

THE BROOKINGS INSTITUTION  
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TPP AND RCEP:  
COMPETING OR COMPLEMENTARY MODELS OF ECONOMIC INTEGRATION?

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## P R O C E E D I N G S

MS. SOLIS: Good afternoon everyone. I am Mireya Solis, Senior Fellow and Knight Chair in Japan Studies at Brookings. I want to welcome all of you to our afternoon program, TPP & RCEP a Competing or Complimentary Models of Economic Integration.

Let me provide some background, let me frame the issue for the discussion we're going to have this afternoon. I think it is clear that these two major trade agreements, the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership will define the parameters of economic integration in the world's most dynamic region, Asia.

These are indeed mega undertakings when you take into consideration that RCEP, for example, represents 30 percent of world GDP and comprises close to half of the world's population. Then also take into account the remarkable size and ambition of a Trans-Pacific partnership where you have a trade grouping that gathers country that represent 40 percent of world GDP, and where you have the first and the third largest economies trying to negotiate with 10 other economies deep integration parameters.

So the stakes in the successful negotiation of each of these trade agreements are very high. But I think there is less clarity on a central issue. That is what kind of interaction there is between these two concurrent trade negotiations.

I would pose to all of you, just so we can start to mull through these issues, that there are at least two narratives out there in trying to describe the interaction between these two important trade agreements.

One story is about rivalry. An idea here is that you have two rival trading blocks, one led by the United States, one led by China, and therefore seen through the lens of rivalry analysts usually describe zero sum dynamics. They use terms like

containment, exclusion, and marginalization.

But there is another narrative, one that actually emphasizes positive sum dynamics, and one that makes the case that these two trade agreements share the same end goal. Therefore they are about the construction of an Asia Pacific free trade area.

If you were looking at the interaction of these two agreements through this lens of convergence then you frequently hear words used such as pathways or building blocks, trying to convey the notion that there's a shared final destiny, a shared faith.

But I would argue that the reality is far more complex than these two polar views of either rivalry or convergence. Therefore in this seminar we want to discuss the array of economic, political, and the strategic forces that shape the interaction between RCEP and TPP.

Let me highlight briefly why I think this reality is more complex. Let me just bring up three factors that I think that muddy the waters, and make it very difficult to use just one term to describe what kind of dynamics there are, what kind of interplay between these two trade agreements.

One, because actually competition is not only of the zero sum kind, you can actually have constructive competition if this encourages negotiators to aim higher, to aim for higher quality agreements.

Second, because we're not talking really about exclusive trading blocks, there's a third-degree of overlap in membership. We do have many countries that have dual membership. Countries like Singapore, like Japan, Malaysia, Australia, Brunei, and Vietnam are partaking in both negotiations.

This question of dual membership can actually get more interesting if we actually begin the discussion, which I hope we will do today, about perhaps China's

potential participation in the future. Because I do think that's the big elephant in the room. I think if China were to join that would be a game changer of many levels, but certainly would force us to reconsider how we describe the interaction between these two trade agreements.

Finally because any discussion about possibly melding these two trade agreements in the future must start with an in-depth analysis of how alike or how different they are in terms of scope and negotiation modalities. Is there enough common ground to think that you can actually weld them together? Or to put it more crudely, are we, in fact, comparing apples and organs?

So as you can see there is a lot to discuss this afternoon, but I think we're off to a great start. We have a stellar keynote. We are deeply honored that Ambassador Sasae from the Embassy of Japan has agreed to deliver the keynote for this event. We always learn a great deal from the keen insights of Ambassador Sasae, and it's always a pleasure to welcome him to Brookings.

So Ambassador Sasae, if you can please join us in the podium. Thank you.

MR. SASAE: Good afternoon everyone. Thank you very much for inviting me to this distinguished think tank of Washington. It's great to see your, you know, University of Pennsylvania has said that Brookings is the number one think tank around the world. It's great to see that.

Think tank is the place you think, but these days ambassador doesn't think, you know? Most of the time you use your body not necessarily your brain. So this is a good time for me to dwell on that very interesting subject just laid out.

But before starting on the point let me just say a few words about Japan and Japanese perspective on the economy and trade. As you know, under the prime

minister, Prime Minister Abe, Japan has been moving forward in a quite positive way.

The economy is coming back gradually and dramatically, depending on the cases you are talking about.

For the first time four consecutive quarters of the year we have positive growth, and for the first time in six years our job offer supersede job applications. For the first time over the five years our consumer price index I plus. For many years it was negative, as you know.

So indicators are all heading for the positive directions. The Prime Minister said in his address in Noda recently that to make Japanese economy better we need to see all this positive business cycling, you know, is sure. If you would see more of the corporate benefit there'd be more employment and higher wages that would mean more investment and also consumption. Then that would turn more into the corporate benefit.

So Prime Minister said that he is determined to make the current session, the Diet, to make sure that this would happen. Having said it, also we all recognize that this TPP and free trade agenda is a very important part of his priority agenda. Not only because this would be a very important part of economics, especially the (inaudible) arrow of economics, which about structure adjustment and deregulatory and competitive policy. Of which is had laid down his own visions, proposed many bills through the Diet.

Now there are still debates going on in various council of the government. Nowadays more focus on the agriculture and the labor market, and also pharmaceutical and medical industries. Not to limit it to those, but there are some of the areas, and I know people are beginning to see more of the debates. I hope that all this debate will lead to more of the substantive measures to be introduced.

But I also have to say that whenever I talk about this economics people say that, well, what's the result? What is the impact? We don't see a major impact of the majors. I think to some extent that is true because all of these measures are more or less long-term shot. You can't see the change overnight, the impact overnight. Some of them are three, five, ten years' timeframe. Some of them might be coming earlier. So it's a bit premature for you to judge the meaning of this economics, especially the third interval of his policy.

But when it comes to free trade aspect of this economics (inaudible). I think we are rather coming to the specific, I would say major event. One is this TPP agenda, the other is other, you know, regional undertaking like RCEP and Japan, China, Korean trilateral exercises.

Here we have laid down very interesting intellectual questions which I thought very interesting because I myself have been involved with the start-up of this Japan, China, Korea, and Japan ASEAN or ASEAN+3 to ASEAN+6, so far I was in Tokyo.

So I know the history, and to be honest, I think before we thought about all this trilateral whole ASEAN process a three or a six, we were not sure that we could make this free trade with the TPP or even the United States.

I think the free trade with the United States is the biggest agenda for many years, more than two decades I would say. But I think when we started free trade agreement with Singapore we started very small. Very, I don't say easy, but it was a test case because Singapore was a relatively free country, as you know, market opening and a lot of high barriers and so forth. Not exporting much of agriculture products, so it was not a very difficult one.

But then we tried to develop ASEAN, the free trade agreement with the

individual ASEAN countries. Then we're turning to Japan ASEAN free trade. And also China was doing the same things, more or less, a little bit in a different way. Started gradually from their trade on goods rather than on service, but we are trying to pursue them both the same, maybe in terms of our competitive advantage and so forth.

Then we also wanted to have agreement with Korean too because we thought it appropriate to have a good agreement with Korea. That was there for the entire two decades, I'd say. There was idea and studies, but all the time there was some lapse. Some of the barriers were rather political in nature. I would say not necessarily purely economic, although there were some opposition from some specific industries I would say, but on the whole over the past five or ten years there was a move that we move forward.

Especially when there was a good political environment to operate. When there was a bad political environment it also affected some of the economic undertakings. So that's the ideology of the region, to be frank.

But having said it back in 2010, I think there was a big meeting in Japan, and at the time I think that there was a good agreement. That related to what the media said that the agreement, whether we would pursue RCEP, an entire Asia-Pacific trade agreement as a goal and a final goal.

In the process I think there was agreement, every regional or sub-regional undertakings. Whether that it TPP or ASEAN+6, ASEAN+3 or whatever. I mean, Japan, Korea and China exercise too. All these are small, you know, orbits that could be eventually enlarged into larger framework of free trade. I think that was a good agreement. That included countries like China.

So on the whole, in terms of notion, I think encouraging the United States, and we are all committed as a political agreement that we will pursue the entire

Asia-Pacific free trade.

Now, having said it, it is also obvious that when you discuss all this TPP, I don't think that this was completely dominated by the United States, but it was started by small nations, as you know. A country like New Zealand which is doing a great job. United States participated lately, and then we decided to participate. So the TPP itself is developing, and now Canada and Mexico are in there.

The question is that, as the moderator said it, could this TPP exercise be competing with RCEP or whatever? I think in terms of timeframe it is obvious that if there and again the consensus target of TPP participates in country, is to get this done in all the timing of this year. I think that the ambitions of RCEP are some time the end of next year, year 2015, I think. There are ambitions of trilateral Japan, Korea, and China at the end of 2014, so the end of this year.

So they have some different timeframe as a target. And if you look at the substance of the negotiations we have to meet that this TPP is more comprehensive in terms of covering the new rules.

Although, you know, in terms of what needs to be covered and negotiated, they are still subject in both, you know, trilateral and RCEP. I understand that, you know, even this Japan and China are okay. They are still talking about market access modality, and what kind of modality you need to define. Could there be any exceptions or, you know deviations and so forth? Even on this RCEP, you know, I understand they are not even exchanging offer and request.

So if you look at the current speed of the TPP negotiations we are coming into the final phase. Although there are still some gaps remaining among the countries, that is basically the gap between the developing countries and developed countries. In other terms, especially on some of the rules and also some of the market



access issues between the developed countries and developing countries that would include developed versus different countries like the United States and Japan.

It is obvious that we expect in some of the ministerial meeting, hopefully before the end of this month, I think the target should be that we should conclude substantive negotiation around the time. Although in the final phase it is always difficult to get this done, but I assume that there are good political wills on both United States, Japan, and the other countries to try to get this done.

That would require a more realistic and possibly flexible position taken by everybody else. Often the case on the final phase you tend to think that the other's request is too much, and you are offering too much. But I think we have to keep in mind our overall objective, getting done, is more important rather than having the ideal agreement at this stage. When the ideal is met, I would say, mostly in terms of getting the fundamental objective of the agreement.

Now, given that situation I don't see any problem, you know, ideological problem say between this TPP and ASEAN+6. By the way, I understand ASEAN+3 is already gone, and it submerged into ASEAN+6 one way or another. There I don't think that it is again, between the United States or the champion on the other side of the Pacific, and China on the other side of the Pacific. I mean, that's too much, I would say generalistic. I don't say -- sorry, I have to withdraw that one. Too much simplistic way of defining the issues.

Yes, it is true that there are some differences of the position taken by the member participating country in RCEP and TPP. For example, if you look at some brutal issues taken up in TPP, like government procurements and, you know, intellectual property, and competition, and especially the role of the government, I mean, the role of the, you know, government affiliated agencies and so forth, I would say that if there are

some countries who have enormous challenges, especially in terms of changing the domestic and economic business structure in a way to open up its system in a more harmonious in the other countries that would require enormous energy and time.

So for that reason I would say that eventually all the countries in the region should be a part of this wider FTAP and then why not this -- all this matter of RCEP to TPP in the future. But on that stage naturally there is a gap in terms of rulemaking and the market access. So I think then there has to be different kinds of negotiations to narrow the gap, obviously.

So this RCEP would -- I don't say it will be a minor rig, but there has to be some adjustment process between the two in the future. That would be a very good time for a big country like China to adjust, to open its system more to the higher standard of rules. I don't think that's easy.

So this RCEP, depending on how much it would seek the high level of standards as we see in the ongoing TPP, I think that would give some idea the gap, and then how much it would take time especially for each participating country to make their domestic adjustment.

So I would stop here and before concluding, I want to say our position, and the Japanese perspective is that since we are a part of all the RCEP and TPP and even Japan, China our outlook exercise, we think that all of the agreements and all the exercises are meaningful in its own way. Especially, for example, Japan, China, (inaudible) trilateral.

I think if this could be done it would be great. Not only in terms of business and economy, but also be a good part of making the relationship among the three a better one to pave the way for more exchange of people. Not only businesspeople but also the more stake, I would say, to each other. So that you don't

have to crawl so much.

So that will mean that economic relationship and linkage would be part of the safety-net so that each country needs to have a good relationship. For that reason we welcome and appreciate a greater role of China and our okay in doing all this exercise. We welcome China's participation into TPP eventually if we could do well in the ongoing RCEP negotiations.

And I understand that Korea is also interested in TPP. That would also be great. I mean, there shouldn't be any exclusion. There shouldn't be any notion that it is wrong to one, you know, trade exercise, you should be here, you know, excluding the others. That notion itself it not really modern or even post-modern way of thinking.

I will finish here and thank you very much.

MS. SOLIS: Thank you so much, Mr. Ambassador, that was a very insightful presentation and I think we all learned a great deal. You certainly generated stimulating thoughts, and I think you have -- I know your time is limited, but I would like to take the opportunity to ask you a couple of questions, if I may?

I want to link precisely with your final point. I think that most people in this room, and a great deal of people watching events, have become very worried, have watched with great concern, the deterioration of relations between China, Japan, and South Korea because of historical and territorial issues.

However, as you were pointing out, these three countries are also collaborating in many ways in the area of trade negotiations, not only through RCEP, but also through the trilateral China-Japan-Korea FTA. So you could make the case that trade agreements are actually the bright spot in Northeast Asia relations.

My question to you is, do you think there are chances that these collaborations are thinking about deepening economic interdependence could have

broader spill-over effects that go beyond, you know, benefits and making is possible for businesspeople to travel and so forth? The more technical aspects of a trade agreement to actually improve the diplomatic climate among these countries or should we expect that we will have the usual pattern of compartmentalization? So you have the hot economics and the cold politics. Which do you think might be the most likely scenario?

MR. SASAE: That's a very interesting question. To put it in a very simple way, I think to have a deeper economic ties and relationship is a necessary element of the good relationship. If you don't have a close and deep economic and business partnership people don't have interest, I mean, to be frank, not much interest. So it's great to have good economic transactions across the border.

But you could ask, is that sufficient for the good relationship? The answer is no. I think obviously it has to go beyond the pure economic and business enterprises. In having a good relationship you have to both have a good working relationship both on the political and even defense and security relationship.

That's a challenge we are facing. This press is not necessarily to address that question. It's a heavy agenda today, but let me say this. You know, in spite of some of the problems we have today, we had this problem before. If you look back at this history, back in 1960, 70s, huge problem, even 70s or 80s. We have a history or overcoming these difficulties.

I have worked in Foreign Service for 40 years, its long years. So I have seen the (inaudible) of the relationship, you know? Whether it is our relationship with ROK or China. There was a good time and a bad time. There was a time that nobody was speaking much. There was a horrible time.

So I'm trying to say that at this moment people tend to think that where we are the worst, you know, situation after the war. I don't think that way. If you look at

the exchange of the people, and lots of people come and go. You know, for example, ROK, Korea, today there are 5 million people going back and forth a year. Look at the number of a few years, say 10 or 20 years ago, it's very small. That was because there was an opening up the country, even counter exchanges.

So in terms of a timeframe I think we are getting better. At this moment we are a little bit like that. So you might criticize me, I'm not offering any basis of getting better in the future, but I think the important point is that even people think that we're getting into more confrontations and tension, people think that way. That itself is 10 years. I mean, you could look at the Japanese economy.

One of the reasons why we are stuck, say over the two decades, is that we are too much, you know, overshadowed by the mentality that we can't grow. But I think that mentality matters. As I said here in my remarks, simply the leadership and great leadership in telling the people that we need to reform, we need to change.

That applied to every country not simply one individual country. Every country has to go for the reform whether it is political or economics. I think if the three countries to do that together without too much blaming each other than that would help more the environment to operate. Thank you.

MS. SOLIS: One final question if I may, and I want to point to an area where China and Japan actually have agreed, and that is that in the past China and Japan have different proposals for East Asia reintegration, China endorsing ASEAN+3, former Japan thinking more broadly about ASEAN+6 to bring India, Australia, New Zealand also into these negotiations. And now these two countries together with ASEAN seem to have put this difference aside and have endorsed RCEP.

So could you elaborate as to how be it possible to reach agreement and make RCEP then the vehicle in which all these perspectives could converge?

MR. SASAE: I think this is also related to some of the political environment. As you know the ASEAN developed and ASEAN develop its own free trade agreement. Both China and ROK and Japan had their own relationship with ASEAN. Also they were getting together, I mean, every year. ASEAN procedure there is a meeting, minister meeting going on some years.

Then there were another forum to be developed, in power it was the start of the ASEAN+6 that's the East Asia Summit, as you know. This concept is not totally, you know, the same as East Asia Summit, but there was a new membership like Australia and New Zealand, and even India and Russia, and United States.

So I think there was a growing interest all the time of the East Asian Summit participants to be also linking up with this ASEAN+3 exercise. So there was this prominent way of moving to the ASEAN+6, and it was true that China was preferring to have this ASEAN+3 as a priority.

But on the other hand, the Japan and other countries like Australia and New Zealand were trying to develop this ASEAN+6. So obviously in each of these there was a conflict in process. Eventually I think as you look at the body of the exercise it's mostly over wrapping.

So I think it was wise, I mean, you don't have to do the same stuff, I mean, just for the small difference of the membership. So I think it was wise to go for the RCEP rather than simply limiting the U.S. sphere on negotiations to ASEAN+3.

So I think there is a reason for having this RCEP to the leading exercise of the region, and making ASEAN to continue to be a central part of the exercise.

MS. SOLIS: Thank you so much, Mr. Ambassador. This has been a delightful opportunity to exchange ideas and to learn from your insights. I know your time is very limited, so I would like to ask the audience to please join me in thanking the

Ambassador for delivering the keynote this afternoon.

MR. SASAE: Thank you.

MS. SOLIS: Thank you. So now we are going to move to the next part of the program where we're going to have the expert panel. We are really very fortunate to have a truly authoritative experts working in this issue. I think if you Google the topics of East Asian regionalism, Asia-Pacific regionalism, the names that will appear are very much the people that who are going to make the presentations today.

So these are the people that give the expert commentary, and write the leading articles, and books on the topic. I feel very fortunate personally that they have agreed to come from near and also from very far to provide this opportunity for an exchange of ideas.

So I'm going to introduce them very briefly, the bios are available in the website. I'm going to introduce them in the order in which I will ask them, each one of them to come and give their presentation in front of the podium. After all the presentations are over then we're all going to come to the table and then we'll have the Q&A for everybody.

So our presenters today are Sanchita Basu Das who is Lead Researcher of the ASEAN Studies Centre and Fellow at the Institute of Southeast Asian Studies in Singapore. Takashi Terada, Professor at Doshisha University in Kyoto, Japan. Yunling Zhang is Professor and Director of the Division of International Studies at the Chinese Academy of Social Sciences. And Claude Barfield is Resident Scholar at the American Enterprise Institute.

So Sanchita, if I can ask you to come, please?

MS. BASU DAS: Distinguished guests and ladies and gentleman, a very good afternoon to all of you. It's really an honor to be here with all of you at the

Brookings Institute, and I would like to thank Dr. Solis and her colleagues for inviting me for this event.

The topic of discussion today is the transpacific partnership and the regional comprehensive partnership, are they competing or complimentary forces for economic integration. I'll try to give an ASEAN perspective on this. But before moving to RCEP or TPP I would like to talk briefly about the ASEAN's own regional economic integration initiative.

ASEAN started the key main economic integration initiative in 1992, and the key rationales were, like in the post-Cold War era, the region realized that having an economic cohesion will give it a sense of regional identity. It will also -- the economic cooperation will also bring in greater bargaining power for the region in the international community especially against, say China, India, Japan, Korea or the U.S.

Of course there were developments in the other parts of the world, like regionalism is gaining strength in North America or EU, and the talks in the (inaudible) has been slowing down.

Besides this the smaller developing countries in Asia realized if you're negotiating among a small group of countries that can ensure you some flexibility, and can offer you some degree of protectionism so as to satisfy the domestic constituencies.

So ASEAN started his regionalism process with the ASEAN free trade area and subsequently widen it to include the ASEAN -- the service or sector liberalization and the investment sector measures. Later after the '97-'98 crisis, the AFTA and the AFAS, that's the service or sector liberalization and the ASEAN investment area initiative got subsumed under the ASEAN's bigger vision of ASEAN economic community.

But despite its effort of economic integration for the last two decades, the economic integration in ASEAN is said to be limited. The last AC score card, the ASEAN



economic community's score card was published by the ASEAN secretariat in March 2012, and in that score card it said the ASEAN countries have implemented around 68 to 70 percent of their targets for the first four years of the implementation. The number was updates later to 77.5 percent in 2013.

Besides its own integration initiative, ASEAN has been also pursuing FTN negotiation with Australia, New Zealand, China, India, Japan and South Korean. This is because besides ASEAN's all own interregional trade, which is around 25 percent, next door region trade with China or Japan was equally important. Besides, this five ASEAN+1 FTAs were also enacted to strategically place ASEAN as a hub of 50 in the broader Asian region.

However these ASEAN+1 FTAs were signed and negotiated at different points of time. Each ASEAN+1 FTA differs in terms of the way of negotiation and economic coverage. There are studies which have narrated that while the liberalization under trade and goods for some of the FTAs is not high enough, the trade and services have only very small the ability of place components, and trade facilitation remains generic for both of these ASEAN+1 FTAs.

Besides this ASEAN-wide, the region-wide FTAs, the members of ASEAN were also pursuing the bilateral free trade agreements with distant partners. Although they have the market access as one of the key reasons, they also have many political reasons for pursuing these FTAs.

So the political reasons being like, they would like to cement a long-term strategy relationship with some major powers and the major trading partners. The individualizing governments were also eager to raise their overall diplomatic status by perusing trade diplomacy.

Again, it has been observed that these FTAs are different in nature and

the scope. They could range from very limited FTAs on trade and goods to highly comprehensive ones. These FTAs have a variety of rules of origin that have been applied or being currently negotiated. There is a lot of overlap among the FTA partners of ASEAN and the individual member countries like Singapore, has pursued FTA with Australia on the bilateral, and it's also a member of ASEAN Australia Free Trade Agreement.

So all these led to increasing concern that the absence of a common framework across these FTAs may negate the benefits for the region. On the other hand, there could be some negative implications like higher cost of doing business in the region.

So realizing these challenges of multiple FTAs while acknowledging the benefit of a comprehensive region wide agreement, a decision was reached in November 2011 to establish a free trade agreement involving 16 countries. That's the 10 ASEAN member countries; China, Japan, Korea, India, Australia, and New Zealand under the framework of regional, comprehensive economic partnership agreement.

Objective of RCEP is to obtain and develop a comprehensive and mutually beneficial economic partnership agreement that is consistent and transparent, and is expected to involve deeper engagement between ASEAN and its FTA partners.

During the November 2012 summit the leaders of ASEAN+6 endorsed the guiding principles that listed eight negotiation areas. A key feature of the document is that it mentioned that the agreement will give due consideration to the different levels of development among the members. The 16 member countries decided to launch a negotiation on May 2013 in Brunei with likelihood of completion by the end of 2015 when ASEAN is also going to announce its economic community at the same time. So until January 2014 three rounds of negotiation have been concluded in RCEP.

What are the benefits of RCEP? RCEP was led by ASEAN is expected to entrench its centrality in a wider Asia-Pacific regional architecture. This was challenge amidst the rapid pace of regional economic integration arrangement that was evolving in the region including the U.S. led Trans-Pacific partnership that was announced during the 2011 APEC summit.

RCEP was expected to demand straight ASEAN's leadership in bringing together its own 10 members and external partners for economic growth, development, and harmonization. RCEP is best on the ASEAN+6 formula was viewed as a good compromise between the East Asia Free Trade Agreement which was based on the ASEAN+3 formula, and was favored by China, and a comprehensive economic partnership in East Asia that's the CPR which was based on ASEAN+6 formula and was favored by Japan.

Economically if RCEP was successfully done by 2015 it's going to constitute 32 percent of the world GDP, and will cover about half of the world population.

But negotiating an agreement like RCEP is not without challenges. RCEP is the first of its kind and has no precedence to emulate. It involves three different dynamics among 16 members, the 10 ASEAN members; of course, they have been pursuing their own economic integration process since 1992. ASEAN and FTA partners they were trying for -- they have been working on the FTA since 2000, but the major problem is with the six FTA partners who don't have comprehensive FTAs with each other.

In this category I will just say the China-Japan-Korea FTA assumes special interest because these three eastern states account for a dominate share of GDP and trade in East Asia, and a successful establishment of RCEP depends on the conclusion of the CJK FTA. However we keep on listening to various political conflicts so

there are, again, doubts on whether the CJK agreement will be completed by the end of this year.

Besides that RCEP included India which is viewed as a rising economic power in the region, but its position in multi-party trade agreement remains very conservative. So that also involves difficulties in negotiation.

RCEP negotiation is also challenged by the differences in developmental stages, and accordingly differences in interest among the negotiating partners. The flexibility clause built into the RCEP framework could be a boon or bane for RCEP. It could break the dead locks during negotiation, but it could also lead to a low quality of FTA. So pursuing harmonization, consensus, and flexibility at the same time could result in a lowest common denominator rule.

As RCEP was announced at the time with TPP also launched its negotiation with nine Asia-Pacific economies, this lead to a lot of debate on the similarities or differences between these agreements. Like I mentioned, RCEP is said to cover 32 percent of all GDP and around 50 percent of world population. For TPP is constitutes around 38 percent of world GDP and 11 percent of world population.

This is a table; I hope you can see it that broadly gives some of the similarities and differences of RCEP and TPP. So RCEP is led by ASEAN and it's born out of the ASEAN+1 FTAs. It is based on open access clause. Then membership can be expanded later as the same FTA with ASEAN. Negotiations started in 2013 with expectation of conclusion by 2015.

TPP on the other hand, is led by the U.S. in line with its foreign policy objective of privatization. It's born out of B-4 agreement. APEC countries have been encouraged to join the negotiation, and negotiations started in 2011, but it missed the deadline of December 2013, of completion.

For characteristics objective for both RCEP and TPP I would say are almost the same, but TPP includes more areas of negotiation, TPP includes more areas of cooperation compared to RCEP currently. But there are constants, like RCEP building on the ASEAN way of building on ASEAN's principle of ASEAN V. And mentioning, like differential treatment depending on level of members, development could contribute to slow progress and may also have a low quality of agreement.

ASEAN+1 FTAs have different features and are a different status of implementation which could add difficulties in negotiation agreement. TPP on the other hand is said to be a gold standard 21st century FTA and addresses next generation issues. But we have countries in TPP like Malaysia and Vietnam, and it remains to be seen how these countries satisfies its implementation process once they conclude the agreement.

Of course TPP does not include China and India, and TPP may divide ASEAN -- said to divide ASEAN as all or not participating in TPP. That may undermine ASEAN's neutrality.

I'll go very briefly on this. The strategic role of TPP, the TPP agreement is a key component for the U.S. rebuilt a rebalancing strategy towards Asia. For the Asian economies TPP -- the U.S. presence in the region through TPP is a comforting factor especially for the countries that have apprehensions from rise of China.

TPP is viewed largely as a manifestation of discussion on CPN and EFTs since 2001, and this picked up momentum after the 2008 crisis. TPP could also be viewed as a consequence of a slow progress in APEC that the U.S. has been using as a vehicle to maintain its economic inactivities in Asia.

Last, like Dr. Solis was mentioning, there were two views on TPP, like whether the TPP is a vehicle to contain China or not. For the group of people who have

been saying TPP is a vehicle to contain China was saying because TPP has features that are difficult for China to comply with or TPP will divert attention of the economies who are also involved in the China-led economic cooperation in Asia.

But on the other hand I will say this group of people could be refuted saying TPP was not originally a U.S. initiative. It grew out of the B-4 agreement among Brunei, Singapore, New Zealand, and Chile in 2005, and U.S. joined the B-4 agreement much later in 2008. Moreover, TPP cannot contain China as other TPP members who participate in Asia's production (inaudible) China may not like it. So we can argue it in both ways whether TPP is a vehicle to contain China or not.

As for the RCEP, we heard from Ambassador also, RCEP came up as a compromise between EU FTA which the processed started as early as 2001. But nothing -- after the feasibility study in 2004 nothing has been -- nothing happened on the East Asia Free Trade Agreement.

In the meantime, Japan also proposed its CPR which is the ASEAN+6. Formally in 2006 a study was done, but again, nothing happened. It was only in August 2011 EA economic ministers welcomed the Chinese and Japanese joint initiative on speeding up the establishment of EA, FTA and CPR. In the same time ASEAN proposed its own model of ASEAN centric regional FTA to RCEP.

The strategy part of RCEP I have already described. I will conclude by giving some thoughts on the possibility of an FTAP. Of course there is a lot of discussion that an enlarged TPP or an enlarged RCEP will lead to the creation of an FTAP. An FTAP, whether we use the TPP or the RCEP, is only possible if it's endorsed by the big powers like U.S., China, Japan, and Korea.

But the most heard criticism of FTAP is that it will never happen because of the political conflicts. Moreover, in the current forms, nature, and membership of TPP

and RCEP vary significantly.

So both the negotiations are facing very challenges at the moment that looks to be difficult to conclude. Currently there are also uncertainty of which of the two tracks. We keep on saying that TPP and RCEP will hope to shift the future regional or the global trading architecture or whether they will be converged in the long run. We don't know these answers.

So it is important to keep both U.S. and China interested in the future of the regional trading system. Although it might be true that the high quality trade agreement would earn greater gains, it may also deter new members like China from participating in such trading block. So with this thing in mind leaders and policymakers must carefully balance the depth and scope of such agreements.

Another concern is over competing forces between the two agreements of TPP and RCEP. This tendency may make it difficult for the agreements to converge later. That's why negotiating policymakers need to have a vision for the future. They should seek for common standards and provisions that could be consolidated going forward.

Lastly, the U.S. and China must keep aside the difference and should take more active common positions on trade cooperation leading to an FTAP. However, in the short-term it is necessary to ensure that this to mega-trade deals that are being negotiated do not increase the business cost in the Asia-Pacific region. Thank you.

MR. TERADA: Very good afternoon. My name is Takashi Terada from Doshisha University in Kyoto, Japan. First of all I'd like to thank Mireya and those at Brookings team for kindly inviting me to this, well quite significant and timely workshop.

I was actually sitting at this table more than two years ago, December 2011, and our topic was very similar, TPP and Japan. So when I got the invitation from

Brookings and I thought, wow, I could have used the same PowerPoint which I used two years ago. So it must be piece of cake.

But, of course in a two years' time span, well not necessarily so long, but actually a lot of things have taken place. So that means I needed to rewrite every page of PowerPoint which I used two years ago. Actually I didn't use any page which I used two years ago.

Again, Ambassador, has already provided the very good, overlapping (inaudible) the programs between the TPP and RCEP. He added to the strategic China-Japan-Korea FTA issues which is such a complex situation with the region integration program seen in Asia-Pacific.

So again, I don't need to speak a lot to say something from the Japanese perspective. But again, I'm not the government officer I'm simply teaching at a private university in Japan, so my view is solidly based on the Japanese perspective, I cannot avoid, however it's not necessarily the government viewed. So for example, I'm not necessarily taking a similar view which Ambassador had mentioned here on some of the issues.

Let me start with the mapping here. This is always the first page I use for giving a speech over the last year or so, even including my own lecture at the university, just to provide the basics of thinking of regional integration. Well, basics is you needed to me there otherwise you couldn't get anything. So this map just shows a few are in, a few are out. And again, to my ASEAN colleague just provided the RCEP histories and etcetera, so I don't need to provide that.

But a point is, again, a long country Japan; I just put my country at the center with red color, so that everyone can pay attention to that. That's more important to me. The blue colors, we have a solid blue color, its round. It started from ASEAN, 10



member states, ASEAN+3, certain states including Japan, China, and South Korean.

And ASEAN+6, India, Australia, New Zealand added, actually East Asian Summit.

But we have a different one, a square one which actually is not necessarily based upon the ASEAN template FTA template or frameworks. First, TPP, yes. And this means ASEAN is actually divided by TPP member countries and not. And also CJK, China-Japan-Korea FTAs, it's a square one. This is also negotiating the framework for the integration including investment rating, etcetera. So I think that this is a beginning, and to consider the RCEP and TPP whether they are converging or even competing etcetera.

Next which highlights this collaborating with the U.S., the political points for considering the differences or similarities among these three regional frameworks in which each one has been participating? But I think there are several key areas. Let me say, who actually leads? Again, previous speaker already mentioned TPP is actually based upon the American FTA temporary.

For example, an environmental labor cruises, Japan had, for example, (inaudible) country, I guess the bilateral FTAs, but environmental and labor cruises have never been put in there, so it's very American, well, maybe NAFTA type of the institution agenda.

Well, ASEAN is not state led, but ASEAN can be said to be leading, but ASEAN is probably, you know, the 10 member countries corrective institution, and in limits, you know, the different country has also different perspectives and approaches. In Singapore, for example, it's a free state and a very rich country. With Singapore can have a similar -- I know the issues and approaches compared with, for example, our ASEAN members, very different.

But it's ASEAN based. Any provision it's based upon conditions or time,

so ASEAN+1 FTA, but actually if you don't have the ASEAN+1 FTA you cannot join the RCEP at the moment. So United States doesn't have an FTA with ASEAN yet, so the U.S. is not qualified to join RCEP. Whereas I don't think the U.S. is currently interested in joining RCEP.

The next one is the target year. When initial TPP was set to -- well, finalized the basic agreement on the issues and agenda by the end of last year, but already past. So I put, today I put 2014 for this year. This is when Mr. Bomight's coming to Japan. So I guess he is meeting with our Prime Minister, Mr. Abe. So this is probably the point for both leaders to have sort of the chance to exercise the influence on pushing the TPP, particularly bilateral negotiations forward. This is a prerequisite for the whole process of the TPP negotiations and conclusions.

The final one is market access negotiations. Again, the TPPs, as many people believe, you know, 21st century has new agendas. That's true, but in a market access it's basics for any sort of a regional integration or FTAs.

Interestingly, you know, many people including Japan have been interested in the market access framework because it's a road which is actually very different depending on the bilateral FTAs or trading arrangement. Could be probably unified or multilateral so that road is going to be much more simplified for the (inaudible) of origins.

But, you know, the U.S. didn't take this kind of approach in terms of the market access, bilateral approach is still sort of the framework which the U.S. had been pursuing. Again, no other countries, as I mentioned, before U.S. led institution, right?

So as I mentioned later, probably in the end 50 or 60 bilateral, small agreements among the current TPP member countries could be produced eventually in time of the market access which means different routes for the one, where I have now

water, but for different FTA have a probably different tariff ratio or there's the very same product.

So again, the companies, they are users, not the government officers. Probably it would be confused, and if it's FTA it could be utilized to export, you know, its own products.

But RCEP, again, as the Ambassador mentioned, RCEP CJK are very still in the premeditative stage of negotiations. They have only three or four negotiations, and the modality setting stage. That's why I put some of them not sure because they are not necessarily discussing this kind of issues yet compared with the TPPs.

It's already decided that, you know, the RCEP decided to take sort of a cumulative ratio, which means multi-lateralization of the tariff ratios. Same tariff ratio on the same produce, and simplification of the routes, even the greater routes and etcetera. Could it be probably pursued in RCEP. So that would be quite retroactive for the users which means multinational companies.

So again, these are sort of the, I think the two or three measure key frameworks and features for the comparison between the TPP and the RCEP. This is also very significant for considering, you know, the Japanese interest and approaches to the TPP.

As I mentioned, you know, TPP key features, bilateralism and multi-lateralism. So this was sort of the expression of the ROO programs. Well, just really the expansion of the countries that is subject to (inaudible) or origin. You know, of course if you have computer here and a lot of the inner parts come assembled, but I don't know which parts originated from. Particularly in Japanese countries use a different country for different, you know, the production of the parts, and assembled probably in China or some other country in which they are relatively cheap labor.

So, of course, you know, it's very difficult to identify origins of the products, but if, you know, the multilateral approaches to this origin, Europe origin routes are actually set up, you know, where it's produced doesn't matter. It's a TPP product, so parts -- even the finished products could be quite easily exchanged among the TPP member countries. But again, TPP didn't take this kind of approach as I mentioned before.

So again, as a road to just a last point, I think this bilateral approach market access negotiations might, you know, reduce the TPPs usefulness. I said greater, but a great, very -- it's a conditional. Because from Japanese viewpoint, Japanese company set up the factories, for example, in Mexico, in order to export their own finished product to the United States using NAFTA, even Canada maybe.

So in this case using NAFTA, Canada, U.S. and Mexico, production led a supply chain, you know, in other words, could be established in these countries just because of the NAFTA, you know, that's the common routes.

But a point is whether Chile and Peru, out of the two nations of TPP countries, could it be actually incorporated into production networks and the supply chain networks. Well, again, I'm not expert on the Latin American economies, but I just checked with the guy in Japan who said not necessarily true.

So Japanese countries, particularly manufacturers, and automobiles, and etcetera, try to set up the supply chain networks mandate in the east region side rather than Pacific side. So in the case if some other ASEAN member countries, like Philippians for example or South Korea already sought an interest in joining TPP, are (inaudible) ASEAN could be attractive to TPP would be greatly increased. However bilateral approach is to TPP or market access would reduce quite greatly the usefulness of this. So this is sort of the -- well, TPPs the driver.

Also, the U.S. needs to stick to bilateralism in terms of the U.S. and Japan. Again, to measure participants in the TPP. One minute, wow.

Okay. Let me show the (inaudible) condition. The diagram rating the agriculture product, Japan never liberalization in any framework of the trade negotiations. That's why it's 89.7 percent. This is the current level or the highest level of the Japanese liberalization in any FTAs. Never go beyond the 90 percent. If it goes up these product, which Japan never touched upon. That's why we have set, for example, ASEAN bilateral FTAs. Liberalization, Japan's actually lower than that furthered by ASEAN individual nations despite all the ASEAN nations being developing countries. So this is Japan's access.

But, of course, TPPs basically saying all items should be liberalized, which means tariff is zero. First time Japan feels pressure to touch upon these agriculture products and future items could be eliminated is actually lacerated by this diagram. The rise of sugar and the dairy products and etcetera.

The U.S. actually has been targeting these agricultural products in bilateral negotiations. Very interestingly, we thought rice may be the most difficult agenda or issue for Japan to be touching upon, but the U.S. didn't necessarily requesting Japan to eliminate tariffs on the rise.

As the roads -- well, and this is my guessing because Japan's so called minimum access rice imports. As I wrote here, more than half, nearly half of the foreign rice using this requirement and the (inaudible) is actually American made. In terms of feed, 60 percent is actually made in America. And, of course, dairy and the sugar product, if you touched upon liberalizing Japan, again New Zealand, Australia, and dairy and (inaudible) products also coming into Japan freely. That to be probably has competition for the American sugar and dairy producers.

So again, it's no wonder why America is now picking up pork and beef. So this should be discussed next Monday in Tokyo, and USDA also coming to Turkey before going to Singapore's TPP minister meeting. So I think it's quite a crucial point whether Japan's actually touching on pork and beef.

Okay, sorry. Again, I have already passed and I needed to stop, so give me one minute. I skipped the RCEP issues. Again, okay. Let me touch in the issues which are merely at rest in the beginning of this meeting.

TPP, RCEP competing or converging. Again, from Japanese perspective, I say for Japan, but it's not Japan because I'm not representing Japan, but me. Just academics in Japan. But TPP is a rule-making, cutting-edge mechanism. We're establishing whether or not the nation will reenter the routes for trade investment together with the United States.

So U.S. has expressed a quite strong desire for working together with Japan, in area, for example, to protect the property right, and it would be happy to work on that. However, I said in transitional elements still persist and remain. Bilateral and the separate route of origin still, you know, exist, I mentioned or agriculture as a dominate agenda which was already an important agenda in 1970 and 80s. And it got negotiations. Even Japan, U.S. trade negotiations 1970s, so old ways to reduce attractiveness in new approaches and issues. This, I think, TPPs problem to me.

And RCEP, again RCEP is sort of the market expansion mechanism. Again, very traditional approach on any FTA. I mean, I think higher tariffs and the no tariff barriers in the larger part in such as China and Indonesia for example. Three nations putting it together 3.5 billion people market, plus two maintaining higher tariffs. So if RCEP would work together helping the international (inaudible) barriers. That would be hugely important for Japanese trade expansion, traditional approach.

So in this case I sense centrality issues will not make the 21st agenda feasible, it seems to me. The point is new issues are not something necessarily pursued by RCEP. In such a traditional all issues could be quite attractive point for RCEP from Japanese view point.

However, I said before, the multilateral approach has been ployed unlike the TPP in which the bilateralism has been pursued. That's actually also very significant, and particularly for the Japanese companies in joining or expanding the regional supply chain networks in terms of using the advantage for exporting its own products freely.

So from my view point they are not competing. Probably not combating yet. It's very different. So we have to probably consider maybe said scenario and compare with the two scenarios Mireya mentioned at the beginning. It's different. It's a very different, you know, to create, so we should pursue and are looking at these two frameworks quite differently with a different purposes and aims. Thank you very much.

MR. ZHANG: Thank you very much for inviting me here. I'm a third speaker, try to make it differently, give some perspective from China's color's view.

Let me start from this RCEP. As we know that RCEP considered being an integrated process of multilayered 10 plus 1. That's our region from actually East Asia Vision Group recommendation for a long-term -- that effort for community, the three pillars of community. One is summit, later summit changed into the 10 plus 6 East Asia Summit. The second is FTA based on 10 plus 3. The third one is the financial corporation based on Japan's Asia monetary fund, then turn to (inaudible), and now come to our multi-lateralization of this bilateral (inaudible).

So FTA is really considered to be one of the key approaches for the East Asia integration, but after this recommendation of East Asian growth, before 2000 only Japan and Singapore had a bilateral CEP, it's called, close economic partnership. So

China started this FTA from 2000 with ASEAN. It's a very gradual process used 10 years. By 2010 finished this 10 plus 1.

But after China started 10 plus 1, Japan, Korea followed later Australia, New Zealand, and also India. So I'll start from 2004. Two things were discussed by the 10 plus 3 corporation mechanism. One is about summit. As I mentioned, summit turned to a different one, and the FTA and China proposed to chair the feasibility study.

So this feasibility studies -- actually first led by China and now I was assigned as a chair of expert group, we finished the report in 2006, and later led by Korea, they called phase 2 study. When finished the phase 1 study, when I reported to 10 plus 3 economic ministers and Japan proposed a different approach that is called CEPA, close economic partnership of East Asia.

So Japan led another group from 2006 to 2009 and also I joined as a member of the team. So there was a divided view on how to formulate this, you know, East Asia integration based on two different kinds of recommendations. But fortunately that's in 2010 and China, Japan together jointly proposed -- made the joint initiative that encourage ASEAN to go ahead.

So Ambassador mentioned that was the time when China, Japan had a good political relationship. So we had also the pressure by that time that from TPP. So U.S. starts the TPP in 2009, and then the TPP started seems with the expanding members, so Japan did not decide to join TPP yet, so they made China, Japan, you know, came together to make a joint proposal to -- that's a new process that encourages ASEAN to make a new decision.

And also from ASEAN side also felt the pressure from some members. You know, four members joined the TPP, so it's really a threat to ASEAN's community building, economic community. So it's a lot of combined factors together that make this



RCEP as effect and ASEAN made initiative in 2011, and it was quickly supported by 10 plus 6, that's countries, as a new initiative. So people seemed to quickly forget their differences in the past and start the new process.

I think that's where the RCEP. So partly as I mentioned, as a process of integration in East Asia. Partly as a reflection, you know the pressure from the ASEAN and from TPP to the region, and also to ASEAN.

RCEP, I think if you see the guidelines made by ASEAN to support the jointly -- actually together they announced, agreed by 16 countries is identify as a modern, comprehensive, a (inaudible) benefit FTA with higher level, I think then, current five 10 plus 1 FTAs. So basically you call it a modern comprehensive.

RCEP covers those seven areas in that guideline. Trade and goods, trade and service, investment, economic and technical cooperation, intellectual property, that's quite new to this existing 10 plus 1s, a competition policy, also new, and dispute settlement as they try to integrate a different, you know, ones, and other issues, rule of origin, of course OI surely is one.

So now currently that the discussion focusing on these seven areas. The only thing these other issues probably will add on the list of a future negotiation.

So RCEP seeks a different model and approach from TPP, and that's surely. One that is we have five 10 plus 1s, so the basic ideas try to put the five plus 1s together. We had a comprehensive study that is originally we tried to simply put five plus 1s together, but the study shows it's very, very difficult, almost impossible. So actually RCEP considered a new negotiation, but considering all this we agreed in the past.

But we all understand, put the 16 countries together for higher level, comprehensive is not an easy issue. So I, together with the representative from Japan and Australia, the others, so we -- there's two teams of EFTA 10 plus 3 and CPEA 16

countries. We got together last year. Tried to find a way how to recommend a new approach for the negotiators.

So the main recommendation traded by us that's a gradual process. So it's not like TPP. The trading goods force a gradual process versus almost a fully liberalized trade and goods once they agreed in 2015. So trade and service and investment later in our process.

But they negotiate together but with a different time table, so other difficulties like competition policy probably later, but also covered in agreement. That's just expert agreements, the ideas. Also I have a comprehensive down payment in 2015, so that's different from 10 plus 1 like China. ASEAN, we start from trading goods and service and investment and gradual within 10 years, that's not, the RCEP's different.

So also one important recommendation by us that RCEP closely linked to the ASEAN economic community building and connected what they, you know, agreed on. So actually to some extent is an ASEAN economic community extension to the others. So that has made ASEAN easier.

So that is expert view, but actually the real discussion is some different, I think. Until now the basic formula that is negotiation between ASEAN and six countries, so ASEAN has a group and the other six as a group. So that is approach. So some said that RCEP is led by China, but that's not true. Actually is led by ASEAN, but is not fully led by ASEAN. Actually is find a way how to combine ASEAN and six other countries together.

That means ASEAN has agreed one formula and then negotiated with one consolidated and views among the six parties. So until now this is the basic way for negotiation.

So first round started on May 10th, 2013 and third one just finished the

end of January of this year. So now come to the third one, already come to the modality. As mentioned by Ambassador we are still, you know, discuss the -- in the early stage of the modality.

But that's not simply discuss modality, but each side's already discussed what they can put on the table, what is this they can offer. So the fourth round will be held in April. By that time, as I understand, they should have agreed on the basic framework. Since the economic ministers' meeting to be held in August, so they have to report what the negotiated and agreed on.

According to the information, based on the previous three rounds, so ASEAN expect a gradually, flexible process. India, with very low commitments, Japan expects a high-level comprehensive, but with special exceptions. Probably that's what makes Japan very hard within TPP; they try to have more flexibility within RCEP because the structure of the two markets is quite different. Here in RCEP we have more cultural programs, probably for Japan.

The key concept is based on the, I think, a smart compromise. I call it a smart compromise that you have to find a way because it's so different from the other 16 countries. For instance, India has not committed to a high level FTA with anyone yet, so if we make RCEP as a high one, high level comprehensive that's a very big challenge for India.

For China I think, later probably I will discuss it, but a little bit here, the challenges, I think the two basic ones, negatively on service. We agreed, generally in principle, but until now ASEAN has not agreed in service yet. Pre-national treatment, I think probably finally they have agreed on among all 16 members.

So the challenges, I think is we have to consider TPP defense because there are five TPP -- no actually seven TPP members, so what they request, what they

agreed in TPP they will request a lot from non-TPP members in RCEP. So this is still in the early stage of negotiation so it's hard to -- if you see TPP negotiation process has come down to the final -- they have to be more flexible, and it's quite different from the beginning and what they expected.

Come to China's stand. I think China's FTA strategy started from 2000 after joining (inaudible) with the initiative China, ASEAN, FTA. So until now China has concluded FTAs only with developing economies and ASEAN as a group, Pakistan, Chile, Peru, Costa Rica, Turineta, Tobago. So small developing economies, developed economies, Switzerland, New Zealand and Iceland. Also we have internal arrangements with Hong Kong, Marco and Taiwan.

So until now that's what China concluded, they see all developing, small and less competitive. So experience that gradual, less competitive and is special, so that's two key features for China what has concluded FTAs until now.

So China has met difficulties in negotiating FTAs with large, developed economies like Australia on service. Large developing economics like India with a negative response, and special group, Gulf Council on chemical sector. So reasons China's competitive that is based on the FTA based export. Local sector, especially service sector, is very week.

China has export center competitive trade surplus with developing markets. So they are reluctant to make further liberalization of the market access. So U.S. EO refused to accept China's market status.

But however, China has negotiated bilaterally investment treaty with the U.S. and the EU possibly after this they can make FTA with them in the future. But more importantly, China has made new commitments on adopting the principle of negative least approach and pre-national treatment. That is unbelievable. Before export we

advise the government for many times, but fortunately now they agreed on also putting this new reform agenda.

FTA has been as a central strategy in the reform agenda that put in the document. Now we have a CK FTA. Hopefully conclude quickly and with great progress. CJK and RCEP are on the negotiation.

So consider TPP, I think China is really considered a serious challenge to China both because U.S. strategy against a rising China. We are probably viewed the rising China as a competitor. New rules relating to domestic reform, that's depending on -- there is a question has been, the domestic reform first of all the commitment first. So that is why commonly divided view. The early participation group of TPP they consider the outside pressure as a key issue to press domestic reform.

Wait and see if that group considers China come to this time I'm assured get the reform first and have enough pressure and ability to reform. So official view, an open attitude, unlike that when TPP started, but very cautious whether joint or not.

Lastly, APEC, I think the previous speakers also mentioned, Ambassador mentioned, and APEC's still a key institution in region Asia-Pacific and (inaudible) remains as a goal, but no vehicle. So the question is whether TPP as a leading vehicle. If China joins and the others join then maybe, but the question is still there. And TPP plus RCEP, some recommendation based on the two mega agreements we start a new one.

But also FTAP as the Ambassador mentioned from 2010, leaders mention again, again the last year APEC leaders meeting make it in the statement very strongly, so this year the question is whether China -- how to put this FTAP this year.

I think probably China continues to push this as a future goal and hopefully this year we can set up a study group, a working group to consider the

recommendation in the future. That's probably the best approach rather than based on the different diversified because the Asia-Pacific if you consider U.S. economic recovery and emerging that, you know East Asia market challenges. So this is how to bring Asia-Pacific still the key.

So today I read news of this Pacific alliance for countries in Latin America. They have signed an agreement and approach to Asia-Pacific and to Asia, so this considers Asia-Pacific still matter. Thank you. I'll stop.

MR. BARFIELD: I pulled something in my back so I'm not going to stand, and I realize that it's almost 4:40, so I'll try to be brief. You've had a lot of details, and I'll try to skip those details in what I'm talking about and just make some points.

Mr. Terada said that he could have used some notes that he had from some years ago, and actually until quite recently I could have probably done the same thing in terms of what we would go over. I want to focus mostly on the United States and then some comments, particularly in reaction to comments that our Chinese speaker made on RCEP.

The first part of what I'm talking about, really in events over the last week in the United States and tie the -- what the political changes here or potential changes back to the negotiations and the juxtaposition of how RCEP and TPP may move.

Until a week ago I -- and in fact, a year or so ago here at Brookings someone asked -- we had something about RCEP and TPP and whether they would compete, and my point at the time was, well, you know, they're going to pass each other. After all, RCEP was just a concept at the time. TPP was well into negotiations, and my thinking, and in fact my thinking until quite recently was that, well, we'll know one way or the other with the TPP. It will succeed or fail in 2013 or 2014. We will know why it failed or what it couldn't do. So they won't really compete with each other because RCEP will

be further down the road.

I think the situations changed in the United States, and I'm going to be speculative now because these things have just happened. That goes back to the situation that has recently occurred in terms of the President and the Congress, Democrats, Republicans, and the Trade Promotion Authority. Mr. Obama in his State of the Union message, dutifully and I was -- he could have said more, but he said enough as far as I'm concerned, about pushing both Trade Promotion Authority and the TPP. Twenty-four hours later the majority leader of the Democrats and the House told the President that he didn't want TPA and not to send it up.

Now, we don't know how this is going to work on in terms of Congress, but there are a couple of things that we may be moving toward. And I invite anyone in the audience who thinks it may go in a different direction to say that when I finish. In talking with people on the Hill and with some business community, business community is always optimistic so you get a little bit different, but the Hill staffers you talk about, I think we may very well be in a situation where the Trade Promotion Authority is put off until after the election so that Congress will not move this year.

Now, what does that mean? Well, it certainly means that our trading partners are going to have to do some rethinking. It also -- and this is where I get back to the TPP negotiations, we are moving -- it's crunch time. We are moving to -- they've blown through some deadlines, and I think there were reasons that they had deadlines that they knew they weren't going to make. But now I don't think you can defend the possibility of success if you don't succeed sometime in the next three to six months. That is in something that you have that can be said that we are, if not totally there, we are there.

My thinking has been, you know, sometime in the late spring, early

summer you have to really get there. They are meeting for the first time since the events in the United States; I think its next week or the week after in Singapore.

How does this affect the TPP and negotiations? Well, what we don't know is what has happened in the United States, how will it impact the other 11 nations in putting their final offers on the table? When you do not know whether the President of the United States will actually be given the authority by Congress.

I don't know yet whether or not this will back things up. It could very well be that the TPP is backed up because of what has happened with the TPA. While, at least until recently, I thought that, you know, you'd have a TPP and that would be the model, and then you could see what would happen to RCEP.

By the way, it's hard to know until you've got there, let's say next January if the TPP does succeed or has succeeded, a lot of what we talked about this morning in terms of RCEP might change because with Japan, this is something I've thought before, but with Japan in and assuming that we successfully conclude, and Korea has made a strategic decision clearly under President Park that they're really going to go forward with the TPP. That's a big change for Korea.

Before the last election I remember talking with Taeho Bark, the Trade Minister a year and a half ago, made the point correctly, you know, we've got the chorus. We need protect our investment in China. So China either a bilateral or a trilateral is the key for us for a variety of reasons, and we can talk about, President Park has turned it around.

The point is that if this had moved forward or if it does move forward I think you've really tipped the balance toward the regional economic architecture. Well, RCEP will still be important, you really have a big move in one direction as of January next year, let's say or early next year if it happened. Now that is very much up in the air.



I guess the two or three other points, and then I will stop. One, just in terms of -- there's been a lot of discussion of the approaches to negotiation, but I guess in my mind the key difference, and I'll talk about the 21 century stuff also in a minute, the key difference is the RCEP, this whole business is building from the ground up. The whole business of flexibility, of special and differential treatment, and then one other big difference I'll come back to is obviously at the moment there's no way to add nations to the RCEP. That's not true with the TPP.

It's a very different approach from the TPP which if it's successful, I think, will go in the other direction in this sense. Everything will have to be on the table or 90, 95 percent will have to be on the table. Japan will not be allowed to take rice totally off the table. The United States will not be allowed to, say in perpetuity, we're going to have this outrageous 25 percent tariff on trucks.

But a successful TPP will have everything on the table, but with enormous timeframes to come into compliance with what the rule is. Even part of a lifetime, beyond my lifetime certainly, into some of your lifetimes here. That's a real difference, I think, in the way you actually -- what the final agreement would look like.

I would also say in passing as Mr. Terada correctly pointed out the market access rules, and the United States still has a very bad position on this, but there are two things to note. One, most of the rules, and I'm not defending rules of origin that we have in terms of market access for a lot of the basic stuff, but most of the things in terms of the high-end, in terms of electronics don't really affect the key supply chains.

For a decade or longer, as Richard Ball and the economists of Europe and others have pointed out, companies don't pay any attention. If they're small they just pay the 1 percent or half percent of tariff. This is not be mean, not to say that this is not important, but the kind of goods that you were talking about in terms of textiles or shoes

or the other basic -- or dairy or something like that.

The other difference, I think, and here I'm sticking with the TPP, is that if you look at the framework of the negotiations, the key negotiation is going to be between -- and it's not just the United States, you've got other -- Japan now, Korea will not be in in time, but other more advanced economics, New Zealand, Australia have their own interest here, between the 21st century issues, and let me just take it from the United States point of view.

What the United States is asking in state owned enterprises are health and safety or intellectual property or, you know, other so called inside the border issues. Trading off against the more traditional issues that I just talked about in terms of 20th or 19th century. Such as, as I say, textiles or shoes or dairy or cotton or sugar. It's that juxtaposition that I think is the larger framework.

The other thing that I'm asked all the time is, you know, what is the toughest issue in the TPP? Is it intellectual property? Is it health and safety? Is it state owned enterprise? Regulatory reform, that sort of thing? I think that's the wrong way to look at it. When you get to the -- either the spring or summer, if things work out better or next year, I think the key is, from the point of view of the U.S. trade representative or the Japanese trade ministry or the Korean trade ministry is what is the package? What are we getting versus what we are having to trade off? And can we defend that in terms of either, in the United States, our Congress or the American public.

So it's the totality of what you give up to what you get, and you have to have -- this is nothing new about this negotiation, by the way, in this sense. You've got to be able to get enough so that you can go home and defend it whether your home is in Tokyo, whether it's in Washington. So that I think is the differences and the points I made on TPP.

Just one final thing and then I will quit. I've got some other stuff, but let's just go to the questions. One, I am really a -- whatever's happened in the United States, I am quick skeptical of the numbers and with all due respect to the others who have spoken here, about the RCEP. I'm skeptical about the Asian economic community coming to anything like what you could call completion by the end of 2015, and I'll come back with a footnote there from what our Chinese friend said.

I am certainly skeptical about the ability to pull all this together in an ASEAN+6 in any time soon. I'm going to move and not end, but make a final, almost final smart-ass remark. I guess my reaction is any agreement that has both Indonesia and India in it is not going to go very far, very fast. I don't mean to insult anyone, but the political situation is not the same.

The final point I made, and this was really eye-opening to me from our Chinese speaker, and I know you were talking just about the experts group. But the other thing that's very difficult is that if RCEP moves in the way that was describe here, it's going to be hard to know what's success or failure.

I mean, that group of issues that stretches out to 2025 means I don't know how we should decide next year or the year after whether there is going to be or has been a successful conclusion. So the very fuzziness of the negotiations, which signals the inability in my mind and I'm not -- the United States has the same inability and sensitivities, the inability for key nations in the RCEP grouping actually to move forward makes it very difficult however, to assess.

I'll just leave it there. Sorry I was -- I just cut all of my notes and just went ahead with the time I had. Okay.

MS. SOLIS: Thank you, everybody. Ten minutes. I think there's a lot on the table and I know that you have been very patient and I want to turn it to you right

away. I just want to make a comment.

I think that as I was listening to these very different presentations there was one common thing that was coming in my mind, and I just want to throw it out there in case there are any reactions. That has to do with international leadership. The TPP and RCEP may be very different projects indeed, but I think that they may be suffering from common deficits, and that's an international leadership deficit.

Why I say this, if you go and look at the (inaudible) and regional integration they usually make the case that you have to have one country that leads the way, that acts as a focal point, that provides a vision for where we're going, what this project is about.

Frequently this country also would act as a market of last resort, and therefore it becomes that economic magnet that makes this enterprise self-sustaining. It's a country that should be prepared to play that leadership role by having a domestic consensus that you're really willing to go ahead and negotiate this deeper integration.

I would make the case that, you know, the United States, as Claude was suggesting, you know, one of the reasons why the TPP seems to be stalling is because precisely countries are wondering if the United States is prepared to play that leadership role, and the uncertainty about the TPA highlights this difficulty and generated domestic consensus, and the very dysfunctional relationship between the executive and the Congress in getting Trade Promotion Authority in place. It should have been done more than yesterday. It shouldn't come to this point.

But also I thought it was really exciting and confusing how we all refer to who's driving RCEP. There was no consensus on this table. I made the case that it was China. Others made the case that it was ASEAN. Other countries made the case that nobody leads RCEP. If there is no leader shouldn't that worry us because as what I was

saying there's nothing, there's no actor, no country, no project that will push this forward.

I had a specific question I thought very interesting that when Dr. Zhang talked about the different views of the actors and while in RCEP he mentioned ASEAN, he mentioned Japan, he mentioned India, but he didn't mention China in that point. So it would be very interesting to see how the China play or not a leadership role and whether, in fact, it's going to be leadership from behind in the sense that India and Indonesia would push for the lowest common denominator.

But enough from me. I'm going to open it for questions from the floor. Since time is very limited I'll ask you to briefly identify yourself, be extremely concise in what you want to ask, and I'm going to take two or three questions at a time to give a chance for more people to express their opinions, short and concise, or ask a question. Please wait for the mic to reach you.

I have two people here. I'll take them together since they're in that corner, and then I'll go to the other side. Thank you.

MR. KATZ: Thank you very much. My name is Sherman Katz. I'm a trade lawyer. I wanted to follow-up on Mireya's implication or opening remarks that there ought to be some forethought about consolidation between RCEP and TPP. I understand RCEP may move on a much slower track, but I wonder whether any of the four panelists can imagine their countries playing, particularly Japan who sits at both tables, a leadership role on simple things to start with like rules of origin or like standards?

MS. SOLIS: Thank you. And then the gentleman, if you can pass him the mic. Thank you.

MR. AIYER: Thank you. I am Vikrum Aiyer from the Carnegie Endowment for International Peace. Even if there were to be a TPA what is the

probability of there being a currency manipulation clause in it and what is that going to do to further TPP discussions? Thanks.

MS. SOLIS: Thank you. Okay, very brief responses from the panelists.

MR. BARFIELD: Well, I think I would applaud the Administration for holding the line, and so far the Republican leadership, both Houses for holding the line.

I think the best case would be that you get language not far from what's in the bill that was introduced, the TPA bill that was introduced. Which does not tie the executive hands in the end? I don't know what my colleagues think, but I think to introduce a currency -- there are all kinds of substantive problems with it.

There's no agreement among economists, including economists across the street here. No agreement, certainly among lawyers. To introduce this at the end of a negotiation would blow the negotiations apart. I can't see others accepting it, but I'll leave -- others can speak to their countries better than I.

MS. SOLIS: Any responses?

MR. TERADA: Well, let me say more for consolidation of the two initiatives. Japan, well it's not only Japan, well, it's joining the talks and institutions or frameworks. But as I mentioned, as far as I know that's not sort of a coherent approaches on behalf of the Japanese government to the different, you know, the regional integration frameworks.

Occasionally our different, you know, the section officers come together at lunchtime to actually inform each other on what's going on etcetera. But, you know, Japan's problem with the programs and timing of the promotion of the regional integration FTA has. It's sort of the lack or the, sort of the organization or power, like USDA for example or even the accordance, and well, the administrator in charge of trade negotiations and our powered by the President to control and etcetera.

So I think the controlling power in a Japanese bureaucracy in terms of promoting the FTAs probably affecting the, sort of the strong -- lack of strong leadership particularly in connecting the different regional frameworks.

I know some people are joining different regional frameworks as they're negotiated, but a point is, and the (inaudible) of Japan's media and the government has been too much (inaudible) with the TPP negotiations who are strategic, but maybe because of the political programs with Korea and China, and there's RCEP.

This has provided a program for us to synch these different and (inaudible) regional integration framework, and one single vision. So I think you are right, you know, that's a very difficult issue in Japan at the moment.

MS. BASU DAS: Regarding the leadership and the RCEP question, currently Indonesia is sharing all RCEP meetings. I think one of the panelists mentioned, like it's not China led RCEP, it's the ASEAN led RCEP process. Besides Indonesia I think Singapore plays a very major role in RCEP even though Singapore doesn't come in the forefront.

Regarding the consolidation of TPP and RCEP I would say it's, from a Singapore point of view, it is there in the trade negotiators mind that in the long run it's leading to FTAP, but currently they're not worrying about it. They're too busy with negotiating the TPP and working out the modalities for the RCEP.

So I don't think any of the countries in the TPP, in the membership with TPP and RCEP are worrying of that thing at the moment.

MR. ZHANG: I think, as I mentioned, the formula in the RCEP negotiation is ASEAN now chaired by Indonesia. If you consider Indonesia as not advanced position, so usually ASEAN put on the table probably a mid-level agenda on that.

The on the six party size it's rotate chair. Now it's currently chaired by China. So I think Japan and Australia and New Zealand as a group will push on the higher, and China probably in the upper middle, and have to consider India's request.

So as a group probably, you know, put on the table with ASEAN together a little bit higher than probably ASEAN's, you know the list. So that's, I call it smart compromise finally.

So one think I think is very different from TPP, and TPP with a very high expectation, high standard from beginning, but RCEP start for a low expectation so it's more flexible. Also they have the pressure to conclude by 2015, they must have something. Unlike TPP and they have a delayed process. So that's probably some difference, but that's why expert group recommend you have a comprehensive, big down payment at the beginning and leave some difficult things gradually by 2025.

Why 2025? Because we all realize originally we think 2020 is APEC deadline of liberalization, but now we think 2020 is too close for Asia-Pacific, so probably RCEP set a model and five years delay for the regional level of the future of Bogogaul. So that set a foundation for the Asia-Pacific which if you consider FTAP. So that's our export group consider, make it more clear of the future. Formulate how the RCEP play a role in the future Asia-Pacific.

MR. BARFIELD: I guess my feeling is that the down payment is not going to be very large. Indeed from what you listed there actually, but anyway, we'll see.

MS. SOLIS: We'll continue that talk after we finish, but I just want to note, Vikrum, on your question, I actually just wrote a piece on currency manipulation, and I make the case that the proposal that we're seeing actually do not represent the faithful operationalization of the IMF principles.

Hence, many TPP countries, most TPP countries are not going to be



enthused by it, and if we leave the United States insists on bringing enforceable currency manipulation clause into a TPP, it's not the end game at all. You're basically opening up a whole can of worms, and it's going to take a very long time to reach an agreement on that.

Two last questions, just because you have been very patient. So I have this lady here and I have over here. Then hopefully the panelists can stick around for a few minutes after to take individual questions, if you don't mind, given that you guys did not have a lot of opportunities. Please go ahead.

QUESTIONER: Thank you. Reporter from the Voice America. My question is for Mr. Zhang. You mentioned that China now shows some interest in participating TPP, so my question is what made China change its view to TPP.

The second question, can China afford to not join TPP with their asset peer? Thank you.

MS. SOLIS: All right, wait for the microphone, please. Then super short, 30 second responses if you don't mind. Thank you.

MR. DADUSH: Uri Dadush with Carnegie. I guess my question is I don't really understand India's participation in the discussion. If they have a very low level of ambition, which, of course, comes as no surprise given, you know, history of participation also in the WTO, etcetera. How is that resolved in the context of a regional agreement? Why is India participating in the first place?

MS. SOLIS: Okay. That's going to take a while to answer so, any other questions -- can you answer that briefly in a TPP?

MR. ZHANG: I think, as I mentioned, it's official Stan has not made very clear whether join or not join, but there is really domestic pressure that if TPP there as a fact and then China really have the challenge. Also China worries not about the market,

according to all the studies, the market for China of TPP is not so large because for most members China has already made the FTA. For U.S. market the fear probably would decline rather than rise.

The real challenge is rule making. China try to use this as an occasion or pressure for the new leader group that's oppressed China's quick domestic reform. So that is, I think, really the thinking behind.

But that very much depends on RCEP's success. If, you know, if they really can make a good conclusion of RCEP, and then what's next? As I said there are two options. One is a launch of FTAP as a general, you know, framework of Asia-Pacific. Another, probably, if fail to launch FTAP, and then China may consider. So I think it's not very clear about that how to make the policy finally.

Concerning India, I think probably that should ask Japan because Japan always pushes the way to let India to join, but I think for India in itself it's really -- its (inaudible) policy worried about exclusion. So already India has 10 plus 1 at ASEAN a very low level.

I want to just mention it and say RCEP make it open for India participate or not participate in the beginning if, for instance, India really cannot accept. So the guidelines make it clear India can join later.

MS. SOLIS: Thank you very much. Takashi, do you have a comment.

MR. TERADA: I'm not Indian, but of course, I know the -- India's a huge, you know the population, and also brings some of the key natural resource supplies. Of course this is very much important for Japan.

But I think the India, as far as I hear from the Indian newspapers and the government also, well one sided with the trade, actually the executive (inaudible) the TPP and RCEP members. Of course, you know, given that, I know India is so much

interested in the regional integration framework and posts.

However, TPP is too much high, and simply said difficult. What I heard India on RCEP was reluctant to be participating. And I wonder in order India's commitment is very, very small. Interestingly, again, I'm not quoting either, but one (inaudible) officer told me when before joining TPP, (inaudible) said, of course FTA with China is the first priority followed by TPP. (inaudible) was not part of that yet.

Finally RCEP reason because India was there. I think that Korea had sort of the terrible experiences of negotiating with India and, well, I don't know. I couldn't say anything, but I think that's maybe true. Particularly if you look at the (inaudible) in all the negotiations, particularly in the last time broken down was caused by India and there was also United States.

But, of course, inclusion of India it's very much important. Particularly if Indian government consider the regional integration as sort of the source of the energy for promoting domestic reforms.

MS. SOLIS: Thank you so much. We are way over time. It is delightful to see you stay and enjoy this presentation and the comments. Thank you so much for attending today and please join me in thanking the panelists for a terrific job today.

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