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TRUMP'S TRADE POLICY IN ASIA:
A ONE-YEAR REVIEW

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MIREYA SOLIS

Philip Knight Chair in Japan Studies, Senior Fellow,
And Co-Director, Center for East Asia Policy Studies
The Brookings Institution

MEREDITH MILLER

Senior Vice President
Albright Stonebridge Group

ESWAR PRASAD

Senior Fellow, Global Economy and Development
The Brookings Institution

JEFFREY J. SCHOTT

Senior Fellow
Peterson Institute for International Economics

SHUJIRO URATA

Professor, Graduate School of Asia Pacific Studies
Waseda University

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ANDERSON COURT REPORTING

706 Duke Street, Suite 100

Alexandria, VA 22314

Phone (703) 519-7180 Fax (703) 519-7190

PROCEEDINGS

MS. SOLIS: Good morning, everyone. I think we're ready to start.

I see a lot of people standing at the back of the room. We have at least four seats here in the front, so if you want to come all the way up there's some space here in the front row.

My name is Mireya Solis. I am the Knight Chair in Japan Studies, and it's a pleasure to welcome all of you to this morning's program on "Trump's Trade Policy in Asia: A One Year Review." This is an event cohosted with the U.S.-Japan Research Institute.

President Trump has called for a reset of U.S. trade policy, making the reduction of bilateral trade deficits a core priority. The past year has, in fact, been a very eventful year in trade policy for the United States. One of the first actions of the President just a few days after inauguration was to withdraw the United States from the Trans-Pacific Partnership Trade Agreement, a very large trade agreement comprising until then 12 countries across the Asia-Pacific.

But there has also been a lot of action on the enforcement side of trade policy in the past year. Just last January, tariffs were imposed following a safeguard investigation on washing machines and solar panels. Also, a 301 investigation on China's unfair trading practices, vis-à-vis intellectual property theft has been initiated, and there is, of course, the case of a 232 investigation on whether we should -- the United States should restrict imports of aluminum and steel on national security grounds.

Just a couple of weeks ago, the Commerce Department released

a report saying that indeed some restrictions should be applied and identified a number of options. One of those options is a global quota on 24 percent of all steel imports, or a targeted quota highlighting 12 countries and calling for -- I'm sorry, tariff, and calling for a 53 tariff.

Another important trend for the Trump administration has been the endorsement of bilateralism. The idea that the United States does better when it interacts one-on-one with its trading partners, and therefore, another set of initiatives in the past year have been the launch of high-level economic dialogues with Japan and China; steps to revise the South Korea-U.S. Free Trade Agreement; and the administration has also sent signals that it very much wishes to negotiate bilateral trade agreements with countries such as Vietnam and Japan. But none of those negotiation fronts have opened yet.

And to add a new twist to a very eventful year, just as the administration was hitting the one-year mark, President Trump made some remarks signaling that he may now perhaps be willing to negotiate with TPP countries as a group.

So clearly there is a lot to talk about today about regarding the objectives, regarding the tools that the Trump administration is following in its trade policy vis-à-vis Asia.

And to address these topics we really have a stellar panel today. Let me introduce them very quickly so we can jump into the discussion.

My Brookings colleague, Eswar Prasad is senior fellow at the Global Economy and Development Program. Shujiro Urata, who is the co-

organizer for this event, is dean and professor of Waseda University's Graduate School of Asia Pacific Studies. Jeffrey Schott is senior fellow at the Peterson Institute, and Meredith Miller is senior vice president at Albright Stonebridge Group.

So very important topics. Very timely discussion. So let's jump into it.

Eswar, if you could please get us started. Thank you.

MR. PRASAD: Good morning. What a year it's been. I think at this stage, the general public even has come to know terms like 232s and 301s which we trade wonks used to perhaps not quite fantasize about, but think very carefully about, but it's entered the popular lexicon.

It's worth thinking a little bit about what has happened over the last year in terms of one very specific aspect, whether the Trump administration's bark has been worse than its bite. This was the presumption early on in the administration when there seemed to be this rather open hostility to trade, but there was a sense that karma heads would prevail, that broader business interest would prevail, but we are now clearly at a juncture where there does appear to be a bark that is being followed by a bite. So it's worth thinking a little bit about exactly what form these trade actions are taking, what implications might be for the U.S. trade agenda in the coming years, what the implications are for the international trading system. And then I will talk specifically about the U.S.-China trade relationship.

One of the key aspects that I think is worth keeping in mind in

terms of what has happened over the last year, even though there has been an electively limited amount of actual trade actions as Mireya pointed out, is that there has been a huge deal of uncertainty that has been fermented in the international trading relationships. And these, I think, are two of the key characteristics worth keeping in mind when thinking about trade policy and the ramifications of what we've seen over the last year. Number one is uncertainty, and number two is the open hostility to the multilateral trading arrangements that, in fact, the U.S. itself was responsible for putting in place to a significant extent over the last few decades.

The uncertainty in my view is one of the critical dimensions that is affecting U.S. trade policy and U.S. trade partners, and this uncertainty is fermented, first of all, in terms of trading relationships with countries where the U.S. has been trying to build stronger trading relationships over time. The TPP, which Mireya referred to, of course, is a prime example of a case where the U.S. has been trying to build stronger relationships with a large group of its trading partners and the view that many of us trade economists have is that the big benefit to TPP was not really in terms of changing much on the U.S. side but really in setting a new benchmark for trading relationships around the world. This is why China was very concerned about not being at the table for the TPP negotiations, mainly because the TPP, I think, would have become a benchmark for many trading relationships that the U.S., that the other 12 countries were involved in, and that could have ended up setting standards in a variety of dimensions that I think would ultimately have benefitted the U.S. in the long run.

One key dimension that is worth keeping in mind, of course, is that the U.S., among the countries of the world that it is trading with, is one of the most open countries, does have the fewest trade barriers, so many of the aspects that we talk about in terms of TPP and other trading relationships are really about generating more benefits to the U.S. economy through broader trading relationships.

The second aspect of uncertainty has been fermented with existing and, indeed, longstanding multilateral trading relationships. We're going to talk a little later about the trading relationship with Korea through KORUS. We have NAFTA and a variety of other existing relationships that have been called into question. And this, I think, is the key element of uncertainty that is going to have implications in the future.

The sense that even longstanding trading relationships where there are very clear benefits to the economies, including the U.S. that are part of those relationships that are going to be brought into question, and this uncertainty has a very important effect in terms of future trading relationships where the U.S. might be seen as a somewhat unreliable and untrustworthy partner when it comes to these negotiations. In addition, there is, I think, a legitimate concern that the very strong supply chain relationships that have been built, for instance, in the North American continent, including for American businesses, are going to be very deeply affected.

Now, one interesting question in terms of understanding the dynamics of trade policy is whether the open hostility that we have seen from the

trade administration is really going to bear fruit in terms of concrete trade actions. We are beginning to see the answer to that question, which is certainly not a very positive one from the view of most of us who favor free trade. But the question is, why aren't the traditional countervailing forces working? And this is an interesting question because if one thinks about most trading relationships, either NAFTA, or even trying to maintain a positive relationship with China on the trade front, the business community has always been a very strong proponent of free trade. And one would have made a logical and persuasive argument early on in the Trump administration, and even a few months ago, that ultimately, saner minds would prevail because the business interests in maintaining stable trading relationships, in terms of making sure there are no disruptions to supply chains, would ultimately win the day.

I would have made that argument. Indeed, I did make that argument myself a few months ago. And yet, where we are with NAFTA today I think suggests that that traditional assumption no longer holds. And it is interesting to think about why it doesn't hold anymore. It is a curious dynamic, because if you think about the broader business interests that are at play here, there are so closely interwoven supply chains between -- among the North American countries that it could prove hugely disruptive to American businesses in a way that I think would significantly offset any gains that are to be seen in terms of employment, in industries such as steel and aluminum. In particular, the 232 action industries that Mireya referred to.

So those traditional calculuses that one could count on, that these

broader business interests would act as a countervailing force don't seem to be working anymore. And that, I think, creates an additional layer of uncertainty where the hostility of the Trump administration to the existing trade relationships and to the broader rules of multilateral engagement could have very significant effects on businesses in terms of supply chains and in terms of most countries around the world reassessing their trading relationships with the U.S.

Which, of course, brings us to the question of China and where things stand on that particular front. Now, one argument could be made, indeed it has been made, that the U.S. has not benefitted as much as it could from a global trading system because, after all, the U.S. has always had a relatively open trading system and the argument that, in fact, entering into trade relationships benefits the U.S. by getting other countries to reduce their trading barriers comes up against the argument that other countries still do have much greater trading barriers, do have much greater protectionist barriers that allow them to reap many of the benefits.

So the question is whether given that environment the Trump administration's tougher stance might, in fact, benefit the U.S. And this is a legitimate argument that I think is worth giving serious consideration. But I think once one considers it seriously, then one can think about the negative implications for the U.S. Because if one thinks about the industries that are being considered for protection, such as steel and aluminum, these are not industries that have a huge future in terms of generating enormous amounts of employment in the U.S. There are structural reasons related to automation,

related to greater use of capital, an increase in capital intensity and heavy manufacturing is something one sees around the world that makes it highly unlikely that these industries will revive very significantly. So you might have something of a revival in production, but it's hard to see employment, which is the ostensible goal of the Trump administration really reviving in any serious way.

The notion that, again, saner minds would prevail and that the relationship with China would eventually settle back into a more stable footing I think is being seriously challenged right now. And it is almost certain that we are going to see substantially rising tensions, which brings up the question, what sort of response are we going to see from the Chinese side? Does China really care enough about maintaining a good relationship with the U.S.? It sent one of its top economic emissaries, Liu He, who is in town right now for some high-level meetings. Does China care enough about this relationship that it will not retaliate strongly?

My view is that we will see, much like in the case of previous actions, very clear targeted actions, and China and other trading partners have understood how to play the game with the U.S. The old way of playing the game in the early part of the Trump administration seemed to be to allow the Trump administration to claim some easy victories. I think the game has shifted now to thinking about how to exact a very specific political price from the U.S. side by essentially targeting actions that could hurt agricultural producers in the Middle East, certain very specific industries where there are strong economic incentives for the U.S. to maintain a positive relationship. And in addition, I think China has

some very effective chokepoints. There are many businesses in the U.S., the Apples of the world, who are very keen still to maintain market access in China, who are very keen not to have the supply chains for which China is a very important component, disrupted. And China, I think, is a very, very effective chokepoint in terms of limiting market access, in terms of disrupting the supply chains, and gives it a fair amount of leverage.

But unfortunately, I don't think the notion of leverage on both sides is going to be enough to offset the way the Trump administration seems to be viewing these bilateral trading relationships largely through the prism of the bilateral trade deficit, especially the bilateral merchandise trade deficits.

Unfortunately, I think, just to wrap up, what we're going to see is not just more uncertainty and more hostility, but more concrete reactions which could certainly bear the risk of devolving into a much broader set of trade frictions with China and other major trading partners. And what I think this means for U.S. influence in terms of the international trading system is first, that most countries around the world are looking -- are going to be looking for what they view as more reliable and trustworthy partners. And I think we're going to see some serious knocks on the broader rules of multilateral engagement through the WTO that have underpinned the global trading system. So all in all, it's not been a good year for trade, and I don't think the next year is going to be much better either. Thanks.

MS. SOLIS: Thank you very much, Eswar.

Shu, please?

MR. URATA: Okay. Thank you very much.

Before I begin, I would like to thank Mireya and Brookings for setting up this very important seminar.

I'd like to talk about Japan's responses to Mr. Trump's trade policy. Before I do that, I'd like to say I agree with Dr. Prasad and many comments that he made, particularly one of the -- I think a serious problem with the U.S. trade policy is increasing uncertainties, which would, of course, discourage trade and investment, which in turn discourages economic development, economic growth of the world. And secondly, again, I'd like to reiterate the importance of multilateralism.

Now, let me talk about Japan's responses to Mr. Trump's trade policy. I'd like to talk about two things. One is TPP 11, and the other is the setting up of the U.S.-Japan economic dialogue. First, on TPP 11, Mr. Abe went to see Mr. Trump before he resumed the office in January. He went to see Mr. Trump in November, I think, right after the election, hoping that he could convince the importance of -- convince Mr. Trump the importance of TPP 12. And he was hopeful. But after he realizes that it is very difficult to do so, he turned to other TPP 11 members to initiate discussions on the formation of TPP 11. That was, I think, our first meeting was held in May. And since then, Mr. Abe, I guess with the leadership from Australia and New Zealand, worked very hard to reach an agreement. And they were successful in doing so. And in January of this year, they reached an agreement. And in a week or so they're planning to sign this agreement in Santiago, Chile.

Why did Mr. Abe work so hard to make this agreement reach, you know, treaty reach an agreement? There are several external economic factors, and also, internal factors in Japan. Let me begin with the external factors.

Mr. Abe believed in the importance of TPP 12, but again, Mr. Trump withdrew the United States from TPP 12. Mr. Abe still thought the TPP was very important framework. And really, the following. First, I guess this is a point which was made earlier by Dr. Prasad. TPP is a framework which sets a business environment, which is open, fair, rule-based, transparent, and this is a very important business environment for businesses to conduct business freely, which, of course, in turn would contribute to the economic growth of the region.

In light of the fact that the -- I have to say, growing Chinese economy, which is based upon whether I'd say in known transparent fashion and somewhat unfair because of the government support, state owned enterprises and so on, it is important for other countries, even for China, to have a business environment which is conducive for promoting businesses. And TPP can play a very important role in setting up such a business environment in Asia Pacific. And to begin which, and maybe which will lead to such a business environment in the world.

So TPP is very often characterized as FTA with a high-level of trade and investment liberalization, and also, of comprehensive coverage, which includes rules on SOEs (state owned enterprises), rules on digital economy, rules on labor and environmental, and so on. So, again, I'd like to emphasize the importance of setting up TPP to make a business environment conducive for

businesses to conduct their business freely.

And also, TPP has to be there just in case. Hopefully, the U.S. changes its mind to come back to TPP 12. So, the enactment of TPP 11 is important for that reason. And also, somewhat related to the point that I made earlier, TPP 11 can be an instrument to fight against rising protectionist sentiment in the world.

Now, let me turn to internal factors in Japan. Mr. Abe used his political resources to promote TPP 12. And this is a very important component of his growth strategy. Growth strategy is one of the three arrows which he introduced to achieve recovery for the Japanese economy. So, and since he spent so much time and energy to do so, he has to follow through by successfully achieving agreement in TPP 11. And indeed, maybe I can look at this from the very interesting aspect, that is, Mr. Trump gave, maybe intentionally, Prime Minister Abe to take a leadership role in setting up this very important agreement. And so maybe Prime Minister Abe should be thankful to Mr. Trump for him to withdraw from the U.S. from the TPP 12.

Okay. Now, let me turn to U.S.-Japan economic dialogue. This was a dialogue, as far as I understand it, which was initiated by the Japanese government side. Japanese government. Right after the election, Japan was very much concerned about Mr. Trump's policy, unilateral trade policy, which we heard a lot about from Dr. Prasad. Unilateral, kind of in position of tariffs, foreign national security reason, and so on. And Japan had a very bad experience in this regard through many earlier controversies and conflicts and trade policies.

So in order to avoid such development, the Japanese government approached the U.S. to set up some kind of dialogue framework under which they can discuss the issues more constructively.

This U.S.-Japan economic dialogue has three pillars. One is to discuss and develop common strategy on trade and investment rules. And second is to promote cooperation in economic and structural policies, mostly macroeconomic policies. And third, to discuss the sectoral cooperation, such as infrastructure building, energy conservation, and so on. And Japan was, I guess, successful in persuading the U.S. to come along with this U.S.-Japan economic dialogue. And this was agreed upon by Mr. Trump and Prime Minister Abe in the meeting in February last year. And since then, this dialogue was led by Vice President Pence and Deputy Prime Minister Aso. They had two meetings already in the past. Every six months I understand.

And in addition to these meetings, there are meetings conducted by directors over the ministries involved. So they were successful -- I mean, Japan was successful in getting this dialogue started and to discuss the issues more broadly rather than just focusing on very sensitive issues, such as exchange rate and trade imbalances.

So these are some of the important developments, I think, we can see from Japan's side in response to Mr. Trump's trade policy. Thank you very much.

MS. SOLIS: Thank you very much, Shu.

Jeff, please?

MR. SCHOTT: Thank you. And thank you Mireya, and Shu, for inviting me to participate in this panel today.

You've just heard two very sober and balanced presentations on the problems associated with the title of today's panel, Trump's Trade Policy in Asia. The only criticism I would have is perhaps not excitable enough. If I were to characterize the first year of Trump's trade policy in Asia, I could think of describing it in one word -- disaster. It's been a disaster for the United States of America.

Pulling out of TPP has been the cornerstone of it. That was done on day three. And that has had significant implications for the U.S. competitiveness in the region, for the view of the United States as a reliable partner, raising questions, and the points that Eswar made on uncertainty bear emphasis. That uncertainty affects both trade and investment, but it also affects strategic relations. And that, perhaps, is the most troubling aspect of the trade policy.

On the economic, on the trade side, the U.S. has already faced export losses, even though the TPP hasn't entered into force, because ongoing free trade agreements in the region are in place and are discriminating against U.S. exporters, particularly in the Japanese market. And those are already costing U.S. market share. Ask beef producers, pork producers in the United States, and others. And ask the Canadians who are looking to take further U.S. market share away once the TPP enters into force in the Japanese market.

So there is existing discrimination. That discrimination will

increase considerably when the TPP enters into force probably midyear of 2019, because after it's signed it has to be ratified by six of the 11 countries. That's, I think, a conservative estimate that that would be accomplished by the middle of next year. But there are other agreements that are also in progress to enter into force in the near future, including the European Union-Japan Free Trade Agreement. And that will add another strong competitor for U.S. exporters and investors in that important market.

Now, the approach of the administration was, well, we don't need TPP because we're going to substitute it with better bilaterals. And the sorry conclusion I have to reach on this point is that there will be no new bilaterals. We'll be lucky to keep what we have. The NAFTA negotiations provide a good guidance for that. While those negotiations are ongoing this week in Mexico City, the seventh round of NAFTA talks, they're making significant progress on parts of the modernization of NAFTA which have been needed. NAFTA is 25 years old and needed renovation in line with the more advanced agreements that had been promulgated over the past two decades. So there is progress being made in the NAFTA talks on the modernization agenda to the extent that those issues had already been agreed to by the three North American countries in the TPP. So essentially, where the NAFTA is making progress is where the TPP had already reached agreement. And much of what is being done in the NAFTA talks in those areas is built on the TPP platform. In some cases going beyond it because the three countries can, but what they're trying to do is reinvent the wheel, essentially, in that area.

Where they're not making progress, the gaps are very wide, particularly in areas where the Trump administration has made unconventional proposals with regard to dispute settlement and auto rules of origin, government procurement, many other areas. And so it will be difficult, if not impossible, to see that negotiation come to some conclusion this year. More uncertainty, but if the agreement still remains in place, that's a low standard for success but I think that's one thing that we might hope for for 2018.

U.S.-Japan, there will be no possibility for negotiations because the two sides are so far apart on everything except the sectoral dimension of the U.S.-Japan dialogue that you mention. There, there are common interests, and in fact, those interests had been long pursued in the private -- in the marketplace by private companies well before the government talked about U.S.-Japan dialogues. Just ask companies engaged in trade in liquefied natural gas. That's been on the agenda for a number of years and the business is taking place.

The one area of negotiation that could possibly not blow up is the negotiations with Korea, in part, because, unlike NAFTA, the U.S.-Korea talks are not focused on a broad overhaul of the agreement, but are seeking discreet amendments to the agreement to make it work better. Now, there's not strong consensus among the two countries on what the priorities should be, but from the U.S. perspective it's very clear that the agreement has to change with regard to its obligations on autos and parts. Autos and parts accounts, on average, for about 100 percent of U.S. merchandise trade deficit with Korea, and that's the metric that the Trump administration uses. I don't know anyone else who uses,

but the Trump administration uses to define success or failure in a bilateral trade relationship. And the merchandise trade deficit in autos and parts is still very significant, over \$20 billion a year. And that's what they're focusing on, and they're going to try to tweak the trade rules -- more than tweak the trade rules -- to try to make a change in those trade flows.

Nothing in the trade agreement could make a significant dent in those trade flows. And so while they can change rules of origin, while they can allow mutual recognition of product safety and emission standards which would benefit U.S. exporters to Korea, this would all make -- would be helpful for U.S. firms, but it won't make a sizeable dent in the bilateral deficit.

Now, Korea is one of the few countries where the U.S. merchandise trade deficit actually went down last year, significantly, because of a sharp increase in U.S. exports while U.S. merchandise imports were about flat. And the U.S. services surplus with Korea maintained a steady \$10 -- \$10.5 billion surplus.

We haven't talked much about services, but if Trump actually wanted to make a difference on U.S. economic growth and productivity and improve the U.S. trade performance, he would give priority to services. That's where we have our most dynamic and globally-competitive firms. And yet, services seems to be an afterthought. Another failure, but this one a global failure of the administration. But I think in the area of the Korea-U.S. talks, we could see a narrowing focus on autos dealing with dispute settlement, in particular, investor-state dispute settlement. This is an area that the U.S.

business community has given priority to and in all U.S. trade agreements -- almost all U.S. trade agreements since NAFTA with one or two exceptions. The Koreans accepted investor state procedures in the KORUS FTA grudgingly, and it was the subject of great domestic friction and disputes in the National Assembly in Seoul. The trump administration doesn't seem to care about it, despite the advocacy of the U.S. business community, and seems willing to discard those provisions. If they do that, that would be something that would be of value to the Koreans in return for additional concessions they would make in autos.

To be frank, that's about the only concession that the United States would put on the table because it doesn't require changes in U.S. law or practice, and therefore, it doesn't require the administration to go back to Congress for implementing legislation. And if you look at what the administration has done in terms of notification to Congress, they're not planning to go to Congress for implementing legislation because they haven't notified their intent to negotiate significant changes in the KORUS FTA. What they're doing is seeking discreet amendments, which could be done mostly by changes in Korean practices that would not require the United States to do anything. That's quite different from the NAFTA context.

So, but from a political point of view, it's critically important that Korea has something that can be brought to the National Assembly as helping bolster domestic political support for the agreement, and that would be one area to do that.

I realize my time is up, but we have a lot of time for questions on many of these issues, and more importantly, I look forward to hearing from Meredith. Thank you.

MS. SOLIS: Thank you so much, Jeff.

Meredith, please go ahead. Thank you.

MS. MILLER: Great, thanks Mireya. It's been a sobering discussion so far and I'm probably not going to be any more uplifting than my fellow panelists.

I'm going to talk about Southeast Asia, which is a region that has not been a focal point of the Trump administration's economic and trade policy. The ASEAN region is not one of the top 10 sources for U.S. imports, or export destinations for the United States. That said, it is a region that is tremendously impacted by the shift in U.S. trade policy, and it is a region that's a very important economic partner for the United States.

The ASEAN region is our fourth largest trading partner. It's also a very dynamic and rapidly growing region with GDP forecast at over five percent, and a population where 65 percent are under the age of 35. So huge amount of potential for U.S. companies in terms of goods and services' demand.

That said, over the past 10 years, our share of trade and investment in the Southeast Asia region has declined, while China's has skyrocketed. This does not mean that the U.S. is less of an important economic partner for the region, however. In fact, in many countries in Southeast Asia, China's increasing economic influences also led to an increase in desire to make

sure that relationships on the economic front are diversified, and particularly that the U.S. remains heavily engaged.

In the Obama administration, we saw the response to this through U.S. participation in leadership in the Trans-Pacific Partnership Agreement with its open accession clause being envisioned as a platform for eventually including all of the ASEAN members. There are four ASEAN members who are parties to the reconstituted TPP, and several others who had expressed an interest in joining, including Indonesia, Thailand, and the Philippines.

So that said, the Trump administration's shift or reset of U.S. trade policy had a strong impact and was a shock to the system in Southeast Asia. Those impacts were felt on a number of fronts. First and foremost, as my fellow panelists have noted in creating an environment of uncertainty. That uncertainty, I think particularly in the early days of the administration, was very intensely focused on relationships with the United States and whether or not countries would have continued access to the U.S. market.

So when I traveled to the region, I would have to say in 2017, the top question was always about the Korean Peninsula. The second question is about trade policy. Will U.S. manufacturers relocate to the United States? Will there be a trade war with China, and what will the implications be for Southeast? Will business processing move from the Philippines back to the U.S.? These kinds of questions have been at the forefront of policymakers' minds throughout the region.

Secondly, casting uncertainty over the future of TPP. So for the

TPP members, they were the ones who felt this the most acutely, and we saw a review of all the members on the strategic and economic merits of the agreement, and a pretty intensive series of discussions last year that have led to an outcome where we see the 11 other members moving forward with the agreement, which I think is a very positive development.

But it also meant that countries individually had to reevaluate how they were positioning their trade strategies. Vietnam perhaps felt this most acutely, but Singapore, Malaysia, and Brunei as well looked at the TPP as a way to entrench U.S. engagement in the region, and as I said earlier, maintain diversified economic portfolios. And in the absence of TPP, with the U.S. participation, they are considering other options.

The other area of uncertainty is what role the United States would play in the region's multilateral efforts. And this was underscored quite dramatically by President Trump's remarks at the APEC CEO Summit in Vietnam last November, where he gave a speech very similar to the speeches he gives here at home on the U.S. trade policy agenda, but very much focused on the message of America first.

The region had heard this message before, but it was symbolically powerful and significant to hear that speech being given to that audience at APEC. The U.S. has long led APEC, which's mission is to promote a free and open trade area between Asia and the Pacific. It's also important to remember that in Asia, multilateralism's foundation is economic cooperation. When ASEAN was formed, many of the members had very sensitive bilateral political and

security disputes. That remains true today. And talking about economic cooperation provided a space to get together and find mutually-agreeable areas to promote regional peace and prosperity. So the question is, what role will the U.S. play in these institutions? And that also caused a fair amount of consternation.

The second big area of impact is on U.S. influence and credibility. And my fellow panelists have touched on this as well. So one, for example, the remarks that President Trump made at the APEC leaders meeting did not express any desire to continue the U.S. role of leading on free and open trade in the Asia Pacific, but they also make it much harder for U.S. officials to advocate for fair treatment of U.S. companies in other markets. It's much more difficult against the backdrop of America First, the U.S. withdrawal from TPP, and the administration's very intense and narrow focus on trade deficits as the organizing principle for bilateral economic discussions to go into countries and advocate for fair treatment of American companies.

Related to that, the U.S. has long played a very important role in the region in leading both the multilateral discussions, but also advocating on a bilateral basis for free and open trade principles. And I think we've seen in the past year throughout Southeast Asia where there are debates in all the capitals, very similar to the one we have here in the U.S. about the relative merits of trade versus protectionism that this shift has empowered protectionists in many countries to advocate for Indonesia first or Vietnam first. You can insert the country of your choice.

The other core area of impact is to accelerate China's rising economic and policy influence. This is a trajectory that is on track, regardless of what we're doing and how we're engaging here, but the U.S. has absented itself from discussions about how to shape the future business environment in Asia, most significantly by exiting TPP, which is the most effective tool for putting in place the rules of the road for the future.

So just briefly, what will we see from all this in the year ahead? I think first we'll see continued commitments in the region in enthusiasm for multilateral cooperation, as evidenced by the fact that the newly constituted TPP is moving forward. The region will also continue discussions on the other mega FTA agreement, the Regional Comprehensive Economic Partnership, which is between ASEAN and six of its largest trading partners, although not the United States. I think the outlook for concluding our steps this year is uncertain, but I think we'll see the parties continue to pursue conclusion of that agreement.

I agree with Jeff. I don't see much likelihood of any bilateral trading arrangements between Southeast Asia countries and the U.S. making any kind of advancement this year for all the reasons that he cited.

We also see in the region much more concern about how U.S. trade remedies will impact the economic outlooks of countries there. So, for example, Mireya mentioned earlier the U.S. tariffs on washing machines and solar panels. Those were targeted at China and South Korea, but Southeast Asia countries will feel the impact. Vietnam has benefitted from increased Korean investment in manufacturing, for example.

The 232, depending on the outcome of that decision could also impact several countries in the region. And most importantly, ASEAN countries are very closely integrated in their supply chains with China, and both China and the U.S. are important markets, as I mentioned. So the prospect of a U.S. trade war is one that causes great concern in the region and would have significant impacts on countries' economic outlooks.

Last but not least, we are starting to see more vocal and public expressions of concern from Southeast Asia leaders about the direction of U.S. trade policy in terms of not only its bilateral or regional impact, but also globally. So, for example, this week Finance Minister Sri Mulyani from Indonesia publicly commented on her concerns about the impacts on the global economy.

I'll stop there, but just leave it by saying that I don't see a happier outlook than Eswar mentioned in his remarks, and there are a number of significant bumps ahead on the road.

MS. SOLIS: Thank you so much, Meredith.

So let's continue with this very sober discussion. And thank you all for being so concise and insightful in your remarks. And that leaves a lot of time for discussion with the audience.

But first, I would like to take the opportunity to ask you a couple of questions so that you can all interact with one another.

It seems to me that the Trump administration is largely pursuing it a "going it alone" approach when it tries to confront Chinese market distorting policies. And therefore, it is relying on its own domestic trade laws to address

that challenge. And that's, therefore, no surprise, as Eswar was saying, that the American audience is now becoming more familiar with a number of 201 safeguards, 301 unfair trading practices, and 232 using national security grounds to restrict imports.

Now, I think it's possible to agree with that diagnosis that Chinese trade and investment practices in many areas of problematic for intellectual property transfers, lack of reciprocity in investment, subsidies to state-owned enterprises that generate over capacity and so forth, but it's very possible also while agreeing to the diagnosis to have profound doubts about the approach that the administration is following in trying to tackle them.

Three problems come to mind with what we've seen in the last year. One is that some of these actions may be very counterproductive using the metric that the administration has identified in terms of job creation. For example, we know that there are far many more people employed in installing solar panels that will be negatively affected with that 201 decision. And the same can happen with those industries that rely very heavily on steel, and therefore may have now to use more expensive steel. So downstream impacts must be factored in.

Another negative impact of this approach, this strategy, is that it undercuts the possibility of working with others in, you know, trying to tackle these Chinese challenges. And there are many other like-minded countries who would like to take on and work together, but who also have profound doubts about U.S. unilateralism. They may be worried about China's mercantilism, but

they are also worried about U.S. unilateralism.

And last but not least, especially when it comes to the 232 and the fact that you're using national security grounds to restrict imports, and there are profound questions as to whether, indeed, in steel, for example, those grounds are met, that the findings are robust, then you create a slippery slope. Because many other countries can say we're going to restrict access to our markets citing national security considerations so that this then opens floodgates maybe too much, but certainly, it creates a much more permissive environment for the increase of barriers to trade going forward.

So there is a lot of concern with the approach that the administration is following. I think that was felt across the table. I don't think that they are in listening mode, but if they were, what would you suggest they do differently when they're dealing with a very significant challenge of confronting Chinese market distorting policies? How can we get at this problem in a way that is better for the United States, better for the multilateral system, and gets better results?

MR. PRASAD: Boy, this panel is really a downer (inaudible) with each other to lay out bleak scenarios. I mean, it's a good default assumption in Washington these days whether the policies that we are seeing emanating from a few blocks down from here are really in the U.S. long-term interest or whether they are not very constructive. Jeffrey might use stronger words. They are nuts.

There is certainly some legitimacy to the argument as Mireya pointed out that China may have gotten the better end of the trading deal with the

U.S. because it has not kept many of its WTO commitments in terms of market access, in terms of protection of intellectual property rights. The question then becomes, and I think Mireya framed it correctly, how can the U.S. really preserve its interests in an optimal way? And to that, the approach we are seeing from the administration doesn't quite seem to be a very constructive one. Once one frames progress in these relationships not in terms of indicators such as market access or the ability of China to provide better protection of intellectual property rights, or indeed talk about areas where there is an alignment of interest between the U.S. and China, the Chinese want to control the growth in excess capacity and certainly some prodding from the outside might help them in terms of getting domestic resistance. But once the success on these fronts is defined in terms of the bilateral trade deficit, and given that we know that the trade deficit overall, perhaps not with one specific country, is driven by a much broader set of macroeconomic forces, then it becomes very difficult to make progress because the benchmark that is being used to evaluate progress really has no bearing on what the U.S. would really like to accomplish in terms of getting China to open up its markets. And in fact, it was a little discouraging when Mr. Trump was visiting China late last year that China seemed to be willing to make some concession in terms of opening up the services sector, and that was sort of batted away as not being hugely relevant. So I think one needs to go back to the basics. There are people in this audience, including Jeff Bader, who have made, you know, some progress in terms of trying to define the terms of engagement with China, trying to make progress. And one could argue that, in fact, very little progress was

made. That much of this was a smokescreen from China's side. But unfortunately, I think that approach, slow and limited as it may have been, had a much better chance of success than the approach we are seeing right now.

But the other conundrum here is trying to figure out exactly what the administration's ultimate goals are, if it is really about increasing U.S. employment, if it is really about preserving national security. It's about using the international rules of the game to America's advantage rather than backing off from them as Mireya had said. And here, too, there seems to be this interesting tug of war within the administration itself. I mean, ultimately, we're all trying to read the tea leaves from very unclear signals, but if one were to look at the economic report of the president, which came out recently, as articulating a vision about trade policy, it's very, very different from the vision of trade policy articulated by those who, again, based on reports, seem to have the upper hand these days. Gentlemen like Lighthizer, Ross, and Navarro. And which of these factions wins out? And in particular, how do the deeper forces in the U.S. economy that have acted as a check and balance on the protectionist tendencies of this and past administrations, that is the business community, how that plays into the tug of war between these two groups I think is going to be a key determining factor.

MS. SOLIS: Great. Other comments from the panel?

MR. URATA: Thank you very much.

I think it's about time for the U.S. to learn to deal with this bilateral trade balance. It's not a trade policy or industry policy that may lead to a

solution. And indeed, I'm not quite sure why the U.S. should be worried about bilateral trade balance or (inaudible) balance. It is overall trade balance what the U.S. should be worried about. That's the first point I'd like to make.

And second, the reason why I said it's about time for the U.S. to learn the trade policies which they like to use to deal with this balance of trade policy is the experiences or lessons that they should have learned from their relationship with Japan. We had this trade imbalance problem for many years, and the U.S. introduced many policies, some of them are unilateral trade policies. But what happened to the U.S.-Japan trade imbalances still remains. Again, so that's why I said it's about time for the U.S. to learn it is not the trade policy or industry policy which should be used to correct the trade imbalances. This is a macroeconomic policy which has hurt, which should be adopted or implemented to deal with these trade imbalances. That's the first point.

And then second, I think it is a legitimate point that Mireya made that some of the Chinese firms' behavior cannot be justified from various grounds. And if that's the case, again, I agree with Mr. Prasad, it is the multilateral rule, or like TPP, which is a regional rule, it's a collective action which is needed to deal with these problems. In this regard, I guess this is a point I made earlier, that TPP can be a very important framework where a good business environment can be established, open in a free, fair, transparent, and maybe stable. And again, it is not too late for the U.S. to come back to the TPP, and that is what I would like to see. And that's what I think TPP 11 members would like to see.

I would like to talk about RCEP, which Meredith referred to earlier. RCEP is the Regional Comprehensive Economic Partnership framework which has been discussed by 16 East Asian countries, including Japan, China, India, Australia, and so on. And I guess Jeff also referred to this. It looks very difficult for them to reach an agreement. There are several problems. It's been, I think, recognized that one of the problems is China-India market access issue. India is very reluctant to give market access to Chinese products because already Chinese products are flooding the India market and have damaged the Indian industries. If that's the case, I think it's about time for them to think about the so-called -- this is the ASEAN way. It's an ASEAN minus X approach. That is let the country sit for a while. If they are ready to join they can come back and join. So it's called the RCEP minus X approach can be considered. Otherwise, I think this negotiation will last forever. And it is very important to have a framework which involves China. This comes back to the earlier point. China is not a TPP member yet, but China is a negotiating member of RCEP. And I'd like to see RCEP have very high quality in setting up rules, like intellectual property rights, SOE. Although it is, I know, very difficult for China to accept some of these, but it is very important to have such kind of framework for the reasons that I mentioned earlier. Thank you.

MR. SCHOTT: Well, I think the last two speakers gave very good answers. Trade policy is actually a very limited tool. And when I think back over the past four decades of work that I've done on U.S. and global trade policy, much of what we have been advocating countries do is to pursue domestic

economic reforms that enhance productivity in national economies boost your competitiveness. Now, most of what countries can do to improve productivity growth and boost competitiveness has little to do with trade policy measures. Some of those measures can provide adjustment channels for -- allow temporary readjustment to global competitiveness. Some of them can impede. Some support. Subsidies can support early development of industrial competitiveness, but they can also build in distortions. This is what we have told all the countries around the world for the past 50 years that they should work on their global competitiveness. And now if you want an answer to your question, Mireya, it's the U.S. needs to work on its international competitiveness. And in part we're doing that, but we're doing it in a less than coherent fashion with our tax policy, which has some pluses for U.S. competitiveness, but contains some longer-term disadvantages. Through our lack of focus on infrastructure, which is a drag on U.S. competitiveness and will deepen and where nothing is happening. The thought of pushing infrastructure projects to the states which have to have a balanced budget in there or will not have the funds to undertake such projects without raising taxes I think is the height of hypocrisy. So you need to work on that.

And the trade policy focus, it's very hard to turn Chinese policy through trade policy measures. But the point that Eswar made I think is the correct one. Where there is mutual interest in moving forward with reform that should be pushed. And he gave the prime example of that in services. And perhaps after the party Congress in March, that there will be an opportunity to

move forward albeit incrementally, but hopefully at a faster speed with Chinese economic reforms and important infrastructure service sectors.

MS. SOLIS: Thank you very much.

Meredith, anything to add?

MS. MERRITT: Those are all very thorough answers so I'll just briefly add that I believe Mireya is absolutely right. It's very -- we've seen from past experience that multilateral cooperation, particularly with the EU and Japan, has been, in some cases, an effective means of encouraging China to change market-distorting policies. It's very difficult to achieve that level of cooperation, but it's impossible when we're instigating perhaps retaliatory actions from the EU over the 232.

MS. SOLIS: Let me ask you just one more question before I turn to the audience.

The TPP has figured prominently in all our discussions, and rightly so, but it's also been a year with, you know, your neck gets twisted looking around at all the different developments on the TPP. First, the dramatic announcement from the United States that it was leaving the agreement. Then I think for a while the situation was quite fluid. We all remember the meeting in Chile last March when it was not clear that there was a direction. And later on, Japan really taking on a leadership role and managing to bring other countries on board with what I think is a very substantial achievement, which is to basically keep the agreement in act with just 22 suspensions and not opening market access. And then the latest of the United States showing some interest with the

president's comments in Davos.

So going through all these moves and turns, how should we read these developments? Do we think that the United States is now finally having second thoughts, that this administration is having second thoughts? Eswar made the point that this is not trade politics as usual; that the business community has not had the usual role of being influential. But they have been very upset from a lack of professional access, especially to the Japanese market now that the United States is no longer in TPP. They wrote this letter from senators recently asking the Trump administration to revise its decision, but at the end of the day, the Trump administration says it's interested in a multi-lateral negotiation but still calling for a fundamental change of terms. And many of the things that they're putting on the tail of NAFTA would not be compatible with the spirit of the TPP.

So do you think that it's indeed in the cards that the United States may return to TPP? Do you think that the signal from the U.S. at this juncture may create problems towards the ratification of the agreement as some countries may be confused as to whether they should just wait for the United States to come back? What is happening vis-à-vis the fate of the TPP and the U.S. involvement or not in it?

MR. PRASAD: So I'll just say one thing in response to that, Mireya. It is striking how the narrative has shifted from the TPP without the U.S. will not be much of a TPP, to the narrative now that getting the U.S. back into the TPP may just not be worth it for the other TPP members. Unfortunately, what I

think this signals is that the world can and will move on without the U.S. if necessary.

MR. URATA: Yes. I agree with Mr. Prasad. I think the TPP 11 countries are ready to, like I said, sign an agreement in a week or so, and they would like to see enactment of this TPP 11 as soon as possible. And so they have decided, I guess, to go on without the United States from what I understand. I would like to know, as a matter of fact, why President Trump made that statement. Is that because of the pressure, I guess, that Mireya referred to, like maybe beef growers from the United States who have been disadvantaged by already Japan and Australia's FTA and the TPP would make it worse. So, from outsiders like me, I'd like to know what made Mr. Trump change his mind, or did he really change his mind?

MR. SCOTT: Well, I'll give you an answer, Shu, because you're an old and good friend.

President Trump prides himself on being unpredictable. And so trying to predict whether he's going to be for it or against it is part of the game. And what he said is he would agree -- what he says all the time is he would agree if he could get a better deal, without specifying what a better deal would be. Now, I think Shu was absolutely right that the TPP will -- TPP 11 will be signed next week in Chile. And then countries will go forward with ratification. Once the agreement enters into force, then countries can proceed to negotiate a session. And a number of countries have already started talking about doing so.

I actually have a blogpost on this that goes into more detail on

what can happen and how this could proceed in 2019, and that will be posted on the Peterson Institute website later today.

MS. MERRITT: Well, I agree with Jeff that President Trump certainly prides himself on his unpredictability, but would also say one of the areas where he's had a very consistent outlook has been on his skepticism about the benefits and merits of free trade, whether that's NAFTA or KORUS or TPP. So I agree. I think his comments recently are more the positioning of a business man. You know, make me an offer. I'll see what I can do. But would be very surprised if he had any enthusiasm for joining the TPP as it's currently constituted. And with that in mind, I don't think the 11 member countries should wait for the United States. I don't see that as being a development that could happen in the near medium term, for that reason, and also because the United States is very consumed with the NAFTA renegotiation and with KORUS, which will also, I think, be very telling in terms of where this administration is ultimately going to come out on trade. Will the president go with his longstanding impulse and outlook or will the business community and some of his advisors have a mitigating impact on that?

MS. SOLIS: Thank you so much.

Now, let's go to the audience.

Oh, I'm sorry, Shu has two fingers. Sorry.

MR. URATA: Before you open up the floor, can I just ask one question, maybe to Mireya, maybe to others.

I just wonder how this midterm election does to this U.S. trade

policy. Does this lead to increasing possibility of implementing a unilateral action? Sorry. I just don't know the answer to that question.

MS. SOLIS: Well, I think that the political calendar creates an incentive for the president to deliver on something that the base may appreciate, to energize the base. And you know, I think that we're going to see actions on the steel report, certainly, and there's talk about maybe getting in the habit of doing 232s in other areas. So there could be more items forthcoming. Then there's the question of how NAFTA negotiations will be handled. Obviously, nobody thinks that the March original deadline or revised deadline is doable, but also, Mexico has presidential elections in July that will have a huge impact. And you know, it's an interesting tug, here, of war because the president has also received some advice as to how a NAFTA withdrawal could actually hit many of the people who have been strong supporters of him just because of the states that they live in are very much involving trade with Mexico.

So I don't think -- trade policy never does well, never flourishes in electoral years. I think that's a general pattern. It's a complicated issue and you have both the midterm election here and also vis-à-vis NAFTA you have the presidential election in Mexico in the summer.

MS. SOLIS: With that, let me turn to the audience. I'm going to -- because there are so many of you, I'm going to take two questions at a time. Please identify yourselves and super concise questions. There are some microphones. I have a gentleman here and Barbara there.

MR. ROTH: Stanley Roth, no affiliation.

Most of you have emphasized that the U.S. has handed the trade field more or less to China, and I'd like to ask for more discussion about the Belt and Road initiative. You talked a bit about RCEP, Meredith. I'd love to hear about it. Southeast Asia apparently has expertise on Central Asia or South Asia. I'm thinking of Pakistan in particular. And (audio interruption)

SPEAKER: -- China in, and it would be great if it were a high quality agreement. But it looks like it's not going to be a high quality agreement if it were to be approved. So does that mean it's a good thing, a bad thing, or we just don't care if a relatively low-quality RCEP were to be approved?

MS. SOLIS: Thank you very much.

For those in the back, we had two questions. One is on Belt and Road and the other one is on RCEP.

So who would like to take it on the panel?

MS. MERRITT: Okay. So thank you, Stanley, for raising the Belt and Road initiative, which is China's initiative to build out infrastructure connectivity throughout Southeast Asia, Central Asia, even so far as the Middle East back into China. Southeast Asia is benefitting tremendously from infrastructure investments from China through the BRI, through the AIIB, and also from Japan's Quality Infrastructure Investment Initiative. And actually, South Korea is quite active in the region as well.

This connectivity project, which includes railways, airports, and seaports, will have a transformative effect on the economies of the region, particularly in mainland Southeast Asia. When you look at Chinese influence,

this is definitely an accelerant, and also an anchoring point. In many of these projects, particularly in developing Southeast Asia economies, China is winning these projects by offering sometimes no-interest loans. So essentially, they're building the infrastructure and they will own it in perpetuity; right? So that's a very strong economic presence that we're looking at throughout the region.

I would add though that this is not without complications. As Stanley well knows, many countries in the region have complicated relationships with China. These investments have not always proceeded smoothly. And in other countries there's apprehension about this rising Chinese influence. But particularly, for poor countries like Myanmar, Laos, and Cambodia, most of them are certainly not going to turn away low interest or free capital to develop their economies. And for others, like Indonesia, the Philippines, and Malaysia, for example, there's been a concerted effort on their leaderships to woo Chinese funds through these initiatives to meet their own infrastructure development goals and overall economic growth goals.

So this is a very significant trend. It's one that I think particularly in the absence of influence from the United States on talking about how to construct deals that are going to be mutually economically beneficial over the longer term, helping to engage Southeast Asia countries in putting place practices that allow for clear procurement processes and that kind of thing is one where our absence is also felt.

I think, and I meant to say this in my remarks earlier, one of the key trends that we're seeing in this shift in U.S. policy is Japan's rising influence

and increasing demand from Southeast Asia countries for Japan's engagement as a counterbalance to China's really rapidly developing presence in the region.

Maybe I'll just comment briefly on RCEP before turning it over to my fellow panelists.

So I think RCEP has a very uncertain road ahead. I agree with Professor Urata, because of the bilateral deals in particular that need to be negotiated between the dialogue partners. He mentioned China and India, but India and everyone is complicated, I think, and also, RCEP lacks a strong champion. You know, in the past, I think we saw, especially when the U.S. was a part of TPP, if there was some process on TPP, there might be a catalyst for some movement on RCEP. But that's removed. That said, as I mentioned earlier, I think because of the region's commitment to multilateralism and ASEAN's desire to continue to position itself at the center of that, those talk will progress perhaps forever, Professor Urata, but I hope that's not the case. And I do think at the end of the day it would be better to have RCEP than not to have it, although right now the focus is primarily on tariff reductions. Japan and others, and Professor Urata can speak to this better than I, have been pushing for some agreements on IP and other areas that we would consider important in a U.S. trade agreement but there's a fair amount of resistance to that as I understand it.

MR. URATA: Thank you very much.

Belt and Road initiative. Yes. The Belt and Road initiative can play a very important role in constructing needed infrastructure in the Asia Pacific and Japan. I think the Japanese government indicated its support recently. But

with, I guess, certain conditions. That is, I guess the point which was made by Meredith earlier, Chinese infrastructure projects have been problematic in several respects. When they construct the infrastructure, they bring in Chinese workers and these projects haven't led to the increase of local employment, so to speak. And some of the projects which they financed, the borrowers couldn't repay the debt so China took over some of the rights to use the ports and so on. So these are the problematic parts which have to be corrected. So that's why I said with certain conditions the BRI should be encouraged and promoted.

On RCEP, if RCEP is a very low standard framework, I don't think that's -- we don't need that. But like you said, you know, having China, India, and others, say Cambodia, Laos, Myanmar, these developing countries in it, it is very difficult to have a high quality, high level comprehensive RCEP. But at least in my view they can use the so-called ASEAN way. That is to set the high goals like ASEAN did for the ASEAN community, 2015, 2025, and so on. In other words, they can commit themselves to high goals but give them more time, say 10 years, to reach this goal instead of, you know, they have to accept this and they have to implement these commitments right away. So that is, I think, a possible way to reach, to have a high quality RCEP by having these countries which cannot really accept these commitments right away. I would like to see that kind of progress.

MS. SOLIS: Thank you very much.

So let me go to the audience. Two more questions. I'm going to go towards the back of the room just because -- or the middle. I have a lady here

with glasses there, and then on the other side, another lady with glasses. So, in the middle of the room. Thank you.

MS. LUNDY: Hello? Okay. Hi, Kitty Lundy, Simon Chair in Political Economy for CSIS, AU Masters student.

You talk a lot about RCEP and BRI, but we haven't quite talked about it in a nonstatic sense, in the sense that in the following years there's going to be climate change. There's going to be rising sea level change. And with that, how much has that been factored into current infrastructure movements? Because if we're talking about infrastructure from BRI as being low quality, how will ultimately this be affected in 10, 20, maybe 30 years? Will this even exist anymore?

MS. PORTER: Because I'm holding computer, so I'll just stay down here to asking questions.

I'm Erin Porter with China's Tysee Media. My first question is about -- is whether national security oversight in terms of U.S. actions to China both in trade and investment or with the 232 and also sea fares and also U.S. is suggesting Australia to (inaudible) construction.

And secondly, Liu He is in town and (inaudible) is here as well. What would you say particularly Liu He would be talking about with U.S. officials? And would you say that now is like a key point of where U.S.-China trade relationships but it's a deciding point from whether it's just a regular trade fractions towards a trade war? Thank you.

MS. SOLIS: Thank you very much.

Any comments on those questions? The top economic advisor, what could be happening in that discussion? And then the environmental question, when it comes to thinking of the infrastructure for the region?

MR. SCHOTT: I'll give two very short and incomplete answers. On the meetings this week that Liu He is holding with top officials here, I think in the past the Chinese have been very careful to pursue reactions and remedies within their legal rights under the trading system. And so if the 232 or other case, or section 301 actions are consistent or not inconsistent with WTO obligations, then I suspect that the reaction will be more pragmatic and moderated. If they are inconsistent, then I think that opens the doorway to broader tit-for-tat retaliation. That's just an incomplete, but first answer.

On the infrastructure, a big focus of a lot of the infrastructure discussions as I understand it is on energy infrastructure and on the ability to shift the sourcing for electricity generation to liquefied natural gas. The use of natural gas backing out coal. That would have a positive -- a relatively positive impact on greenhouse gas emissions but if you're looking over a 20 or 30 year horizon, a lot more would have to be done to meet the commitments that had been made in the Paris Accord.

MR. PRASAD: It's a rare instance when a question on China is actually slightly easier than a question on the environment, so I'll just take the China question.

One intriguing issue is why does China care so much? I argued in some of my remarks that China has effective chokepoints on the U.S. If you

think about Chinese exports, only about a little over 17 percent of Chinese imports go to the U.S. That share has been declining over time. But I think there is an intriguing issue here, which is that what the Trump administration is trying to do is not just take trade actions against China but step outside the multilateral trading system, the WTO arrangement in doing this. And that system has actually worked very well for China. For China, access to world markets through its WTO accession, even though it didn't necessarily keep all of its commitments, has actually worked very well. The dispute resolution process through the WTO I think was seen by China as potentially favoring it somewhat more than a direct bilateral negotiation with the U.S. and rising trade frictions with the U.S. could potentially spill over into trade frictions with other trading partners. China would still like the price of market economy status, not just from the U.S., which it is unlike to get, but even from the European Union. So, rising trade frictions with the U.S., specifically if China were to retaliate very strongly and in a targeted way against targeted U.S. actions, could poison the global trading environment and this I think is what China is after, trying to mediate these disputes. And if they cannot be mediated, at least channel them through the multilateral trading system rather than through this unilateral approach that the Trump administration seems to be favoring.

MS. SOLIS: All right. So we have come to the end of our time. Please join me in thanking the panelists for a very sobering and insightful discussion this morning. Thank you.

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