

## THE BROOKINGS INSTITUTION

## THE FUTURE OF TRADE IN U.S.-JAPAN RELATIONS

Washington, D.C.

Wednesday, May 2, 2018

**Introductory Remarks:**

BRUCE JONES  
Vice President and Director, Foreign Policy  
The Brookings Institution

**Keynote Address:**

AKIRA AMARI  
Member, House of Representatives, Liberal Democratic Party  
Former Minister in Charge of Economic  
Revitalization

**Moderator:**

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

**Panelists:**

AKIRA AMARI  
Member, House of Representatives, Liberal Democratic Party  
Former Minister in Charge of Economic Revitalization

KOICHIRO GEMBA  
Member, House of Representatives, Independent  
Former Minister for Foreign Affairs

RYAN HASS  
David M. Rubenstein Fellow, John L. Thornton China Center  
The Brookings Institution

YOSHIMASA HAYASHI  
Member, House of Councillors, Liberal Democratic Party  
Minister of Education, Culture, Sports, Science, and Technology

AKIHIKO TANAKA  
President, National Graduate Institute for Policy Studies

\* \* \* \* \*

## P R O C E E D I N G S

MR. JONES: Good morning, everyone. Welcome to Brookings. And for those of you visiting, welcome to Washington D.C.

My name is Bruce Jones. I'm the vice president for Foreign Policy here at the Brookings Institution. And on behalf of the Center for East Asia Policy, it's my pleasure to welcome you to today's discussion on the future of U.S.-Japan trade relations; at this key moment, not only in U.S.-Japan bilateral relations, but at a critical moment that may redefine America's role in Asia.

The United States has withdrawn from the negotiations and the conclusions of the Trans-Pacific Partnership Trade Agreement; it's currently renegotiating the North American Free Trade Agreement, and is in the midst of significant trade tensions with China, Canada and the European Union, some of its largest trade partners.

Against this backdrop, how the United States chooses at this moment to engage with Japan, another of its large trade partners, and a key ally in Asia, is an important barometer for the Trump administration's commitment to the international economic order, and to Asian security more broadly.

In contrast, Japan has taken a leadership role on trade issues, relaunching the Trans-Pacific Partnership among the remaining 11 members, and successfully signing the agreement in March 2018, a feat that few thought at the time would be possible.

Our own Mireya Solís was among the very first to advocate for Japan to rescue the TPP project, identifying the opportunities for a more proactive Japan, a theme that's highlighted in her recent book, "Dilemmas of a Trading Nation," which I strongly encourage you to buy at Amazon.com.

As Japan redefines its role, new questions emerge as to what other areas it can help advance in the rules-based multilateral trading system, and in the constructions of a regional architecture in Asia.

At various points in history the two countries' trade has been a thorny issue between the United States and Japan, but striking the right balance between domestic interests and

international commitments may never have been more important than it is right now.

Today, we are delighted to have a group of Japanese politicians, and Japanese and American policy experts to offer their perspectives on U.S.-Japan trade relations, the future of bilateral and multilateral trade arrangements in the region, and a scope for U.S.-Japan cooperation on regional and economic issues, including and dealing with a resurgent China.

A very much warm welcome to our panel of distinguished Japanese guests; and a major thank you to Junichi Ihara of the Japan Center for Economic Research and a long-time friend of Brookings for bringing this group to Washington. And it's part of our ongoing conversation with Japanese scholars and the government around key issues in the relationship.

We will begin with keynote remarks from Mr. Amari, and follow with a panel discussion of our experts. Akira Amari is a member of the Ruling Liberal Democratic Party, and holds a seat in the House of Representatives. First elected in 1983, he is currently serving his twelfth term in office. Over his career, he has held several leadership positions in the Diet and the LDP, and most recently has served as minister of state for economic policy and fiscal policy, until January 2016. And in that capacity he served as Japan's negotiator for the Trans-Pacific Partnership.

It's our very great pleasure to have him here at Brookings, and please join me in welcoming Mr. Amari to the stage. (Applause)

MR. AMARI: Thank you for the introduction. My name is Akira Amari. I will be speaking to you through an interpreter.

In China, as you know, sometimes cash is not trusted, so the e-payment is spread out throughout the country, as something like WeChat Pay is used broadly in the country, all of the transactions and payments are done mostly in e-payment. And there are surveillance cameras placed throughout the country even in the very remote rural areas as well, and used in combination with face recognition system, the identification of individual is done very easily.

Although the crime rate has gone down significantly, there is still a concern about the protection of individual private information. So, if you wrote on the Internet, for example, "foolish Xi Jinping" or something, then you will not be able to do Internet shopping anymore, you can't ride cars

anymore, you can't ride trains anymore. If you go out on your foot to the town, then you are caught by surveillance camera, and the police will come out and arrest you.

This was heard from the CEO of an internet platform company or the executive of the internet platform company to another internet platform company in Japan.

And one of those Internet platform companies is called Alibaba, and the company's CEO, Mr. Jack Ma, is proposing to -- 100 percent backup, and collaborate, and help with the Tokyo Olympics in 2020.

So, probably the intention is that using the Tokyo Olympics as a trigger, Alibaba would like to expand the payment system, or cashless system in Japan, and expand their AliPay system throughout Japan. And SoftBank, who has the stake of \$80 billion of Alibaba, will probably help out with that initiative, and also in order to set up a payment system, you need help of a bank in Japan, and Mizuho Bank, which is the bank for -- our soft bank will probably help out as well.

Alibaba also owns a company called Didi, which is the Chinese version of Uber. So, taking that opportunity they will probably try to expand that system in Japan as well. And what this will lead to is that through Didi and AliPay, they will see all the information on movement of people, as well as payment information, and that will be all gathered in database of Alibaba, AliCloud.

And at the same time Japan has the number one database in the world. This is the database system for Universal Insurance System; information about insurance, as well as the nursing care, is all gathered for all 120 million people. So, in terms of volume as well as quality, it is the number one database system.

And AliPay, if they go into using our design architecture, if they go into the system of insurance, and also into the systems, or hospital systems, then all that information will also be concentrate into Ali Cloud.

In China, these 21st Century infrastructure platform companies, or digital platform companies, are working very tightly with the Xi Jinping, President Xi Jinping's administration, and they work in combination to form economic, political, as well as investment strategies.

So there is GAFA in the U.S., and there is BATJ in China, these are Baidu, Alibaba,

Tencent and Jingdong. These are the 21st century digital platform companies in China. And they have made it clear that they are ready to become a nationally-owned company if there were told so.

Alibaba has gone out of China and expanded into ASEAN now, they have just acquired the largest e-commerce system in ASEAN countries, so that means that the e-commerce system itself will go under Alibaba now in ASEAN.

So it is expected that these platforms, four platform companies' business model is to go from Southeast Asia, and expand into Middle East as well as to Africa. That is the instruction that they have received, and if there is any obstacles then the Chinese Government will back them up 100 percent and try and remove those obstacles for those companies.

And in return for helping them out, the one thing that Xi's administration is asking through those BATJ companies is to provide all the information that they gather in the way. And furthermore Chinese Government is planning towards the upcoming Tokyo Olympic in 2020 to increase the number of GPS satellites from a current 22 units to 35 units, and at the same time increase the number of bay stations to 2,000.

And with this system set up with the satellite and the bay station, the margin of error will shrink to 10 millimeters for autonomous vehicles. And the software to navigate these autonomous vehicles is developed by Baidu using artificial intelligence, and they are distributed, with no charge, to related companies, and companies that include American companies, as well European companies.

And companies that fall into a Belt and Road Initiative; that means that they will run under Chinese control in terms of hardware and well as software. That is the target of China. And this autonomous navigation system is not only for the land, but also for the ships that go on the ocean.

They will also be controlled by the same system, so Belt and Road Initiative will cover both land and ocean. So, that means then you know which is where exactly in the world.

In China there's a law called Cyber Security Act, and this is a rather one-way system, where, because of the security reason, any information that is gathered within the country cannot be taken out of the country, whereas any information that is gathered outside the country could be freely concentrated into the country.

Originally, the principles of electric commerce, is that there should be a free flow of information across the border, and secondly, a ban on the requirement for localization of servers, and the third is a ban on the requirement to disclose source codes.

But these principles do not exist in China, basically they will never take the information out of the country, whereas they gather information and bring into the country freely from outside, and put them all into their database. So, they are free to take all the information, technology and people from outside, but nothing goes out the country. And such system will be deployed under Belt and Road Initiative, and that will surely reach the U.S. one day.

Now, these BATJs or the digital platform companies in China, are basically the copy models of American's platform companies, GAFA, so what China did was to put them in the Chinese market, the copy models are nurtured within the Chinese market, and did not allow the original GAFA companies from outside to go into their own market, so that their own companies can grow and expand, and become even bigger than the original companies, and expand into other countries.

And of course they say that, ah, you can use both Amazon and Alibaba equally in our country, but every day there is time, there is interfering signals that would make Amazon not usable for a certain period of time, for 30 minutes. That means that you have to go through Alibaba to surf on the Internet.

But our mission is to create a digital infrastructure where everybody can use it in a fair manner, and with the same conditions throughout the world, and that is our challenge going forward.

Now, TPP is -- today the focus on TPP is about reducing the tariff very close to zero, and that is the focus of the current administration, but actually what is important regarding TPP is the set of rules that apply. President Trump criticizes China about being very unfair, they steal IP, they force the technology transfer, they force the disclosure of source code and, you know, hamper the free flow of information, and give out subsidiary for agricultural products.

But these are all the things that are covered in TPP and are banned. So, what is advocated by Mr. Trump, is really the rules of TPP. TPP will go into effect early next year. Thai has officially decided to participate, and Colombia is interested, and I think Taiwan will soon declare its

interest in the system.

TPP's principles, is it's a very fair system where everybody can participate, so the global standard, and global rule is the important factor of this entire system. So, now the rule is set up as very rules, and now what is necessary is the execution, and the capability to execute, because we have to look at the world when we try to do something like this. And that is the reason why we need the presence of the U.S.

But TPP was not something created by President Obama and Prime Minister Abe, it was created by Japan and the U.S. So, I would like to, again, reiterate the importance of U.S. and Japan working together. Thank you very much. (Applause)

MS. SOLÍS: Good morning, everyone. My name is Mireya Solís. I am the Knight chair in Japan Studies, and co-director at the Center for East Asia Policy Studies. It's really a pleasure to welcome this very distinguished group of panelists.

And I would like to start by thanking Minister Amari for a really deep set of insights that he shared with us. I think that he has correctly highlighted what is an essential issue for U.S. and Japan going forward, and that is how to deal with a rising China, and a China that now has the larger digital footprint and is using it to these purposes that Minister Amari highlighted. And also I very much appreciate his comments on the significance of the Trans-Pacific Partnership Trade Agreement.

So, I think that Minister Amari has already put on the table many significant issues for all of us to discuss. But before we do so, I would like to then introduce our other guests. So, if I may?

Yoshimasa Hayashi is a member of the House of Councillors, from the Liberal Democratic Party. Currently he serves as the minister of education, culture, sports, science and technology, and as his -- his past Cabinet positions include minister of agriculture, and minister of defense.

Ryan Hass is Rubenstein fellow in the Foreign Policy program, and before joining Brookings he was the director for China, Taiwan and Mongolia at the National Security Council.

Koichiro Gemba is an independent member of the House of Representatives, and previously he as a member of the Democratic Party of Japan, and served as the minister for foreign

affairs, and minister for national policy, among other positions. Minister Amari --

MR. GEMBA: I'm Independent.

MS. SOLÍS: Independent, yes. And Akihiko Tanaka is President of the National Graduate Institute for Policy Studies, GRIPS, and between 2012 and 2015, he served as President of the Japan International Cooperation Agency.

So, as you could reflect, based on Minister Amari's Keynote Speech today, we are indeed living in very important, fluid times. There's so much to discuss. We need to talk about the role that the United States is going to play in international economic system, we need to talk about how to deepen the U.S.-Japan economic relations, at a time when the United States Government is talking about a bilateral agenda, and Japan is insisting that the Trans-Pacific Partnership has tremendous value, especially with the role that China is acquiring again, in international economic governance.

And I think there's a very significant agenda as to how Japan and the United States could work together in addressing constructively, but effectively, the China challenge.

Now, because Minister Hayashi has to catch a plane, and he joined us for just for a few minutes, I want to ask Minister Hayashi, if you could reflect also the remarks from Minister Amari, and especially when it comes to the TPP, and the fact that the TPP has had a second lease of life.

If I may recall, a-year-and-a-half ago, when President Trump made good on his promise to withdraw from the TPP, I think it's fair to say that the conventional wisdom was that the TPP was finished. That the agreement would die because the United States was not a part of it. And we know that Japan's leadership has been instrumental in delivering a very different outcome.

So, the question I have for you is: how Japan was able to be proactive at this very critical juncture, given that many people had assumed that Japan would also play defensive especially when it came to trade because of its own sensitivity, say, on agriculture? So, where does Japan leadership spring from?

MR. HAYASHI: Thank you, Solís, first of all, and good morning, everybody. And thank you for your consideration to let me speak first to catch the airplane to go into Beijing.

So, trade and China is not my jurisdiction as a minister of education, culture, science,

technology, sports. So, let me speak as a former agriculture minister, and I have very fond memory of working together with Minister Amari, then the chief negotiator of TPP, and he is always telling me, why do we don't do more, right?

But now we came to the conclusion, and what happened before and after TPP, because the agricultural situation is really changing in Japan, thanks to TPP, and prior to that, also Australia, Japan, FTA trade negotiation, and it's already started in action.

So, that's a mindset change in Japanese farmers and growers that we can, not simply defending ourselves, but we can do offense. Offense means not attacking somebody, but export. So, if you noticed that our product it's very nice, you know, Japan cuisine is number one, (inaudible) cuisine all over the world now, especially after the Milano Food Expo several years ago. Why not export, which produced the Japan cuisine?

So, that's why when I get the position late 2012, I consult with Prime Minister, and let's set the target, doubling the export from almost USD4 billion at that time, to JPY1 trillion, which is doubling in almost the seven years aiming the year of the Olympic Game, it doesn't matter, Olympic or Paralympic, but that's the sitting goal.

And nobody believes at the beginning that we could do that. But now, last year we see \$8.0 billion, it's already almost doubled and leading to that JPY1 trillion goal in two years left. So, I think, for example, Japanese beef, maybe you have heard about, or you have eaten Japanese very nice Kobe beef or something like that.

But now it is sold in London famous market, that \$100 per 100 gram. So, it's almost double the price in Japan, and they are selling the same quality of Australia beef at 60 percent of that, and the domestic beef is less than 10 percent of that price.

So, if you started to sell that, and if you have a nice brand image, and if you have nice marketing, then we can export, and that now have a more, wider acceptance, and wider range of the understanding in Japanese growers too.

So, the mindset is changing, but while, still, very small sized farmers in Japan is producing live, but also we started reform for this main, growing in Japan, so that the more

accumulation of the land to a more -- younger and energetic farmers, whereas the elderly farmers are retiring, so we are doing -- (inaudible) have some type of farming land bank, so that they can accumulate that.

And also we abolished the agriculture subsidy starting this year actually -- or last year, so that rather than relying on the subsidy, regardless of the (inaudible) which is paid, we abolished that, and used that budget for income insurance, so that if something, bad weather happens, the market goes down, the income insurance covers that loss, but if you make more sales than that, then you will enjoy that.

So, the farmer is becoming more like independent, you know, manager, rather than just making the same things, and selling at the same price to the Nokyo. And now, Nokyo has changed also that the trading sector of the Nokyo, already talking about joint investment in former East European countries, to produce some of the -- using Japanese technologies for producing some of the grapes to make some wines over there.

So, it's changing its brand, but still, there's a mindset still remains, that they have to be protected. So, we have to be very careful about political meaning, or further opening up as the image, because two years ago our party lost almost all the Upper House Seat, in (inaudible) areas.

So, still, there's some -- this is also the flip side of the coin, that image still very strongly aided by the -- as general -- they more opening up in the Nikkei newspapers, but that kind of article is still not so good for (inaudible).

So, having said that, just briefly on China, because I'm visiting Beijing from now, I hope that the BATJ is a hidden abbreviation BAT-Japan, but since I really echo with what Minister Amari said, that we thought that maybe China, we've hit the middle-income trap, but using that BATJ strategies they are now "innovation" and maybe by doing that, they can circumvent the middle-income trap. So, innovation, it seems to be heartening because they are bringing those innovations from the United States to have that for 1.2 billion people, that's the biggest market in the world.

So, that's why, how those innovations evolve in China, whereas -- which resulted in the more -- big icon of power, which resulted in more -- different spending, so that we have to think

together, bilaterally with the U.S. and Japan.

And I stop here. And, really looking forward to listen to your debate; but sorry about leaving soon to catch the flight. Thank you very much.

MS. SOLÍS: Thank you, Minister Hayashi, for those excellent comments. And I concur completely with the importance of domestic measures that allow countries to be more proactive. And I think that in the United States we have, painfully, learned that lesson, with the situation we find ourselves in, and also the importance of domestic politics, and I want to get to that in a second.

But I also wanted to ask Minister Amari, if he could reflect about that decision point, when Japan decided that it would its weight behind resurrecting TPP. You were the leading negotiator of the original TPP. So, if you could share, what was your thought when you saw the United States actually leaving the agreement, and what do you think then carried the day in deliberations among government officials in Japan, that indeed the TPP should continue, and that Japan should be playing this proactive role now.

MR. AMARI: Now, TPP-11 is concentrated into one piece of paper, whereas TPP-12 originally had thousands of pages. So, that means that TPP-11 was possible because there was an original negotiation in TPP-12.

So, one of the things that we most struggled with, there are several, but one of them is that we were concerned if some of the developing countries, were they able to keep up with such high standard. But they actually overcame such difficulties boldly, and one of the largest motivations for doing so was that they wanted to, or they were determined to carry out reform domestically using such external pressure.

And there were two things that struggled regarding the developed countries, one is about the U.S., the U.S. just could not decide. They would not decide until five minutes before the time limit. The second was Korea, as you heard, wishy-washy --

MS. SOLÍS: Canada.

SPEAKER: Canada, Canada.

MR. AMARI: Canada.

INTERPRETER: I'm sorry.

MR. AMARI: And what I understand is that also during the TPP-11 negotiation, the negotiators struggled throughout the negotiation, and to the very end to convince Canada. At the same time, a minister of Canada said in Davos that this was my achievement. But in the end it all worked out. (Laughter)

MS. SOLÍS: Thank you very much. Very interesting, Minister Amari. So, I would like to bring in Minister Gemba, and talk about the domestic politics, because we now have assigned comprehensive and progressive Trans-Pacific Partnership Trade Agreement that now must be ratified, and it's interesting in the news that Mexico was the first country to ratify just a few days ago, the TPP-11.

And, you know, Japanese politics is going through an interesting period, to put it mildly, today. So, do you expect that there would be a delay in Diet deliberations regarding the TPP ratification because of the political situation? How do you see, from a different point of view, from a different -- now an Independent -- the prospects for TPP ratification, the New TPP ratification in Japan, timeline, for example?

MR. GEMBA: This was a question about how the Diet session will go regarding this issue. Of course the government's intention is to pass the bill as soon as possible in Japan.

However, if the government is very serious I do not think it will take a very long time since a government or ruling party has the overwhelming majority in the Diet, although a Diet session sometimes halt because of some scandals within the political world, but with the strong will of the government, I think it's possible.

But of course opposition parties have their own roles, so if there's any issues then that's their responsibility to point that out. While at the same time, Mr. Amari made an excellent point earlier, and I think the achievement is rather significant that, now, today we have TPP-12.

So, even before everything started, the negotiation started, I just happened to be the Minister responsible for these issues when Obama administration proposed the idea of TPP to us. I

was the Minister of a State for the Domestic Strategy within the Cabinet Office, and I stressed the importance and significance of TPP in terms of a strategy and as well economy.

If you look at, or if you compare TPP-12 against TPP-11 that is without the U.S., and just look at the Japanese side, and on a very short term, there might be more shortcomings than the benefits to Japan.

However, as Mr. Amari pointed out in his speech, the significance of TPP is that, to provide fair rules to the world as a whole, unfortunately, the U.S. is not right now in a position to form orders around the world, and to provide public goods in terms of fairness. So, that means that Japan will need to step in, and we are responsible for helping out, and setting free trade as well as rule of law. One more point.

One more point is that I believe for the U.S., TPP is more beneficial than FTA. So, for example, just talking about tariffs rather than the rule, for beef, when the U.S. beef comes into Japan there's a tariff of 38.5 percent. But Japan has EPA already set up with Australia, and with the TPP, will work with other countries as well, and all the other countries, except for the U.S., tariff will go down to 9 percent.

And the same thing for pork; we already have EPA between Japan and EU, and the Danish pork will come in at a much cheaper price. And if we tried to work on FTA between Japan and the U.S., and it will probably take maybe between 5 to 10 years to negotiate. So, in that sense it might be more beneficial for the U.S. to just join the TPP.

MS. SOLÍS: Thank you very much, Minister Gemba. Those were very insightful comments. And I very much concur that the United States has much greater benefits to reap from rejoining TPP than starting from scratch bilateral negotiations, something that we'll also come to discuss in a few minutes.

But I want to transition to the China challenge, because that has been, I think an overriding concern in our conversation, so I want now to put it front and center, and to bring my colleague Ryan Hass, and Professor Tanaka to this discussion.

Minister Amari in his Keynote talked about the ecosystem that the Chinese

Government and some companies are creating, where the Chinese Government will facilitate access in exchange for information, and very much discussed events in the digital space, and the connection to the Belt, Road Initiative.

So, I thought it would be beneficial now, if we could discuss, for example, Ryan, if you can get us started, and then Tanaka San, you can also share. What do you think are China's objectives and motivations behind the Belt, Road Initiative? And what can we tell from the way in which some of the projects have been implemented? Is China on track in accomplishing those objectives? Or, do we see really, significant hurdles to the implementation of that Grand Connectivity Strategy. So, Ryan, and then Tanaka San?

MR. HASS: Thank you. Well, thank you, Mireya, for including me in this conversation.

MS. SOLÍS: Mm-hmm.

MR. HASS: If I could, I'd like to start where Minister Amari stopped, which is I think at the root of any conversation that we have here or in Tokyo, or anywhere else, it's important to have recognition that the cornerstone of U.S. strategy in Asia, is our alliance with Japan, and everything needs to start from there.

Without a strong, stable, steady, solid alliance with Japan, it's really not possible to advance your strategy with (inaudible). Two, to address Mireya's question about the Belt and Road Initiative, the conventional wisdom in Washington, which I think is familiar to many people here, is that it's part of a grand Chinese strategy to establish centrality, and to eventually dominate the region, and eventually the world.

And I don't dispute that, necessarily, but I think that using such a caricature sort of underappreciates the drivers of Chinese policy, behind the Belt and Road Initiative. From my perspective it's much more instructive to look at the initiative from the inside out, rather than the outside in.

In other words, I think that there are very significant domestic drivers that are pushing for the Belt and Road Initiative. And I'll just offer a few to kick off the conversation.

The first is, China has excess capital that it needs to find a productive outlet for, and if it does not it runs risk of inflation inside of China. And so, the Belt and Road Initiative provides a vehicle for getting capital outside of China in pursuit of productive investments abroad.

Similarly, we all know that China has a problem with excess capacity. It produces too much steel, too much cement, too much aluminum, too much of many things. It needs to find a place to send all its excess capacity, and if it doesn't, it will have to shut down factories and risk localized spikes in unemployment, which is a problem that the Belt and Road Initiative is trying to address.

The third, as infrastructure projects inside China begin to slow down, and China's economy transitions from an investment-based economy to a more consumption-based economy, its state-owned enterprises need somewhere to go and something to do. The Belt and Road Initiative is designed to advantage Chinese state-owned enterprises.

And then fourth, I think that it is a useful tool for President Xi in terms of building morale and unity of purpose within China, and stoking pride within China that China is embarking on a grand, historic project. It's something that everyone in China can understand, appreciate, and it invokes China returning to its historic place, at the center of Hub-and-Spokes model throughout Asia.

So, all that to say that there certainly are very clear strategic objectives, I think Minister Amari outlined several of them this morning. It's clear that China would like to establish standards around the world, it's clear that China would like to position itself as the center of Asia and abroad, but unless we understand what domestic problems China is using the Belt and Road Initiative to try to address, I don't think that we can fully appreciate where the initiative will be headed.

MS. SOLÍS: Thanks, Ryan. Tanaka San?

MR. TANAKA: I believe the broad goal of Belt and Road Initiative is to achieve what many Chinese goals -- China's dream. However, what does China's dream constitute means many things to many different people. And in my understanding Belt and the Initiative are the result of various pressures, as Ryan just mentioned, from China.

And so in the end, it's a sort of a mix bag, which, with the potential of China's, the power of cash, a lot of people have been frightened. But I think today's Keynote Speech by Mr. Amari

has really contributed to focus our attention to one of the key areas of, at least concerns, of the international friends.

So far, I think international attention with respect to Belt and Road Initiative; had been more or less focused on China's attempt to build a lot of physical infrastructures, railroad, port facilities, and things like that.

But in my understanding, given a few years' experiences, the concerns about those physical infrastructures, big projects have been rather exaggerated. China has made lots of commitments with the huge number of cash that China can, you know, bring into it. But many of these projects, if you look at their concrete performance are not, you know, quickly implemented as China promised.

Well, there are concerns about those fiscal infrastructure developments, well, firstly because, at least some of them, have problems of debt sustainability for recipient countries. This could risk the sound development of regional countries in the Belt and Road areas.

Well, Sri Lanka's Hambantota Port case is quite indicative, when the Sri Lankan Government found out that they were not able to repay then, well, it may end up with a debt equity swap by which China -- Chinese companies gain the control of port facilities.

And now, there may be certain, you know, concerns about railroad projects from China to Laos to Thailand. There may be some, there's a problem of debt sustainability for the country like Laos, whose GDP is not so big.

And this debt sustainability problem may create certain security concerns for the regional countries, particularly to India, that with this Chinese expansion to Sri Lanka or Maldives, that might create some security problems.

And so, I believe these are important and relevant concerns of Belt and Road Initiatives, but after listening to Mr. Amari's speech, probably, you know, what we really should be concerned about is what might be called Digital Belt and Road Initiative rather than Physical Belt and Road Initiatives.

And because this doesn't appear to be physically visible, but an implication for the

world economy, and implication for the content of world order, based on freedom of information, and freedom of speech; and, well, to be more serious I think the freedom of the continuing viability of liberal democratic systems; if the cyberspace is virtually controlled by one authoritarian country that could threaten the lives of all of us.

MS. SOLÍS: Thank you very much. So, let me use that term that you just coined, the Digital Belt and Road Initiative, to bring all of the panelists into this conversation. And that is, how can Japan and the United States work together in addressing this challenge? I see very significant obstacles, let me lay the out, and I hope to get your reactions.

One is that, in my opinion, the U.S. Government is mostly trying to go alone in confronting China, and is using one instrument, primarily, and that is tariffs. And, you know, there is a risk, and indeed there could be some kind of trade war between these two countries, and it might not actually even get to the substance of the issue, the root cause of these issues.

Then when it comes to digital economy issues, of course, as Minister Amari highlighted, the TPP has very important rules in place, but the United States is not there, and then when you think about a possibility of the European Union, Japan and the United States working together, there are significant differences in how these countries look at the balance between freedom of flows and privacy.

So it's not clear that you can bring them all to the same place and articulate and formulate rules. So, given these challenges, where there are divisions among industrialized countries, and the United States seems to be pursuing a more unilateral tariff-oriented policy, what can we do to begin to address this very important challenge, now and in the next years to come? Any suggestions, or any plans of action? Please, Tanaka?

MR. TANAKA: Well, I think I understand now with the delegation of high-ranking officials of the Trump administration in Beijing, trying to present the U.S. concerns, and list up all these things that the U.S. wants China to do.

As Mr. Amari mentioned, most of the things the Trump administration wants had been included in TPP, and so much so, if Trump administration had not left TPP, the U.S. could have made

its case much clearly, with collective support over TPP-11 countries, plus the EU. So, well, it's rather moot to, you know, think back on what could have been, but I think under the current circumstance, I personally, wish well, obviously a U.S. delegation to make their cases clearly possible to the Chinese leaders.

But I think, even from that on, I hope the Trump administration to consider the continuing relevance of collective demand on our Chinese friends. I think along with North Korean issues, but still there are a lot of rooms that the U.S., and EU, and TPP-11 countries to work together.

MS. SOLÍS: Thank you very much. And Minister Amari?

MR. AMARI: This is actually quite simple, it is to make sure that it's not one way, meaning that the capital information and technology, that are the sources of value added, these should flow both ways, not just one way.

Have you ever asked companies who are investing in China of the profits that they make in China, how much can they bring back to their own country? Now, their basic policy is that you're very welcome to earn money in China, but your profits stay here, you will reinvest.

So, what the world is doing basically is using capital, people and technology to make China more rich, so going forward, information is the very thing that will create the added value, and the information that are more relevant and in volume will be analyzed by artificial intelligence to create new solutions.

And so the information is really the source of added value, and the flow should never be one way around the world, and we should never create a system where information is flowing only one way.

So, the ambition of China is starting to move towards implementing Chinese rule to their sphere of influence. And they will resort to intervening to the domestic politics if those countries resisted to that rule.

In the last Party Congress they shifted their policy from not intervening into other countries' domestic policy, to intervening to the other countries' domestic policies should they carry out inappropriate domestic policies, they will give them advice and instructions.

So one of the tools they use is the Economic Statecraft. What it is, is that China would create economic dependency on their partner country, and if that particular country would go against Chinese will in terms of their direction, then they will impose economic sanction on the country, so that they are forced to follow the rules.

For example, Philippines went against the issue regarding the South China Sea against China, so as a result their banana, one of their exports towards China, was stopped at the customs, and they were -- and they stayed there until they rotted. And all the damage was on Philippines.

Another example is Mongolia where they used to accept the visit from Dalai Lama, China decided to cut the economic support to the country, and Mongolia was forced to change their policy.

So, Economic Statecraft, again is to create economic dependency in different countries, and if they do not act accordingly, then they will cut off the economic support to those countries.

MS. SOLÍS: Thank you, Minister Amari. Minister Gemba, or Ryan, do you have any comments?

MR. GEMBA: So, regarding the Belt and Road Initiative, we talked about, it's economy, and we also talked about digital infrastructure in China. One thing we need to also think about, of course Mr. Kuroshima is probably more of an expert in this area, but it's about, China is building military ports around the world. Examples are, Myanmar, and Sri Lanka, Pakistan and Djibouti.

As you recall, in the international court, China is changing the status quo or landfill was denied -- their right was denied, and the fact that China does not -- a Nine-Dot Line was denied, the fact that China does not accept the rule of law, would have to be considered, reconsidered again by the whole world, as well as by the U.S.

And that is all the more reason for Japan and the U.S. to work together and think about how we can include China into the world that is more open for everybody, and one of such

framework is TPP, also because the WTO is not working very well currently.

The Commissioner of WTO is Japanese person, but because of the lack of, or shortage of members of the Committee, WTO meetings, itself, cannot be held right now, and actually that is blocked by the U.S. for the moment, so the U.S. has partial responsibility for WTO not working too well, so I would like to call out to U.S. to do better on this issue.

Again, I would like to call out to the Trump administration just -- not to just look at the upcoming midterm election, but to think more in the longer term regarding the national strategy, to become, once again, the leader that led the global society, and to be part of the countries that will form the global rule.

MS. SOLÍS: Thank you very much. Ryan, do you have any comments?

MR. HASS: Sure. I think this has already been a very rich discussion, and I will just add two thoughts to what has already been said. The first is that for all the reasons I tried to outline at first, I think that it is a futile exercise to try to stop or obstruct the Belt and Road Initiative. It is going to happen. And the question in my mind isn't whether it's going to happen or not, it's how do we shift the conversation from a contest, a great power contest to a race to the top.

In other words, make the focus on establishing competition so that the recipient countries have more than one options, and don't end up trapped in debt equity swaps, but are able to find a better path forward that serves their long-term interests.

And then that leads me to my second thought which is conceptual. I think that the focus of our efforts needs to be on finding ways to create a more dense and integrated trade and investment framework in Asia. So, that there is less space for any one country to isolate countries and dictate terms to them, the more that we do so, and I think that TPP is the vehicle for doing so, the better both the United States and Japan will be, strategically, in the long term.

And my final thought. I'm very confident that the United States will join TPP, I just can't tell you when. (Laughter) I think that Ambassador Amari and Minister Gemba have made a very persuasive case, and over time I think it will be carry the day here.

MS. SOLÍS: So, good American optimism. We can use a lot of that. So, let me bring

the audience. You have been very patient. I had many questions. I want to talk about aluminum and steel tariffs; I want to talk about the (inaudible) Lightizer dialogue. But I have to save that time, because it's time for all of you to articulate your questions.

If you can, please, raise your hand, and the microphone will come to you. Identify yourself, very, very concise, and I'll two questions at a time, because we have just a few minutes left. So, I have two gentlemen on this side in the front row, and the fourth row.

QUESTIONER: Hi. Jessie Wu, a leading consulting, or a privacy consulting firm. Given the focus on digital economies and, you know, digital integration, I'm curious what the Japanese government's perspective on the APEC Cross Border Privacy Rules are, it seems like by facilitating information flows, and data interoperability, that might be seen as a kind of counter to the Chinese information practices.

MS. SOLÍS: Thank you very much. And then the gentleman --

QUESTIONER: Thank you very much. My name is Neil A. Ford, and I'm a retired Foreign Service officer from the U.S. Department of State. During the period 1993/97, I served in the State Department's Office for Asia-Pacific Economic Cooperation, APEC, and I witnessed a very successful, in my humble opinion, a very successful partnership, whereby Japan and the U.S. co-chaired APEC; and numerous working meetings, numerous papers, and so forth.

I wonder if this could be strengthened, revitalized, whatever the right word is. In other words, could we have some bold multilateralism here? It was always, it began, as people may know, in 1989, with a political objective of maintaining the presence of U.S. and Australia in Asia in the face of ASEAN and China.

But it had a very real trade, so very real trade negotiations of difficult challenges including, most notably but not only, agriculture. So, I'll just throw that and I wonder there's anyone interested in that. Thank you.

MS. SOLÍS: Thank you very much. So, interestingly both questions on the potential using APEC as another platform to pursue an economic dialogue that addresses digital issues and also other market opening exercises. Do you have any views on the potential of APEC?

MR. GEMBA: TPP originally came from APEC, right? Yes, revitalizing APEC might be one thing, one message, but would that create something new at this point? I think at this point the U.S. joining TPP will be even much simpler. And it goes further where we have this high-standard rule, and if we can incorporate China into these central rules, then they will be, sort of, forced to be in - - be a part of this open rule setup.

MS. SOLÍS: Thank you. Tanaka San?

MR. TANAKA: Well, the APEC is still a very useful regional framework, because it has so many countries around the Pacific. So, it has a certain role, but as Minister Gemba mentioned, at this particular moment, for the sake of creating a better international rules, relevant to the current date, probably we need much higher standards, that not all APEC countries could easily agree, including China.

So, I think, as I agree with Mr. Gemba, the best thing is for the U.S. to rejoin TPP, and then maybe more broadly, if I (inaudible) exclude beyond APEC, to include India and ASEAN countries -- India and others, we may think of a much broader framework.

But a much broader framework and, again, at best be created by extending TPP. And sorry to say, you know, the same thing repeatedly but, you know, the best thing is for the U.S. to rejoin TPP.

MS. SOLÍS: Your message is very clear. We have time for one more question, okay, here.

QUESTIONER: Thank you very much. I'm Noel Arema, staff writer, for the Asia Tribune. When President Trump told his senior (inaudible), Mr. Lightizer to look into the possibility of rejoining the TPP, I think that April, some saw that as a move to ratchet up the pressure on China, and that are -- I think in a press conference prior to the Japan-U.S. Summit Meeting, Mr. Kudlow denied the link between the U.S.-China trade dispute, and the TPP, and he said he doesn't -- the U.S. administration doesn't need the TPP to expedite to solve the U.S.-China dispute.

So, my question is, to what extent do you think the Trump administration really factors in the ongoing trade discussion with China, when making their strategy toward the TPP?

MS. SOLÍS: If I can take a shot at answering that. I think that a lot of what is driving that conversation and why that issue comes to the person's mind, is actually more domestic politics oriented. You have to take into account that that comment was made in addressing the concerns of farmers, who were very worried about losing access to the Chinese market, because they could be retaliatory tariffs.

Farmers, agricultural producers are also very worried about the fate of the NAFTA Agreement, and they are also very concerned about the possibility that they will not have the best terms of access to the Japanese market, now that the United States is not in TPP.

But I think that it's also very important to be realistic, it's important to be optimistic, but also realistic, the President shut the door very quickly with a tweet just a few hours later, and I think that there's a concern that as long as he is mostly thinking about bilateral trade deficits, he may lose on the possibility of rule creation, and making sure the American producers enjoy the best terms of access in overseas markets.

So, with that, I think we have to come to an end. So, if you can please join me in thanking our excellent panelists this morning. (Applause)

\* \* \* \* \*

## 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.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020