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Moderator:

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PROCEEDINGS

RICHARD BUSH: Good morning. My name is Richard Bush. I'm the director of the Center for Northeast Asian Policy Studies at the Brookings Institution, and it's my great pleasure to welcome all of you in this room and all our friends in the overflow room to this symposium on "Japan and the Trans-Pacific Partnership."

I think trade liberalization in Asia is starting to get interesting. Any time the world's largest economy and the world's either second or third largest economy -- depending on how you count -- declare an intention to explore trade liberalization. It's a big deal. And so we're very pleased to put on this symposium today.

We have an outstanding set of speakers, and I intend to learn a lot from today's session, and I hope you do as well.

Brookings could not have put on this symposium and we would not have put on this symposium if it had not been for the initiative and active participation of our co-sponsor, the Sasakawa Peace Foundation USA. Dan Bob, the director of SPF USA's office here in Washington, D.C., has really made this program come together, and we're deeply grateful to him and to his staff.

And to acknowledge further our debt to Sasakawa Peace Foundation, I would like to invite the president of the Foundation, Ms. Chano Junko, to say a few words of welcome. Ms. Chano?

JUNKO CHANO: Ambassador Bush, thank you very much for your kind introduction, and also thank you for your kind words on the Sasakawa Peace Foundation USA. On behalf of the Sasakawa Peace Foundation, thank you.

And distinguished guests and ladies and gentlemen, good morning to you all. And also it is a great honor for me to make welcoming remarks on this occasion.

To represent the Sasakawa Peace Foundation USA, I'd like to say a couple of things before opening the sessions. The Sasakawa Peace Foundation USA, we are very pleased to welcome the Brookings Institution and its Center for Northeast Asian Policy Studies on this conference. When Dan Bob, our senior fellow and director of the programs, when he wrote to me saying that he'd like to organize a conference on TPP, I said, gee, it's a very good idea, but I don't know to do things all by yourselves. So, we are grateful for the help of Ambassador Richard Bush, the director of CNAPS, in working with us.

I also want to recognize Aileen Chang for her contributions to today's seminar and give a very special thanks to Kevin Scott, the deputy director of CNAPS, for his tireless work in making sure the conference came together.

I also would like to thank Ms. Yuka Uchida for her kind advice on especially DPJ government. She's a visiting fellow at the Brookings Institution.

And also for those of you unfamiliar with SPF-USA, we are an American Foundation, independent, nonpartisan; and we focus on the U.S.-Japan relationship in the broader context. And next year will mark our 20th anniversary. And we'd like to be more active in promoting these exchanges and organizing seminars, and I'd like to include all of you for our next future programs so please stay in touch with us.

Talking about the Trans-Pacific Partnership, in Japan it is in the headlines on almost a daily basis and a topic of conversation across the country. So, it has emerged as one of the most important political and economic issues in Japan. It is also the most important trade initiative in which the United States is now engaged but not without controversy here either, including over Japan's potential entry, as Mr. Kirk, USTR, made clear this week.

But the fact is together with the United States if Japan did join in TPP, the two countries would account for about 90 percent of GDP of member countries. So, the potential addition of Japan to TPP would greatly increase the economic heft of it.

So, given the significant facts of TPP and of Japan's potential addition and an informal target date of late next year for completion of the negotiations, the Sasakawa Peace Foundation USA thought a full discussion of the key issues -- economic, political, and strategic -- would be particularly useful. And I believe among the many speakers today we have included a wide variety of views on those issues from the official petitions of the government of the United States and Japan to skeptics and supporters of Japan's entry into TPP from Japan and the United States, as well as from one of the countries that initiated TPP -- New Zealand.

I'd like to thank all of the distinguished speakers for joining us today and for helping us contribute to the discussion and to the debate of Japan joining TPP forward.

Thank you very much for your attention, and now I'd like to invite the first panelist to the stage. Thank you very much.

TIMOTHY KEELER: My name is Tim Keeler. I'm an attorney with the law firm of Mayer Brown here in Washington, D.C. Let me say thank

you to Brookings and the Sasakawa Peace Foundation.

What a fantastic and timely program we have today on Japan and the Trans-Pacific Partnership, the TPP. We're delighted to have a tremendous panel to present views and analysis from Washington and Tokyo. Let me give a little background and context for this before I introduce the speakers.

Before the TPP was the TPP, it was the P4, a high-standard trade agreement among Brunei, Chile, New Zealand, and Singapore brought into effect in 2006. In September 2008, the Bush administration, in which I was privileged to serve at USTR, announced the launch of negotiations with the P4 but under the new moniker of the Trans-Pacific Partnership.

Now, launching trade negotiations with five months left in a lame duck administration does not take an enormous amount of courage, and it's always made easier when the very effective New Zealand trade minister showed up with a bottle of fine New Zealand wine every time there was a meeting.

Our thinking at the time was that this would position whoever won the election to pick it up, or not, but if they chose to run with it, the ground work would be laid. To mix metaphors, we got a small plane off the runway, and our successors would decide how far to fly it and how big the plane would be. Well, the plane has gotten a lot bigger. To its credit, the Obama administration sees and expanded on the opportunity by pushing very hard on TPP, culminating so far with the announcement in November, in Hawaii, by the leaders of the nine Trans-Pacific Partnership countries -- Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States -- of the broad outlines of an ambitious 21st century TPP agreement.

Even Mexico and Canada expressed leader-level interest in joining, thus bringing to fruition what was the Bush administration's real secret reason for laying the TPP groundwork, enabling President Obama to fulfill his campaign promise of renegotiating the NAFTA. (Laughter) And while the TPP faces significant challenges, it is now those rarest of breeds, a trade negotiation that actually has the wind behind its back. But the big news out of Hawaii was the interest of Japan, which is why we are so fortunate to have our speakers today.

Our first speaker, who will give the perspective from Tokyo, is Michitaka Nakatomi, who is the principle trade negotiator for the Ministry of Economy, Trade, and Industry of Japan and a senior fellow with the Research Institute of Economy, Trade, and Industry.

Next, to give the view from Washington is Wendy Cutler, the Assistant U.S. Trade Representative for Japan, Korea, and APEC Affairs. Wendy is also known as the heroine of the KORUS -- the U.S. Korea Free Trade

Agreement.

Finally we have Bill Lane, the Washington Director for Caterpillar, who will comment on TPP and the Congress. Bill is a leading and, most importantly, very effective business advocate for free trade. Unfortunately, Angela Ellard will not be participating in the event today due to a misunderstanding by Brookings.

With that, let me turn it over to Nakatomi-san.

MICHITAKA NAKATOMI: Ladies and gentlemen. Thank you for the introduction. I am Michitaka Nakatomi, principal trade negotiator of METI, Japan.

First, I'd like to introduce myself a bit. There's a CV in the paper, but I'd like to add that I was a negotiator -- Japanese negotiator for ITA in 1996 to 1997, and also I was a Japanese negotiator for ACTA -- Anti-Counterfeiting Trade Agreement -- from 2005 to 2008. And in the area of FTA, I was deeply involved in five FTAs Japan has carried out up until now.

And first -- so, please allow me to leave in the course of the discussion, because I have another engagement.

But today I'd like to touch upon the issue of the situation Japan is facing in a wider context.

The title of today's presentation is "Challenges in Trade and Investment Regime, Japan's Perspective." Perhaps that can give you, I think, the background information about the situation we are facing in Asia-Pacific. And I will make, I think, this presentation based on my personal view, so please don't quote my presentation as representing the Japanese government official view.

So, I'd like to begin. First, I'd like to look at our trade with our counterparts. I compared the figure of 1995 with the figure in 2010. Asia's share in our trade is increasing. In 1995 it was around 43 percent, but in 2010 that raised to 51 percent. And if we look at the figure for China, that increased from 5 percent to 21 percent. The figure of ASEAN dropped from 18 percent to 15 percent. If we look at the figure with the U.S., that dropped from 27 percent to 13 percent. With respect to EU, the figure was from 16 percent to 11 percent. There was a drop again. And clearly what we can understand that our trade with Asia is increasing, especially the figure with China is increasing.

If we calculate the number with the regional FTA groups, which I think I will touch upon later, regarding the TPP countries, the number is 25 percent. I'm speaking about, I think, export and import together, so overall free

trade figure. In the case of TPP that's 25 percent, that's calculated on our trade with nine present members of TPP. Next, regarding ASEAN Plus Plus. ASEAN Plus Plus, I think, is now the amalgamation of ASEAN Plus Three and ASEAN Plus Six idea. But if we look at ASEAN Plus Plus, the number is around 47 percent. And if we look at the number with China and Korea together, I mean, JCK FTA case, the number is around 27 percent. With the EU, our trade is now 11 percent.

Next, I would like to look at our outward foreign direct investment. Investment is a very important factor between the two countries. In 2010, Japan's FDI stock was around 67.6 trillion yen, of which 20.5 trillion yen is going to the United States. I'm speaking about the stock figure. And the U.S. share is, as you see, 30.3 percent, compared with the figure with Asia that's much bigger. U.S. is by far the largest, as a single a country destination, in terms of our foreign direct investment. The amount is, as I said, larger than Asia or EU as a total. If we look at the area over the years, the U.S. always comes first. But the Asian share is increasing. In 2005 that was around 22.7 percent, but in 2010 that's 25.6 percent. But the change of share is not as dramatic as in the case of trade.

If we look at the FDI figure on the flow basis, in 2010, number one is again the United States. Almost the same amount goes to ASEAN, second comes China, and the third comes Australia. Well, I put the EU's figure your reference. ASEAN's -- our investment to ASEAN on the annual basis is, for the past several years, larger than our FDI to China. The same is true for the accumulated amount of FDI. Our FDI to ASEAN is larger than China.

Next, I'd like to briefly touch upon the importance of the Japan-USA economic relationship. I'd like to stress the economic importance. First, Japan and the U.S. consist of 30 percent of world GDP. Second, Japan and the U.S. apply 50 percent of the world patents. That's a basis for innovation, of course. Third, U.S. is the second largest trade partner of Japan, as we already saw. Fourth, U.S. is the largest investment destination of Japan.

Second, support after the earthquake. This has, I think, more meaning than just economic relationship. I would like to express our sincere appreciation for the help and support the U.S. Government and the U.S. people extended to Japan after the Great Tohoku Earthquake on March 11th. The Tomodachi Operation will be remembered by Japanese people and Japanese government for a long time in the future as the illustration of the friendship of the United States and the importance of the U.S.-Japan relationship.

Next, on economic cooperation. Here I referred to activities, cooperations led by METI. While there are many, many other activities going on, in the area of innovation, we have, I think, various dialogues and in clean energy technologies, there are also many activities there, and, as everybody knows, on

rare resources areas we have cooperative activities and dialogues going on. These are just illustrations of deep economic relationship between us, and further enhancement of Japan-U.S. economic relationship is extremely important for us.

Next, I would like to touch upon the issue of a global trade regime, global trade governance as well. First, if we look at multilateral trading system embodied in WTO, that's of course the core of our free trade regime, unfortunately, things are not necessarily going well. Doha round was begun in 2001, I was in Doha at the time, but after 10 years of its initiation, still that's not in good shape. Counting from 1993 -- 1993 was the year when Uruguay round ended -- already 18 years have passed without prospect for conclusion. From December 15th to 17th of this year, we'll be having WTO ministerial conference, and the conference will touch upon DDA issue, multilateral trading system issue, including resisting protectionism, and development issue, and so on and so forth. And here, especially fight against protectionism is, I think, essential for everybody.

Now, world economy is facing difficulty and there's a danger for a Lehman 2 caused by the European countries, now the coordination among major (inaudible) countries is essential.

Well, if we look at the reason for the current impasse of the Doha round, we can point out various factors. The first is substantial gaps among major countries, and of course changing global economic structure. We can speak about, I think, the increase of power of the developing economies. And in addition, we need to tackle the issue of 153 WTO members with veto power. Actually, the problem in Geneva is that everything is decided by consensus based on the single undertaking, that's causing problems.

And in addition, we need to tackle a wide range of topics. There are eight areas there, and nevertheless, we don't have a shared sense of responsibility among major countries. At the time of Uruguay round, the Quad -- the U.S., EU, Japan, and Canada -- at least shared a sense of responsibility for concluding the round. But that's not the case now. A shared sense of responsibility is the key to break this current impasse, and Japan and the U.S. need to collaborate to realize that.

Next, I'd like to touch upon a recent joint report, which was published in June 2011. That's a co-production of the WTO and IDE JETRO. IDE JETRO is Institute of Developing Economies, which is attached to JETRO. I was the president of JETRO until this summer. Well, the report analyzes development of value chain in East Asian region. The report touches upon the issues of the global value chain and vertical specialization, and the report says value added is shared by countries in regimented value chains in the area, and merchandises are actually made in the world. The implications are clear. First,

rules of origin is becoming difficult to apply; and, second, protectionism doesn't make sense. The left chart analyzes U.S. trade imbalance with China based on value-added calculation. In the year 2008, trade deficit decreased around 21 percent. If we include the number of, I think, the merchandise coming from free trade zone that drops around 42 percent. The right figure deals with the development of cross national production linkages, but cross national development production linkages are developing and changing very quickly. Now the epicenter is China. We don't what is happening after 2005, but the global value chain is developing in a dramatic manner.

I'd like to touch upon three elements in improving global governance. First, multilateral agreements. As I explained, strengthening WTO system is the core, and we need to finish the round at some stage. Second, I will touch upon bilateral agreements after this, the TPP, Japan-EU, ASEAN Plus Plus, JCK, and many other agreements are there. Actually, now, around 500 FTAs have been reported to WTO. And regarding bilateral agreements, we need to keep WTO consistency and transparency. And in addition to these two, I would like to touch upon pluri-lateral agreements. I will be speaking about the idea later, but this includes ITA, GPA, ACTA and so on and so forth.

Next, I will be explaining Japanese FTA. Now, if we look at our FTAs, in blue color, the picture explains the FTAs which we have already concluded. We already covered all ASEAN countries. AJCEP is an agreement covering 10 ASEAN members, but in addition to these, we have independent agreement with major members of ASEAN. So we have independent agreement with Thailand, Singapore, Vietnam, Philippines, Brunei, Malaysia, and Indonesia. And we have an agreement with India and in Latin American countries we concluded with Mexico, Chile, and Peru, as well. Peru is in the red circle, but the negotiation ended in November 2010. And in addition to these, regarding the European countries, we have an agreement with Switzerland that took effect in September 2009.

Next, if we look at the FTAs under negotiation, we are negotiating with three countries and one region. One region means GCC. But the negotiation in GCC has stopped for a while. Perhaps that's the same with the other countries as well. GCC is delaying the negotiation of FTAs with almost all the countries, that's our understanding.

And the next is I'd like to explain negotiations -- sorry, FTAs understudy and discussion of stages. We are discussing with Mongolia, Colombia, Canada, and three regions -- I mean, EU, JCK, and ASEAN Plus Plus. ASEAN Plus Plus is ASEAN Plus Three and ASEAN Plus Six. Initially the idea was two, but now it's spoken in amalgamated format.

Regarding TPP, I will touch upon the issue later.

Next, a free trade area of Asia-Pacific is very important for us in APEC as a context. And so I will briefly explain the history of roads to FTAAP. FTAAP was initially proposed by the U.S. in 2006. And next in Yokohama APEC in 2010, leaders endorsed three FTAs as the roads to FTAAP. The three means ASEAN Plus Three, ASEAN Plus Six, and TPP as well. And in APEC Honolulu, leaders endorsed the necessity for creating FTAAP. And first I would like to congratulate the success of Honolulu APEC this year. And the East Asian Summit this year endorsed the idea of Japan-China joint proposal to establish three working groups, trade in goods, trade in services, and the investment in the context of ASEAN Plus Plus.

This is, I think, a visual presentation of ASEAN Plus Three, ASEAN Plus Six, and TPP. That's based on ASEAN Plus One FTAs. ASEAN already has bilateral FTA with India, China, Korea, Japan, Australia, New Zealand in certain formats. There are certain differences, but already I think they exist ASEAN Plus FTAs.

Next, I'd like to explain the status of Japan and the four regional FTAs of importance. The first is CJK. On May 22, 2011, the fourth CJK summit was held, and leaders decided to accelerate the joint study on the trilateral FTA for its conclusion within 2011. That due date is very soon. And the result will be reported at the CJK summit possibly in May 2012.

Regarding ASEAN Plus Plus, November 17-19, 2011, in East Asia Summit, leaders welcomed Japan-China joint proposal to establish three working groups, already I mentioned that the groups are trade in goods, trade in services, and investment. Early 2012, trade in goods working group is to be set up.

Next about Japan-EU. In Japan-EU Summit this year, summit leaders decided that the two sides would start discussions with a view to defining the scope of the EPA as soon as possible. Scoping exercise is being carried out, and actually this week, I think, there is a scoping working group discussing the contents.

Regarding TPP, on November 12th this year, outlines of the TPP agreements have been agreed on among seven members -- nine members, sorry. And on the same day, in Japan-U.S. meeting, Prime Minister Noda said, "I have decided to enter into consultations toward participating in the TPP negotiations with the countries concerned," as you well know.

This is, I think, the statement in a press conference by Prime Minister Yoshihiko Noda. Well, I may read, but to save time, again, I'll be referring to the underlined part. "I have decided to enter into consultations toward participating in the TPP negotiations with the countries concerned on the occasion

of the Asia-Pacific Economic Cooperation Economic Leaders Meeting in Honolulu, Hawaii.”

Finally, so I'd like to touch upon pluri-lateral agreements. There I'd like to refer to two issues where Japan and the U.S. collaborated. The first one is the Anti-Counterfeiting Trade Agreement, so-called ACTA. The idea was inspired by Japan's proposal to create the new international framework against counterfeit and pirate goods. And because of the collaboration -- close corroboration between Japan and the U.S., because of the joint proposal by Japan and the U.S., ACTA, I think, reached the conclusion, and eight countries, including Japan and the U.S., signed in Tokyo in October 2011. We need to add participants to the agreement, and we need to develop the agreement further.

Second is the Information Technologies Agreement. I was the negotiator of ITA. I collaborated with the U.S. in detail, and that was realized in 1997. And I am very happy that the agreement is there and the APEC leaders confirmed to expand the product coverage and membership this year.

There are other initiatives as well, as in the case of Government Procurement Agreement, and there are many other initiatives where Japan and the U.S. can work together.

I would like to conclude, I think, my presentation speaking about the importance of Japan-U.S. collaboration in multilateral areas, bilateral areas, regional areas, and pluri-lateral areas as well.

Thank you for your attention. (Applause)

MR. KEELER: So, Wendy Cutler's up next, and I should note at the start, our government speakers will have to leave before the end of the panel. Thank you.

WENDY CUTLER: Well, first I really want to thank Brookings and the Sasakawa Peace Foundation for putting the seminar on today. Having worked on U.S.-Japan trade relations for many years, I haven't seen such a big turnout in recent years for any U.S.-Japan trade issue. I see a lot of my old friends here in the audience both from Japan and from the United States. I see a number of former bosses here, so I'm going to have to be careful -- (Laughter) -- including Ambassador Yeutter, Ira Wolf, and even Tim Keeler. So, it's a real honor to be here.

And then as Nakatomi-san mentioned -- I think he talked about working on the ITA in 1996/1997 -- we had the honor of meeting in Singapore at the WTO Ministerial working together then. So, a lot of people here I know and look forward to working with more as we go forward.

If we can just back up a few weeks to Honolulu and the APEC meetings there, I think it's safe to say it was a very busy and productive week in Honolulu and one that in many senses may go down in trade history. The United States came to APEC with our three pending free trade agreements with Korea, Panama, and Colombia ratified. We also hosted what we consider to be -- and hopefully our APEC friends consider to be -- a very successful APEC year, where we were able, I think, to really strengthen APEC, make it more relevant, and really provide meaningful outcomes in areas that are practical and meaningful, such as green growth, regional economic integration, and regulatory coherence.

The TPP leaders, also during that week, met and announced the broad outlines of a TPP agreement and instructed the officials to intensify their work and to move forward to conclude an agreement as quickly as possible. And then if that wasn't enough, Prime Minister Noda announced, in a very bold and historic fashion, that Japan was interested in consulting with other TPP partners towards joining TPP, and that's what I would like to focus on this morning in my remarks.

We recognize in the United States that the decision Prime Minister Noda took was not an easy one. In fact, TPP was discussed in detail and debated in detail even before he became prime minister. And in his statement -- and I saw Nakatomi-san put it up on the chart -- he referred to something like 50 hours of discussion and 20 meetings within his party just on TPP. And I think this underscores not only the importance of the decision of going forward in Japan by the prime minister but also of all the implications of such a decision, not only with respect to economics but to all other aspects of the Japanese society.

This debate -- it's not over in Japan, it's continuing. And I would also note that while this debate was going on, even though some former Japanese officials came to me and asked us at certain times could we apply a little *gaiatsu* and tell Japan it was really good for them to join, I think we took a pretty appropriate position, and that was recognizing this is truly Japan's decision. There were big, internal decisions to make with respect to the future of Japan's economy, and it was not up for its trading partner to tell it what to do. And so we did not insert ourselves into that debate, but obviously once the announcement was made on November 11th, just eight months after 3-11, we responded in a very positive manner, recognizing that this was a bold and historic announcement. We welcomed it, and we pledged to work with Japan as it reached out, not only to the United States but to other TPP members.

Let me back up for one minute and just talk a little about TPP itself. This is what we call a high-standards agreement. It builds on and updates traditional trade issues, ones that were discussed and negotiated in detail in the

U.S.-Korea FTA, and it also touches upon issues that have not been addressed in a binding trade agreement so far. We call them the 21st century issues, including regulatory conversions, supply chains, small and medium-size enterprises.

It was mentioned earlier, I believe by Tim, that this is not a U.S.-based agreement. In fact, I'm sure Ambassador Moore will be talking more about this. But this was the U.S. joining an agreement that was concluded among four Asia-Pacific countries. We joined just about two years ago, and our joining followed an extensive debate in the United States, and once we joined there was no doubt that our participation clearly elevated the intention and the importance of this regional trade negotiation.

And, likewise, with Japan's announcement, and possible Japanese participation, this would elevate this negotiation even more. Japanese participation no doubt would have enormous implications. If you just look at the numbers -- if you look at just GDP, Japan's the third largest economy in the world. Of the nine TPP members, if you exclude the United States, Japan's GDP is greater than the GDP of the other eight GDP partners by over about two and a half times. In addition, if you look at the U.S. two-way trade relationship with Japan, which is about \$250 billion, if you combine the other eight TPP countries, our two-way trade relationship with Japan is greater.

Furthermore, this is an economy that has, let's just say, a history of trade protection and a legacy of what some people have called Japan-unique barriers and a closed market, particularly in the agriculture sector. So, for all of these reasons, the implications, you know, are enormous. And because of this, for all TPP members we're going to need to carefully consider Japan's bid to enter, particularly in the United States.

Japan is our fourth largest trading partner, and clearly if through TPP it opened its markets, this would provide enormous opportunities for U.S. companies and workers. But it's not just for the United States, for Japan the benefits would be enormous, and I'm sure other speakers today will do a much better job in explaining the potential benefits. But, clearly, it could help make Japan's economy dynamic, competitive; help revitalize the economy; and provide a lot of economic opportunities for its citizens, companies, consumers, and workers.

That said, there's no -- the people in this room know as well as me that we have a long trade relationship with Japan. In the past, this has been characterized by trade friction. I think when Nakatomi-san was in Singapore, he was probably working on the one issue that in those days we were cooperating with Japan on, that was the ITA. So, while he was in Singapore working on ITA, I was in Singapore working on semi-conductors, autos, film, insurance, and all those other great issues.

But, in recent years, I'm proud to say our relationship has really moved from one of trade friction to trade cooperation. And we've made enormous progress with Japan with respect to many bilateral issues in terms of our cooperation in the region, cooperation in the WTO and other multilateral organizations, such as the WTO.

But, clearly, some barriers remain. There are some longstanding issues that are out there, and there'll be challenges for us to deal with as we consider Japan's interest in TPP.

So, just as Japan has undertaken a debate about TPP, we in the United States now are also undertaking our own process to have the debate on Japan's TPP interest. And that's why President Obama in Honolulu instructed Ambassador Kirk to undertake a domestic process, a domestic consultation process, whereby we will be consulting with our stakeholders -- not just businesses but labor and other interested parties, as well as Congress -- to assess Japan's, what we call its readiness. And I'll get to that in a minute.

This domestic process has started. We've had initial consultations with Congress. We'll be proceeding much more intensively with them in the week ahead. We've started reaching out to stakeholders. A *Federal Register* notice will be coming out shortly, inviting comments from any interested party. We'll be working closely with our advisory committees, and in many ways we'll be following what Ambassador Kirk called the other day the template that we did with Korea when the Obama administration came in, and that is kind of casting a wide net, having very inclusive and intensive discussions with stakeholders to seek their views, to understand their concerns, and to try and work through their concerns to see the most appropriate way to deal with them going forward.

We will be assessing Japan's readiness to live up to the high standards of the TPP agreement, and at the same time we'll be assessing Japan's readiness to address specific issues and concerns in agriculture, manufacturing, and services. And here, I suspect we will end up putting a particular focus on non-tariff measures, and that's because Japan's tariff rates, particularly on the industrial side, are very low, about 2, 2-1/2 percent. So, many of the barriers that are faced these days are what we call non-tariff measures, regulatory barriers, crosscutting barriers, et cetera. And so we suspect that those are the types of issues that we'll need to give special attention to in our review.

There are two questions that are always asked whenever I do these presentations, so I'm just going to take them head on. The first one is: Well, how long is your domestic review going to take? It's a good question. Some of us, particularly some of us in this room, are urging us to complete this within the next few weeks. Others, including some of us in this room, are urging us to take our

time. And so we've heard this, all of this, and our answer is: We will take the time needed to get this right. (Laughter) We are not going to rush, but we're not going to drag our feet. We're going to take the time needed to get it right. And I think the KORUS process that we went through really showed us that by taking the time now and really reaching out to stakeholders, working through their concerns, and working with the industries and workers and others who have valid concerns, that that will pay off in the long run. Because -- I don't need to remind anyone in this room but let me go ahead and just remind you that when the Korea FTA passed, it had very strong bipartisan support including, you know, the Senate vote was 83 to 15, the most votes in the Senate for a trade agreement in a recorded vote.

Our TPP partners will be doing the same. Let me make it clear, it's not a U.S. decision on whether Japan can or cannot join the TPP, and in fact we know that Japan still is trying to consult internally about its decision on joining TPP. Each TPP partner will need to go through its own process. I suspect ours may be a little more elaborate. And once we all make a decision individually, then we'll need to make a decision together about Japan's participation.

At the same time -- and this is mentioned earlier -- the TPP negotiations are continuing. We have a team right now at Dulles Airport going out to Malaysia, and we're going to keep up our pace in these negotiations, building on the momentum from Honolulu, and try and move forward as quickly as possible.

And so this leads to the second question that I always get when I make these presentation, and everyone wants to know: Well, how does the process with Japan -- or, for that matter, others will say Canada or Mexico -- fit in with the TPP negotiations? And the way we like to think about it -- we have two tracks going now simultaneously. The TPP negotiations are proceeding on one track, and now our process for considering Japan's bid in TPP is continuing on a separate track. And at some point, these tracks will probably merge, and how quickly that merging takes place will really depend on how quickly Japan and the United States can work together so Japan can demonstrate its readiness to live up to the TPP standards and to address concerns that are raised in our domestic process.

One more question that I always get and so I'll just answer it is: Well, can USTR really do all this? Do you have enough resources to do all of this? And Ambassador Yeutter's smiling, because he knows that, yes, we do, because we work all the time. (Laughter) Yes, we do. And the way we're structuring these, the TPP negotiations will be led from Barbara Weisel's office, the Southeast Asia Office, and our regional offices -- for example, my office will be leading Japan's interest in TPP; our America's office will be doing a similar

process to consider the bid by Mexico and by Canada. So, we are all working very hard -- I think the word the President likes to use is "tirelessly" -- and we will be working with many in this room.

So, let me then conclude by saying the prospect of Japan joining the TPP -- it's important; it's historic. For me personally, having worked at USTR now on U.S.-Japan relations for about 20 years --- I was a child when I began, of course -- this is very, very exciting. That said, I know we have a lot of challenges as well, and we're going to have to deal with them head on. And we really look forward to working with our stakeholders, with Congress, with other TPP countries, and with Japan itself as we consider the interest expressed by Japan in joining the TPP earlier -- I guess now, last month.

Thank you. (Applause)

MR. KEELER: Next we have Bill Lane. I think he's got a slide deck, also.

Let me just note, Wendy is a little too kind to her former U.S. government colleagues. Nominally we were bosses but I learned how the place really worked. I walked into her office one time to tell her that I had to cut her travel budget, and I walked out of her office giving her an increase in travel budget, cutting my own salary, and giving her my office furniture to boot, so. (Laughter)

Good luck, Nakatomi-san.

WILLIAM LANE: First of all, on behalf of Caterpillar I want to thank you very much, and this is beyond an honor, because there are people in the audience here that have helped make Caterpillar what it is today. We're running on all cylinders. The company is doing very well. We're hiring lots of people. It's really just a -- it's an enormously positive time for the men and women of Caterpillar. And it didn't just happen. It happened through a collaborative effort, and based on a basic philosophy that it's better to engage the global economy than to try to hide from it, and when you do that a lot of good things happen.

I've just got a couple of slides here, but I think it demonstrates where we are and where we want to go. This is a map, a map of the world based not on geography but based on the size of GDP, and I know we've been talking about this before but when you look at this you'll see the United States and Japan are very large. Okay, well, anyway long story short -- we'll go back down one. (Laughter) Thank you.

If you look at that, this is a map of the world based on GDP, and as you can see countries like Japan, United States, China are very large. Africa is

embarrassingly small, and maybe we can have a whole program on how to get Africa to be much larger. But this is the world we live in today.

If you go back to 1984 -- when Wendy was still in elementary school -- we had tariffs. Just about everything Caterpillar made, anywhere in the world, particularly -- most of it was in the United States -- we had tariffs. I think there are a couple of notable exceptions, maybe Hong Kong and Singapore. But anything we sold outside the U.S. was taxed. Anything we brought into the U.S. was taxed. And that was the world we lived in.

Over the next 25, 26 years, we participated, as aggressively as possible, in over -- well, we've had 20 free trade agreements. Starting with the most -- the first one I worked on was with Ambassador Yeutter on Canada. And a lot of these markets, even though based on GDP they don't look big, for Caterpillar, Canada, Australia, Chile, Peru -- these are really big markets for us. And what we did is we eliminated taxes on the products we make in the United States, and it allowed us to grow. Our exports to Chile tripled. Our exports to Australia doubled. In the last two years, our exports to Peru have gone up 60 percent. And the biggest beneficiary, quite frankly, has been our customers. They've prospered. And it gets back to a basic philosophy that we have: If our customers do well, ultimately we'll do well.

Now, it took 25, 26 years to get to this point. And I have to tell you, as someone who works Capitol Hill, this required a lot of political capital -- a lot. Oman, I mean, you would think Oman would be a pretty easy FTA. It barely passed. CAFTA, NAFTA -- these were hard-fought battles in order to open these markets, and a lot of times these were one-way trade agreements. Panama and Colombia and Peru, the U.S. market was already open. We were just trying to open the foreign market, and it still took years.

Now, based on this track record or the momentum that we built, over 25 years we've opened up 10 percent of the world economy to free trade for Caterpillar and for the U.S. Based on this track record, and if you extrapolate out, in 225 years, we will have global free trade. (Laughter) Now, for the lawyers in the audience, and you're thinking billable hours, you're going to have prosperity for as far as the eye can see. We're talking multiple generations.

MR. KEELER: Yeah, taking care of your children and your grandchildren.

MR. LANE: Right. Well, grandchildren -- oh, man, it goes well beyond that. But let's do -- back in 1988, one of my former bosses wrote a really nice letter to Ambassador Clayton Yeutter, and he said, "You know, if enough other countries, particularly developed countries, would agree to eliminate their tariffs, we would be willing to eliminate our tariffs in the United States." And

that became the foundation of the zero-for-zero tariff offer of the Uruguay Round. And ultimately that was expanded to 10 different sectors of the U.S. economy, and this is what we ended up with. We ended up with free trade in 42 different countries. And, not initially, -- I mean, initially it was mainly developed countries. But with the crackerjack team over at USTR, every time somebody wanted to join the WTO, we sort of encouraged them greatly to make sure those zero tariff sectors got duty-free access. So, when you look at Vietnam, Vietnam for almost all of our products -- not all of them but most of them -- we have zero tariffs. Georgia -- not the Georgia south of South Carolina but the other Georgia -- we have free trade. As the EU expanded, we got free trade. Cost us nothing politically. Quite frankly, most people didn't even know it. To be real honest, even some people at Caterpillar didn't even know it.

But that's where we are today. Forty percent of the -- or 50 percent of the world's economy, we have MFN free trade status. Another 10 percent, we have it through free trade agreements. So, right now we're looking, as a company, at 60 percent of the world economy with zero tariffs.

Now, there's -- you know, granted, we tend to focus on market access more than any other aspect when we go through trade liberalization. As far as non-tariff barriers, we put a lot of emphasis on remanufactured products. And out of the APEC meeting, we had a terrific success story. We had a pathfinder agreement that starts setting the stage so that "reman" is treated like new products. It was a very important accomplishment and something we've been keen on.

But so now we're looking ahead, and we're saying okay, what do we have to do? And it's really not that hard. We've got a couple of holes in the world. We've got China. We have India. We have ASEAN and a couple of -- you know, recognizing Singapore is already a member, and Malaysia is part of the TPP, and Vietnam is as well and Brunei. We've got Brazil or Mercosur, depending on how you want to handle it. And, you know, the great thing if we do a free trade agreement with Mercosur is we get the market access, but we also got great trips to Buenos Aires, which I think would be just worth it by itself. And then we -- next year is going to be the year of Russia, as far as getting Russia in the WTO, and while that's not zero tariffs, that's a step in the right direction.

So, that's where we are right now. We're constantly coming back to one acid test question: When we move forward on trade liberalization, will it help us fill in this hole?

TPP is an enormously important initiative. It allows us to raise the standards. I always get a little suspicious when I hear the words, "It's a 21st century agreement." The 21st century's a long time. And there's going to be a lot of changes in there. But it's an improvement, and it's something we need to take

seriously, and we need to embrace and applaud the people that are championing it. But to make it meaningful, we've got to set up an approach that allows us to expand it rapidly.

At APEC, all the chatter was on Japan joining. And while Japan, as was pointed out -- in fact, probably the most comprehensive zero tariff regime we have in the WTO is with Japan -- that would really make TPP commercially meaningful to the United States. Quite frankly, you benefit in a couple of ways, and this is really -- if I'm going to leave you with one thought, it's going to be this. In business sometimes we get to very myopic. We tend to focus on market access in the most narrow sense. Will it eliminate a tariff? If we keep the tariff, will it give us a competitive advantage? Some folks in the auto industry are very focused on that right now.

Well, you know, if you liberalize trade, you're going to benefit, one, in the highly visible way. Your customers are going to have better access to your products all over the world. It also opens you up to more competition, which means you're going to have to respond accordingly and even become better at it. And that's what we look at all the time. When you talk to the ITC, that's what they look at.

Secondly, if you liberalize trade, you grow the world economy. I have to tell you, at Caterpillar we have no defensive interests in trade negotiations. All of our interests are offensive. And while we'll benefit from greater market access and better rules, where we'll really benefit is from a growing world economy -- not just in the developed countries but in the Africas and in the Latin Americas where trade liberalization can have the greatest impact.

And then, lastly -- and this is the thing that's most overlooked -- when you truly eliminate trade barriers, you inject freedom into your organization. All of a sudden your managers and workers are free to make decisions that will have the greatest impact on your organization. And that's what's happened when Clayton Yeutter negotiated the zero-for-zero, and that was followed up by Carla Hills and Mickey Canter. When that was completed, we freed our managers. They got a sense of empowerment that they never had before. And we didn't make decisions based on trying to get behind a tariff wall or a trade barrier. We made decisions because it was the right place to do business, and it was the right place to grow. And as a result, our employment in the last 10 years, since this was fully implemented, has grown in the U.S., it's grown in China, it's grown in Europe -- all over the world, in every market, we've seen Cat employment increase, we've seen Cat sales increase, and we've seen our customers prosper.

And I've got to tell you, that's why today is probably the best time ever to work at the Caterpillar organization. There's a lot of people we have to

thank for that, but when we go back and we look at how do you get these holes filled? TPP is one way. There's a lot of focus on Europe right now. You know, that is a possibility. Doha -- I realize I'm the skunk at the party, because I'm probably the last person that still believes in Doha. But I have to tell you, at some point we're going to come back and say, you know, maybe we need to have a world organization where we can all work on an MFN basis and actually lower tariffs as efficiently as possible. But that's not in vogue right now I realize. But whatever it is, I would urge our negotiators to think big, to have a sense of urgency. While it's important to have very large votes in Congress, it's more important to generate jobs and growth in the United States and all over the world, and I think we also need to make sure that business does a much better job communicating to their stakeholders.

Caterpillar knows what its free trade footprint is. But I dare say, if you walk around Washington and you ask a lot of my colleagues at other companies, what's your company's free trade footprint? They would be hard-pressed to tell you. And that's not just from a U.S. perspective. We've got to do that outside the United States. The best way to lobby is to lobby on both sides of the negotiating table. We need to lobby in Washington, but we also have to lobby in Europe and Asia and in Latin America.

Let me just end with one final comment. Right now we have perhaps the most pro-trade Congress in memory. The next Congress will likely be even more pro-trade. We need to use this time right now to set the table to have big accomplishments over the next three years. If we fail to do that, we're going to miss an opportunity that's going to hurt our ability to generate jobs for our kids, but, more importantly, for ourselves. So, I think right now is a terrific time. I compliment Brookings for pursuing this, and I'm very, very honored to be here today.

Thank you. (Applause)

MR. KEELER: We're out of time. I want to thank all of our panelists very much for coming, and I believe we're going to go straight to the next panel.

DR. BUSH: I'd like to thank all of the panelists on this panel for your outstanding presentations. I'd like to thank Tim for your deft job of chairing. And now I'm please to invite Ambassadors Yeutter and Moore and Tami Overby and Chairman Lincoln to the stage.

EDWARD LINCOLN: All right, we move on immediately to the next panel. I'm the moderator. I'm Ed Lincoln formerly of -- actually formerly of Brookings. I spent 16 years as a senior fellow at Brookings. Most recently I've been at NYU. I've just returned to Washington and will be at George

Washington University from January.

So now you've had kind of a tantalizing start on this topic. You've had a Japanese government person, a U.S. Government person, and someone from the private sector. This panel is going to take up three non-Japanese speakers, so it's kind of a view from outside of Japan about TPP and Japan's participation in it, and global trade negotiations. Probably these speakers need no introduction, but I'll do it anyway. If it's acceptable to my panel, I think we're going to go in the order of Ambassador Yeutter, Ambassador Moore, and Tami Overby.

Clayton Yeutter, currently a senior advisor at Hogan Lovells, as you have heard, a former U.S. trade representative, also former secretary of agriculture, also former Republican National Committee chairman. This is a person who has devoted much of his life to trade issues, particularly in the area of agriculture, but not entirely.

Ambassador Moore, currently the ambassador from New Zealand to the United States, but also a former prime minister of New Zealand, former director general of the WTO covering, by the way, the period of time when China was brought into the WTO. And if that's not enough, he's also the author of 10 books, the most recent of which is *Saving Globalization*.

Tami Overby is vice president for Asia at the U.S. Chamber of Commerce. Prior to that, she spent 21 years living in South Korea, beginning her career there with -- in the private sector, but then moving on to spend 14 years as the head of the American Chamber of Commerce in Korea. So, you know, we got a private sector view from the region, from the perspective of Americans.

Now, in the hopes of having some time on this panel for interaction with the audience, I'm hoping that our speakers can hold themselves to about 10 minutes. And let me also -- I have to also put in, I think this is going to be a very lively panel on which there may actually be some divergence of views presented.

So with that, we will start with Ambassador Yeutter.

CLAYTON YEUTTER: Thank you very much, Ed, and it's really good to see you again after all of the involvement you've had with Japan affairs through the years. It's great to see everybody here. There's a lot of interest obviously, in this topic as is reflected in the room. It's always a pleasure to be on the podium with Mike Moore. We agree about 99.9 percent of the time. You may see a little disagreement between us today, but not a whole lot. Philosophically, we are on the same page and have been for 30 or 40 years or so.

Tami, it's good to have you here too, and have the benefit of all

your experience in that part of the world. I've spent a lot of time in Japan, particularly during my government years as you know, because we had a multitude of bilateral negotiations back in those times. I really enjoyed, by the way, the prior panel. That was excellent discussion by everybody. Wendy Cutler was right about USTR working all the time, about 18 hours a day or so.

I spent a lot of time making sure that they were working 18 hours a day and I must say they do it magnificently. That is a fantastic team at USTR and has been for years and years. And my compliments, too, to Barbara Weisel, who has been the number one person for USTR on the TPP negotiations. I think the progress that has been made in TPP thus far is truly remarkable and a lot of the credit for that is due to her.

I also thoroughly enjoyed Bill Lane's presentation. Now, he served a batch of years on the Caterpillar Board of Directors after having left the government. And Bill's present CEO is a man named Doug Oberhelman, and the first time -- a really outstanding individual. And the first time I met Doug Oberhelman was when he was running Caterpillar's businesses in Japan. So there's a lot of Japanese experience in that enterprise, as well.

Just a few comments here, and, Ed, I'll try to honor your 10 minute time table and, you know, come bang on the table or something here if I fail to do so. It seems to me that there's a tendency sometimes on these issues to overcomplicate them, and to me, you know, what we're really talking about here this morning is relatively simple, at least from the standpoint of the U.S. and Japan.

I'll let Ambassador Moore take, you know, the New Zealand viewpoint which understandably might be a little bit different from ours and somewhat nuance. But for the U.S. and Japan, it seems to me that they're really just -- it's really a pretty simple issue. Is it in the long-term best interest of the United States to have Japan in these negotiations, and for Japan, is it in the long-term interest of Japan to be a participant in these negotiations?

Do you answer that question, yes or no? You know, if I pose those questions to myself, it seems to me that the answer is pretty simple and it's a no-brainer. Is it in the interest of the United States to have Japan in the negotiations? Of course it is, you know, a hundred times over. This would be one of the best things that's happened to the United States on trade in a long time. We've been spinning our wheels basically on trade negotiations around the world for about 20 years now, as was indicated earlier. Isn't it time to stop spinning our wheels and get something accomplished for a change? And bringing Japan into these negotiations clearly provides the opportunity to do that.

The market access possibilities in Japan for the United States are

very, very significant, indeed, and isn't that basically what this is all about? It's generating economic activity and creating jobs, and I thought that was what we wanted to do in this country and around the world right about now. If it is, don't you think we ought to take advantage of that privilege and that opportunity? So to me, having Japan join the negotiations is an absolute no-brainer.

As Wendy pointed out, when you bring in a country that has two and a half times the economic activity of all the other eight countries combined, then it seems to me you're doing something pretty meaningful if you bring that country into the negotiations. So it sure is in the best interest of the U.S.

Now, it gets a little dicier, at least politically, if you say, is it in the best interest of Japan to join these negotiations. Now I would answer that a resoundingly yes -- a resounding yes, as well, notwithstanding the politics. And I give great credit to Prime Minister Noda for his comments at the APEC meetings in Honolulu. It took a lot of political courage on his side to stand up and do that. For all we know, it may cost him his job at some point in time. I hope not. I hope he becomes a hero in Japan for having done this and can demonstrate to the people of Japan and to the businesses in Japan, including agriculture, that this is a potential agreement would be in the long-term best interest of that country.

Now, everybody says, well, we can see why it would be in the interest to Japanese business to do this, we've had a stagnant economy in Japan for the last 20 years and, you know, this will generate some excitement and some enthusiasm and, you know, hopefully it would jump start the Japanese economy and generate a much higher level of economic activity than we have had over the last 20 years, and that's all wonderful. But we can never get the Japanese agriculture to agree this -- to this, and they're going to kill the whole deal, and my answer to that is, there is no reason for that to happen.

It is always difficult for sensitive products like that in a negotiation of this nature. We have some sensitive products, agricultural and industrial, every other participating country has some sensitive products, agricultural and industrial. And services, too, for that matter, we shouldn't forget services, but can you overcome those difficulties? Of course you can, that's what negotiations are all about. Can Japan come in and say, we want to exclude agricultural products? No way, no way. And, by the way, if Canada decides they'd like to come in, my answer to them is, no way, no way. You're not going to exclude dairy or poultry if Canada comes in either.

And what I've said here in the U.S., by the way, when the U.S. dairy industry said, we'd like an exclusion from TPP, my comment was that during all the time that I was U.S. trade representative, I never once, never once, agreed to anybody taking something off the table before a negotiation began.

I would absolutely never do that because if one country starts taking something off the table, everybody else is going to want to take something off the table, too, in which case you narrow the negotiation dramatically, making it much more difficult to accomplish the tradeoffs that are necessary in every trade negotiation before you can reach an ultimate conclusion, so no carve-outs.

But does that mean that you -- it's impossible to agree on Japanese agriculture? No, it doesn't. Japan knows full well that it needs to reform its agricultural sector. It should have started doing that years ago, decades ago. It has been very, very slow in even beginning that process. But it has to begin. Japan cannot go on this way in agriculture very much longer. So my comment to Japan is that your ministry of agriculture ought to be in favor of these negotiations, not opposed to it, because this gives you an opportunity to use the negotiation as a means of getting the reform process well underway. So do this in the TPP negotiations, and get paid for it, because if you don't, you're going to have to do it on your own sometime soon and you're not going to get paid for it, so take advantage of this opportunity.

So I don't think that's an impossible task at all. I do not believe opposition of Japanese agriculture, which I consider to be ill conceived, ought to be -- ought to prevent these negotiations from taking place, and we ought to get them underway. And I'll close by simply saying that if it's in the best interest of Japan to engage in these negotiations, and if it's in the best interest of the United States and the other partners to have Japan in, and I truly believe it is, then the sooner the better.

Wendy Cutler mentioned that we've got to go through this whole process here in the United States to make that happen, and I agree that that's necessary, but let's speed up the process. Let's not spin our wheels in this and delay it. If it's in the best interest of everybody to do it, let's do it, and let's do promptly. Thank you.

DR. LINCOLN: All right. You did, in fact, finish, I think in just under 10 minutes.

AMBASSADOR YEUTTER: Excellent.

DR. LINCOLN: Ambassador Moore?

MIKE MOORE: Well, thank you, Ed, and thank you Brookings and Sasakawa Foundation for putting this together. Can I pay tribute to my dear friend Clayton Yeutter? We're very seldom at a difference in objective and principal and sequence. I do admire you, Clayton, and whenever you question what I'm doing, I think very carefully about it.

Can I take you through the New Zealand position? Firstly, we're

multilateralists. I can't tell you how personally disappointed I am, and heartbroken New Zealanders, that the WTO is not moving ahead. This is the ideal process, this is what we believe in, this is what we are brought up to believe in, and we've been fine citizens, and we've thrown everything we can at this round.

We're realists. The wheels are spinning, and in great disappointment, we're now doing other things. And if I just point out again how important the multilateral system is, and I think the great moral, environmental, and commercial challenge of our day is how we bring another 2 billion people out of the shadows and into the sunlight of opportunity that free trade, free societies offer them, and to make them citizens, consumers, and producers.

And this is a great historic thing, and this can only be done, in my view, through the multilateral system. And when I saw the map Caterpillar put up, the dog that wasn't barking, the poorest and most excluded people in Africa and elsewhere, they're going to get something through the WTO. However, we have an obligation to our own citizens and our own destiny, and as New Zealanders we have now become quite promiscuous in terms of seeking out other opportunities and deals in our region.

And we talk now as New Zealanders and Pacific citizens in regards to what's happening in our part of the world. There are -- trade has not stopped. Trade deals have not stopped, they're continuing at a pace, and in our region, you can see it happening all the time, and they're not all bad. Many of them are actually lifting the standards, far from being -- fulfilling the cliché of the noodle bowl getting too full. In fact, some of the standards being set in these new arrangements should be an inspiration for the old world and for Geneva.

We have some concerns in our region. It has been disappointing as New Zealanders and as citizens of the Pacific that the United States has not been playing a strong role trade-wise in our region. However, that has changed, and for us it was inspiration and encouragement to see what came out of APEC, the government has done (inaudible).

These words from APEC are deadly serious and we take them seriously. When we say eliminate tariffs, we take that for what it means. This is as serious as a heart attack to us. Now, we're always seen, and this in New Zealand, it's not bipartisan, it's just about non-partisan, that the TPP process is an enlarging one all the time. It starts off as sort of Singapore, New Zealand. How hard is that? Singapore's got no cows. We'll give them a few, you know.

And this thing's always enlarging itself, and is becoming larger than life. It is the only game in town. And, of course, the ultimate is to have what we can get out of TPP travel to other places to bring them aboard. The question then is of sequence and of depth and with respect to time, because time is not our

friend.

Here's what I think, maybe, Clayton, you know, we're close to reaching middle age, mate, we need to know that the speeches will change and the substance will change from what we've heard in APEC and Geneva. And TPP offers that opportunity for us to lift our vision, to not look down. And when we talk of a 21st century deal, we know we have to work through some 20th century issues, as well.

And, of course, TPP is incomplete without Japan, without other friends in the region. It is incomplete, and we want to see Japan involved. If I can quote our Minister Tim Groser, Japan, Canada, and Mexico's announcement they also want to participate in TPP is a game changer. These are major economies. Their interests will have an impact on the current negotiations, if only to drive the pace and maintain the ambitions of what ministers and leaders have agreed to over recent years. I want to be clear of my view, what Prime Minister Noda said is the most remarkable, courageous, and far reaching statement of any Japanese leader in trade terms in my lifetime.

These were the words, Clayton, we've been dreaming of saying. If you and I had sat on Punta del Este a few years ago and said, if we could write a speech for the Japanese prime minister, what would we say, it would be the words in this profound speech, showing some leadership, and we know that all negotiations begin at home to convince your own people of how hard this is going to be.

When I first became minister of New Zealand, Clayton, officials came in and I said, we have to open a new embassy. And their eyes rolled and think, oh, no, what's he promised? We need to have an embassy in New Zealand, I said. We're going to have to convince the New Zealand people of how hard this is going to be.

And we know, and in my country in the '80s we used our trade policy as a way of driving up domestic reform. I know how hard that is. There are many reasons why I was the shortest serving prime minister of New Zealand. This is but one of them, but it wasn't the biggest reason. It was an enormous personal vote. So we welcome Japanese interests. It is good that the negotiations are going on at home. But for those of us who have worked hard to see this high quality agreement, to see what our leaders have directed us to do in a swift amount of time, we have to focus on what our leaders said and see what we can live on.

All nine TPP countries are preparing themselves to step up their level of engagement with Japan, and Mexico, and Canada, to see what they mean, to see how substantial this is, and then we'll have to make a considered agreement on the issue. But that, to us, is more about sequencing, timing, and maybe short cuts take longer in this business. If I could read formally to you, from what our ministers have said, and we take this extremely seriously, this is the biggest game

in town.

This is enormous implications for our regions. When considering new countries joining, and there'll be more than most who put their hands up now, I hope there are, I want to see other friends in our region put their hands up, do we see clear evidence of a matching commitment to obtain a high quality agreement across all chapters, including the most sensitive matters.

Second, can we see from good friends who want to start now, that the negotiations are seen as a highway on-ramp without dramatically slowing the negotiations down? I believe this debate inside Japan, inside Canada, and beginning in Mexico, and with some other very serious, good friends in our region is very important. But, Clayton, you and I have for years wanted our leaders to say something like, eliminate all tariffs, no exemptions. These are the most beautiful words in the English trade language, these are gorgeous words, and we don't want to water them down, but we know that it is incomplete without other good friends in the region.

So there it is. I'm open to questions and advice. But this is a wonderful time, Clayton, and Tami, and those people who believe in this principle to be in Washington, to be in our region because things are happening, and this is the biggest game in town, and we're going to play it with everything we got. We are true believers, we are optimistic, I am recklessly optimistic.

DR. LINCOLN: All right. Somewhat less disagreement than I had anticipated there. Tami Overby, go ahead.

TAMI OVERBY: Thank you. I'd like to also thank Brookings and the Sasakawa Peace Foundation for hosting this important discussion. It's a huge honor to be on a platform with such heavyweights like -- as Ambassador Moore and Ambassador Yeutter for this panel.

I don't have to tell all of you in this room what an exciting time it is for trade in the U.S. today. In the last two months, we've signed free trade agreements with Korea, Columbia, Panama. We passed a renewal of trade adjustment assistants, and we've reauthorized the generalized system of preferences. And I also agree with Bill Lane, this may be the most pro trade congress we have seen in years, so we need to take advantage of it and we need to keep building on this positive momentum.

Our neighbors in Asia seem very pleased to see America back in the trade game. I just spent 21 years in South Korea, where I also worked on the Korea Free Trade Agreement, and I can confidently say that the KORUS agreement sets the new standard for trade relations in today's global marketplace. And the Trans-Pacific Partnership, or TPP, is going to raise the bar even higher.

As we're looking at new disciplines for areas like regulatory convergence and state owned enterprises, the momentum of KORUS as generated, has played a key role in advancing the trade negotiations in the Asia Pacific. In Honolulu at the APEC meetings last month, there was a definite buzz about trade, and TPP in particular.

In Japan's announcement of interest of their desire to join the TPP comes in an important time in the region, and we at the U.S. Chamber are absolutely delighted to see that interest, of them coming to a table for a high standard, comprehensive, ambitious, market opening, ground breaking, is that enough positive adjectives, agreement. As the most advanced economy in Asia, the world's third largest, it's important that Japan play a role in helping to shape the new trade architecture of the Asia Pacific. But now that they've made their announcement of their interest, it's important to be followed by strong and sustained commitment to market opening reforms and a willingness to put all issues on the table.

The challenges facing the Japanese market are well documented. An agriculture market that's inefficient and uncompetitive, OIE inconsistent market access barriers to beef, Japan posts playing on an unlevel playing field, the auto issue, and then there are all the non-tariff barriers, the non-tariff measures that will need to be addressed at the start.

But we are excited with Japan's interest in the TPP. And this is an opportunity to address in a comprehensive way these long-standing issues. All the new entrants of TPP will need to agree to the high standards the current nine countries have committed to. And since Ambassador Kirk reiterated the administration's goal to complete an agreement next year, we don't want to see anything slow down these negotiations.

Similar to the KORUS Free Trade Agreement, TPP is also as much about strategic relationships as it is commercial relationships, and this new economic relationship will reinforce the alliances between the partnering nations. For America, TPP participation demonstrates a strong commitment to maintaining a leadership role in Asia at a time when regional volatility has raised global concerns. It also ensures that the U.S. is not left behind as these Asian nations move forward with integrating their economies. As we've heard many times, 95 percent of the world consumers live outside the borders of America, so for our companies to grow, we must export.

TPP will provide access to a significant number of new consumers, allowing our companies to grow their operations and create jobs here at home. Last month, America hosted the APEC summit in Hawaii, and it was clear from the discussions there that the TPP agreement is providing the pathway forward for

regional economic integration in the Asia Pacific. And as former USTR Sue Schwab said, and Ambassador Moore just confirmed, TPP is the only game in town.

President Obama spoke with APEC leaders to detail America's commitment to this partnership, which represents 40 percent of the world's GDP. The president also celebrated the 60th anniversary of the U.S.-Australian alliance in Darwin, while concluding negotiations to increase America's military presence in Australia in light of shifting security paradigms.

Further, President Obama attended the East Asian summit and the U.S.-ASEAN Leaders Meeting in Indonesia to promote U.S. economic growth and security in the region. America's presence in Asia Pacific has certainly been felt in recent weeks, and we must continue to expand our regional engagement to ensure our competitive participation. Furthermore, our friends in Asia welcome our renewed involvement. America's presence in the Asia Pacific has been the basis for an unprecedented level of economic growth which has taken place in the region in the last half-century.

Our Asian neighbors understand this fundamental link between security and economic growth, and this will serve as a spring board for further U.S. job creation, while also ensuring the safety and security of U.S. interests abroad. With specific regard to Japan, TPP membership will mean dramatic changes in that country. Average tariffs are still 22 percent versus 5 percent here, and some agriculture tariffs go as high as 800 percent.

There are other long-standing barriers in manufacturing, services, autos, and other sectors of the economy that will be dismantled through this high standard, binding provisions of the TPP. Japan's significant non-tariff barriers must also be addressed in order to unite two of the world's largest economies.

But however, Japan has made significant progress with regard to market transparency in recent years, and we hope to see this greatly increase through TPP engagement. Progress is being made in our regular engagement through the U.S.-Japan trade forum and the newly launched U.S.-Japan Economic Harmonization Initiative. If there's anything we learned from the U.S.-Korea Free Trade Agreement, it's that we can overcome domestic obstacles in order to strengthen international ties when both parties are determined and motivated to succeed.

In working to join the TPP, Japan looks to reassert their leadership in Asia. Another lesson we learned from the Korea Agreement is the need for Japan to build strong, domestic consensus for this engagement, as the journey will be long and politically hazardous. It appears that the Japanese prime minister recognizes that engaging TPP is in Japan's long-term national interest, to ensure

their future competitiveness, and we should do everything we can to help strengthen this position.

President Obama set the goal of doubling export -- U.S. exports by 2014, and there's no better way to do this than through market opening agreements and more preferential trade deals. Negotiations between the nine current TPP members continue to gain steam, and the addition of Japan, as well as Mexico and Canada, will only serve to bolster the agreement. On Wednesday, at the U.S. Chamber, Ambassador Ron Kirk discussed the future U.S. trade agenda with members of the business community.

During the dialogue, he confirmed a commitment to concluding TPP next year, so it's clear that the ball is in Japan's court. They must now take bold and decisive action to demonstrate a commitment to meeting the high standards and agree to open their market to the global marketplace. And we must all work with our Japanese friends to ensure that they are part of this exciting new partnership.

TPP membership is the kind of bold, courageous step that Japan can take to aid in their economic recovery. An inclusion of this fertile market will enhance the economies of all TPP members. Thank you.

DR. LINCOLN: My goodness, without having to bash heads here, all three of our speakers have stuck to the time limit. I'm actually going to begin by asking if any one of the three of you wants to make a brief response or comment on what either of the other two had to say.

AMBASSADOR YEUTTER: I'll just add a couple of things. First, I really appreciated Ambassador Moore's comments and, of course, New Zealand has been such a great trading partner of the United States and such a great ally in trade negotiation through the years. It's just superb to have him here and, of course, I fully agree with him, it's most unfortunate the world trade organization is not performing more effectively these days. Ambassador Moore and I both had a lot of investment in the -- have had a lot of investment in that organization, especially Ambassador Moore as the Director General. Now, I wanted also to say that one of Ambassador Moore's concerns about adding additional countries to TPP, and I'll try not to put words in your mouth, Mike, is that it will clearly lengthen the negotiations to do so, and we don't want to have another Doha Round exercised in TPP. That's a legitimate concern, and certainly adding a country like Japan will lengthen the negotiations because of all the issues that are involved with Japan.

The counter to that, though -- and hopefully Ambassador Moore is persuaded of that now, as well -- is that it's worth it. It's worth it. Having Japan in would make it a much, much more meaningful exercise in economic terms

totally aside from national security or foreign policy benefits that might emanate from that. So that's one point.

Second point I wanted to make is that, when we're discussing this issue with our own stakeholders, to my knowledge, the one set of stakeholders that has evidenced some objection to having Japan come in is our automobile industry, and that troubles me. Now, I know we had to work through that in the Korea free trade agreement, as Tami knows full well, and we're probably going to have to work through it here in TPP assuming Japan joins TPP.

But we ought not do this before the negotiation even begins, what seems to be the demand of the U.S. auto industry, and I hope the administration and USTR will say, hey, guys, back off, that's a subject for the negotiations, that's not a proper subject for a pre-negotiation. If that happens, it seems to me that pretty much takes care of the stakeholder concerns, and if it does, that means we really ought to get in gear and get this process underway with Japan as a participant. That's enough for now, Ed.

AMBASSADOR MOORE: I don't think Clay and I have any different view on objectives and principles, it's a question of sequence and time, and I've always personally thought that we can do more in 12 months and 18 months if you wanted to kill this thing and turn it into (inaudible) 2010, 2020, you'd say, let's do this over 5 years.

At that point we might as well -- I think we'll just -- the wheels will keep spinning, the speech notes will be churning out, that we've heard before. And the administration has been quite -- the U.S. administration says it wants something of real substance next year, and we intend to enter into this with absolutely good faith, absolute enthusiasm, and absolute focus.

This is not -- it doesn't mean you can't do two things at once, in parallel, you know, but we are deadly serious. Can people stand up in the Canadian Parliament or other parliaments and say, no exemptions, all tariff go. I commit them to look behind the counter at those other things, financial services, real hard. If I could just back it up a little and talk of the 21st century issues, these are matters of enormous substance that can travel. I mean when we're talking of regulatory coherence, we mean it. The biggest cost to medium enterprise and small businesses are these costs. The big companies can navigate around it, the smaller guys can't. When we talk of trying to get up, and this is not easy, a model of the behavior of SOEs that can travel, that's met as an enormous substance that will speak louder than just this agreement.

But if you look at TPP now, it's already America's fourth biggest customer, and it is a cross-section of the global economy and economy in transition: a serious country, Malaysia, which has all sorts of difficulties that are

serious; Brunei; our Australian cousins, New Zealand; Chile; Peru. That's not enough. Of course, it's not enough and, by the way, it'll never be enough. And to get more friends coming to the party, accepting the dress code, these are the areas we know before we even knock on the door that we're going to have to accept.

Otherwise, I fear -- I don't think we do as an act of kindness or friendship, to invite people to your home and then tell them, this is how you dress. Otherwise, we might as well just keep saying the things we've said to each other in other forums.

MS. OVERBY: I'll just be brief. As Ambassador Moore said, TPP without Japan makes -- that would be our fourth largest trading partner. You throw Japan in the mix, TPP jumps to number two, so they are an important player. Ambassador Yeutter was talking about pre-negotiation, I think Wendy characterized it as, Japan needs to demonstrate its readiness.

And one way they could do that is some confidence building measures, to address some of the hard issues, and autos is going to have to be dealt with. I just lived through three and a half years where one industry was blocking the Korea Free Trade Agreement, and so it's better, in my view, to deal with the autos as early as possible.

And I want to remind people, the Korea Free Trade Agreement was negotiated in 10 months, so it can be done with people that are determined, and we need to make this happen.

AMBASSADOR MOORE: I haven't actually congratulated the administration people in this room for the passing of the Korea, Columbia, and Panama deal. Can I be very honest? Well, I'm always honest. There were people in our region wondering whether America could deal anymore. This was more than just the deals that were struck.

Is America in the game? You know, confidence is high and that was, you know, congratulations for that. But it was pointed out to me at the time in which the original Korea deal was done, and the time it took to pass it, in that time, when it was first agreed, iPads had not been invented. And when time is not our friend, and Clayton and I have a theory of our problems in Geneva, economic history is speeding up, 10 years is not 10 years. And if you look at the Fortune 500 now and 10 years ago when we launched, there's just not enough in it, and we have to set these standards, set up the systems, not because we want to control it, but because we know we can't.

And I see it in many ways as a standard setting organization, almost ISO 2000 or 5000 or whatever you call it. These are the standards we cannot control. But we need to set up the standards so things can reflect into it,

otherwise, we're going to be so far behind yet again. I read a -- I don't know where this was, we're going to see more change in the next 10 years than the last 50 years put together.

How then can we operate and set up a trading system that can control it? It can't and we shouldn't even try and it's real dumb. What we have to do is set up those standards from which this will be done, otherwise, that neck of the world will be sore from Caterpillar. It will get worse for the poorest people on the planet.

AMBASSADOR YEUTTER: Mike, you and I can handle all these without any problem, though, because I just read an article that said that 80 is the new 65, so that takes care of us.

DR. LINCOLN: It sure makes me feel better. I'm still in college I guess. All right. We're going to open things up to questions. There are a couple of microphones coming around. I guess I'm going to start with the blue sweater back here.

QUESTION: Hi thanks, I'm Jaime Strawbridge from *Inside U.S. Trade*. A question for Ambassador Moore on Japan and TPP. Mr. Yeutter mentioned that Japan joining the talks would necessarily lengthen the talks, and I was wondering if you agree with that, and if you see a necessary tradeoff between having Japan join the talks sometime next year and concluding the talks next year, as is the stated goal of TPP members. Thank you.

AMBASSADOR MOORE: I'm just a humble ambassador, you know. I just can't answer that. We don't know yet. The discussions are going on internally inside Japan. People are -- the process has been started in the U.S. of what it means. TPP could be done, but it's certainly not fulfilling our ambitions if it's done with the nine. But the group we've got -- but if we do the group now, and other groups are being done in parallel, and there's six months and a year added on afterwards, does that really matter? I mean it's not always attractive for friends we're talking to. It's very hard, but that's -- let's see. Personally I find it very hard to see. Canada, Mexico, you know, they are knocking on the doors meeting us all, too.

AMBASSADOR YEUTTER: Just one quick comment, Jaime, and this is my personal view on this issue. I obviously do not speak for the administration, but my comment would be that, you know, at some point you've got to cut it off. You can't keep adding countries, you know, every six months for the next two or three years, so the question is, where is your cut off point.

And, to me, that's a question of, you know, managing the negotiations in such a way to bring them -- that you can bring them to a successful

conclusion relatively quickly, maybe even next year. Can you do that with Japan, Canada, and Mexico added? And my answer is, yes, providing they are willing to put everything on the table in a serious way.

If that happens, I think we can get this negotiation concluded in a reasonable period of time, and I think it would make a lot of sense to add Korea, as well. If I were doing it personally, I'd probably take that group of countries and say, that's enough, you know, if Japan, Canada, Mexico, and Korea come in, let's do it and get it done and get it done promptly.

AMBASSADOR MOORE: Here, I'll toast you, Clayton, to our youthful idealism, mate.

AMBASSADOR YEUTTER: We'll get it done, Mike.

AMBASSADOR MOORE: Yes, we can.

DR. LINCOLN: I had a hand down here.

AMBASSADOR MOORE: We can't wait.

DR. LINCOLN: In the front here. Yeah.

QUESTION: Thanks very much. Chris Nelson, *The Nelson Report*. Thanks for the second great panel. On the first one, just to remind you, Bill Lane could sell ice to the Eskimos, I think, bless his heart.

A couple of questions. I was wondering if Ambassador Yeutter finds himself convinced now by Tami's reminder of just how important dealing with the auto sector was, and how much of a delay it imposed on KORUS, because you were very firm in your remarks saying, no, don't do it, you know, that's with the negotiation. I suspect Tami would say if you wait for the negotiations, it's going to be too late.

Wendy made an interesting point, that the administration decided to resist pleas for *gaiatsu* to help Prime Minister Noda get to the point of being able to make the very conditional announcement that he did make.

Do you think that the issue has changed now? When you were USTR, you remember, you know, METI used to come in and say, you guys have to help us with our auto industry, remember, and we all thought that was hilarious and fascinating. Are we back at a situation now where there is a constructive U.S. role to help in quotes the Japanese people get around to ag, or is that, you know, too clever by half and we would just mess things up? So thanks.

AMBASSADOR YEUTTER: There it goes. I'll start with just a comment on the auto issues. Obviously, those are not going to be easy to handle, you know. If something could be done quickly, ahead of the negotiation, I think that would be wonderful. But I wouldn't want the entire TPP negotiation to be held in abeyance because of the interchange between Japan and the U.S. on autos. That's really unfair to all the other countries that are involved in the negotiations.

This is a little bit like the Uruguay Round, where we waited for the U.S. and the EU to get it's deal done on agriculture, which probably delayed the Uruguay Round final outcome at least two or three years. Let's not do that to TPP, for heaven's sakes.

And I would also make a distinction between beef and autos in this respect, because in the case of beef, we already have an ongoing negotiation and we ought to finish ongoing, bilateral negotiations separately from the TPP. But we don't have an ongoing negotiation in the automobile case.

QUESTION: Hi, Richard Katz with *The Oriental Economist*. First of all, the next time I want a pay hike, I want Clayton Yeutter as my negotiator. So I'd like to ask you all a what if, this question about Japan demonstrating its readiness, and I'd like to ask the three of you to comment on that in three different ways. First of all, Ambassador Moore, what are the criteria that -- for New Zealand of saying, yeah Japan is ready to join, or is not ready to join, and can you imagine politically, given the diplomatic slap in the face if you were to say at the end of the day, no, you're not ready, or at least you have to wait until the first round. What are the criteria by which you would make that decision?

And then, Tami, in terms of the business community, aside from the auto sector, does there come a point, or what is the point at which you would find a large share of your membership saying, you know what, having Japan in might slow things down so much, it's better to wait until at least we get through the first round and do something. What would dictate that?

And then, Ambassador Yeutter, truly as political observer who's totally from the outside, not what you want to happen, but would you expect to happen, is it in your mind politically conceivable that the U.S. would actually say to Japan, no, you're not ready, you can't join, or would say, you're not ready to join yet, let's get through our first round, whatever? I mean that seems politically kind of dicey. So if you guys could clarify, that would be very, very helpful. And I'll talk to you about negotiating for me on that pay hike.

AMBASSADOR MOORE: Look, we haven't got a checklist. I can't say to friends from Japan, or Canada, or Mexico, or other countries I've known all my life, take those boxes, obviously we're talking to dear friends. I

mean, make no mistake, we want to see Japan in the process, the question is the sequence, timing, et cetera, in terms of principles. It could say is it diplomatically difficult?

Well, you know, I don't think we intimidate anyone in New Zealand, except ourselves. Our only value is to be consistent, open, and say what we think. And if the judgment is that this means that we cannot do what the leaders suggested in Hawaii, that is get something of real substance up by next year, we'll say so.

We have a firm instruction from leaders. These words mean something to us and we are to focus on delivering on that next year. That will not be easy. If the judgment is, you can't deliver what the leaders have already agreed to, that still believe in the process, keep talking, working in parallel, that's the call our political masters must make.

But, you know, we know -- the point I made, Clayton, we would not have believed a prime minister of Japan would be able to say with enormous political courage it took for him to say that, and we fear, too, political courage is seldom rewarded at the polls, trust me, I know this.

MS. OVERBY: Thank you. I think really we need to see -- they've given their very strong interest of intent, now we need to see action, not words, action. Can they do some of the hard things? You know, as I look back at Korea and how, in the pre-negotiations with them, the screen quota, they had to reduce their screen quota.

There were actually four things that they were asked to do and that was the one that really -- that they did. And I think we're going to need to see something, that they're able to do some of these very hard, politically difficult things. And at what point will the, you know, the business community -- I would say it's -- there's not -- well, it's not really split, but there are voices on both sides that we need to keep moving, we need to get some progress, we don't want this to turn into another Doha, so -- and there are folks who've done a lot of business, a lot of negotiations with Japan suggesting this could be a long road.

So that's why, to me, I keep encouraging my Japanese friends, do some confidence building measures, do something hard quickly, you know, get some momentum going, show people that you're serious. I understand how hard that statement was, but now we need some action. So that's my two cents.

AMBASSADOR YEUTTER: I think that was a very good statement by Tami about what really needs to be done. I would add a Canadian context to this, in that the Canadian prime minister has basically said that Canada would come in with no carve outs, everything would be on the table. But at the

same time, he said to the dairy and poultry folks, I will take care of you, meaning that will achieve a continuation of your protectionism in some manner. That's just not acceptable. I mean, you've got to -- if you say you're going to come in with everything on the table, you've got to mean it.

And the same thing applies to Japan, whether it be a major problem with the automobile industry, or agriculture or anything else, I think the various participating countries, the present participants ought to say, one, everything's on the table, two, you've got to be serious about everything on the table, and you've got to evidence a desire to deal with all of these problems. If that's not in the cards, it's too politically difficult for you, then I think we should say thanks, but no thanks, let's try again some other time.

If Japan makes that commitment, however, and says that they're -- they will seriously endeavor to deal with all of these issues in the negotiation, I don't see how you then say to them, gosh, you know, we want to get this thing done quickly, we don't want to wait for you, you're going to have to wait and come along at a later time after this is concluded. If I were Japan, I'd consider that to be a major insult, and I just really question whether the U.S. or anybody else would want to develop that position.

DR. LINCOLN: Okay, let's move back over to this side.

QUESTION: Thanks. Shu Lin from *Doorway News*. Three questions. First, Canada. It is reported that Canada's agriculture industry may suffer if they join TPP, and for current TPP members, for example, Vietnam, since its tariff is much higher than a lot of other countries, the interest of it being a TPP member is very limited. How do you think America can convince people that turning its security partners into economic partners is in line with the current and potential TPP members' interests?

And second question, with Europe deep in debt crisis, how much significance do you think that Asia Pacific free trade integration will have?

And a third question, do you think that the vision of an Asia Pacific free trade integration is a real integration without China and Russia's participation? Thank you.

DR. LINCOLN: Okay. Who wants to take on one or more of those questions?

MS. OVERBY: I'll start with the last and let them do that hard things. On China and Russia joining, the TPP was always meant to be a living agreement, a foundation -- an agreement that countries could dock into when they're ready. So I think we would all, in fact, the chamber hosted a track two

high-level CEO dialogue with the Chinese right after APEC, and they have a lot of questions about TPP, and they were concerned about their perception of the exclusiveness of it. And we had Mike Froman there, and Mike said, please accept this as your personal invitation, we would like to invite you to join when you're ready to meet the high standards that all the participating countries are agreeing to. So I think the hope is very much, yes, we hope this is the pathway to the FTAP, and whatever we can do to, again, keep the high standard and keep it moving quickly, that would be the business community's hope.

AMBASSADOR YEUTTER: Well, just a couple of quick comments. First of all, I agree with Tami on Russia, China, or anybody else. I think there'll be a time when other Asian countries will come into the agreement, hopefully. Indonesia would be logical, Thailand would be logical, Taiwan would be logical, you know, and I may have forgotten some. So it should be a living agreement, so let's make it that as time goes on.

And so far as the European situation is concerned, I mean, obviously Europe has a lot of problems that it has to resolve right now. I just came back from a week in Brussels, so I have been listening to those for several days now. I don't think that has any great relevance to our discussions here.

With respect to Canada, the agriculture being hurt, I'm not sure I'd -- I think Ambassador Moore and I would argue that agriculture will be helped by trade liberalization. I'm not sure that the Canadian dairy and the poultry industries benefit from their incredibly high level of protectionism that exists today.

AMBASSADOR MOORE: Last thing. First, about Canadian agriculture, there are parts of it that if they came aboard would have to face competition, which is a tremendously good thing, and other parts of the Canadian agricultural sector that go gangbusters, that's the nature of it, and it's the nature of what Americans will have to face in agriculture and the nature what we have to face.

And I can think of some very difficult product lines that's going to be very hard for America to face. If you think dairy's hard, have a look at sugar. And, you know, there are some very tough decisions for Americans to make. As for our friends in Vietnam, they are keen, they have some very big problems. It's an economy in transition, it's a very young country. The reformers in Vietnam who want to bring -- see this as a way as they did WTO sessions is reorganizing, modernizing their economy, getting their intellectual property and property rights stuff up through this process, for them it's going to be extremely difficult. On the European issue, you know, we make these speeches and write these books about the interconnected world, the borderless world, well, we ought to read our own literature, and what happens in Europe is important. Some in New Zealand think

we're a little bit fire walled because of our relationship with China.

We have a free trade agreement with China. We're the first developed country to do it, and it is going very, very well. However, for China, her biggest customer is Europe, not the United States. So we all -- this is the genius and the joy of the whole process. It is in all our interests all our friends do well, because if they don't do well, we don't do well. It's simple. Self-interest is the interest of others, that's the genius of what we've learned and perfected over the last 50 years.

DR. LINCOLN: Okay. I think we have time for just one final question, and this gentleman here has been waiting for some time. Well the microphone's coming. Oh, I've just got to say one very quick thing, abuse my role as moderator. From the standpoint of Vietnam, we need to remember something we actually haven't talked about yet this morning, and that is investment.

And one of the real values of TPP to Vietnam ought to be that it makes Vietnam a more desirable location for multinational corporations to locate production facilities, because they can ship their product out to other TPP members duty-free. So I just wanted to interject that thought about investment. Please sir, go ahead.

QUESTION: Bernard Gordon, University of New Hampshire. Ambassador Moore, just almost anticipated all of my point. In the Australia-U.S. Free Trade Agreement, there was a large carve-out, for sure. And I think that's -- I want to use that as a basis to ask Clayton Yeutter how he thinks that is going to -- that and other possible carve-outs, and to Tami, the pharmaceutical industry in relationship to New Zealand's PHARMAC operations, are we going to be seriously insisting to our industries, whether subsidized or protected in different ways, to take what Mike Moore and Ambassador Yeutter had said, to be very serious and no carve-outs, no cut-outs at all.

MS. OVERBY: Sure, put the young girl out front. Let me take the bullet for them. The U.S. business position is that we want everything on the table, but we're not naive. We know that at the end of the negotiation, you know, certain special interest groups are going to get pieces.

We just hope they're as small as possible, you know. Sugar -- everything needs to be on the table and every country needs to negotiate as hard and as well as they can for their country, and at the end of the day, we'll all be better off. Will it be a perfect agreement with -- I'm not naive. The agreement is going to have exclusions at the end, they all do, we just hope it's smaller, and smaller, and smaller.

AMBASSADOR YEUTTER: Amen. That's the right answer.

AMBASSADOR MOORE: Well, we're not too sure about that. We see there will be sequencing issues for our friends in Vietnam and our friends in Malaysia in terms of the capacity to institute certain laws on property rights, on intellectual property. There will be a sequencing issue. But if in the end people are prepared -- we'll walk away, please, you know. You know, we all have politics and parliaments.

It would be so hard for the Australians to do a deal if sugar wasn't there. That's the go. That's it. For us, dairy and a few other areas. And please, if we're talking of a model agreement here that we hope will travel, consider how hard it is for all of us on investing issues.

You know, it wasn't the finest day in the U.S. Congress when they found some very modest investments objectionable. And it wasn't the finest day in my parliament where we found some very modest investments politically on the tract (inaudible) out the tribal nationalistic stuff in my own society.

So even as we go now, there's some very hard things to do over the next few month, and as a group of TPP countries, you know, we're in convoy here. We can only bring the convoy home if every ship comes through. And while we should argue sequencing, this and that, I don't think we do ourselves any favor if we just say, oh, that's too hard, let's give it to the next generation. Anyway, reckless optimist.

AMBASSADOR YEUTTER: Now, let me add to that. No, you know, those two comments are really not at all inconsistent. You mean what they're both saying is that you try to maximize market liberalization in these kinds of agreements and you take them as far as you possibly can in the negotiating process.

At the end of the day, I mean, you've got to ultimately come to a conclusion, unless you want to just let things sit there and twirl as they are in the Doha Round, the objective of these exercises is ultimately to have a deal, and when you get to that point, every participating nation has to, on its own, decide whether the final deal is in, overall, in its long-term best interest.

DR. LINCOLN: Okay. I think --

AMBASSADOR MOORE: It's a great time to be alive, though. It's good.

DR. LINCOLN: What could I possibly add to that? All I can say in the end, I think, I really hope that all three of my panelists have an opportunity

to say some of these things in Japan, where, indeed, a lot of hard work is going to have to be undertaken. Thank you.

DANIEL BOB: Okay, well thank you very much. I'm Dan Bob, I'm senior fellow and director of U.S.-Japan programs at the Sasakawa Peace Foundation USA.

And the focus of this, our last panel is on the debate within Japan about joining the Trans-Pacific Partnership. And I think we've got a terrific group of speakers assembled who are going to explore the political and economic impacts of TPP, and look at the institutional constraints the country faces in joining free trade agreements, hear the views of the business community in Japan, and have an assessment of how TPP fits in with some of Japan's broader initiatives in the Asia Pacific.

Now, as Nakatomi-san mentioned this morning when Prime Minister Noda made his decision to decide to enter into consultations toward participating in TTP negotiations with the countries concerned, that clearly was a rather cautious statement. And when he made that statement, he had actually delayed it by a day because the group of Diet members within the DPJ that had been assembled to specifically bridge the gaps within the Democratic Party of Japan, the internal divisions over TPP failed to do so. And in the end, that panel was reduced to recommending very simply that the government decide cautiously about TPP.

Now unfortunately for the Prime Minister, at any rate, all that caution fell by the wayside very quickly, because the day after his announcement a public disagreement erupted between the U.S. and Japan over exactly what was said by the Prime Minister to President Obama about TPP at the bilateral meeting that took place on the sidelines of the APEC Summit in Honolulu. The White House claimed that the Prime Minister said quite directly that he would put all goods as well as services on the negotiating table for trade liberalization. Japan's Foreign Ministry immediately claimed that that was not the case, and as it turns out there was only one other person in the room at the time of the conversation, the interpreter from Japan. So perhaps this is something of a Rashomon moment.

And in the aftermath of that episode with neither side conceding, the Prime Minister has had to really reassure skeptical members from within his own party that really only the most preliminary arrangements on TPP are taking place. He's had to stress repeatedly that any decision on joining TPP will be based strictly on whether or not it serves Japan's interests, but has never spelled out precisely what those interests might be.

And so in addition to that -- contributing to what I would call a rather defensive posture on the part of the Prime Minister on TPP, are other major

battles he's facing simultaneously. Most importantly, the doubling of the consumption tax of Japan, potentially, to 10 percent.

The divisions within the DPJ are also compounded by resistance to TPP from a large segment of the opposition, Liberal Democratic Party. And of course, LDP holds a majority in the Upper House of the Diet, and so has the power to veto any of the bills passed by the DPJ-controlled Lower House. LDP also happens to have longstanding ties to agricultural interests, which are adamantly opposed to TPP.

And so when it comes to the Trans-Pacific Partnership, the stakes are rather high. In fact, the predecessor, the previous Prime Minister before Mr. Noda, Naoto Kan, asserted that the impact of TPP as well as a couple of smaller, other trade initiatives would constitute what he called the third opening of Japan. In other words, the impact of TPP would be comparable in some respects to the enormous changes that took place in Japan during the Meiji Era, and in the aftermath -- the second opening in the aftermath of World War II.

Now why -- while I think that characterization might be a bit hyperbolic, Japan clearly faces some daunting challenges. It has a long-stagnant economy, an ageing and declining population, massive public debt, and now in the aftermath of the tragic March 11 disaster, the burdens of reconstruction.

Now, clearly the market opening resulting from Japan joining TPP will not solve all Japan's problems, but it will have clear economic, political, and strategic implications. And I think from the outside, anyway, the decision on whether or not to join TPP will be viewed as particularly significant, and in a sense symbolic of the sort of future path Japan chooses to take.

More to the point for the Prime Minister of Japan, TPP really has become a critical test of his leadership. But it's also a test of the Democratic Party of Japan's own viability as an enduring alternative to the LDP.

At any rate, here to kick things off on these and other matters we have with us first, Professor Heizo Takenaka, who is director of the Global Security Research Institute and professor on the faculty of Policy Management at Keio University. In addition to being one of Japan's leading economists, Takenaka-sensei has previously served in the House of Councillors and was in Cabinet positions as Minister for Economic and Fiscal Policy, Minister for Financial Services, Minister for Privatization of Postal Services, Minister for Internal Affairs and Communications. And I hope I haven't missed any of your other Cabinet posts. Suffice it to say that he's one of the most important voices in Japan in economic and political matters.

The speaker after Takenaka-sensei will be Richard Katz, who is

the editor of *The Oriental Economist* report, which really is a must-read for anyone who follows Japan. He's also a special correspondent at the *Weekly Toyo Keizai*, a leading Japanese business weekly.

And Kiyo Aburaki will follow Rick. He is the U.S. representative of Keidanren, as well as the 21st Century Public Policy Institute, a think tank of Keidanren. And before coming here to Washington to serve as a visiting fellow at CSIS, he served as head of the political affairs group of Keidanren, and so played a leading role in developing and implementing Keidanren's political strategies over a host of issues.

And our final clean-up speaker will be Takashi Terada, a professor of international relations at the Organization of Asian Studies at Waseda University. He's also taught at the National Universities of Singapore, and his work has focused on competitive regionalism and global trade and Japan's role in an evolving Asia Pacific, and he's very much a rising star in his field.

So with that, I'd like to turn the podium over to Takenaka-san.

HEIZO TAKENAKA: Well, thank you very much, Bob-san, for a nice introduction. And good morning, ladies and gentlemen. It is my great pleasure to be here joining the session. I would like to also say thank you very much to the Brookings Institution and Sasakawa Peace Foundation, making this arrangement.

Well, in this initial presentation I do not use any Power Point. Please relax and please consider what's going on in Japan now. But anyway, in this conference I'm very pleased to find Prime Minister Noda's decision was well-accepted by American friends. And I also support Noda's decision. He made the right decision, obviously.

However, before reaching his decision-making, a lot of troubles in Japanese politics -- rather, controversy over TPP in Japan, brought about turmoil in politics in Japan. This was caused, regrettably, by three mismanagements by government leaders. In that sense, this is sometimes -- TPP is sometimes labeled Troubles in Poor Politics, maybe.

And first of all, TPP's issue was politicized unnecessarily. This was politicized unnecessarily. According to the constitutional law of Japan, whether Japan joins the negotiation of international treaty or not should be and can be independently decided by the cabinet or administration. Decision right is completely belonging to the cabinet. However, the Prime Minister asked the ruling party to discuss and decide it. And taking that opportunity, consequently, the vested interest groups who are against free trade and deregulation, urged politicians to oppose TPP. Then TPP became a very sensitive political issue.

The current government's ruling party, DPJ, is supported by labor unions. So to some extent it's understandable that some or many members of DPJ are against TPP. However, in the case of LDP, which has been long-ruling party and supporting free trade, among LDP members or Diet members, 85 percent of Diet members were against TPP this time. That's quite amazing. This is because TPP was politicized unnecessarily, that's the first point.

Secondly, the political leaders made a very vague resolution after messy discussions, so it became clear that political turmoil would continue even from now in Japan. Officially, or outside Japan -- for example, in the APEC Summit -- Prime Minister Noda clearly announced that Japan is ready to join the negotiation of TPP. However, inside Japan, domestically, he said that he had not decided finally to participate in the negotiation. This was the response in the Diet. So, at this moment people who are against TPP suspend their opposition campaign, but the campaign will revive in the near future when Japan is officially accepted as a member of the negotiating countries.

And thirdly, because of political -- some poor political management, policy discussions on TPP was very much twisted and biased. Namely, only specific aspects of TPP, like its impact on agriculture, its impact on social insurance system, was exaggeratedly focused. On the other hand, a lot of merits or benefits which would be realized through TPP were not paid reasonable attention by mass media and the general public.

Now then, what will be the impact of TPP or outcome of TPP? First, for the Japanese economy, domestic economy, TPP is expected to bring about a lot of benefits. It's quite clear from viewpoint of economists. For example, Barry Bosworth of Brookings Institution has been insisting that the Japanese economy is a very typical dual economy. Yes, we have very competitive sectors with high productivity, like automobile. This is so-called -- they can be labeled an Ocean Sector which is opened to the global market. On the other hand, there are sectors whose productivity is low, and these are heavily-protected sectors which can be labeled as Mountain Sectors, not opened to the global market. Some areas in agricultural sector is a typical one belonging to this category, Mountain Sector.

The Japanese economy has been supported by the Ocean Sector so far. TPP will obviously benefit the Ocean Sector through the increase of exports. But furthermore, TPP will strengthen the Mountain Sector through competition, especially in Japan the productivity in service sectors has been very low. TPP is expected to wake up these industries, like medical service, education, and other social welfare-related services, et cetera. These are heavily protected now, but basically these have potential power to grow from now.

Also, through comprehensive discussion on free trade, Japanese

businesses will be able to expand their sales explicitly. So far, the U.S. government made use of anti-dumping appeals frequently. It is accepted by many Japanese businesses to be sometimes unilateral and one-sided. Intensive discussions should be done on this issue, also.

Also, regarding procurement by public sector. Some states in the United States -- 13 states in the United States do not have an open system at this moment. If they are improved through TPP negotiations, this will provide substantial merits to the whole Pacific economy, including Japan.

Also, I would like to touch upon the impact of TPP on the global trade environment. In this regard, Japan can be a catalyst in the so-called chemical reaction towards global free trade. In the global community, a kind of creative tension mechanism has been working. For example, Japanese participation in TPP negotiations gave some positive impact on Mexico and Canada to take similar decisions. Also, this gave incentive to China to accelerate free trade talk among ASEAN Plus 3 or ASEAN Plus 6 countries. Anyway, it is an important force to create an environment in which China smoothly participate in the international order. In this regard, TPP can be and should be an innovative framework to move to a freer free trade system.

Finally, I'll touch upon a special problem facing Japan. That is, the impact of the disaster which occurred March 11, or nine months ago. Maybe you understand we had a very serious disaster. This sort of compounded and interrelated crisis facing Japan. Well, we had a tsunami and earthquake, but also the nuclear plant was damaged and contamination of radiation expanded, and we also suffered from electricity power shortage. Anyway, right after the quake, the Japanese economy was very seriously damaged. The growth rate of the Japanese economy was -3.7 percent in the first quarter, and -2 percent even in the second quarter. Under such circumstances, the government has been postponing economic reform, which can enhance the growth capability. The most symbolic one was the postponing of the reduction of the corporate tax rates.

The Japanese corporate tax rate is one of the highest in the world, so it has been planned to be reduced by 5 percent points. But because of the disaster, this was announced to be postponed. Also, the discussion on various deregulation lost its momentum. And attention was paid only on the reconstruction-related issues.

Under such circumstances, anyway, decision-making on TPP is very exceptional to promote economic reform. The problem, if any, will be that a spirit of TPP or the way of thinking of TPP is, in some cases, inconsistent with the current government policy idea. For example, the current government is against the complete privatization of the Japan Post. For example, according to the current plan, current reform plan by DPJ, the government will continue to be the

main shareholder in the Post Bank and the Post insurance companies. I'm afraid that this is against the equal footing principle of WTO, since Post Bank's deposit is guaranteed implicitly by the government.

So, a comprehensive review of policy framework will be needed for the ruling parties. This will, again, bring about very difficult political situations, even political turmoil.

As you know, the prime minister changes every year in the past five years. So, we need very strong leaders. But anyway, TPP can be a good chance to create strong political leaders. In this case, TPP will become not Trouble in Poor Politics. This will be a Trigger of Powerful Politics.

Thank you very much. (Applause)

MR. BOB: Thank you, Takenaka-san. I neglected to mention that since we started 15 minutes late, we will go 15 minutes longer than scheduled, to 12:45.

RICHARD KATZ: Hi. So, if Korea, why not Japan? Korea has succeeded in signing and ratifying free trade agreements with not only countries that have been among its biggest customers, but are also big farm exporters. Japan has not, at least certainly so far.

Moreover, when Korea made its negotiations, 99 percent of all agricultural items -- rice is carved out, right? But aside from that, 99 percent were included in both the U.S.-Korea agreement and the U.S.-Europe agreement. As a result of which, the U.S. farm lobby was overwhelmingly in favor of KORUS. Without the U.S. farm lobby being in favor of an agreement, it will not pass to Congress, in my view.

Japan in its trade agreements has only opened about half of agricultural items. So it's not just rice, it's other things. And if that were to be Japan's position in TPP, I do not believe the farm lobby would support it, and therefore I do not believe that it would pass the Congress. And so far as I know, except for the pork producers and one other group, almost none of the U.S. farm lobby has come out in favor of Japan's joining. But if I'm wrong, please correct me.

So, we think of the farm lobby as being the big obstacle to Japan being in the TPP. And yet, Korea has a very fierce farm lobby. And if we look at the actual economics of the situation, it should be the opposite. You know, 80 percent -- well, here we go. I'm going to do this and go back, right? 80 percent of Japanese farmers are part-timers. And they only get 15 percent of their income from farming. They have other jobs, they have subsidies, they got tax breaks,

right? Whereas Korea is about -- what's the number here? 40 percent -- 60 percent of them are full-timers, and among those 60 percent, they get 80 percent of their income from farming.

Moreover, the farm tariffs in Japan are actually much lower than they are in Korea. The result of which is that Korean farmers have so much more to lose by having an agreement. And yet, Korea got the agreements. How did it do so? Well, both Japan and the Koreans bribe their farmers -- I'm sorry, provide subsidies for their farmers. (Laughter)

The difference is that when the Koreans bribe -- I'm sorry, subsidize -- they get something in return. They give them the money and they get a deal. Okay, we get the money, you get the free trade agreement. In Japan, the farmer's deal is we get the money and you don't get the free trade agreement, right? So the question is -- well, I'm going to come back to that slide. The question is, why is that the case? Why is it that it is so politically hard? Now, it's a series -- layers of the onion. The first layer of the onion is actually institutional, how the negotiations take place. In Japan, each ministry negotiates its own issues -- and I'm glad Wendy is gone because if I get any of this wrong, she won't correct me in public. So, I'll talk to her later to see if I got it wrong. But, I think this is right, right? From talking to ministry officials and such. All joking aside, this is right.

Each ministry negotiates its own issues. So if the Agriculture Ministry, which opposes Japan even being involved in TPP, right? If -- because the minister represents the farmers. He's not in charge of the issue, he represents the ministry viewpoint, right? So if that ministry blocks agreement on the farm issues, that quashes the entire agreement. Whereas in Korea, there is one ministry, called the Ministry of Foreign Affairs and Trade, this was created when Kim Dae-Jung took power, and this negotiates all of the issues. Now, it certainly consults with other ministries, but at the end of the day that ministry is in charge. Moreover, in Korea the ministries serve the president. In Japan, the ministries do not serve the prime minister. They do not regard themselves as being under the orders of the prime minister.

Now, there's absolutely nothing in Japanese law which says this should be the case. This is custom, this veto power. All the little Lilliputians of Japan's special interest groups get to tie the national interest in these little threads. And when certain prime ministers have said, you know what? I'm going to do what every other prime minister -- what the prime minister of England does every day, and actually act like a prime minister. It was Takenaka-sensei's boss. He was called a fascist for it. But in fact, everything that he did in terms of making decisions was something allowed in Japanese law already. We used to say back in the '60s, the power is lying in the streets, just pick it up. Well, the power is lying in the hands of the prime minister, just pick it up if you're that kind of a

prime minister. Unfortunately, that's rare. So, the ministries do not feel obliged.

And actually, Ed Lincoln pointed this out. The opposition has hijacked this word "national interest". It evinces the question, Japan is giving up its national interest by joining? You know the real question is, what is the national interest versus the special interest? And every country has to balance, both are legitimate. Special interests are legitimate and national interests are legitimate. They're unbalanced in Japan.

Now, what's behind this institutional arrangement? Well, for one thing it's just purely electoral politics. If you look at Korea, you'll see that the most urban half of the Korean population, 48 percent, they've got 45 percent of the seats in the national assembly. In Japan, the top 50 percent of urban districts have only got 38 percent of the seats. And the reason the DPJ lost the last election -- well, one of the reasons, besides the fact they ran a terrible campaign, campaigning for a tax hike. But aside from that, is that 29 single-member rural districts, they switched from the DPJ to the LDP and the entire rest of the country, the DPJ actually gained 2 seats. These 29 seats got 30 percent of the population, 40 percent of the votes. The Supreme Court said, this is unconstitutional. Will the Diet change it? Will the Supreme Court enforce this decision? Incrementally is what I'm being told by the politicians.

So, what's one of the consequences of this? I certainly agree with - - not necessarily on Takenaka-sensei's political analysis, but I certainly agree with his economic analysis of the benefits. But just take one single benefit. This is what -- the Japanese spent almost 15 percent of their household budget goes to buying food. They pay almost twice the market price for food.

If you allowed free imports of food, you're talking about several percent of GDP, less spending on food, which would liberate money to be spent on other items. That would be a boon to all the other industries, which could then sell to these consumers. In a nation one of whose problems is lack of consumption, wouldn't you want to do that? And yet the prime minister -- and no members of his cabinet have actually clearly come out and articulated to the Japanese people why joining TPP is a benefit to the nation. Unless you do that, I don't see any way in hell you're going to get this thing ratified in the Diet. You don't. That's not -- the skill set is behind the seats of negotiations. But someone's got to do it.

Now, the other side of the coin is this -- and I think what I said now would be popular among the friends of the TPP in Japan. What I'm going to say now might not be so popular. Which is, look, in every country, who leads the politics of anti-protection? It is not the consumers, because the consumers do not have power in any country. It is the exporters, it is the multinationals, like Caterpillar, who want free trade because they want to get into markets, because

they want to create production overseas and bring some of it back, that's who leads it. The Japanese exporters are far less aggressive in pushing FTAs than exporters of multinationals elsewhere. And they find it easier to leave Japan, the so-called "hollowing out", than to change Japan.

Why is this true? There are a number of reasons. Part of it is that there's a little bit of a tradeoff here. You know, parts of them have treated Japan as a home sanctuary. So for example, the auto companies, which are very efficient and globally competitive, you have these exclusive dealerships. A Toyota dealership in Japan could only sell Toyotas. That's, by the way, not law, it's practice. That's illegal in the U.S., right? So it's hard for foreign companies to get dealerships. I don't particularly think the American Big Three really want to export cars to Japan, to tell you the truth. I think what they want to do is keep the high tariffs on trucks from Japan, but that's another issue.

The point is, they've had these sort of deals so they get, you know, one hand washes the other, so they'd be less willing to challenge the people who compete with imports. With a higher yen and all the changes that's no longer true in, say, the electronics industry.

Now in other ways, you find Japan being relatively closed. For example, Japan's share of inward foreign direct investment is tiny, right? It rose from -- the total stock of years and years and years and years of FDI rose from 0.6 percent of GDP to 1.8, thank you very much. In Korea, on the other hand, during the same period it went from 3.9 percent to 14 -- I'm sorry, it went from -- I'm sorry. In Japan, from 0.6 to 3.9, the gray bar. And in Korea during the same period it went from 1.8 to 14 percent, huge jump. Why? Because again, Kim Dae-Jung and his successors felt that economic liberalization helped political democratization. And bringing in the foreign interest groups would help take down the power of the *chaebol* and their political power, and they had been aligned with the military regime. So that went hand-in-hand. But, they really moved on it.

And you have these rules where really a foreigner cannot buy a Japanese company that does not want to be bought. Nor can another Japanese company buy a company that does not want to be bought. That has to do with stable shareholder practices, which is hard for me to see how that gets negotiated in TPP. It's not a government rule, but again, it indicates attitude.

Korea is far more dependent upon trade than is Japan. So, they really know they've got to trade or die. As a result, the Korean population is more in favor of trade, and especially more in favor of free market rules than is the Japanese population. The middle is the free market, the black is Japan, the grey is Korea.

Now, the Korean -- the Japanese manufacturers, although their dependency on exports is rising, they're far less dependent on exports than are their Korean counterparts. More important, they're -- I got this really snazzy slide but no time to show you. But if anyone asks a question I'll reveal it, all right?

More important, they're far less reliant on imports. So much of what Korea exports involves almost half, 44 percent, of the value of what they export consists of imported parts and capital goods. So not only do the Korean exporters know they've got to export or die, they also know they have to import or die. Less so in Japan, only 23 percent -- and that's up a lot from what it was before, and the difference is the Koreans import an awful lot from non-Korean companies. If you look at the manufactured imports of Japan and the growth of it, I forget the numbers -- lately, because I think METI actually stopped publishing it but I could be wrong. But the last time I looked, they were pretty old numbers. But in any case, perhaps the majority or close to it of the imports of manufactured goods were actually from Japan's own affiliates overseas, rather than from foreign companies. And you get much more -- the competitive effect that Takenaka-sensei was talking about is much more when you're importing from a different company.

Great chart, I'm not going to show you.

This has to do with intra-industry trade. That is to say, importing in the same goods that you export. So you're really subjecting your market to competition, and that's what makes you lean and mean, that's what creates the dual economy. If you want to know more about it, I've got a whole book I wrote in 1998, it's a great Christmas present, birthday present, Hanukah present, whatever. Go get it.

But the point is, in Japan it's 50 percent which, again, is a big improvement from what it used to be. It was 25 percent? Ed wrote a book on this thing, you know. And in Korea, it's 70 percent, right?

Now, so what are the Japanese companies doing? Rather than fighting to change Japan, as hard as I think they ought to, they're leaving Japan because that's actually politically easier. And they get to do things in their overseas affiliates they really can't do within Japan. So as of fiscal 2010, this is the leading listed companies on the stock exchange, right? 42 percent of their global sales -- now, this compares domestic sales to sales by their foreign affiliates. This does not include exports from Japan, right?

So, 42 percent, the top line here, of their sales are overseas. Right? 42 percent. 53 percent of their profits were earned by their overseas affiliates, whereas in the year 2000 it was only 20 percent of their profits. This is the hollowing out of Japan. And a lot of things lead to hollowing out, but one of the

things that leads to hollowing out is lack of FTAs, because companies will go to countries that have FTAs, so they can therefore export more freely to other countries.

Okay, last slide and then I'm done -- I see actually I think I've gone over time, I apologize -- is, this. There are a lot of reasons why Korea is set to overtake Japan in per capita -- real per capita, purchasing power, power to GDP by the year 2016, according to the IMF. Other people might say 2015, 2017, but thereabouts, right? Lots of different reasons. But one of the reasons is that we know that countries that trade more and have more inward, direct investment as well as outward direct investment tend to grow faster. And also, they tend to get into less economic trouble and when they do get into economic trouble they tend to reform better, because the global competition smashes the domestic special interests. That's why trade helps you. Not because you export more, but because you import more and you have more inward direct investment, and you break down monopolies. That's hard to convince people of, but economists know it, like to say it, but no one believes us. But Korea did it, and that's why Korea will overtake Japan in per capita GDP, which to me should be a bigger psychological shock than the Chinese overtaking them in total GDP, because it's the Koreans.

So, I think the mantra of the Noda Administration ought to be, if Korea can do it, why not Japan? Will he do it? I don't think so. I think Japan could do TPP. I'm not saying it's impossible, but I'm saying the hurdles are very, very hard. It's not going to be easy for them to -- I think Wendy's word was show themselves to be "ready". It's not going to be hard, but it's something that the nation needs to do, and somebody from the Noda Administration has got to clearly articulate to the public why it is in the national interest of Japan to do it. And so far, unfortunately, they have not.

Thanks a lot. (Applause)

MR. BOB: Thanks, Rick. Aburaki-san?

KIYOAKI ABURAKI: Yes. So, thank you very much. My name is Kiyoo Aburaki, and I am a U.S. representative to Keidanren, and my office is located several blocks from here, in CSIS. I think in my presentation you will find some contrast with previous presentations -- Richard's. I think this is very good for discussion for this panel. Yeah, thank you very much.

MR. KATZ: We agree on that.

MR. ABURAKI: Yeah. I think this is the Port of Ishinomaki, a sister port of a Port of Everett, state of Washington. Everything was destroyed by the tsunami, March 11th. But Ishinomaki has beautiful cherry blossoms. This is hope, this is opportunity. We should seize them. We need the right strategy.

Obviously, joining TPP is an important part of the strategy. Keidanren, Japanese business community, strongly push it. Why? Because TPP would provide an opportunity for global business. TPP provides and creates simply, you know, towards very important steps towards the FTAAP. They create a favorable free trade environment for corporate activities, eliminate tariffs toward the FTAAP. And also, TPP created a rule based international economies.

What Keidanren is saying is that in last April, April of this year, we need to more appropriate IP protection, liberalize the Internets-based services, and also we need harmonization of food safeties based on international standards scientific evidence. We need some -- I think these agenda is a very good agenda for U.S.-Japan, to collaborate, to establish new standards for the 21st century business, including Asia-Pacific and Europe.

TPP. We see that TPP also provided some opportunities or momentums for domestic reforms. There are two aspects of opportunities. One is an adjustment for TPP. For example, efficient customs procedures which cost hugely, you know, on Japanese businesses. And using a single-window system could be led to more export-competitiveness. And also, not only for Japanese big businesses, but also small- and medium-sized businesses. And also, there are more substantial issues.

These are not for TPP, per se. These are for Japan's economic future or future of society. One important agenda is to establish more competitive agriculture sector. Second one, to develop human resource development appropriate for 21st century business. And the third one is to create a more business-friendly environment within Japanese soil. I think we need -- we can see that joining TPP can be the momentum -- important momentum to push forward this kind of domestic agenda.

Keidanren supported kind of the work of a task force with CSIS, which tried to establish the future agenda for U.S.-Japan collaboration for recovery and a stronger U.S.-Japan relations. The task force conducted a survey toward Japan's business leaders and U.S. business leaders, and found a very important point. U.S. and Japanese businesses have a common agenda, or priorities, in terms of domestic reforms. If, you know -- when they asked whether one -- how to expand or maintain a business presence within Japanese soil? This is starting from a stable energy supply. This is quite a big, important issue for Japanese business communities, small or regardless size of business.

And it was tax reform. As Takenaka-sensei said, we need a tax reform in terms of corporate tax and consumption tax -- corporate tax. And also, regulatory reform is very important. Japanese -- we need a division of labor laws to allow flexibility in corporate hiring. Of course, we need to provide an appropriate safety net for part-time workers. We should -- what we need are more

diversified workforce, which were prescribed in the *Honebuto no Hoshin 2006*, I think.

And also, trade liberalization. Japanese business community could strongly support it. I arrived in Washington September last year. I had many chances to talk to U.S. businesspeople. As far as I know, what Keidanren Japanese business exporters did in Tokyo, Nagata-cho, is quite -- I think -- I don't think we are not so, you know, quite aggressive. Much, much aggressive that during a couple years ago, you know, Uruguay Round SII talks.

And how about Japanese people? On November 11, Mr. Noda announced that Japan will join the talks toward the TPP. This is conducted by -- the result of public opinion surveys conducted by major three newspapers. I think this could show pretty good public support toward TPP. When Mr. Noda made an announcement in Tokyo, I was also in Tokyo. I got in a cab. The cabdriver asked me, what do you think about TPP? Cabdriver asked me. I never asked such things. Only one exception, is that immediately after the dissolution of Diet 2005. Cab driver asked me, what do you think about (inaudible)? I, of course, always say, yes. But this time, he asked me what do you think about TPP? He also continued, do you think really anything -- everything that changed immediately?

I met another journalist from Sendai. He's from *Kahoku Shimpo*. He also confessed that people in Sendai or Tohoku are really concerned about TPP. Many people are concerned because, you know, everything changes immediately. He said, if Japanese government said that there is time to prepare for the changes, and also if the government says so, many people will be -- in Tohoku will be realized, you know, will be so much relieved. That's what he said.

Obviously, I think that many people in Japan are facing the TPP ghost, as Mr. Maehara said. The ghost is a ghost, it's not the real TPP. What they fear is that everything will change immediately. But the bottom line is, even if in front of such a TPP ghost, according to a Nikkei survey, 46 percent of people say, yes, 35, no. Yomiuri, 55 percent yes, 35 is no. This is, I think -- therefore, I think this could show quite good public support toward TPP.

What concerns people the most? It's the impact of agriculture business. I think Japanese government makes a clear assessment on that. Cabinet decision last year said there's a risk that sustainable agriculture would not be possible in the future because of an ageing population, difficulty finding successors, and a low profit rate. Japanese government never said such a thing, 20 years ago during the U.S.-Japan trade frictions. Then, why did the Japanese make such a clear assessment? Because there is something clearly shared by many of the Japanese people. What is this? Structural change in Japanese farm houses.

This chart shows one very important thing. More people in farmhouses, as a whole, are more dependent on sources outside farming business - I mean, income sources from companies. And I think at this moment, farmhouses with major incomes from farming business are less than -- almost 20 percent. Many people going to -- farmhouses going from here to here.

I heard a very interesting story from an LDP politician elected from the rural area. There are so many farmers among his constituency, they surely have a concern about TPP. But they really understand the importance of TPP. Why? Many of their family members work for automobile companies and electronics companies. This is the reality, I think.

Good news is that we have pretty good support of institutional changes of farming business. Almost 70 percent of people said that we need more farmers with large operations. More than 60 percent of people say that the deregulation -- we need deregulation for freer corporate participation in farming business. Everything must change, everything does change. Institutional linkage, domestic linkage within Japan also changes. I think this could be the most promising.

We see that agriculture could be the growth industry. There are a lot of initiatives, and we have a -- Keidanren recently issued a report which introduces more than 200 cases of collaboration between farmers and companies. This kind of collaboration never happened in the '80s.

One example, the Saijo Agricultural Innovation City Project, Ehime Prefecture in Shikoku. This is a joint venture with Sumitomo Chemical, which provided 90 percent of the money, and the remaining 10 percent of money was provided by the City of Saijo and JA Saijo. They are trying to produce lettuce and cabbage, cultivated 20 acres, size of land, using an unmanned tractors and helicopters with GPS. Amazing. I hope it is a success.

So, to sum up. I think there is opportunity. Japanese businesspeople -- I think people in Japan may understand opportunities. And also the public support is quite -- I think we can see the good public support within Japanese soil. And Japanese business and farmers relations are changing. The farmers are trying to changing.

I think that these things suggest, tell me that -- I really hope that Japan will join the TPP negotiation, and Japan will play a very constructive and positive role in cooperation with the United States. Thank you. (Applause)

MR. BOB: Thank you, Aburaki-San. Terada-Sensei.

TAKASHI TERADA: Thank you very much, Dan. I would like to also say thank you very much to the conference organizers, very kindly inviting me to this very significant and interesting conference.

The assignment which Dan just gave me was to link the TPP up with the other regional integration frameworks. So therefore, my talk will be more on the international rather than the domestic elements. Okay, I say, okay, fine. That's very interesting.

The second assignment which I received from Dan just prior to my departure to D.C. here, which I was thinking which films I have to watch onboard was, you know, Takashi, you have to send your Power Point as soon as possible. Oh, so I was thinking of doing it after settling down in D.C., after overcoming jetlag. So that means, you know, I had to struggle with my jetlag sleepiness, even complaints from my neighbors. Could you just switch off the lights, and et cetera. Anyway, I did it onboard. And yesterday, I sent it to them. But I realized before my sleep, there were several fundamental spelling mistakes and grammatical mistakes that were – which a university professor should not do.

So, let me allow to use, TPP and TTP interchangeably meaning the Trans-Pacific Partnership. I apologize for that. (Laughter)

Anyway, to address the assignment, I just set up the three major points. One, probably a message maybe I have to carry here, is the Japanese decision to join TPP might help Japan overcome the three characteristics of Japanese FTA policy, featured by three notes. And second, Japan's decision to join TPP might help Japan engage in what I call the multiple regional integration schemes in Asia. And third message -- well, this means half. Japan's decision to join TPP may have a so-called domino effect take place in the East Asia and Pacific. So, which means, you know, while we struggle with making a decision, Japan should join TPP or not? You know, through the one year, particularly after Mr. Kan made speech on October 1st last year. And the Japanese citizens, you know, they tried to observe how the Japanese government tried to do it, because we knew big, big obstacles existed before Japan to make a decision.

So, let me start with the first message and a point. Features of Japanese regional integration. I said three notes. Number one, no experience in multilateral FTA negotiations. Japan's FTA so far has been mainly done through the bilateral FTA, including ASEAN Plus-1 FTAs. ASEAN could be regarded as one unit here.

Number two, Japan's FTA does not include major economies. For example, the top five, you know, trading partners starting from China, U.S., EU, Korea and ASEAN are not -- of course, ASEAN already, you know, signed. But, you know, the four major economies are not, you know, included in the Japanese

FTA list.

Finally, why so few agricultural liberalizations? Looking at the previous Japanese FTAs, 950 items are excluded. From which 850 were agricultural products. And sometimes, you know, Japanese government said, you know, we are putting in agricultural products, but that had already been liberalized in the WTO level. So it means almost nothing added in terms of the agricultural liberalization, in terms of the Japanese FTA policies. So, again, Japan's decision to join TPP might help eliminate these issues.

For example, the TPP is a multilateral trading arrangement. Nine countries at the moment engaged in negotiations, and it's a large agriculture exporter, such as Australia. Also, one of the largest trading partners of Japan, the United States, is involved. Therefore I said, you know, Japan's decision eventually to join TPP would be a very, very significant political decision.

So I would say in this case, initially surprised but later on, I agreed upon the Ambassador Moore's praising Mr. Noda's speech. And probably it's not necessarily harder in Japan. Even a couple days ago, Mr. Noda had question time with the opposition party leader. He was simply forced to make an apology and requesting, petitioning, something like that. Probably he didn't know how much his speech on the TPP decision was praised by Ambassador Moore, for example.

Okay, second point I have to address here is, some people say "readiness" for Japan to join the TPP, et cetera. Just putting aside the political stories, just looking at the document level, it seems to me Japan probably showed its readiness to engage in the TPP. Number one, the basic policy on comprehensive economic partnership endorsed by the Cabinet just before the APEC Yokohama meeting. Again, all goods. Japan will subject all goods to negotiations for trade liberalization, et cetera, et cetera.

As far as I know, this is the very first document which touched on the no exception approach to the trade liberalization, or FTAs. I think this is something which is similar to what the U.S. government tried to use, and this is something which Mr. Noda mentioned in a meeting with Mr. Obama in Honolulu. But I think the document (inaudible) existed.

And new growth strategy endorsed by the Cabinet again last year, and even this year, too. FTAAP, APEC-wide FTA was mentioned thoroughly as a regional integration framework in a Japanese official document endorsed by the Cabinet. So that means, you know, an FTAAP was considered to be very significant and probably very significant objective for trade liberalization or regional integration framework for Japan.

So therefore, a few months after when Japan hosted APEC in

Yokohama last year, the Yokohama declaration or vision was just launched and the Japanese government suddenly drafted the document. And it said, you know, FTAAP would be pursued by building on ASEAN Plus 3, ASEAN Plus 6, and TPP. Sorry, it's a misspelling, I'm sorry. So TPP's significance has been underscored for first time in APEC's history, as far as looking at the documents of APEC. Again, it was Japanese responsibility to bring this word to the APEC document.

So again, FTAAP was put on the most significant objective of the regional integration, as far as, you know, Japanese government is concerned. And Plus-3, Plus-6, and TPP just, you know, juxtaposed with each as a way of reaching these purposes. I think the three documents could be – official documents could be quite significant in gauging Japan's readiness, at least in terms of document level.

This is just, you know, mapping who would be out, what I called sort of multiple regional integration schemes in Asia. And Japan is just put in the center, and starting from the CJK, China-Japan-Korea FTA, and East Asian FTA, this is ASEAN Plus-3 FTA, and CEPA, Comprehensive Economic Partnership Agreement, and ASEAN Plus-6 FTA, and then we have FTAAP. And I just underlined the countries which are now engaged in negotiation for TPP.

So, we have quite, you know, a few options in addition to TPP in this case. So, the next question is, how Japan's decision to take part in the TPP would move this kind of framework for regional integration?

As some of you know here, so called domino theory was well-cited economists and political scientists for explaining the how the proliferation of the FTAs bilaterally, even region-wide, has been taking place. And before 2000, there was no bilateral single FTA until Singapore and New Zealand signed one. And followed by Japan, Singapore -- Australia and Singapore, et cetera. And suddenly, a number of bilateral FTAs increased.

So, I have to say Japan played quite a significant role in terms of the East Asian domino game of FTAs, which should be evidenced by the fact that Japan has an FTA with the seven individual ASEAN member countries, in addition to ASEAN as a single unit. For example, China, Korea, Japan's rivals, had only one bilateral FTA with individual ASEAN-member country, which is Singapore. And it is well-known that China's interest in pursuing the FTA, after deciding to join the WTO 2001, was also influenced by Japan's move to have a bilateral FTA with Korea in 1998, and also Singapore 1999. And China offered FTA proposal to ASEAN in 2000. This was the beginning of the change of landscape of the trade politics in East Asia again. And Japan, Korea, India, Australia, New Zealand all followed what China did toward the ASEAN.

So, it seems to me Japan's decision to participate in TPP support applicability for regional integration cases -- I mean, the domino effect must take place not to the bilateral level only, which has already done, it seems to me, but even regional levels. So, let me explain a little bit more on that.

CJK, China-Japan-Korea FTAs. Again, this is probably basics for Japan, even Korea, China, all of them are members of ASEAN Plus Plus under APEC. So in this case, without forming the trilateral FTAs among three Northeast Asian countries, any regional integration -- APEC-wide, ASEAN Plus Plus -- could not be accomplished. So therefore, this is a beginning. And interestingly, China offered the CJK FTA in 2002, and then Prime Minister Junichiro Koizumi actually said, you should work much harder for liberalizing at your home, just, you know, following what you promised to do in entering the WTO. But Japan's interest in CJK framework is more like investment. Japanese multinational companies always complained about, you know, the insufficient protection of the Japanese companies, even the copyright problems and intellectual property rights issues, it's all, you know, got out -- just put outside from China's FTAs. So I think China and Japan's interest in trilateral framework was simply to have a trilateral FTA -- sorry, investment treatment. And China, of course, no.

You know, China and Australia, its bilateral FTA negotiations simply turned because of this China problem in accepting Australia's demands to open up the service and investment areas. But you know, China changed its position gradually, particularly after last year when Japan showed an interest in joining the TPP. And particularly this year, I attended a couple of academic conferences -- at academic levels, you know, China pushed harder for, you know, cramming the CJK's most significant framework for regional integration for both of us, et cetera. So probably it's not mentioned at government levels.

And Korea also showed interest in signing FTA with China. This is probably something which Korea has never considered as a desirable FTA partner. But you know, Korea and China are considering to have bilateral FTAs again. This is probably the basis for upgrading to the trilateral levels of the FTAs. So, China and Korea, two neighbors, reacted strongly to the Japanese interest and also eventual decision to make Japan participate in TPP.

CEPA -- I think Mr. Nakatomi mentioned in the very first session today, there was probably no clear differences now between the ASEAN Plus-3 and the Plus-6 FTAs. He said, amalgamated. According to China's statement which as far as I got from the newspaper articles, China said if East Asian FTA, ASEAN Plus 3 FTA, were done, they would be happy to join the next stage, Plus-6 FTAs. So, still China sticks to the ASEAN Plus 3 framework, which China has been working so hard. While Japan has been working so hard for realizing ASEAN Plus 6 FTA. But now, China is coming closer to Japan's position,

ASEAN Plus 6. So therefore, even CEPA might be considered as a more real framework for regional integration. No pipe dream position anymore.

U.S. and (inaudible) possible promote CJK, again, as far as I hear. U.S. urged Japan to join more eagerly. I will probably respond on this if asked in a Q and A session.

And finally, Japan's media highlighted Mexico-Canada decision was encouraged by Japan – again I'm not necessarily convinced by this because I have never seen any actual evidence. But the media in Japan, often said both countries' decision to join TPP were influenced by Japan. But if you know, I would be very much happy to hear your opinion on that.

EU. This is probably the most significant FTA for Japan. Targeting countries always, you know, which began to negotiate FTA with United States. And even Vietnam, Malaysia, Singapore, Brunei, you know, those countries are all TPP members, and EU tried to have a bilateral FTA. That's very interesting. And EU people say, it's not a coincidence EU is following the TPP member countries. And EU also showed an interest in an FTA with Japan after Mr. Kan mentioned Japan might be joining TPP.

So, conclusion. My concluding remarks. Again, thanks to Japan's decision -- eventual decision to join TPP, the domino game started the regional integration level which fits well with Japan's overall FTA strategy, you know, joining the different levels with the different types of regional integrations -- multiple regional integration frameworks.

So, the point is, if Japan realized joining TPP would be very difficult politically. That might mean Japan needs to find the other framework, which might be CJK. So you know, pursuing CJK together with TPP might be a strategy Japan should pursue. I know that it's hard to say here, in Washington D.C., but China is by far currently the most significant trading partner, number one trading partner, with higher trading barriers. So in this case, the FTA would be very effective.

Japan probably -- many countries would not be interested in going to an FTA with much less trade barriers because the FTA, TPP is discriminatory. Only signing countries could benefit such kinds of deals, trade liberalization, et cetera. But as two speakers -- even Professor Takenaka, maybe -- it's obvious that whether or not Japan can continue to join the domino game in regional integration levels, as a key player depends on the agriculture reform at home. It's not an exaggeration. If the Japanese government decides to dissolve the Diet, not for TPP, maybe for consumption tax, for example, I don't think the agriculture liberalization will take place. So if something happened next year, again, it's quite unlikely for Japan to join TPP. So again, it's simply depending on the

Japanese domestic politics, not only TPP but also the consumption tax.

Thank you very much. (Applause)

MR. BOB: Thank you very much, Terada-sensei. I thought what we could do now is give each of the panelists a chance to make comments based on what they've heard from the other panelists very briefly before we open to the audience.

So, Takenaka-sensei, would you like?

DR. TAKENAKA: Well, thank you very much. I spoke for about 10 minutes, based on upon his suggestion. Other participants spoke for 15 minutes each, so let me add some points.

I'd like to endorse the points raised by the participants. First, the benefit of TPP is very huge to the Japanese economy. This is quite true. According to some estimates by the Cabinet Office, this is very strict econometric work. If free trade system prevails, the total area of APEC in the future from this TPP -- the growth rate of the Japanese economy will be increased by 1.3 percent. Considering the current rate, 2 percent or less than 2 percent, this increase is huge. And a similar thing can happen also to all other countries. So, I'd like to stress again the impact of free trade. It's huge. This is the first point.

And secondly, many participants discussed agriculture. Yes, it is true, agriculture issues are very important. But I dare to say, the reform of agriculture is not so difficult. Can you imagine how high or low is the tariff rate on vegetables, general vegetables in Japan, like tomatoes, cucumbers? This is 3 percent. Only 3 percent tariff is imposed on these agriculture products in view of our vegetables. Still, they are competitive.

And I would like to say, rice is very special in Japan. The tariff is 778 percent. Twenty years ago, the international -- compared with the international price of rice, the domestic price was about 4 times. Now, it is only 1.4 or 1.5 times. So, we do not need 700 percent tariff. That's stupid, actually. And was also mentioned by Mr. Katz, most of them are so-called part-time rice producers. And as far as rice producer income -- all rice producers' incomes are concerned, the agriculture income accounts for only 8 percent of their total income. So, even if this is liberalized, the impact -- economic and negative impact is not so huge. But anyway, it is quite important to introduce the competition system in this. The rice quality is very high in Japan, so the small farmland is condensed on the -- gathered and creating large farmland with high productivity. They can be competitive, to some extent. So I'd like to stress -- I dare to say the reform of agricultural sector is not so difficult in Japan. And so, this is indicating the rice import issue should be included, definitely included, in

this TPP negotiation. This is quite important.

And thirdly, well still I'd like to say this is a very difficult power paradox in Japan. Well, in Japan where the agriculture sector, especially farm producers, are heavily protected. Since they are protected, they do not need any competition, so they have time. They use this time for political movement.

Yes, please consider the case of election. Well, political activity is a very time-consuming activity. So, economically weak people become politically strong. And also, this was mentioned by Mr. Katz, the very inequality in the weight of one vote in the region. So now, the politicians are now discussing the reform of this electoral system now. This will help, to some extent, to promote the liberalization of the agriculture. I'm not so pessimistic about that.

MR. ABURAKI: Yeah, since I'm a Keio graduate I always pay a great respect to Takenaka-sensei. But I think there are two kind of problems, difficult problem and easy problem. Maybe farming issues should be difficult problem. But the difficult problem is divided into two; manageable and not manageable. Could be manageable. Thank you.

MR. BOB: Okay, why don't we open it up to questions from the audience? And we'll begin over here.

QUESTION: Thank you very much. My name is Kawauchi at the World Bank. Thank you very much for a very interesting presentation.

I have one question to Mr. Katz and one question to Minister Takenaka. I was very interested in Mr. Katz presentation and I partly agree with that. That domestically, Japan has very difficult issues and in some cases it is easier to leave the country than change Japan itself. And if we take the -- on such assumptions, which one do you think is easier, to invite Japan to the multilateral framework, like TPPs? Or, the bilateral framework like the bilateral FTAs, which the United State did with Korea? That is my question to Mr. Katz.

And two questions to Mr. Takenaka. I completely agree with you that Japan needs a very strong political leadership, and I want to ask you to elaborate a little bit more how the TPP can be the good opportunity to get a strong leader in my country. Thank you very much.

MR. KATZ: When you say which would be easier, easier for Japan to do or easier to get a good result?

QUESTION: Easier to get a good result.

MR. KATZ: Okay. To get a good result, I think the TPP is a

better path than bilateral, because the TPP has already set certain standards. As you know, the standard is that -- you know, no exceptions. Except, of course, just as Japan has this very sacred crop of rice, the U.S. has this very sacred crop of sugar, and I believe also, gas guzzlers are vital to our culture. So that, every nation has got cultural things.

But the point is, TPP sets a framework where the premise is there are already countries in it and they have a certain bar, and the bar may not be as high as the perfectionists among us would like, but you know 90 percent of a loaf is better than no loaf at all, or half a loaf.

I think if it's purely a bilateral, I think the initial bar would be far, far lower. So, definitely to answer your question, I think to get a better result that will benefit all the countries, including Japan, including stopping some of the hollowing out, I think the multilateral is a much better framework.

The difficulty is this. I have never actually been a huge fan of a U.S.-Japan FTA, and the reason is this -- I hope I'm wrong about this, but I don't think I am. You know, there are certain -- sorry, what we used to call "structural impediments". There are certain structural impediments to Japan's openness which are a matter of regulations that can be dealt with by these negotiations. These negotiations, as far as I know, only deal with governmental practices. They don't deal with business practices.

So for example, if there are regulations about something called triangular mergers, which are a barrier to inward direct investment -- and don't even ask, you don't even want to know what they involve. That's a regulation. But the biggest barrier to inward foreign direct investment is all the stable shareholding, where companies sort of -- incumbent managers protect each other. This dealership issue is not a matter of Japanese law. Japanese law, dealers can sell any car they want to sell and the Fair Trade Commission of Japan even sends a note clarifying, you have the right to sell other cars. But no one does because of the power relationship.

Those kinds of things, unless someone finds a way to introduce those sorts of business practices, then it becomes difficult. Of course, in the U.S. we have our own business practices that, you know, bring down the entire world's financial system, but that's another story. Also, not subject to TPP negotiations.

So, I think what we can expect -- certainly, doing it is better than not doing it. If you can achieve a result, it's absolutely better than not doing it, and I'm in favor of doing it. But in terms of changing governmental rules, how much we can actually expect that alone to change Japan? I'm skeptical about this 1.3 percent improvement in the growth simply by a change of the overt rules.

DR. TAKENAKA: Well, in the past 30 years, maybe more than 20 prime ministers appeared and disappeared. And among them, among those 20 prime ministers, who left the prime minister's office with a smile or with satisfaction? Only two, Mr. Nakasone and Mr. Koizumi. What's the difference? In the case of Mr. Nakasone and Mr. Koizumi, it was very clear what to do. They raised a clear agenda.

Since a clear agenda, a lot of resistance power. And raising agenda and fighting against the resisting power, in this case, the popularity goes up, or supporting ratio goes up. Since supporting ratio is high, they have power.

So, in case Mr. Noda has this kind of agenda, I'm not sure whether TPP or not. But anyway, in this case he has a very clear agenda, what to do, what he wants to do. In this case, he can be a strong prime minister, I think.

MR. BOB: We're already over time, but why don't we take, say, two or three questions very, very quickly and we'll wrap up with that.

Ira.

QUESTION: Ira Wolfe, just a visitor from Tokyo. A question for Minister Takenaka. As Japan deliberates whether to join TPP or not, if the U.S. government sets preconditions -- difficult preconditions that Japan has to meet, what would be the impact on the domestic decision-making process?

MR. BOB: And one other.

QUESTION: Brian Klein, I'm a former USTR and State Department official and was a CFR and Hitachi Fellow, hosted by Keidanren in Tokyo.

Could anyone discuss really briefly what are the implications if Japan doesn't join TPP, considering its economic fragility at the moment? And if they pass up on this opportunity, what are the possible consequences of doing that?

MR. BOB: Okay, over here.

QUESTION: Thanks so much, another great panel. It's so interesting to hear everybody present facts, including facts from the ground, that just seem overwhelmingly in favor of Japan being able to do what it needs to do, but you then are struck, especially -- well not necessarily just from the American side -- that it all seems to boil down to political will and political leadership.

And I'm really struck by, in a sense, the difference between

Aburaki-san's presentation and Tami Overby's presentation because you know, sitting here in D.C. you know exactly where the Chamber is and what it's doing, working the Hill, beating the boys and girls on the head with facts, and businesses from the hometown, and just really working the system. And I've never had the sense that that was happening in Tokyo, never quite understood why the Keidanren doesn't put its muscle, its boots on the ground on the ground in Japanese politics.

And yet, I think that's what we sort of ended up with you today. Every single one of you has said in your own way that, you know, if the prime minister will be a Nakasone-san or a Koizumi-san, maybe we can do this stuff and maybe we can really get the reforms done.

So my question is, do you see this as conceivable? And really, Aburaki-san, do you see the Keidanren itself reforming in the sense of becoming - - forgive it -- sort of a more American-style, in-your-face operation with the political system that you support but don't seem to really push?

Thank you.

DR. TAKENAKA: Well, let me respond to the first question. Thanks for raising that.

Well, I'm not a trade negotiator, so I'm not in the right position to say something on that. But I guess if there is very difficult pre-conditions shown by the United States, for example, Mr. Noda's position will become a little bit difficult. The people who are against TPP will be very much pleased.

Well, so this would give some power to people who are against TPP.

MR. ABURAKI: Thank you very much, it's a difficult question. But I think Mr. Yonekura, he openly said in front of journalists in Tokyo, he never -- Keidanren expected the answer of "no" in terms of joining the TPP. And I think -- I'm a political scientist, I just spent two years in Boston. What I learned is, political leaders have constraints, and also autonomy. Sometimes constraints have much, much bigger impacts, sometimes autonomies have bigger impacts.

I think if Japan -- any political leader thinking of the future of the Japanese economy, I think it's a kind of clear why TPP is important. And also, if TPP's procedure -- if they think about procedures of TPP, I think this kind of very important constraint to -- I think that's why probably, you know, great political -- as DPJ and Noda Administration pushing forward in terms of TPP.

MR. KATZ: Yeah, I would like to answer the second question, but I would also wish, Aburaki-san, if you could elaborate a bit more on your answer

to Chris in terms of what Keidanren will actually do to lobby for this? And then after you do that, I would like to answer the second question.

MR. ABURAKI: I think a lot, a lot. I think the issue is starting from issuing a position paper, meeting the politicians, meeting with Diet members and political leadership. I think what they -- you know, they do many things, but while I'm in D.C. So, I'm not directing involved.

But I think what is interesting to me, is that Mr. Yonekura met with Tanigaki, the president of LDP. And at the meeting, Tanigaki criticized Noda's decision because it is too premature to say such things. But then Yonekura replied, if not -- if you make a decision now, why not? Then why, you know? I think it's a good time. And also, he continues, if LDP will not support the TPP, it would be a bad thing when LDP is back to power. I think this kind of candid discussion -- basically, I think it's a rare case, I think. So I think this could be the one example of how Japanese business community, Keidanren, committed to pushing the -- to support the TPP.

MR. KATZ: I think the second question is very interesting, and I think it has -- that is, what happens if Japan, having -- the prime minister having said they're going to do it, if they ended up not doing it. Now, to clarify when the Prime Minister was questioned in the Diet, he said he did not commit Japan to actually joining the TPP. What he said was, he committed Japan to joining the consultations with the other countries as to whether it would be able to join the TPP, and if it turned out that it was against Japan's national interest to join the negotiations, Japan would not join the negotiations. So, that is my understanding from all the various ambiguous and ambivalent things is what he said. So, he does reserve the right -- not only other nations have the right not to accept Japan, but he's reserved the right not to join if he doesn't like the preconditions.

Now, what would be the consequences? Economically not joining the TPP -- the political consequences are actually far worse than the economic consequences. The economic consequences is, Japan is suffering this tremendous hollowing out of its economy caused by a number of things. It's not, by the way, the high yen. The real price-adjusted yen is actually at its 25-year average. You know, when you compare deflation in Japan, deflation elsewhere. It's not the yen, it's just an excuse.

But, there's an electricity crisis, you know? And you have an administration which won't go after the utility companies, which is a popular issue. They can't get the nuclear reactors being started again. If you're deciding whether to locate production, you know, the expression now is changed -- it used to be "just in time", now it's "just in case". (Laughter)

You've got to plan -- you don't know what the price or the

availability of electricity will be. He's not tackled that issue. And the lack of being in FTAs means that from the standpoint of Japanese auto firms or electronics firms, that it's better for you to relocate to a country that has FTAs so you have a bigger export market.

Now, you know, in economics we used to think of the standpoint of what we called "comparative advantage". But when you're pushing your best, most efficient, the bright side of the dual economy, when you're pushing those companies out of the country, that's kind of a policy of "comparative disadvantage." You kick out the best and you're stuck with the worst.

So that we continue the grinding down, the slowly, slowly, slowly corrosion of the potential growth rate of the economy. And every time METI put out a document, the goal gets lower and lower and lower. Now the goal is 1.5 percent growth in the latest one, you know? The lowering of expectations. So, it would continue that grinding down.

The political effect would just be bloody awful, really, really bloody awful. And it's not about the issue of free trade, per se, although as a member of the Economists Association in good standing, I have to believe in free trade, I'm required to. But what it really means is that as I said before, every country has to balance the national interest with the special interest, and they're both legitimate. It's a question of balance.

And in Japan, too many tiny special interests have veto power. Now, it's certainly not the only country that occurs in, we have that in our own country and we've seen that with the Senate 60-vote filibuster looks like. So, it's not Japan alone. But in Japan, the problem is particularly extreme on many of these issues, where a tiny, tiny percent of the population can veto all kinds of things, right?

So what you're saying is that once again on an issue which is vital to the nation -- and which, by the way, the prime minister keeps apologizing for doing rather than explaining why it's good for Japanese people to do it -- he's letting the LDP act as if he's doing the U.S. a favor, when in fact this is a favor to Japan. He's not articulating that. He needs to be.

You would, once again, be saying that on all of these issues whether it's utility companies that, you know, build plants, despite advice, they build them too low and then wreck an entire region. Or, you know, the farmers here or, you know, the doctors there, or whatever the special interest group, that the Lilliputians can bind the entire nation with these tiny little threads and these little, little tiny threads, one after another after another after another. It's just paralyzing the country. And that's what it means, politically.

And it also means that the prime minister is unable to set policy for the nation. That's a move toward kind of a Westminster-type of system, which Koizumi was trying to do, and sort of stop once he left. But that thing has really been reversed. That we need a situation where in fact the Cabinet and elected prime minister can actually make decisions on behalf of the nation and if the people don't like them, then throw them out next time. But, let them make a decision.

So, I think the political impact would be far, far worse than the economic impact because it would really wreck the power to do anything about all kinds of a host of issues. That's the part of it that I really -- that I fear.

MR. BOB: Final comment from Terada-sensei?

DR. TERADA: Okay, thank you. Just let me briefly reply to Aburaki-san's comment.

On the basis of the Waseda-Keio rivalry, I agree with the -- well, you know, the Japanese are probably able to carry on the agricultural liberalization. But probably what we have to do is prioritize which sector we have to liberalize. You know, you're going to rice and eliminating the 700, 800 tariffs. But a good thing, the U.S. is there in TPP. And the U.S. is not interested in eliminating the tariffs on sugar, and sugar is also one of the most difficult items for Japan to eliminate tariffs because quite a few people are growing sugar is living in Okinawa area. And again, it may be probably related to some of the Okinawa American base problems as well.

So, on -- and how this connected issues between politics and economics and, you know, the American base and the liberalizing issues, interconnected -- again, I don't know the simple political decisions. But it seems to me again, as I mentioned at the beginning, it's extremely difficult for Japan to do something in harming the Okinawa people, particularly this is a very difficult time, even we are ready for the elections, et cetera.

MR. BOB: Well, I want to thank all of you, and I want to thank again the Brookings Institution. We've gone well beyond our allotted time, appreciate your forbearance. But I think it's an indication of the stakes involved in TPP, both in Tokyo and in Washington.

And this is a topic that Sasakawa Peace Foundation will continue to work on. But we thank all the speakers for their time. We thank you all for coming, and to be continued. (Applause)

DR. BUSH: I would like to echo Dan's expression of gratitude. I'd like to turn it back on him and Sasakawa Peace Foundation, and SPF USA for

initiating this program and helping us in many, many ways to bring it to fruition.

If I could sort of add a gloss onto Rick Katz's final sense of pessimism, I would venture to say that TPP is so consequential for Japan because it goes to the heart of Japan's political economy. It not only sort of focuses on what politicians do with their power, but it also focuses on how they get their power. And that's true of the United States as well. But, that's a subject for another symposium.

(Applause) Our meeting is adjourned. Thank you again for coming.

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