

U.S. Asia Pacific Council

# Washington Report

News and analysis from  
Washington, DC about key issues  
in US-Asia Pacific Relations

Volume 3 July 2011

## Asia-Pacific Perspectives On The Future Of The World Trade System

### Introduction:

#### **Dr. Charles E. Morrison**

Welcome and thank you on behalf of the East-West Center, which is the sponsoring organization. The East-West Center, as you may know, is a nonprofit organization mainly based in Honolulu, Hawaii. It engages in promoting U.S. relations and understanding with the people of the Asia-Pacific region through cooperative research, education, and exchange programs.

**USAPC**—The US Asia Pacific Council is a program of the East-West Center, created eight years ago with much encouragement from the Department of State. The Council is a committee of prominent Americans who have played an active role in advising, conceptualizing, and implementing US policy toward Asia over the years. Through the Council, they continue in their private capacities to promote the constructive engagement of the United States with Asia Pacific and also to promote education about Asia Pacific within the United States.

The US Asia Pacific Council also is a vehicle for US participation in the Pacific Economic Cooperation Council, or PECC. PECC is an international network that brings together leading thinkers and decision makers from government and business in an informal setting to discuss and formulate ideas on the most significant challenges facing the Asia Pacific. It is the only non-governmental official observer of APEC [Asia Pacific Economic Cooperation forum] and, upon request, provides important research support for this organization.

**Agenda and Speakers** — So one of our goals for today's conference is to explore some of the issues on APEC's 2011 agenda. The panel you are about to hear will do just that. They are all incredibly well-qualified to discuss not only what is happening in Asia-Pacific trade, but also developments in the world trade system.

We are privileged that three trade ministers from the Asia Pacific region — who only days ago were in Big Sky, Montana participating in APEC's meeting of Ministers Responsible for Trade — agreed to join us today. They are Dr. Mari Pangestu, Minister of Trade for Indonesia, Dr. Craig Emerson, Minister of Trade for Australia, and Hon. Tim Groser, Minister of Trade for New Zealand.

Joining them to provide the US perspective on developments in regional and global trade is Dr. Fred Bergsten, Director of the Peterson Institute for International Economics. He is a very distinguished American economist and, important for today's discussion, a former chair of the APEC Eminent Persons Group, who played a leading role in establishing the so-called Bogor goals for free trade and investment in the region. So let's start with Minister Pangestu. [[Click here for the speakers' biographies.](#)]

## SPECIAL REPORT

The US Asia Pacific Council's 8th Annual Washington Conference on May 23 featured an elite panel discussion, composed of trade ministers from leading Asia-Pacific nations and a highly respected US economist.

The speakers explored developments in regional and global trade and considered issues that will challenge efforts to realize a more liberal trading order. The panelists included:

- **Hon. Dr. Craig Emerson, MP, Minister of Trade, Australia**
- **Hon. Tim Groser, MP, Minister of Trade, New Zealand**
- **Hon. Dr. Mari Pangestu, Minister of Trade, Indonesia**
- **Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics**

The panel was moderated by:

- **Dr. Charles E. Morrison, President, East-West Center**

### **Washington Report**

published by the

**East-West Center** | US Asia Pacific Council  
1819 L Street, N.W., Suite 200,  
Washington, DC 20036  
Phone: 202.293.3995 | Fax: 202.293.1402

Washington@EastWestCenter.org  
EastWestCenter.org/washington

## Asia-Pacific Perspectives on Trade

### Panel Discussion:

#### Hon. Dr. Mari Pangestu

Ladies and gentlemen, old friends, and newly to be found friends, good morning. It's a pleasure for me to be here this morning on this very eminent panel. We have a very challenging topic, and as Charles mentioned, we've all just come from the APEC Ministers Responsible for Trade meeting in Montana where a number of these issues were discussed.

I would like to begin my remarks by reminding everyone of the setting in which we are having this discussion. Many discussions about completing the Doha Round and the importance of the multilateral trading system often focus on the market access-related benefits.

However, I would like to focus more on the costs of not completing the Doha Round; the opportunities lost from not completing this round of multilateral trade negotiations in the comprehensive, single undertaking that it was designed to be.

**Food Security** — First, we face the problem of food security. This situation came to light in 2008 when food prices rose by 100 percent. According to the World Bank, this sharp increase in food prices caused 100 million people to become impoverished. In 2010, we experienced another spike in food prices, which highlighted the fact that the issue was still with us. A good deal of our discussions in both APEC and ASEAN [Association of Southeast Asian Nations] earlier this month focused on the food security problem.

There has been a great deal of discussion about what has been causing the gap between food production and rising demand. Climate change certainly has contributed to the problem. But so, too, have agricultural trade policies that have served to depress prices and eliminate incentives to produce and invest in agriculture.

One of the potential benefits of completing the Doha Round would be to realize the reduction and removal of agricultural export subsidies and domestic supports that have served to depress prices. This is best achieved in a multilateral

negotiation. It would be difficult to address these reforms in a bilateral agreement or a regional agreement. That was one of the positive results we hoped to realize from the Doha Round.

**Protectionism** — Second, protectionism definitely is not over. During the financial crisis in 2008, there was much talk about the danger of recurring 1930s-style protectionism, but this didn't happen. During the crisis, we were very focused on preventing protectionism.

Now in the recovery, we should be even more vigilant about preventing protectionism. I think a lack of progress in the Doha Round or decreasing confidence in the multilateral trading system increases the propensity for unilateral protectionism.

This will adversely affect an already fragile situation in the global economy. So I think that would be the second cost of not completing the Doha Round.

Third, in the absence of viable multilateral trade negotiations, we will continue to see a proliferation of bilateral and regional trade agreements.

**Bilateral and Regional Accords** — Indonesia itself is engaged in various negotiations. Within ASEAN, we have been negotiating with our dialogue partners. There already are ASEAN free trade agreements [FTAs] with China, Korea, Japan, Australia, New Zealand, and India. In addition, Indonesia is negotiating bilateral trade agreements with Australia, and India. And we have completed joint studies with the EU and are doing one with Korea.

India, in particular, has been aggressively pursuing bilateral agreements with the EU, Malaysia, Korea, and Singapore; Vietnam is also in line. That's just to give you a sense about what's going on today.

What does that mean? If you believe that regional agreements or bilateral agreements can be building blocks, these FTAs can be building blocks toward a multilateral trading system. But the proliferation of regional agreements also can lead to the creation of a "spaghetti bowl" of customs-related problems.

**Spaghetti Bowl Problems** — As a policy maker, I can tell



Hon. Dr. Mari Pangestu, Minister of Trade for Indonesia (far right); Hon. Dr. Craig Emerson, Minister of Trade for Australia (left)

you that these bilateral and regional FTAs require a lot of negotiating resources. In addition, these accords can lead to huge administrative burdens related to customs processing, which would require us to divert resources from other priorities.

At the moment, I think we're up to eight or ten forms. Consequently, our customs officials are not happy, and our exporters are not too happy. SMEs [small and medium-sized enterprises], in particular, have problems trying to figure out all of this.

**Impact on Unilateral Reforms** — Fourth, what will happen to unilateral reforms, whether related to trade, investment or other policies? In Indonesia, we have always pursued unilateral reforms based on what is happening on the multilateral front.

A great deal of the push for reforms occurred right after the Uruguay Round Agreement. As we entered into the ASEAN agreement and other bilateral or regional agreements, there also was pressure for additional reforms, besides, of course, domestic pressures for improvements.

Frequently in Indonesia, reforms have been crisis-generated. But we don't want a crisis to precipitate reforms again. We would prefer to have our international commitments serve as the frame for domestic reforms. We are concerned that the creeping protectionism that continues to grow in Indonesia and in many other countries will delay or slow down the unilateral reform process.

In the latest *Vox* ebook there is a paper by Dr. Patrick Messerlin, another friend in our network. Dr. Messerlin estimated that if all the unilateral reforms that have been implemented in the past 20-30 years were reversed, we would lose \$1 trillion in GDP. This wouldn't happen immediately. It would take place over a period of time.

**No Doha 'Lite'** — Let me close with a few words about what happens next. We concluded the APEC meetings in Montana with a sense of realism. We recognized the difficulties of closing the unbridgeable gaps, especially in the NAMA [Non-Agricultural Market Access] negotiations of the WTO.

While I can't speak for my colleagues, I can say that Indonesia remains highly committed to an ambitious, comprehensive, and balanced Doha Round as a single undertaking. Indonesia says "no" to "Doha lite." We don't really like the notion of a "Plan A" or "Plan B." We think that the final objective still

should be "Plan A."

We might have to be more realistic about how to reach "Plan A," perhaps by means of a more sequenced or phased approach. This is something that ministers will be discussing quite a bit in the coming weeks.

**Finding New Solutions** — If there were some guiding principles about how to develop the phasing, I would focus greater effort on finding new solutions for the unbridgeable gaps. Second, this is a development round, so what can you give the developing countries? A package for least-developed countries has been mentioned.

We also should try to find examples of issues that are politically or institutionally easier to achieve. In addition, we should gain greater clarity about issues the business community would prefer to address sooner rather than later.

And while we remain committed to achieving "Plan A" and hope that other leaders feel the same and will push for this as a final outcome, in the meantime what should we do about regionalism? What should APEC be doing?

**APEC's Role** — APEC has been known as the cheerleader and champion of the multilateral trading system. In 1993, APEC was credited with breaking the deadlock in the Uruguay Round.

In 2011, we had hoped APEC would do the same for the Doha Round. But if that did not happen, APEC should still continue its role as the cheerleader of the multilateral trading system.

APEC should provide peer pressure on unilateral action aimed at realizing open regionalism and consider how to emulate the kind of surveillance and self-reporting that we now do in the WTO.

APEC also should provide peer pressure to limit or at least highlight members' protectionist policies. This could dovetail with APEC's individual action plans and collective action plans. In addition, we should give more thought to how APEC's capacity-building and Eco-Tech agenda can be linked to the aid-for-trade framework.

Finally, in terms of managing regional trade agreements, there are APEC model measures based on sound principles. In the ASEAN region, we should adopt some of these APEC principles, such as comprehensiveness, into our trade agreements.

*continued on page four*

## Asia-Pacific Perspectives on Trade

Most of the ASEAN agreements have 90 percent coverage; the Australia and New Zealand accords are the most comprehensive with greater than 90 percent coverage. The ASEAN-India trade agreement is a bit lower than 90 percent.

What we are trying to do in the ASEAN-plus-one agreements is to coordinate all these different agreements and come up with similar rules of origin and harmonization of tariff classification so that countries eventually would deal with only one rule of origin or customs classification. In effect, we would be getting rid of the spaghetti-bowl effect.

**Regional Building Blocks** — These are some of the things that Asia or ASEAN must pursue to play a leadership role and ensure that regional accords become building blocks, not stumbling blocks, and become forward-looking rather than backward-looking.

But in the absence of an updated WTO framework, I think regionalism has the danger of becoming a stumbling block and not a complement to the multilateral trading system.

All regional and bilateral agreements should have WTO-plus standards. But if the WTO is not addressing 21<sup>st</sup> century trade issues then we will have a worrisome gap. ♦

### Hon. Dr. Craig Emerson

I want to begin my presentation by asking a pretty simple question. Why do countries of the world enter into trade negotiations? The answer is to reduce barriers to trade.

So the next question is how did the barriers get there in the first place? We seem to be spending a lot of time undoing damage that has been done over the last century or more as countries felt that the best way to improve their domestic prosperity was to erect barriers to trade. They felt that this would make them wealthier countries.

Please remember that Adam Smith had a lot to say about that in 1776. Smith saw no merit whatsoever in erecting barriers and other restraints on trade. Yet the history of the world has been one of nations pursuing protectionism and then creating complex negotiating forums in which agreements are reached to reduce protectionism.

A point Mari made in her presentation is that it's quite evident in the Doha Round of negotiations that governments, including of course trade ministers, talk very anxiously about the price their country is expected to pay in achieving an outcome.

**Price of Doha** — By the price, they mean the cost to their respective countries of reducing protection — as if in the modern world there is still a view that there is a level of protection that is good and would be very hard for countries to reduce unless other countries do the same.

This hasn't been Australia's approach, by the way. We had about 80 years of protectionism, beginning with the federation in 1901 and continuing to the early 1980s. It was only then that the government [of former Prime Minister Bob Hawke], which I was privileged to advise, formed the view that it didn't make sense to have high trade barriers. In fact, the very industries that were being protected were crumbling with poor productivity and high costs.

The Hawke Government began a process of reducing protection without requiring other countries to do likewise.

It did not have a view that there was an optimal level of protection from which it would only grudgingly depart if other countries did the same.

And yet here we are at the end of the first decade of the 21<sup>st</sup> century,

and the Doha Round still is mired in arguments about how countries really don't want to reduce their own protection but might consider doing so if other countries agreed to follow suit.

As long as that philosophy prevails, it's going to be quite difficult to get an outcome for the Doha Round that is truly liberalizing. Nevertheless, the people you see at this table — Tim Groser, Mari Pangestu, Fred Bergsten, and me — are optimists. We have the same energy and the drive, if we could just convince enough countries in the world that this is the right way to go.

I'm not saying that those at the table represent the totality of like-minded countries. Despite our energy and drive, we'd still be outnumbered 150 to three. So we'll press on. But it's interesting that in this context therefore a lot of sub-architecture has been created in Asia.

**Australia's Multilateralism** — I'm a multilateralist. Australia is a multilateral country, which means that our strong preference is to achieve liberalization through multilateral trade negotiations. We do this because the defining feature of the World Trade Organization [WTO] rules is non-discrimination. By non-discrimination, I mean we don't do a deal with some countries at the expense of retaining trade barriers with other countries. That's why the WTO offers such benefits.

---

Regionalism has the danger of becoming a stumbling block to the multilateral trading system without an updated WTO framework

It's ironic that the head of the National Farmers' Federation, the leading farming organization in Australia, said a few years ago: "Well, you can do these bilateral free trade agreements, but if you do the Doha Round of multilateral trade negotiations, you get 144 free trade agreements all in one." Now it would be 153 — but not at the expense of each other.



From left to right, New Zealand Trade Minister Tim Groser, Australian Trade Minister Craig Emerson, and Indonesian Trade Minister Mari Pangestu

Everyone would be in and everyone would be reducing their trade barriers.

**APEC's Origins** — Nevertheless, this other architecture has evolved for rather good reasons. And an important piece of that architecture is the Asia-Pacific Economic Cooperation forum [APEC]. APEC, in fact, was founded in 1990 by Australia and Korea as a result of then-Prime Minister Bob Hawke's visit to Seoul. It soon became a forum not just for trade ministers, but also for leaders of the Asia-Pacific region.

The fascinating feature of APEC is that it is not a sub-grouping that operates on a discriminatory basis. Nor is it a sub-grouping that is a trade negotiating forum. It is a sub-grouping of what we would like to regard as like-minded countries that unilaterally are reducing their trade barriers, confident in the knowledge that they're not alone.

**APEC Like-Mindedness** — APEC members are confident that their like-mindedness means that other countries are going down the same trade liberalizing path so that, politically, it is easier for them to say back home: "Well, other countries are liberalizing, too." If I asked the average Australian what the tariffs were of our Asian trading partners, I think they would say they ranged from 50 to 70 percent. In reality, it's nothing like that.

In fact, through this approach of unilateral reductions in

protection amongst APEC members, the average tariff since the mid-1990s has fallen from 12 percent to 7 percent. We think that's a pretty good achievement. We think it should go further, but it's a pretty good achievement, particularly as this has not involved negotiations.

**AANZFTA** — There is another piece of architecture that I should mention: the Australia-New Zealand-ASEAN Free Trade Agreement, AANZFTA, which is a high quality agreement. I won't go into detail about that, but it is a genuinely liberalizing agreement.

**TPP As FTAAP Precursor** — And then, of course, there is the Trans-Pacific Partnership [TPP], about which I've been asked to say a few words. The TPP now is composed of nine countries of the Asia Pacific — Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam.

And I'm very happy to pay tribute to my colleague from New Zealand, Tim Groser, because it started with just four countries — Brunei, Chile, New Zealand, and Singapore. The United States subsequently took an interest in it, but New Zealand was active in the creation of the grouping of four.

I think it's fair to say that our vision for the TPP is that it could one day become a Free Trade Area of the Asia Pacific [FTAAP]. That day could be a long way off, but the value of the TPP is that, first and foremost, there is like-mindedness. There is a desire to reduce not only tariffs — the 20<sup>th</sup> century trade restraints — but also the 21<sup>st</sup> century behind-the-border restrictions related to government regulations.

So these nine countries are heavily involved in negotiations. In fact, listening to some of our comrades from Peru, for example, they're pretty exhausted. The process is so intense that they've been taking 30 or 40 people to each of the negotiating sessions.

**TPP's Openness** — We are very hopeful that by the time of the APEC Leaders Meeting in Honolulu in November we will have something very substantial to report. And I can say that the United States is very keen on it.

But the TPP is not designed to be an exclusive preferential club. If other countries in the Asia Pacific region — desirably members of APEC — were to make similar commitments to liberalization, current TPP participants would be open to allowing them to enter the arrangement.

If we get the TPP right, in the coming year this could provide the energy, drive, and vitality to move us towards a

*continued on page six*

## Asia-Pacific Perspectives on Trade

free trade arrangement for Asia and the Pacific.

In my view, the optimal arrangements still remain in multilateral negotiations under WTO auspices. But there is merit to the TPP as a stepping stone ultimately to a Free Trade Area for the Asia-Pacific.

Here we are in the 21<sup>st</sup> century and the Asian region is the most dynamic. It's where most of the growth in trade will occur.

During the last decade, China grew at 10 percent per annum. If we continue to see that sort of growth and similar growth for other countries — Indonesia is now growing strongly — then we'll see a tectonic shift of economic activity to this Asia Pacific area.

If we can get it right, I think a good architecture would enable us to cash in for the poorest countries in the region and create a truly liberalizing trade negotiation and trade regime. So I think I'll leave it there and hand it over to Tim Groser, the architect of the TPP, and many other things trade-liberalizing. Thanks very much. ♦

### Hon. Tim Groser

I will focus on trade regionalism and FTA development and describe what I think are interesting modern features of this in the Asia-Pacific region.

For the sake of completeness, I think we first should recognize that there are some missing and very important guests at the APEC table. One is the multilateral trading system.

**Importance of Multilateral System** — This is not just rhetoric. If you think about international trade, please consider the OECD data; 60 percent of all international trade in goods is in intermediate products and 73 percent of all trade in services is in intermediate services.

So the idea that something should be made in Indonesia or made in Australia a full 100 percent and that this should be a model for these two great neighbors of ours going forward is becoming increasingly ludicrous.

All of this important and exciting regionalism floats in the sea of the multilateral trading system. The ADB [Asian Development Bank] has done some very interesting work

aimed at getting a clearer sense of reality in some of the APEC debates about the relative importance of Europe and the United States as final destinations for East Asian exports.

This is because conventional measures we've been using tend to vastly underestimate the importance of the linkages between the rest of the world and what we see happening in the Asia Pacific.

In fact, if one uses the ADB's general equilibrium models, Europe, the United States and Japan — the G3 — range from 34 percent as a final market for East Asian exports defined broadly to include Indonesia, to nearly 60 percent, of which the United States and Europe are about coequal and Japan is about 11 percent. This is very exciting,

and I'm a great fan of pushing ahead with APEC trade regionalism.

But we've always pursued APEC trade regionalism on the assumption that the WTO would continue to provide the essential unifying framework. The WTO would provide the glue that holds all of this together and a process to control the latent discrimination in a political sense and the latent trade deflection.

So we'll see what the traffic will bear by the end of the year on the WTO. What I want to underscore is that when I say we are totally committed to the WTO, this is far more than a rhetorical point.

**India in APEC** — The second missing part of this equation concerns India and developments in India's relationship with China. I am a great fan of APEC, but APEC without India as a member economy is looking less and less realistic.

I understand all the conventional foreign ministry arguments against India's membership in APEC, but in the broader scheme of things, we cannot move forward in Asia and pretend that India doesn't exist.

In a sense, India already has forced that door open with the ASEAN Plus Six agreements and their own bilateral negotiations. New Zealand is well into negotiating a bilateral agreement with India. Australia is involved in a similar process and Indonesia already has concluded an agreement with India.

So those are my two qualifiers: first, as we move forward, the unifying principles behind the multilateral trading system will reduce a great deal of the inherent friction in regionalism; and

---

If we get the TPP right, this could provide the energy, drive, and vitality to move us towards a regional free trade arrangement

second, it is important to address how India and the other giant emerging — China — fit into this regional picture.

**Cleaning Up the Spaghetti** — Having said that, I want to turn my attention to the TPP. But in so doing, I first want to pay respect to the work that Fred [Bergsten] has done on this over the years and the huge influence of his work on people like me. If you review Fred's debates with Prof. Jagdish Bhagwati [of Columbia University] back in the 1990s, you can now see where things come out.

The world probably would have been a damn sight better if we'd all just stuck to MFN [Most-Favored Nation principle]. Those of us who've been promoting regional trade agreements understand that. But it just hasn't happened that way.



New Zealand Trade Minister  
Tim Groser

We went through a period of concluding a series of low-quality bilateral FTAs. More recently, however, we're seeing a trend in a new and interesting direction.

We haven't seen the end of mediocre bilateral FTAs. You can be sure that countries will continue to conclude them in the future. But to my way of thinking, Fred, looking back on those great debates you had with Bhagwati, we are in one way or another cleaning up the spaghetti in the bowl.

**Origins of TPP** — First, there is a distinct trend of flight to quality FTAs. Second, we're seeing a convergence of FTAs into broader groupings. Think of it as a child throwing a stone into a pond and seeing the concentric circles get bigger and bigger. That's what is happening.

If we consider the origins of the TPP, it began with one little pebble thrown in, which was a Singapore-New Zealand FTA. And then the Chileans came along and asked to join in. The Chileans were followed by Brunei, and we had the so-called P-4 agreement.

The United States, which still is the preeminent economy, in turn saw the P-4 as a vehicle for leadership in trade and investment integration in the Asia Pacific. Now the standards are quite high. It is a super-clean deal. It's like the CER agreement [Closer Economic Relations] that New Zealand and Australia concluded in 1982.

**Importance of AANZFTA** — Equally important is the AANZFTA. I think it is extraordinary how little attention this agreement has received even in Australia and New Zealand.

Our two countries realized we had reached the limits of traditional trade, so we forged a comprehensive free trade area with the whole of Southeast Asia, led by Indonesia. This is not simply an idea. It has been signed, sealed and delivered. On January 1, 2010, we began to progressively phase in the AANZFTA over an eight-to-nine year period.

**Rules of Origin** — What is more intriguing to technically minded people is that we have cleaned up rules of origin. We have region-wide rules of origin and are effectively dealing with the spaghetti in the bowl. In one way or another, we're moving towards the goal of creating a Free Trade Area of the Asia Pacific with a variety of different techniques.

There still is a place for the original modality that APEC member economies agreed to in 1994 when they set forth the Bogor Goals — that is, concerted unilateralism. Those countries that still have a lot of mess in their systems will make their own sets of decisions.

There still is the possibility of moving forward on an MFN basis with respect to the WTO. We'll see where that leads, but it's not looking great.

**Collapsing of FTAs** — With respect to regional trade agreements, the trend is towards quite high-quality FTAs and increasingly, the collapsing of FTAs into each other. The same thing happened in North America; the Canada-US FTA then collapsed into the NAFTA.

So this is what is happening. We're moving. Nobody's planning this. There's no architect in charge of this process. But step by step we're moving towards trade and investment integration.

**TPP Texts** — The TPP is so important to this process because of the stunningly obvious point that it involves the United States. And we are making genuine progress, particularly if you look at the texts.

People like me who've spent a lifetime negotiating trade agreements know about the importance of texts. I don't want to hear speeches. TPP negotiators are making progress on the only thing that matters — the texts.

There are some big political question marks out there that have to be resolved. That's understandable. Eventually, the trade ministers themselves will have to join the party.

*continued on page eight*

## Asia-Pacific Perspectives on Trade

And there will be a very important test of that at the APEC Leaders Meeting in Honolulu this November under President Obama's chairmanship.

**Joining the TPP Process** — There continue to be some very interesting questions, such as the possibility of Japan and other countries joining the TPP process. But to sum up, I think it is fair to say that all of the members of the panel are committed multilateralists. All of us see the opportunity of pushing the game forward with regional trade agreements. And I see the weapon of choice increasingly in the collapsing of these FTAs into broader and broader groupings much like my metaphor of the pebble in the pond. ♦

### Dr. C. Fred Bergsten

It's a great honor to be included on this panel as the only one who is not a trade minister. That puts me at a disadvantage in terms of speaking authoritatively. But maybe it puts me at a slight advantage in terms of speaking frankly.

I will note that all three of my fellow panelists are distinguished trade economists, and therefore I do feel akin to them and somewhat on a par with their previous incarnations.

In addition, I'm the only American on this panel, so I have taken it upon myself to present a view from the United States. Note that I say a view from the United States, not the US view.

As those of you who know me are aware, I will speak my own mind and offer my own thoughts on these topics. But I do think they will be similar to the views of the current administration and Congress about what could loosely be described as the "current US view" on the range of trade issues we are addressing today.

**Doha is Too Small** — I would like to suggest that at this time, there are four basic elements in a US view on trade. The first of those four, I'm afraid to say, is that Doha is dead or at best on life support.

I deplore that outcome because I have been a strong supporter of the Doha Round. But I do think the multilateral system and the World Trade Organization [WTO] will survive very effectively even if the Doha Round fails. It would be better if Doha succeeded.

The best evidence is that Doha has been on life support for at least three years; some would argue longer. But the WTO

system continues to be very robust.

The framework Tim [Groser] described about how everything floats in a multilateral sea is correct. It would be tragic if the multilateral system were to disintegrate. But I think it is sufficiently strong and robust to continue even if the Doha Round does not proceed.

I won't go into the specifics of why Doha is on life support or worse. Rather, I will simply explain why that is the perception in the United States.

The chief reason is that the deal is so small. At the request of WTO Director-General Pascal Lamy, the Peterson Institute for International Economics did a comprehensive study on the economic impact of the Doha Round, which we published over the last year. Our study showed that the total gain to US exports from all arrangements now on the table in the Doha Round would be \$6 billion per year. In short, it is so small you cannot even see it.

Of course, we proposed adding services, sectoral agreements, and trade facilitation to beef it up to a level that would be significant. But the real truth is that the deal on the table is not very big.

**No Business Interest** — The political result is that American business, traditionally one of the strongest supporters of multilateral trade liberalization in the world, is far more interested in the U.S.-Panama Free Trade Agreement [FTA], not to mention the FTAs with Colombia or Korea, than it is in the Doha Round. No business leaders have lobbied the Congress in support of the Doha Round during the last three years.

Members of Congress show no interest in the Doha Round and neither does the administration. Unless the deal can be substantially increased and made relevant and worth fighting for, I'm afraid that despite all the efforts of our friends at the negotiating table in Geneva and elsewhere, the Doha Round will continue in this state of suspended animation. As I say, I deplore it, but I think we have to accept this as a very widespread view in the United States at this time.

**The China Challenge** — The second element of the US view on trade concerns China. China is now a major, if not the major, challenge to the world trading system. It is running by far the biggest surplus. It does so in part by cheating. Beijing keeps China's exchange rate 20-25 percent below any concept of equilibrium through intervention in the currency markets to the tune of \$1 billion to \$2 billion

per day. Beijing has allowed the rate of the *renminbi* [RMB] to increase a bit against the dollar over the last six months. But because the dollar has depreciated against every other currency, there's been no increase in the real effective rate of the RMB.

So China's huge surpluses have fueled an understandable concern about unfairness because Beijing is cheating. It is violating the IMF rules and WTO Article XV — all of the rules that say thou shalt not competitively devalue and thereby gain an unfair advantage in trade.

Others would say China pursues additional policies, such as the indigenous innovation policy, government subsidies, and procurement rules, which also deviate substantially from international norms. That is another tragedy.

China brilliantly integrated its development strategy into the world economy and, indeed, joined the WTO under the leadership of Zhu Rongji and Jiang Zemin in order to use the global rules to promote domestic reform. But a decade later we don't see that same attitude.

China gains more than any other country from the open global trading system. Its trade-to-GDP ratio is double that of the United States' and triple that of Japan's. It is one of the most open economies in the world.

It is not festooned with protection. It is highly open, and it has benefited enormously. China therefore has a huge interest in maintaining and strengthening the openness of the global trading system. But where is it in terms of presenting that position and furthering the outcomes we need?

I think it's fair to say none of us at this point have an answer to the China challenge, which will become ever greater as it grows at 10 percent and the United States, in comparison, grows at 3 percent and our friends in Europe and Japan grow at 2 percent or less.

**Regional and Bilateral Trade Deals** — The third element of the US view on trade relates to the aggressive pursuit by Asian countries and the European Union of regional and bilateral trade agreements. Although it is not their fundamental intent, all of these agreements will discriminate against the United States.

Consequently, the United States has a major defensive interest in taking steps that would at least offset the adverse impact of the preferential arrangements being concluded everywhere else.

That's why President Obama, despite his desire to avoid trade issues, felt that United States should join the TPP negotiations. I'll come back to the TPP in a moment because I think the outlook is quite optimistic.



Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics

But the reality is that other countries are doing trade deals. As long as Washington stands aside from most of those deals — as has been its practice during the last few years — it will be increasingly on the short end of the preferential network around the world, which will adversely affect the United States.

This is particularly important as the United States tries to expand its exports, reduce its huge trade deficit, halt the growth of its net foreign debt — already by far

the largest in the world — and generally try to support the G20 strategy aimed at rebalancing the world economy by rebalancing its own internal economy.

**Geopolitical Concerns** — The fourth element of the US view on trade strays into geopolitics. In part related to the previous point, the United States realizes that it must pursue a more active and aggressive trade and economic policy toward Asia or it will become increasingly irrelevant in the region.

Some of you may know the famous story about President Obama's visit from former Singapore Prime Minister Lee Kuan Yew in November of 2009 just before he went to Asia. Lee said very bluntly, "Mr. President, if you continue to sit on the sidelines like you're doing, China will have all the running in Asia and the United States will increasingly be excluded from the most important region in the world." That view got through to President Obama, and it also resonates with congressmen, businessmen, and others.

So the combined influence of increased economic discrimination against the US from preferential pacts elsewhere and geopolitical interests requiring an activist stance toward Asia has mobilized the United States to pursue many of the policies that we are discussing today.

*continued on page ten*

## Asia-Pacific Perspectives on Trade

**TPP as Stepping Stone** — Fortunately, in my view, there is one answer that addresses all four concerns underlying US thinking about policy toward the Asia Pacific. That would be the TPP negotiations as a stepping stone toward a Free Trade Area of the Asia Pacific [FTAAP].

As stressed by Tim Groser, the FTAAP could consolidate regional agreements and head off further bilateral proliferation, such as a US-Japan Free Trade Agreement, which is inevitable in light of the conclusion of the US-Korea Free Trade Agreement, the pending Japan-India agreement, and maybe even a Japan-EU agreement. Those bilateral accords are inevitable unless a broader regional consolidation compact can be achieved.

The TPP also offers a significant response to the China challenge. If a high-quality agreement can be concluded and additional Asian nations join the TPP, particularly Japan and Korea, this ultimately would pose a huge challenge to China.

China would not want to be left out, which likely would lead to tricky negotiations. But if the rest of the group agrees to a high-standard accord, this would serve as a big source of leverage in dealing with China on heretofore very problematic issues.

**TPP and the Doha Round** — I also would argue that successful pursuit of the TPP en route to the FTAAP is the best prospect for restarting serious multilateral negotiations in the WTO. Mari [Pangestu] noted how APEC played a critical role in bringing the Uruguay Round to a successful conclusion in 1993.

But it was not because APEC was a cheerleader for the Uruguay Round. It was because, at APEC's first summit in Seattle in 1993, it raised the prospect of adopting goals aimed at liberalizing trade and investment throughout Asia, which, in fact, APEC would do the following year by setting forth the Bogor Goals.

This, in turn, caused Europeans to worry about the prospect of being excluded from an Asia-Pacific economic bloc. They quickly realized that they had better try to head off that outcome by shoring up the global system.

After three years of blocking the successful conclusion of the Uruguay Round, the Europeans agreed in the month following APEC's Seattle summit to bring it to a successful conclusion. European negotiators told me flat out that was the reason.

I think Mari's point is right, but it means that APEC cannot stand back and bring the Doha Round to a successful conclusion by cheerleading. Rather, APEC must take actions of its own to pursue the liberalization process in precisely the way Tim Groser described, by building on the Australia-New Zealand agreement to the P4 agreement, building on the P4 to the TPP of nine, and building on the TPP of nine to a TPP of eleven, to ultimately realize the FTAAP.

**Competitive Liberalization** — That is the process I initially described as competitive liberalization, which was a concept of the APEC Eminent Persons Group 15 years ago. The process involves ratcheting up the pace of liberalization, broadening the groupings involved, and in so doing, bringing real economic pressure — not cheerleading — on outsiders to get inside the tent. And those outsiders recognized that if they did not try to get inside the tent, they would be in deep trouble.

At the time, many people thought I was pursuing an American strategy aimed at broadening NAFTA. Now I take some wry interest in the fact that competitive liberalization is being applied to the United States. And I applaud it, because without competitive liberalization we may not be able to overcome some of our internal difficulties and get back on the track of trade liberalization.

**US Domestic Politics** — My final point is this: many of you are asking, and quite justifiably, whether US domestic politics will permit the United States to participate in the TPP! I suggest that there are two overwhelmingly compelling reasons why politics ultimately will not stand in the way.

First, the economic discrimination the United States will experience from other countries' deals will persuade domestic critics to support the TPP. Second, even a US congressman can understand the implications of what Lee Kuan Yew told President Obama. If the United States sits back and doesn't engage with the most dynamic part of the world, China's dominance will grow even faster.

After its usual kicking and screaming, I'm confident that the Congress, in fact, will allow the United States to proceed with the TPP. Not only this, I will go even further and suggest that by the time of the APEC summit in November, the Congress will have passed the three pending FTAs with Colombia, Korea, and Panama.

Once these agreements are brought to the floors of the

---

Successful pursuit of TPP en route to the FTAAP is the best prospect for restarting negotiations in the WTO

House and Senate under so-called fast-track rules, I have no doubt that Congress will pass them.

When President Obama hosts the APEC Leaders Meeting he will do so under somewhat similar conditions as when President Clinton hosted the Seattle summit in 1993. Those of you who are veterans will remember that President Clinton went to Seattle two days after Congress passed NAFTA.

He rode in on that stallion, so to speak, and said, “And now let us do the same thing in the Asia Pacific.” I later asked President Clinton what he would have done if Congress had not approved NAFTA. He said, “Fred, I wouldn’t have been able to show up.” And that’s probably the case.

But I think President Obama will go to Hawaii with an



From left to right, Dr. C. Fred Bergsten, Director, Peterson Institute for International Economics; Trade Minister Tim Groser of New Zealand; Trade Minister Craig Emerson of Australia; and Trade Minister Mari Pangestu of Indonesia

agenda that includes very strong, renewed support of trade. It will indicate that the United States has not lost interest in trade liberalization and trade expansion. As I said, we know we have to rebalance our economy in that direction.

The problem has been that the Doha negotiations have not put enough on the table to be worth the effort, whereas these other negotiations, in fact, provide a much bigger payoff. That is why the FTAs and the TPP have generated more interest.

**TPP Goals for APEC Summit** — This suggests that we should be shooting for the maximum possible outcome on the TPP by the time of the APEC Hawaii meeting — not just a statement of principles or a framework. Rather, the nine countries currently participating in the TPP talks should strive for an agreement that would represent the first steps toward reducing barriers among themselves.

In addition, they should issue a clear statement of intent to address more difficult barriers, including the behind-the-

border types we have discussed today.

The TPP participants also should commit themselves to bringing additional member countries into the agreement, several of whom have already indicated a keen interest in joining, in order to accelerate momentum in favor of better coverage and more extensive and qualitatively superior agreements. This would serve to restart the liberalization process with APEC once again in the lead. Thank you. ♦

### **Question and Answer Period:**

#### **Dr. Charles E. Morrison**

Thank you very much. We had a little bit of disagreement among the panel members. Mari, in particular, emphasized “plan A” as the best plan, while Fred basically presented a “plan B” in order to get to “plan A.”

Before we open this up to questions from the audience, I’d like to ask the panelists if they would care to comment on anything said by the other panelists. Craig?

#### **Minister Craig Emerson:**

Thank you. I can certainly understand and accept the coherence in Fred’s presentation, and it is one path. But I think I can speak on behalf of the three trade ministers when I say that we’re still seeking to breathe life into Doha and we won’t relent on that.

The three of us are leaving for Paris this afternoon to attend an OECD meeting. Australia has organized a meeting of relevant trade ministers there, which will be back-to-back with the APEC meeting for trade ministers a few days ago in Montana. So I think I speak on behalf of the three panelists in saying that we will continue to pursue as vigorously as we possibly can a successful outcome for Doha.

My main point is that if the alternative path that Fred has charted towards global trade liberalization through the TPP is to be a viable path, then the TPP itself must be a gold-standard agreement. I think everything would come dramatically undone if the TPP were a bit of tinsel and packaging around a group of bilateral free trade agreements that are not fully free.

That will mean that the US Congress will need to bite the bullet on further domestic liberalization. Fred and others may be able to convince the Congress of the merits of domestic reforms. But without that, the TPP will be a dry gully and we’ll have to turn around and start all over again.

*continued on page 12*

## Asia-Pacific Perspectives on Trade

### Minister Tim Groser:

Well said.

### Minister Mari Pangestu:

In the best of all worlds, we would like to have a gold-standard TPP that would lead us to Doha and a stronger multilateral trading system. But I would like to ask Fred if the TPP can address some of the issues that can only be addressed in a multilateral round, such as agricultural reforms aimed at reducing export subsidies and domestic supports?

Two other issues that can only be addressed in multilateral negotiations are improved rules in the trading system and the treatment of sensitive sectors.

The whole notion of a single undertaking aimed at realizing a big package of reforms is based on the view that this approach best enables negotiators to make more trade-offs in order to deal with sensitive sectors. How can we realize a gold-standard TPP if the difficulties we are having in the Doha negotiations with respect to sensitive sectors have not been resolved?

### Dr. Fred Bergsten:

I certainly support the continued efforts by the trade ministers, as Craig has indicated, to breathe life into the Doha Round. You should do that and I hope you succeed. I'm suggesting that it's going to be a tough row to hoe, particularly for the United States.

But let me reiterate that the reason I think the United States is reluctant is because WTO members have not put enough on the table to make the deal worth doing.

I certainly agree that the United States has not always played Doha right. Three years ago or even eight years ago, I certainly would have done things differently. And I probably would do some things differently now to help with this last-ditch effort. There is plenty of blame to go around.

As I hinted, however, I think the unspoken element in the negotiating room is the China problem. When the United States approached a number of countries, particularly emerging market economies, and asked them to put more on the table, the answer has been that while they would be happy to liberalize trade with the United States, they do not want to reduce barriers to China because it is already hyper-competitive.

These countries point out that China is cheating and enhancing its competitiveness by at least 20-25 percent through exchange rate manipulation and a variety of other devices. Then they say something like, "we're just not going to liberalize anymore in NAMA [non-agricultural market access negotiations] toward China because we're afraid of the impact on us."

That doesn't necessarily reflect on China's negotiating position in Geneva. But it does reflect on China's role in the global trading system. Unless that's addressed, I don't foresee a satisfactory revival of the Doha Round, despite your laudable efforts.

Mari's questions are correct. There are some things that cannot be done in regional agreements; they can only be done at the global level. The problem is that they have not been done at the global level either.

Mari began her remarks today by talking about food security. Well, as she mentioned, that's a Johnny-come-lately issue in the Doha context. It was brought up in 2008, which was already seven years into the Doha Round. If you can apply an existing initiative to a new problem, well and good, go ahead and do it.

But I don't see that the Doha negotiations have produced anything that likely will deal with the food security issue. Nor does the Doha Round look likely to deal with the traditional agricultural issues more broadly, with the exception of export subsidies. That, in itself, would be a valuable takeaway if subsidies could be eliminated. In reality, though, agricultural reforms have not gotten very far in Doha.

Mari also raised sectorals. I'm not quite sure she's right on that point. I think the TPP process might produce some agreements to liberalize trade in certain sectors, particularly in the green goods and services areas. But, again, most sectorals would have to be done on a global basis.

There have been many proposals in Doha to liberalize trade in certain sectors, but they have not progressed. They are not part of the "deal on the table" that many people, beginning with WTO Director-General Lamy, have asked the world to accept. Mari is right in principle, but where's the beef?

Improving the rules would be a good thing, and I am all for that. But improvements that would require big changes in domestic laws have not been agreed to in the Doha Round either. This is marginal stuff that could be addressed without a multilateral round.

I'd like to make a final point. Craig said quite rightly that the TPP can only be a truly gold-standard agreement if the United States is willing to put its own problems on the table. This is absolutely right. I think the administration probably has not been forthright enough in its discussions with Congress about the need for certain domestic reforms.

However, I give the administration credit for consulting very actively with the Congress on the TPP. They have been following the rules as if the lapsed Trade Promotion Authority was still in place. The administration's commitment to move in that direction is well-established, and I am confident that such reforms will be part of the final TPP deal.

### **Dr. Charles E. Morrison**

We'll now turn to audience questions, which I will take two or three at a time.

#### **Audience Question #1**

There is a perception that the United States is in relative decline in the region. It seems that the United States is trying to use the TPP as a stopgap effort to correct that perception.

Are the trends favoring China's economic rise in Asia simply overwhelming, which will require us to accept China, in essence, as a co-leader or co-partner with the United States for next-generation economic activities in the region? How soon before China really starts to exercise leverage in affecting trade rules and regulations to benefit it even more?

#### **Audience Question #2**

Concerning the demise of the Doha Round, what impact is that having on the TPP since, like MFN [Most-Favored Nation treatment], it ultimately will be based on a single, non-discriminatory agreement among all nine countries?

#### **Audience Questions #3**

I think we all agree that the new TPP should really be a gold-standard accord. My question is whether the standards are too high for China. It seems to me that China faces a huge dilemma. Beijing may decide that this is the tilting point and it is no longer willing to play by the international trading rules, particularly if the TPP becomes a dominant regional agreement.

Is there a risk that China will respond by redefining its role in the international system because the "domestic requirements" of gold-standard TPP are too challenging?

### **Minister Craig Emerson:**

I'll address the China questions. And in that regard, I'd like to provide a little more context about the size of China and its relative performance.

During the last decade, the developed world grew at 3 percent per annum on average. China grew at 10 percent and India grew at 7 percent. That means that the developed world would double the size of its economy every 24 years, while it would take India 11 years, and China, eight years. My point is that China already is a very big player and is destined to become an even bigger player.

I can already foretell that because China's labor productivity growth during the last decade has averaged 9.5 percent, while India's has averaged slightly less than 5 percent, and the developed world's has averaged 2 percent. You can see there are compounding effects.

What drives economic growth is productivity growth. The productivity catch-up that China is enjoying while the United States is trying to push out the productivity frontier is just phenomenal.

Therefore, while the TPP economies are big — and some are growing significantly — they're not growing anything like China and India. We need to be realistic about what a TPP can do in terms of total liberalization.

My guess is that China will watch the TPP negotiations carefully. According to Fred's scenario, the TPP could well have the desirable effect of making China feel that it must be part of that grouping. But in our own self-interest, I would like to re-emphasize that the TPP would only be highly sought after if it were a high-quality accord.

If the TPP isn't a gold-standard agreement, why would you want to be in it? China and India and other countries could just trundle along very happily outside it. They wouldn't need the TPP if it wasn't high quality.

### **Minister Tim Groser:**

I'd like to address the WTO-related question. We'll see what the traffic will bear multilaterally over the next six months. But if it's a dark future for the Doha Round and we proceed with the TPP, I think the answer is very obvious — this raises the stakes for a failed TPP.

The United States, the world's preeminent economy, will need to advance its strategic interests, which are much

*continued on page 14*

## Asia-Pacific Perspectives on Trade

broader than just trade for the reasons that Fred so cleverly included in his initial comments. We must succeed with the TPP. And the stakes for failure go up, not down, if Doha doesn't move forward.

The second thing I want to make quite clear is that the TPP is not an anti-China strategy. The moment it looks like that, we're out of it. It's not an anti-China strategy.

Some 23 percent of Australian exports go to China. Last year, China surpassed the United States as New Zealand's second-largest market after Australia. Consequently, I increasingly see New Zealand's economic relationship with Australia and China in a triangular sense. China is central to our futures.

So the TPP is not aimed against China. Rather, as Fred said, it represents competitive liberalization. We hope to embrace the entire Asia Pacific community in this building-block process. The TPP group of countries just wants to lift its game. And if other countries also want to join the new game at the speed rate we recommend, that would be great.

### Dr. Fred Bergsten:

I'll also address the three related questions on China. The first concerned when China would exercise its leverage. The answer is that China is doing so now and has been for some time. The most blatant and obvious case is, as I have said repeatedly, China's management of its exchange rate.

China has vetoed application of one of the fundamental rules of the global trading system. The Bretton Woods system was constructed to avoid a repetition of the 1930s. Its centerpiece has been avoidance of competitive currency depreciation.

For the past five years, however, China has been intervening in the currency markets every day — to the tune of \$1 billion to \$2 billion — to prevent the RMB from appreciating. It has been buying dollars and selling RMB every day to keep its currency cheap and the dollar strong, thereby strengthening its competitive position.

This is tragic because China doesn't need to do this. It is running the world's largest surplus and is highly competitive. China has piled up more than \$3 trillion of foreign exchange reserves, which is now attracting a great deal of criticism domestically for wasting a large part of the national patrimony. But it persists in doing this and has resisted, to put it mildly, entreaties from many other countries — not just the United States — to cease and desist.

China has been able to block any efforts to force, induce, or otherwise persuade it to conform to one of the fundamental

rules of the international trading and financial system. So if that isn't leverage, I don't know what leverage is.

The second question was whether the United States will have to accept China as a co-partner in the global system. Five years ago, I wrote a book and some articles that proposed a G-2 between the two countries. It was a controversial idea.

To be clear, I never proposed formally announcing or institutionalizing a G-2 arrangement. My idea was to have a very informal consultative process between the two countries whose agreement would be critical to realizing progress on any international economic issue, whether it be global warming, the financial system, or the trading system. The G-2 would provide an important way for the United States and China to get their acts together.

In principle, the European Union should join this dialogue, making it a G-3, but they can't get their acts together internally to discuss things on a single basis. When they do realize internal accord, they ought to be part of G-3 discussions.

For some time, I've felt that the United States and China should find a way to get together or else the global economic order would not be very orderly. I would submit that it's happening.

President Obama has met with his counterparts, either President Hu Jintao or Premier Wen Jiabao, once per quarter for the last nine quarters. Throughout the entire period President Obama has been in office, he has met on average once per quarter with his Chinese counterparts.

On May 9-10, in fact, the United States and China held the third meeting of the US-China Strategic and Economic Dialogue here in Washington. I went to a small dinner with Vice Premier Wang Qishan afterward. I said well, your G-2 is well in place. He just laughed. The Chinese don't accept the G-2 as a concept, but they are, in fact, doing it.

The two countries obviously do not agree on everything, but they have to be in close touch. From a US standpoint, there must be recognition that the partnership with China is an essential element, a *sine qua non*, for achieving any kind of orderly international economic progress.

Concerning the last question, I think it is possible that China may decide to reject the trading system that has been in existence for the past 60 years. The Chinese certainly have indicated by their actions that they don't like the rules of the global exchange rate system. They seem to believe a country can intervene heavily and keep its rate depressed,

even when everybody in the world says you are violating the rules. China has clearly indicated that it doesn't like the international financial regime.

The Chinese may react the same way toward the trading system. That would represent a reversal, however, since a decade ago they liked it well enough to make a lot of concessions to join the WTO and then use its rules for internal reform purposes.

But now they may have a different view. The problem is that the Chinese have not yet articulated what that alternative view might be.

The first step in any process of assimilating a rising power into the global regime is for that rising power to a) decide what it wants and b) to talk about it with the other players. The other players, in turn, must be willing to accept the rising power and give it its due position in the system.

We know from history that the failure to assimilate rising powers has been one of the hallmarks of disaster. Assimilating China now is critical, but the Chinese have to do their part by telling us what they want.

### **Minister Mari Pangestu:**

We are not China, we are Indonesia, but some of the questions about joining the TPP also apply to us. It will not be an easy reach for Indonesia or other developing countries to jump in and negotiate to a gold standard, whether administratively, institutionally, or even politically.

The four of us on this panel all agree on what the final end is, but how do we get to the final end? Given the different levels of development in East Asia, there have been different approaches to realizing economic regionalism.

There is the building-block approach, characterized by Indonesia's negotiations with China. We started with goods and then moved to services, investment, and other components. I think our agreements with Australia and New Zealand are the only ones in which we negotiated comprehensively on all fronts, including environment and labor.

In my mind there are always three pillars to a trade negotiation — liberalization, facilitation, and capacity-building. Going back to the building-block metaphor, you may not realize the capacity-building element in regional agreements, but you can address it at the bilateral level. That's one of the reasons why we are negotiating with Australia to complement what we have already negotiated in

the ASEAN-Australia-New Zealand FTA.

We are negotiating bilaterally a comprehensive economic partnership agreement, which hopefully will complement all the other components that are in an agreement between countries with different levels of development.

And so what you see are building blocks, in terms of negotiating partners, or building blocks in terms of elements that are included initially in either regional or bilateral accords.

With respect to Japan, we did a bilateral agreement first and then tackled the ASEAN-Japan agreement. This is the rippling pool effect that Tim mentioned earlier.

So when we stress the importance of the TPP being a gold-standard agreement, we also should keep in mind how to deal with the different levels of development among Asia-Pacific nations. APEC certainly was not created to draw a dividing line between the two sides of the Pacific. We certainly hope that's not going to happen.

### **Audience Question #4**

Please comment on Chinese Taipei investment in China and what role Chinese Taipei would play in your image of the Asia-Pacific trade dynamic in the coming decades.

### **Audience Questions #5**

China's building-block strategy has been very successful, but its agreements with ASEAN and others do not have a very high standard. The Chinese don't seem to be very inclined to put on the table what you are interested in. They only open up certain categories. The United States, in comparison has very competitive industries that require a very high-standard trade agreement.

My question is whether those two strategies will ever come together within the context of pursuing the TPP. Do any of the panelists think the gold standard will be met in the TPP? There are questions in the US business community about whether we're even going to maintain that standard. And if we don't maintain that standard, what's the attraction of doing the TPP?

Also, some US businesses wonder whether China doesn't already have a lot of bilateral agreements with the same countries involved in the TPP process. So what's the big win for the TPP? Is it only in the short-term?

*continued on page 16*

## Asia-Pacific Perspectives on Trade

### Minister Tim Groser:

I'm very conscious that New Zealand is a tiny place. But I can tell you that your characterization of China's FTA strategy applied to New Zealand is not correct.

We're the only developed country actually to have an FTA with China. So I'm not sure how you would draw comparisons with any other developed country since nobody other than New Zealand has one.

With one exception which I will go to the trouble of explaining, the New Zealand-China FTA is 100 percent clean on goods. It will result in complete liberalization during the next ten years.

The only exceptions are a few tariff lines in the forestry area. And the only reason that they're exempted is because as part of the China's protocol of accession to the WTO, Beijing agreed never to liberalize those particular items on anything other than an MFN basis.

So apart from this purely technical point, the only FTA China has with a developed country is with New Zealand, and it is completely clean and comprehensive. It's far more comprehensive than the US-Korea Free Trade Agreement [KORUS].

Now with respect to the TPP and KORUS, I'm going to tell you straight out that I think KORUS is a fantastic agreement. We strongly support it for all manner of reasons including strategic reasons, but it isn't comprehensive. Rice is not part of the deal. In the TPP, we're going for the whole shooting match.

### Dr. Fred Bergsten:

Even when we enter a negotiation like the TPP with the intent of having the highest possible standards, on occasion there will be political realities. The United States deleted sugar from the US-Australia FTA, for example. Similarly, the United States accepted Korea's deletion of rice from the KORUS, which otherwise, as Tim said, is a superb agreement.

Mari said it would be difficult for Indonesia and perhaps other developing countries to enter into a gold-standard TPP. That highlights the trade-off that inherently would be involved as the TPP proceeds.

On the one hand, there will be a widespread desire to keep it a gold-standard accord. On the other hand, there will be a desire to broaden its membership. I mentioned Japan and

Korea. I would put Indonesia in the group of countries that I would hope would join the TPP process in its next stage.

It may be that in the course of adding new TPP partners some modest changes will be needed. Everyone on this panel has said explicitly that the goal is to expand the TPP to encompass the entirety of APEC and perhaps beyond — the FTAAP concept.

When China joins the broader negotiation, as I'm sure it will if the TPP succeeds, Beijing will put some things on the table. The rest of us, in turn, may have to change what we've agreed to up to that point. We also may have to ask ourselves whether it is worth making those changes in order to bring China under the tent rather than keeping it outside.

That's the reality of trade negotiations and world politics. The countries currently involved in the TPP talks have been absolutely right to aim for the highest possible standards, keep it clear, and avoid the blemishes of existing FTAs. But as they go forward, there will be the constant tug and pull of any negotiation.

At the end of the day, I would like to see the desire to expand the geographical spread of the TPP take precedence because that offers the best hope of achieving the broad objectives I discussed earlier.

### Minister Craig Emerson:

I think Fred and I are in screaming agreement about the destination, which must be trade liberalization. As someone once said, 'there are many paths to the mountaintop.' And Fred has offered one approach. Australia is interested in that one. I join my New Zealand colleague in saying that our interest does not mean that we are seeking to exclude China in any way.

In fact, we are undertaking negotiations with China for a free trade agreement. And if we're going to follow this particular path to the mountaintop of competitive liberalization, we can do both the TPP and hopefully a quality bilateral deal with China as it seeks to do deals based on the one between China and New Zealand.

So let's just agree, in summary, that we're all headed to the mountaintop. There are different paths. We may have to backtrack a little and take another path. But let's hope we get there, not only for the good of the United States and the region but for the poorest people on Earth. ♦



## LEADERSHIP AND MEMBERS

### Honorary Chairman

#### Hon. George P. Shultz

Thomas W. and Susan B. Ford Distinguished Fellow  
The Hoover Institution

### Chairman

#### Amb. J. Stapleton Roy

Director, Kissinger Institute on  
China and the United States  
Woodrow Wilson International Center for Scholars

#### Amb. Morton L. Abramowitz

Senior Fellow, The Century Foundation

#### Prof. Vinod K. Aggarwal

Director, APEC Study Center  
University of California, Berkeley

#### Amb. Michael H. Armacost

Walter H. Shorenstein Distinguished Fellow Asia Pacific  
Research Center, Stanford University

#### Hon. Doug Bereuter

President Emeritus, The Asia Foundation

#### Dr. C. Fred Bergsten

Director, Peterson Institute for International Economics

#### Amb. Julia Chang Bloch

President, US-China Education Trust

#### Amb. Stephen W. Bosworth

Dean, Fletcher School of Law and Diplomacy  
Tufts University

#### Mr. Marshall M. Bouton

President, Chicago Council on Global Affairs

#### Amb. Paul Cleveland

Former Ambassador to Indonesia, Malaysia, and New  
Zealand

#### Ms. Doral S. Cooper

President, C & M International

#### Dr. Vishakha N. Desai

President, The Asia Society

#### Prof. Richard L. Drobnick

Director, Center for Int'l Business Education &  
Research, Marshall School of Business  
University of Southern California

#### Mr. Michael L. Ducker

President, International  
FedEx Corporation

#### Amb. Richard Fairbanks

Founder & Chairman of the Board  
Layalina Productions, Inc.

#### Prof. Richard E. Feinberg

University of California, San Diego

#### Amb. Tom S. Foley

Former US Ambassador to Japan  
Former Speaker, US House of Representatives

#### Amb. Charles W. Freeman, Jr.

Chairman, Projects International

#### Amb. Donald P. Gregg

Chairman Emeritus, The Korea Society

#### Hon. Lee H. Hamilton

Former Member, US House of Representatives

#### Prof. Harry Harding

Dean, Batten School of Leadership and Public Policy,  
University of Virginia

#### Dr. Robert L. Healy

Principal and Senior Director  
Wexler & Walker Public Policy Associates

#### Hon. Carla A. Hills

Chairman, Hills and Company

#### Prof. Merit E. Janow

School of International and Public Affairs  
Columbia University

#### Sen. J. Bennett Johnston

President, Johnston & Associates, LLC

#### Amb. James R. Jones

Co-Chairman, Manatt, Jones, Global Strategies

#### Hon. James A. Kelly

Former Assistant Secretary of State for East Asian and  
Pacific Affairs

#### Mr. Spencer Kim

Chairman, CBOL Corporation

#### Hon. Jim Kolbe

Senior Transatlantic Fellow  
The German Marshall Fund of the United States

#### Mr. Roland Lagareta

Vice Chairman, Board of Governors  
East-West Center

#### Hon. James A. Leach

Chairman, National Endowment for the Humanities

#### Dr. Chong-Moon Lee

Chairman, Ambex Venture Group

#### Dr. Kenneth Lieberthal

Director, John L. Thornton China Center  
The Brookings Institution

#### Amb. Edward E. Masters

Former Ambassador to Indonesia

#### Dr. William F. Miller

Professor Emeritus, Stanford University

#### Mr. James Morgan

Chairman Emeritus, Applied Materials, Inc.

#### Dr. Charles E. Morrison

President, East-West Center

#### Prof. Joseph S. Nye Jr.

University Distinguished Service Professor  
Harvard University

#### Dr. William H. Overholt

Senior Research Fellow, John F. Kennedy School  
of Government, Harvard University

#### Dr. George R. Packard

President, United States-Japan Foundation

#### Prof. Hugh T. Patrick

Director, Center on Japanese Economics & Business,  
Graduate School of Business  
Columbia University

#### Prof. Peter A. Petri

Carl J. ShapirO Professor of International Finance  
Brandeis University

#### Amb. Thomas R. Pickering

Former Under Secretary of State for Political  
Affairs and Former US Ambassador and  
Representative to the United Nations

#### Mr. Clyde V. Prestowitz, Jr.

President, Economic Strategy Institute

#### Amb. Charles L. Pritchard

President, Korea Economic Institute

#### Amb. Peter R. Rosenblatt

Partner, Heller & Rosenblatt

#### Hon. Stanley O. Roth

Vice President, The Boeing Company

#### Mr. Puongpun Sananikone

President & CEO, PacMar Inc.

#### Prof. David Shambaugh

The George Washington University

#### Amb. Richard H. Solomon

President, US Institute of Peace

#### Sen. Adlai E. Stevenson III

Chairman, Midwest US China Association

#### Mr. C. B. Sung

Chairman, Unison Group

#### Mr. Ko-Yung Tung

Senior Counsellor, Morrison & Foerster, LLP

## US ASIA PACIFIC COUNCIL ADMINISTRATION

**Satu Limaye**, Director, East-West Center in Washington

**Mark Borthwick**, Director, USAPC

**Barbara Wanner**, Senior Projects Coordinator, USAPC

The United States Asia Pacific Council (USAPC) was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization composed of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater US engagement with the Asia Pacific region through human networks and institutional partnerships.

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center's 21-acre Honolulu campus, adjacent to the University of Hawai'i at Mānoa, is located midway between Asia and the US mainland and features research, residential, and international conference facilities. The Center's Washington, DC office focuses on preparing the United States for an era of growing Asia Pacific prominence.