



## IN-KOOK PARK

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Good morning. I am In-kook Park, President of Korea Foundation for Advanced Studies. I chaired a session on China and East Asia. The panelists include two Chinese, two Americans, one Japanese, one European, and one Korean. They are Prof. Bark Taeho, former Trade Minister of South Korea; Prof. Richard Cooper from Harvard University; Michel Foucher who served as the Policy Planning Staff of the French Foreign Ministry; Prof. Jia Qingguo from Peking University; Qiao Yide, Vice President of Shanghai Development Research Foundation; Prof. Yuichi Hosoya from Keio University; Douglas Paal, Vice President of Carnegie Endowment for International Peace.

We had discussion on China's international situation during the last one year. WPC had its first session on China last year, so we tried to check what evolved during the last year in both political and economic areas. And in the wake of the US election, we tried to shed light on Sino-American relationship and current situation of the TPP. We also covered China's New Silk Road initiative, NK nuke issue and Sino-Japan relationship, and current Taiwan issue.

First, political issues. The sixth plenum communiqué of the CCP in last October specified Pres. Xi as the 'core' of party leadership. Our debate centered on the implication of core status and the future of China's politics, especially the future of Chinese party leadership system. Remaining question is how the collective leadership will change or evolve in the 19<sup>th</sup> Party Congress.

- One scholar observed that Pres. Xi's leadership is being strengthened. Being 'core' means having more influence. It means that Xi has the final say, instead of just one vote among the seven Standing Committee members.

Second, economic issue. During last November's fifth plenum of the CCP, Pres. Xi mentioned that China's annual growth rate should be no less than 6.5%. Fortunately, during the last three quarters China achieved 6.7% GDP growth.

- One Chinese scholar explained that Chinese economy's structural transition from export oriented economy to domestic consumption-led economy has already begun to manifest. Consumption's contribution to GDP during the last three quarters reached as high as 71%, 13.3% increase from last year. Service industry's contribution to GDP was 57.4% in 2015. Innovation-driven economy is also growing. But there remain many challenges: how to deepen structural reform; how to prevent accumulation of financial risks; how to carry internationalization of RMB while keeping exchange rate and capital flow less fluctuated.
- One panelist pointed out that household consumption in China cannot be as high as 71% of GDP. He argued that that figure includes public consumption, such as healthcare, pension, and education.
- Regarding this point, the Chinese panelist countered that household consumption accounts for about 40%, and admitted that it will take time for China's private consumption to increase.
- One audience commented that to have a real boost in consumption, liberalization of credit is needed, which would mean losing power for CCP, as credit is their instrument of policy.
- RMB entered IMF SDR basket last October. But while China's share of global trade is 16%, actual transaction in RMB is little more than 1%. To make RMB more internationalized, it was suggested that China should go through further domestic financial reform liberalization and have more openness in domestic market. Internatio



nal community is concerned about when the reform will start in earnest.

Next, Sino-American relationship. At this moment, the future of Sino-American relations is uncertain and unpredictable especially in the wake of Donald Trump's election. Panelists agreed on the fact that Paris environment agreement (COP21) was a monumental achievement which was achieved through the collaboration between the US and China. But Mr. Trump has implied that the U.S. could withdraw from the Paris agreement.

- One panelist thought that Mr. Trump would not try to withdraw from it, but just ignore it.

President-elect Trump has disavowed his previous remarks on several key international issues.

- Even though President-elect Trump said many harsh things about trade with foreign countries, especially China, including designating China as "currency manipulator" which got much support during the campaign. One U.S. panelist pointed out that the issue is not new, more than 10 years old, and not much relevant in the present time. His other declarations, such as imposing high tariffs or withdrawing from the WTO, will not be easy to implement because China is protected by its membership in the WTO and possible fierce resistance from his own Republican party.
- It was mentioned that there are some points where Trump's policy will be favorable to China. First, as TPP is sometimes seen as anti-China coalition of agreement, Trump's assertion to throw off TPP might work favorably for China. Second, if the U.S. decides to nullify NAFTA, it will benefit China by making Mexican goods less competitive.

President-elect Trump's implication of the possibility of Korea and Japan's going nuclear. Despite his recent denials, there has been some residual concern of cascade or chain reaction of going nuclear in Northeast Asia.

- One audience asked if Mr. Trump will try different approach to North Korea. An American panelist gave a past example: Pres. Carter, who was elected in 1976, had promised to end the alliance with ROK because of human rights violations during Pres. Park Jeong-hee. But then-Assistant Secretary of State Mr. Holbrooke persuaded Pres. Carter not to withdraw U.S. troops from South Korea. Similarly, the panelist noted, this coming administration will also be briefed by competent foreign policy experts, which will help Mr. Trump to have a more balanced view.

On the South China Sea issue. Last July, Permanent Court of Arbitration gave one side victory to Philippines. As a result, the 9-dash-line, or U-shaped-line's legal base was seriously challenged. Philippine's Pres. Duterte announced 'separation' from the US and new special relationship with China. Moderator raised a question: After Duterte's assertion, will other ASEAN neighbors follow suit?

- One panelist thought that for now the tension in the South China Sea seems to be stabilizing.
- Another panelist perceived the South China Sea dispute as a contradiction between China's global and regional interests.
- On the question of why China is not specifying the 9-dash-line. One Chinese panel explained as follows: China has sovereignty over territories adjacent to it and EEZs according to UNCLOS, but Chinese government has never officially claimed that waters within the 9-dash-line belongs to China. He added that even though China has been pushed to clarify the 9-dash-line, the timing is not so good for China because Chinese people are still quite emotional about historical humiliation.
- To this, one panelist argued that Chinese government is actually feeding the public sentiment of humiliation by public education. He emphasized that education policy on history is also foreign policy.
- One (Indian) audience posed the question, "Which power in Asia has, either individually or collectively, strate

gic and economic power to stop Chinese expansionism?" To this, one Chinese panel answered that there is no ground for accusing China of having territorial expansionism. He argued that China's claim on the South China Sea has always been there ever since 1947, and that what Chinese government does today does not exceed anything claimed before.

On the TPP. Two weeks ago, Obama administration acknowledged that it has no way forward and virtually gave it up. Remaining question is, what is the future? Renegotiation? Or null and void?

- Since Mr. Trump declared the end of TPP, the prospect of its being resurrected is very low. But even if the U.S. changes its position and decides to participate in TPP, it may take quite a long time to finish renegotiations and/or internal ratification process. Against this backdrop, however, one panelist argued that China's role will figure more salient. China will be able to play a leading role in other regional trade negotiations such as RCEP, China-Japan-Korea FTA, FTAAP, or TTIP in the future.

Next issue is the New Silk Road Initiative and AIIB. This year China achieved great success in securing 100 billion dollars' pledge for the launching of the AIIB, including India and Russia as second and third largest participants. But the total amount accounts for only 1/10 of the budget needed for completion of the OBOR project. How will China bridge this gap?

- One panelist said that tensions between China and other players in the South China Sea complicated efforts to push forward the One Belt One Road initiative.
- Regarding top Trump adviser's comment that not joining AIIB was a strategic mistake of the Obama administration. One U.S. panelist agreed to the point. He specified ADB as a good example, which was created in 1960s to engage Japan in a wider world role, and it was very successful. He added that now the U.S. Congress has a Republican president, so there might be some hope that the Republicans will be more receptive to it if Trump decides to join the AIIB.
- Another panelist focused on the change in China's posture in the global context, from taking a low profile to a new normal of having more influence.
- It was also pointed out that the OBOR initiative will be key element of internationalization of RMB. But one hurdle exists. Which is security challenges. Many Central Asian and Middle East countries along the road of One Belt and One Road are politically unstable.

Next, North Korean nuclear issue. Our panelists are of the opinion that North Korean nuclear issue will be really a big headache in the years to come for the next US administration. This week, additional UN Security Council sanction resolution is expected to be adopted. Main focus will be closing the livelihood loophole, including the shipment of North Korean coal to China, given the fact that last year there was almost 60% increase of coal price.

- President-elect Trump has attributed the NK nuke problem to China's inaction, and said that solution will be all through China. He quote what he said, "China has control - absolute control - over North Korea. They don't say it, but they do. And they should make that problem disappear." China wouldn't fundamentally change its position of prioritizing peace and stability of the Korean peninsula over denuclearization. So the North Korean issue will be more complicated in the coming years.
- It was also pointed out that if nuclear freeze, instead of denuclearization, becomes the starting point for future negotiation with North Korea, North Korea might have a misunderstanding that it has virtually got a de-facto nuclear state status, which might trigger chain reaction of going nuclear in Northeast Asia.
- It was added that North Korea's missile program is also a very big concern that should not be disregarded.



On the Sino-Japanese relations. In the East China Sea, not the South China Sea, the tensions are still there, but both Pres. Xi and PM Abe managed to keep the flame low.

- One Japanese panelist viewed that even though Prime Minister Abe was often portrayed as a revisionist figure, but Japan under Mr. Abe managed to have stable Sino-Japanese relations through pragmatic approach. For example, during his 2006-2007 term, Mr. Abe played a key role in improving ties with China. After he entered office, he visited China before visiting the U.S. and also established “mutually beneficial relationship based on common strategic interest.”

Hong Kong and Taiwan issues:

Xi made a strong call for national unity on Nov 12 on the 150<sup>th</sup> anniversary of the birth of Sun Yat-sen: “We will never allow anyone, any organization, any party to split off any tract of territory from China any time, or in any way.”

- It was a general observation that the relationship became cold as Taiwan’s Pres. Tsai Ing-wen refused to recognize the ‘one China’ principle. But it hasn’t gone down the cliff because she was extremely cautious not to say provocative, politically unacceptable remarks.
- One panelist said that it might not be an immediate agenda, as it is going in slow motion. Pres. Tsai is capable of being close to what China wants, but not give all. Beijing is also restraining itself, as direct or overt pressure will encourage the voters in Taiwan to tilt more to independence. But after some time, Pres. Tsai will have to deal with disappointed voters who may demand more confrontational political action.

I have more things to say, but because of time constraint I will make a full stop here. Thank you.