THE BROOKINGS INSTITUTION

FALK AUDITORIUM

DILEMMAS OF A TRADING NATION:
JAPAN AND THE UNITED STATES IN THE
EVOLVING ASIA-PACIFIC ORDER

Washington, D.C.
Monday, June 26, 2017

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MR. BUSH: Good afternoon. My name is Richard Bush. I'm the director of the center for East Asia policy studies here at the Brookings Institution. I'm really pleased to welcome you on what is a wonderful day for the center and for Brookings. We are here today, as you know, to launch a new book by our colleague Mireya Solis, who holds the Phil Knight Chair in Japan studies. The title of the book is “Dilemmas of a Trading Nation Japan and the United States in the evolving Asia Pacific order.” I have to say, this happens to be the prettiest cover on a Brookings Institution press that I've even seen, much prettier than any of my books.

Mireya came to Brookings from American University up the hill where she taught for a number of years. She has her Ph.D. from Harvard government department. Mireya's book is firmly in the tradition of objective, in-depth research which is a bit of a short commodity in Washington these days. To my mind, it does two very important things. Less we forget about TPP, Mireya documents how Japan's commitments under TPP were a significant departure from its prior approach to the international trading system and that was a good thing. Second, she explains clearly and comprehensively why an open trading system is one important ingredient to prosperity in America and around the world and that's an important thing too.

Mireya is going to present the key ideas of her book and then a good friend, Wendy Cutler will provide some commentary. Wendy is the vice president and managing director of the Asia Society's D.C. office, the Asia Society Policy Institute. She's doing an outstanding job building out the Asia Society's presence in Washington, D.C. As long ago employee of the Asia Society here in Washington, I can tell you that she's making good progress. A lot of you know that she joined ASPI after a long and distinguished career of almost three decades as a diplomat and negotiator in the Office of the U.S. Trade Representative. Among other things in her long career, she was responsible for the Trans Pacific Partnership agreement, including the bilateral negotiations with Japan. She knows the commitments that Japan made. So, without further ado, Mireya.

MS. SOLIS: Thank you very much, Richard, for that kind introduction and for all your support always and thank you, Wendy, for sharing your thoughts on U.S./Japan trade. I'm truly honored. Thank you to all of you for being here today. For me, it is a very special day so it is wonderful to have all
of you here.

They say that writing a book is a journey but I should add that some journeys have more detours than others. For me the sharpest turn of events is the most recent one when the United States government decided to leave the Trans Pacific Partnership trade agreement. Suffice it to say that the book that I wrote is very different from the book that I intended to write. The questions I asked changed over time as well as my reflection as to how we got to the point we're in today and how should we move forward. My original set of questions was motivated by what I regarded as Japan's critical choices. Could Japan deploy a proactive trade policy to tackle many of the structural reforms that have hindered its competitiveness or would the country remain shackled to its own domestic political constraints, unable to punch at its weight in international trade negotiations? Could the TPP negotiations recast the role of trade in the U.S./Japan alliance? Would it be possible to find acceptable compromises among devise market access issues and work together in drafting new rules on trade and investment? And at the same time, capture the geo political benefits of anchoring the United States in the regional trade architecture at a time when Asia is experiencing a profound power shift with the growing rise of Chinese influence.

These were my original questions, I thought they were good questions but in the course of writing this book, the ground shifted and shifted in very profound ways. Two electoral results last year sharply underscored the growing questioning of the merits of globalization. The Brexit vote in June and the American presidential election in November. So, along the way, this book also became about the critical choices that the United States faces in the aftermath, especially in the aftermath of withdraw from the TPP. Will the United States advocate leadership in sustaining open trade policies as it finds itself unable to sustain a consensus in favor of internationalism? What will be the economic and geo political fallout? How will the United States recover from the loss of credibility of having walked away from a signed trade agreement? But more importantly, can we hope for a correction course. Launching policies that address the growing income inequality and the hollowing out of the middle class that is eating up support for open economic policies in this country.

So, today trade policy is front and center in the national conversations taking place in the United States and Japan about each country's desired future. Economic renewal, a relaunched social compact and projected international influence. And charting a path forward is difficult because I argue
that if you think about what the essential goals of trade policy are we're talking about economic competitiveness, social legitimacy and political viability and it's very hard to reconcile all of them.

So, the central argument of this book is that we're talking about when countries are drafting trade policy they're really thinking about confronting, vexing trade-offs, dilemmas I call them, defining dilemmas. So, there are two such dilemmas that purveyed the analysis of this book. The first one is that top down decision making may be necessary to push aside vested interest and implement needed economic reforms. But if trade policy becomes exclusionary, it legitimacy will be questioned. So, there is a tension, if you will, between decisiveness and inclusiveness between executive leadership and social inclusion. That is a very difficult path that we have to confront as these countries make choices on trade policy.

The second dilemma that I highlight in this book comes from the need to secure rectification of negotiated trade agreements. This may require making political accommodations in the sense of making sure that sensitive sectors remain off limits from elimination or extending subsidies to dying sectors. So, this calls for political pragmatism but it may also hinder the reform agenda. It may also cut back on the economic gains to be had from liberalization. So, there is a tension here between pragmatism and ambition. Between being a reformer and between being a political imperative.

So, trade policy is crafted in a world of constraints. It is about balancing competing interests. It requires making hard choices. And this will be contested decisions because different groups in society will disagree about how to tackle those trade-offs. So, it is with this keen realization and believe me I've lived with this topic for years. It is with this keen realization of how hard trade politics are that the book then flushes out what I think are the central dilemmas confronting Japan and the United States. So, let me briefly highlight what I see are these dilemmas and then my own thoughts as to how we move forward.

I'll start with Japan and the first dilemma or challenge that I would like to highlight is the search for decisiveness. In the post war period, Japan emerged as an export powerhouse and later on as one of the largest foreign direct investors. But it continued to play a passive role in international trade negotiations. It was a late comer to the negotiation of preferential trade agreements and one decade of trade diplomacy in this front, only yielded very modest outcomes in terms of the size of the markets
opened, the reach of the liberalization commitments. It was mostly a self-inflicted wound. The need to play defensive due to the clout of the agriculture lobby which effectively vetoed negotiations with large agriculture exporters and meant that none, none of Japan's free trade agreements passed a WTO standard of eliminating 90 percent of Paris.

This lackluster trading strategy was a result of a policy making system that was ripe for indecisiveness. Top down executive leadership was prevented by the clout of vested interest who exercised influence in the respected policy areas by intense bureaucratic sectionalism and by the ability of policy tribes to shape policy inside the ruling parties' policy making body. Defacto, eclipsing, the Prime Minister and the cabinet. When the Democratic party of Japan interrupted decades of LDP ruling 2009, it tried to bring about executive leadership and it tried to bring about TPP membership and it failed on both counts. The DPJ remained bitterly divided on the merits of joining a trade agreement. Japanese ministries issued battling assessments of the economic consequence of TPP for the Japanese economy and the agricultural lobby orchestrated a very effective anti TPP campaign, a campaign like Japan had never seen before. It was a broader coalition across the political spectrum. It was not just only about agriculture and it sent a message that resonated on the so called TPP ghosts. Outsized arguments about what would be the real influence of TPP on Japan. But one that in many ways, was about signaling the potential danger that on unwanted economic and social transformation could be coming to Japan, the Americanization of Japan.

This was not, therefore, a bright spot regarding the possibility of Japan joining the TPP. It eventually happened in 2013 because of political change inside Japan that enabled prime ministerial leadership. Prime Minister Abe was able to capitalize on high and sustained levels of public support to keep domestic challengers within his party at bay. Also, he capitalized on the decimation of the opposition camp after the DPJ was ousted from office. This enabled him to break away from the cycle of one year prime ministerships. Let's not forget that Japan had a revolving door of Prime Ministers and every year we had to learn a different name for a different Prime Minister. With this, he was able to bring then executive leadership and make the Prime Minister office the focal point of decision making. He was able to move away from the intense bureaucratic sectionalism that had hindered Japan's strategy by establishing a TPP headquarters that brought a far more coherent approach.
Prime Minister Abe delivered policy initiatives that until recently, looked unobtainable for Japan. Participation in TPP and reform of the agricultural cooperative system. But make no mistake. There has been a heavy dose of political pragmatism to ensure reform efforts would not come at the expense of core political priorities. Preserving party unity and recapturing the opera house in July 2013 to make sure that the agenda would advance.

So, the (inaudible) is powerful, no question about it. But there have certainly been limits to executive leadership taming the reach of reform. What we have witnessed, I would say, is a pattern of a negotiated decisiveness. When it comes especially to the task of advancing economic reforms linked to the trade agenda. The agriculture lobby was able to weave its core preferences into adopted policies. One very clear example is that when Japanese trade negotiators finally made it to the table in the TPP talks in July 2013, they came for a very clear mandate. The five sacred commodities, the five sacred and cultural commodities were to be off limits from full elimination.

This then brings me to Japan's second major dilemma, second major challenge and that is the long quest for economic reform. Structural reforms, unleashing the forces of productivity and innovation are essential to Japan's economic future. That is why TPP has been a central component of the Abenomics approach. But we should have realistic expectations when we think about what a trade agreement as important as it is, can actually deliver. The TPP is not a magic bullet. Many of the reform areas that Japan must tackle are outside the scope of this trade agreement. Layer market reform, energy policy or social security reform are examples of that. But participation in TPP did give Japan one very important asset, credibility. Credibility that this time the Prime Minister could embark in far more reaching reforms and in doing so, confront vested interest to an extent that had not been done before.

The United States and Japan engaged in tough market access negotiations on agriculture and automobiles and launched the only set of parallel talks in the TPP on non (inaudible) measures to address longstanding bilateral issues. I think Wendy here, of course, can attest to that, how tough these negotiations, how frustrating they were at many points in time. But at the end of the day, the United States and Japan were able to find compromises on old trade irritants and they also worked together in crafting rules on trade and investment that would apply across the Asia Pacific. In that sense, TPP negotiations marked a turning point in U.S./Japan relations.
Regarding negotiation outcomes, Japan for the first time met the (inaudible) criteria of eliminating more than 90 percent of tariffs. It also agreed to the highest level of service liberalization from any other trade negotiation that Japan had participated in. As part of TPP reforms, Japan also incorporated corporate governance reforms and accepted more international standards than previously. But, and this is a big but, Japan's track record on agricultural liberalization, once again, left much to be desired. Agriculture continued to be the Achilles heel in Japanese trade strategy. So much so that the despite the fact that Japan is the second largest economy in TPP, it came last, it came last in terms of the percentage of (inaudible) to be eliminated at 95 percent. For the other TPP countries, this as in the range of 99 to 100 percent. Even though the political decision to defend agricultural sanctuary meant that TPP commitments would not bring major disruptions to Japanese farmers. The government allocated generous amounts of subsidies as TPP countermeasures. Which goes to show that breaking all political habits is hard. Once more, the government sought to appease farmers with subsidies that do little to modernize Japanese agriculture. In the 2015 supplementary budget, one-third of the funds were allocated to public works. Again, the old inertias were back.

But nevertheless, we should not lose sight of the fact that change has indeed happened. The agricultural lobby can no longer prevent Japan from negotiating with its main trading partners. The irony is that as Japan was able to overcome its own hurdles to join TPP and make enough concessions to strike its most ambitions trade deal to date, the new American administration decided to walk from the agreement.

And then this brings me to the third dilemma that I would like to highlight for all of you. That concerns the United States. It's an attempt, I wish to renew internationalism. The unprecedented trade backlash in the 2016 presidential election was years in the making. American trade policy has suffered from an expanding legitimacy problem fueled by three central concerns that I spend a lot of time in the book discussing. These concerns are about the distributional consequences of trade liberalization, about the growing reach of trade commitments on the domestic regulatory agenda and the insufficient representativeness in the formulation of trade policy. This trade legitimacy challenge has been compounded by a broader process of political and economic polarization in the United States. Grid lock in Washington and stress from the continued rise of income inequality, the squeezing of the middle class.
and the curtailment of social mobility. With hindsight, it is possible to see that the Obama administration pursued the most ambitious trade strategy in a generation with mega trade agreements across the Pacific and Atlantic in the midst of this sharpening domestic cleavage. It did so while relying on traditional solutions to the trade governance dilemmas that had long ceased to be effective.

No debate has gained more attraction in the country than the one about the distributional effects of globalization. How trade agreements impact wages and employment. Recently, the focal point of this discussion has been the so-called China trade shock. Defining by a group of economists that imports from China were responsible for up to one-sixth of the manufacturing jobs lost during the 2000s. But it's important to add other data points here. The drop of manufacturing employment is a longer term historical trend that reflects a structural change in the American economy. Most of the manufacturing jobs lost in the 2000s, resulted from technological change. By one estimate, 87 percent of those losses can be attributed to technological change in automation. And American consumers, especially in the lower tiers of the income ladder, have benefited substantially from access to low cost products helping reduce the cost of living.

So, I would say, that it is the other finding of the China trade shocks scholarship that is most illuminating, most significant. Displaced workers face a much more difficult and prolonged transition than we had previously reckoned. With long spells of unemployment, wage losses and the lack of opportunities in depressed communities. There is a major policy failure to correct here. The American solution to the problem of worker adjustment has been the trade adjustment assistance program which by design and execution has been inadequate in addressing the needs of all workers to gain skills and mobility to cope with the faster pace of economic change.

So, what are the shortcomings of a trade adjustment assistance program. First of all, as its name says it, it is only available to a small subset of all American workers. Only those certified as impacted by trade agreements. But we know that again, technological change, automation, the in turn of things, robotics, will create even more stress on American workers. I think all of us saw the big story today in the New York Times about the retail industry. Those realities are with us and we don't have the set of expanded benefits extended to all American workers. Other aspects of the TA have been offered just to a subset of workers, wage insurance, for example, is only available for older workers and relocation
allowances are insufficient to facilitate geographical mobility. So, in many ways, the United States has pursued globalization on the cheap. We allowed investing in its workforce, in social mobility. Keep in mind that the United States ranks bottom third among OECD countries in terms of how much it spends on active labor market policies. Policies that seek to provide training and reemployment.

My point is, this is not recent. We’re living today with the consequences of long term choices. There is one graph in the book that I think is most eloquent. What that graph does is that it tracks over a 40 year span, the United States has deepened its relies on international trade. It went from 15 percent of GDP in 1975 to 40 percent of GDP today. At the same time, in those 40 years, what the United States spends in the safety net is lower today as a share of GDP than what it was in 1975. For me, this is, of course, a great tragedy. Because it means that we have to relearn and with great urgency, a very old insight in the political economy of trade. And that is that trade liberalization without a safety net is not socially or politically sustainable. I think this is where we are today.

So, how should we move forward. My recommendations fall in two broad areas. First of all, investments at home, in human capital and investments abroad on trade and investment rules. So, let me just highlight briefly what these recommendations look like. Let me start with the United States to highlight the benefit of investments at home on human capital. The United States is in need of a renewed safety net for displaced workers affected by globalization, by automation, my macro-economic shocks. The cause of the distress should not matter. It should be guided by two organizing principles. First of all, resilience, fall back programs such as unemployment insurance and affordable health care but also mobility. That is the spring forward programs that emphasize training and reemployment. Skill acquisition and upgrading should be at the heart of the strategy as this is essential to increase employability, avoid wage erosion and manage relocations across regions, across occupations.

Let me turn to what should we do internationally. This will require leadership, investments in leadership. The Trump administration has rejected TPP arguing that multi-lateral trade agreements do not offer the best deal for the United States and that bilateral negotiations will yield better outcomes. But we should remember that the United States has already tried negotiating bilateral trade agreements and the limits of this strategy are also known to us. Negotiating one on one will take a long time putting the United States behind and it’s unlikely this will yield better outcomes because you are, in effect, giving up...
on the opportunity of opening several markets and one time having coherent rules across different
countries and many of our counterparts will be more willing to make more concessions if they expect
larger payouts from bigger trade deals. Exit from the TPP will be costly for the United States. American
producers will be disadvantaged because they do not enjoy preferential market access like the
competitors. These effects are already being felt. For example, Australian beef producers enjoy better
terms of access to the Japanese market because there is an Australia/Japan free trade agreement. In
foregoing TPP, the United States has also ditched a rule book that helps disseminate disciplines useful in
addressing problematic Chinese trade and investment practices that would go addressing issues such as
the asymmetric reciprocity in foreign direct investment or the rampant subsidization of state owned
enterprises. The geo political fallout is also large. What we’re witnessing today is that trade is
increasingly becoming a wedge issue between the United States and its closest partners. Also, that
China has been given an opportunity to draw a contrast between a retreating United States and its
stepped up multi-lateral diplomacy in a wide array of policy arenas including trade.

The American withdraw from the TPP is also a major blow for Japan. Given the centrality
of the trade deal to Japan's economic revitalization strategy and its foreign policy. But salvaging what
remains of the TPP is in Japan's national interest. It helps Japan fight the tide of rising economic
nationalism. It preserves a rule book that enhances the operation of Japanese supply chains which are
critical to Japan's prosperity given demographic trends that will result in a drop in population levels.
Japan needs to remain vitally connected to overseas markets. It also helps Japan have a horse in the
race regionally, to define the terms of economic integration so that China does not become the only focal
point of such efforts.

It also helps Japan encourage a potential return of the United States to trade
multilateralism. Of course, this will not happen soon and, of course, it will not happen unless the United
States addresses its own domestic challenges like the ones I discussed earlier. But the hope is to bring
back the United States to the regional architecture. It will be much easier to accomplish that goal by
keeping the TPP project alive because the United States will be able to find its way back to a trade
agreement that very much was originally shaped by the United States. It follows its own template
regarding trade and investment rules.
Giving the TPP a new lease on life is a tall order. It will demand heavy doses of political capital and creative diplomacy, especially to encourage other TPP countries still on the fence to stay on board. But if it happens, Japan as the largest remaining economy in the TPP 11 is, of course, of critical importance. Japan actually can tap on its broader array of tools to try to persuade these countries to stay on board. Use economic assistance, for example, to help Vietnam implement its TPP commitments.

So, this is, I think, the latest turn in a book constantly having to adapt to fast changing reality. In a way, it means coming full circle. I was originally motivated by the question of whether Japan can provide trade leadership and the survival of TPP may be the most important test of that proposition. Thank you very much.

MS. CUTLER: Well, thank you very much. I really enjoyed the discussion of Mireya’s book and I have to say, I’m truly honored to be invited to be the discussant of the book today. I’ve been a longtime admirer of Mireya and her work and this book only reinforces my view. Richard mentioned it was a great cover, I can say the contents are great too but I do like the cover. It’s really a rich book on the challenges and dilemmas facing trade policy. I expected a book really just on the U.S. and Japan. When I was reading through this book, the book goes way beyond that by explaining the evolution of trade policy, how and why trade agreements have taken on all of these other issues, the importance of transparency and central decision making in trade negotiations and the need for what Mireya calls complimentary domestic measures which, I agree with her, are critical if we’re going to go forward on trade liberalization. Mireya said the ground shifted as she was writing the book and I feel her pain. There are a lot of people in Washington, we were working on a lot of different projects and reports at that time and we kind of had to regroup and recalibrate. I think she did a great job in doing that in capturing the sentiments in both the U.S. and Japan at a time when trade history is still being written.

Now, I pride myself on knowing a lot about trade. Having lived and breathed it at USTR for almost 30 years but it became evident as I read this book on how much more there is to learn and how much more to reflect on. She skillfully provides background and perspectives, on importance developments. Some developments in the negotiations I’ve put in the back of my mind. She summarizes and critiques key findings of economists and offers recommendations for moving forward.

I thought what I would do in the next ten minutes is really touch upon three areas of the
book and offer my observations. The first being on the evolution of the U.S. and Japan trade ties focus on TPP. Second, the importance of transparency in trade negotiations and third, on the need for effective and responsive domestic policies to accompany trade agreements. The book underscores a major irony in U.S./Japan trade relations. We are both now at important junctures in our trade policies, just not in the positions that anyone would have predicted just a few years ago. For Japan, having taken on its agriculture vested interests, having negotiated a comprehensive TPP agreement with 11 other countries and then secure diet approval, Japan now seems poised to making TPP 11 a reality. I also note Japan is serious about something when it gives something a nickname and Abe is now calling the TPP 11 now Oceans 11.

Conversely, the U.S., we've exited TPP. We've stepped back from leading plurilateral negotiations in Geneva and we're now focusing on reducing bilateral trade deficits with individual trading partners. In short, we're pursuing a more inward looking trade policy, vacating our historical leadership position. At the same time, Mireya notes the similar challenges that both the U.S. and Japan face including addressing domestic political hurdles, the need to address competitiveness challenges whether it's infrastructure for the U.S. or agriculture reform for Japan and the importance of implementing effecting adjustment for those left behind by trade and globalization. The book does an incredible job in detailing the series of constraints that Japanese trade policy has faced over the years. And notably, the unwillingness to move on agriculture as a result of strong vested interest, coupled with a system of decentralized negotiating authority which made a proactive trade policy virtually impossible. Negotiating with Japan presented its challenges through the years. I experienced a lot of those challenges negotiating with different ministries often leading to the lowest common denominator approach from the Japanese side and different voices leading to confusion on who was calling the shots. But this changed with TPP which is a major turning point for Japan.

The book offers valid reasons for this transformation. One area did not play up but I believe was important in this transformation was Quares and it's not because I was a lead negotiator for that agreement. In many respects, the U.S. Korea FTA was a wakeup call for Japan. Because if Korea could take on its vested agricultural interests, why couldn't Japan. As Mireya mentioned, the DPJ started the TPP debate but Abe and the LDP brought it over the finish line. The DPJ certainly had its leadership
challenges having about three prime ministers in less than two years. But I believe when the DPJ laid important ground work in the Japanese society which really paved the way for Abe to embrace TPP. Because it was during the DPJ's reign when active debate on TPP took place with unfounded rumors. Some of these I look back on and I can't even believe that I was there debating these issues. One was that the TPP was going to require that everyone in Japan speak English in school. There was one that we were going to force Japan to adopt our healthcare system. Finally, that all food safety measures in Japan would go by the wayside. I think Mireya brings back that term TPP ghosts. I kind of remember that term. It certainly wasn't a bright spot. But it did pave the way for Prime Minister Abe to announce the readiness of Japan to enter TPP in March 2013. Everyone thought that he was going to wait until the summer past the upper house elections but he surprised everyone and he announced it and he put together an incredible team. He followed some advice and that was to really have a centralized negotiating authority and he did that with Minister Amari at the TPP headquarters in the cabinet office and he really put in place, a first rate team.

In TPP, Japan took a new negotiating posture. They were still tough, but they learned to take the lead, they learned how to put forward proposals reaching compromises and to work with other countries to bring them on board. They had an offense agenda and they were not just driven by their defensive agricultural concerns. But as Mireya pointed out, this didn't mean that they didn't work hard to do as little as possible on agriculture. As her book points out, of all the TPP countries, Japan's liberalization rate in agriculture is the lowest.

But now we're in a new stage with the U.S. TPP exit and the leadership vacuum. TPP 11 has become much more of a reality with Japan now buying into this and showing leadership. In fact, Japan will be hosting a meeting of the TPP officials next month in July. The play book is still being written on whether they can lead TPP 11 to successful conclusion. At the same time, the U.S. is retreating. Once again, we're pursuing bilateral FTA's over multilateral ones and pursuing other policies as well. Just to bring home what different places we're at, let's just look at the next two weeks on the trade front. For the U.S., we're expecting to issue our trade deficit report on 16 trade deficit countries. There is talk of the U.S. announcing its finding on the steel 232 investigation. Perhaps, we may again, take on G-20 countries next weekend on the trade language in the communique. For Japan, we're seeing very different
things. They're close, in not already, finalized a market opening deal with the EU. We'll have to see the
role they play in the G-20 deliberations and once again, they will be hosting of the TPP 11 in a week or
so.

Before leaving the subject, I just want to raise one other difference between the U.S. and
Japan right now. As Japan trade policy becomes more centralized in the U.S., we're seeing a number of
power centers on trade including a commerce secretary, the USTR, the head of the NEC, Peter Navarro
and the President himself. My humble recommendation to our team is that based on my experience, it's
really important to sort this out before trade negotiations with our NAFTA partners are launched so our
trading partners have one point of contact.

Let me briefly turn to two other points I wanted to touch upon as I discuss Mireya's book
and that's the issue of transparency in trade negotiations. I believe this is going to be a major challenge
going forward. I note that this issue was already raised with Ambassador Lighthizer last week when he
testedified. Here we're trying to balance the need for confidentiality in negotiations with other countries with
the need to provide detailed information to the public on talks that matter to Americans. With millennials
in the digital age, expectations grow for more and more transparency. There are a lot of critics of TPP
transparency in the U.S. There were some that believed that this was an easy issue for folks to identify
with during the talks. It was harder to discuss the details of the negotiation so let's just call these
negotiations secret and criticize them. However, this is a real issue and the previous administration tried
to address this issue but clearly didn't go far enough. So, this is an issue that we're going to have to deal
with going forward. Mireya's book proposes and sites some interesting recommendations and
suggestions in the area and I would encourage everyone to read that chapter closely because this is an
issue that's not going to go away, it's only going to become more prevalent.

Speaking of more prevalent, let me just conclude and say these complimentary domestic measures
are going to be critical for going forward in the U.S. and other countries on trade liberalization. As Mireya
mentioned, trade policy is an integral component but not a substitute for overarching competitive strategy,
for the social safety net, for matching education with next generation skills. This means that the U.S.
needs to build out its infrastructure, it means Japan needs to modernize its agriculture but there are other
structural reforms that are needed as well. The IMF, for example, just this week highlighted the need for
Japan to pursue major labor reform, including narrowing the gap between regular and non-regular workers. The U.S. needs to narrow the income equality gap that's growing in our country. On adjustment, Mireya couldn't have been more spot on and that is adjustment in the United States has really been tied to trade and there is a bar there to get trade adjustment assistance, you need to show that you're losing your job due to trade. But in reality when you look at the statistics, everything suggests that its technological advances increases in productivity and automation which are more responsible for the loss of jobs and low paying jobs and therefore our whole concept of adjustment needs to be expanded and deepened.

One concluding comment and that has to do with Mireya's last recommendation that internationally, we, the U.S. and Japan uphold free trade and multilateral governance. Pre Trump administration, I think this was the natural path forward for the U.S. and Japan to lead and when TPP was concluded, that's indeed, what we were talking about. We had a strong convergence of interest both bilaterally, regionally and globally. But that's not the case now. U.S. trade policy for at least now is based on America first and we're no longer as interested in helping to set the standards and rules for the international trading system. And that in my conclusion brings me back to Japan and all eyes are on Japan now. Japan has an incredible opportunity to fill the void that we've created and pursue a proactive trade policy and exercise leadership. Will it be willing and able to seize the opportunity, I hope so. Thank you.

MR. BUSH: In order to fulfill my obligation as moderator, I was busy writing down questions as Mireya and Wendy were speaking. But then every one of the things that I had in mind, they addressed, so I'm left with nothing. So, I have to depend on you, the audience, to make up for my deficiencies. There are a lot of smart people in the audience so I'm sure that you will. So, what I would ask is that if you want to ask a question, wait to be recognized, wait for the mic. Tell us who you are, where you’re from and as you can tell, both Mireya and Wendy are very smart so you can keep your questions simple and I'm sure you'll get a full answer. Who'd like to go first? Right here.

MR. LEWIS: Good afternoon, thanks very much for coming. My name is Julian Kyle Lewis. I study international education policy at the American University here in D.C. When President Trump first had an official meeting with the President of China, the Chinese President went back and told
his nation that he had to spend 20 minutes giving our President a brief rundown of the historical
diplomatic actions in China and East Asia and just a whole policy rundown. He actually gave a revisionist
history version to our president by stating that China ruled Korea at one time which is not accurate. But
what President Trump did was go back in a press conference and tell the whole world that as though it
were the truth and now our media has really gotten on him about that. Taiwan needs military funding
from us and they're pulling back now and South Korea has now taken back their missile defense from
North Korea in response to these kinds of statements. I'm wondering from Japan's perspective as one of
our allies, how is that being received diplomatically in Japan? Thank you very much.

MS. SOLIS: Obviously, the Trump presidency has brought about major recalibration in
the strategy of Asian countries. Japan, I would say, has been very skillful in the way it has adjusted to the
new situation. From the get go, the strategy was to try to develop a close relationship with President
Trump precisely because of the added benefits of bringing to him the regional issues and explain to him
from the point of view of Japan what was essential and critical. Also, out of the understanding that could
personal chemistry between the two leaders might be very beneficial in this kind of administration.

So, I think that the second meeting between President Trump and Prime Minister Abe on the
security front, delivered everything that Japan may have wanted. In terms of very strong reiteration of the
U.S. commitment to Japan's security and I think that there was also a very smart decision to not have the
two leaders discuss directly the economic agenda. That is when the potential difference of opinion may
emerge. That's why the decision was to launch the asio pens (phonetic) dialogue. The first meeting has
already taken place but nothing concrete has come out of it and I think that that is because as Wendy
was saying, there is now a very substantial divergence in terms of what these two governments see as
driving trade, the nature of trade relations and what is the best way to move forward. Japan is still making
the case for TPP, talking about rule making whereas the Trump administration is talking about a stream of
bilaterals with the notion that you could use trade rules to erase trade deficits regardless of the larger
macroeconomic force at work.

MR. BUSH: Any comment Wendy? No, okay another question. Let's go over here first
and then I'll come here.

MR. MILLER: Hi, my name is Mike Miller, I'm from the Heritage Foundation. One of my
questions was how does the United States leaving the TPP effect the geopolitical interests in the region.

MS. SOLIS: Where to start I guess is the question. I think, essentially, it leaves a huge vacuum in the region and countries are now engaged in hedging. This has also created an opportunity as I said before for China to make a more persuasive case that is prepared to champion multilateral initiatives and for countries to doubt the commitment of the United States. Let's not forget that many of these countries made very painful concessions as part of the negotiations because they were expecting not only the economic benefits but the reassurance of the United States presence in the region. When the United States organized a major pivotal way, then that hurts the credibility of the U.S. precedence in the region and we being to see then this development. We begin to see that Japan pursues now TPP 11, it's about to close Japan EU but also now has received the regional comprehensive economic partnership, those negotiations have intensified as well. Then you think about the other set of initiatives that China is pursuing, the AIB and an image begins to form. The United States does not have its act together, does not really know what it wants to do in terms of its straight strategy. It's willing to walk away from major trade negotiations while China keeps on the mark with these initiatives.

MR. BUSH: The gentleman right here and then I'll come to you.

MR. MULLEN: Thank you, John Mullen, McCarty Associates and Georgetown University. I understand why Japan now favors the TPP 11. Initially, they did not. I wonder if you could walk through what changed their minds politically and economically, if you will. Thank you.

MS. SOLIS: Thank you very much for your question. I think nobody forgets that statement of Prime Minister Abe that TPP without the United States was meaningless. I have to say that I was in Tokyo maybe a couple of days after the election and I remember making the rounds with Japanese officials and I had just written a piece, TPP 11 is the way to go for Japan. I was not finding attraction, I was struggling, I was pitching them the idea in some ways. I think it had to do, first of all, the idea that what is said in the campaign trail is not necessarily what governments do. So, there could be some adjustment. Also, this is not an ordinary administration and there is a set of ideas that have been very fixed in the mind of the new president for three decades. Many of his close advisors on trade are very much allowing the same lines so I couldn't see a major correction course.

I think that one very important element for Japan to be able to execute that change was
to get some reading that the United States would not react very negatively towards Japan moving on with the TPP 11. So, we had a number of Japanese guide members come to Washington. I think that they heard from people in Congress that encouraged Japan to take on the mantle of promoting free trade and that gave him the assurance that maybe this was the right thing to do. It wouldn't damage U.S./Japan relations and I also think now that the U.S. is talking about a bilateral Japan/U.S. trade agreement, having TPP is a live possibility also gives Japan some bargaining power in that potential negotiation.

MR. BUSH: Wendy did you have anything?

MS. CULTER: Nothing to add.

MR. BUSH: Did I ask about TPP 11? What is the risk that if you move towards that and make the adjustments necessary in the text that the whole text gets opened up and the thing collapses of its own weight?

MS. SOLIS: Thank you Richard. No, that's a very important question. I mean, there are different approaches of how you actually make TPP 11 happen. The easiest change would just be to change that clause about the critical mass required for the TPP to enter into force. The way it is written today, cannot enter into force without the United States. So, you could argue, well then let's just change that one clause and everything will be fine. Some TPP countries are closer to that position but other, especially Malaysia and Vietnam feel that the deal has to be recalibrated because they did agree to many sensitive concessions because they were expecting major economic benefits for preferential access to the United States. Once you take that off the table, they argue they gave too much, it does not justify the extent of the concession.

But as you were hinting in your question, Richard, there's nothing like a surgical renegotiation. Because everyone, once you open it up, every country is going to want to tinker with it. Everyone has sensitive issues and the challenge there is that it could unravel and then it could have a very difficult path forward for TPP.

I think that really comes down, in my mind, Vietnam is critical to this whole exercise. Vietnam is essential in the sense that it's a Southeast Asian country, it's a country with a very heavy state precedence in the economy and in many ways, is a test case for the ability of TPP like disciplines to tackle state owned enterprises to be able to have bigger projection across Asia. Vietnam is reluctant.
So, what we've seen Japan do is step up its diplomacy. There have been a number of meetings and I think the one concept I have put forward is that Japan could learn something like TPP readiness initiative. That is help Vietnam do a gap analysis of what it needs to do to actually meet the TPP commitments and then offer tailored economic development assistant projects that can help Vietnam do this. Japan is a long term process in Vietnam, has been a long time donor to this country and therefore you do have the institutional structures, you do have that kind of legacy to tap on.

And last point, let's not forget that Vietnam actually has already started to move along some of the reforms that were not evaded by TPP because Vietnam also has a trade agreement with the EU that addresses some of these labor issues. The most far reaching labor reforms would only come into place if the United States was in TPP as part of that bilateral labor consistency plan. The United States has stepped out and therefore the bar for Vietnam might not be as far off as we might imagine to begin with.

MS. CUTLER: I can add. I mean I think concluding a TPP 11 is going to be a big challenge. There are just a lot of issues there and the ability of all 11 to participate and not to change anything except for the entry into forced provisions is a big question mark. That said, once Japan changed its tune, I'm much more optimistic that maybe a way forward can be found. There may, ideally you would keep everything together and not have each country or certain countries chipping away at certain provisions because as Mireya mentioned, that could just lead to an unravelling. I think that's exactly what these TPP 11 countries are doing now, trying to figure out are there different options for going forward.

What is interesting for Japan itself, it doesn't want to make any changes to the text because it wants to keep agriculture frozen and so I think it's a little worried that once you open up certain provisions in TPP 11 that could lead to a reopening of agriculture. I think these are exactly the issues that the ministers ask the officials to work on between now and the APEC meeting and these are the issues that they are looking at in detail and we'll have to see how this proceeds.

Besides Vietnam and Malaysia which seem to have a lot of question marks on this process or at least try and figure out how they can go forward without getting U.S. market access, Canada and Mexico also present an interesting question and that is soon this administration will be
embarking on NAFTA renegotiations. From a negotiating perspective, if Mexico and Canada were to tell the TPP 11 they could go ahead and do everything in the TPP 11, one could argue that could lessen their negotiating leverage in NAFTA renegotiations.

So, this is a bit complicated and each country kind of brings their own baggage to the table. But once again, I think there is a huge opportunity here and I think that if Japan is really committed and ready to show leadership, there is a good chance this could happen.

MR. BUSH: The gentleman on the aisle there.

MR. AYRES: Tobias Ayres (inaudible) intelligence USA. Mireya, looking forward to the book. I was actually going to ask about Japan vis a vie Vietnam because it is the more important question of the TPP 11 debate. But I guess looking back from that and both of you have sounded optimistic about Japan as a leader on global trade liberalization but it is an awkward fit based on the past history. How durable is this, especially domestically. At some point, Abe is not going to be around forever, who knows when he makes his exit. Already in the end stages of the Japan EU negotiations, you’re seeing some renewed push back from agricultural interests within the LDP. How much is Japan embracing this new role? Is it a placeholder until the U.S. comes back around or are we really going to see down the road, Japan really pushing the agenda forward beyond what has already been there on the agenda?

MS. SOLIS: Thank you, Tobias, that’s an excellent question. A couple of observations. I think that this new trade environment where the United States is positioning itself to play a very different role in trade policy and is launching on the notion that trade deficit is the only thing that matters and we’re going to negotiate agreements that actually cut on that trade deficit. I think in that environment where Japan has more value than ever before. Even if it is just a place holder, you could argue that there is already value in that in the sense that we haven’t had, if you think about it, an update in trade and investment rules through the WTO in over two decades, only the trade facilitation agreement but other than that it has been slow going there. One of the reasons why trade growth has slowed down is precisely because of the lack of legalizing initiatives. So, the Japan UFTA, if it makes it to the finish line and ratification on the European side we know is extremely complicated so we cannot count on that as a done deal, nevertheless would be significant.
Then either TPP 11 or TPP 5 happens, I will agree that in this context that still has a lot of value. We cannot assume, if I've learned anything in this book, is never say never. Never expect that what now looks like a strong trend may actually continue in the future. Exhibit A for having to adjust new expectations. We do know that things could change in Japan. More recently, the Prime Minister has been getting in more trouble because of a number of political scandals that are now making support levels go down. We don't know if these will be temporary or these could actually take on a life of its own. We know that the Abe government has always decided to use a lot of its political capital for the security agenda and now might devote that to constitutional reform. How much does that leave for the economic agenda or not is a question to be had.

So, will Japan ever go back to this cycle of indecisiveness, it depends. It depends in these political conditions that have allowed the Abecante (phonetic) to work the way it has continue. But I do see more pushback in the sense as I expect, given what I describe in the book that when you have top down leadership, there's going to be pushback because there are costs to be had for not having enough inclusion. We see that, I think, as a theme in the recent discussions about what the Abecante has done recently.

MR. BUSH: There is a gentleman back there who has been very patient. Do you still have a question? Yes, right there.

MR. SWANY: Good afternoon, my name is Aditia Swany. I study international relations at Clemson University in South Carolina and I'm currently interning at Congressman James Clyburn's office. Thank you very much for your talk. My question is, from your studies of agriculture reform in Japan, what lessons can the U.S. draw with regards to its own agricultural interests.

MS. SOLIS: I feel that I should ask (inaudible) who is very lucky for me that he's here today. He's one of the top experts on Japanese agriculture. I just have a general comment and I would encourage you at the end of event to reach out to (inaudible). But if anything, what is striking to me is the ability of agriculture to always be very present in the minds of policy makers. They certainly know how to organize well and it is a very important sector. When it comes to Japan, the problem is the policy framework has not been there to actually generate genuine liberalization. He has identified some of the issues that have been passed over by the Abe administration when it comes to actually promote
commercial agriculture, expand the scale of operations and get to the issue of how you encourage full

time farmers to survive in Japan.

MR. BUSH: Let's go right here.

MS. CHEN: Thank you, Richard, Rita Chen from the Central News Agency, Taiwan. My
first question is we have heard Secretary Rose say that the high standard of the TPP will be implied in the
bilateral negotiations. I'm just wondering does that really work for the American's best interest in the long
term. My second question is especially for Wendy since you have a lot of negotiation experience with the
different Asian countries. I'm just curious, when you are talking about a difficult issue like agriculture,
what's the difference between Japan's counterpart and Taiwan's counterpart. Thank you.

MS. CUTLER: They're all difficult in their own way.

MS. CHEN: Chia Chen from United Daily News Media from Taiwan. I have a question
for all the panelists. So, Taiwanese officials said that Taiwan wants to join the TPP 11. What would be
the standards to meet the requirements for a Japanese led TPP?

MS. CUTLER: Well first in response to your question, based on my negotiating
experience, I'd say each negotiating partner, they're all difficult in their own way and they all have their
own peculiarities and you just learn how to work with them and how to move forward. With respect to
your question on the TPP rules, yeah I think that's really interesting now that the administration now is
moving towards renegotiating NAFTA. In the middle of July, they'll be presenting their detailed
negotiating objectives to Congress in line with trade promotion authority and there has been talk that we
may see a lot of the TPP rules emerge in our negotiating proposals to NAFTA. That will be very
interesting to see. So, issues like digital trade or state owned enterprises, SPS, technical barriers to
trade, we may see those rules emerge as positions of this administration. I think that attests to the
strength and the importance of the TPP rules. I suspect we're going to see more than just TPP rules in
the NAFTA renegotiation based on statements made to date.

MS. SOLIS: I would add to that then when you think about how the TPP project may
have an afterlife, we've been discussing TPP 11 but in other ways have been highlighted now. That's
because these rules due tap on areas where the United States is very competitive and it is in the interest
in the United States to disseminate these rules. We can't expect that they'll be brought up in these other
negotiation setups.

Having said that, I think it's also important to make the point that it has also been hinted by the administration that because NAFTA and Mexico and Canada already agree to these rules, they'll be taken for granted, automatically brought in and Canada and Mexico then will only discuss the other issues that the administration is bringing. I think that Mexican trade negotiators have already put that assumption to rest and have said that this is a new negotiation and we'll agree to those rules as part of the give and take that comes. Nothing is grandfathered and they're not going to lose advantage that way.

On how Japan may think about Taiwan TPP 11, I would say first we need to see what is the contour of TPP 11 to see if there are indeed changes in the rules or not and then I would be in a better position to address that question. It is a little bit premature right now.

MS. CUTLER: I would add on that, it's interesting when the TPP 11 process first started, it started in Chile and the Chileans not only invited the TPP 11 countries but they also invited China and Korea to join that discussion. But since that time, my understanding is the TPP 11 have kind of, at least for now, they're not interested in others joining, they're trying to figure out between the 11 how they can move forward. So, we'll have to see how that plays out.

The other point I would raise about TPP 11 that I find so fascinating is that everyone, particularly the press would love to just say it's the U.S. led TPP versus the China led RSAP. And how interesting if it's a U.S. led TPP and everyone viewed the TPP like that and now we have the TPP possibly going forward without the United States. I think that's a testament that it wasn't just a U.S. led initiative. Maybe the U.S. showed leadership but it was a real partnership with the 11 other countries that really wanted to pursue a high standards regional agreement.

MR. BUSH: Question here in the front and then I'll go back there.

QUESTIONER: (Inaudible) USA. Thank you very much, Mireya, for your very informative presentation and Wendy thank you very much for your very instructive comments. My question is kind of a fundamental one. Particularly these days I cannot help feeling a gap between discussion here and response of the White House. So, I just wonder, how effectively can you fill the gap or how effectively can you convey your message created here to White House? Thank you.

MS. SOLIS: Well that is a fundamental question that I do feel every day. I think two
points. One is as Wendy was saying, (inaudible) unified vision in the White House and I think that there are some people that maybe be more amenable to the kinds of arguments and proposals and making in the book than others. I also think it will be a question of time. I think that already the way in which TPP was discussed by some of President Trump's advisors on the campaign trail and early on in the administration was all critical and I think that we are seeing as time goes by, they are, in many ways, rediscovering the benefits of many of these rules. I also think we need to wait for the reality check that comes when they actually sit at the first negotiation table, this is going to be NAFTA and they have to then find workable compromises with the partners because trade negotiations are not in positions, they reflect a mutual give and take.

Again, one of the things I've learned in writing this book is that you wait also because things tend to work in cycles this is not to take from the fact that I do see there has been a profound transformation in this country that there are many sources of stress that need to be addressed. I do think as time goes by we might see some changes in the way in which the TPP components are viewed by the current administration.

MR. BUSH: I would also say that it's important at a fairly basic level to fight against particular lines of argument that we have seen over the last year or two. One line of argument is that trade barriers are the biggest cause of trade deficits. If you only remove the trade barriers, the deficits will go down. We understand that's not true but we need to explain why. It is complicated but we need to make that argument. Second is that the reason for the economic difficulties of some American citizens is because of trade agreements and globalization. As we've heard, a globalization is not blameless here but it's not the principle cause. The cause is very much the success of our own economy. The increases in total factor productivity and so on. We can't concede the argument to people who don't know what they're talking about. The gentleman on the fourth row and then we'll come here.

MR. MADISON: Thank you very much. My name is Al Madison and I represent the Japanese steel industry in the United States. I want veer away from TPP for a moment and Ms. Cutler referenced 232 as perhaps the next big trade discussion point. I wonder if anyone on the panel has any thoughts or speculation as to how A, the administration is pursuing this and there is a lot of discussion about maybe there is pushback. Any insights that you might have as to how this all might turn out,
whether it was cooked from the beginning or what we might expect to hear in the coming days or weeks.

MS. CUTLER: Let me respond in a broader way and that is let me just remind the audience, section 232 of the 1962 Trade Act is a statute that allows the President to restrict imports based on national security grounds. The statute has been in effect 55 years. My understanding is it's only been actually used twice, both times with respect to petroleum imports. The last investigation was conducted in 2001 on steel imports at that time under President Bush and it was determined that there weren't the grounds to restrict trade. There is a lot of concern, a lot of people are watching this, not just the Japan Steel Association but a lot of our trading partners and other industries in the United States are watching this decision very, very carefully and there are a number of concerns. One of them is there are a lot of companies that use steel and to the extent that high import restrictions are put on steel imports, that will lead to higher prices for the inputs for companies that use steel like our auto companies which could lead to higher prices for consumers and could also make our exports less competitive.

It is also kind of an unspoken rule in the trade world to use the national security exception very judiciously because it is something that has never been litigated in the WTO. There is a national security exception but no one really wants the WTO to rule on whether a country is actually acting in accordance with its national security. So, people who are very concerned about the system and the vitality of the WTO are also worried about the determination here. I don't have any insights into where this stands. I know the Secretary of Commerce has said that they're trying to move this decision quickly, maybe by the end of this month, but there is also reports that others have come in and expressed concerns. A hearing was held, a lot of public comments were submitted so I'm hopeful that the administration will make a very careful judicious decision here on this case.

MR. BUSH: Right here.

QUESTIONER: (Inaudible) studies. I used to work for the Japanese government. The (inaudible) for 30 years. I just want to make one comment and one question. My comment is about Vietnam. When it comes to the TPP decision, Vietnam was one of the obstacles but actually Vietnam changed its mind. Now Vietnam is willing to take part in the TPP (inaudible) decisions. That's partly because if we give the other countries such as Australia and Canada some preferential (inaudible) to those countries, then the United States I (inaudible) product such as beef, wheat and dairy products
would be completely wiped out in the Japanese market. Taking that into consideration then the United States might come back, not in the Trump administration but in another administration might come back to the Japanese market. There is a (inaudible) TPP (inaudible) agreement. That is my comment. My question is that when it comes to the free trade agreements or free trade negotiations, we already talked about agriculture and manufacturing. When it comes to the share of GDP agriculture is one percent in the United States and manufacturing is 10 percent. In Japan, agriculture is one percent and manufacturing I think is 60 or 70 percent. Why don't we talk about the financial sector or service sector which consists of (inaudible) share of the GDP when we talk about the free trade agreements. So, that's my question.

MS. SOLIS: Very good comments. Regarding the point you made first where the United States would eventually seek its way back to the TPP and whether that would open an opportunity for a next session negotiation. That's interesting because there is that position that this would be the United States left and maybe many countries were not entirely happy with the deal and maybe they'll try to rebalance some of those concessions. I think this is where it's not just commercial strategy but it's national security strategy. My impression in talking with some officials in Tokyo and I'd be curious what you are hearing as well is that there is an attempt to leave a place holder for the United States because it is so important for the United States to be back. There is an understanding that if you're on top of that given the fragile situation in this country in terms of the domestic political system delivering on landmark trade agreements, that that might actually again be another hurdle and at the end of the day, this was a sufficiently good enough deal for Japan commercially and it is certain important geopolitically to bring back the United States. They may give it a pass even though I think that the easy thing as a trade negotiator would be to say, no wait, if they want back they should pay an admission ticket. So, that's an interesting possibility into the future. Not immediate but maybe further off.

I agree, that we tend to discuss the tangibles and not the intangibles whenever we focus on trade policy. But this again is the value of the TPP's for the first time you have also the digital economy, further liberalization of services is one area where again, it's not highlighted enough. That Japan has many sectors where it has lagged into internationalization of these sectors and with services in TPP, it actually went further than it has ever before. I don't know if it's because in our gut we're still 20th
century mercantilists when we still just think about its rise for autos but we should not lose sight of the fact that the economy is far more complex than these trade agreements have evolved for that reason.

MS. CUTLER: I could just add one thing to the first point and that is if you look at the statement that the TPP 11 issued the last time they met on the margins of the Vietnam Apec meeting, they specifically have language that kind of recognizes the need to kind of facilitate the reentry by the original members which I interpret to mean that they are not contemplating a tough accession negotiation. If the U.S. wants to come back, my sense is the doors will be wide open.

MR. BUSH: I think we're out of time. I'm sorry for those whom I didn't have a chance to recognize. I want to thank all of you for coming. I particularly want to thank our speakers. First of all, I'd like to thank Mireya for doing the book and please buy the book. It's easy but I'd also like to thank you for the way in which you have enriched the discussion of Japan here at Brookings and in Washington, D.C. It's very important. Second, thank you Wendy for being a commentator but also thank you for working three decades in the trenches to expand and improve the international trading system. Thanks.

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