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PEKING UNIVERSITY**

**SHARED CHALLENGES AND  
COOPERATION FOR  
KOREA, CHINA, AND THE UNITED STATES**

**PANEL THREE:  
THE REGIONAL ECONOMIC FUTURE**

*The Brookings Institution, Falk Auditorium  
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SHARED CHALLENGES AND COOPERATION FOR  
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Washington, D.C.

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PANEL 3: THE REGIONAL ECONOMIC FUTURE:

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## PANEL THREE: THE REGIONAL ECONOMIC FUTURE

### PROCEEDINGS

BARRY BOSWORTH: Thank you very much. I am Barry Bosworth from the Economics Department here in Brookings. One thing I think you will notice from this morning, this is an economics session, and economists are notorious for being a bit meaner than people in political science. (Laughter) We are going to be more rigid on the time limits here. I give my colleagues warning on that. The first speaker is Professor Choi, and you have ten minutes.

BYUNG-IL CHOI: Thank you, Barry. It is good to be back at Brookings, my honor and privilege. I want to talk about five different points. I will start with my talk about how effective rise of Asia has been, and what are the major challenges. I will briefly talk about strategies in Korea, China and Japan in this context.

The second part, I will talk about what kind of change they see, and finally, I will conclude with future course of rise of Asia.

As we all know, in China, based on investment from Korea and Japan, and also based on key ingredients from Korea and Japan, China becomes major powerhouse of assembling a lot of stuff and sending to many destinations. The market has been the U.S. and EU.

That has been a successful recipe, and that has been so far a winning formula. This is under challenge, and people are asking do you believe this will be here for a long time, and I only respond in a very provocative tone, I don't really believe that is going to happen.

Number one, as someone mentioned earlier this morning, they talked a lot about demography, demography plays a very important role. Korea is already following Japan. Japan is a country with a declining number of population and very much a civil society, and Korea will be sooner or later joining the civil society, and the speed of catching them is unprecedented.

Also, China is not that far behind. These countries, perhaps even you will notice it, they are turning to civil countries. That means China, which is based on a manufacturing powerhouse, is not going to be sustainable. That means not only is it not going to be sustainable, but unless they were to come up with a new recipe of creating more jobs, then this person, after retirement, they won't have a lot of years, so that means it is a very difficult time for maintaining their spending.

At the same time, they have external pressure. External pressure is mainly coming from here in Washington because Washington talks about this country manipulating the currencies and to export more, and they are saying the trade balance must be corrected.

Korea has been very practical, a recipe pursuing free trade agreement strategy, so this year Korea was celebrating 10<sup>th</sup> anniversary -- Korea has come a long way because Korea is a major trading nation. Trade dependence ratio is almost about 100 percent GDP.

Also, China's biggest trade partner is Korea, and Korea is also connecting to European Union.

Japan is an interesting case because so far, Japan was going through difficulty but now Japan is back. They are playing very aggressive trade policy strategies and to the surprise of many people, it had been the expectation that Japan would have a TPP, which has been engineered by U.S., so by joining this TPP, Abe made a game changing move.

China is playing two strategies. One part is China is accelerating joining the existing Order that is manifested by China's determination to join U.S. network of trade investment, that is the case of U.S./China ongoing BIT negotiations, but at the same time, China is more active in making new initiatives.

For instance, China is very much involved in presenting the vision of free trade in Asia Pacific, and also China is talking about creating some competing developing organization, which has been talked a lot about, but in the process of making this new proposal, China is in a sense provoking Washington. I will come back to this.

Against this backdrop, how this is going to lead to new change. The first I call GM vs. Google. For instance, GM is the mother of the conventional car. Google is showing a driverless car. In the older days, growth meant more jobs and productivity, and stellar increase, but that's not the case any longer.

Somebody called this a race against machine. How you can have effective adjustment to this Google U.S. compared to GM U.S., that is one important challenge.

Secondly, Washington vs. Beijing. So far, the global community has generated great benefits from the Bretting Woods system; the IMF, World Bank etc, but Beijing has tried to make some very new initiatives.

Third and most important point I call it Washington vs. Washington. This is Washington, D.C. and State of Washington, because in Washington, D.C., trade politics in the name of nationalism, in the name of populism, and so on, but State of Washington, I mean global dynamics, global value chains, where you see new airplanes from Boeing, it is not only manufactured in the USA, but it is made in the world because they are procuring all different elements, engines, wings, from different parts of the world.

So, that means there is a contest between politics versus business realities. If somehow politics is in the driver's seat and fails to keep up with the regular changing business then the danger will be institutions much detached from business realities. From this, my projection about the future trajectory of so-called Asia, on two grounds, number one in trade

arrangements, I think even though a lot of rhetoric highlighting a conflict between Washington TPP versus Beijing-inspired Free Trade in Asia Pacific, I tend to believe at the end of the day, it is going to be TPP, if you are going to win this game. It is mainly on two grounds.

Number one, TPP is dealing in the so-called 21<sup>st</sup> Century, because TPP is more about creating and deepening a new rule ranging from investment protections and IPR, but on the other hand, a future area of Asia Pacific, that is a combination of 10 ASEAN countries plus six countries coming from CJK, Australia, New Zealand, India, after all those talks, they failed to produce any meaningful text which is going to be the basis for the discussion.

Even though there will be difficulty with the TPP, at the first stage of TPP, it is going to be TPP among several countries, possibly including Korea, depending on how Korea is playing the game, and after that, TPP will be open to all countries.

The future projection I am going to say in the next two or three decades is TPP is going to serve the basis for extending the universe. Eventually, they will lead to free trade area of Asia Pacific. Speed will be very much determined by effective collaboration and balancing act between Beijing and Washington.

I think it is in Beijing's interest to see that effective TPP is going to be made and joining TPP. When you talk about free trade area Asia Pacific, as I mentioned, we do not see any strong intellectual leader in the driver's seat, so even though after all those talks, ambition is so low that I don't see that as leading to success.

We talk a lot this morning about the competition between the World Bank, ADB and AIIB, and I think it is in Korea's interest to join AIIB. I think it is in the U.S.'s interest to see Korea join AIIB. At the same time, I think it is China's interest to facilitate Korea joining AIIB, but the problem is to the contrary of my Chinese colleagues saying that Korea is pushed by U.S. not to join AIIB, but the way AIIB is being structured is very far from common sense in a regional way because voting rights as envisioned by Beijing is about 50 percent China, and it is based on so-called GDP or the PPP.

I'm an economist but I have never heard of this kind of voting right on the basis of purchasing power parity-- it may be a good comparison when you are going to compare living standard of people in Beijing and people in Tokyo but income or PPP but can you buy more oil, impossible.

If that is related to voting rights, it is very much unconventional. Even though Beijing is accusing western institutions on the basis of untransparency and unreliability, and double standard; it is making the same mistake.

I think if Beijing wants to stand up to its vision of new global players, I think it is in Beijing's strategic interest to facilitate Korea's accession to AIIB, it needs to show strategic flexibility.

DR. BOSWORTH: Thank you very much. Professor Wang?

ZHENGYI WANG: (inaudible) It is not very easy for me to give a very clear roadmap to the regional economic future but anyway I have to clear myself in the following three points. The first one I'd like to talk about the regional economic past, then talk about the new direction of China's foreign policy and the third one try to outline some points relating to the future of the regional economy. The first one, about the regional economic past, when we look at the region we mainly refer to the East Asia region, not others, not South Asia.

In the past three decades, we have at least four players. The first one is Japan. Japan contributes more to the regional economic growth through competition, and then ODA, investment and trade until by 1990/1993. After 1993, because of the economic depression its influence declined. It's about Japan. The second player is the United States. United States is also in this region, their major strategy is balance of power. During the Cold War and after the end of the Cold War, they put forward a concert of powers and recently put forward a new one 'rebalance of Asia'. So through this kind of strategies, the United States tries to keep its prevalence in the region. It's the second player. The third player is the ASEAN-10 countries. Since 1992 the ASEAN countries have performed the ASEAN way. They labeled it different from the Euro approach, that means consultation and consensus. The ASEAN way worked very well until today. For example, ASEAN plans even within APEC, ASEAN ways, they work. But because of the rise of China, especially from 2010 when China became the second largest economy, so ASEAN-10 countries are now basically between China and the United States. It's the third player. The last player is China. Before 2013, China make use, first of all integrated into the capitalist world economy or world economy and benefits much from globalization. After the rise of China, China faced the challenges about the China threat. This is why China has been making use of strategy, keeping a low profile since 2013. China keeps – in my view, this is my personal view - keeps changing its foreign policy to new directions. This is the first part.

The second part I would like to talk about is China's foreign policy. When we talk about China's foreign policy we have to remember one thing; that is, when China is making up its foreign policy, it always emphasizes balance between the major political economies and the foreign policy. So all China's foreign policy, all the bases are its domestic political economy. This is my personal view. Without understanding China's domestic political economy it is impossible for us to understand China's foreign policy. Since Xi Jinping's brand is, because China is facing two changes. The first one international changes. Global one, regional one, and the bilateral one. And domestic also we add it to the new stage we call the new stage of China's economic growth. So China has to deal with its domestic challenges through making use of international forces. So this is why in 2013 China put forward a new 'Silk Road' strategy. New 'Silk Road' strategy means China is not only incorporated into Asia-Pacific countries but also incorporated with its neighbor countries especially mid-Asia and south Asian countries. I know we cannot be successful in all but anyways, it works, especially this year. China set up 'Silk Road' fund and then brought it to the AIIB. So this is a new direction for China's policy, I call it the 'two-hat' foreign policy. This is the second point I address here.



The last point I will like to address is about this region's economic future. Two points I would like to mention. The first point; when we talk about of the East Asian economy, two things are very important. The first one: China, Sino-American relations. Sino-American relations is most important for this region's regional economic future. The second point many of the policymakers ignore about that but I had to mention is the networking power. The first one, we talked about the future of this region from the up to bottom and the second one from bottom to up. This is why some scholars call this region – when we talk about production network- we call this Americanization, Japanization and Sinification. They cannot be ignored about that. In my personal view, even the power ration goes bad, the economy, the dynamic economy is still there. So this is my last point. Thank you.

DR. BOSWORTH: Thank you very much. David Dollar?

DAVID DOLLAR: Thank you. I think this topic, region economic future, is a great topic. I thought hard about what I think will determine the region economic future, and I came up with three things, so I want to say a word about each of them.

I think the three things that will determine the region economic future are demographics, structural reform, and trade and investment agreements.

Let me start with demographics. Kathy Moon this morning already mentioned the demographics of South Korea, the aging of the population, but actually this is a much more general phenomenon beyond South Korea, of course. Japan, China, the United States. I am going to talk primarily about Japan, China, United States, South Korea as the regional economy.

They all face challenges of aging. In the case of Japan, the population has already peaked and started to decline. In the case of China, the working age population has already peaked and started to decline. According to the United Nations' projections, China's population will peak in 2030, and between 2030 and 2050, China's population will decline by 155 million people.

Obviously, there is some uncertainty around these projections. They are basically projecting recent fertility trends forward, but we can be pretty confident about them for the next few decades because demographics change very slowly.

Republic of Korea was covered nicely by Kathy. The Republic of Korea is actually young compared to Japan and China. Korea's population peaks in 2035, which is later than Japan or China.

What about the United States? There is aging in the United States as well, but what is interesting is the United States' population will not peak this century. Because of immigration, the U.S. is the only one of these economies I'm discussing where populations and labor force will continue to grow, and the U.S. population is projected to reach 500 million people by the end of the century.

China is projected to be down to a billion people by the end of the century. What is interesting is if you take those projections seriously, the population difference between China and the U.S. will be two to one by the end of the century rather than 4.5 to 1 that we see now.

I start with the demographics and I spend more time on that than anything else because I think this really is a very important foundation of economic growth for the region, and I think for two reasons. One, it's hard to have rapid GDP growth once your labor force starts to decline. Economies always need to adjust.

If your labor force is declining, it's much harder to adjust. You actually have to move workers from one sector to another, whereas with population and labor force growth, adjustment is a more natural process where young workers move into new sectors as old workers retire.

I think it is hard. We already see a slowdown of the regional growth rate, and I think it's likely to continue this trend towards a slowdown of the regional growth rate.

The second important thing about demographics, and I think this is a very intuitive point, it's much easier to deal with demographic challenges if you are integrated with the global economy. I think this is a very simple point.

Japan is building up a lot of assets outside of its country. As Japan ages and its population declines, it is going to be importing more, it is going to be using its income and importing from the rest of the world.

Japan, as a declining population, it is easy to imagine in an integrated world economy, but if it were an isolated economy, it would be a lot harder to deal with these demographic trends.

The second point I want to make concerns structural reform. I think all of these economies have some demographic trend towards slow down, but you can counteract that at least to some extent by structural reform.

I look around the world, I feel like everyone has an agenda of structural reform. I don't have time to go into detail. Let me just mention a few brief examples. Let me start with my own economy, to be fair.

The U.S. economy is now recovering pretty well, has a lot of positive things for the future, but it has a lot of problems. The one I would highlight, it has very serious infrastructure deficiencies. The U.S. may have the advantage of growing labor force and immigration, but if we don't do a better job with infrastructure, we won't get the potential economic benefit from that.

Our problems with infrastructure are a mix of problems of regulation and political paralysis. There is plenty of finance for infrastructure and those investments pay for themselves,

so it is really a matter of how do you structure the financing so you can move ahead with bridges, roads, airports, and all the economic infrastructure.

China. China has a lot of structural reforms that it has put out in its third plenum reform. Some of them directly address this demographic issue. I mentioned that China's labor force has already peaked. That would be a severe drag on growth, except there is still an awful lot of underutilized labor in the countryside.

One of the important reforms in China is hukou reform, the registration system that has kept the rural population too large. With hukou reform, you can have the urban labor force in China continue to grow for at least 10 years, maybe 15 years.

China can continue to grow pretty well in my view if it aggressively pursues hukou reform. Ideally, that would be allowing rural people to move to the first tier cities, which is where productivity is the highest, the initial plan is to let people move to third and fourth tier cities. I don't know how much benefit there will be, but it is better than staying in the countryside.

A couple of other reforms that China is talking about, one of the important ones is opening up the service sectors. Among the G20 countries, China is the most restricted in terms of inward foreign investment, and that is primarily because of restrictions in the service sectors. China is talking about opening those up.

I mention this because at this stage of development, the service sectors are going to be the leading sectors of growth in China, but they tend to be uncompetitive and non-productive. If they were more competitive and you had more productivity growth, that would counteract some of the downward drag on China's economic growth.

Japan. I think the structural reform agenda in Japan is well known. This is Premier Abe's third era. There are relatively few farmers left in Japan, but they continue to protect agriculture. Japan also protects its service sectors.

There is a general point I am making here, all of these major economies have important structural reforms they could carry out that would tend to enhance their growth rates so as the demographic forces work against growth, in my view, it becomes more and more important to move on the structural agenda.

Some of those items directly address labor market issues. Others are just good things that will enhance growth and that will be good for the economy.

The third thing I want to mention briefly is trade agreements and investment agreements. I think the point here is that the good trade and investment agreements can encourage those structural reforms, and in some cases lock in the structural reforms, and then also they lead to deeper integration.

One of my initial points was easier to deal with these demographic challenges with an integrated global economy. To me, the happy scenario, and Professor Choi already talked about the transpacific partnership, the happy scenario is President Obama gets trade promotion authority, he moves ahead quickly to solidify a deal with Japan and other partners, hopefully Korea, South Korea joins relatively quickly, and you get the deep integration of the transpacific partnership, which Professor Choi emphasized the importance of behind the border measures.

At the same time, I hope President Obama moves ahead quickly negotiating the bilateral investment treaty between the U.S. and China. I hope China takes this seriously and comes with a very realistic proposal early in 2015, because this is consistent with China's reform. China will have to open up most of those service sectors in a bilateral agreement with the United States. I think it will be good for the Chinese economy and good for China/U.S. relations.

I see that as a stepping stone to China choosing to join the TPP because this integrated, deeply integrated Asia Pacific economy, is going to be a very attractive way to promote economic growth and welfare more generally.

To look ahead to the future of the regional economy, obviously, it's a big question, but I think the demographics are pretty cooked for the next few decades, and they are going to be tending to pull down the growth rate, particularly on the Asian side of the Pacific, because as I said, the U.S. has an aging issue but it will continue to have labor force growth, and the U.S. through immigration policy can actually influence that. The U.S. could have even more labor force growth than is built in the current projections, so the U.S. definitely has some advantages.

Integration across the Pacific is going to be hugely beneficial for both sides. I hope it will encourage each of us to pursue the structural reforms which we need and which are good in and of themselves, and I hope it leads to this deeper integration which would definitely encourage the growth of all these different economies. Thank you very much.

DR. BOSWORTH: Thank you. The first three speakers have certainly raised a lot of issues. Before we make it more general, why don't we go to each one of the discussants. I think we will start with Ken Lieberthal.

KENNETH LIEBERTHAL: I'm looking up at the clock because I've been told at the end of seven minutes, my life insurance gets cancelled. (Laughter)

I do want to take a moment to thank the sponsors and organizers of this conference, especially Ambassador Park and KFAS, which ran a wonderful conference in Seoul earlier this year and has continued with Brookings and Beida for a really stimulating day.

Let me turn to the topic here. Frankly, I'm always very uneasy about looking very far into the future. Remember the IMF, which has a great deal of expertise, as late as this October, expressed concern about energy prices.

The concern was that there could be a spike in oil prices that would have a depressing effect on the global economy. Prediction is difficult, especially about the future.

Let me take up some of the issues that have been raised by each of our presenters today, and I will do it in terms of issue rather than in terms of who presented it.

On the demographics, since I basically agreed with the major points that were made, I want to add kind of an additional layer or a footnote to a number of the issues raised. First, on demographics, I really liked David Dollar's summary of the situation.

I would just add one point, and that is in China's case, China will become the first country that becomes old demographically before becoming wealthy in a per capita sense. That is going to place strains that South Korea, Japan, and the United States don't have of that magnitude. The transition in China is going to be very rapid in this regard.

I think China will have a special burden in that regard. It is aware it is coming. It is a burden of enormous magnitude and for which preparations, I think, are entering the early stages.

Secondly, an issue that was not raised by others but I think warrants being on our agenda is climate change. When I look to the future of this region of the world, to me, the country that is most at risk in terms of economic growth from climate change is China. It's China because of water, the shortage and maldistribution in terms of where the population is, of usable water.

That is in part because of changing precipitation patterns. It is in part because of water pollution, and also rising sea levels, that will threaten more of China's GDP than I believe the GDP of any other country that we are discussing here, given how much of China's GDP is generated in the Pearl River Delta and the Yangtze River Delta. Both of those are under severe threat from rising seas.

At the same time, China will also be the country under the greatest pressure to limit its emissions, given that it is now by far the largest greenhouse gas emitter in the world, and those emissions at best will peak roughly 15 years from now, so the pressures are going to keep increasing on China, so it gets hit on both sides of the climate change issue.

The third issue is the effect of security on economic growth. Here, I think everyone agrees that we want to seek to not have security tensions disrupt supply chains, disrupt the capacity, to have the most efficient kind of trade agreements and trade relationships and investment relationships.

Frankly, no one knows how feasible that will be. We have heard a lot of different views during the course of this conference on how well changing balances of power will be in this region. It is certainly going to be one of the factors that will affect the future economic

growth in the region.

Let me conclude with some comments on the TPP, the U.S./China bilateral investment treaty negotiations, RCEP, and FTAAP. On TTP, I very much agree with Professor Choi this is an extremely important issue. It is important for having a balanced U.S. -- rebalance towards Asia. We have made it a major factor on the economic and trade side of that.

Here I would argue that the mid-term election in the United States in which the President's party took a drumming, in fact, ironically somewhat enhanced the prospects of getting first trade promotion authority and then ratification of a TPP agreement, if that is negotiated.

Republicans are much more amenable to these kinds of agreements than are the Democrats. The question will be whether the President can bring the Democrats along in sufficient numbers to get the votes he needs.

The snap election in Japan has given Prime Minister Abe potentially to 2018 to -- what do I have, one minute or two?

Question. Does the snap election in Japan increase the chances that Abe will be able to pursue the third arrow and open up the agricultural and automotive markets to the extent necessary to get an agreement, and then for China, will China view TPP if it does get negotiated as it viewed the WTO, in other words, as a way to leverage domestic reform in China. I know there are debates in China about that.

On the U.S./China bilateral investment treaty, very simple comment. If this treaty does not get done in terms of getting ready to submit for ratification by this fall, I would argue because the political calendar is first in the U.S. and then in China, that it will be 2018 before this agreement can be finalized. A lot can happen between now and 2018. It certainly will make it harder to use the BIT negotiations as a stepping stone to TPP.

Finally, on the RCEP and FTAAP, the bigger and longer term trade agreements, I think the key here is as we deal with these initial TPP -- I feel like I'm at the Pentagon using nothing but acronyms. (Laughter)

As we deal with the transpacific partnership and bilateral investment treaty, a very important dimension is to always keep in mind through good communications and transparency the importance of not building in elements of those that then will become incompatible with later agreements that are broader that we seek to reach. Thank you.

MR. BOSWORTH: Thank you. Professor Zhang?

QINGMIN ZHANG: I don't know whether you are tired of me or not yet. I am very, very tired given the fact that I have not overcome the jet lag problems.

This is about economic issues, which I do not know a lot. I don't think I'm in a position to discuss economic issues, but I think the economic issues, they have their own rules, their own laws. I think Dr. Dollar discussed that from three perspectives about how Asia economics develop.

I think the demographic perspective is a new perspective for me because I think of the Chinese economic development is largely determined by the big population, labor work. If you look at the future of the economy of East Asia, these are very important determinants.

The second point is about how East Asia economics develops. East Asia economics is more export oriented, labor intensive. This started from early days from Japan, South Korea, under the four tigers or dragons, and later developed more to China.

As the Chinese labor costs increase, especially if the U.S. succeeds to push China to increase currency, it will lead to another exporter for industry, labor intensive industry to Southeast Asia. This is kind of a very Asian model of development. This made Asia as a whole.

A third point is about the structure issue, structure reform. In East Asia, I mentioned it is an export oriented economy, very much dependent on exports, but if you look at the Chinese structure, you find we have about 200 or more trade surplus, most of the trade surplus is with the United States and Europe. Within Asia, China is having a trade deficit with most of its neighbors. So, this in general, is keeping the balance.

I am thinking how the Chinese Government emphasized to balance domestic and external situation, and the Chinese Government has recently focused on two, one is to increase the domestic consumption, which will reduce the Chinese trade dependency on exports. In the long run, this will be the Chinese economic development domestically. Externally, it will shape with China's economic relations with outside.

The next point I want to make is about the relationship between economics and politics, since I am a political scientist, I am more interested in implications of the politics rather than the economics itself.

I find it is very interesting. There is a divorce of economic integration and political integration. Earlier I mentioned the economic integration did not push forward political integration. It's been political integration difficulties, fragmentation, which prevent economic integration-- I think there are different situations.

The economic integration process itself is one thing, and economic policy is different. For example, in 1997 and 1998, when Asia was hit by the financial crisis, the Chinese Government policy on foreign trade and economics really won the hearts of Southeast Asian countries, and that economic policy changed the Chinese relations with its neighboring countries. At that time, the Chinese Prime Minister said it was the best ever in history.

Now, we have found the interdependence of China in trade with its neighbors

increases very, very fast. At the same time, we find that most of the Asian countries who depend on China in economic terms find themselves more close with the United States in political dimensions, and they began to enhance their economic or security alliances with the United States.

I find that there is a divorce. My question for you is how do you explain that situation, why there is a divorce between economics and politics in Asia which does not exist in other parts of the world. I will stop here. Thank you.

DR. BOSWORTH: Thank you very much. Our last discussant is Professor Yeom. I forgot to mention earlier, if you have questions, write them out on these cards and pass them up to the front, and we will try to take them up. We are trying to keep time for questions.

JAE HO YEOM: Thank you. Let me point out three or four points. The first one is the economic future among Korea, Japan, and China. As I said in another meeting yesterday, policies are very similar and also the development stages are very similar, government-led industrialization or something like that but in the 1980s the Japan expected there should be some kind of division of labor among different countries, for example, China is a labor intensive industry and Korea is capital intensive or Japan, sort of knowledge intensive industrialization, but it does not exist in these days because of the competition among the three nations, and all three countries have just a very comprehensive industry.

For example, we cannot give up any industry at all, so we have still the light industry, heavy industry, and high tech industry all together, and also China, developing the high tech industry as well.

The interesting thing is the R&D investment in the three countries are very conspicuous. Nobody mentioned it in this issue, but for example, the three countries are trying to move from the manufacturing industry towards IT or BT or some kind of high value added high tech industries.

For example, R&D investment in South Korea alone since 2006, our growth rate at the moment is around 3 or 4 points, but every year, we invested 12.5 percent average increase per year for R&D investment.

The R&D investment per GDP, the ratio to GDP is number one in the world. We just surpassed Israel. Now the R&D investment per GDP is 4.36%.

Also, in 2012, the total amount of R&D, because we are comparatively a medium sized economy, so the total amount of R&D is important but the Korea surpassed the United Kingdom, now the Korean R&D investment in the world is number six.

For example, China, they will rapidly catch up with this kind of R&D investment. Number one is United States, still number one, 28 percent of the total R&D investment in the world, but China, around 15 percent, and Japan, 11 percent, and altogether, India has around 3



percent of the world R&D investment, but Asia alone altogether, 37 percent of the total R&D investment, and Europe, only 23 percent of the share of the world R&D investment.

Another thing is among the top ten technology areas, the top five leading countries were selected, and China was selected in eight areas out of 10 different technology areas, and Japan is same. They are number five in the top five leading technology countries. Korea was selected in three areas as a leading country.

The interesting thing is all three countries are very highly competitive and in some cases, they are very cooperative. For example, now the opening of Asia is a very popular concept, Samsung now surpassed Sony in various ways but Samsung and Sony, they are doing the cross licensing, doing a give and take of licensing not purchasing the patent and that kind of thing, it's already started.

Competition and cooperation still exists among the three countries and from now on, probably not the division of labor but some kind of division of labor in the assembly lines or some kind of small and medium companies and big companies.

Even though it is a very, very tough time and a hard time in politics, Korea Federation of Industry, KFI, and the Japanese, they just met together and they are trying to find some more close cooperation in economic cooperation, and from now on, not only between Japan and Korea, but also China and Korea and China and Japan, we will develop some kind of cooperation.

The last one, I'd like to mention, the future prospect of the three countries, the three countries, for example, the East Coast of Mainland China to Seoul is only 1.5 hours, and from Seoul to Tokyo is 1.5 hours. It is a very small life community and also more than 70,000 students coming from China to Korea, around 70,000 students from Korea to China. And also we have the Campus Asia project, three different areas, China, Korea, and Japan, they took courses together.

Just like in Europe and probably not much in Europe, in Japan, you can see the English sign and Japanese sign and Korean and Chinese sign altogether, even in Seoul, our subway sign, we have all four languages written.

This kind of life community will be possible within one or two decades later. For example, who wants to reside from China to South Korea, and also travel, plastic surgery is very common from Chinese people to Korea. A lot of things, this kind of interrelations for the future generation, and only the problem is politics.

But in life itself there are a lot of good cooperations among the three countries, and I just expect this type of optimistic vision. Thank you.

DR. BOSWORTH: Very good. Thank you. There are a lot of issues that came up in this discussion. I thought I would maybe start by giving the three panelists a chance to see if

they wanted to respond to anything the discussants said before we turn to the general audience.

DR. CHOI: I will respond to Professor Yeom's question. You were asking about divorce between politics and the economy. I think political scientists use very interesting language, divorce. We economists call it disparity or gap, if you will. The reason is very simple, because from the theory and historical lessons, as long as the country is deeply integrated with global flow of trade investment, it stands a higher chance to develop further.

When it comes to having a higher level of integration, I mean a sort of deep level of integration, not tearing down trade barriers, but deregulating your regulatory regime and writing your IPR laws and competition, that is mainly so-called western standard or western norms. I think many westerners relate they have growing suspicious of so-called western trade norms.

We all know what happened in 1997 in Asia, and also we all know what happened in 2008 in the USA. When IMF is coming to the Asian capital and asking no bail out, and very severe reform but they didn't do the same thing in the U.S. case.

Because of that Asian power leaders, they criticizing this so-called western double standard, so because of that, there are a lot of suspicions and mistrust about this sort of deep level of integration.

I liked the comment about climate change, Ken's point. I think the negotiators between the three countries and the high level government offices, they are keenly aware of the problem, but the thing is, the concept of Beijing. I think Beijing understands the magnitude of the problem, at the recent Beijing G20 summit, they coined a word APEC blue. A lot of Beijing people, they would love to have crystal blue sky, but they all know it's only temporary.

There is a very telling report which I read while I was coming here, in the Financial Times. It is saying that because of APEC blue, to make it APEC Blue Beijing forced shut down factories in the vicinity, and because of that it's likely China is going to have the lowest monthly economic growth in recent decades.

In a way, that is the price you have to pay. When you take longer term, instead of shutting down this smokestack industry, somehow you are going to invest money in the energy saving industry or climate change-related industry, I think you need to create a so-called blue ocean, but the problem is how to make that happen.

DR. BOSWORTH: Thank you. Professor Wang?

DR. WANG: First of all I would like to react to the previous comment. Yes the demographic problem is very important, labor is very important for China's economic growth but be careful here. When we talk about population issues, actually labor-intensive manufacturers.

If we talk about that, before 2005 that's ok because at that time a lot of workers flew from the West to the coastal area. But most of them were unskilled labor not skilled labor. After 2005 that the pic changes, that means China needed more and more skilled labor. So where do we get more skilled labor than unskilled labor? That's why when we talk about the hukou, many researchers think that if you just cancel that or give it out then it is easy to find new labor but if we look at that, examine that carefully, hukou in today's China, is a filter. That means, it filters the labor movements from unskilled labor to skilled labor. So for example in recent days, if you want to get a hukou in Shanghai or Beijing, it is very easy if you get a MA degree or PhD degree. It's very easy. But if you do not receive the university or college training, then it's not very easy. So that means you can move, you can get the hukou, but you have to be skilled labor and not unskilled labor. For China, nowadays, economists in China have hot debates about the middle-income trap but although they talk disputes about that, they are all in favor of the hukou. This is my understanding. The second one is related to Qingming's answer, very interesting. This is why in my last part I emphasized the two forces in this region. One is from up to bottom, we can talk about or predict the economic future of this region from the power relations approach or perspective. Yes, it's very important but I say we have to recognize another force, from bottom to up. So this is why yesterday when we first discussed about that I thought regional production network. Regional production network plus global production network together will shape, properly shape the future of this region. As for Yeom's comment, nowadays in China we're patient towards the idea of research, especially when we feel the challenges of the middle-income trap. Yes, we compete with each other in all three countries but if China, before 2000 China mainly make use of the three channels for China to make technology-transfer. The first one in the 1980s; purchase or buy production live, in the 1990s, promote economic growth in the cultural areas through the OEA so later we attracted a lot of FDI. So these are three ways China absorbed international technology transfer. But after 2000, China faced challenges, that is technology upgrading. This is why China now is focused on R&D research. But because China is a large country, what I mean is that automatically we have a deep economic build for cultural areas, they've developed hi-tech but inland, we've developed manufacture. So yes we compete with each other but totally I want to say IT in-country is a very important growth area but it faces challenges in inland China.

DR. BOSWORTH: Let's hear from the audience. One of them because of the focus on demographics, I thought it was interesting, and I think it applies to China but all of East Asia, can a country with a declining population be a rising power? The questioner points out that this is sort of contrary to history.

Do any of you have any thoughts on that particular issue?

DR. DOLLAR: I think I implicitly addressed it, and I'm happy to explicitly address it, I do think it is going to be hard for China to maintain its growth rate. As I said, the urban labor force can continue to grow for another 10 or 15 years, so I don't see the problem as being extremely imminent.

Twenty years down the road, it's very hard to imagine China's economy, for example, growing more rapidly than the United States' economy at that time. It will still be much lower per capita GDP.

On the other hand, it won't take that long for China to emerge as the largest economy in the world, if China grows even at six percent for another 15 years and the U.S. performs at average performance over the last decade or so, China will be the largest economy in the world, so you can imagine China in some sense stagnating around the same size of the U.S. economy but with a lot larger population, and then both of those economies continuing toward mid-century.

I guess then we kind of argue about what does it mean to be a great power, if you are about the same size as the United States' economy but not advancing beyond that, I think arguably it's still a certain type of great power, but it might take some alteration of expectations on the Chinese part.

DR. BOSWORTH: Another question was what do you think the term for China, "new normal," means in terms of economic growth, and do you have any thoughts about the recent discussion, I guess, initiated by Larry Summers and a co-author, about whether there is a reversion to the mean in terms of economic growth, pointing out that no country's growth has been very high for long periods of time. Professor Wang, would you like to start with that? Tell us what the "new normal" is.

DR. WANG: In China, I read official documents everywhere when I go everywhere. Today, in China, when we talk about the 'new normal' we mainly refer to the economic growth. That means that in the past two or three decades, China changed, rapid economic growth. So nowadays policy makers recognize that we cannot maintain the economic lifestyle that happened in the past three decades. We have to promote economic structural changes so this one we bend to the new normal one. As for the foreign knowledge, to my knowledge we never talk about that. We mainly talk about and confine it to the economic growth rate.

DR. YEOM: I can add the Korean perspective to the Chinese 'new normal'. The way I understand, 'new normal' is as you mentioned correctly, there's no country in the world which can maintain two-digit economic growth after four decades. It's impossible when you can see the law of gravity, in the early days after take off you can sustain it but there's a sort of transition point you come to. Referring to Larry Summers's "Reversion to the Mean", I think that is a very familiar critique from Western scholars. They may often talk about "Rise of Asia" and compare it to the rise of Soviet Union and they mention Asia has been rising on the basis of perspiration. More change to inspiration. And usually modern-day time you shouldn't create many jobs but at the same time you have to create a lot of stable jobs. So that sort of transition, whether or not can be successfully related to how Asian countries will be able to take advantage of all these new initiatives as I mentioned during my speech.

DR. BOSWORTH: Thank you. I also have a question myself because of all the discussion both in this session and earlier about TPP. I guess you should count me as a skeptic. I agree with Ken Lieberthal's comment. This is going to actually be settled pretty soon because if they don't get fast track, nothing is going to happen.

No country in its right mind would make a final offer to the United States if the United States could then reverse the second time around. So, fast track is absolutely crucial. I don't know for sure what will happen. I agree, Republicans are somewhat more oriented towards trade at the present time, although historically, they were on the other side of the issue.

Both parties have a problem, what we call in the United States the "Tea Party" on the right of the Republican Party, and the liberals on the left for the Democrats, are opposed to these sort of agreements. It will be interesting to see if there is a movement to rally the middle.

I also myself just have a lot of trouble with the notion of a major and significant trade agreement in Asia that excludes China. The thing to me is too evident that this is an attempt by the United States to try to lock up the rules of the game and then have China come in.

I would be surprised that sort of process can be productively pursued. I have my doubts because China is now the world's largest trader, to try to exclude them from an agreement, so you can get the rules in place.

I would have more comfort if I had the foggiest notion of what the United States Government is negotiating on this issue. (Laughter)

It has all been a secret. There has been huge numbers of meetings, but I don't know what we want, and what worries me is that I'm afraid we want intellectual property rights expanded. I think that is a dangerous route, not just for people in other countries, but for Americans. Too much reliance on monopoly rent collections is not a good idea from an economist's point of view.

These sort of things are necessary evils that you have to have to encourage innovation, but you try to keep them to a minimum, you don't try to promote them at the world level. I'm a little concerned about where this is all going. I think there are a lot of barriers as we go forward.

I recognize I'm in a minority and I'm too pessimistic on that issue. I couldn't help given the discussion earlier about that to say something.

Any final words that anybody feels they have to say?

DR. CHOI: I'd like to talk briefly about your question on TPP and what is going on. I think precisely because of that, the U.S.'s credibility is being increasingly challenged.

Back in 1990, I kept coming to Washington to meet USDA people on telecommunications. At the bargaining table, I found some people at the table not even practiced it in the USA. So, recommending a developing country, which happened to be Korea, have something they don't even practice inside the U.S., but they are demanding.

As long as that is happening and when push comes to shove, at one point, there will be a moment of truth, and there will be growing suspicion. Always that is the biggest mystery, why a lot of Asian countries are jumping to join TPP talks. They believe at the end of the day, Washington will deliver. If Washington cannot deliver, it is going to be a defining moment of the question down of Washington leadership.

DR. BOSWORTH: On that optimistic note (Laughter), I think we are supposed to adjourn. Is that correct?

JONATHAN POLLACK: We have some very short closing remarks.

MR. BOSWORTH: Okay. (Applause)

DR. POLLACK: Thank you to all of you who have remained to the very end. I wanted to make a couple of notes in conclusion. This morning, Dean Qingguo Jia, said at the end of his panel that we have run out of time. I've heard a lot of other references to time over the last day.

Kathy Moon and David Dollar talked about demographic time. Maybe not as slow as geologic time, but it is a lot slower than usually what we are used to. I've heard a lot of other references.

One participant, and I think it was Bob Einhorn, said time is not on our side. Others said China must do things with North Korea, the sooner the better. Someone else remarked don't be in such a hurry. Others have talked about patience.

We have a lot of conceptions of time. My view is we have not run out of time. It's more what we do with it. Of course, we have not run out of ideas. There have been plenty here. I think all three of our countries share to a certain extent a kind of common destiny, even if our circumstances are different and some of our choices are different.

I walk away with a much heightened awareness of the shared stakes for all three countries and for other countries in the region. These are just basic facts.

One last point I'd like to make. Here in America, we talk about Las Vegas' rules. What happens in Vegas stays in Vegas. I'd like to turn that on its head. What happens in Northeast Asia does not stay in Northeast Asia, and a lot of the history of the coming century will be written in this area, and I think it is important to bear that in mind.

Let me finally express my appreciation to the audience and all the participants as well who have remained throughout. These are deliberations that I think must continue in the same spirit because to be frank, there is no alternative.

Dean Jia, do you want to make some comments, and then finally, Ambassador Park.

QINGGUO JIA: I just want to take this opportunity to thank everyone, especially Ambassador Park, who has been supportive and encouraging, and also our Brookings' host, especially Jonathan Pollack. He has been working very hard on this. Of course, Kevin, Paul, and many others whose efforts made this event very successful.

I have enjoyed it. I have learned a lot. Thank you very much. (Applause)

IN-KOOK PARK: First of all, my thanks should go to Jonathan, you and your staff for your impeccable preparation and wholehearted hospitality, and your very organized participation list, including Mr. Russel this morning.

We usually focus on regional issues, including U.S./China relations and Korea. I think we need to have brainstorming time to find out or identify a more desirable scope or content. Maybe for the time being, we have to continue our special focus on regional issues but as time elapses, the gravity of some global issues, including maybe today's demographic issues, if we think about regional integration issues.

In the case of the Davos forum we have two or three months advance council meeting, so maybe let's think about the possibility to make some advancements in the discussions in the case of selection of topics and format.

I think Professor Choi has some very creative ideas on how we could have a next round of discussion in Bei Da. Basically, new trend is knowledge sharing through multimedia format, so maybe what kind of multimedia format might be possible.

I really appreciate the preparation for a successful second round. Thanks so much for a great audience. Thank you. (Applause)

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