

## HONG KONG'S PAST, PRESENT, AND FUTURE: A CONVERSATION WITH STEVE BARCLAY

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*[World Outlook] We'd love to hear about your role in the Hong Kong Economic and Trade Office and what the Hong Kong Economic and Trade Office is.*

[Steve Barclay] I'm the director of the Hong Kong Economic and Trade Office and my title is Deputy. As you probably know, Hong Kong is not a sovereign state. I've tried to say this only once during any interview. It is a special administrative region of the People's Republic of China and has been since the first of July 1997. As a non—sovereign entity, it doesn't have embassies and consulates. Instead, we have economic and trade offices. The title economic and trade office is a bit misleading because we do a lot more than economic and trade matters, we are the representative office of the Hong Kong government and we cover 31 eastern states in the U.S and as the representative and we represent the Hong Kong government and that mainly involves promoting awareness and understanding with Hong Kong, because quite frankly most people who don't have a Hong Kong connection have forgotten about us. In the 1980's and 1990's, when the future of Hong Kong was being negotiated and agonized about, Hong Kong was getting international media coverage that money couldn't buy. Not always for the reason the government wanted, but at least the world knew that we existed and that something was happening and it was part of China and that things were changing. But after 1997, the transition was a huge success and success doesn't normally generate much media interest, so apart from the occasional story in the business pages, Hong Kong does not receive much coverage generally.

So, most people don't know much about us and certainly in the last couple of year's interests internationally has picked up again because of issues on how to select our chief executive and so on as a reason. So we look after 31 states and now our dividing line is the state line between Texas and Louisiana and that state line conveniently goes more or less in a straight line up to Canada so our counterparts in San Francisco look after the rest. We're involved in generally promoting awareness, but in particular promoting the economic—business—trade investment relationship and also looking to try to get attention for Hong Kong generally with the broad public here. We do that through trying to get media attention and for that we sponsor arts events and activities, film festivals, dragon boat races, in New York and in Atlanta, in Boston, in Chicago in Atlanta and in Philadelphia. For example, recently we were getting involved in sponsoring Rugby Sevens competitions in New York. As I'm sure as you know Hong Kong is

home of the modern rugby sevens tournament and it's largely a result of the success of Hong Kong's rugby sevens tournament that developed the World Series Rugby Sevens Tournament which went on to help get rugby sevens into the Olympics for the first time in Rio this year. So we've been getting involved in rugby sevens here and as I'm sure you know the U.S got through to the finals of the Olympics in Rio.

*[WO] You mentioned earlier talking about Hong Kong and promoting it here. We'd love to hear more about what differentiates Hong Kong from a lot of the other neighboring states and city states in Southeast Asia. Singapore is in a similar situation with high tech and a focus on economic development. I'd love to hear your perspective on what makes Hong Kong different.*

[SB] What makes Hong Kong different is our heritage and what we've preserved of our heritage in the context of being part of the People's Republic of China. So in the late 70's early 80s, people in Hong Kong were getting very concerned with what was going to happen when the lease expired. The creation of what is now known as Hong Kong took place in 3 phases. In the first two phases, China ceded parts of its territory in perpetuity. The third phase was that China granted a lease in 1990 of some of its territory to Hong Kong and to Britain. The three together formed what we now know as Hong Kong.

That 1990 lease expired in 1997, so late 70s and early 80s, people were getting very concerned. Local people, businessmen, investors, and the international community were all very concerned because at that time China had not yet opened up to the world and it was very much a closed society as far as most westerners were concerned and was considered to be at that time a hardline communist society. In 1981 Britain Prime Minister Margaret Thatcher and the leader in China Deng Xiaoping agreed to initiate formal negotiations on the future of Hong Kong. Those negotiations took place from 1982 to 1984 and resulted in an agreement called the Sino—British Joint Declaration. That agreement in essence said that when the lease expires, all of the territory of Hong Kong, not just the leased area, the area ceded to the U.K in perpetuity, all of it would return to Chinese sovereignty and that China would be responsible for certain constitutional matters, for foreign affairs, and defense but beyond that, Hong Kong's preexisting way of life would be protected for 50 years after 1997 under the one country two systems concept and what this meant was that Hong Kong would become a special administrative region and that it would retain its own government, its own judiciary, its own legislature and it would enact its own legislation. It would have its own tax system by paying no taxes to China. It would retain its own police, customs, immigration, and tax department. It would remain as a separate customs territory and retain separate membership of international trade organizations like the World Trade Organization.

Hong Kong people would not be liable to serve in the People's Liberation Army. And

it would retain its capitalist way of life. And so in many ways the handover to China was hardly distinguishable to most people. The reason being that between 1986 and 1997 we worked extremely hard on putting in place all of the necessary measures that would be required before the handover.

So from 1986 and on, all new legislation was enacted bilingually. All important and existing statute legislation was translated from English into Chinese. Arrangements were put in place for Hong Kong's participation in international organizations and international treaties. Previously, the applications for Hong Kong had all been done by the UK and that could no longer continue. Perhaps most importantly in many ways we arranged for the localization of the civil service in Hong Kong. In the early 80s, almost all of the senior civil service in Hong Kong looked like me. By 1997 we needed all of the civil service to look like him [points to aide, Mr. Kwan]!

And that was a major exercise with many phases and challenges, most of which were successfully overcome. So by the first of July, 1997, when people woke up after the late parties and the handover ceremonies and everything, everybody's looking out their curtains to see what's different. Well actually there was almost nothing different because almost all of the changes had been put in place before the handover. About the only thing people noticed that was different were the flags. The Union Jack had disappeared and been replaced by a Chinese flag. The new Hong Kong flag was flying. The insignia on the uniform and on their caps and things had all changed at midnight. Apart from that, there were almost no changes. So those people who had been fantasizing about and forecasting these terrible changes for most of July were terribly disappointed. There was almost nothing of note.

*[WO] Following up on the theme of transition. Do you see another similar buildup to not much change happening after that 50 period starting in 1997 or do you see some major changes coming up there?*

[SB] If you ask anybody in Hong Kong, now we have what came into effect in July 1997 was the Basic Law, which is our mini—constitution, and this was prepared in the late 1980's after the joint declaration was agreed. That was really the skeleton. The Basic Law put the flesh on the bones of that skeleton and put it in much more detail in a whole range of areas. And that was promulgated in 1990. So nearly seven years before the changeover and came into effect on the first of July 1997. That document, the drafting in preparation for that document was very difficult because what we wanted to do, what society in Hong Kong wanted to do was, by means of the constitution, preserve Hong Kong people's rights and freedoms and ways of life without unduly restricting societal changes that were inevitably going to take place in any society and by and large that was a very well prepared document that has stood the test of time so far. But, ask anybody in any country with a constitution would you make any changes to your constitution if you had a choice? Yes. Would you two make the same changes?

Probably not. So if you asked anybody in Hong Kong, “would you make changes to the Basic Law?” In 2047? If you had the opportunity to ask, almost anybody would say yes. The trick is going to be where can we build areas of consensus. That exercise, frankly, is going to be a thousand times easier than the exercise we went through in the 80s because at that time we had no idea how China was going to react after 1997. Of course, Beijing said all sorts of reassuring things and made all sorts of promises. Did everybody believe that. Well, you don’t need to me to answer that. But we’ve now seen so far, for 19 years, that actually, Beijing has been assiduous in keeping its agreements. Not saying that everybody in Hong Kong likes everything’s that’s in the Basic Laws with China, but China has kept its side of the bargain. So when we get a bit closer to 2047, we are going to have to have a debate in Hong Kong and have a debate with Beijing about what happens in 2047. And that is going to have to take place a reasonable period before 2047, because there is a point at which investors and so on want to know with reasonable certainty a reasonable distance into the future. And my guess is that discussion, that debate, is going to take place somewhere between 2020 and 2030.

[WO] *So, soon?*

[SB] Yeah, but it’s not tomorrow. And it’s going to be a much easier exercise, ‘cause we’re not going to change everything. In fact, I suspect that there will be relatively few things that we change in the Basic Law itself, but that we continue to let the courts interpret, as you do here. When was the last time you made amendments to the American Constitution? It isn’t very frequently, but your courts interpret the Constitution on a daily basis. And that’s what happens in Hong Kong as well.

[WO] *So do you see this kind of just being normal operations in the relationship between Hong Kong and the mainland, or do you foresee any conflict caused by the opportunity to renew laws, and to, just the opening of discussion again about the relationship between the two?*

[SB] The arrangement for the future of Hong Kong, negotiated and agreed in the 1980s, was based on one country, two systems. And essentially, the joint declaration and the Basic Law laid down the framework of the agreement. If you read the Hong Kong news regularly you hear that Hong Kong is complaining regularly about Beijing interfering with Hong Kong. But the very same Hong Kong is also, it seems you don’t see anything wrong with them criticizing what goes on in China. So there are some who see Hong Kong’s interpretation of “One Country Two Systems” as being a rather skewed view on what it’s supposed to be. Basically the relationship is that Beijing still has certain responsibilities and rights in relation to Hong Kong — it is the sovereign of Hong Kong — but that by and large Hong Kong has a high degree of autonomy. And Hong Kong gets on with its own life and doesn’t interfere with Beijing any more than Beijing is supposed to interfere with Hong Kong. Now, not everybody

— as I said — acts one hundred percent in accordance with the way that things are supposed to work, and I don't suppose that is going to change, and that will, from time to time, raise eyebrows either in Hong Kong or in Beijing or elsewhere. But by and large, the formal relationship between Beijing and Hong Kong is very cordial and very effective. Hong Kong has a high degree of autonomy, it doesn't mean that you do not interact with your neighbors, just on very practical issues. We get most of our water supply from the Mainland. We get a portion of our electricity supply, we get the majority of our fresh food from the Mainland. We have road, rail, sea links with the Mainland. There are water and air pollution issues that are cross-border. There are security issues that have cross-border implications. So there are a wide range of areas on a day-to-day basis where we are dealing with Chinese authorities of one sort or another. And that will *must* continue, if we are to have normal ways of life on these cross-border issues.

*[WO] Do you see the Mainland-Hong Kong relationship changing, especially once that fifty-year window for the Basic Law kind of expires? And also moving past Hong Kong's relationship with China, what is your view on America's role in the Far East, not only in respect to Hong Kong but also with respect to China and other players in the region as well?*

[SB] In terms of what happens in 2047, if you read the Basic Law, and you read it carefully, you will see that there is only one reference in the whole document to fifty years after 1997. And that is in one clause which talks about the continuation of the capitalist way of life in Hong Kong. That's the only place in the whole document where the fifty years is referred to. You could argue that Hong Kong does not have a capitalist way of life. Many Americans would probably argue that Hong Kong does not have a capitalist way of life. Now I'll tell you why I make that argument: we provide subsidized public housing for almost fifty percent of our population. We provide fourteen years free education, almost free health care including brain surgery, open-heart surgery, a safety net social security system that provides an unemployment benefit and an elderly pension. These are non-contributory, available to all Hong Kong citizens who need it. Many Americans would say that is a Marxist state.

And if you go to study in one of Hong Kong's public universities, you will have to pay fees of about 40,000 HK dollars a year, and a number of Hong Kong's universities rank in the top hundred, two hundred in the world's best universities according to the Times and the US rankings. And that's 40,000 Hong Kong dollars, not US dollars.

*[WO] If Hong Kong no longer continues its capitalist way of life, how big would the change really be?*

[SB] What change would there be? Almost none. The one big issue that does need addressing is land. Basically government owns all land in Hong Kong and it leases land rather than selling it freehold. Most of the leases in Hong Kong expire on the

thirtieth of June 2047, so arrangements have to be put in place to enable those leases to be renewed and continued. We did exactly the same thing in 1997 and it would just be a repetition of that. We've done it once, and it's a very simple exercise having done it once and got it right to continue that. If nothing happens to the Basic Law other than putting new land arrangements in place, Hong Kong could continue as it is without anything else being done.

*[WO] Interesting. So it was interesting to me when you were listing some of the services that Hong Kong provides to its citizens because something that's a big issue in the United States especially recently is income inequality, and I've read that that's also a rising issue in Hong Kong as well. Would you think that's correct? And then are those programs are what Hong Kong is doing to address the issue or are there other kind of treatments that you think differentiates Hong Kong from the US in terms of this issue. Or are there any lessons that we could learn from what Hong Kong is doing?*

[SB] Well, I'm not sure that your circumstances would be such that what we do is terribly applicable. But, I mean certainly income inequality is an issue in Hong Kong as I think it is in pretty much any developed economy in the world everywhere, almost everywhere if you look at the Gini coefficients for those societies it's getting wider and wider. In Hong Kong, we have put in a great deal of effort and money to trying to moderate any poverty issues by providing very low—cost housing for people, and sometimes free housing if they've got absolutely no income. And the medical care, education so that no child is excluded from good quality education by lack of means, a variety of other issues and measures to provide support to people and their way of life. You know, from highly—subsidized sports and recreation facilities, libraries, a whole range of stuff. We have, in the last two or three years, established a new commission on poverty to look at what else can be done. And that has, for example, introduced a minimum wage in Hong Kong for the first time a few years back. We are looking at a range of other measures. One of the things we have a problem with is that we already have an extremely low tax system, and many low—income earners pay no tax anyway, so what a relatively high-tax society like the US, you can take measures using your tax system. But we're already so low. Many, more people in Hong Kong do not pay any income tax than pay. So that's one of the problems with this. And we continue to look at ways to further improve people's ways of life.

*[WO] What are your thoughts about Shanghai's rise as a global financial center in Asia and the future of Hong Kong's economic development as well as its role as an intermediary between the PRC and the international capital markets?*

[SB] I think you're referring to the Shanghai-Hong Kong stock connect. Basically, that was a mechanism that allows people in the Shanghai stock exchange to buy shares in Hong Kong and vice-versa. That's been reasonably successful and the next step in this process is that it's been announced recently, I think before the end of this year, that we

will introduce a similar mechanism with the Shenzhen stock exchange. Shenzhen is the city immediately across the border from Hong Kong.

The question of competition between Hong Kong and Shanghai - If you're looking at the market capitalization, Shanghai has already begun. But Shanghai is basically China's domestic financial services center. Hong Kong is China's international financial services center. Obviously there's going to be some gray areas, but Hong Kong has never feared competition. We reckon we thrive on competition. We have many benefits and advantages over China: use of English; the well-known and understood and respected commercial law; an independent, fair, high-quality judiciary, Hong Kong has an excellent dispute resolution center, not just the courts but mediation, arbitration, conciliation, and so on; anti-corruption, Hong Kong is extremely clean, Hong Kong courts are extremely fair—the Hong Kong government loses more cases in the high courts than it wins and there aren't many places in Asia that can say that, the governments don't normally lose cases in court. We do, and we're happy to do so because it shows it's a fair system where the judges decide cases on the facts in front of them and in accordance with the law. Bearing all that in mind, where are you going to invest in our part of the world? Also, the Hong Kong dollar and our own currency allow for free flow of capital, no exchange restrictions.

*[WO] As we come towards the end, I'd like to broaden the topic a little more. We've been talking a lot about economics, but you said your office deals with a lot more than that. Could you dispel a couple of myths that you encounter a lot that Western audiences have about Hong Kong? What are some misconceptions or misunderstandings?*

[SB] I think there are misconceptions that after the return of the sovereignty of Hong Kong to China that Hong Kong is just another Chinese city. It is a Chinese city, but it's a very special city because of the many things that I've already talked about earlier. We have a high degree of autonomy, we have enshrined in the Basic Law all the freedoms and rights and responsibilities enshrined in the international human rights conventions: freedom of movement, freedom of religion, freedom of speech, etc. And you see Hong Kong people exercising these rights on a very regular basis and that will continue.

Do we have consensus on every issue in Hong Kong? No. Are we likely to in the next thirty years? No. Not any more than you're going to have consensus on gun control, abortion, etc. here in the U.S. It's a vibrant, lively society where people express their views fully and freely, and we continue to be a vibrant economy.

No longer a manufacturing center—manufacturing moved out of Hong Kong in the 1980s and 1990s. We are a services center. We derive about 93% of our GDP from services, and other categories include telecommunications, construction, logistics, financial services, tourism, creative industries, research and development are the main things. So it's a really great place to visit. 60 million visitors per year, typically. Eight

great universities—many in the top 200 in the world. We welcome international students. Come and do your masters or your PhD in Hong Kong!

*[WO] We always like and appreciate when distinguished guests visit us at Dartmouth, but outside of talking about the big issues, we'd also like to hear a bit more about yourself. How did you end up in this position, what does your career look like, and what are some tips you would give to an aspiring undergraduate, for example, who's looking at your position and saying I'd like to be there some day? What are some tips of pieces of advice you'd give him or her?*

[SB] I have stumbled through my adult life. As a small-town boy growing up in rural east England, working class boy, no role models, first child in the extended family to go to university, you know all that sort of stuff. My ambition in life was to be a PE teacher. So I managed to get a place in the only university at that time that did a degree-level PE course. I studied PE and geography. I wanted to be a teacher. But about halfway through my course, I decided I didn't want to be a teacher. What do you do with a degree in geography and physical education if you don't want to be a teacher? Well my girlfriend at university was the daughter of a Hong Kong expatriate civil-servant, so I got to know a little bit about Hong Kong and I decided to apply to join the royal Hong Kong Police Force as an inspector. So I applied, did a couple of interviews, was accepted, so shortly after I graduated, off I went to Hong Kong to be a policeman. I had no police experience, nobody in the family did, I became the black sheep in the family for joining the police. And my plan was to use, because it was a three-year contract, to use those three years to think about what it was I wanted to do for my career back in England.

So the end of the three years came up and I still hadn't decided. Before the end of the three years, I'd applied to the police to do a second contract, but I'd also applied to join the civil service, the administrative office grade, which is the grade that fills most of the posts in the ministries, does policy work, liaison with the legislature, that sort of stuff. And I found out during my end-of-tour vacation that I'd been accepted to the civil service. So I moved over to the civil service after three fun and active and highly stimulating years in the police, just for another three years while I continued to think about what it was that I wanted to do back in England. And so I stayed another three years. And during that time, I'd been very fortunate, I'd had a wide variety of posts, worked with some wonderful people, but I'd been taking the opportunity to work in some of our overseas missions. I worked in Brussels in Belgium, '93-96, in Sydney, Australia, looking after Australia and New Zealand for four years from 2010 to 2014, then 2014 I came here.

So, and then dealing with policy on things like intellectual property, consumer protection, environmental issues, housing policy, and I did a long posting working in a small department in Hong Kong called the Efficiency Unit, which always gets a

smile, which basically does public sector reform, think—tank type research, as well as having an internal management consultancy capability. So that was just wonderful, to research what other governments are doing in all sorts of areas and what the private sector does that may be applicable to Hong Kong, then working with ministries and departments to actually implement change in Hong Kong to help ensure that it continues to be effective and efficient.

*[WO] Any final words of advice for students? What kinds of skills have served you most in your job?*

[SB] For me, the attributes that have been most beneficial are a willingness to take up opportunities. You rarely know how they'll turn out and it's easy to turn them down. So the first thing is: take a few chances. Network like crazy. If you don't network, you will miss out on so many opportunities. And develop your interpersonal skills so that you can deal with people from right at the top to right at the bottom. You need to work with everybody in the organization in which you're engaged. They're all important. You've got to be able to work with everybody.

**AN ECONOMIC OUTLOOK ON ASIA:  
DRAWING ON THE PERSPECTIVE OF DR. TAIMUR BAIG**

*Taimur Baig is Chief Economist for Asia as well as Managing Director at Deutsche Bank AG. Based in Singapore, he held prior roles at Deutsche Bank as Chief Economist for India and ASEAN and Chief Economist for India, Indonesia, and the Philippines. From 1999 to 2007, he served as Senior Economist at the International Monetary Fund (IMF), after transitioning from a position at the World Bank. Baig holds a B.A. degree from Wabash College in Crawfordsville, Indiana, and a Ph.D. in Economics from the University of Illinois at Urbana-Champaign.*

*[World Outlook] What most concerns you about China's slowing economy? How do you think China will deal with overcapacity and what are some downside risks you see there?*

[Taimur Baig] The risks related to China's macro-economy are perhaps somewhat higher in the longer term. The authorities have sufficient policy levers in place to address any short-term instability — and by short-term I'm talking about four quarters — so over the next year or so we won't see any major dislocation risks, whether associated with exchange rates, the debt situation, or the overall economic growth dynamic. However, looking beyond a year, the bad debt, the balance sheet of the banking system — of course, the counterparty being the corporate sector — the aging dynamic, and the changing nature of manufacturing and exports outlook will create a series of headwinds for China, which could either translate into a gradual decline in economic growth or lead to periods of volatility and sharp declines in economic activity. The outcome depends on how adept the authorities are in pursuing macroeconomic stabilization policies and economic reforms, but the risks are very much present. In terms of overcapacity, I think we already see its manifestation, which is significant deflationary pressure not just for China, but for the whole world, given that China is the world's manufacturer. We have a situation where there is substantial overcapacity. We borrowed a lot of money to build that capacity, and if you're not able to sell those goods, you're going to have a hard time servicing your debt. Therefore, the overcapacity problem can easily fit into further increases in bad debt and associated complications for the banking system and the overall economy. That's the key downside risk.

*[WO] Can you tell us a little bit about how China's economy has evolved in the past decade?*

[TB] There's been seismic shifts over the past decade. Per capita income has doubled, the economy has become far more sophisticated — particularly with respect to both production and consumption of services — and, of course, the economy is significantly more mature from a variety of angles. You see the sort of e-commerce app form that the Chinese have built for their domestic market. It's world-class, but with

a very China-specific flavor. They have not given up their e-commerce space to the Googles and the Facebooks of the world. They have their own platforms that have been very successful, and they're actually now showing that these platforms are competitive globally. Even in places like India and Asia, people are beginning to embrace Chinese software products as much as they embrace portals from the US

China's economy is more mature, more sophisticated, and significantly wealthier, but it is also significantly older, and the economy is going through a once-in-a-generation shift in demographic dynamics. China's dependency ratio, which is the ratio of working age people divided by the non-working age people, has steadily worsened over the last ten years. The country is becoming older, and there are a range of macro-economic outcomes that are associated with adverse demographic dynamics. As you have fewer people relative to the overall population who are of working age, the portion of the population who is employed makes and saves less money. Therefore, the economy has less in overall savings, which then feeds into less investment and less growth. So, this is a fairly powerful demographic dead-end. If you have a young population, you tend to have higher savings, higher job creation, and higher growth. China has benefited from favorable demographic dynamics for many decades, but in the past decade, that's probably been the most striking transitional aspect of the economy.

*[WO] Do you see any way for China to manage the demographic trap that they're stumbling into now?*

[TB] It's possible to do a few things here and there. For example, China has taken a more relaxed approach towards its one-child policy, but that would probably have a material impact on the economy fifteen or twenty years from now. For the time being, I think China is stuck with the larger trend of aging. Smaller countries — let's say a country like Japan — which has an even more adverse demographic dynamic than China, can fend off an aging population by becoming more liberal towards immigration. You can bring a lot of younger people into the economy and get them to build a younger and more productive working force. China, on the other hand, as the largest, most populous country in the world, won't be able to import sufficient numbers of people to offset any adverse demographic dynamics. The immigration strategy doesn't work when we talk about a country the size of China.

*[WO] Given concerns about China's debt, what is your view about China's developing financial sector?*

[TB] One would see continuous liberalization of the domestic financial sector, but perhaps a slower pace of liberalization of the capital account. You could probably have a deeper financial market domestically, whether it's the bond market, the way bankers work, or the way credit moves around the economy. But, at the same time,

when you have a large overhang from the debt problem, you probably do not want to embrace capital account liberalization very rapidly because then you have the additional complication of capital flowing in and out of the economy without much control from the authorities. The outcome of the ongoing debt problem and issues relating to the shadow banking system and the various structure products that have proliferated in recent years would be to have more transparency, more liberalization on the domestic end, and perhaps a slower degree of liberalization on the external side.

*[WO] Do you foresee any potential adverse shocks to the Chinese economy that might result in an economic crisis?*

[TB] I think those shocks are common across the world. We are in a globalized economy. If there is a big slowdown in global trade, it will affect China. If there is huge financial market volatility globally, it will affect China. Even though China has somewhat of a closed capital account, it is not impervious to financial shock, as you saw in 2007 and 2008. Therefore, I think the shocks that occur in the global economy, whether it's from markets or from economies, will affect China in equal matter.

*[WO] What are your thoughts on Japan's monetary policy, especially the new 10-year government bond rate target?*

[TB] The authorities in Japan are trying to shift from a quantity approach to monetary easing, which is a QE [*quantitative easing*], back to price-based monetary easing, as in looking at the ten-year yield. It is going to be rather challenging, as the number of outstanding bonds that are not held by Japan's public institutions is rapidly shrinking. Therefore, the amount of purchases one has to make on a regular basis to attain yields that are targeted could open up a host of complications and distortions. Nevertheless, it does reveal a bold approach — a boldness that was not characteristic of Japan's central bank even three or four years ago. The country has undergone a rather seismic change in terms of the aggressiveness of its monetary policy in dealing with its deflation problems and low growth issues. My thought is that it's a bold shift, and it will have associated challenges. That said, it's probably better than doing nothing, and therefore we welcome it.

*[WO] What's your take on the success or failure of Abenomics?*

[TB] I think this relates back to the previous issue, which is that over the last three or four years since Prime Minister Abe's ascension to office, we have seen a reinvigorated policy agenda. We have already touched on what the Bank of Japan has been doing, but even beyond that, the fiscal positions that the authorities have taken and the so-called "third arrow of reform" — meaning public sector and structural reforms — are also being pursued, perhaps not as fast as one would like to see, but

much faster than one would have seen anytime in recent memory. Therefore, in totality, I would say that Abenomics has been a shot in the arm of Japan. We, of course, would like to see higher inflation, higher growth, and better performance, but it's a step in the right direction.

*[WO] Do you think that Japan is where the EU and the US are headed, economically speaking?*

[TB] I think Japan offers a cautionary tale for large developed economies around the world. They were the first to age and the first in the modern era to go through a protracted financial crisis, so we can take a lot of lessons from their successes and failures to make sure that the US and EU, as they engage and as struggle to deal with their own financial crises, don't fall into the same trap. The game is by no means over. If you think about the US experience with the great financial crisis of 08-09, Ben Bernanke — who was the governor of the Fed at that point — spent a large part of his career looking at episodes like Japan in the 1990s and 2000s, and the US in the 1930s, to understand what went wrong in the lead-up to these big crises and what led to those mistakes. We could argue that because somebody like Bernanke was at the helm of the Fed and had studied what happened in Japan and what had gone wrong in Japan, the US was lucky and did the right things early on to offset the headwinds that were coming from the financial crisis.

*[WO] Moving onto India, how successful has Narendra Modi been with regards to his economic agenda?*

[TB] I would say that Modi has displayed a substantial degree of pragmatism in his economic agenda. Some of the recent success, whether it is passage of the goods and services tax bill, the continued consolidation of the fiscal position, or the fuel price liberalization, are reforms that were in motion when Modi came to power. Instead of repudiating these measures because they were orchestrated by previous governments, he took them on and added momentum to them, and that shows a degree of pragmatism that is very welcome.

*[WO] What are India's economic prospects given weak demand abroad for exportable goods?*

[TB] Another way of asking the question is “can India defy gravity?” Right now globally, we are going through a fairly protracted slowdown. To paint a very bullish picture of India, one would have to assert that despite all of these global headwinds, India can somehow outperform considerably. I have my doubts. I think India — by virtue of being a poorer economy and, therefore, having potentially faster growth — can deliver higher growth rates than the rest of the world, but to do what India did 5 or 10 years ago when it was growing at 9-10%, I don't think that is possible

given the weak exports and demand environments globally. That's the key differentiating factor between myself and my peers, because many of my peers in the investment banking community see India as capable of substantially outperforming many EM countries and, of course, countries with developed markets. I think that India cannot defy the external gravity. There are also domestic factors in play. The government can pursue structural reforms and carry out prudent macroeconomic policies to allow India to do well. Yet, at the same time, one should be cognizant of the fact that India has a few domestic drags as well. There are large amounts of bad loans in the banking system, upward balance sheets are stressed, the transit sector has a degree of excess capacity, and the exports environment is not particularly promising. Moreover, rural demand, which used to be very exuberant in the past, is softer now. Putting all of these factors together, one should be optimistic — but cautiously optimistic — about the Indian outlook.

*[WO] Can you tell us a little bit about the Trans-Pacific Partnership and, perhaps for someone who is not well-versed in current events, what the implications would be politically and economically?*

[TB] I live in Singapore, so from my vantage point in Asia, the Asian economies that have signed onto the TPP have invested a substantial degree of political capital in opening up their markets to free trade with the US. The gains would be immense with respect to access to US markets and the salutary effect these trading partnerships would have. It would also be a very big shot in the arm in terms of intra-regional trade. So, from the perspective of Asia, the economic impact of the TPP will be an overwhelming and unambiguous positive. As far as being a political or strategic goal, it's all of the above. It brings the Pacific countries close to each other politically by virtue of greater economic cooperation.

*[WO] So that was the last of our Asian economy questions, but we like to end our interviews with questions about how you got to where you are and your own career. How did you choose economics as a field and a profession?*

[TB] The simple, straightforward answer is that my uncle was an economist and I, therefore, had a role-model growing up. I was finishing high school and going to college during the early 90s, and there were a lot of things about the US that were not right at that point. Paul Krugman had written a book called *The Age of Diminished Expectations*, and my view of the world was shaped by the global undercurrents of what was happening at the time. Most notably, Japan had risen very quickly and the US had gotten a bit concerned and was pushing back on Japan's economic might. There was a great deal of consternation among observers in the US about whether US overall growth was looking at a sunset moment. These questions were omnipresent in the media when I was an undergrad, and it was easy for me to be persuaded that there are a lot of practical questions and practical answers surrounding the field

of economics. I also very much like the interdisciplinary nature of economics. It's not just about economics — it encompasses history, psychology, and politics — so for somebody who has a curious mind across a number of disciplines, I think economics is a great focal point. That, of course, did not lead me towards banking. That took me towards pursuing a Ph.D. in economics. In the mid and late 90s when I was completing my PhD, there was one financial crisis after another globally, starting with Mexico, moving onto Asia, then to Russia and Brazil. Thus, for us graduate students, finding a topic to pursue was very easy — you could just grab it out of the headlines of the newspapers. Basically, I'm a product of the news cycle.

*[WO] Perhaps to end on a more whimsical note, if you could go back in time, what advice would you give your college-aged self, whether it be career or otherwise, as someone interested in economics?*

[TB] Take more courses on math, coding and history. My niece did an undergrad in mathematics, and while she was doing it, also became very interested in fashion. After she graduated she became a financial analyst for Michael Kors, so she got the best of both worlds.

**HISTORICAL PERSPECTIVE AS AN EXPLANATORY FACTOR FOR STATE  
BEHAVIOUR IN EAST ASIA:  
A CONVERSATION WITH PROFESSOR JENNIFER MILLER**

*Professor Miller is an assistant professor of history at Dartmouth College and a historian of the United States and the World, with a focus on the United States and the Asia-Pacific. She received PhD in international history from the University of Wisconsin-Madison in 2012. Her current research examines the development of the U.S.-Japanese alliance in the aftermath of war and occupation. Entitled *Contested Alliance: The United States, Japan, and Democracy in the Cold War* (under contract with Harvard University Press), this book manuscript draws from American and Japanese archives to explore how competing visions of democracy shaped the U.S.-Japanese relationship. A portion of this research recently appeared in the journal *Diplomatic History*. At Dartmouth, Professor Miller teaches classes on the history of U.S. foreign relations, the Cold War, and the Asia-Pacific Wars of 1931 – 1945.*

*[World Outlook] From your perspective, how did America's relationship with Japan change from one of a defeated adversary to a potential ally, and did we enter the post-World War II era with the intention of turning Japan into a democratic capitalist society?*

[Jennifer Miller] Okay so to answer the first question, how did the relationship change from a defeated adversary to a potential ally, or to an ally?

*[WO] A potential ally.*

[JM] A potential ally. I think there are multiple ways to answer that question. One is to answer it from the perspective of American policy, which is that American policy-makers always had the goal going into the occupation of Japan that they would try to rehabilitate Japan in some way. That Japan would become democratic, that Japan would have a functioning economy, that it would be integrated into trade routes across the Pacific and around the world, and this isn't because American policy-makers were extremely benevolent or that they cared so much about Japan itself, rather it was more that they thought a democratic Japan that was an active part of a functioning global economy wouldn't want to go to war again. It would feel invested in the existing system and it wouldn't try to again, from the minds of American policy-makers, conquer Asia essentially. So that was always a goal going into the occupation.

Now the question of Japan becoming an ally, from the perspective of American policy, that happened a couple of years into the occupation as tensions started to rise with the Soviet Union in Europe. After it became clear that China was likely going to become a communist state, the uncertainty of post-World War II, questions of decolonization, questions about what was going to happen to the European empires—American policy-makers then started to think far more actively about Japan as a future alliance.

This started in particular from questions about Japanese security. How would they make sure that, for example, the Soviet Union didn't attack Japan after the occupation was over and American troops—they thought American troops would depart after the

occupation — now they're thinking American troops will stay long term after the occupation. This was part of a strategy that American policy-makers pursued which was a huge shift in American policy, which was stationing military forces outside American soil for long periods of time, and many of the islands that they had fought on in the Pacific War. The United States retained those lands to use as military bases, so they're thinking of Japan in those terms.

But then they're also thinking that as it looks like China is becoming communist, as Korea is being divided, that Japan is well positioned off the coast of Asia and that because of the experience of the occupation, they can build a close alliance between these two states. That's from the point of view of American policymakers. But we can't just say the alliance was created by American policymakers, because there are people in Japan, leaders in Japan, who are realizing that Japan needs to find a way to reintegrate itself into the global economy. It needed to find a way to reintegrate itself into global politics after it lost this devastating war. It needs to find sources of trade and raw materials to replace the empire that it will no longer have. So there are many Japanese leaders who saw an alliance with the US as a solution to some of these things as well. What was the second question?

*[WO] Did we enter the post-World War II era with the intention of turning Japan into a democratic capitalist society?*

[JM] I think I started to answer that one, but like I said there was always the intention as they planned the occupation. They talked about the occupation for 3 years before they actually did it. There were always intentions that they would democratize Japan, that they would demilitarize Japan. Initially they actually thought less about the Japanese economy. They did very little for the Japanese economy in the early years of the occupation, and they said that economic recovery was Japan's responsibility, not the United States'. This also changes in the later 1940s, but there was always that idea that they need to reconstruct Japan in a way that it will always feel invested in the global system. That it will feel like it has ties to other countries, whether it's through having shared/similar political systems, whether it's through trade and economic exchange, but that if Japan feels invested in a functioning global system, a functioning global economy, then militarism won't return.

*[WO] What has America's relationship with Asia as a whole been defined by in the past 40 years, both during and after the Cold War?*

[JM] That's an interesting question and I think it depends where in Asia you're talking about and whose perspective you're looking from. I think there are multiple things that have defined America's relationship with Asia. A major thing has honestly been the American military and American military bases. The United States has military bases throughout all of Asia. The major wars, until the wars in Iraq and Afghanistan,

that the United States fought after World War II were both in Asia, in Korea and Vietnam. So on some level I think actually from both American and Asian perspectives a key element has actually been the military.

Whether it's people who have fought in wars in Korea and Vietnam, whether it's people who have done military service on the hundreds of bases that the US had scattered through the Asia Pacific at one point. So I think that would be actually a major element of the relationship and I choose the military because that's an element of the relationship that both Americans and Asians experience, whether it's positive experience or a negative experience. I say the military too because the military, when we think about the American military stationed overseas, it isn't just about the military itself. These become a major part of the local economies of where they're stationed. They result in relationships that sometimes end in marriages and that sometimes end in things like children who are abandoned. There are a lot of children, for example born in the occupation of Japan who were fathered by American soldiers and lived in Asia. Militaries now have become a sight of very close cooperation. Militaries work very closely together and the American and Japanese military work closely together on things like training, and I'm sure the American and Korean military do as well. So on some level I would actually say that the American military has become a major element of the relationship between the United States and Asia.

I think that's one thing that we don't think about quite as much because mostly when we think about Asia, we think about cultural connection, we think about trade because we buy so many products from China in particular. That's true but that's more recent. There were always products that the US bought from Japan in the 60s and 70s, but I think that's the element we know more about and the military element is the one we know less about but that I would argue is equally important.

*[WO] How has Japan's political environment, in your opinion, changed in the past 20 years?*

*[JM]* I think the main element of Japan's political environment that has changed or that we're really seeing now is that things that were considered more taboo to really openly talk about earlier in the 20th century and initial post war years are now becoming far more openly discussed in Japan. So the main thing I'm thinking of here is that the current Japanese government has very openly talked about wanting to revise the constitution, and has actually revised the constitution—specifically the provisions surrounding Japan's Self-Defense Forces—and has in fact been passing new laws to allow the self-defense forces to become more active overseas. This has really been something that's changed over the past 20 years. The Self-Defense Forces becoming much more openly talked about as a core component of Japanese foreign policy and how Japan relates to the world. Now, the presence of the Self-Defense Forces abroad isn't new, that goes all the way back to 1950, but the way it's being openly talked about, that Japan