

For Seiji Naya's Distinguished Speakers Program, August 2011  
**Trans-Pacific Partnership: Priority Issue of the APEC2011 Honolulu**

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1. Big brother in Pacific cooperation study

To begin with, let me say a few words about Dr. Seiji Naya. I have known him for almost fifty years. I met him for the first time in 1962 when he visited Hitotsubashi University in Tokyo for his doctoral dissertation study. I was a Master student then and he advised me in writing application for American universities.

In the early 1970s, on the way back from Australia, I stopped over Singapore and Bangkok for the first time and visited Seiji at Thammasat University. He introduced me to his Thai colleagues, which led me to teaching at Thammasat in 1976-77. These provided me with an important personal network all through Southeast Asia. He moved to Asian Development Bank as the first chief economist and established its economic research division. I frequently communicated with him at various conferences and research activities.

Then he came back to Hawaii and set up Economic Growth Study at East West Center and tried hard to establish Hawaii as the gateway of the United States to Asia. He invited me to stay at East West Center in successive Summer and helped me to publish my first English book from University of Hawaii Press.

I had two mentors in the Pacific cooperation study, Professor Kiyoshi Kojima and Dr. Saburo Okita, Both have passed away but were founding members of Pacific Trade and Development Conference (PAFTAD) and Pacific Economic Cooperation Conference (PECC), predecessors of APEC. I have followed them closely, while Seiji Naya helped me like a big brother in this course.

2. APEC 2011 Honolulu

President Barack Obama hosts APEC Leaders' meeting in Honolulu in November. It will highlight this year's APEC activities under the U.S. initiative. His priority is, of course, to complete the Trans-Pacific Partnership negotiation of the nine APEC economies and report to other APEC leaders that the TPP will guide APEC to be graded

up eventually to FTAAP, FTA of the Asia Pacific area.

I am sorry for this series of acronyms, APEC, TPP, and FTAAP. Some of you may get embarrassed at them, but they are the key words of our efforts in establishing the free and open trade and investment in the Pacific. In November President Obama will declare that the United States is a Pacific country and that the United States will take a strong leadership in achieving the Pacific economic community.. Honolulu is selected as the host city for such Pacific event. Some of you may remember that the United States hosted APEC for the first time in Seattle in 1993 and initiated its Leaders' meeting. Its highlight was 'free and open trade in the region'. The United States plans to complete her long term efforts in November.

### 3. APEC 'achieves free trade by 2020'

In 1989, APEC started as a series of meetings by foreign and trade ministers from twelve economies on economic cooperation matters in the Asia Pacific region. The United States were its founding members together with Japan and Australia.

Trade and investment liberalization and facilitation (TILF) has become one of APEC's major tasks since the first Economic Leaders Meeting in Seattle in 1993, where leaders jointly declared that they would 'achieve free and open trade in Asia and Pacific'. In 1994 President Suhart of Indonesia hosted the second Leaders meeting in Bogor and delivered the ambitious Bogor Declaration, "...to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific no later than the year 2020, .....with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020" (APEC Leaders' Declaration 1994). In 1995, Japan hosted the Osaka APEC and adopted the Osaka Action Agenda (OAA) which provided concrete measures that could be taken to achieve the Bogor Goals. The Manila APEC in 1996 adopted the Manila Action Plan for APEC, MAPA) and their implementation started in 1997.

The annual APEC gathering of prime ministers and presidents of major economies with bold declarations attracted the media's attention. Expectations for APEC became heightened and participating economies increased up to 21 in 1998, covering all major economies surrounding the Pacific Ocean.

APEC has pursued its liberalization and facilitation measures toward the Bogor Goal within the IAP/CAP framework. Its concrete design, the Osaka Action Agenda

(OAA), had a comprehensive coverage of 14 areas of trade and investment liberalization and facilitation (see Table 1), and described measures to be implemented for each area. Facilitation measures aimed to reduce the cost of doing business by enhancing the transparency and certainty of rules, legislation and standards and harmonizing them between participating economies, which are equally important to liberalization in order to enhance trade and investment in the region.

The IAP formula reflected APEC's unique modality of implementing liberalization and facilitation, that of 'concerted unilateral liberalization' (CUL). Under this scheme, individual economies unilaterally announced their own liberalization and facilitation programs and implemented them in accordance with their domestic rules. However, individual economies closely watched each other's liberalization program and implementation and were obliged to submit liberalization programs as broad-ranging as their neighbors and were encouraged to implement in line with their commitments. SOM has conducted a peer review process of individual IAPs at its special sessions since 2002. APEC relied upon peer pressure to urge all economies to join in the liberalization efforts.

Individual economy governments have continued to revise their IAPs every year. The reporting has been made more elaborate and transparency improved in response to a common format. The number of liberalization measures increased as their Uruguay Round (UR) commitments were implemented. Voluntary liberalization was also added either in the form of accelerated implementation of the URA or reduction of applied tariffs from their UR rates in several economies. The CAP helped individual economies to introduce common practices such as the Summary Tables of Tariffs and NTMs. The CAP was especially effective in introducing new legislations of facilitation consistent with the APEC system prescribed in the OAA. By and large, the IAP process encouraged individual economy governments to implement liberalization and facilitation measures toward the Bogor Goal. One short-coming accompanying such implementation was its 'positive list formula' in which the IAP reported only the impediments to be liberalized but not those still remaining. Thus the IAPs increased the volume but did not provide a comprehensive list of existing impediments.

#### 4. A paradigm shift in the regional integration

However, APEC encountered a big setback during the Asian financial crisis when several ASEAN members and Republic of Korea (ROK) were severely hit, with their

currencies depreciated substantially, and some suffered from negative growth. The EVSL (Early Voluntary Sector Liberalization), a breakthrough attempt of liberalization in the “easy sectors” also failed. As such, the IAPs implemented since 1997 brought about much less liberalization than had been expected. Although it included the liberalization committed in the Uruguay Round Agreement (URA), its unilateral liberalization beyond the URA to be applied to other APEC members and nonmembers alike has been limited in terms of its coverage and depth. The URA liberalization was implemented on schedule as committed, but further liberalization in sensitive sectors tended to be suspended.

On the other hand, APEC itself has shifted to a more realistic line for the past decade. Its gravity has shifted from liberalization to trade facilitation, capacity building, and structural reforms. The business environment has also changed in the Asia Pacific under an environment of accelerated globalization and prevailing regionalism of bilateral and sub-regional preferential trading arrangements. The Busan Roadmap was announced to include these realistic measures in 2005.

While APEC suffered a set-back at the Asian currency crisis, East Asian regional cooperation has enhanced since 1997-98. Most evident is the Chiang Mai Initiative (CMI), a package of currency and financial measures preventing the recurrence of the currency crisis, which includes currency swap agreement at the emergency, Asian Bond market, and early warning system. During the rapid growth period of East Asian miracle before the crisis, East Asian governments pegged their currency with the US dollar individually and promoted capital liberalization thanks to the stable currency value. They simply did not need such a cooperation before the crisis. CMI was agreed upon by 10 ASEAN members and China, Japan and ROK, so-called ASEAN plus Three (APT) group at the Asian currency crisis.

On the other hand, institutional integration has proceeded in this region. Bilateral FTAs have been concluded both within the region and with outside partners; Japan-Singapore, Singapore-Australia, Thailand-India, Thailand-Australia, Singapore-ROK, Japan-Malaysia, Japan-Thailand, Japan-Philippines, and Japan-Indonesia. Furthermore, China, Japan, and ROK have concluded FTAs/EPAs with ASEAN as a whole, so-called ASEAN plus 1 type. However, APT has attracted attention as a core institution in the region. Its joint statement was announced at the APT Summit meeting in 2001 and the East Asian Community idea was proposed by the East Asian Vision

Group (EAVG) set under the APT Summit. (EAVG 2001).

ASEAN has taken an initiative in the East Asian cooperation. While started with five countries (Indonesia, Malaysia, Philippines, Thailand and Singapore) in 1967, it had made a few achievements in political and diplomatic negotiation with outside partners but not much in economic areas such as Preferential Trading Agreement (PTA) and Common Industrial Projects. In 1992 ASEAN started to implement a large scale tariff reduction, AFTA, toward an effective regional integration. It has taken an initiative of the APT implementing the Chiang Mai Initiative and formed a co-centric circle of cooperation, such as ASEAN + 1 and ASEAN +3, around ASEAN as a core and on the driver's seat. (See Chart 1)

Here ASEAN has taken advantage of its unique formula of ASEAN Post Ministerial Conference (ASEAN PMC). While ASEAN organized its economic and trade ministers meeting every year, it has started since the late 1980s to invite counterpart ministers of such partner countries and Japan, China, ROK, and Australia and to negotiate as a group with individual partners, that is ASEAN + 1 type formula. ASEAN extended this formula to summit meetings so that it could easily organized APT Summit and ASEAN + 1 Summits taking advantage of the presence of leaders of partner countries. This is a big success of ASEAN diplomacy. China, Japan, and ROK have all accepted this ASEAN initiative.

While hosting ASEAN Summit in 2005, Malaysia organized the first East Asia Summit (EAS) by inviting additional three countries, Australia, New Zealand and India and discussed a broader regional cooperation on such issues as anti-terrorism, recovery from natural disaster, preventing pandemic, environmental protection, energy cooperation. APEC is referred to as an outer circle organization for cooperation but not assigned a major role for East Asian cooperation. It cannot be denied that there underlies in this paradigm shift the preference of China and Malaysia against the US influence.

Although sitting on the driver's seat of APT and EAS, ASEAN perceives well the fact that ASEAN is its weakest member and has moved to strengthen its economy. At the ASEAN Summit in December 2007. It adopted the ASEAN Charter and all ten leaders signed it. The charter has institutionalized ASEAN as an international organization and announced its plan to build Economic Community, Political and

Security Community, and Social and Cultural Community by 2015. The Blue Print for Economic Community details concrete measures to be implemented every other years toward 2015. It reflects an increased momentum among advanced ASEAN members toward further institutionalization but some concerns are heard about the blue print will not be implemented on schedule. Nevertheless, individual members completed their ratification and the charter effected at the ASEAN Summit in Bangkok in March 2009.

#### 5. TPP toward FTAAP

The liberalization move has revived among advanced economies. In 2006 APEC Business Advisory Council (ABAC) proposed a greater FTA covering the whole APEC economies (ABAC 2006). It aimed at promoting the integration and conglomeration of all FTAs mushroomed in the APEC region for the past decade and thus creating a greater single market achieving the maximum scale economy. In spite of prudent attitude by Asian side, it was adopted as a long-term agenda of APEC in 2007 (APEC/LM 2007).

On the other hand, the Trans Pacific Partnership (TPP) has emerged as a binding FTA among a selected economy group of APEC. TPP was originally formed by four APEC economies of Brunei, Chile, New Zealand, and Singapore in 2006. It aims to 'establish a Trans-Pacific Strategic Economic Partnership (TPSEP) among the parties, based on common interest and deepening of the relationship in all areas of application'. It has taken a 'WTO plus', covering not only commodity and services trade but also such facilitation areas as rules of origin, customs procedures, trade remedies, technical barriers to trade, competition policy, intellectual property, government procurement, and dispute settlement. (TPP 2006).

The evolution of TTP originated in the late 1990s, when some APEC economies got disappointed by the installed move for liberalization within APEC. The like-minded economies of Australia, New Zealand, the United States, Singapore, and Chile started the P5 talks on the occasion of APEC meetings in order to find a path toward further liberalization. While the US and Australia came out, the remaining P3 conducted four round negotiations in 2002-2005 and announced their agreement on TPSEP agreement at the APEC/MRT in 2005. Brunei joined at the last minute to form the P4. (Elms 2010). In late 2008 the United States expressed her interest in participating in TPP and started a negotiation for the expansion together with Australia, Peru and Vietnam in March 2010.

The United States has had a close economic relationship with East Asia as a nation in the Asia Pacific region for past decades. Japan, ROK, Chinese Taipei, Hong Kong, and ASEAN members used to earn a main part of foreign exchange from exporting to the big US market individually at their take-off stages of industrialization, after the World War Two, and China and Vietnam have followed suit for the past two decades. East Asia has become a major market of American products and services as well as a major important investment destination. On the other hand the US had established security alliance with several Asian countries during the cold war and has maintained its importance in her global strategy.

Thus the United States is concerned about her economic interest being impeded by any move in East Asia. Since the 1960s American businessmen and economists have participated in Pacific economic cooperation activities. When Malaysian PM Mahatir proposed an East Asian Economic Group in 1990, US State Secretary Baker objected to it fiercely and got it aborted. Although the severe objection like this has not been expressed recently, the US is still watching intensely the move in East Asia. Especially the US business sector have kept watching closely East Asia.

The United States has traditionally believed in the market economy and promoted the liberalization in trade and investment. Partly because of her propensity of excessive consumption at home, she has accumulated a huge trade deficits for the past thirty years, especially with emerging economies in East Asia. Thus the strong demand for market opening and export expansion to East Asia has become a high priority in her trade policy agenda. The United States proposed for APEC to achieve a 'free and open trade in the region' in the first Leaders' Declaration when she hosted APEC in 1993. President Obama stressed the expansion of American export to East Asia as a major policy tool of increasing employment at home.(USTR 2011).

How do other Asian economies respond to the TPP negotiation? Prime Minister Kan proposed for Japan to join the TPP as a symbol of the 'third country opening,' as Japan's economy and society have matured, it has become inward-looking. Japan should join the TPP in order to arrest this process and promote active advancement overseas. Japanese firms cannot survive global competition only at domestic market with aged population and less children together with resulting weakened dynamism. They have to move out to neighbor growing markets in Asia. It is

imperative to produce a seamless business environment in which both Japanese and other Asian firms can do free and stable business. This leads to the East Asian Community idea. Although it is supported by business community but has provoked a strong objection by farmers. Partly because of his weak political leadership and partly because East Japan was hit by Great Earthquake and Tsunami on March 11<sup>th</sup>, Japan's participation in the TPP negotiation is receded for the moment. On the other hand, ROK has succeeded in forming the open trade stance and concluded FTAs with the United States and European Union. She will join TPP in near future.

There still remain cautious attitude against TP in Asia. Other ASEAN members, Indonesia, Philippines and Thailand, do not express their interest in the TPP negotiation. Although they have achieved the AFTA liberalization and are tackling the 2015 target for the ASEAN Economic Community. China has fulfilled the liberalization required at its accession to WTO in 2001, which have paved the way to the globalization of Chinese economy and firms for the past decade. However, there still remain in her economic regime various forms of governmental regulations and Chinese government is cautious about their hasty deregulation. China is afraid of conceding to the NAFTA modality such as labor standards and human rights in the TPP negotiation. Furthermore, China stands against the United States in security. China feels excluded from the TPP and prefers the liberalization in East Asia along ASEAN + 3.

To conclude, the TPP negotiation has a trade-off of the high level FTA and greater scale merit of including China and other ASEAN. If it continues with the NAFTA modality under the US initiative, it will be a trans-Pacific but divide Asia. Of course, the U.S. contends that she never excludes China but expects that China will achieve further liberalization in future and join the TPP (Petri 2010 and USTR 2011). We wish the current promoters of TPP will have a clever mind of balancing the trade-off. In this regard Japan should join the TPP negotiation at an early stage and guide it in that direction..

## 6. APEC pushes up FTAAP

For the past few years FTAAP has been 'translated from an aspiration to a more concrete vision'. The DDA negotiation has got halted for the past five years so that the Plan B is still relevant. Last year APEC Leaders declared 'FTAAP should do more than achieve liberalization in its narrow sense; it should be comprehensive, high quality and incorporate and address next generation trade and investment issues.



‘It should be pursued as a comprehensive FTA by developing and building on ongoing regional undertakings such as ASEAN+3, ASEAN+6, and TPP. To this end APEC will make an important meaningful contribution as an incubator of a FTAAP by providing leadership and intellectual input into the process’. (Pathway to FTAAP , APEC/LM 2010c)

TPP is currently negotiated among nine APEC economies. Although generated from the APEC process, it will be a binding agreement with high level FTA. The United States has taken an initiative in its discussion on its FTA components and plans to conclude it in time for the Honolulu APEC in October 2011. ASEAN+3 and +6 are being examined together by a task force of member governments’ officials, following the suggestions of ASEAN+3 Summit and East Asian Summit. Chinese concept paper on East Asia FTA and Japanese concept paper on Comprehensive Economic Partnership for East Asia (CEPEA) are on the agenda.

TPP and ASEAN+3 and +6 will continue to be prepared in parallel for the time-being. But each conflicts with other. TPP excludes China, while ASEAN+3 and +6 exclude the United States, which will cause difficulty in merging them in future. Here I would like to suggest to promote their least common multiple, APEC.

Throughout last year APEC senior officials undertook a detailed examination of individual economies’ achievement in individual TILF areas, including own assessment by the 13 volunteered economies and the assessment report by Policy Support Unit, in addition to the three rounds of IAP peer reviews for the past decade and Mid-Term Stock-takes in 2005, and produced a SOM report (APEC/SOM 2010) at SOM1 to 3. While the final report tells us only the group assessment of the thirteen volunteered economies, individual senior officials, both the thirteen economies and the rest of APEC economies, have understood well how far they have achieved toward the Bogor Goals and how much still remain. The six sectors listed in the Leaders’s assessment (APEC/SOM 2010b) suggest the direction of their further efforts. Their efforts and findings should be fully utilized for the second half of the Bogor process.

Leaders committed in Yokohama to continue the TILF process toward the final Bogor Goals in 2020. SOM2 last May in Montana adopted ‘the new IAP peer review Process’ for all 21 members to remove remaining barriers toward 2020. APEC may keep its modality of non-binding nature and voluntarism but should strengthen their efforts of

removing remaining barriers, and at the same time more actively working toward addressing non-tariff or behind-the-border barriers and other next generation trade and investment issues to further deepen economic integration in the region. Effective economic cooperation should be provided so as to help APEC developing economies to improve their capacity for further TILF and meet new challenges. TPP, and ASEAN+3 and +6 pull the Asia Pacific from above, while APEC push it up from behind.

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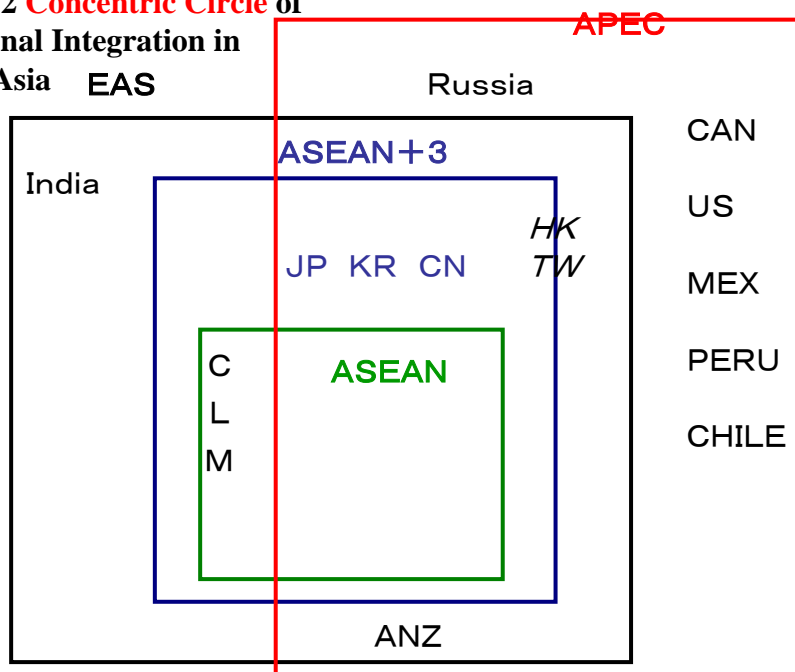
**Table 1**

**Osaka Action Agenda**

- Tariffs
- Non-Tariff Measures
- Services
- Investment
- Standard and Conformance
- Customs Procedure
- Intellectual Property Right
- Government Procurement
- Business Mobility
- Deregulation
- Competition Policy
- Rule of Origins
- Dispute Settlement
- Implementation of the Uruguay Round Agreements

**Chart 1**

**Fig.7-2 Concentric Circle of Regional Integration in East Asia EAS**



**Profile of the speaker:**

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He has received recently Japanese Foreign Minister's commendation for his long time contribution to APEC.

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