Event 7 “Competing or Complementing Economic Visions? Regionalism and the Pacific Alliance, TPP, RCEP, and AIIB”

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**Speech Summary**

**Shihoko Goto**

There has been a lot of debate on whether or not the TPP will pass. It should get a lot of congressional approval less for its economic implications but more for its security implications. The Peterson Center stated that the US gain from the TPP is fairly minimal. However, in terms of security, the TPP is vital to maintain a presence in the Pacific. We will be looking at what kind of partnerships are building along the Asia-Pacific today.

**Takashi Terada**

How are these emerging institutions competing? And to what extent are they complimentary? In order to demonstrate the competitiveness, we present Japan’s perspective on the AIIB.. If Japan were to join, it would create a large change in structure of the AIIB in terms of voting and power dynamics. The current network of regional partnerships revolve around ASEAN and integrating Southeast Asia into the broader regional economic framework. Despite a troubled history and present, China and Japan were able to come together to push through a framework for regional integration. This was the beginning of ASEAN+3 in 2013 when negotiations started. China, Japan, and Korea have struggled to find common ground especially on market access and trade. Nevertheless, the three nations succeeded in setting up a regional investment treaty. This has been included in most of the regional organization frameworks in Asia. The TPP’s growth is due in large part from American engagement in promoting the TPP framework, since the US has been excluded in many of the other trade agreements and frameworks in the Asia Pacific.

In a comparison of the TPP, RCEP, and CJK, there are some key differences and similarities. It is interesting that East Asian regional integration never includes environment and labor issues, even in Japan’s bilateral FTA. This was of course put in the TPP by the US. The TPP has one of the highest bilateral market access percentages at 95 to 100 percent, compared to other regional frameworks like RCEP and CJK. By agreeing to reduce the tariffs on key products including rice and dairy over time, Japan has made huge concessions. This is why Japan is in a good position to ask China and Korea to make concessions as well in terms of market access. Overall,
the TPP is very good in terms of quality of market access. Japanese interests include liberalization of the automobile market in the US. However, the US hasn’t made many concessions on automobile tariffs, suggesting that the TPP is mainly an American product and would bring little gain to the Japanese automobile market. Protection is one of the most important types in terms of investment treaties with China for Japan as well as South Korea. However, most of the important elements of the investment treaty were excluded, but the 2014 version attempts to rectify this. At the summit meeting in Seoul last September, for the first time in three and a half years, US put the pressure on South Korea to deal with problems with Japan and relations are now improving. This creates a good environment for trilateral agreements and establishing FDAs among three nations that were thought to be impossible.

In terms of Japan’s approach to the AIIB, Abe has responded quite swiftly to the AIIB issues in terms of quality and quantity. When we say improving quantity, it means increasing investment in infrastructure in Asia by 30% to $110 billion during 2016-2020. Also by offering $6.2 billion of new ODA to the Mekong region and expanding the financial basis of domestic agencies, such as the Japan Bank of International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA). By improving quality, it means reducing funding guarantees by the recipient government to 50% in the case of yen loans. Also by establishing a trust fund in ADB by March 2016, which will be capitalized with $1.5 billion on equity from JICA and reforming the JBIC law to make risky infrastructure investments possible, without cooperating with China.

Mauricio Mesquita Moreira

What is the role the Pacific alliance plays in promoting Latin American-Asian Pacific relations and how will the TPP and others like it affect future agreements. To give a little background on the state of Latin American and Asian Pacific relations, we can see that the super-boom of the last couple decades is over and exports are dropping fast and growth is stagnating. Latin American exports to Asia dropped 19% and trade overall has dropped by 8%. Hopefully a new phase to this relationship will be more mature and some issues can be corrected such as the imbalance of trade. This seems to be a cyclical issue and China cannot continue to grow forever and at some point there will need to be an adjustment. There is an important structural limitation to these corrections and that has to do with the fact that China will not like these diminishing returns and is bound to grow at a slower pace.

Moving forward we are still going to see Latin American exporting a lot of commodities and Asia exporting a lot of manufacturing goods. Hopefully we are going to see change in terms of diversifications of exports. In terms of agriculture, there are huge tariffs from Asian countries and these are very serious issues that have been neglected by many Latin American governments during the boom. This can be daunting for some Pacific Alliance countries. For countries in Latin America that are very behind, those exporters of agricultural goods are very important to address. In terms of the TPP, this isn’t just a trade agreement with Asia; it is an inter-regional trade agreement. And as such, it is bound to be relatively small and won’t make as large a difference in cutting trade costs. It does have to potential to reshape the way the region has been approaching regional integration. The European model of a common market has failed in the region for a number of reasons. The Pacific Alliance goes more toward the NAFTA model, which is very institutionally light. The
focus should be on building this foundation and making it work, which hasn’t happened in the region so far. In terms of the impact on the relationship with Asia, you could argue that those countries could negotiate jointly with Asia and gain economies of scale. The most important thing they could do is to try to consolidate all their trade agreements with Asia. Then they would be able to eliminate these transaction costs, but of course that is not very easy to do.

In terms of the TPP, this may really have a direct impact on trade barriers and costs; although in some cases there are bound to be fewer gains. One of the biggest obstacles Latin American countries face in Asia are on non-tariff barriers and technical barriers. It is important for state companies to act in a more disciplined environment. There are costs, of course, to joining this agreement such as the loss of intellectual property, capitol control, and forcing new standards. But it would be much more costly to stay out of this agreement than to go in. The gain may be small but the loss of staying out would be great. The TPP and other agreements send a clear signal in terms of regional integration. The main motivation for these agreements was to gain economies of scale and become more competitive.

Kent Hughes

What do all these trends mean for the US? It is important to look at the TPP not only as a measure of security, but also as American leadership and a US focus on Asia. The TPP is a more recent recognition of the economic prowess and growth in East Asia. Since the end of WWII and at a US point of view, we are still looking at an institutional arrangement in a world that was basically constructed by Uncle Sam and the partners of Bretton Woods, primarily the US and Briton. Escalating tariffs exacerbated the Great Depression and subsequent economic fallout that likely contributed to the rise of political unrest throughout the world. There was a great deal of emphasis on growing world growth but it is important to recognize that a lot of the world was a British colony. However, these institutions found a way to adapt post-Nixon. The IDB is an example of the spread of regional banks, but there were still challenges in many regions of the world post-WWII.

So overall, that structure remains and we can see some degree of flexibility. We are very much living in a world where “the rest” is rising, or developing. Now we talk about not only China, but also Japan and India. Now we have the BRICs bank and other regional agreements for not only just major powers. The US has been very active in trying to establish more regional and free trade connections amongst these nations. The US is gradually adapting to this new reality. But there are some challenges such as the governance structure of the WTO itself. The WTO, unlike the World Bank and IMF where there is a limited number of guiding parties, the WTO is a very democratic institution. So if one country doesn’t like a unanimous agreement, then nothing happens. So it is natural to move to these regional agreements that give a chance to experiment with different standards and rules. Again through American eyes, the US sees more regional trade agreements becoming the new reality.

The US needs to recognize that there will be a new emergence of players from these new regional institutions and may not have as large a leadership role it has had in the past. We
have gone from multinational companies to more global companies that think globally and see themselves as citizens of the world. The US continues that we should to build a system built on rules with little flexibility. On the other hand, there is going to have to be recognition of other realities such as the demand by China and others to have a more prominent seat at the table. The US needs to realize that there are a number of different paths to growth. The biggest challenge was posed by Japan when it developed the East Asian Miracle. We have to recognize that there are different paths to development and not everyone takes the Washington Consensus approach, even amongst capitalist countries. Rules need to be set to focus on the innovative economy and not just trade relations. This is a whole new element that will be a new focus on growth. In the IP, there is a concern on social justice. The growths from these innovations need to be fairly shared.

Panel Discussion

Kent Hughes: There is some concern here about FDI that would acquire key high technology businesses that would be important for growth and national security. Is there a similar concern in Japan and what policies would it pursue?

Takashi Terada: Japan is the exception for FDI, with generally low numbers. Japan is now trying to create more policies that encourage investment. This is kind of similar to what is going on with US elections in terms of free trade. But it is all domestic politics in Japan. The TPP is expected to force Japan to be more open and one such reform is in agricultural liberalization. And now that political lobbying group (JA) is now deprived of some of its lobbying power. This is only made possible with a powerful government and determination to make Japan’s economy more open.

Key Questions and Answers

Q: How much does the idea of a free trade zone in Latin America hinge on the turn out of the TPP?
A: The more Latin American countries that enter, the more pressure for the existing sub-region agreements to come up with something more meaningful. They wont necessarily disappear because some have more ambitious objectives than the TPP. Both people on the right and the left want regional integration. The prospect of countries like Brazil and Argentina joining the TPP isn’t likely, so there is plenty of room for them to move into something region-wide. The big missing link is Brazil and Mexico, so we are not that far from a free trade zone in the region.

Q: Regarding the Silk Road Initiative of China, do you see any connection to other initiative in the US and Japan. Is Japan changing its opinion toward WIB?
A: There are two dimensions to this question and one is politics, which is also heavily related to economics. It is also related to the US and Asian strategy toward the Asian Pacific. There was plenty of suspicion on the AIIB on transparency of government systems when the UK was looking to join. Japan shares concerns as well. This was important in setting up economics zone towards the West from China symbolically in a long-term objective toward building a road to the Europe. AIIB is considered to be a system for realizing this Chinese dream. Japan and the US have been involved with the Asian
Development Bank (ADB), which shares the World Bank goal for the reduction of poverty, which is very different for the AIIB, which focuses purely on infrastructure investment.

Q: What are the chances that Brazil will also adopt a more pro-trade attitude that its neighbors are starting to adopt?
A: The Brazilian government has been giving signs that it would change its approach toward foreign policy. At the same time there is a huge political crisis and the government doesn’t have much political power to push anything ambitious like the TPP. There are some signs that give hope, but again it is complicated because negotiations and agreements keep getting postponed. Even with Argentina, in the short-term, it will be hard to go beyond the European agreement and TPP is still a long shot.