

THE BROOKINGS INSTITUTION

SAUL/ZILKHA ROOM

U.S.-ASIA RELATIONS IN THE NEW ADMINISTRATION

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**Opening remarks:**

RICHARD BUSH  
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Director, Center for East Asia Policy Studies  
Senior Fellow John L. Thornton China Center  
The Brookings Institution

**Keynote address:**

STANLEY ROTH  
Former Assistant Secretary of State for East Asian and Pacific Affairs  
U.S. Department of State

**Economic Dynamics of the Asia-Pacific**

MODERATOR: JOSEPH LIOW  
Professor and Dean, S. Rajaratnam School of International Studies

**Panelists:**

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Senior Fellow, John L. Thornton China Center  
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**Security Dynamics of the Asia-Pacific****Moderator:**

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**Concluding remarks:**

EVAN MEDEIROS  
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PROCEEDINGS

MR. BUSH: Good afternoon, ladies and gentlemen, I think we should get started. We have a busy afternoon. My name is Richard Bush. I'm the director of the Center for East Asia Policy Studies here at Brookings. It is my privilege to welcome all of you to our two day conference on U.S.-Asia relations and the new U.S. administration.

This, as you probably know, is a joint effort of several organizations whose contributions

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and participations I'm happy to acknowledge. Within Brookings itself, the sponsors are my center on East Asia, the John L. Thornton China Center, and the India Project. Three prominent organizations in the East Asian region are also playing a critical role. They are the Rajaratnam School of International Studies whose dean, Joseph Liow, was the first holder of our Lee Kuan Yew Chair in Southeast Asian Studies. Second, is the East Asian Institute in Seoul whose president, Dr. Young-sun Ha was a visiting fellow here in 2003 and 2004. And then the Japan Center for Economic Research whose president Kazumasa Iwata is participating in the program today. Most of our presenters came a very long way to be here today and tomorrow and we're deeply grateful to them for doing so.

You may ask, why is this conference necessary or why do we need another conference on this subject. I'm sure that my colleagues will have their own answer to that question. My answer has to do with a phenomenon that we see at the beginning of each administration, including this one, but perhaps more so in this one. My recollection is that as a new administration begins and interacts rhetorically with the rest of the world, it seems to operate more in a transmit mode than in a receive mode. Whether it is tweets or confirmation statements or policy statements, the goal is to let the people of the United States and countries around the world know how policy will change and how it will stay the same. So, the pattern right now is very much transmitting messages and receiving later.

Our purpose today is to jump start that process and give others the opportunity to do their own transmitting in the hope that this administration will itself, start using the receive mode. We'll do this in a couple of ways. The obvious way is through the participation of distinguished experts from Japan, Korea, China and Southeast Asia. The second it to feature the recollections of prominent Americans who have served in the last three administrations as senior directors for Asia on the National Security Council staff. So, know Asia very well but also know how our decisionmaking process works and sometimes does not work.

Also, tomorrow morning, some of my Brookings colleagues will assess where America stands economically, politically and regarding its role in the world. We have a busy afternoon so I think we should get started.

Just a couple of housekeeping points. We're not going to have any breaks between panels but you should feel free to get up and go back and get some more coffee or whatever you want. The restrooms

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are through those double doors back there.

To kick things off, I'm very pleased to welcome my good friend and former colleague, Stanley Roth. He'll give our first keynote speech. Stanley and I worked together for nine and a half years on the staff of the House Foreign Affairs Committee. And during the Clinton administration, Stanley served both as NSC senior director for Asia and in the second term as assistant secretary of state for East Asia and the Pacific. From 2001 to 2016 he worked at the Boeing Company. His position before leaving last year was vice president for international government relations in Boeing International. Stanley, it is a great pleasure to welcome you to Brookings.

MR. ROTH: Let me begin by thanking both Richard Bush and Brookings for this invitation and for convening this very important conference at such an appropriate time this early in the administration. If I sound a little rusty to you, it has been almost a year since I've retired and this is the first time that I've spoken for more than five minutes. It will probably take me a couple of minutes to get back in the groove.

Maybe of more interest, I must confess that if it hadn't been for the fact that I've known Richard for more than 30 years as he mentioned, as a colleague, as a scholar and as a friend, I would have declined this invitation when he offered it to me in February. So, you probably ask why. I think for conflicting reasons.

First, I was very worried about the directions that the new administration might move on the overall foreign policy. This, of course, since Richard contacted me in February was basically based on things said during the campaign, not in the administration itself. But I don't want to focus on this too much because I want to get to Asia but I was hugely worried that we could have a policy of isolationism, America first, perhaps with some weakening with not aggregation of critical alliances. And very worried about protectionism, the threats to blow up NAFTA, of course, to withdraw from TPP.

When I looked at those two things together, to me, it was terrifying. It was a very frightening moment when I didn't know if we would be in a major foreign policy or economic crisis just as with this conference taking place. So that's always a terrible time to be a speaker. Fortunately, the worst case on each of those hasn't happened although there is plenty of reasons for concern.

Second, I was worried that even if there's not a crisis, that might be the opposite problem,

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that maybe there wouldn't be enough to talk about. Both because of the absence of an integrated, comprehensive Asia strategy and because of the absence of Asian expertise in the administration. When you look at President Trump, you look at the vice president, you look at the cabinet and we can't look at the sub cabinet because it doesn't exist yet. That's not even nominated which is quite remarkable when you think about the ability of an administration to succeed.

I was really wondering, what was there going to be to say about Asia policy and I want to be fair here. Everybody criticizes every administration for not having a comprehensive strategy. Ken Lieberthal, my friend and I faced it in the Clinton administration. We thought we were killing ourselves to have a comprehensive Asia strategy and we had people saying, oh we don't have a comprehensive Asia strategy. So, I'm not trying to do this in a notion of a cheap shot and the notion that every other administration has had a perfect strategy, but this is strikingly different. This really is a set of tactical day to day actions without strategic framework.

Unusually, I had no expectation back in February of continuity in foreign policy and particularly continuity in Asia foreign policy. One of the great joys of working on Asian foreign policy for me in over a 30 year career, was the fact that it was strikingly continuous from administration to administration. Of course, nuances maybe even differences but the general thrust, Asia policy was much less controversial than Middle East policy or at times earlier in my life, Central American policy. El Salvador and things Richard and I lived through and a lot of other regions in the world. But Asia, after the campaign when every candidate managed to threaten China policy, they always came back towards the center. North Korea policy is remarkably continuous, albeit, unsuccessful from administration to administration. And here, there was no expectation of continuity so I didn't know how I would be able to characterize things.

I want to say, right up front, that I think there is a direct correlation between the lack of rigorous policy making process and good policy outcome. Everything seems, and I'm using the word seems because I know absolutely nobody in the administration. I've never met the president, the vice president, any of the Trump kids, secretary of state, secretary of defense or the National Security Advisor whom I've heard speak once. So, I'm not giving you inside, friend of Trump or Trump family advice but it really seems a policy has been driven by a small handful of people within the White House. The State

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Department, I think you'll all agree, is virtually invisible although many the secretary now recognizes he has to raise a profile. And the NSC weaker than other elements in the White House, that seems to not be driving policy as much.

So, when you combine this bad policy process with a lack of Asian expertise, it is not surprising that you really don't have a comprehensive Asia policy, you have more reactive things driven by the calendar trips, visits or crisis. Just to put it another way, serious policy requires a serious policy process, not policy by tweets or a small political group within the White House.

My third concern, in these introductory caveats and remarks, will come to an end, I promise. Is that between the February invitation and today's remarks, I was fearful that President Trump would do some of the things that I was most afraid that he said he would do in the campaign and that I'd be presenting my comments to a very angry audience, particularly those you visiting from foreign countries who either are speakers or are attending. For example, had he labeled China as a currency manipulator on day one and/or impose a 45 percent or some other tariff on Chinese exports to the U.S. Had he started walking back in the U.S. alliances, had he started withdrawing U.S. forces from the region or started contentious burden sharing negotiations with countries that host our military bases.

Certainly, I have very serious concerns remaining. There is a lot of reason to be concerned about some of the actions of the Trump administration has taken this far in this region and henceforth I'm not going to be referring to any other region or global policy but just the Asia Pacific. TPP is probably the highest on my own personal list of concerns. It has not been catastrophic overall. A lot of the steps that I just mentioned didn't happen. Talk about damming with faint praise.

Considering where we were and what might have been, it is a little bit calmer than I had anticipated. So, I suspect that you, like me, are more anxious now about Asia policy than enraged or hysterical, again with the possible exception of any of you who work on trade, take the death TPP as a major blow. I count myself in that group.

Finally, just my last note before plunging right in, even if there is not an integrated Asia strategy, when I sat down to lay out my thoughts, there is plenty to talk about today. Based on the multiple transactional steps the administration has taken, visitors, travel but also some policy, that is either directly in the Asia Pacific region or affecting the Asia Pacific region, let's just jump in. Because I

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think there are things we can talk about even if it is not necessarily in a context I would have preferred.

First, the pivot, or if you like the phrase better, rebalance, to Asia, is dead. Not explicitly in an announced statement by the Trump administration but obvious if you look at the policy. The Trump administration is clearly making its own pivot, again, they're not using that word, to the war on terrorism and destroying ISIS is clearly the central focus of the president's foreign policy and national security policy. This, in turn, requires greater priority on the Middle East. Of course, that was a big part of the traditional policy before the pivot as well as Europe. So, the pivot, as we knew it, is gone. I think that is going to affect military planning, I think it is going to affect diplomacy, how much time is spent by the president and people closest to him, in or on the region.

Second, I think there has been a downplaying of geo politics and the alliance relationships associated with it. For example, the entire period of the Obama two administrations, there was a major strategic focus on the rise of China and the peaceful rise of China and what can you do accommodate a rising China into the international order, peacefully. Now, you don't get the sense that the policy at all is being made in the context of a strategic focus like that. It's either, let's make a deal, I can handle China, or let's threaten them, particularly on the trade side, but even on the military side there have been some fairly belligerent remarks about the South China Sea and the East China Sea. Not necessarily wrong, but again, I think you get the point.

To the extent that there is a geo political strategy, not just in the Asia Pacific but globally, I characterize it as, and again this is based mostly on campaign statements because you don't have a lot of State Department and NSC foreign policy speeches. But I characterize it as belligerent pacifism. Let me make it clear, that's my own phrase and not an official Trump doctrine. On the belligerent side, and this is not a comprehensive list but you look at Iran worst, the nuclear worst deliver, he's going to order the Navy to blow up any Iranian gun boats if they approach Jewish ships. He's going to destroy ISIS, remember the secret strategy that has yet to emerge. Peace restraint, if you recall the article written by Peter Navarro and Alexander Gray. Many facts and I'm not going to try and summarize it but clearly very tough on China and that's being modest. Emphasizing Chinese aggression, their word, in the East and South China Seas. Very much in favor of more robust armed sales to Taiwan amongst other things that kind of a deliberate sticking a finger into the eye of China.

And then, on the military side, one, the claim that the U.S. military has essentially been decimated during the Obama administration and second, that he was going to fix it and have the largest defense increase in history and have a 350 ship Navy. I'm all in favor of the 350 ship Navy, if you want we can get into that in the question and answer period. But, he did come up with a \$54 billion increasing clear on defense. It isn't clear to me that that is the largest in history but it is significant. So, there's the belligerent side.

But the pacifist side you can see it, North Korea, despite the threats, let China take care of it. The statement during the campaign, maybe Japan and South Korea should get their own nuclear weapons. Absolutely horrifying, nearly fell out of my chair when I heard that one. Alliances, as I mentioned before, transactional rather than strategic. Basically, my view, the Trump policy as stated was, countries should pay the U.S. for protection and if they didn't pay up, we should go home. And this, by the way, not just in Europe, but very much in Europe as well with NATO. So, in effect, you have the U.S. becoming mercenaries, U.S. military. Where you hire us, you pay us, we do what you ask us to do and then we leave.

Even on the South China Sea during the campaign was remember that famous two word quote from Donald Trump, far away. Not much of an approach. But clearly, there are built intentions between the belligerent side of my formulation and the pacifist side of my formulation. The question is, how are they going to work it out. The conflicts between the two different sides of the ledger.

I think let me start on the positive sides, since I've been pretty downbeat up to this point. Again, only commenting now on the Asia Pacific region, not globally. I think in some key areas, the administration has put its campaign rhetoric behind it and is moving back into the mainstream of foreign policy, i.e., embracing some of the continuity that I mentioned before had that had characterized Asia policy. You have reassurance to Japan and Korea that reaffirmation of the importance of the alliance. Very important early trip by the secretary of defense and then last week by secretary of state. President-elect Trump meeting with Prime Minister Abe in New York which was an important signal and then inviting him early, not only to the U.S. but to his home in Florida, which I think is the ultimate honor from the president. So, at the same time, the administration as backed about from Japan and Korea should get their own nukes. I don't think it has been formally repealed, but you're not hearing anything about it and I



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don't get the sense that anybody is advocating or pushing for it which is a major relief.

I think that there have been, also on the positive side, no dramatic economic actions against China, thus far. In my notes if you could see them, you would see thus far underlined. Obviously, there was not a designation as currency manipulator on day one nor the imposition of any tariffs and that's very important. I'll come back to that. The administration has reaffirmed its "One China" policy in a phone call with President Xi after and I'll be very brief in this. The precedent breaking phone call with President Xi during the transition, that really threatened almost literally to blow up U.S.-China relations. There has been no military confrontation with China, particularly over the maritime disputes as have been hinted that the possibility of using the Navy to stop the building or implementation of existing Chinese facilities, in particular, the South China Sea.

Encouragingly, the administration has been working with the main players in the Northeast Asia region, i.e. Japan, Korea, and China, to formulate some kind of new affective response to the growing North Korean threat. Of course, I'm referring to nuclear weapons and delivery systems, especially long range intercontinental ballistic missiles that could reach the United States. I'll have more to say on that shortly.

In the aggregate, it is an encouraging set of actions, both in terms of things done and things not done and a major difference from things said during the campaign. But, on the negative side of the ledger, I put number one strangely for a guy who has mostly been a strategic and defense guy on the foreign policy side, trade policy. I am very worried, obviously, one because of what was done on TPP. I see no recognition within the Trump administration about the strategic dimension of that agreement and that this was essentially a gift to China. Go ahead and you take the lead in organizing the region economically. I think it was also a blow, not a fatal blow but a blow, to American business because it is going to have economic advantages for the countries that rally around China whatever agreement they come up with and the U.S. will be the loser for it.

More broadly, and even more worrisome, this administration is openly opposed to free trade. The performance of the secretary of treasury at the G-20 finance ministers meeting a few days ago is nothing less than extraordinary. Where he kept wording out that was basically routine wording in every statement after a G-20 finance ministers meeting about free trade. And it's gone and no longer

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expressing concerns about free trade and protectionism. This administration is about America first. Creating American jobs, blocking imports if necessary. We've given up decades of free trade progress under multiple administrations.

I'm still very concerned about the potential for very counterproductive trade war during this administration. The fact that it hasn't yet labeled China as a currency manipulator, we'll see. Treasury has a deadline to do it. I have no idea what they're going to do. I'll save you asking that question, I just don't know. I'm not sure they do yet. Or impose a tariff that was threatened, doesn't guarantee that it won't happen down the line. Trump has a pretty good track record from his point of view of doing what he said he was going to do. If you look at tax policy, immigration policy, defense budget and the like and that doesn't make me feel good about trade.

Beyond China, if a 20 percent tax on imports is actually imposed as part of a tax reform bill, it is very hard to imagine that other countries won't respond. I fear that we could end up with a 21<sup>st</sup> century replay of a Smoot-Hawley induced economic crash. That's serious to potential.

Moving on, North Korea. Parent rejection of diplomacy is an option by Secretary Tillerson last week, troubles me. The focus seems to be now on sanctions to the next level and a focus on preemption. I have to be fair, the administration did inherit a bit of a mess here. I don't agree with the president when he applies that term to the state of the economy, but if you do apply it to North Korea policy, boy, look at it. You've got, first of all, political chaos in the ROK. So, here's a key player and there is no leader and people are out on the streets how do you formulate policy with an ally because you're not going to have a North Korea policy without an ally.

Second, you have no good option, you only have choices between bad and worse. That the failure of multiple administrations of both parties to solve this problem has not left us in a situation where if we don't do something, North Korea will have nuclear weapons that can enter the United States. We can argue about the years, I don't know whether it is two, six, ten but in our lifetimes and that is pretty scary.

I think the administration is not necessarily wrong to try sanctions 2.0, including secondary sanctions which would likely affect Chinese companies much more than North Korean companies. I happen to agree with former Secretary of Defense Bill Perry who has written several things

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recently who says he doubts second hand sanctions is going to do the trick. One, even if China can influence North Korean policy to get it to change its nuclear policy, it won't. It won't do things that could lead to the collapse of the regime. Second, a point not made often enough, Kim III, he really doesn't care about his people. So, millions starve. We've seen that happen on some of our watches in government that the notion that he is going to care about some people as long as he, the party and key people in the military have food. I think very little chance to believe that sanctions are going to succeed.

We could end up, major could turn minor with a lose-lose situation where we strain the relationship with China, in particular, if we go the secondary sanctions path without making any progress and slowing the North Korea nuclear and ICBM programs. So, we're none the better for it and probably worse in terms of our ability to deal with other issues. And I can preclude, although I'm emphasizing this as not a prediction, but I can preclude the worst case scenario from my point of view, which is some type of preemptive strike. There is an enormous amount of chatter about an option that was considered ridiculous only a couple of years ago. Now I'm not talking about preemptive strike narrowly defined that if you have a photograph from one of our intelligence sources of an intercontinental ICBM with a nuclear warhead on it being fueled and getting ready to launch, you decide to strike at that. I think any president of either party would do that. I'm talking about a preemptive strike to take out the North Korea nuclear program. I don't think you can because you can't get them all. If even one nuclear weapon survives, it is disastrous. Even without a nuclear weapon, the chemical and biological and just regular conventional Army capabilities of the north could inflict huge damage, not just on the ROK but on U.S. forces in the ROK and Japan and, of course, in Japan itself. So, to me, that's an option we want to avoid if we can. I could devote all the rest of my time, which is brief anyway because I've practically used up the half hour but let's move to the Q & A if we want to discuss North Korea further.

On China, I think the administration's policy is conflicted. It got off to a bad start, as I mentioned before, over Taiwan. The president then had to back down once he was actually in office. While I'm relieved that he did so, I think it was the right call, it certainly is a win for China and the first round of contact between the two presidents and I think it is probably hardened President Xi's attitude and what he going to ask for when he comes here that rather than President Trump thinking he can manage Xi, it is probably now President Xi thinks he can manage President Trump. We shall see, I would like to

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be wrong.

But more fundamentally, just as there is no integrated Asia strategy overall, there is no integrated China policy. On the one hand, the administration wants and needs China's help on North Korea as I've just mentioned and if you listen to Secretary Tillerson in his visit last week, he basically used Chinese rhetoric in talking about the relationship and the need for cooperation and win-win and so on and so forth. And yet on the other hand, you have an administration that is threatening China on trade and may actually do something. There was just as little or no chance for getting Chinese cooperation on North Korea. My hope is that the impending visit by President Xi which is set to be in April, will force the administration to resolve this conflict in policy in advance of the visit, we shall see.

Fourth, I think the administration has undone the Obama administrations progress on U.S.-ASEAN relations which was formidable. I see Evan Medeiros in the back who had a lot to do with that. And the pivot was not only a pivot away from the Middle East and Europe to Asia but as former assistant secretary Kurt Campbell and Evan noted many times, it was also a pivot within Asia. A lot more focus on ASEAN. You had the president showing up at all the meetings. You had the U.S. shifting resources. A high level of attention. No sign, thus far, to me. Please tell me if I'm wrong, that the Trump administration is interested in ASEAN, has even thought about it much. The concern in the region, and I certainly felt this when I visited Singapore in December, is that he won't show up for the East Asia Summit, he won't convene any U.S.-ASEAN summits, that he'll possibly skip the APEC leader's meetings. Can you really see President Trump wearing one of those funny shirts and listening for hours to speeches of 18, 21 other leaders. I hope so, I hope he does the right thing. There is a lot of concern that we're going to get back to America, not at the table in the same degree as others.

Fifth, unnecessary worsening of the relationship with one of our closest regional allies and I'm talking about Australia. I'm baffled by the phone call with Prime Minister Turnbull, beyond belief that President Trump hung up on him. Letting one relatively small, one tiny humanitarian refugee agreement negotiated by the Obama administration, blow up a first phone call and harm the relationship, is incredibly counterproductive on the policy side to one of our most important and active regional allies. And frankly, it strengthens the camp in Australia that believes that the United States is retreating from the region and that Australia needs to realign itself, I don't mean necessarily with a treaty, but away from the

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U.S. and more towards China. That phone call played right into it.

Finally, I've said almost nothing on India because I didn't read Richard's instructions carefully enough to realize the scope of this conference included India and South Asia. I think there is a very different dynamic than what I've just described for Northeast and Southeast Asia. I think that less built in causes for friction in that relationship. Not necessarily for great reasons but there is no U.S. military base, there is no military or treaty alliance, there is no free trade agreement to threaten. From India's perspective, I think they welcome the lower priority on climate change and I suspect that don't mind the lower priority on human rights as well. I think Modi and Trump probably view each other as two peas in a pod, strong leaders who get things done. I think that relationship won't be as challenged as the ones I've just described.

In conclusion, and it is a pretty small conclusion after all of this blather, I think it is important to remind ourselves that it is still early days for the administration. We don't know who the Asia team will be much less what the policies it will advocate are or what clout it will have within the Trump administration. Is it going to take over Asia policy because there really isn't much interest in it except when you have a high level visit that the State Department, the NSC and the agency at the Pentagon works and you have Asia policy. Or, is it going to be people talking to themselves no matter what recommendations they produce and whatever deputies and principle meetings they convene, that is going to be that small cadre of inner circle people in the White House. We don't know the answer to that.

So, I think the most we can say about U.S.-Asia relations and the new administration is that it is a work in progress. Some relief that things haven't happened, some relief about things that have happened and lots of concerns about things that might happen. We just have to wait and see. Thank you very much.

MR. BUSH: Thank you very much, Stanley. You've gotten us off to a great start. There is a lot to talk about. Stanley will field his own questions. As most of you know, we ask that you please wait for a microphone so everybody can hear you. Give your name and your affiliation and pose your remarks in the form of a question and keep your question brief so a lot of people will have a chance. There's the first question, Jonathan Pollack.

MR. POLLACK: Jonathan Pollack from Brookings. Welcome Stan. I think we've met a

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few times. Stanley, I'd like to maybe turn the discussion a little because if you look at the administration's early moves in East Asia or at least in Northeast Asia, it conforms very much to a country by country approach. Setting aside, obviously, the dismantlement of TPP as a different case. But in a lot of ways, that really isn't so different from the way administrations have often acted. You've got very important alliances with Japan and South Korea, you've got a separate relationship with China. Is there something to be said for the fact that at a time when the process as a whole and the workings, the machinery of government is not exactly robust, that you go country by country to at least have some kind of a relationship with individual's leaders and so forth. I note in that context that Trumps, obviously his interactions with Abe the coming meetings with Xi Jinping, that's a lot more than some of the regions have gotten. I'm not making up excuses, but I'd be curious about your thoughts.

MR. ROTH: Well if you're asking, is bilateral diplomacy better than no diplomacy, of course. If you're asking me prioritization on major relationships in the region first, of course. If you're asking, should we have high level visits in both directions, sure. I welcome both cabinet level not presidential level travel yet to Asia Pacific and I certainly welcome the visits here. I mentioned Prime Minister Abe and the upcoming visit by Prime Minister Xi. It is a lot better than nothing and, of course, you can discuss important issues. But I think you lose a lot if you move away from the regional focus that several prior administrations have tried to have.

It is not just the up and spokes that goes back decades and I support the alliance structure but also trying to get the region to act as a whole on some issues whether it is on climate change, whether it is on maritime security disputes, whether it is on trade policy. But there is benefit for working through multilateral and regional organizations and I think you lose that when we have just meetings that come up and you deal with, this week it is China, that week it is Korea and so forth. So, yes, I agree with you as far as it goes but we could do better.

MR. POLLACK: Okay, thank you.

MR. STANLEY: I'm blind as a bat so I'm going to point.

MR. GORDON: Bernard Gordon, University of New Hampshire. Stanley, I agree with almost everything you said except one point. When you mentioned ASEAN and you seemed to be, and I'm worried that there has been no interest in the administration. Why would you be concerned? ASEAN

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has proven itself to be a really empty shell. The president leadership in Jakarta is mainly focused on internal things. The relationship in Thailand and Asia, there is no ASEAN of any significant. The notion of ASEAN centrality has lost any meaning it ever had. There' much evidence for that. So why do you think it is really a negative thing that the administration seems to ignore ASEAN.

MR. ROTH: Maybe I would have been wiser to say the administration basically has ignored Southeast Asia, which is a major region when you look at population, when you look at economies. I myself have bemoaned sadly. Not with pleasure but decline of ASEAN. China has figured out how to neuter it plus the combination of the current leadership of some of the key countries that have played leadership roles in the past, it is not a shining moment for ASEAN and it is hard to see what the recovery process is. I wouldn't want to preclude it but it isn't hard to see. The importance of the Southeast Asian region, I just don't see any signs yet of attention being paid to it.

MR. MAR: Hi, Charley Mar, China Daily. Obama administration in my view tried to interpret the Chinese sort of a (inaudible) new type of major relationship to accommodate whatever China has done or is going to do. Do you think Secretary Tillerson endorsement of this new type of relationship when Xi said no confrontation, mutual respect and a win-win corporation is a major step forward to push forward of the bilateral relationship. Thank you.

MR. ROTH: Short answer is no. I think this was basically someone who really didn't know the history and significance of that phrase. Didn't recognize what the ultimate outcome was in the Obama administration which was not interested in it in the way that China was interpreting it. Which increasingly came to a period where the U.S. backed Hawaii and Chinese sphere of influence and Asia. So, the administration correctly, in my view, Obama administration, has basically nixed that. Not rudely but firmly. I think the secretary just stepped into it, not knowing all of it and wanting to be positive on a first trip, wanted to pave the way which I think is proper, by the way, for the first state visit by Xi. A lot of his trip is trying to prepare the agenda for that so you try to say gentle things and things that are reassuring. But I don't think he understood the significance. This is not a major change. I do not believe this represents any major change in thinking on foreign policy by the Trump administration and I don't think they will embrace it. Someone in the back.

MR. HO: Gregory Ho from Radio Asia. My question is about the coming visit of

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President Xi Jinping. Given the short of staff in the State Department and all those experiences China has is not ready yet, would you suggest that President Trump and Secretary Tillerson postpone the incoming visit of the Chinese president. This is so important, given the situation of so many staff is missing, why Trump is so urgent in meeting President Xi, can you think of any specific reason? Would that meeting because of (inaudible) Korea and then Trump need to get Chinese cooperation on any possible so-called all option is open including any strike that might take place?

MR. ROTH: First, I can't conceive of a scenario other than health or natural disaster, God forbid, where either country would consider postponing the summit. I think it would only generate huge suspicion in China. What do you mean you could have a state visit by the Japanese and you can't have a state visit by China. What are you talking about, you know how fraught that relationship with Japan and China is. But I also think it would be seen as somehow a slight against China that the president was seeking to hurt the prestige of President Xi, maybe striking back for Xi's leadership role of Davos which, of course, the U.S. didn't attend at a high level. Some of the other statements that President Xi has made recently about global leadership, there is no benign way that that scenario could happen.

Second, I'm much less worried about the lack of staff in terms of an early summit meeting than I would be maybe two years down the line or 18 months down the line when you would expect the summit to really be getting at nuts and bolts of issues. My experience from White House visits, is first visits tend to be much more gentle. You're trying to build a relationship between the two leaders, whatever the countries are and trying to show that either the relationship is strong of that it's getting better or that you're going to change the trajectory. You want to show that this is somebody I can work with.

I think a lot is about atmospherics, courtesy, respect and then a few markers from each side. I can't imagine that President Xi won't come here and lay down a marker, hopefully gently, on "One China" policy despite the phone calls and you conceive that he won't be bringing that with him. I've got to believe he's going to have some concerns on the trade policy side. You've got to believe President Trump has got some concerns on maritime disputes. He's got major concerns, maybe not fully justified, but in his mind fully justified on the trade side with China. At that level, I think he can be easily staffed and frankly my experience with state visits, an awful lot of the substantive preparation stays in the White House which is



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better staffed than the State Department right now. It is more the logistical stuff, probably wrongly, but the role of the State Department, I think, has often been short shifted in multiple administrations. I think the summit will happen.

MR. BOI: Thank you, Wusan Boi from China. I have found it very interesting when you noted that the Trump administration's approach with China is less shaped in the context of dealing with a rising China as compared with the previous administration. The Obama administration, I think, if China policy was largely created in the context of geopolitical and geoeconomic competition with China. You saw the mutual deployment, you saw the GDP and it ended up creating more geo political competition with China and aggravating the secretary (inaudible) trust between two countries. For the Trump administration, maybe the priority is more treaty specific. Let's talk about treaty issue, let's talk about North Korea issue and maybe South China Sea issue. It doesn't really have a structure or context dealing with rising China in a comprehensive geo political sense.

MR. ROTH: I think that one, you've given a very selective interpretation of Obama China policy. You've left out some enormous successes in areas of cooperation. I think, just to give one in the interest of time, the climate change agreement which was a ton of work, very beneficial. And by the way, one which China wants to see remain in effect and is jeopardized, I'll use that word now, that it was far more than geo political or geo economic competition. There was a lot of working together, there was major effort to work with China on North Korea. So yes, there were things that happened that you could call competition. I could also give a litany, I won't, of things that China did during the previous Obama administration that required response, particularly in the maritime disputes, for example. But I don't accept the characterization that you drew the narrow one of geo strategic competition. I think, if anything, the Obama administration tried very hard to have a good working relationship with China and manage the issues. I suspect the Trump administration will end up there as well if it doesn't stumble particularly on trade policy which is my biggest immediate concern. We shall see.

MR. MOSETTIG: Mike Mosettig, PBS Online New Hour. Based on your considerable experience, you said a little bit about the role of luck and happenstance. One of the reasons I mention this is because some of us were around in 1961 when you had a fully staffed administration with top people and within the first five months you had the Bay of Pigs, then you had the Chris Jeff Summit which

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was anything but gentle and a couple of months after that, the Berlin wall.

MR. ROTH: Well, I was only 7 in 1961 so I don't have a firm opinion on that year. Someone recently cited an academic study to me and I apologize to the author or authors because I forget who did it, that basically showed there was a crisis in the first year of every administration going back at least as far as Truman and maybe to Roosevelt. I forget how far back it went. It is almost not a matter of good luck, it is a matter of how much bad luck in the first year.

It appears, and I use the word appears that North Korea is the first foreign policy crisis but that is one that doesn't have necessarily an immediate trigger. These ongoing concerns about the development of the program, something else could happen, I'm not going to invent false crises and military confrontations. There is always the chance of bad luck and there is always the chance of good luck, by the way. For example, the robust economy the President Trump inherited from President Obama. That really helps the global economy and particularly helps a lot of countries in Asia. So, luck can go in both directions but short matters. But then the question becomes, okay, if your luck runs out, what skill do you bring to dealing with the crisis.

MR. HOI: Thank you (inaudible) Hoi China, (inaudible) Hong Kong. We all remember when President Clinton visited China in 1998. He stated three no's regarding Taiwan. That made many people surprised at that time and I believe you got involved in this process. From your experience, do you believe under the Trump administration something like this might also happen and how possible that the U.S. and China side for communicate. Thank you.

MR. ROTH: When I was in government, I always had the excuse that I couldn't answer a hypothetical question. I guess I don't quite have that in retirement. The real answer to your question is I have no idea. Their instincts seem to be, let's strength the relationship with Taiwan. Yet when confronted with China's very strong reaction to the phone call that I mentioned earlier, President Trump moved back towards the traditional "One China" policy. So back to where we were, whether there's any support within the administration for doing something and communicate but I really can't see the support for it in the Congress where I think it remains a very strong support for Taiwan as a democracy and open market. It is a hard scenario to imagine but I have no idea what the Trump administration is actually thinking, whether three no's is even on the agenda. I can't predict you won't see a fourth communique from this

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upcoming visit of President Xi.

MR. STEINBERG: Thank you, Dave Steinberg, Georgetown emeritus. Stan, I'd like your views on the budget that the Trump administration had proposed. They have eliminated all the autonomous organizations that deal with Asia in a sort of not in a think tank way but in a programmatic way. And with reduction in the State Department budget and the USAID budget, it seems to indicate a lack of interest in Asia, even if the elimination of these organizations funding won't last through the Congress. I'd like your views on that.

MR. ROTH: I share your concern about the cuts and I have my own concerns not only about the foreign policy side of the ledger but huge concerns about the domestic side of the budget. I'm not at all convinced that it was driven by lack of interest in Asia. I think it was driven by commitment to increase the defense budget as a pillar of the campaign but also of the president's personal belief. The beating he was taking and the administration was taking from conservative republicans in the Congress thought he was going to blow up the deficit with a combination of tax cuts and increase the defense spending and therefore cuts had to come from somewhere. Politically, unfortunately, State Department, foreign aid are easier cuts to make politically even if intellectually makes no sense. How do you improve defense with a crippled State Department and a diminished foreign aid budget. They go in opposite directions of contradiction. I don't think it was done as a strike at Asia in any way, I think it was done as a budget matter.

MR. LARK: Good afternoon. My name is Mike Lark and I represent a forum on international affairs. I wanted to get your thoughts on, there was a story in the financial times today about Russia being more willing to sell high tech weapons to China than ever before. Fear is this could push back the U.S. security provider role in the region. Do you see increased geopolitical cooperation between China and Russia as a distinct possibility as an alternative Chinese foreign policy to counter the U.S. or do you think these fears are more fanciful than anything. Thank you.

MR. ROTH: I'm skeptical about the China-Russia relationship getting warm and fuzzy. I think if you go down to the basic level of personalities, Putin and Xi are two peas in a pod. They're each guys who want to be dominant, they want to be first, head of the class and it is hard to see how they work up the division of the roles. Secondly, they're not equals. What I mean by this is obviously Russia may

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have tremendous nuclear arsenal but the economy is so frail that it really doesn't have the clout to be a huge global player. Except in specific scenarios where, I have to say, Putin has managed it brilliantly, how he has inserted himself in various crises and regions despite the lack of underlying economic strength. I think from China's perspective, they're the future. They're the 21<sup>st</sup> century. Somebody referenced a state visit in 1998 when Clinton talked about being on the wrong side of history, I think China feels now that it is their chance and everyone else is on the wrong side of history.

As to the arms sales, I don't know the specifics but there have been a lot of Russian arms sales previously to China and to others. Also, my guess is that the Trump administration is going to make it easier for our foreign countries to purchase U.S. weaponry both as a security matter but mainly as a jobs matter. I think it might not be necessary to go to Russian weapons. I think finally, those countries that think about their defense procurement, and I say that because there are some countries that buy things that make no sense. But those that understand that Russia has not support capacity that if they do get into a crisis, there is no ability to surge massive supplies, reinforcements or even replacement equipment. So even if the product is top rate and I'm no expert but I gather the best Soviet fighters are still quite formidable. If you're not going to be confident that you're going to be able to get the support you need if you ever do get into a shooting conflict I think you'd prefer to buy from someone with a track record like the United States which has supported its allies during times of conflict.

SPEAKER: Lex (inaudible) (wasn't mic'd) three strands -

MR. ROTH: And a former boss of mine in my first professional job in Washington in the 1970's.

SPEAKER: Thank you, Stan. Three strands, one is Trumps business interests especially in Asia. Second is Indonesia, the third largest by population country in the Asia and third, Indonesia as an Islamic country. You hadn't mentioned singled out Indonesia which is also anchoring ASEAN and wondering if you had any particular concerns about U.S. relations with Indonesia going forward. Also in the context of the news about Freeport and the Grasberg mine.

MR. ROTH: I didn't mention Indonesia, not because I don't think it is important. We've been talking about Indonesia for decades but rather because I was trying to just put it in a larger context of Southeast Asia. I just don't think the administration has thoughts yet about Indonesia that it hasn't

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registered just how big it is, just how strategically crucial it is, how you can't have any meaningful regional organizations in Southeast Asia if you don't have Indonesia as core.

Singapore can be the brain trust but without Indonesia, it is going to be much harder and I'm not clear that Vietnam can fulfill that role, although, maybe it can. I just don't know, maybe all it takes is one visit between the two leaders and they hit it off. This former furniture salesman who is now the leader of Indonesia and he did a very respectable job on his visit here during the Obama administration and maybe it gets on the map. I hope so. I just don't know that as a matter of strategy, thinking it through and saying, gee we've got to work on this Indonesia relationship as a priority in the first year. Especially because now we don't have Obama with his special Indonesia ties. I haven't heard any indication that that discussion is going on within the administration.

On the business interest, that's a global issue, that's not limited to Trump family interests in Indonesia. I think the ethics issues are going to have to be sorted out because they're coming up continuously but I don't know where it is going to end up. I don't view that as a country specific issue, I think it is going to be a surprisingly large number of countries.

MR. BUSH: I don't want to leave Joseph behind on the schedule so I'm going to bring this part of the program to an end. Please join me in thanking Stanley Roth for an outstanding presentation.

MR. LIOW: Good afternoon, everyone. And special thanks to Stan Roth for really setting the stage for a lot of issues that we will, I'm pretty sure, discuss over the course of the rest of today, and tomorrow as well.

So, we are going to pick up on at least the trade and economics dimension of what was laid out earlier. And to help us do that we a very distinguished panel of five speakers.

What I will do, is we will go through the panel according to the program that you have. You have details about their CVs, their brief bios in the packet that you would have received coming in, so I won't waste time -- in the interest of time I think I won't get into, I won't read out all the details, but I will introduce them very briefly as they come up to give their presentations.

So, we will start with David, David Dollar. He is a senior fellow in the John L. Thornton China Center at the Brookings Institution. So, David, please?

MR. DOLLAR: Thank you very much, Joseph. A great pleasure to be here. I'm going to talk about the prognosis for the Chinese economy, and I want to make three points. First, China's economy is undergoing a transition, you can call it a difficult structural adjustment, it's going relatively well, but there's a lot they could do with policy to ease that along. Second, I'll say word about the state of U.S.-China economic relations. And third, I'll say a little bit about the potential summit meeting between Xi Jinping and Donald Trump on what might be accomplished on the economic side.

So first, the structural change that's going on in China economy: for a long time China's economy has been heavily dependent on exports, and even more so on investment. When the global financial crisis hit that was a big shock to China, the exports dropped very dramatically, and China responded with a stimulus that was almost completely investment.

So it took an already high investment rate even higher, up to about 50 percent of GDP, and that helped China maintain growth for a number of years after the financial crisis, but it's created problems now. Basically China has built up excess capacity throughout its economy. You know, when you invest at that kind of rate, you are building up the capital stock at a phenomenal rate, and now they've got excess capacity.

In real estate, for example, lots of empty apartment buildings in third- and fourth-tier cities. They have excess capacity in heavy industry, it's operating at maybe 70 percent of capacity; and I would argue they've overbuilt some of the infrastructure as well.

Now, in that situation, naturally the return to further investment declines, what we call diminishing marginal returns; and this has hit China very forcefully, so they are running out of good investment opportunities. And you see this particularly with private investment in China. Last year it grew at only 3 percent. You know, so clearly there -- problem finding good investment opportunities in the face of this excess capacity; so, that one of the fundamentals that's leading to change in the Chinese situation.

And I would argue, the global economy is still relatively soft, and it's hard for China's exports to grow very rapidly. China is the biggest exporter in the world, so it's hard to have its exports grow any faster in the world economy. So, some of the previous sources of growth are just not there.

Now, the good news is that consumption has held up well, consumption is growing quite rapidly, and I think there's a demographic foundation to this, so basically, China's working-age population

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has peaked. It's starting to decline, the labor market is tight, it remains tight. Wages have been going up quite rapidly, consumption has been going up, consumption is mostly services, and those service sectors are relatively labor intensive.

So, China has this virtuous circle going, and what you look at -- in the economy, what you see is very dualistic, that the service sectors are growing rapidly, and industry continues to be in the doldrums. Now, in the last couple of years consumption has been delivering about 4.5 percentage points of GDP growth, and if China would just be satisfied with that, then this transition could go more smoothly.

But the leadership is determined to get the growth rate up to 6.5 percent, and so they keep pushing credit trying to encourage investment. I already mentioned private investment was growing very slowly, because there aren't a lot of good opportunities, but government investment, state-enterprise investment, local government investment, all this continues at a very high rate, and the government is pushing on a string, in a way, and that there really aren't that many good investment opportunities.

So, you're sure you've seen these statistics about how debt to GDP is building up in the economy, it's rising in an alarming way, and there are financial risks building up in China. Now, the things China could in terms of policy that would help reduce those risks and can help China continue to grow well, there are a lot of zombie-state enterprises that are essentially bankrupt, the state needs to let these and help the workers in the communities adjust.

There are a lot of bad loans building up in the banking system, you know, after all this investment, a lot of that's been backed by credit. They need to clean up the bad loans in the banking system, and then I mentioned that the service sectors are growing pretty well, but most of those sectors are relatively closed to international competition. They are dominated by state enterprises, and China could help itself by opening up the service sectors to get more foreign investment, more private investment. Create some new, dynamic niches to balance the fact that there's all that excess capacity in traditional sectors.

So, that's really my first and main point, but it leads naturally to a second point, to take a look at U.S.-China economic relations. You know, certainly during the latter part of the Obama administration there was a lot of frustration with China, that if China would pursue this agenda of dealing with state enterprises and opening up the economy, that in fact would create a lot of new opportunities for

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U.S. firms and workers.

There are lots of restrictions in China's market, we see it across the board, 25 percent tariff on automobiles, so lots of American brand cars sold in China but they have very little American content, to be frank. Beef, other agricultural products, highly restricted; so while there are certain agricultural exports in the U.S., there are lots of other restrictions.

And then I think the big one, is that those service sectors I mentioned, you know, it's hard to trade services without foreign investment, and China is closed in financial services, telecom, media, logistics, health care, it's just a long list of sectors that China could open up, and those would create new opportunities for American firms and workers; lots of frustration that we haven't seen much progress.

Some people think that there will be more progress with reform after the 19<sup>th</sup> Party Congress in the fall. I'm skeptical because Xi Jinping has been in power for four years, and we've seen very little reform in opening up, so I'm skeptical that we are suddenly going to see a big change after the leadership transition, but I hope I'm wrong. And I hope see more movement on the China side.

Now, I think to be fair, there are important areas of progress in the U.S.-China relation, and one area of progress that I would cite is actually the exchange rate. For a long time, China was manipulating its exchange rate, and intervening to keep it low, and the evidence for that was China was accumulating reserves at a massive rate, ultimately built up \$4 trillion in reserves, but that Chinese practice has changed over the last few years.

China's currency appreciated more than any other major currency, if you look back 10 years, the trade-weighted exchange rates appreciated about 40 percent. And recently China has been intervening to keep the currency high, not low. And they've spent a trillion dollars of reserve so that stockpile has declined to \$3 trillion, and this is actually quite helpful that China has been intervening to keep its currency high, it's actually playing a stabilizing role and, you know, behind it all is the whole issue of the trade surplus. China's overall current account surplus had gotten up above 10 percent of GDP back in 2007. It's come down very dramatically to about 2 percent of GDP in the last couple of years, including in 2016.

So definitely there's been progress in the relationship, but a lot of frustration. So, let's think a little bit about this upcoming summit meeting which may be as soon as two weeks. You know, I



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think we heard from the first speaker, a good point that the awkward delay of this sort of thing right now, hard for me to believe that they can do the kind of preparation that would actually lead to outcomes, and so maybe outcomes are not so important for a first summit meeting.

During the campaign candidate Trump talked about currency lots, that he would name China a manipulator on day one. He hasn't done that, and it seems unlikely the U.S. would follow through on that threat because China, in fact, is not manipulating its currency, as I said it's intervening to keep the currency high, so it would be inaccurate to label China a manipulator at this point.

But there was also talk of very tariffs, 45 percent mentioned at one point, 35 percent I believe mentioned at another point. Certainly, the administration has indicated it's unhappy with the trade relationship between the two. So far we haven't really seen any move to follow through on those high tariffs. I think it's kind of an empty threat, because tariffs at that level would be quite damaging for the U.S. economy.

You know we, economists, have this nice theorem, Lerner Theorem that import tax is equivalent to an export tax, and what that means is that if you impose a high tax on imports, a high tariff, you are making your partners poor, your own exchange rate typically appreciates, and it becomes harder for you to export. So it's purely economic theorem that you may think you are taxing imports but actually you reduce your own exports.

So, if we go down that road we might create some jobs in some specific sectors, but we will lose jobs in other sectors, and there's no presumption that there would be a net benefit, there's going to be a net loss to the whole country. Now, that is all true whether or not China retaliates, but one thing I feel pretty sure about is if the U.S. does any significant protectionist move, China will retaliate, and that just multiplies the negative effects I just talked about. So, I think it's not really a credible threat to talk about those high tariffs, but that issue is still there.

Now, coming to the summit, it would be smart for China to preempt some of this protectionist sentiment in the U.S., by opening up some more markets. As I said, I think it's in China's interest to be opening these markets. They might come in with a list to open up beef, open up health care, parts of financial services; that would be a very positive surprise and a positive shock that would diffuse some of this protectionist sentiment.

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I don't really expect that, because I think it would be hard for China's decisionmaking to put that kind of package together in the next two weeks. So, I think it's more likely that we won't get specific outcomes out of this summit, we'll probably get some general language on the economic side about the two working together to try to reduce the imbalances and open Chinese markets, et cetera, but we probably won't get anything very specific.

And while our panel is talking about North Korea, certainly there's a risk that we'll get something similar in the security realm, not really any specific outcome, just some nice talk about continuing to cooperate together.

I worry that on the economic side, if that really is the result, no real outcome; that probably will fuel some of the protectionist sentiment that's still here in Washington. I hope we won't see any harsh protectionist measures. As I said, they are quite self-destructive, but we may very well see some moderate protectionist measures. So I wouldn't be surprised if we had somewhat chilly economic relations between China and the U.S. over the next couple of years. But let's hope we don't have a trade war. Thank you very much. (Applause)

MR. LIOW: Thank you, David. Next, can I invite Dr. Kazumasa Iwata to the podium? Dr. Iwata is the president of the Japan Center for Economic Research. Please?

MR. IWATA: Yes. Thank you very much. I'm very much pleased to be here to talk to you on the prognosis for the Japanese economy. I want to make three points in my talk.

So, recently Prime Minister Abe and President Trump met together in February; and they took the initiative to start the bilateral dialogue relating to three -- and they identified the three areas for the dialogue.

The first one is the monetary fiscal policy. The second one is energy and infrastructure and the cyber issues. And the third one is the trade issue. On the trade issue I'm going to talk, I guess talk some more, economic integration. So, therefore, I would like to concentrate on the monetary fiscal policy in the United States and Japan, and its implication for the future growth of both countries.

And the first point I want to make is what is going on, on this monetary and the fiscal policy under the name of Abenomics. I distinguish the three phases of Abenomics. It started -- Abenomics -- the first phase, in December 2012, and the three pillars consisting of aggressive monetary

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easing; this is so-called quantitative and qualitative monetary easing policy. And a flexible fiscal policy and the growth strategy aiming at achieving the 2 percent growth rate, and the inflation target is 2 percent. There are two numbers of 2 percent, one is the inflation, another is the real growth rate.

And the second phase started October 2015, now the policy direction is moved to revitalize the 100 million society, that implies the Japanese Government wants to stop the decline in population, and maintain the size of the total population as 100 million; and also increase the birth rate from 1.4 to 1.8 in order to achieve this 100 million society.

And also they (inaudible) work for elderly care, and also set the target for nominal GDP, by then you have to study the year 2020, the nominal GDP as JPY600 trillion. On the monetary policy side, there had been an introduction of Q3, quantitative and qualitative monetary easing with negative interest rate in January 2016. And the third phase started summer 2016, after the governing party victory in upper house election.

Now, in this phase, Prime Minister Abe postponed the consumption tax rate hike to October 2019, and also putting more emphasis on the active fiscal policy expansion. On the monetary policy side, introduction of Q3 with yield curve control. Yield curve control implies BOJ has set two policy targets. One is short-term interest rate set at negative 0.1 percent, the standing negative interest rate policy path.

But the new, another long-term interest rate, set at 0 percent; that implies the BOJ wants to control this yield curve as a whole. About the combination of this -- a targeted long-term interest rate combined with expansionary fiscal policy.

I remember the experience in the United States, in the period 1933 and '34 under Roosevelt, at that time, Marcel Golaz took rather a conservative monetary policy, but the fiscal expansion barely works to move out U.S. economy from the inflation. Therefore, at that time, fiscal action was the driving force to increase the inflation rate.

And another episode is in 1942 and '51, at that time the government had set a ceiling on the long-term interest rate and the short-term interest rate, and the fiscal expansion triggered by the Korean War, this accelerated inflation rates significantly. This time again, the main driving force of inflation was fiscal policy.

So, I find therefore, this introduction of this QQE with yield curve, virtually implies a regime shift of BOJ policy, from QQE, high inflation focusing on the monetary-based expansion, to the fiscal theory of price levels. And this is a relatively new theory, but the theory sets the price level at the time, and not monetary policy, but fiscal policy, even these two episodes in the United States.

And recently Professor Sims visited Japan, and would organize the (inaudible) together with him. At this place, Professor Sims argued: oh, BOJ has not achieved the 2 percent actually with CPI it's still on the -- 0.1 percent in the most recent months. And the target is 2 percent so why the difference? And why BOJ failed to achieve 2 percent, even though adopted so expansionary QQE policy.

And Professor Sims argued: oh, this is because of the consumption tax rate hike implemented in 1914, April. And the fiscal aspect was neglected, therefore the BOJ has not succeeded to achieve 2 percent inflation package. According to this theory, the inflation is not monetary phenomena, but actually fiscal phenomena. And based on this renegotiation Professor Sims argued: okay, then Japan should postpone the consumption tax rate hike scheduled October 2019.

And also, temporarily suspend the fiscal target to achieve the primary budget deficit to 0 in the fiscal year 2020. And one day after achieving the 2 percent inflation target, fiscal policy should be oriented towards consolidation or budgetary balance.

So, he recommended, too, this kind of policy, for fiscal policy in Japan, and the reaction among politicians, for instance, finance minister, Mr. Aso, argued that both the Helicopter Money Proposal, and also this fiscal theory of price level, I strictly reject to both of them, because he's afraid of the risk of rising fiscal balance over the future.

So, on the other hand: how about the prime minister's position? The prime minister had a bitter experience, implemented consumption tax rate hike 2014, in April, and what was the impact to this economy? This is a very serious impact on -- this solid line is the consumption, largely negative rate of return period after the consumption tax rate hike.

And the blue line shows, according to this fiscal theory of the price level, what is important is not their money balance, their monetary basic pendulum, this is the lower column, and about some of this governmental bond outstanding, and the base money matters for the determination of price level.

And the development is like that. And if you look at this rate of change of the sum of their monetary base and the government debt outstanding, that if there is a sharp decline of this blue line, then we see a sharp decline of consumption. So, therefore, Professor Sims argued: okay, should we postpone another consumption tax rate hike, and also implement this fiscal target by the year 2020?

Prime Minister Abe's position is somewhat different I see. This has, given this bitter experience of this consumption tax rate hike previously, so I find there may be the possibility the prime minister made the decision, and likely for the general election, which is scheduled at the end of 2018, next year.

And in my view, there is a possibility to postpone this consumption tax -- second consumption tax rate hike in Japan. And also postpone the attainment of this fiscal target, zero primary budgetary balance in the fiscal year 2020, and reset the fiscal target. Maybe the debt, GDP ratio, not the primary budget to balance, this is a primary budget balance in Japan, and it's very likely, even though the target pays to have the zero primary budget deficit, but according to assessment it's almost impossible to achieve this. And instead of this, maybe Prime Minister Abe's forecast on this (inaudible) to debt nominal GDP ratio, and stabilize it, and intercept it.

So, given this monetary fiscal policy, how about the implication for the policy coordination between United States and the new administration, and Japan? The first implication on monetary policy, for the time being, it's very likely the BOJ will continue this expansionary monetary policy, to maintain the zero long-term interest rate for coming months and possibility longer than that.

On the other hand, Federal Reserve already raised interest rate, and this year likely to raise another two times, and this creates a difference in monetary policy stance between the two countries. Monetary expansion in Japan and the U.S. is tightening direction. The implication is on the exchange rate, there may be effect on the yen rate to depreciate. And I hope the new administration in the United States should respect the central bank's task to maintain the price stability.

In the case of Japan, to achieve the 2 percent inflation target, and the U.S. as well, even though there is some spillover effect on the exchange rate. This is a vast implication. And another one is fiscal policy. As I said already, in the third phase of Abenomics, our government is already oriented toward expansion of fiscal policy.

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And the new administration in the United States, still a lot of uncertainty, but we are hearing they are going to carry out the tax cut significantly, and together with massive increase of infrastructure investment.

I find both Japan and the United States, and other advanced economies, face the risk of secular stagnation. One indication of the secular stagnation in the case of Japan is very low, unnatural interest rates, it's the equilibrium real interest rate, which indicates neither acceleration nor deceleration of inflation rate. It's the neutral equilibrium interest rate.

This is natural interest rate in Japan is now negative, this is a natural rate we have estimated this negative 0.7 percent. The United States is also very close to zero according to the estimate by President Williams, Federal Reserve San Francisco. That low natural rate indicates very low trend growth of the per capita consumption. And this is indicating the existence of secular stagnation.

I find both Japan and the United States should overcome this secular stagnation by adopting more expansionary fiscal policy. This is, both countries have the same direction and there is room, you know, for this coordination in the field of fiscal policy. So, that concludes my remarks. Thank you. (Applause)

MR. LIOW: Thank you, Dr. Iwata. I think so far we are doing pretty good for time. Next up, we have -- let me just check my list -- Professor Pravin Krishna, who is the Chung Ju Yung distinguished professor of international economics and business at Johns Hopkins University.

MR. KRISHNA: Thank you. Thank you very much. Let me, I'm going to -- I'm talking about the Indian economy and the U.S.-India relations. I'm going to make three points. I'm going to make three points. I'm going to talk about three sets of things. I'll start with a bit of background on the Indian economy as it stands today. Talk a bit about the news that's coming out of Washington and how it impacts India, what the reactions are.

And I'll conclude, I think, by saying that India does see, or there's some concern about things that it's hearing from Washington, but that for most part the focus on the Indian economic policy has been on kind of its own domestic reforms, and to a large extent I think that's appropriate.

So, let me start with a bit of background on just the Indian economy, where it stands. As you all know it's a large country, the third largest in the world on a PPP-adjusted basis, a little over a

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trillion dollars. The GDP per capita is nevertheless quite low, 5,500 to \$6,000 or so, and it faces a number of important developmental challenges. Okay? So, I'll give you two sets of statistics that I think capture well, particularly the broad Indian economic policy challenge.

The first of these is that in India agriculture takes up about 50 percent of the workforce, and it employs -- it generates about 17 percent of GDP. So, that's 17 percent of output is kind of generated by 50 percent of the population, a relatively unproductive sector.

The manufacturing sector has been relatively stagnant, and despite all of the policy reforms and changes that have been undertaken over the last 15, 20 years or so, manufacturing has been stagnant at about 15 percent of GDP.

Agriculture hasn't declined gradually over these years, but that decline has mostly come, has been kind of matched by the expansion of services rather than the manufacturing sector. So, that's one point, just kind of the structural breakdown of the economy, largely agricultural, there's a question of how do you move away from that in other directions.

The second important point and one that's kind of top of the list of concerns in a sense for Indian policymakers, is the fact that India is a relatively young country, so about 30 percent of its population is under 15 years of age. And this is important, this is crucial, what this means is that there are going to be significant demographic pressures on the labor market. You are talking about roughly the need for the creation of 1 million new jobs per month in India that need to be created to accommodate the young who are already there in the system.

This translates into roughly under 120, 150 million jobs every decade, and that's the size of the U.S. labor force. You are kind of adding U.S. labor force; you need to add the U.S. labor force every 10 years, which is a very big challenge. Where do you employ all of these people?

I guess the services is one answer, it's a tricky one, kind of high-rate services require highly-skilled workers which we are not able to supply in kind of adequate numbers. Not able to train as many workers, low-rate services are a problem because they are low wages, and generally low productivity growth. And so that is kind of the broad Indian challenge: how do you transition out of agriculture?

With that background and looking at the success of the kind of countries in the region, in

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East Asia, clearly an expansion of the manufacturing sector is one important answer, and recognizing this, the Indian government has been pushing pretty hard, especially in the last years, to try and make India a more efficient space for production of the kind of low -- for domestic markets as well as for international markets, for exports.

Most of you have probably heard about the prime minister of India's Make in India campaign, to incentivize production in India, and at a practical level, this has meant many different things, many different reforms that they've attempted to push. One of these is easier acquisition of land for industrial development projects, reform of labor markets to make them more flexible, improvement of physical infrastructure in the country, streamlining the process for the entry of FDI into the economy.

And very important as well, the harmonization of internal taxes within the country, the elimination of kind of tax differentials within the country to eliminate -- to improve internal efficiency, and kind of eliminate the bottlenecks, the very common, pervasive kind of goods getting stuck at state borders waiting to be taxed by different states, at different rates, and so forth.

The progress on this has been mixed. The government, the governing party is close to being successful, I think, in kind of bringing about this harmonization of internal taxes, the GST reform as it's called. They have decided to devolve these decisions about land acquisition, labor flexibility to the states, decision-making over rules about land and labor, in a kind of competitive, federalism model in the hope that some states will adopt these reforms, do well and be, kind of, that other states would want to emulate them.

But overall, I think it would be fair to say that progress has been slower than many have hoped, and in some part this is because the governing -- the government did not have kind of a full majority in the political space. They have majority in the lower house, but not in the upper house, and that interestingly looks it might change given the recent electoral victories at the state level, that the party has enjoyed.

It's likely that they will now have numbers, both in the lower and upper houses to be able to push reform through relatively quickly. So, this is the Indian framework, the background, it looks like the moment is ripe for some important reforms to roll forward, but all of this is happening at a challenging time, from an external perspective.



It's almost as if you are kind of all ready, dressed up, ready to go to the night club, and it's 1:59 a.m., and people are actually coming out, and the doors of the club are being shut. So, you know, what are you supposed to do? And so this all the protectionist sentiment that has gained political traction, the United States and Europe.

And so the question for India is going to be: where will the America First framework of the Trump administration; where will that meet the Make in India campaign of the Indian government? And that creates its own questions.

There's a lot of uncertainty about what it actually means, what's going to be implemented in terms of kind of the America First framework, and so it's hard to say much that is very specific. The one thing that we do know is that the U.S. has withdrawn from TPP, and there's a question of how does this matter for India, how did India see this?

And I think that's an interesting issue there. On the one hand, India's trade with TPP countries was quite large, in kind of the 20 to 25 percent, so a significant set of countries, the TPP countries, a significant amount of trade or India, but this was not such a major concern in India even as it was kind of rolling forward for -- its exclusion from TPP was not a major concern from some important reasons.

The first of these was that the TPP countries, the member countries of the TPP, many of them already have free trade agreements with each other. Okay? So, the fact that this was going to be consolidated did not necessarily mean that much. The countries that did not have agreements with each other have relatively low trade barriers, so that was one issue.

Second, was that the price of admission into TPP was so high, as to be unthinkable for India, now or in the near future, so it wasn't even something they thought if they played their cards right they might get in, or something like that. It was just the TPP template did not sit well, as far as with the Indians, especially when you think about, kind of, the labor regulations, what are required. And more importantly, perhaps, the role of state-owned enterprises; the differences were large enough to preclude the possibility of entry.

A parallel negotiation; so the fact that the U.S. has kind of withdrawn support from the TPP, there was not much worry about being excluded in the first place, or the fact that the TPP has been

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rolled back has not -- hasn't changed things that much, in the way that the Indians thing about this. There has been a parallel negotiation, as many of you know, that has been started, led by China, the RCEP, and there's a question now about what that actually -- what these changes on the TPP side mean for RCEP.

India's own position was a relatively cautious one, and even approaching RCEP negotiations, there was lots of concern about, you know, the surge of Chinese imports, of goods that were coming to the Indian market, and that they would have somehow derailed any progress they might make in kind of Make in India campaign, and there was a worry that Indian, kind of, comparative advantage in services would not be strong enough to offset a comparative disadvantage in manufacturing.

And so there was a cautious sense about RCEP, anyway, how Chinese incentives change with this kind of withdrawal of TPP towards pursuing RCEP is a question that's kind of yet to be seen a bit. It's perhaps too early to tell, and I don't have a clear sense of how India views this either, in terms of the changes.

Be all this as it may, and as important as trade is, in being kind of this export platform is as part of a kind of broader Indian development strategy, TPP and RCEP have received relatively little attention in India, and much of the kind of headline attention to be kind of confined to one or two issues, one of these is the H1B visa issue.

And the big proposal that's now being discussed, that will impact the Indian IT sector, is the increase in the thresholds of income levels, below which one will have to go through additional steps in order to prove -- for firms, in order to prove that a worker -- importing a worker from India was necessary, and isn't seen as something that's going to be costly for Indian firms. Whether they are directly sending workers from India to work here, or whether the multinational firms are bringing in workers themselves, it's something that will be a challenge.

The second issue that is going to cause some concern is the border adjustment tax issue. So, there's a question of, clearly it's going to have some negative effect on Indian exports, which may or may not be offset by dollar appreciation. That's a question of how much the dollar will appreciate in India once the border adjustment tax; or if the border adjustment tax is implement. And the fortunes of firms are also going to be quite different, depending on whether they are just simply exporting, whether

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they are multinational firms, whether they are going to enjoy some benefits from lower corporate taxes in the U.S. and so forth.

And so this has caused some level of concern in India, there's some discussion about all of this, some commentators, including and, kind of, CEOs of these firms have also said this may be -- there's a silver lining to all of this, maybe we need to kind of take a look again at our own business practices, and maybe rethink the way we do things, and stop thinking of ourselves as a kind of a body-shopping enterprise, and be more creative in terms of our own organizational structure, of how we base ourselves in the U.S., how we manage our resources there or in India, to get around, and kind of fully join the international space, so to speak, rather than be worried about kind of changes in policy on these H1B type of margins.

Having said all this, I think it will be fair to say that all of these are, in my view at least, sort of seen as blips rather than the issues that have dominated Indian sort of politics and Indian economic discussions in the last few months. Much of the focus there continues to be on what India can do itself, in terms of its own domestic reforms on all of these different dimensions that we talked about, infrastructure, land, labor and so forth.

And I think that is only appropriate. I think much of what India's success will rest on, its ability to go through with these reforms, and to a smaller extent on what's happening externally, especially things that are coming out of Washington. Let me stop there. (Applause)

MR. LIOW: Thank you. And next up we have Dr. Karen Pitakdumrongkit, from the Rajaratnam School of International Studies in Singapore. Karen?

MS. PITAKDUMRONGKIT: First of all, thank you Brookings for inviting me to join this conference. In my presentation today I'd like to talk about the terms -- economic costs and how they are - - if they are going to affect Southeast Asian economies. And how will Southeast Asian countries collectively respond to the challenges?

So, seeing as we all know now that the Trump administration are trying to carry out their campaign promises of make America great again, or American first, adopt the American first approach, job creation, et cetera. So, in Southeast Asian region we ask: what's going to affect -- what will be affected by the Trump administration policy? So, of course now Trump is now that he is not isolationist,

but we think that he may -- he's leaning toward adopting a mercantilist approach to trade issues.

And also it can lead to a U.S. lesser role in multilateral institutions, right, because Trump saying he's not keen to go forward with multilateralism. And also of course, again, the U.S. has already withdrawn from -- withdrew from the Trans-Pacific Partnership, the TPP, and then NAFTA, he's still -- he's threatening to, perhaps, withdraw from NAFTA, or perhaps renegotiate NAFTA for a better term for the U.S. And maybe we are seeing, in the future, more bilateral trade agreements being signed by the U.S. and other countries.

Okay. To take us through or, maybe, briefly just to show you that -- This slide is to show you that the president has many leeway to influence the trade policy. And as you know, we have a Trade AG of 1974, which provides (inaudible) sections, for example, the Super 301, or Section 301 says that the U.S. can slap tariff due to the fact that other countries are adopting unfair trade practices towards the U.S. Also Section 122, also say that the U.S. can put up trade barrier in case of the balance of payments problem.

And also another one is the Trade Expansion Act of 1962, which ways that the U.S. can put trade barrier in case of the trade conduct that are hurting the U.S. material interest. This is just to show you some example. So, in Southeast Asia we ask: okay, what would be effect of the Trump administration policy toward ASEAN, and what will be the effect on our economy?

So, first of all, perhaps of the Trump administration rolled out more protectionist measures towards Southeast Asian exports, so we kind of witness the reduction of our export to the U.S. But I'd like to point out here, that the effect may not be that much, because our share of the trade total export -- total trade to U.S. is only 10.9 percent. But the effect may vary according to the trade openness of individual Southeast Asian countries.

For example, when you look at Singapore and Vietnam, 8 percent of their total exports are going to the U.S., while only about 6 percent of Malaysian export is going to the U.S., and also Thailand and Philippines with less export to the U.S.

Okay? So, another effect would be, we could witness the reduction of the U.S. FDI into ASEAN. This effect is also not -- it's not going to be that (inaudible), because you rely on the U.S. FDI, only 11.3 percent of the total FDI you receive from other countries. So, we receive FDI from within

ASEAN, FDI from EU and Japan more than FDI from the U.S.

So, another concern in the region is that perhaps the U.S.-China -- the possibility of the U.S.-China trade conflict or war would eventually affect our economy. For example, if the U.S. decides to put up trade barriers, such as tariffs onto the Chinese product, well he can do it by -- he can do it as he said, that he's going slap 25 percent tariff on the Chinese product, or he can just -- or the Trump administration can just cite the Super 301, right, just to say that the U.S. would like -- the U.S. just wants to roll out trade remedies against the unfair trade practices by the Chinese, to do that.

Or, he can just -- Or Trump can undertake managed trade by going to the individual firms and coerce them not to source intermediate goods from China, just to source these goods from inside the U.S., just to make American worker keep their job. There is so many leeway that they can do. So, if there's some protectionism being weighed on China, so that could invite retaliation by the Chinese, and the target would be -- the likely target would be Boeing. Boeing, or soybeans or wheat, right, because soybean, wheat, you can just get it from elsewhere, like Canada.

Or retaliation can be in terms of monetary barriers, and so with this U.S.-China (inaudible) effect ASEAN -- or possibly effect ASEAN because we have a lot of links with China's economy via the global value chain. Just to give you some sense of how (inaudible) it is, about 50 percent of the Chinese export to the U.S. are the value-added component source from the Southeast Asian economy. I think about 50 percent.

So the next thing I'd like to talk about is that, how would it be the -- because the U.S. withdrew from the TPP, how would Southeast Asians continue to enhance the regional trades architecture in the post-TPP world, right?

So, for this slide, the U.S. withdrawal from the TPP, how would Southeast Asians see it? So we see it as opportunity lost for the U.S. to take a lead in the trade rulemaking, and there are some doubts of the future of U.S. engagement to the region, and perhaps a possibility of some the Southeast Asian countries are going to lean towards China. Because when you look inside the TPP agreement, TPP agreement has the chapter that helps facilitate capital flows across country. So, without TPP China may fill the void by boosting investment in the region instead.

So, here I outlined the solution, so the likely responses by Southeast Asian country in the

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post-TPP world in propelling the regional trade architecture forward. So, one is to complete our project of ASEAN economic community. The second is to pursue RCEP. The third one is to pursue Free Trade Area of Asia-Pacific, FTAAP, but in a longer term. And the last one is to enhance the ASEAN policy process.

The first solution, the first response would be if because there is no TPP in the region, how can Southeast Asian economy going to depend on the supply chain? And how can we enhance our trade cooperation further?

So, one way is to complete AEC, because there's many reasons, there are as many reasons to complete AEC, so one is to, of course, deepen the trans-connection -- trans-protection network in the region, and also it's going to -- Asia is going to help boost our intra-ASEAN, or regional trade further; because if you look at the statistics, the intra-ASEAN trade has been stagnant for more than a decade.

So, in order to move forward, we need to lower barriers, need to lower the non-tariff barriers and harmonizing rules and regulations even more. And also, if we can complete TPP, ASEAN can gain a upper hand in the negotiation, because we can collectively say that we have a bigger regional market to -- as a bargaining chip in a trade negotiation. And there are some -- And inside ASEAN there are some incentives, another incentive to complete AEC by the end of this year, is because it's going to coincide with our 50<sup>th</sup> anniversary of the ASEAN.

The second one is -- the second responds to keep the trade cooperation forward in the region is to pursue RCEP, so just to give you a -- just to point out here that in contrast to some media that try to say the RCEP as -- is China-led. It is actually not, it's actually ASEAN-led because if you look at the guiding principle and objective of negotiating RCEP, it said that the RCEP talks had to be carried out by -- by keeping ASEAN centrally intact. And also if you look at the AG Working Group inside the RCEP negotiation, they are all chaired by ASEAN country.

So, there is some shift in dynamic if you look at -- after the Trump administration decided to withdraw from the TPP, as RCEP in the region has become -- for the regional state has become our immediate priority. If you take a look at the leader's comment, for example, Prime Minister Abe said, there is no doubt that there will be a pivot to RCEP if TPP doesn't go forward.

Malaysia trade minister also said that Malaysia would focus effort on TPP after Trump pullout from the -- I'm sorry -- Malaysia would focus effort more on RCEP. Australia also says the same thing: if TPP fail, the vacuum would be filled by the RCEP.

But according to -- this dynamic may help RCEP agreement at the end because it can help boost the quality of the agreement, because without RCEP these seven countries; Australia, Brunei, Japan, Malaysia and New Zealand and Singapore and Vietnam, well inside both TEP and RCEP, they have to recalculate and perhaps hedge more on RCEP to boost regional trade.

So, these seven countries are likely pushed for talks about -- to push for higher quality of the final RCEP agreement so that they have been pushing for talks about government procurement policy to deal with SOEs. But there are some challenges facing RCEP though, if you look at the agreement, RCEP is trying to consolidate the five existing FTA that the ASEAN has signed with their other state; but this, the difference -- are very large, so they must have to be ironed out first.

And also states negotiating in RCEP have different developmental stages, and also different level ambitions, some would like to aim for higher quality, some would like to aim for lower quality. And also RCEP, it's the first time that the big economy met together and try to point out future agreement, right, especially China and India. This is the first time that they have to come together and try to figure out how to do FTA together.

So, that's a challenge. And another challenge which is an important one is the lack of leadership in the negotiation, there is no clear champion in terms of, who is going to lead, and who is going to persuade or perhaps coerce other states to go on board with the RCEP -- in the RCEP negotiation?

Another solution that Southeast Asian economy could respond is to go forward with free trade area of the Asia-Pacific. This project is under APEC and it has been put on a higher profile by the Chinese chairmanship in 2014. But from the ASEAN perspective, FTAAP is a longer-term goal because we are -- as I said, the main priority right now is to try to finish the RCEP negotiation first.

And then another reason is that FTAAP still lacks substance, as there are so many pathway in how to build TPP from -- perhaps from RCEP or from other trade agreement. And also if we would like to go forward with FTAAP, there's going to be some membership issue, because FTAAP is

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under APEC project. But some of ASEAN -- some of ASEAN country; Myanmar, Cambodia, and Laos, are not inside RCEP, and also, you know, India -- are not inside APEC, sorry.

So, then APEC has to accept these four countries first in order to go forward with FTAAP. And also some APEC -- if you want to be on FTAAP from RCEP, there are some countries in the APEC that are not in RCEP negotiation, and they may have different ideas of how to create FTAAP. So that's why it's a very long -- FTAAP is a longer-term goal from the ASEAN perspective.

So, the last one, I'd like to -- highlights that the -- is that there will be some -- because there's been some fear in the region that the Trump administration fiscal stimulus, and also the expected federal rate hike would trigger a financial outflow from the region back to the U.S.

So, one of the responses that Southeast Asian countries can do is to enhance the ASEAN+3 process of financial cooperation, which is composed -- for example, they can enhance the Chiang Mai Initiative Multilateralization Agreement, which is agreement to provide short-term liquidity support to the member countries in time of the liquidity problem.

And also perhaps ASEAN can also advance the Asian Bond Market Initiative; this initiative helps recycle serving within Southeast Asian countries, so that we can be -- less reliance on the capital from the U.S. Okay?

And let's talk about whether the regional trade corporation would be fostered by the TPP-11, right. But that thing has to -- but this one, it would go forward. The Article 13.5 has to be adjusted, right, because Article 13.5 says that at least six countries had to -- six countries combined has to ratify the agreement, but the six-country GDP has to -- combined has to be at least 35 percent, 35 percent GDP, and the U.S. is the only one -- because this graph doesn't directly say that it required the U.S. ratification, but if you look at the 85 percent GDP threshold, it really needs the U.S. to be inside these six countries.

But okay, whether this article will be adjusted or not, it depends on how -- it depends on the state calculation, because state interests vary, because inside TPP, among the TPP 11, some state have -- already have FTA with the U.S. For example, Singapore, Chile, Australia, have bilateral FTA with the U.S., and then Canada, Mexico also, in the NAFTA; FTA with the U.S.

But there are those others who are not having FTA with the U.S., right, for example, Malaysia, Japan, Vietnam, so these group of countries, the interests vary, and I think going forward we



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have to see how different interests would interact, and how each individual country would convince the other to go on board with other one. Okay? And I think I'll end my discussion here. Thank you.

(Applause)

MR. LIOW: Thank you, Karen. And our final presenter today is Professor Yul Sohn, who is the chair of the Center for Japan Studies at the East Asia Institute; also, dean and professor of the Graduate School of International Studies at Yonsei University.

MR. SOHN: Thank you very much. My name is Yul Sohn, from East Asia Institute and Yonsei University. I'm honored to be able to join this conference. Thanks to Richard and Suisheng for invitation.

My presentation is about Korean economy, but not all aspects of Korean economy, but trade. In that sense I continue trade policy as the previous panelists said about that. But in doing so, yeah, my presentation first off, I'll talk briefly about South Korea's economy which is still export-oriented. There are several risks. One is obviously Trump risk, and also China risk. And then I'll speak about trade regime in Asia-Pacific, and finally the task ahead for South Korean government, the next South Korean government.

GDP growth rate of South Korea has declined substantially, progressively, now to 2.7 and this year which is projected 2.5. It's the eleventh largest economy in the world, in terms of trade volume it's the seventh so -- and then trade and GDP ratio is 85 percent, very high compared to Japan 30 -- you know 7, 8 percent; the United States even below.

So, in that sense it's still, it's a trading state, a typical trading state. So the trade environment is very important for Korean economy. Like I said, the GDP growth, if you are familiar with Korean history, modern contemporary Korean political history, the GDP growth rate during the 1980s, 7.4 down to 5.1 in the Kim Dae-jung era, from 1998 to 2002; next 4.5, and then 3.2, last year under Park Geun-hye government, it's 2.7; so a steady decline, and this year, like I said before, it's projected 2.5.

And you look at that, and we also see the (inaudible) is matched by the corresponding decline in export growth, this is world growth rate of all trades, you know, entering 2010, the growth rate significantly declined, we all know that and, you know, this year, last year, the trade volume has been the lowest since the global financial crisis.

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And Korean exports, when you look at that, the growth rate has decreased steadily. Particularly since 2014, the volume itself has decreased, you know, as your growth rate decrease as well. And we can think of several factors, one is sort of, you know, global protectionism since the global financial crisis, but we also look at, you know, several sort of momentum external shocks, mostly from -- I mean, the first two cases the U.S. economy, and that of South Korean trade, obviously.

Now, the main point, America; so, Trump risk. I think this part has been, you know, said before. You might think of the Reagan period, the "Reaganite" trade policy toward Asia; Japan, South Korea, and other countries, which is called, this is Bhagwati's term "aggressive unilateralism." So you want to rebalance trade, in other words, you know, rebalance -- that I mean correct the balance of trade between United States and trading partners, and level playing field, et cetera.

So, most of these discussions, yes, it's about protectionism, but also equally about, you know, opening up the foreign markets by using your trade laws and asymmetric power. But this time is different, you know, so far the Trump administration -- what the administration has said, it's more like economic nationalism, you know: buy American, hire American, which sounds very much nationalistic, and this is quite familiar to the Japanese, to the Koreans, historically, because in this economy, and also Persian economy from the 19<sup>th</sup> century.

But it is really unheard of in the case of the United States, but now we are hearing that. So, aggressive unilateralism prying open the foreign market, and also you protect your market as well. So, that's really a concern for the countries like South Korea and trading state.

And USTR's recent report I don't want to repeat all these things, but it's quite strong words on it. And that leads us to the South Korean case, according to that report, trade deficits, I mean America's trade deficit. It's kind of, you know, criteria of targeting, you know, other countries, or adjusting -- I mean, renegotiation of -- or updating of existing FTAs.

In Korea it's KORUS FTA, Korea and U.S. FTA; and the second is if United States designates Korea as a currency manipulator, that's another concern, but that concern has been waned. And another concern is -- there are lots (inaudible) trade remedies, and particularly concerned about the border adjustment taxes that had been coined in this country, and suspected the current administration, you know, apply -- implement this tax system in the near future.

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Then that's going to be a huge impact on Korean trade. So, first, this part is about, you know, KORUS FTA, renegotiation of KORUS FTA, I have a lot of slides on it, but most of the slides come from -- I mean I took it from AMCHAM, Korea. Basically I mean we had a conference last week, it was a 50-year anniversary, KORUS University Conference, where I attended, and AMCHAM's view is, this is a good deal.

And we don't really understand why Washington -- think differently. So, there's a gap between American businesses in Seoul and USTR, or White House. So, these are the data that are on trade balance. And when you look at the trade balance, actually the commodity merchandise trade balance has sharply decreased in two years, but servicing surplus for the united service trade for the United States that, surplus has increased.

Let me quickly go over -- And South Korea has the lowest trade balance deficit among the Americas' major trading partners. These numbers are not mine, it's from AMCHAM, and this one is also, increasing the U.S. -- Korean investment in the United States, and increasing number of people employed in the United States by Korean companies.

So, these are the facts that the United States tried to renegotiate this, you know, KORUS FTA which has been regarded as a good deal from both countries, and then you might be worried because any sort of, you know, major wholesale renegotiation would cause unnecessary political conflict from the Korean society.

Second is China risk, yeah, very simply Korea -- I have two minutes -- Korea heavily relied on China's economy, trade in particular, 26 percent of Korean exports go to China where, you know, only 8 percent of Chinese exports come to Korea, so there's a classic case of asymmetric interdependence between China and South Korea.

So, more political leverage go to China, and then we see Chinese retaliation, economic retaliation, you know, all come from this structure of asymmetric interdependence that China can exert retaliation. But South Korea cannot reciprocate because you have less, you know, cars to counter.

So, these stories are quite familiar, and then this is kind of, you know, one thing that has been frequently mentioned is that in East Asian economic growth, you have seen, you know, a kind of principle that separates economics from politics, since Deng Xiaoping period, that really helped our

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Chinese economic growth and also helped all other, you know, East Asian countries. But that has been violated in the SIMCA coincidence, and also at (inaudible) issue these days.

So that's been a concern. So, as South Korea later -- I mean, next page -- I'll skip. That you need multilateral rules that, you know, regulate these trade activities within the region. Now, TPP, you know, has the same story as the previous panelist discussed. The one concern is bilateral deals. The United States wants bilateral deals with Asian countries. But bilateral will not fully address new development in the regional production systems, and value chains. It's quite obvious. So, you need multilateral rules in the region.

And also, at the same time, you see China in the Davos Forum they claimed that China will defend, you know, globalization, free trade, et cetera, but in this very specific case, but particular risky case in Korea. China is using unconventional methods to press South Korea, economically, so you need to establish multilateral trade rules, and hopefully we engage the United States in multilateral deals in the near future.

So, the next government's task I summarize in five points. Number one, help establish rule-based order, and here the rules are multilateral rules that apply every member of the countries in the Asia-Pacific. And work proactively on RCEP, CJK, FTA, and Korea-Japan FTA as well. And this, you know, Korea and Japan, if Korea-Japan actively -- proactively work on Asian deals that might induce the United States to come back to the regional multilateralism and when asking.

Yes, to rebalanced China trade, it's a tall order, obviously. It's cannot be the outcome of government policy, but I think the trend will be going into that direction. And finally South Korea needs a more effective trade policy control tower that connects many different segments of Korean society from strategic interests to commercial interests into one control power so that you can manage, you know, big powers trade policy. So, I'll stop here. Thank you very much. (Applause)

MR. LIOW: Thank you. Can I invite the panelists back up to the table? We have about 15 minutes, so not much time. I think we covered a lot of ground. So, what I'm going to do is, I'm going to take questions in groups, so as to try to get as many questions as possible. Yes, can I have the first question please? Yes, sir, over there? Yes, yes, you; you first. And, okay, you are next.

MR. BROWN: Sorry. I'm Bill Brown. I'm retired from the government but I teach a little

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bit at Georgetown. This question is for David Dollar. Thanks a lot, a terrific little illustration of what's going on in Chinese economy. I found it very, very useful.

But I teach on Chinese economy so that also, it helps me in my teaching. One thing though, I feel very kind of bad about in teaching, to tell you the truth, and you brought it up, the little factoid about Chinese auto taxes, 25 percent tariff on U.S. autos to China. The comparable line for the Chinese car coming here is 2.5 percent. From Mexico 0, from Korea 0, I mean, U.S. tariffs are almost zero, except for North Korea maybe, but generally our tariffs are so low.

When you see a tax like that from China on something as important as automobiles, it's not yet, but we know it will be 5 or 10 years from now. That, to me, just cries out for a bilateral deal with China. All this multilateral business, that's MFN-based, that protects everybody's existing rates. So, I guess I'm getting a little frustrated, all this talk about TPP and multilateralism when we see, over time, this huge imbalance with China, and at 25 percent tariff on something like autos. You know, I'm for free trade, I think the administration and everybody says trade --

MR. LIOW: Sir, can we get to the question, please? Is there a question there?

MR. BROWN: So, my question is, how do you see a 25 percent Chinese tariff has anything to do with free trade?

MR. LIOW: Thank you. At the back, yes?

SPEAKER: Hi. Boris Dillon from Brookings Institution. It's a question, I think, for all of you. I think we've focused a lot on trade architecture, but the other big thing I think about, the economic impact at the moment, and some of you touched on it, is the macroeconomic situation in Asia. We saw Japan hasn't got much room to stimulate policy more. China's policy is quite constrained. Korea has its own sort of political constraints, the rest of Asia is probably a bit more stable, and can take some shocks, but very dependent on those global value chains.

Do you think that thinking of just how the risks would play through Asia to both America's friends and its other partners? Would that affect the way they think of imposing a trade shock or that to the region? The sort of, the chance of something like that bouncing back on the US's own interests through magnifying some of the vulnerabilities in those major northeastern Asian economies. Do you think that's present in administration thinking, and even the congressional thinking about these issues?

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MR. LIOW: Sorry, was that for a specific, or --

SPEAKER: It's really across the board; just putting that trade shock in the context of the macroeconomic vulnerabilities.

MR. LIOW: Okay. We'll take a third question, at the back there. You are almost there. Yes, yes.

SPEAKER: Thank you. I was wondering, theoretically speaking, if six countries out of the TPP were to push on, what incentives do these countries have to take on some of these higher standards in the TPP, since part of the selling point of TPP, at least here, domestically, was that the U.S. could use as leverage to draw better bargains on higher quality trade agreements? Thank you.

MR. LIOW: Thank you. Back to the panel. Maybe, David, do you want to go first?

MR. DOLLAR: So, on the first question, you know, how do we reconcile 25 percent Chinese import tariff on cars with free trade? Well, that was part of China's WTO agreement, and in particular, you know, they were negotiating with the U.S. to get our agreement that they could join the WTO. This is 15 years ago, so the negotiators at the time, must have that that was an acceptable compromise. There are lots of other protection measures that were left in place in China.

I think it's fair to say, the WTO agreement was an enormous step forward in openness back in 2000, 2001, and we assumed it was the beginning of a process in which China would continue to open, but my experience in the last 15 years, is frustration that China has done almost no further openings. So, at this point, it really stands out, and there are other examples, but it's part of their WTO Agreement.

So, you know, we, and European partners, and others, have to try to negotiate something better with China, but we don't have much leverage, because as I said, the big guns, like following through on a very high tariff, you know, it's going to hurt our partners. We heard from ASEAN, it's going to hurt our partners because the value chains are very complicated. It's going to hurt our own firms, right. It's going to hurt our exports.

Briefly on the second question, my quick reaction is that China's macro situation, as I said, has a lot of vulnerability, risks are building up, so I'm not sure the new U.S. administration has thought about what happens if you come in with some harsh, or even just moderate protectionist

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measures, that may very well contribute -- I won't say provoke a financial crisis in China -- but that might contribute to the fragility, and you may end up with some kind of financial crisis in China, which will make it harder for everybody up here to grow.

MR. KRISHNA: Just to add to that. I guess on the second question about U.S. policies and macro fragilities abroad. In the context of the border adjustment tax, sometimes it's sort of talked about, you know, there's going to be a \$1 appreciation that's going to offset the taxes, and so for anybody who is kind of operating on the trade side of things, is it neutral the dollar appreciation would fully offset the tax differentials, and so forth.

That may be true for trade but at 25 percent or 20 percent appreciation of the dollar, is going to have a very different macro impact for a whole lot of firms in Asia and China, who have dollar exposures but don't have their earnings in dollars, for example. So, the kind of thing that happened in the late-1990s, could very well repeat itself, if you have that kind of a situation for sure, which has not been fully thought through in my understanding.

MR. LIOW: Anyone else wants take a stab at the second question?

MR. DOLLAR: Well on the TPP, I thought Professor Sohn might want to do the TPP one.

MR. SOHN: Yes. On the TPP, let me just introduce a Korean case. Korea, I mean, you already have bilateral FTAs with 10 TPP member countries, both Japan and in Mexico, so initially the country didn't really have an incentive to get in, because you already had, and so your incentive was to, you know, exploit the existing bilateral FTAs until, you know, the full TPP has been, you know, completed, and then you hope that it will be protected -- I mean on a protracted process.

But as, you know, as the negotiation went on, you realize that there are trade rules that address the new international division of labor, where, you know, the production has been made by production blocks and those blocks are geographically disperse in the region, Asia-Pacific, so that unique trade rules that regulate those, you know, service links and production blocks to be connected more effectively.

So, it's more about the traditional trade policy and trade agreement is about liberalization of the economy, open up other markets and things like that, but it's more about the trade rules that govern the economic activities within the region. And this country, Korea, has realized that this is a really big

deal, and so you really wanted to get in. So, that's the aspect of, you know, multilateral trade agreements that really serves the interest of the countries like Korean economies, like Korea.

MR. IWATA: So, I want to make one comment on the relationship between the macroeconomic policy and the financial market fragility. I find that in a (inaudible) of our economy, one of the fragility is the high leverage by corporate sector of emerging economies, notably China. China's corporate debt, nominal GDP ratio is now 170 or more than that. This level is much higher than Japan's bubble period.

And if the U.S. Federal Reserve tightened the monetary policy that would enhance the capital outflow from China; China PBOC, Central Bank of China, may be forced to raise interest rate, but this aggravates the problem, because already high leverage, and the corporate must repay the debt, but the interest rate rise, then the resolution of the performing asset becoming more difficult.

So, this is one global financial imbalance problem. Another one is even among the advanced economies the swap market, Euro, the United States, and those of the Japanese yen and the U.S. dollar, there is swap market rate has significantly widened. Normally it's across the board, but today we see 60 or 70 basis points. This implies a shortage of dollar liquidity.

If Federal Reserve further tightens, and possibly at some stage, they will cut their balance sheet, size of balance sheet, already we had seen the tapering shock under Chairman Bernanke, and there is a possible risk there. And if there is a -- hurry up this process of raising interest rate and cutting the size of balance sheet, then this would aggravate this dollar shortage.

And the swap, the currency swap market is indicating a very serious problem. This is my personal experience, in 2008, there had been a liquidity shock appeared on the euro market, and at that time, swap market didn't work, the swap market between dollar and the euro. And this led to the next year the establishment of the central bank swap arrangement. And in order to stop the widening -- you know, this spreading imbalance on the financial market, there is also this indicates a potential risk in the global financial market.

MR. LIOW: Please?

MS. PITAKDUMRONGKIT: Maybe I'll just add one short comment on TPP. Because, well, if you look at ASEAN, if you look at the nature of business in ASEAN, SMEs are the backbone of



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ASEAN economy, so the proportion of business that the SME can range from 70 percent to 95 percent in -- so it's a huge number, and TPP, one thing that it will help ASEAN participant in this trade block, is that it has a chapter on e-commerce. So, e-commerce chapter would enable ASEAN SME to join the global value chain.

MR. LIOW: If there are no questions? Yes, at the back, right at the back there?

SPEAKER: Thanks. Rod Colorino, with Investment Group, could someone from the panel speak a little bit with respect to debt, and a little bit of default recognition by the banks? I think, you know, that's come up a bit in China and some other places. I would be interested in that, please.

MR. LIOW: Any other questions? No? If not, if someone wants to stab at that? David, I'm looking at you?

MR. DOLLAR: Yes. So, you know, as several of us said that the debt to GDP has risen in an alarming way in China, and particularly in the corporate sector, you can anticipate that some of this debt is going to go bad. You see it a little bit in China's statistics on nonperforming loans, but frankly they have a rather low standard for including something as a nonperforming loan.

So, the actual problem is probably several magnitudes larger than what's suggested. So, economists, you know, we believe in tough love. I mean, you should go in there, and start resolving this. I think China should raise interest rates. I'm happy they made one step to raise interest rates when the Fed made the recent move, because they've been issuing too much credit, so you've got to raise the price of credit, and you are going to force some of these firms to go bankrupt, but that's the reality, as they don't really have a viable future.

I'm a big fan of social programs to deal with the workers in the communities, but don't bail out firms under capitalism. That's my basic rule. So, they need to get in there, and they are doing a little bit of it, to be fair, but they are moving pretty slowly, and because it's a political year, they certainly don't want to upset the apple cart this year. So, probably not too much movement this year but, hopefully, after 19<sup>th</sup> Party Congress, we get some more action on this kind of reform.

MR. BUSH: There we go. Thank you very much to all the panelists. Thank you, to Joseph, for chairing. I think you've laid some good benchmarks now. And now I'd like to ask Wu Xinbo to come and introduce the final panel for the afternoon. (Applause)

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MR. WU: In the interest of time, I would like to invite the panelists to come to the stage and get seated, and also, participants to return to your seat. We will start this session in one minute or two.

Where is Sam Zhao? Young-sun Ha? Joseph Liow? Who else? Okay. Yeah, please come to the table.

Good afternoon, everyone. We come to the session on regional security. I am Wu Xinbo, professor and director, Center for American Studies at Fudan University in China, and also, former visiting fellow at Brookings Institution.

I want to thank Richard for organizing this event and for inviting me to this very timely conference.

This panel, we have a very distinguished group of panelists, and each will speak from a regional perspective about China, Japan, Korea, Southeast Asia, and India. We are best going to follow the same motto as the previous one but with some minor adjustments. This is already in the late afternoon, so we need a little bit more interaction.

For each panelist, you will have eight minutes for your presentation. Please keep it to eight minutes. Then, after you finish your presentation, stay on the podium and I will throw one question to you and you need to finish your response in two minutes. So after all the panelists are finished your presentations, the floor will be open for questions and comments.

With that, let me invite Sam Zhao, Professor Zhao Suisheng to the podium. Professor Zhao is from University of Denver and also the editor-in-chief of the Journal of Contemporary China. So he will talk about China's fears and China's responses. So Sam? Go ahead.

MR. ZHAO: Thank you, Xinbo, for the introduction, and thank you, Richard, for having me here.

Talking about China's position on the Trump administration, I see ups and downs three times. Before the election, China was pretty much looking forward to have Trump to be elected. Why? Let me read one article by a Chinese scholar, Eric Li. He wrote that not only because they like Trump better than Hillary Clinton. In fact, for them, anyone would be better. And they also like from their perspective, although in the short term they think there were (inaudible) other issues, but China is good to

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compete. That's not the issue. In the long-run, Chinese-American relations should become healthier as the Chinese prefer a relationship with the United States that doesn't try to remake the world. The Chinese know how to compete and can deal with competitors. Well, the Chinese have always resented and resisted an America that imposes its values and standards on everyone else. And the Trump America is likely to break from that pattern. He has shown no desire to tell the other countries how to do things and China can work with America, not be a world policeman. That's what I think Russia now (inaudible) before the election.

Now, after the election and before the phone conversation with President Tsai Ing-wen and before Tillerson's congressional hearing talking about deny China access for the South China Sea, China was still looking forward, but at that point China became concerned and has very mixed feelings about this. Let me also read one sentence by a Chinese scholar talking about that. (Inaudible). In fact, that writing, I like it. He said he found similarities and differences. Mr. Trump's looking to Make America Great Again is very similar with Xi Jinping's motto (inaudible) nation. So these two phrases have very similar or same meanings from his perspective. Each leader suggests his country has the (inaudible) and claims that he will restore it into the top position in the world, but that's what he said -- the Trump answer of one country is built on the failure of the other.

So the relationship is zero sum game. So they felt the pressure of competition from the United States. Why they felt competition? Because of the economic front. America First, a slogan from Trump is some think against China's interests, not only in those trading currency manipulation issues but a very fundamental issue for Chinese economic growth, globalization. China has been a major beneficiary of the globalization. China's economic growth in the last 30 years, even particularly during those double digit growth, were a great result of globalization. So China thought the America First slogan in fact would stop -- would start (inaudible) globalization process China will be a victim in that process. I can quote a lot but you give us only eight minutes so I will not read those I quoted. The free rider issue from the Chinese perspective is a very big issue in the economic front.

In the security front, China also worried about peace through strength slogan from Trump's forthcoming administration at point. China (inaudible) the U.S. would (inaudible) the pivot (inaudible) Asia-Pacific will be ended but China was not sure if the strategic vacuum left by the United

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States will be felt by China. In fact, they are concerned Japan and other nations will make their alliances to work together against China, and in particular at that time, now it's no longer an issue, Russia. They thought Trump would build a good relationship with Russia. That would make China's relationship with the United States and China's position in the (inaudible) damaged. So they were strategic through political concern and economic concerns from Chinese perspective, but overall, I think Chinese still had hope because talking too this friend I think (inaudible) may be in a better position, but talking to China's colleagues, I can tell that for then, the republican government traditionally would have a better relationship with China, but the democrats are critical on the relationship, but they're concerned about the Obama administration, although I think Obama did a very, very good job. But from the Chinese perspective, they really did not see Obama was a friend of China. They think Obama's (inaudible) Asia-Pacific was to contain China, so they hope the Trump administration would come to that point.

And also looking at the big picture, I think the Chinese side still had some optimistic hopes. First, (inaudible) a divided nation. That is from the writing that I read from Chinese publications. Trump would be preoccupied, but domestic challenges, such as economic growth, employment opportunities, healthcare reform, those domestic policy priorities would leave Trump with no time or energy to deal with China. And also, someone asked the question earlier, Trump looked for opportunities to invest for his own companies. Trump had deals with China in the past, so seeing him as a business person looking for trade or investment or business deals, China thought they can work with him from that perspective.

And another thing here is that Trump's foreign policy would stay away from traditional liberal ideas and focus on economic interests. In that case, human rights democracy would not be his priority. He will not lecture Chinese leaders on democracy, so China will find common economic interests to work with him.

So in the meantime, to talk about to withdraw from TPP, to reduce its alliance, I mean, involvement in Asia-Pacific, to ask Japan and South Korea to share defense budgets and burdens, all those things I think from the Chinese perspective isn't very positive. And the U.S. closed the door of the immigrants, even from talking to my friends. That will give opportunity for China to attract those talents to the Chinese society for the Chinese to develop its economy. Eventually, I think the optimistic part now

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comes true from many Chinese perspectives. The third stage now is after the phone conversation between President Xi Jinping and Trump. This is a huge, huge change from questioning "One China" principle. Eventually not only to accept the "One China" principle, but also accept China called national interests. So this is a very big change from the Chinese perspective, reading Chinese publications the last several days.

Really, I think China was pleasantly surprised by the secular state visits to accept Xi Jinping's definition of the new model of big power relationship. I can read a lot of the Chinese -- I quoted a lot of Chinese publications. The last few days in Beijing there was a high (inaudible) forum. In that forum, let me read (inaudible) economist. I think that was very interesting. He said according to President Trump's America First, now he reinterprets American First is to focus American domestic issues to prioritize economic development. So that is very similar to Xi Jinping's (inaudible). One center, two best points. So we are on the same track.

Based upon that kind of understanding, now I find reading the Chinese publications Chinese has to a certain extent positioned itself as replacement to America's global leadership and to the leader of globalization. Here is not the international order but it is the globalization part. Xi Jinping's speech at Davos was a starting point, and a few weeks -- I mean, last month, in February, he talked about two guides. That China should guide in the national community jointly to build international order, to guide the international community through joint maintain international security, which I think is very, very unprecedented from the Chinese perspective, and that some scholars also talking about China should join TPP. We talked about TPP earlier. (Inaudible), those people in the think tank. Last month, in fact, there were major conferences talking about China's role in the TPP could suppress Japan, could (inaudible) TPP's mature -- original mature stage, China just can grab the fruits. All of those kind of talks, many, many other things I don't want to -- I don't have time to talk about. But in any case, we see the up and downs of three states. We don't know which is next. Hopefully, China will not be surprised.

MR. WU: I'll ask you one question. Okay? Stay on.

There are many voices in China about whether or not China should join TPP, but I can promise you that is not going to happen.

MR. ZHAO: I'm glad someone can authoritatively give the answer.

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MR. WU: This is about regional economics dynamics, security dynamics. My question for you would be, in the past maybe China's primary security concern was Obama's rebalance strategy, but now the strategy is said to be over. So what would be China's major security concern and why?

MR. ZHAO: I think China should be relaxed at this point. And even (inaudible), the person in the military on TV last week, let me quote what he said. In his report, he talked American -- in Chinese but let me translate what he said. The assistant secretary of state, the acting assistant secretary of our state advanced he said, Obama's Asian-Pacific rebalance and thought Asia-Pacific has been over. And the Secretary of State Tillerson said Obama's North Korea policy is a mistake so it cannot continue (inaudible). That's what he said. And this type of Trump's entirely reverse of U.S. policy is such a good thing for China. And Trump may want to at this time to take hands off, I mean (inaudible) to have hand-in-hand with China to (inaudible) cooperations. So China is so happy. He said there are two options here. One is to suppress China. One is to collaborate with China. The U.S. is now trying to collaborate with China. So we don't have to worry about security issues from that perspective. But I do think that China should worry about North Korea for sure.

MR. WU: Next is Professor Tanaka from Tokyo University.

MR. TANAKA: Thank you, Xinbo, for introducing me. It's my great pleasure to come back to Brookings. A great pleasure.

Security dynamics from Japan's perspective I think is the subject that I have to talk about. Here we have to think of what were Japan's security concerns before the U.S. election campaigns. There were two major concerns. One was, of course, North Korea nuclear weapons development as well as ballistic missile defense. And the second was China's increasingly strategic behavior in both East China Sea, as well as South China Sea. In response to these two concerns, Japan, over the past decades, (inaudible) evolution about its security policy as well as its deployment (inaudible). Abe administration changed the age-long interpretation of the constitution with respect to the collective self-defense right in order for Japan to collaborate more effectively with the United States in case of a North Korean contingency. Japan's self-defense forces deployment made evolution over the past two decades making more focus on the southwestern areas of Japan rather than northern orientation during the time of the Cold War.

But then during the campaign of the United States, big concerns emerged as the candidate Trump implied that the U.S. might abrogate an alliance and in addition to making this commitment of the withdrawal of TPP. And so immediately after the election where Mr. Trump won, Prime Minister Abe took a very quick move to have interaction with the president by coming to New York to see him. But after the establishment or the victory of President Trump, his inauguration speech was also a warning (phonetic) to us. I think I don't need to applaud but the passage such as for many decades with enriched foreign industry at the expense of American industry subsidized the armies of other countries while allowing for the very sad depletion of our military. We've defended other nations' borders while refusing to defend our own and spent millions of dollars overseas while America's infrastructure is falling into disrepair and decay. Probably the last sentence may have some merits to mention, but Mr. Trump's depiction of America exploited by others is, I think, to us, allies, rather peculiar.

Despite the dynamic change of economic growth and the remarkable rise of China, the United States is still by far the largest economy of the world. The U.S. per capita GDP is the highest among the G7 countries. The growth rate of the U.S. GDP is also the highest among G7 countries. And in the military spending, despite again the remarkable rise of China's military spending, the U.S. military spending is still at least three times bigger than China's.

So the U.S., having this self-image of being exploited worries us. But on the other hand, after the inauguration, or after the presidential election, the fact that Mr. Trump appointed General Jim Mattis as secretary of defense, and Rex Tillerson as secretary of state was, I think, assuring. Although some cabinet levels we still don't know, but it was very reassuring that Secretary Mathis chose northeast Asia as his first visit abroad. When he came to Tokyo in late January, he assured the leaders in Tokyo that the basic strategy of the United States would not change. This reassurance was reinforced at the Summit meeting between Prime Minister Abe and President Trump over the weekends in early February, and the Japan News joint statement that was issued after that again was quite positive.

I quote one passage, and I quote, "The two leaders affirmed that Article 5 of the U.S. Japan Treaty of Mutual Cooperation and Security covers the Senkaku Islands. They oppose any unilateral action that seeks to undermine Japan's administration of these islands."

The U.S. and Japan also (inaudible) countries concern to avoid actions that would

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escalate tensions in the South China Sea, including the militarization of outposts and to act in accordance with international law.

So, I think it was good that the U.S. administration is working to maintain the basic strategy that the U.S. had traditionally followed in the Asia-Pacific since the end of the Second World War. So we are relieved. But nevertheless, we still have some concerns. In the economic areas, the G20 statement last week didn't include the specific mention of opposition to protectionism. And then some documents USDR made implicated the U.S. would not respect the decision of the WTO. And so despite the reassuring move in northeast Asia security trends, we are still somehow uncertain. And what should the U.S. allies and friends do facing this United States? That is a big challenge.

And if I might offend some American citizens, please excuse me, but I think what allies of the U.S. should do is, if I might use a strange word, canalize the Trump administration toward the direction of preserving the traditionally strong commitment the U.S. made to the liberal world order. And specifically what can allies do? That is a big difficult question? But I think we need to do a lot of things. We need to communicate with people in the Trump administration. We need to communicate with those American citizens who are really interested in preserving the liberal international order, and we need to persuade those American citizens who may have doubts about the merit of preserving the liberal international order. Prime Minister Abe went to Europe last week in order to facilitate I think good relations between Europe and the United States, and with Europe, the United States, Japan, and many other countries which have stakes in the preservation of the liberal international order we have to do all sorts of things. One specific thing that might help is for Japan to increase its defense budget so that the allies are serious in preserving the liberal international order. Thank you very much.

MR. WU: Thank you, Tanaka-san. The question for you is really, from your perspective, what is the difference in Japan's security policy under the Trump administration and under if Hillary Clinton was elected, or it would be pretty much the same given Abe's political agenda?

MR. TANAKA: Well, I think, you know, the Trump administration, as I said, gives us some uncertainties. But then the North Korean threats are real. Chinese strategic behaviors are a concern that we have, so basically what Japan is going to do is the same under Mrs. Clinton becomes president or even now. But then I think what I would like to say is additionally to these basic necessities



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we need to have probably make efforts to create a framework of having a stronger alliance with the United States by joining hands with many Americans and others.

MR. WU: Let me push the envelope a little bit. Sorry. This is late afternoon. People need some, you know, stimulation.

If Trump says -- well, we cannot handle the North Korean nuclear issue. We will talk about it tomorrow -- Japan, you can choose to have nuclear weapons. Go ahead. What would you recommend?

MR. TANAKA: Well, having a nuclear weapon is not an option for Japan. I think even, well, North Korea still already has some devices and then we believe our basic assumption of having and maintaining a good alliance with the United States which has extended a deterrence.

MR. WU: Thank you Tanaka-san.

Let's invite Professor Young-sun Ha from East Asia Institute. Do you have a PowerPoint?

MR. HA: It's very nice for me to return back to Brookings and also to have a very short presentation on the difficult questions.

To elaborate, security dynamics of the Asia-Pacific from the perspective of Korea's fear and Korea's responses was the assigned topic. I will briefly discuss four major issues: Trump's America versus Xi Jinping's China, North Korean nuclear missile programs, deployment of THAAD system in ROK, and the exclusive nationalism in East Asia. If time is not enough I will skip the last one.

First, security dynamics of Asia-Pacific will be heavily dependent upon the future of U.S.-China relations. Although it is still early to forecast the future of U.S.-China relations, Trump's Asia-Pacific policies are now shaping based on the two basic principles of America First and peace through strength. In response, Xi Jinping maintains the current China's new type of international relations, which include a new type of major power relations based on the first principle of the new conflict, mutual respect, and win-win cooperation. And also, a new type of neighborhood diplomacy based on the second principle of community of common destiny, One Belt, One Road, and strong assertion of three essential interests.

Considering the principles one and two in the Asia-Pacific, China will try to maintain

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peaceful development. Whether or not it stays up until the middle of the 21<sup>st</sup> century, there will be (inaudible) stability between two big powers. On the other hand, there will be four potential hotspots in the region, such as South China Sea, East China Sea, Taiwan, and Korean Peninsula. In the short-term perspective, as we are now having breeding time in South China Sea, East China Sea, and Taiwan, I will narrow down my discussion on the Korean Peninsula. Let me go over to North Korea's nuclear and missile programs.

In his recent visit to Seoul, U.S. Secretary of State Tillerson stated that first of all, major efforts of U.S. and its allies to stop the development of North Korean nuclear missile program have failed. Second, the U.S. and related countries should pursue new approaches to stop North Korea's nuclearization instead of the previous policy of strategy patience. These new approaches will include strengthened comprehensive sanctions, military options, possible military options on the table, and also the increasing role of China. However, it is almost certain this approach will not very much successfully function or work for the goal of North Korea's nonproliferation because China would not accept this approach as much as U.S. one. And also, North Korea is already fully ready for this type of approach.

In parallel, Chinese Foreign Minister Wang Yi at the press conference of the National People's Congress mentioned the two sides of the DPRK and U.S. and ROK, like two accelerating trains coming towards each other with neither side willing to give way. Thus, he proposed as the first step suspension of North Korea's nuclear missile activities and suspension of ROK and U.S. military exercise as the second step, dual track approaches of denuclearization of North Korea and peace treaty on the Korean Peninsula.

However, foreign minister of DPRK in October 2015, issued a statement peace treaty should go first and then the nuclearization can be discussed. In addition, on April 26, 2016, North Korea already proposed suspension for suspension. In July 2016, North Korea conducted a nuclear test. It means that Trump's new approaches and also Wang Yi's proposal cannot have much chance of success to stop North Korea's nuclear efforts.

On the other hand, facing the imminent grave threats of North Korea nuclear and missile capabilities, ROK and its allies should try to develop real new approaches including the comprehensive sanctions, development of reliable deterrence and defense capabilities, and thirdly, dialogue -- not for just

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dialogue but for the initial step of denuclearization. And finally, a signal sending of the potential success of a parallel strategy of nonnuclear economic development as an alternative way which might promote self-help in North Korea.

The next topics I would like to briefly mention on the deployment of the THAAD system in ROK. China's Foreign Minister Wang Yi strongly expressed once again at the National Parties Congress China's opposition against the deployment of THAAD in ROK because of the potential risks of China's strategy security. China's foreign ministry spokesperson once again summed up China's position a little bit more sophisticated way. She said that China understands the Republic of Korea's concern about its own security, but it must not be so at the expense of the security interests of China. On the other hand, the U.S. Secretary of State Rex Tillerson stated in Seoul that the THAAD is purely defensive against North Korea. The United States would urge China to change its position on punishing South Korea for the THAAD. In addition, he asked China to engage with North Korea for the elimination of the original reason of the THAAD system.

From the perspective of the Republic of Korea there are four dimensions of the deployment of THAAD system in ROK. First of all, limited security concerns of ROK against the threat of DPRK's nuclear and missile program. Second, ROK and U.S. alliance. And third, security interests of China. And fourth, domestic politics of ROK means that ROK should very cautiously take care of the primary security concerns of ROK with the help of the alliance without giving negative impact on the security interests of China and domestic politics of ROK.

Four topics on the exclusive nationalism in East Asia. In spite of historical influence of rather peaceful world order in this region, East Asia still experiences rising period of nationalism in contrast to the European experience of declining period of nationalism. In addition, because of the historical animosity of colonial war experience, ROK-Japan, ROK-China, China-Japan relations are suffering from international politics of emotion. To avoid this kind of emotional deterioration in the region, key actors in the region should try to follow three-pronged principles. First, primary concern of developing reciprocal interests should be emphasized. Second, there should be a frank consensus. The historical animosity cannot be cured or solved in a rather short period of several generations. Finally, political utilization of historical animosity should be absolutely avoided. Thank you.

MR. WU: Thank you, Professor Ha. The question for you is it seems the Trump administration is assuming a more proactive posture on the North Korean nuclear issue, while Secretary Tillerson said all the options are on the table. So as compared with the Obama administration, now South Korea feels more concerned or more hopeful on the nuclear issue?

MR. HA: I mentioned both the Trump's new approaches and Wang Yi's new approach will not have much chances to solve the dilemma of nuclear issues on the Korean Peninsula. In the case of the U.S. as I mentioned, a little bit more strengthened sanctions, North Korea is well preparing for that kind of strengthening sanctions. In addition, if we talk about the possibility of military options on the table, I think North Korea considered fully enough almost the final stages of that kind of confrontation between the escalation of military maneuvering. In that sense, there should be a little bit more sophisticated way of new approaches, not only sanctions, military options, but Wang Yi's argument that dialogue, two-track dialogue, that also has not been very successful to solve the dilemma. So what I did suggest, we would rather propose a little bit more sophisticated four-way. Sanctions are, of course, inevitable, and also deterrent and defense mechanism is absolutely necessary. Dialogue also should be open. But in addition to that, North Korea should decide they should give up their own nuclear weapons or their own future. That will hinge on their decision. In that sense, all the relevant countries should give a signal sending that there is another better way of solving the nuclear issues on the Korean Peninsula. The final decision will be done by North Korea themselves.

MR. WU: Thank you, Professor Ha. We will come back to this issue tomorrow afternoon.

Next, let me invite Dean Liow from the Rajaratnam School of International Studies. So you have eight minutes.

MR. LIOW: Thank you. Okay. Eight minutes.

So the question set or the theme set before me rather was Southeast Asia's fears and Southeast Asia's response. And I will start by saying that implicit in that theme is one of the problems and one of the fears for Southeast Asia already. This question, is there such a thing as Southeast Asia's fear and/or response in any meaningful collective sense? Okay, and this is something I will unpack later, but let me just leave that on the table first and then start as predictably like everyone else has with the Trump administration.

Stan Roth articulated it very well, the question of whether the Trump administration is even aware of the region of Southeast Asia, let alone the organization called ASEAN. And more importantly is the discernable absence at this point of time of a strategic holistic -- strategic and holistic thinking on East Asian issues, let alone Southeast Asia. I think Southeast Asians, if I put it this way, Southeast Asians have been spoiled by the pivot. Right? Okay. The pivot has raised expectations which the Trump administration has no intention and no interest of meeting let alone surpassing.

As the great American strategic thinker Woody Allen said once that 80 percent of success is just showing up, nowhere is this mantra more relevant, more crucial than for ASEAN. Right? For those of you who are familiar with ASEAN, ASEAN makes a big issues of President Obama's efforts to visit almost every Southeast Asian state. He would have visited every one if he managed to pull off the Brunei trip for a number of ASEAN meetings some time in 2013, and then, of course, Secretary Clinton visited them all. The concern really is that President Trump will not turn up and that would automatically in a sense downgrade the perception of this whole range of ASEAN-related institutions.

If we look at what has been -- what has taken place so far, to be fair, and I think Stan Roth alluded to it as well, that there is some relief at the surprising element of continuity and familiarity in American policy in Asia since the inauguration, especially on northeast Asia. The bad news, of course, is on the trade side of the ledger, and this is something that a number of Southeast Asian state are concerned about because what's going to happen is you're going to have a very unbalanced kind of engagement. Right? A very strong, forceful defense and security presence and absence on the trade side of the ledger.

And related to that, of course, for Southeast Asia is the question of China. Right? China wants to in a sense regain its historical place in the region. We certainly do not begrudge them of their place. The question is how they intend to go about doing this, and the concern in many Southeast Asian states is a number of things. Number one, China has basically learned how to game ASEAN. Okay? That speaks more of ASEAN's weakness rather than China's sophistication because it's not very difficult to game ASEAN. Right? Secondly, I think that China has decided to use a dual track approach to Southeast Asian states. It is either economic inducements or diplomatic browbeating. And thirdly, China has on a number of occasions already demonstrated that they have no problems trying to play a divide-

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and-rule game in ASEAN. Okay? And again, in the interest of time I will not cite any examples now but you might want to ask me that question and I will cite the examples then.

And all this is linked together in this perennial concern that Southeast Asia has about Sino-U.S. relations and having to choose sides. You hear this all the time. Now, there is a minor problem with that assumption, and the minor problem is this: to choose sides assumes that you have sides to choose from. All right? And herein lies the problem because if the U.S. is in some way or other if not absent, you know, retrenching in its engagement in the region, there is really not much to choose from. It's back to 1973-1974. I always find that analogy striking. You look at how Southeast Asian states basically queued up to go to Peking in 1974 immediately after the American withdrawal from Saigon.

So nevertheless, one problem is whether or not you have sides to choose from. The second is, of course, in the situation where Southeast Asian states find themselves having to choose sides, it implies, of course, a zero sum game and the problem with zero sum games in this particular complex and interdependent world is that people will end up losing at some point or another. So that is not a position that the small states of Southeast Asia would want to be found in.

And that brings me to this point back to ASEAN again. What should Southeast Asia do? They've been doing two things as they've always done. Number one is focus quite heavily on the bilateral engagements, and over and above that is this question of ASEAN. Now, ASEAN is a very odd entity. ASEAN celebrates its 50<sup>th</sup> anniversary this year so you're going to see a lot of self-congratulatory sort of messaging and back patting, which is fine. It's the 50<sup>th</sup> anniversary. But I do hope that there is some soul-searching as well. Soul-searching on a number of counts.

First, is ASEAN needs to ask itself is it really a 50-year-old organization? I will put to you that there is a case to be made to see ASEAN as a 20-year-old organization. 1995 is when ASEAN started expansion with the CMLV states process. And the question then to ask is what sort of expectations -- I mean, being 20 years old you're not officially an adult yet. So the question to ask is what sort of expectations you have of a 20-year-old organization as opposed to a 50-year-old organization. So something I just want to put out there and something I hope that ASEAN itself asks itself. But the more important thing, the more important challenge for ASEAN is this perennial question of ASEAN unit and the struggle really that ASEAN is going through in order to sort of strengthen or reinforce this unity. I

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think these are not exactly the good times for ASEAN to be absolutely serious and it has a lot to do with their different interests and their different but strategic perspectives and the state of relations with the major powers.

And I'll end by saying this: There is a lot of attention on the South China Sea. Naturally so, obviously so, necessarily so. But unfortunately, those of us who look at regional security issues have failed to see that the major development is not in the South China Sea but has been in the Mekong region and that is where the Chinese have really been able to extend their influence into the ASEAN process. In the case of the South China Sea, it is an extension of Chinese presence into the geographical hut of Southeast Asia but it is in the Mekong where they have really enhanced their leverage over the organization. Okay, I'll end there.

MR. WU: Thank you. The question for you is to what extent the Trump presidency will get ASEAN countries on the South China issue to emphasize more the interaction with China rather than rely on the U.S. involvement and counterbalance against China?

MR. LIOW: Well, I remember once having a conversation with an Obama administration official and he was saying that we are very supportive of ASEAN, which is a good thing to hear. We are prepared to let ASEAN take the lead. Now, that one I'm not too sure was necessarily a good thing to hear on the South China Sea, precisely for reasons I mentioned earlier. That in order for ASEAN to take the lead, it assumes that ASEAN is on the same page on the South China Sea, and the fact of the matter is it is not yet. Hopefully it will arrive on the same page. It is not yet. There are a number of holdouts for reasons which I do not think I need to get into I think you're all aware of. So because of that, certain Southeast Asian states still take the position that it is important to have the U.S. present and engaged in the region. But having said that, they are not saying it or they are not viewing it through rose-tinted glasses because Southeast Asian states also know that at the end of the day it is highly questionable whether it serves American interests whoever is the president, whatever is the administration, to risk a very deep and complex relationship with China over some features whose status we're not even sure of.

MR. WU: Last but not least is Tanvi Madan from The Brookings Institution. She will talk about the Indian perspective.

MS. MADAN: Thank you. Like the rest of the panelists, I was asked to talk about Indian

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fears and Indian responses. If I had to summarize Indian concerns in the Asia-Pacific or what the Defense Department refers to as the Indo-Asia-Pacific, I'd say it's too much China and too little U.S. In terms of China, there's been concern and uncertainty since about 2008-2009, but I think especially over the last couple of years, concern and uncertainty about Chinese intentions and actions. India does not want to see an Asia dominated by Beijing in which China can impose its will on the other countries in the region, but there is also beyond kind of this broader view of China's role in the Asia-Pacific. This partly stems from real differences between the two countries, particularly on the bilateral and regional side. On the bilateral side, as many of you probably know, there is an existing border dispute, though it's actually been a fairly quiet one, especially compared to India's border dispute with Pakistan. No shots have been fired at the border for a number of years and there's a border dispute, kind of management mechanism in place that overall has worked. There have, however, been some incidents in the last couple of years that have caused tensions, including one during President Xi's visit to India in September of 2014.

The second concern in terms of the China-India dynamic from Delhi's perspective, and this is a growing concern, is China's relationship with Pakistan, which India sees as deepening largely as a result of the China-Pakistan economic corridor and essentially President Xi kind of doubling down on that. And if you think about Prime Minister Modi's first year, he came in actually with fairly kind of positive inclinations to whereas Beijing had been to China four times as the chief minister of the state of Gujarat and reached out to the Chinese leadership and the Chinese leadership reciprocated. He also did things like essentially played down a visit, a meeting, the first kind of meeting he had as prime minister with the Dalai Lama, et cetera. And this was seen as him indicating and signaling that he would take a different tact towards China than his predecessors. But both the border incident, as well as the announcement of the China-Pakistan economic corridors essentially paid -- there has not been discussion since then about kind of that Modi-Xi version of a "bromance" as such.

Tibet, of course, is an existing problem. It hasn't been as prominent in the last few years as it had been before but that might come up again. The Dalai Lama is scheduled to visit Arunachal Pradesh, which China claims he's scheduled to visit in April, so we might see that come up again.

But you've also seen not just in terms of the China-Pakistan relationship, both of which of course are nuclear powers, and so concerns India for that reason as well, but there's increasing concern



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in India about Chinese engagement in activity with almost all India's neighbors and India's maritime neighborhood as well, particularly through the Belt and Road Initiative. It doesn't see this as -- it sees it as a national project. It sees this as not just a commercial initiative. It sees this as having strategic motivations, or at least implications for India. And it has been particularly concerned about the use of Chinese economic leverage to shape economic, political, and strategic options of countries like Sri Lanka and Nepal, but it has also been watching very closely what has been happening in South Korea and Mongolia most recently.

Two areas where there was supposed to be kind of Sino-Indian cooperation and was supposed to kind of alleviate some of the tension, the economic side and multilateral issues in the kind of multilateral arena, there continues to be some cooperation, but these have also run into trouble over the last few years. Underlying all of this in India, there is, especially on the part of public, kind of a lack of trust in China as such. And even when you see a positive story there is kind of people waiting for the other shoe to drop on that front. There is also, frankly, a lack of knowledge on both sides of each other, and there's an asymmetry in terms of India and the Indian public paying a lot more attention to China than is the case on the other side.

There is also interesting, and this is a fairly recent phenomena, in the '80s and '90s, you used to hear in India the U.S. wants to prevent India's rise. You don't hear that about the U.S. anymore. You hear it being said about China, that China, through its relationship with Pakistan, through its preventing Indian membership, permanent membership of the U.N. Security Council or membership of the Nuclear Suppliers Group is essentially trying to prevent India from taking on a greater global and regional role.

In terms of the U.S., I think the biggest kind of concern related to the U.S. in the security context is the uncertainty about what that role is going to be. Its role, its presence, what the extent of that is going to be, but there's also uncertainty in terms of the Trump administration where it stands on China. We've seen a lot of kind of different versions, and you can interpret that many different ways from tweets during the period of the transition, to most recently Secretary Tillerson's visit to Beijing. And India, like a number of other allies and partners in the region would have seen the statements coming out of that with some concern. But they will watch President Xi's visit very closely as well and see where things will play

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out. India does not want to see -- and I think this echoes some of what Joseph said -- it doesn't want to see a very conflictual U.S.-China relationship, either strategically or economically for that matter. While it might like what David Dollar earlier said, which is the U.S. to get greater market access for various international firms, it does not want to see a trade war that can affect the whole region.

But it also doesn't want to see a very close U.S.-China relationship, essentially a G2. Many people in D.C. roll their eyes when they hear that and say, oh, that's never going to happen. But for Indian policymakers who grew up and are now in the senior level positions, they kind of entered the service at a time when this did happen to India. Because in the early '70s, they suddenly, they didn't quite have a Nixon shock but it came close in terms of affecting their strategic options.

And kind of broadly underlying these concerns about China and U.S. in the region is the uncertainty about the maintenance of the rules-based regional order and what might happen with kind of too much China and too little U.S. This is particularly significant at a time when India is trying to do more but it does not have the capabilities to ensure this alone and it really wants a stable regional order at a time it needs to grow economically.

Briefly on the responses, there are I would say overarching kind of three basic responses India has taken. One is to build domestic or at least it's trying to -- I should add it's trying to do. One is on the domestic side, which is building capabilities economically as well as militarily, and India, of course, does have a nuclear capability as well.

Second, in terms of its kind of broader neighborhood, kind of doubling down and trying to put more efforts towards engagement. This includes engagement with China where we've seen kind of more of an investment relationship, more mergers and acquisition activity, and a higher level of political engagement than we've ever seen before, not just bilaterally but also in terms of the BRICs, as well as the Asian Infrastructure Investment Bank, which India is a founding member of as well.

In South Asia, with its neighbors, Indian policymakers are realizing that they need to be, as one recently put it, more generous and effective in their own engagement with these countries and deliver on the projects and initiatives and cooperations that we've been talking about. But India is also kind of expanding and consolidating its relationships in the kind of broader neighborhood, particularly in Southeast Asia. Some countries India has had greater engagement with Vietnam and Singapore,

Myanmar as well, and other kind of new relationships.

Third, what India has kind of broadly taken as an approach is kind of engaging with other partners, what we kind of call outside its extended neighborhood. The U.S. is a big part of this and India would like to seek and have a continuing U.S. presence in the region. You've already seen kind of U.S.-Indian relations today stand, or at least on November 8<sup>th</sup> stood better than they've ever been in the past and closer than they've ever been in the past, particularly on the defense and security side. And India would like to continue this relationship to be on that trajectory. I think many in the U.S. would have liked to see it, in fact, improve India to do more on this side. And so you've seen the Indian government engage with the Trump administration. Somewhere you can see Modi's approach as being somewhere between Chancellor Merkel's and Prime Minister Abe's. There is a wait and see but there is also a fair level of high level engagement. The Indian national security advisor is here this week. A couple of weeks ago the Indian foreign secretary was here. And we think there might be a Modi visit sometime later this year, perhaps as early as May.

India is also engaging with U.S. allies and partners in the region -- Japan, Australia, South Korea -- in a much more systematic fashion than it used to in the past. I think the relationship with Japan perhaps stands out a little more than the others, but India is also, while it's doing all that, is also continuing to engage with Russia, which it also sees very much as part of this kind of broader Asia-Pacific region. It's doing these things bilaterally. Trilaterally. It has three trilaterals in place -- a Russia, China, India trilateral, an India-Japan-U.S. one, and an India-Australia-Japan one. It's also trying regionally to, as Joseph pointed it out, it relies and heard from Southeast Asians that India didn't show up enough, so it is trying to get better at that and been more active at summits like the ADMM-Plus meeting.

And finally, it is speaking up or trying to speak up on issues that matter to the region a little more, including on freedom of navigation and issues related to that.

I will end with saying the biggest challenge for India vis-à-vis this region in some parts is to be taken seriously, but partly that's because of its inability in the past to implement some of these things that it's talked about. So these are planned activities. It's much better at doing it than it was before but the Indian foreign secretary used this line in a statement for another kind of relationship, but he said intentions don't necessarily translate into outcomes, and I think this is what India is going to be judged on

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in terms of its engagement with the region, can it actually deliver on this approach it's trying to take.

MR. WU: Thank you. The question for you is in the past several years the strategic communities of both U.S. and India have embraced the concept of Indo-Pacific. So will the Trump administration bring any change to this?

MS. MANDAN: It's interesting because I think India has embraced -- and it's actually fairly recent even for India to embrace this concept of an Indo-Pacific. It was only recently even with the Modi government that they've even officially started to use that term. In the U.S., I think there was even more reluctance, and partly because of just that it was hard to grapple with if you think about the entire region, if nothing else, the Defense Department, there are three commands that even jurisdictionally take care of this region. And so it was a bit of kind of unwieldy in that sense. But more recently, over the last kind of year or two, we did hear the term Indo-Asia-Pacific which is a bit of a mouthful. And I think this was still very much a concept in development. I think at this point it's not so much the idea of concept than there's expectation of or desire. I don't think India would worry that much about whether or not it will see kind of a Trump stamp of approval on this, but I think what they would like to see, whether it is in these separate areas or together which is the U.S. being kind of a steady presence. It doesn't buy this idea of Asia for Asians. Prime Minister Modi has said when I look east I see the western shores of the United States. So he just wants -- I think at this point there's uncertainty and at this point they'd just like to see the U.S. actually actively be engaged in the region and it's not so much about the concept but the actual reality of it.

MR. WU: So don't talk too much; right? Okay.

MS. MADAN: Yes.

MR. WU: Okay. All the presentations by the panelists have been done so let me invite them to move to the stage and we have about less than 20 minutes. We have about 15 minutes. So the floor is open and you will be challenged and tested by the audience.

Let me go around to collect four to five questions, then if we have time we can come back.

Jonathan Pollack? Please be brief.

MR. POLLACK: You know how difficult that is for me.

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I see a theme that runs across all of the presentations and that is the jarring effects of having a very, very different person as president of the United States. And all the countries here and the regions are trying to understand, adapt, and so forth. But in a way, Trump presents, for at least some of these actors, a very, very different possibility. So I'm going to direct this at Suisheng. We lost someone very, very big in our field last week, Dick Solomon, and if Dick were here today he would talk about how the Chinese always want a special connection to someone at the top of an American administration, or perhaps any kind of an administration, not necessarily the United States, but U.S. in particular. So beyond all the clutter of what the talking heads in China say and all that, does China really care, truly? And so does Xi Jinping really care as long as he has a channel to the very top of this administration? Does all the rest just sort of fall by the wayside?

MR. WU: Do we have a second question? Move to the back. The lady on the left. Yes?

SPEAKER: Thank you. There's opinion in China that the tension in Korea Peninsula and the THAAD deployment has proved that China's policy to North Korea in the past decade, it's a total failure and China becomes the biggest loser in this tension. And we can see some clues in the conversation between Wang Yi and Tillerson that China is showing some kind of cooperative attitude to the United States. So I'm not sure I'll give this question to which panelist, so I just ask do you think it is possible that China gives up taking this tension as a turning point and China will give up the previous policy as the semi-alliance with North Korea and to embrace a brand new one which means more cooperation with the United States and impose more pressure on North Korea? Thank you.

MR. WU: Please identify yourself.

SPEAKER: I'm Li Liang from China and currently a visiting scholar in Johns Hopkins SAIS.

MR. WU: Thank you.

Right in the back. Yeah. Yes?

MR. WALTERS: First off, thank you for the presentations to all the panelists. My name is Luis Walters with DHS and I had a question because none of the panelists actually brought up terrorism or the impacts that terrorism has on the region. And so my question is with the -- I guess the shortcomings that the major terrorist organizations are having in the Middle East and the potential return

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of these foreign fighters to various countries within the region, particularly Southeast Asia and Asia, what's the potential for any kind of cooperation or alliances to kind of combat the potential threats coming back? Thank you.

MR. WU: The gentleman? Yes.

SPEAKER: (Inaudible) visiting fellow in (inaudible).

A few days ago some reporters said that Trump's administration is crafting big new arms sales to Taiwan. I'm curious. Is there any potential reasons or purposes that Trump's administration leaked such kind of information just before Xi Jinping going to visit Washington, D.C.? Thank you.

MR. WU: Yeah, the last one. Yeah.

SPEAKER: Thank you very much. I'm Kazmoto Biagamo from University of Pittsburgh.

I would like to ask Mr. Zhao about your Southeast Asian perspective about Japanese policy towards Southeast Asia, especially more security or after (inaudible) failed on change of U.S. policy towards Southeast Asia. And also, I would like to ask Mr. Tanaka about what Japan can do or what Japan should do (inaudible) region.

MR. WU: Okay. So Suisheng, you will be the first. Please be brief.

MR. ZHAO: (Inaudible) I think first of all I join you to have (inaudible) to the China study field, to the Washington community for sure. In terms of the personal collection, I think for the Chinese they always tried. I think they have established with Trump (inaudible) has been a good connection for China to have. But I don't know how much they can trust these type of personal connections in Washington. Xi Jinping, he's a strong man. He has consolidated his power but he should understand in Washington there are so many power centers other than the White House. In Congress there are 435 people. Everyone thinks they can beat the president. So I think they are learning this process. So I don't know if I can answer that question. I don't think they are (inaudible) at this time.

The other lady in the back talking about China's collaboration with the United States and the North Korea issue, I think from the Chinese perspective they must think that it's a bargaining chip but that's totally wrong from my perspective because when Xinbo asked me what the most dangerous security threat to China, I did not answer that directly but in my mind it was North Korea. And China has been playing fire on North Korean issues, especially those sanctions and nationalist demonstrations in

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China against South Korea business. Those are very dangerous for China. Eventually China will have to swallow the bitter fruit China already put together there.

For arms sales to Taiwan at this time, I think that has been going on for quite a while. Why at this moment it becomes big news could be -- this is my guess -- could be that Trump is putting out another bargaining chips before the summit. Say if you help us on the North Korea issue or some other issues, we will not sell the arms. Otherwise, we will sell, but we don't know if it's going to happen at all at this time.

MR. WU: Okay. Tanaka-san?

MR. TANAKA: Well, Japan has consistently been attaching great importance to its relations with Southeast Asia. It is going to attach great importance to Southeast Asia in the coming years. Diplomatically, Japanese prime ministers attended every sort of ASEAN-related summit and sent all ministerial level meetings all the time, and so ASEAN's working is in the interest of Japan and the Asia-Pacific.

Traditionally, Japan's ODA went to Southeast Asia in a large quantity and it's going to in the future, too. And then in some new development is Japan's efforts to improve the capacity of Southeast Asia and countries' coast guard. The personnel training as well as providing ODA loans to purchase more coast guard ships.

MR. WU: Professor Liow?

MR. LIOW: Yeah, just to echo Dr. Tanaka's point about the relationship between Japan and Southeast Asia, I think it's fair to say that Southeast Asia has really welcome the very proactive role. In fact, it's been a while since we've seen such proactive Japanese leadership and Japanese foreign policy. I think it is striking, for example, a lot of people make a very great play about the Philippine President Duterte cozying up to China, but you remember after his visit to Beijing where he said some not so nice things about the U.S. and its president, he immediately went to Tokyo, but the media never really covered that the way they covered all the sexy stuff about U.S.-Philippines relations. But there was substantive progress made in bilateral relations between the Philippines and Japan as a result of that visit.

And it's not just with the Philippines, with Vietnam as well. With other Southeast Asian

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states. And I think Southeast Asia very much appreciates Prime Minister Abe's very quick move to engage President Trump. I mean, he moved faster than any global leader to engage President Trump. Southeast Asia appreciates Japan's efforts to try to sort of salvage the TPP. Also very interestingly, when Japanese authorities sent that letter on Brexit warning against the risks of Brexit, that was very impressive, again, from Southeast Asia that Japan was really being proactive to do something where the U.S. seems to be sort of slacking.

On the question on terrorism, yes, there is a concern for regional fighters coming back, although I would be a bit cautious about playing up the extent of that because -- for a number of reasons. Number one, there are many Southeast Asian fighters who have actually fought and died there. Number two, unlike Afghanistan, Southeast Asian fighters have basically -- to them it's a hejra. Right? So they've gone over to Syria with their families, so they are prepared to live in an Islamic state. In an authentic Islamic state. So they didn't quite have plans to come back. Logistically, even if they had plans to come back, it would not be very easy because it's not just the fighters themselves coming back; it's the fighters coming back with their families, those who went with families. And in any case, even the single fighters coming back, it will be quite challenging because the local authorities are awaiting their return to some extent, in some countries at least. But the danger is still that all you need is a couple of them to be able to find their way to southern Philippines, and the reason why it's a danger is because the real problem is not so much fighters, foreign fighters returning in droves, but it's the locals who never made it in the first place. You know? They were radicalized. They were prepared to fight but they never made it to Syria. Hence, the call from Syria for them to wage jihad at home, or at least in the region. And then you have a very weakly governed southern Philippines. And that is the area where everyone is looking at with great trepidation that it's going to play the role that it has been playing for a while already. You know, for consolidation, for recruitment and all that sort of stuff. And that ties in with the role of the U.S. because as you would know, southern Philippines was basically the arena for Operation Enduring Freedom Philippines. Right? Which was a 12-13 year operation launched in 2002 costing the U.S. several hundred million dollars with the explicit objective of eliminating the Abu Sayyaf group in 2002. Today, I would venture that the Abu Sayyaf group is stronger than it was in 2002. So you know, there is something to think about there.



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MR. WU: Thank you. We don't have much time for the next round. Let's thank all the panelists for the great performance.

(Applause)

MR. BUSH: Thanks to you all. I'm very impressed at how those of you who came from across the Pacific are so awake, and thanks Xinbo for your dynamic chairing.

MR. BUSH: We're now going to come full circle. We started with Stanley. We've looked at economic and security issues in the region. And now we're going to have another perspective on U.S. policy, and this comes from Evan Medeiros, who worked amazingly for six years on the National Security Council staff. That's a long time in such a stressful job. He was first director for China and then senior director and special assistant to the president. And he managed somehow throughout that period to keep his cool and sense of humor.

He's now the leader of the Eurasia Group's Asia-Pacific practice and it's a real pleasure to have him join us today. Evan.

MR. MEDEIROS: Richard, thank you very much and thanks, everybody, for staying so late on a Wednesday. I can think of no better thing to do on a Wednesday afternoon than listen to me talk about the Asia-Pacific.

Stanley did such a masterful job earlier this afternoon talking about the Trump administration approach, and if you're anything like me, you're a little bit exhausted talking about Trump and what Trump means for the Asia-Pacific. So what I'd like to do is sort of interpret the mandate that Richard gave me a little bit more broadly and talk about what I think are some of the most important dynamics in the region, but drawing on the two panel discussions.

And I really want to give Richard and his colleagues at Brookings an enormous amount of credit because the way that they designed this conference I think brings out probably the most important dynamic that's going to shape the future of the Asia-Pacific and that's basically, simply put, the relationship between economies and politics. The relationship between economic trends -- I'm sorry, economics and security. The relationship between economics and security in the Asia-Pacific is going to define the order, it's going to define the architecture, and ultimately it's going to define the power relationships for Asia going forward.

Simply put, it comes down to, on the one hand, the extent to which economics -- and by "economics" I mean trade, investment, and finance -- constrains and enables security relationships and, on the other side of the equation, to what extent do security ties constrain or enable economic ties? And these issues are critical for a part of the world that is the fastest-growing region in the world. It accounts for 40 percent of global output and two-thirds of global growth. I mean, think about those figures, it's extraordinary. One part of the world, the Asia-Pacific, accounts for 40 percent of global GDP and two-thirds of global growth.

And interestingly, there's actually been very little research and writing that's been done on the relationship between economics and security in the Asia-Pacific. There's some wonderful articles that Evan Feigenbaum and Bob Manning have done, but they posit a competition between security and economics. They call it "the two Asias": there's the economic Asia and the security Asia. And I think that's a fascinating way to look at it. I just happen to disagree with it.

I don't think it's a competition in the sense that either one will dominate or the other will dominate, but rather the issue that I think will really shape the order, the architecture, and ultimately the power relationships in the region is sort of how does security and economics net out? To what extent do they constrain or enable each other as East Asia pursues both security competition and economic integration?

So if you remember one thing about the presentation today, remember this point: that East Asia is going through a very interesting period in which we're simultaneously seeing more economic integration, and the panel very nicely today highlighted the many manifestations of the growing economic integration, but simultaneous with economic integration is more security competition and more security fragmentation. And the reason why that's important and interesting is because the history and the theory of international relations would tell you the exact opposite.

All of the international relations theory that's out there, unfortunately, most of it is derived from experience during both the Cold War and World War II, is that economic integration ultimately leads to some degree of political accommodation and ultimately security pacification. But interestingly, that's not happening in the Asia-Pacific at all. You're not seeing economic integration leading to that political accommodation and that security pacification.

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And even though there are some large economies in East Asia that wished that their ability to extend trade and investment ties would lead to political accommodation, that's not happening. So just consider a couple facts.

On the economic front, it's very clear that economic integration is occurring. Look at the support for TPP. Look at the fact that there's so much emphasis on RCEP now that the U.S. has withdrawn from TPP. If you look at the most recent and significant initiatives in the region for economic integration, what is it? It's AIIB; One Belt, One Road; efforts to renovate and reenergize the Asian Development Bank. And even then, there are non-Asian institutions, like the EBRD, that are looking at playing a more active role in the Asia-Pacific.

So it's pretty clear that both at a bilateral and an institutional level we've got more economic integration. But consider the other part of the equation: security competition, security fragmentation.

Number one, over the last decade we've seen a tighter alignment of U.S. alliances. Obviously that's going through a big transition now. We have to see what the Trump administration does. But certainly, from my experience in the Obama administration, we saw a very significant and consistent demand for a greater role for the United States and a greater emphasis on alliances, and that's across the board.

Number two, and I'll talk about this trend in a second, we've seen greater security diversification. In other words, the model that everybody always talks about is hubs and spokes. What we've seen emerge in the last five years is great spoke-on-spoke type of interaction in which you have a variety of middle powers that are doing more.

And then, of course, a third aspect of security competition and fragmentation is just simply the fact that you've seen -- we're now seeing a variety of economies -- India, of course China, to some degree Japan, interestingly and newly Taiwan -- invest in their local defense industries albeit while relying on some foreign investment.

So I think it's pretty clear that it's empirically accurate that there's more economic integration while security competition and fragmentation grows. The question is where is this headed?

So what I would argue is that there's four very interesting variables that we should watch

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and these are the four variables I want to leave you with today that, hopefully, brings together the two panels. There are four variables that will shape the extent to which economics and security either mutually enable or constrain one another. The four variables are China, the security architecture, trade regimes, and, of course, the U.S. role in Asia. And let me tick through these very, very briefly.

First on China. How China acts in the region and how the region responds to China will, in a large part, dictate the relationship between economic and security. China has many, many different dimensions to it in this regard.

Number one is that China is no longer emerging as an unqualified source of prosperity for many countries in this region. So the notion that as the Chinese economy continues to grow and expand albeit a decelerated pace from the past, will that or will it not read to create greater accommodation? My argument would be it's not because the Chinese economy is slowing; the Chinese economy is rebalancing, as David Dollar very articulately pointed it out, from investments and exports to consumption and services. And that is simply changing the nature of its economic relationship with countries in the region.

For example, if you're a commodity exporter -- Indonesia, Malaysia to some degree, and Australia -- China's slowed down, it's rebalancing, its shift away from heavy investment in the property sector means that sustaining a high degree of exports from China is no longer going to be a big driver of your trade relationship with China.

Number two, if you're an exporter of intermediate products for final assembly and then export from China -- Thailand and Malaysia are two of the most obvious examples of that -- as China moves up the value chain, as China onshores many of its production, what we're seeing is the beginnings of a collapse of these regional production chains with ASEAN and China as the key players. Interestingly, I believe that as China expands its use of automation, in particular automation for things like automobiles, you're going to see an added pressure and collapse on the regional supply chain because, simply put, China can produce a lot more of its own products. Why does it need to rely on imports of intermediate products from the likes of Thailand and Malaysia?

Also, as China moves up the value chain, China is becoming a source of competition. So, for example, take South Korea. If you're a South Korean company that's involved in shipbuilding, IT -

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- Samsung is a great example -- or petrochemicals, China's investment in those industries over the last 10 years has now made China an enormous competitor to you. So whereas in the past trade relations between let's say China and South Korea or even Japan was highly complementary, as China moves up the value chain we're seeing trade with China becoming a source of competition. So that's an area where trade with China is not increasingly going to lead to questions about political accommodation, but rather economic trade and investment with China may lead to and be a source of more competition.

Second interesting aspect of economic relations with China. As China expands its trade and investment links, increasingly in the region there is a conversation emerging about the so-called China risk. In other words, the desire to reduce vulnerability to trade and investment with China. In the last two years, China has imposed trade and investment sanctions on the following actors for disagreeing with them: Vietnam, Taiwan, the Philippines, and most recently South Korea in a very, very high-profile way. The question is what kind of effect is that having on popular sentiment and business sentiment?

I think it's still early days, but there's some interesting initial indicators. I get this in some of my work at Eurasia Group where we have our clients coming to us and talking about the China risk.

In South Korea, there have been a variety of polls. There was just recently a new ASEAN poll out today that talks about how -- rates China as the least preferred country for doing business after North Korea. Now, I'll grant that South Korean sentiments about China are fairly volatile. They change pretty quickly. But nonetheless, it'll be very interesting to see over the next three years if we see a sustained shift in business sentiment in South Korea.

Also recently there was some very interesting surveys done by JBIC, the Japanese government-sponsored investment bank, in which China has moved from the number one most favorable source to investment now to number three after India and Vietnam. Now, of course, there's good economic reasons for doing that, but, you know, for those of you that study Japan, this sort of mood and the shift toward the so-called China Plus One strategy has only gained more momentum in recent years. And, of course, the Chinese playing around with sanctions over rare earths have had an effect, as well.

Now, of course, that said, China still offers an enormous amount economically for the region. It's the largest economy. It's still growing at a fairly rapid pace. And most importantly, China is leveraging one of its greatest resources, which is the ability to marshal enormous amounts of government

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resources for overseas investment. Simply put, the fact that China can offer hundreds of billions of dollars of investment overseas, especially in infrastructure, at a time when infrastructure bottlenecks are one of the biggest structural challenges to regional economies to grow, that offers China an enormous advantage.

The last factor to think about in the economics and security relationship with China is the military one. Simply put, the PLA is growing, it's modernizing, and it's only becoming more active and present in Asia. That is clearly accentuating security dilemma dynamics in the region. And the question is how will that manifest in economic behavior? So China clearly and different trends in the Chinese economy are going to affect this relationship.

Variable number two to look at is regional security architecture. As I mentioned before, middle powers in Asia are increasingly focused on security diversification, spoke-on-spoke interaction, in ways that outpace past trends. I think it's the most interesting trend in regional security affairs. What amounts to ultimately in terms of shaping power relationships in the region is unclear, but the fact that you have new geometries like Japan-India, Japan-Australia, India-Australia, Japan-Vietnam, Vietnam-the Philippines, and even Philippines-Indonesia, and Malaysia, these new dyads cannot be ignored.

And in almost every one of these cases, there's a strong overlap between security cooperation and economic cooperation. Now, in part, that's because you have very smart powers, like Japan, that use the economic component, trade and investment component, to reinforce the security component. But nonetheless, I think that the extent to which this kind of middle power cooperation is matched by an economic component I think raises very interesting questions about whether or not we will see even more economic integration at the same time that we see more security competition.

The third variable to look at is Asian trade regimes. So stepping back from the security equation and the growing interaction between middle powers, what's going on in the trade and investment story? And really the big economic story in Asia is what's going to drive the next round of trade liberalization now that the U.S. has withdrawn from TPP? I'd offer that we all look at a couple variables.

Number one, what happens to the TPP 11? Do they go out on their own? Do they seek to consolidate their gains and hope that the U.S. changes its mind at some point in the future? Early indications are very unclear. There was a very interesting meeting in Chile just last week in which my

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understanding is that Chile and Australia and to some degree Japan were interested in breaking away. Obviously, that means modifying the articles of TPP in order to ensure that the TPP 11 go forward.

But if the TPP then don't sort of formalize themselves in a TPP 11 type of agreement, what does that mean for other regional agreements? So that raises the obvious question what's going to happen with RCEP?

Here's the interesting thing about RCEP. Negotiations have been going on beginning 2012, 2013, depending on how you count. But there have been 17 rounds of negotiations to date. The RCEP negotiators would like to complete the agreement by the end of this year because, as Joseph rightly pointed out, it's ASEAN's 50th anniversary and what better way to cap off an anniversary with a big, new, fancy trade agreement? But the kind of barriers to progress by the end of this year are very, very substantial.

Number one, there hasn't been basic agreement on the scope of tariff liberalization. Are they going to try and liberalize 90 percent of the tariff lines? Eighty percent? Eighty-five percent? Or are they going to pursue a differential approach? So the most basic, fundamental questions haven't been agreed upon.

Number two, the differences and disagreements between China and India on the ambition of the agreement is proving to be more problematic and contentious in the negotiations than the Japan-China dynamic. In fact, Japan's smart efforts to raise the standards have actually been met with a fairly positive response from the Chinese, who, as we all know, are now trying to position themselves as one of the leaders of globalization.

Number three, ASEAN remains fairly resistant on services liberalization. And if ASEAN's ever going to make significant progress on the ASEAN economic community, it's going to require major liberalization of services, especially financial services. That's the one area of liberalization that could open up new sources of prosperity.

And then, of course, as I suggested at the beginning, the timeline is very, very aggressive. I think it's very unlikely that they're going to be able to reach an agreement by the end of the year. There may be -- it's possible that a framework agreement will be reached by the end of the year, but an actual trade agreement looks hard.

A key factor to watch is watch what I call the Asian 7. These are the members of TPP who are also members of RCEP: Japan, Australia, New Zealand, Singapore, Malaysia, Vietnam and Brunei. They're going to be a very influential, very important swing party in understanding what happens with TPP, but ultimately how ambitious RCEP is going to be.

Third factor to watch, the Pacific Alliance. Now, it's call the Pacific Alliance, but it's actually a Latin American trading bloc that includes Chile, Mexico, Peru, and Colombia. Watch them. If TPP 11 doesn't go forward, there could be a very interesting convergence between the Latin American members of TPP -- Mexico, Peru, and Chile -- and RCEP. Do they make a bid to join RCEP? How does that affect RCEP negotiations?

It's interesting because Chile hosted this meeting last week and, of course, Chile, Mexico, and Peru were there. But they also invited Colombia, as well, the fourth member of the Pacific Alliance.

And then, of course, lastly, we have to watch what happens with OBOR and AIIB.

So watch the future of Asian trade regimes. That's going to define the next round of trade and investment liberalization and it will tell us a lot about the extent to which it does or doesn't constrain the security competition and diversification.

And, of course, lastly, the last issue is the U.S. role in Asia and Trump. A lot has been said. Stanley Roth gave us an excellent framework for assessing. All I would say is, number one, of course there's a lot of uncertainty and anxiety because it is early days. There's no clear strategy. There's been heavy focus on northeast Asia. Their interest in Southeast Asia is unclear. And we don't really understand how Asia does or doesn't fit into sort of Trump's broader foreign policy world.

Number two, I think we need to look at the extent to which what Trump does domestically in the U.S. and internationally actually becomes a domestic political liability for other governments. I share Stanley Roth's concern about the way in which the prime minister of Australia was treated -- treated, not tweeted. (Laughter) Actually, he probably was both treated and tweeted poorly. But my point is if Trump, for example, takes a very, very tough positions on Muslims and Islam, especially as the fight against ISIS expands, I think it could create real tensions and constraints in the ability to strike good relations with Indonesia and Malaysia. So Trump's policy could create domestic political risk and



liabilities for countries in the region.

Of course, there's the question of does Trump have an economic agenda for the region? I think we all would like to hear what his strategy is absent TPP.

And then ultimately, what's his China policy really going to look like? I thought Sam did a wonderful job explaining the sort of sine wave of ups and downs. I mean, it's just exhausting trying to watch the U.S.-China relationship and figure out what trajectory it's on. But that will have, obviously, a very defining influence on economics and security.

So with that, thank you very much for your attention and I'm happy to -- if there's one or two questions, happy to take them. Thank you. (Applause)

MR. BUSH: Thank you very much, Evan. That was outstanding. I have to apologize to my colleague, Jonathan Stromseth. He was supposed to introduce Evan and I know he was looking forward to doing so, but I was just --

MR. MEDEIROS: And I was looking forward to receiving the presumptive accolades, Jonathan. (Laughter)

MR. BUSH: I was just on autopilot and forgot, but I feel very badly about that.

MR. STROMSETH: Can I ask the first question?

MR. BUSH: Yeah, please. Go ahead.

MR. STROMSETH: Thanks, Richard. Evan, I just wanted to follow up maybe --

MR. BUSH: Wait for the mic.

MR. MEDEIROS: You can repeat your introduction now, if you'd like.

MR. STROMSETH: Yeah. (Laughter) That's okay. It's good we've known each other a long time.

MR. MEDEIROS: Yeah, we've known each other a long time.

MR. STROMSETH: I just wanted to follow up like a theme that Stanley introduced, I think Joseph obviously touched on, and you've now touched on now. As someone who was instrumental in formulating the rebalance and also the focus on Southeast Asia and the emphasis and the regular visits of President Obama and other senior officials to Southeast Asia, I just want to ask you, if I could, what are your concerns and worries if that doesn't really come into the picture of the Trump Asia policy? And

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particularly, as we come up to the fall and we have APEC and EAS and ASEAN summits and so on, and if the president doesn't go there.

MR. MEDEIROS: So, as you know, Jonathan, and based on my work when I was in government, I think Southeast Asia is a region of enduring economic significance and strategic importance to the United States. So aside from the obvious demographic issues, you put all the economies together and it's the fourth-largest economy in the world by GDP. It's, in aggregate, America's seventh-largest trading partner. And then, of course, the United States has a longstanding and very substantial stock of FDI in the region. So economically it carries a lot of weight.

It has some of the most dynamic and fast-growing economies in the world. Just look at the Philippines, Indonesia, and Vietnam, you know, as a case in point.

And then strategically, I mean, it's very clear that it is one of the arenas for competition between the United States and China for influence. And it's not just over the South China Sea. It's, you know, other issues, as well. So there's no question that it's of enduring value to the United States.

I think the Trump administration, they have made some initial moves on Southeast Asia. Tillerson met with all of the ASEAN ambassadors here in Washington. My understanding is he has invited all of the ASEAN foreign ministers to Washington, and that meeting will occur in April or May. They're talking with the Vietnamese of potentially having the Vietnamese prime minister, Prime Minister Phúc, come and visit Washington. And then, of course, there's the question of whether or not he'll attend the EAS.

So there's not no momentum, but I think the principal cost involved is just a missed opportunity. Right? I mean, as Joseph I think very nicely pointed out, you know, if ASEAN is constantly worried about being pulled between the United States and China, and the United States is not there, you know, obviously that changes the strategic equation. I don't think it changes the strategic equation to such a point at which you'll begin to see Southeast Asia countries undermining their own economic and security interests simply because China's the only game in town. I mean, the United States has a strong incumbent presence in Southeast Asia. That doesn't vanish overnight.

I largely see it in terms of the United States losing out an enormous opportunity for one of the fastest-growing parts of the world that is at the center of this issue of who will define the security order

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for East Asia. And as I said, there are -- you know, the U.S. has strong views, China has strong views, Japan has views, India's getting more involved. And I think ASEAN -- or I should say Southeast Asian countries have a role to play in that question.

MR. SOHN: Bill Sohn. The (inaudible) and other people wrote in a foreign policy article that the United States, I mean, in the case of TTP, oversold security dimensions of TPP and then sacrificed economic benefits, and then said that you will never do that again. Do you think that -- I mean, clearly, you talked about the security-economics nexus. Do you think that the United States will not use, you know, that kind of security implications of the economic deals in the future?

And second is that the other way around USTR and a recent report that, you know, United States will use every effort to open the falling markets, and do you predict that they will also use kind of, you know, defense commitment as a leverage to twist arms of your allies economically in economic deals, hypothetically?

MR. MEDEIROS: Sure. So the last thing I'm going to do is make any predictions about the Trump administration. You know, I've talked with some of them from time to time; very difficult to understand their approach to these kinds of questions.

What I will say is sort of looking at the broad arc, the broad bipartisan arc of U.S. ties with Asia, it's pretty seldom that the United States has ever used its security commitments as a way to leverage market access and market opening on economic questions because that's obviously a very costly strategy. It calls into question the credibility of those commitments because they seem to be a function of economic openness. So there's not much -- the U.S. doesn't have much of a track record, but it's difficult to say whether or not Trump would seek to use that particular source of leverage.

What I would say is on the flip side, I think it's very well understood as a matter of sort of general bipartisan consensus that increasingly trade and investment issues in the Asia-Pacific should be seen in strategic terms. In other words, they influence the power relationships across the region. And that was one of the logics behind TPP.

I mean, I remember when we were debating TPP. We were debating joining EAS. We were looking for an economic component for the rebalancing strategy. There was a broad-based recognition that those countries or group of countries that shape rules and norms regarding trade and

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investment will shape strategic affairs and power relationships. So I would say that I think there's a broad recognition across the spectrum in the United States that in the Asia-Pacific economics is security, economics ultimately is strategy.

What Trump will do, whether or not they share that recognition, it's hard to say. If they did, it's difficult to understand why they would have so precipitously withdrawn from TPP as opposed to conduct a policy review, do a cost-benefit analysis, and then say, hey, let's renegotiate aspects of TPP that don't provide sufficient economic benefit as opposed to simply throwing the baby out with the bathwater. My view is trying to negotiate a series of bilateral trade agreements to replace TPP sort of misses that broader strategic point. And from my conversations in the region, that's how many policymakers in the Asia-Pacific view it.

So with that, thank you very much for your attention and I look forward to seeing you tomorrow. (Applause)

MR. BUSH: You've all been very patient and attentive. I hope that most of you can come tomorrow. We'll start with a broad look by Brookings colleagues at the future of the United States, to speak in a way to some of the uncertainty that we heard expressed today. Then a sort of more specific look at three issue areas: economic integration, North Korea, maritime issues. Mike Green will speak to us at lunch. We'll be back here at 9:00.

Thank you very much.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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