

DEBATE

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

Before I open up the floor, I would like to give two or three minutes to allow for an immediate response to any issues that were raised during the presentations of our colleagues.

Jia QINGGUO, Dean of the School of International Studies of Peking University

I thought that after five presentations on economic issues, the China-US relationship was forgotten. The question posed by Ambassador Park is about military conflict. I said that military conflict between China and the United States is unlikely. His question is about whether I am referring to the short term or long term. I think it is both. In the short term, it is probably more likely than before, because of the narrowing gap between political, economic and military capabilities. Quite a number of Americans are more focused on the threat posed by the so-called rising China. They present the situation in terms of the 'two cities' trap.

Also, during this period of time, China is in a process of transition, in terms of identities and interests. Now China is both a developing country and a developed country, both a rich country and a poor country, both a weak country and a strong country and both an ordinary country and an emerging superpower. Identity defines interests, so China has two sets of identities at the same time on many issues. It is very difficult for China to define its interests and to behave in a consistent and coherent way on various kinds of issues. You see China defending the right of developing countries to develop regarding climate issues and at the same time, China has made a lot of efforts to cut emissions at home. They are not compatible.

China is finding it difficult to define its interests and to behave in a consistent way during this period. This creates a lot of uncertainties for other countries, especially the US, who want to know exactly what China is up to. However, it is precisely the time when the Chinese do not know themselves, so that creates a lot of uncertainties. However, for the reasons I talked about earlier, the two countries are still unlikely to have a military confrontation.

Finally, in the long run, the chance for military confrontation will probably become even smaller if the current direction of change in China continues. China is more likely to become a developed country and to become a richer country. It is more likely to become a strong country and a superpower, so it is more likely to become another United States. They will have greater stakes and fewer incentives to resolve their differences and problems in a military way.

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

Professor, I hope you can give some answers to his points.

Zhang YUNLING, Professor of International Economics, Academy Member and Director of International Studies, Chinese Academy of Social Science (CASS)

China has a role in this multilateral system. If we consider this development grant, the DDA, that is the basic problem, of how to address this development grant. The US has now lost its interests, so how do we renew them? The big question is still about how to bring all the members together, from developed and developing countries. That is a big challenge. The TPP cannot cover all these kinds of issues. The failure of DDA is not because of China. We all understand that China is still very active. We have to readdress these basic issues, which China should be very interested in. It will be more interested in this multilateral agreement than a regional one, though regional agreement continues to be important.



Regarding China's role in this trilateral CJK or RCEP, there is now a chance for China. As I mentioned, in the past, China's central party decided to quicken the process of comprehensive liberalisation. This is very good news for the negotiators. I tried to push very hard to let them be more active in negotiations and to play a role. This would not be a leading role, but at least it would be more active and deliver higher standards, not very high standards, but higher standards. Now the negotiators will give more freedom to negotiate at a higher level. RCEP and CJK will make it easier.

Concerning TPP, even though the US invited China to join, I do not think it is capable, so we still need a long time to see how it will work. I do not think TPP is the one model that could fit for all Asia Pacific members. Ideally, TPP would go ahead, RCEP would go ahead and we would find a FTAAP to cover different kinds of frameworks. Like TPP, these allow the existing agreements to continue to play the role. These are ideal.

There was a strategic study led by China and the US, who jointly led the study, but many of my American friends told me this. The US's key interest for the future is to promote this TPP rather than FTAAP, at least in the near future. China's likelihood of joining TPP is uncertain. It will join the bilateral one, the bilateral investment treaty (BIT), and this will hopefully be followed by a bilateral free trade agreement, but it is not easy and it is very difficult. It is possible that we will consider it, but there is a high level of division in China regarding whether it should join or not.

Concerning Yi Dai Yi Lu, it is an open framework and under this open framework, you can innovate a lot of things. For instance, China called on all the Yi Dai Yi Lu political leaders' meeting in Beijing. Without this framework, you cannot call all these political party leaders to gather in Beijing to discuss this cooperation. I remember last week I was in Hunan, to call for a cooperation meeting between ASEAN under this Yi Dai Yi Lu. You can do a lot of things with this framework. They have already organised meetings for tourism ministers and telecommunications ministers. It is possible that if you have a tourist arrangement, you can make some kind of Schengen arrangement, with voluntary participation, to make tourism easier. There is also transportation. In China, we have a green card road for agricultural products.

Many things are quite open for the future. That is why, as you mentioned, we have no specific project design. Everything is open to find a way to do it. This is not so new for China, as I said, because on the one hand, it is very useful. For instance, I mentioned China and Russia. We did not have any bridge between them, but with this Yi Dai Yi Lu, there are now four bridges under construction along the river. You have a framework which can encourage people to do it.

China and ASEAN have the PCIM and I am working with the official expert group, though it is not easy. It already exists and PCIM was discussed for more than 10 years. Many things surround these initiatives and Yi Dai Yi Lu is trying to bring together all these different project ideas together and create an integrated network, especially for infrastructure. AIIB is not just for the Yi Dai Yi Lu and it is only partial, but AIIB is broader. We need to finance them together, because as Mr Park said, money is very limited. It is open for cooperation with the World Bank, the Asian Development Bank (ADB) and any other financial institutions. We must mobilise resources under this cooperative umbrella and we must find a way.

Yi Dai Yi Lu has two dimensions. One is participation and supporting domestic projects, like a railway from Jakarta to another city. It is not an integrated agenda, but there is another big one, which is integrated cross-country networks. There is still an open agenda for more discussions and innovations. It is highly necessary to integrate this big region, based on a better environment for development. That is the idea. There are no hidden projects within the pockets of leaders being picked up, but this needs a long time. I described it to one correspondent who interviewed me as a project lasting 100 years, which is a very long time. People say that Xi Jinping was in power for 10 years and what happened after 10 years. I said it was probably under a different name, but the content is the same. This vast region needs cooperation.

Thierry SORET, Focal point and policy advisor at UNDP

My name is Thierry Soret and I am from the United Nations, and among other things, I am the UN Sous Sherpa in the G20. Let me tell you that I am a little bit surprised, to say the least, that none of our distinguished panellists addressed



the G20 Presidency next year. This is quite interesting to look into, in order to see how China considers its role and positioning in the world economy for next year. Time is running out, but I can give you an insight into the G20 agenda for next year as it was presented by President Xi Jinping last week in Antalya. If you want me to give you an insight on this, I can do it, but I want to keep the floor open for the discussion.

It is interesting to explore how China is considering its role. For instance, I will just say, regarding the US Chinese relationship, that the G20 Summit is scheduled for early September next year in Hangzhou, not in November as usual. Why? The main reason is that the Chinese Presidency does not want to have to deal with a lame duck President of the US, so they want to have Obama in his full responsibility. Shall I continue, or shall I give you insights, as you wish?

Sergei KARAGANOV, Honorary Chairman of the Presidium of the non-governmental Council on Foreign and Defense Policy, Russia

First of all, I want to congratulate the Chair and the panel. It was one of the most interesting panels I have ever participated in, it was very well prepared and provided a lot of thought. I have three small additions. My name is Sergei Karaganov and I am from Russia. First of all, my Chinese friends, however you try to change your image, please understand this. By some of my calculations, during the next 10 years, you will become the most powerful country in the world and nobody would like that. This is not just because you will exceed the United States in your GNP and military capacity. It is because due to the nature of the political system, you can use your resources much more effectively, and everybody knows that.

That means you will be a country with a similar GNP. The soft power of China is comparable on traditional terms with that of America. However, you must take into consideration the ability of China to give away money. Your soft power is growing like mad and you will exceed the soft power of any country in the world if you are able to subsidise or invest like you are planning to invest. You have to live with this situation.

Second, I want to add to the whole debate about the Silk Road. Russia was very suspicious, but then we decided to pair it with our grand project. Thank God Putin and Xi Jinping found a possibility to pair the two projects in a Eurasian Union, through small projects, under One Belt, One Road. Russia would produce more security while China would produce more financial resources. In our thinking, that project offers a key possibility of building a new pan-Eurasian market and a pan-Eurasian economic and political community, including Europe. Europe is now in a multiple crisis and it is divided. The problems within Europe are insoluble, but a pan-Eurasian vision for Europe could be one way out of its problems. This is true for Russia too, and we will play a more proactive role.

The One Belt, One Road project provides a fantastic opportunity for Russia's inner regions. We have a few of the most developed areas in Russia, including Southern, Central and South Western Siberia. They have the best human and intellectual capital and relatively good industrial capital, but they are cut out of the markets, because they are too far away from them. The idea produced by the Chinese would provide the logistical framework for the growth of Siberia, which is not just in the Far East. We will fully supporting it, and there is a growing understanding that we should help in any way we can.

Lastly, we should explore the possibility of having the Shanghai Cooperation Organisation as a coordinating body for this kind of growth project, in cooperation with the European Union. The Eurasian Union cooperation would not work without it, but we should think about the Shanghai Cooperation Organisation (SCO). Regarding SCO, if we and the Chinese understand correctly, it has a great capacity. Previously, it was blocked from development for very simple reasons.

The Chinese were pushing for more economic emphasis, while Russia was pushing for more security emphasis. Now we have decided politically that we are pairing, more or less. The competition is not competition and it is not zero plus, it is plus plus. Here, we should develop SCO as much as possible, all the more so because it would provide a very useful balancing mechanism for the might of China. Germany, under the intellectual guidance of Karl Kaiser and Chancellor Kohl, merged itself into a larger project in order not to become too strong. Now it has become too strong again. China should find a way to do the same, one way or another.



Narendra TANEJA, Chairman, Energy Security Group of the Federation of Indian Chambers of Commerce and Industry (FICCI)

I do not intend to cast any doubt or suspicion, but my question is addressed to the Chinese speakers. I am just trying to understand this One Belt, One Road concept. Is that the idea or the project, depending on what you call it? I do not know, because I am no expert on China, but some people say it is a grand plan aimed at consolidation of power within the Communist Party by the Chinese President, and that is the main goal. The main goal is not in 100 years, 50 years or 20 years. As soon as he is able to achieve that objective, then the whole thing may go the way it might go. We do not know. These are the rumours that we keep hearing. I would like to ask the Chinese speakers what is the issue, if that is not you?

Secondly, I have looked at many projects worldwide, launched by different countries. You sometimes get the impression that One Belt, One Road is something that was launched by the United Nations. It is aimed at different countries and is a new instrument for international cooperation, in Asia in particular but beyond Asia as well. Nobody consulted on that matter with major stakeholders in Asia before it was launched.

One of the first projects, probably the first project launched under One Belt, One Road, was when the Chinese President travelled to Pakistan. He announced a USD 48 billion project and different things, but out of that, about USD 27 billion was for energy. That is to build evacuation and transportation of energy in both ways. Then you wonder. You did not discuss that or inform the major players in the region.

You just came in and announced that out of that, 60-70% would go into the strategic pipeline. Why would you not build that pipeline in India? We will be happy to do that. Bring that oil from the Middle East to India and that actually makes much more sense, because it will go straight to Southern China and beyond. We already have infrastructure in place. You would not have to go through difficult areas like Baluchistan, where there is already resistance to this project, as you know. I am not raising any suspicions, but I am just trying to point to the realities of what is going on.

I wonder what exactly this is and how serious you are in terms of realising it in 10 years, 100 years or 100 years. We do not know. At the same time, as part of the same question, can you bring about success to such a grand strategy and plan? This is mainly through Chinese state enterprises, where there is a lack of transparency. Even big newspapers like the *Financial Times* run headlines saying you cannot trust Chinese data and so on and so forth. This is without changing and reforming them first, or bringing in transparency. This is the transparency that people outside China can also consider to be transparency. There is also the data they can trust and the way state enterprises are run.

I have another small point for my friend from Korea. You talked about China building bridges with other parts of the world, such as the GCC. In my view, having been in China and most parts of Asia, there is nothing like Asia. There is not one Asia, but there are many Asias. We should never get into this thing. There is a united Europe and a United States, but if we look at Asia as one entity, what is common between Yemen and North Korea? What is common between Israel and Vietnam for that matter? There is not one Asia.

It is important that we talk more in terms of our own interests and what is most important in order to ensure that the Asia of tomorrow is multipolar. You have a big role. If there is a unified Korea, it has a big role, and Japan, India and Vietnam have a big role. China of course has a big role and Kazakhstan hopefully also has a significant role. If we can ensure a multipolar Asia, only then will we be able to ensure healthy, strong, sustainable economic cooperation between major Asian countries, including China. These are just my personal observations. I do not have any reasons, I am just a student of China in this sense and I am trying to learn. I will be very happy to have a response from my Chinese friends.

Yusuf Ziya IRBEC, Former Member of the Turkish Parliament

I am Yusuf Ziya Irbec from Turkey. I have two principal questions. First of all, there is an indication that the centre of world trade is shifting towards the East, because of the population distribution in the world. However, there is also a need for cooperation worldwide. There are three alternatives spoken about concerning the Silk Road and which one is



especially preferred by China. For example, you may prefer to include Central Asia and Turkey will become one of the partners in facilitating the passage to Europe. You may prefer a more Nordic line as a solution, or a South stream as another solution. This is one.

The second one is that foreign investment and capital flow is coming to another stage. Debt in emerging markets has risen from 150% of GDP in 2009 to 195% today. There is a big increase in debt in emerging markets. Corporate debt has surged from less than 50% of GDP in 2008 to almost 75% now. Concerning China, China's debt to GDP ratio has risen by nearly 50 percentage points in the past four years. Slower growth in China can cause a problem now.

We know that your current account surplus is enormous and your foreign exchange reserves stood at 3.5 trillion in October of this year. This is three times as much as your external debt and this is clear. However, your internal debt, the debt of the firms in China, is creating some problems. Could you comment in that respect? There is an expectation now that if there is a crisis in China, there will be a spillover effect in Africa or in other parts of the world. How could you take new measures in order to balance the system? I will be very happy if I can hear some comments from you in that respect.

Karl KAISER, Director emeritus of the German Council on Foreign Relations, Harvard University

I am Karl Kaiser from Harvard University. I have a quick comment and a question for Professor Jia. I fully share your view about the potential for cooperation between the United States and Europe and I also agree with what Richard Cooper added to that. You are quite right to say that nuclear powers do not go to war with each other. However, keep in mind that nuclear powers have had conflicts, not directly but indirectly. The thing to watch is not to fall into that trap and to have proxy wars or conflicts in an indirect way.

My question is a different one and it relates to fighting terrorism. If you look at the events of Paris and Mali now, China has lots of personnel in Africa. How do you view the cooperation between China and other Western powers in this context, in particular Russia? President Hollande is going to Washington and Moscow, and in his great speech in Versailles, he said he would ask the United Nations for an endorsement of a common policy. It probably means that he will ask the Security Council to endorse some kind of legitimization to act under Chapter Seven. Where will China stand when it comes to acting, if necessary, by means of military action?

Yukio OKAMOTO, Founder and President of Okamoto Associates, Inc., former Special Advisor to the Prime Minister of Japan

I have a question for Professor Jia about an issue we have not touched upon. That is the Chinese generational change and what it may bring. 10 years from now, what kind of shape and posture will China be in? Maybe this is Western jargon, but we like to classify Chinese leaders as fifth or sixth generation. We mean sixth-generation people like Mr Hushun Froi, Mr Sung Jung Zai and these people

You have shown an amazing compliance in observing international rules and that is a major source of relief. Still, given the peculiar relationship between Japan and China, we may have to wait for another 10-20 years before we come to a real reconciliation. In that sense, we are very interested in whether there will be a generational change. In 2022, the 20th Party Congress will be coming. Mr Xi Jinping, Mr Yuku Jan and all these people will retire, to be replaced by the so-called sixth generation.

As early as the next Party Congress of 2017, the bulk of Central Committee members, 200 members, will change to a younger generation. What kind of people are they? Since their educational background is different from that of their predecessors, they will take a much more market-oriented attitude? In terms of political inclination, will they be more positive in coming to strike a rapprochement? This is with not only Japan but with South East Asian countries over the South China Sea and so forth. Can we hope for a better relationship when there is a change in generations? I just want to know, without expressing my view.



YIM Sung-Joon, Senior Advisor at Lee International IP & Law Group, former President of the Korea Foundation

I heard quite optimistic views from the panellists about the issue of future relationship between the United States and China. Even the US panellist thinks there is much more room for cooperation than conflict. In Korea now, we have quite a strong foreign policy debate on the future relationship between the United States and China. Korea is a small country between China and the United States. Sometimes we have been compared to a shrimp between two whales, but some people say that Korea is not a shrimp, but a dolphin, at least these days.

If the future relationship between China and the United States deteriorates, the greatest victim will be Korea. This is in terms of the resolution of North Korean issues and the future reunification of the two Koreas. We would like to see more signs of cooperation between the two countries, rather than conflict or pursuit of hegemony in this region. I would like to put a question to Professor Cooper. I still think there should be some divisions in thinking regarding how the United States deals with China. You will have the Presidential elections next year. Is there any possibility that your China policy could be an issue in the Presidential elections next year?

Richard COOPER, Professor of International Economics at Harvard University

I would not be surprised to hear some remarks in the campaign about China, which will probably be adverse to China and in favour of getting tough with China. However, unless we have more dramatic events internationally, the campaign will be run overwhelmingly on US domestic issues and not on foreign policy issues. No matter who the Republican candidate is, you will probably get some negative remarks about China.

We got this from George W Bush, who actually spent some time in China in his youth, when his father was at the legation there. However, we had an incident one month into his Presidency which sobered him up very quickly on the question of China. George Bush's policy on China ended up being respectable. I would not be surprised to see the same dynamic in the future. If the Democratic candidate is Hillary, she has much more experience in dealing with China and is less likely to say stupid things.

Qiao YIDE, Vice President & Secretary General, Shanghai Development Research Foundation

I will start by answering the question regarding the debt issue. Generally, the debt ratio in China is not very serious, in terms of national and local government. However, for the corp debt, it did have a problem, because the ratio of business or corp debt is a problem. This is particularly if you look at another issue, which is overcapacity. This will give some kind of linkage to the high debt ratio of corp. That will create some risk for the Chinese Government to deal with and I guess the Chinese Government recognises that and may shut down some overcapacity. That is the way to do that.

However, there is one factor I wanted to point out. Every two or three years, there is always something that attracts the attention of the world. If you look back three or four years, people always said there was a big problem in local debt. Do you remember? Everybody said that the Chinese economy would collapse due to the local debt, but actually, it did not happen. Two years ago, people said that shadow banking in China was a serious issue and the Chinese economy would collapse, but that did not happen. The reason is that the definition of shadow banking in Western countries is totally different from that of China. In China, we do not have a lot of derivatives, which is the cause of shadow banking in developing countries. That is the big difference. The same thing is true for business debt in China. It is a problem, but it can be overcome, and that is my judgment.

Regarding the question you raised, I will give a quick answer. Regarding the renminbi, the reserve currency, it is very likely that in one week, there will be an official announcement from the IMF. This is that the renminbi will be encoded in the Special Drawing Rights (SDR) basket. Even so, there is a long way to go for the renminbi to become a real and relevant currency. As you pointed out, one condition for that is a flexible exchange rate.

Interestingly, after the turmoil in the stock market and after the 11 August exchange rate reforms, there was a debate in China about what the Government should do. Should we immediately go to the floating rate or wait for a while? There



is a debate. Interestingly, if we go to the floating rate now, renminbi will greatly depreciate. This is not necessary for a good global economy. In the [inaudible], a former Governor of the Fed, Donald Kohn, was reluctant to support an immediate floating rate. He said it would cause damage to a growing economy. The IMF suggests that China should introduce a floating rate in two or three years. Personally, I tend to agree with their judgment.

Now, the Chinese capital market is still very limited and is vulnerable to falling. As you pointed out, it is only at 3%. It is very interesting that the Chinese Government is also taking the gradualist approach. We are using the QFII, the Qualified Foreign Financial Institutions Investment. This gives us some quotas for foreign qualifying institutions to make investments in Chinese stock. We also have a Shanghai Hong Kong connection. We laid down a plan for Shenzhen and Hong Kong stock. We have done a feasibility study between the lenders in Shanghai. They wanted to open it, but gradually, using a sum scale to assert some control.

It is the same thing for capital flow. They are trying to open it gradually. In particular, you may have heard of the Shanghai free trade zone. They just issued a new measurement and wanted to experiment on capital accounts, but I do not want to go into too much detail on that. Generally, I tried to say that the Chinese Government are still determined to continue carrying out financial reform, even if something happens in June or August.

BARK Taeho, Professor at Seoul National University, former Minister for Trade, Republic of Korea

I will answer briefly on the question raised about one Asia. Asia Europe Meeting (ASEM) has specific Asian members. Regional Comprehensive Economic Partnership (RCEP) also has specific members. I am not talking just about Asia, but those countries which are participating in some kind of grouping or who are in communication with Europe. That is how I define those kinds of partners.

There is one thing before I close my remarks. If you go to TPP, for certain items like the automobile area, the US has a 2.5% tariff. They agreed in the TPP that they would dismantle this 2.5% tariff over 20-30 years. I have never seen such a longer period of tariff elimination for high level FTAs. I am saying that for some areas of TPP, it is not that high level either. Maybe through RCEP and others, China will achieve an FTAAP in the end. Maybe China can consider joining the TPP, not now, but later on, as another option.

Jia QINGGUO, Dean of the School of International Studies of Peking University

On the question of whether China will do more in terms of fighting terrorism, it certainly will. The Chinese are increasingly facing the terrorist threat, not only within China, but outside China. Last week, we saw a Chinese freelance journalist executed by ISIS and yesterday or the day before, three Chinese people were killed in Mali. Terrorism is posing a serious threat, not only to people in the Western Provinces of China, but also outside China. More and more Chinese people are overseas, doing all kinds of things, like sightseeing, investment or studying. The Chinese Government, in reaction to the Paris terrorist attacks, issued very strong statements. Together with other members of the UN Security Council, China voted on a resolution to authorise attacks against terrorism. This will go beyond logistical support. It will probably lead to military actions in this regard. That is what I believe this will involve in the days to come.

On the question of the future generations of leaders, I do not know what they will do at this stage. However, if you look at what kind of people are likely to succeed, you will find that the future generations will be better educated, with more overseas exposure. They will be more familiar with the discourse of the developed countries over various aspects of global governance, as well as domestic governance. I do not know, but I think these will influence their behaviour on foreign policy.

Finally, I will answer the question with regard to the One Belt, One Road and the Chinese Communist Party's leadership. If One Belt, One Road is successful, it will certainly boost the legitimacy and leadership of the Communist Party. The Communist Party is positioned in a way that if China is performing well, the Communist Party will become more legitimate. There is nothing surprising. The Chinese Communist Party wants to make China more prosperous and stronger in order to sustain its rule. This is okay as far as the Chinese people are concerned, but over the years, you are also seeing a changing way of governing China on the part of the Communist Party.



BARK Taeho, Professor at Seoul National University, former Minister for Trade, Republic of Korea

I mentioned the President, not the party. I said it was the President.

Jia QINGGUO, Dean of the School of International Studies of Peking University

This is the President of the Communist Party. If he is fine, then the Communist Party is fine and the country is fine. This is a structural thing and you cannot separate them.

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

I will give you time if you have anything to say on the next G20? As far as I know, the Sherpas did not agree on the official agenda for the G20, but if you have anything to add, I will give you some time.

Richard COOPER, Professor of International Economics at Harvard University

If you have an official agenda, why do you not send it around by email? I would love to see it.

Thierry SORET, Focal point and policy advisor at UNDP

Officially, there is not yet an agenda. It is being presented by China before its counterparts at the Antalya Summit. It sets out four priorities, four Is, and four clusters of issues. Trade and investment is one of them and digital economy is a key issue that China wants to address. From a UN standpoint, it is really important that they want to align the G20 agenda with the 2030 Sustainable Development Agenda. This is very important, given that it is a universal agenda that applies to every country, regardless of their level of development.

Richard COOPER, Professor of International Economics at Harvard University

It covers every subject, with no priorities at all.

Thierry SORET, Focal point and policy advisor at UNDP

However, it is not the G20. The G20 is an economic grouping focusing on economic cooperation, so the economic dimension of SDGs will be addressed in a way by the G20. That is very good news.

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

I will just pick up three words. These are harmony between short-term and long-term policies and between different systems. There is transparency and cooperation, with expectation of making further room. I will give some of my personal ideas. It would be very good if China were a member of the TPP and the US were a member of the AIIB.