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America's Future

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P R O C E E D I N G S

MR. BUSH: Ladies and gentlemen, why don't we get going? We have a lot to do today. For of you who weren't -- weren't here yesterday, I'm Richard Bush and I'm very pleased to welcome you to our conference on U.S.-Asia relations and the Trump administration. Yesterday, we had a very good discussion about the economic prospects for Asia and the prospects for Asian security. And a number of our conference participants who came from Asia provided us a lot of good perspective on that, but one thread that was running through the whole discussion was -- what should I say, profound uncertainty about the direction of the United States and the Trump administration. So that's what we're going to address today and four of my colleagues here are going to talk about the various aspects of this discussion.

First of all, William Galston who is the Ezra K. Zilkha Chair here at Brookings in the general -- Governance Studies program. He's going to talk about what the campaign tells us about U.S. politics and its future. Bill was a former policy advisor to President Clinton and he's an expert on domestic political campaigns and elections. Second, E.J. Dionne is a senior fellow here at Brookings. He's a syndicated columnist -- columnist for The Washington Post. Always worth reading and university professor at -- in the Foundation of Democracy and Culture at Georgetown University. Ted Gayer, is president and director of the Economic Studies program here at Brookings and the Joseph A. Pechman senior fellow at the Brookings Institution. He's going to talk about the economy, obviously. And then Constanze Stelzenmüller, is in the Foreign Policy program. She's the inaugural Robert Bosch senior fellow in our Center on the United States and Europe, and she was the German Marshal Fund of the United States before coming to Brookings.

I think there's one PowerPoint presentation, so what I'm going to do is ask each of the speakers to come up in turn and then, we're congregate after the presentations for Q&A. So, Bill, would you like to go first?

MR. GALSTON: Well, thank you, Dick. Is there going to be someone helping out with the timing because I -- thank you, because with so many speakers, I do not want to overstay my welcome. Perhaps, the most quoted line of the U.S. presidential election was by a reporter name Salena

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Zito, who said that, you know, Mr. -- Mr. Trump's adversaries took him literally, but not seriously while his supporters took him seriously, but not literally. It turns out that both his adversaries and his supporters were wrong. At least when it comes to U.S. foreign policy, they should have taken him both seriously and literally because there has been a remarkable continuity between the election campaign and subsequent developments, or so I believe.

I'm going to divide my remarks into two parts. One trying to redeem what I just said and second, putting a few -- pieces of evidence from survey research on the table so you can see what the debate in the campaign actually revealed about American public opinion on issues that are relevant to today's gathering. I begin with my Brookings colleague, Thomas Wright, who did something very important in the middle of last year. He took Donald Trump both seriously and literally; sat down and worked through three decades of his public utterances and -- and statements and writings and concluded that this man was not a blank slate at all. That there were three issue areas where he had been ruthlessly, bluntly consistent from more than three decades and they are: the, you know, the evils or imbalances of our trade relations with the rest of the world; the devastating impact of uncontrolled or allegedly uncontrolled immigration on the United States and economy; and, third, the fact that -- that he believed that American foreign policy had turned into a charitable venture and that it was time to apply an American first perspective, which means a kind of very material balance sheet. Are we getting in material terms what we're giving, or are we being taken advantage of and in the Trump universe, nothing is worse than being taken advantage of.

And so we learned -- we learned during the campaign that this perspective involved a transactional approach. Where, on one side of the table are allies, actually our negotiating adversaries, even if they're allies, are on the other side of the table and what do we give? What do we get? The balance sheet -- the numbers don't work, we should walk away from the table. We also learned that candidate Trump has a marked preference for bilateralism over multilateralism in both trade and international relations more generally, he -- he prefers to go up with or against other nations one-on-one with the belief with the possible exception of one nation and I'll come back to that nation in a couple of minutes. We will always prevail, you know, one-on-one negotiation.

We learned during the campaign that he rejected the Trans-Pacific Partnership, root and

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branch. People were not sure that Hilary Clinton meant it when she rejected TPP, they were quite sure that Donald Trump meant it, you know, and I was from the very -- I never doubted for a minute that he would rip it up as soon as he got into -- into office. And he was against it, in part, for economic reasons. In part, because it was multilateral, and in part because he really did not -- he did not accept the logic that it was part of a regional security architectural.

President Obama was absolutely right when he said that if the United States doesn't write the rules and the reach in China would; but either candidate Trump didn't believe that, or he didn't -- he didn't care. He argued during the campaign -- and I think this is likely to prevail -- that China is more an adversary than a partner; that is was time -- it was time to abandon a strategy, of an effect tacitly enabling China's rise, and to think about matters differently. Mr. Trump is not the only person to have this thought, and I think a reasonable case could be made that U.S.-China relations have reached something of an inflection point, or at least a point where premises that have guided us for more than a quarter of a century will need to be debated.

The final thing that became clear during the campaign is that there is a subset of Americans, for whom the views that I've just stated, turn out to be highly attractive and strongly mobilizing. People whose lives are going badly. People who crave, not only an explanation for their disappointment, but also someone to blame. And in this connection, it became very clear that merely invoking abstract causes such as automation, globalization, demography, development, post-industrial society; forget about all of that. Right, if something's going wrong, you don't want to blame a sociological theory, or an economic theory, or a demographic theory. You want to blame someone or something in particular. Okay, those are a few of the things I think we learned during the campaign.

Now in the second half of my remarks -- how my doing on time, please? Five minutes? Perfect. Second half of my remarks, I just try to lay out a few of the many things that we learned from high-quality survey research during this period.

Number one, from the Chicago Council on Global Affairs: Do Americans reject globalization? Answer: no, they don't. Overall, about two thirds of Americans continue to believe that globalization is more good than bad for the country; 74 percent of Democrats believe that; but so do 59 percent of Republicans.

When the question is not globalization, but rather trade, matters get more interesting. Also from the Chicago Council: Is trade mostly good for the U.S. economy? Yes. American companies? Yes. Consumers like you? Yes. Your own standard of living? Yes; and Democrats and Republicans agree on those four propositions. But, is trade as currently configured, good for creating jobs in the U.S.? No, and both Democrats and Republicans agree to that. Does it promote job security for U.S. workers? Again, no, and both Democrats and Republicans agree on that.

Interestingly, if you take not just a snapshot, but a few of these developments over time, you will see that the two parties -- the two parties have flipped position on trade. As recently as 10 years, Republicans were far more pro-trade and trade treaties than Democrats; and there have been absolutely huge, staggeringly large swings in that relationship ever since. So just to give you a few examples. Is trade good for the U.S. economy? In 2006, Republicans by eight percentage points were more likely to believe that proposition, or to affirm that proposition than Democrats. 2016, Democrats were 17 percentage points more likely to affirm that proposition than Republicans; and I've reviewed in detail, the chronology of each one of the six categories that I just laid out, and it's all -- and the trends are all the same.

Let me just conclude with a couple of -- a couple of minutes on China. There has been a sea change in American public attitudes towards China, I think reflected in this election. Ten years ago, 52 percent of the American people expressed favorable attitudes towards China, versus 29 percent who expressed unfavorable attitudes. Ten years later, that 52 percent favorable rating turned into 38 percent, and the 29 percent unfavorable rating had almost doubled to 55 percent. There has been no change during that period in Chinese attitudes towards the United States; interestingly.

And let me -- let me conclude with a remark out of area, so to speak, on NATO. Question: In case of a Russian attack on its neighbors, should the United States honor its Article 5 treaty obligations? Yes, 56. No, 37. Pretty good, especially when you stack it up to a lot of European countries. France, 47 say yes; 53 percent say no. And I regret to report that in Germany, only 38 percent returned an affirmative answer to that question; and 58 percent expressed grave doubts about Article 5 treaty obligations. A finding, I must say, surprised me very much. And with that, on with the show.

MR. DIONNE: Thank you very much. It's an honor to be with some of my very favorite

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Brookings colleagues. I want to thank Richard for asking me here. I feel very deeply about Richard because I met my wife 30 years ago this year, and he -- she was working with Richard at the time on Capitol Hill. So I'm very happy to be here -- and I'm happy we're still together 30 years later.

The other thing I want to say is that when I was asked to talk about how we would govern ourselves in this period, my first response was laughter. And it was not a happy laughter, it was the laughter of, how does one answer this question when so many of the signals are contradictory; and when it is exceedingly difficult to figure out where this administration is at the moment on a number of issues; and I want to -- I want to get to that. It's appropriate we're talking about this today, because today there are two very big tests of how we will govern ourselves in this period.

Test one, is whether the Republicans in the House can pass this health care bill to repeal the Affordable Care Act; to repeal Obama care that is changing by the hour because they are still short of votes. The other is how -- what is happening at this very moment in the House Intelligence Committee. Devin Nunes -- as many of you know -- yesterday, made a series of statements in front of the White House that, to say the least, greatly bothered many of the Democrats on the committee; and I suspect quietly perhaps some of the Republicans, and there is great division on that Committee. A lot of Democrats are saying that Mr. Nunes can't simultaneously be a defender of the president and investigate him at the same time. So I think there -- these two showdowns will actually be quite revealing about where we are going.

I just want to underscore a couple of things that Bill said that affect what I'm going to talk about. I do think that it's important to see that attitudes toward trade in a sense -- support for free trade has been deteriorating for a long time. President Clinton who passed NAFTA, famously, had difficulty with trade votes later on, and I think this very, very much affects attitudes toward China. Because I think the laws of manufacturing jobs accelerated after 2000-2001, and the loss of manufacturing jobs has had a powerful impact on the American economy. Donald Trump would not have won his exceedingly narrow victories in Pennsylvania, Wisconsin, and Michigan without great concern about the loss of manufacturing. A lot of communities have been hollowed out by the loss of these manufacturing jobs. Those are the kinds of places where Donald Trump did slightly better than Mitt Romney did and slightly better was enough.

And so I think that this is an underlying theme, and as Bill suggested, you're seeing a change in the Republican Party and its attitudes towards trade. I think some of that are Republicans following the new leader of the Republican Party, but I also think it reflects a kind of scepticism. Now as Bill also said, I don't think Americans want to blow up the entire global economy, but I think there is a degree of scepticism on both the right and the left, reflected in Bernie Sanders campaign and the Trump campaign that is very important.

I want to underscore something about governance in this period. Since 1954, that is 63 years ago, the United States has only had -- correct me if I'm wrong, Bill -- four and a half years of unified Republican government. That is to say, periods when the Republicans controlled the House, the Senate and the presidency. Because when the Republicans started winning back either the House or the Senate, Bill Clinton was president. And you had the first roughly half year of President Bush's term, and then Senator Jim Jeffords of Vermont switched parties and the Democrats took over.

The Republicans then took over both chambers in 2002, got them again in 2004, lost them in 2006. So there is actually very limited variance in the United States with unified Republican government and I think that very limited experience also may affect the ability of the Republican Party to govern. Because even in that four-and-a-half year period under President Bush, they had enormous difficulty enacting President Bush's program. And to go to today's vote on the Affordable Care Act, one of President Bush's signature initiatives after the 2004 election was to partially privatize Social Security.

This was a proposal that he could not get through a Republican House. Why is that? Well, it is very hard to alter or take away a long-standing benefit. And it turns out that with the Affordable Care Act, it's not such a long-standing benefit, but there are now a lot of beneficiaries of the Affordable Care Act. And especially complicating the Republicans task, a lot of those beneficiaries voted for Donald Trump. And there is an American folksinger, whom I have invoked as a political philosopher who once -- Joni Mitchell -- who once said, "You don't know what you got 'til it's gone." And what's happened with the Affordable Care Act is a lot of these beneficiaries have suddenly realized that it's repeal would take their healthcare away, and so you are seeing resistance in the hard core of the Trump constituency. In states like Arkansas, West Virginia, Kentucky, Louisiana. These are states where a lot of people gain coverage, so I think that is a core Republican difficulty.

The one area where win Republicans controlled, they had some success is tax cutting, and I also think this has to do with where the interests of the two parties lie. A very thoughtful Democratic Senator told me recently that part of the Republicans problem on healthcare is they hadn't thought about it very much; and he was not making that as a partisan point. He was not saying Republicans were stupid. He was saying that, we, Democrats because we had to pass the Affordable Care Act, had to educate ourselves on healthcare. Republicans, since they knew they were going to oppose the bill, went to other places. But even on tax cutting, I think you're going to see -- you see some interesting tensions inside this Republican coalition, particularly between different sectors of the corporate economy in their attitude toward how to reform and cut the corporate taxes. So there is a real problem there.

On foreign policy, I think that it is very hard to read the Trump administration because there really seem to be two entirely different wings of the Trump administration within this government. It struck me that when General Mattis and Mike Pence were in Europe, they were giving reassurances on NATO that seemed quite different from some of the signals that were coming out of the Trump White House. I was wondering whether we had gone from an elected presidency to a constitutional monarchy where the cabinet was expressing the real views of the government and the president was speaking more symbolically. But I think it's entirely unclear where this goes. I think that within the Trump administration there is a camp -- typically associated with Steve Bannon, his chief strategist -- that is sceptical of the European alliance; obviously, sceptical of the relationship with China, and but to -- particularly, his focus is on Europe. And we -- I think it's very hard for anyone to predict where this conflict will take place. There's almost a little McCain camp inside the Trump presidency, and there's a very anti-McCain camp inside the Trump administration. So I think it's very hard to read where that will go.

The last thing about governance that we cannot ignore -- and I'll just return to where I started -- is the ongoing investigation of the Trump administration's -- Trump campaigns relationship with the Russian interference in the American election. I have the view, by the way, that I think in the long-run, this will have been a very big mistake by Russia because I think you are hearing from -- particularly from the liberal and democratic side of American politics a critique of Vladimir Putin and his regime that is more profound than you have heard from that side of politics in a long time. There is real anger, and there's also a focus on the Putin government that you have never seen in the American media before. So I think

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this could be a very long term problem for Putin and Russia. But in the short term, it's a clear problem for the Trump presidency and the testimony last week was not helpful to Trump. His tweet about President Obama having his, "wires tapped," was not helpful to President Trump. And I think that until we resolve this question of who and what happened in terms of collusion between anybody in the Trump campaign and this Russian effort, it will be a dominant issue in our politics. A dominant issue in our media and it will make it even harder to govern a country that went into the Trump presidency very divided.

Last point I want to make is to try to understand what the real political base of the Trump presidency is. I have two favorite numbers from the exit polling in the -- in the last election. First, I think it's very important to understand that Trump's margin of victory did not come from people who ardently support Donald Trump. It came from people who disliked both presidential candidates and disliked Hillary Clinton more. In the exit poll, 18 percent of Americans said they had a unfavorable view of both Hillary Clinton and Donald Trump. Those voters voted 47-31 for Donald Trump. They are the margin of victory. That is not the Trump base. They are people whose support for Trump is fragile. And I'm think that you are seeing that in the opinion polling where President Trump is now down in a (inaudible) poll yesterday, I think he was down at 37 percent approval which is unheard of for a new president. He's even losing some ground among some of his core constituencies. If those of you read my column, know I am not sympathetically disposed to President Trump. If I were to give him advice, I would say your problem is not shoring up your base; although you're losing that. Your problem is that the Americans who voted against you are still against you, and some of the Americans who voted for you are moving against you; and you probably ought to think about doing something different. Thank you very much.

MR. GAYER: Good morning, everyone and thank you, Richard, for the invitation. When I made this title, I had some reservations. I'm an economist, but I'm also an aspiring pretend psychologist. There's a great psychology study that judges judge more harshly before lunch than they do right after lunch. And so when I'm talking about what's going well and what's not, I feel like I should disclose I have yet to have breakfast so that my influence -- my presentation of the facts on the ground a little bit, but so be it. And that what may happen is a steady state of confusion no matter what I've eaten or not eaten. So I'm going to just give a little bit of what's going well. I'm going just give a landscape of the economy as we know it and touch on some policies that my colleagues have already referred to.

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This is on the what's go well. That's what going well the -- what's going well is job growth; 77 consecutive months of job growth. We've added about 15.5 million jobs since the depths of the great recession. A couple of years ago, we were averaging about 187,000 jobs a month, which is well above what you need to lower the unemployment rate. It kind of ebbed a little bit, and then in recent months, it's kind of gangbusters again. You can't interpret it too much from just a few months but, you know, we've had about 240,000 jobs per month the last few months. So you can see the great trough of the great recession -- all those job losses -- and we've been digging out ever since at a fairly substantial pace.

Which leads to the question of, you know, how much more digging out can we do? And this is a view of where the unemployment rate is. I'm focused on the middle line; the gray line is the unemployment rate. Keep in mind, unemployment rate is how many people don't have a job, divided by how many people are actively looking for a job, so it's conditional on looking for a job. And you can see we're at 4.7 percent, which is lower than we were before the recession. So at -- if you were to just look at that measure, which you wouldn't want to just look at one measure. We are fully recovered and at full employment, and I'll give some of the conditions of that.

One of the things you heard a lot, especially during the campaign, was that the unemployment rate was rigged or somehow misrepresenting. That, I think is an egregiously unfair characterization, but I think the honest look at it is, there's more than one way to look at the economy. So if you look at the top line, what you have there is what we call the U6. So remember, unemployment is how many people are not working divided by how many people are actively looking. Well, you might have some people are working on a temporary job when they'd rather be fulltime. Or maybe they'd just recently given up, they're -- what we call discouraged workers -- so there's lot of ways. You know, the idea of looking for people who are actively -- only focusing on ones actively looking is, if you're retired, we don't want to count you as weakness or slack in the labor force. But even by the more expansive definition of unemployment, you can see we're almost back to where we were, where we started at the beginning of the recession -- not quite but, you know, 9.2 percent; which is only slightly elevated. So there again, the job market is looking fairly robust.

And then the last one was fairly unique to this recession which was the long term

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unemployment rate. This is unemployment conditional on being unemployed for more than 26 weeks, and there's all sorts of problems of trying to get back into the labor market after you've been on unemployed that long. We had a historic peak there, as well, during the recession and then in the aftermath, and there again, we are back to -- pretty much back to pre-recession levels. So again, all this is good news in a sense of we're close to a full employment. Now a full employment is, in some sense, a term of art and a lot of what Bill and E.J. was reflecting, I think it reflects the underlying discontent that's going on in our population. So one might worry -- wonder -- like, how can you claim your full -- fully employed with a very low unemployment rate and still claim that -- and still have observe all this discontent.

And one of the aspects of this is both economic and a little bit has political ramifications is labour force participation. So if you're out of the labour force altogether, you're not included in the unemployment rate. And as you can see for men, this is for all ages, we've had just -- in the last few decades -- just consistent decline in men's participation in the labour force. Women; we had a kind of the surge in the 50s and 60s, through the 80s and into the 90s of women entering the labour force. It plateaued in the 90s and there again, in subsequent years, it actually diminished. So our labour force participation now for women, I think, is even less than countries like Japan, for example; so it's gone down.

Now this is a little bit of a misleading figure because this is everybody. So some of the reasons you see the decline is because of an aging population. So we can age-adjust and show that picture, and I'll get -- I'll get to something similar, too. Some of it is, we had a decline because of the recession. I think that is now behind us. And some of it, is what economists call a secular trend and that's another way of saying we don't know. And that is, if you -- if you look at, you know, a 35-year-old today, and you compare that 35-year-old male today, and you compare it to a 35-year-old male a generation ago, that person is less likely to be in the labour force. And there's all sorts of theories of why that might be; some more, kind of, damaging than others and I'll get to that in a second.

Another measure -- these are all, kind of, quantity measures. How many jobs do we have? What's the unemployment rate? And, you know, as I said, there's multi measures. Another, kind of, reliable measure is a price measure which is, if the labour market is tight, you would expect wages to

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increase. And, you know, that first picture I showed you of your month-after-month of job gains, yeah, we are getting that; but the wages were -- wage growth was relatively flat. After the drop, it was flat. So as -- if you're sitting in the Federal Reserve, you're like, we should keep easing because there's just -- there's obviously more slack in the labour force because there's no upward pressure on wages; and in other words, we're still digging out. And subsequently in the -- actually, in the last few months, last year, we've seen wage growth suggesting a tightening of the labour force, which influences policy. But obviously, in and of itself is a good thing for the economy and for people's welfare.

So I'm going to turn to the bad news, and I'm going to get back to the labour force participation. And so the question is -- we talked about demographics -- but if you just focus on prime aged men. These are not retirees. These are not young students. These are prime aged, working aged men in the U.S., you can see the dashed black line. And what you see -- and that's comparing you to a bunch of other developed countries, and you can see across the world -- prime aged men have reduced their labour force participation. And what is striking to me about this picture is if you look at the U.S., we went from being on the high end of labour force participation in the early years here, to on the low end near the bottom, I think compared to Italy in recent years.

So something is happening in the U.S., differentially then it's happening in other developed countries that are leading men to not participate in the labour force. And again, I'm going to just -- this is where my lack of breakfast will show through -- and get a little bit despairing on everything. If you focus on education level, you can see -- you can see that, obviously, education makes a big difference. Now if you go back to the 60s, pretty much every working aged men was in the labour force, right. You either worked, you were unemployed and looking for work, or you were dead. I mean, that was pretty much it, and so it's, you know, close -- see, if you go back to the 40s, it's like 98 percent. It didn't matter what your education level was, you were in the labour force. And we can see that for all levels of education, more or less, a decline. Colleges level, relatively flat, but you can see what happens to people without a high school -- or even a D with a high school education, they're considering dropping out of the labour force.

We just published a paper here today at Brookings to be presented tomorrow on a follow-up study on the mortality rates for middle-aged, low educated whites. And there's been a shocking

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increase in mortality rates, reversing a long-term decline in that trend, driven primarily by opiates, alcohol and suicides. And so, it's just -- I think the authors used something like cumulative despair, or -- that's leading to this. And so this -- especially the bottom black line, I think is an element about despair; other numbers just related to that. What are all these men doing if they're not in the labour force when they used to be? They are spending on average 2,000 hours per year watching some screen. About half of them -- that half of the prime aged men who dropped out of the labor force take pain medication, so they're in pain, or addicted to pain medication. As I said, mortality rates are increasing. I mean, there's a whole host of social indicators suggesting bad shape, and when we get back to this, kind of, dispassionate cold view of just how the economy's doing, how much slack is in the labour force, these are people that are probably not -- given current conditions -- going to be re-entering the labour force.

I'll try and go relatively quickly through this. These pictures -- the picture on the left shows you the U.S. economy over about 140 years. The blue line is the size of the economy. You can, if you look closely, see the great depression, but then you see a spike up. And so the red line is the growth rate, and so what you see overall is when we have a declining growth, we follow it up with faster than average normal growth to make up for it; and we basically stay on a 3 percent trend. If you look at the figure at the right, you're seeing what's happened since 2008. That reline is what happens if the economy continued on the long-term trend. Those dots tell you that we had a recession and we never caught up, and in fact, if you look at the gap between them, it's increased over time. So that's problematic, and you have kind of a little bit of a -- perhaps a riddle here with an explanation -- which is, we've added all these jobs in recent years, but yet our economy's not growing very strongly. You put that together. How much output is each additional person contributing to the economy, and you have a measure called labour productivity; how productive are our workers. And you can see different periods here. And if you look before the recession, starting in 2005, there was a reduction in productivity and that productivity reduction has gotten worse. I'm getting signal for one minute, so I'm going to shelf my explanations for why that might be happening.

And just get quickly to the health -- to the policy landscape. This is where a lot of uncertainty comes in, and my colleagues mentioned some of this. I would -- I'm going to, sort of, intellectualize the Trump economic agenda in a way that they haven't. But I -- you know, so be it. There

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are three theories, I think, of what's -- explains the weak growth that we've seen and on the figures that I've just showed.

Theory one is what we call secular stagnation. That the economy has a lack of aggregate demand. It calls for stimulus. People are underinvesting, and so therefore, we need to stimulate the economy through fiscal policy. By and large, it's some (inaudible) was the economic explanations adopted by the Obama administration.

Theory two is we ran out of low hanging fruit. We're just -- there's not enough innovation out there because, you know, you can't -- you can only discover electricity and indoor plumbing once. And it's, sort of, kind of, bred into it that we should expect slow growth going forward.

Theory three is that the economy has been suffering death by 1,000 cuts and those cuts are high tax rates and regulations. I think in the academic community, that's a minority view, but it is a view. And I think the Trump agenda, and the goal for 3.5 to 4 percent growth -- which given the growth -- projections of growth in the labour force and where productivity is would be enormously difficult to do. I hope they make it, but the theory is that those regulations and tax rates are holding us back, which leads to the policy agenda as we currently see it. If you've -- Bill and E.J. mentioned -- trying to repeal the ACA, which is politically very difficult, that entails tax cuts, particularly on the high income. It also impairs -- entails getting rid of the mandate; we can talk about what that means, and replacing the subsidies with a tax credit and really getting the cuts in the expenditure side on Medicaid.

Politically, I don't know where that ends up. It probably makes it through the house tomorrow, and then the Senate is, kind of, interesting. The politics of it is, they kind of, have to get passive. Whether or not they call it a day, and just pretend that they've done something, and do something, kind of, proforma. Or they do something substantial because they're really lining up for corporate tax reform. And there again, there's an internal debate about how deep to go, and how much the idea there is to shift more towards a consumption tax, which would have some winners and losers because it would call for a border tax adjustment between imports and exports. There again, we're going to see -- I think at the end of the day, we get tax cuts. I see the market sees tax cuts, how deep they are depends on how they could work out this border tax adjustment issue.

Also, my discussion of regulation. There the Trump administration has a lot of

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administrative leeway to, at least slow the administrative state in the ongoing regulations moving forward. I think they've acted on that and there are a lot of interesting ideas going through Congress -- which obviously would take a legislative approach, and I think a filibuster proof approach to change the dynamics of regulatory reform to increase the amount of power that the judiciary and Congress have had before the future administrations were to pass large regulations. And that would be a rather fundamental change in how we do regulations here in the U.S. But I think that is lower on the agenda right now, but in the meantime, the administration itself can, kind of, exert a lot of influence in slowing down the pace of regulations as we've seen. So I'll finish there and look forward to the questions. Thank you.

MS. STELZENMÜLLER: Good morning, everyone. I'm European. I don't have a PowerPoint. All right, that was just a little bit of cheap snobbery, I admit that though. I also -- I used to write about defense and security, and I've been around too many of the military -- of the military actively, I think, break out in hives, particularly American generals, but also, German generals if they don't have a PowerPoint. I actually witnessed Davis -- David Petraeus having to give a talk in Berlin and being informed at the last possible moment that he could not show his PowerPoint because there was no provision for it. And if you want to see an American four-star General just come bobulated, this is -- this is the way to go. It was actually kind of fun, I have to say.

So I -- obviously having been preceded by three very distinguished speakers, all with a great deal of knowledge about American politics and economics, and the worldview, I am not going to be so foolhardy as to try and make an incursion on their terrain. So what I've decided to do is slightly redefined my topic and tells you -- tell you what this all looks like from a European vantage point. I myself, as you may have guessed, I'm from Germany. I've been living here for the last two years, but I am a, sort of, European foreign and security policy generalist. I go back to Europe all the time, and I think I have a fairly good sense of how this is going over, as you might say, in -- not just in Berlin, but in other European capitals.

And I think my first important point to make to you, is that we may not have realized it at the time, but the eight years of the Obama administration were something of a high point for trans-Atlantic relations. A high point where the Europeans actually were pushed, in some ways a little bit unwillingly, but were pushed quite deliberately by the White House to take on more responsibility for a security

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provision in their own backyard. And if we're, if we want to completely frank and -- because I also want to be bipartisan about this -- this actually started in the second half of the George W. Bush administration. You will recall that George W. Bush came into the White House with a distinctly dim view of Europe. His secretary of defense, Mr. Rumsfeld had an even dimmer view. Remember the famous quote about, "old Europe versus New Europe." That shifted quite significantly in the second term, and relations by the end of the Bush administration were actually quite cordial.

Now right now, things look a tad different and they are -- I think my predecessors were right to say, that the picture is still inconclusive. What we're seeing from Europe is something of a tension within this administration between what you could call, the traditionalists and the ideologues, and that tension is very obviously unresolved. We've seen a couple of plays and counter-plays, but it's not at all clear who will win out here. I, by the way, agree with Bill. I also took President Trump both literally and seriously, and continue to do so. And I think in the field that we're talking about, particularly the hard power and security field, as you know, words have -- can have -- the weight of nuclear weapons, and not least because -- and this maybe speaks to our economist colleagues -- that our field is something of a futures market and words lead to things being priced in, before they're actually turned into policy.

Now it's also worth saying, that from a European vantage point, these traditionalists are in, on some levels, reassuring because they say things that we're used to hearing about NATO and the EU, which is that this is good and American's interest, and also in ours, obviously. But in some ways, they're actually not that traditionalist. And in fact, I have to confess, I was on a chat show last fall before the election with a very well-known German politician, Ave DeLinka, former finance minister; a pretty hardline ideologue, Oskar Lafontaine -- might be known to one or two of you -- who said -- well, repeated his often -- his often stated opinion that America, and particularly Hillary Clinton, was all about (inaudible), a statement monopoly capitalism and the military industrial complex. And I, at the time, more or less, went nose-to-nose with him and said that this was crude, and hadn't even been cool at the time that these terms were invented.

Now, if you look at the current cabinet, there's some case to be made that Eisenhower would actually recognize a military industrial complex, and so the appointments there is an awful lot of gold man sacks in there, and of course, a lot of generals. But the thing that I think really is of concern to

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Europeans, and particularly to Germans, is of course ideologues, and the ideologues it has been -- it has been noted aren't actually in cabinet positions. They are in advisory positions that haven't required them to have -- to get a congressional appointment or hearings, but they appear to have the ear of the president, and we know from their -- from their writings and from the videos of their speeches, such as Steve Bannon's famous speech to the Vatican, that they have fairly forceful views on what the world is heading for, and particularly, what's good and not so good about Europe.

And here, I think it's -- there's two things that strike Europeans as different and -- in a -- from previous thinking on the American right. One, that this is actually not really traditional right-wing thinking in the way what -- that we know it, or even conservative thinking -- that we've been -- become familiar with on the American right. It's also quite distinct from American new conservative thinking. And in some ways, what you have here is a juxtaposition that we also see in Europe between defenders of open society, as of political purilism (sic), of representative democracy, and of a liberal world order. And opponents who say all of this is actually -- destroys civilization, destroys the privacy of the white man, and what we need to go back to are societies that are much more closed, they are much more White, and less burdened by entangling alliances.

What's also concerning from a European point of view is that there's -- appears to be in the rhetoric of the ideologue, a distinct emphasis on war. And on war as something that is actually beneficial because it leads to, as it were, a cleansing of an unfortunate state of affairs and a renewal. This is rhetoric that particularly, we Germans, are familiar with and don't, you know, really -- really, sort of, don't have any particular needs to -- how do I put this, (laugh) without being really rude? But it's something that we thought we had gotten over, let me put it that way, and of course, we also thought it couldn't happen here.

There's three elements to this war narrative, and all of them I think have serious ramifications for Europe, and particularly, from my country, Germany. The cultural war narrative, the trade war narrative, and the war narrative. The cultural war narrative is the one that says -- basically builds on Samuel Huntington's "Clash of Civilization," only more so. It blends fairly seamlessly with the narrative of a white supremacist, who have in fact, been celebrating this fact on social media -- if you care to follow that. I have been following it. It's not pleasant to see, but it's instructive. And in this narrative, of

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course, Europe is by -- set by Muslim hordes who are aiming to overthrow the achievements of Judeo Christian culture, and the figure who has been particularly egregiously harmful to Judeo Christian supremacy in this context is Anglo America; by as it were, opening the (inaudible) gap to these Muslim hordes by letting in Syrian refugees -- 800,000 of them -- Syrians and others, that has to be said, in 2015.

Now I don't think I need to say to you how reductionist and crude this analysis is. It completely leaves out the role of both America and Europeans, and the Russians indeed in Middle Eastern wars that has led to this migration outflow and this influx into Europe. But it is -- it is -- this narrative alone is enough, I think, to separate a sort of modern pluralist democratic European from this thinking.

Then there's the trade war narrative. That's been much on evidence in -- recently. Not just in the Merkel visit here to the president, but also in the pronouncements of (inaudible), Peter Navarro, the new head of the new Trade Protection Council, or the op-eds written by Mr. Malock who appears to still be in -- on course, or want to be on course for EU -- sorry, U.S. ambassador to the EU.

And finally, there's the security narrative. The security narrative, of course, is one that we have also become intimately familiar with, not least through the president's tweets. One, in which NATO is a transactional affair, in which America protects Europe and Europe pays dues for that. It appears to be a thinking that is, sort of, a melange between a golf club and a protection racket. And that is, you know, you've had -- you've had several American former ambassadors to NATO explaining why this is actually not what the Washington Treaty -- the NATO treaty is about. It's not -- that this alliance also protects American interests. It has been mentioned that European nations pay for American bases. I think we cover about a roughly a third of the cost of American bases in Europe. But still, these images are very powerful, and it's something that we are clearly going to have to deal with.

The point that I think most concerns us, because the president has been making some conciliatory noises about NATO and about European individual partners, the point that most concerns us, I think, is the -- more or less, open hostility to the EU which has been variously described as unaccountable, undemocratic, and in fact, inimical to trans-Atlantic security interests in the writings of some Washington think tanks. That at a time when Europeans, of course, realize the failings and the defects of the European Union. Of course, realize that some of it's -- that's regulations, it's bureaucracy.

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It needs to be aproned, but are at the same time, discussing the need for a further deeper integration among, at least some European partners on issues of common concerns that we believe we cannot solve otherwise. Such as Eurozone management. Such as the management of immigration, and such as common defense and security. That's -- that I think is the single greatest source of concern in the rhetoric of this administration.

And again, the thing that is most worrying to Berlin is that we know -- if there's one country in Europe that is the most dependent, whose prosperity, and whose security, whose standing, if you will, and whose leadership in Europe is most dependent on the EU, it's my own country, Germany. And some of you will know if you follow this, Germany has been very explicitly singled out by a number of the advisors of this administration as a problem in this context.

So the bottom line here is that we appear to have a situation that is still unresolved because we -- because the tension between the ideologues and the traditionalists on how to deal with NATO, with the EU, and Europe is a -- remains on the cards. I think we will see it. It is -- it is highly likely that we will see it flare up in a situation of crisis. And I can tell you that Europeans are already pricing this in. This is driving -- together, of course, with Russian aggression -- in Eastern Europe and Russian, shall we say, meddling in the Middle East. This is driving European efforts for integration, and it is particularly driving European efforts for defense and security integration.

Now at this point, that will be my last sentence and then I'll stop. At this point, these efforts are made in the hope of maintaining a constructive, cooperative and cordial relationship with the United States because no sane person in Europe believes that we can handle any of these challenges without the support and the backing of the United States. But -- and so all of this thinking, particularly on European defense and security -- is not designed in a way to throw the Americans out of Europe, or to throw NATO out of Europe. In fact, that would be the worst thing that could happen to us. It is all designed in such a way as to be inter-operable with NATO, but there is -- I think I have to -- I have to say to -- I have to be honest to you. I have -- I have not seen in my 20 years of writing about this particular space and about this -- about these policy issues, such a sense of doom and gloom about American policy towards Europe -- and I'll stop here.

MR. BUSH: Thanks to the four of you for outstanding presentations. No need to rush.

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While my colleagues are getting seated, I will tell you that they're -- we're not going to have breaks. There's -- you can go back and get coffee or tea, whatever you want. The restrooms are through the double doors back there. I have a lot of questions, but I'm going to restrain myself and just ask one. And this is for whoever wants to answer. Bill probably has a view; E.J., Ted maybe. And that is the one force in American society that has been, kind of, quiet since January 20th, and even before, is the American business community. Sort of represented by the U.S. Chamber of Commerce, which is on eighth street and looks right across Lafayette Park at the White House. So you'd think, they would know where to go if their interests were threatened. The American business community understood that TPP was good for America. It understands that a trade war with China would be a disaster. And in my day, if the business community were worried about threats to the open trading system, they would get quite proactively opposed to those threats. So what's going on?

MR. GALSTON: Well, I'll give you -- I'll give you a very brief and very cynical answer.

MR. BUSH: Mm-hmm.

MR. GALSTON: Right now, my reading of the business community is that they are focused first and foremost on what they expect to get later this year and next year. Namely, substantial tax reform -- which will actually be major corporate income tax cuts, coupled with substantial regulatory reform. And I suspect their long-term strategy is to pocket those gains and then fight back on trade, and hoping that things don't get too bad.

MR. BUSH: Mm-hmm.

MR. GALSTON: You know, while they're playing nice with the administration in order to get what -- in the short term -- they really care most about.

MR. GAYER: I completely agree with that and I just want to underscore that over about a 40 year period, the organized business community -- which is different from individual business people --

MR. BUSH: Yep, I understand. Mm-hmm.

MR. GAYER: -- has moved, sort of, substantially to the conservative side of the spectrum. Business was always more conservative, it was Republican; but you can see, sort of, the difference between, kind of, Eisenhower Republicanism, Reagan Republicanism and Trump Republicanism. And that helps explain what Bill just said about pocketing the gains for -- that they want

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tax reform, you know, deregulation. What you wonder is, at some point does Trump bring about a -- you know, a reckoning inside the organized business community to say actually in the long run these policies aren't good for us, aren't good for the American economy.

MR. BUSH: Mm-hmm.

MR. GAYER: I don't have great confidence that will happen, but it might happen.

MR. DIONNE: I'll just add a couple -- a couple words to all of this, and it's a good time to talk about pricing things in. So the market -- and I would not over -- I said I'm an economist, but an amateur psychologist -- so I would not over interpret the market is being correct, or an accurate indicator of what will happen, as evidence by the markets for the election. The market reaction has been strong, both in the stock market and in measures of volatility, and including things like the small business optimism survey which really took off right after the election. So if you were to interpret the market reaction to that, it's consistent with what Bill said. Some view of corporate tax and individual tax rate reductions. Some view of deregulation, perhaps substantial deregulation, and less of a concern -- for whatever reason -- on the trade aspect. Now it could be, totally wrong, but I think that's at least an initial market reaction.

MR. BUSH: Okay. Thank you very much. I'm going to stay standing so I can see people. The protocols the same. Raise your hand if you want to ask a question, when -- wait for the mic, identify yourself and keep your questions brief. I saw Lorne Hershey in the back first.

MR. HERSHEY: Thank you all very much; very insightful. Glad I got downtown in time to listen to everything, and I hope your words get around to many different quarters in this city. My question is simply about TPP. I heard the other day, that the Australian prime minister suggested maybe China ought to take U.S.'s role and TPP be rolled out accordingly. What do you see? What do you think?

MR. BUSH: Lorne, I think the next panel is an ideal time to ask that question. We're talking about economic integration.

MR. HERSHEY: On economic integration, I want to thank Mr. Gayer -- if I pronounced your name correctly. You said there were certain rationales you were going to leave for the Q&A. Would you provide those, please?

MR. GAYER: I think those were particular to the productivity measures. There's different

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theories of why productivity is so weak, and it's a little bit of an east coast-west coast divide. If you go the west coast and speak to the chief economist at Google, they say the numbers are all wrong; there's innovation everywhere, and if you look on the east coast, that's less so. The -- we can get into the technicalities of it, but really what it comes down to is when in 2006, you're carrying your flip phone and VLS prices that at \$100 in 2007, you buy an iPhone for \$300, that's not inflation, right. So how much of that was the quality of the product has changed, and how much of that is the product actually increased in price. It's actually an X essential question for economics because if you can't answer that correctly, you can't at a dinner party answer the question -- is the economy doing well or not. I think that there are a lot of complication in making those measurements. I think they have always existed. So in order for those productivity numbers to be wrong, the difficulty -- the error had to increase over time and I think that, that would suggest that it has not. And I think to argue otherwise is to also to have to face my colleagues in the -- in the political science realm and basically tell them all these people are upset because, you know, they think we're telling them real GDP is this, but in actuality, real GDP is a lot higher, so they shouldn't be so upset. And I don't think that's a plausible argument as well.

MR. BUSH: Bill?

MR. GALSTON: Could I just say one thing on your question? I think one of the interesting ways in which the argument here in the United States could develop is that Trump ran rhetorically, as least, as a very tough critic of China, including the way he pronounced it. Had a very particular way of pronouncing China. And -- oh, thank you. Yeah, the -- and I think one of the intriguing questions is whether his policies overall might have effect of strengthening China's hand in Asia and whether that will produce, if not in his political base -- in the policy world, a kind of backlash and a reconsideration just as his policies in Europe could alienate allies there. And so I think the stories like the one you described could be the beginning of this debate, about whether Trumpism actually achieves the goal that it -- it set for itself and there's reason to believe that it might actually be counterproductive.

MR. BUSH: Bill?

MR. GALSTON: First of all and Ted will correct me if I get this wrong, but business investments since the recovery has been remarkably weak and there is a relationship between business investment and productivity gains. Secondly, labor has become cheaper and there's a reason why so

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many people are being hired. They don't cost very much and I think that -- I think that those two factors are going to have to change for the productivity numbers to go up.

With regard -- with regard to China, let me make a couple of points. Some of you have heard me made -- make the first one. First of all, I think we have to acknowledge that the impact of China's succession on the WTO on the U.S. manufacturing base before the Great Recession started at the end of 2007 was profound. And some of our best labor economists have confirmed this proposition repeatedly. We -- we lost three -- 3.3 million manufacturing jobs between 2001 and the end of 2007, right. More -- almost 50 percent more than we lost during the Great Recession itself. And the recovery in manufacturing has been miniscule.

That is close to the silver bullet explanation for the public discontent that pushed Donald Trump into office. And this is an Administration where they rightly or wrongly; that cares a lot about bilateral trade deficits, whether they are with China or Germany. And I think it would be the better part of wisdom on the part of both the Chinese government and German government to take that metric seriously as it deals with the United States.

MR. DIONE: Could I just underscore that by Ted's excellent presentation. I agree with everything that Bill just said and there are two interesting facts -- they were all interesting facts, but two relevant facts to the politics and the economics. He showed the declined in male labor force participation, which is, I think, part of what is happening to produce Trump, which comes partly from this decline in manufacturing. So that's a social crisis for the United States, but then he also showed the flattening of female labor force participation, which was in a sense, inevitable because you couldn't get over a hundred percent female labor force participation. And many households in a period when wages were flat kept their living standards up by sending more people in the workforce, but you run out of people in the household to send into the workforce. So that when you put together what Bill said, the decline of male labor force participation and a flattening of female labor force participation, you have a recipe for discontent even if the overall economic numbers are good.

MR. GAYER: Just two quick amendments to that. I have a slide on men because I think there's been kind of an interesting story about male drop in participation and some of the social afflictions. The good news is that I think pretty soon I'm going to have to revise my slides because female force

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participation is dropping. The mortality for middle-age Whites is, if anything, has gone up by more for women than for men on some of these measures, so maybe the men were a leading indicator, but it's -- it's not looking good. And then just one other --

MR. BUSH: Which only means that the situation is, I think worse.

MR. GAYER: Even worse, exactly right. Yeah, one good criticism, my slide is what about women, you know, I think it's just -- maybe I'm just not adjusting to the new realities. Just a quick addendum to what Bill said about trade deficits. A lot of those policies that we put up there would all lead to the appreciation of the dollar: tax cuts, border tax adjustments in particular, so it's just a certain irony that, that would hurt the fundamental trade deficits which speaks to the point that on an economic matter, trade deficits are irrelevant. It's what's causing it and what are the underlying fundamentals.

MR. BUSH: Julia Chang Wong?

MAN 1: (Inaudible)

MR. BUSH: Oh, I'm sorry.

MS. STELZENMÜLLER: Can I just briefly say something --

MR. BUSH: Please, please. I'm sorry, I didn't see you.

MS. STELZENMÜLLER: -- to -- goes along the line about Germany. And that is that there is actually a real debate in Germany about the utility of Germany's multiple surpluses. As we know, the German Finance Ministry is intransigent on this point. They're intransigent in ways which are, I think, criticized even within Anglo-America's cabinet. But Mr. Troybla (phonetic -) is in a very strong position and knows how to be intransigent, but there is -- there is a real argument to be made that we should reduce those surpluses. The -- I think the theory underlying the Administration critique is shall we say a little crude and in some ways disassociated from reality. But the fact is, that we need to do something about our surpluses for other reasons, not least because of the political divides that they produce within Europe.

And we -- the rationale, of course, the Finance Ministry's rationale for the surpluses is we need this because of our demographics. We're an aging society. We need to hedge against the future, but actually with the kind of savings we have now, we can do that and still spend on wages for un-domestic investment or, in fact, shall we say, European youth employment insurance. All these things

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are feasible and I believe should be done.

The same is true for Germany defense spending. Of course, we need to increase spending, at the same time, you know, the 2 percent measurement is actually not -- it's a non-binding benchmark and it's an input benchmark which means it says absolutely nothing about the quality of what you get out of that defense and, of course, at a time when the Russians are meddling through propaganda and other things, a lot of our defenses start in the political arena, not in the security arena where we need to increase the effectiveness of our protection.

MR. BUSH: Yeah, I'm going to take three questions from up front. First, Julia Chang Wong and then Aki and then Wu Xinbo.

MS. WONG: U.S. Education Class -- since this panel is about America's future, perhaps it's a little too early since President Trump has not yet completed a hundred days, but I would like to hear more from the panelists about your perceptions and your prognostication about America under Trump. Can you comment particularly on America's standing in the world? There's a lot of -- I think Constanze, I can't pronounce your last name, said, doom and gloom. There's a lot of that around in this country -- around the world today. But do you think that president has the irrepealably ended America as the leader of the free world?

MR. BUSH: Pass the mic to Aki please, right there. Thanks.

MR. TANAKA: Thank you very much, Akihiko Tanaka, at the University of Tokyo. I would like to ask question that no panelists talked a lot. That is the future process of forming the government. It's exceedingly process of forming the government. Cabinet level, well, we see a good number of people, but sub-cabinet level, we don't know who formed the Trump administration. When can we expect the Trump administration will be built? And this process of slow formation of government, what kind of implications that we foreigners have to expect?

MR. BUSH: And then Wu Xinbo.

MR. XINBO: Wu Xinbo from China. E.J., you suggested that Trump may need to make some adjustments given the decline in approval rate. I just wonder whether he would look and sees this way because he learned anything from his campaigning (inaudible -), that's the opinion poll is not reliable. Otherwise, he would have won the election given the opinion polls, right, during the campaigning period.

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And -- but more seriously, I think given the U.S. political cycle, the elect -- the president usually has a first two years to push his own political agenda, really, have a free hand if the Republican -- if the Congress is on his side. Maybe after the mid-term election, if Republicans loose the Senate or if they became to think more seriously about his next campaigning to get re-elected, maybe he will make some adjustment, but (inaudible), I would be more interested to hearing your analysis about why his supporters also begin to oppose him and what he should do if he really wants to make some adjustments. Thank you.

MR. BUSH: Okay (inaudible)

MR. GAYER: I'll try to second one in a little bit. So they're slow on the sub-cabinet level. They've made up some steam recently, I know I just follow Treasury in particular, so they've named a deputy, two undersecretaries and I think two assistant secretaries. It still leaves a few assistant secretaries -- undersecretaries there. So they're getting there. I -- I guess I don't know -- you asked from the implications from other countries, I'm thinking from the U.S. process. I don't know if it's deliberate or not. That's one of the kind of fun parlor games everybody's been playing the last few months. Every time Trump does something, it's is this deliberate or is this madness?

There's certainly an effort and we see this in executive orders as well to up power the political aspects of the agencies relative to the civil service. There's a two for one rule in problem in getting any regulations. There's the appointment -- will -- will be the appointment that have to oversee that in every -- in every agency. The non-appointment of these political positions, in some sense, runs counter to that ambition, but in other sense has seemed to me to solidify more of the policymaking power at least on the economic side within the White House and leave the cabinet secretaries at a disadvantage, which I think harms policy, but again, might be deliberate.

MR. DIONE: If someone went to God and asked when will Trump fill all the jobs in his government and God replied, "Not in my lifetime" -- (Laughter) I think that Trump has several problems at once. I --

MR. GALSTON: I thought the quote was "God knows".

(Laughter)

MR. DIONE: You know, one is that there are a lot of people, including Republicans, who don't want to serve in his government; two, that there are a lot of veto points in his administration where

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people -- his cabinet officers want to bring in are vetoed by -- there's some force in the center and three, Trump never expected to get elected president and so went in unprepared to fill the government, which goes to the poll point I want to get to. Second point, you raised a very profound question about America's standing in the world and my favorite quip on that is the Churchill line, "Americans always do the right thing after first exhausting all of the other possibilities," and we're doing an excellent job right now of exhausting all of the other possibilities. But I am very, very worried about, you know, the hearty of your question. I don't have an answer to it, but I do worry that our influence in Asia could slip away rather rapidly and this is a policy that seems almost designed to alienate our friends in Western Europe. At least in part of the Trump administration, but not all of the Trump administration. So I very much worry about this. I just like to think we can eventually recover, but I think it's what you describe as a great danger.

Last on your question -- first of all, I can guarantee you that the -- President Trump will not listen to a word I say. I don't even think he knows necessarily what I say at all and doesn't care. On the polls -- I think it's very important to recognize the polls didn't get it wrong in the sense that Hilary Clinton beat Donald Trump by 2.9 million votes. The polls probably underestimated the number of discontented white working class voters who had dropped out of the electorate in 2012, couldn't vote for Romney who came back in and voted for Donald Trump. That's my guess about why those three states flipped the other way.

The only hope I have is that Trump is clearly not a person of deeply held views and therefore, at least on an awful lot of things, and therefore, at some point will take a look around and say this isn't working. We'll see what happens on the vote today on the healthcare bill. I don't know if he's capable of doing that. A good start would be to apologize for that tweet about President Obama. If he does that, then maybe we can see the possibility of change.

MS. STELZENMÜLLER: Well, on the cabinet or the senior appointments, I think we have word from the horse's mouth for that, which is President Trump's remarks on Fox & Friends where he was asked about that. It said, we're not filling those positions deliberately because we don't think they're necessary. I think this is part of the starving bureaucracy tactic. I think this is part of reducing the government. You know, again, for me as a European, this is an interesting phenomenon.

(Laughter)

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Well, it's interesting to me because to me, it fits in with the longer trend in American attitudes towards the state as a provider of public goods. That is -- there is just a different cultural attitude in this country, as opposed to what European attitudes, and particularly attitudes where the state is still pretty much accepted as a potentially effective -- often effective and legitimate arbiter in the provision and distribution of public goods. And who is supposed to be in a sort of balance with the markets and society in this role. Yeah, whereas, my sense is that here, at least for the last 30 years, since the Reagan revolution, the state has been de-legitimized and made less effective step-by-step as a provider of public goods and I think we're seeing some of the impact of that. So that's one point.

The other thing -- I'll also answer the question about U.S. standing in the world, if I may. You know, questions like this sadden me because I worked in Germany -- sometimes with a critical undertone, a committed transatlantis and because I'm very fond of this country and because I admire so much about it. And I do believe -- I'm going to be honest with you, I think that some of this -- some of the attitudes -- I wouldn't call them policies, but some of the attitudes enshrined in the -- in the rhetoric and the actions of this administration harm that standing. But I also believe that America is, you know, multifaceted animal and it's not all one government. All of us, and I think this is true for -- for Asian countries, as well as Europeans, engage with American on multiple level. Whether we send high school students or -- or graduate students to you; whether we engage business-to-business; civil society whether we send tourists; or, whether we engage with state governments. So in the end I think it is reductionist to say that the America we know, admire and love is represented by a single person or a single administration because I think that, that America is stronger than that.

MR. GALSTON: Well, thank you Constanze, I very much hope you're right. I will say that generations of investors have gone broke betting against the United States. We have capacity for great error, but also, for great correction. And I think it's important to keep both of those things in mind. Having said that and this will be the answer to your question, my favorite headline since, you know, since January 20th, was on the day that Angela Merkel arrived in the United States and the headline read, "Leader of the Free World Visits Trump".

(Laughter)

And there was -- and there was a lot of truth to that and you know, you know, I very much

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hope that she stands, you know, like a mighty oak in the storm until the storm abates. And I do -- I do think it's entirely possible because I can tell you this, based on, not only my 71 years of living in this country and developing a feel for it, but also hard survey evidence. Americans will not take lightly the idea that the United States is just becoming another country in the world and not in some sense an acknowledged leader of it.

It is not the case, you know, it -- it is not the case that Americans as a whole accept the world view that is implicit in some of what Mr. Trump and his advisors have been saying and he will pay a political price. You know, if America doesn't become greater, but in the eyes of the world becomes littler, or diminished. I genuinely believe that. With regard -- but just a point -- appoint on China in that connection, I am not convinced that we are witnessing a diminution of America's role in Asia. We could simultaneously be witnessing a diminution of America's diplomatic growth, but an intensification of America's military role. And it's that combination that worries me.

And I suspect that this administration will take -- shall I say a firmer stance, you know -- you know -- on the famous -- what is it called, the nine-line and the secretary of state has made remarkably few policies statements on anything, but he said something about that along with North Korea. So, you know, I would -- and Mr. Trump, of course, has advocated a dramatic buildup of the U.S. military, including the U.S. Navy, you know, he propositioned that former President Obama ridiculed when Mitt Romney advanced it in 2012, along with the proposition that Russia was our great geopolitical enemy.

With regard to Mr. Trump popularity, I think everything that has been -- everything that needs to be said about the staffing has been said, although I would point out that the deputy secretary of state and the deputy secretary of defense are sort of an odd place to begin reducing America's bureaucracy. (Laughter) But that, perhaps, is an idiosyncratic view. I'll make just one statement with regard to Mr. Trump's diminishing popularity. I think a lot of people voted for him assumed that his demeanor would change as he moved from candidate Trump to President Trump. That expectation has been disappointed and that disappointment is showing up in survey research.

If Ronald -- if Donald Trump was the Teflon president -- rather, if Ronald Reagan was the Teflon president, Donald Trump is the Timex president. He takes a beating and keeps on tweeting and if

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I were to give Mr. Trump one piece of advice, which I suspect senior White House aides are giving him on a daily basis, it is Mr. Trump -- Mr. President, please give up your Twitter account. It is the single biggest source of self-damage in the Administration.

MR. BUSH: Thank you all for your insights, your humor and your heartfelt expression of your hopes and fears. This has been an outstanding panel and a great way to start the day. Please -- thank you very much.

(Applause)

MS. MADAN: Good morning, we are going to try to get started so that we have sufficient time for the panel and for your questions and answers as well. I am Tanvi Madan, I am director of the India Project and a fellow on the foreign policy program here at Brookings. We've got a great panel here to discuss the subject that's come up a couple of times earlier this morning but also yesterday as well which is economic integration in Asia.

Over the last few years, we've seen in Asia, a range of regional efforts related to economic integration, whether involving trade, including negotiations towards the TPP and the RCEP, investment financing, including the creation of a new organization in the form of the Asian Infrastructure Investment Bank and a number of connectivity initiatives including, but not only China's road initiative.

These efforts involve countries in the region as well as those outside and it has created new opportunities but they also haven't been without challenges and complaints, including on market access and other related issues so where do we stand today in terms of these efforts and where they might be headed in the future, will countries see them as essential to delivering prosperity or will geopolitical trends, including the strains we witnessed recently effect the base direction and the future of this initiative and what are the challenges that these threw up and the kind of complaints that countries have had and concerns they've had about some of these efforts and finally, how might the debate taking place in the U.S. and Europe about globalization as well as, for example, the Trump administration's withdrawal of the U.S. from the TPP affect the discussion around these efforts as well as the choices made in the reason.

To discuss these issues and other related issues, we have a great set of speakers today. I'll introduce them in the order that they will speak. We'll start with Dr. Claude Barfield, a resident fellow at

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the American Enterprise Institute. He will be followed by Kazumasa Iwata, president of the Japan Center for Economic Research and finally, Dr. Karen Pitakdumrongkit, assistant professor at the Rajaratnam School of International Studies in Singapore so without further ado, I'll turn over the panel to Dr. Barfield who will speak from his position and the other two speakers will speak from the podium where they will also have Powerpoints. Dr. Barfield?

DR. BARFIELD: Thank you very much and I want to thank Brookings for inviting me this morning. As usual, in my academic career, I was late yesterday for a paper that was due so I could not get over here and hopefully things I'll be saying, I will not be repeating others. And I am actually going to deviate a bit. I will go to the last set of questions that the moderator raised and that is I am going to spend a good part of my ten minutes on what I see as the tenets and the operational aspects of Trump trade policy and then I'll turn to how that affects, I think, east Asian integration and my theme, in terms of the developing trade policy with Trump administration is, I think that the starting point should be take them at their word. Now I've had a colleague, he's good friends with Peterson, across the street, Gary Hafbauer and Fred Bergsten -- well the more extreme things that they were talking about, they won't do because it would affect jobs, you get a trade war, you've got the business community that will come in, the Congress will come in. I think that is all true but I think it could be down the road and I think actually that the administration is going to try to carry through with some of the things that the president and many -- and a number of his advisors have said and I think, not just in the campaign but since the administration is actually in office and I think, if you go back, there is remarkable continuity in terms of where they are heading at least initially it seems to me, between the paper that Peter Navarro and now the secretary of commerce wrote in September of 2016 and what has happened since January and then you add that to what the president said in a joint message to Congress. The president's statement of U.S. trade policy some weeks ago and then just what happened in the G20.

I think that they will try to go through with the major things that they -- that the president has talked about. Some of this, I am not going to -- we'll talk later and maybe you can -- I'm sure you've had economists here and yesterday and this morning.

Some of this is economic nonsense but that doesn't seem to bother them and what I mean by that is I think that whether you go forward with bilateral agreements which I'll come back to this.

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They say that they intend to do as a main part of their focus or regional or whatever or you renegotiate NAFTA or you go for new free trade agreements.

I think for instance, they will do some -- try to do something in the trade agreement about the trade balance. Now this is economic nonsense but they will try to do it with such things as VRAs or having the negotiation be reviewed after six months, if you check the trade balance.

I think they will actually go forward with the threat in any rate of section 301, the unfair trade practices divisions of U.S. law and I think they will also at least exercise the threat of withdrawing from the trade agreement or even up to the WTO if they don't get their way.

I think this is all baked into the kinds of things that the president and many of his advisors have been talking about. Now it's true that there have been lots of titillating articles in the last couple of weeks about contentions in the White House about the so called Wall Street Group. Gary Cohen and the National Economic Council and others versus the populists.

I think to date, you would have to say -- and I think most of the journalistic pieces that we've seen actually say this, that to date, at any rate, the populists have won and the -- I think to finish that part of it, in this part of the presentation I think you just look at what happened to the G20. The secretary of the treasure certainly is counted as one of the internationalists and yet he was given and he followed very carefully strict instructions about what the United States would say in its position and the United States, at that point, last weekend upended a decade of G20 statements opposing all forms of protectionism and (inaudible) just flipped it off saying well the past is the past and we are in a new era, in effect; I am paraphrasing.

And he repeated the mantra that the United States believes that free trade agreements and our trading partners have been grossly unfair to the United States. The president had said that directly to Merkel the day before here in Washington, as many of you know.

So my only point here is that at least to start with, I think you have to assume that they are going to try to do a lot of the things that they have said, whether it's the America first and the U.S. sovereignty in terms of the WTA or the kinds of things I've talked with in terms of the individual FTAs.

Now let me turn briefly to a few points, at least my suggestions in terms of East Asia and how do you react to this. I think -- I don't have a great expectation that this will happen but certainly, it

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seems to me from my perspective, given what I think about the Trump administration's expected policies, that the best thing that the east Asia nation (sic) can do, particularly those in the TPP is to form -- attempt to form some sort of rump TPP (sic).

The reason -- there are several reasons that this makes sense and I'll come back to one that I'm sure has been batting around some (inaudible) ideas but the countries that are -- the other 11 countries have already taken the political heat at home for the sensitive issues that they had to give up.

Secondly, in many cases, they had already, even before the United States pulled out, begun to change their laws so that they, in effect, are following the TPP. And thirdly, given the extraordinary belligerence of the Trump administration when it comes -- at least so far, or at least what they say when it comes to trade negotiations, the countries of the TPP would be much better if they could get themselves together as a group, rather than facing the United States singlehandedly -- as a single nation, as I think Japan will do at the end of this year, the beginning of next year and Korea will do after that. I should say that we don't know very much about timing. I think things are going to take more time for the administration than it counts. I mean the NAFTA negotiations, which will be first, with Mexico and Canada are probably not really going to get started, I bet you, until the fall.

That will push the Asian negotiations, whenever they come, it's Japan and then Korea, I would guess at the first two, well into next year but I think the -- it is certainly true that you would be better off not facing the United States alone but better facing it with another group. Just two other points. Yes, our (inaudible) and yes it is a possible vehicle and I think obviously the countries are going to have to go forward with it.

My view of (inaudible) has been and it is that it is a very -- it is and it's going to be a very shallow document, a very shallow agreement. I do not see much hope has been brooded since the United States pulled out of the TPP for an upgrading of (inaudible) and I'll just say it bluntly that any agreement that has both India and Indonesia in it is not going to have a deep liberalization content, I think.

And finally, I think one of the things that will be interesting is that -- I think -- while I am not a great fan of bilateral in general, the United States is likely to be affected and this would really hit home, I think, the administration. If you get a series of bilaterals -- I mean Japan and Australia, with

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having a bilateral -- the TPP is not there, that's going to have a direct impact on the U.S. beef industry and the U.S. cattle industry and land.

Other bilaterals would say -- if more nations had more bilaterals, for instance, Vietnam which has a very high (inaudible) so there are going to be elements in the United States that we affected by the fact that we pulled out of the TPP and others are going on with bilateral negotiations so I think in order that I would say, I think that a rump TPP is the smartest thing to do. RCEP is not a very good substitute either politically and economically and finally, while I am not very happy with them, go ahead with bilaterals and let the United States bear the brunt of that, thank you very much.

MS. MADAN: Thank you, Dr. Barfield. Iwata-San?

MR. IWATA: So, thank you very much. Okay, today, I want to talk about three points. First one is this -- my assessment on the new trade policy agenda, which was published 1st of March, 2017 by the USTR of the U.S. government and its implication for the regional integration.

The second point I want to take up is the anti-globalism. Now imagine the United States and Europe, at some point there is bilateral dialogue between the United States and Japan.

Let me start with this assessment on new trade policy agenda which was published 1st of March. I find -- this report argues that the U.S. should achieve the trade expansion in a free and fair way for all Americans. They were focusing on the bilateral, rather than multilateral negotiations. A new U.S. administration (inaudible) policy. It withdrew from TPP and the impact on that renegotiation of NAFTA.

It also dejects the notion that the U.S. can strengthen its geopolitical position by adopting trade (inaudible). I find the TPP is a kind of economic version of people to Asia and the Obama administration that these people to Asia is completely se (sic).

I find that it's (inaudible) to cause a geopolitical shift in East Asia from the U.S. to China.

The new administration's top priority is to defend U.S. national sovereignty of our trade policy.

It's very true that WTO could not add the two or diminish the rights or obligations of the United States, however, the new administration weakens the commitment to grow about (inaudible) based on multilateral trade rules for strengthening free trade and investment system. More generally, as the professor recently argued, the cost to neglect the international laws may not be negligible for the U.S. in exercising leadership in global governance.

In addition, the active use of section 301 of the trade of 1974, based on aggressive unilateral (inaudible) tit for tat strategy by trading partners, ultimately shifting back to the adoption of dispute settlement mechanisms at the WTO.

If we want to avoid the tradeoff which happened in the previous period. Section 301 should not be used if it violates the WTO rules or more precisely, the U.S. administration should refrain from violating WTO rules.

National trade policy agenda also identifies the fact that China does not act on the basis of market principles. This is one of the WTO issues now because China makes petitions against the treatment of China by advanced economies, U.S. and EU as known market economic countries in applying the anti-dumping measures.

It's true that the transparent systems are the basis of functioning of trade rules. I find that China faces two traps. One trap is the middle-income trap. Our center published, in 2014, global economy 2015. We argued that there is a serious risk. China will face the middle-income trap because of the poor quality of institutions. The institutions include not only economic but social and political institutions. Another trap is this transformation trap from socialist economies to market economies.

I find that the data may be more hard to overcome. The policy (inaudible) under the new administration implies a watershed post (inaudible) global liberal order. As a result. The global economy moves toward political and economic fragmentation, enhancing protectionism and the threat against the deepening economic integration and the circumstance of great convergence. Baldwin recently published a book titled "Great Convergence." According to his view, globalization now enters the new phase since the 90s which brought about great convergence in contrast to the divergence in the period of 1820 to 1980s.

Technological development and international labor, division of labor, developing the new circumstances -- now the emerging economies are catching up very rapidly with advanced economies. If protectionist and isolationist pressures mount in global economies, export oriented growth strategy by East Asian countries, their policy is based on export -- open (inaudible) will be fundamentally eroded but Japan, the successful conclusion of TPP was the first priority of growth strategy of Abenomics. TPP is also the cornerstone for Asia-Pacific regional integration and the securities strategy.

Even its importance, Japan should not abandon the TPP, even when the U.S. withdrew from it. There is room to establish the TPP minus one together with participating countries. TPP, with a high quality of trade investment liberalization and the new rules on ecommerce and the state owned companies with (inaudible) of China, Japan, Korea FTA and FTAAP; epic level free trade agreement.

Aside from TPP, Japan should play a central role in the formation of mega FTAs such as Japan-EU EPA, the China, Japan, Korea FTA, RCEP and FTAAP. Japan should not hesitate to embark on the UK-Japan FTA after the Brexit.

In addition, the U.S.-Japan FTA as a kind of plan B among a couple of options, in case the completion of TPP is difficult. Now, I'll move to the second point I want to make, the rise of anti-globalism which seems to support the U.S. election. The election of President Trump. Why this anti-globalism pervading among advanced economies? Is this due to the fact that income wealth redistribution, through globalization, this favors blue collar workers in advanced economies as indicated by the elephant graph in the real cumulative income growth, which was pointed out by World Bank economist Mirano Vick.

Is the rise of China and India becoming a cost for medium income workers in advanced economies. Mr. Vick posted this question and his graph is like this. This is the global income distribution in the period of '88 to 2008. This is almost overlapped with when the great convergence -- phase of globalization started according to Richard Baldwin. You see, there's a kind of back of the elephant, this is corresponding to the rise of China and India. On the other hand, the nose of the elephant, his height is super rich (sic) and the bottom of the nose, this is corresponding to the media income of advanced economies and this implies global inequality is shrinking. These emerging economies are rising and improving the income a lot. Among advanced economies, medium income earners, their income growth is stagnating and (inaudible), he posed this question but if we make a more detailed investigation, we find standard median income in advanced economies was not due to the U.S. blue collar worker. A predecessor in this session argued median workers' wage in the United States wage increased 3.2 percent in the most recent period.

A standard median income in advanced economies, mainly due to (inaudible) are in Japan and the former Soviet Union and eastern European countries and the transformation into market

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economy in the period of 1990s. However, I find the declining trend of average life expectancy -- also this is pointed out, high mortality rate, for American white workers, in addition to (inaudible) median income growth.

So this graph shows, under the 45 degree countries, this is a 988 (sic) and the comparison between 2008 and 2088 (inaudible) there had been no improvement (inaudible).

And the United States, also the United Kingdom that the workers have a higher real income so the main reason the stagnant (inaudible) is Japan's secret stagnation and the former Soviet Union and what -- my worries are already mentioned in the previous session, mortality is the cause of US white non-Hispanic aged 45 and 54 (sic). U.S. wide -- you see this on the left, a shortening life expectancy and also the causes of death, you know, poisoning is increasing very sharply.

This indicates some serious frustration among white non-Hispanic aged 45 and 54. I don't know if these people are supporting Trump but one of the causes why Mr. Trump was elected (sic). So now I move to the final point. This is my bilateral economic dialogue between the United States and Japan.

The prime minister, when President Trump took initiative to start the bilateral economic dialogue, covering the three areas. Yesterday I talk about the (inaudible) monetary and fiscal policy and the coordination of policies. The second one is infrastructure investment energy sidebar and the space.

The third one is the bilateral trade policy framework. Prime Minister Abe succeeded to persuade President Trump for the U.S. and Japan to have dialogue but headed by Vice President Pence and the Deputy Prime Minister Aso and this implied, to avoid the (inaudible) by President Trump in the process of bilateral dialogue. The second point Prime Minister Abe suggested in the private conversation to President Trump is just to separate the issue on the exchange rate for the trade issue and moving back this issue to the conventional G7 process. Shall we leave this issue to the expert and President Trump said okay.

There had been two points in this process of proposing dialogue from the side of Japan. And Japan also prepared package majors (sic) tied to Japan U.S. growth and employment initiative. It aims at achieving a new market for 450 Billion dollars and the new employment of 7 million that's compared with President Trump's plan to increase employment 25 million; this is about three percent.

The increase is coming from this program.

By enhancing infrastructure investment, the replacement of (inaudible) and high speed railways, Japan intends to secure the stable impulse of energy through the U.S.-Japan cooperation leading into expansion of Japanese import from the United States. Japanese government seems too reluctant to accept the U.S. proposal on the U.S.-Japan FTA due to the difficulty to provide a farther (inaudible) on agricultural products, therefore the third area, meaning the trade policy framework implies the Japanese side wants to avoid the directory embarking on the Japan-U.S. FTA issues.

Given the fact that both the U.S. and Japan are not members of the AIIB, I find it important to strengthen bilateral economic cooperation in the area of Asia Pacific infrastructure investment.

In the light of huge gaps of demand supply fund in this region. In addition, both U.S. and Japan should promote cooperation, cybersecurity area under the higher risk of aggressive attack to key infrastructure. Also, it's very important to promote the digital trade cooperation. My concern on this bilateral economic dialogue -- most of the concern is the impact of the adjustment tax which may be introduced to the new cashflow based corporate tax system.

The tax burden for the U.S. subsidiary of the Japanese firms would increase very sharply according to the assessment by the Mistuhori Institute. . 9 Trillion Yen for the auto billing industry, the increase of tax burden due to this introduction of border, a tax combined with lower corporate tax rate to 20 percent.

Additionally, this communication machinery, similarly . 3 Trillion Yen. This wiped out all the profit. It is difficult for the Japanese subsidiary to exist in the United States. (inaudible) also estimated adverse effects on Japan's GDP due to this introduction of this border tax and mostly severely affected is the automobile industry. About a 17 percent cut of exports from Japan to the United States directly through China and through Mexico.

The most serious impacts by industry, this is the automobile. The automobile output will be reduced by five percent due to this introduction of border tax. Of course, we assume that that has no effect on the exchange rate therefore this may be kind of the maximum impact arising from this border tax adjustment so that concludes my remarks, thank you.

MS. MADAN: Thank you very much. Dr. Pitakdumrongkit?

DR. PITAKDUMRONGKIT: I have about 10 minutes to talk so I think I am going to talk about the original economic integration from the Asian perspective by highlighting some projects that some of these Asian nations have been pushing forward to force the deeper regional economic integration and also I want to talk about the actions that relate to (inaudible) economic relations how some of these Asian countries engage with the external players to help enhance the economic integration in the region.

Perhaps I'll skip some details and we can talk more about them in the Q and A. Okay, I have to use the -- okay so just to give you some overview on the Asian Economic Community, that we are calling short AEC was the official vision of AEC was (inaudible) as a single market and production based with free flow of goods, services, investments, skilled labor and free (inaudible) and so we are now at the -- the second open -- AEC that opens in 2025, which actually lays out the important policy action that has to be undertaken in order to achieve the goal of AEC so this is just to give you some picture of this so development actually consists of five pillars so we break it down into main areas of economic integration and under each area, we also have -- we call it sub pillar, for example for the first pillars (inaudible) on how to enhance trading goods, how to enhance trading services, et cetera.

So AEC, from the Asian perspective is not a destination, it's a process in our journey of economic integration so we are not at the AEC 2025 blueprint. Perhaps in the future, that would be (inaudible) regional integration so the remaining challenges -- there are many remaining challenges for AEC, for example, some Asian countries have not been doing very well in terms of lowering or eliminating the non-tariff barriers and there was slow progress in services of globalization.

Actually I can give you some examples from Thailand, which is the country that I'm from. That's been (inaudible) in terms of liberalizing the logistic industry in the country, for example, if you look at the license and granting to the foreign firms. So the foreign firm who comes in Thailand and would like to do the warehousing, so it has to go to the custom department, which is under the ministry of finance in order to get a license and the firm that wants -- on the other hand the firm that wants to do domestic distribution has to go to the Ministry of Land Transportation to get a license so the question becomes if the firm would like to do two things, both domestic distribution, the warehousing, can they do that? The

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answer is no, you have to split the firm into two firms in order to do that and that's some restriction on investments or in the investment agreement and there is limitation in terms of labor mobility.

Right now, we only allow free flow of skilled labor in professions, for example dentists, doctors and accountants and even that -- you still have some impediment, for example. If a foreign doctor would like to come into Thailand and work, he or she has to pass licensure examination. This is only offered in the Thai language so basically it's kind of -- it cuts down your opportunity to work in the country as a foreign doctor. And there is also a limitation in terms of participation in the AEC project.

Partly it's due to the limited access to finance and also a little -- there has been little capacity training to the MSE to gain knowledge about how to run a business. Okay, the public knowledge about AEC is low in some countries, for example, Cambodia, if you talk to grassroots people, they say what AEC means to me. They think it's an elite project that only helps the elite and that's like (inaudible) in AEC. There is no single clear country in SoutheastAsia who would champion and try to (inaudible) in terms of pushing forward the AEC project.

I'll give you some -- so this is the data that tells you about what are the main impediments to the uses of the preferential provisions in AEC and FTA so (inaudible), delays in (inaudible) and problem and also barriers in some countries.

Okay, going forward, I think if (inaudible) nation would like to achieve AEC 2025, they need to adjust domestic law and more work needs to be done on that and also, they should adopt the post-development hosted approach on my side because a lot of Asian leaders used to think that we need to champion -- we need to safeguard the national champion or some domestic firms by putting up trade barriers, I think they need to realize that the world economy has changed through the economies that are tied to the global value chains and they need to shift the policy toward fostering a network or provide a board base skilled training for the people so that they can adjust to the changing nature of the GVC and also, I think the Asian mechanism should be strengthened. For example, the (inaudible). It doesn't really have much of a role to play in terms of enforcement Asian commitments to individual member states so I think that the Asians get -- and influence should be --

So speaking about Asian external economic relation, I'll talk in three areas: trade, finance and infrastructure and if applicable, I'll talk about the U.S. as in relations in these areas.

Okay, for trade -- well so right now, because of the Trump administration, as we draw from the TPP, therefore some east Asian country inside the TPP like Brunei, Singapore, Vietnam and Malaysia so after Trump withdrew from the TPP pact, the calculation for the countries changed so they put more bet into what we call RCEP regional comprehensive economic partnerships, which is trying to consolidate the existing Asian plus 1 FTA so for these four countries, they put more bid in the RCEP but the question of going forward with RCEP as vehicles for constructing further the trade architecture, just what Claude said earlier, that there is some pressure in terms of upgrading the quality of RCEP and I think the lesson, well that's very difficult to upgrade the quality of RCEP because due to the difference of the states' interest and differences of state ambition. Some states would like to push from higher qualities, some states are reluctant to do so. But I think because these four countries have been inside the TPP negotiation so they could bring to the table the RCEP table, the lesson learned from the 5. 5 -- people tend to think that TPP was a failure so we cannot learn from that but I think there is some valuable lesson to learn from these TPP negotiations because in a tough negotiation, the state has to exchange incentives and trade concessions in order to conclude the TPP deal so I think this valuable lesson could be applied to the RECP to get this deal done at a higher quality of level and that's (inaudible) that if we can rebuild -- can we build for a larger regional trade architecture? The FTAP by using RCEP as a building block.

I think this is a long-term goal for Asia because the very first step that you have to do is you have to include Cambodia, Laos, Myanmar into the APEC membership first because FTAP was under the APEC umbrella. And this is maybe difficult in practice because in order to get these countries inside, it requires a consensus from all APEC existing members which is a very difficult thing to do in practice.

Okay, in terms of finance, because of the Asian financial crisis, the (inaudible) process was created to help -- to provide reserve sharing arrangement or have some -- of research which the country can tap on if they have liquidity problems and also there is some project inside that tried to build the regional bond market that tried to recycle the (inaudible) the region so that we can rely less on the money from the outside of the region but there is some -- but going forward with this is that there is some shortcoming in the process because there is no agreement on the exchange rate management which I

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think it is worrying in a country because of the rising protectionism from the U.S. and also from the western countries coupled with the global economic slowdown, this can create a temptation for some regional state to devalue the currency so that it can gain an edge in trade competitiveness which will lead to the comparative devaluation at the end.

But the thing about this exchange rate is that there has been a lack of effective enforcement mechanism to manage this issue at global levels and at the regional level or if you know that the IMF article 4 was not -- means that the IMF could not really tell -- could not force the state to align the exchange rate.

Also, at the regional level (inaudible) agreement on the exchange rate management so I think there is some future of uncertainty and possibility of crisis which could stem from the exchange rate misalignment in the region.

Speaking about infrastructure, infrastructure project, within the Asian economy we have what we call the masterplan for Asian connectivity so there is a kind of a very wide scheme plan that put everything inside for example, the connectivity in terms of road, railways and also in terms of harmonization of custom procedures among the 10 Asian countries.

And also, the massive (inaudible) we also engage external donors to fund several infrastructure projects and we have what we call Asian Connectivity Coordinating Committee or ACCC to oversee, as a gatekeeper, and as a broker in order to relocate the fundings from external donors and then redistribute it to different Asian member states so just to give you some idea -- in the circle it's ACDC so it acts as a gatekeeper to screen the project, to approve the project that was funded by external donors.

But going forward in terms of regional infrastructure architecture, there is some concern because now we have the new comers, for example, the OBOR and AIIB championed by China and we have to figure out how these two schemes would fit with our own project and the impact and also there is some issue about how can we manage the interplay between a newcomer and the incumbent on how to finance the infrastructure.

There has been some issue about -- that we have been lacking the effective enforcement mechanism to manage the spillover effect of the infrastructure project. For example, you probably heard of Sayaburi damn which is a hydro powered dam built in Lao but the problem of this is that it had the

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spillover effects on the low stream countries, Cambodia and Vietnam because they are down the river and because of the dam construction -- and it jeopardized fish migration patterns and also blocked some nutrient necessary to grow rice. Cambodia and Vietnam has been complaining about these effects but there has been no effective mechanism in Asia to help address this transnational problem but there has been what we call the Mekong River Commission which is Laos, Cambodia, and Vietnam is also a member but the thing about this commission is that it doesn't have enforcement power to Laos to stop building the damn or conduct more studies on the environmental effect of this damn on the low stream country so with that, I'll stop here and talk more about this in the Q and A, thank you.

MS. MADAN: Thank you, Karen. I am going to throw out a question each for all of you and as you get settled, I'll start with Dr. Barfield. Iwaka-San mentioned the kind of elements on what a U.S. Japan deal could look but the other kind of big deal that the president, then candidate, Trump talked a lot about what a U.S.-China deal which he promised that he would be able to strike. What are the prospects of such a U.S.-China deal?

For Iwata-San, you mentioned that one of the things that should be part of the deal is the discussion with implications for integration in Asia which was promotion -- U.S.-Japan promoting infrastructure investment. Where would that fit in though with President Trump's emphasis on America first?

And for Karen, how might some of the measures that the U.S. is threatening, particularly China with -- how will that impact southeast Asia given the complexity of the supply chains that we have in existence. Dr. Barfield?

DR. BARFIELD: Well if you are talking about a free trade agreement between the two countries, I don't remember the president saying that but in any case, the prospects are nil, certainly in the near future. I don't think politically in the United States it possible and I think economically, for the Chinese, they are not willing to make the changes internally that would allow that.

I think the most one could expect, and even here, I am doubtful, is some sort of bilateral investment agreement because once you get into that, then it gets into all the SOE business and the rules there and there is no sign that the Chinese are willing to give up on any of the things there or to -- I think there is a lot of debate over the so called negative list and the Chinese have not given any indication that

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they are willing to change their opposition to that because that would throw everything open unless they had actually not put it on the table so I think that's something that I would not spend a lot of time on.

MS. MADAN: Is there the ability to get them to give greater market access, for example, or just kind of ease some of their restrictions?

MR. BARFIELD: Well I think a lot of it is -- I'll have to say that -- somebody was telling me they just read the paper that I wrote some months ago. I -- in terms of internet connected sectors and high tech sectors, I think the situation, and this is something that -- it's the first time I have ever advocated this in any trade negotiation, the one thing that I do agree with, something that I think it was either Trump or maybe one of his -- maybe it was (inaudible) said you know, the WTO is not capable of dealing with the problems we have with China and I actually think that's true but that's not a question of the WTOs and institutions, it's a question of the negotiations have not caught up for instance, with digital trade so that in my own mind, I think down the road, and this would be true no matter who was president, the United States is going to have to move toward a kind of -- and this scares the hell out of me because of our political system here, some sort of move toward stricter reciprocity and what I argued in my paper was that -- I don't think we should do this through trade rules but the thing to keep in mind is that WTO and international trade rules on investment are very slender. There is not very much there and so you have a lot more room for unilateral action and while I am reluctant to have the United States go down that road, I think in this case, sooner or later they may have to, we'll just have to see what happens in the early negotiations with China.

MR. IWATA: Thank you very much. On the infrastructure project in the Asia-Pacific area, Japanese government already published the program. The quality infrastructure program. This was announced in May in 2014 by Prime Minister Abe and Japan, at that time, already decided to not join the AIIB. Instead of joining AIIB, Japan prepared its own infrastructure investment program and this program is higher quality infrastructure investment. That is environmentally friendly and also the robust against the natural disaster and also it's market driven. The total amount of money we expected is 110 billion dollars and AIIB, the capital is 100 billion dollars so I find that President Trump announced a 1 trillion dollar U.S. infrastructure plan during the election campaign. Today, I don't about the size of this infrastructure plan because looking at his speech on the budget, there has been a significant cut of

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almost all the ministries and the -- it doesn't seem to me that the current administration wants to increase infrastructure investment very sizeably but I find it makes sense if there is room for the further cooperation between the two countries in the infrastructure investment area, not limiting only to the U.S. infrastructure but there is a huge potential demand for the infrastructure investment in Pacific-Asia, even though AIIB and the (inaudible) are providing additional money, still there is a huge gap between the demand and the supply on this infrastructure investment fund. I hope the U.S. would establish a kind of infrastructure bank. Japan's bank is promoted by JICA and the (inaudible) these government related financial institutions making contributions and if these institutions emerged in the United States, we can have a good collaboration between the two countries.

DR. PITAKDUMRONGKIT: All right so about China's influence in the region. How would that affect the Asian or the specific nation? I think that's going to be tough because China has been funding a lot of infrastructure projects. I'll use an infrastructure case as an example. An infrastructure project or investment, a huge investment in Cambodia for example and that's also explained why (inaudible) at the 45th Asian foreign minister meeting because Cambodia clearly blocked the communication.

And I'll just show you the map on the Sayaburi dam that -- it was built in Laos and I have another map but I didn't bring it here. I have another map showing that there has been a dozen more dams built in Laos and this is going to be funded by Chinese money and that's going to create a huge problem though because the project has been more or less -- the plan has been more or less to go ahead with the construction and that's of course going to be a spillover effect on the downstream countries, namely Cambodia and Vietnam and we have no effective mechanism. We have, as I mentioned earlier, we have the Mekong River Commission which is composed of four countries: Thailand, Laos, Cambodia, and Vietnam. China is a not a member to that commission though so that commission actually oversees and approves -- oversees and makes comments on the project that has been done along the Mekong River.

China is not the party to the -- it's not a full member to that commission and that's going to create a problem because we don't have an enforcement mechanism to manage China in the Mekong subregion so that's going to be tough and that's going to be a pressing issue for (inaudible) in the future.

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MR. BARFIELD: Just quickly on the infrastructure in the United States, if we were to -- Trump and the congress can scrounge up some money in terms of cooperation with Japan or anybody else, it's going to run right into the biomedical provisions which are coming and they may be broader, unfortunately, then we've had so far.

MS. MADAN: Thank you. I am going to take questions and I am going to take a cluster of questions. We'll take the three over this side first, Mireya, the gentleman over there and the gentleman back there. Please identify yourself and if you could, keep your question short so we can get as many in as possible.

MS. SOLIS: Thank you. Mireya Solis from Brookings. Two short questions to Iwata-san. Is your sense that Japan would be willing to take a case to the WTO for the border adjustment tax given the very severe damage that you highlighted in your presentation. I think it's important to send that message because there is going to be a mighty fight and there already is, in the business community on the (inaudible) and there are many people in Congress who are not fans of the mission and I think that factoring in the response from our foreign trade partners would be important and the second one is what would you advise the Abe administration to do when the Trump administration comes back and says let's talk about a bilateral free trade agreement.

I completely agree with Claude. We cannot expect a correction course on trade because of ideological convictions because of the electrical traction of anti-trade bashing and we know that some very sensitive measures may be proposed, currency rules, for example and further agricultural concessions so Prime Minister Abe dodged a bullet, if you will, in February. What would you say is the right course when the Trump administration comes back and raises the issue again?

QUESTIONER: Hi, Cho Wa Chan, I have a question on AIIB. I mean which we actually approved with 13 members today including Canada first in North America so Mr. Iwata, what is the thinking behind Japan not joining? Is it because it's China? Is it because the China and Japan relationship is not that good at the moment or will Japan change their mind for the U.S. (inaudible). Mr. Barfield, talk about a lot of criticism about the Obama administration's handling of AIIB. I mean I have not heard a praise for that in the U.S. even.

Will the Trump administration make a new term to join as some suggested here, thank

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you?

MS. MADAN: Question back there.

SPEAKER: Hi, my name is Keisuke (inaudible) so my question is about the TPP 11 or TPP minus 1. So Iwata-San, what would be the biggest issue to achieve this?

And Ms. Karen, I remember in yesterday's session, you also mentioned about the TPP and do you think even if TPP 11 would be contributed to the domestic reform such as Malaysia or Vietnam? Thank you.

SPEAKER: Thank you. Atoshi Yamankoshi from (inaudible) this is a question to Mr. Barfield. I've heard that you said that the (inaudible) is too long in G20. In that context, how do you personally evaluate the recent Trump/Abe meetings and their outcome? Could you say that the populists lost or what do you think happens next in the Japan-U.S. economic relations and the populist prospective and how should we deal with it.

MS. MADAN: Finally, the question up front here.

SPEAKER: Do Sund from East Asia Institute. My question goes to Mr. Barfield. Three questions: Is the Trump administration implementing -- do you think that this government will implement the border adjustment tax and when and second question is would the -- and then what did you expect from the American business community on this very particular taxation policy and three, that obviously affects the trade policies of all East Asia -- all major trading partners, particularly China or did you foresee the next four years of U.S.-China academic relations on this context?

MS. MADAN: Dr. Barfield, we'll begin with you. There are a number of questions for you on the AIIB, Trump/Abe meeting and the border adjustment tax.

MR. BARFIELD: I'm going to punt. Now at least, because I have listened to (inaudible) who are six ways from Sunday on the whole thing and there are economists here and economists at the Peterson Institute so you know, we don't also know the way that it would come down, it's kind of the new Obamacare changes; you don't really know how they are going to end up.

I think though, finally -- and this is the last thing I'll say about that. I think the chances of passing anything on a border adjustment are less than 20 percent so that's all I'll say about the substance.

I thought at the time and said at the time that it was a mistake for the United States in a fit of pouting because we were leading not to join. I think it's probably too late now. I don't think, particularly with this administration, I can't see them moving forward in it in terms of joining it. You never know. Trump is very mercurial so -- and he likes construction projects so who knows, it could be something thrown in when he meets with Xi Jinping but I wouldn't count on it and let's see, what was the other --

MS. MADAN: There was the Abe/Trump meeting and the prospects for U.S.-Japan relations ahead.

MR. BARFIELD: Well I think the Abe -- look, the Abe/Trump meeting was just a holding action. I mean he ran over here so he could get in quickly and get to know. He knew, and correctly, that with -- personal relations mean a lot but I don't think anything came out of it. That is not decisions were -- my guess is that the administration is not going to be deflected from moving toward pushing Japan to a bilateral FTA. This goes back to what I said about the way they look at the world.

They look at the world in terms of big problems and how much of a trade deficit do we have with a particular nation and Japan is right up there and that's why they've -- while it's not as large, he's also picked on Korea so my guess is that sometime, it's probably going to be next year, it could be sooner but I think the -- what the administration hasn't thought about is how they've committed to going through the trade through motion authority procedures (sic) and that just takes time and so I don't know how quickly they will get to it but certainly Japan is not going to be off the radar screen.

I do not know how Abe wouldn't be able to say that he wouldn't do it. As I said, I think -- and I don't think this is possible, the best thing that could happen and somebody asked me about the TPP would be -- and here, Japan is key, I think. It is to get forward with some sort of TPP 11. At least you would have another structure out there. And then you could be in the situation and again, I think this is fantasy on my part though it's something I would hope.

The Europeans are going to tell the -- are already telling the administration we could do -- negotiation with Europe is a bilateral negotiation. You can't pick off Germany or France or -- the Brits are leaving and in the best of all possible worlds, you can persuade them that that was the case but I don't think that's going to happen.

MS. MADAN: Iwata-san.

MR. IWATA: Okay, thank you very much. So many questions and the first on the border tax issue and a -- this is a very serious impact for the Japanese industries. If this international border tax is introduced and I am also getting the information, Mr. Comb once expressed the view that the alternative and drastic tax reform on the business and the business tax reform and that is 15 percent the corporate tax rate but at the same time, strengthening the tax on capital gain and dividend payment so this -- it seems to me that this is a kind of alternative, what Mr. Trump and I hope that the discussion is moving toward that direction and another issue on this border tax is whether it is WTO consistent or not.

Value added tax in Europe and also consumption tax in Japan based on the (inaudible) principle, that export is not taxed but import is taxed. This is a -- value added tax is okay but this is cash for corporate tax system and therefore this combination is -- I find that this is not consistent with this WTO so therefore I hope the United States avoids the introduction of the international border tax, adjustment tax, you know?

And the prime minister's position on this U.S.-Japan bilateral FTA -- still, Prime Minister Abe's first priority is to continue to invade the United States to join TPP and I find one possibility is that maybe establish somewhat expanded TPP, adding Korea or Indonesia or other countries and rename this TPP a different name and invite President Trump to join this new trade arrangement.

This is one possibility and in my own proposal is maybe a (inaudible) approach and we can see if we take a digital trade, a free trade of this type of information and data is very important.

E-commerce is very important; it's a very good thing to have a commander in this Asia-Pacific area and therefore, it makes sense to invite the United States and with Japan take the initiative to try to establish a new free trade area with this digital trade, something like that. This may be another possibility.

On the AIIB, what is the reason? I think security issues, you know, in the process of negotiation because think of islands in the South China Sea becoming more and more a threat for Japan.

And you may not know, Japan had the experience of being endangered by the Mongolian empire. That was the 14th century. Xi Jinping, the current leader in China is talking a lot about the China dream, we want to realize the China dream. I was, for a long time, wondering what is the content of the China dream?

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I find the AIIB was still growing, this One Belt, One Road initiative, geographically speaking, just overlapping with this Mongolian empire.

We had two invasions at that time. Fortunately, every time Mongolian empire chose a very bad season, the typhoon season.

Military ships were blown out by typhoons so good wind just blew them out.

So kamikaze rescued Japan and I find that this is my personal view, you know, of this historical development and economic interconnectedness is okay. I welcome and appreciate China inviting Japan to join the AIIB but still, a little bit hesitant because economic interconnectedness also implies military connectedness.

MS. MADAN: Karen, any final comments?

DR. PITAKDUMRONGKIT: I'll talk a little bit more about the (inaudible).

I'll just add on a little bit -- TP 11, I think is a -- some people think that okay, because the United States is not in the TPP11 so it doesn't have any value at all. I think it has because TP11 is not about -- actually TPP, original TPP is not about -- it's about market exit to U.S. plus the other 10 members, right?

So without the U.S. TPP 11 still has (inaudible) especially for those who do not have FTA with the other 10 -- do not have any FTA with any of the other 10 members inside TP 11 so they have much -- they don't have more to gain from that.

And the TPP agreement also has -- that's the good thing about TPP, that it also has an updated route on investment and then also has a chapter, a very good chapter on ecommerce which I think can be used as a framework to share at the WTO.

Well of course there is going to be some tension because if you -- one thing about multilateral trade agreements is that if you sign on to it, it means that the other country can have access to the third party market which they otherwise would not previously, right?

So meaning that other parties -- other countries can become -- now can become your competitors in training so then -- and I think that's something the state has to think -- to weight the cost and benefits of joining such big trade block like this, right?

So you can gain in some areas but of course, you can lose in some areas because of the

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new competition coming into the picture and also perhaps the privileges that you can get that your SOE used to get.

They have to be scrapped because of the competition policy in the TPP so they had to -- there is going to be some cost benefit analysis by individual states inside TPP 11 if they would like to go forward.

MS. MADAN: So like many things these days, the watchword is -- the watchwords are "stay tuned." Just a couple of announcements before we leave.

Lunch will be served across the hallway in the Summers room so please exit through the back doors, not the side doors and once you get lunch, you can come back into this room for the 12:15 session with Michael Green and please allow, if you can, speakers, to grab their lunch first. Richard also has some comments and after that, please join us in thanking the speakers.

MR.BUSH: If I could have your attention for 30 seconds while we have such a large group.

I again want to thank your co-sponsoring institutions, the East Asian Institute in Korea, Rajaratnam School in Singapore, and the Japan Center for Economic Research in Tokyo as well as Thornton Center and India Project and I would like you to join me in thanking the staff who actually make something like this possible.

In particular, I want to note Hunter Marston, my colleague and Maeve Whelan-Wuest.

I don't see her right now but they have done a tremendous job getting us to this point and I hope you'll join me in thanking them.

(Applause)

(Recess)

MR. BUSH: Ladies and gentlemen, if I could have your attention please. I'd ask you to take your seats so we can resume the business at hand. Our luncheon speaker has arrived, more than on time. And so, we don't want to keep him waiting.

Yesterday, we heard from Stanley Roth and Evan Medeiros, and now we're going to hear from someone who worked at the right hand of President George W. Bush and the accomplished a lot for the United States, Michael Green. But my job is not to introduce him, that honor goes to my good friend,

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Sook-Jong. So, she'll -- oh, yeah, please come on.

MS. LEE: Good afternoon. This is Sook-Jong Lee from South Korea, and I'm honored to introduce Michael Green. Actually, he doesn't need an introduction to everyone here I'm sure. And still, you know, for the matter of formality, if just say about his major accomplishment. His leading -- I think is the vice president for Asia and Japan Chair at CSIS. And before he moved over to CSIS, I think everybody knows he served the National Security Council. And also, he advised many government bureaucracies, including DoD and many other agencies. And also, he, I think he led study team at CFR on U.S-Japan alliance and also, independent study group on Korea as well. And also, he taught at SAIS as a professor. So, he has a kind of academic background and later turning to joining the policy circle.

And in the legion, Michael is known to be an Asianist, studying from Japan expert. I think many of us read his excellent book, Japan's Reluctant Realism and also, Arming Japan. Two of many of them.

And when I read in August last year, he was one of GOP national security experts, who's signed up the letter that he's not going to vote for Mr. Trump. So, maybe that's the reason why this administration is lacking excellent Asian analyst like Michael Green. But that gives us more opportunities to hear his opinion about this government's Asia policy.

So, without further ado, let's welcome Michael Green. (Applause)

MR. GREEN: Thank you very much. And thanks Richard and thanks to Brookings and all the co-sponsors for this conference, which is very well timed in addition to having a very distinguished participation from across the region.

I was not able to join the government because I signed a letter criticizing our current president. But the good news is, that means I have time to be with you today.

You know, Washington is a very tribal place. And for Republicans or conservative independents who worked for George W. Bush or Ronald Reagan, this is a very confusing and difficult time. And a lot of people have made, and made before the election, their own choices about what they were going to do when Donald Trump ran because he essentially ran against everything that the established foreign policy elite of both parties stood for. And by the way, in my view, what most of the country stands for, but I'll come back to that.

And people made different choices. I signed a letter last August with a total of 50 senior Bush administration officials, but there were other letters as well. Some people held their fire because they wanted to go. There weren't that many of those. Some people held their fire because they worked in the Congress or for a company and were not able to sign it. Some signed the letters and regretted it. I'm not one of those.

But I'm not a resistor. I mean, and I don't think most people who worked in the Bush and Reagan administrations are, none really, are resisters. I liked very much what the Ohio governor, John Kasich said after he met the president in the White House, and the media asked him, how could you meet this president who you said would be so bad and who you criticized and said you wouldn't vote for? And Governor Kasich said, when you're on a plane, you basically root for the pilot. (Laughter) And that's basically my attitude.

You know, talking about the Trump administration and Asia, I mean to be honest, in a non-sophisticated setting like the Brookings Institution, when I'm at home with my wife or playing tennis with my brother, all we talk about is who's up, who's down, how big will Ivanka Trump's office in the West Wing be. And admit it Richard, I know that's what you do all the time too when you're not in such an august setting.

But at times like this, I take enormous emotional and intellectual refuge in history. And with encouragement from Warren Cohen, although you don't have to own it, Warren, and others and Richard, I started a book almost a decade ago on the history of U.S. strategy in Asia, which is now out on Amazon, called, "By More Than Providence." And it's a history of American grand strategy.

So, as I have tried to understand and explain the Trump administration's Asia policy, that has been an enormous source of intellectual rigor and satisfaction trying to make sense of what's happening right now.

And at Georgetown, where I'm also a professor, I teach courses on East Asian international relations and on Asian leaders. And in the leaders' class I say to the students, there are two things that define international relations really. One is structure. The structure of domestic institutions, international institutions, distribution of power, which is what political scientists almost exclusively focus on. And then there's agency, which is the personalities and individuals and, especially, of leaders.

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And up until November, I told my students, we Asianists need to pay a lot more attention to agency. Now, I'm telling them, structure. We Asianists need to pay a lot more attention to structure.

So, let me say a little bit about agency and a lot about structure, especially drawing from history, which does not repeat, of course, but it is instructive.

And let me focus on one of the most dramatic, traumatic, and revealing episodes in President Trump's approach to Asia. And in particular, his views on and policy towards what I view as the two pillars of modern American strategy in Asia.

And those two pillars are: The 1951 San Francisco Treaty system. The alliances that we negotiated in San Francisco with Japan, Australia, New Zealand, and the Philippines and then later with Korea, Republic of China, and then Thailand.

And the second pillar is our "One China" policy, which grew out of President Nixon's first communique but, essentially, has been honored by every American president since Jimmy Carter, normalize relations.

So, these really, are -- it's embedded within the U.N. system. It's embedded within America's market and democracy and our military power and the Bretton Woods systems. But on a regional basis, these are the pillars of American influence, strategy, reliability in Asia. Our treaty system from 1951 and our "One China" policy. And that's why it's so interesting, because Donald Trump attacked them both. Now, Ronald Reagan, when he ran for president, attacked "One China" policy and briefly flirted with, largely, without positive gain, flirted with normalizing relations with Taiwan. And to some extent, Bill Clinton came in and attacked Japan as a free rider.

But never before in our history has a candidate come in and attacked both of these major pillars. That says, to me, a lot more about agency than structure.

Why did Donald Trump attack these two pillars of American leadership? I think two reasons:

One, this was clearly an anti-establishment populists campaign. And in effect, anything that the east and west coast was for, he was against, which is not strategy and it's not policy, it's emotions and sort of trying to capture the mood of the country.

And the other reason is that Mr. Trump's success so far has been based, I think in his

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view, has been based on his ability to negotiate. And how does he negotiate? Well, he goes in to a negotiation with an absolutely maximalist position. Whatever the person on the other side of the table wants, he starts out by telling them they can't have, and they're going to have to pay for it.

That has worked for him. A consequence of that is that no bank will lend him money now except Deutsche Bank. And no major U.S. business leader will do business with him again. But it worked quite successfully for him, and it worked quite well for him as a candidate.

And so, the other reason, of course, is that's the sort of art of the negotiator, American will get tired of winning, reason for his presidency, and for his own personal success.

And so, he took to the Japanese and to the Chinese and to the Koreans, the thing that matters most to them from the U.S., these pillars.

And then he changes his mind. He changes his mind within -- maybe he was bluffing. Maybe he had intended to bluff all along. But he changed his policy, certainly, within 72 -- 48 hours, when he spoke with Xi Jinping on the telephone and confirmed our "One China" policy for the first time since declaring that it was on the table.

And then about a day later, met with Prime Minister Abe Shinzo of Japan and confirmed in a written statement prepared by the foreign ministry of Japan. As a NSC guy, to me this is -- I was in Tokyo a few weeks ago, and the foreign ministry was giddy and terrified at the same time. But he confirmed, not only our security commitment, but our security commitment to areas administered by Japan, which means Senkaku and Diaoyu. So, the litmus test for Japanese political leaders of the American commitment. He went right to it in very concrete terms and read it.

So, why did he switch? Well, some people are speculating about agency. Secretary Tillerson got through to the president and said, you cannot, you know, manage Asia unless you reaffirm the "One China" policy. Secretary Mattis went to Japan and Korea and stated unequivocally, that our Article 5 commitment to Japan under the 1960 security treaty, the revised treaty, applies to the Senkaku. So, you know, other cabinet members, perhaps, sort of pushed the president to it.

Some people, speculate, not without reason, that Ivanka Trump and Jared Kushner were key in this. Jared Kushner, because of his constant dialogue with Ambassador Cui Tiankai, the Chinese ambassador in Washington. And Ivanka Trump, through connections to Japan she has, it was Ivanka

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Trump who convinced the president, I am told by people who were there, to read the statement on Japan. And Jared Kushner had a clear role on the China policy.

I joked when I was in Japan and China two weeks ago, that as long as Jared Kushner and Ivanka Trump have a good marriage, then the U.S.-China-Japan trilateral relationship should be stable. (Laughter) We should be all, the think tanks should be having policy recommendations for, you know, date night, and flowers.

But that's all agency. That's all agency. I think the structural explanations make a lot more sense. And that is, both domestic and international.

Domestically, I don't believe, others will perhaps disagree, we can discuss this in Q&A, I think the Trump election was not unlike Brexit as people have pointed and other elections, it was a strong vote of no confidence in the elite, in the purveyors of facts, in think tanks and universities and the media, in the bicoastal elite. But it was not fundamentally about foreign policy.

And if you look at German Marshall Fund or Chicago Council on Global Affairs, the best polling on American foreign policy, you find that over half of Americans, Pew is a bit of an outlier for other reasons, but in most of those other polls, you find for some time now, about five or six years, a majority of Americans say Asia is the most important region to our country's future. And it used to be Europe. For decades, in these polls, it was Europe. That's significant.

The majority of Americans support free trade. It went down in the 2008-09 financial crisis, but then it went up. During the election, the majority of Americans supported free trade.

Every one of the 50 governors, I'm sure, even if they don't say it publicly, supports the Trans-Pacific Partnership, TPP.

Polling in general, on our alliances with Japan and Korea and Australia, are the strongest they've been. And polling in those countries is interesting. It's very strong too, even if there are negative polls about the new president, as is the case with the Lowy poll last summer, where close to 90 percent of Australians said they supported or strongly supported the U.S.-Australia alliance, but over 50 percent expressed negative views of Donald Trump as a candidate.

So, in terms of structure domestically, there's pretty robust support, if someone wants to lead the American public to pool together these institutions and interest groups.

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China's more interesting. The German Marshall Fun and Pew and Chicago Council polls on China have shifted a bit. A majority of Americans a few years ago, a narrow majority said China's more of a partner than an adversary in the Chicago Council polls. The last poll that flipped, and now a majority say adversary, not partner.

But when in other Chicago Council polls, people are asked, so what do we do about China. Less than 10 percent of Americans choose containment. Less than 10 percent chose accommodation. The largest answer is, engage China while staying close to our allies. Pretty, you know, the think tank work is not that hard in a way, it's pretty basic. The specifics get complicated.

And I remember reading this -- I have a proud history of working on a string of failed republican presidential campaigns. McCain was fun. Romney, a little less fun. And then Jeb Bush. And then when I co-chaired his Asia group, and then he bowed out and went to Marco Rubio. And then when he bowed out, some of the Kasich people approached me, and I told them I'm a jinx, and they don't want me, although I have a lot of respect for Governor Kasich.

But the most telling moment for me was in this whole thing was in 2012, in October, when it was Romney versus Obama. And the foreign policy people, and Asia people, specifically, and the really powerful people, the pollsters and political operatives who were coming up with a strategy, got together to talk about Ohio, the state of Ohio, which is critical in any reelection.

So, a certain member of the Asia team, and I -- not me, said, you know, we need to hit China harder on currency. Governor Romney had said he would name China a currency manipulator on day one, which most of us thought was fine because it doesn't actually do anything.

So, somebody said to this group as we were brainstorming about Ohio, I went to Kenyon College in Ohio, so I'm qualified to talk about it I guess. But somebody said we ought to hit China even harder on currency. And the domestic people who are completely cynical and Machiavellian and just want to get the vote out, said no, we don't want to do that. Because whenever the governor hits China hard on economic issues, the support among our base goes down in Ohio because of soy bean exports and, interestingly, because the voters in that state associate a trade war with Japan as a trade war with Asia. And some of the best jobs in Ohio are Japanese and Korean manufacturers.

And that may be a little bit less. There's less domestic support. There's much more

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dissatisfaction among the business community about their operations in China, intellectual property rights. It's more complicated. But I think it's still largely true about U.S.-China relations, that a trade war would be extremely unpopular in the very places that Donald Trump succeeded in winning away from the blue camp, from Hillary Clinton.

So, I think, you know, I did a little blog saying this, and somebody, you know, Tweeted that Green says the swamp will win. It's not that clean, it's not that easy. We've had disruptive populous presidents before. But I do think that structure matters. And I don't see much in the election of Donald Trump or in his cabinet or in his immediate family, the exception being Steve Bannon perhaps, who we can talk about, or Peter Navarro, people like that. But I don't see a sort of groundswell of anti-Asianism.

And in fact, if you look at people, particularly, Steve Bannon, who's controversial but clearly loves to read history. He invokes or evokes a lot of the language of the America firsters.

And when David Sanger interviewed then candidate Donald Trump, and then David said, your policy sounds like America First, and Donald Trump steeped in history having read every one of Warren Cohen's books said, yes, that's right. But people in the room from The New York Times said it sounded like he just associated America and the word first and went with it. I think Steve Bannon knows exactly what the America First movement was. And I should be advertising my book, please buy it.

But there's another great book I'm just finishing called, "Those Angry Days." A wonderful book about the history of the America First movement. It's about two years old. And how, you know, the internationalists who were then called the interventionists, you know, dealt with the isolationists and how they organized and the themes. It's just very, very familiar sounding in March 2017.

And then it wasn't bicoastal lead, it was east coast lead. It was the connection with Europe. It was a connection with Britain. It was midwestern American. Many of whom, two or three generations before, were Germans or Czechs or Poles or Irish, who were deeply suspicious of the old world, deeply suspicious of Britain. Coupled with the experience of the first World War, and you could draw some parallels to Iraq perhaps. But very evocative of that.

But the other thing about the America First Movement was, it was mostly, it was antiwar, and it was anti-Europe. It was not profoundly anti-Asia. And the sort of America First Movement, I think, you know, the DNA, is strongly connected to what became the Asia First, Anti-NATO, Anti-Europe,

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MacArthur-Taft movement after the war. And I think in some ways, that's the DNA of Mr. Bannon, who I think knows his history, maybe he abuses it. That's bad for Europe. If I were a European ambassador, I'd be much more worried.

I think in Asia, like the American public, the administration probably sees the future.

So, let me just conclude by saying, to quote Yogi Berra. Prediction is difficult, especially about the future. I don't know what's going to happen with the administration. It could go any number of ways. It could be quite debilitating, it could find their sea legs. Secretary Tillerson and Mattis, National Security Advisor McMaster, could really start adding some discipline or not. Or we could go from tweet to tweet, with the public and our allies confused.

I don't know which way it will go. I tend to be more optimistic that over time and maybe soon, who knows, it'll start to move in a better and more predictable direction.

I'll just conclude by pointing to sort of evidence for both scenarios. And this is comforting from someone who is a -- to my wife's great delight, because I won't have to go in to government now, was a critic of what the president was saying as a candidate.

But consider three things that are actually probably from the prospective from some of our friends in Asia and improvement over the Obama administration, even if the public across the region is, you know, is pretty negative about or current president.

I can tell you, and from interacting with people around the (inaudible), around Prime Minister Abe, they are much more comfortable dealing with sort of hardheaded, ideological conservatives who believe in hard power, than they were with the Obama leadership team. Not Hillary Clinton, but the outgoing team of the Obama administration. That's maybe not where the media is in Japan or the public.

But I can tell you I'm quite sure of this, that's where people are on Abe are. They feel a certain simpatico, but also, they recognize the hard power that they felt was missing in dealing with China and North Korea.

China, I mean, Xi Jinping comes in a few weeks. It's going to be, you know, any summit meeting with the U.S. these days is a bit like Russian roulette. There's one bullet in there. You hope you're not Malcolm Turnbull and getting that bullet. But you have a, what is that, five and six chance of getting through it okay and maybe even like Abe, having a quite successful and influential summit.

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But for china and U.S.-China relations, I was in Beijing, you know, a lot of you travel frequently to Beijing and talk to people in the party leadership and the foreign ministry and scholars, very careful about Donald Trump. Very careful. The 19th party Congress in the fall, not a time to pick a gratuitous fight with an American president, who's a bit unpredictable.

That's kind of how they were with Ronald Reagan, frankly. And although Ronald Reagan really upset the Asia scholars by promising as a candidate to renormalize relations with Taiwan, and although Ronald Reagan had over a year of debilitating internal fights about China and Taiwan, think about what happened next, 1992, third communique.

And then Chinese leaders came in to the Oval Office, this is in my new book, available nowhere else, George Schultz told me this on the record, and thanked the president for the third communique and said, now we have to something about the Taiwan Relations Act. And Ronald Reagan said, yes, we do. We have to toughen it up. And it barely came up again.

And if you think about 1982 to 1988, they were some of the most productive years in U.S.-China relations. And by 1988, we were selling weapons to China.

So, there may be, I don't want to overdo this or give too much credit, but there's a little bit -- they're may be something to be said for a bit of unpredictability, initially, in U.S.-China relations. I don't think you can sustain U.S.-China relations, let alone allies, if your creed is to be unpredictable.

But initially, at least the historical record shows, things actually turn out a little better in the long run. That's what happened with George W. Bush in a way. And then the defense budget. I mean the defense budget's been one of the missing pillars of the rebalance or pivot to Asia.

On the other hand, I'm ending on a negative note, there are some big, big questions that I can't answer; we could talk about it. How much does the president's tweeting and image undercut American foreign policy? I would argue, it is right now. Can he get out of that? Will a man of his age stop doing what he's been doing for a long time? The majority of Americans in polls say stop tweeting.

So, that's just not clear. The devastating cuts to the State Department, which are proposed. I think Congress will put most of the money back. But also, the inability of Secretary Tillerson to staff his State Department. The ongoing personnel wars at the White House. You know, that's a problem. And if it continues, it's going to be a really big problem. And then, the complete lack of a trade

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strategy. No interest at all right now in an offensive, and I mean that in a defense-offense.

So, you know, a lot of interest in U.S. TR in punitive tariffs and duties for dumping and things coming into the U.S., (inaudible) investment strength protections and things. Almost no interest in, well, clearly, no interest in TPP, but also, no interest in the bilateral investment treaty with China. So, no strategy at all to sort of open markets, to improve rules.

So, those are big, big question marks that I end on, just so you don't think I've gone soft.

Thanks.

MR. BUSH: Mike has agreed to take some questions for about 15 minutes. I'll let him field the questions. The protocol is wait for the mic, identify yourself and your affiliation, and keep your questions short. You can tell he's a really smart guy. You don't have to give a whole paragraph to get the question across.

MR. GREEN: Do I call them?

MR. BUSH: Yeah.

MR. GREEN: So, I don't have to call them (inaudible). Not (inaudible).

SPEAKER: Thank you, Mike. I'm glad that you do not regret over signing the letter.

You talk about structure and agency. The Republican Party, we were told, is structured on two wings, commercial and national security. So, for the George W. Bush administration, I think in older days, in national security, we had more influence over his foreign policy.

Now, your observation, which way is more influential with say Trump administration at this date?

MR. GREEN: I haven't checked the news. I assume the healthcare bill has not passed yet. I mean a lot of it comes down to you're here in an interesting time. If this healthcare bill passes and it probably will by one or two votes, then a major republican civil war will be averted. And if it fails, it's going to be quite destructive for the president and for the Congress.

So, we'll know the answer to your question before you leave.

The one thing I think I can answer is, on Asia policy, there is almost no debate among Republicans in Congress and very little debate at all between Republicans and Democrats. Asia policy is probably the area of foreign policy where there's the most consensus, which, you know, was not always

the case.

And one of the things that quietly happening, is that Republican in the Congress, not just the very visible ones like John McCain, but also, the chairman of the Asia subcommittee, Cory Gardner or Dan Sullivan from Alaska, there's a very, almost unprecedented cadre of somewhat younger republicans who've been elected to the Senate, who have backgrounds in Asia and care about Asia. And they are quietly preparing to legislate and do other things to restore the State Department's capabilities, development, women's empowerment, and trade even.

So, Senator McCain has proposed an Asia reassurance initiative, which would be increasing the defense budget in Asia by about 1.5 billion a year for mostly operations. But the Senate Foreign Relations Committee is now working with McCain's blessing to find a development diplomacy trade peace. It won't involve 1.5 billion probably, but they're riding that pro-defense wave.

So, a lot of, I think the republicans in the Congress and republicans in the cabinet, and that is Tillerson and people like that, very much have common cause. And I think you'll start to see that.

Yes.

SPEAKER: Yes, thank you. Secretary Tillerson went to Beijing and drove fire in Washington about, you know, his reaffirming of the phrases by Chinese about the new type of power relationship.

Do you agree that, you know, the Trump administration is not really ready for a summit based on your experience? You know, what should be prepared? What's the most important things before the summit?

And some Korean and Japanese foreign diplomats feel like, you know, if the Trump administration is willing to endorse this new type of power, they feel like it being a slap on the back when they are cornered right now by Chinese on a diplomatic front. Do you think that that will make, you know, the Asian country, to recalculate their balance? Thank you.

MR. GREEN: I think the administrations unprepared for a Xi Jinping visit in April. And I think they should do it. I mean I look back in May 2004 -- 2003 -- I'm forgetting when No Mu Hyun was inaugurated. But when No Mu Hyun came to power, we had a summit within about two months in Washington. We were not prepared. I mean I did a lot of work. Steve Hadley and Condi did a lot of work

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to get ready. But we didn't know what No Mu Hyun's policies really were going to be.

The big highlight of the summit was that President Bush told No Mu Hyun, he doesn't plan on attacking North Korea. It turned out that was No Mu Hyun's big ask. So, that was pretty easy.

It turned out not bad, actually. A huge credit to Kathy Moon, actually, who was at Brookings, who quietly coached me because I'm on the right a little bit, how the left on Korea thinks about the U.S. And she was a big, really big help. She was at Wellesley at the time.

So, we weren't ready, but it was a good thing we did it. And I think it would be a monumental mistake to just keep putting off a summit with Xi Jinping until the administration knows what it's China policy is going to be because I don't think they're going to get there. I think the summit is going to force some decisions on this. And so, I think they should do it.

The Washington Post asked me to write a piece, and it's online, about what Secretary Tillerson said in Asia. And I, I don't know if you saw it. Chris Nelson, I saw send it around, and you may have seen it there. But I thought it was a mistake to use that for, you know, confrontation, win-win stuff but a minor mistake compared to had he, you know, embraced new model of great power relations.

I don't think he should do that again. I think it's a mistake to be using China's two or four-character phrases because they mean something different within China and within Asia. And, you know, Condi Rice used to say we want a balance of power in Asia that favors freedom. I would have been thrilled if Hu Jintao had used that language. But that would not be a basis for a consistent China policy towards the U.S. And in the same way, using Chinese two, four, six-character phrases, is not a basis for maintain domestic support and continuity in U.S.-China relations. So, it was a mistake, but it wasn't a huge mistake. I think it's a symptom of two things: One, the lack of staffing at the State Department still. And number two, the lack of consensus within the administration on China policy.

And so, a Xi visit may be a little rough and bumpy. Both sides though have a stake in making it come out well. And if you put it off, it's just going to get worse. The debates will be disconnected from one very important part of the relationship, which is China. It'll be an inside the Beltway debate. Get Xi Jinping here and talk to an actual Chinese leader and sort it out.

Yes, sir.

MR. LARKIN: Thank you. I'm Mike Larkin from the Forum on International Affairs. And

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since you mentioned balance of power in favor of freedom, assuming all the democracy and human rights programs are not completely gutted, what opportunities do you think exist for the U.S. to try to speak or act a bit more loudly on, you know, democratic regression in Southeast Asia and in Asia in general, wherever it's found? Thank you.

MR. GREEN: So, you know, I try to have balance, three things about the Trump Administration that actually parts of Asia prefer and three things that they don't. I tried to have three and three. The second list, that would have been much longer had I had the time. And the fourth one, I would have put is the very confusing, if not negative, signal we're sending about good governance, democracy, women's empowerment, human rights. It's not one issue, it's a basket of issues. The way you approach them is a bit different.

But it does not help that, you know, the way the administration is treating the press. It does not help that the president never raised this. That he's talked about moral equivalency, in effect, with Russia.

That said, when I mentioned republicans in the Congress earlier, you can be sure that people like Marco Rubio or Cory Gardner or John McCain or pretty much any Republican in the Senate, and I think almost all in the House, will protect the freedom agenda." What George Bush used to call the freedom agenda. Because it's important to them personally. And their view, I can tell you and I'm sure others here have talked to some of these members of Congress, their view is it's an indispensable part of our foreign policy.

But it's going to be a little bit harder, you know, when the commander-in-chief is not articulating the message. And, you know, we're going to have to work around that for the exact reasons that you said.

I think you hit the right target too. If you were to pick something as sort of the focus, I think the U.S. should always speak out on behalf of dissidence, always. And we should always speak out on behalf of women's empowerment. We should speak out on behalf of good governments. But the thing that I would make the target right now, which I think Secretary Tillerson would find attractive, is the closing civil society space everywhere. Which means don't cut the budget for the East-West Center and The Asia Foundation and things like that, which in aggregate, cost less than the Secret Service bill for, you

know (laughter).

Yeah, Mike.

MR. MOSSETIG: Mike Mossetig, PBS Online News Hour. Can you set the table, please, for our next discussion? Are our options as bad and as limited with North Korea as they seem?

MR. GREEN: Yes. Yes, and they have been for a while. And one thing I thought Rex Tillerson did really well, was go out and say 20 years of diplomacy engagement have not worked. And he's not saying we're going to attack North Korea. He's said we're going to have to keep all options on the table. I tell you, I think that's what Hillary Clinton or Jeb Bush would have said right now. Because -- and I've been doing this North Korea, I've personally saw, Victor Cha and I joke, we personally solved the North Korea problem five times each. And were big advocates of engagement.

I think it's pretty obvious, I don't oppose some level of diplomatic contact, but it's pretty obvious we have to approach this differently and get away from the lines every administration including ours use, which is North Korea is only isolating itself, we're got to have strategic patience.

That said, there is, I think, basically, no option to get Kim Jong-un to stop his programs. In the near term, there's not enough we give him to bribe him. And an all-out military option is ugly, although we should -- we have to keep all options on the table given his unclear intentions and capabilities.

So, my own view is we're going at second-best strategies for the time being, which is enhancing deterrents, missile defense, enhancing defense; and enhancing interdiction, which is not only stronger U.N. Security Council sanctions but more effective interdiction.

And if I -- I don't what, I mean I think Secretary Tillerson in private was pretty tough with his Chinese counterparts, I'm pretty sure of that. but if I had a big ask of the Chinese side, it would be on interdiction, which can have a specific -- no, when Green doesn't have a solution for the North Korean problem, I'm sorry, I don't. I don't think anyone does. But this would help us mitigate the risks better.

MR. BUSH: We could probably ask Mike Green questions all afternoon, but he has a day job. And we have our North Korea panel, just to reconfirm that all the options are awful.

But I want to thank you for taking the time. This is really good, and you taught us some stuff. And I think we should all buy your book.

MR. GREEN: Good.

MR. BUSH: So, please join me in thanking Mike. (Applause).

So, if I could ask Akihiko Tanaka and his comrades to come on up, we'll get started in just a minute.

MR. TANAKA: Good afternoon, ladies and gentlemen. I would like to start the session entitled Conversations on Key Issues North Korea. We were fortunate to have Mike Green in, the luncheon speech which ended with his comments on U.S. options for North Korea. The panelists are not particularly constrained by Mike's opinions.

I would like to ask Chaesung Chun, Jonathan Pollack, and Wu Xinbo to give us their views in ten minutes each. Professor Chun is associate professor for Seoul National University. Jonathan Pollack, of course, anybody here is very familiar with who he is. And Wu Xinbo I think, again, doesn't need any introduction as the foremost international politics specialist in China.

Now, I would like to ask Professor Chun to give his presentation. Thank you.

MR. CHUN: Thank you. My topic today is the North Korea problem. So, yesterday Professor Ha touched upon a little bit about the North Korea problem and can we solve this problem based upon the Chinese solution or the American approach. So, we'll think about those approaches and could there be any possible third way from the South Korean perspective. So, we'll talk about where North Korea is now and then we'll go to international situations and possible solutions.

So, this is Kim Jong-un and this is just after the rocket fire test last week. And he seems really satisfactory because he thinks that development of ICBM is really important for strategic proposals. And he's carrying someone. Seems like it's a missile engineer or scientist. And this is the first time the North Korean leader is carrying someone on the back. (Laughter)

So, what does this mean? ICBM is really important. What does ICBM mean to Kim Jong-un? So, if you are Kim Jong-un, he is just 33 years old and his father and his grandfather died very late, at the age of 69 or 82. So, he may think that he will live up to 75 on average. So, he's just at the beginning stage of his reign, his rule. So, he has more than 40 years. But we think that we are looking at the last stage of Kim Jong-un's rule because they might collapse suddenly. But he does think in that way.

So, he tries to pursue his strategy one step by one step, by developing these nuclear

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weapons. So, on the left he is developing those weapons from 1993. North Korea nuclear crisis is 24 years old. So, if North Korea collapses it's not really a sudden collapse. It's more than two decades.

And there are many proposals that are served by this ICBM. If you look down on the right side the political legitimacy. So, effective governance, he can prove himself. He's a quite able leader by showing that. We are developing the sciences and rocket science. We are developing ICBMs, economic efficiency. So, by developing nuclear weapons it's Jong-un's strategy. So, they are trying to develop nuclear weapons and economy at the same time so they can focus upon nuclear weapons rather than spending money on a wide range of conventional weapons. So, they can save budget and pour those moneys into economic developments.

So, it could be a very efficient strategy. They can develop second-strike capability. No one will strike first, but he thinks that there might be some hostile North Korea policy from the side of United States or South Korea, so if North Korea has second-strike ability by using nuclear weapons then they can think that they have deterrent power. So, that's very effective, again.

Kim Jong can have new options in the all-out war if they invade South Korea. So, they start a war by conventional weapons but threatening using nuclear weapons to prevent U.S. forces coming from Japan or coming from the mainland so that they can win the war as the war protracts.

If they decided to sell the weapons the nuclear rights they can sell at a very high price by having some economic rewards or diplomatic rewards in the case of these negotiations. Also, if there is a peace negotiation -- this is a really important point -- if North Korea wants to come to the negotiation table and talk about peace talks, then they say, well, we will lessen the amount of nuclear warheads, but on the other end, the United States should withdraw from their Korean Peninsula so that they can have a better balance of power on the Korean Peninsula.

So, it's very complex. If we agree to some kind of peace talk that we are talking about these days, there will be a very long and painful road for the negotiations.

So, why is North Korea developing? Yesterday you saw Professor Ha's PPT and also very recently they talk about the same old logic that they're developing nuclear weapons because of self-defense. The United States still insists on the hostile policy of the same logic. But if you are North Korean then they might feel this is a genuine threat to their own regime.

So, we have two kinds of problems. This is analytically different. One is North Korea nuclear problem, the other one is North Korean problem as a political problem. So, in the future we might have North Korea regarding nuclear weapons. Nuclear North Korea, formally recognized. That's what we want to evade. Or North Korea with nuclear weapons and recognize as a de facto nuclear power.

North Korea is permanently in the process of denuclearization. This sounds funny, but this is a possibility. If someone prefers the status quo with North Korea in the endless process of denuclearization, then this might be an option. North Korea denuclearized. That's our (inaudible).

But in that case what kind of North Korea do we want to have in northeast Asia international relations? Political, economic aspect, and also in terms of foreign policy? This is closely related to geopolitical situations surrounding North Korea. We may have a totalitarian economically developing and peaceful North Korea, or -- I have only five minutes -- a totalitarian economic developing and aggressive. You can just look through. So, we may have different North Korea. Those are related to North Korea nuclear problems.

Some possible approaches. First, denuclearize through reunification, by sudden collapse of North Korea. That may be one approach that could be pursued by North Korea and South Korea conservatives or American preservative thinking. We can denuclearize by giving North Korea a security guarantee and economic prosperity. That's the idea from South Korean pro-engagement liberal progressives.

Also, there are some in the United States or mostly in China denuclearize but don't care about the future state of North Korea. So, we can just confine the proposal of a North Korean policy to nuclear matters or, as you see in number 4, just for prevent proliferation, as we saw in George W. Bush's administration. So, they don't care about denuclearization, the future of North Korea. Or 5, maintain geopolitical friendly North Korea but don't care about denuclearization. China may adopt this position.

So, if you want to have a denuclearization we need to have three things. First, we have to raise the cost of developing ICBM on the part of North Korea. So, we have to threaten political life or even personal life of Kim Jong-un. So, we have to race, you know, red shop the economic sanctions and political pressure.

We need Chinese participation. South Korea and the United States cannot have these

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kinds of sanctions without Chinese help. We have a limit. We are running short of the power of sanctions. How can we persuade China to participate in these tougher sanctions which may threaten the political life of Kim Jong-un? And Kim Jong-un is needed by China in terms of strategy calculus of China. So, we have to provide a guarantee to North Korea and China that we will not go for the sudden collapse of North Korea and we want durable peace structure between the two Koreas.

So, those three should be interconnected with each other. So, China's dilemma is that if North Korea is denuclearized then there is a risk of sudden collapse. Then they are losing a strategy asset and they cannot have more buffer, which is North Korea. North Korea may have nuclear weapons, more developed nuclear weapons, but our U.S. alliance will be strengthened which may affect Chinese calculus about just strategic concerns in northeast Asia.

So, this looks a little bit complicated. If North Korea develops nuclear weapons then China will participate in economic sanctions, but there is a critical juncture. For example, if North Korea becomes politically destabilized then China will hit economic sanctions. But if there is some guarantee that North Korea will not collapse, those zones, the areas of geopolitics, then China will still participate in economic sanctions and then we can have denuclearization of North Korea. But we will not go beyond that, the collapse of North Korea.

So, how can we persuade China? South Korea's approach, deterrence, pressure, and engagement. I'll skip this. So, South Korea's dilemma with a North Korea developing ICBMs is we have to develop deterrents. But the problem is that China worries about our enhanced ability of deterrence because they think that a strengthened alliance will threaten China's strategic interest. Domestic public opinion is that South Korean government should have something from South Korean public. You have to make a big deal, something like that.

Also, there are voices for the option of going nuclear. We'll have a new administration from May 9th. So, those (inaudible) are working together.

U.S. plan. So, this is the main part that I want to raise questions about, new options for the Trump administration. But as we already talked about, every option was on the table and tried. So, what are new? Is it effective to drive Kim Jong-un to decide for denuclearization? And the other question is if the United States runs short of the measures to make North Korea give up nuclear weapons, then

can the United States live with Kim Jong-un's ICBM.

So, United States will be vulnerable to Kim Jong-un's ICBM. You have an option. You don't give any attention to Kim Jong-un's ICBM, saying that your nuclear weapons don't have any ability to attack us. But it will have some certain effects, but Kim Jong-un will think that, well, I need to draw attention from the United States. Then he wants to be perceived as irrational. That's a very rational calculation actually. So, you cannot stand this state of North Korea with ICBM because there might be some voices from the American public.

So, the question is, is North Korea deterrable. And for deterrence theory there are many things. We need communication, some kind of social constructed mutual understanding of deterrence to have a deterred state. But we have to educate North Korea about this deterrence if you want to live with ICBMs for the time being.

So, there might be some new options. Deterrence pressure diplomacy is a familiar phrase from the Obama administration. We have preemptive strikes, all those things. We have tried those but we excluded some. And then we go back to some kind of similar options from the Obama administration, but it is not enough. So, we have to do something more.

So, how can we deal with the increasing possibilities for North Korea's proliferation? Those are some checking points. South Korea and Japan have doubts about U.S. commitment for extending deterrence. And there are also voices to go nuclear from South Korea and maybe from Japan.

China's demand for negotiation with North Korea. So, they say if United States has limited options why don't you just follow me in doing the negotiations with North Korea for the past regime. That phrase is (inaudible) approach as yesterday Professor Ha said.

So, if there is too hasty comprehensive review about the North Korean policy from Trump administration, then you may have more dependence on Chinese option. Because if you don't have any new ideas to make North Korea -- to put more pressure -- I'll skip all these points.

So, there might be some increased sanctions as time goes by and there might be an impact on North Korea's decision. There could be many, you know. Economic hardship on North Korean people, a decrease in Kim Jong-un's discretion (inaudible) money. But short of the decision to denuclearize on the part of Kim Jong-un then new smart sanction is not enough to drive Kim Jong-un to

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decide to denuclearize.

So, the point is that it is not about which option to pick, it's about how to combine at different stages. Sometimes we need to develop deterrence, sometimes we have to put more pressure, sometimes we have to engage with North Korea.

Time is up. So, for the last point, my point is that we need these things. We have to impose tougher sanctions to change Kim Jong's calculus. We need Chinese participation. How can we do that? We have to send a signal to North Korea and China that we don't want a sudden collapse. What we want is to denuclearize, as I said, democratizing economically prosperous North Korea, and peaceful which can lead us to the peaceful coexistence between the two Koreas. That may give a chance to peace talk for the one time. Suspension for suspension, as yesterday we talked about that.

So, North Korea's moratorium and the temporary suspension of large scale military drill. But I think it will not work because North Korea will demand more and more to show -- you have to show some guarantee that you are giving up a hostile North Korea policy.

So, if that happens we need to predefine some trigger clauses to reinforce sanctions again for the next round of negotiations. So, we need a promise from China even some kind of options to shut off (inaudible) supply. Then we might socialize North Korea that without nuclear weapons you can survive. But there will be a very long and painful process for renegotiations for denuclearization. If that succeeds, then we can continue negotiations for denuclearization. But if that fails, then we have to go back to the track of sanctions again. And then have strategic dialogue with China and then go back to the renegotiation.

But still, we need to confirm to North Korea that we don't want North Korea's sudden collapse, which is related to the question, as I said, North Korean problems. We have to combine this to track, you know, think simultaneously about North Korean problem and nuclear problem at the same time.

Thank you. (Applause)

MR. TANAKA: Thank you, Professor Chun. The next speaker is Jonathan Pollack.

MR. POLLACK: Thank you very much. It's a pleasure to welcome so many friends here to Brookings.

North Korea is obviously an enduring policy problem in the view of many, especially here

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in Washington. The preeminent potential crisis that the Trump administration faces. But I don't really want to engage in Washington chatter today. That doesn't serve any particularly useful purpose. I would actually like to step back and pose a few basic questions.

What has stayed the same with respect to North Korea, notwithstanding the expectations of crisis? What has not stayed the same? Why the deepening anxiety about where events are supposedly or could be headed? And then finally, of course, how might the Trump administration proceed?

So, what hasn't changed? North Korea is America's most enduring adversary in the international system. We have never had a normal relationship with the DPRK from the very day that the state was founded in September 1948. So, we're going on 70 years and counting almost.

Republicans and democrats, they may have big differences but on this there is no difference. North Korea is widely the most despised political system in the world and public opinion data illustrates this. And yet what I consistently worry about is that in popular conceptions many people treat North Korea as a cartoon. It is not. It is a dangerous and really requires critical understanding.

Now, we know for many, many years there have been innumerable predictions that the end is at hand, the demise of the North Korean state, and yet they're still standing. When I turn my laptop on in the morning they are still there. That ought to tell us something. Indeed, not to be flippant, but for all the expectations of regime change, we can say we have had regime change in the United States, we are on the cusp of regime change in South Korea, but there is no regime change in North Korea. So, they must be doing something right by the criteria that they use.

What we are dealing with is a monarchical, totalitarian system premised on family rule, based on deeply adversarial nationalism toward obviously, first and foremost, its fellow Koreans in the south in the Republic of Korea, towards Japan, towards the United States, and I would argue at least as much towards China. North Korea now finds itself in possession of an increasing array of nuclear and missile capabilities, which are a core part of what it describes as its strategic identity, its treasured sword of justice. All of this having been achieved at profound brutal cost to the lives of its own citizens, even as it falls farther and farther behind the modern world.

What has changed? Well, obviously first and foremost the progress in their nuclear

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missile programs under Kim Jong-un, particularly during the year of 2016. Young Kim, part of what I like to call the Kim operating system, so he is 3.0 on the Kim operating system. He has doubled-down on his strategic wager, believing that the key to his survival, the survival of the system, and his regime is in fact nuclear weapons capability.

As Professor Chun's photograph here highlights, there is a degree of personal involvement in the development and capabilities, physical involvement, that is really quite extraordinary. It may or may not be North Korea's treasured sword, but Kim clearly regards it as such.

In his New Year's address he didn't quite promise a nuclear weapons test but he said that because of all the progress in 2016 they were getting closer. And that, if we can call it a prediction or promise, if anything seemed to change the nature of policy debate about how to look at North Korea and what has to be done.

We can pose the question of whether he will or will not make good on this threat, and if there is time we can come back to that. But does it really, really matter whether it's soon or many, many years down the road? Because it may be indefinite. But what I find troubling is the idea that -- to use that dreaded Washington cliché -- that if and when North Korea has this capability that's a game changer. Could we excise game changer from the strategic vocabulary? I think we will be well served by it.

I think that that sends absolutely the wrong signal to America's allies in Japan and South Korea because it implies that only when North Korea has the ability to reach the United States does everything change. The dangers of North Korea are here and now. We don't need to wait for whether or not an ICBM ever evolves.

Now, related to all of this and the reasons for the current anxiety, much of it illustrated by Foreign Minister Wang Yi's comments at his press conference, are that the U.S. and North Korea are two trains that are speeding towards one another. With all due respect to Foreign Minister Wang, that makes great copy but it's seriously misplaced.

The anxieties that are there right now, the tensions right now, the media attention right now, that's a seasonal event. Every year, when the United States conducts major military exercises with the Republic of Korea we hear this kind of talk. It's Kim Jong-un's script, in effect. And I don't trivialize some of the dangers and the risks, but my prediction would be we see this movie every year, and as the

United States' exercises wind down next month we will see that alarm and anxiety also retreat.

Added to this is the fact that Kim Jong-un is preparing for the transition of power in South Korea because the North is about to get the kind of regime in South Korea that it likes, and it gives him a certain, shall we say, incentive to be on moderately better behavior so that he can get the kind of government in South that will seek to reengage in North Korea in some measure and prospectively distance itself from some aspects of U.S. policy.

So, what can we say about the Trump administration? Despite everything we have said here today, despite all of his disruptive behavior, on North Korea policy I give the Trump administration pretty good marks. My colleague and I, Bruce Jones, wrote in article in the Nikkei Asian Review that appeared last week that points out that in essence Trump has dealt purposefully with these issues, that two days after Mr. Trump was elected he met with President Obama and President Obama told him this was going to be an enormous problem in his agenda. It's sobered him deeply. He requested early on and has continued to receive major intelligence briefings on this. And there are the workings of a policy process as you deliberate realistically, one hopes, but quietly what your options are.

I would note, by the way, I don't observe all of Mr. Trump's tweets, but he's only had two tweets on North Korea since the beginning of January. One was on I think about the 3rd of January we said nuclear warhead, no, not going to happen, not going to happen. And then he had a second tweet which I almost would deem almost a harmless tweet that he expressed when Tillerson was in China.

Trump has participated personally in meetings that deliberate policy options. This, of course, is an exercise that every new president goes through with respect to North Korea because this is an enduring problem. And guess what? Surprise, surprise, President Trump is following very, very closely with the policies of President Obama. Indeed, if I were to contrast, the jarring difference between, let's say, the transition in George W. Bush's first time with Bill Clinton's and what has happened between Obama and Trump, a lot of things that I see are a continuation somewhat in extension, perhaps a bit more with teeth, but very frankly things that the Obama administration already had under serious consideration.

What are the goals? The goals would include obviously significant enhancement of deterrence in defense to deal with the potential risks of war, alliance, cohesion, and assurance to prevent

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any possible breakdown of the non-proliferation regime. That is to say, any heightened sentiments in Japan and South Korea for the acquisition of nuclear weapons. Denying North Korea by any kind of acknowledgement that their nuclear weapons are legitimate or permanent. And narrowing the political space in which North Korea can operate.

North Korea can only find room for maneuver when there are divisions among all of those states that are each in their own way threatened by North Korea's behavior. It is simply incorrect to posit, for example, that President Obama would not deal with North Korea. We don't have time today to go into this. He certainly made serious efforts to try. Nor do I think that he ever described that it is strategic patience, it was more strategic indifference or strategic contempt, which is something that bothers the North Koreans as much as anything that the United States might say that they would deem a threat.

I would argue another country that also pursued strategic indifference was the People's Republic of China. So perhaps both China and the United States in the long run, even acknowledging all of North Korea's extraordinary privation and isolation that it cannot or will not be able indefinitely to defy the laws of gravity. I'm almost done.

Or can it? The issue here is not the failure of the United States and China. It speaks directly to the character of the regime we are talking about. Imagine a world where North Korea did not have any adversaries. What would be the defining logic on which North Korea could then proceed as a state? Ponder that. So, they need enemies.

It ill serves the interests of both the United States and China to think that somehow one or the other can outsource the issue to one another. The only thing that is going to work, if it is going to work, is for a coordinated strategy among all affected actors. That's easier said than done because what I'm really talking about is a protracted situation where in essence it's a containment strategy unless and until you either have different leaders in the north or maybe the end of the system overall. But that's not coming any time soon.

Having said that, there are risks right now above and beyond whatever North Korea is or is not testing with its missiles. There is the extraordinary degradation of the China-ROK relationship induced, I believe, by foolish judgments by the Chinese leadership to make too much of a fuss about (inaudible), now engaging in all kinds of economic reprisals against South Korea. Bad move. Bad move

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in every respect. And it's really damaged both Chinese interests and the ability to collaborate with South Korea.

Number two, of course, is the impending transition in the Republic of Korea because you're going to have a government that could approach North Korea very, very differently and we could under some circumstances face the most problematic relationship between the United States and South Korea since the Nam Woo-hyun administration.

And then of course issues related to the U.S. and China. So, I think one of the many reasons, maybe critical reasons for the presumed urgency for meeting with Xi Jinping early is some idea that there is an impending crisis with North Korea. Hard to say, but it is much more important that the United States and China be able to deal with one another candidly about these issues rather than just simply defer it or blame it on one another.

I think I'll stop there rather than take more time, but I welcome your questions. Thank you. (Applause)

MR. TANAKA: Well, thank you very much. Now I'd like to ask Professor Wu Xinbo.

MR. XINBO: Thank you, good afternoon. When Secretary Tillerson went to East Asia recently -- and in China they use the words new confrontation, new conflict, mutual respect, and win-win collaboration. I don't think we should take this too seriously except it is a positive gesture to warm up (inaudible) first, then we begin to ask China what the U.S. would like China to do.

But when he said the U.S.-North Korean policy of the last two decades has been a failure, that's not the truth and we should take this seriously. Why the U.S. policy of the last two decades has been a failure? Not just because of the complexity of the North Korean nuclear issue or the diplomatic skills of Pyongyang dealing with U.S. and China and others in the process of last two decades. I think also it has to do with something on the U.S. side. The assumptions, the perceptions, the approach, and process of implementing the policies.

What went wrong? Basically, if we look at the current option, I think we have on the table four options in total. One, of course, (inaudible) for or even facilitate the collapse of North Korea, which has been desired by many people in the States in turn. Second, use force to solve the problem. Such a strike against nuclear and missile facilities and decapitation against their leadership as a current ongoing

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U.S.-South Korea missile exercise is simulated. Third, of course, diplomatic approach. Make a deal, grant bargaining. And finally, kind of maintenance of the status quo but it's a dynamic one, while your hands are in the deterrence against nuclear North Korea.

So, these are the four possible options on this issue. Now, if I look at these four options I would immediately dismiss the first two. One, the collapse of North Korea, the government, or the regime. (Inaudible) been talking about this, prayed for this for decades. It will never happen. It will not happen. It will not happen. So, leave it as a good wish, or bad wish depending on which side you're for.

Second, the use of force. I think the use of force may be tactically feasible. You may get what you want. But strategically it will be a big failure, especially the consequences for the peninsula. Especially for South Korea. Even for Japan. And for China as well. Just think about Iraq, right? You overthrow Saddam, right, you call it a tactical purpose, but you threw the country and region into chaos. Still suffering from it.

So, in that case I would also dismiss this option, especially for the Trump administration (inaudible) focus is first and foremost on domestic issues. It's not even moot to try military option in his first term.

What about the next two? Diplomatic approach and also enhanced deterrence (inaudible) dynamic status quo. Now, I think the Iran nuclear issue is one example. When Obama was committed to negotiating a solution to this issue and he delivered and he got it. He got it. So, that's positive example about how U.S. can solve this issue through a serious committed diplomatic effort.

Of course, North Korea is different from Iran. Iran has not yet crossed the nuclear threshold. North Korea is already a nuclear power. So, this will be a more multi-staged process than the Iran case. Stage one, North Korea freeze out the nuclear and medium-range and long-range missile capabilities. In return, the U.S. and others would partially lift the sanctions and also, as Professor Chun just mentioned, suspend part of the annual military exercises between U.S. and South Korea. That's stage one.

Stage two will be a more long-term approach. You have to sign the peace treaty first before North Korea can get rid of their nuclear weapons. And in the interim you have to tolerate a nuclear North Korea while the long-term goal is moving toward denuclearization. And in this process, you need

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various arrangements making sure that they have honored their promise to freeze their nuclear and medium and long-range missile activities.

So, what about enhanced deterrence? If the U.S. domestic politics will not allow for a serious and consistent diplomatic approach, because North Korea in this country has been so demonized that a genuine diplomatic approach will cost a lot of political capital even from a president like Trump. Just to listen to how people talk about North Korea, you know, the regime, the leaders.

So, I think if it's politically not feasible then why not live with a nuclear North Korea? At the same time, the U.S. should maintain, of course, and even enhance its nuclear deterrence without encouraging South Korea and Japan to develop their own nuclear weapons. And even maintain the current sanctions multilaterally, and of course also unilaterally. At the same time, more efforts should be placed on nonproliferation. So, that's a kind of status quo approach.

Well, I don't have to tell you that I prefer the diplomatic approach. But when I look at the U.S. approach to this issue over the last two decades I think the problem is that the diplomatic efforts have been neither adequate nor consistent. From Clinton to Bush to Obama, they keep shifting the attitudes on this issue from time to time, changing their minds.

And, also, internally the U.S. has been divided not only between the executive branch and also the Congress, which was the case in the later Clinton administration making it difficult to deliver on the agreed framework, but also within the executive branch like in the George W. Bush and the Obama administration. White House and State Department, they were divided over the approach to this issue.

So, if internally you keep shifting your position and also are divided, how can you assure the credibility of your approach to North Korea? North Korea, even though a very (inaudible) country, but I think they studied the outside world, especially China (inaudible) very carefully. Very carefully. They understand the nuances of the internal politics and foreign policy.

So, in the forthcoming summit between President Xi and President Trump, I think North Korea issue will be priority one on the agenda. I would regard this as a good opportunity for the two leaders, not necessarily to agree on all the details, but they should agree on two things. One, is a goal and the approach. Second is what each side should do in enhancing this goal.

For China, we keep hearing that China should do more to sanction North Korea. I think China should certainly honor its commitment to sanction North Korea within the U.N. Security Council framework, no problem. But I also believe China should enhance its diplomacy towards Pyongyang. Remember the Kim Jong-un (inaudible) has not (inaudible) China. Neither has President Xi. This is quite rare. This is quite rare. The relationship between two leaderships is (inaudible).

So, under these circumstances, how can China play a more active role in persuading/dissuading North Korea? China should also enhance its diplomacy towards Pyongyang while implementing the sanctions.

As for the Trump administration, first and foremost they should tell President Xi that it would give diplomacy a serious try, diplomatic efforts a serious chance, so that you can reassure President Xi about intentions of U.S. policy. And secondly, I think President Trump should also tell President Xi what the U.S., or he, plans to do in reaching out to Pyongyang diplomatically, including possible ongoing private contact between U.S. and DPRK.

So, if the two leaders can discuss this issue in this way, I think that it would very likely lead to what Jonathan Pollack just mentioned, a coordinated or even concerted approach to this issue. I tend to believe that if China and the U.S. are not on the same page it's almost impossible to seek a genuine diplomatic solution to this issue.

So, with that I will stop here. Thank you. (Applause)

MR. TANAKA: Thank you very much. Because the time is limited I would like to immediately open the floor for discussion, and I would like to collect at least three questions. I think the first gentleman in the third row.

QUESTIONER: Thank you very much, gentlemen, for a very good presentation. My name is Elliott Hurwitz and I'm a former State Department, World Bank, and intelligence community person. Would anyone on the panel or anyone else like to comment on the THAAD (inaudible) missiles that the U.S. -- anti-ballistic missiles that the U.S. is currently installing in South Korea directed against North Korean missiles, but opposed by the Peoples' Republic of China?

MR. TANAKA: Thank you very much. I think the one in the second row from the previous questioner. Yes?

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QUESTIONER: Thank you. I'm just hoping that you guys can comment on the idea of a nuclear Korea. So, not North Korea but a reunified Korea.

MR. TANAKA: Would you please identify yourself?

QUESTIONER: My name is Leonard Campbell. I'm independent.

MR. TANAKA: And (off mic).

QUESTIONER: I have a question too. Mr. (inaudible). I have a question to Chinese friend. Secretary Tillerson said U.S. have mistaken that 30 years for the North Korea policy, but it's because the U.S. failure to believe that China can do something. So, I think the United States failure to believe your ability because the six parties talk. It's a very important process. North Korea can be a nuclear power. (Inaudible) six parties talk. You are chairman, but these other two are disastrous. That's my thinking. Thank you.

MR. TANAKA: One more. Yes, please?

QUESTIONER: Bill Brown, I'm teaching at Georgetown. There is one other thread that none of you have mentioned that I follow pretty closely. With North Korea we have all this bad news on the nuclear side, certainly, but this Byungjin policy economic development and nuclear development seems actually to be working. But it's working because Kim Jong-un has kind of given up on his command economy. A huge development. This has been evolving over the last ten years, but at this point, North Korea is maybe halfway to a money economy. This is so different than ten years ago, twenty, thirty years ago. And with a money economy, there's a free market for dollars, freer than in China probably, everybody uses U.S. dollars and renminbi. This invites huge vulnerabilities to the regime. It gives them productivity boost, certainly that's what they're getting, but it also brings in huge financial vulnerabilities. Think of potential for inflation, for example.

So, all of you have sort of ruled out a radical change in North Korea, coming apart. I don't think we can rule that out. I mean, it hasn't fallen yet but that doesn't mean it's not going to fall. It hasn't fallen yet because it's been propped up incredibly by foreign money. Chinese money, Russian money, U.S. money, Korean money. It's a failsafe that's been propped up for 30, 40 years.

So, I guess I'm not near as pessimistic as all of your are that we couldn't use our huge financial capabilities to give them a little inflation, for example. Give them some little worries that their

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regime is not going to last the way it is.

MR. TANAKA: Thank you very much. Now, I'd like to ask the panelists to pick up the question you liked, starting from Jon.

MR. POLLACK: I don't think that there's time for a detailed discussion of the THAAD issue. Simply put, I don't see THAAD as a panacea for the potential vulnerabilities that South Korea would face and U.S. forces in South Korea would face in the event of an attack from the north. But it is something that is expected by the citizens of South Korea for the most part, and I can understand perfectly why. Last year North Korea conducted approximately two dozen ballistic missile tests, some of them simulating direct attack on South Korean airfields and ports. Any sovereign government under those circumstances would need to respond and they did.

The issues with China are so -- they're very, very different. China is of course arguing that the reach of the radars associated with THAAD, the so called Tippy Two radars or whatever, it all gets pretty technical, diminishes China's strategic capabilities. I must say I have more faith in China's strategic deterrent than a lot of Chinese seem to. The notion that the United States would -- the possession of these radars would go to some kind of means by which it would disable or undermine China's strategic deterrent I find fanciful at best.

I don't envisage a unified nuclear Korean Peninsula. I just can't imagine that. That's not a solution to any kind of a problem.

On Byungjin, I disagree with Bill Brown in one respect. This is not -- what's evolving in North Korea -- and it's true, Bill, I agree with you, you follow this closely. There is a lot of change in the North Korean economy but it's not centrally directed. I mean, Kim might still throw out the label but progressively there is a devolution of power, economic power in this system. The question is whether or not it ultimately achieves a degree of alienation from the center that puts at risk the center's monopoly on power. And I guess that's one of the fundamental questions over the longer run.

But a lot of this is really semi-privatization if you will, a lot of market activity and so forth which is a bit of a surprise. And that does reflect some modest measure of economic improvement for some of the citizens of North Korea, but I don't think that this is something that the central leadership's design of what Byungjin really would be, but you make a good point.

MR. XINBO: I think the deployment of THAAD in South Korea is tactually and strategically a better idea. Tactically, it doesn't really provide much protection of South Korea. Not to say the capital city of Seoul. Strategically, that really undermines the strategic relations between China and U.S. and also China in a time when the coordination among the three are all the more urgent in dealing with the North Korea nuclear issue.

Now, for the six party talks, China played a very important role. But the problem is that sometimes North Korea wants to talk, the U.S. doesn't, and sometimes U.S. wants to talk and North Korea doesn't want to talk. Sometimes they both do not want to come to talk. And they usually view the talk as a favor down to the other side.

I still recall after the formal talks, six part talks were stalled, then the Chinese side decided to invite the head of the six delegations for an informal gathering creating opportunity for the contact. But now that U.S., Japan, and ROK decided not to send their heads of delegation, rather some scholars. So, we cannot force U.S. and North Korea to come to China to talk.

I think, again, this speaks to the point I just mentioned. In the U.S. you really lack a very consistent, devoted approach to this issue, especially when it comes to the new administration. This is a problem.

MR. TANAKA: Finally, Professor Chun.

MR. CHUN: Thank you. For that issue, I think the strategic balance between two Koreas are greatly broken because of development of THAAD. So, we'll do everything we can do. THAAD is just the beginning. There will be more strategic weapons that we will need and we'll ask probably to United States and there might be some trilateral cooperation among South Korea, United States, and Japan.

It might hurt Chinese strategic interests that related to U.S.-China nuclear balance. That's a big issue. And missile defense is part of the deterrence regime. I think these two great powers should talk to each other. I don't think they will fight with nuclear weapons. So, there should be some kind of governance system about MD and all other things.

There was an ABM treaty between United States and Soviet Union but it was broken in 2002. So, in the military area, South Korea may take all the burdens that are coming from the lack of those global governance of missile defense regime. So, this is related to the bigger issue, but there will

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be more and more need for strategic reinforcement of South Korea which may invoke China's concerns. So, we are worried about it. We tried the Chinese position, tried everything we can do. But there is a conflict of interest so we are worried about it.

And economic sanctions from China that affect our people's preference to China which is also unhappy. There are many things involved. We have talked THAAD too many times.

The second thing about the second economy, I think Kim Jong-un is letting the second economy, the market, illegal market, prosper because to sustain North Korea's economy so far there is no contradiction between North Korea regime's survival and the blooming of the second economy.

If Kim Jong-un tries to extract some money or put taxes on that second economy there might be some contradiction, but so far it's working very well. Market is always directed by states' policy.

About China's six party talks and parallel track, I think I respect China's position, but I think it will fail because North Korea thinks much more about it. North Korea is very persistent in developing ICBM. So, even though there is a very good will from both China and United States to make North Korea freeze their weapons, even military drill, I think all these will fail.

But we need cooperation between United States and China. So, they may try to test North Korea's will to suspend but it will fail. So, we have to be more realistic to denuclearize North Korea.

China wants the status quo but United States do not want to take that much risk to denuclearize, so there is a long way to go.

MR. TANAKA: Well, thank you very much. We have just a minute and a half left and I would like to say a few things about Japan's views on the North Korean issue.

Like many others, we are confronted with very, very difficult questions on the choices between BAP and BURS. But I personally consider that we need to -- although limited (inaudible) I think we need to consider how to devise what Professor Chun called smart sanctions. I think the existence of second economy and in others could provide us with the thinking of devising better sanctions that could be utilized in conjunction with diplomacy.

Thank you very much for your cooperation. Thank you.

MR. BUSH: If I could ask everybody to take their seats, we'll get going. We have one hour, minus a couple of minutes. The subject of our final session is key Maritime Asia, and that, for

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purposes of this discussion, is three places, the East China Sea and the South China Sea and then the Indian Ocean, so it's a new topic to introduce to Washington conversations.

Our speakers are all very well informed about this. I won't take time to give long introductions. Bonnie Glaser will lead off, and she's a senior advisor for Asia and director of the China Power Project at CSIS. Wu Xinbo we've already heard from. He's doing double duty, and we appreciate that. Sinderpal Singh is a senior fellow in the Southeast Asia program at the Rajaratnam School, and Sheila Smith, a good friend of all of us, she's senior fellow for Japan Studies at the Council on Foreign Relations. So we'll ask Bonnie to start off.

MS. GLASER: Thank you, Richard, and I'm sorry that I've missed the opportunity to benefit from the discussions earlier today, and I will just try to talk quickly and say a few general things since I know we have a very short panel and probably want to have some time for discussion. So I thought just what I would do is show some slides about how people, I think, here are generally thinking about China's role in maritime Asia at some of the activities that China is engaged in. I start with various sources of instability, the operation of maritime law enforcement vessels -- coast guards are the constabulary forces -- the island building, land reclamation, the militarization of the land features in the Spratlys, some of the challenges to freedom navigation that we've seen, and some of the practices that are incompatible potentially with the Convention on Law of the Sea.

So for any of you who have not looked at my China Power Project, it's chinapower.csis.org. One of the things that we've done on this particular issue is to put together a data set of what all of the countries in the region who have significant coast guards, what kind of activities we've seen, based on open source data, obviously, identifying what we define as major incidents that took place between 2010 and 2016, and we found that China was involved in 72 percent of these incidents. We have a card on every incident which identifies, where possible, the hull numbers of the ships involved, the type of activity that was used, in this case, it's a China maritime incident, with harassment and ramming.

So this is an ongoing problem. Yes, we, of course, should pay attention to the activities of navies. We have the Code of Unplanned Encounters at Sea that provides some procedures for navies to avoid collision and to communicate, but we don't have anything comparable with maritime law

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enforcement agencies. This is something actually the U.S. and China have been talking about, but we haven't yet reached any conclusion or made progress.

Then, of course, there's the activity, and this is from the Japanese Coast Guard about ongoing incursions by China inside the 12 nautical miles around the disputed Senkaku/Diaoyu Islands, which, of course, really got going after 2012 when the Japanese purchased in September of that year three of those islands, the government from private individuals. This ongoing activity is a source of instability, I believe, as well.

This is on the issue of the island building. This is a picture of the initial construction at Fiery Cross in 2010. It's a very small feature, a very small construction or a building. And then you can see in the next slide the original facility on the extreme side over there is that tiny area. So this is what China, of course, has built. At the top is the 3,000-foot airstrip. China now has three of those in Subi Reef and Mischief Reef. China was the last claimant to have substantial airstrips in the region; there's no doubt about that. Then I'll talk in a minute about some of the militarization going on. Yes, other countries have reclaimed land in the Spratlys, but I think you can see from this particular slide how imbalanced that land reclamation has been. The vast majority of it has been done by China.

China's government often says that it doesn't challenge freedom of navigation. This is in part because of our different definitions of what is allowable under the Convention on the Law of the Sea, but I wanted to point out some of the things that the U.S. military is doing. There was just recently a report released on our Freedom of Navigation Operations for the prior year that shows what we were challenging, so we're challenging China's claim to excessive straight baselines.

The last FONOP that we did in October challenged the straight baselines that are in the Paracels. There are 28 base points; they're connected by straight baselines. There's airspace jurisdiction over the exclusive economic zone that China often prevents freedom of navigation or freedom of flight in restricting foreign flight through an Air Defense Identification Zone. There was just an incident about 24 hours ago where China claims that U.S. aircraft, I think a bomber was flying in a way that was against international law, so we have a different interpretation of that, and of course, China says there should be prior permission required before foreign military go through the territorial sea even in innocent passage, and we've seen the Chinese navy or heard the Chinese navy talk about the U.S. entering the

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military alert zone, which is a phrase that doesn't exist under the Convention of the Law of the Sea. From the U.S. perspective, there is some challenge to freedom of navigation.

Then there's this draft Maritime Safety Law that's being discussed in China. These deliberations are ongoing. This would be an update to the 1982 Maritime Safety Law, and there are some provisions in that law that could potentially run contrary to UNCLOS, but we have to see particularly not only the wording but whether there is an enforcement mechanism. I would highlight, for example, the reference to, in the 3rd bullet, China's jurisdictional waters and the right of hot pursuit against foreign vessels, so jurisdictional waters is something that we're unclear about what China declares jurisdiction over, whether this encompasses the entire nine-dash line, for examples. I'm not going to go into detail, but there's a very interesting ongoing discussion among experts and lawyers about this new Maritime Safety Law, and it is still in consultation, so it's not completed yet.

Then I wanted to say some things on the positive side of the ledger, some of the things that China is doing to contribute to maritime stability and may have the potential to make greater contributions in the future. One is the -- going all the way back, of course, the agreements between China and Vietnam and the Gulf of Tonkin regarding fisheries and the maritime boundary delimitation, the Declaration on the Conduct of Parties in 2002, the agreement between China and Japan in 2008 on developing natural resources, which is pretty much now defunct, China-ASEAN Maritime Cooperation Fund, China's participation in ADMM-Plus exercises. I already referred to CUES and ships implementing CUES. There's the bilateral U.S.-China Memorandum of Understanding on Rules of Behavior for Safety of Air and Maritime Encounters, and then finally, there is a plan to have coast guard exercises between China and the Philippines.

There, of course, is an ongoing discussion about the Code of Conduct between China and ASEAN. That, I think, stands, in the future going forward, as an opportunity to not only identify some confidence-building measures but perhaps also to have a legally binding mechanism, which the declaration was not, and to have a dispute settlement mechanism. That could help, potentially, to deal with what I highlighted initially, is the destabilizing behavior of maritime law enforcement vessels.

So I will just close by saying that I think that these are all challenges for the Trump administration going forward. I don't yet see any clear new policy on these maritime issues. We have

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seen a reiteration of, for example, the Senkakus being under Article 5 of the U.S.-Japan Security Treaty, so I see a lot of continuity in our statements regarding the East China Sea. I think the South China Sea, I've seen a lot of contradictory statements, and there is some discussion of the possibility of a policy review on those issues, but I think we have yet to see how the Trump administration is going to handle South China Sea. We should keep in mind that Xi Jinping when he was here for the last summit, did make a statement in the Rose Garden next to then-President Obama that China doesn't have the intention to militarize the Spratlys. That's something that appears to be going forward, in any case, but we do need to have, I think, a conversation, not just among the claimants, but also between other actors in the region about steps that could be taken that will prevent what I see as a sort of slippery slope towards a potential crisis in the South China Sea if there is ongoing militarization, because I think you're likely to see a much stronger reaction from this administration than from the last one. Thank you.

MR. BUSH: Thank you, Bonnie, very much. A very crisp, content-rich presentation and disciplined use of time. So if I could invite Xinbo and Sinderpal to come on up. I think Xinbo is next on the list.

MR. WU: Well, Bonnie just presented a quite official U.S. position on the South China Sea and East China Sea issue. Let me try to present a kind of a personal and a scholar's view on these issues. For East China Sea, the island disputes between China and Japan, I think the situation has largely stabilized over the last several years. Of course, this is still a very dynamic situation and is evolving.

We can have two choices. One is to maintain inactive status quo in East China Sea between China and Japan over Diaoyu Island. The bottom line, of course, is to avoid conflict, (inaudible) conflict. How to get there, one, of course, not decide to escalate the actions and reactions, for example, to not send people, military or civilian, to the Diaoyu Islands, and also, refrain from conducting military exercises in the adjacent water of Diaoyu Islands.

Then two, China and Japan should establish a good crisis management mechanism, not only between the law enforcement and military authority, but also between the two foreign ministries so that we can maintain good communication and, even more importantly, on each side, we should make sure that the internal control is effective so that neither side will see some unauthorized provocative

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actions which may escalate to a crisis. So this is what I call as inactive status quo. It is inactive because you don't really have agreement on how to manage the disputes.

So for a positive status quo, we should agree to freeze the (inaudible) disputes infinitely. So we used to have this kind of rule of understanding, but it was broken in 2012 when Japan decided to nationalize islands. Any chance for us to get back to that kind of agreement, and two, even further, whether the two sides can stop the patrol activities within the 12 nautical miles of Diaoyu Islands. Neither side will do that. At the same time, of course, we should continue to negotiate and implement the agreement over fishery as we did in the past. So that's just some kind of thinking about how to manage the East China Sea issue.

For South China Sea, I think that we are very close to establishing a new framework on this issue through multilateral and bilateral efforts. Multilaterally, the ongoing negotiation of a code of conduct in South China Sea, we have established the common rules, and the common rules will prevent each side from taking actions to aggravate the situation. So if by middle of this year, June, July, the agreement framework for the COC can be reached. Then we are taking a major step forward in that direction.

Bilateral efforts will involve more actions. We should put these disputes in broad context of bilateral relations, China-Philippines, China-Malaysia, China-Vietnam, so we should not allow the entire relationship to be hijacked by these issues. These issues have been there for decades and they may remain so in the future, and bilateral relations have to move forward. Especially, if we can develop the bilateral relations, then the importance of those disputes will decline.

Of course, at the same time, we should also give priority to some kind of arrangement about fishing in the disputed area. I think fishing is a difficult issue because it really involves the concrete interests of the local commons and the local people, but politically, it's less sensitive than sovereign disputes. I think China-Japan, China-Vietnam, China-Philippines used to have similar arrangements. We should encourage them.

Finally, to negotiate the crisis management approaches in the bilateral context, and also, as a matter of both much later and bilateral effort, one thing I would propose that for all the related parties, they will make the use of those islands under their control, islands, reefs, are less under their

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control for civilly purpose as much as possible, like fishery, you're providing shelter facilities for fishing boats and fishermen, facilitating scientific research, providing convenience for humanitarian assistance, and finally, to provide a convenience for navigation like the lighthouse building on those islands and reefs.

So these are some of the ideas about I think we can do in the future in both bilateral and multilateral context. I understand on these issues, the outsiders, U.S. and Japan not direct claimant, but also have been deeply involved over the last several years, especially the United States, under the excuse of freedom of navigation.

Let's be frank enough. Freedom of navigation has not been challenged. The U.S. concern is pretty much related to the geopolitical consideration in the South China Sea. And even this issue could also be discussed in China-U.S. bilateral dialogue. I think when Secretary Kerry came to Beijing, telling our leaders, okay, China is not a (inaudible) country to do the island construction, but the problem for China is you did it too fast, you did it too big. Where the country is tell me how big and how fast is approved rate? Do we have any international legal framework in charge and to action of China whether it's appropriate or not? Maybe it's just because China did it, so it's not acceptable to the U.S. anyway.

When the U.S. expressed a concern of militarization, I would say it's partially justifiable, because we don't want to see the over-militarization of South China Sea. No need to do that. However, some kind of defense deployments on those islands can really make a difference of strategic picture. Think about 5 or 10 years from now, when China deploy 1 or 2 aircraft carrier battle groups in South China Sea. Are they more meaningful than the current civil islands with some limited defense weapon systems than where U.S. oppose China's deployment of aircraft carrier battle groups? It may, but it cannot stop China from doing this.

So I think for these kind of things, you really need some strategic thinking, and also, encourage real multilateral efforts, which will decide what kind of action is okay, what kind of action is inappropriate, and what kind of action should be prohibited. So only within this context, then all the sides can have the same standard and same rule governing their actions. Again, compared to what was one year ago, now I feel quite comfortable with the conciliation in South China Sea. I think it's moving in the right direction. After all, this issue has to be managed and resolved among the direct claimants and also

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between China and the 10 South Asian countries. So that's exactly what Minister Wang Yi proposed, do a track approach, but outsiders, like U.S. and Japan, can play a role. This role can be either productive or counterproductive. So if we can really have this kind of vision about that kind of South China Sea we want to see in the future, I think that we should encourage the current efforts. With that, I'll stop here.

Thank you.

MR. BUSH: Thank you very much for your articulately stated, even though you're probably jet-lagged. Sinderpal?

MR. SINGH: Thank you, Richard. My brief today is to speak to the topic of Southeast Asia's views about Indian Ocean security, so mine is not going to be as exciting as the previous presentation, so I apologize for that beforehand.

I just want to make three main points. The first is why am I talking about this topic. All right, 15, 20 years ago, this notion of Southeast Asia being interested in the Indian Ocean is a non-topic, right? The Indian Ocean was a separate strategic space. The Western Pacific and the Pacific was a separate strategic space. But something or some things have happened, and I'll give that two major things have happened.

One is the notion among Southeast Asian states that you need to enmesh India into the East Asian security architecture. All right, that's one. And because you need to do that, you need to show that the Indian Ocean and the Pacific Ocean is one single strategic space, all right? That's the first move.

The second reason is China's increasing presence in the Indian Ocean because the legitimate or not legitimate notion of the Malacca dilemma, right? So we see this happening in the Indian Ocean, and as a result, we see this increasing strategic competition between India and China in the Indian Ocean. So from the view of Southeast Asian states -- and I stick my neck out and say maybe ASEAN -- you probably heard about ASEAN yesterday -- the notion here that maybe ASEAN now can punch -- to use another cliché -- punch above his weight.

It started off with managing great power relations in Southeast Asia. It moved on to managing great power relations in East Asia. Hey, why can't we do the larger states? Why can't we do the Indian Ocean as well? And therefore, this term that we discussed briefly yesterday, the Indo-Pacific,

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becomes something that everyone wants to talk about. Not everyone. I think our Chinese friends not really sure about this term, but we can talk about that later. So that's just setting the stage, right, the stage about why Southeast Asia wants to talk about the Indian Ocean and how it fits into the Southeast Asian view of the Indo-Pacific as a single strategic space.

My second point is more specific about Indonesia. More recently, we've seen, especially under President Jokowi's government, that Indonesia has started to articulate a bigger role for itself, right? Indonesia is talking about how ASEAN is too small for Indonesia. I mean, (inaudible) who would be known to some people here, who has spoken about how ASEAN is not an end goal for Indonesia. Indonesia is a great power, right, a global maritime power, so it needs to find a bigger space for itself. And then, once you start with that argument, then it becomes quite logical to see the Indian Ocean as a space for Indonesia to play a key role, given its geographic location. If you have a map, you can see that Indonesia is located right in the middle of the Indian and Pacific Oceans.

So Indonesia's idea of playing a major maritime role, and then you hear this term that that they've used, global maritime fulcrum, I think. And some issues about translating from Bahasa Indonesia to English, but we can get into that later on. So this is the kind of Indonesia under Jokowi's notion that Indonesia should play a larger role, right?

Some people say that this is not because Indonesia thinks that ASEAN is too small for it. Some people say that the reason why Indonesia wants to play a role in the Indian Ocean is because it realizes that ASEAN isn't working, right? ASEAN is broke, so should we go and look somewhere else to play a role that is fitting for a big country, a great power like Indonesia. And that's another reason why Indonesia was one of the earliest, and I think keenest, articulators of this notion on the Indo-Pacific, because the Japanese are also very keen, for Australians and Americans. So that's the Indonesian side of how it views the Indian Ocean, right?

My third point is this is all very nice and good. There's the Southeast Asian region, the Indonesian region, but what are the shortcomings? Why haven't we seen in practice what has been articulated, both by Southeast Asian states and by Indonesia? Indonesia, specifically, I think Stanley Roth spoke about this yesterday. Jokowi is very preoccupied with what's going on domestically. He's fighting political battles on a daily basis, trying to fulfill domestic promises that he's made. I mean, those

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who are following the Jakarta governor election will realize that Jokowi's really brought down domestically, so it's affected his attention span on foreign policy.

Number two is, this is I call not only the Indonesian problem, but the ASEAN problem, and it's very apparent from my predecessors who both of them who spoke is that the Indian Ocean is too far away. The South China Sea, the East China Sea is still the priority area for Southeast Asian states, and you can't escape yourself, because it's geography, right? Also, it is where tensions are highest, right? And in the Indian Ocean, although people speak about rising tensions or rising strategic competition between India and China, it is still a relatively peaceful place, right? The main threats are non-traditional in India, piracy, HADR, maybe some idea about fisheries management. And even piracy over the last, I want to say it's six, seven years from we speak, has started to go down. All right, so there are no real and present threats in the Indian Ocean to force Southeast Asian governments to take a bigger interest in it.

Third, I'm going to make a controversial point, and just to make things exciting, I think that there is somewhat more ambivalence on Indonesia's part about the role that India should play in the Western Pacific. If you look at the range of attitudes among ASEAN states about what role India should play, Indonesia doesn't come to the fore in terms of ASEAN countries who want India to play a strong role, right? Singapore will be up there; more and more, Vietnam. Thailand, we're not too sure, a regime change. Malaysia, I'm not too sure, but Indonesia, especially, I think, there's been a disquiet about what they want India to do in the Western Pacific, and this, again, I think, is a problem.

I'm just going to sum up now. I think the other problem with Indonesia playing this role is that the role about Indonesia is a honest broker in the Indo-Pacific, managing great power relations within India and China, India-China-U.S. It's exactly related to the point I made earlier, its ambivalence towards India and its relatively good relationship with China, with some blips, but generally, the economic strategic relationship with China has been quite good. So if you're an Indian sitting in Delhi, you'll ask yourself this question, is Indonesia going to be a honest broker when it comes to rising strategic tensions in the Indian Ocean? I'm not going to answer that question.

And the second, I think, issue is, when viewed from Southeast Asia, there's a lot of angst about India not being enough in East Asia, in Southeast Asia. I mean, I can talk about the Indian

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institution later on, but I think the Indian first need an economic outreach, hardly matches what China has done in the region, all right? In terms of Indian naval projection, naval capability, east of the Indian Ocean, looking more Western Pacific, most people understand it is far from being a key naval power in the Western Pacific. So you've got a Southeast Asian state, you ask yourself a question, is India a partner that you want to rely on in case things go wrong in the Western Pacific? Sadly, the answer would be no. And I'll end there. Thanks.

MR. BUSH: Thank you very much. Some interesting and new perspective for a Washington audience. And last but not least, Sheila Smith.

MS. SMITH: Thank you. Thank you, Richard. I'm delighted to be here. I'm delighted to be with such wonderful colleagues up on the panel. So my job, of course, is to end the panel, so I'll try to be very brief. Two things to talk about, I think, in terms of U.S.-Japan-China cooperation. The first is what's happening in the East China Sea, both the territorial tensions as well as the maritime boundary tensions in the East China Sea. And then second is this broader question, which a number of speakers have raised already, which is open sea lanes and this question of maritime stability or maritime security in the Asia Pacific.

So the U.S. and Japan have a fairly robust dialogue, of course, on these maritime issues, and the alliance has been adapted fairly significantly, I think, to respond to the 2010 and then the 2012 change in the status quo there. There's increasing interactions today across the East China Sea by Japanese and Chinese. Law enforcement vessels, naval vessels, and aircraft, military aircraft, as well now, and that we should have cause to be concerned about. There's heightened risk. In the old days, before 2010, the heightened risk used to be of citizens, activists, and fishermen getting in the way, and then the governments would have to try to regulate that, whereas today, I think that's largely moved up the scale a little bit to both coast guard and now military interactions. The self-defense forces, many people know here, are a highly professional military, but there is incidents and probing by the PLAN and the PLAAF that I think has tested in some ways some of the principles, some of the rules of engagement that the Japanese have long maintained on their military.

I think the fast answer in terms of the political conversation between Beijing and Tokyo today is they've lost the capacity for managing the problem. It is now a space that Tokyo turns to the

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United States to help with deterrence as well as with crisis management, given the uptick in the military engagement by China in the region. The Japanese and Chinese have, in fact, tried to initiate a risk reduction agreement that would help their militaries be more certain about the predictability of the interactions. You'll remember when Prime Minister Abe and President Xi met in November of 2014, they identified the risk of this military interaction as one of their priorities, and they began a conversation on risk reduction.

To date, we have not seen the conclusion of that conversation, and there are many arguments as to why, but until we actually see both governments understanding and issuing their understanding of what would be provocative behavior, we're still in this middle ground, I think, that's very hard to manage. The U.S.-Japan alliance, as I said, has responded to Japanese concerns and to this element of unpredictability. I think nobody believes that Beijing or Tokyo want a conflict across the East China Sea, but again, until there's more regulatory behavior at the political level, it's going to be primarily a deterrent challenge.

So the U.S. governments have iterated at the highest levels, President Obama first, but then more recently, as Bonnie noted, President Trump, have declared Article 5 protections extend to territory under the administrative control of Japan. We've had deployments and exercises. The Japanese have sought to up their capabilities in amphibious landing. We have had rotational deployments of U.S. forces in and through the bases in Okinawa, and we've had increased Japanese capabilities in information sharing in intelligence, surveillance, and reconnaissance. So you're looking at the two militaries and the two governments making sure that they see the same operational picture, and that's an important piece of the alliance adjustment.

The other piece, I think, is equally important is the political piece. The U.S. and Japan upgraded their defense cooperation guidelines in 2015, and they created an alliance coordination mechanism, and this is designed to make sure that both governments are fully engaged should there be a crisis or an emerging crisis that both Tokyo and Washington will be able to manage the situation in such a way as to preclude that rising to the level of a military conflict. This is not designed to plan for war, it's designed to avoid it. And so the alliance now has a very preliminary effort at crisis management, but one that, I think, has already been put to use, frankly, in the North Korean missile launches very effectively.

So let me shift now from the East China Sea to this larger and more difficult question that the previous speakers have addressed so well, the maritime security conversation in the Asia Pacific. Japan is a maritime power. It depends on access to not only energy from the Gulf and the Middle East but also to trade and the open and free sea lanes across the Indo-Pacific. Japan has exhumed and is continuing to implement a growing role in maritime security cooperation. It has helped the Philippines and then now Vietnam with building maritime capacities that will help strengthen their ability to manage their own waters. It is also, with the United States, expanding its role in exercises, the Malabar exercises with India, and more recently, the Balikatan exercises, hopefully starting this year with the Philippines, and there's continued close strategic cooperation, of course, with Australia.

Tokyo is worried about the South China Sea, and so we can argue about whether Tokyo has a right to worry or not, but Tokyo has an interest in open and free navigation. The East China Sea and the South China Sea are not de-coupled in any way for the Japanese, and you have just seen Japan announced that the Izumo, its largest destroyer, will be partnering with others and conducting port visits in and around the South China Sea.

So what China does there, what other countries do there, matters to Japan, and I don't see a combat role or a war planning role for Japan, but I certainly see a dialogue between Japan and other maritime partners in the region.

Let me conclude very quickly with three points about where are we today, and if President Trump and his staff were sitting in the room, what I'd like to say to them. So I do think, and Bonnie pointed this out and I'll just restate it here, you've seen remarkable continuity on the East China Sea, and I think you saw very early when Prime Minister Abe came to town, the repeat of the commitment of the United States to Article 5 protections for the islands there.

What I think we need to continue to work closely on is the uptick in Chinese exercises in and around Japanese waters. Clearly, the tweet storm on the one-China policy also was simultaneously reflected in the activities of the Chinese military, both through the Bashi Straits, but also through the Okinawan straits. There's a higher level of Chinese military activity, and again, as Bonnie noted, in the ADIZ, the Chinese apparently have become more assertive about enforcement of that.

Second, there's a lack of progress, as I say again, on the risk reduction dialogue between

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Beijing and Tokyo. I can't overemphasize the fact that this needs to move forward, and that you have to have high-level political support to make sure that it does so. I think Chinese sensitivities have been very high on Japanese statements of interest, for example, on the UNCLOS tribunal, on other issues South China Sea-related. There's been a fairly high-level Chinese disparagement of Japanese interest in maritime security, and I don't think that helps; I think, in fact, it hinders broader regional cooperation.

Finally, this issue of linkage between East China Sea and South China Sea, I think we should be careful that we don't underestimate the way in which Beijing looks at both of these seas and the way in which pressures in one sea may redound quietly to increased pressures in the other. I think the militaries of the region certainly are aware of this, but I think we should think about a broader regional architecture that is not South China Sea-specific or, in fact, even ASEAN-specific. If I had the best possible outcome here, I would love to see an Asia Pacific code of conduct, not only about territorial disputes but also about the management of maritime boundaries. Thank you.

MR. BUSH: Thank you. Now, we have time for a few questions before we have to close and give up the room, so I think what I'd like to do is take three and pitch them to the audience, see who wants to respond. I see Isup Jung, and gentleman on the aisle. One more, a person at the back. So let's start with Isup Jung up here. Here you go.

QUESTIONER: I was a little surprised, because I knew panelists has mentioned about the primary quote to a situation (inaudible) of last year, and so is international law is dead here, and I'm particularly like to ask about this PCA's ruling effect upon Chinese behavior. It seems like this ruling didn't prevent anything. I know from China's more aggressive behavior in South China Sea, and I even hear that China is thinking about creating their own version of multilateral roles in this maritime disputes, so I wonder how that goal is progressing among the Chinese (inaudible) experts.

QUESTIONER: Thank you very much. I would like to ask about South China Sea. I totally understand that U.S. provisions concerning about some accident with China, but on the other hand, China is taking advantage of that fear and whereas the Obama administration whereas avoiding to send the warship too near that islands in South China Sea, China proceeded to (inaudible) furthermore, so how do we avoid that kind of Chinese strategy, Chinese militarizing strategy. And I would like to also ask about do you think that Japanese effort in order to maintain peace and stability in South China Sea is

enough regarding with Japanese economic size?

MR. BUSH: And you, down way in the back.

QUESTIONER: Thank you. Tan Qui with China (inaudible) news agency of Hong Kong. My question is for Bonnie and Xinbo. Will the South China Sea issue be the front burner issue or will it take the back seat in the upcoming summit? What kind of reassurance to each other can we expect from this summit in this regard? Thank you.

MR. BUSH: Bonnie and Xinbo, I think, that question and also the arbitral tribunal is best directed at the two of you?

MS. GLASER: No, I think this time, I'll respond to you.

MR. WU: Okay. Do we shoot back, right? What I think of the ruling of international arbitration court, basically, if you take a look and see UNCLOS, the signatories have the right to decide whether or not you make exceptions for whether, when it comes to certain issues, you accept the ruling. So China, as early as in 2006 has already announced that when it comes to maritime territory and certain disputes, we will not accept the UNCLOS in that case. So it's not just free to being (inaudible) China decided to not accept it, it's a general principle. So that's the exactly the right you have as a member of the UNCLOS. So since China didn't participate, and since China already announced to not accept this, so I don't think that ruling has any impact on China's behavior. So I think that's quite understandable.

Having said that, as I already mentioned, I think since last year, the situation in South China Sea has been cooling down because of the efforts by the related parties, especially -- I should give some credit to the new president in Philippines, and he decided Philippines should adjust its approach to this issue, and it seems to be working, seems to be working.

MR. BUSH: Yes, Bonnie?

MS. GLASER: So in the ruling, I had had actually several slides, but I took them out because of the time constraint. You know, I think that the ruling remains important. Right now, it is in the background. I talk to many people from China who believe that the ruling, even though it very much went in the direction that they didn't want, has had an impact on thinking in China about international law, even about the possibility of reacting differently and maybe even participating in 3rd-party dispute mediation in the future, whether it be through arbitral panel, ICJ, or other formulations.

I think the problem now is that it's hard for the United States to want to implement this ruling more than the Philippines. After all, it was only binding on the Philippines and China, and we do have a new president who has not rejected the ruling but has said he's putting this on the back seat, and he says before the end of his term that he will raise it. So I think that this is not something that I would completely dismiss. In response to the question on the upcoming Trump-Xi meeting, I think North Korea is seen as a more urgent issue for the United States than China, but Secretary Tillerson did raise South China Sea when he was in Beijing. I don't know whether President Trump will raise it, but it's not seen right now as urgent in the run-up to the 19th Party Congress. I don't think that there's expectations that China's going to do anything that is really destabilizing, and so it really isn't seen as urgent.

Finally, I just want to comment on something that Xinbo said earlier. I think it would be a mischaracterization that the only concern that the U.S. has is because China built too far or too much too fast. There are military implications for the capabilities that China is deploying in the South China Sea in the form of radar, surface-to-air missiles. On each one of these features, 24 hardened aircraft shelters, and I guess I would urge you to talk to the PLA about how those capabilities could be used in a crisis, and you might better understand why the United States is concerned, and maybe this is just part of the ongoing problem of the stove piping between the scholars and the military in China. Thank you.

MR. BUSH: Sheila, there were a couple of Japan-focused questions. Do you want to address those?

MS. SMITH: So I got one. Maybe did I miss one? So I wanted to talk about the U.S. response in the South China Sea, and I understand from the tone of the question that it reflects what some in Tokyo think was an insufficient American response during the Obama administration, so let's just be clear, I think that's what you were alluding to, the freedom of navigation? Is that right?

I learned my maritime issues from people like Mike McDevitt and others, and Mike is always very keen to remind us that freedom of navigation operations are diplomatic tools that we use to express when we agree or disagree with maritime claims that are made. I think there was care taken during the Obama administration to make sure that the communication was very clear about intent, and that there was a lot of terms that were used there occasionally by policymakers that were not so clear and not so specific. I think we have done what we do with many countries around the globe. We demonstrate

where we don't accept the baselines and the extended claims that emanate from them.

On what can we do about the South China Sea, it's a very important topic, not just for the United States, but for others around the region. We don't have a direct claim. The powers that do have a direct claim don't have the same capability, military especially, that the Chinese have. I think you see a reengagement by China with the ASEAN on the Code of Conduct, largely thanks to the tribunal last year. I think the Philippines broke new ground in using international law and the U.N. Law of the Sea to express its concerns and to elevate the question of whether or not this is a regional concern or whether or not it's a challenge to international law norms, and I think they successfully did that.

Now it's incumbent upon, I think, China, the United States, the claimants, and others to continue to push forward on the need for a common understanding of what's acceptable and what is really not. So I don't think -- and some people argue that the Trump administration, for example, Mr. Tillerson's comments during his confirmation hearings that the United States will not allow it. Again, he changed his language. I don't think you're going to see the United States take military action to try to halt island building, but I think you're still going to see -- and I'll defer to my China expert to my right here -- but I still think you're going to see South China Sea be very high on our agenda of concern with Beijing. And as I said in my presentation, the United States will seek out other maritime partners and, yes, I think Japan, Australia, India, and other partners are very welcome in the effort to continue to demonstrate the need for open sea lanes. Thank you.

MR. BUSH: If I could just make a small comment in response to Tan Qui's comment and on his question and Bonnie's answer. I agree with Bonnie that, right now, this is not an urgent issue and that North Korea will be much higher on the agenda in the summit. However, it wouldn't hurt for the two leaders to try and have some sort of understanding at the summit on how to contain this, because if you don't have ways and means of keeping it on the back burner, it can swiftly move to the front burner, and then we're all in trouble.

I think that we've run out of time for this panel and for our whole conference. I'm very pleased with the richness of the presentations and the conversation and the sharpness of the questions, and that's meant in a good way. I want to thank some people again. First of all, the staff, not only of Brookings, but of all the participating organizations who've made this possible, to all the presenters for

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their thoughtful presentations, particularly our participants who've come so far from the region to give voice to concerns in Northeast Asia and Southeast Asia about the uncertainties that surround the new administration and its policies. Finally, I'd like to thank you, the audience, for staying with us for the whole time and for participating so vigorously in our program. So thank you all very much.

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CERTIFICATE OF NOTARY PUBLIC

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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