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**CHINA AND ITS NEIGHBORS:
CHANGING DYNAMICS AND GROWING
UNCERTAINTY**

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PROCEEDINGS

RICHARD BUSH: Good afternoon, ladies and gentlemen. Welcome to today's program. I'm pleased to see so many of you here and we may have some in the overflow room as well. My name is Richard Bush. I'm the Director of the Center for East Asia Policy Studies. The anchor activity of CEAP for the last 15 years has been a Visiting Fellows program. And so, over the years we've had a series of rising stars from various countries in East Asia who've really contributed to the work of Brookings. And we'd like to think we've helped them in their careers as well.

This spring's group is no exception and we're pleased to have this opportunity for them to offer their thoughts on issues that have occupied them during their time here at Brookings. I'll briefly introduce each of them and then engage each in turn in conversation. So to my left, my far left, is JoAnn Fan from Taiwan. She's a venture capitalist and a Board Director on the Cheng-An Investment Company.

Jaewoo Choo is a Professor of Chinese Foreign Policy at Kyung Hee University in the Republic of Korea. And Zhu Feng, to my right, has, for many years, been a Professor of International Relations at Peking University and actually he has contributed in significant ways to the building of the international studies field in China. He has accepted a position at Nanjing University to head up a Maritime Studies Center. So this is a great new opportunity for him.

Each of my three colleagues have been looking at some aspect of the revival of China as a great power or, yeah, the revival, that's right. And Zhu Feng has been examining China-Japan relations. Jaewoo has been looking at China's approach to North Korea and JoAnn has been looking at economic policy in China and its implications for cross-Strait relations, relations between China and Taiwan.

So we're going to start with Zhu Feng. Zhu Feng, I think it's fair to say that relations between China and Japan these days are not good and this has been going on for a while but we're – we seem to be in a particularly bad place now. How did we get here?

ZHU FENG: Yeah, I think Richard raised a great question. So far the China-Japan relations is not bad. China-U.S. relations is deteriorating and it's moving and edging towards some sort of where it's a major conflict. It's a really grand challenge for the region and for my country either.

But my attribution is this. So usually a lot of people see a deterioration of China-Japan relations as centered around the territorial disputes, Senkaku/Diaoyu Island. But I prefer to see it's some sort of volcanic, you know, breakup of such a long accumulated tension between both countries since the end of the Cold War. Then if we date back to the end of the Cold War we'll see the relationship has been long tense.

So then both sides almost declining over a great number of issues, history problems, mutual identities and that even ideational factors also getting very, very bad. Then

security dilemma is deepening. So then, I see a lot of Chinese emotional policy in the past two decades over Japan. Then now we have to pay.

Now, on the other hand, I also see Japan's very awkward re-adaptation itself, of itself, to a rising China. So then the current deterioration is the consequence of some sort of such a volcanic collision between the both sides.

DR. BUSH: So if you were a pessimist you would say there's nothing can be done in this situation, that it's structural. But I hope you're an optimist and can tell us what might be done to make this situation better.

DR. ZHU: Basically, I'm an optimistic realist. But over China-Japan relations I'm a very pessimist realist because I see some sort of reason behind the deterioration is more than some sort of a materialized or summarization of some sort of tension sources or something like that. I think the key factors really matters for such a deterioration is ideational, for example Chinese and Japanese, a lot of people complain why China always stay past.

But the problems for me is we have a very contentious, you know, historical identity problems. Such a historical identity crisis between China and Japan keep the both sides now farther apart. So politically we also see the climate has been nevermore, you know, just poisonous. So Japanese now hate the Chinese, then in return Chinese hate the Japanese.

So how such a thing could be melt down, could be resolved? It could depends on the time but on the other hand we could also have some sort of the alternative, as Richard say, we should have very courageous and a visionary leadership. Then they can redirect both relations and then exiting into some sort of a new journey. But unfortunately, we see that both politicians now is a very, very turn the back to each other.

They just show the colder shoulder. They just keep point the finger to each other. So for that part, I am really pessimistic.

DR. BUSH: So it seems that the APEC meeting in November this year which will be held in Beijing presents, at least in the abstract, an opportunity for leaders to show some political will. And, in fact, Prime Minister Abe seems to want to have a summit meeting on the occasion of the APEC meeting, bilateral summit. China seems to be reluctant. Why is that?

DR. ZHU: First of all, Xi Jinping don't want to show the Chinese people he's chicken. Then we will see Abe-san everywhere he stop. He use locations to fight against China. So every time, every international occasion, we'll see Abe really, really just has a fight against China. Then also become a mood killer to the Chinese leaders. Then also refueling some sort of nationalism in China.

So then I think the Xi Jinping may not just try to make good use of -- originally it's a very invaluable chance to host an in-person political contact or bilateral summit with Abe-san. But if Xi see that way I think it's quite regrettable because no matter how disputed we are, we need to stay together. We need to talk. We need to have such a personal contacts. So then I

really hope the Chinese government could pragmatically just handle some sort of such a China-Japan's, you know, friction and we'll see the hosting of the 2014 summit meeting of APEC could offer a very golden opportunity for both sides. Even shake the hand, just superficially, I think it's a very friendly gesture for both the people.

But it's also most expected. Beijing will realistically welcome Abe to Beijing because it's a very essential diplomatic courtesy. So Abe will be come but probably it's unlikely then Xi will have a very good personal summit meeting with Abe.

DR. BUSH: So the United States is not on the sidelines in this difficult situation with -- between Japan and China which has bad atmosphere, strong ideational factors at work, a lot of issues accumulating. We want to avoid strategic rivalry with China. We say we want to build, with China, a new pattern of great power relations. On the other hand, we are a treaty ally of Japan and we are pledged to help Japan defend any territory under its administrative control, including the Senkaku or Diaoyu Islands.

So how does Japan affect U.S.-China relations?

DR. ZHU: Great question. I think first of all, I see for long time since the end of the Cold War the U.S. played a very balancing role between China and Japan. For example, U.S. maintained a very great, you know, alliance relations with Tokyo and simultaneously also pay more attention to cooperation with Beijing. But on the other hand, we will see today that our relations is also turning in some sort of, we say, sour. Then U.S. feel, for example, China's challenge to the alliance in the Asian Pacific will likely imperil, you know, the American's credibility and interest in Eastern Pacific.

So then China also see U.S. partially just take the side, always just siding with Japan and leave China alone. So then Beijing also feels very, very uncomfortable. So current challenge is how the Chinese and Americans, we can rebuild some sort of common ground to underscore a very positively enduring trilateral transactions among Washington, Beijing and Tokyo. So I think it's unanswered test.

For my view, from my view, I think first of all Chinese should be realistically recognized, alliance treaty, alliance relations must be better, even superficially, than some sort of relations between China and the United States. Then the Chinese now is crying so much about why the U.S. couldn't equally, fairly, treat China with Japan. But I don't think that will be possible. So we should recognize this.

Then secondly is we also should improve relations with Tokyo. Then I think as a very positive effort we can just help or facilitate Americans some sort of bigger balance arose between Tokyo and Beijing. So then, my view is that the Chinese first should be realists to see the Americans' presence and the very constructive, strategic current way in the region to anchor order. Then on the other hand, we also need to take the initial step and get the China-Japan's dilemma is significantly undercut.

DR. BUSH: Okay. Those are good answers, thank you very much. Let's turn

from Japan to the Korean Peninsula and specifically China's approach to the North Korean problem. And in your research, you have been trying to grasp the differences in China's approach to North Korea's provocative behavior compared to the U.S. and ROK approach.

So can you explain that a little bit and elaborate what you're talking about?

JAEWOO CHOO: My research basically comes from a very simple curiosity observing, you know, the Korean Peninsula affairs in relations to China. As a student of China's foreign policy, at the end of the year you want to take a look at China's foreign affairs white book and defense white book paper and then you tend to notice that after a year of experiencing North Korea's provocation, whether it's verbal or by military violent actions by North Korea, then at the end of the year, where even by the, you know, statements coming from the Chinese Foreign Ministry of Affairs, the spokesperson statements, they don't seem to take the, you know, seriousness of Chinese provocation on South Korea or with implications to the United States, as serious as we do.

And at the end of the year, they would still make an assessment of the Korean Peninsula security situation as stable and peaceful. It was calm. But on the other hand, from our perspective, it was really unstable and a danger to our peace and well-being. So I came to this curiosity of why China would see things differently from us, the security situation of the Korean Peninsula.

DR. BUSH: Okay, so what's your conclusion? Do you think this is -- reflects a difference in the way each country does its threat assessment and assessment of danger or does it reflect that fact that not surprisingly, each of the three countries have a different hierarchy of interests and goals? What seems to be going on here?

DR. CHOO: Yes, there could be a lot of factors taken into account of that from Chinese perspectives but I guess when it comes to perception, you know, there is a great theory by Robert Jervis saying, you know, perception is built on the, you know, is the result of your information process -- incoming information process. And that's where I took my framework to and then, I see a lot of factors influencing, you know, the Chinese analysis of incoming information processes.

And then, it is quite different and I think still, to get to my conclusion, I think the North Korean factor, the special relationship with North Korea factor, still plays a great role in China's assessment of the, you know, North Korea's provocation or, you know, the security situation of the Korean Peninsula.

DR. BUSH: Some people have suggested that China does not see issues on the Korean Peninsula as a threat to its own security.

DR. CHOO: That's right.

DR. BUSH: Whereas the United States and South Korea have different views. Is there something to that?

DR. CHOO: Yes. From my studies this is what I found. Absolutely, because China tends to see the provocation by North Korea and South Korea as a result of inter-Korean conflicts. So there's definitely a different nature to that. And obviously, empirical studies also show that the inter-Korean conflicts or provocations do not – the provocations, they don't last long. They're usually short-lived and because they're short-lived and not lasting and there's no requiring of external intervention. And the result is not always usually; it doesn't really expand to an all-out war.

So in that regard China tends to see the inter-Korean conflicts are usually can be solved at both Korea's own expenses and cost and without external intervention. So it doesn't really expand to really orthodox legitimate local wars or even an all-out war.

DR. BUSH: So you don't find China's approach here to be particularly unique or surprising?

DR. CHOO: Yes, I do.

DR. BUSH: Okay.

DR. CHOO: Yeah.

DR. BUSH: Now, pulling back a little bit and looking at Chinese foreign policy more broadly, it seems that on the global level China has been willing to adapt its behavior and accommodate to multilateral institutions and international norms on a whole range of issues whether it's economic or non-proliferation and other things. Whereas in the regional arena, which actually is China's most important arena, you have less reliance on multilateral diplomacy, more of a desire to deal bilaterally. Is this perception correct?

DR. CHOO: Yes, when it comes to the studies of China's multilateral diplomacy I think there's some misleading factors that we should be really pay attention to. And over the years since the opening of China in 1978 many have appraised China's embracement of multilateralism and I guess there are enough sources that really highlights China's full embracement of multilateralism.

But that kind of assessment is really looking at the global level. If you look at the regional level then I think the story becomes really different story here. Because China obviously has been approaching regional multilateralism in a different context and China, I think, is just very much driven politically and security -- driven by political and security factors here and that obviously at the regional level China's geo-strategic position is different and therefore it has a different national interest to be pursued. And the influence that is allowed in the region is obviously different at the global level.

So while China can reconcede its sovereignty and some other political principles, diplomatic principles, at the global level but is not willing to do so and it's really reflected in its unwillingness to compromise the causes and causes of regional conflicts in the region. So

definitely China does have a dualistic approach to multilateralism and I think at the regional level China has its own principles and its own way to run the multilateralism and I think it's really clearly reflected in its support of ASEAN way of running the multilateral security cooperation in the region.

DR. BUSH: And one possible exception to this would be the six-party talks themselves.

DR. CHOO: Yes.

DR. BUSH: Which China initiated.

DR. CHOO: Yes.

DR. BUSH: And is this really an exception or does this suggest a new direction for China?

DR. CHOO: I think it could be looked at either way, either way. But at -- I think it could be looked at either way because we can look at China's approaches to six-party talks in two different periods. One is when it was running well from the year 2003-2008 and after it went to stalemate and thereafter. I think that's another period we can look into.

And during the first period, China had high hopes on institutionalizing the six-party as in the global multilateralism context and it really wanted to institutionalize cooperation and it set out all the principles and norms and even institutions. However, for some reason it didn't get too much support and the institutionalization of the six-party talks has not made as much progress as the processes it has produced over the years.

But after the six-party talks fell into stalemate, then I think the story has been quite different. China still in official terms has not given up the hopes of institutionalizing the six-party talks. But at the same time they haven't made any sufficient actions or has not acted effectively in pushing the six-party talks forward. So there's a little controversial I think we can really see in China's dealing with six-party talks as a multilateral security cooperation arrangement.

DR. BUSH: Next week we're told President Xi Jinping is going to be in Seoul for a state visit.

DR. CHOO: Yes.

DR. BUSH: If President Park Geun-hye called you up and said I'm somewhat at odds with China concerning North Korea. They have their own interests. They have their own approach. I have mine. What do you suggest I do to try and bring us closer together?

DR. CHOO: Yes. I think first and foremost I think we should try to find ways to convince and persuade North Korea and China to see things in the same page with us.

Obviously, China has segregated or differentiated North Korean provocations in two different categories, one is nuclear related and the other is non-nuclear related. And obviously, these two different provocations by North Korea are dealt differently by China.

And regardless, there's the results of North Korean provocation whether it's nuclear or non-nuclear related has negative effects on the stability and peace of the Korean peninsula. So we have to find ways to convince China to see it on the same page with us and try to, you know, really push China to balance its weight in the process of incoming information so that, you know, it can help reduce the discrepancy in our perception.

And second would be it's also related to non-nuclear and nuclear related provocations and I think not only to see it on the same page but when it comes to six-party talks I think China has been really insisting on non-conditions for six party talks resumption to be conditioned. Yet South Korea and the United States has been insisting on some set of conditionalities for the six-party talks to resume. And I think the differences are standing on the notion of conditionality of the six-party talks should be reduced and I think that's where the United States and China and South Korea should work together.

And in order to reduce that discrepancy here, China has been insisting that it should be unconditional because once North Korea comes to the six-party talks that means, that implies, a change in North Korea's attitude and approaches to six-party talks. So China, that's why China has been insisting on non-condition to the six-party talks. Yet, as a victim of North Korea's successive provocations, just like President Park Geun-hye has been insisting, there has to be some sincerity and truth attached to the North Korea's participation in the six-party talks and coming conditions to the six-party talks. So there we have to work together in reducing this standing difference.

And the last would be -- the one last thing is when it comes to the multilateral security cooperation in the region, I think if we -- the theory says, you know, we have to have, you know, strong leadership coming from the great powers or regional powers. But here I think under the circumstances as of at least now, I think there's more for the middle powers to do in realizing this aspiration for multilateral security cooperation in the region.

So I think Korea as a middle power should take more initiatives and be more aggressive in initiating its own causes as well as the regional causes in collaboration with the United States and China. And I think that's one way to go forward with multilateral cooperation.

DR. BUSH: Okay. So JoAnn you've been focused on the Chinese economy and where it's going and what it means for Taiwan. The question that often gets asked is, is China headed for a soft landing or a hard landing? What do you think and how do we define hard landing and what's going to happen?

JOANN FAN: Before I share my thoughts I just want to thank Richard and the Center for giving me the opportunity to be the first businessperson on -- to be a Visiting Fellow at the program. I hope that I would add some diversification not only by profession but by my observations and in my research here.

As to your questions, yes it's much debated and I must say the short answer to the hard landing is not right now. And the conventional wisdom suggest that soft landing is the most probably outcome with varying opinions on short term, middle term, of stagnation along the way. However, having said that, hard landing is a probable outcome especially given the recent development in that Chinese government has had an inclination of providing mini-stimulus packages which tend to kind of unwind the efforts that it try to so-called rebalance its economy towards consumption driven direction.

Having said that, I'd like to introduce the definition of hard landing which there is no consensus. That is the definition and what I can do is to provide a couple of examples as to what economists out there have tried to define it as. For example, the Citi Group has defined it as year on year GDP growth under seven percent for two consecutive quarters. Nomura Securities has defined it as under average, actually, average GDP growth under five percent for four consecutive quarters.

And PIMCO on the other hand said, yes, we agree on the five percent GDP as the threshold but it has to be coupled with significant financial market stress. Also there is a study done by IMF simulation. They tried -- they didn't approach it from the GDP point of view. They approached it by stressing investment rate, dropped at 3.9 percent versus soft landing scenario of two percent.

So overall I think it can be summarized as saying GDP is one of the primary indicators. But its absolute growth rate should not be the only indicators and it's actually how fast the growth rate has slowed coupled with some qualitative measures that play an important role.

In terms of where it's going, I think that the jury is still out because if we give, again, use GDP as the only indicator then we already drop from 10.5 percent to 7.5 percent and nothing has come to a halt yet. So I think the jury is still out in terms of where it's really heading. I think that that it has to be put in context in its evaluation going forward.

DR. BUSH: As the Chinese leadership tries to facilitate a soft landing in the way it deals with the consequences of the stimulus since 2008, at the same time it's trying to reform the Chinese economy and introduce reforms in the financial system and gradually move the economy from one that's export led in its orientation to --

MS. FAN: Consumption.

DR. BUSH: -- one that's led by domestic consumption. What do you think of the prospects for the leadership succeeding in making this very difficult transition?

MS. FAN: Well, on the outset, China is really no stranger to reforms. They have done so many times in the past. I think the -- what's going to make this time different is in its leadership's commitment and I think it does have that gumption to put forward but we are not yet reaching the first year anniversary. So we are still waiting to see.

But having said that there are a couple of things to note. First of all, it's a gigantic agenda. There are more than 60 directives that you're trying to push forward and if we may summarize it to be within three categories of deleveraging the economy, providing more room for market force to drive the allocation of resources and thirdly, structural reform and the most difficult anti-corruption, which you've seen some interesting examples but I think that's going to play out on a longer term.

I'd like to point out financial reform which is actually at the center of it all is that it is most difficult but it's most essential because you cannot dissect between the real economy versus the financial system and not gearing the economic growth on the right path. You have to have autonomy and that's very difficult to do. Many have tried before and I hope that China will succeed this time.

Just to introduce how difficult it is, there's if you look at deleveraging the economy, interest rate, it's obviously a very important policy tool to use. On one hand there is a rising trend in terms of rising interest rate. So, and, China is not alone. If you raise the interest rate which should go well with deleveraging directives and going with the global trend, but then you increase the probability of bankruptcies in a lot of the inefficiently run, debt-laden, SOEs and then private companies.

And the other fact, if I may introduce some stats, Bloomberg reported that back in 2012 in Zhejiang Province where Shanghai is and that's where most of the private large corporations are, actually had 143 bankruptcy petitions. And obviously there is only -- the first one we've seen was done -- was actually allowed this year. But you can see that there are a couple of them down the pipeline.

So you can how it could -- there might be some anxiety in terms of raising interest rates. However, if you don't, then the inefficient investment will keep on going and the bubbles in the property market continues and I think it's done. And if a reform doesn't go through the economic so called rebalancing is not going to work.

So yes, this is a very difficult tightrope that they have to walk and again, we're not yet reaching the first anniversary and I have full confidence that the Chinese government will find a way to at least bring a good score on the first year report card.

DR. BUSH: To shift to Taiwan, one of the major developments in the last 30 years in Asia has been the gradual but significant integration of the Taiwan and Chinese economy. And that has really benefitted Taiwan in terms of sustained growth. But what if over the longer term does closer cross-Strait economic integration mean for Taiwan's economic growth and its global competitiveness?

MS. FAN: It has different facets. Just to have an interesting backdrop here is that, I'm sure a lot of people here know that Taiwan and China have very interesting and unique dual political background and having said that it has a lot of private interactions in the past until recently it has institutionalized many of those activities and ECFA is one of them.

Just to give a kind of a statistical backdrop of what the current status looks like of -- as a result of the economic integration, China is now Taiwan's biggest trading partner in terms of total trade and export market and its second largest importer. China has also become Taiwan's number one debtor country since September 2013, last year. And since then, it's been growing at 20 percent every quarter.

So every four months it grows 20 percent. That's quite phenomenal. 80 percent of Taiwan's FDI, the foreign direct investment, goes to mainland China. More than 70,000 companies, Taiwanese companies, has headquarters or operates operations in China. More than one million people reside or do business in China. So this is actually, you can tell there is a very close relationship and as mentioned ECFA has helped in creating that kind of integration and institutionalizing, give that legal framework to foster or accelerate the pace.

And it's good and bad, I guess. I mean there is always kind of two sides to the coin. As we can see in the recent rally towards the cross-Strait service trade agreement as part of the follow-up under ECFA, it is actually reasonable to expect moderate growth as an impact from these trade agreements since a lot of these activities already structured as part of the GDP platter for Taiwan.

But having said, it has even greater impact on the allocation of redistribution of wealth and resources as a result. For example, for this service trade agreement, I think a lot of people argue against it, the current version, in that there are a couple of economic flaws they found such as asymmetric competition between Taiwan's small and medium enterprises versus the Chinese more well-funded SOEs, the state-owned enterprises.

Secondly, the trade gains are not adequately distributed between the winners and the losers. And thirdly, the losers of the negotiation seem not to have adequate support or option alternatives to meet the new market challenges. All in all, as Taiwan grows closer to China, they're also concerned about how Taiwan may put all their eggs in one basket, that i.e. the overreliance on Chinese market. And secondly that the departure of Taiwanese manufacturing, as I mentioned a lot of Taiwanese firms have their operation or headquarters in China, will have this so-called hollow out effect of the Taiwanese industry that because the cost, because the competitive advantage of Chinese lower cost labor and also bigger domestic markets, it actually more cost effective just to create that so-called supply chain cluster locally in China.

And so, having this linkage between -- the traditional linkage between Taiwan and China, so that worries people a little bit. And also that whether Taiwan itself, going through the 2008 financial crisis, whether it's and when and also industry revamp or whether it could stand strong enough to meet the market challenges. I think all these things created -- all these fears are not in a vacuum. They need to be addressed.

So having said that though, it doesn't mean that Taiwan shouldn't engage with China because after all you should have a decent and stable relationship with your biggest trading partner and then there are ways to do that steadily and smartly. This is just -- yes, I understand there might be talks about China factor and all but I think ultimately there is a bottom

line small versus big economies and how they should interact more productively so that both their competitive advantages can be addressed and supplement each other.

DR. BUSH: So the process of integration between the two sides is complicated.

MS. FAN: Yes.

DR. BUSH: But added on top of that you have several other things going on. One is a certain maturing of the Chinese economy so that the changes in the size of the labor force and a rise in wages which has an impact. Then second you have the deliberate desire of the Chinese leadership to slow down growth, hopefully in a soft landing and not a hard landing.

MS. FAN: Right.

DR. BUSH: And you have in addition the intention to reorient the mainland economy from relying on exports to relying on domestic demand. So that must have, or potentially, profound consequences for Taiwan and its economic relationship with the mainland.

MS. FAN: Indeed and as a matter of fact the closer Taiwan grows with China, it obviously relies heavily on China's economic outcome. China's slowed down will have inevitably spillover effects on all of its trading partners including Taiwan and Taiwan being the smaller economy probably will be negatively affected more. I like to use the metaphor of it's like boats tied up together in a fire. This actually can be seen back in the 2008 financial crisis where, you know, market interdependence posed vulnerability for – to -- both credit and asset price cycles.

This is not something -- this doesn't again, doesn't mean that we shouldn't engage. It just means you need to engage carefully. I think China escaped the downfall of the fire crisis because it has kind of a so-called firewall but it still decides to open up because it needs to engage with new markets and all.

Secondly, Taiwan, as I mentioned all these stats about how China has become number one export markets and also -- but not only in trade but also in investment, gives China leverage, more leverage now over Taiwan in either direction. When China is good, obviously Taiwan benefits more, but when China slows down then Taiwan party going to slow down even further just because it might not be able to dilute that negative effects.

So in that sense, this is something that the Taiwanese people and the government should be wary. And also, I'd like to point out that based on Chung-Hua Institute for Economic Research, they've done a study on the Taiwanese firms in China back in 2012. They have found that the cluster effects, as I have mentioned, between Taiwan and China, this collaborative relationship, has weakened. I don't want to say delink but it has weakened and this is something that's crying out for a new model of supply chain cluster.

So until that emerges, Taiwan is at risk. The silver lining is that obviously the shift between the export led to consumption driven is that China does have that large domestic

market up for grabs. And a lot of these Taiwanese firms are already in the turf and poised to capture that kind of -- those markets.

And secondly is that there is a generation change between the first generation of the Taiwanese-firm SMEs to the second generation. And these second generation are usually either a study abroad or they have very -- more highly educated than their parents. So they are actually in place to reengineer this so-called new model of the supply chain between Taiwan and China.

So in a way, I do see some hopes in terms of both capturing the domestic markets, also a revamping of the traditional model so-called. That's not -- let's also be mindful that there are some business hurdles of doing business in China in general. Lack of distribution channels, lack of capital for the private sectors, lack of transparencies for the local regulations and these are business hurdles that these people have to overcome.

Other than that, I think there is a silver lining there. The bottom line is it's important for Taiwan to engage. It's important for Taiwan and China to reduce the business uncertainty in the Taiwan Strait to move forward. And being the small economy, Taiwan just need to be a little bit more mindful of its role in its value chain and be more -- because we are more susceptible to the so-called substitutional effect and the replacement effect.

And so that, if whether your product can be substituted by your competitor or simply be replaced. And these are going to be affecting a lot of the livelihoods for a lot of people in Taiwan. Therefore also, I'd like to mention that the government needs to move forward not only tactfully, stably, smartly but also to have enough confidence and consensus building so that people can be behind you, instead of in front of you protesting.

DR. BUSH: Okay. Thank you very much.

MS. FAN: Thank you.

DR. BUSH: Thanks to each of you. We have about 40 minutes left in this session and provides you in the audience an opportunity to pose questions to any one of our panelists. Once I recognize you, please wait for the mic, identify yourself and indicate to whom you're posing the question. And so, who would like to ask the first question? Right here and then Duyeon.

QUESTION: My name is Nick Glakas and I'm a disinterested observer in your area of the world. I would like to share some thoughts and ask for your responses. Deng Xiaoping famously said that it doesn't matter whether the cat is white or black but whether it can catch mice.

And we have seen the extraordinary events that have taken place over 30 years. What is often referred to as China's peaceful rise or the return of China. But within the last couple of years we seem to see a change, as if the charm offensive is being dropped. And I think often of France and Germany at the end of World War II.

France did finally come around to forgiving Germany and between the two are leaders in the European Union. China and Japan are the second and third largest economies and Taiwan is such a wonderful part of that addition. And yet, we see confrontations with Vietnam. We see confrontations with the Philippines. We see confrontations in Japan.

And I'm just wondering whether what we're seeing is China's decision that it no longer is interested in a peaceful rise but now it's going to be a confrontational rise.

DR. BUSH: Okay, first Zhu Feng.

DR. ZHU: Okay, so great question. I sort of have cooled off for a while then your question keeping me warming up. First of all, yes, I have to say China's foreign policy now is a mess. Confrontation, yes, but the problem is my view that why China just came to some sort of such a foreign policy mess.

My attribution is two-fold. One is very generally speaking China is getting bigger. Then China see where it has a better position to claim something. So I think it's almost realistically, it's plausible then when China is getting bigger so a more powerful China will not just moving very weakly.

That sense, may not just [be] grounded or that point may not make since here, but for Chinese we consider, it does. For example, so over the Philippine and Vietnamese case, in the past 20 years I think China has been in very low profile. We behave our self. The Vietnamese has I can tell you 45 drilling wells in South China Sea but Beijing just almost one month ago, Beijing said, let me try to drilling first well. But it cause a lot of the concerns.

So then I think the controversy is that most of Chinese consider it's unfair. Then the Vietnamese, they use the boats to ram Chinese, whatever such a description is or motive is, but China sees, yeah, your small but you can't ram me.

So then I see a lot of such a distinctively different responses. Here I see, yes, a lot of some sort of such a complaint. A lot of such a suspicious, why China now is less decent and also causing a lot of problems. But on the other hand, the Chinese side we would prefer to see, so yes, we're getting bigger. We have to do something. Then that larger case completely non or not spontaneous. So I have to say that point is very, very popular among Chinese.

But second reason is I have to say China is a late comer. China has been long some sort of central empire. Then we integrating into the world community but the journey has never been bumpy and shaky. Never forget in the past two decades China concluded 9 land border agreement with the Chinese neighbors. But why over some sort of maritime border re-demarcation, that's since getting unbelievably tricky?

The reason is I think time should allow the Chinese to continue to search the way, not just serving the Chinese but also serving the neighbors. So I don't think for example such a maritime disputes with the Philippines, with Vietnam and with the Japanese is some sort of a

new indicator of China's change the shift or change the, you know, course of grand strategy.

So Beijing is still very panicky searching for the way to integrate ourselves into modern system. For example, American people argue should China's approach to let's say maritime territorial disputes should be very legalist. But the problem for many Chinese, legalist approach sounds very foreign. So we can't move as expected in the rest of the world.

So on the one hand I really agree with you. China should get back to some sort of we say a pragmatism. Deng Xiaoping and his doctrine remain is very timely. There's no way China can detract us from Deng's doctrine but on the other hand, I also hope the external reaction to China's some sort of such a lending to be a great power process is being a little bit accommodated. China is a nascent power. Never take China as just some sort of -- as mature as the United States. We're even not as mature as Japan.

So then yes, I also feel very concerned about some sort of such a growing, you know, irritation out of China. But my answer is that it seems harder to avoid completely. So then the problem is at what cost China search for some sort of being a mutual power will risk a lot, will risk something which completely harmful to the regional order. So I think now it's a moment for not just the Chinese and even the Americans and the Japanese and the Chinese neighbors, we should think through.

So my view is that given China's some sort of current very, we say, maybe my tone is very emotional, you know, the experience. We need to reconsider some sort of a framework to reach the new balance. So then helping China to grow up as fast as possible. That's my answer.

DR. BUSH: Okay. Thank you. Duyeon Kim.

QUESTION: Hi, Duyeon Kim with Carnegie Endowment. My question is for Professor Zhu Feng. I'm going to actually steal Richard's question that he asked Professor Choo Jaewoo and ask you the same question but alter it to fit China. If you had the opportunity to advise President Xi Jinping on the North Korea issue, how would you advise him specifically on ways to close the gaps in the conditions prior to the six party talks? And also how would you advise him specifically on ways to resume the six-party talks? Thank you.

DR. ZHU: Okay, if I were Xi Jinping, that's my dream. I have to say first of all, let me start my answer with this. After Xi took office I see a very remarkable change of Xi's policy of DPRK. First I think that Xi is a very decisive Chinese leader so he really seemed to me to hate DPRK. So he did a lot of things. So Xi change of China's policy of DPRK, for example if you look at Xi's two predecessors, so Jiang Zemin and Hu Jintao, they made the first overseas trip by choosing the DPRK. They will make the first trip to DPRK.

But Xi make the first trip to Russia. Then he also want to visit one of the two Koreas. He has chosen the Seoul to visit. So I think it's a big indicator. He wants to show the world his policy of DPRK is truly different.

The second, we will see that Xi Jinping really now is very intentionally just snub Kim Jong-un. So --

DR. BUSH: Snub?

DR. ZHU: Yeah, it's just turn the back to Kim Jong-un. So when was the last time the high level officials from Pyongyang visited Beijing? It's the last April, Choe Ryong-hae. He come as a special envoy but since then I see no such exchange of high level officials. But theoretically or superficially North Korea and China we're a socialist brotherhood. But almost more than one year, so our relations now is really cooling off.

So I think Xi Jinping use this too as some sort of a punitive measure and the warning the young leader so you should behave yourself. Otherwise, China will toss you out. Then the third one where was Xi, for example, Beijing almost keep the level of assistance frozen. We didn't use the economic incentive to drag DPRK back to negotiating table. As Jaewoo made it very clear that China's policy, yes, we ask for the restoration of six-party talk but we don't want to use the collar to drag them back. We leave them alone.

So then my view is that China's policy of DPRK of course is very complicated, is reflecting both presently and previously that China is some sort of geographical and even psychological associates to the DPRK. But I see a lot of change now is happening. So Xi Jinping's DPRK policy is getting more positive. So yes, we ask for the restoration but we don't force DPRK to back. We don't seduce the DPRK to back. We just trying to say, no return to the six-party talks without some sort of a sincerity on the DPRK's side then no incentive. No China some sort of rewarding to the bad behavior.

But on the other hand, China's foreign policy of DPRK still hold the line to China's interests given the growing geopolitical complexity. I don't see that China will prefer to hand over the DPRK. So it's still a very big controversy but the problem is my view is that the direction now is getting sounder.

DR. BUSH: Okay. We'll go right there.

QUESTION: Okay, thank you. This is Anthony Chang from the University of Southern California. I have two questions. First question is for Professor Zhu. Professor Zhu is a pessimistic realist but unfortunately I'm an optimist liberalist. So my first question is you mentioned that there was nothing can be done between China-Japan relations. But as far as I've noticed, the relationships, the bilateral relations, between China and Japan in 1978-1994 was very good. So especially in the 1980s there was already over 75 percent of favorability from China to Japan.

And also during that period of time, Japanese government initiated ODA, Official Development Assistance program, to China and gave billions of billions Japanese yen to the Chinese development. Even after 1989, Japanese government was among the first, is the first, was the first country to resume financial assistance to China.

DR. BUSH: Could you move to your question, please?

QUESTION: Okay, so my question is if according to Professor Zhu this was the volcanic eruption of the hatred between both sides, why during that period of time Japan and China and Sino-Japanese relationships was good and why there was nothing can be done at this moment?

My second question was for the lady from Taiwan and I'm very curious about the economic policies of the DPP because 2016 is coming and there was the presidential election for the Republic of China. So how much spaces is the DPP willing to give on their -- China policy because, you know, like every time when there was a China policy it's always anti -- it's always very coerced for the DPP to accept any, even though they are the favorable policies to Taiwan but they feel because it's China so if they want -- they don't want to accept it. So how much space they want to do and what are the specific policies of the DPP and Tsai Ing-wen? Thank you.

DR. BUSH: Okay. Zhu Feng?

DR. ZHU: Okay, so very briefly I think while that period of time, the China-Japan relations is really turn out to be very good, I think the reason when the two people very ideally look at each other our relations will be turning better. But when both people very, very realistically look at each other our relations now is getting worse.

The reason is I think the China-Japan relations, to my understanding, is most complicated and most, you know, challenging relations, power relations in the world. So we can easily figure out the old elements will easily detonate some sort of great power tension could be, just how say, easily find out from the China-Japan relations.

We have geo -- we say political proximity driven to some sort of security dilemma. We are very competing on history problem. We have unresolved territorial disputes. We also have a very repelling, you know, national feelings from both peoples.

So when -- back to the seventies and eighties, so when both countries used some sort of rosy lens to look at each other, yes, our relations at the honeymoon. But it's just some sort of generalized description but more, you know, deeper into why that China-Japan still just how they got along well with each other because we share the common threat. It's the former Soviet Union.

Then the forcible size speak -- skip over such an unrealistically existing difference. But now is there any common thread left? So presumably the biggest driver for better relations between Tokyo and Beijing is we re-set the common threat. Then it is the United States. Is that possible? No.

So then my view is that to the China-U.S. relations I'm very optimistically realistic. But for China-Japan, very pessimistic realist. So then I see a lot of the reason is ideational. It's not physical. For example, both powers, China and Japan, if we are sitting down

very calmly and very constructively, we can easily find any exists from all, you know, the piled up, the frictions.

For example, the Senkaku/Diaoyu Islands, how much such a rocks matters. We are number two, number three biggest economy. Then we should get into the military wars over rocks, not inhabited? Crazy. That's the problem. It's some sort of spark. It's a flashpoint.

DR. BUSH: JoAnn, the DPP's economic policies?

MS. FAN: Frankly, I have nothing to add about the DPP's economic policy because I'm not part -- from the party and but I can, however, address on how my two cents on how a small economy should engage in trade talks with bigger economies.

Frankly, there's a -- and that happens all the time so it doesn't have to be this so-called China factor of overhanging of your head. Having said that, I think, you know, small economies don't have that many options as the bigger economies. China can decide to manage its slow economic growth but Taiwan as a small economy can't. China can elect to shift from export led economy to a consumption driven. Taiwan does not have that luxury because this domestic market is too small and too scarce of natural resources. So it has -- so its constraint is it has to go full force on this export-led driven directives and do it well.

And unfortunately, having this kind of economic model is very susceptible to your external -- to externality to global world market conditions when there is a, you know, these things. There's cough -- how does that go? When the U.S. market, you know, being one of the biggest markets for Taiwan and Asia as well, when U.S. coughs and then we catch cold in Asia because then there is this whole chain effect. That goes with the trade and we have to live with that.

Having said that, we need to devise trade policies accordingly. And a lot of these politicking is something I cannot address but I do think that they should really get to the base case. Get the base case straight, i.e. you need to play out, as a small economy, you need to identify your strength, play out and supplement your weaknesses through trade liberalization and market reform.

If, for example, you know, people are -- there are lot of people criticizing how -- or concerned how Taiwan's lagging behind this whole free trade agreement trend in Asia. That it's going to be marginalized and so on. Yes, there is a risk, a big one. However, Taiwan does have a very important assets in its talent and resource -- strength in technology. By technology, I'm not talking about Hon Hai being the ODM and OEMs and so on, but I'm talking about more value added and essential parts.

For example, TSMC, Taiwan Semiconductor Companies, it's largest in the world. It has chips on every single, almost every single one of your phones. You cannot do -- you cannot function the phones without semiconductors, ICs [integrated circuits], it actually ventures to provides for device companies like Apple as well. This and its headquarters in Taiwan and nowhere else and this is -- we -- Taiwan has in turn helped U.S. to enhance its competitive

advantage around the world.

So Taiwan's unwavering, if I may, advantage in this technology value chain is something that we need to play out and something that can be addressed through more constructive trade policy. And for example, back in the days when Chiang Ching-kuo had his 10 construction projects, it -- that addresses, that was coming from an analysis of how Taiwan's SWOT, you know, if you all learned that in class, your strength when this is -- and played out and that kicks off Taiwan's miracle back then.

I think that that's what -- that's kind of the vision that's lacking at the moment from both parties and I think that people really should go back and kind of get that base case straight before they start adding all these politicking and all these fears and global trends and so on. And then we can talk about how we can move forward in terms of special relationship with, you know, one market or rely on some of the other. You kind of kind have -- you need to balance yourself and reconstruct yourself first before you can move forward and start criticizing and become this politicking issue.

DR. BUSH: Okay. Where do I want to go? I want to go to the back there.

QUESTION: Thank you. Charles Blum, IAS Group. I'll try to make a quick question of this. I hope it's clear enough. Is it conceivable that issues like energy security, food security, global warming and other environmental risks could be transformed from issues of contention in the region to issues of cooperation? And if so, what would have to change to arrive at that point?

DR. ZHU: Okay, I think it's a great question. I really hope that all the leading players, China, Japan, Korea, United States as well, we can skip over somehow such as we say a power-driven such a, you know, struggle for power -- game -- then turn on to the global issue driven, some sort of world responsibility and world commitment. We need to share. We need to shoulder it together otherwise whatever, who take the lead; I think the world will be getting worse.

So then I think for that moment, for that part, I think the power relations now is really at the juncture. So Richard was very illuminatingly summarized the leading security concern in the region. One of them is global issue. So I can't agree with Richard more.

Yes, we're usually concerned with China-Japan relations, China-U.S., China-Vietnam but never forget it's also dispensable parts of the story, global issue driven threat. So then, I really hope that Beijing, Tokyo, Seoul and Washington, we should get out of some sort of very narrowly defined threat and in broad sense such a global issue also deserve the more energy and our, you know, the enthusiasm.

DR. BUSH: Well, but to follow-up, I mean although we all stand to gain through cooperation on these global issues, there's a related question of who gains more than the other? Or who has to pay the greater cost? And working that out can just reinforce the power struggle. How do you get around that?

DR. ZHU: Yeah, I think it's also another very interesting question for example, cost and benefits. Calculation of costs is always existing and hard to erase behind even our constructive cooperation of global issues. For example, Beijing has been very hesitant to commit ourselves to some sort of emission reduction despite our become, you know, China's the first emitter status in the world.

On the other hand, we also see the food security issue. So China is also concerned. So if we use the same criterias which is now in the U.S. or in Europe, then also we are undermine the competition of the Chinese products. So then it's also I think a domain full of benefits and cost calculations. My view is that, first of all, Beijing should make up [their] mind. So we need to do more, introducing the criteria and also raising the bars for some sort of China's market access over such issues.

That's also inevitable tendency. But on the other hand, we also see, for example, how the advanced community could show some sort of a China sympathy. For example, a lot of such global issues addressing needs, the technology transfer. Need some sort of, we say, domestic market accessibility. Then it's also very, very delicately balanced, some sort of reciprocity.

So my view is that if that Washington-Beijing, we can pay more attention to those then there will be some sort of a positive proceeding. For example, next month there will be S&ED dialogue. I think one of the very enlightening respects of S&ED in the past few years is emission based some sort of such a negotiation and cooperation between U.S. and China. So it's also become a breaking ground both sides just underscore their achievable, you know, the cooperation.

So then, yes, Richard, I hope first of all Beijing should get even more realistic and more flexible. On the other hand, I hope the marketing force could also function well and put in different (inaudible) parts into some sort of with multilaterally beneficial, you know, framework.

DR. BUSH: Okay. A gentleman here has had his hand up.

QUESTION: Sean Ding from the World Bank. Just a quick question for any of you on the stage. What do you think of China's determination for essentially abandoning the U.S.-led or U.S.-Japan-led multilateral institutions? A recent example is the proposed Asian infrastructure investment bank which China is, I think, going to increase the reserve capital to \$100 billion. Do you think that is another step that China is taking to, sort of, establish its own or multilateral institutions that's led by China instead of by, you know, others or by a collective body of countries?

DR. ZHU: No, I don't think it's some sort of very competing alternative. It's some sort of Chinese way to complement, because such an infrastructure investment yes, of course is a big, you know, business in Asia. But also China now, Chinese government is rich. They have money. So they also want to use this leverage a little diplomatic influence.

That's the promise. I think the consequence will be very reciprocal. So on the other hand, I don't think such a Chinese proposal will be able to just marginalize the other regional financial setting. So then the U.S.-Japan still, you know, maintain some sort of accounting edge in the financial trading regional endorsement. But the problem is when China is getting bigger, motivate a lot of things. Then China now say, let me propose some sort of a new bank, regional financial institution called infrastructure investing bank. I don't think that idea will be harmful but instead I see it's a very complementary.

DR. BUSH: Okay, Mireya, and then I'll come here.

QUESTION: Thank you. Mireya Solis from Brookings. I have another question for Zhu Feng. Sorry to keep you so busy. But going with the security dilemma question that you raised, I think the problem with that is that everything that one country does is read by another country in a most threatening way. And in the past few months there have been many changes in Japanese security policy, the creation of a National Security Council, the loosening on the rules of the export of weapons and perhaps adoption of a principle of collective self-defense.

So my question to you is how are Chinese military strategists reading these changes? Is the sense of threat increasing or are they seeing this as actually an overdue modernization of the security apparatus in Japan with only very modest increases in military spending and a very watered down definition of collective self-defense that will not allow for really any major projection of Japanese power in a way that would actually compromise Chinese interests?

DR. ZHU: Okay. Yeah, I think it's also a very debatable question, debatable issues. So then for example, so to what extent China's military strategy has changed. So a lot of people see that China's military strategy changed because China is getting more assertive. China is getting, you know, more aggressive somehow. But the problems to my understanding is PLA is usually bluffing a lot with a lot of loose cannons. But per se, the real security challenge for China is not expanding, is how to safeguarding China's growing security demands.

Yes, a lot of the citation will be come down to the reality, you know. China's (inaudible) defense rise experience that almost two decades long, two digits increase. But I don't think such a change really narrow the power gap between China and the U.S.-Japan alliance. I don't think China's now first aircraft carrier, for me feels more like sitting duck, really, really will pose the threat to U.S.-Japan alliance.

To be honest, for me, after two decades of China's military modernization by Beijing hasn't significantly changed its status of insecurity. So from this point, I don't think Beijing has any credential to shift its military strategy. We still should be very defensive. But the problem is China's capability is really increasing.

So how such an increased China's military capability could be reasonably and also realistically translated into some sort of sources of China's diplomacy? I think such a translation now is very, very awkward. So then it's also one of the reasons of the growing foreign policy messes. So I hope that China could rebuild a consensus. Yes, we are getting more capable but a

20

more capable China does not -- we can't just throw it away.

More capable China mean we are at the better position if the contingency happens, we could do more. So I hope that China's military modernization could move that way.

DR. BUSH: The question over here and then I'll come here and go there. Franklin, right there.

QUESTION: Hello, my name is Harjaap Singh graduate from Seton Hall University. My question is directed to Dr. Zhu and Dr. Choo. Given China's north and south neighbor, Russia and India, there's a very complicated relationship that's evolving especially in the past 10 years, a trilateral relationship.

China's neighbors, and the countries we've talked about Japan and South Korea and North Korea, they have increasingly been looking to these two countries for alternative ways. And India and Russia likewise have been trying to increase their foreign policy engagement. From China's viewpoint is China hesitant about this involvement? Does China see conflict in this involvement or is there a potential for this trilateral relation to create constructive change in the region?

DR. BUSH: Jaewoo, do you want to go first?

DR. CHOO: Yeah. Wow, that's a tough question. I get the first question, it's a tough question. Yes, from Korean perspective we're looking at, I guess we can look at it from two different ways. One is if we're talking about trilateral cooperation then we're talking about China, Korea and the United States or China -- at the regional level, China, Japan and Korea.

But these two tracks I mean they have their own unique features and characters so I don't know if they're compatible but for sure, South Korea is definitely looking both ways to the United States and China as the same time. But because of the recent feud with Japan, obviously we're not looking to Japan and obviously, the trilateral meeting has been on a halt in recent years.

But does that really complicate the issues of regional relationship? So far, in the context of U.S.-China, and then South Korean relations, I don't know, because of probably Xi Jinping's, you know, new directions in China pol -- and North Korean policy or its attitude to new leadership in Pyongyang, I don't know if that's a driving factor here but so far it seems like, you know, the trilateral cooperation or their desire to cooperate together has not been too complicated at this juncture. So it could be a different story with India or Russia.

DR. BUSH: Okay, do you want to speak to India and Russia?

DR. ZHU: Yeah, very basically I think that of course China hope such a trilateral cooperation among Moscow, New Delhi and Beijing could add to China's portfolio for foreign policy but I don't think that would be happening. So then a lot of speculation now is coming over about the Modi's so much pro-Japan, you know, tendencies. It scares the Chinese. So then

instead maybe we should keep such a negative tendencies to stay away.

DR. BUSH: Okay, a question right here.

QUESTION: Kevin Lair with the East-West Center. Building off a few of the points that we've made today there is some political analysts and economists that are thinking that the U.S. may be headed towards a Cold War with China. I wonder if you could speak a little bit about that because you know a lot of what drove, you know, the Cold War between the U.S. and USSR was perceptions, military buildups, you know, and the like.

You know, we constantly hear that they say that Asia is ripe for rivalry based on cultural, you know, insensitivities, identity issues, military escalations. And, you know, Japan, now, you know, Prime Minister Abe is potentially may soon be reinterpreting Article 9 to allow for greater military use, et cetera. I mean we got U.S. politicians and military officials --

DR. BUSH: Just get to the question.

QUESTION: -- saying we shouldn't even talk about China openly. You know a lot of fear and perceptions. So I'd like to ask each panel member, you know, a quick question is the U.S. and China, are they headed towards a Cold War or an actual conflict? Why or why not?

DR. BUSH: Okay, well, let's just do yes or no, okay, because we're getting to the end.

DR. ZHU: No, just because existence of Brookings Institution.

DR. CHOO: No.

DR. BUSH: Okay.

MS. FAN: Obviously, no from economy side because U.S.-China trade activity has been rising exponentially, so.

DR. BUSH: Okay, last question back there on the aisle.

QUESTION: Hi, I'm Young Chan Kim from Fletcher School and I also went to Kyung Hee University so I have a question for my professor.

DR. BUSH: Okay.

QUESTION: You mentioned that your research was about different approach and different perspectives on North Korea between U.S., South Korea and China, but Professor Zhu Feng mentioned that Xi Jinping's approach and perspective on North Korea has been changed so much. And how does South Korean academics and policymakers perceive this? Do we perceive in the same way? Is it really changing or do we perceive in a different way?

If it perceive in the same way, does it make any changes in South Korean government's North Korean policy with China?

DR. CHOO: Yeah, my approach, my focus, was on security situation on the Korean Peninsula. So it's kind of different approach here but if you want to relate the question to Zhu Feng's statement, I think South Korean policymakers and scholars, they were -- they came out with such a view earlier than their Chinese counterparts. They thought, you know, China's North Korean policies started to change back in 2005 when Chinese Foreign Ministry said, you know, the relationship with North Korea is normal state-to-state relationship. And that comes from Ministry of Foreign Affairs perspective not from the CCP or, you know, China's communist party.

So my take is, so far we see the changes in directions and maybe some undercurrent is changing with Xi Jinping's government but yet, the CCP has not really spoken officially yet. So I'll be careful with that.

DR. BUSH: Okay. Thank you again for coming. Thank you for your questions. Please join me in thanking our panelists. Very good.

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