

Japan Economic Foundation - PIIE Conference

A Trans Pacific Partnership and the Future of the Asia Pacific Region

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Welcome and Introduction

C. Fred Bergsten: Director of the Peterson Institute for International Economics

This is the latest in a series of conferences co-sponsored by JEF and PIIE that have been taking place over the years, focusing predominantly on trans-pacific relations. We welcome Noboru Hatakeyama, the Chairman and CEO of JEF. He is best known as a pioneer of Japanese free trade agreements and we are pleased to welcome him today to discuss the future of a Trans-Pacific Partnership.

Noboru Hatakeyama: Chairman and CEO of the Japan Economic Foundation

There are five proposals for going forward with regional integration:

1. Japan-China-Korea FTA.
2. ASEAN + 1 and ASEAN + 3; an Asia-centric approach that includes 10 + 1 pacts between ASEAN and Australia, New Zealand, China, Korea, Japan and India, and a 10 + 3 partnership between ASEAN and the 3 Northeast Asian countries.
3. ASEAN + 6 (CEPEA); which would include EAFTA + Australia, India and New Zealand.
4. FTAAP among the APEC members.
5. The TPP, which currently includes nine members; however membership will most likely evolve in the near future.

These arrangements should cover substantially all trade. There should be no preconditions to entering the negotiations.

Joining the TPP agreement is in the interest of Japan for two reasons:

1. This is a rare opportunity for Japan and the US to enter an agreement in the context of Asia-Pacific regional integration. Missing out on this opportunity would result in the further development of regional FTAs, in which the US is not involved.
2. As it stands, the current TPP members are too small. Including Japan is a strategic move that adds much more to the table than just a large volume of trade in goods and services.

C. Fred Bergsten: Director of the Peterson Institute for International Economics

Discussion of the TPP is taking place in a volatile global macroeconomic context; there is uncertainty regarding economic growth and trade, and a necessity to find a better international system to bring global imbalances under control. Trade policy has an

important role to play; we must actively pursue more liberalized trade to avoid sliding back towards protectionism. The TPP is a key part of this. The central argument in favor of pursuing the TPP is the following:

1. TPP negotiations represent a watershed in the discussion of the regional economic architecture of Asia and Asia-Pacific in the decades ahead. The 1990s focused on Asia-Pacific, whereas the last decade focused on Asia-only growth and integration. In this decade the strategic question is whether Asia will proceed on its own to form a single Asian bloc, or will there be a parallel movement towards Asia-Pacific integration? The two movements are not alternatives to each other; they are complementary and are contingent on parallel progress and institution building.
2. The next question is how to proceed. Rather than spurring the disintegration of Asia-Pacific, the TPP must build a bridge between the Asia-only initiatives and the TPP agreement. To do so the TPP membership must reach a critical mass; Japan, Korea and Canada will play a pivotal role in this.
3. Our goal today is to discuss the prospects for integration and set clear goals to be achieved by the 2011 APEC summit in Honolulu.

Session I: The Economic and Strategic Context

Kurt Campbell: Assistant Secretary of State for East Asian and Pacific Affairs

There needs to be a new term that is more inclusive than 'Trans-Pacific'; one that takes into account the current political-economic situation. India for example is playing a much larger role in the region and should be part of the Trans-Pacific dialogue. We have had substantial discussions with Japan regarding TPP and we are very pleased by Japan's interest in joining the partnership. Now it is a matter of timing and strategy.

Some of the concerns we are hearing from Asia is that the US continues to focus its attention on other areas like the Middle East and South Asia, while important developments are taking place in East Asia and the Pacific. An important point to underscore is that the US *is* engaged in trade relations in Asia-Pacific. On the Asian side we are focused on diplomacy, including discussion with Japanese ministers. We are also engaged in high level meetings with Korea, China, Malaysia, Australia, New Zealand as well as Cambodia, Papua New Guinea and American Samoa. Still, the US recognizes the need to step up its game in the region. This is a long-term bipartisan goal, focusing on the US's drive to compete, innovate and excel. 2011 will be the most consequential period in economic engagement in the region.

The TPP has triggered significant interest and discussions regarding the incorporation of more countries. The next step is to focus the agenda and harmonize institutions; setting standards for a 21st century pact is crucial. APEC can act as the "operating system" for various Asia-Pacific initiatives. The November meeting is the best time to move forward and leaders have set clear goals to do so.

Akira Kojima: Senior Research Fellow, Japan Center for Economic Research

East Asia is a late comer to the process of regional integration; until recently there were few FTAs or regional institutions. The 1997 financial crisis was a wakeup call to Asian economies, including China. The size, depth and 'Asia-only' nature of the crisis, signaled to Asia the need to strengthen regional ties. East Asia (including ASEAN) has become more economically integrated through foreign direct investment, financial markets and international trade.

APEC needs to think about its future direction; potential pathways to the FTAAP, future growth and achieving the Bogor goals. As it stands, integration and trade are not shared equally among APEC members. These issues were discussed at this year's APEC Study Centers Consortium Conference. Proposals included the following:

- The FTAAP must be a legally binding, high standard agreement that is consistent with the WTO, and includes trans-pacific membership.
- The growth agenda should be innovative, sustainable, inclusive and balanced.
- Achievement of the Bogor goals should strengthen development and include inclusive strategies to sustain progress for all APEC countries.

Geo-political factors that support the TPP include the increasingly assertive role that China is playing and the desire of Asian countries to see more US engagement in the region. The speed of enlargement of the TPP, its strong image and membership are also contributing factors. There are still differences among Koreans and Japanese regarding whether the approach should be Asian integration first or the TPP; each has positive and negative aspects. Nevertheless, the TPP is an important part of integration, and a pathway towards FTAAP.

Daniel Price: Senior partner, Sidley Austin LLP

There are three points of significance regarding the TPP and the US, Japan and APEC. Engagement in the TPP is crucial for the US to:

1. Dispel the notion that the US is not committed to trade and integration. The TPP and KORUS are critical in this regard.
2. Reinforce the idea that beyond market integration, US leadership is needed in the region.
3. Demonstrate that the US is actively engaged in trade and investment liberalization, an essential component of US-Asian relations.

For Japan:

- If not now, when? The TPP represents a political opportunity to bring Japan into a comprehensive trade pact with the US.
- The US should seek assurance from Japan that they are willing to open their markets and make concessions. The US should *not* establish artificial entrance fees.

For APEC:

- The TPP presents an opportunity to galvanize and reorient APEC into a meaningful negotiating forum.
- It holds the prospect for APEC to get involved in FTAAP in more than a rhetorical way.

Panel Discussion

Questions regarding the APEC roadmap and future achievements as well as expanding relations with Asian countries focused on the desire of Asian countries to have more time for open discussion and the ability to engage in issues. The G20 will play a major role in this in terms of the institutional capacity of Asia. Regarding US engagement in Asia, Kurt Campbell stressed that the US is moving in the right direction.

Discussion of Japanese membership focused on the substantial talks that have already taken place. The current issue is the timing and the way forward. For the first time, the DPJ is having open discussions on agricultural reform. There have been gradual but continuous talks with parties concerned about competitive liberalization of the agricultural industry and the social benefits of policy reform. The Japanese government seems ready to reform and thus it is important for the US to send a message to Japan that they understand and encourage Japan to move towards reform.

Session II: Shaping the Trans Pacific Partnership: Substance and Membership

Masakazu Toyoda: Chairman and CEO of the Institute of Energy Economics, Japan

Joining the TPP is under serious consideration in Japan; most recently Prime Minister Kan referenced a feasibility study being conducted domestically. There are global challenges as well as domestic challenges for Japan gaining membership. APEC can play a role in stimulating negotiations.

The role of TPP and the challenges going forward:

- Connecting the role of APEC with the TPP: if the TPP can incorporate major APEC economies, then it can be a vehicle for FTAAP and help Asia continue as a center for growth.
- For the TPP to address global challenges it must have the right membership, substance and scope.
- The current nine members are not enough, however membership will probably expand in the near future as countries like Japan and Canada have signaled their interest in joining. The TPP is a center of growth and a shortcut to the FTAAP. If countries are willing to put everything on the table and negotiate, they should be part of the TPP and then FTAAP.
- A 21st century agreement includes environmental obligations, which should be linked to technology transfers to developing countries. The TPP could help stimulate slow moving climate change negotiations.

- What can TPP do for Doha? Negotiations are stagnant and the scope is small. The TPP can stimulate the Doha round, particularly on issues such as environmental goods and services.

The challenges for Japan moving forward:

- The impact that Japanese participation would have on food security issues needs to be discussed.
- There is some concern regarding bilateral issues. For example, beef could be an obstacle to Japan's full participation in negotiations. We hope this can be avoided if Japan is willing to put everything on the table.
- The DPJ is considering income compensation to promote structural reform and enhance competitiveness of its agricultural industries. This would reduce the need to exempt farm products and facilitate Japan's participation in TPP.
- Japanese participation would not only benefit Japan, but also US-Japan relations and APEC.

Barbara Weisel: Assistant U.S. Trade Representative for Southeast Asia and the Pacific

The TPP is operating in a difficult environment; both in the US and internationally. The US has partnered with Congress and begun its outreach to stakeholders, which have so far supported US participation. Overtime we are confident that we will gain consensus on the benefits of TPP.

There are three main economic goals for the US and TPP members:

- Expand trade across the Asia-Pacific region.
- Negotiate a 21st century trade agreement.
- Develop a pathway for FTAAP.

On expansion:

- We are building a regional agreement with one set of rules for all trade and trade related commerce among parties. The nine countries currently negotiating are a coalition of the willing, committed to this goal; a goal that is more urgent in the wake of the global financial crisis.
- There is agreement to use a bottom up approach for market access for goods, while recognizing the sensitivities of each country.

A 21st century agreement:

- As a high standard agreement we want to negotiate the highest common denominator not the lowest. This means addressing a new set of issues faced by businesses. We have come up with a set of horizontal issues that we are working on, which have not been included in past FTAs. They include among others:

1. Regulatory coherence: Develop an approach to eliminate non-tariff barriers, which pose greater challenges to companies trying to enter foreign markets than traditional tariffs.
2. Specific sectoral approaches: The goal is to use the TPP to eliminate unnecessary regulatory barriers and thus make doing business easier, simpler and less costly.
3. Issues of competitiveness and connectivity: Involves lowering costs, enhancing supply chains, and coordinated efforts to improve the domestic legal environment.
4. Promoting small and medium sized enterprises: This is a priority for the US since SMEs comprise the majority of US businesses. The question is how to promote trade, dismantle barriers and look at ways to promote efforts at transparency.
5. Development issues: We are seeking to include countries that are geographically and developmentally diverse, and have them fully participate in a high standard agreement. The focus is on capacity building and technical assistance.
6. Significant work on these issues has been done in APEC over past two decades; it is valuable to our efforts and we will continue our close partnership with APEC.

A Pathway to FTAAP:

- The goal is to expand the initial group to incorporate countries across the Asia-Pacific, using the TPP as a platform for enlargement. Malaysia has been successfully incorporated, which has established that the TPP is capable of adding another country in the process of negotiations. Other interested countries must be prepared to meet the standards of the agreement before joining.
- The TPP will be a living agreement; acting as a platform for enlargement. It will include provisions to expand the substance of the agreement, to reflect new issues and participants.

The challenge ahead is to successfully negotiate an agreement among the nine countries, and figure out how to deal with an expanding group. Countries must be fully prepared to meet the standards and should not join if they cannot carry the agreement to its conclusion. Five TPP negotiating rounds are planned for 2011.

Mark Sinclair: Lead Negotiator, Trans-Pacific Partnership, Ministry of Foreign Affairs and Trade, New Zealand

The Trans-Pacific Strategic Economic Partnership (the P4) was a long range project; a regional initiative that grew out of APEC. It was explicitly about making markets work, enhancing the competitiveness of commerce and encouraging other APEC economies to join. The P4 incorporated new issues like the environment, telecommunications and labor. The P4 was supposed to be a model for the Asia-Pacific region and potentially

attract new members. This was accomplished through the creation of the TPP. With the current membership, the next step is to decide how to make it work as a platform for regional integration.

Liberalization and regional integration are central to the TPP agenda. In order to achieve these goals members must look at the path forward:

- TPP membership: is a larger group better? The TPP is premised on expansion, with the ultimate goal of creating an FTAAP. However, it is difficult to make progress across such a large membership (like Doha) and so it makes sense to start with a small group of countries and have a deal in place by next year.
- The current members have all negotiated high quality agreements, so we are not starting from zero. The way forward is to start with a manageable group and expand from there. Expansion of the current group should happen relatively promptly.
- Design of the agreement:
 - The TPP will aim to cut regulatory overhead and red tape that create barriers to operating in multiple markets, especially for small and medium size companies.
 - The P4 template drew heavily on models of US FTAs (for example using a negative list for services). The TPP will also follow this model, drawing on the best practices from various agreements.

Panel Discussion:

There was discussion of Viet Nam as an outlier in the current group of nine, and how they fit into the agreement. Viet Nam has achieved high quality FTAs with New Zealand, Australia and ASEAN. These agreements include commitments on market access, tariff elimination and modern rules of origin, which gives confidence that Viet Nam should be able to participate in negotiations.

Regarding the status of FTAs already in place, the panel responded that existing agreements will coexist with the new TPP agreement. This will allow flexibility for governments. If there are areas of conflict they will be addressed on an issue by issue basis.

Issues concerning expansion were discussed in terms of the tension that exists between adding members that increase economic heft and maintaining the high standards of the agreement. Negotiators expect new participants to agree to meet the standards set out in the core agreement; they do not want to lower standards to facilitate accession of new members. This does not mean there is an entrance fee, but members must be willing to fully open their markets. If countries are prepared to move quickly, the current group will bring them in as soon as possible. However, if they cannot move quickly negotiators will work with them in preparation for their participation. It is for this reason that the living agreement idea was put forward; to accommodate new changes that might be sought by new members.

The question was raised of when negotiators will cut off the integration of new members and go for implementation. In response Barbara Weisel and Mark Sinclair noted that, as the current group of nine gets deeper into drafting text and negotiating specific commitments, the window for bringing other countries in becomes much tighter. There is no straightforward answer regarding when to cut off new members so for now, negotiations will be kept open to any interested countries as long as they are willing to put everything on the table.

Session III: How Congress Views the TPP

Congressman Kevin Brady (Republican-Texas)

The US is falling behind in the Asia-Pacific region. With China's increasing influence in the region, the US must play a more active role. With the pending KORUS agreement and TPP negotiations underway, now is the best time to engage more in the region. The TPP will deepen ties with Asia and establish US presence in the region as an effective counterweight to China.

The TPP will continue to grow its membership over time and act as a stepping stone towards a FTAAP. The TPP should be a high standard agreement; its goals should be to make things cheaper, faster and easier for economic and trade ties among APEC countries. We should welcome other countries such as Japan and Canada if they are willing to put all issues on the negotiating table.

There is strong bipartisan commitment on the TPP. The global recession underscored the importance of trade; people are frustrated with the lack of a comprehensive trade agenda. Not only do we need to conclude the TPP agreement, we also need to pass the KORUS, Colombia and Panama FTAs.

Panel Discussion

Congressman Brady discussed how to link the upcoming APEC summit to the TPP, stressing the need to ensure that the region understands that Congress is serious about engaging in a concrete way in the Asia Pacific. The US wants to discuss the relationship going forward and address misconceptions such as the US is not serious about engaging in trade. The APEC summit is an opportune time to engage in face-to-face discussions with other representatives, to build up relationships and demonstrate Congress's support for initiatives like KORUS, TPP and FTAAP.

Congressman Brady was asked about concerns about the US's inability to pass FTAs (like KORUS, Colombia and Panama) and what that means for negotiating future deals. In response Congressman Brady said that this concern is fair and that there have been problems in recent years. However if the KORUS FTA is resolved by the G20 summit, he can see movement on the KORUS as well as the Colombia and Panama FTAs in the first half of 2011. He also noted that, under a Republican Congress, the President would have a partner in trade if he is serious about moving forward on FTAs.

In response to the question of whether Republicans will be willing to devote the necessary financial resources for trade policy, Congressman Brady said he believes that republican leaders feel strongly that trade is critical to the US economy. It is not enough to buy American, you have to sell American and this will require building the necessary infrastructure to support trade.

There was discussion of renewing trade promotion authority (TPA). Congressman Brady noted that it is critical to have fast track procedures for implementing trade agreements, but the subject had not been discussed much in Congress in recent years. He believes renewing TPA will be on the agenda next year.

Congressman Brady was asked whether Congress would find it easier to pass TPP with its current members or with a larger membership. He responded that the ability to pass the TPP agreement will depend on the nature of the agreement and how meaningful additional members are.

Regarding progress on the Doha round, Congressman Brady believes there is a closer working relationship between the republicans and democrats. However, the current agreement does not go far enough so it is important to flesh out more of what this agreement means.

Session IV: The Trans Pacific Partnership and Prospects for an FTAAP

Yoshihiro Watanabe: Advisor, Bank of Tokyo-Mitsubishi UFJ Ltd.; APEC Business Advisory Council Member of Japan

Japan's businesses are well aware of the strategic importance of the TPP. The key issue for APEC 2010 is working towards sustainable growth for all. This means (1) an assessment of the Bogor goals; (2) advancing regional integration towards FTAAP; and (3) a balanced growth strategy.

ABAC believes that APEC needs a new vision to enhance economic integration, based on the achievement of the Bogor goals but also on the expanding scope of APEC and the changing business environment. The TPP, ASEAN + 1, ASEAN + 3 and ASEAN + 6 are all potential pathways to FTAAP.

A study conducted on FTAAP's effects on liberalization and facilitation of trade showed mixed results for Japan. However, overall GDP effects are positive and we believe that APEC should move forward on regional integration. Businesses prefer wider regional agreements and integration on services.

There are hurdles for Japan in the TPP and ASEAN + pathways. Japan's membership in the TPP will depend on negotiations on agriculture, starting with food security and safety. We believe that Japanese agriculture can be reformed and become competitive.

Jeffrey J. Schott: Senior Fellow, Peterson Institute for International Economics

The TPP participants diverge in size, level of development and attitudes towards civil liberties; Viet Nam sticks out as an outlier. It will be difficult to come up with development provisions to deal with this group.

Regulatory coherence raises the question of whether countries will have the administrative capability to reach high standards in services and new areas. This creates problems of international trade and investment flows.

On the trade side, the goods and services numbers of the core countries are small; however when you add the extended membership the totals are quite a significant increment. Focusing on services you see that trade of the core - apart from the US - is quite small. There is opportunity for growth, particularly with the inclusion of Japan and Korea. The same patterns can be seen with merchandise trade.

The next question is how to craft the TPP? A big bang negotiation is not feasible, but an incremental agglomeration approach is workable. The extensive network of existing agreements already provides ample precedents and substantial commitments to liberalization.

How can we merge intra-Asian schemes with broader regional ones? And what about non-APEC members that are included in the ASEAN + 1 schemes? These raise difficult development and political questions. Furthermore, if we are talking about the broader trans-Pacific, how will Latin American countries fit in?

The recipe for a 21st century FTA was spelled out well in previous panels: you build on the existing network of agreements, including "FTA plus" provisions. Negotiators learn by doing. If you look at recent US FTAs, we have improved on agreements from past decades. No agreement will be comprehensive, but negotiators should try to limit the number of exceptions to the greatest extent possible. The TPP should also harmonize rules of origin and improve transparency of policies affecting trade and investment.

Can Japan afford to join the TPP talks? Can they afford not to participate? Japan already has an extensive network of trade with the TPP core members and within Asia. The TPP can provide a channel for:

- Advancing Japan-China and Japan-EU trade pacts.
- Managing the adjustment in the agriculture sector.
- Resumption of the suspended Japan-Korea trade talks.

In order to join, Japan must improve transparency policies affecting trade and investment, which will require commitments on sensitive farm products and services. Membership is time sensitive; Japan will lose key market access if the KORUS and Korea-Australia deal are passed.

China's participation in FTAAP is also crucial. China should be interested in joining because it already has strong ties with TPP members; agreements in place with four of the eight members, and negotiations and feasibility studies underway with an additional three members. TPP negotiators should therefore think about how China fits into the mix in the medium term as well as moving towards FTAAP. One way to integrate China would be to have them start out as an observer, or have Hong Kong come on as an observer.

A final point to make is that over time we will see the TPP evolve significantly, which will require Asian countries to go beyond what they have included in their current FTAs. Industrialized countries like the US will also have to put something on the table. But for the US there is not much to offer; there are some services regulations and farm trade barriers that could be opened. To gain political support for removing those barriers, the TPP deal will have to be big enough to involve sizeable US trade gains with the other TPP participants.

Peter A. Petri: Carl J. Shapiro Professor of International Finance, Brandeis University and Senior Fellow, East-West Center

The push towards FTAAP can be attributed a great deal to ABAC, who are strong supporters. Having the APEC 2011 summit in the US will hopefully clarify for Americans the larger context of integration. In the long run integration is about knitting Asia-Pacific together into one region. Integration has huge benefits for prosperity, innovation and stability, which must be kept in mind while moving forward.

In our study (conducted with Michael Plummer of Johns Hopkins University and the East-West Center, and Fan Zhai of the China Investment Corporation) we explore the dynamic path of agreements and estimate the implications for economies joining at different points in time. How do incentives evolve as countries do or do not join? The baseline scenario (of doing nothing) has two alternatives: (1) the ASEAN base moving towards FTAAP; (2) the TPP track.

The model incorporates broad economic effects including tariff elimination, services liberalization, trade facilitation and investment. Once we have a clearer idea of the nature of the TPP agreement, we can model it more accurately. In our preliminary results we found that:

- The TPP track (in addition to the ASEAN track) generates substantial benefits for North and South American economies, as well as Asian countries.
- Dynamics matter: moving from TPP 8 to 13 roughly quintuples gains. Moving from TPP 13 to FTAAP doubles gains. The speed at which countries move along the path also makes a substantial difference.
- On the TPP track, the US benefits reach 1.5 percent of GDP. Small open economies such as Viet Nam, Malaysia and Thailand gain the most. Japan also benefits a great deal.

- If the US does not participate in the Asian track, it does not appear to have a major effect on the US since some discrimination would be balanced off against improved terms of trade.
- US export and output gains are concentrated in services and agriculture rather than manufacturing.
- Trade in some agricultural products could rise dramatically under 100 percent liberalization; hence political feasibility might require some exceptions.
- Results show that if China joins they may become the largest beneficiary from this path.

The agreement has to be seen as a tool to unite the region and therefore we have to be vigorous about a living agreement to create an accessible path for future participants. We should keep this vision in mind and eventually all members should be welcome.

Panel Discussion:

Questions were raised about the model used by Professor Petri and the difficulty of modeling the removal of barriers to services, as well as the characteristics and assumptions of a computable general equilibrium (CGE) model. Professor Petri explained that he and his colleagues have tried to collect different measures to get a scale of distortions in services and that by the end of the project they will have range of estimates. The important characteristics of a CGE model are that it assumes close to full employment and then asks how much more efficiently the economy can operate if it produced those goods in which it has a competitive advantage. As the specifics of the agreement become clearer, the outcome can be modeled more accurately.

There was also discussion about China's current FTAs and its participation in the TPP. Jeff Schott explained that China's trade agreements, such as China-ASEAN, are more political and based on shallow integration. However this is not the case in more recent agreement such as the China-New Zealand FTA, which goes much further and has useful precedents. The agreement could help in the transition process of moving from a big outsider to a more involved country.

The question of competitive liberalization and the multiple pathways to FTAAP was raised. How will countries decide which eggs to put in which basket? The response was that competitive liberalization already exists in Asia. In terms of different approaches to integration there is the traditional Asia approach which is more consensus oriented and built on more shallow integration. The US approach (which seems to be gaining favor around the world) is a more legalistic approach with hard obligations that promote policy predictability to encourage investment and enhance productivity. Having a living agreement is an important part of enlarging the TPP and dealing with non-APEC participants.

With regard to China joining the TPP within the next year, the panel believes it would be a premature decision and would likely kill the deal since it would not be possible to

move toward free trade at this point in time. However Chinese participation will be critical to success of the eventual integration effort; preparations should be undertaken to pave the way for China to join the talks in the coming years.

The question of how to pass TPP in a Congress that is suspicious about free trade focused on two compelling arguments that give the TPP a good chance of winning Congressional approval.

1. If the architectural outcome is for Asia only agreements with the prospect of significant discrimination against US trade, the US will have to participate.
2. Foreign policy and national security ultimately determine the outcome of US trade policy. Reports from Asia are that the US will be left behind and China will dominate the region if the US does not move ahead with economic agreements.

Furthermore a 21st century agreement requires countries to bring their standards up to the level of industrial countries, which means less change is required in US practices. The challenge for US is that it still has restrictions and will be pressured to change them. These changes will require enough benefits to generate political support that would offset criticism from protective industries.

Finally the role of economic cooperation and narrowing the gap of economic development in the TPP and FTAAP was discussed. Two main points were put forward:

1. The theme of sustainable growth for all should be maintained.
2. The TPP already has capacity building and technical assistance built into it that might contribute to these issues; drawing on initiatives already in train in APEC and ASEAN.

Session V: Conclusions and Recommendations

C. Fred Bergsten: Director, Peterson Institute for International Economics

C. Fred Bergsten outlined four points, viewed as essential for moving forward on Asia-Pacific integration.

1. There must be a clear and credible deadline for the TPP negotiations. The Doha Round demonstrates the costs of allowing trade talks to drift when officials do not set a credible deadline for concluding negotiations. At the upcoming APEC summit in Yokohama, leaders from the TPP participating countries should tell their ministers to conclude the TPP agreement by the APEC meetings in Honolulu in November 2011.
2. Bigger is better. For TPP to succeed there has to be enough on the table to allow negotiators to craft a substantial package of trade reforms. This means expanding the core group as soon as possible to ensure that the first tranche of TPP countries covers a large volume of trade in goods and services.
3. There should be no preconditions; everything should be on the table ab initio. This runs counter to the current US position that the TPP adopt market access schedules from existing FTAs. Whether exceptions in trade pacts among TPP

participants—like the exemption of sugar from the US-Australia pact—are maintained or not should be decided in the course of negotiations. Too rigid a stance on exceptions could discourage participation in the overall deal. Countries should try to resolve substantive differences in a way that promotes the most valuable deal with the broadest membership.

4. We have reached a consensus that it is crucial to maintain the link between the TPP and the FTAAP. Current participants see the TPP as a stepping stone to FTAAP; this is helpful for negotiations and the end game. If countries believe the core group intends to push towards a comprehensive APEC agreement, it increases the incentive to join earlier on.

Noboru Hatakeyama: Chairman and CEO of the Japan Economic Foundation

Noboru Hatakeyama summarized his thoughts on the necessary steps to deepen regional integration, focusing on four key points.

1. It is necessary to put everything on the table. This means we have to accept that there are no exceptions, at least at the start of the talks. This implies that at the end of negotiations, there may be some exceptions.
2. Ruling out preconditions is another necessity. All sensitive sectors should be subject to the negotiations; the extent of reforms should be determined in the course of the negotiations.
3. The TPP must be a high standard agreement. However, there needs to be flexibility to address major political concerns. As the Japanese saying goes “if the water in the pond is too clean, then the fish cannot live.”
4. In the Hanoi declaration in 2006, FTAAP was mentioned for the first time as a long term perspective. However it is not so long term anymore; ten years from now is not a long time and we must work together towards achieving this goal.