behind the creation of these accords the economic objectives has been important but not central, as in the case of the creation of European Community in the late 1950s. The concept that gains will come with increased trade integration has also push the support for the post war regional trade agreements and has contributed to create an extensive literature on the positive effects of these kinds of agreements. First of all, countries are stimulated to entry in such agreements because it can help to increase multilateral bargaining power<sup>105</sup>. It is possible when a country negotiate an accord with common external barriers<sup>106</sup>. For the first time, this supposition was elaborated by countries that

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<sup>102</sup> Hefeker, C., (1996), *Regional Free Trade and Social Integration*, Public Choice 87 (3/4), 379-393.

<sup>103</sup> In the sense that they will appease one importers of countries while upsetting the other exporters, with the eventual equilibrium dependent on which country has more bargaining power.

<sup>104</sup> One example could be the passage of NAFTA. The lateral accord on labour and environment that accompanied the agreement has given to the Congress the political cover to make possible its passage. It seemed unlikely without them.

<sup>105</sup> Whalley J. (1998), *Why Do Countries Seek Regional Trade Agreements?* in Frankel, J. A., (1998), *The regionalization of the world economy*, University of Chicago Press

<sup>106</sup> It is most the case of Custom Unions rather than Free Trade Agreements.

have decided to establish the European Community. The idea supposes that individually the European Countries could not face the immense leverage that the United States have during the multilateral negotiations, but if they started to act in synergy and cooperation adopting a common trade policy, they would boost their influence. Indeed, one of most prominent argument that valorise this assumption is that the creation of the European Community forced the GATT negotiations<sup>107</sup>. This notion has been successful in some of the Latin America engagements in order to obtain a bigger leverage in gaining the possibility to negotiate NAFTA entry than will individual participants.

Furthermore, some small countries due to the entry in a Regional trade agreement see the possibility to a more secure and larger market. For example, in the Canada-U.S. Agreement, the aim of Canadian negotiators was to reach an agreement that give the possibility to Canadian producers to achieve some degree of exemption from the habit of anti-dumping and counter-balanced duties by the American producers<sup>108</sup>. This particular accord was possible through the implied side payments, under the aspect of domestic policy regulations – accepted by the United States- assumed by Canada<sup>109</sup>. Another example could be given by the Mexico that differently by Canada decided to transform its domestic policy. Finally, another stimulus for country to form a preferential trade agreement is to create a secure arrangement among partner countries. This was the most important determinant under the creation of European Community. Indeed, the idea of European leaders at that time was that the improvement of trade flows between Germany and France could help the entire continent to prevent a new war. Anyway, this characteristic is not fund in the formation of Asian or North American agreements.

Along theories of the economic conditions that push countries to enter into formal trade agreements, a little part of scholars have decided to focus their attention on the domestic political conditions. Academics with this specific analysis have attempted to explain the formation of PTAs, on why and when participants have chosen to join such agreements,

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<sup>107</sup> First in the Dillon Round (1959-61), then in the Kennedy Round (1963-67), and subsequently in the Tokyo Round (1973-79).

<sup>108</sup> Whalley J. (1998), *Why Do Countries Seek Regional Trade Agreements?*, in Frankel, J. A., (1998), *The regionalization of the world economy*, University of Chicago Press

<sup>109</sup> Canada decided to reform sectors as the energy one and the investment policies. The country also renewed pharmaceutical protection laws parallel to the trade agreement, and limited special Canadian protection for wine and beer.

comprehending the variety of countries that join them and the considerable diversity in the increase of PTAs over the time. With their work<sup>110</sup>, Mansfield and Milner have presented a rationalist theory of domestic politics to clarify arrangements of PTAs. As said before, trade agreements are outcomes of international negotiations and in order to come into force, legislatures and other interest groups in the participating states have to accept an agreement or in alternative refuse it and block its implementation<sup>111</sup>. In order the agreements have to be accepted, these must be rational and offer net paybacks to domestic groups in the contracting countries. At the same time, also the government involved should determine that benefits derived from the accord surpass associate costs. These costs could be political, economic or both.

### 2.1.2 The “domestic factors” literature

As said before, economists have spent their academic life trying to delineate the welfare outcomes of PTAs but they have achieved mixed results<sup>112</sup>. Similar analysis also discover that PTAs imposes cost on third parties. For all these reasons, it appears unlike that governments are interested to establish agreements for only economic motives. Instead, it is quite clear that country governors form PTAs for domestic political reason.<sup>113</sup> More exactly, the theory of Mansfield and Milner asserts that these engagements could facilitate leaders in maintaining their political support. Leaders cannot plausibly guarantee to disregard special interest claiming for trade protection, creating a big domestic issue for head of states. According the two authors political economy theory of PTAs, political leaders decide to enter into preferential trade groups because it bears political paybacks for heads of states that would be difficult to achieve due to unilateral policy methods.

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<sup>110</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey

<sup>111</sup> Putnam R. (1988), *Diplomacy and domestic policy: the logic of two level games*, International Organization 42(3): pp.427-60

<sup>112</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey

<sup>113</sup> Along with Mansfield and Milner, also Pahre has proposed his model at domestic level. But his model focuses the attention only on political competition between export and import-competing firms.

Because of the international cooperation nature of PTAs, states decide to go towards this measure when leaders are unable to find a solution to problems through unilateral engagement alone. As said by Bagwell and Staiger<sup>114</sup>, when countries challenge the possibility of international conditions of trade externalities, the ideal solution is an agreement in which all participants accomplish market access concessions<sup>115</sup>. Furthermore, according to Giovanni Maggi and Rodriguez-Claire, these kinds of agreements can lead local political benefits through assisting to strengthen the reliability of chief executive engagements to trade liberalization and helping political leaders in circumventing catch by interest groups.

Anyway negotiations of trade agreements have costs: governments have to face transaction costs, as the search, information costs and the expenses to enforce and police the agreement once it is ready. A rational administration would only combine forces if the expected benefits derived by the agreements surpass the cost of ratification and implementation of it. This cooperation could be defined as a “voluntary exchange”<sup>116</sup>, which should be Pareto improving<sup>117</sup>. Anyway, the benefits studied by the model are political instead of economics. Mansfield and Milner have pointed out the importance of the domestic costs that leaders face when they suffer a lack of commitment about trade policy. Before the study of the model of the former scholars, it is worth to review of few models because they could be defined as the starting point of Mansfield and Milner analysis. First of all, Maggi and Rodriguez-Clare have shaped model based on domestic politics. According to them, establishment have to face time inconsistency problem<sup>118</sup> that turn governments vulnerable to interest groups requests for protectionism. Anyway,

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<sup>114</sup> Bagwell K., Staiger R.W. (1999), *An economic theory of GATT*, *American Economic Review*, 89(1): pp.215-48

<sup>115</sup> Conditions of trade of country concern to the ratio of its median export cost to its average import price.

<sup>116</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.25

<sup>117</sup> It means that at least one part of the agreement is made better off and no one is made worse off due to the deal.

<sup>118</sup> The problem that arises when a decision maker, especially a policy maker, prefers one policy in advance but a different one when the time to implement arrives. Knowing this, others will not find the commitment to the first policy credible.



this characteristic is not found in the formation of Asian or North American agreements. As said by Aaron Tornell:

*“a common assumption made in these arguments is that government authorities can credibly pre-commit to end protection in the future. This is a very strong assumption...[given that] government authorities maximize a welfare function or they react to political forces...If these authorities grant protection in the present, it is unlikely that they will no grant it in the future”*<sup>119</sup>.

Starting from this point, Maggi and Rodriguez-Clare assert that even in the deficiency of trade externalities, domestic politics may drive governments to establish trade agreements so as to provide trustworthy commitments to interest groups. Furthermore, the authors show that, even in the presence of trade externalities, governments meet a time inconsistency problem. Some interest groups desire protection and governments face difficulties to resist protecting them. Anyway, protection produces investment distortions that damage governments politically through reduced efficiency and growth. Indeed, executive powers enjoy these types of accords to make engagements that are credible and avoid interest conglomerates from requesting greater trade blockades in the future.

Another model has been shaped by Staiger and Tabellini, providing evidence about the fact that worldwide trade agreements actually improve government credibility toward the private sector<sup>120</sup>. According to these two scholars, the production distortions that governments have to challenge are a direct consequence of time inconsistency encircling trade policy. Groups that could benefit from protectionism will enlarge too much and damage economy because governments have not the possibility to promise to avoid protecting them. Furthermore, as said by them, international trade agreements offer bigger reliability for executives than can propose domestic institutions because engagements made in the international frameworks – WTO or under Preferential Trade

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<sup>119</sup>Tornell A. (1991), *On the Ineffectiveness of Made-to-measure Protectionist Program*, in *“International Trade and Trade policy”*, Elhanan Helpmann and Assaf Razin, eds. Cambridge, MA.MIT Press: pp.66-79

<sup>120</sup> Staiger R., Tabellini G. (1999), *Do GATT rules help governments make domestic commitments?*, *Economics and Politics* 11(2): pp.109-44

agreements – force leaders and make sure that they do not make disproportionate concessions to interest groups.

In the 2002 an Indian scholar, Devashish Mitra, starting from the model proposed by Maggi and Rodriguez Claire demonstrated that the engagement issue for politician is more broad-spectrum that they theorize<sup>121</sup>. According to the author, the demand for a pre-commitment to free trade arrangements should not be guided by the prospect of goods misallocation lonely, as said by Maggi and Rodriguez Claire, or by the probability that costs will rise in the expectancy of protection. Requests for these kinds of agreements can follow when interest groups or governments meet resource expenses prior to lobbying due to actions made in the prospects of efficacious lobbying. Mitra with his work has shown that governments have to tackle high costs if it is not able to oppose unilaterally to protectionist forces. In this situation and under these circumstances, these costs could move governments forward international trade agreements. The role of domestic policies developed by Milner and Mansfield is similar to the one proposed by Maggi and Rodriguez Claire. In this case, governments are in the situation of time inconsistency problems face to face with the public and the trade interest groups. The latter are those who want to benefit from trade liberalization and this group includes importers, exporters and multinational industries or firms with a global market. If a government is not able to support these groups and the public, it will risk to be accused for negative economic conditions by the same public and the same interest trade groups that could develop the idea that these circumstances resulted because of the executive have accepted protectionist requests or have engaged in rent-seeking<sup>122</sup>. So, government have to tackle a situation in which there is the possibility that those groups and common people will attempt to force out them from office even when governments are not interested in or even have not accepted protectionist concerns. This condition creates a domestic political motivation for chiefs of executive to sign an international or regional trade agreements because these kinds of accords could grant a mechanism of guarantee. For certain aspects, the argument proposed by Milner and Mansfield is just the “reverse side” of the ones arranged out by the precedent scholars. The latter have focused the attention on protections concerns of interest groups and bad allocation of resources spending and

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<sup>121</sup> Mitra D. (2002), *Endogenous political organizations and the value of trade agreements*, Journal of International Economics 57(2): pp.473-85

<sup>122</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.26

production by them as a result of executive deficiency of reliable engagement. Instead, the former have emphasised the responses of the public and those groups to the possibility of government to engage protectionist measures. As said before, interest groups can play an important role in supporting trade liberalization or advocating protectionist measures. Mansfield and Milner propose a society with two distinctive sets of groups: the one who supported FTAs and trade liberalization and the other that oppose the first and desire protectionist barriers. Even if the authors do not develop a model about these groups in their theory, other scientist have done so. A model, that include that voters can force leaders and these one can be got out of their office after the political completion increases, has developed by James Snyder and Michael Ting. They demonstrate that with the addition of just only a second group with opposing preferences to a society that have just one interest group, there will be benefits both for voters and leaders. Indeed, leaders have more chances to be re-elected and the public is more capable to obtain their most preferred policies when a second interest group challenge the the influence of the first over the trade policy<sup>123</sup>.

Anyway, one of the most important theory about why leaders want to enter PTAs in its various forms has been elaborated by Mansfield and Milner in his work “Votes, vetoes and the political economy of international trade agreements”. They have developed a testable hypothesis on the determinants under which the costs and benefits, analysed above, are more probable to growth and to influence inducements for joining such trade agreements. The degree of the domestic political expenses caused by leader’s incapability to resist participating in disproportionate rent-seeking differs according to the country regime type. On one hand, autocracies find difficulties in comforting the voters about their purposes but there is less necessity for them to do so because the lack a regular confront among public and interest groups, that have the power to remove authoritarian leaders from their office. On the other hand, democracies are characterized by more considerable reassurance difficulties. Anyway, domestic political challenges may provoke the rise of political costs that leaders could alleviate through international cooperation, including the formation of free trade agreements<sup>124</sup>. This analysis focuses

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<sup>123</sup> Snyder J.M.Jr, Ting M.M. (2008), *Interest group and the electoral control of politicians*, Journals of Public Economics

<sup>124</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.42

the attention also on the role of the elections and indeed, it displays how international collaboration in trade is influenced by the control that the voters and interest groups exercise over political frontmen. This is a feature that change from autocracies to democracies. According to Dahl, one of the most important characteristics of democracies is the happening of regular and competitive election. Furthermore, Schumpeter points out that elections confer to voters the power over government that non democracies lack. Indeed, free elections have the biggest impact on the comportment of democratic leaders if the public and interest groups bear in mind policy selections made by leaders. Besides, elections could be found both in democracies and autocracies<sup>125</sup>. As said before, the difference between the two types of regime depends on the degree to which these disputes influence the government destiny: if the elections decide if executive retains the office, the country is democratic. On the other hand, if executive stays in office nevertheless the negative results of elections, the regime is non democratic. Anyway, the extent to which the elections influence the future of a government scale from high to low. These varieties of political systems and electoral competition modify the economic policies of executives. International trade agreements or regional ones arise from the economic improvements that leaders imagine to come from cooperation. Far weakly estimated but similarly important are the political gains that could influence the leader decision about the choice to cooperate or not and the electoral race shapes national political motivations. As the destiny of the executive become more dependent on regular election games, its leaders stem growing gains from PTAs, stimulating public officials to develop greater international collaboration on trade with other countries<sup>126</sup>. Therefore, the prospect that a country establishes a trade agreement increases as its local institutions develop more democratic. In their analysis, Mansfield and Milner explain that greater electoral obliges faced by democratic heads of government push them to be more supportive in the international framework in respect to the non democratic ones. PTAs have also the vital role to reassure societal groups in democracy with the task to ease anxieties about the fact that the public and free trade lobbying group have on the executive accommodating bigger protectionist requests. Furthermore, such trade agreements may carry information

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<sup>125</sup> Ghandi J., Przeworsky A. (2006), *Cooperation, cooptation and rebellion under dictatorship*, New York, Cambridge University Press

<sup>126</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.42

and free trade groups about the kind and the actions of leaders. Because of governments usually want to maintain power, in countries with fair electoral competition, they will strongly have interested to make arrangements in order to preserve or develop their political endorsement. But government could face time inconsistency problems that could lead them to approve some protectionist requests. Of course, voters and free trade groups can pressure government policies and select new leaders. Anyway, public and free trade interest companies could challenge an informational problems<sup>127</sup>. Indeed, they have not the ability of distinguish exact trade policy chosen by leaders, may not recognize adverse exogenous economic shocks or the extractive policies of the government. For example, an economic downturn could be caused by strong protectionist policies or by exogenous shocks due to global economic recession or crisis. Both events could take to higher prices for goods and services and citizens, that now have to pay more, could decide to not support the government issue, voting against in the following electoral race even if the executive have not endorsed protectionist measure. In general, the public and the median voter decide to punish the government not because specific policies but because a problematic economic depression. So, leaders would like to notice that poor economic performance is not the consequence of their extractive policies, thus decreasing the probability that will lose the control<sup>128</sup>. A government could choose to decrease trade barrier but also this choice could be time-inconsistency. Instead, taking part of a trade agreement with other countries may offer means to persuade doubtful public and trade interest groups, especially in democracies. A regional trade agreement may be the perfect solution because it can give reassurance to voters and trade interest groups that a liberal policy has been implemented and on the other hand it represents a cornerstone in the maintenance of open trade regime. In conclusion, joining a PTAs assure voters and these kinds of group, supporting trade that executives will catchphrase from overprotecting special interests and increase political support. On the other part, autocracies do not tackle these costs. At large, these types of regimes are less susceptible to these types of pressure. Even in the case they would be, voter cannot punish autocrats as public do in democracy. Additionally, it is less probable that public in autocracies distinguish whether the

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<sup>127</sup> *Ibi idem*, p.43

<sup>128</sup> Even if the public preferences for protection rise in the bad economic times, our results still hold. As long as the median voter is slightly less protectionist than the executive, the public will still be concerned about the executive relinquishing too much protectionist demands.

government has established and is enduring by an accord, because these types of regime lack of institutions that provide exact information to public like the ones in democracy. Autocrats are not interested in signing free trade agreements because they do not need to solve information problem and not need to have political support in order to be re-elected. On the same part, public does not worry about economic conditions that are going to define their life. According to McGillivray and Smith:

*“when the cost of replacing leaders is high [as in autocracies], the citizens do not replace leaders in poor [international] standing...When the cost of replacing leaders is low [as in democracy], citizens replace leaders who care caught cheating [on international agreement]. By doing so, citizens ensure continued cooperation...This desire to avoid cheating cooperation allows leaders to commit to maintain a level of commitment that the citizens themselves could not maintain”<sup>129</sup>.*

The model proposed by Mansfield and Milner does not exclude all autocracies from the formation of PTAs but it explains why determined political regime are more likely to sign a trade accord. Furthermore, the two scholars propose that autocracies generally are more probable to form these agreements for domestic reasons but they could be driven by economic factors as international benefits. Moreover, autocracies tend to establish PTAs with the aim of more superficial integration, with little trade obstacle diminution.

## **2. How can the literature be applied to the literature?**

Once main literature has been developed, it is worth to analyse and investigate research and issues of relevance but that are not part of model or that are the logic outgrowths of cited arguments and the unplanned developments motivating them.

One of the direct implication of Mansfield and Milner theory is that the leader political support should be shaken by the establishment of a free trade agreement. If PTAs support head of the executive to find a solution to domestic problems, then leaders who form them may appreciate a longer duration than those who do not. Especially in moment of economic downturn, the reassurance instrument that the establishment of PTAs provide

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<sup>129</sup> McGillivray F., Smith A. (2008), *Punishing the Prince: a theory of interstate relations, political institutions and leader change*, Princeton, NJ, Princeton University Press

could give to leaders more stability. On the other hand, voters through the creation and joy of PTAs could achieve that consciousness that economic bad times are not caused by leaders but are outcomes of exogenous events, beyond leader's power. This result may affect the public and interest groups, now less likely to put an end to the mandates of leaders and consequently to prolong their time in office. Even in this case, there are differences among variety of regimes. Among leaders that challenge a high level of political competition, as in democracy, leaders survive longer in office if they establish the agreements.

Another issues originates from their argument concerns the impact of political party segmentation on PTAs. According to Mansfield and Milner, leaders differ in their stress on "social welfare versus rent-seeking"<sup>130</sup> and that the majority of voters are not prepared about their government leader's true inclinations. Furthermore, voters are not capable to distinguish the correct trade policy that has been selected: indeed, they just watch the ongoing of economy and decide to support or not the executives as a consequence. One hint that is visible to the voter's eyes about their leader comes out from their partisan affiliation. Mansfield and Milner are sure that the partisanship could drive the probability to sign and – or – ratify a trade agreement. Because of their great need of reassurance on trade policy, left-wing parties could more expected to establish or join such trade accords. In the course of history, left-wing governments tended to be more capable to make interventions in the economy, usually proving protection. So, they need the reassurance mechanism of PTAs in order to convince voters that they are not protectionist. Instead, for what concern centrist governments or right-wing governments, the demand of this type of device is less pressing due to the fact that such executives are less probable to be trusted by voters and interest groups<sup>131</sup>. Another factor implied by the two scholars concern the attention posed on international economy by domestic actors. As said before, certain parts of the public and interest groups found a sign of reassurance when leaders decide to join a free trade agreement. this action lead both benefit for voters and for leaders, that prolonged their charge in office. Anyway, this conclusion may be more likely for those countries that are characterized by a wide exposition to trade. Leaders in countries that link their economics to trade, are tempted to turn PTAs to solve their political issues. On the same side, public and interest groups are more interested to trade

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<sup>130</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.63

<sup>131</sup> *Ibi idem*, p.64

policy in these kind of states. Furthermore, if the political competition is high, the process should be clearer. This outcome could be not true for autocracies, in which trade dependency effect is less strong because leaders are not interested in joying trade accords. In sum, trade interaction and regime types could modify the chances of entering a PTAs. Another extension of Mansfield and Milner theory states whether grades of political struggle among autocracies impact their probabilities of establishing and signing trade agreements. This idea is build on their idea that autocracies, even if participate in fewer PTAs, participate in any trade groups. As democracies, leaders in autocracies characterized by political competition can be forced from their office in respect to other autocrats and see PTAs as devices capable to reassure the public. Indeed, some autocracies, despite their leaders have less probability to lost their office, could need to support voters and interest groups seeking an international agreement because of the national political competition. The mechanism is similar to the one in democracy: the autocracies that are differentiated by a high level of political challenge will be more probable to sign a trade accords than their less competitive equivalents. This argumentation could be linked to the next issue. As said in the first chapter, all these types of economic agreements seek to push economic integration through developing and steadying the reciprocal access that each participant propose to the others' market. Various types of trade regime<sup>132</sup> are linked to different degrees of economic assimilation among participants. As a consequence, domestic political circumstances could guide the shape of accords that leaders of executive suggest. These national conditions should influence the decision of a leader to select a Preferential Trade agreement in order to reach the "minimal or substantial integration"<sup>133</sup> with member countries. According to their political national conditions, leaders rationally will estimate the optimal level of assimilation. For these reasons, democracies are expected to achieve deeper integration among participants. Today, it is fundamental to analyse two fundamental aspects of PTA formation:

- The degree at which PTAs are created internationally;
- The rate at which countries decide to participate in PTAs.

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<sup>132</sup> See Chapter One, "*What are?*", p.12

<sup>133</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.66



Both these rates are related with PTAs formation by countries pairs. Worldwide, scholars have studied determinants of these outcomes and have identified four systemic features that could influence this process. First of all, some academics have stressed the importance of effects of hegemony on PTA formation. As said by Kindleberger<sup>134</sup>, international economic strength is a collective good and the suboptimal quantities of it will be granted without a stable establishment. In order, regional trade agreements could be the results of the economic volatility bolstered by the lack or the deterioration of such a state. According to this hint, scholars assert that the ongoing wave of PTAs has been influenced by the United States policy of reaching these accords in the 1980s, when its economic influence decreased and the GATT has to face the stalemate of the Uruguay Round<sup>135</sup>. The other economic powers tried to reply in order to guarantee that they would not face economic disadvantages, contributing to the development of loose economic groups in North America, Western Europe and East Asia<sup>136</sup>. Economist and political scientists have discussed about the influence of hegemony – in the sense of the existence of a single country capable to control the entire international system - on the PTA formation: on one hand, some argue that this concept is not linked with the formation of international trade agreement<sup>137</sup>, while on the other hand others focus the attention on the influence of one country, but diverge about the nature of its influence<sup>138</sup>. The most influent theory of the latter group states that the absence of a strong hegemon pushes the creation of PTAs. Their evidence is that these groups are discriminatory and therefore averse to the keep an open multilateral trading arrangement. Similarly, the conservation of an open system is a collective good that without a stable hegemon would be undersupplied. The hegemon, due to its size, has motivations to grant collective goods

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<sup>134</sup> Kindleberger C.P. (1973), *The world in depression*, Berkley, University of California Press

<sup>135</sup> Pomfret R. (1988), *Unequal Trade: the economics of discriminatory international trade policies*, Oxford (UK), Basil Blackwell

<sup>136</sup> Gilpin R. (1975), *U.S. power and the multinational corporation: the political economy of foreign direct investment*, New York, Basic Books

<sup>137</sup> McKeown T. (1991), *A liberal trading order? The long-run pattern of imports to the advanced capitalist states*, *International studies Quarterly* 35(2):151-72

<sup>138</sup> Oye K.A. (1992), *Economic discrimination and political exchange: World political economy in the 1930s and 1980s*, Princeton, NJ, Princeton University Press

without giving importance to assistances made by the other countries. Even if academics think in different ways about the type of these motivations, they assert homogeneously the hegemon role decay decreases this state's involvement in the strength of the multilateral trade system and endorse the creation of preferential trade agreements. Of course, this is not the only motive about the proliferation of PTAs. The decline of the American hegemony has pushed other leading economic powers, like participants of European Union, to establish or join regional or preferential trade agreements in order to manage the worldwide economy. With the presence of smaller states in these regimes, there will be less probability to shape a series of more protectionist groups, to fix them to decisions about the arrangement made by leading countries and promote open international trading arrangement. Notwithstanding the widespread debate over this argument, few empirical tests have been done to determine the real influence of hegemony over PTAs. According to Gilpin and Krugman, the decline of U.S. control in GATT, WTO and ,broadly speaking, in the multilateral framework is the most important cause of the growth of PTAs. Also Baldwin has explored this analysis, combining the American element with the creation of the European Economic Community as the principal source of that "domino effect", capable to generate the last upsurge of regionalism<sup>139</sup>.

In recent times, few scholars have pay attention on the evolution of liberal economic reforms. Consistent with Simmons, regional trade agreements in all their forms are connected with these reforms because these kinds of arrangements can encourage eliminations of trade obstacles among participants<sup>140</sup>. As said above, theoretical researches on the establishment of PTAs often emphasis the interdependence among these agreements and countries. For what concern this argument, it is central to study if the PTA formation and proliferation are depicted by positive contamination<sup>141</sup>. Many scholars have discovered that the formation of trade agreement generate the growth of supplementary PTAs and that countries taking part of these foster other states to do the

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<sup>139</sup> Baldwin R. (1995), *A domino theory of regionalism*, New York, Cambridge University Press, pp.25-53

<sup>140</sup> Simmons B.A., Dobbin F., Garret G. (2006), *Introduction: The international diffusion of Liberalism*, *International Organization* 60(4): pp.781-810

<sup>141</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.74

same<sup>142</sup>. For example, the making of PTA could frighten countries that are left outside of the arrangements because the new economic accords may lead to the country a loose of competitiveness. It also could inspire the formation of a rival group due to the competitive advantage and benefits that an expanded market gives. Regional trade agreements are usual to form in response to one another and countries are tended to join these arrangements in reply, because this explosion diminishes the negotiating power of nations left outside. Through the history, all PTAs have been created in reaction of one another. During the period between the WWI and the WWII the proliferation of preferential trade accords was a consequence of developments of mercantilist policies and political challenges among biggest powers<sup>143</sup>. Even after the end of Second World War, the proliferation of PTAs has sought this path: indeed, it has been argued that the European Free Trade Agreement (EFTA) has developed as response to European Economic Community<sup>144</sup>. In this vein, many researches have noted that the upsurge of preferential grouping has piloted some developing nations to entry in commercial accords in order to assure a market access in an important and favourable foreign market.

As well as international political aspects analysed above, global economic factors influence the creation of PTAs. A part from trade creation and trade diversion, global business cycle appears to be particularly relevant. The type of its effect on the formation of trade agreements, nevertheless, is probable to be contingent on whether preferential groupings tend to reduce or intensify competitive pressure on import-competing firms<sup>145</sup>. In period of economic down-turns, the formation of PTAs could be pushed by the depression of demand for goods and services, decreasing revenues for firms and level of employment. In this situation, public and import-competing firms could be incentivised to ask for protectionist measures<sup>146</sup>. Participating in a PTA may represent a way for countries to deal with these and at the same time helping export-oriented firms through a

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<sup>142</sup> Pomfret R. (1988), *Unequal Trade: the economics of discriminatory international trade policies*, Oxford (UK), Basil Blackwell

<sup>143</sup> Eichengreen B., Frankel J.A. (1995), *Economic Regionalism: evidence from Two 20th Century Episodes*, North American Journal of Economics and Finance 6(2): pp.89-106

<sup>144</sup> According to Bhagwati, European integration has contributed both the formation of NAFTA and this spurred preferential arrangements in both Western hemisphere and in the Asia-Pacific region.

<sup>145</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.75

<sup>146</sup> Mattli W. (1999), *The logic of regional integration: Europe and beyond*, New York, Cambridge University Press

bigger and more important market access in a period of economic recession. Otherwise, some scholars affirm that global recession may influence negatively the creation of Preferential Trade agreements. Import-competing companies, wishing inter-continental liberalization in order to improve their domestic import penetration, in period of economic crisis could resist to PTAs creation because their descendent pressure is already focused on profit. Finally, it is worth to take in consideration the importance of global balance of power and its consequence on the establishment of PTAs. During the Cold War, the entire globe was split in two camps, integrated due to two alliances – the North Atlantic Treaty Organization (NATO) and the Warsaw Pact. In this period, agreements among countries from different camps were improbable and specifically its were regular only in the Western zone. As Gowa said, this bipolar structure has been one of the most important factor of influence about the creation and formation of trade agreements. In addition, the end of the Cold War has brought the eastern countries to redefine their economics and has affected their inclination to join arrangements<sup>147</sup>. Indeed, it is easy to note that in the 1990s and early 2000s there have been a rapid development of PTAs. The collapse of the Soviet Union has been fundamental. In 1949, Soviet Union and the eastern countries established the CMEA – Council of Mutual Economic Assistance – with the aim to reinvigorate trade among eastern countries without the western assistance. But with the fall of the Berlin Wall in the 1989 and the economic failure of the CMEA, those European countries were forced to find other trade partners, also among western countries. This wave was enhanced in the 1991 with the collapse of the Soviet Union. This event has lead to the creation of various nations that started to seek economic collaboration with other countries, pushing for the creation of PTAs.

### **3. What is missing?**

The literature has focused the attention only on PTAs or regional trade agreement but today, economic arrangements as the TPP or the Regional Comprehensive Economic Partnership are the most important for political and economic factors. Given the difficulties and the the scope of the present work, it was taken the decision to ignore econometric hypotheses. For what concern the economic aspect, there will be an economic evaluation of the likely economic performance of countries under the TPP

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<sup>147</sup> Gowa J. (1994), *Allies, adversaries and international trade*, Princeton,NJ, Princeton University Press

regime. So, in order to establish the determinants of Mega-regional accord, this thesis elaborates three hypotheses that are linked to domestic political factors. Evaluating this type of regional agreements is problematic because, as said before, are unnatural and has a significant impact on the global economy. Studying the factors under the creation of this arrangement could be important to analyse better the future implications of this on global economy, country economies and could be fundamental to explain the behaviour of countries in this field. The literature has not paid attention on such an event but it could shape the future of the world and of the multilateral arrangement.

## **Chapter three: Theoretical Framework**

As seen above, the literature about regional trade agreements is large and accurate. Nonetheless several scholars have investigated about the domestic and economic determinants of trade agreements, few academics have decided to focus their studies about how mega-regionals are established. Mega-regionals are recent phenomenon and as all the new subjects are difficult to analyse. The particularities of this agreement make them interesting but at the same time problematic to investigate. For example, the different positions around the worlds of participant countries – members come from different continents - make the “Gravity model Theory” obsolete and not useful. In this vein, a new theoretical framework in order to explain the countries love for this kind of economic accords and their widespread is required. First of all, it is important to investigate deeper why countries want to seek in Mega-regional accords. In the first chapter also, a little introduction about them has been made but it is not sufficient. So, this chapter will be divided in two sections. The first explores the general motivations under a country decision to establish this trade agreement. This has been divided in three parts: . The first will examine the affirmative and defensive reasons behind the country decision to establish or join a mega-regional. Then, there will be the exploration of the political economy of the rise of Mega Regionals, which it is going to clarify the political motivations under the birth of this phenomenon. Finally, it is worth analysing the economic impact of such agreements on both participants and not. Even if the systemic impact and a little also economic implication have been analysed in the first chapter, it is important to investigate largely on this matter because the importance of the subject. Today, economy is one of the most important political issue and, even if in this work it is treated in the hypotheses, remain a central part of the work. The second part of the chapter is dedicated to the core of this works: the hypotheses. These hypotheses take in consideration some factors of domestic politics, an area that researchers have not studied to much in order to find the determinants of mega-regionals. Domestic policy is fundamental because it may influence the political leadership, the action of the government and the mood of the public toward the agreement. This section is divided in three parts, according to the three theories developed and the following falsifiable hypotheses. These are fundamental in order to investigate the origins of mega-regional accord. Hypotheses would be tested in the next chapter through a case studies on the TPP and three countries participants: Vietnam, Japan and United States.

### 3.1 Why Mega-Regionalism?

Reasons behind the decision to establish or join a mega-regional arrangement are subject to nature of the agreement under negotiations, to the nations that would be involved and sometimes on the point in time the choice is being made to participate or not in the accord. Frequently, the decision to establish this type of group is made based only on geopolitical criteria. However, the final success of the negotiating talks and the long-term feasibility of the agreement depend on economic and commercial contemplations. This consideration is especially valid for the European Single Market – arguably the original Mega-Regionalism<sup>148</sup>. Ostensibly, while geopolitical factors could be considered as the heart of the agreement, the economic concerns are the most important factors that give impetus to the accord. In the case of the NAFTA, initially the most important elements of the accord have been geopolitical but rapidly became more trade oriented as the negotiations were launched and progressed. Certainly, calculus of economic gains is fundamental for the decision of a country whether to take part of a mega-regional. Today the most trade matters that are easy to discuss were arranged during the first eight multilateral talks under the GATT or in the first bilateral free trade arrangements, issues left to be negotiated use to be more difficult ones – left by the other agreements –or new subjects. Consequently, for most of all important trade agreement – it is the case of mega-regional agreements – strong economic and trade related reasons from all parties are the real precondition. Indeed, it is possible to assert that even if geopolitical motivations are fundamental, its are not sufficient to make end to negotiations or implement accords. According to scholars, there are economic and commercial motivations that push countries executives to seek mega-regionals. These reasons can be both offensive and defensive naturally.

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<sup>148</sup> Schwab S., Bhatia K. (2014), *Why Mega-regionals?* in *The The rationale behind the Mega-regionals- two views* in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

### 3.1.1 Affirmative reasons

As said in the first chapter, the most important market access that countries have achieved under the umbrella of GATT/WTO was the Uruguay Round. Then another important cornerstone may be the Trade Facilitation Agreement of 2013 but its importance and effectiveness depends on his implementation. Beyond that, nations that have decided to base their economy on trade liberalization have mostly had to rely on their own action. With the stalemate of WTO, the device to ensure objectives as the export-led growth or the expansion in international markets has changed from multilateral negotiations to regional and mega-regional agreements. In particular, public and private sector motivations. First of all, countries that join a mega-regional aim to access or improve their preferential access to new markets<sup>149</sup>. Nations want to pursue trade agreement in order to make possible to goods and services to entry in a new bigger market. Indeed, even after the eight rounds of GATT/WTO tariff peaks and border measures remained. In the case of TPP, all countries involved are willing to improve admission to at least one new nation market, and in some cases, some new markets. To the degree that improved access accords are reduced to a limited number of states or ignore the principal trade antagonist of a country, preferential groupings usually offer mechanisms of preferential access. Just to make an example, for some countries in the TPP talks<sup>150</sup>, the possibility to entry in the U.S. market has been a source of attraction. Even the Japanese access market has been a catalyst of RCEP's start of negotiations and also provide an impetus for ASEAN+3<sup>151</sup> negotiations talks. Another reason behind the decision to join a big regional agreement is linked to the economic incentive in an era of constricted budgets. In particular, this was one of the most important factor behind the TTIP: indeed, this was an opportunity to push the economy of industries of both sides of the Atlantic rims in a period of economic downturn. Furthermore, both the European Union and the United States were not capable to make use of heavy financial stimulus sets or to improve monetary stimulus.

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<sup>149</sup> *Ibi idem*

<sup>150</sup> For example, Vietnam and Malaysia.

<sup>151</sup> ASEAN Plus Three (APT) is a forum that functions as a coordinator of co-operation between the Association of Southeast Asian Nations and the three East Asia nations of China, Japan, and South Korea.



Even if low tariffs are already established and relevant FDI already occur, the removal of obstacles at the borders and regulatory disagreements would have permitted to leave billions of dollars/euros in the wallets of small and medium sized and bigger importing and exporting firms. These mega-regionals are also proficient to refresh and upgrade the precedent accords. As said before, the initial stage of TPP was propelled by the “P4”<sup>152</sup> and these countries contacted the United States for joining their goods-only accords. For them – in particular Brunei – it was a chance to develop and improve the capacity on existing talks and achieve critical mass<sup>153</sup>. Instead, establishing this mega-regional, the United States with Canada and Mexico noted this opportunity to revitalize NAFTA. Sometimes, such as trade agreements are used to reach greater ambitious accords. While the WTO apparently obstructed by a governance structure that permits a handful of members to not achieve consensus and impede all but but “lowest common denominator outcomes”, mega-regionalism but also other kinds of grouping - like sectorial plurilateral agreements - are able to give the chance for similar mind countries to collaborate in order to accomplish greater order treaties. As you can note in the package of the TPP<sup>154</sup>, these accords may include provisions that establish more market access than their WTO equivalents through the cut of tariffs in addition to the offer of substantial non-tariff concessions or the launch of more concrete rules of origins.

The real source of power of such creatures is their versatility and force. For example, in the case of TTIP, the most important aim of both European Union and United States has been the increase the competitive outcome for firms and industries. The specified ambition of reaching some instruments of regulatory convergence is coherent with the desire of classic regional trade agreements to improve economies of scale, but in this case with the additional consequences for competing with standards being “cultivated” away. One of the most important present that these mega-regionals are giving to the economic

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<sup>152</sup> See Chapter One, *State of play*, p.19

<sup>153</sup> Schwab S., Bhatia K. (2014), *Why Mega-regionals?* in *The Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) – Key Issues and Potential Impact on Members*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

<sup>154</sup> See Chapter One, *Elements of TPP package*, p.22

governance is that they are “keeping the bicycle moving forward”<sup>155</sup>. Today, trade enthusiasts, sharing the principles of open markets, trade open trade and open institutions could be considered as devotees and this vacuum of progress and actions in the multilateral framework is going to “pain” them. Countries like Chile has tried to reply to this stalemate negotiating several bilateral agreements, being the engine of the P4 and discussing the establishment of the Pacific Alliance with Colombia, Mexico, Peru and Costa Rica.

For what concern these affirmative motivations, it is fundamental to asset that the reasons described above do not have connection with the level of economic growth, the size of the GDP or the potential of national firms since nations involved in this phenomenon are various and different. Otherwise, they seem to share the same economic philosophies, leadership and national aims. Today, it is impulsive to estimate what characteristics could or could not be connected with triumph.

### **3.1.2 Defensive reasons**

Some scholars assert the vital role of defensive reasons in order to explain why countries seek to enter in mega-regional agreements. While commercially feasible and economically appreciated trade agreements accords are too difficult to reach on the basis of defensive stimulus alone, clearly defensive motivations do clarify nations pronouncements to take part and may eventually hold up or even overthrow the greater motivations pursued by others. Some countries fear of being locked out. Behind the notion of “competitive liberalization”, there is the idea that states will collaborate in trade liberalizing talks when they note negotiations taking place around them that generate the dangers they eventually discovery themselves outside at a competitive benefit. For this reason, on of the original aim of the U.S. to decide to promote the TPP with the other initial countries in the 2008 was related to the fact that the American country was being locked out of an ASEAN+3 agreements, whose talks was already started. For a country as the New Zealand, the TPP represents an opportunity to tackle the test of having two big markets and allies sharing an FTA with each other. On the other hand, for countries

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<sup>155</sup> Schwab S., Bhatia K. (2014), *Why Mega-regionals?* in *The The rationale behind the Mega-regionals- two views* in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

such as Canada and Mexico, the most important reasons for joining the TPP has been to not let that the benefits of an old agreement, as the NAFTA, would be eroded by the new agreement. Finally, mega-regionalisms could help to establish rules now than to comply to them later. A part of academics think that this reason is just a deviation of the fear of being locked out, but linked more to the rules than to the market entry. As asserted by mostly of defensive promoters, when a state is inside a mediation, it can simply be pleased through the slowdown of the negotiations by performing as a productive contributor.

In this situation of worldwide trade due to the lack a fresh agenda for WTO, other forms of agreements and mega-regional accords could represent the future and the expected path taken by compatible countries in a globalized globe. These kinds of agreements offer mechanisms in order to ease existing arrangements of trade and to create new ones. Some of them, if constructed with open architecture, embody the possibility to build a new multilateral “structure”. In order to evaluate the reasons why executive want to join mega-regionals, it is worth to analyse the political economy of this new phenomenon, that could affect irremediably the global commerce.

### **3.1.3 The political economy of the upsurge of Mega-Regionalisms**

Currently, academics of political economy of preferential grouping are discussing about the negative and positive effects of mega-regionals. Other are studying the motivations under the rise of this phenomenon. According to Baldwin, one of the theory capable to explain the rise of mega-regionals is the domino theory, arguing that as a group of countries grows, likeminded countries may benefit joying the agreement and furthermore deliver better arrangements to secure deals<sup>156</sup>. But theory is not enough to analyse completely mega-regionalism. For example, geopolitics has contributed to the rise of this singularities<sup>157</sup>. After the events of 11 September 2001, the world has lived a decade of transition. Indeed, for the first time after the end of the Cold War, the United States has suffered a light decline, while emerging countries like BRICS developed their economies

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<sup>156</sup> Baldwin R.E. (1997), *The causes of Regionalism*, World Economy 20(7): 865-88

<sup>157</sup> Wang Yong (2014), *The Political Economy of the rise of Mega-Regionals*, in *The The rationale behind the Mega-regionals- two views*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

and accelerated growth. Even if the American executive has always denied the presence of geopolitical reasons under the born of TPP and TTIP, scholars and economists believed that Washington is worried about the possibility to lost influence in other continents like the Asian one. In particular, Wang asserts the American preoccupation about Chinese influence in zone<sup>158</sup>. For this reason, the Obama administration, after it came to power, started a new policy in the area<sup>159</sup>. In the case of TPP, U.S. supporters see the mega-regional accord a way to decrease the greater Chinese control in the East-Asia economic block. The establishment of the President Obama saw mega-regional agreements as devices in order to control and evaluate the centrifugal tendencies of its partners – Japan but South Korea and Australia in particular – that have been attracted by the Chinese economic development. Anyway, closer trade interconnection with the Chinese power have stimulated American allies in East Asia to seek also other ambitious cooperation programs that included the exclusion of the United States. In this context, it is easy to understand the American will to achieve the Japanese full participation in the TPP. As said in the first chapter, U.S. and Japan together account for 90% of the GDP of all TPP participants and it is understandable the American commitments toward the “East-Sun empire”. A Japanese participation will ease tighten security alliance between the two superpowers and will able to bring along South Korea<sup>160</sup>. But geopolitics alone is not sufficient to elucidate the political economy of counterparts of TPP. One of the aim of such accords is to meet the liberalization of most develop participants of WTO. Due to the new standards imposed by new types of agreements, developed nations may exploit the potential of commerce and investments that today are limited by rules imposed by WTO and precedent bilateral agreement. As said by Bollyky and Bradford in the 2013, the 80% of gains from the TTIP would have depended on the reduction of regulatory inconsistencies from the European and American rules on matters going from food safety to car parts, including market entry in the sector of pharmaceuticals and agricultural

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<sup>158</sup> The “pivot” to Asia policy contains an economic element, centred on TPP, and a military one, focused on “rebalancing” US forces towards Asia. Democrats and Republicans in the US differ only in the emphasis they place on the two elements of the American pivot: Democrats tend to focus implications for economic interdependence as the basis of international relations, while Republicans tend to emphasize military power.

<sup>159</sup> Wang Yang (2013), *The Politics of the TPP Are Plain: Target China*, Global Asia, Vol.8, No.1, 2013:54-56.

<sup>160</sup> *Ibi idem*.

goods<sup>161</sup>. At the same time, according to the Centre for Economic Policy Research, such an agreement like TTIP would be developed in an annual increase of GDP in the European Union of 68 billion to 119 billion euros by the 2027 and a similar growth – from 50 to 95 billion of dollars – in the United States<sup>162</sup>.

Furthermore, in the current situation for the global trade, mega-regional agreements are representing the will and purpose of the European Union and the United States to keep the control on regulations applicable to commerce and investment in the new century. TTIP and TPP would have ensured the role of “standard makers rather than standard takers”<sup>163</sup> in the worldwide economy. Consequently, reassuring producers around the globe still is under the control of U.S.-EU standards and they would establish the international “rules of the road”<sup>164</sup>. In the previous decades, the most important players in the multilateral framework influenced negotiations in their final stages. Anyway, when Doha Round was launched, most of developing nations, asserting that developed countries have not totally implemented their obligations to open their market, wanted to focus the negotiation talks on development questions. Because of the several postpones of the end of the Doha Round, United States has started to accuse China and other big developing countries to create a stalemate in the round because they do not want other market-open compromises. Taking this experience as example, the U.S. has experienced a new policy, entering both in FTAs especially in East Asia and the TPP. The Obama administration has focused the attention on new topics as environment and protection of labour rights. This time the two superpowers have found a common ground to deal with opposition from developing economies, which are disputing their “domination of trade rule making control”<sup>165</sup>. In this context, the President Obama has announced the launch

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<sup>161</sup> Bollyky T.J., Bradford A. (2013), *Getting to Yes on Transatlantic Trade*, Foreign Affairs

<sup>162</sup> Francois, J. (2014), *Reducing Transatlantic Barriers to Trade and Investment*, An Economic Assessment, March 2013. Available on the EU website: [http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc\\_150737.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf)

<sup>163</sup> Bollyky T.J., Bradford A. (2013), *Getting to Yes on Transatlantic Trade*, Foreign Affairs

<sup>164</sup> *Ibi idem*

<sup>165</sup> Wang Yong (2014), *The Political Economy of the rise of Mega-Regionals*, in *The The rationale behind the Mega-regionals- two views*, in “*Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?*”, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

of TTIP negotiations with EU – even today it may be considered a failure. Both TTIP and TPP seek the same logic, trying to offer American mechanisms to have a decisive voice over trade rules.

### 3.1.4 The economic implication of Mega-Regional agreements

Using the words of Lawrence, mega-regionals agreements should not be considered as “big free trade agreement” but as “deep agreements”. According to the scholar, PTAs or FTAs are “shallow agreements”<sup>166</sup>. As said in the first chapter, mega-regional accords do not cover only trade issues or tariff measures but mostly go much deeper in order to write regulations that reinforce worldwide value chains. In this case, the type of preference that is going to be created is the one that combine the hard of the shallow versus deep distinction<sup>167</sup>. Elimination or reduction of preferential tariffs create without any doubts discrimination against third nations. Graver -than-tariff reforms have more effects that can be categorized in three groups<sup>168</sup>:

- Hard preferences as the imply discrimination
- Soft preferences as the one that lack discrimination technology
- Non preferences, for example the modifications that work as multilateral liberalization.

It is important to start from the first group. For example, today in the United States the tariff on men’s polyester cotton shirt is 25.9%<sup>169</sup>. With the TPP this duty would be lower

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<sup>166</sup> Lawrence (1996), *Potential effects of the proposed transatlantic trade and investment partnership on selected developing countries*, Centre for the Analysis of Regional Integration at Sussex (CARIS), University of Sussex, Brighton, UK

<sup>167</sup> Baldwin R. (2014), *The economic impact*, in *The impact of Mega-Regionals in “Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?”*, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

<sup>168</sup> *Ibi idem*

<sup>169</sup> Global Trade solution, Duty calculator.

<https://www.dutycalculator.com/dc/114781111/clothes-for-men/t-polos/shirts-of-woven-man-made-fibres/import-duty-rate-for-importing-men-polyester-cotton-shirt-from-bangladesh-to-united-states-is-25.9/>

to zero for Vietnam but not for China. This outcome would be a victory for Vietnam based industry and a fall for Chinese one. The benefit for Vietnam is trade creation while the loss for China is the trade diversion. Some scholars during the 20<sup>th</sup> century thought that this was only important to come to mega-regionals. Today, it is important to state that mega-regionals like TPP would create new duty inequities but not in a big quantity. Taxes presently in force among mega-regionals are already low, and, in the areas where its are high, cover just a quantity of the total of trade. In some cases, tariffs are probable to be omitted from the final draft of a treaty for political motivations. Another example may be set by the duties on Japanese rice or American dairy, that are improbable to be removed by the Transpacific Partnership. Deeper-than-tariff regulations in deep RTAs do not demand to create hard discrimination. Taking as example the FTA between Peru and United States, it is possible to note a likely discrimination in this words taken by the economic accord:

*“Each Party shall ensure that enterprises of another Party have access to and use of any public telecommunications service, including leased circuits, offered in its territory or across its borders, on reasonable and non-discriminatory terms and conditions.”*

This could seem a hard discrimination but it is not. The point is quite impossible to omit third party countries from this guarantee. In this case, “discrimination technology” misses but, legally and managerially, it is very difficult to shape rules of origins that recognize the nationality of a modern company. As established by FTA, a “firm of a Party” is a firm instituted or arranged under the law of another party like the one controlled by a person of other party. To make an example, Toyota U.S.A. automatically be certified for the “preference” in Peru since it has been constituted on the American soil. Simply, there is a preference on the table but not a big discrimination. Indeed, a third nation firm may profit from the preference. This example is not a coincidence. Most of the establishments in mega-regionals will provide instructions for behaviour of companies, services, intellectual properties and capital. In many cases, “effective discrimination technologies are not available”<sup>170</sup>. As said before, in the on-going world it is very difficult to determine

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<sup>170</sup> Baldwin R. (2014), *The economic impact*, in *The impact of Mega-Regionals in “Mega-regional Trade Agreements Game-Changers or Costly Distractions for the World Trading System?”*, Global Agenda Council on Trade & Foreign Direct Investment, World Economic Forum

the country of origin of services, capital and firms. Benefits generated by such agreements on these topics will involve soft preferences rather than hard ones. The rules of origin for deep RTA arrangements are comfortable to border on and are thus “leaky”<sup>171</sup>. Most of the promises in the mega-regionals look like unilateral liberalization that just happen to be guaranteed by an RTA. Other supplies in deep RTAs do not arrange preferences at all. While several mega-regionals agreement can be categorized in terms of preferences, understanding the influence of regulatory convergence need a different attitude.

Following the paths of the first mega-regional – the European Single Market programme - the harmonization of several different regulations and standards is the main aim of both TPP and TTIP. Thank to the familiarity with the Single market regulation, today it is possible to consider the influence of regulatory convergence in such agreements. One of the most important problem is the creation of supplement costs because of different national standards. For example, expenses of taking goods into compliance with not homogenous national criteria and obtaining documentation. As said before, in the WTO language, these are named technical barriers to trade, or TBTs. Harmonization could reduce expenses, but differently for each country. If a standard is implemented, companies in the standard-getting nation catch lower-cost-entry but it may be challenge a higher cost if the nation have to adopt a new standard. . For this reason, regulatory convergence regulations have to do nothing with hard-preferences view. While hard preferences benefits more the members of a particular agreement, regulatory convergence may promote trade among participants and imports from outside countries. According to Francois, the incredible fact of regulatory convergence regulations goes one step further – such regulations can actually improve exports from regional trade agreements to countries that do not participate in<sup>172</sup>. It is possible to note this in the figure 2 due to red arrow from Mega-regional nations to third nation like China. In the case, the classic example could be lead by the European Union Global System for Mobile communications standard. When 300 million European consumers adopted this standard, many non-EU nations incorporated it as well. This helped Nokia and other EU firms contest in third nations. EU regulatory convergence assisted EU companies win the global standards race. More largely, regulatory convergence in areas the size of the TPP or TTIP

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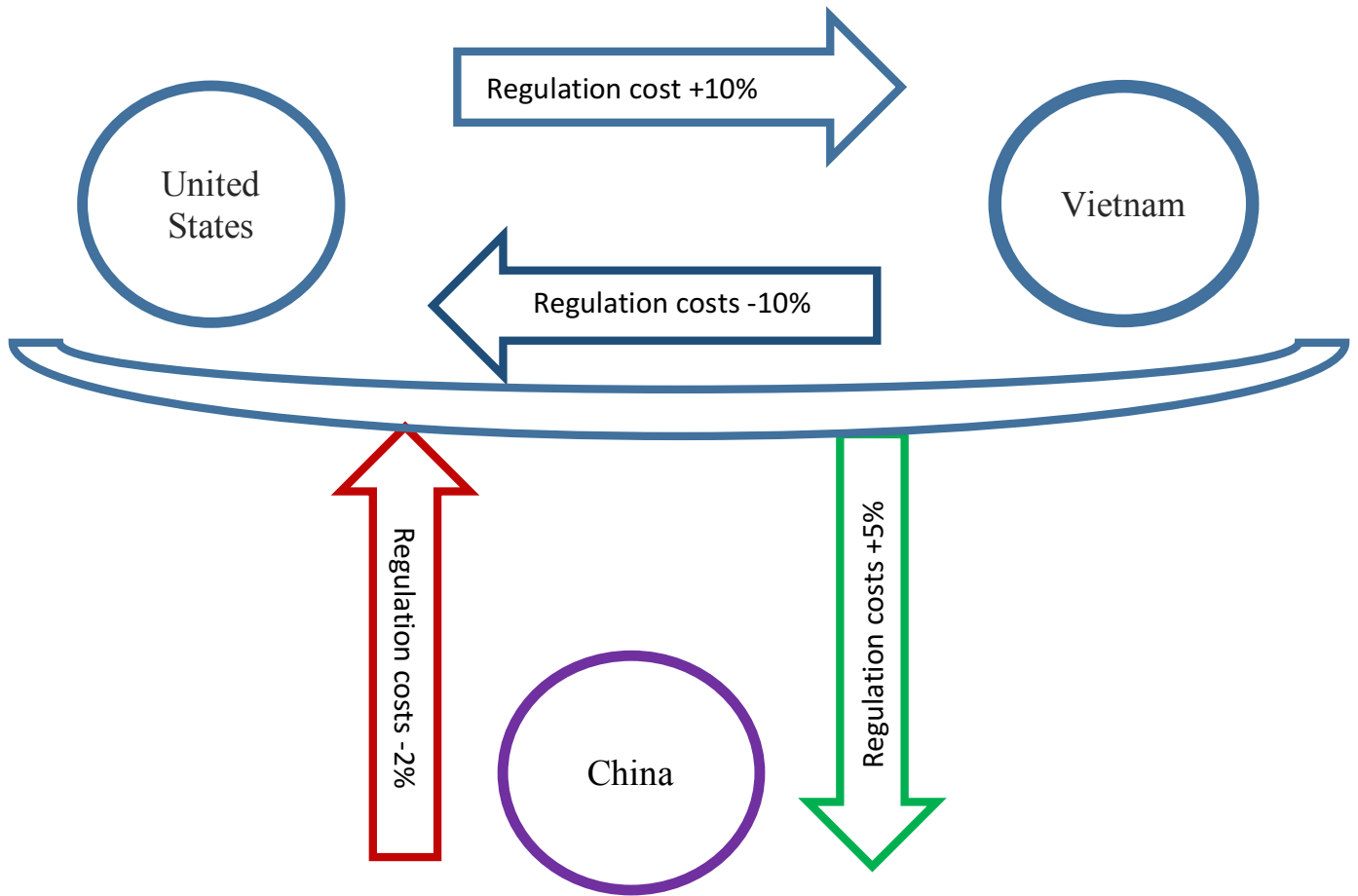
<sup>171</sup> *Ibi idem*

<sup>172</sup> Francois, J. (2014), *Reducing Transatlantic Barriers to Trade and Investment*, An Economic Assessment, March 2013. Available on the EU website: [http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc\\_150737.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf)



inclines to conduct regulatory practices in accordance even in third nations. Switzerland and Norway, for example, are not associates of the EU but adopt EU Single Market standards as they appear. In this figure, the arrows indicate the reduction in regulatory-linked trade costs among participants. In this case, United States, China and Vietnam are taken as examples. Significantly, this denotes that companies outside the mega-regional accord may profit due to the access of all member markets with one standard. As you can see in the Figure 2 it is showed by the red arrow links countries inside the mega-regional with one outside. By analogy, it could be the same if at the same time, thin-RTA participants reduced tariffs themselves and lowered against outside countries.

**Figure 4: Regulatory Convergence: Illustration of Trade Cost Effects**



## 3.2 Domestic politics and Mega-Regional agreements: Hypotheses

How is it possible that domestic politics drive the creation of international agreements and how do these outline domestic politics? These issues cannot be solved in separation because national executive could form or join international agreements like mega-regional to push their domestic interests<sup>173</sup>. However, empirical studies on the positive effect of international arrangements in the political calculation of leaders are limited. Although scholars have acclaimed the profits that international agreements could lead, on-going works have not examined why leaders participate in intra-continental trade arrangements at specific times. In order to make this work more accurate, in this section there will be the explanation of three develop hypotheses based on the interaction of domestic preferences and the ratification and sign of international agreements like the mega-regional accords. First of all, this section focuses the attention on the role of veto players and their interaction with executives in the agreement negotiations. Then it is worth to analyse an economic aspect of domestic politics, giving importance to the agricultural sector. This is the most famous area in which there is a great opposition to liberalization and the most curious to explore. Finally, it is important to link the need of economic reforms by government and the establishment of international agreement. How can a Mega-regional support reliable assurance to reform? It is the question in the last section and this work will try to answer through the formation of a falsifiable hypothesis.

### 3.2.1 Veto players and Mega-Regional deals

According to Mansfield and Milner, regime type is an element that shape the decision of a government to enter in a preferential trade agreement and, in consequence, in a mega-regional. In addition to this idea, a government have to face other decisions in order to join such an agreement. One of this include a scrupulous analysis of domestic transaction costs that executive faces in seeking an international trade agreement. As we know, to make negotiations and arrangements effective, it has to be ratified by veto players<sup>174</sup>. The

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<sup>173</sup> Poast P., and Urpelainen J. (2013), *Fit and Feasible: Why Democratizing States Form, Not Join, International Organizations*, International Studies Quarterly

<sup>174</sup> Yarbrough B., Yarbrough R.M. (1992), *Cooperation and governance in international trade: the strategy organizational approach*, Princeton, NJ, Princeton University Press.

work to convince these veto players to endorse the accord is as fundamental as the negotiating satisfactory terms with other participants. One can conceive of transaction costs as reproducing the total a government would require to distribute to all veto players to consent the mega-regional accord. The bigger is the number of veto players, the higher will be the cost of ratification and transaction costs of collaboration. All kinds of governments have veto players, but they differ on the basis of the grade of democracy. So, two are the main aspects of the governance system:

- The extent of political competition and
- The degree to which leaders tackle checks and balances<sup>175</sup>.

Indeed, political leaders have to challenge political completion through elections and veto players reproduce various restrictions on leaders, namely, the degree of check and balances in the political establishments of a nation. At the basis of the theory of this work there is the assumption that the number of veto players influence the skill if political leaders to endorse their favoured policies. Typically, democratic regimes use to have a bigger number of veto players than the other regimes. Of course, even in the autocracies, there are groups with different preferences that challenge to influence policies of the executive. Commonly, veto players are represented in the institutions as the party opposition, judiciary organs and local governments in federal country. They have the power to block or modify policies preferred by the executive. Check and balances endorsed by these institutions boost the degree of political competition. However, political struggle from a huge number of veto players is not a benefit for international collaboration. Instead, this condition obstructs mega-regionals by levitating the national transaction costs for leaders.

Indeed, like domestic programs, also trade policies is influenced by domestic veto players. Such factions have to ratify the policy selections made by the government and comprise a mix of interests in institutional roles that make them capable to block the policy. This attention to veto players permit to this work to integrate interest groups in the analysis while guiding consideration to the most important political groups. Anyway,

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<sup>175</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.56

interest groups are not at the centre of the examination. This work will follow existing model of veto players in asserting that interest groups influence trade policy indirectly<sup>176</sup>. They usually do this influencing the preferences of the government, since the leader needs their help to stay in the office. The government position *ex ante* mirrors the impact of politically relevant interest groups. Furthermore, these preferential groups have indirect effects through veto players<sup>177</sup>. This theory supposes that interest groups act through political parties and the leaders of such political conglomerates compose executive, the legislative power and also the opposition. For this reason, interest groups are indirectly comprised in our explanation because of their influence on the inclinations of the executives and parties.

Calculated contact among veto players and the government is fundamental to the establishment of mega-regionals. In several occasions, there are clusters among the public that have both preferences that are different from the political leader and the institutional power to oppose an international agreement or avoid its implementation. Veto players have to approve policy change, included the participation in a mega-regional. Formally, the head of the executive power is often obliged by national constitutions to get the endorsement of the legislature for international agreements, implied mega-regional accords. Consequently, government have to find and negotiate an agreement that should be suitable to the majority of the legislative powers, “either a simple plurality or some supermajority”<sup>178</sup> contingent on the subject area and the nation. To make an example, in the United States, any accord negotiated by the President have to be ratified by 2/3 of the Senate. For this reason, taking home an accord that it is impossible to ratify will lead to costs – both domestically and internationally - for the government. The leader of the executive should forestall the reaction of several veto players to the planned agreement and guarantee it is domestic satisfactory. At the same time, ratification could be less formal<sup>179</sup>. In the authoritarian regimes, changes in trade foreign policy need the

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<sup>176</sup> Henisz W.J., Mansfield E.D. (2006), *Votes and vetoes: the political determinants of commercial Openness*, International Studies Quarterly 50(1):189-212

<sup>177</sup> Mansfield E.D., Milner H.V. (2012), *Votes, vetoes and the political economy of international trade agreements*, Princeton University Press, New Jersey, p.56

<sup>178</sup> *Ibi idem*, p.57

<sup>179</sup> *Ibi idem*

sustenance of groups like the military groups or local government. It could occur also in democracies: if the political leader need to to renew domestic rules and norms in order to realize the ratification of the agreement, even if no formal vote is needed, the legislative vote on any required legislative modifications turn into a vote about the economic accord.

Scholars can assert that leaders may shape a mega-regional in ways to obtain the consent of veto groups. Indeed, government could modify the accord during the negotiations creating flexibility, especially in the segments particularly opposed to veto groups or directly excluding from the mega-regional agreement all the points that are opposed the veto players. In this way, an executive could discuss any agreements sure that any veto groups would oppose it. Academics have recommended that governments should act in response to domestic political circumstances when they negotiate an agreement<sup>180</sup>. Nevertheless, there are limits to such behaviour:

- First of all, an optimal executive cannot believe to negotiate with success whatever conditions its veto groups need, since foreign countries have to sign and ratify the accord. There is the probability that they want precisely those allowances that veto players contrasted most brutally. For this reason, Pevenhouse has shown that the veto players affect the authorization of the accords, even after accounting for their consequences on the accord itself.
- In second stance, as the number of veto players increases, the requests of these groups for barring or elasticity also growth, making it more problematic for the executives to reach an ideal agreement with its foreign associate. Therefore, as the number of veto groups rises, the transaction costs of an international agreement are more probable to increase, diminishing the possibility to establish an important trade agreement. Even assumed that the design, negotiations and ratification of mega-regionals are not independent events, veto groups are likely to influence these events because of the transaction costs that they may enact at the ratification round.

Suppose that the executive could offer in exchange something appreciated to the veto players to modify its ratification decision. This is the most important device to measure of transaction costs suffered by the executive in order to obtain the agreement ratification.

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<sup>180</sup> Rosendorff B.P., Milner H.V. (2001), *The optimal design of international trade institution: uncertainty and escape*, International organization 55(4):829-57

If such inducement is permitted, an increase of veto players still rises the transaction costs challenging a political leader. Furthermore, as more veto players are put in, more the government have to pay for all groups and increase the difficulties that the government have to face in ratify the accord because the chief executive cannot bribe all the veto groups.

Anyway, other reasons linked the ratification of mega-regionals and the veto players. Indeed, they may influence the amount of time needed to conclude and approve the agreement. At the beginning of international negotiations, leaders comprehend the degree of domestic veto players that have to challenge. According to this theory, when the number of veto groups increases from the date a mega-regional is authorized to when it is ratified at home, postponement should rise longer. So, it is possible to assert that the growing number of veto players could provoke delay in the domestic ratification after that the agreement has been joined. According to Martin and Vanberg<sup>181</sup> assert that the increasing ideological distance among factions and the growing number of parties included generate more delay between the end of an election and the formation of a government. It is the same for the conclusion of the *iter* of a mega-regional agreement. In order to clarify better this theory, it is possible to assert that the increasing numbers of veto players are more probable to lead to huger time between the sign of the agreement and the ratification, keeping other features constant.

Now, it is important to find the way to evaluate the influence of veto players in order to secure this theory. The only possible way is to develop an hypothesis that will be tested in the next chapter with a case study. According to all the reasons above, the more ideal hypothesis is:

*H1: As the number of institutional veto players increases, the possibility for the government to establish and ratify the agreements decreases.*

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<sup>181</sup> Martin L., Vanberg G. (2003), *Wasting time? The impact of ideology and size on delay in coalition formation*, British Journal of Political Science 33(2):323-32

### 3.2.2 Agricultural sector and the influence on Trade agreements

According to Shmitz, the agriculture sector is particularly distorted. Indeed, scholars assert that profits from trade in this field may not happen at all, even if honestly large trade movements<sup>182</sup>. In addition, in countries where executives are delivering direct grants to exporters, there is without any doubts a reason for producers to struggle to safeguard their rents from protectionism that a potential trade agreement – bilateral or inter-continental – could devastate<sup>183</sup>. Thus the main idea behind the theory of this work is that the production of agricultural products itself does not lead to postpone or block the formation of mega-regional agreements but rather that the extensive use of protectionist devices to protect agriculture, joined with the following hurt of their removal, are what lastly make countries with big agricultural segments desist from liberalization. Without any doubts, the perfect variable to test a possible hypothesis for this theory would be a compute of how huge the distortion each nation was commanding with their protectionist devices<sup>184</sup>. Even if it is theoretically thinkable, it could be impossible in practice, given the aim of this work. Sometimes, agricultural goods are “covered” by non-tariffs mechanisms like import quotas, export subsidies, monopolistic state trading and sanitary limitations<sup>185</sup>. This may favour any effort at developing a precise measure of market distortion for a single nation into a challenge. This may lead to “Herculean” effort. In order to find a more controllable measure, the decision was taken to simply comprise the dimension of agricultural sector in selected countries. The reason behind this choice is that as the significance of the agricultural field develops in terms of Gross National Product, the more likely country will be to arrange protectionist devices on trade to counterweight the worldwide market alterations that exist. Although WTO allows for certain goods to be excluded from the terms of trade agreements among member

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<sup>182</sup> Schmitz A., Sigurdson D., Doering O. (1986), *Domestic Farm Policy and the Gains from Trade*, American Journal of Agricultural Economics 68 (4), 820-827.

<sup>183</sup> Lusztig M. (1998), *The Limits of Rent Seeking: Why Protectionists Become Free Traders*, Review of International Political Economy 5 (1), 38-63.

<sup>184</sup> Vomocil J. (2011), *Domestic Determinants of Preferential Trade Agreements*, Research Paper of Clemson University

<sup>185</sup> Hillman J.S. (1978), *Nontariff Barriers: Major Problem in Agricultural Trade*, American Journal of Agricultural Economics 60 (3), 491-501.



countries, it still asks for the elimination duties and other restrictive provisions of trade on significantly all trade among participants of the trade accord<sup>186</sup>. Therefore, if the previous statement grasps, as the agricultural sector of a state growth larger, it also becomes more problematic to observe the WTO provisions. Thus, if a country wants to preserve protectionist measures, they must do so on extensive Most favoured nation basis, and they will be less probable to allow preferential terms to the trade associate. Obviously, a wide term like – large quota of GDP – leaves huge margins for clarification. Of course, agricultural sector majorities and pluralities should be comprised in this group, but thank to the development and modern technologies, developed nations could provide a sufficient quantity of foods for their citizens with only little portions of GDP dedicated towards farming<sup>187</sup>. To make this assumption stronger, it is important to assert that three of the largest “offenders” in agriculture protectionism – European Union, United States and Japan – have less than the 5% of the GDP for the agricultural sector. In order to test our theory, the hypothesis develop is:

*H2: Economies of governments with large portions of GDP focused in the agricultural sector will be less likely to form PTAs.*

### **3.2.3 Can Mega-Regional agreements help leaders promoting reforms?**

In order to enlighten the relationship between mega-regionals and domestic politics, this work will examine whether executives use these kind of arrangements to promote national reforms, especially liberal economic ones. Literature defines economic reform as policies that liberalize lucrative undertakings in some areas of national economy.

In particular, economists and political scientists have focused the attention on these reforms because they have pushed passionate political controversy and have changed the life of billions people worldwide<sup>188</sup>. The main idea under this hypothesis is that leaders decide to start the negotiations of mega-regional agreements when they need to make

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<sup>186</sup>World Trade Organization (2011), *Regional Trade Agreements: GATT Article XXIV*, [http://www.wto.org/english/tratop\\_e/region\\_e/regatt\\_e.htm](http://www.wto.org/english/tratop_e/region_e/regatt_e.htm), last visited 10 Jan. 2017

<sup>187</sup> Vomocil J. (2011), *Domestic Determinants of Preferential Trade Agreements*, Research Paper of Clemson University

<sup>188</sup> Haggard S., Kaufman R.R. (1995), *The Political Economy of Democratic Transitions*, Princeton, NJ: Princeton University Press.

economic or institutional reforms but they are not able to overcome domestic political opponents. Economic reform process means a set of policies designed to improve the efficient allocation of resources within a country. It means that there should be an abolition of market distortion policy and more promotion of pro-business or pro-investment policy. Important in this regards are basic provisions, such as availability of infrastructure, human resources, and streamlining of investment procedures. Basically, economic reform is derived from neoliberal thinking. The most aggressive economic reform policy means only minimal state intervention within the economy, in which the state should only function as a referee or watchdog to maintain order. Therefore, market reform policies also entail liberalization and abolition of protectionist policies such as tariffs, subsidy, discrimination against foreign companies, and the like. TPP as a policy is of course coherent with this thought with the aim to restructure or reform the economy. A reform-minded government may use FTA like TPP as an additional pressure to directly expose domestic businesses to international competition, along with their own domestic economic reform agenda. Mega-regionals, with or not big powers, permit reliable assurances and boost domestic support in order to make possible that leaders endorse changes that would be impossible to implement due to domestic strategies. While other studies have emphasized the International Monetary Fund programs and as example the European Union accession<sup>189</sup> as devices capable to push reforms, this work wants to focus the attention on the role of this new phenomenon and his power to promote liberalization. This theory is based on the skill of this agreement to promote reform, the mixture of legally binding provisions, the presence of a major country and the flexibility of negotiation talks<sup>190</sup>. As said before, mega-regionals that meet these criteria should be especially operative.

First of all, it is better to explain better the context of the theory. National leaders are the most important performers in the international context. Today, several leaders decide to tackle economic reform and to fight arrangements of redistribution and economic discrimination. After decades of debated reform struggles, political economists have

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<sup>189</sup> Mattli W., Plumper T. (2004), *The Internal Value of External Options: How the EU Shapes the Scope of Regulatory Reforms in Transition Countries*, *European Union Politics* 5 (3): 307–30.

<sup>190</sup> Baccini L., Urpelainen J. (2014), *International institutions and domestic politics: can preferential trading agreements help leaders promote economic reform?*, *The Journal of Politics*, 76 (01). pp. 195-214.

started to discuss about why some countries have success with reforms and others not<sup>191</sup>. According to most prominent scholars in this field, the ability of a leader to counterbalance or eliminate the losers and rally the winners is the cornerstone for an effective reform. Usually, the decision of leaders to join or establish a mega-regional accord meet two conditions:

- The leader need economic reform;
- The executive face domestic political opposition to reform but the agreement could be able to overcome these difficulties.

Establishing a mega-regional accords or a regional trade agreement, the leader could realize impressive reforms that he/she would not seek in other ways. At the same time, mega-regionals are also fundamental. They can push for reforms in two ways: primarily, allowing reliable policy commitments. If an executive decide to participate in an international trade agreement that improve the expenses of defaulting on liberalization, the degree of reforms growths. In addition, mega regionals may permit leaders to compensate or coerce national constituencies<sup>192</sup>. Those, supposing benefits from entering mega-regionals, encourage reforms because a failure in reform would represent a loose of benefits of international institutionalization. Anyway, when one of these two circumstances fails to exist, the outcomes could be different. If executives stand in front of a weak and little opposition, national reforms could be applied without the establishment of any international accord. This is the core of the theory but other scholars have tried to expand it and formulate other explanations.

Even if it is not fundamental for the theory but because it captures multiple obstacles to economic reform, academics have focused the attention on the timing of the election of a new leader linked to the economic reforms. When the scholars talk about a new leader, they refer to a who has been recently elected in office and faces an uncertain political future. On the other hand, a “established leader” has held the power for a long time<sup>193</sup>.

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<sup>191</sup> Geddes B., (1994), *Challenging the Conventional Wisdom*, Journal of Democracy 5 (4): 104–18.

<sup>192</sup> Mattli W., Plumper T. (2004), *The Internal Value of External Options: How the EU Shapes the Scope of Regulatory Reforms in Transition Countries*, European Union Politics 5 (3): 307–30.

<sup>193</sup> Some scholars have decided to operationalize the leader requests for reforms by recent democratization because success in the electoral challenge may be contingent on providing public

Researchers argue that a recent leader is usually weak and in an impossible position to pursue their planned reforms. Anyway, a leader need economic reform to survive politically, but they are not able to implement these economic reforms because of the presence of political antagonism. Indeed, conferred interests have powerful motivations to oppose economic reforms since their own governing group is not secure<sup>194</sup>. New executives also hurt from assurance problems. Given that established leaders are not in the danger situation of losing control, their long-time views permit reliable commitments and exchanges in different times. On the other hand, new leaders have to consolidate their rules and their trustworthiness is partial. According to Mansfield, lack of reliability could be damaging because economic reforms are not able to reassure savers unless the executive power can realistically commit to them in the long period<sup>195</sup>.

According to our theory, a leader that needs reform could find obstacles in implement it. Some scholars, as Baccini, argue that the presence of a superpower as the European Union or the United States in a mega-regional could facilitate this implementation. First of all, they permit a reliable commitment to reforms and secondly, the potential of market entry may promote the leader to counterweight influential domestic obstacles for their losses. They focused the attention on EU or U.S. because in their history, they have collected a wide choice of reform establishments in their accords, from financial and services liberalization to the developed guidelines for foreign direct investments<sup>196</sup>. For these reasons, a mega-regional with European Union or the United States is an effective policy device for facilitating economic rearrangements. Since these two superpowers have worldwide economic interests, they are involved in create such agreements with other developed and developing countries that need economic reform. Furthermore, in the specific case of European Union and the United States, the developing country is

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goods to the public. Other operationalize the replace of leader because a new leader position is weaker than an “time honoured” one.

<sup>194</sup> Bueno de Mesquita B., Smith A., Siverson R.M. and Morrow J.D. (2003), *The Logic of Political Survival*, Cambridge, MA: MIT Press.

<sup>195</sup> Mansfield E.D., Pevehouse J.C. (2006), *Democratization and International Organizations*, International Organization 60 (1): 137–67.

<sup>196</sup> Baccini L., Urpelainen J. (2014), *International institutions and domestic politics: can preferential trading agreements help leaders promote economic reform?*, The Journal of Politics, 76 (01). pp. 195-214.

going to take negotiation rounds with powers capable to react policy violations. To make an example, if a developing country is not able to liberalize according to the mega-regional regulations, these two superpowers can retaliate due to the withdrawal of allowances. Anyway, benefits deriving from credible promises and domestic side payments need that these superpowers favour economic reform in the partner country. Also, superpowers expect profits from such accords because the policy assurances hallowed in these accords generate moneymaking occasions for major firms, especially in the services and investment sector. These giants have a big number of corporations that are able to invest and profit in recently liberalized markets.

Anyway, at the end how can a Mega-regional agreements support reliable assurance to reform? In first stance, it openly arranges legally binding provisions. A flop to observe international provisions may damage the reputation of a nation, so decreasing possible opportunities to collaborate on trade issues. Secondly, mega-regionals, but usually preferential trade agreements, include devices as the dispute settlement mechanism that is able to deal legal decisions on trade and related politics<sup>197</sup>. These types of mechanisms indicate that the agreement participants whose rights have been violated may legally force sanctions on a “traitor”.

So, to test this theory, this work is going to test a falsifiable hypothesis. This work asserts that the establishment of mega-regionals is related to the need of an economic reform.

*H3: As the need for economic reform for the political leader increases, the possibility of the government to negotiate and sign the agreement increases.*

It is important to consider both negotiation and signature because there are enough motivations to expect anticipatory effects. It is important to say that leaders do not necessarily have the capacity to implement them, even though the decision has been taken. Actors may take important reform measures, such as the passing of several business-related laws, but implementing them is another story. This research that covers the decision-making process on TPP relates pretty much to the interest aspect rather than the capacity. It relates to the power contest among actors in expressing their interests.

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<sup>197</sup> Kono D.Y. (2007), *Making Anarchy Work: International Legal Institutions and Trade Cooperation*, *Journal of Politics* 69 (3): 746–59.

This is very typical among developing actors, in which influential actors support reform measure but lack implementing capacity.

## Chapter four: The Case study

### 4.1 The research

In the previous chapter, the theories and the following hypotheses has been developed. However, these hypotheses have to be put in a research to be tested. This research adopts a comparative method. As stated by Ragin<sup>198</sup>, a method lies between quantitative and qualitative approach<sup>199</sup>. This research method allows to investigate a moderate amount of factors within a moderate amount of cases, therefore it serves best for “research aiming to explore diversity”<sup>200</sup>. In this study, the aspects of cases are domestic factors and their influence in the participation in the TPP, while the cases are three countries – Vietnam, Japan and Indonesia. This investigation will monitor an inductive process of thinking the degree and nature of interaction among variables. Creswell mentioned that there are five process of inquiries: case study, ethnography, phenomenology, narrative research, and grounded theory<sup>201</sup>. This research will adopt the process of inquiry. The case study permits the researcher to develop a holistic account to phenomena, in which the author is not forced simply by “causal-effect” as in the quantitative approach but more on “complex interaction” among variables<sup>202</sup>. This type of research is the mostly fit for to find answer on “why” and “how” questions, which are the tasks of this investigation. It will be an explanatory case study to seek clarifications of an events. Furthermore, it also allows to impose a more detailed identification between evidence and theory. According to Yin<sup>203</sup>, researcher has to manage a feedback loop in order to deeper analyse

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<sup>198</sup> Ragin C. (1994), *Constructing social research: The unity and diversity of method*, Thousand Oaks: Pin Forge Press.

<sup>199</sup> The qualitative method involves few cases and many aspects of the cases. The quantitative method: many cases and few aspects of the cases.

<sup>200</sup> Ragin C. (1994), *Constructing social research: The unity and diversity of method*, Thousand Oaks: Pin Forge Press.

<sup>201</sup> Creswell J. W. (2007), *Qualitative inquiry & research design: Choosing among five approaches*, Thousand Oaks: Sage.

<sup>202</sup> *Ibi idem*

<sup>203</sup> Yin R. K. (2003), *Case study research: Design and method*, 3rd edition. Thousand Oaks: Sage.

phenomena. So, this chapter will present the case study in order to answer the research question. First of all, a paragraph will investigate the technique of validation of the hypotheses. Then, a section will illustrate the case selection and answer the question “Why these countries?” and why the TPP. Then, it is worth to investigate the economic performance of the countries under the TPP regime. So, there will be the analysis of the profits and losses of three countries. Lastly, the final section illustrates the three case studies, examining the behaviour of actors involved and trying to test the hypotheses. The first analysed case will be the Vietnamese case, then the Japanese and at the end the Indonesian one.

#### **4.1.1 Techniques of validation**

Concerning the validation technique, the investigation will follow “within case control” and “process tracing”, delineated by Munck<sup>204</sup>. In type approach as in this research, it is very problematic to develop grouping as phenomenon happens in natural setting and cannot be investigated. A typical technique to investigate in this case is the “within case control”. Generally, a phenomenon or even is isolated into variables related to hypothesis<sup>205</sup> and those that do not<sup>206</sup>. Then, a close investigation through process-tracing will be done. It is based on finding evidence on independent variables to affect a dependent variable as well as on how it works. Another method of validation is a “positive-negative case” outlined by Ragin<sup>207</sup>. Concerning comparative investigation, usually it is easy to find comparison among cases having similar outcomes. It is easy to find similarities among cases to clarify fundamental factors, on the basis of “presence/absence of a cause by presence/absence of an effect”. Anyway, a problem occurs because it is difficult to determine the amount of causality of an independent variable in affecting the consequence of a dependent variable. For this reason, it is fundamental to make a

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<sup>204</sup> Munck G. L. (2004), *Tools for qualitative research*, in Brady, H. E. & Collier, D. (ed.), *Rethinking social inquiry: Diverse tools, shared standards*, Rowman & Littlefield Publishers: Lanham, UK.

<sup>205</sup> Systematic component

<sup>206</sup> Random component

<sup>207</sup> Ragin C. (1994), *Constructing social research: The unity and diversity of method*, Thousand Oaks: Pin Forge Press.



comparison of a positive case with negative case. Such step will allow to quantify the degree of influence of independent variable to dependent variable and for this reason contributing to a more valid causality. In this case study, positive cases are represented by “participating groups” (Vietnam and Japan) while the “not participating” country is the negative case (Indonesia).

#### **4.1.2 The case selection**

Why the Trans-Pacific Partnership as case study? Because this could be considered a landmark agreement. In the 2016, its participants had shared a GDP of 28 trillion of dollars – or if you prefer 36% of the entire global GDP- and accounted for 5.3 trillion dollars of exports<sup>208</sup>. Member countries are extraordinarily different, comprising low, middle and high income countries with diverse economic regimes. The accord itself is deep and complete, aiming economic assimilation with rules that vary from goods and services to investments in critical spaces like intellectual propriety rights and the digital economy. The role of the TPP is fundamental: it should inaugurate international collaboration on “so-called next generation trade provisions” that cannot be measured at the moment could be most valuable in the long run. As said before, the participants of the agreements are different and come from varies continents. In this case study, testing the hypotheses described above, it is impossible to test the decision and the behaviour of all countries members. In the specific, this work is going to test the hypotheses on three countries: Vietnam, Japan and Indonesia. These three countries share an important status within the region and the country sensitivity to the “U.S. factor “embedded within TPP.

Vietnam is an emergent economy and a developing country. In the last decade, the country has been changing his economy from a central-state controlled economy from a market-economy, free from the socialist influences and values. Furthermore, Vietnam has started to be a significant player in the policy of President Obama in Asia in order to reach influence in the continent and to stop the Chinese advance. From the end of the Vietnamese war, the economic and political relationship between the two countries are warm while the relationship with China are cold. The reason under the freezing of the relationship is the Chinese decision to install an oil rig off coast of Vietnam last year.

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<sup>208</sup>Data from the World Bank’s World Development Indicators database, <http://databank.worldbank.org/data/reports.aspx?source=2&Topic=21> (accessed on Jan. 15 2017).

With the TPP, both U.S. and Vietnam are intentioned to see the Southeast Asian nation less reliant on China, which is not a party to the trade accord. One of the most interesting aspect of Vietnam is that the country regime is authoritarian and there is only one party that controls politics in the nation. In particular, the Socialist Republic of Vietnam, along with China, Cuba, and Laos, is one of the world's four remaining one-party socialist states officially espousing communism. Its current state constitution, 2013 Constitution, states the central action of the Communist Party of Vietnam in all organs of government, politics and society. The General Secretary of the Communist Party performs numerous key administrative and executive functions, controlling the party's national organization and state appointments, as well as setting policy. Only political organizations affiliated with or endorsed by the Communist Party are permitted to contest elections in Vietnam. These include the Vietnamese Fatherland Front and worker and trade unionist parties. Although the state remains officially committed to socialism as its defining creed, its economic policies have grown increasingly capitalist, with The Economist characterizing its leadership as "ardently capitalist communists"<sup>209</sup>. Furthermore, according to the Democracy Index<sup>210</sup> of the year 2014<sup>211</sup>, Vietnam is classified as on the most important authoritarian regime, creating an interesting case in the TPP. . Four categories are analysed in this investigation:

- Whether national elections are free and fair;
- The security of voters;
- The influence of foreign powers on government;
- The capability of the civil servants to implement policies.

The country ranks at 131<sup>st</sup> position with a score of 3.38 points on a maximum of 10. So,

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<sup>209</sup> The Economist (24 April 2008), *A bit of everything: Vietnam's quest for role models*, London. (Last visited 13 Jan.2017)

<sup>210</sup> The Democracy Index is an index compiled by the UK based Economist Intelligence Unit, that measures the state of democracy in 167 countries, of which 166 are sovereign states and 165 are UN member states.

<sup>211</sup> The Economist, *Democracy Index 2014*, [http://www.eiu.com/public/topical\\_report.aspx?campaignid=Democracy0115](http://www.eiu.com/public/topical_report.aspx?campaignid=Democracy0115) (Last visited 13 Jan.2017)

Vietnam is the only authoritarian regime among participants of TPP. This makes the country particular in the eyes of researchers. As said in the chapter “State of the art”, also authoritarian regimes join such agreement but they are less interested to participate to negotiation and to join the economic accord. In conclusion, Vietnam could be considered an interesting case study for at least three reasons:

- The economic transformation that is going to happen in the country: from a socialist-planned economy to a market economy;
- The nature of his political regime; it is the only authoritarian socialist countries with one-party ruling;
- The ties with China and the new “strange” friendship with the United States.

Another relevant participant of the TPP is the Japan of the Prime Minister Shinzō Abe. This trade demarche is viewed as a key part of “Abenomics”<sup>212</sup>. Although the dye has been cast, the debate in Japan has not ended. Many Japanese are sceptical about effects of the Trans-Pacific Partnership on the Japanese economy. Even if these protests, this country could be considered as a champion of trade agreements and it is gaining more and more relevance in the worldwide context. Japanese relevance in this case study is boosted by two factors: the rivalry with China – the Japanese economy is the biggest Asian economy in the TPP because of the exclusion of China – and the particularity of the Japanese politics, guided by the Prime Minister Abe. The historical and economic rivalry against China has historically affected the regional establishment of free trade agreements. For example, when at the beginning of 2000s, China proposed the establishment of a trade accord with ASEAN members, Japanese politicians regarded the idea as “unrealistic lip service” and rejected it. Anyway, today there is an important agreement among China, Japan and ASEAN members. One of the most important feature of Japan is its approach to this agreement. The Japanese executive focuses the attention on the fact that Japan wants to implement only high quality<sup>213</sup>. The force of Japan is based on its skill as an industrialized complement state that can help the growth of Southeast Asian countries. Starting from these statements, it is possible to assert that the relevance of the Japan consists in offering a diverse model of regional and trade integration among

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<sup>212</sup> Petri P.A., Plummer M.G., Zhai F. (2013), Japan’s ‘Third Arrow’: Why Joining the TPP is a Game Changer, Peterson Institute for International Economics.

<sup>213</sup> Based on broader issue scope and binding obligations.

countries. Japan is challenging with China to conquer the East-Asia and the TPP could be a way to do it. Another important characteristic of Japan is the low level of trade liberalization of this country. This fact makes the country relevant and interesting in the eyes of academics. So why has Japan decided to join this type of agreement? This work is going to find an answer in the next section. Even if this little liberalization, Japan is still the fourth largest export in the world but its commerce policy has decreased behind those of its counterparts. Just to make an example, Korea has decided to establish a “roadmap” for free trade in 2003 and in the last years had concluded agreements with the European Union, the United States and other Asian countries. In this context, trade policy has become the “third arrow”<sup>214</sup> in the new Japanese development strategy launched by Abe. For all these reason, Japan is a significant country for a case study.

The Indonesia is the last country that will be investigated in the case study. This one of the few countries that has decided to not enter in TPP negotiations. It is an important case study because it is biggest economy of the South-East region and presents itself as the informal leader of the ASEAN. Compared to other excellent exclusion as the Thailand and the Philippines, Indonesia present different outcomes – with negative results – in the research. Furthermore, this country does not show a large amount of modifications and therefore it will be a useful comparison to the positive case. Other countries as Thailand would presented variations of variables, as the weak support economic reforms of the leader but a strong relevance of the agricultural sector. This is fundamental to measure the degree of explanatory factor of each variable. For all these motivations, Indonesia is a relevant case for the research.

## **4.2 Empirical analysis: the economic performance under the TPP regime**

First of all, it is fundamental to start the analysis of this case study opening with on of the topic of the theoretical framework: the economic impact of mega-regionals on member countries. In this case, it is worth to explore the countries economic performance under the umbrella of the TPP. It is a fundamental part because usually economic profits should push countries to join such agreement. Even if, it is not a sufficient part of the analysis, it

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<sup>214</sup> The other two arrows are monetary easing and fiscal stimulus.

is necessary to understand the behaviour of nations. This section will not examine the trade effects and the economic outcomes of the three countries selected for this research but it will show the economic performance and trade future trends of TPP participants in the future.

As said in the first chapter, the Trans Pacific Partnership represents a compromise but it is clear that has met its two most important aims: to create new, market oriented provisions in a crowd of quickly changing fields of international trade and to decrease commerce and investment obstacles among TPP nations to gain huge profits for the United States and other eleven participant countries. So, this section will examine the economic outcomes of this agreement, using a comprehensive quantitative method, based on the work of Petri and Plummer<sup>215</sup>. The economic model presents, however, the outcomes of the planned liberalization package on the TPP, if it is will be ratified by participants. Just to make an example, the estimates show that the TPP will rise annual real incomes in the U.S. by \$131 billion<sup>216</sup> - equal to 0.5% of GDP – and will increase annual exports by \$357 billion<sup>217</sup> over baseline forecasts by 2030. Why 2030? 2030 because it is the year in which the agreement would be closely completely applied. Revenues after the 2030 will endure baseline calculations by a similar margin. Both capital and labour will profit from the agreement but labour will catch more than proportionate portion of the total profits<sup>218</sup>. Assumed these remunerations, postponing the implementation of the TPP by even one year would signify a perpetual damage of 77\$ billion every year for the American economy and the other economies. With the election of new President Donald Trump, the American ratification of the TPP would seem impossible and as consequence this opportunity would be lost. Anyway, while the largest beneficiary of the TPP are not in the situation to apply the agreement, other countries like Malaysia, Japan and Vietnam would gain huge benefits from the agreement. This analysis would be investigated later. In order to find these results, Petri and Plummer have used a

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<sup>215</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

<sup>216</sup> These estimates are in constant 2016 dollars.

<sup>217</sup> 9.1% of exports

<sup>218</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

global computable general equilibrium (CGE) model<sup>219</sup>. The model is comparable to one utilized in their studies of 2012 but the new present new data, new research results and new material about the accord itself. In general, the evaluations showed here are bigger than those earlier distributed. The Partnership is displayed in three phases. First of all, the CGE model is elucidated to project worldwide growth and trade over 2016-2030. In second stance, the regulations of the TPP are represented into estimated variations in tariffs, obstacles on FDI and trade barriers on goods and services. This step presumes that 20% of the Non-trade-barriers liberalization under the TPP also affects to associates who are not TPP members. Lastly, the model is track with the barriers expected under the TPP. This CGE model asserts that the TPP will not influence total employment and national reserves of members. Due to this “macroeconomic closure statement”, it is possible to take care of objectives of commerce policy. In particular, it makes possible to focus the attention on sustained productivity and wage increases thank to variations in trade arrangements and industry output planes. Anyway, this assumption does not calculate normal stages of unemployment and savings for 2030 but just asserts that deviances from normal standards are unavoidable and its would influenced by factors other than trade policy variations<sup>220</sup>. One of the most important result of this quantitative analysis concern the decrease in trade obstacles under the TPP, capable to create reallocation of labour and capital for proficient companies and firms, permitting them to generate more what they produce best<sup>221</sup>. The American economy would be positively affected by the agreement: the model indicates that close to 800,000 job position would be opened in the U.S. export field – taking workers from other sectors. In general, as structural variations boost the American economy, labour and capital would need to share bigger income.

As said before, the net profit of the U.S. would represent the 0.5% of their GDP. In order

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<sup>219</sup> Computable general equilibrium (CGE) analysis of the TPP accounts for interactions among firms, households, and governments in multiple product markets in several regions of the world economy. Firms and consumers are assumed to maximize profits and welfare subject to prices. The model, built from the GTAP 9 database and other data sources and calibrated to yield an initial solution that matches data, calculates prices that equate supply and demand for each product and factor of production in every market. As with most CGE models, it represents medium- and long-term changes and assumes normal employment; it does not incorporate features to analyse macroeconomic fluctuations.

<sup>220</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

<sup>221</sup> *Ibi idem*

to put these revenues in the context of the model, all investment in a given year in the United States have been supposed to increase of 1% the American economic growth<sup>222</sup>. For example, in the 2014 the American investment was around \$3 trillion<sup>223</sup>. With the joining of the TPP the profits to income from the agreement can be intended as the equivalent of \$1.45 trillion in assets in the same year. Large revenues are planned also for Japan and Vietnam. Japan would benefit from the agreement due to the market entry throughout the TPP region, comprising liberalization of car imports markets other than the United States, and – but we will examine deeper the issue – and new domestic reform in order to decrease distortions in several sectors as the service and investment ones. For what concern the quantity of growth and benefits, Vietnam could be considered as one of the winner of the accord because of the national reform that could implement and the market access to protected areas. For what concern gains in GDP, economists suggest the largest increase in GDP – equal to 10% of increase. The country, together with Malaysia, would profit from the lower duties and NTMs in big export markets. Also, at home countries could reinforce their position due to the strengthening of regional supply chains, possible thank to deeper regional integration<sup>224</sup>. The reduction of duties on imports in the United States and Japan will profit the clothing manufacturers, whose low labour expanses have allowed them to seize business from China. In ten years, there is the expectation that there would be an increase in apparel and footwear exports of 50%. Anyway, Vietnam will have to tackle strict rules of origins on materials, which could bound some of the benefits of the TPP to the garment and the textile sectors. At the same time, the end of tariffs for Vietnamese goods is probable to attract more investment from foreign firms. Companies such as Texhong Textile Group Ltd., Shenzhou International Group Holdings Ltd. and Pacific Textiles Holdings Ltd. are moving processes to Vietnam to cash in on the trade agreement. As seen in the first week after the sign of the agreement, there have been boost in the broader market. In the first week, Vietnamese benchmark stock index has increased 4.9% with foreign investors trying to conquer logistics, industrial parks, fisheries and garments. Foreign investors have composed to be net

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<sup>222</sup> Fernald J. (2014), *Productivity and Potential Output Before, During, and After the Great Recession*, San Francisco: Federal Reserve Bank of San Francisco.

<sup>223</sup> Council of Economic Advisors (2015), *Economic Report of the President*, Washington: White House.

<sup>224</sup> World Bank (2015), *Global Economic Prospects: Having Fiscal Space and Using It*, Washington.

purchasers after vending Vietnamese stocks earlier. More FDI is expected into these sectors, as you can see in the table 2 below. The tables below express the outcomes of the TPP on FDI and commerce in 2030. As you can see, annual exports for the U.S. boosts by \$357 billion or 9.1 percent and 11.5% for all countries together<sup>225</sup>. For what concern exports, Japan, Vietnam and United States are of the top and lead the other countries. Relating to internal investment supplies in all TPP nations, there would be an expansion by \$446 billion over the 2030 prevision and outward investment stocks by 2%. The largest beneficiaries of this phenomenon would be the U.S. – as usual – Canada, Japan and Malaysia. Analysing these data, it is possible to assert that investments improves revenues in both investing and host countries. Japanese participation in the agreement may lead an improvement of 3.22 trillion of yen to the country. According to Petri and Plummer, in the 2030 the GDP would increase by 3% if Japan participated to the deal. Furthermore, with the increase of economic output and higher investment returns, the agreement may incentive the economic and social expansion of network among countries, inducing innovation and technological development. For example, networks with various human resources have been identified to lead to innovation at the micro level<sup>226</sup>. One of the most important improvement in the Japanese economy is given by the increase of inward/outward foreign investment, capable to improve the growth rate of Japanese companies efficiency. But, in general what is the degree of such growth outcomes? Looking to the trade volumes, according to Petri and Plummer there would be an increase of \$340 billion or 6.8 percentage points in its ratio to GDP in 2020. Taking into account the the work by Lee, an improvement in trade share by one percentage point will increase the growth rate of GDP per capita by 0.027 of percentage point<sup>227</sup>. Using the trade volume involved in the Transpacific Partnership will rise the development rate of GDP per capita of Japan in 2030 by 0.189 of a percentage point. This could be seen as an incredible result, given the only 0.8% of Japanese growth in last twenty years. In second stance, an even large factor that may influence the Japanese economy would be the increase of FDI

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<sup>225</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

<sup>226</sup> Todo Y. (2013), *Estimating the effect of the TPP on Japan's growth*, Research Institute of Economy, Trade and Industry website

<sup>227</sup> Lee H.Y., Ricci L.A., Rigobon R. (2004), *Once Again, Is Openness Good for Growth?*, Journal of Development Economics 75(2), 451- 72.



toward the Empire. Partnership will increase foreign direct investment to Japan by \$155.6 billion or 3.1 percentage points in its ratio to GDP<sup>228</sup>. Mixing the effects of commerce and inward FDI, the improvement of Japanese ratio per capita will rise by 1.5%. So, in conclusion, the final acceptance of the economic deal probably will lead the country to a growth rate superior to the 2%. It is possible to assert that Abe due to the TPP would transform the Japanese economy, insuring a new key policy measure for Japanese economic progress. Regarding the United States, the most important change in their economy focuses on manufacturing, but some dynamic variations occurs within sectors, as innovative and troublesome companies gains and market share. In the recent years, the American manufacturing has been damaged by a decline<sup>229</sup> because other countries has become competitive in this field and the demand has changed, moving toward other sectors as the services and technology. This decrease, at least comparative to the rest of the economy, is expected to last even if the recovery of the trade policy. Baseline estimations show that the TPP could help manufacturing sector, adding a growth of 2% annually between the 2016 and the 2030. TPP could be able to reverse the difficult situation of manufactural service, improving the baseline manufacturing employment from 12.1 million in 2016 to 12.6 million workers in 2030<sup>230</sup>. Another important outcomes of the American participation in the TPP would be employment shifts among sectors. This value added changes could push the entire demand by industry fields for primary factors of production. Anyway, while broad value added in the American economy would been improved, total employment does not. At the long run, the demand for labour is estimated to be normal with or without the TPP.

It is possible to assert that this agreement is not going to have huge income outcomes on those countries<sup>231</sup>. Losses may be evident for China and India, because these nations challenge against TPP participants for TPP market access, and for the South Korea

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<sup>228</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

<sup>229</sup> Kehoe T. J., Ruhl K.K., Steinberg J.B. (2013), *Global Imbalances and Structural Change in the United States*, NBER Working Paper No. 419, Cambridge, National Bureau of Economic Research.

<sup>230</sup> Projections by the Bureau of Labor statistics assume somewhat higher labor productivity growth and therefore predict a slight decline. See [www.bls.gov/emp/ep\\_table\\_207.htm](http://www.bls.gov/emp/ep_table_207.htm).

<sup>231</sup> As said in the second chapter, Viner talked about trade diversion effects but recent theories state that important preagreement trade are “natural trading blocs” and their accords are probable to lead to more trade creation than trade diversion.

because this accord would decrease the benefit of the country in American markets under KORUS<sup>232</sup>. Anyway, these costs are relatively small compared to the countries GDP. On the other hand, the European Union would profit from this context because TTP may liberalize commerce among non-members. If we look the Indonesia economy, it is possible to assert that a trade agreement with the United States should be done. The United States is one of the most important provided of FDI of Indonesia and in terms of trade, the U.S. is one of the biggest trading associate, with a total share of 9-10% at the end of 2000s<sup>233</sup>. A commerce deal with the U.S. and other important countries could improve the Indonesia surplus in the export market. Labour-intensive products such as apparel and footwear are among the most popular products. Altogether, such products accounted to US\$ 5 billion in 2010 or 35.4 percent of overall export to the U.S.<sup>234</sup>. However, valuating TPP only from trade and FDI is not correct for Indonesia. The factor that worries Indonesia is the WTO-plus commitment that the country evaluates as too high standard to reach. Indonesian anxiety is related to a typical developing countries concern regarding the demand of developed countries in the trade talks. For example, Indonesia does not want to manage with the “competitive neutrality”, which plans equal treatment between foreign and domestic firms. Indeed, Indonesian companies are still preoccupied about the foreign competition and are still in defensive position after the Asian crisis of 1997-1998. Another source of concern for Indonesia is the SOE dismantling regulation within the TPP because State owned enterprises performance a significant role in the Indonesian economy in order to push progress and economic development. These also represent national pride and status<sup>235</sup>. The last politically delicate issue is the necessity to cut energy subsidy, which is seen as a clear discrimination action. The Indonesian government in the past could do voluntarily but such action has been always impossible to implement because the massive reactions, reduction of public

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<sup>232</sup> U.S. – Korea Free Trade agreement. It entered in force in 2012 and means countless new opportunities for American exporters to sell-more Made-in-America goods, services and agricultural products to Korean costumers – and to support more good jobs here at home.

<sup>233</sup> Syarip R. (2015), *Responding to The Trans-Pacific Partnership (TPP): Comparative Study On International Trade Policy of Malaysia, Vietnam, And Indonesia*, Ritsumeikan Asia Pacific University

<sup>234</sup> *Ibi idem*

<sup>235</sup> *Ibi idem*

support and political attacks to the Parliament. It is unthinkable that an international trade deal dismantles a national policy. In order to better evaluate a likely Indonesian performance under the TPP, it is fundamental to look at the structure of Indonesian economy. It is completely different from his neighbours in Southeast Asia because Indonesia is not a classic trading partner and focuses the attention less on trade than other nations as Vietnam or Japan. Indonesia's highest score was only 71 percent of trade in GDP in 2000<sup>236</sup>. According to these data, it is possible to asset that Indonesia relies less than other countries on trade for economic growth and focus his economic efforts on domestic consumption. Relating this structural factors to the performance under the TPP, Indonesia is less incline to develop and to push growth in comparison to trade-dependent countries as Malaysia and Vietnam.

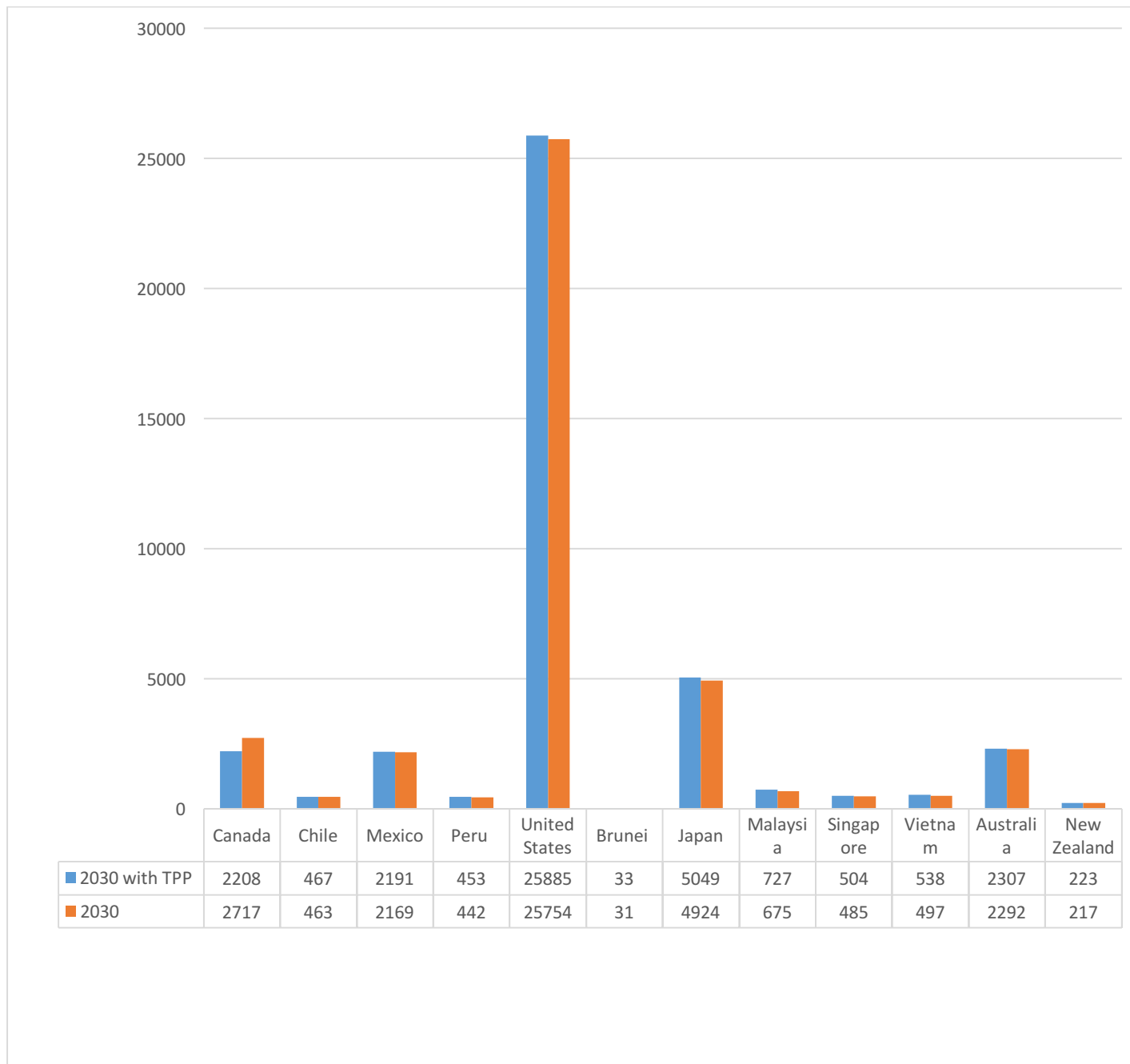
In conclusion, after this analysis it is feasible to conclude that for the countries involved in the economic deal, and in particular for Vietnam and Japan, the economic sphere has influenced the potential participation of countries. Anyway, as said before, it is an important part but not sufficient alone. For these reasons, in the next paragraph this work will test the hypotheses formulated above in the three selected countries, trying to assert the theory that also domestic political factors could influence the process of selection and participation in a mega-regional deal.

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<sup>236</sup> *Ibi idem*

**Table 5: Real income effects of the TPP**

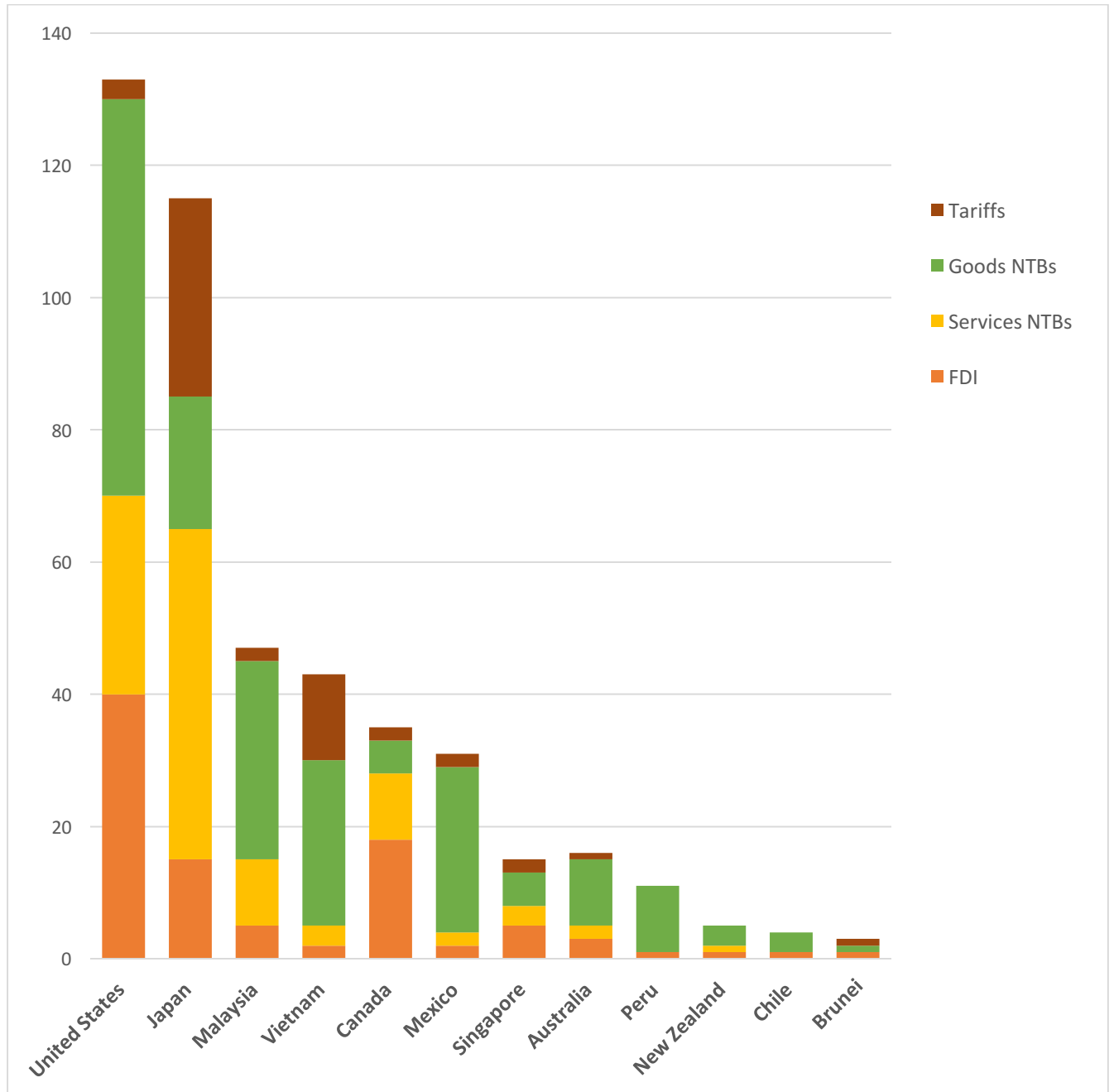
Billions of 2016 dollars



**Source:** Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates, Working Paper Series, Peterson Institute for International Economics. Washington*

**Table 6: TPP income effects and their composition, 2030**

Billions of 2016 dollars



**Source:** Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates, Working Paper Series, Peterson Institute for International Economics. Washington*

### 4.3 Case study One: The Vietnam

Before starting to test the hypotheses on one of the participant of the TPP, in this case the Vietnam, it is fundamental to political and governmental structures and history of this special nation. This section could help us to better understand the Vietnamese political and historical realities affect how:

- Vietnamese participants identify the economic deal;
- Vietnam will realize the transformations agreed.

The Socialist Republic of Vietnam is a single-party country under the control of the the Communist Party of Vietnam (CPV)<sup>237</sup>. This party upholds centralized power over the entire Vietnamese administration, media and military. The aim of the CPV is to “carry out the country’s renovation, modernization and industrialization”<sup>238</sup>. The supreme role of the party is assured by the authority of the National Constitution, asserting these words:

*“established and trained by President Hồ Chí Minh, the Communist Party of Việt Nam has led the Vietnamese people to carry out successfully the August Revolution, establishing the Democratic Republic of Việt Nam, now the Socialist Republic of Việt Nam, to defeat foreign invaders, to abolish the colonial and feudalism regime, to liberate and reunify the country, and then carry out the cause of renovation and socialist construction and firmly defend national independence.”*<sup>239</sup>

One of the most relevant authority of Vietnam is the President of the Republic and the Prime Minister, elected by the National Assembly. Hồ Chí Minh was the first President of this South-East Asian country and the current President, elected in the 2016, is Trần Đại Quang<sup>240</sup>. The role of the President is to represent the country in domestic and

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<sup>237</sup>Dao Q.V., *The Socialist Republic of Viet Nam*, Government portal://www.gov.vn/portal/page/portal/English (last visited 21 Jan. 2017)

<sup>238</sup> *Ibi idem*, p.3

<sup>239</sup> *Ibi idem*, p.3

<sup>240</sup> *Ibi idem*

international affairs while at the same time he supports the actions and the stability of the state. The other important figure is the Prime Minister, elected by the National Assembly after the appointment by the President. This figure acts as a link between the National Assembly, representing the legislative power, and the Central Government – the executive power- with the autonomous power to suggest and communicate the appointment and the removal of ministries<sup>241</sup>. The Prime Minister is a member of the National Assembly. Concerning the labour relations, the Ministry of Labour – Invalids and Social Affairs (MOLISA) is a central part of the Central Governments and acts carefully united with labour organizations, reliable for state implementation on policy regarding “labour, employment, occupational safety, social insurances and vocational training; policies for war invalids, martyrs and people with special contribution to the country; social protection and prevention of social evils; child care and gender equality”<sup>242</sup>. As said before, the legislative branch is represented by the National Assembly, the highest level governmental institution, held the authority to amend the Constitution, establish and revise legislation, outline positions within the government and finally, elect and remove governmental officials<sup>243</sup>. The Vietnamese National Assembly is unicameral and composed by 500 members, elected in their districts. Historically, it has been managed by the Politburo<sup>244</sup> of the CVP with the aim to transform politburo provisions into rules with a limited open discussion during the reunions of the Assembly. Every institution in Vietnam follows the principle of the *Democratic Centralism* according to Leninist idea. This means that the organizational structure denotes for example that the affiliated of political party are free to debate subjects of future politics and national provisions, but once a decision is taken within a party through majority vote, all party participants are assumed to promote and preserve the pronouncement<sup>245</sup>. So, the political discussion is limited and the assembly members are supposed to vote respecting

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<sup>241</sup> *Ibi idem*

<sup>242</sup> Ministry of Labour - Invalids and Social Affairs (2014), *Socialist Republic of Vietnam*, <http://www.molisa.gov.vn/en/Pages/Home.aspx>. (last visited 21 Jan. 2017)

<sup>243</sup> *Ibi idem*

<sup>244</sup> Political bureau of the Communist party

<sup>245</sup> Gia T.T. (2013), *Democratic centralism – a guarantee of a strong and pure party*, National Defence Journal

the guide lines of CVP. Focusing on the role of the party, it is worth to say that it is devoted to Marx, Lenin and Hồ Chí Minh ideas, backbiting and factional politics do arise in current Vietnam<sup>246</sup>. Vietnam during the last decades of 20<sup>th</sup> century has shifted his economy from planned economy to a mixed economy, characterized by capitalist enterprise and increased privatization and for this reason the CVP widened its national vision beyond class-based ideology, instead focusing its aims upon the interests of all Vietnamese people<sup>247</sup>. In particular, in the 1986, the Vietnamese view intensely changed during the 6<sup>th</sup> National Congress. This happen because reformist took the power, asking for new economic reforms for the country. Nguyễn Văn Linh, the CPV's current new general secretary, implemented the *Đổi Mới* reforms, a set of free-market reforms. Through these improvements, Vietnam has been able to deregulate its economy and favoured foreign investments. The *Đổi Mới* has been able also to favour a new period of liberty, indeed it carried brought public freedom of expression, relaxation of censorship, and general liberalization of civil rights<sup>248</sup>. Between the 1991 and the 1996, with the 7<sup>th</sup> and 8<sup>th</sup> Congresses and the apparent success of reforms boosted by *Đổi Mới*, the discussion within the party among reformists and conservatories increased. This was an important outcome because the increased debate influenced the following politics. Even if there were a lot of changes, it is possible to assert that the pure Marxism-Leninism ideology has lost its force within the context of Vietnamese mixed economy; anyway, the official position of the CVP see this economic structure as an element in a Vietnamese period of transition to socialism<sup>249</sup>. According to the the communist thinking, a “mixed socialist- oriented market economy” is acceptable regarding the national ambitions for a pure communist country. Today, the communist ideology is relegated to Vietnamese nationalism and to preserve traditions. Indeed, the communist symbols and terminology are a fundamental part of Vietnamese traditions and could be found wherever in the

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<sup>246</sup> *Ibi idem*

<sup>247</sup> Major General Nguyen, Hung M. (2014), *Military and Political Theory Organ of the CMC and VMND*, National Defence Journal

<sup>248</sup> Kim A., *Vietnam and the Trans-Pacific Partnership: Political History and National Outlook*, Independent Study

<sup>249</sup> *Ibi idem*



country<sup>250</sup>. With the 10th congress in 2006, there was an attempt to further democratize political power within the CPV. Power was balanced more within the CPV central committee as the force of individuals within party leadership was diminished<sup>251</sup>. This is the climate in which this work will investigate contemporary Vietnam and the TPP.

### **4.3.1 Vietnam and veto players: overcoming the opposition**

During the negotiation of the Trans-Pacific partnership, in Vietnam a debate about the possibility to join and ratify the agreement started. Even if it is an autocracy according the Democracy Index, the PCVP has been characterized by a strong internal debate. Around the 2010, Vietnam has began pursuing the TPP. The decision was for sure an outgrowth of the domestic political changes of the last decades. Indeed, the reformist part of the Communist Party has gained particular relevance with the nominee to Prime Minister of the pro-business leader Nguyen Tan Dung, promoting a period of liberalisation policies and the increasing of participation in Preferential trade agreements with other countries. One of the fundamental step in order to promote definitively liberalization and to modernize Vietnamese economy has been the participation and ratification in TPP. Even if the ratification is not already occurred, Vietnam has participated in the trade deal negotiation and has signed the agreement with other eleven countries. Anyway, the TPP negotiation talks led to a substantial rise in Vietnamese veto players<sup>252</sup>. The major institutional and legal changes asked by the deal were not in favour of party rule. Workers interests had been a key source of opposition to trade agreement. Several paragraphs of the TPP focus the attention of the improvement of working conditions of industry workers, the rise of wage rates and the prevention of child labour. For example, working hours will be limited to 48 hours by the agreement. Furthermore, the TPP may increase the power of workers to negotiate with companies and mainly executive officials. As stipulated by the international accord, the inclusion in the

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<sup>250</sup>Dao Q.V., *The Socialist Republic of Viet Nam*, Government portal.://www.gov.vn/portal/page/portal/English (last visited 21 Jan. 2017)

<sup>251</sup> Kim A., *Vietnam and the Trans-Pacific Partnership: Political History and National Outlook*, Independent Study

<sup>252</sup> Nguyen C. (2015), *Vietnam Debates the Trans-Pacific Partnership*, Centre for strategic and international studies, Asia program (last visited 22 Jan. 2017)

agreement of requirements upholding the International Labour Organization's (ILO) Declaration of Fundamental Principle and Rights at Work is fundamental. In particular, the faction of the Communist Party against the TPP has been concerned by the Convention 87<sup>253</sup>, which ensure workers the freedom of association and the faculty to organize a strike. In the eyes of the conservative part of the CVCP the foundation of an independent labour union may destroy the current system due to the decentralization of decision-making supremacy from the government to the associations of workers<sup>254</sup>. Another reason of concern for the Conservative Communist leaders has focused the attention of the new role of the state-own enterprises (SOEs), that with the TPP have to face several tasks in the following years. After the period of liberalization, Vietnamese SOEs have started to profit from the new situation and even the new policies, have decided to apply monopolistic practices in their business activities, provoking a worsening of their services quality and absence of development-inducing antagonism from the private sectors<sup>255</sup>. This situation has been boosted by the SOEs access to cheap capital and credit from the Vietnamese Central Bank, in the hand of the Communist Party. The last source of debate is the establishment of the investor-state dispute settlement (ISDS) mechanism comprising of an independent panel composed by three judges, who have the power to rule on quarrels according to the terms of the TPP without being subject to any plea within a judicial process of participants. It has created a concern to the Communist party because of the weak nature of the Vietnamese legal system. The Vietnamese society prefers non-legal means of settling disputes and it is not easy to conclude an important legal reform in short time. All these concerns have led a dramatic power struggle in a national where usually politics are prudently scripted. In the 12<sup>th</sup> Congress of the Communist party, all the participants have recognized the importance and the benefits a trade agreement could lead and have decide to implement it. Concerning the veto players against the trade deal, the group have been demobilized through an accord between Nguyen Phu Trong that remained the supreme leader of the country thank to the charge of Communist Party's general secretary and the Prime Minister Nguyen Tan Dung, that decided to retain the PM office. This has suffered the

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<sup>253</sup> Convention concerning Freedom of Association and Protection of the Right to Organise

<sup>254</sup> Nguyen C. (2015), *Vietnam Debates the Trans-Pacific Partnership*, Centre for strategic and international studies, Asia program (last visited 22 Jan. 2017)

<sup>255</sup> *Ibi idem*

typical Vietnamese repugnance of strongman rule and as consequence the weakening of collective leadership<sup>256</sup>. According to the idea of the most intransigent faction of the CVCP, Dung as general secretary and a loyal “protégé” as new Prime Minister, would control all the power and operate without check and balances, a fundamental part of the political structure of Vietnam in the country. Furthermore, some members of the communist elite did not want to experience the Vietnamese version of the “anti-corruption house-cleaning Chinese powerful President Xi Jinping”<sup>257</sup>. A compromise was reached before the beginning of the 12<sup>th</sup> Congress: Dung decided to pull back himself from the race for the Secretary of the Communist Party and to maintain the office of Prime Minister in order to obtain the acceptance of the TPP and the assurance that the Conservatory faction would not stop further liberalization policies in the future. Dung was forced in this decision not because the nature of his reformist agenda but because he was seen as the builder of “patronage network in a crony capitalist environment that promoted the interests of foreign investors and well-placed persons, especially members of his own family”<sup>258</sup>. It is possible to assert that Dung has been victim of his anti-corruption campaign that he fomented during his first term as Prime Minister. The compromise is visible also in the statements of the conservative area of the Communist Party and in the Vietnam economic plan, based on labour reforms, SOEs renovation and the future ratification of the TPP. One of the most important fact from the compromise is the univocal support for the private sector, comprising the establishment of a level playing field with equal access to credit, land, and other capitals<sup>259</sup>. One of the most important figure in the Vietnamese TPP debate has been the Ministry of Trade and Industry, It worked along the Vietnamese Chief of Negotiator, Tran Quoc Khanh . The Ministry has been active in giving socialization to domestic business, such as the one planned in the November 2013 where it employed Vietnam Chamber of Commerce and Industry Ho Chi Minh City branch for an event called “TPP Agreement and Vietnam’s

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<sup>256</sup> Schwarz A. (2016), *Vietnam’s economic reforms to continue under new leadership*, The Diplomat

<sup>257</sup> *Ibi idem*

<sup>258</sup> Camroux D., Benoit H.L.D. (2016), *Communists and contradictions in Vietnam*, New Mandala <http://www.newmandala.org/communists-contradictions-vietnam/> (last visited 22 Jan. 2017)

<sup>259</sup> *Ibi idem*

Participation Process". The role of the Minister has been fundamental within the party in order to convince the most intransigent factions.

### 4.3.2 The agricultural sector in Vietnam

As said before, Vietnam has embraced economic growth due to structural reforms and partial liberalization of commerce and investment. In the 1986, the GDP per capita in Vietnam was \$269; 30 years later it grew almost fourfold. Today, the GDP of Vietnam is over \$90 billion of U.S dollars. The expanding industries have the necessity and enabled an increase of Vietnamese infrastructure for supplying power and transportation. The benefits of Vietnam as a production centre for non-agricultural products comprise its reasonably large urbanized population, which provides both the consumer market and the un-expense but educated labour force. Indeed, it is estimated that the population of Vietnam will rise to 100 million by 2022<sup>260</sup>. Within this economic framework, the agricultural field and workforce of Vietnam are experiencing a transformation. From the 1990s, when the urban population represents the 20% of the total, several rural people have decided to move to the cities and left their villages and their agricultural jobs. In particular, young people have moved from villages to cities like Hanoi and Ho Chi Minh. These current migrations have influenced, and will continue to influence negatively, the basic Vietnamese farming practices<sup>261</sup> and consumption configurations. Even if the success of Vietnamese economic growth, several economic confronts have to be faced. One of these is the challenge posed by the agricultural sector. The current changes in the Vietnamese economy has affected the agricultural sector that now should be renewed. Ten years after the *Đổi Mới*, the agriculture and forestry accounted for 21.8 percent of Vietnam's gross domestic product (GDP); today the portion of GDP for agricultural sector is nearly the same. Anyway, it is fundamental to note that the share of economic output in this field has decreased, shifting from a portion of GDP from 42% in 1989 to 26% in

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<sup>260</sup> United States Department of Agriculture (2014), *Economic Research Service*, International Macroeconomic Data <http://www.ers.usda.gov/data-products/international-macroeconomic-data-set.aspx> (last visited 22 Jan. 2017)

<sup>261</sup> Arita S.S., Dyck J. (2014), *Vietnam's Agri-Food Sector and the Trans-Pacific Partnership*, U.S. Department of Agriculture, Economic Research Service

1999. However, the agricultural sector is the most important for what concern the employment. Before, starting the analysis of the case study is important to explore the agricultural economy of Vietnam. The country is one of the most important producers of rice and due to the *Đổi Mới* reforms Vietnam has become a leading exporter. Vietnam is also a big producer and consumer of pork and chicken. In this sector, the increasing requests of meat has outpaced production, pushing to rising requirements for foreign meat<sup>262</sup>. Meanwhile, agricultural producers may not benefit as much as important animal providers are already enjoying low import duties about 5%. Vietnamese animal feeds depend on the foreign market because the national production of animal feeds is not sufficient to meet requests and not proactive in inputs. According to the plan of Ministry of Industry and Trade, in the next years the imported feed material is going to increase 20% annually. Anyway, as stated by the Centre for Agricultural Policy, feed is just one of the factors that influence negatively the livestock sector. Other factors are the breeding systems and the structure for livestock pens<sup>263</sup>. The outcomes of the lack of competitiveness in this sector is visible in the period 2009-2014 in which the degree of imports of meat from TPP countries represents a high proportion of the total import value of Vietnam<sup>264</sup>. For example, the share of imported chicken accounted for 66.3% of the total import value of each commodity. Anyway, Vietnam has been capable to develop specialized commodities for export, in particular coffee, nuts and pepper. Except for rice, the two highest export values of Vietnam are seafood and wood products with an increase of 14.7% and 17.6%, respectively<sup>265</sup>.

After this brief outlook of the agricultural sector of Vietnam, it is worth to say that the economic integration of the agricultural sector has been possible by trade agreements signed in the last decades. In this period of economic collaboration, the agricultural trade has grown among Asian nations due to the effects of preferential tariffs. When in the 1995

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<sup>262</sup> *Ibi idem*

<sup>263</sup> *Ibi idem*

<sup>264</sup> *Ibi idem*

<sup>265</sup> Dang K.K. (2015), *Vietnam Joins Trans-Pacific Partnership (TPP): Challenges and Opportunities for Agricultural Production*, Centre of Agricultural Policy – Institute of Agriculture and Rural Development

Vietnam joined ASEAN the total agricultural trade was inferior than \$1 billion<sup>266</sup>. With the Vietnamese entry in the WTO, Vietnam has tripled his agricultural trade, reaching the peak of \$13 billion after the 2011, favouring a trade surplus. This could be possible thank to the other 40 different trade agreements Vietnam has established from the 2009. The main important are the ones with Korea (2009), China (2010), Australia, New Zealand (2010), and India (2010). Today, with the TPP, Vietnam has discussed the joining of other important international trade deals<sup>267</sup>. This economic integration in a so difficult sector has led the Vietnam to face a challenge: to stop it or to increase it. In this vein, the TPP has offered various opportunities. Concerning the exports, there are opportunities but its are not high. Indeed, today most of agricultural goods for the export commerce are joining tax rate close to 0<sup>268</sup>. For this reasons, the TPP will not influenced in negative terms the trade of products as woods products or seafood. Instead, relating to rice, Vietnam could experience a great advantage thank to the reduction of tax rate from 367% to 0%. Concerning the potential markets, Mexico and Malaysia could be two important place for the export of agricultural goods because export and import duties in these countries are high. While the Vietnam could experience profits in few sectors, the country could face the challenge of the market of livestock products. In this field, Vietnam may suffer the concurrence from countries as the United States and Australia- Apart from the promotion of trade, another advantages Vietnam could benefit from participation in TPP is the rise of foreign investments inflow which is linked to the improvement of science and technology and the development of its labour ability. Entering the TPP with the reduction and abolition of agricultural protection, several nations that are in a situation of disadvantage in the agricultural production may decide to focus their investments in the agricultural sector of Vietnam. This could bring to a rise of employment and income for the South-East Asian countries. The agricultural sector may benefit through the

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<sup>266</sup> Arita S.S., Dyck J. (2014), *Vietnam's Agri-Food Sector and the Trans-Pacific Partnership*, U.S. Department of Agriculture, Economic Research Service

<sup>267</sup> In addition to TPP, Vietnam is engaged in negotiations with the European Union, Regional Comprehensive Economic Partnership Agreement (RCEP), European Free Trade Association (EFTA), and the Customs Union of Belarus, Kazakh- stan and Russian Federation.

<sup>268</sup> Dang K.K. (2015), *Vietnam Joins Trans-Pacific Partnership (TPP): Challenges and Opportunities for Agricultural Production*, Centre of Agricultural Policy – Institute of Agriculture and Rural Development

introduction of scientific and technological improvements in order to change its unproductive local technique. Just to make an example, Japanese agricultural companies may come to Vietnam to produce high quality and hygienic rice and safeguard food safety for exporting to their home country<sup>269</sup>. This situation is favourable to Vietnam in order to integrate the “global chain values” of agricultural goods and to improve the exports of those products. Granted that the investments are endorsed and oriented well, the Vietnamese agricultural sector, when taken advantage of the current “golden population” of the country will realize important innovations<sup>270</sup>. In its history, one of most relevant problem of the agricultural sector has been that farmers were stuck in the agricultural field and the difficulty to increase the quantity of land use for production in large scale, developing a struggle for the development of the efficiency of the Vietnamese agricultural production. Anyway, TPP may create the condition to solve the issue. As said before, the footwear and garment sector may be influenced positively by the new trade deal<sup>271</sup>, attracting an huge number of workers from the agricultural field<sup>272</sup>. Provided that the executive has beneficial development strategies and policies that grant benefits of labourers, these will move toward new sectors, leaving the agricultural one. This fact will help the procedure of land accumulation for farmers and permit them to turn themselves into professional farmers<sup>273</sup>.

So, Vietnam presents a transitioning economy characterized by a gradual but constant approach of market reform and export-led development. In its history, this state has tried to reach trade deals to expand commerce and investments, appreciating a high degree of growth. Even if the growth has recently reduced, Vietnam should gain market potential for imported goods and agricultural products. The participation in the TPP is seen as a fundamental step to continue the project of economic integration and progress. Even if

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<sup>269</sup> *Ibi idem*

<sup>270</sup> *Ibi idem*

<sup>271</sup> Petri P.A., Plummer M.G. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*, Working Paper Series, Peterson Institute for International Economics. Washington

<sup>272</sup> The movement of labour workers is estimated at around two million labourers.

<sup>273</sup> Dang K.K. (2015), *Vietnam Joins Trans-Pacific Partnership (TPP): Challenges and Opportunities for Agricultural Production*, Centre of Agricultural Policy – Institute of Agriculture and Rural Development

the theory supports the increasing relevance of the agricultural sector in taking the decision to join or not a trade agreement, the case of Vietnam is particular. Indeed, the development of the Vietnamese agricultural sector is related, on one hand, to the end of protectionist policies and the economic reform planned in the 1986 and, on the other hand, to the increase of International trade agreement and Preferential trade deals signed by the South-East Asian countries. Although the agricultural sector is a distorted market, characterized by strong protectionist policies, in Vietnam the liberalization of the sector has started few decades ago and has permitted an incredible development of this market. It is important to remember that in the 1989 the agricultural market reached a peak of 42% of share of GDP due to the *Đổi Mới* reforms and the end of protectionist and state-planned policies. Furthermore, it is important to consider the changing landscape of the Vietnamese economy. In the last years, the agricultural sector has been damaged by a stop in the development and it is correlated to the lack of competitiveness of farmers and the old technologies, intended as agricultural method and devices. Furthermore, its relevance has diminished due to the people migration to the urban zones and cities, shifting their ways of life and asking for new types of job. Trying to stop this collapse, the Vietnamese government has started a program with the aim to renew this sector and make it more competitive thank to the participation in preferential trade agreements, as the TPP – a new trade of international commerce deal – and bilateral or regional partnerships. As specified before, this is the only chance to allow a modernization of the sector. Finally, it is evident that the Vietnamese agriculture is losing relevance. In the last years, the footwear, garment and service sector has monopolized the attention of Vietnamese economists and politicians. Even if the agricultural sector presents the highest level of employment in all the country, it lacks of efficiency and could not generate huge profits. So, diversifying the economy, Vietnam is trying to tackle the future and the agricultural farmers have not the necessary force – even the willing - to stop this process, made possible by the participation in a trade deal as the TPP.

In conclusion, in the case of Vietnam, the hypothesis formulated in the third chapter about the relevance of the agricultural sector has been tested with a negative answer. This does not mean that the theory beyond the hypothesis is not true. This means that exceptions exist and Vietnam is one of these. Trade agreements like the TPP are the only way for the government to permit to assure a new relevance to this sector, that for sure present the highest rate of employment of all the country but does not ensure adequate standards of living for all the employers because of the lack of modernization and efficient



techniques of work. Probably, it is strange that a country with an agricultural sector that accounts the 21% of GDP but does not present a strong represent of the sector and mainly a robust association of farmers in order to protect their interests and make a sane opposition to the trade deal. furthermore, the Ministry of Agriculture and Rural Development has pushed for the deal most probably because this Vietnam is a champion for agro-based export, therefore making FTA as an important tool to market the product abroad. Director of Agro- Forestry Processing and Salt Industry under this ministry said that Vietnamese agriculture products have been exported to 180 countries and earned a record US\$ 30.8 billion in the last years. In the case of TPP, the profits for the agricultural sector are relevant but at the same time little in respect to the other markets. It is worth to remember that Vietnam is an autocracy and some associations are not permitted in order to control the opposition.

#### **4.3.3 TPP and reforms: A Vietnamese story.**

Vietnamese politician has desired to adopt measures following the ones adopted with the *Đổi Mới* in order to reach full democratization and economic liberalization. It is possible to assert that Vietnamese politician want to implement politics that are an evolution of these adopted in the 1986. Analysts see the TPP as a symbol for a “*Đổi Mới 2.0*”. This should be the rational following step of the historic reforms. In the last years, Vietnam has found difficulties in finding a new momentum for reform because of the conflict between the reformists and conservatories. The latter want to redefine these politics to maintain the centrality of the CVP and of planned economy in order to control the Vietnamese society. Instead, the reformists emphasized the new role of liberalized economy and wanted more and more reforms. This group stressed the importance of *Đổi Mới* because for the first time in Vietnam there was an “interconnected process between politics and economy”<sup>274</sup>. The group of Vietnamese reforms is sure that as the first steps of the set of reforms launched in the 1986 has permitted a embryonic transformation of the government, the participation of Vietnam in the Transpacific Partnership could facilitate the transition to a “more competent, transparent governance” and push to overhaul “domestic corporations to be more competitive”<sup>275</sup>. As said before, the challenge

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<sup>274</sup> Schwarz A. (2016), *Vietnam’s economic reforms to continue under new leadership*, The Diplomat

<sup>275</sup> *Ibi idem*

between the faction of reformists and conservatories has led the politic to a new context characterized by direct language against corruption and asking for new democratic places. Obviously, without any attacks to monopolistic power of the CVP. In this background, the TPP is seen as a key to reach a more inclusive economic political and economic reforms. The 12<sup>th</sup> Congress of the January 2016 has reasserted Vietnamese plan and outlook to the TPP. Even if the election of a conservative and historically pro-China<sup>276</sup> CVP General Secretary, Nguyen Phu Trong, over the pro-business reformer, Nguyen Tan Dung, the opinion of Vietnam toward TPP has not changed. Anyway, a disagreement could be found among senior leadership regarding economic ideology and progress. The Communist party would be able to gain power by bringing on its promises of economic development and overall wealth. The Republic of Vietnam may limit domestic displeasure through the acceptance of open and good economy and the join of varies international agreements. Trying to achieve these aims, the 12<sup>th</sup> Congress has established economic provisions for the next years. These provisions are clear and consistent and the government has to implement its in four years – from the 2016 to 2020<sup>277</sup>. Those plans are intended to support directly the development of the private sector, providing “creation of a level playing field with equal access to credit, land, and other resources”<sup>278</sup>. In this vein, the government has posed some hopes to the private sectors, defined as one of the most important engine of the economy. The economic reforms that the Congress wants for the 2020 consist in “average annual 6.7 percent GDP growth and a rise of GDP per capita to \$3,750 by 2020, an increase of 83 percent from 2014 levels”<sup>279</sup>. The only device capable to help the Vietnam in achieving those targets may be the TPP. This economic deal may benefit the Vietnamese largest industries<sup>280</sup> due to the elimination of import duties in participants nations. In the next decade, the sector of apparel and footwear

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<sup>276</sup> Kim A., *Vietnam and the Trans-Pacific Partnership: Political History and National Outlook*, Independent Study

<sup>277</sup> *Ibi idem*

<sup>278</sup> Major General Nguyen, Hung M. (2014), *Military and Political Theory Organ of the CMC and VMND*, National Defence Journal

<sup>279</sup> *Ibi idem*

<sup>280</sup> Seafood, garment and textiles industries.

exports is expected to increase of 50%. Furthermore, as said before, some companies as Texhong Textile Group Ltd., Shenzhou International Group Holdings Ltd. and Pacific Textiles Holdings Ltd. are planning to relocate their industries to Vietnam to take advantage of the commerce deal. Several foreign companies have come to Vietnam to invest, assuring a short-term increase to Vietnamese markets. As Vietnam is expected to profit most out of all twelve participants of the agreement, there is a total governmental support for the TPP – comprising the CPV Central Committee support for the future ratification<sup>281</sup>. As explained before, Vietnam has been characterized by an economic boom in the last decades; however, as it looks China's economy slow, Vietnamese leadership is planning to accelerate systemic reform<sup>282</sup>. First of all, it is necessary because not all Vietnamese markets would profit from the agreement. For example, the agricultural sector and the pharmaceutical one would suffer an increase of competition and good prices, but it is worth to investigate deeper this argument in the next section. In second stance, a new examination of the role of State-owned companies along with the Vietnam General Confederation of Labour (VGCL) in a new multi-union system is necessary. The VGCL, founded in the 1929 by the General Union of the Red Workers, is the only labour union admitted in the country. Today, it is the only institution that represent the world of labour in whole the country. Every trade union must be associated to the VGCL to make possible that the government control the entire world of the labour in the country. As the official leadership is composed by important members of the CPV, this institution could be considered a political one. The official aims of this institution comprise the "responsibility to implement the Party's directions and policies and to contribute to the Party's development"<sup>283</sup>. Today, the inefficiencies of these state-owned companies is evident and are targets of future reform. However, the necessity of privatization clashes with the ideas of several leaders that assert constitutional help of state capital safeguarding as the only device to enhance the economic stability<sup>284</sup>. In this

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<sup>281</sup> Major General Nguyen, Hung M. (2014), *Military and Political Theory Organ of the CMC and VMND*, National Defence Journal

<sup>282</sup> West S., Brown D. (2015), *The Trans-Pacific Partnership: Sizing Up the Stakes - A Political Update*, The Eurasia Group

<sup>283</sup> Ministry of Labour - Invalids and Social Affairs (2014), *Socialist Republic of Vietnam*, <http://www.molisa.gov.vn/en/Pages/Home.aspx>. (last visited 21 Jan. 2017)

<sup>284</sup> H.H. Le (2015), *The TPP's Impact on Vietnam: A Preliminary Assessment*, Researchers at ISEAS

context, the TPP could help the government offering further leverage for reform as privatization provisions. This reform would influence the future path of nearly 500 companies, including Vietnam Posts, Telecommunications Group and Vietnam Airlines. As arranged by the TPP the freedom of associations must be recognized and is necessary. So, Vietnam has to accept the future independence of other labour unions without necessary weak the power of the VGCL. Indeed, in the TPP there is not any provision establishing the dismantle of the VGCL but it states the necessity of the recognition of legality of other unions.

In conclusion, it is possible to assert that in the case of Vietnam, the third hypothesis has been positively tested. According to the theory, when a leader needs to implement reforms, in particular liberal ones, but have to face a strong opposition or does not have the necessary force to do it, may negotiate an international trade agreement in order to reach a bigger leverage or influence to make reforms possible. As said in the case selection paragraph, Vietnam is a strange case because it is an authoritarian regime and in this case the opposition is within the party. Nonetheless, the TPP has help the leaders to overcome antagonism and difficulties in promoting reforms due to the huge economic profits that trade deal could lead. So, the only way to take advantage of the TPP has been to promote reforms and at the same time, the only way to push some new provisions has been the acceptance of the TPP.

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#### 4.4 Case study Two: The Japanese case

The Japanese interest to enter in Free Trade agreements started at the end of 20<sup>th</sup> century as a consequence of the outgrowth of commerce deals in Americas and in Europe<sup>285</sup>. Japanese executives have started to establish East Asian accords because of economic and political motivations. First of all, Japanese trade was most with East Asian nations. The trade among those countries expanded from the 1990 to 2015: export has risen 4.9 times and imports from the Asian countries grew by 5.3 times, while the imports and exports globally expanded by 3.5 times and 2.8 times in the same period<sup>286</sup>. Generally, Free trade agreements have lead profits for the country and have been a device to stimulate domestic reform, in particular in the protected agricultural sector. Some scholars argue that the most important stimulus for the Japanese entrance in this kind of agreement has been the Chinese rivalry over the East-Asian Leadership<sup>287</sup>. From the beginning of the new century, the rivalry with China has affected the formation of trade deals. Just to make an example, when Chinese politicians proposed the establishment of an FTA with the ASEAN, the proposal was not taken in account by the Japanese technocrats. Anyway, Japanese policy makers started to think to adopt counter-measures and began the negotiations to establish a ASEAN- Japan Comprehensive Economic

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<sup>285</sup> According to Japan's FTA Strategy drafted by the Ministry of Foreign Affairs in the 2002, "East Asia lags Europe and the US in the development of a regional system despite its deepening political and diplomatic interdependence". The paper also reported that "there is no doubt regarding the importance of the construction and development of a regional economic system under Japan's leadership for the stable development of Japan and the East Asia region".

<sup>286</sup>Xiao Y. (2015), *Competitive Mega-Regional Trade Agreements: Regional Comprehensive Economic Partnership (RCEP) vs. Trans-Pacific Partnership (TPP)*, CUREJ: College Undergraduate Research Electronic Journal, University of Pennsylvania, <http://repository.upenn.edu/curej/194>.

<sup>287</sup> *Ibi idem*, p. 62

Partnership (ACJEP). This competition is revealed in two aspects of trade accords: the first is the pointing of FTA associates. In first stance, Japan has founded agreements all ASEAN countries and with ASEAN as a whole. Scholars state that such a bilateral direction was supported by a light balancing against the Chinese duty to reinforce trade relations with Southeast Asian countries. Secondly, another important characteristic is the Japanese approach to Free Trade agreements. The Japanese executive stresses that its accords are of superior quality<sup>288</sup> than the Chinese ones, marked as brief, unclear and with the focus on appeasement rather than formal dispute settlement<sup>289</sup>. So, Japanese and Chinese governments are offering different “model” of regional integration and rule-making. In this context, the TPP may help the Japanese government to become the focal point of the regional integration mechanism in East-Asia.

Japan had started the investigation of a likely TPP participation in the autumn of 2010 but only in the 2012 the government could take the initiative to be part of negotiation. An event affected the TPP negotiation: the return to the power of the LDP - Liberal Democratic Party- guided by Shinzo Abe. This fact has been fundamental because it has lead to the participation of Japan in the TPP. As seen by the Abe, the TPP may be the engine required for the structural reform agenda. Indeed, Japanese existing networks of Free trade agreements present two disadvantages:

- Its are formed by smaller countries without significant economic power;
- Lack of the liberalization standards of the most developed nations<sup>290</sup>.

On the other hand, the TPP offered probable economic and geopolitical profits that are fundamental for Abe to reinforce his position and to force reforms, which in a normal situation would not be possible. In the next section, this work will illustrate the passage of the TPP and the influence of Japanese domestic factors on the country participation to the treaty.

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<sup>288</sup> Based on broader issue scope and binding obligations.

<sup>289</sup> Antkiewicz A., Whalley J. (2005), *China's new regional trade agreements*, *The World Economy* 28 (2005): 1539- 1557.

<sup>290</sup>Xiao Y. (2015), *Competitive Mega-Regional Trade Agreements: Regional Comprehensive EconomicPartnership (RCEP) vs. Trans-Pacific Partnership (TPP)*, CUREJ: College Undergraduate Research Electronic Journal, University of Pennsylvania, <http://repository.upenn.edu/curej/194>.

#### 4.4.1 The Japanese participation in the TPP: which veto-players?

After the election of Japanese Low Chamber in the 2012, the Liberal Democratic Party guided by Shinzō Abe conquered the majority of the votes and become the first Japanese party. Immediately, after the election, the party started to be in favour of the TPP with some conditions, one of these is the non abolition of duties over the fives “sanctuaries” of the agricultural sector<sup>291</sup>. According to Abe, Japan had and has the necessary force to avoid the total suppression of the tariff duties. Initially, the party was divided by the TPP issue because some of their members were affiliated with the most exposed sector, the agricultural one. Anyway, in the 2013, after the meeting between Obama and Abe, the latter expressed the Japanese desire to reach a final agreement, pursuing reliable goals for Japan. Today, it is possible to assert that the Japanese opposition to the TPP has been defeated and Japan has been the first member to ratify the agreement at the end of 2016. The path to the ratification is full of obstacles, posed by institutional veto players as the opposition parties and the societal groups. In order to better understand the Japanese way to the participation in the TPP, it is important to analyse the party opposed to the TPP, the opposing faction within the Party and the characteristics of the societal groups. Then, it would be possible to explain in which way Abe has made possible the Japanese full participation in the agreement.

One of most important party opposed to the TPP was the Japanese Communist party. The main goal of the party is to eliminate all the sources of sufferance of the country and for this reason it is totally opposed to the TPP. Generally, the party expressed the desire to preserve autochthon sectors, opposing to internationalization and to the elimination of economic subsidies. The President of the Party, Shii Kazuo, has defined Japan as “lost country” because of the intention to negotiate the deal<sup>292</sup>. He asked for the immediately revoke to the adherence to the negotiations because, according to the party, the Japanese participation would cause the agricultural collapse and would create problems for regional economy. One of the biggest critic to Abe has been of the maintaining of secret negotiations. Even the Green Party opposed the participation of Japan to TPP. The party dogmas as the defence of the environment, the multiculturalism and the opposition to the

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<sup>291</sup> The production of beef,pork, sugar, dairy goods and rice.

<sup>292</sup> Naoi M., Urata S. (2013), *Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement*, Asian Economic Policy Review 8, 326–349

war influence the party positions to the TPP. The main critic to the deal is related to the decrease of Japanese lifestyle standards due to the collapse of agricultural sector and the deregulation about the products safety. After the announce of Japanese participation, the party announced officially that the TPP would destroy the Japanese life style and environment. Another strong opponent of the TPP has been the Social-Democratic Party that emphasizes the article 9 of the Japanese constitution<sup>293</sup>. The members of this party opposed the TPP because of opening of new markets that would involve negatively the life of citizens. Also the party stated that Japan did not have the necessary power to re-negotiate the exemption of agricultural products, leading to the stipulation of an unequal commercial treaty. The Social-Democratic party focused the attention of the arrival of big agricultural companies in the agricultural sector of Japan and would determine a change of culture and life in the rural areas<sup>294</sup>. These groups are not the only one opposing TPP. Indeed even if the *Minshutō*<sup>295</sup> and the *Jimintō* - Liberal Democratic Party were not opposing the TPP, they present some members affiliated with agricultural association against the trade deal. Furthermore, parties, analysed before, cannot be considered as important veto players because they did not have the necessary number in the Chambers to oppose the TPP. Among these parties, the Communist party is the most represented in the two Chambers with only 8 members in the Low Chambers and 11 members in the High Chambers. With these numbers, a strong and realistic opposition to the TPP could not be possible.

One of the most relevant actor in the Japanese politics is the Democratic Party - *Minshutō*. Usually, it is the antagonist of the Liberal Democratic Party but in the TPP question, the situation is different. In the 2010, the leader of the Democratic Party expressed the Japanese willingness to join the TPP negotiation. Anyway, from the 2010 to the 2012, the negotiation talks of the trade agreement has been characterized by the Japanese absence because of the inability of the government to take a decisive political decision, able to contrast the contrast the strong opposition within the party and the to resist from the tenacious pressure by the agricultural organizations. After the declaration of the Prime Minister of that period, Kan, to consider an eventual Japanese participation in the TPP, a Project Team was established with the task to create the conditions to favour

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<sup>293</sup> It comprises the refusal of any war and the Safety treaty with the United States.

<sup>294</sup> See <http://www5.sdp.or.jp/policy/policy/election/2013/data/commitment.pdf>

<sup>295</sup> Democratic party of Japan



the entry of the Japanese in the negotiation talks of the TPP and to evaluate how to collaborate with the opposition forces. Anyway, this Project Team has never completed his mission due to the strong antithetic positions within and outside the party. For the first time from the beginning of the negotiations of TPP, the probable participation was discussed and found the opposition of strong veto players as the agricultural associations and several members of the ruling party. Today, the party is guided by the ex Minister of Finance during the Kan Government, Yoshihiko Noda, and it is represented by the 96 members in the Low Chamber and 49 in the High Chamber. During the last election, the DPJ candidates have never mentioned TPP to avoid to take distance from the farmers. Before the Japanese ratification of the TPP, there still was an internal division within the party. For this reason, the party has taken a neutral position toward the trade agreement<sup>296</sup>.

In this paragraph we have analysed few of the actors involved in the TPP participation. The first veto players described above have not the necessary force to stop the agreement. Instead, regarding the Democratic Party, veto players, as some members within the same party and the agricultural association, had the capacity to get slower the discussion about the Japanese involvement. The end of the discussion occurred in the 2012 when the Liberal Democratic party took the power. In the next section, it is fundamental to observe how the LDP has changed his opinion toward the TPP and how it has overcome the veto player's opposition.

At the end of the 2011, the LDP expressed negative comments about a possible Japanese participation in the TPP. In an official document of the PARC - Policy Affairs Research Council – the *Jimintō* declared his total opposition to Japanese adhesion to TPP for several reasons<sup>297</sup>:

- It would be against the Japanese farmers and the party supported the agricultural issues and interests. Furthermore, according to the Japanese constitution, the agricultural is one of the pillar of the nation and have to feed all the population and maintain a healthy development of the rural villages.

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<sup>296</sup> Naoi M., Urata S. (2013), *Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement*, Asian Economic Policy Review 8, 326–349

<sup>297</sup> Declaration of the PARC (25 Oct. 2011)  
[http://www.jimin.jp/policy/policy\\_topics/pdf/seisakuS087.pdf](http://www.jimin.jp/policy/policy_topics/pdf/seisakuS087.pdf)

- At the time, the Liberal Democratic Party was the most important opposition party and went against the government guided by the Democratic Party of Noda. They went against the idea of the Noda Government because the TPP was considered as an “evil” device for national costumes and Japanese products.

- For the DPJ, the Japanese executive had to focus the attention and its forces on the consequences of the huge earthquake of the 2011 and not to economic agreements.

According to this official document, the Liberal-Democratic Party of Japan was in total opposition to the Noda executive and the TPP. Anyway, the thinking of the party leaders started to change. Before the election of the 2012, Abe declared for the first time that the party could have the force to negotiate the agreement in order to obtain concession on tariff reductions. For the first time, the LDP tried to open a little window for the deal. the *Jimintō* had the same problems of the *Minshutō*: the debate within the party between the supporters of the TPP and the supporters of agricultural requests and protectionist groups. The turning point for the party was the general election of the 2012. After a little period under the power of the Democratic Party, the LDP came back to power with the new Prime Minister Abe. This election has been characterized by an increase of agricultural voter for the Liberal-Democratic Party but also for a bigger increase of voters from the semi-urban and urban districts. Another important outcome of this election is the decrease of the agricultural influence on the vote. From the first time in the history of Japanese election, the agricultural voters constituted the 5.3% of voters of the total<sup>298</sup>. They remained still relevant but not as in the past. This result permitted to Abe to choose as Minister of Agriculture Hayashi Yoshimasa, ex Minister of the Defence under the Fukuda government of the 2008. This choice was particular because for the first time the Minister of Agriculture was not a figure affiliated to the farmers and agricultural associations, and secondly because he was a prominent supporter of the TPP. From the first day of the Abe government, it was visible that the rural and farmer associations started to have less influence on government policies. For sure, this was an outcome of the 2012 elections, in which the victory of LDP was reached thank by the semi-urban and urban voters. This outcome has lead the government to find a concrete way to participate in the TPP. The

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<sup>298</sup> Naoi M., Urata S. (2013), *Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement*, Asian Economic Policy Review 8, 326–349

last obstacle was the opposition within the party. After the election of the 2012, the 70% of the members of the party declared their opposition to the party. In some cases, the agricultural organizations had helped politicians during the election campaign in order to obtain their opposition to the TPP<sup>299</sup>. At the beginning also the Ministry of the Defence expressed his thinking about the treaty, defining it as the device to destroy the Japanese rural sector and areas hit by the earthquake. After a relation of a group of politicians in favour of the TPP but with some limitation as the respect of the food standards and the elimination of the “5 sanctuaries” from the treaty, the situation changed. Some members of the party decided to support the government only if the latter did not suppress the duties on the most important Japanese food products. In this way, the Japanese government was able to continue negotiation with the other countries and resolve the problem of the internal division. The last step in the Japanese path to the total participation to the treaty was the election of the High Chamber in the 2013. In this case, the agricultural associations decided to not support the LDP candidates after the decision of the Abe government to continue the negotiation of the TPP. Anyway, even if the opposition of the rural group, the *Jimintō* conquered the 61% of votes, mostly in the rural zones. For the agricultural associations, it was the end. Furthermore, the bad relations of the agricultural groups with the *Minshutō* made the position of farmers weak. From this point, the most important Japanese agricultural association – the JA<sup>300</sup> - decided to open a dialogue with the LDP. JA asserted that the Liberal Democratic Party was the only able to obtain the maximum from the agreement. A sort of opposition still remains but it is little.

So, the Liberal-Democratic party has finally reach the ratification of the trade deal in the December of the 2016. It is possible to assert that has been possible due to a combination of factors:

- The slight significance of the opposition parties to the TPP;
- The decrease of the influence of the agricultural organizations in the Japanese policy making processes;
- The little role of the protectionist movements in the Japanese politics.

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<sup>299</sup> See [http://www.jcp.or.jp/akahata/aik12/2013-03-04/2013030401\\_01\\_1.html](http://www.jcp.or.jp/akahata/aik12/2013-03-04/2013030401_01_1.html)

<sup>300</sup> Japanese agriculture

It is very difficult to assert that the opposition within the party could be considered as a veto player in the path to the TPP. It is true in the case of the Democratic party but not in the case of the Liberal-Democratic government. Indeed, even if the opposition of those party members affiliated with agricultural association, the party has always pursued the final participation in the agreement without finding insurmountable obstacles. This is a sign of the force of the party guided by Abe.

#### **4.4.2 The Japanese agricultural sector: an obstacle to the TPP?**

Japanese companies are famous around the world to be strong and competitive. It is true for all Japanese industries but the agricultural one. The agricultural sector, during the history, has been overprotected from the international competition and the degree of the agricultural liberalization in the existing FTAs is very low. A so low ratio in liberalization could make the participation of Japan in the TTP. Anyway, it is not the case for various reasons. First of all, it is fundamental to make an overlook over the Japanese agriculture in order to investigate if it is sector is fundamental for the Japanese economy and then it will analyse some problems of sector in order to explain why the sector has become so weak. Then, there will be a presentation of possible reforms of the ruling party in order to prevent a decrease of agricultural development under the TPP regime.

Today the agricultural sector of Japan accounts for 4500 billion of yen of internal production<sup>301</sup>. In this amount, there are 2200 billion of subsidies from the government but even if the low tariffs and these helps, the agricultural production covers just the 42% of the domestic consumption<sup>302</sup>. According to the balance of the 2013<sup>303</sup>, in Japan the agricultural population is composed by 2,53 million of people, comprising 1,46 million of farmers<sup>304</sup>. In the table above, it is possible to note the agricultural trend from the 1965 to 2013, year of last sources.

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<sup>301</sup> MAFF (2014), *Budget of the year*, [http://www.maff.go.jp/j/budget/2014/pdf/26\\_kosshi.pdf](http://www.maff.go.jp/j/budget/2014/pdf/26_kosshi.pdf)

<sup>302</sup> *Ibi idem*

<sup>303</sup> The MAFF budget of the year (2013)

<sup>304</sup> The 61% is over 65 years old.

**Table 7: Decline of the Japanese agriculture from the 1965 to 2013**

	1965	1975	1985	2005	2013
<b>Cultivated area in hatter</b>	6	5.57	5.38	4.69	4.54
<b>Agricultural population in hatter</b>	11.51	7.91	5.43	3.35	2.53
<b>Number of farmers in hatter</b>	8.94	4.89	3.46	2.24	1.46
<b>Over 65 (%)</b>	-	-	19.5	57.4	61

**Source:** Dell’Era F. (2014), *Cambiamento nelle politiche agricole giapponesi? Analisi delle trattative sul TPP* [Changes in Japanese agricultural policies? Analysis on TPP negotiations], Università Ca’ Foscari, Venezia

In Japan, there are over 400.00 hatters of abandoned cultivable lands, while another millions of hatters remain unutilized due to the *gentan* policy<sup>305</sup>. It is possible to assert that the Japanese agriculture is in difficult stage of its life and agricultural policies are extremely inefficient. In few sectors of the agricultural economy, there are some companies that operate in an international market<sup>306</sup>. On the other hand, thank to *geitan* policy, the Japanese agriculture is in the hand of little farmer companies that operate in local markets. The Japanese agricultural dimension is fragmented and little concentrated. Regarding the abandon of the land, from the 1980 the phenomenon is increasing and in

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<sup>305</sup> Policy that supports the reduction of cultivable land.

<sup>306</sup> Dell’Era F. (2014), *Cambiamento nelle politiche agricole giapponesi? Analisi delle trattative sul TPP* [Changes in Japanese agricultural policies? Analysis on TPP negotiations], Università Ca’ Foscari, Venezia

the 2010 has reached the maximum of 396.000 hectares of abandoned land<sup>307</sup>. The increasing number of non-cultivated territories is a consequence of factors, namely:

- Decrease of agricultural population;
- Increase of the people movements toward urban areas;
- The increasing age of agricultural population.

This mix makes the Japanese agricultural sector not efficient and irrelevant for the GDP. Anyway, the agriculture still maintains relevance within the Japanese system because of its ancient role and its high-quality products. As specified in the last section, the agricultural associations are strong and could influence the policy making process. It is not the case of the TPP due to the decreasing of influence of agricultural voters and the action of the Abe government in this sector. Under the TPP regime, some agricultural products would be liberalized and there would be a decrease of duties on products. Japan presents high quality products as rice or the beef that under a liberal regime could assure to Japan high profits. Before the TPP, the best enemy of the agricultural liberalization was the government and its protectionist regime. The government tried to maintain high prices of the product favouring the internal market and avoiding exports. One of the most important causes that blocks the Japanese agricultural economy is the *geitan* policy that is an obstacle for the accumulation of lands and for the growth of a liberalized market<sup>308</sup>. The second Abe government has tried to reform the sector in order to revitalize its economy and make the farmers less indulgent toward the TPP. First of all, Abe listed three innovations in the sector<sup>309</sup>:

- The increase of the export of agricultural products until the 2020;
- The sustainment of farmers in the production, transformation and selling processes;
- The establishment of agricultural banks.

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<sup>307</sup> *Ibi idem*

<sup>308</sup> *Ibi idem*

<sup>309</sup> *Ibi idem*, p.90

In order to promote the normative reforms, Abe has inaugurated the “politic of committees”, with assemblies composed by high-level academics. The government wants create a road that could lead to the liberalization of the agriculture market trough the TPP but the path is still so long.

In conclusion, it is possible to assert that in the case of Japan, the participation in the TPP has been possible due to the less relevance the agricultural sector has achieved during his history. From the first election after the WWII, the LDP has been influenced by strong agricultural associations but today the situation is totally different. Furthermore, the share of the GDP of the agricultural sector drastically diminished over the years. After the election of the 2002, the agricultural sector of Japan has become less important in the policy making process due to a set of factors as the high age of farmers or the huge amount of abandoned lands. These outcomes have favoured the participation and the ratification of the TPP nevertheless the presence of organized agricultural opposition.

#### **4.4.3 The “third harrow” of Abe: TPP and reforms**

In the last two decades, Japan has suffered a high rate of deflation, remaining stalled in slow growth despite continuous efforts to revitalize its economy. The Japanese crisis has been caused by a series of factors: the worldwide financial crisis has influenced the Japanese crisis but there are also domestic motivations. For example, shrinking and ageing population, enormous government debts, and slow replies to structural problems have contributed to the decline of Japanese economy<sup>310</sup>. After the election of the 2012, Abe, who has ruled the country from the 2006 to 2007, announced a governmental plan for a new set of policies to recover the Japanese economy and to save the country from deflation<sup>311</sup>. The proposal of Abe has been named “Abenomics”: a three-branched approach combining fiscal expansion, monetary easing and structural reforms<sup>312</sup>. The first “arrow” of the Abenomics presented a fiscal stimulus correlated to economic recovery

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<sup>310</sup> Koike Y. (2015), *How the TPP will help Japan achieve economic reform*, World Economic Forum

<sup>311</sup> McBride J. (2016), *Abenomics and the Japanese Economy*, Council of Foreign Relations <http://www.cfr.org/japan/abenomics-japanese-economy/p30383>

<sup>312</sup> *Ibi idem*

instruments totalling 210 \$ billions<sup>313</sup>. This huge stimulus set, directed by the government, is the second-biggest ever and has concentrated on building infrastructure – as bridges, tunnels and roads after the earthquake. The second arrow is the most important part of Abeconomics. It presented an unorthodox monetary policy with an asset purchase program. According to the World Street Journal, it has been the biggest Japanese experiment in the monetary policy. The Bank of Japan has to introduced liquidity in the economy<sup>314</sup> and push interest rates in “negative territory”<sup>315</sup>. The last arrow includes structural reform concerning agricultural liberalization and corporate tax cuts. The main goal of the Abe government is to push domestic demand and GDP development while increasing inflation to 2%. Instead, the structural reforms concern the improvement the forecasts of the country thank to the rising competition, restructuring labour and agricultural markets and finally, strengthening trade deals. Even if this good intentions, the destiny of the Abeconomics is not clear. Despite the huge governmental stimulus, growth is slow and inflation has continued to rise due to the back of falling of global oil prices. Other doubts remain for what concern the passage of reforms. These are necessary but are very unpopular and could be opposed by the opposition parties. For the Abe government, Abeconomics are the fundamental part of his political program because it is his best chance to solve Japanese economic problems and to boost his popular support<sup>316</sup>. The Japanese participation in the TPP could help the Abe government to create a new context in which reforms are welcomed. Japanese ratification of the trade agreement came after several years of debate among Japanese companies and the government about benefits and risks of the commerce accord. The TPP may push important economic and structural reforms. First of all, this trade deal should help Japan improve its domestic reforms creating a more interesting environment for foreign capitals and boost the competitiveness of domestic firms and workers. In this context, the TPP may help the Abe government complementing and strengthening the structural reforms in order to push productivity and encourage greater growth of Japanese economy. Certainly, companies,

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<sup>313</sup> *Ibi idem*

<sup>314</sup> The mechanism is know as “quantitative easing”.

<sup>315</sup> McBride J. (2016), *Abenomics and the Japanese Economy*, Council of Foreign Relations <http://www.cfr.org/japan/abenomics-japanese-economy/p30383>

<sup>316</sup> *Ibi idem*



workers and farmers could challenge an increasing competition, but TPP regulations will probable guarantee the path to reforms will be facilitated in order to ease the modifications of those adversely influenced. The TPP will show the way to revitalize the Japanese economy creating a new context that may help the Japanese government to pass reforms. Thank to the TPP, Japanese companies would be capable to improve exports and direct investments to and in other deal participants. This commerce accord seeks to eliminate all duties on industrial products, boosting industrial exports<sup>317</sup>. For Japan, the possibility of greater exchange of goods, services and capital across two Continents, as well the establishment of international standards is simply too beneficial to ignore. For Japan, the risk of not participation has been incredibly high. In this environment, Japanese government would be helped in proposing and implementing reforms. Another source of confidence from the government derives from the decreasing influence of the agricultural associations. Except for endogenous factors, the decrease of agricultural influence on the policy making process is a consequence of the Japanese debate over the benefits of the TPP. This Partnership initially has been seen as an evil device for the Japanese agriculture and economy but after a scrupulous analysis, the government has convened to participate in negotiations because of the incredible advantages it could lead in other sectors. With the agricultural association decline, the government has founded the force to push for reforms. In conclusion, for the Abe executive, the TPP was the last opportunity to lock in domestic reforms and to maintain Japan as one of the most important Asian economy. The accord has given the force to the government to propose and implement reforms without a strong opposition.

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<sup>317</sup> Terada T. (2012), *Japan and the Trans-Pacific Partnership*, Policy brief, Sasakawa Peace Foundation USA

## 4.5 Case study Three: Indonesia

The case of Indonesia is different from the other two case studies analysed before. Indonesia is among that countries that has showed reluctance to participate in the TPP. The behaviour is quite astonishing due to the U.S. importance to Indonesian economy. Indeed, the United States is one of the most important trading partner of Indonesia with decade long surpluses. For this reason, one may imagine that Indonesia would have joined the U.S.-led TPP as a natural consequence of the Indonesian-American Relations. Anyway, it is not the case. Between the 2010 and the 2015, several high representatives of the Indonesian executive have decided to support a similar stance: Indonesia would not participate in the TPP. The reluctance is motivated mainly by economic competitiveness issue. However, it is important to focus the attention on the influence of the regional politics of Asia-Pacific to deeper understand the issue. Precisely, on TPP case, it is claimed that Indonesia does not need to improve its relations with the United States because “it it does not go hand-in-hand with its foreign policy”<sup>318</sup>. Concerning domestic politics, Indonesia shows that established unitary-state assumption in Southeast Asian commerce politics is not always acceptable. In this case, one of the most important actor is figured out by the Ministry of Foreign Affairs (MoFA) and Ministry of Trade (MoT). These institutions act as well as traditional actor such as the national business capitalists. Leaders, in particular the President of the Republic, does not influence policy agenda and reform. The most important period to observe the Indonesian stance towards the TPP last from the 2010 and the 2014, exactly from President Susilo Bambang Yudhoyono (SBY) era to the current President Joko Widodo. In the 2009, the President SBY stated that Indonesia would prefer to stay in the WTO arena more than a Free Trade

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<sup>318</sup> Hadi S. (2012), *Indonesia, ASEAN, and the rise of China: Indonesia in the midst of East Asia's dynamics in the post-global crisis world*, International Journal of China Studies, 3(2).

agreement because the WTO has more members with Indonesia could establish coalitions. The following year, observing the start of TPP negotiation, the Minister of Economic Affairs, Hatta Radjasa, asserted the Indonesia had different priorities and it is not interested in “high-quality” Partnership. One of the last development is linked to the APEC summit in Beijing, in which the current President Joko Widodo announced the Indonesian renouncement of any future deal with both China and U.S. because Indonesia did not want to be “the mere market” of big powers as the two mentioned before<sup>319</sup>. Today, the interest groups that ask to the executive to enter are the Indonesian Textile Association and the neoliberal academics. Anyway, they are just small groups. Indeed, the general mood in the country is to not join the agreement. It is a decision made by not only by the government but also by other actors like the Pro-ASEAN activists and several NGOs. So, in the following paragraph, it is worth to examine to the three theories and hypotheses on Indonesia.

#### **4.5.1 Indonesia and Veto players: the role of Pro-ASEAN Group**

In the Indonesian policy making struggle, one of the most influent group is the Pro-ASEAN one. In the second part of the last century, Indonesia with other South-Asian countries established this institution, seen as a useful device to interact with the close Great Powers. The rise of this deal went along the rise of China, capable to create and exacerbate regional tension and uncertainties, especially with the United States and Japan. In the last decades, ASEAN has gained more international confidence and it is an outcome of the new policy of collaboration and dialogue, instead of to continue with realist ideals of continuous conflict. Within the country, the MoFA is one of most important supporter of the ASEAN because it gave importance to Indonesian foreign policy. The very fulfilment of Independent and Active foreign policy is part of the tradition of MoFA. As a political actor, this ministry has started to gain importance since the begin of the era of President Suharto, a period in which policies were discussed and taken only among few

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<sup>319</sup> Kompas. (2014), *Jokowi emphasized that Indonesia does not want to be a mere market for big countries*, Kompas.com, <http://bisniskeuangan.kompas.com/read/2014/11/11/102451526/Jokowi.Tegaskan.Indonesia.Tak.Ingin.Sekadar.Jadi.Pasar.Bagi.Negara.Besar>

actors as the MoFA and the military<sup>320</sup>. In this period, the ASEAN has started to push and give priority to the foreign policy of Indonesia. Indeed, pro-ASEAN view has strongly internalized within this ministry and other actors due to the cohesion of interests with the South-Asian establishment. Furthermore, the ASEAN profile became so important that all the most relevant ministries - MoFA, Ministry of Trade, and Ministry of Finance- have decided to create ASEAN unit<sup>321</sup>. Just to make an example to to better understand the relevance of the ASEAN within the Indonesian politic, when the ASEAN inaugurated a policy in order to reinforce their regionalism at the beginning of 1990s, they did so promoting the AFTA - ASEAN Free Trade Area. For this reason, it is not unusual for the MoFA to retain much influence on the trade relations of Indonesia. Furthermore, it is fundamental to say that MoFA is one of ministries that have the task of negotiating trade issues with the Ministry of Trade and Ministry of Finance. Due to the force given by the ASEAN and by the President, the pro- ASEAN faction is determinant in establishing a policy outcome within the domestic political issues of Indonesia. For example, in the 2010 the Indonesian domestic interest was affected by an ASEAN commitment, specifically the ASEAN-China FTA<sup>322</sup>, the President himself asserted that the government of Indonesia would preserved its observance of ASEAN values and refused publicly to renegotiate the trade deal, pushing away the populist instances.

Regarding the TPP, the ministries have keep a low-profile, avoiding commenting much on the agreement. From the first moment, the MoFA has decide to let that MoT took the lead of the issue because the MoT is the head of Indonesian trade negotiation and they did not want to overcome MoT authority but mainly because the Ministry did not want to pull the problem into a foreign policy contest. At the same time, stating the negative influence of the TPP over the ASEAN centrality would not bring any positive effects to the MoFA because of its strict connection with the U.S<sup>323</sup>. Even if at the

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<sup>320</sup> Chandra A.C. (2008), *Indonesia and the ASEAN free trade agreement: Nationalist and regional integration strategy*, Lexington Books Plymouth, UK.

<sup>321</sup> *Ibi idem*

<sup>322</sup> Massive surge of import from China, especially in labor-intensive sectors such as textile, toys and footwear, happened only a year after the ACFTA was implemented in 2010. Import volume increased by 34 percent in 2010, contributing to import deficit of around US\$ 5 billion.

<sup>323</sup> This is acknowledged by the Indonesian Permanent Representative to ASEAN, who said that dipomatically Indonesia could not oppose to the TPP; it is more appropriate to say that it would join

beginning the position of the Ministry did not come out, the position of Indonesia was delineated. In the 2013, during a discussion about the probable participation of Indonesia in the TPP, the Indonesian Permanent Representative to ASEAN recognized the negative influence that TPP could exercised to the ASEAN centrality and stressed the attention of Indonesia more on AEC<sup>324</sup> and RCEP<sup>325</sup>- Regional Comprehensive Economic Partnership. In the same occasion, a representative of the Directorate for Cooperation in Asia-Pacific and Africa, Ministry of Foreign Affairs, doubted on the positive conclusion of negotiation of TPP at any time soon and remarked that other Free Trade agreement as the China-Japan-Korea (CJK) FTA could obstruct the centrality of the ASEAN. The idea of the ASEAN centrality is also pushed by several national academics, mainly those with Politics or International Relations background. Thank to the activism of academics and the position of MoFA toward the TPP, the government has internalized the argument of the “ASEAN Centrality”, starting to support the idea of “Asia First” and to maintain an independence from the U.S. This new position of the government makes impossible at the moment the participation in the TPP. Also the President, trough the Presidential Staff, has pointed out the negative influence of the TPP on Indonesia because of economic reasons and the loose of importance of ASEAN.

In a normal democracy, the President should influence a certain power and certain policy outcomes. Also, in the democratic presidential system of Indonesia, the President exert huge impact on the determination of country policies. Regarding the TPP, the President has expressed two opinions. First of all, academic researchers associated decision on TPP with the attributes of President SBY<sup>326</sup>. This figure is famous in the home-country for his “self-image” rather than the impact and importance of his

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at a timely manner. The position was voiced during a Roundtable Discussion in Jakarta.

<sup>324</sup> ASEAN Economic Community

<sup>325</sup> Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between the ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

<sup>326</sup> Syarip R. (2015), *Responding to The Trans-Pacific Partnership (TPP): Comparative Study On International Trade Policy of Malaysia, Vietnam, And Indonesia*, Ritsumeikan Asia Pacific University

policies<sup>327</sup>. Generally, he is usually to implement a policy that improve his imagine among the population. Concerning the foreign policy, it is evident in the rising international influence of Indonesia, reached by the Bali Road Map 2007 of United Nations Framework Conventions on Climate Change and the G20. For the TPP, the President believed that if Indonesia would have participated in the deal, the country would no longer be the centre of the ASEAN. As someone displayed the negative role of TPP on ASEAN, more the President convinced himself to not join the agreement. In particular, the President opposed the TPP because he did not want that Indonesia enter in a trade agreement because the pressure from a more influential country. On the same side there is the new President Jokowi. Even if he is more pragmatic and more-people oriented<sup>328</sup>, he refused the TPP due the big economic pressure the country has to resist.

In this context, it is very difficult that in the future Indonesia will join the TPP. The number of veto players against the trade deal is very high and comprise fundamental actors in the Indonesian political system. The only groups in favour of the agreement are the neo-liberal academics and the textile companies. These do not have the necessary force to overcome powerful and determined veto players.

#### **4.5.2 The Indonesian case: the agricultural sector and the TPP**

One of most important sector of Indonesian economy is the agricultural sector. Even if the share of agricultural sector influence to the GDP has diminished considerably in the last half century, today it still assures profits for the majority of Indonesian families<sup>329</sup>. In the 2013, the agriculture provided 14.43% of the national GDP, a little decrease in comparison to the 2003 data (15.19%)<sup>330</sup>. In the same year, 49 million<sup>331</sup> of Indonesian people have a job in the agricultural sector and the 30% of all Indonesian lands were used for agricultural commitments. Usually, the Indonesian agricultural field includes two

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<sup>327</sup> *Ibi idem*

<sup>328</sup> *Ibi idem*

<sup>329</sup> Indonesia investments (2015), *Agricultural growth*, <http://www.indonesia-investments.com>

<sup>330</sup> *Ibi idem*

<sup>331</sup> 41% of total labour force in the country.

kinds which corresponds scale<sup>332</sup>:

- Large plantations possessed by state or private companies;
- Traditional agricultural households.

Agriculture in Indonesia is controlled and regulated by Indonesia Ministry of Agriculture. In the last years, the government has focused the attention on certain agricultural products on his agenda. In particular, the rice – by far the main principal food for the greater part of the population – has been chosen as one of that products that have reach the self-sufficiency. Other products are soy beans, corn and sugar are targets of self sufficiency. Government has planned to reach this task in the following years but it is very difficult to realize. Furthermore, the government has also tried to revitalize production of goods in the 2007 but without any success. The Indonesian government characterizes itself to be more very protectionist also in the agricultural field. Indeed, neither the free trade agreement with the United States has been signed to protect the production. For example, Indonesia is discussing the entrance in the RCEP but the main obstacle is the Chinese requests to open the agricultural sector. However, the country is experiencing a slow-down in the economic development and removes trade barriers in this are could be risky in political sense. First of all because the removal of barriers may generate expenses for farmers. Secondly, with the RCEP or the TPP, there would be an increase of foreign investors in the sector, contributing to end of activities of little farmers and as consequence the decrease in all the country of the level of unemployment. Finally, the loose of jobs and competitiveness in this sector because of the country participation in an international trade deal could mean the lost of leader power and the end of executive. In particular, the agricultural voters may vote for the opposing party, contrary to the TPP.

In a country with a strong agricultural sector and with a protectionist imprint, the participation in the TPP would be very difficult. It is case of Indonesia.

#### **4.5.3 Indonesia and reform: the role of Protectionist Groups**

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<sup>332</sup> Simbolon J. (2010), *The rise of agriculture and Indonesia's future*, Jakarta

Indonesia has the largest economy of the South-East Asia with a GDP of \$ 861.9 billion<sup>333</sup> that experienced an incredible growth in the following years after the global financial crisis of 2008. In the last year, the Indonesian economy endures to prove strong with an expected GDP growth of 5.1% for the 2016. According to a World Bank report<sup>334</sup>, a weaker than estimated global economic growth may curb the development recovery of one of most important Asian economy. Furthermore, the World Bank has newly diminished its growth expectations for the world by half a quantity than previously estimated to 2.4 %. According to Indonesian economists, in the next years, in Indonesia, private consumption and public capital spending are intended to sustain the economic development. This could be possible only through the establishment of a set of policy reforms in order to curb demand and financial market instability globally<sup>335</sup>. Rodrigo Chaves, the World Bank Country Director for Indonesia, asserted the Indonesian necessity of careful monetary policy, an intensification of public spending on investments and infrastructure and policy reforms to expand the investment climate is the way to maintain a high level of growth. Recognizing the limits imposed by the global economy, investment and other fundamental reform would help Indonesia to convince foreign investor and to boost the internal confidence. A first step in order to make possible the implementation of fundamental reforms has been announced since September of 2015 and focused on trade and investment reform pushing for deregulation<sup>336</sup>. Anyway, today it is difficult to know if an effective implementation of these reforms is taking place and also if many sectors continue to stay closed or in part closed to foreign investments. The development of the reform for a strong private sector is essential for the Indonesian economy because pressures on public incomes may limit the proposals of the government in order to reach more infrastructure investments, capable to improve the economic development. Indonesian executive has to face an important crisis in the commodities

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<sup>333</sup> The World Bank, *Indonesia*, <http://www.worldbank.org/en/country/indonesia> (last visited 30 Jan. 2017)

<sup>334</sup> World Bank (2016), *Reforms Strengthen Indonesia's Economic Resilience: World Bank Report*, <http://www.worldbank.org/en/publication/indonesia-economic-quarterly-june-2016-resilience-through-reforms> (last visited 30 Jan. 2017)

<sup>335</sup> *Ibi idem*

<sup>336</sup> *Ibi idem*



sector, that needs to be reformed. Starting from this point, Indonesia should catch the opportunity to improve manufacturing and services sector. In the last 15 years, the Indonesian share of manufacturing has accounted at around 0.6%<sup>337</sup>. Ndiame Diop, World Bank Lead Economist for Indonesia is convinced by the necessity to adopt important reforms that will strengthen the competitiveness of its manufacturing and services sectors, especially tourism. Diop has also stressed the importance of a strong private sector because a partnership between this and the industrial sector is unavoidable. So, the Indonesian executives has to follow two paths: reform for the deregulation of trade and more liberalization and the reform of the manufacturing sector. These are fundamental steps but are very difficult to reach. One way could be the participation in the TPP, providing the removal of duties and improving foreign investments in the country. The President of Indonesia may decide to participate in the agreement in order to help the recovery of Indonesian economy and to assure public consensus. As we know, the consensus of the public and voters is related to the economic tendency. Anyway, there is a problem because the current President of Indonesia does not need the public support to maintain his office, but he needs the collaboration of strong protectionist groups to maintain the power. These groups are hostile to the TPP.

Indonesia is a democratic country but its policy-decision making system is very elitist, especially concerning the trade and financial sector. According to Chandra<sup>338</sup>, the government open the policy making system to non-state actors but because of the difficulty in understanding some technical issues make that only a handful of them join it. The most influential actors in this field are two: the “Pro-ASEAN group”, comprising the Ministry of Foreign Affairs and other executive leaders, and the “protectionist group”, composed by domestic groups, NGOs and the Ministry of Trade. It is worth to investigate all the three groups composing the “protectionist group”. First of all, NGOs opposed to the TPP as a device to enhance reforms in Indonesia for several reasons<sup>339</sup>:

- Today, economic data available in Indonesia are not reliable and it is a very big

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<sup>337</sup> *Ibi idem*

<sup>338</sup> Chandra A.C. (2008), *Indonesia and the ASEAN free trade agreement: Nationalist and regional integration strategy*, Lexington Books, Plymouth, UK

<sup>339</sup> Syarip R. (2015), *Responding to The Trans-Pacific Partnership (TPP): Comparative Study On International Trade Policy of Malaysia, Vietnam, And Indonesia*, Ritsumeikan Asia Pacific University

issue for the Indonesia service sectors because it is impossible to quantify benefits, if they are, from liberalization;

- The less degree of transparency of the trade deal;
- Liberalization in government procurement does not necessarily mean corruption practice can be stopped. Instead, it seems that it means transferring the corrupted actor from national to international firms;
- The investor dispute settlement mechanism would weaken the sovereign power of Indonesia against Multinational corporations.

The second protectionist group is composed by domestic business group, structured on protectionist measures. It means that they were established in order to “help” the numerous Indonesian population, making the country more dependent on national rather than external economy. As said before, Indonesia economy largely is based on domestic market and not on the international one. Historically, the business companies were founded as a consequence of the patron-client interactions during the regime of the President Suharto. As asserted by Hadiz<sup>340</sup>, Indonesian business groups focused and started to depend on state economic activity. From the 1970s to the beginning of 1990s, Indonesia benefited from the oil boom and the new private business corporation were helped and received a strong economic support from the state. From the second part of the 1990s, when the oil finished, the government was forced to deregulate the economy and in this context these private corporations took the most advantage acquiring what was previously monopolized by the state. In the last two decades, those have become politically powerful and have started to affect the policy-making procedure. The degree of their influence can be noted in the Indonesian trade policy in ASEAN. An Indonesian scholar, Nesadurai, asserted that the trade policy and reforms in the South-Asian region were planned based on the economic needs of politically fundamental national business segments<sup>341</sup>. Another case is related the fact where MoT decided to propose the reform to impose standard regulation processes for wheat import because the Bogasary

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<sup>340</sup> Hadiz V. R. (2005), *Power dynamics: Indonesian political economy on post-Suharto era*, Jakarta: LP3ES.

<sup>341</sup> Nesadurai H. E. S. (2012), *Trade policy in Southeast Asia: Politics, domestic interests and the forging of new accommodations in the regional and global economy*, in Robison R. (2012), *Routledge handbook of Southeast Asian politics*, Oxon, UK

Company<sup>342</sup> was losing market share due to the Asian crisis at the beginning of 2000s.

This process has limited the expansion of some sectors and contributed to the stagnation of Indonesian industrial sector. The contribution of industrial sector to the GDP passes from the 27% in the 2000 from the 25% in the 2010, provoking a decreasing of the level of employment in the same sector – 5% during the period 1990-1999 and 1.1% from the 2000 to 2010<sup>343</sup>.

The last strong group against TPP and liberalization reforms comes from the government itself. It is composed by the MoT and other important figures of the Indonesian executive. This group is conditioned by the ASEAN stances and by the business groups requests. Anyway, this Ministry, if compared to the Ministry of Foreign Affairs, lacks of efficiency and consistency. During the last decade, this ministry has been characterized by some protectionist measures even if their Minister usually derives from the technocratic context. Furthermore, with the election of the new President Joko Widodo, Rahmat Gobel was chosen as the new Minister of Trade. He is a national entrepreneur, with a company acting in the electronic sector under a joint venture with Panasonic Group Japan, and he is famous to be a nationalist icon with the aim to orient domestically the trade and commerce policy of Indonesia in the future. This is coherent with the people-oriented agenda of the President Widodo<sup>344</sup>. Therefore, it is shocking that in recent times the Ministry of Trade has trying to establish non-tariff barriers for import restriction like the Indonesian National Standard for several types of products<sup>345</sup>.

Given such domestic political scenery, it is easy to comprehend why Indonesia has

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<sup>342</sup> Bogasary Company is the largest integrated flour miller in Indonesia. Bogasari operates two mills in Jakarta and Surabaya with a combined annual capacity of around 3.3 million tons. It has been a major industry player for over four decades, and became part of the Indofood Group in 1995. A comprehensive range of flour products is sold under established brands such as Cakra Kembar, Segitiga Biru, Kunci Biru, Lencana Merah, while its convenient premix flours are branded under Chesa. Bogasari also produces pasta for both domestic and export markets under the La Fonte brand. For more information, see <http://www.bogasari.com/en/>

<sup>343</sup> Kompas TV (2010), *Indonesian Institute of Sciences: Indonesia heading toward deindustrialization*, Kompas.com <http://bisniskeuangan.kompas.com/read/2010/12/22/19523262/LIPI:.Indonesia.Menuju.Deindustrialisasi>

<sup>344</sup> Syarip R. (2015), *Responding to The Trans-Pacific Partnership (TPP): Comparative Study On International Trade Policy of Malaysia, Vietnam, And Indonesia*, Ritsumeikan Asia Pacific University

<sup>345</sup> *Ibi idem*

showed hesitancy to join the TPP in order to promote important economic reform to recover the slow decline of their economy. The President has not the power to launch reform without the consensus of big supporters as the MoT or MoFA, that are in opposition to the TPP. As said in practice, reform could assure the voters support in the next election but in the case of Indonesia the most important support comes from the business group and a move against them could lead the end of the President office. Furthermore, in the case of Indonesia, the reform is not so necessary according to the various Ministries and NGOs because the country should look at internal market and not to the external market, as asked by the TPP, to solve economic issues. It is important to say that in Indonesia there are groups that support the TPP, namely the Indonesian Textile Association and neo-liberal academics, but these actors are only a small group within Indonesian domestic setting with soft political power.

## **Chapter Five: Discussion of results and conclusion**

International trade agreements are important devices in the global economy. For centuries, countries have harmonized their politics and today more recently other kinds of economic exchange through these deals. Lately, PTAs have started to proliferate at a speed rate. The EU, NAFTA, ASEAN and TPP have a fundamental bearing on the current world economy and among the most relevant regional and international institutions. Trade deals are also central in order to promote international cooperation. The aim of this study has been to explain why the government decide to enter in PTAs, in particular in the Mega-regional agreements. It is recognized that Preferential Trade agreements have important outcomes. Academics as Beir and Bergstrand assert the PTAs capacity to boost economic growth and there is considerable evidence that they influence trade flows. This work has focused the attention on domestic political conditions that motivate leaders to reach the economic cooperation. Our tack is not dismissing the relevance of international factors, which are also fundamental in this regard. Rather, this work aims to highlight the domestic political motivations faced by leaders, which have been studied too little in researches of international political economy. The benefits from an international agreement are not only economic but political and bear on the ability of leaders to retain office or to overcome opposition. This elaborate has started with the description of the context in which the phenomenon of mega-regional deal has developed. Today, the international commerce is increased and usual. The drivers of this phenomenon are

basically: the fall in trade costs, the technological change and the implementation of export policies. In the last decades, the increase of trade has been followed by a real per capita incomes rise around the world and even if the global financial crisis of the 2008, growth rates of several developing countries continued to increase. The main affected by this phenomenon has been the East Asian and Pacific countries. Some countries started to rely on commerce policy but after the stalemate in the WTO, the commerce situation became difficult. As said before, countries have started to being part of Regional Trade agreements in the last decades in order to find a reliable framework in which they can negotiate and implement new economic policies. However, these regional agreements have evolved during the years and today have reached the form of mega-regional agreements. These RTAs are planned around a set of profounder integration matters including services, competition policies, regulatory capability and customs cooperation. One of the most prominent mega-regional deal is the TPP, used for our case study. TPP is now considered an alternative pillar in the trade global governance to the traditional multilateral framework. These new types of agreements affect an incredible share of world trade in goods and services and FDI. Countries are willing to enter in these accords because its content coverage deeper the existing contractual responsibilities and disciplines of WTO and other RTAs.

The following chapter has review the existing literature about the argument, distinguishing the literature related on economic factors and the literature based on domestic political factors. Regarding the latter, the main theory is the one developed by Mansfield and Milner that asserts that the nature of the political regime may affect the participation of country in the trade agreement. Starting from this point, it has been possible to develop three hypotheses about the influence of domestic factors in the country participation in the trade agreements. The hypotheses are:

- *H1: As the number of institutional veto player increases, the possibility for the government to establish and ratify the agreements decreases.*
- *H2: Economies of governments with large portions of GDP focused in the agricultural sector will be less likely to form PTAs.*

- *H3: As the need or the willingness of economic or institutional reform of a country increases, the possibility of the government to establish and ratify the agreements increases.*

The first hypothesis postulate that stronger, both in number and influence, the support from the most important state decision makers and societal group, the more likely a country will participate the agreement. It is important because it gives insight into several actors and their interests in the domestic sphere. Within the political system, it is important to note the requests of its leader, the ruling party and the opposition parties. On the other hand, among non-State actors there are domestic business associations and powerful NGOs. Veto players have the force to alter the trade policy or ask requests to the leader to make possible the ratification. Broadly speaking, veto players have the institutional power to impeded policy change. Leaders, we assume, understand the number or character of veto players at the beginning of negotiation. Government can choose a policy to avoid coming back home with an agreement that would be vetoed. Anyway, when characters and number of veto players change during negotiation talk or the ratification process, then leaders challenge a more difficult problem. They have to accommodate the agreement the veto players with an agreement that was outlined for a different situation. For all these reasons, the number of veto players may influence the participation of a government in an international trade agreement.

The second hypothesis focuses the attention on the more distorted sector of country economy: the agricultural sector. In this case, the hypothesis is related to the share of agricultural production in the GDP. Anyway, in the case study also other factors have been analysed as the relevance of the agricultural production, the presence of strong agricultural organizations and the agricultural trend during the last decades. All factors combined have permitted to investigate the state behaviour toward a mega-regional agreement participation. The last one emphasizes the necessity for a political leader to engage the economic reform. This is highly debatable due to its potential wealth re-allocation outcome and because the variety of actors involved in this particular field. Even within state, a lot of actors are involved in the policy process and there could be conflicts over the reform should be carried out. The most important challenge the leader has to face in order to pass the reform is to overcome the opposition. This could be possible due to the engagement in international agreement, capable to give domestic relevance and strength to reach the task.

In the last chapter, this work has tested the hypotheses with three case studies, namely Vietnam, Japan and Indonesia. They reflect pretty much the aforementioned reasoning in their experience on TPP. Vietnam and Japan has the most motives to join the TPP. Vietnam could benefit economically and may gain politically relevance. Therefore, it is not wonder that the country decided to ratify the TPP. Japan is the only country that has ratified the TPP. Thank to the trade accord, the Japan could reinforce his leadership in the Asian region and strengthen the links with the U.S. During the negotiation talks, Japanese government has not suffered a strong opposition and has used the TPP as device to implement structural reforms, the third arrow of Abeconomics. At the same time, Indonesia represent a negative case as it is in contradictory position. The country has decided not to participate in the TPP mainly because the medium-level economic benefits and the weak domestic support. The following table gives a summary of the experiences of all three case studies.

**Table 7: The domestic factors: Experiences of The Three Case**

	<b>PRESENCE OF VETO PLAYERS</b>	<b>RELEVANCE OF AGRICULTURAL SECTOR</b>	<b>NECESSITY OF ECONOMIC REFORM</b>
<b>VIETNAM</b>	LOW	LOW	HIGH
<b>JAPAN</b>	LOW	MEDIUM	HIGH
<b>INDONESIA</b>	HIGH	HIGH	MEDIUM

On the domestic side, it is clear that there are variations among the observed case on the level of necessity of reforms. As said before, Vietnamese and Japanese leaders are strong and capable to use the TPP to overcome opposition and implement their reforms: The *Doi Moi* 2.0 for Vietnam and the third arrow of the Abeconomics for Japan. The Vietnamese case is significant but particular because the voice of the communist party is dominant while the opposition is almost unheard. An opposition within the party exists but it is not a real opposition but a different side of the same coin. The one-party system has influenced also the role of veto players that in this case do not present a real force to block the TPP. The only opposition comes from the manager of SOEs because of the necessity of reform it under the TPP umbrella. In Vietnam, it is no less than enthusiasm to TPP with its potential to export more labour-intensive products to the US, but without

sufficient balancing views. After the global financial crisis that weakened Vietnamese economic performance, the country also aggressively engaged in many FTA negotiations along with TPP. It is important to note here that the perception of the VCP, especially from the reformist faction, that global economic integration will assure the very survival of the regime. In their mind, it offers economic growth and employment and, henceforth, performance legitimacy in the eye of the Vietnamese. Vietnam appears to show a hasty, if not irresponsible, behaviour in this regard since economic globalization does not always lead to the intended result. Unfortunately, without any challengers willing to discuss, there is nothing impeding the optimism of the Vietnamese leader. The only challenge appears on silent resistance from subnational government and SOE manager, but only later when Vietnam finds it difficult to implement TPP reform measures. This is a consequence of the Vietnamese political system. Vietnam authority is more decentralized than centralized and the silent resistance from the leader of SOEs or subnational government has been not capable to articulate opposition to the TPP and the decision was taken since it would put them in opposition to the leadership. Regarding the societal veto players, their visions are not important because they live as the the state permits them to. For what concern the agricultural sector, it is important to make a distinction. The case of Vietnam is particular because the agricultural sector of Vietnam accounts for a great share of GDP but the sector has been damaged by a huge decline in these years. The agricultural economy is becoming less relevant for a series of factors and with the TPP it could be reformed and improved. So in the case of Vietnam, the results concerning the agricultural sectors are mixed. On one hand, the sector is in decline and there is no opposition from the agricultural associations for the TPP, on the other hand the agricultural sector accounts for the 21% of the GDP, giving occupation for several Vietnamese, and the TPP could mined this field. The case of Japan is different but similar. First of all, Japan is a democracy and is one of the most relevant country in the world. Academics argue that the most important stimulus for the Japanese entrance in this kind of agreements has been the Chinese rivalry over the East-Asian Leadership. Anyway, it is reductive to focus the attention only on international factors. The Japanese case is a special case to test our hypotheses because is one of the most important Asian economy and because the relevance of Japan in the TPP is enormous. Many countries have started negotiations because of both Japanese and American presence. Regarding the hypotheses, Japan has answered positively. During the TPP negotiations, Japanese veto players have changed forms and nature. At the very beginning, during the Kan government, the



opposition was strong and involved all the parties but the Democratic party. In that context, the participation in negotiation of TPP was impossible. With the new government of Abe, after the election of the 2012, the number and the force of veto players diminished. Concerning the party opposition, they did not reach the necessary force to oppose the TPP and as consequence they cannot be considered as real veto players. The only opposition came from a part of the member of the party, mainly from those associated with agricultural association. Indeed, the government Abe has been able to sign the TPP and to ratify the agreement in the last December. As said before, the agricultural associations has influenced the Japanese discussion about the TPP. Anyway, the Japanese agricultural sector is small and in decline because of wrong and too protectionist policies of the past. After the 2012 election, the agricultural association has lost relevance. One of the cause could be linked the promises of Abe to reform and recover this sector. The last but not least hypothesis linked the necessity of economic reforms with participation in international trade agreements. In the case of Japan, it is possible to assert that the hypothesis is positively testified. Indeed, Abe has seen the TPP participation as a device to implement structural reform to recover sectors that have find difficulties in the last year. One of the most prominent proposed reform is the one involved the agricultural field and the financial sector. So, the TPP should help the implementation of the “third arrow of Abeconomics” with the aim to correct the errors of Japanese economy and favour development and growth. Thank to this move, Abe have the possibility to improve his voters support and strengthen his office. Now, it is the turn of the negative case. The Indonesian case is affected by the presence of two important groups: the pro-ASEAN group and the protectionist group. Concerning the first group, it could be considered the most important veto player in the country because it comprises some important Ministry and other important official members of the executive, capable to stop trade agreements or any other policy processes. In particular, the MoFA is the leader of the Pro-ASEAN group. This group strongly has opposed the Indonesian participation in the treaty in order to maintain the centrality of the ASEAN. It is worth to say that most of the Indonesia trade policies and foreign affairs policy has been linked to the ASEAN and its decisions. For sure, the presence of important and numerous veto players has made the Indonesia participation almost impossible. In second stance, the Indonesian agricultural sector is a relevant sector for the Indonesian economy. As said before, the TPP is seen as instrument to increase the foreign investments in this sector, damaging little farmers and improving the total level of unemployment. In a political context, it is not a good outcome and for

this reason the agricultural sector could have put obstacles in the race for the TPP. Thinking politically, the decrease relevance and the loose of jobs and competitiveness of a strong sector may mean the decrease of leadership and could lead to a strong opposition towards the executive. For all these reasons, the Indonesian agricultural sector has posed obstacles to the TPP. Lastly, in Indonesia the reforms are not seen as necessary and blocked by the protectionist group. However, the country is suffering a decrease of its growth expectations. According to economists, the necessary reforms involve careful monetary policy, an intensification of public spending on investments and infrastructure and policy reforms to expand the investment climate is the way to maintain a high level of growth. The Indonesian government has to follow two paths: reform for the deregulation of trade and more liberalization and the reform of the manufacturing sector. One way in order to reach these results could be the participation in the TPP. The President of Indonesia has had to decide to participate in the agreement in order to help the recovery of Indonesian economy and to assure public consensus. Anyway, Indonesian decision making system is very elitist, especially the trade and financial sector. This is managed by business groups and financial corporations. These are represented also in the Ministries - MoT or MoFA for example – and influence decisions of the Presidents. Indeed, the President has not the power to launch reform without the consensus of big supporters. Furthermore, even if reform could guarantee the voters support in the next election, in the case of Indonesia the most important sustenance comes from the business group. For all these reasons, the leader does not conceive the reform as something necessary and unavoidable and not participate in the TPP in order to acquire more relevance and strengthen to implement its.

So, are the hypotheses positively testified? Starting from the evidence collected from the case study, it is possible to answer. First of all, it is important to begin from the first hypothesis. As seen in the three cases, the number of veto players have influence the process toward the participation in the TPP. In the Vietnamese and Japanese case, the veto players are not numerous and the opposition comes mainly from the members of the party. These are veto players that are not strong and easy to overcome. Instead, in the case of Indonesia, there are a lot of veto players both from governmental institutions and from societal groups. As said before, in this context the Indonesian participation in TPP negotiations did not seem plausible. Participation is impossible because of various reasons, also explained in the theory. Mainly the opposition to the agreement may delay the participation in negotiation and the country could not reach all its requests. At the

same time, veto players may influence the policy making process, influencing negatively the permanence in office of the leader.

Concerning the second hypothesis, the result is mixed. The mixed result is visible in the Vietnamese outcome. The Vietnamese agricultural sector accounts for 21% of the total GDP of Vietnam but has suffered a huge decline in the last decades. Furthermore, Vietnam is changing physiognomy: some rural workers have moved to cities, leaving their lands and starting work in the services sector. This is the main change in the Vietnamese economy: the shifting from the agricultural sector to the services sector. Even the case of Japan is singular: the agricultural sector is not a huge part of the Japanese GDP but produces high-quality goods as the rice and tea. For this motivation, the agricultural sector has opposed strongly to the TPP. Even in the past the agricultural associations have influenced the making-decision processes. The Indonesian case is not unusual because the agricultural sector contributes in an important way to the Indonesian GDP and it always been characterized by protectionist stances. Indeed, in this case the TPP was never taken in consideration. In conclusion, it is possible to asset that the large portions of GDP focused in the agricultural sector are not the most relevant determinants in order to explain why a government participate in a trade agreement. The agricultural sector is fundamental to evaluate a likely participation in the agreement because, as said before, it is one of the more distorted and protected sector. Probably, the hypothesis has to focus on the relevance and trend of the agricultural sector and not only on the agricultural contribution to the GDP. In this vein, also the relevance of the most important agricultural associations become important to evaluate the cases. Indeed, in the case study, a more complex analysis with more actors and factors involved has been made. So, as said before the result are mixed if we focus the attention only on the quantitative factor of the agricultural contribution to the GDP. Instead, if we reformulate the hypothesis with the trend of agricultural sector in the last two decades, including the influence of agricultural associations, the result is positive.

The third hypothesis links the necessity of reform for the leader and the participation in the international trade agreement. As seen in the cases of Vietnam and Japan, the participation of the countries in the TPP has helped the promotion of structural reforms in order to revitalize and recover their economy and their political system. The TPP will show the way to revitalize the Japanese economy creating a new context that may help the Japanese government to pass reforms. Thank to the TPP, Japanese companies would be capable to improve exports and direct investments to and in other deal participants.

Concerning Vietnam, analysts see the TPP as a symbol for a “*Đổi Mới 2.0*”. This should be the rational following step of the historic reforms. This agreement could help the government offering further leverage for reform as privatization provisions. This reform would influence the future path of nearly 500 companies, including Vietnam Posts, Telecommunications Group and Vietnam Airlines. So, the TPP may help the leader to create a new framework in which is possible to propose and implement reform due to less opposition to the agreement. In particular, the opposition from the other parties or from the societal groups may be overcome thanks to the benefits and advantages lead by the new agreement. As specified in the theory, leaders can push for reforms in two ways: primarily, allowing reliable policy commitments. If an executive decide to participate in an international trade agreement that improve the expenses of defaulting on liberalization, the degree of reforms grows. In addition, trade agreements may permit leaders to compensate or coerce national constituencies. Those, supposing benefits from entering mega-regionals, encourage reforms because a failure in reform would represent a loss of benefits of international institutionalization. In the case of Japan and Vietnam, a failure in reform would have mean a damage for their economy and a consequent decrease of vote supporters. At the same time, this case does not fit for Indonesia. The Indonesia President did not push for the TPP in order to develop reforms that may help the country. One of the several reasons links the power of the protectionist group and stalemated reforms. Indeed, as said before, the Indonesian government has been not willing to implement reform in order to maintain the power and the support from the strongest protectionist group. The political power is a consequence of the role of this group and not a consequence of preferences of voters. In conclusion, it is possible to assert that the third hypothesis is positively tested.

In order to make a scheme, the first and third hypotheses are positively tested while the results derived from the second hypothesis are mixed and need to be reviewed. As said before, the aim of these work has been to answer why government decide to participate in international trade agreement, in particular the new type Mega-regional deal. This elaborate has focused the attention on domestic politics and has demonstrated that political considerations are important in this field. Leaders do not enter in these agreements for economic motivations alone. As seen in the case study, international trade agreements may generate both economic and political benefits, such as the retention in office of the leader or the promotion of reforms. So, domestic politics are important to understand international cooperation. Trade agreements are fundamental part of

international public politics. They have flourished over the past decades and at least all the countries have entered in one. In this work, we have argued and testified that the reasons to enter a PTA owes much to domestic motivations. Of sure, there are other sources of trade deals as well. But, the academics have always underestimated the linkage between domestic politic motivations and international institutions, as the TPP. Political leaders are highly attuned to their domestic political context and they do not take few actions without thinking about the outcomes for domestic politics and and their permanence in office. Mixing an understanding of their domestic political motivations and their foreign policy comportment may better evidence the sources of their action. This work has tried to highlight a specific set of determinants of domestic politics and an economic analysis of the benefits and costs of a specific trade agreement. It has been fundamental because democratization and globalization have made the connections between domestic politics and international relations more complex and relevant.

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## Summary of the thesis

Today, regional trade agreement and regionalism are part of the global trade regime. Anyway the causes of countries participation are different and of diverse origins. Some scholars have tried to identify the determinants of countries in Preferential Trade Agreement or Regional Trade Agreement while mega-regionalism are not studied so well. For centuries, countries have harmonized their politics and today more recently other kinds of economic exchange through these deals. Lately, PTAs have started to proliferate at a speed rate. The EU, NAFTA, ASEAN and TPP have a fundamental bearing on the current world economy and among the most relevant regional and international institutions. Trade deals are also central in order to promote international cooperation. The aim of this study has been to explain why the government decide to enter in PTAs, in particular in the Mega-regional agreements. It is recognized that Preferential Trade agreements have important outcomes. Academics as Beir and Bergstrand assert the PTAs capacity to boost economic growth and there is considerable evidence that they influence trade flows. This work has focused the attention on domestic political conditions that motivate leaders to reach the economic cooperation. Our tack is not dismissing the relevance of international factors, which are also fundamental in this regard. Rather, this work aims to highlight the domestic political motivations faced by leaders, which have been studied too little in researches of international political economy. The benefits from an international agreement are not only economic but political and bear on the ability of leaders to retain office or to overcome opposition. The task is to explore and define better my research question: which are the determinants of a country enter in a Mega-regionalism. Why does country decide to become member of intra-continental FTA? The work has examined domestic political factors of this phenomenon in trade framework.

This elaborate has started with the description of the context in which the phenomenon of mega-regional deal has developed. Today, the international commerce is increased and usual. The drivers of this phenomenon are basically: the fall in trade costs, the technological change and the implementation of export policies. In the last decades, the increase of trade has been followed by a real per capita incomes rise around the world and even if the global financial crisis of the 2008, growth rates of several developing countries continued to increase. The main affected by this phenomenon has been the East Asian and Pacific countries. Some countries started to rely on commerce policy but after

the stalemate in the WTO, the commerce situation became difficult. As said before, countries have started to being part of Regional Trade agreements in the last decades in order to find a reliable framework in which they can negotiate and implement new economic policies. However, these regional agreements have evolved during the years and today have reached the form of mega-regional agreements. These RTAs are planned around a set of profounder integration matters including services, competition policies, regulatory capability and customs cooperation. One of the most prominent mega-regional deal is the TPP, used for our case study. TPP is now considered an alternative pillar in the trade global governance to the traditional multilateral framework. These new types of agreements affect an incredible share of world trade in goods and services and FDI. Countries are willing to enter in these accords because its content coverage deeper the existing contractual responsibilities and disciplines of WTO and other RTAs. My analysis has started with an examination of the State of the arts, including a literature review of the most important scholars in this field. Even if the move from protectionist stances to a free trade policy is a modern phenomenon, some scholars have spent their academic life investigating the ratios of this new tendency. As said before, the lack of effectiveness of the WTO and the growing disaffection toward this institution only could not explain the proliferation of all types of Preferential Trade Agreements or alternative solutions to WTO. Today, there is a general accord over the conditions under which an agreement could increase or lower participants and world welfare but there is regrettably no such consensus as to what group of assumptions is suitable for the today world. Scholars are divided: while some support comprehensive liberalization over regional method concerning Preferential Trade Agreements, others assert that these agreements can be used to drive along a stationary multilateral process due to competitive liberalization. Nonetheless they are second-best choice, it quite clear that the Regional Trade agreements and all their forms will contribute to shape the international trade scenery and that in the future WTO will have to face with this trend. However, once one admits that PTAs will still have in the future an important economic place, then the shortage of investigated intended at studying regional agreements creations independently of their economic effect has become worrying. The aim because these researchers are important depends on the fact that international trade is not a zero-sum game and the economic assimilation and endowments that countries face when it takes part of the agreements direct to lastingly improved level of exchange, even if non-participants will eventually achieve an equal purchase. Frankly speaking, even if other

countries reach global trade advantages thanks to the multilateral framework, the directive in which regional trade agreements are established has a tangible influence on all parts implicated. This topic and its empirical analysis are relevant and could lead to better investigate predictions about which countries arrange a Regional Agreement, but also offer more understanding into which subjects should take a central position in the following multilateral rounds. One of the aim of this work is also to fill the gap in this knowledge. This section has focused the attention on various theories as the one of Baier and Bergstrand and the theory developed by Mansfield and Milner that are considered pioneers. Baldwin and Venables<sup>346</sup> have discussed economics determinants of these types of agreements. These two authors synthetize the approaches to Free Trade agreements in three categories: the first-generation collects static perfect competitions with persistent returns to scale. The second is characterized by static monopolistic competition with rising revenues and the third model includes dynamic competitive factor models. The second chapter explorer the literature over the subjects. The literature could be divided in two sections: “the economic literature” and the “domestic political literature”. Concerning the latter, the most important theory has been developed by by Mansfield and Milner in his work “Votes, vetoes and the political economy of international trade agreements”. They have developed a testable hypothesis on the determinants under which the costs and benefits, analysed above, are more probable to growth and to influence inducements for joining such trade agreements. The degree of the domestic political expenses caused by leader’s incapability to resist participating in disproportionate rent-seeking differs according to the country regime type. On one hand, autocracies find difficulties in comforting the voters about their purposes but there is less necessity for them to do so because the lack a regular confront among public and interest groups, that have the power to remove authoritarian leaders from their office.

The core of the chapter is the theoretical framework, in which hypotheses have been developed. These hypotheses link independent and dependent variables: the first are different among different suppositions while the dependent variables are the formation and ratification of FTAs. Hypotheses take in consideration domestic institutional and interests actors, few sectors of country economies and the need of a country to make an institutional or economic reform. According to the variables, the hypotheses are:

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<sup>346</sup> Baldwin R.E., Venables A, (1995), *Regional Economic Integration*, in Gene M. Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, Volume 3. Amsterdam: Elsevier Science, 1597–1644.



- *H1: As the number of institutional veto player increases, the possibility for the government to establish and ratify the agreements decreases.*
- *H2: Economies of governments with large portions of GDP focused in the agricultural sector will be less likely to form PTAs.*
- *H3: As the need or the willingness of economic or institutional reform of a country increases, the possibility of the government to establish and ratify the agreements increases.*

The first hypothesis postulate that stronger, both in number and influence, the support from the most important state decision makers and societal group, the more likely a country will participate the agreement. It is important because it gives insight into several actors and their interests in the domestic sphere. Within the political system, it is important to note the requests of its leader, the ruling party and the opposition parties. On the other hand, among non-State actors there are domestic business associations and powerful NGOs. Veto players have the force to alter the trade policy or ask requests to the leader to make possible the ratification. Broadly speaking, veto players have the institutional power to impeded policy change. Leaders, we assume, understand the number or character of veto players at the beginning of negotiation. Government can choose a policy to avoid coming back home with an agreement that would be vetoed. Anyway, when characters and number of veto players change during negotiation talk or the ratification process, then leaders challenge a more difficult problem. They have to accommodate the agreement the veto players with an agreement that was outlined for a different situation. For all these reasons, the number of veto players may influence the participation of a government in an international trade agreement.

The second hypothesis focuses the attention on the more distorted sector of country economy: the agricultural sector. In this case, the hypothesis is related to the share of agricultural production in the GDP. Anyway, in the case study also other factors have been analysed as the relevance of the agricultural production, the presence of strong agricultural organizations and the agricultural trend during the last decades. All factors combined have permitted to investigate the state behaviour toward a mega-regional agreement participation.

The last one emphasizes the necessity for a political leader to engage the economic reform. This is highly debatable due to its potential wealth re-allocation outcome and because the variety of actors involved in this particular field. Even within state, a lot of actors are involved in the policy process and there could be conflicts over the reform should be carried out. The most important challenge the leader has to face in order to pass the reform is to overcome the opposition. This could be possible due to the engagement in international agreement, capable to give domestic relevance and strength to reach the task.

However, these hypotheses have to be put in a research to be tested. This research adopts a comparative method. As stated by Ragin<sup>347</sup>, a method lies between quantitative and qualitative approach<sup>348</sup>. This research method allows to investigate a moderate amount of factors within a moderate amount of cases, therefore it serves best for “research aiming to explore diversity”<sup>349</sup>. In this study, the aspects of cases are domestic factors and their influence in the participation in the TPP, while the cases are three countries – Vietnam, Japan and Indonesia. This investigation has monitored an inductive process of thinking the degree and nature of interaction among variables. Creswell mentioned that there are five process of inquiries: case study, ethnography, phenomenology, narrative research, and grounded theory<sup>350</sup>. This research has adopted the process of inquiry. The case study permits the researcher to develop a holistic account to phenomena, in which the author is not forced simply by “causal-effect” as in the quantitative approach but more on “complex interaction” among variables<sup>351</sup>. But, why the Trans-Pacific Partnership as case study? Because this could be considered a landmark agreement. In the 2016, its participants had shared a GDP of 28 trillion of dollars – or if you prefer 36% of the entire

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<sup>347</sup> Ragin C. (1994), *Constructing social research: The unity and diversity of method*, Thousand Oaks: Pin Forge Press.

<sup>348</sup> The qualitative method involves few cases and many aspects of the cases. The quantitative method: many cases and few aspects of the cases.

<sup>349</sup> Ragin C. (1994), *Constructing social research: The unity and diversity of method*, Thousand Oaks: Pin Forge Press.

<sup>350</sup> Creswell J. W. (2007), *Qualitative inquiry & research design: Choosing among five approaches*, Thousand Oaks: Sage.

<sup>351</sup> *Ibi idem*

global GDP- and accounted for 5.3 trillion dollars of exports<sup>352</sup>. Member countries are extraordinarily different, comprising low, middle and high income countries with diverse economic regimes. Vietnam is an emergent economy and a developing country. In the last decade, the country has been changing his economy from a central-state controlled economy from a market-economy, free from the socialist influences and values. Furthermore, Vietnam has started to be a significant player in the policy of President Obama in Asia in order to reach influence in the continent and to stop the Chinese advance. Another relevant participant of the TPP is the Japan of the Prime Minister Shinzō Abe. This trade demarche is viewed as a key part of “Abenomics”<sup>353</sup>. Although the dye has been cast, the debate in Japan has not ended. Many Japanese are sceptical about effects of the Trans-Pacific Partnership on the Japanese economy. Even if these protests, this country could be considered as a champion of trade agreements and it is gaining more and more relevance in the worldwide context. Japanese relevance in this case study is boosted by two factors: the rivalry with China – the Japanese economy is the biggest Asian economy in the TPP because of the exclusion of China – and the particularity of the Japanese politics, guided by the Prime Minister Abe. The historical and economic rivalry against China has historically affected the regional establishment of free trade agreements. The Indonesia is the last country that has been investigated in the case study. This one of the few countries that has decided to not enter in TPP negotiations. It is an important case study because it is biggest economy of the South-East region and presents itself as the informal leader of the ASEAN. Compared to other excellent exclusion as the Thailand and the Philippines, Indonesia present different outcomes – with negative results – in the research. Furthermore, this country does not show a large amount of modifications and therefore it will be a useful comparison to the positive case.

The test for our hypotheses is developed in the last chapter. In this chapter, this work tests the hypotheses with three case studies, namely Vietnam, Japan and Indonesia. They reflect pretty much the aforementioned reasoning in their experience on TPP. Vietnam and Japan has the most motives to join the TPP. Vietnam could benefit economically and

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<sup>352</sup>Data from the World Bank’s World Development Indicators database, <http://databank.worldbank.org/data/reports.aspx?source=2&Topic=21> (accessed on Jan. 15 2017).

<sup>353</sup> Petri P.A., Plummer M.G., Zhai F. (2013), Japan’s ‘Third Arrow’: Why Joining the TPP is a Game Changer, Peterson Institute for International Economics.

may gain politically relevance. Therefore, it is not wonder that the country decided to ratify the TPP. Japan is the only country that has ratified the TPP. Thank to the trade accord, the Japan could reinforce his leadership in the Asian region and strengthen the links with the U.S. During the negotiation talks, Japanese government has not suffered a strong opposition and has used the TPP as device to implement structural reforms, the third arrow of Abeconomics. At the same time, Indonesia represent a negative case as it is in contradictory position. The country has decided not to participate in the TPP mainly because the medium-level economic benefits and the weak domestic support. The following table gives a summary of the experiences of all three case studies.

### **The domestic factors: Experiences of The Three Case**

	<b>PRESENCE OF VETO PLAYERS</b>	<b>RELEVANCE OF AGRICULTURAL SECTOR</b>	<b>NECESSITY OF ECONOMIC REFORM</b>
<b>VIETNAM</b>	LOW	LOW	HIGH
<b>JAPAN</b>	LOW	MEDIUM	HIGH
<b>INDONESIA</b>	HIGH	HIGH	MEDIUM

On the domestic side, it is clear that there are variations among the observed case on the level of necessity of reforms. As said before, Vietnamese and Japanese leaders are strong and capable to use the TPP to overcome opposition and implement their reforms: The *Doi Moi* 2.0 for Vietnam and the third arrow of the Abeconomics for Japan. The Vietnamese case is significant but particular because the voice of the communist party is dominant while the opposition is almost unheard. An opposition within the party exists but it is not a real opposition but a different side of the same coin. The one-party system has influenced also the role of veto players that in this case do not present a real force to block the TPP. The only opposition comes from the manager of SOEs because of the necessity of reform it under the TPP umbrella. In Vietnam, it is no less than enthusiasm to TPP with its potential to export more labour-intensive products to the US, but without sufficient balancing views. After the global financial crisis that weakened Vietnamese economic performance, the country also aggressively engaged in many FTA negotiations along with TPP. It is important to note here that the perception of the VCP, especially from the reformist faction, that global economic integration will assure the very survival of the regime. In their mind, it offers economic growth and employment and, henceforth,

performance legitimacy in the eye of the Vietnamese. Vietnam appears to show a hasty, if not irresponsible, behaviour in this regard since economic globalization does not always lead to the intended result. Unfortunately, without any challengers willing to discuss, there is nothing impeding the optimism of the Vietnamese leader. The only challenge appears on silent resistance from subnational government and SOE manager, but only later when Vietnam finds it difficult to implement TPP reform measures. This is a consequence of the Vietnamese political system. Vietnam authority is more decentralized than centralized and the silent resistance from the leader of SOEs or subnational government has been not capable to articulate opposition to the TPP and the decision was taken since it would put them in opposition to the leadership. Regarding the societal veto players, their visions are not important because they live as the the state permits them to. For what concern the agricultural sector, it is important to make a distinction. The case of Vietnam is particular because the agricultural sector of Vietnam accounts for a great share of GDP but the sector has been damaged by a huge decline in these years. The agricultural economy is becoming less relevant for a series of factors and with the TPP it could be reformed and improved. So in the case of Vietnam, the results concerning the agricultural sectors are mixed. On one hand, the sector is in decline and there is no opposition from the agricultural associations for the TPP, on the other hand the agricultural sector accounts for the 21% of the GDP, giving occupation for several Vietnamese, and the TPP could mined this field. The case of Japan is different but similar. First of all, Japan is a democracy and is one of the most relevant country in the world. Academics argue that the most important stimulus for the Japanese entrance in this kind of agreements has been the Chinese rivalry over the East-Asian Leadership. Anyway, it is reductive to focus the attention only on international factors. The Japanese case is a special case to test our hypotheses because is one of the most important Asian economy and because the relevance of Japan in the TPP is enormous. Many countries have started negotiations because of both Japanese and American presence. Regarding the hypotheses, Japan has answered positively. During the TPP negotiations, Japanese veto players have changed forms and nature. At the very beginning, during the Kan government, the opposition was strong and involved all the parties but the Democratic party. In that context, the participation in negotiation of TPP was impossible. With the new government of Abe, after the election of the 2012, the number and the force of veto players diminished. Concerning the party opposition, they did not reach the necessary force to oppose the TPP and as consequence they cannot be considered as real veto players. The only opposition

came from a part of the member of the party, mainly from those associated with agricultural association. Indeed, the government Abe has been able to sign the TPP and to ratify the agreement in the last December. As said before, the agricultural associations has influenced the Japanese discussion about the TPP. Anyway, the Japanese agricultural sector is small and in decline because of wrong and too protectionist policies of the past. After the 2012 election, the agricultural association has lost relevance. One of the cause could be linked the promises of Abe to reform and recover this sector. The last but not least hypothesis linked the necessity of economic reforms with participation in international trade agreements. In the case of Japan, it is possible to assert that the hypothesis is positively testified. Indeed, Abe has seen the TPP participation as a device to implement structural reform to recover sectors that have find difficulties in the last year. One of the most prominent proposed reform is the one involved the agricultural field and the financial sector. So, the TPP should help the implementation of the “third arrow of Abeconomics” with the aim to correct the errors of Japanese economy and favour development and growth. Thank to this move, Abe have the possibility to improve his voters support and strengthen his office. Now, it is the turn of the negative case. The Indonesian case is affected by the presence of two important groups: the pro-ASEAN group and the protectionist group. Concerning the first group, it could be considered the most important veto player in the country because it comprises some important Ministry and other important official members of the executive, capable to stop trade agreements or any other policy processes. In particular, the MoFA is the leader of the Pro-ASEAN group. This group strongly has opposed the Indonesian participation in the treaty in order to maintain the centrality of the ASEAN. It is worth to say that most of the Indonesia trade policies and foreign affairs policy has been linked to the ASEAN and its decisions. For sure, the presence of important and numerous veto players has made the Indonesia participation almost impossible. In second stance, the Indonesian agricultural sector is a relevant sector for the Indonesian economy. As said before, the TPP is seen as instrument to increase the foreign investments in this sector, damaging little farmers and improving the total level of unemployment. In a political context, it is not a good outcome and for this reason the agricultural sector could have put obstacles in the race for the TPP. Thinking politically, the decrease relevance and the loose of jobs and competitiveness of a strong sector may mean the decrease of leadership and could lead to a strong opposition towards the executive. For all these reasons, the Indonesian agricultural sector has posed obstacles to the TPP. Lastly, in Indonesia the reforms are not seen as necessary and

blocked by the protectionist group. However, the country is suffering a decrease of its growth expectations. According to economists, the necessary reforms involve careful monetary policy, an intensification of public spending on investments and infrastructure and policy reforms to expand the investment climate is the way to maintain a high level of growth. The Indonesian government has to follow two paths: reform for the deregulation of trade and more liberalization and the reform of the manufacturing sector. One way in order to reach these results could be the participation in the TPP. The President of Indonesia has had to decide to participate in the agreement in order to help the recovery of Indonesian economy and to assure public consensus. Anyway, Indonesian decision making system is very elitist, especially the trade and financial sector. This is managed by business groups and financial corporations. These are represented also in the Ministries - MoT or MoFA for example – and influence decisions of the Presidents. Indeed, the President has not the power to launch reform without the consensus of big supporters. Furthermore, even if reform could guarantee the voters support in the next election, in the case of Indonesia the most important sustenance comes from the business group. For all these reasons, the leader does not conceive the reform as something necessary and unavoidable and not participate in the TPP in order to acquire more relevance and strengthen to implement its.

So, are the hypotheses positively testified? Starting from the evidence collected from the case study, it is possible to answer. First of all, it is important to begin from the first hypothesis. As seen in the three cases, the number of veto players have influence the process toward the participation in the TPP. In the Vietnamese and Japanese case, the veto players are not numerous and the opposition comes mainly from the members of the party. These are veto players that are not strong and easy to overcome. Instead, in the case of Indonesia, there are a lot of veto players both from governmental institutions and from societal groups. As said before, in this context the Indonesian participation in TPP negotiations did not seem plausible. Participation is impossible because of various reasons, also explained in the theory. Mainly the opposition to the agreement may delay the participation in negotiation and the country could not reach all its requests. At the same time, veto players may influence the policy making process, influencing negatively the permanence in office of the leader.

Concerning the second hypothesis, the result is mixed. The mixed result is visible in the Vietnamese outcome. The Vietnamese agricultural sector accounts for 21% of the total GDP of Vietnam but has suffered a huge decline in the last decades. Furthermore,

Vietnam is changing physiognomy: some rural workers have moved to cities, leaving their lands and starting work in the services sector. This is the main change in the Vietnamese economy: the shifting from the agricultural sector to the services sector. Even the case of Japan is singular: the agricultural sector is not a huge part of the Japanese GDP but produces high-quality goods as the rice and tea. For this motivation, the agricultural sector has opposed strongly to the TPP. Even in the past the agricultural associations have influenced the making-decision processes. The Indonesian case is not unusual because the agricultural sector contributes in an important way to the Indonesian GDP and it always been characterized by protectionist stances. Indeed, in this case the TPP was never taken in consideration. In conclusion, it is possible to asset that the large portions of GDP focused in the agricultural sector are not the most relevant determinants in order to explain why a government participate in a trade agreement. The agricultural sector is fundamental to evaluate a likely participation in the agreement because, as said before, it is one of the more distorted and protected sector. Probably, the hypothesis has to focus on the relevance and trend of the agricultural sector and not only on the agricultural contribution to the GDP. In this vein, also the relevance of the most important agricultural associations become important to evaluate the cases. Indeed, in the case study, a more complex analysis with more actors and factors involved has been made. So, as said before the result are mixed if we focus the attention only on the quantitative factor of the agricultural contribution to the GDP. Instead, if we reformulate the hypothesis with the trend of agricultural sector in the last two decades, including the influence of agricultural associations, the result is positive.

The third hypothesis links the necessity of reform for the leader and the participation in the international trade agreement. As seen in the cases of Vietnam and Japan, the participation of the countries in the TPP has helped the promotion of structural reforms in order to revitalize and recover their economy and their political system. The TPP will show the way to revitalize the Japanese economy creating a new context that may help the Japanese government to pass reforms. Thank to the TPP, Japanese companies would be capable to improve exports and direct investments to and in other deal participants. Concerning Vietnam, analysts see the TPP as a symbol for a “*Đổi Mới 2.0*”. This should be the rational following step of the historic reforms. This agreement could help the government offering further leverage for reform as privatization provisions. This reform would influence the future path of nearly 500 companies, including Vietnam Posts, Telecommunications Group and Vietnam Airlines. So, the TPP may help the leader to



create a new framework in which is possible to propose and implement reform due to less opposition to the agreement. In particular, the opposition from the other parties or from the societal groups may be overcome thanks to the benefits and advantages led by the new agreement. As specified in the theory, leaders can push for reforms in two ways: primarily, allowing reliable policy commitments. If an executive decides to participate in an international trade agreement that improves the expenses of defaulting on liberalization, the degree of reforms grows. In addition, trade agreements may permit leaders to compensate or coerce national constituencies. Those, supposing benefits from entering mega-regionals, encourage reforms because a failure in reform would represent a loss of benefits of international institutionalization. In the case of Japan and Vietnam, a failure in reform would have meant a damage for their economy and a consequent decrease of vote supporters. At the same time, this case does not fit for Indonesia. The Indonesian President did not push for the TPP in order to develop reforms that may help the country. One of the several reasons links the power of the protectionist group and stalemated reforms. Indeed, as said before, the Indonesian government has been not willing to implement reform in order to maintain the power and the support from the strongest protectionist group. The political power is a consequence of the role of this group and not a consequence of preferences of voters. In conclusion, it is possible to assert that the third hypothesis is positively tested.

In order to make a scheme, the first and third hypotheses are positively tested while the results derived from the second hypothesis are mixed and need to be reviewed. As said before, the aim of these works has been to answer why governments decide to participate in international trade agreements, in particular the new type of Mega-regional deal. This elaborate has focused the attention on domestic politics and has demonstrated that political considerations are important in this field. Leaders do not enter in these agreements for economic motivations alone. As seen in the case study, international trade agreements may generate both economic and political benefits, such as the retention in office of the leader or the promotion of reforms. So, domestic politics are important to understand international cooperation. Trade agreements are fundamental parts of international public politics. They have flourished over the past decades and at least all the countries have entered in one. In this work, we have argued and testified that the reasons to enter a PTA owe much to domestic motivations. Of course, there are other sources of trade deals as well. But, the academics have always underestimated the linkage between domestic political motivations and international institutions, as the TPP. Political

leaders are highly attuned to their domestic political context and they do not take few actions without thinking about the outcomes for domestic politics and and their permanence in office. Mixing an understanding of their domestic political motivations and their foreign policy comportment may better evidence the sources of their action. This work has tried to highlight a specific set of determinants of domestic politics and an economic analysis of the benefits and costs of a specific trade agreement. It has been fundamental because democratization and globalization have made the connections between domestic politics and international relations more complex and relevant.