

Trans-Pacific Partnership the Focus of Debate at Conference on East Asian Economic Integration and U.S.-Japan Cooperation

On March 2, JETRO and CSIS (Center for Strategic International Studies) held a joint conference on “East Asian Economic Integration and U.S.-Japan Cooperation.” Since the 2010 conference, significant progress had been made on the Trans-Pacific Partnership (TPP); thus, TPP was a major focus of debate, with an exchange of views on participation by Japan, China, and India as well.

This conference was the seventh of the annual conferences on the East Asian economic region that JETRO has organized since 2004 in Washington, D.C. The opening remarks were delivered by JETRO Chairman and CEO Yasuo Hayashi, who spoke on directions for TPP and integrating Asian economies, its challenges, and the importance of participation by the U.S.

Hayashi’s opening remarks were followed by presentations by Li Xiangyang, Director, Institute of Asia-Pacific Studies at the Chinese Academy of Social Sciences; Michael Wesley, Executive Director, Lowy Institute for International Policy, Australia; Vo Tri Thanh, Vice-President, Central Institute for Economic Management, Vietnam; Minoru Tsukada, President, Hitachi Research Institute; William Grimes, Professor of International Relations and Political Science, Boston University; and Laura Hudson, Manager, International Government Affairs, Chevron Corporation. The conference was moderated by Michael Green, Senior Adviser and Japan Chair, CSIS. A summary of the proceedings can be found below.

<Unified framework for economic ties in Asia is indispensable>

JETRO Chairman and CEO Yasuo Hayashi spoke about Japan’s efforts to negotiate Economic Partnership Agreements (EPA), Free Trade Agreements (FTA) and discussed recently concluded agreements, including the most recent one signed with India. He talked about Japan’s desire to pursue a policy to actively promote high-level economic partnerships with major trading powers in no way of inferior to global trends, based on the Kan Administration’s “Basic Policy on Comprehensive Economic Partnerships,” adopted in November 2010.

Also, within the last year three achievements have taken place in the East Asian integration process.

- a. Progress in discussions related to TPP.
- b. Decision that the U.S. and Russia will participate in the East Asian Summit.
- c. Action on various framework initiatives, focused on ASEAN.

Mr. Hayashi indicated that progress in discussions related to TPP is of particular importance, given the uncertain outlook for the WTO Doha Round and the formation of high-level EPAs or FTAs between major trading powers. He noted that TPP is vital for maintaining Japan’s trade and investment environment competitive. Concerning agricultural issues, he expressed the view that negotiations would advance if partners took a pragmatic approach rather than an “all or nothing” one, and that Japanese agriculture can survive competition in global markets by implementing appropriate structural reforms.

In addition, he strongly emphasized that those considering TPP and directions for East Asian

economic integration should recognize that efforts focused on bilateral FTA were reaching their limit, thus making institutionalization of a regional framework an inevitable next step. He added that the strong economic ties required for economic integration in Asia are inconceivable without a region-wide scheme. In conclusion, he emphasized the broad range of fields in which the Japanese and American governments and their business counterparts can cooperate, taking into account the need to consider national and regional governmental systems and social, economic, and financial aspects.

<Chinese expert says TPP is designed to “contain” China>

During the panel discussion, the six experts presented their perspectives on regional economic integration. The first to speak was Li Xiangyang, director of the Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences. Li argued that U.S. aims in backing TPP has both a security objective, to contain China, and an economic objective, to promote U.S. exports to countries in the Asia-Pacific region. The launch platform for TPP was the P4 agreements between Brunei, Chile, New Zealand, and Singapore. Recent additions include Australia, Peru, Malaysia, Vietnam, and the U.S. It is possible that several additional countries will join, creating a plus-X framework, and whether Japan is among them will mark a critical fork in the agreement’s development.

Concerning the point that TPP could lead to the formation of a Free Trade Area of Asia-Pacific (FTAAP), Li saw this as impossible given the difficulties of achieving further progress on liberalization at APEC. He predicted that FTAAP will have at most a symbolic significance. In conclusion, he suggested that if TPP were seen as increasing the U.S. presence in the region and with ASEAN integration sidelined, China would react by continuing to form bilateral FTA with countries in East Asia, outside the TPP framework.

<Ties between India and the Asia-Pacific region are of growing importance>

Michael Wesley, Executive Director of the Lowy Institute for International Policy, stated that while Asia’s economies are displaying economic growth, having an appropriate leader [political guidance] in control will keep them moving in the right direction and achieving even greater economic growth. Japan has an important role to play in Asian integration but has not been able to play it fully because of its failure to sufficiently liberalize its own domestic structures.

Wesley further observed that if we look at the last ten-plus years, East Asia’s trade with other Asian countries has expanded more than its trade with the rest of the Asia-Pacific region and stressed the importance of ties between India and the Asia-Pacific region. He also pointed out the oversupply of regional institutions in the Asia-Pacific and suggested that the region’s leaders need to consider these points:

- a. Which will prove most effective at addressing important issues confronting the region, and
- b. Which frameworks are best for addressing particular issues, given their functions and participating countries.

<Vietnam has huge development potential>

Vo Tri Thanh, Vice-President, Central Institute for Economic Management, Vietnam, sees East Asia

as a dynamic region with enormous development resources in its high savings rate and foreign currency reserves, using its market strength to develop its own distinctive production networks. On the other hand, he also pointed out differences in level of economic development, numerous schemes for pursuing integration, regional conflicts, complexity of economic integration, and lack of strong leaders to promote integration. Moreover, the region faces a new issue, the growing complexity of economic integration in the wake of the global financial crisis.

Concerning the future of Vietnam's economy, he pointed to its geographical location as the center of the dynamic East Asia region, its being favored by China-plus-one foreign capital investment strategies, a population of which sixty percent is age 35 or younger, and a stable government as factors behind its enormous development potential.

<De Facto economic integration in East Asia>

Minoru Tsukada, President, Hitachi Research Institute, began by pointing out that East Asia has already achieved de facto economic integration through specialization of countries and regions in intermediate or finished goods and the concentration of automotive and electronics industry production in certain areas. It has, in other words, already constructed a regional framework for investment, imports, production, and exports (I-I-P-E).

Hitachi already has important production and sales units throughout Asia. In its home appliances and electronics businesses, it has already implemented a division of labor and cross-linking of functions throughout East Asia. Hitachi is only one of such Japanese firms already promoting de facto economic integration. The FTA expansion has great value for a company like Hitachi, which vigorously pursues new opportunities in East Asia for its transportation, electrical power, energy and other infrastructure-related businesses, as well as its ITC and other social technology-related businesses.

<Asian IMF still a long way from realization>

William Grimes, Professor of International Relations and Political Science, Boston University, discussed the Chiangmai Initiative (CMI) to facilitate currency swaps within East Asia. While accepting that it has worked to a certain extent to provide temporary liquidity in financial and other crises, he also raised a number of issues.

For example, the lack of leadership from China and Japan, among other reasons, has resulted in the absence of a unified operation or management of CMI. Especially when crises occur, CMI compares unfavorably with the IMF, which has a rescue process to decide whether or not capital will be provided. There is also no effective process for mutual oversight in place. He concluded that at present the CMI lacks the strong framework required to serve as an Asian equivalent of the IMF, an Asian Monetary Fund (AMF), and ensure financial stability in Asia.

Laura Hudson, Manager, International Government Affairs, Chevron Corporation, discussed the benefits of FTA for the private sector. For Chevron, GDP, population, trade, and energy demand all

make the Asia-Pacific a vital market. She noted that Chevron's investment costs were 15 percent lower following the signing of an FTA and strongly emphasized the role of FTA in providing a stable environment for investment.

<Interest in having China, India, and Russia participate in TPP>

Following the panelist presentations, moderator Michael Green, CSIS Senior Adviser and Japan Chair, noted that the United States has a strong interest in trade and preserving a fair environment for investment with China. He then posed the question whether it would be possible to get China involved in TPP.

Li Xiangyang replied that for China, with its difficulty to respond to the WTO Doha Round, would find it even more difficult to participate in TPP. Vo Tri Thanh expressed the opinion that it would be difficult for China to participate in TPP without some strong political incentive. Michael Wesley noted that since China is Australia's largest trading partner, Australia has a strong interest in seeing China participate in TPP. That said, U.S. involvement and the handling of intellectual property issues would be important. William Grimes asserted that TPP's success depends on Japan's participation as well as China's.

Taking on board what the others had said, Minoru Tsukada offered the opinion that participation in TPP would be highly meaningful for Japan but that, from a private industry perspective, support for the government would require resolution of a number of issues, including that of agriculture.

A member of the audience raised the question whether, in the long term, India could be included in the economic integration of the region. Tsukada replied that Hitachi sees India as having huge potential and one of its most important markets in the long term. That is why it has opened an office in New Delhi. Wesley pointed out that compared to India's scale and population, the number of civil servants is extremely low, making it difficult to provide sufficient government services.

Another member of the audience asked whether it would be possible for Russia to participate in TPP. Tsukada, Li, and Vo noted that their countries already see Russia as an important partner. At present western (Europe-facing) Russia is already an important market for East Asian countries, and all three countries have high expectations for investments in the future development of the eastern parts of Russia.

A final question from the audience expressed discomfort with the accusation that TPP was intended to contain China. Hayashi replied that TPP differs from past economic agreements. Besides trade, it also involves intellectual property, services, environmental issues and labor standards. Thus, this single agreement has many different perspectives, resulting in evaluations that may vary from country to country. The view that TPP is intended to contain China may be an impression that arises from this sort of difference in perspective. Grimes responded that the establishment of trade rules is not a matter of winning or losing, but instead, of cooperating while continuing to compete. That makes this a good time to embrace a high-level, comprehensive agreement on economic ties, he noted.

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