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PANEL TWO

ECONOMIC INTEGRATION IN EAST ASIA

CHINA-UNITED STATES
RELATIONS UNDER CHANGING
CIRCUMSTANCES:
A TIME OF NEW BEGINNINGS

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Opening and Keynote Address: A New Pattern for Major Power Relations

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Wu Xinbo, Professor and Director, Center for American Studies, Fudan University

Welcome remarks:

Yang Yuliang, President, Fudan University

Richard Bush, Senior Fellow and CEAP Director, Brookings

Keynote speaker:

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Panel 1: China-U.S. Relations under New Leaders

Moderator:

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Panelists:

Yuan Peng, Senior Fellow & Vice President, China Institute of Contemporary International Relations; CEAP Visiting Fellow, 2003-2004, Brookings

Cheng LI, Senior Fellow and Director of Research, John L. Thornton China Center, Brookings

Jia Qingguo, Professor and Associate Dean, School of International Relations, Peking University; CEAP Visiting Fellow, 2001-2002, Brookings

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Panel 2: Economic Integration in East Asia

Moderator:

Yuan Peng, Senior Fellow & Vice President, China Institute of Contemporary International Relations

William Antholis, Senior Fellow and Managing Director, Brookings

Song Guoyou, Associate Professor, Center for American Studies, Fudan University

Mireya Solís, Senior Fellow and Philip Knight Chair in Japan Studies, Brookings

Richard Bush, Senior Fellow and Director, Center for Northeast Asian Policy Studies, Brookings

Panel 3: Regional Security in East Asia

Moderator:

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PROCEEDINGS

YUAN PENG: Okay ladies and gentlemen, let's start this afternoon's panel. This morning we had a very fruitful discussion and excellent luncheon speech. So afternoon, the first session will be a little bit sleepy, so I really hope that our speakers can say something very exciting, so that, refresh us. We will have four speakers and the title of this panel is economic integration in East Asia. The first speaker will be William Antholis, a senior fellow and a managing director of Brookings. His topic is Challenges to the International Trading System. Number two speaker is our Fudan associate professor of Center of American Studies, Fudan University, Song Guoyou, Professor Song Guoyou. His title is China's Approach to Challenges in the International Trading System. And number three is Ms. Solis, Mireya Solis, senior fellow and Philip Knight Chair in Japan Studies at Brookings. And the fourth is Richard Bush, director of the CNAPS program. And let's start from William and one by one, and each maybe less than fifteen minutes and ten to twelve minutes, okay? So that we have enough time at the end for a discussion. Thank you.

WILLIAM ANTHOLIS: Well thank you very much. It's truly a pleasure to be here. I've been at Brookings now almost ten years and I was delighted to finally be invited to a CNAPS conference, but actually it's truly an honor, and Richard and I were travelling earlier together this week and it's been a lot of fun too. It's often said that the hardest talk to give at an event like this, is the one at the end of the day, because everything that anyone would have wanted to have said has already been said and you can't say anything new. Some people say it's hardest to go first because everyone is wide awake, all eyes are focused on you and you can't possibly say anything that will be remembered at the end of the day. But I think this is the hardest one because people have come back from lunch and everyone's going to go to sleep. And you won't remember what I've said, and you won't pay attention to what I've said. So to try to make it a little more interesting, we've all heard the movie *Four Weddings and a Funeral*. My view of trade is one fairy tale wedding and four near funerals, for where we are in the current global trading system. And the fairy tale wedding is the global trading system that emerged after World War II and has had several major steps forward in the last over sixty years, created wealth, helped create peace and has helped fuel the rise, the peaceful rise, of China. So in many ways the global system is absolutely productive and worth retaining and it was a fairy tale wedding. But along the way we've come to four near death experiences, four potential funerals that I want to quickly highlight. And one is the structure of the world trade organization itself. We now are in a system where there are really three major kinds of players in the system, and they all have very different goals for the system. There are the advanced OECD democracies, who have a view of the systems based on sixty years of success. There are the big emerging players that have elements of them that are very OECD like, and have adopted certain elements of the system to drive economic reform, growth and integration, but also have parts of their system that undermine those both tendencies and the aspirations that come with the next round of where the regime should go. And then there are the poorer countries that are part of the system but don't benefit from it and are looking essentially for concessions.

And within the system there's very little way for a country to graduate from one stage to the next in a successful way. So in the negotiations themselves, there's been a breakdown. Meanwhile the disputes continue over very high profile issues, from solar energy to applying taxes at borders on one thing or another. And that makes for a very unbalanced system, where positive things, like negotiations that keep hope and ambition within the system, have stalled, and negative things that put strain on the system continue.

This is the longest round in the GATT and WTO's history. It was launched in 2001, shortly after the 9/11 attacks in a way of giving confidence to the global economy, and now, just almost exactly 12 years later, the round hasn't been completed, and all previous rounds were completed in seven or eight years.

So you have a system that really is facing gridlock, which goes to the second near death, which is the near death of political consensus within major countries, for trade liberalization. It used to be that there was a center out caucus. By center I mean people who believed in market economics and in the embrace, the political embrace of market economics that started both with companies and to some degree with labor unions and other civil society organizations. And while, from time to time, on a country by country aggressus that coalition can be put together, that coalition for global agreements and to some degree even regional agreements has broken down. It's the case of the United States. It's the case in most other industrial democracies and it's increasingly the case in big emerging markets where internal political battles on a range of issues are starting to play out in the trade arena.

The third near death is after a rebirth, which is the rebirth of regional trading agreements, which has been quickly followed by a near death, and I'm not going to talk much about that because Mireya will discuss those things. But the Trans-Pacific Partnership, the Transatlantic Trade Investment Partnership, ASEAN, ASEAN-China -- on the one hand these create potentially important regional blocks where you can get agreements to happen, but they all face challenges as well. As quickly as one is proposed, it suddenly sees the difficulties and contradictions in pulling them off and they face a range of different issues like, how could somebody else with similar interests join an agreement? If a transatlantic partnership happens, could you pan-join to it? As well as, are there blocks to certain countries -- preventing them from joining?

And then finally, the last near death is the near death of trade itself as a concept, as a discrete Westphalian concept. We have this view of trade of one country trading with another country. But a range of things have helped break that down. One is the global supply chain has become so complex. It is hard to say where a product is actually made. It's finally assembled in one place, but the parts and pieces have been either produced or assembled or partly assembled in other places and shipped on. And so the idea of one state trading with another -- that's in some ways the biggest challenge, but also, suddenly the recognition that trade and currency flows track and are aligned with one another and are connected with one another, but we don't live in a Westphalian currency world anymore, when some countries peg their currency to another country, it affects trade flows not just between those two countries but between either one of those

countries with another country that has a different currency. And then when you have within a currency, like the European Union, countries facing very different competitiveness situations, like Greece and Germany for example, trade within that system becomes complicated let alone between that system and other systems.

That applies to other issues that are connected to trade as well. So again, we think, used to think of trade as trading one product from one country to another country. And now any particular trade issue has attendant other issues connected to it -- energy, environment, commodities, labor standards. And as those issues have broken down, it's complicated the broader set of trading issues. So the idea again of Westphalian trade has given way to issue integration, and issue disintegration.

And then lastly, what you've seen is the rise of cities and states and localities, who themselves have become competitiveness engines. And while that's been a very productive thing, when you have national gridlock over issues as a general matter or national gridlock over these issues, national standards for environment or, you know, in the United States we don't have a global climate agreement, which -- we don't have a national approach to climate change -- has prevented us from having a climate change agreement, what you then get are states and localities that work on those issues and that has an impact on trade. States and localities doing protectionist things on energy or environmental regulation, or states and localities trying to be more free trade -- trying to establish a Shanghai free trade area. And that, when you put something like that forward, it complicates the national picture of having a coherent approach to trade, so you move from a Westphalian system to a Hanseatic league of cities trading with other cities that have similar approaches to issues.

And so I think we're at a moment where the dream, the unifying dream of the fairy tale wedding is giving way to these deaths in the family that constantly keep drawing our attention away to other issues and make the coherent push for big trading agreements successful.

YUAN PENG: Thank you for saving almost two minutes. Thank you. It's a very new model. Our second speaker is Song Guoyou.

DR. ANTHOLIS: You didn't fall asleep, so I succeeded.

YUAN PENG: No, no, no, no, no. In my mind, your speech leaves me with a very deep impression - it's death, near death, and birth, so I cannot go to sleep. Song Guoyou.

SONG GUOYOU: Okay, thank you Chair. It's my great pleasure and honor to be here, especially when I'm sitting with three Directors, all are Chairs. Actually, I'm only an Associate Professor. Okay, the title given to me is China's approach of challenge of international trading systems. So first, how China identifies its challenge. For me, I think there are four challenges facing China. One is the deadlock of WTO Doha round. William just used the four deaths to describe the multilateral trade system. I remember that last year when we held, when we hold, a conference with

Georgetown delegation, Daniel Drezner used three dead to describe multilateral trade negotiation. He said dead, dead, dead. Three deaths – so it's American popular opinion? Okay, anyway, the first two -- challenge two -- trade protectionism. China has got, according to China's government statistics, China has got the most anti-dumping investigations and the most anti-dumping service among WTO members over the last seven years. And for China, trade protectionism and abuse use of trade remedy measures can only do harm, not only for China but also the rest of the world.

And the challenge three -- a regional and bilateral FTA competition. Regional and bilateral free trade agreements at heart should be a useful addition to the WTO. However, many regional and bilateral FTAs do not complement each other and they should, but act as rivals, and contest is growing. Fields between FTAs are dominated by major economic powers.

And fourth is about uncertain global economy. As we all know, China now is still relying very much on China's foreign market, free market, with uncertain economic growth, so China's trade with the rest, I think still some difficulties.

Facing such challenges, China is taking, following such counter-measures, basically, according to my analysis, it's a multi-level approach. Namely global approach, a regional approach, a bilateral approach, and an internal approach. First of all, it's about global approach. Actually there are two contents. One is for China, not the U.S. Inject more impetus into WTO Doha round. The multilateral trade system with the WTO at its core is the foundation for trade globalization and facilitation and it cannot be replaced by any regional trade arrangement. An open, fair and transparent multilateral trade system conforms to the common investment interest of all countries. Now we have early harvest negotiation of Doha round. Early harvest negotiation has come to a final stage. Only several weeks are left before the ninth ministerial conference. So China urges all parties should focus on [breaking barriers]. Present much flexibility, seek to (inaudible) as soon as possible and avoid bringing new issues. And there are three proposals initiated by China. One -- do not challenge the bottom line of other member countries, which will lead earlier harvest to miss good opportunities. Two -- do not create new problems and difficulties. Three -- all parties should make full play of flexibility, seeking compromises, proposals and the reasonable landing area. Number two approach of global level -- just as William mentioned, China urged, encouraged to introduce a new statistics of a trade value added system. The statistical value is created by attributing commercial value to the last century of origin perverts the true economic dimension of the bilateral trade imbalance. This affect the political debate and leads to a misguided perception, so the current trade status creates a distorted picture about China and developed economics trade imbalance, especially China-U.S. trade imbalance. And Mr. Wang Yang our now vice premier who charged [with] commercial issues of China, urge that value added approach should be introduced to world trade statistics. The second approach is a regional trade approach. Besides global approach to deal with challenges, China at the same time is willing to advance regional and bilateral cooperation with other countries and regions with an open and inclusive mind. In promoting world trade liberalization, the Chinese government believes that the multilateral system should play a major role, but China also, meanwhile, as I said, focus such the following initiatives.

First is RCEP. Regional Comprehensive Economic Partnership. Two rounds of negotiations have been held on RCEP. China proposes that the regional economic integration should adhere to the principle of openness, inclusiveness, transparencies, and is willing to with other RCEP members -- 15 members -- to strive to fully complete the negotiations by the end of 2015, quite close to TPP. To reach a modern, comprehensive, high quality mutually beneficial free trade agreement in this region. Second, ten plus three, East Asia FTA. For China, to establish East Asia FTA is in line with common interest of all countries in this region. Since 2004, it has been put forward to promote the [establishment] of east Asia FTA in every ten plus three leaders' conference. China wants to have a three step approach to put forward, push forward, ten plus three negotiation. First, accelerate the process of establishment. Second, persist in bringing ASEAN into full play. Third, gradually promote the established based on the different development situations of countries in East Asia. And I want to remind you that besides that I mentioned about two approaches, regional approach, there is a new equation of China's trade policy. This is called economic bet. When Premier Li Keqiang visits India this May. He proposed to establish a China, India, Myanmar, Bangladesh economic bet among the four countries, and when Xi Jinping visits central Asia, he also initiated a Silk Road economic bet. It worth noting that those two economic bet will cover two neighboring countries, to cover neighboring regions which have no any FTA negotiations with China. It's a very flexible approach.

And there are also bilateral approach to deal with international trade changes. China now has had twelve bilateral FTAs with different partners in various regions including ASEAN, Pakistan, Chile, New Zealand, Singapore, Peru, Costa Rica, Iceland, Switzerland, and three special free trade arrangements with Hong Kong area, Macau area, and Taiwan area. And there are new arrangements of China's bilateral FTA negotiation. First and foremost is China-Korean FTA, China-Korean FTA. There are, has been, seventh round of China-Korea talks. Last month, September, we witnessed the seventh round of FTA negotiations. Up to now the two parties conclude the first stage of FTA talks, and the second stage FTA talks are upcoming. China-Korean FTA talks, as I said, are two stages. The first stage is about that two parties reach consensus on trade in groups - agreements, scope, principles, frames and elements of talks of all fields. Now stage one was finished. And the next bilateral approach, I think it's very new and interesting. When Premier Li Keqiang ended the sixteenth ASEAN-China summit this month, he stated that China would launch new negotiations with ASEAN on upgrading the China-ASEAN FTA and to strive to bring bilateral trade volume to one trillion U.S. dollars by 2020, so as to ensure that ASEAN countries would benefit more from regional integration and China's economic growth. An upgraded China-ASEAN FTA is aiming to expand the content and scope of current ASEAN plus China agreement by highlighting areas, such as lowering tariff rates, cutting non-tariff related measures, launching dialogues for a new round of service trade pledge, and pushing forward the actual opening up for investment, et cetera. It's a new proposal.

[Premier] Li Keqiang prefers very much about upgraded -- upgraded economy, upgraded China neighboring economic relations, upgraded China-ASEAN FTA. And last but not least, China's bilateral approach is China-Australian FTA. Several rounds of China-Australia FTA has been held, have been held for the last years.

There are several problems with this FTA. Basically, Australia thinks China's investment in Australia should be limited but this proposal is, cannot be agreed by China, so there are some problems, but to my understanding, China will try its best to finalize China-Australian FTA. Also I want to share something about TPP. It's a hot topic in China. But I want to use a skillful statement here. China advocates that every economy should stick to the principles of opening, tourists, and transparency is a cost of free trade zones construction, especially for economies with different levels of development. We should provide flexible choices for each economy on the way of integration. China has always attached great importance to enabling and tracking the development of TPP negotiations and constantly listened to options from all the departments and industries in China on TPP. China will examine the pros and the cons and the possibilities to join in TPP based on quality and the mutual benefits.

It's also worth noting that in this year's APEC, President Xi Jinping implied that two biggest regional FTAs, RCEP and the TPP respectively, could interact with each other, so as to build a whole Asian Pacific free trade area -- APFTA.

And last approach is an internal approach. Actually, Mr. Xie Feng has mentioned something about China's internal economic reform. To me, I think there are several -- one, is a shift of economic growth model from export driven to domestic consumption driven. Basically, more consumptions, and more imports. I think once China achieves those two goals, China will, can provide necessary public economic dues and regional public dues for the region and for the world.

Okay, here is my conclusion, also very skillful. China will take an open, inclusive, cooperative and responsible attitude in building and maintaining a sound international trade environment, together with its trading partners, and in shaping a balanced multilateral trading system. China hopes that with all countries' joint efforts, especially the largest two countries in the world, China and the U.S., the mutually beneficial and win-win trade and economic relations among all WTO members could continue to develop soundly and steadily. Thank you very much.

[Missing Audio]

YUAN PENG: Okay, thank you. A skillful and a comprehensive and bilateral, multilateral, internal approach of China in dealing with East Asia economic institution, and when we're talking about East Asia economic integration, the most popular concept in China and in this region is the so-called TPP. So this is exactly the topic of Mireya Solis, and her topic is Trans-Pacific Partnership. Welcome Ms. Solis.

MIREYA SOLIS: Thank you so much, Mr. Yuan. It is really a pleasure to be here at Fudan University. This is actually my second visit. I came eight years ago and Professor Wu is such a pillar of Fudan University that he hosted that delegation as well. And it's a pleasure really -- this is my second time to participate in the CNAPS Fellows Conference and to get to know many of the previous Fellows, since I've only been at Brookings for one year, so I feel this is a great opportunity to develop those relationships as well.

So I'm going to talk today about the Trans-Pacific Partnership initiative and everywhere I go, there are all kinds of views and everybody has an opinion so I find I'm always in the hot seat, so I knew this will be the same case this afternoon. And I'm not going to focus on deaths. I'm actually going to focus on new beginnings, because I think that these are very very exciting times in the world of international trade politics, especially when we focus on the area of preferential trade agreements or FTAs -- Free Trade Agreements. And what is really interesting I think is that I've been watching Free Trade Agreements for over a decade, and the basic characteristics of this FTA wave were as follows. First of all that we were looking mostly at bilateral trade agreements -- a pair of countries that decide they want to talk about deeper economic cooperation. But frequently, they were very very cautious in how they did this, so actually we're talking about relatively small economic partners. So that was a second very important characteristic of the previous wave of Free Trade Agreements - that you had countries spending three or four years of negotiations and they were only going to open markets that amounts to say, three percent of their exports, so it was really puzzling, but that was very frequent when you were looking at what kind of trade agreements were being negotiated.

And also in the past, we had frequently a developed country and a developing nation negotiating a free trade agreement, so there was a north-south component to these negotiations. None of these trades applied to the most exciting consequential trade negotiations that we are witnessing. And I like to refer to this as mega-trade agreements. Why? Well, first of all because we're now talking about plurilateral agreements. We're now talking about trade negotiations that combine many several markets so that actually the stakes are much higher. And one very easy way to get at that is to look at the share of all GDP that many of these mega-trade agreements represent. The TPP comes close to forty percent of world GDP. TTIP, the Transatlantic Trade negotiation -- forty-six percent. The Regional Comprehensive Economic Partnership -- thirty-three percent. And the Japan-EU trade negotiation -- close to a third of world GDP. So the stakes are very high. We're no longer talking about small trade agreements. We're now talking about the big leagues and therefore this generates a lot of attention. Second, we're actually now, and this is very interesting, we now have industrialized countries sitting across each other at the negotiation table. It's no longer only that it's a north south component, but actually that now you have industrialized countries like the EU and the United States negotiating, Japan and the United States negotiating also, as part of the TPP. And I think that then this results in the consolidation of a very important trend regarding the substance of trade negotiations. Tariffs is an old story, still matters for some very specific commodities where you have entire peaks, but the fact is that most markets are protected through other means and not any longer tariffs. And this means that trade policy has migrated and the agenda has migrated to behind the border issues. This is an incredibly difficult, complex issues to get at, because we're frequently now talking about dismantling, reforming, harmonizing regulatory approaches. This means that they touch in many many different policy dimensions, that were not subject before to international negotiation, and therefore, as Bill was saying there is now push back from many domestic groups, who would not like to see this encroachment of the trade agenda on so many different issues. And we shouldn't assume that because

industrialized countries are negotiating with each other, that they'll agree on the high standards and therefore the regulatory talks will proceed easily. I think far from it. Because these industrialized countries frequently have well established approaches to regulation and they believe that they have the best approach and therefore they might not very easily consider reforming it as part of a trade negotiation.

And lastly, and I think this is also what makes this a very exciting time in international trade. Not only that we have mega trade agreements among very large economies that are talking about behind the border issues, but it's also that it all happens simultaneously, right? So you have four or five mega trade agreements and they're all being negotiated as we speak and that's why I would like to emphasize the new beginnings idea. And I think that this gives an opportunity, creates opportunities and challenges. So let me just highlight what would be the best case scenarios where we could really get very positive outcomes, but also, what are the potential downsides. Where are the risks of having these simultaneous mega trade agreements?

So if everything went well, and we were to think about the positive best case scenarios, I think that we could hope perhaps for a race for the top phenomenon -- a race to the top phenomenon. And by that what I mean, and I think it's very close to what Professor Song was saying -- competitive, constructive competition, among different trade agreements to raise the quality of these trade agreements. That would be a good thing if it would happen. And this could happen in different ways. One is that when you have one trade agreement that is aiming very high, that has a high level of ambition, that creates an incentive for the other trade agreements to also raise their level of ambition if they want to remain relevant, if they want to be attractive for cultivating investment and for trade opportunities.

But also there's a different mechanism, and I think we shouldn't lose sight of how important that is. And that is, there is overlapping memberships in these mega trade agreements. So the idea is that when one country agrees to negotiate very high standards in one trade negotiation, then it shouldn't be too hard to agree to the same level of ambitious high standards in other trade negotiations. And I think this also sets aside trade agreements from security arrangements. They're not as exclusive. There's overlapping membership, and I think this is a very very positive development.

The other, I think, good scenario would be if we could come out of this mega trade negotiations with rules that would be capable of global dissemination. And I think that there's a lot of focus on the quality of these rules, and that is certainly called for, but then we should also evaluate these rules in terms of their dissemination potential. Because what I don't think would be positive at all is if out of these mega trade agreements we end up with say the Pacific standard and the Atlantic standard. We would in principle hope that these will become global standards, especially because the WTO has had such a hard time in moving forward the trade negotiation agenda. And to me this then places a special responsibility in what I identify as bridge countries -- that is, central countries that are sitting in these different negotiation tables and that must have in mind the importance of pushing for compatible, coherent standards in these different negotiation fronts. It's not easy, but if we don't make an emphasis on that, it's certainly

not going to happen.

And what are the challenges of having so many big large stake trade negotiations taking place simultaneously? One is, of course, that countries are biting more than they can chew, all right? And that they're going to scatter their resources too thin, and I think it's become very very troublesome for some countries, that they cannot staff sufficiently all these different trade negotiations. This is particularly hard for developing countries, who may not have all the resources -- the human bureaucratic resources, well trained, in these very complex technical topics, but it affects every country, and the United States for example, with the sequester, has been affected. The budget of the U.S.T.R. -- the traveling budget for the U.S.T.R. has been affected and these are real issues.

The second problem, potential problem is that one -- I argued for global standards and what happened is that we end up with large FTAs with idiosyncratic rules and again, these would be a movement towards compartmentalizing and not integrating the world economy. And lastly I think that these mega trade negotiations, what they bring to the surface are a discussion about what is the future for the WTO? I think the WTO cannot update in a broad multilateral rule on the trade and investment issues for close to twenty years and you have to move through the mega FTAs -- what does this mean for the future of the organization?

Now I started this because I think it's important to place in this context the Trans-Pacific Partnership, and in many ways I believe the Trans-Pacific Partnership is the precursor of these mega trade agreements. It's stimulated in creating incentives for other countries to then launch these other very large trade agreements. And I think it's really interesting that from the get go, the TPP has attracted a lot of discussion, you would say controversy, certainly wherever I go, I feel like it's talking about taxes when I say TPP. Everybody has an opinion and a strongly held one. So why is this the case? I would argue that there are at least four things that make the TPP stand out.

One is, first of all, that the sheer level of ambition makes the TPP stand out. You know, when you have something like four hundred free trade agreements, (inaudible) to WTO -- it's very easy to think about run of the mill trade agreements, but this has never been the case with the TPP, because of the no exclusion mantra. The idea is that TPP countries have always said, you have to put everything on the table. We will not do what other trade agreements have done, which is to negotiate the easy trade agreements by setting aside difficult sensitive sectors. And what you get is that one country looks after your sensitivities and you get that in return and the result is of course a low quality trade agreement. And the idea is that we commit ourselves to, in principle, putting everything on the table and we therefore expect to have, as a result of these negotiations, a very high liberalization rate in terms of the tariffs that get eliminated. And secondly, this is the other point that makes the TPP stand out -- it's a very comprehensive, ambitious agenda to tackle the non-tariff barriers. Twenty-nine chapters that deal with a wide array of issues like intellectual property, supply chains, competitiveness, state run enterprises -- you name it. So clearly there's a lot on the table to negotiate.

Third and I think this is also a very important trait of the TPP, is its open clause -- the possibility of expanding. One of the verges of the TPP project has been always that it's an expansive project. It already grew from four to nine, twelve, and in principal, all APEC economies have a right to request membership in the TPP. And the idea therefore, that what you're aiming for is a construction of an Asia-Pacific platform. And this is important because frequently we only think about the Asian component, but we should also not lose sight of the fact that many Latin American countries are also part of these agreements, and therefore the idea is that you are creating this cross regional platform.

But the most important reason why I think that TPP stands out is as follows. I think we're witnessing a major experiment, as to whether we can use a trans-regional trade vehicle to move forward the trade negotiation agenda. We know that the WTO has become too diverse, too polarized, so the agreements for in depth integration seem very very difficult to reach there. We also know that the bilaterals have been tried before, and what we got were very modest results by using a lot of negotiation resources and idiosyncratic agreements that would not create this region -- these global standards. So what we have here is trans-regional agreement, where the stakes are high because the markets are of importance and a deep integration agenda. Can we make this work this time? I think that is what is at stake in the TPP.

Now, why is the TPP so important for the United States in particular? I think that there is no question that the TPP has been the signature trade initiative for the Obama administration. And I would put to all of you that there are at least three main, very consistent, objectives that have driven the strong priority attached by the Obama administration to the TPP. One is, of course, that this would become a platform for the design of these rules -- these standards of trade and investment. Again, the rule making aspect of the TPP is critical. Second, this becomes a way in which the United States can remain deeply connected to the world's most dynamic region in the world -- Asia. So the United States becomes part of the regional architecture and tries to raise the level of ambition in terms of promoting economic integration in this area.

And third, I think with the TPP, the United States finally, finally began to gain traction in making sure that it would not be excluded from a bidding process of Asian regionalism. And the problem had been that the United States had tried the bilateral approach, and it was taking too much time. In some cases, some of these negotiations were not succeeding with Malaysia and Thailand. And what the TPP really meant was a shift of strategy and a successful one at that. And an endorsement of what is called the critical mass approach. So the idea is that by putting together this very attractive group of countries, then that creates an incentive for the others to join, and therefore you have a snowball effect, on a larger, genuine Asia-Pacific platform.

Now where are we in the TPP negotiations? I think we are now at the critical juncture. The next months will be really very important to watch. Why is this the case? Well one major development in the past few months of course has been Japan's entry into the TPP. That of course increases significantly the economic importance of the

agreement. For the United States alone, Japan's entry tripled the economic benefits to be derived from this trade agreement, largely because there is no bilateral trade agreement between Japan and the United States and therefore there would be all these fresh gains of liberalization. But I think also Japan's entry helped consolidate the Asian identity of the TPP because now you had one very large Asian economy joining and creating incentives for others to do as well. And I know that, for example, in South Korea, there has been a lot of discussion and they seem to be very close to also joining TPP. So that has been a major major change in the composition in the significance of the TPP. But I think that two fundamental challenges remain. And I think one is regarding the international negotiations and the other one has to do with American domestic politics.

Regarding the international side of things, the international negotiations, you all have heard from the U.S. T.R., Mr. Furman that we are at the end game of the TPP talks, and the idea is that they should be finalized by the end of the year. I think in my own view, this will be very very difficult and challenging. I think that if you look at the list of outstanding issues, where no agreement has been found, there are very large differences among parties and these are indeed critical issues for the TPP. One of the most difficult issues is, of course, intellectual property, but also state owned enterprises, the enforcement of environmental standards, textile liberalization vis-à-vis Vietnam, and of course the proposition that you could open the Japanese market in terms of agriculture and non-tariff measures in a way which has never been done before in just a few months. I mean I think it's a lot to expect for this to be taking place in the next two and a half months.

But there's also, in addition to this international negotiation -- and I have one minute so I'm going to my conclusion -- there is of course domestic politics. And the fact is that there is no trade promotion authority in place. The fact is that Congress as you all know has been focused on the budget battles and they'll come to that in January, and therefore obviously, this exerts impact and exerts influence on the development of the TPP negotiations. So how will that move forward in the United States? How will the domestic consensus that Bill was referring to be built? It's also one very important issue facing the United States in the next few months.

Now let me end up with highlighting why it's so essential to nevertheless overcome these challenges at the negotiation table and these challenges regarding Congressional support for the TPP. Just think about what would happen if the TPP does not succeed. First of all, you would deliver a critical, a very serious blow to the negotiations with Europeans. It would hurt the American credibility quite badly. But also, I think it would then make us be very worried about how do we move the negotiation, the trade negotiation, the trade agenda forward? As I was saying before, if we think that this is a new experiment, where we use trans regional trade agreements and this one doesn't work either, because no consensus could be found, then what are we left with? The bilaterals are not enough, the WTO is not moving, these were supposed to be the vehicles, so that would also be of great concern. And third, I think that it would also lower the incentives for other mega trade agreements to try to be more ambitious, to try to put more issues on the negotiation table and try to integrate their economies further.

And lastly I think it would be a tremendous blow to reformers in different TPP countries that have looked at these trade agreements as focal points, as commitment mechanisms, to try to move forward very important domestic structural reforms. So for all these reasons, I think that we should try to invest the political capital to make sure that the international trade negotiations can move forward and that the Congress can also come on board. Thank you very much.

YUAN PENG: Okay, thank you Mireya. For your very comprehensive interpretation of American view of TPP. Our last speaker is Richard Bush. He's a former Chairman of American Institute of Taiwan and a longtime observer of cross-strait relations. His topic is economic integration and cross-strait relations.

RICHARD BUSH: Thank you very much. Bill Antholis was wrong when he said the worst job is to be the first speaker after lunch. I think the worst job is to be the last speaker on the first panel after lunch, and the last speaker before the coffee break. I mean, I need coffee, but you all need coffee too. So before I get to Taiwan, let me just say a few things about the bigger picture and start with the biggest picture of all. And that is, I think that when the history of the post-World War II era is written, the most important development will not be the cold war and the end of the cold war, it will be the big transformation of the world economy through globalization. This is a really big deal. It will continue to be a big deal. And globalization has been exceptionally good for the Asia Pacific region, because we've seen, as you know, a vast expansion of trade across the Asia Pacific region and in the last few decades, a really stunning increase in relations within East Asia, our economic ties and trade within East Asia itself.

Now, as we all know, China chose wisely to join this trend in 1979. The Chinese people and China have benefitted greatly and more than anything else, globalization will contribute to the revival of China as a great power. And it is, globalization is contributing to the revival of Asia as the primary contributor to global GDP. In 1820, that was Asia's position. It was the leader. And it is being restored as the leader. So that's the very big picture.

Second I would say, I would note, along the lines of other speakers, that the intensification of economic interaction, across the Asia Pacific, has required the creation of institutional arrangements to facilitate it, and institutional arrangements of all kinds. And so states have gotten involved. These arrangements can be global, they can be regional, and they can be bilateral. They can involve tariffs, non-tariff barriers, and regulatory structures and so now we see all kinds of examples. WTO, ASEAN free trade agreement, various ASEAN plus things, RCEP, US-ROK free trade agreement, TPP, and ECFA. I am getting to Taiwan, I promise you. As we've heard, these various approaches are not mutually compatible, but one can hope there will be a race to the top, a race to quality.

But the important point is that globalization could not continue without the role of states in creating these institutional structures. Now, the creation of these structures does raise a question. What's the relevant region -- I mean if you're going to have regional arrangements, how do you define the region? Do you define it in

geographic terms, or more functional terms? And by function, I just mean you draw the circle of integration to include all the actors among whom the economic activity is the most intense.

Now I have a preference for the broadest definition of region -- essentially a functional approach. I think doing it on an Asia Pacific basis is better than doing it on an East Asia basis, because the United States is still part of the circle of integration with Asian countries, Asian economies. So, where am I? Okay, now, getting to Taiwan.

Taiwan has been something of an anomaly in this broad trend of globalization and the creation of an institutional architecture. Now it's not an anomaly concerning globalization itself, because sixty years ago, over sixty years ago, it chose to get on this train. And it has done very well. And it has become deeply imbedded in a variety of global supply chains. The anomaly has been that it has not been able to participate easily in all of the various institutional arrangements created to facilitate economic integration. And this is in spite of the fact that it is in Asia, and it is a part of these global supply chains. The reason -- there are some institutional arrangements that it has been a part of. WTO is an important example, the International Semiconductor Agreement of 2000 is an important example, but we know why it has not been able to participate in other arrangements, and that is that there's a political logic at work. And Beijing is worried for understandable reasons that Taiwan might use its participation in these arrangements to achieve, to pursue goals that would be contrary to China's interest -- two Chinas; one China, one Taiwan; Taiwan independence.

One other arrangement that Taiwan has been a part of, of course is ECFA, and this made perfect economic sense. ECFA has benefited both sides of the strait. It will be more successful as the two sides complete the various parts of the framework, particularly the agreement on trade and services and the agreement on trade and goods. And each side will have to implement well its various commitments.

ECFA raises an important question though, for Taiwan's long term economic future and prosperity. And that is, is it good for Taiwan's long term competitiveness, to deepen integration with only one major trading partner? -- that is the mainland? Or is it better for it to deepen integration with all its major trading partners, not just the mainland, but also the United States and Japan and so on? And this is related to where its long term advantage lies, just in the mainland market or in many markets through its participation in global supply chains. I think Taiwan's answer is that it makes more sense, in fact it's mandatory to deepen integration with all major trading partners, not just the mainland, but also the United States and Japan. This is a broad consensus. Some believe this on economic ground, some more on political grounds. And so the question is, will Beijing continue to create some obstacles to Taiwan's international participation in this field?

The story is not completely negative. We have, hang on just a second, where am I? We have mainland flexibility on Taiwan's FTA with New Zealand, and with Singapore and hopefully that will continue. This is not really a question of names, because I think Taiwan is willing to be very flexible on the name it uses to describe itself

and the name it uses to describe whatever arrangement its making. So I don't think that's an issue. I think the question is more how the mainland defines its political logic. Does it continue to worry most about two Chinas, one China, Taiwan, or Taiwan independence problem? But the reason that's understandable is that if any of these outcomes occurred, it would mean a setback to China achieving its political goals vis-à-vis Taiwan, which is unification.

But I also believe that the best way to, for the mainland to achieve its political goals is to win hearts and minds of the Taiwan people. And I think China's leaders understand this. So the question is, will China be better able to win hearts and minds by blocking Taiwan's entry into the international economic community or will it be more likely to win hearts and minds by being flexible, concerning TPP and other things? Clearly, the mainland has done a lot for Taiwan over the last three decades and I think there's a majority view in Taiwan that cross strait economic relations have been good policy. Clearly there are some things that Taiwan needs to do for itself to ensure its prosperity. And nobody else can help it do that.

But at the end of the day, I would argue that China is more likely to achieve its fundamental political goals vis-à-vis Taiwan by accommodating Taiwan's desire to pursue economic integration, not just with the mainland, but with its other trading partners. Thank you.

YUAN PENG: Okay, thank you Richard. Now, we have almost thirty minutes left before coffee break, so okay maybe we ask this gentleman.

[Missing Audio]

QUESTION: Okay, thank you. I have – I had a short time talk about TPP with Mr. Richard after the meeting in the morning. But, we didn't finish it because we hungry, we hurried to have lunch. So let's continue. As we know, the U.S. original intention in the TPP is to create, to build a free market, no trade protection, no trade barrier, so the U.S. is always keep the high level standard in the negotiation. But as Mireya mentioned, the U.S. wants to finish the negotiation in the end of the year. So I heard from the media, the American will make some concession in the next negotiation, especially to the Japanese agriculture products so my question is, is it true or not? Thank you.

YUAN PENG: Maybe we have two more questions, and we answer together. James?

QUESTION: Thank you. A couple of questions. One, if we take what Xie Feng talked about earlier this morning about the need of improving economic relations between the United States and China in the context of the changing global trading system as described by Mireya in her presentation, I'm just wondering how the panelists would view the prospect of a possible U.S.-China Free Trade Agreement. I know this is sort of a huge issue, but where, and at what point do you think this will become a realistic issue on the agenda of U.S.-China economic relations? The other

question I have maybe, probably more for Song Guoyou, it's not about international trade, but being in Shanghai, I'm just curious about this Shanghai pilot free trade zone, to what extent this is going to create a different environment for China's foreign economic relations? And maybe thirdly, for Mireya, I don't know whether you have the answer to your own question about the future of the WTO, given the Bali meeting's going to take place and WTO officials seem to be slightly more positive about the potential outcome in Bali. And then perhaps, finally, do you think the TPP is a bit too ambitious, if, you know, at this point in time? Thank you.

YUAN PENG: Okay, my suggestion is that you raise this first two gentlemen's questions together, and then we'll have a second round of three, okay after we answer the question and then follow three inner circle. Okay. Please answer as briefly as possible. Thank you.

DR. SOLIS: Okay, thank you all. I'll try to be very concise. Regarding the first question. So, how does the United States get the agreement done and especially given that there's a concern that if it doesn't happen very soon, you could send a message of negotiation drift, if it really goes further into next year, then the mid-term elections also become a factor. So I think we can understand why the U.S.T.R. is sending a signal that this should be done relatively expediently and try to finish by the end of this year. I mean I think that this will require perhaps some degree of flexibility but, you know, where the exact line will be obviously, is not something that I am privy to that information. But I do think that, you know, with the negotiations with Japan, those five or six so called sacred commodities really consist of 586 tariff lines. So if Japan were to set aside all those tariff lines that would bring the tariff liberalization ratio to 93 percent. This might sound too technical, but the bottom line is that that does not cut it. That does not cut it for the TPP standard, where we're thinking perhaps of a 98, 99 percent, and within that, some degree of flexibility. So I think there's a very interesting discussion in Japan today, and a very well known agricultural politician, Mr. Michigawa in the Bali summit made some comments about maybe one way is that we begin to unbundle and look at the specific tariff lines where we could actually offer some liberalization, so you know, both parties need to come to an agreement and understanding. So there would be some flexibilities, but you don't want to have a slippery slope effect, because if you begin to contemplate exclusions and preferential treatment for sensitive sectors, then it could end up very well as a run of the mill agreement, and nobody wants to go there, so that's why this juncture is so important.

Then going to the future of the WTO, I think that the way I envision it is, first of all, in the dispute settlement area, I think that the WTO is still very very robust, and I think we have a very interesting phenomena in the sense these new wave free trade agreements, all of them have a rather sophisticated dispute settlement mechanisms. And governments still for the most part decide to take their disputes to the multi-lateral level, largely because it's a well-tested, well running machine but also because you then set standards at the multi-lateral level and there's benefit to that. So clearly, WTO is going to remain a very robust organization in that area.

I think what is interesting is that some of the spirit behind the mega FTAs

actually is coming to the WTO. And I'm not sure that's necessarily good for a system based on the non-discrimination principle. What I mean by this is the critical mass approach is beginning to have further, I think, resonance in the WTO when you look at the -- I don't know what this noise is -- when you look at the negotiations on the services agreement, where the idea is that only countries that want to sign on traditional commitments do so. And it's very much the spirit of like-minded countries agree to higher standards of liberalization and we begin to see pockets of that in the WTO.

Then the prospects for China - U.S. FTA? I think that there's already, it's a very significant development that there is this bilateral investment treaty that China changes position to adopt negative list. To talk about liberalization of foreign direct investment because that's what the pre-establishment really means and that's a very positive step forward. But I think more than just a bilateral FTA, what we're thinking now is that if you let the two mega trade agreements run to their ultimate conclusion and then you have the RCEP framework and the TPP framework. I think then the next stage becomes to really talk about the Asia Pacific free trade area. And then that's going to be a very interesting negotiation because then you would have to see how you can reconcile agreements that have actually been negotiated under very different assumptions. The RCEP very much emphasizes differential development levels and flexibility and the TPP is a very different exercise altogether.

But I think we have to think about this sequentially, and that might be where we end up discussing things. Thank you.

DR. BUSH: James, perhaps the smoothest way for there to be a China - U.S. FTA would just be for China to see a value in joining TPP at some point. And then you're joining a larger grouping of sort of major economies.

YUAN PENG: Okay, let's welcome the third ring, this [was] the second ring. Ok, third ring, oh, we have three [people]. Mr. Jian, Mr. Nasahiro and Mr. Hu, one for each, one question for each.

QUESTION: Question for Professor Song Guoyou. According to your reports of international trading system is very important for prosperity of world economy. But also according to you it seems the rebirth of the international trading system, it's not, will not be a case, but missed, according to the suggestions you suggested. Because due to the ineffectiveness of the WTO and Doha round and somehow to some degree the United States has abandoned this organization. At least look down [on] the WTO and Doha round. And for the China, what is -- sorry -- what do you suggested for China, those actions it seems also are beyond the WTO and the Doha round. So my question is, it seems you suggest to fragment the world economy and the international trading system cannot be built? So my question, how to rebuild or reshape the new international trading system, if the WTO cannot be updated? Thank you.

QUESTION: Actually, I have two questions. The other question goes to Mr. Bush, but that will keep for the coffee break, so my question go to Mireya. I understand that on the whole you kept some sense of optimism and have a strong wish to

see the TPP conclusion. But I'm rather on the other side. I see that it is a strong impediment for that. That Japan indeed expressed its interest to participate in the negotiation but there is no firm commitment. The Abe administration has a large majority in the lower house and a simple majority in upper house. So he dare to risk the fate of the administration, he can, but that TPP is not highest [on the] agenda for him.

And in order to sell the TPP to the American people and Japanese people, the leaders of the both country sell the TPP as a measure to boost economic growth. But there is a lot of, many exporters, but no buyers, shall I say. So where does this demand come from? And we don't see any good reason. So certainly you are right to indicate that trade negotiation can be used to link the non-trade political objective including the structure reform of domestic structure from that, true, but America is less. America is increasingly weaker spender after the Lehman shock and you don't, your economy has less (inaudible) with negotiation leverage and then, how do you see that this sort of a decline of leverage to influence the prospect for the successful negotiation of the TPP? Thanks.

QUESTION: Okay, I also want to ask question about the TPP. So question to Mireya and Song Guoyou. I got a sense of optimism in this panel about TPP and RCEP. But in the media coverage about these two negotiations, you see more discussion about the political logic of these two negotiations. They link TPP with Obama's logic of pivot to Asia, so there is some competitive reasoning behind this, you know, and even some media portray this as contain China economically. So, but this panel has given me a lot of hope, say, two of you talk about the words of race to the top, not race to the bottom. So the two negotiations can be, can compete for good reason. And also China already says we hope TPP to be more inclusive and even complementary to each other, these two talks. And also Xi Jinping proposed to the Asia Pacific FTA. So my question is, in your view, how RCEP and TPP, if both can be successfully negotiated in two years, in three years, how they can be complementary to each other? And U.S. and China are in negotiation about BIT and in what way BIT can help China to have a bridge with TPP, or at least, reduce China's concern about future TPP's potential impact, negative impact, on China's economic activity in this region. So thank you.

YUAN PENG: Ok, maybe I suggest the other three raise your questions first and you can combine all those questions and answer selectively, okay, because time is very limited, Xinbo first.

QUESTION: Also to Mireya on TPP, originally there are three goals -- high standard, broad membership, and also fast speed. But now this sort of goal has been compromised because originally it was expected to finish the negotiation by late last year, it didn't happen, and then now by October this year, it's unlikely to happen, so this sort of goal has been compromised. Well, I wonder if this drags on, where this necessitates some compromise of other two goals, either you will lower the standard, or you will somehow, you know, make some differentiated treatment of the membership, for members who are ready to sign on, you can get on board first. For those you can be put on the second tier so that this train can leave the stage first. I don't know whether this is a possible option. Second would be, Richard who already mentioned, APEC. What's the

role of APEC? Asia Pacific Economic Cooperation. You know, U.S. is in TPP, China is RCEP, but we are both in APEC. So next year China is going to host APEC. So at least we should make this look like a serious thing right? So how we can reinvigorate APEC, to work on issues that both China and the U.S. are interested and also those issues may not necessarily be hindered within either TPP or RCEP in negotiations. Any ideas?

QUESTION: Two questions, first for any of the three speakers, do you have hard evidence, or statistics that more free trade can have to create jobs? Because in the past decades, we have more and more free trade agreements, including between developed countries, U.S. and others, but the job situation become, looks like more and more serious, including in the U.S. So can you convince us, since you are so positive about more free trade arrangements, to ordinary people or even to college students, that they will be good for more jobs, especially good jobs? So do you have hard evidence to support that?

Second to Richard. Looks like the people in Taiwan in many years have not been happy with their economic development, including Chen Shui-bian years, Ma Ying-jeou [years]. So as [an] observer, what's your assessment of Taiwanese economic performance in years and their trends in the near future? Thank you.

QUESTION: Thank you. Two brief questions. First question to Dr. Solis. Given all the troubles, all the difficulties and impediments mentioned about TPP negotiation, at the end of the day, what kind of end game do you project according to your time line? Second question is for both Dr. Solis and Dr. Sun Guoyou. As you mentioned, the second stage of Korea - China FTA will begin early next month and if everything goes smooth, I think within the first half of next year, the Korea - China FTA will materialize. If that should really happen, then Korea will be the only country which has FTA with the U.S., China, ASEAN, India. If that is the case, then is an idea of Korea - U.S. - China FTA a possible scenario or is this simply a useless idea?

YUAN PENG: Ok, we have ten minutes left and maybe three minutes, three minutes for you two, and two minutes for you, and one minute for you. Okay. Lady first.

DR. SOLIS: Alright, three minutes and lots to discuss but great questions from everybody, so I'll just try to remember, there were so many, that I'm not even sure where to begin. Let me start with Japanese politics, because that's something that I enjoy following very much. I mean, I do think that Prime Minister Abe is very very committed to the TPP project and I think that when he first made the announcement after the summit with President Obama, immediately everybody saw this as very bold movement. No one expected him to move so quickly before the Upper House election because given how much was at stake with the party not to do win that election, then Japan would still have this situation of legislative gridlock, and nevertheless he decided to move forward ahead of time and he actually -- his party obtained very handsome results in the Upper House election. And I think that all the eyes were on the most rural districts and the Liberal Democratic Party carried twenty-nine out of thirty-one of the most rural districts. And for me this whole exercise, what it showed actually was, that there is a fundamental

weakness in the traditional agricultural lobby in Japan. And that is when the LDP moved towards the TPP, that left the agricultural lobby isolated because there was no other national party capable of championing, of endorsing the anti-TTP crusade. And I think that that has shifted in very important ways, the discussion about agricultural liberalization. It is not going to be a piece of cake, certainly, there are still many challenges to be overcome. But I think what will happen is that Japan will have to make some concessions in very important sectors but that will be, then, obviously, will come with some subsidies and some compensation. So that negotiation also will take place.

Now you were asking, given that the United States economy is not looking so bright, what are the economic benefits for Japan relative to TPP, the United States' power as a consuming nation seems to be decreasing and therefore where is the demand, you are asking. Well there are many different ways we can start peeling this onion. But first of all, the American economy actually is on the mend, so it's doing better. And if there is something that Americans like to do, it is to consume. So I would never downplay the consumer appetite of the American public. Third, I think that in terms of how you look what the benefits of Japan are, vis-à-vis the United States, the average tariffs are actually low, so it's not necessarily an export oriented trade negotiation, but it has to do a lot with the investment opportunities. The American market is still very important for Japan in terms of investment, but most importantly what the TPP awards Japan that did not get with its thirteen previous free trade agreements, is significant improved access in all other Asian economies that are part of the TPP. Because if you look for example at the Japan-ASEAN FTA, the results were incredibly poor. There is nothing on WTO plus commitments, nothing on services, investment, government procurement and this is what the TPP will bring, will deliver.

Moreover, one of the reasons why the RCEP got such a jump had to do with the Japan's entry to the TPP, so Japan was facing marginalization from trade negotiations just 18 months ago, and look where Japan is now today -- negotiating trilaterally with China and Korea, part of RCEP, part of TPP, now with the European Union, the horizon of trade possibilities expanded dramatically I think thanks to the trade agreement.

Then the political logic of these trade agreements I think, that's something that Richard Ku was asking about and I do get a lot of these whether it's part of a pivot, whether it's part of a containment policy, I think both arguments are wrong. Actually, because if you look at the history, the chronology of things, the Obama government actually got the TPP negotiations launched much before it actually even talked about rebalancing. This is something that precedes the discussion about the military rebalancing towards the region, and I think it obeys to long standing interest of American government in making sure that high standard, binding liberalization commitments, that there's no line drawn in the Pacific, that the United States remains part and parcel of Asia. Those are long standing economic interests that were driving this position. I think it actually represented the shift, as I said before to the critical mass approach.

And I actually wrote an op ed on the containment -- I call it fallacy, because I don't think it carries any weight. I think that one of the goals of the TPP, one

of the things that make the TPP attractive, as I said before, is that it's an expansive project. And therefore I think if China were to consider it in its national interest to join the TPP, to abide by these rules and norms, I think this would be an extremely positive development for the United States and the other TPP countries, and so I think that would be actually something to look forward to in the medium term.

DR. BUSH: First Chu Shulong's question about the Taiwan economy, economic performance -- I think it's been mixed. For the advanced sectors of the economy, the people who do advanced manufacturing, services, logistics and so on -- it's been very good. And it's generated good jobs. There are other sectors that are not doing so well in part because they're not terribly competitive -- certain parts of the service sector, agriculture. And this weak performance just reflects the struggle that it takes to maintain your competitiveness in a quickly globalizing economy. I think the weakness is not a lack of entrepreneurship, but it's in other areas. First of all, it's the need to do a better job on cultivating human capital, particularly through the education system. It needs the reduction of regulation by government over economic activity and it requires fixing the political system, which is, you know, I think not conducive to sound economic policy.

On the issue -- where did Xinbo go? On APEC -- I'm not sure what can be done about APEC. I think that it can support the liberalization that's going on in other sectors, but -- and there may be some functional issues where it can play a role, but I think it's a challenge every year to make it relevant.

SONG GUOYOU: Okay, I want to answer the question about Shanghai pilot free trade zone and other questions. Actually for Premier Li Keqiang, Shanghai free trade zone is critical in the policy to achieve his ambitious reform agendas internally. The new administration of China knows exactly that the total trend of international trade or international economy is less regulation, have standard, and more freedom. They know exactly. But there are lots of obstacles at home facing them. So how to tactically choose ambitious agenda, to transform China? So Shanghai pilot free trade zone is a very good window to test, to experience, to have a new thinking. In this room, everything is free, as long as the investment is in the least negative, something like that. If there is no restriction of such investment, you can invest it. And this room, you can have everything a more RMB abroad investment. You will see more flexible exchange rates of RMB. And you will also see more openness of service industries, et cetera. And by the way, it's not a long distance from here to [the] free trade zone, actually, it's ten miles from here to the Waigaoqiao free trade zone. If you have time, you can visit there. It's free. And also for free trade zone, also Chinese new administration knows exactly that TPP is inevitable -- not in 2014 or 2015, I mean in the long run it's inevitable. China has to embrace that. But TPP has a long and has a very higher standard, and how to meet it. So Shanghai pilot free trade zone and other reform regiments is preparation for China to meet those higher standards and to show its resolve of more openness. And also, it's relevant to BIT, bilateral trade treaty between China and U.S., China has a huge foreign exchange reserves. It's more than 3.6 trillion. And one third of those foreign exchange reserves goes to America's bills, treasuries, et cetera. It's not the worst deal but also it's not the best deal. China wants to have a fair treatment of when China's companies invest

in the U.S. However, the U.S. draw a line, a very strict line, to exclude China's FDI in the U.S. China wants to have a fair protection of its own companies' investment in the U.S. in the future. So it's a problem.

And last question is about smart Korean -- yes, Korea has a very very good, very favorable position in Asian Pacific FTA negotiation and another country is Singapore. Actually, Singapore has more FTAs than that of Korea in this region. So we hope Korea can play a more constructive role, to persuade both China and the U.S. to have a stable or controllable FTA competition and play its unique role combined to bridge U.S. and China. And to initiate your proposals, to trade off American standards and the China standards, to have, to forge a new Asian Pacific Free Trade Zone. Thank you.

YUAN PENG: One minute.

MR. ANTHOLIS: So having been scolded for, maybe not scolded, but cautioned for being too death focused, I'm going to try to end on an optimistic note, but it's a cautiously optimistic note. And the optimistic note is going to some of the challenges that I spoke about. To the extent in the major industrial democracies, that there could be a re-forged political consensus in favor of trade, it's around these high concept agreements. And that's where you see this sort of competitive regionalization of a Europe agreement, and an Asian agreement. The challenge is not only whether or not the emerging markets will be drawn into it and see that as not just economically advantageous to do it but politically feasible to do it, but also the fact that you are then leaving behind a number of other countries from the liberalization game, who will be having to race even harder and faster to catch up with the high standards approach that may leave them out. And I think for the global trading system, what you could then have is, essentially a couple of either hardened silos or linked silos among advanced industrial countries with a few emerging countries choosing to race ahead, but a number of other countries left behind and then that becomes another challenge down the road for the global trading system.

YUAN PENG: Okay, thank you and sorry for -- sorry to be too strict concerning time. And finally join me to thanks all of us for excellent speakers. Thank you.

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