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Introduction:

DAVID DOLLAR
Senior Fellow, John L. Thornton China Center
The Brookings Institution

Opening Remarks:

DAVID LI
Director, Center for China in the World Economy
Dean of the Schwarzman Scholars, Tsinghua University

WHAT DOES FED EASING AND CHINA SLOWING MEAN FOR THE WORLD ECONOMY?

DAVID DOLLAR, Moderator
Senior Fellow, John L. Thornton China Center
The Brookings Institution

DONALD KOHN
Senior Fellow, Economic Studies
The Brookings Institution

DAVID LI
Director, Center for China in the World Economy
Dean of the Schwarzman Scholars, Tsinghua University

ZHENG XINLI
Deputy Director, Economic Committee of the CPPCC
Permanent Vice Chairman, China Center for International Economic Exchanges

CHINA'S EMERGING ROLE IN GLOBAL GOVERNANCE:

DAVID LI, Moderator
Director, Center for China in the World Economy
Dean of the Schwarzman Scholars, Tsinghua University

JEFFREY BADER
Senior Fellow, John L. Thornton China Center
The Brookings Institution

DAVID DOLLAR
Senior Fellow, John L. Thornton China Center
The Brookings Institution

GAO XIQING
Former Vice Chairman, President, and Chief Investment Officer
China Investment Corporation

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P R O C E E D I N G S

MR. DOLLAR: Ladies and gentlemen, welcome to Brookings. I'm David Dollar; I'm a senior fellow in the John L. Thornton China Center here at Brookings. And we have a very exciting event here this morning.

The primary focus is on the U.S. and Chinese economies, the U.S. and Chinese economies you hear in the news a lot these recent days. Actually they are in the news all the time, because China and the U.S. are the two biggest economies in the world.

In the case of the United States, once again the economy is disappointing this year. The IMF recently marked down the U.S. forecast from 3.1 to 2.5, which is a pretty significant markdown. A lot of the discussion in the U.S. is when or whether the Federal Reserve will start raising interest rates, a lot of concern around the world for what will be the impact on emerging markets.

So, we'll definitely talk about the U.S. economy. In the case of China, the economy is slowing down, it looks pretty good to hit the target of 7 percent this year, but that will be the lowest grown rate in some decades. The Chinese stock market has caught a lot of attention with a spectacular run of more than 100 percent increase, but then that was followed by a very sharp and sudden correction that caused a lot of nervousness around the world; so, plenty of things to talk about concerning the Chinese economy.

There are also interesting issues of global economic governance. China launched the Asian Infrastructure Investment Bank, that's got a lot of attention. We are talking about whether the Chinese currency should be included in the IMF's SDR, that's another important issue.

Now, you noticed the way we structure the program, it's not directly about U.S.-China economic relations, but in discussing all those issues I just mentioned, we will inevitably get into U.S.-China relations, and an important backdrop is President Xi Jinping's state visit to the U.S. which will occur in almost exactly two months from now.

Now, to discuss all of those topics, we've got an outstanding program, we've got a really great delegation of Chinese economists, former policymakers and entrepreneurs visiting Washington. So we welcome this whole delegation. We've got some very significant entrepreneurs who are participating in the delegation, but the discussion up here will be among the economists and the former policymakers.

We will introduce people before each panel, so I'm not going to name names at this point. But we are going to have two panels, inevitably with some overlap. The first one focused more on the U.S. and Chinese economies, the second one on global economic governance.

You'll be happy to hear there are no set speeches. The whole thing is a conversation, so we'll start with the moderator asking some questions and generating conversation among the panelists, and then we'll have lots of time for question and answer.

And then the last thing I need to mention is that we've organized this together with David Li, and the Center for China in the World Economy at Tsinghua University. David is also the dean of the Schwarzman Scholars Program. If this is successful, which already it looks like we've got the foundations for success, we'd like to make this regular event. Tsinghua University, CCWE, and the John L. Thornton China Center at Brookings, we could do some events in China, we can do some events here.

And now I'm going to turn it over to David to make some introductory remarks, and then we'll launch the first panel. Thank you. (Applause)

MR. LI: Thank you very much, David. I have been to Brookings many,

many times, as an invited speaker or visitor, but today I am particularly excited because this time around, I am helping putting together a large delegation visiting the Brookings Institution.

A little bit of background, maybe to be not too boring, about this delegation, that is three years ago in the 18th Party Congress, the Communist Party announced that the country needs to modernize its governance system, modernize the governance system, and could actually be – 国家治理，体制要现代化.

And one of the ingredients of a modern governance system of the country has to be think tanks. So, President Xi Jinping issued a lot of personal documents emphasizing the importance of building, or speedingup the Chinese think tanks, and Vice Premier, Liu Yandong, who is in charge of education and research, and cultural events and sports having the biggest portfolio among all the Vice Premiers, right, got this mandate, and where she turned to?

Her alma mater, Tsinghua University, she's from Tsinghua University, not only she went to our Chemical Engineering Undergraduate Program, she also went to our Tsinghua affiliated High School; truly a Tsinghua product.

Anyway, so all our leader at Tsinghua University said, we better do something to improve our think tanks. Center for China in the World Economy is Winalar is one of ourthink tanks on campus. And then we did a research; how to improve our think tanks?

There are experts working on this, we went to University of Pennsylvania, one expert told us, easy, easy. If you want to improve your basketball skills, play with the best guys. Here we are, we are playing with Michael Jordan, our think tanks; that’s Brookings Institution, so here we are having delegation of think tanks.

I am from the Center for China in the World Economy, and also we have

Deputy Director China Center for International Economic Exchange. We also have associates of the Chinese Academy of Social Sciences, and many other institutions. This is a learning trip. This is a trip to pay homage to Brookings Institution. Soon, you will be 100 years old, I was told you maybe unofficially the oldest think tank in the world. Well, congratulations, and we are here to learn.

The best way to learn is to work together to discuss something which is important. Today, the Chinese economy, the U.S. economy, the global governance, these are important issues. So, to me, and to us, this is the best way for us to learn. Let's play a serious basketball game with Michael Jordan as started -- at the both start. Thank you very much. (Applause)

MR. DOLLAR: I'm going to moderate this first Panel. I forgot to mention one important thing; there is simultaneous interpretation with the English on Channel 2 and the Chinese on Channel 10. The topic of the first Panel, you know, is really about the two economies, and I'll signal right now, I'm going to start with Don Kohn, to talk about the U.S., but first just let me briefly introduce you.

You've got the bios but we've got a really outstanding group here. Don Kohn is the Former Vice Chairman of the Fed, so he sat in the meetings where they actually make the key decisions. And now he's a Senior Fellow here at Brookings. He also serves on the British Monetary Policy Committee. Is that right? Or is that a secret?

MR. KOHN: True, financial stability.

MR. DOLLAR: Zheng Xinli, as David already mentioned, is the Vice Chairman of CCIEE, one of the leading think tanks in China; probably most important, key author of the Communist Party's Third Plenum Resolution on China's Economic Reform. And David Li, I've also already introduced, but I probably should mention you were previously on the Academic Committee that advices PBOC about monetary policy.

MR. LI: Mm-hmm, monetary policy, yes.

MR. DOLLAR: Okay. So I'm going to start with Don Kohn, because there's so much interest. As I mentioned the IMF marked down the U.S. forecast for 2015, but at same time, and I don't know, was this unusual; Christine Lagarde publicly urged the United States not to raise interest rate until 2016, and raised concerns about the effect on emerging markets. I don't know if that's going to affect China.

So, I think I would like to start with Don, you know, giving us some thoughts about this decision. Nobody knows when they are going to make it but, you know, what are some of the factors, and then what's the impact on emerging economies? Should they be so worried? Is this really such a big deal?

MR. KOHN: Well, thank you, David. And it's great to be here. Especially wonderful to be compared to Michael Jordan, but it will never happen to me again, I'm sure, it's not for my athletic ability, of that I'm quite certain.

MR. DOLLAR: How about Tiger Woods. The next time we use Tiger Woods.

MR. KOHN: So, you are right. The IMF did mark down the U.S. forecast by about half-a-point I think for 2015, and the first half of the year has been a bit disappointing in growth, certainly it's slower than I expected, and a lot of other forecasters expected. Some of this is transitory; we had an especially difficult winter here, especially in the Eastern and Northeastern part of the United States which impeded economic activity.

There was a port strike on the West Coast, so there are a number -- there are questions about the seasonal adjustment for the U.S. data, so there are a number of factors that might be temporary and transitory, but the fact that the IMF and any other forecasters mark down the yearly forecast, suggests that there's something a little more persistence about the disappointment.

I think one thing is that the decline in energy prices seems to have had a much quicker and sharper effect on energy investment, I think than some people expected, and less of a positive boost to consumption than some people expected. And perhaps the rise in the dollar has had a more negative impact on net exports.

But still, the outlook is for moderate growth. I think the fundamentals of the U.S. economy are pretty good in terms of fostering growth, fiscal policies and about a neutral range, monetary policy is very accommodative, you do have these lower energy prices helping the consumer. Consumer confidence is higher; business confidence seems to be a bit higher.

So, I think the outlook for continue growth, and continue growth a bit faster than the growth rate of potential is still in place. And I want to emphasize that last, than the growth rate of potential piece. Because I think one of the disappointments in the U.S. and around the world, really, has been very slow growth of productivity and potential supply.

So, productivity in the U.S. has been increasing very marginally and flat in some -- by some measures, and labor force participation, the amount of labor coming into the market looking for jobs has been also a bit disappointing. So the supply side of the U.S. economy, like the supply side of many other global economies, has been disappointing.

It's important to keep this in mind, because the Federal Reserve's objectives are not for growth. The Federal Reserve's objectives given by Congress are for stable prices and maximum employment. And by maximum employment, it's understood to mean, the highest employment you can maintain without creating inflation.

So when you have a situation where potential growth is very sluggish, then you don’t need a lot of demand growth to start achieving those two objectives. So even though growth in the first half of the year has been disappointing, employment has increased quite substantially over the last six months. There's been ups and downs to be sure, partly dictated by the weather, but on average it's still growing very rapidly.

The unemployment rate has fallen, it's now at about 5.25 percent, and interestingly the IMF's prediction for unemployment for the U.S. is 5.5 percent for the year, we are already under that. So, I think even relative to what the IMF anticipated potential growth has been more sluggish.

So I would say, even with only moderate growth going forward, 2.5 percent give or take, you are going to continue to make progress towards the Fed, and the Fed sees the potential for continued progress towards these two goals, of maximum employment and stable prices. It's 2 percent inflation goal. Now remember on the inflation goal, we are under 2, and we are trying to come up to the 2 percent stable price goal.

So I think the Fed Chair, Yellen, said in her testimony last week, she thinks that if things go as anticipated, beginning raising interest rates sometime later this year is a realistic expectation, despite Christine Lagarde's advice. And I think the reason for that is, even with moderate growth, the things that the Fed is looking for, how low unemployment getting down to its lowest sustainable level, and inflation getting up towards 2 percent are very much -- are in view, and remember that monetary policy works with a lag.

So, you’ve got to start raising rates from extremely low levels before you -- before the economy overshoots. So, I think it's understandable why she -- Chair Yellen, continue to say that the second half of the year, is a likely prospect for raising rates.

What will be the effects of this? It's very, very hard to tell. I mean, we've had rates at zero since what, November, December of 2008, almost seven years of zero interest rates in the United States. I think the Federal Reserve is trying to mitigate the risk of market -- strong and over market reactions, by a couple of things.

Number one, trying to be clear -- as clear as possible in their communication about what might be coming, and that's what you heard from Chair Yellen last week. Just warning us that, get ready, the conditions are likely to be in place for raising rates, and the more you warn people, and the more they take actions to get ready, the less serious the reactions are likely to be.

The second thing they are doing is saying, look, that first increase rates from essentially zero to, maybe, 25 basis points, that's not a big deal, right. You've got, still, very, very accommodative monetary policy, and we are telling you our best guess is that the rate of increase of interest rate -- interest rates will remain low for quite a long time, and the rate of increase will be quite gradual.

So they are emphasizing the whole path of interest rates going forward, and how gradual that will be trying to hold down, damp down any market overreaction. Even so, I think once you start after eight years of zero, it's logical to think there will be some market reaction and some effect on other countries, despite the Federal Reserve's efforts. Still I think if they were to wait too long, because they were concerned about these effects, there could be -- that could be a worse outcome.

So if they wait long -- one thing she mentioned in her attesting -- in response for a question, was the longer we wait, the steeper the trajectory, once we start raising rates, and I think -- and going a little earlier and a more gradual trajectory, will be less potentially destabilizing than waiting and going at a steeper trajectory.

So the Fed recognizes that whatever it does, it's going to have an impact on other countries, and the global financial system is trying to damp down that impact, but it has to do what's right for the U.S. economy or the consequences would be even more adverse for the global economy.

MR. LI: Can I follow up on this, David?

MR. DOLLAR: Yes. Yes. We want to make it conservations, so sure.

MR. LI: Two very simple questions. I hope you can answer. I would really, really want to know. First, what's your personal assessment of the probability of the Fed hiking the interest rate in September? Second, what is your reading of the markets assessed probability of hiking? In other words, I'm trying to know whether the markets will be surprised by the actual hiking.

MR. KOHN: So, I think the markets -- I don't have a specific probability, but I do -- let me answer the thrust of your question.

MR. LI: Yes.

MR. KOHN: Which is, I think the Fed seems to have a higher probability, and I agree with it, than the market has built in.

MR. LI: Okay.

MR. KOHN: So, the Fed has been very clear that this is data-dependent. It will be the incoming data that dictate it, and whether the economy is following the path. I think there are people in the market who are doubtful that interest rate will be raised, perhaps because they are doubtful that the economy follow even this moderate growth path, and inflation will be begin to come back to 2 percent. Or they just think the Fed is going to wait and wait and wait. So I do think there is an issue here between the Fed's intentions and, in my view, the most likely outcome, which is either September or December; and what the market as built in.

That's one reason why I think there could be quite a -- could be at least some market reaction when the Fed begins to move. Now they have opportunities, for example, they'll be having a meeting in, I think a week or so that no one expects them to raise rates at, but they'll have announcement afterwards. And their announcement will help us see how they are assessing their progress towards their goal.

So they won't say, we are getting ready to raise in September, because that would contradict the data dependence mantra that they are in, but they could say, well we are seeing some pretty good progress, we see some, hence that inflation is beginning to move up towards the 2 percent -- and that would tell us they are getting ready.

So I think if they can use their communication to make the reaction more gradual, and they -- and what they most want to avoid is misperceptions, and overreaction owing to misperceptions.

MR. LI: The bottom line is that the market will be surprised when the hike comes?

MR. KOHN: To some extent.

MR. LI: I'm asking this because I'm preparing my Chinese investors -- our Chinese investors, we should be prepared for a shock when the hike finally comes.

MR. KOHN: But this could be phased in. So it could be. So what I'm -- my other part of my story here is that the Fed will be getting us ready for this, so it might not be, no, no, no, no, yes, big reaction. It might be a gradual adjustment, depending on the Fed's communication.

MR. LI: And the IMF call on the Fed, according to you, wouldn't be very effective?

MR. KOHN: No. I think the IMF -- well, I am sure the Fed heard the IMF's thing, but the Fed has to make its own decisions for -- relative to its domestic policy objectives. So, I think, yes, according to me, my expectation is that despite the IMF call, they will find that they are going to be raising rates in the sector.

MR. LI: The Chinese counterpart, the Chinese Central Bank usually is much more attentive to the IMF calls, right?

MR. DOLLAR: No.

MR. LI: Usually, oftentimes. Anyway, it's the way --

MR. DOLLAR: I think China and the U.S. are similar, in that they listen but they don’t necessarily respond.

MR. LI: To the World Bank; to your former employer?

MR. DOLLAR: The same thing with The World Bank, they listen, but they don’t necessarily take the advice, which is what they should do. Yes. But, thanks Don, that was very helpful.

MR. KOHN: Thank you.

MR. DOLLAR: You know, one reaction I have, I think people often -- when people worry about what's the impact on developing countries, you know, they don't appreciate that the Fed is only going to making these moves if it has confidence that the U.S. economy is recovering toward potential, that’s the most important contribution the U.S. can make, is to have the economy grow well.

MR. KOHN: Correct.

MR. DOLLAR: So we'll get in -- we'll have more chance to talk about interaction between China and the U.S., but now I want to turn to Zheng Xinli, to talk a little bit about China. He's been one of the key architects of the Third Plenum Resolution --

MR. LI: And also the father of AIIB.

MR. DOLLAR: I thought that would come up in your next Panel that he is father AIIB, but there is a lot of overlap between the two Panels. But what I wanted to ask Mr. Zheng, you know, there's so much in the Third Plenum Resolution, my perception is that some things are moving pretty fast, other things are moving slow. But my perception of course might be wrong.

So I'm interested, would you think that -- do you think that there are one or two areas where reform is moving very quickly, and are there a couple of important areas where reform is not moving? What's your scorecard after about two years of implementation for the new reforms?

MR. ZHENG: The Third Plenums that have come out with more than 100-some of reforms, mostly on economics, such reform is different from the time before, in the past is from bottom up, and to all the -- and that will accumulate, we would evaluate our experiences on that. But for Third Plenum Resolution, is that they are going to ask the departments and the government agencies to adopt the implementation regulations.

So in the implementations will have to be approved by the System Reform Office, and that was my old unit too, and today we evaluate the reform, a proposal that is submitted by the departments, and receive that in accordance to the spirit of the Third Plenum, and after the evaluation and assessment, and then after the discussion of a political bureau, then they will put into implementation.

So all those proposals are being submitted to the level that a lot -- some of the departments have already taken the steps of the reform, and for example, decentralization, and for example, to the market access for the financial sectors, and so that we have already taken steps in these areas, but some of the major reforms, in the stage of preparation has not yet been activated.

There, for example, the reform of SOE, for example, the rural land reform and the SOE, the reform that they have to reform the SOEs so that employees to have a start. Then we have to change from managing the capital, so that we have -- that we are still debating what kind of proposal we should do and as for the land reform in a rural area, maybe is a most potential area for reform.

But the thing is that, this is such a broad issue of the rural land reform, so now we are trying to do some pilot programs in some areas. Now just about decisions of the Third Plenums have included that, that we all -- and we also voted on those, that we were going to fully implement all those decisions. And I don't think you need to have any question about our determination. Thank you.

MR. LI: Can I ask you about -- have a follow up to that?

MR. DOLLAR: Go ahead.

MR. LI: -- the Hukou Reform, so this is one of my favorite issues, is reforming the household registration, or Hukou Registration System?

MR. ZHENG: There's a household registration reform, and that to some of the cities have already -- begin the reform. They saw that the reform that will follow the spirit of the Third Plenum decisions. Now we have to change. We have all worked on the divisions between the rural area, the urban areas, and I have -- now we have overturned as a separate registration systems.

That in the rural areas, they don't have enough of public services, so we need to give them more, in the future we will allow that labor workers, to free flow if going from rural area to the urban area. And also the Hukou System, that will have to enjoy, basically, the same public services. So this is the focus of our Household System Reform, and also that, we also have some pilot programs now undergoing.

MR. LI: What are the major impediments to the relative slow reforms in certain areas? 主要的阻力是什么呀？什么原因使得某些改革比较慢？Could you tell us why that's so slow in some areas?

MR. ZHENG: Now I think that the obstacle of the reform is coming from our conventional thinking of the people, but in -- ever since the reform that they have the way they do their things. The way they work, then that’s all the reform they decided that a Plenum is going to overturn the way that we do things. And we have to change our conventional thinking. For example, like the Household Registration System that we have tried to reform for -- like we've been adapting that for 50-some years, and then now we want to do some reform.

And now, we want to allow the farmers and the people who live in the rural areas to come to the city, and then to put -- sometimes with a -- wherever they can have their registration, they can have their Hukou where they work and where they live, so that we have to change the whole system. So, I think the biggest obstacle is probably is from the way we think, the conventional thinking, and the way we used to work.

And so this time, around when we do the -- adopt these reforms we are going to make a breakthrough in this area. MR. DOLLAR: We will have questions, but since we have a good one here, the question is, one of the obstacles Hukou reform, the financial issue, which I interpret to mean, the fact that local governments would have to provide a lot more in terms of basic services, health, education and, you know, for China as a whole, it won't make any difference, but it does depend on a lot on how the fiscal system is organized. So, either Mr. Zheng or Mr. Li?

MR. LI: 我再补充一个问题。 Yes, I will let -- I had one question. Whetherthe relative slow pace of reform is caused by the Anti-Corruption Campaign?-

MR. ZHENG: Now that’s a -- let's talk about this issue very frankly. I think that the financial issues, it's only the problems on surface, but there is just that for those cities that have more of the farmers coming in, whether they are willing to provide them with the public services for those farmers, so that they have their household registration there.

First of all, that’s for 30-some years, I notice the cities who have more of the farmers, or workers, I mean, are those cities that we have are wealthier cities, so because for those workers, and farmers if they have -- they settle down in those areas that, okay, see that, all the cities they can bear the burden of providing them with the public services.

So, now, the problem is that whether we are going to recognize the contributions of those farmers and the workers to the -- for the building of the establishment, and the development of the local cities, and to provide them, with all housing, and provide they’ll have children with good education, and provide their elderlys, and can come to live with them in the cities, and to enjoy some of the elderly services in the cities.

So I think after the reform and opening up, that they have absorbed a lot of -- attract a lot of farmers and workers coming to the cities, and then -- of course the cities have to provide a lot of financials, or financial burdens for this situation.

As for the anti-corruption what does that have to do to delay the reform? I don't think there's a great impact on the reform. As for the anti-corruption, it may have some effect on those public servants who haven't done anything, now the government is going to do reform on those that the government employees who haven't done anything that they are inaction, so this has never been -- happened before, so --

Now we -- now to some of the government employees haven't done so good about that, so for anti-corruption that may have some negative impact around some of the parties, but I don’t think it will have any impact on the reform.

MR. DOLLAR: Okay. Let me turn to David now. Obviously the world was captivated by this tremendous run up in the Chinese stock market. It seems strange to me that the real economy was slowing down quite dramatically, and finally the Chinese stock market to go off and rose more than 100 percent, and then it had, you know, a pretty sharp correction, which is at about a third of the value, it's bounced back some, so I think it's down to about, 22 or 25 percent.

So I guess the question, the question I want to ask you, is do you think financial reform got out ahead of some of these real reforms that we are just discussing? You know, some of the real reforms of our -- you know, they are moving slowly, maybe it's just, implementation is difficult.

Governor Zhou Xiaochuan seems to have done a lot with financial reform. Is that a factor here, and whether it is or not, how will the stock market correction affecting things going forward? Is the lesson that China was moving too fast in some areas, and you pull back? Or the lesson that you really need, you know, more coherent reform in order to develop a healthy economy, healthy companies, healthy corporate profits?

MR. LI: A wonderful question. But I think overall, overall the financial reform is still behind the schedule announced by the Third Plenum; overall the financial reform is still dragging their feet of the real economy, overall, that’s the general picture. I'll give you one example. Small enterprises still struggling in the credit market.

We have here, among our delegates, we are -- an entrepreneur, Mr. Qin -- Where is Mr. Qin? Who is actually a pioneer of this kind of reform? He is lending to small businesses in small amounts. He's got 50,000 people working for him, private business. This is despite the government's policy to encourage, he is on his own, right? He'll soon become number one, you know, in China, in doing this kind of small lending?

Anyway, overall financial reform is still very slow, it's still preventing the real economy from realizing its efficiency, mainly because small enterprises have not been getting their -- the much-needed credit. In this general picture, in the regulation part of the stock market, some reforms were pushed too fast, frankly speaking, especially the one allowing small investors to to become highly leveraged in playing in the stock market.

This time around when the stock index reached 4,000, 4,000 Shanghai composite index, there are some articles saying this is the beginning, only the beginning of a bull market, right. It's only the beginning, not the end, right? So, reading this in People's Daily, the editorial, many inexperienced investors began to invest.

Poor timing, poor timing; not only did they invest, they borrowed the money from banks, from the securities firms, and sure enough the price shoot up to 5,200, the index to about 5,200 and drop down to 3,500. A tremendous adjustment, so over there we can argue, in there we can argue, the over leverage was huge draconian force, forcing the market to make the adjustment within 20 trading days, one third of the market value was lost, that’s premature.

So China is not ready to have this kind of high leverage in a stock market, because overall Chinese liquidity is tremendous. The ratio of M2, of money to the stock market, so the tradable shares; the tradable market share is four times. In the U.S., it's the other way around; in the U.S. it's only one-half, one-half. Your M 2 is only one-half of the total tradable market capitalization of your stock market.

So in China, I would argue, that reform went too far. Now also I should also argue that this time around, the stock market is becoming more efficient, it's very cruel to say this, here it's easier, in China it's very cruel to say this, because many people lose money. Why? Because the last time around the stock market shoot up to 6,200 in index corresponding to a PE of 70 times, 72 times.

The last time in 2007, in November 2007, Chinese stock market, the main Board was having an evaluation, 72 times PE. Now this time around, I calculate it, our PE at peak was around 28, 29 times before the 30 percent adjustment. So you can see this stuff is becoming more efficient, the problem is the social -- in terms of a social impact, it's draconian, it's very punishing for many inexperienced shareholders, and I also, I would also emphasize, thank God, the capital account is not completely open.

If the capital account is completely open, then you can imagine a lot of investors who have made money in the first round, in the first -- in the initial round of the bull market, right, leading towards 4,000 index, would bring their money, would invest in the U.S., but this, again, might be good for the economy overall, in the long run, but that certainly will cause a political economy problems.

Many, conspiracy theories will be there in the Chinese marketplace that will, in the end, jeopardizing the whole reform process. So this time around I think policymakers will become more cautious on the capital account comparability than before. And that's the impact on the overall reform process.

And again, another implication is that the RMB internationalization will also have to be more carefully thought, more carefully, right, considered after this episode, because that issue is linked to capital account comparability.

MR. DOLLAR: Of course we've had big stock market corrections in the United States as well, not that long ago. I think, Don, you were actually on the Committee, the FOMC, at the time of the global financial crisis, and our stock market dropped about 50 percent but not quite as quickly. Now, China has taken some very extraordinary, somewhat ad hoc measures -- you know, a lot of shares you're not, suspended trading, big shareholders are not allowed to sell.

I think they stopped short selling. Now, in the United States we stop short selling during that last financial crisis. So, I would like Don to comment on, you know, whether you think that worked well for the United States, and whether you have a view about these ad hoc measures that China is taking?

MR. KOHN: We, the SEC, banned short-selling of a certain financial stocks kind of in the middle of the crisis, as things were falling apart very rapidly after Lehman Brothers' bankruptcy.

MR. LI: All shorting or only naked shorting, that's at different times -- all shorting?

MR. KOHN: I'm not sure.

SPEAKER: The capital, 0.05 percent (Inaudible/no mic).

MR. LI: Yes.

MR. KOHN: It was a very, a very small proportion of the --

SPEAKER: Across the board, no, no.

MR. KOHN: Not across the board for sure, just a few financial firms. I think some of us, even at the time, wondered whether this was not really dealing with the underlying problem, but was dealing with the symptom, and would itself, impair liquidity in the market, and probably it wouldn't do any good, and it could some harm. I think it was on for a short time, it was in the context of a very severe crisis for the whole economy, the very severe recession.

So I guess I would be skeptical about these ad hoc kinds of things really help to promote the development of the market and the liquidity of the market. So the -- and I hope the U.S. is very sparing in any usage of this, and I think that's the last time, the only time we've used it.

MR. LI: You mean, hope China?

MR. KOHN: Of the kinds of things like banning short selling and that kind of thing, that's not a good idea.

MR. ZHENG: I'd like to make one addition. In terms of China's financial problems, I'd like us to pay more attention to China's monetary policy in the recent four years. The stock market fluctuation at this time, in terms of its impact of the macro economy, compared to our fiscal -- our monetary policy from the past four years, this is not as significant.

So, from 2011 to 2015, we have in fact, tightened up our monetary policy. From 2011 to 2014, in those four years our M2 growth, annual growth, it's around 13.5 percent. In the first half of this year, our M2 growth already is 11.8 percent. Prior to that, 20 years prior to that, from 1991 till 2010, during those 20 years, M2 growth rate is around 25 points -- 20.5 percent, and the economic GDP growth is around 10.2 percent, so M2 growth rate, during those 20 years, has been twice the GDP growth.

So, this observation, actually corresponds with Friedman's regulation -- Friedman's perspective. So in the '90s, I have to come to Friedman in the U.S., and asked Friedman, how do you control inflation, because he is a financial statistician, he told me, if you look at Japan, look at Korea and Taiwan, during fast growth, if you keep M2 growth at twice the rate as GDP growth, it's an appropriate rate.

And in China during the '90s throughout the early millennium, this trend has again proved that Friedman has been right. But in the most recent four-and-a-half years, M2 growth rate has slowed down or decreased for 7 to 10 percent, and this has caused serious deflation. And this has made enterprises, businesses to have a negative perception of the market, so they don’t know where the growth point is to market, and all the commercial banks have trouble giving out loans.

The last time our -- the People's Bank of China, have to buy back a lot of its assets. So this kind of decreasing trend or this decreasing speculation has caused -- has been the cause of China's deflation and the economic slowdown. So, I hope that everyone can pay more attention to our monetary policy and its impact to the macro economy of China.

MR. DOLLAR: I'm going to ask David, let's talk a little bit about the interaction of the two economies.

MR. LI: Mm-hmm.

MR. DOLLAR: You know, are you worried about the Fed raising interest rates? Do you think this will have a significant effect on China? Does it complicate things? And just more generally, does the performance of the U.S. economy have a big effect on your reform program and your growth?

MR. LI: Sure. Before coming to this question, let me -- I can help by making an observation. Right here we have -- we are now the architects of China's reform, and the inside of the policymaking community, really. Well respected, and he is a good student of Milton Friedman. Twice he came to the U.S. seeking advice from Milton Friedman, the late Milton Friedman.

This is highly revealing, you know, for those of you in the media. I guess it's okay, right, to -- You said, this, right, I'm just making comments. Anyway, coming to the issue of the U.S. Fed, yes, I am a little bit concerned about the eventual hiking of the interest rate of the U.S., because number one, the market, as you indicated, is unprepared. When I say market, I mean the Wall Street, the Wall Street, and as well as other financial markets all over the world, they are unprepared.

So when the hike actually comes, there will be a shock, that’s my reading. The stock price will come down, but that will feed the Chinese stock markets and the financial markets, not that China is needing currency reserves, China has a tremendous amount of currency reserves to buffer any capital outflow in the current regime, of capital account management, right?

That the direct impact on China from the U.S. Fed is relatively small, I worry about the indirect impact, that is the channel of expectation, the channel of foreign markets coming down, affecting Chinese markets, are coming down. So, sometimes in China, I joke that usually in autumn, in autumn problems have been in the financial markets. You've got, right, the global financial crisis, starting September, by the 15th of '08, you've got the long-term capital in autumn.

Of course, now it's one different issue, and still in autumn, right, so let's be prepared for the big autumn, that's why I asked for what's the --

MR. KOHN: That's why they call it fall.

MR. LI: The fall, yes, the fall, the same word. Yes. Usually summer time is okay, because summer time in the U.S., people are quiet right, the financial markets are quiet, but China, different; China this time around, with big fall in the summer, because people tend to move earlier than the rest of the world. Anyway, so yes, to answer your question, I'm worried.

MR. DOLLAR: Right. Don, do you want to respond a little bit?

MR. KOHN: Well, I do think it's not an on-off switch, so there may be some surprise, the question is, how much surprise. And there's also an issue, I think, which is kind of implied by what you say; with the rates where they are, are positions building up, that eventually will have to be reversed. And this is controversial in the U.S., you know, are stocks overvalued, are bonds overvalued? Is the dollar in correctly valued going forward?

And no one is really very certain of that, of what the right answer is there, but if you thought that risky positions were building up, keeping that, the sooner you got going, probably the smaller the response would be. So that's partly, I think why Chair Yellen said if we wait, it will have to be a sharper increase, if we go earlier, it could be a gradual increase, actually it's probably better for financial stability to have that gradual --

the gradual increase.

MR. DOLLAR: I'm going to ask one more set of questions, the I'm going to turn to the audience, so you can be thinking about your questions, but I have a set of questions for the three of you, that concern -- and apologies. This is a little bit of a topic for the next Panel, but I want to take advantage of having Mr. Zheng and Don. You know, David and I will both be there for the next Panel.

It's a question about global economic governance. China would like its currency, the renminbi, to be included in the IMF's SDR. So I want to start with Mr. Zheng, and I'm going to Mr. Zheng; so what is China's thinking behind internationalization of the RMB, including it in the SDR? You know, what does China gain out of this?

Don, I don’t know if you have view, but I'm going to ask you if have a view about including the renminbi in the SDR this year? Okay. And then, David, of course, you can come in as well; but let's start with Mr. Zheng, and the internationalization of the RMB.

MR. ZHENG: In order to ensure the stability of the international financial system, I think that we should establish a multilateral, multifaceted monetary system in the world. Currently the U.S. dollar, that’s the main reserve currency of the world. It has assumed too much responsibility, it went beyond its actual capabilities.

If we can establish a system that includes the dollar, the RMB and the euro, where, the three currencies are balancing each other, if one currency rises people will buy, and if one currency goes down people will sell them. So in this way, it's kind of forcing the sovereign government of the currency, to stabilize the value of their respective currencies; so this may be one way for us to establish a stable international monetary system.

In terms of RMB, at the current stage, it's far from the international currency. Right now we have done a lot of preparation work for the international agent of RMB, and the last step is to allow the exchange of capital project. And it may be implemented very soon. And we've established Monetary Exchange Agreement with many countries.

So RMB, in terms of its flow in the international market, in terms of RMB joining the IMF SDR, becoming a member of the SDR, will contribute to the internationalization of RMB, currently our proportion in the SDR is too low. The IMF is hoping that we could increase the share of RMB and SDR, I think it's the right position, and the U.S. Congress should back this proposition. Thank you.

MR. DOLLAR: Then inherently destabilizing, they have a multi reserve currency system with the SDR -- sorry -- with the Chinese yuan, and the euro, and the dollar, you know, in the foreseeable future, and then if you have an opinion of the SDR?

MR. KOHN: No. I don't think it's -- I know I'm not familiar with this literature, but I do recall reading that are pros and cons to having multilateral, multi-dimensional international financial system, in terms of the shifting of demands that we were just talking about on how disruptive that could be. I think the most important thing, is to have each country, each currency issuer to have sound and good policies, and be open.

Have open capital market, open financial markets to facilitate the flow of finance around the world to its best uses, to facilitate productivity rising everywhere. And so I think whether there are two currencies, three currencies, et cetera, is almost secondary to good policies and good policy frameworks, and open markets.

I don't have a view on whether the RMB is ready to be included in the SDR, my preference would be that the IMF have clear criteria for this inclusion and that they -- that any currency have to meet those criteria, and I don't know what they are.

I think the last point you made about the Congress, and I think you are really referencing the voting shares, and I certainly support -- I wish the Congress would pass that Bill to reform the voting shares in the IMF to modernize the governance of the institution. I share your concerns in that regard.

MR. DOLLAR: Yeah. David, do you want to weigh on this? And then I'm going to turn to the audience.

MR. LI: Sure. Very briefly. I do see long-term benefits for the RMB to be an international currency, not only for China, but also for the world, including the U.S., because we will have more currencies for countries to keep their reserves in, right, there's less burden on the U.S., and the U.S. Fed, right. This is for sure. Also, I myself started my research on the RMB internationalization before the financial crisis, eight years ago.

But now after eight years, I'm becoming more and more cautious on this issue, for many reasons, and I'm only going to mention two, okay. From the Chinese side, a very rapid internationalization of RMB means that the capital economy will be more open, and the recent episode of our stock market and volatility shows that we have to be very careful, right; very, very super-cautious in this regard.

And also, in addition, again on the Chinese side, a rapid internationalization of the RMB means what? It means that the world, all over the world more and more people will swap their U.S. dollar holding to Chinese RMB holding. The demand for RMB will go up, therefore, the real exchange rate of RMB will have to, one way or the other, appreciate, right. A rapid appreciation of -- but the RMB may not be good for the transition of the Chinese economy, so there is a cost issue.

Now this will for China, on the U.S. side the picture is even clearer. In the U.S. nobody, nobody knows what's the impact of having a new international currency on U.S. interest rates of your Treasury bond. Let me put it very frankly. The Treasury bond, now U.S. enjoys super-low Treasury bond, maybe 200-year record low? I'm asking, is it 200?

SPEAKER: More or less.

MR. DOLLAR: Go ahead.

MR. LI: So that will -- no one knows what's the impact, even with minor probably of RMB becoming international, causing your Treasury bond interest -- interest rate to go up, that consequence might be quite impactful. So we have to be careful on this issue, that's the bottom line.

MR. KOHN: I think it would-- there are a lot of portfolio shifts that might occur. I think they would slowly over time, and I do think the low rate on the U.S. Treasury bonds reflects, primarily, the perception that they are risk free, and of course the very low global interest rates including in the U.S., in order to get economies going.

I think you've point to an important point though in your answer, which is people talk about the U.S. as a reserve currency having an exorbitant privilege, as if it's a great thing for the U.S., and I think you are right, there are pros and cons to being a reserve currency. You just you've just pointed out the cons might be for China, so it's not a black and white thing, it's good, it's bad, there are -- it can go lots of different ways.

MR. LI: And it was the SDR issue, in China, obviously this, it shouldn't be treated as Olympic gold medal, right. Don't treat it as a gold medal project, treat it as a pragmatic thing, right; be cautious on this issue.

MR. KOHN: I think when the euro was established people thought that would be a rival for the dollar as a reserve currency, and even before the crisis, I think the shift in reserves was very gradual, and the implications were not that large for either the Euro economy or the U.S. economy. But I guess I doubt that the establishment of the

RMB would have major negative effects on U.S. bond markets.

MR. DOLLAR: Okay. Let's turn to the audience. I'd like to take three questions at a time; this gentleman's hand went up first, and the microphone is right there. And please identify yourself, and ask a question.

QUESTIONER: Ping Xu from Voice of America. Yes. About Household Registration Reform, and Mr. Zheng mentioned of that, of the coastal outer bands, developed the cities, say, in China; enjoy the most contribution from migrant workers without distributing benefits to them. Yes, my question is, if I were such a Mayor of such a developed city, I would like to keep the status quo. That is, I get a free lunch without paying anything. That means, here, we need a political democratic reform there to put pressure for the -- for the reform.

But now it seems that political democratic reform is dead in China, or it's that it's at a dead end. So, how to get out of this situation? Or, do you think there's any way out for this? Thank you.

MR. DOLLAR: Okay. As I said, I'd like to take three questions, because there's always a chance they are linked, and this gives everyone a chance to respond. I'd like to try to avoid everybody answering one question, because then we just don't get very far. So this gentleman with his hand up there, and then I'll come over to you, and then we'll definitely take another round. Okay?

QUESTIONER: Yes, I'm Dr. Visach Audre, with (inaudible) League. My question is that there's a big trade deficit between the USA and China trade. What are the incentives of the USA to continue to allow China to have this trade surplus while dealing with USA? Thank you.

MR. DOLLAR: Okay. So the third question I'm going to throw that one to Don. I will get to you, but there was a slight misunderstanding by the mic person. So the gentleman back there -- No, no, sorry -- Yes.

MR. KANE: I'm Tony Kane, from American Councils for International Education. I'm not an economist, so my question is not going to be an economics question, but I guess I want to frame in terms of Mr. Li's introductory remarks about, you know, learning from Michael Jordan, because it seems to me I see a tendency in China now, to be told, if you are going to learn basketball you have to learn it from the Yao Ming.

MR. LI: Oh.

MR. KANE: We have to learn from Chinese. I mean, you say there are people here from the Shekeyuan, who have been warned about foreign influences, and as a historian this, to me, goes back to the 自强、西学为体中学为用, and that never really worked. Obiviously, Americas have their own view, but I'd be interested in hearing from a Chinese point of view, whether you think this is actually limiting and destructive to the ability to push forward the kind of reforms you really need to succeed.

MR. DOLLAR: Okay. Good three question. They actually don't link, but that's fine. Mr. Zheng, the first question is for you.

MR. ZHENG: Okay, first of all, so those most of the developed cities, rather, they should provide public services to the farmers and the workers, and this, is already included in a decision of the Third Plenum, and it has to be implemented. There is, only sooner or later, when we are going to do that, now we have to reform the rural area, and we have to put our focus on rural area, and urbanize our farmers and our workers.

And then for those rural housing land can be transferred and now those are the reforms that had digital, and it's all those three reforms in the rural areas have to conduct, at the same time. So, for the farmers, to transfer their rural housing land, or to --

rural land, to transfer to other collective corporations, and then to transfer rural housing land to -- that you will gain some wealth in that way.

And on top of the affordable housing in the cities, they will be able to buy housing, or to rent an apartment in the cities, and to have the family united in the cities. So, to be able to -- they have city dream. So that very soon, there you are going to see such an achievement in China.

And second, second is that, the trade deficit, the deficit between the U.S. and China, that's because of different factors. All those factors; if we have any changes on those factors it may have some impact, and that would affect our trade deficit. But in the foreseeable futures, at least in the next eight or 10 years, as far as I'm concerned, such kind of trade deficit will still exist.

And so to exist -- trade to exist it's because that the divisions of technology that's between U.S. and China, so, for example, that we provide labor-intensive and the resources intensive of a technology. And then the U.S. provides us with also, intellectual and technology-intensive technologies, and there is a gap in prices. And for China, that we enjoyed the trade surplus in this transaction.

So, I think that within 10 years' time, such a -- without any changes on the way we do trade, that the surplus is still going to be present. But such kind of surplus is beneficial to both countries, American people can enjoy of the cheap products, cheap goods, and the Chinese people with the trade surplus will be able to purchase some of the high technologies from the U.S.

But in addition, there's going to be one change, that we are going to lower the amount of the Treasury bonds that we bought from the U.S., we are going to change it to direct investment, but direct investment probably is to buy housings in the U.S., and if for some -- and so some of the enterprise or companies are very innovative, and then we may acquire all those companies as well.

So now U.S. and China is negotiating Bilateral Investment Treaty, we hope that the treaty can be signed as soon as possible, that once this treaty is signed, that’s it's going to play an important role in our deficit between U.S. and China. And the third is that between the market economy, in the technology part, that the U.S. is the mentor of China.

We are as an elementary student that we learned with respect from the U.S., this is my ninth time to come to the U.S., and every single time when I'm here, and I try to learn from your macroeconomics issues. And so it -- including the macroeconomic adjustments, that we have learned a lot from the U.S., for example, that we talk about our experiences, of how to deal with inflation, that we also learned from the American teachers, American professors.

However, after we learn from you, that we still have to go back to China and then look at the reality on the ground to -- and to combine those together -- So, in order to have assistance for reform. Last year, the Chinese students, the Chinese high school students come to the U.S. for colleges was about more than 200,000.

And then for Chinese students to go to other -- to go overseas is about 460,000, and so what does that show, that shows that we are very modest, that because we know that we have to turn to other people, so that we sent a lot of students overseas for them to learn, and so that we -- I think that for the next decades we still have to be the elementary students to learn from others. Thank you very much.

MR. DOLLAR: So it's bilateral deficit, trade deficit from China, you know, why does it allow it to continue? Actually I like that word allow, is there anything that US can do to change the situation?

MR. KOHN: Or anything the U.S. should or China should do to change situation. I don't think you can look at -- let me pick up on the second set of points that were made, and I agree that there are many reasons and comparative advantage, and trade and technology for countries to have deficits and surpluses with each other. And by and large, when the fundamentals and the technology, and the relative labor costs dictate those trade flows, both countries benefit.

We know that from David Ricardo, on forward. Now, what gets to be a problem, is if there are artificial barriers to the adjustments of relative labor cost and relative prices. And, the perception in the U.S. for a long ime was that intervention in the currency markets, by China, was putting that artificial barrier to true adjustment to the underlying technology and compare with the advantage.

Now that has dissipated to a large extent as I understand it, there's much less intervention today, so I think allowing the RMB to appreciate, allowing market pressures to come to bear on the RMB has been a very positive contribution to global economic stability and global growth, and we shouldn't be focused on bilateral trade between two countries, as long as the underlying policies are right.

I mean, China is part of a long -- a piece of a long set of supply chains, and just focusing on those two numbers isn't really in the interest of either country, the policies are in the interest of either country.

MR. DOLLAR: Okay. Thank you. David, do you want to tackle the last question which was also common, or any of the others, but though not at length? And the last question was about this changing attitude in China toward, you know, foreigners, foreign technology, foreign connections; you know, how serious is that, and is that a problem for China continuing to integrate in the world?

MR. LI: I think overall, despite all this very busy comments in the Internet, overall, if you talk to people on the street, people in China are still holding, in my view, a consensus that China is still a poor economy, it's a poor country, and China needs to learn.

And there are certain important ingredients among all successful societies; think tanks are actually important ingredients for a society to function properly. So in this regard China has to learn from the best practice, right. So, Michael Jordan, for sure is much better basket player than Yao Ming. Yao Ming got into the every year All Star, because of China's voters, but if you vote among the coaches, for sure Michael Jordan will be in. Yao Ming, I don't think will be in the All Star team.

Anyway, so coming here we are learning, we are learning from the best players, right. So I think this attitude is still popular in China, it's still the underpinning of the society, on the issue of U.S.-China trade, I'm optimistic. I would bet in the coming decade the picture will change, for two simple reasons.

Number one, Chinese consumption is coming up. By my calculation, it s about 46 --47 percent of the GDP, not the official one; the official data grossly underestimates our consumption as a share of GDP. And to go with this, wage rates are not longer low, China is no longer cheap, labor is already become expensive, here among us, that we have the owner of the big construction, Ms. Lee, she's sitting in front at the second row, she's the owner of the big, private construction group. She asked me, she told me before, one year ago, she wants to replace some of her workers by robots. They are robots because construction workers are too expensive, right. So what's the implication? The implication is that China will buy more stuff, will produce less cheap stuff, right.

I'll give you one example. One story, smart phone, you know, we use iPhone, we use Samsung, but to tell you within one or two years I bet some of the market shares of Samsung, or iPhone will be given away to one or two Chinese friends, Xiaomi, or Huawei; Huawei a scary name, you know, right, for some Americans?

But Huawei is getting into smart phone, very good, and no share. Okay I'm holding -- I have no shares of Huawei, I'll follow you, okay. Probably it's not listed in the stock market, so honestly, they are upcoming. Why? Very simple. The comparative advantage of Chinese producers of smart phone is that China has the largest market of smart phones.

We have a large market, you can do R&D, you can -- right, you average down the RMB expenses and then you can develop. That’s why the Germans, even they are good in making cars, they are not good in making smart phones. Have you ever heard of a German smart phone? Never, right, there's a reason for that. Anyway the picture will change within 10 years.

MR. DOLLAR: Okay. This gentleman over here; I feel this gender imbalance, are there no women who what's to ask questions? But, no, are going to start with him, I'll come back in a moment. Go ahead.

MR. JONES: Bill Jones from Executive Intelligence Review, I'd like to ask Mr. Zheng, concerning his comments about M2, and the restrictive monetary policy. You seen to indicate that you would want a liberalization of monetary policy, and enlargement of M2, if I understand the question correctly. How do you, in that situation, if that is the case, how do you avoid feeding into some of the potential bubbles that exist in China, like in housing, or some of the other areas, when that policy is implemented; if you could clarify what you said? Thank you,

MR. DOLLAR: Okay, this gentleman right here. And then the gentleman in -- at the back, the gentlemen with the hand up, yes.

MR. WARNER: Robert Warner, of the Warner Group. This is a question for our Chinese guest. Could you give us a progress report on your government's goal to sharply increase, over a period of time, consumer spending as a percentage of overall GDP?

MR. DOLLAR: Okay. Excellent. And then, you see the gentleman there? Yes.

QUESTIONER: My name is Hu Chen Young from Love Funding. Pretty hard to do here, Mr. Zheng, talking about international -- Chinese international students, because I'm one of them; I came in to the states in 2009, to experience and learn, now I'm focusing on the commercial routes like financing, and my question is to Mr. Kohn regarding the interest rate.

So, how much has the sharp decline in energy market, energy price contributed to the low inflation scenario, a situation in the States. So once, or if when, the energy market, the global energy markets stabilize, are we going to see a very dramatic climb up for the global energy price, and what is that going to impact on the Fed to get -- to possibly give more hikes after the initial hike? Thank you.

MR. DOLLAR: I think we are going these in reverse order, so I'm going to ask Don to answer that one.

MR. KOHN: Okay.

MR. DOLLAR: Who is very clear? And, David, I think you are the best to answer about raising consumption relative to GDP, you already mentioned that; and then Mr. Zheng on monetary policy; but first, Don.

MR. KOHN: Well, energy prices have certainly depressed headline inflation, overall inflation in the United States, as they have everywhere, and resulted in a mild, temporary deflation. It's not really a deflationary situation it's just a price level adjustment down.

The Federal Reserve correctly, in my view tends to look through those energy prices, to look at what's -- looking at core inflation, which excludes food and energy, but also thinking about the feed through of energy to other prices in the U.S. For example, airline fares, et cetera, and try and underline -- and try and determine what the underlying path of prices are resulting from persistent supply and demand changes.

So, I think the decline in energy prices, has not had a huge effect on monetary policy, and I wouldn't expect the leveling out, which is kind -- there's been a little bit of a rebound in the leveling out, to have a big effect on policy. I think the Feds are trying to look -- that's more a price-level change, than a persistent inflation change.

The Feds are trying to look through that, so I would downplay the effects of energy prices on Federal Reserve policy, except as they might affect underlying supply and demand in the whole economy, and have a persistent effect, say, on inflation expectations, which they haven't done so far.

MR. DOLLAR: Okay. David, progress on the government's effort to boost consumption relative to the GDP?

MR. LI: Yes. First of all, theirs is not explicit target of the government as of the ratio of consumption to GDP, and thanks to God, there's no target of this. The cost, the cost is almost impossible, I claim, for any government policies to boost that share, because consumption or private consumption is made by hundreds of thousands of households, right.

How can you do that? In Hong Kong, in Singapore, they tried to do that, when I was in Hong Kong, actually, the government gave us, everybody a check, HKD 5,000 maybe be around USD600 for us to spend. Most people put the check, right away, into the bank account sleeping there, right. So, it's impossible to do that, right. Now, the good thing is that as I already mentioned, wage rates are increasing in China because of relative shortage of labor, blue-collar labor.

And therefore disposable income of most households is increasing, and therefore people are able to consume more and more, and as consequence, consumption as share of GDP has been steadily increasing ever since 2007. 2007 is the trough, not it's 47 percent. So I would say give it five years, consumption will be higher than 50 percent, which is a pretty comfortable figure for a growing economy like China.

That's the consumption question, on the issue of M2, let me -- Can I go to the --

MR. DOLLAR: Sure.

MR. LI: Okay. Now, I do agree that the current monetary policy in China is too tight, especially facing the prospect of U.S. fact, hike in interest rates, so in China, I have been proposing, our monetary policy to lose a little bit, maybe actually lose, and then waiting for the Fed to hike interest rate, and then we hike, we'll go in synch. We don't want to -- because when the Fed hikes interest rates there definitely will be certain pressure for capital to flow out from China to other economies. So China has to be prepared for the U.S. policy change.

Now, that being said, let me also mention something else and, too, is no longer as indicative as before, because why, because M2 is linked to bank lending. But you know what, in China, there's a fundamental change going on right now. Corporate bonds and municipal bonds are becoming more and more important, which are outside the M2.

You know, the Chinese bond market is now number four, soon to be number three in the world, in terms of stock. Bond market, most of which -- most of the bonds are traded in the interbank market, not in the open stock market. So the bond financing is becoming more and more important, replacing bank loans. This is good progress; this is the progress we've been pushing for many, many years. So I agree with

Mr. Zheng, with all respect, however, the number M2 is not indicative.

MR. KOHN: Okay. Mr. Zheng, can I ask two questions about the consumption thing.

MR. ZHENG: Sure.

MR. KOHN: I thought there were two kinds of reforms that would help here. One was the provision of a safety net by the government so that people didn't have to save as much themselves, and the second and related one was financial reform. So they had more ability to shift their -- and more confidence that they could shift their consumption over their lifetime that they would return -- and get a real rate of return on their savings. So I thought both of those types of reforms wouldn't be important to boost consumption.

MR. LI: Good question. I think it's a myth, but we did research on this issue, empirical research. We found that, to our surprise, Chinese consumers are much, much less sophisticated than their U.S. counterparts. All they want is cash right now, cash in hands, salary in hands, in their pockets, before they want to consume.

They don't believe in borrowing money and consume, they are not American consumers, these are Chinese, most of them are low income, blue-collar workers. They line up in the HR Department of, let's say, construction company, saying, don't give us insurance, give us cash, cash in hands, we want to opt out in your insurance policy, right. So this is Chinese consumers. Anyway this is about economics, you know, economics, I guess, has to be adapted to culture, our local situation.

MR. DOLLAR: Okay, Zheng on the monetary policy.

MR. ZHENG: I want to provide my feedback to the person to second question, especially the second one, which is my area of expertise. Chinese consumption in terms of standard GDP is 36 percent, the U.S. is 72 percent. This represents two poles of world economy.

And how do you boost consumption? We have two policies. One is to increase income of our residents, especially people in the rural areas, the peasants, the farmers. If you look at the most recent two years, in terms of the growth rate of our income, resident income, which is faster than GDP growth. And farmers' income in terms of the growth rate is faster than urban residents.

This has been unprecedented since the beginning of the reform in opening up policy. This means that consumer power will be increased. The second policy measure is that we need to increase the income of farmers, increase their consumption power because there are over 600 million farmers in China, and their average income, and average consumption is only one-third of that of the urban residents.

So how do we increase their income? The Third Plenum has lined out several important policy initiatives, which is to modernize rural economy and to shift labor to the second and the third industries, we have to encourage the farmers to reallocate their parents and their children to the cities, to increase urbanization.

So, this is how we plan to increase rural residents, or farmers' income. We have seven cities, in terms of -- for example, in terms of motor vehicles, we have seven cities in China that are actually limiting the purchase of motor vehicles, but in rural areas, the ownership rate of cars is still very low.

In the U.S. every 1,000 persons own 800 motor vehicles, or cars, and in China, that number is only 17, so we have to increase that, for example, in order to increase consumption. With regards to preventing financial bubbles, overall, I think that the Chinese economy has a little bit of bubble, but that’s within the normal range.

In the past we used to talk about the economy being very monetized because we have over 13 trillion M2, and GDP is lower than that, so the monetization rate is about 200 percent, but the monetization rate is what we've looked at in the past, and we have neglected the real economy. Chinese economy had been depending too much on direct fundraising from the banks, and that rate is only 30 percent in China, and in the U.S. it's 70 percent.

So the total cap of China, with relations to the GDP has been 40 percent in the long-term. So, overall, the securitization of China is still much lower compared to developed countries. If you look at the U.S. a lot of financial derivatives with high leverage, and in China there is no financial derivatives with -- and very low leverage, so under that light, the monetization of our economy, a greater M2 numbers, it's within normal range, it's necessary, it's rational and it's normal.

So, China, today in terms of changing a rather monetary policy and to loosen up monetary policy increase, the flow of M2, this is a policy measure that meets the current -- it's a fundamental measure that's going to deal with the current economic downturn.

MR. DOLLAR: And then, this other woman standing up over there, those will be or two last questions. Okay?

QUESTIONER: Thank you. Hi. Good morning. My name is Virginia Kutch, and I'm an Independent Intercultural Consultant specializing on China. Thank you all for your presentations. My question is; how does China intend to reconcile its consumption goals with environmental protection and sustainability? Thank you.

MR. DOLLAR: Excellent question. Thank you.

QUESTIONER: (Speaking in Chinese) -- I have a question for Mr. Zheng. Last week President Xi Jinping in Yanbin talked about that China's goal is to develop its real economy. I don't know if it's a conflict with the reform goals that you just talked about.

QUESTIONER: I have a question. China has been promoting PPP projects, public and private partnerships, so I want to ask our foreign experts if there's any experience that China can learn from the U.S.?

MR. DOLLAR: Okay. Let's, David, you are going to do the, how does China reconcile consumption with the environment; And Mr. Zheng on the effect of the reform on the real economy.

MR. ZHENG: In terms of SOE reform, shifting from managing asset to managing capital, it's a different matter from whether SOEs spent their capital in real economy or in the financial market, because in the past we talked about -- we used to refer SOEs as managing the people, managing the asset, and managing the company. So now, we would like them to actually move toward managing capital.

Establishing a corporation that manages the capital which for control shares of the actual SOEs and depending on the shares that this overall management company holds in different SOEs, they will have the varying voting rights, so before the SOEs, you know, if they are involved in the real economy or if they are actually -- so we won't withdraw funds from SOEs, so that they could invest in the financial market, it's two different matters we are talking about.

It's just like in the China we have established, the China Financial Corporation, and what it does is that it withhold shares of commercial banks, it does not interfere with the banks' actually operations. So, in the future, in terms of managing SOE asset in China, we may actually borrow that model. So in that way it's actually -- it will actually contribute to the growth of the real economy.

And a lot of the large SOEs may actually become a capital management company, and that’s sufficient. So that’s my view on -- it's a great shift in terms of managing SOEs in China. Especially, a lot of our SOEs are actually listed in the U.S., American investors are shareholders of our SOEs, and they have to open their books to investors, and to be subject to oversight of investors, and these companies are actually internationalized, and have become social enterprises.

In terms of how do you reconcile the goals of environmental protection and consumption, so the Third Plenum decided that we need to establish an ecosystem, civilization system. So whoever pollutes, whoever paye, and we want the third party to be overseeing the progress.

In the past we have been lagging in terms of supervision. The businesses who took care of their own pollution, they suffered a loss in their income, but moving forward we will ask businesses that pollute, pay a fine, or pay fee to the government, and the government will then look for a qualified and specialized firm to deal with pollution.

So, previously our companies would have this, you know, pollution control system, and you know, they turn that on during the day, and turn it off during the night, and turn it on when the inspectors came, so in the future we are going to shift that to a third party provider.

MR. LI: Private consumption as a share of GDP according to official statistics, only 36 percent, but that's grossly, grossly wrong, because Chinese official number relies upon household surveys for consumption, and when we do household surveys they can only get response from low-income households, because they pay people to report the numbers.

High-income and busy people would never cooperate, therefore they can only account for 50 percent, one-half of all the automobile sales, from household surveys. So, in my number, you know, in my research with a company that starts from wholesale --

sorry -- from retail. Reconstruct our consumption from retail, we took out all those government and enterprises approaches through retail, and then we add back consumption through -- of service, and then we've got a number of 46, 47 percent of GDP as private consumption.

That being said, let me tell you a story about consumption. Today's consumption increases mostly the incremental part coming from service, not from material. In China, for example, if you want to treat your guests -- that's Friday night, right, what you can do, you can call. Pick up the phone -- or you can -- go to the Internet.

You'll say, I want the Sichuan style food, somebody will send you a chef, right. If you don't trust their food, you can buy, you can call Internet delivery of your food, and the Sichuan Chef will cook it for you on the spot, and then lay table and leave. And then you call them, they come in to wash dishes. This is Chinese new consumption, mainly in service, not really the materials.

So, consumption is changing, service is becoming more important and consumption increase and sustainable -- sustainability environment for protection they are going in hand.

MR. DOLLAR: Okay. Don, I actually can answer on PPP, unless you would like to.

MR. KOHN: Over to you, David. We are okay.

MR. DOLLAR: I'll just briefly say on the public-private partnership, I mean the phrase is vague, and covers a lot of different things, but my time in The World Bank we were primarily interested in public-private partnerships in infrastructure, and you can find quite a few good examples in the United States, and The World Bank has a lot of successful cases, the basic principle is to separate, you know, the kind of public goods that only the government can do, or sort natural monopoly functions.

And then, you know, try to carve out space where the private sector can compete, you know, for power generation, for example. You separate distribution from generation, so private companies can compete in generation, whereas distribution is a natural monopoly. The U.S. has a pretty good track record, but recently the problem in the U.S. is, our total infrastructure spending has just declined quite dangerously, so we only spend 1.7 percent of GDP on infrastructure.

Part of that is just political difference on exactly this issue. You could take a very extreme view that you can leave almost everything to the private sector, you can take the other view that everything should be done by the government. In fact, we used to have a workable compromise in the middle, but it seems to have broken down in practice, so there's some good historical examples but right now I don't think you look at U.S. infrastructure, you know, looking for good examples.

Anyway, let me just say, I really -- as the Moderator I think I can say, I really thought this was an outstanding Panel, and we are just very fortunate to have these three participants.

I'm going to end this, just a minute or two early, so we can have a nice tea, coffee break and resume at 11:00 o'clock, where we've got a really excellent group that will be talking about global economic governance, China's role in the evolving global system. Is there competition between the U.S. and China in a destructive way, in this global system? We touched on a little bit of that, but this was really mostly about the economies in the two countries. Let's give them a big round of applause. (Applause)

MR. LI: Ladies, gentlemen, distinguished guests, I suggest we resume momentarily. We have a high standards to follow up, set by David Dollar, right, in the last session. You were extremely effective and efficient. Like the Michael Jordan standard, right? Being able to score in the short period of time, and now in this session we have very distinguished Panelists, discussing the global governance, and China's role in that important issue.

And to my right, we have local, we have a senior fellow here, Ambassador Bader, who has had a very long, distinguished public service career in the U.S., being ambassador for the U.S., and also senior director of the National Security Council under President Clinton, I think. Right?

MR. BADER: Obama.

MR. LI: Under Obama. Under Clinton, yeah -- and also he's a wonderful, wonderful expert, scholar on China. He is really a China Hand. And people in China know him very well, know him very well. And to his right, we have Mr. Gao Xiqing, who is the former CEO of China's Sovereign Wealth Fund, the China Investment Corporation, CIC, and also he is one -- he was one of the architects of China's stock exchanges, before that he was trained in graduate school, at Duke, as a Lawyer, and not many legal students studying law return to China. He was, very few legal experts in China, knowing both sides both the Chinese legal practice and the U.S. legal practice.

And to his right, needs no introduction, David Dollar, who also has a long and distinguished career, serving not only the U.S. but also the world, The World Bank, right? An old friend of mine, and one day he caught upon a big party, a farewell party in China, in the great venue, saying that he is retiring from The World Bank, being the Resident Chief. And a few months later he showed up again, in Beijing, saying that he become -- he became the newly-appointed Special Emissary.

Did I pronounce it right? Emissary of the Treasury Department, I was quite surprised. I went home, I checked my dictionary, I found a special word, in Chinese meaning secret agent -- secret ambassador. I said, are we at war with each other, we don’t need a secret ambassador. So, anyway, he was responsible for the China-U.S.

Relationship, Economic Relationship during the most interesting times, after the global financial crisis. So, I don't think we can get a better Panel to discuss this issue.

Let me start with Ambassador Bader. What do you think of the AIIB, is it publicly recognized in the U.S., but the U.S. -- the White House or Treasury made a mistake? What's the long-term implication of this episode for the U.S. policy towards China and global issues?

MR. BADER: I'm hoping they will not be long-term implications from it, because clearly it was mishandled by someone in the administration. The administration properly had some concerns about the governance standards, procurement issues, environmental standards, voting share issues, and the administration was right to encourage others to raise those issues, with the Chinese organizers or the Bank.

But the administration should not have done so with the spirit of trying to kill the bank. It should have done so in the spirit of trying to improve the standards that would be imposed. Of course the Chairman of the Bank is Jim Liqun who is a prominent, well-regarded, well-respected in international circles and in the U.S. and he is someone that I think that all of us can work with.

I think the Chinese, frankly, were shocked that they've got 57 countries to join. I don't think that was ever the expectation, the things --

MR. LI: Was the U.S. shocked by that?

MR. BADER: Hmm?

MR. LI: Was the U.S. also shocked by --

MR. BADER: Yes. The U.S. was shocked too, sure. I think -- look, clearly from the outset the U.S. strategy was misguided. The region needs infrastructure, okay. For the U.S. to oppose a bank that was designed to create infrastructure puts us in untenable position vis-à-vis other countries in the region, the one infrastructure if we are telling them, sorry, we can't help you with your infrastructure, but don't go to that bank because we don't like, you know, don't like its organizers, that's not a tenable position.

It seems to me that what Jim Liqun and the Chinese leadership were trying to do here was entirely consistent with the strategy of the U.S. outline to the beginning of the Obama Administration which was to encourage rising powers, for instance, China, to play a larger role, in the international institutions, consistent with -- consistent with reasonable global norms.

And it seems to me that's what the Chinese were doing in this instance. So, the reaction of the administration should have been to encourage it, and to try to provide the best standards for the Bank.

MR. LI: Yes. Trying to be fair, I try to be fair to President Obama, should I blame the U.S. Congress, because the U.S. Congress is a shadow over the White House, so that if the White House or Treasury decided, had decided to join the AIIB, that Congress would go after the administration. Can you answer that?

MR. BADER: There is never any question that the U.S. joined in, there's no way the Congress would have approved it in any case. The question really was, was the U.S. going to discourage other major countries from becoming members, and the administration says it did not, but certainly it was -- its behavior was universally interpreted by the media as opposition, and if that was not the administration's policy, frankly they should have issued a clarification, which they never did.

MR. LI: What's next? What's the next move of the U.S.?

MR. BADER: I think the administration understands it made a mistake, okay. And I think --

MR. LI: Without publicly recognizing it, right?

MR. BADER: Well, countries aren't great at admitting mistakes, you know. We have the Donald Trump Model now. But I think, you know, we can acknowledge there was a mistake, governments aren't that good at acknowledging it, but I think the administration is looking for ways to connect with the Bank, perhaps through encouraging The World Bank and the ADB to work with AIIB. Perhaps the administration at some point may decide on more direct relationship with AIIB, but the actual membership I think, is not on the horizon.

But there is no reason why it should be viewed hostilly. I mean, President Obama, at the press conference, when was it, I guess during his trip in November, made positive statements about the AIIB, and I think that's where the administration is heading and should be heading.

MR. LI: Today we are very fortunate to have a person who was responsible for the idea of AIIB, Mr. Zheng Xinli, who was in the previous Panel. A few years ago, he persistently proposed this idea of AIIB to then President, Hu Jintao, six times in a row, and for whatever reason Hu Jintao did not take his proposal. And then came President Xi Jinping who took it. So later on I will ask Mr. Zheng Xinli to make some comments.

Now, let's move to our good friend, David Dollar. You worked for The World Bank; you are very familiar with all these international organizations. My question is, what's next? Next, China, working with India, with Russia, we have set up the new BRICS Investment Bank. What would be the U.S. response to that, taking lessons from the AIIB?

MR. DOLLAR: So, I was enthusiastic about the launch of the AIIB, and I've been an informal advisor to them. You know, Jin Liqun and the Secretary Staff he has working for them, came out of the Ministry of Finance of China, and they've been working with The World Bank for decades, to be perfectly frank, you know. And I think we had a very good working relationship, they called on eight different retired World Bank staff as far as I count, to help them with some of the initial, you know, the initial setup.

So I was enthusiastic about AIIB and it's very successful. I'm a little bit confused about the BRICS Bank. I thought AIIB was a very clear concept, so congratulations to Mr. Zheng. I don't think BRICS Bank is such a clear concept. You know, those five countries are enormously different. You know, the difference between China and South Africa is just enormous.

If the idea is to just lend to that group of five, it's kind of a strange group, and if the idea is to lend to the whole world, then I would think, well, typically in development banks, you know, you want to join and be a shareholders if you are going to borrow. So is it the idea that the whole world can join? So I guess, I don't see such a clean concept coming from the BRICS.

But as far as how the U.S. reacts, I think, you know, Jeff Baylor and I, I think, can agree that we would hope the U.S. would learn from the cored diplomacy it exercised on AIIB, and at least be more open and see how this new BRICS Bank develops.

MR. LI: Mm-hmm. Yeah. You disclosed yourself moments ago that you were an advisor, even though informal, to the Chinese Government, or AIIB as entity, right? Actually we met each other one month ago, right, in Beijing, when AIIB was formerly launched. Can you share with us some insights on the internal working of the AIIB?

MR. DOLLAR: Well, I think the interesting -- I think what will be interesting for the audience is, just to follow up briefly on this point that, you know, Jin Liqun and his Secretariat, they have decades of experience with The World Bank. Mostly I think that was positive, China has been one of the largest borrowers from The World

Bank. We've had a lot of successful projects.

The type of projects evolved over time, so, when I was Country Director the focus was mostly on environmental projects during the 2000s. China is still a big borrower, and my understanding is they've increased their borrowing from The World Bank in the last few years. For example, they've got Chinese Cities asking The World Bank to help clean up air pollution, for example.

So, the first point is, I think the basic relationship between China and The World Bank has been very good. But the second point was The World Bank is not perfect, the Asian Development Bank is not perfect, so I think the Chinese, you know, were legitimately frustrated with various things. And so, people like Jin Liqun, you know, were always urging The World Bank to be faster and more efficient, and also to put a focus on growth and infrastructure.

So China has become a very vocal participant within The World Bank, which I think is healthy, so it's not that surprising, you know, that China would put this focus on infrastructure in developing the new bank. And I see it as part of this global system, you know, in the sense that it can -- you know, healthy competition between the Asian Infrastructure Investment Bank and The World Bank will be a good thing. Mr. Jin and Mr. Kim of The World Bank, I think their Chinese characters, it's the same for their two last names, right?

MR. LI: Mm-hmm.

MR. DOLLAR: So, they were on the front page of *China Daily* the other day, World Bank President Kim was in Beijing talking with Jin Liqun about possible collaboration. So, my view is, a little bit of healthy competition is a good thing, because none of these banks has it perfect, but I predict we'll see some good cooperation between AIIB and the other banks.

MR. LI: I think I saw you in Chinese Prime Time TV, 7:00 p.m., I think, every day, over 100 million people watched. I think I saw you shaking hands with President Xi Jinping after formal launch, right? What are the things --

MR. DOLLAR: No. No. No. No. So, there you are making a mistake, because I didn't want to be -- to be frank, I didn't want to be involved in their formal launch, because I think it's legitimate for researchers. If India came to me and asked for advice about various things that I have expertise in, I'd be happy to give India advice. So I was happy to give advice to the Secretariat, but I was actually not involved in the launch.

MR. LI: I think there was a formal ceremony of the launch, right? You were there, right?

MR. DOLLAR: No, no, no. No, no, no.

MR. LI: Anyway, you appeared in Chinese TV quite a lotMR. DOLLAR: I'm more of a backdoor kind of a person.

MR. LI: More effective than appearing on TV, right? Anyway, what other things you can share with us, which are not written about in the open press about the AIIB, leading towards the formal launch, if possible?

MR. DOLLAR: Well, I don't know if it's -- I don't know to what extent it's been written, but I thought it was interesting that that Secretariat, you know, which was all Chinese, initially, they invited eight different retired World Bank staff, seven of whom where Americans to come and advise on the articles of agreement, the environmental safeguards, the social safeguards, procurement, governance.

Now, advising, that doesn't mean they necessarily took our advice, but I thought that, you know, reflected a high degree of trust between the Chinese Secretariat that was developing AIIB, and these were all retired staff of The World Bank, so they don't have any official status, but if you've worked in The World Bank for 20-plus years, presumably you are supportive of a lot of what The World Bank is doing.

So I thought the storyline about AIIB challenging the existing order, I just thought that was mistaken right from the start, and it seemed ironic when so many of us, World Bank people, were working with the new Secretariat to try to establish the Bank.

MR. LI: What is the single-most important thing that the AIIB can improve upon at The World Bank?

MR. DOLLAR: This is a really tough question because the AIIB will have standards on paper that look very similar to The World Bank. I predict their environmental standards, and social standards will be very similar. Their Articles of Agreement are very similar. But a lot really depends on implementation on the ground. You know, so how do you respectfully analyze environmental impacts and factor that into the decision-making, but not become paralyzed and inactive.

My main criticism of The World Bank is I think it's gotten so risk averse, that it doesn't like to take any chances, and that's really a mistake. For a development bank, you have to take chances. Remember, if you don't do the projects, people remain poor, people remain hungry, so there's a risk of not doing projects, but then of course, if you do any big infrastructure project, there are environmental risks, there are social risks.

So I think finding that balance on the ground is going to be the main challenge, and as a social scientist, I'm going to be just interested to see, you know, are they very successful, you know, it will take a number of years before we can say that.

MR. LI: Mm-hmm. Let's move to Mr. Gao Xiqing. You were the former CEO of CIC, the China Sovereign Wealth Fund. Will there be collaboration between CIC and AIIB? I know there is already one. Jin Liqun used to be your -- what do you call it -- supervisory committee chairman, right?

MR. XIQING: Yes.

MR. LI: The risk control, management chairman? So, already collaboration, will there be more collaboration?

MR. XIQING: That I really don't know, because you know, it's a -- CIC is a sovereign wealth fund, and AIIB is a multinational organization, and by definition AIIB would have to cooperate with a lot of different government agencies, a lot of different countries and Sovereign Wealth Fund. But recently CIC has -- spin off one of its major departments, so the Direct Investment Department, into a separate company.

So, it's a wholly-owned subsidiary, it's called -- now it's called a lot of different names, but overall, it's called -- the CIC has a subsidiary called the CICC, and now they have this one, it's called the CICCC, we all started laughing but it's a CIC International, you know, over -- Cross-Border Direct Investment Corporation. So, this spinoff is going to be concentrated mostly on the direct investment in these countries involved.

And one of the major functions of this new company is going to be the infrastructure investment. So, in that regard, I would certainly guess that they would "corporate" but it's not for policy issue, it's just, you know, it's just by logic.

MR. LI: Mm-hmm. You were the CEO of China's largest government-owned investment company operating overseas; from your experience can you share with us whether China is ready in putting together an AIIB and other investment banks -- investment entities, going out? Is China ready? Or, what are the challenges?

MR. XIQING: Well, to me it's not a real question because you always have these international organizations coming out, but was the world ready for a World Bank, you know, when it was formed? So, China, of course, it's not ready for a lot of things, but China, you know, developed -- despite of all these, you know, not inadequate preparations, so I would say, today China is more ready than any time in the past 30 years to start something like the AIIB.

And especially, if you look at China, I think China is more ready for AIIB than for CIC, because it's, you know, CIC was the new organization that was very different from all the past 30 years of overseas efforts to invest in various countries by the Chinese state-owned enterprises. Mostly at the time, when China started doing those 30 years ago, we had the CITIC, now we have all the major state-owned foreign trading companies.

Those companies were very much, you know, filled with the young staff who had not very much of the experience in investing abroad, you know, with the exception a few, much older people, people over 60, 70 had started doing that, but today, if you look at China, if you look at all these companies, every company is filled with young professionals being trained in international ways, like the IMF, like The World Bank, like all the major investment banks.

But CIC, you know, when we first started in 2007, we tried to recruit people from these organizations, when I was a -- you know, a time difference, there was a -- especially corporate difference, that there was a challenge for CIC to try to manage these people, but for AIIB, you know, this 57-country venture has, you know, from day one you are market oriented, you are supposed to pay market rate, you are supposed to recruit people from all over the country.

Yes, we never had that luxury, you know, we were trying to do that, we always had some constraint. So, I think AIIB is already in that regard.

MR. LI: What were your major frustrations or challenges being CEO of CIC?

MR. XIQING: Well, there was a lot --

MR. LI: Major ones, major onse MR. XIQING: Well, I would probably rank that, you know, for the -- probably outside. Politically more correct by saying that we were faced with a lot of resistance from various countries. I did have to visit all the capitals of the major countries including this one, and I had to deal with officious issues many times.

I had to deal with the state leaders all the time, trying to explain them to -- try to tell them that CIC is just another company, and we are a profit-making company, and we do not have the ulterior political motives to take over your resources, or steal your trade secrets.

But constantly we had to deal with that, and constantly we were frustrated by the various government agencies in our efforts to invest in those countries. But that's just part of it. You know, overall, as a state-owned enterprise, you have all the constraints of a state-owned enterprise, especially in China over the past 10 years, when, you know, state enterprises are growing, and they are getting stronger and stronger, and the government functionalities is changing, and in many ways, it moved away from earlier trend of going with the market reaction.

And sometimes it, you know, regressed in terms of dealing with the market, with the people, you know, the way you pay people, and the way you try to train people, the way you try to motivate to work in the market environment. So that's a huge frustration, but at the same time, I would have to say that, compared to many institutions I worked before, you know, in China, some of which were all state-owned enterprise, and compared to all the state enterprises in China, that I'm familiar with, CIC is a much more market-oriented organization.

And CIC is, as of today, it's filled with people hired from the market, and it has a certain culture there, that would allow people to make decisions mostly on market administrations, I wouldn’t say 100 percent.

MR. LI: Good. So, it looks like investing in the Blackstone is the easy one. You didn’t have to deal with the surface, right, I'm joking. Anyway, okay. One more question before I come back to Ambassador Bader. The stock market, are you surprised by this tremendous fall, being the architect of the stock markets? I'm talking about the recent downfall.

MR. XIQING: From that point?

MR. LI: Yes.

MR. XIQING: Well, the reason the stock market crashed, really, is not as much of a crash if you look at only the financial figures, because, in fact, you all know, over the past six months, the Chinese stock market increased by, at the highest point it was over 110 percent, and that the so-called crash only slashed that one-third. It only came down by 30-something percent. So, by definition you wouldn’t call that, that’s you know, it was a such a huge jump, it's almost by definition, that it has to come down somewhat.

MR. LI: Eighty percent up, and 30 percent down?

MR. XIQING: Right, right. So, that should not be, by itself, a problem. The problem is the kind of fear, the kind of panic that was producing at the time within a very short period of time, and the only thing, in my observation, it's only within probably about two, three days.

All of a sudden everyone in the market got panic. Why? You know, this is a very strange issue, because when people asked me I said, because I don’t -- personally I don’t play anymore, I don’t -- how I say -- still play in the market. I'm not a gambler; I never intended to create a casino.

MR. LI: And you didn’t.

MR. XIQING: But the issue is -- because I'm very familiar with the rules, the ostensible rules written in the books, but somehow people come to me and said, look this is crashing. Why? Because everyone is on margin, and most people are on very high margin, and I say, how can that be possible, because the rules would allow only 50 percent margin, it's one -- you know, one to one, sort of borrowing, which is a new phenomenon in the Chinese stock market over the past 20-something years.

Because over the years we never allowed margin, and then in the effort by the regulators to boost the market enthusiasm, and also in an effort to buy some of the -- I don't know which government agencies, to try to tell people about the -- well, you know, this country is going to new normal.

And the market is going to go on a slow bull market for a very long time, you know, as sort of advocated by various state agencies, news agencies, and some of which are probably represented here. And people were saying, now the market is really going well, and there is no way the market is going to come down, but you know --

MR. LI: That's a mistake in your viewpoint? That's a huge mistake.

MR. XIQING: Well, I wouldn't say -- you know, people make mistakes all the time, the thing is, the government's function, because people say, well during your days, the government also did some stupid things by trying to come out on the People's Daily Editorial talking about the market. I said, well, at least there's one difference at the time, twice during the Zhu Rongji's time we commented on the market because the market because the market was going way too high.

This is like, you know, BOP shares, irrational, the exuberance that the market was really going too fast, too high, and the government got a little nervous and said, okay, if the market goes that high, then eventually it has to come down. So I'd say something to bringing the market down.

Even at the time I was against the -- you know, the way the government comes out and tell people that, oh, you shouldn't invest in the market, but that, you know, at least it's better than the time when the market -- when the government actually comes out, and they say: okay, everyone, go into the market, let's play it, let's gamble. That's not what --

MR. LI: Sure. Do you agree, do you think the current policy of propping up the stock index justifiable, from the legal, economic perspective?

MR. XIQING: You know, legal issues are always separate because, you know, laws are always created with the intention of the ruling class as typically in the Marxism theory. But, you know, from the -- what we would call market-oriented system where, you know, at least the Communist Party, the 18th Party Congress, said that the Chinese economy should be -- you know, should be decided much more on the market force than anything else.

We said, let the market be the decisive force of allocating resources. In that regard, then, the governments, you know, in a market economy, the government, they should not do that much in the market, telling people which way to go, because the market has a -- you know, what we would call them, random work theory, well people will make their own decisions.

We let the invisible hand of market to do it, but somehow we have this visible hand, in Chinese we say, Xian bu zhu de shǒu. The government has this, a hand --

MR. LI: The invisible hand, yeah.

MR. XIQING: -- that's so busy doing everything in the market, and by doing that you actually, you do yourself in, that's the most difficult part, even though I understand the way, as a parent, I understand the way that a parent sees his or her children. If they make stupid mistakes the parents always try to come out and say, okay, don't do that. But now I realize, you know, it's a very painful experience that by doing that you actually are counterproductive. My son doesn't talk to me anymore.

So, this is what happens. We'll see, they -- but my son is only 16 years old, but the Chinese market is almost 30 years old now, and that's the issue. And the market actually is, as a whole, much smarter than any government, that I truly believe. So, for the government to come out and say, okay, the market is too high, don't go in. Okay, the market is too low, go in, it's really counterproductive. But at the time when the market actually start to have panic, when the market really starts technically coming down fast, then the government will have to do something.

That I'm not in agreement with a lot of my friends who are saying, okay, the government has done something stupid, and they shouldn't do anything. I said, no, when the market goes down that fast that, you know, in those two days if you don't do anything, then the market is going to overcorrect, going down further, and that would have a major dampening effect for future development.

Therefore, I say, okay, by that time, it doesn't really matter. Any government, the U.S. Government did something; the European Government did something, all during financial crisis.

MR. LI: We'll come back to this issue. Now, as a boring economist, let me ask a question for Ambassador Bader. Suppose there's an index of how much integrated the Chinese are in the global governance system, ranging from zero to 100, 100 being like the U.S., fully integrated, zero being like maybe North Korea, where is today's China?

MR. BADER: Do I have to start with a number, or can I finish with number?

MR. LI: Oh, as a boring economist, the number is easy for us, right?

MR. BADER: I think it's a fascinating question. I think if you look at China over the last 30, 40 years, what you saw from 1978, from the Third Plenum, until recently was increasing Chinese integration into the institutions of global governance, and that is true both on the security side, and on the economic side.

On the security side, things like the -- you know, the IAEA, and of course the U.N. Security Council beginning in 1971, all the various non-proliferation treaties and regimes, at various regional organizations, the ASEAN Regional Forum. So, on the security side, fairly extensive, on the economic side --

MR. LI: Eighty? I'm sorry.

MR. BADER: I'll get you a number. I'll get you -- but not far you're your number.

MR. LI: Okay.

MR. BADER: On the economic side, I think it's an interesting picture because I think it was -- of course China's integration as the growth economy has been considerable, you know, very substantial. But in terms of the institutions, yes, you know, WTO, IMF, World Bank, certainly China, in the 1980s made decisions on these major organizations.

But there was a certain line that China did not cross in terms of integration, and which the U.S. and the West did not encourage it to cross, and that was things, the OECD,-related institutions and the G7. And the OECD, as you know, it compiles statistics such as research, and provides some guidance to major industrial democracies, and we've also -- you have to be an OECD Member to be in the International Energy Agency.

The coordination of export credit finance bodies throughout the world it is a sort of subsidiary or it's a function of the OECD. The OECD sets standards for global development agencies, and because the OECD has its throttle that you have to be called an industrial democracy to be a member, the United States and the other members of the OECD, kept China at arm's length.

And China for its part, I think still had a strong, residual sense that it was a developing country and didn't belong in the OECD anyway. And so, by the time we got to the last few years when China became the second largest economy in the world, and the extent of China's critical role in maintaining and encouraging global prosperity became evident, China was only partially integrated into a lot of these institutions, and I think that that's the backdrop, for decisions like AIIB, and One Belt One Road, and the BRICS Bank, was that China was not, you know, not fully -- not fully integrated.

MR. LI: Fifty? Fifty?

MR. BADER: And so -- I'm getting to that -- I would say -- I would say something like 70.

MR. LI: Seventy? Not bad.

MR. BADER: Something like 70, yeah. I mean that's for both security and economic, I would say something like that.

MR. LI: Yeah. Not bad, because at Tsinghua 60 is pass, higher than 60.

MR. BADER: Low standards.

MR. LI: That's low standards, huh?

MR. BADER: Trying to pass this.

MR. LI: Yeah. Okay. Moving forward, who should be the key? Should U.S. be less protective or China should be more active -- would be more proactive? Who is the key player now, in order for China to be more integrated in the global governance system?

MR. BADER: I mean, some of this is just structural, okay. China is, you know, the second largest economy in the world, at some point before too long, likely to be the largest economy in the world. The major -- you know, probably the number one trading economy in the world. When the leading investment comes in the world, there is no question of the United States or other countries sort of defining China's role.

You can't define the role, of naturally it's so substantial, but look, as I said, President Obama, in the beginning of his administration talked about how institutions are accommodating rising powers, and I think he has a good concept. And I think that, you know, the U.S. fell short in blocking, for instance, the alternation, the reform of IMF quota shares, as you know, it's been stuck in the House of Representative since 2010. I think that's an example of the kind of thing that we can't do.

On the other hand, clearly there's -- you know, Mr. Gao Xiqing talked about the problems encountered with CIFIUS, there clearly is anxiety in the United States and a lot other Western countries about some of China's trade and investment practices, so we all know for years about IPR issues, exacerbated by cyber, by the cyber dimensions of IPR issues.

Now that China is a major, outward investor, you know, $13 billion a year in the U.S. in the last couple of years, issues about the degree to which Chinese companies, particularly state-owned enterprises are subsidized in their (inaudible) investments, and whether or not they are benefiting from unlevel playing field on their investments, and might be the whole controversy over. Over CNOC and Unocal, over the -- the many elements through it, but the element I think that was most damaging to the bid was the subsidies provided by the China Development Bank, or the Exim Bank.

So I think, I think it's both sides. It's a copout answer, but it's the correct answer. That in China, it's important for China to increasingly demonstrate that it's playing global rules on all these issues. Look, I was involved in the negotiation of China's succession to the WTO, and there were strong language in there, about disciplining of state-owned enterprises. About the need for state-owned enterprises to be -- operate by commercial standards; I mean, that's a basic principle of the WTO and the WTO accession.

But there's still, you know, despite progress that's made in that regard, there's still a long way to go before I think the United States and other countries are comfortable that Chinese state-owned enterprises, are operating by commercial principles.

MR. LI: Okay. I really need to open up the floor for questions, but before that time, Ambassador Bader, be very brief in answer my following question. Looking beyond the Obama Administration, will there be major shifts or changes in the U.S. policy towards China?

MR. BADER: My own opinion is that from the U.S. perspective, despite much of the recent dramatic commentary about China's rise, and the need for the U.S. to basically throw out the old blue prints for how we handle relations, that will not be the approach taken by a future president. Look, we have, you know, eight presidents since President Nixon who -- many of whom have campaigned on different platforms with regard to China present.

Candidate Regan, Candidate Bill Clinton, Candidate George W. Bush, but if you look at where those presidents all ended up on China Policy they were all within the same premise, because there were objective realities, about the U.S.-China relationship, about the degree to which we are interdependent, that's a word that's used more and more, I think, properly, to describe the relationship.

So, I think there's -- right now, there is not a great mood in the United

States towards China, and I think that U.S. and China mirror-image each other. When there's not a good mood in one country, there's not a good mood in the other country, and that is a reality, I think a lot of it has to do with security issues, more than economic issues.

But, you know, we are condemned to live together, and to be interdependent, so to expect a new president to sort of throw things out, I don't see that.

MR. LI: Good. Thank you. Okay. The floor is open. Please identify yourself, be very brief. We are starting with the lady, okay, reverse from the first Panel.

QUESTIONER: Thank you very much. My question is about the --

MR. LI: You are from?

QUESTIONER: I'm Zhu Xiaoou, from Monetary Institute of International Studies. My question is about how can China deal with the challenges in the globalization? Because in recent years I've seen a lot of Chinese business utilizing development financing to expand oversea market, which is healthy. But, however, at the same time, in many post-conflict countries, especially in Asia and Africa, the distributive justice mechanism is yet to develop to include all the stakeholders into agenda.

Especially the small and the medium enterprises the conflict-affected ethnic groups, so as a result the foreign capital flows from China and from the West, sometimes will stimulate the conflict, and jeopardize that sustainability.

MR. LI: Okay. I think we've got your question. Thank you. Okay.

QUESTIONER: Yes. Thank you.

MR. LI: Next, our friend from Pakistan. Yeah, we've got your card, please?

MR. CHAUDHRY: Thank you very much. I am Dr. Nissar Chaudhry with Pakistan American League. My question is pertaining to the fact that the USA is having security pacts with so many countries all around China. And always it is said here that we are doing many good things to protect our interest, our allies and our friend and shipping lanes.

We have never heard from China side, if they have some friends in the world, or if they have some allies in the world. And how come there's such a big gap here, because China is not only busy in building infrastructure, they are trying to be part of globalization, they are involved in international affairs, they are becoming global players. But they have never mentioned any ally or a friend in the world.

MR. LI: Thank you. Pakistan is, oftentimes is farthest -- or where they are friends. Okay. One more question before we have our Panelists answer. Okay, how about to my right; a gentleman, in front of me, yeah.

QUESTIONER: Thank you so much. My name is Dyce Kagershi, from Japanese Newspaper, Asahi Shimbun. I have a question on trade, so Japan and the U.S. and other 10 countries are going to meet in Hawaii next week, try to close a deal called, Transpacific Partnership. So, my question is, what kind of impact will it have, if they can reach an agreement on Chinese policy, including trade? And also what kind of implication it might have on economic and securities sphere in Asia Pacific Region? Thank you.

MR. LI: Yeah. A very timely question. Please free to pick up. You may want to start with some --

MR. BADER: Well, I'll be brief on that. I think my colleagues can comment better than I can on these -- on the economic issues, but I just -- China's allies, China has historically, not believed in alliances, but it's not part of their approach to foreign policy, I mean. One, I guess formal alliance; North Korea as an alliance that China has watered down to almost nonexistence now. It's not an ally China wants.

The relationship with Pakistan comes close to being an alliance, but China, you know, historically has deemed alliances to be relics of, you know, of the Cold War, the illustrations of Cold War thinking. And I think there's been some low-level discussion in China about, should we be seeking allies, but I don't think that that's seriously altered China's basic approach, which is, we want to be friends with everyone, we want to have good relations with everyone, and military alliances put there, and China has not station troops abroad.

I mean an important of the U.S. alliance system, are security guarantees and basing troops abroad, China has never done that. So that's just not part of China's thinking. Will it be in 10, 20, years? We'll see. I don't think China is moving rapidly in that direction.

MR. LI: PPP, comments?

MR. BADER: I guess he only comment is that I certainly hope it will be wrapped up in Hawaii, you know, if it's to be wrapped up in time to avoid it becoming a campaign issue, given the timelines for approval for -- publication and approval, it's got to be wrapped up pretty soon, and once it becomes a campaign issue, that's not good, for TPP.

MR. LI: September, December? What is the timeline?

MR. BADER: I think the hope is, if it can be wrapped up in July, that you know, sometime in the fall, late fall. Maybe October, November, it might be ready for a fall out, but look, TPP was not about China. It was never about China. I mean, it's been, it was about setting standards for a small group of countries in the region. It was not supposed to have a security dimension, and it was not supposed to be about China.

People ask why China isn't in it. There was never a question of China being in it, it was about a small group of countries that they were trying to eliminate trade barriers among themselves, and the U.S. joined, and then the key country to have joined subsequently was Japan. But I certainly hope that whatever comes out, the door will remain open for China in the future for the Chinese to be a member.

This should not be -- we should not be descending into exclusive trade blocks on the region. China is negotiating RCEP I hope both mechanisms will remain open to the other side.

MR. LI: Mm-hmm. David?

MR. DOLLAR: No. No. No. Gao Xiqing?.

MR. XIQING: Okay. I would like to comment on your statement about TPP, that it's not -- it was never intended to be against China, but it was -- this is not the popular view in China right now, what's the heightened nationalism on the part that was the movement there. We constantly read that not only, you know, from the In Trend, but really from many of the major mainstream papers that TPP seem to be in direct competition with Chinese effort to set up by either the AIIB or the BRICS Bank, or these things.

And that people constantly come out and say; okay, you know, every time there's anything that’s negative about the TPP, they would say, oh, that’s great, you see they are not doing that well, because people don’t like, it. Or, people basically saying about China, a small percentage of the people -- voices that would say, okay, let's try to join them, and then most people say, forget it.

You know, they don't like us anyway they are not going to allow us to do anything there anyway. So I think it's -- I'm not saying that’s the truth, but the thing is, you have to be aware of the sort of popular sentiment in China now, that many people just view it as some sort of effort to block China out of it.

MR. LI: In China TPP is perceived as a rule change, like the rule change of free throughin NBA, where China is Shaquille O'Neal, being the largest, important export in the world, and Shaquille O'Neal is not consulted when NBA is changing the free through rule, while fully knew well others are being consulted, Michael Jordan and stuff. So this is kind of strange, right. Anyway it's an observation. David?

MR. DOLLAR: Can I pick up on that analogy?

MR. LI: Yes. Please.

MR. DOLLAR: So, Shaquille O'Neal can slam dunk from being close to the basket, right. So I agree, China is the Shaquille O'Neal of manufacturing trade. And the new agreement is primarily about services trade, it's more like the three point line. Okay?

MR. LI: I see.

MR. DOLLAR: So, Shaquille O'Neal probably doesn’t care if they push the three point line back a foot or two, it doesn’t matter, because him he never took the three pointers, I think in his career. So I do think it's new issues that are really important to the United States, and are partners that Jeff mentioned. You know, opening up trade, and opening up investment, certain trade and services, investment. I hope China, you know, sees that this is in China's interest as well, maybe first step is the bilateral investment treaty but that’s an -- that would be an important part of TPP is the investment agreement but I really hope China sees the positive benefit.

MR. XIQING: The problem is that, when you say China sees it, which part of China sees it? You know, there's no doubt that the government itself is smart enough to see that.

MR. DOLLAR: Right.

MR. XIQING: The problem is that the government is now -- is no longer able to make decisions in camera. You know, they can no longer make decisions, say, okay, just by these people and we are going to sign this WTO, you guys must follow. Today, you know, no government in China now, can just do that anymore because people are more and more aware of their own, you know, voices, it's certainly --

MR. DOLLAR: Right. You know…

MR. GAO: they are making noises everywhere.

MR. DOLLAR: Sure. But you know in the United States it's hugely controversial, so if this actually gets implemented and eventually passed and implemented, that will be a huge political success. You know, you have to bring people along, which is a very difficult issue for the United States.

MR. GAO: And you guys are used to controversies over the past 200 years, and we are not, you know, we are just beginning to do that, so you have to be, you know, on the understanding side of it.

MR. BADER: David, I would like to say --

MR. LI: Please, please.

MR. BADER: China has a lot of free trade agreements in the region, and the U.S. -- TPP is not the first free trade agreement in the East Asia region. China has negotiated quite a few of them, and now as I've said the RCEP, and the U.S. was not invited into any of these free trade agreements that China negotiates, so I'm not altogether clear why when the United States is negotiating one this is -- it's seen as anti-Chinese, but when China is negotiating these agreements, it's not seen as anti-American.

I mean, I was in the administration, in the Obama Administration when, in the early stages of discussing TPP, which is something that we inherited in a smaller form, more modest form from the Bush Administration, and I was never at the meeting where there was discussion about, you know, let's figure out how we can construct a trade block that excludes China.

China was not under discussion. What was under discussion was, frankly speaking, the fact that at the outset of the Obama Administration, there wasn't much of a trade policy, it was not a high priority for the Obama Administration, and within the Obama Administration, there were a number of us, who felt that trade should be a priority, you know, we included people like Tom Donilon, for example, now Security Council, and so the Korea-U.S. Free Trade Agreement got a lot of attention.

And TPP got some attention because we were looking for a trade policy. It wasn't about China, it was about trade, and I guess -- I certainly understand Gao Xiqing's point, and I think the way in which the way in which the agreement has been sold politically, sort of reinforces understandable suspicions in China, that this is aimed or directed at China, but that was in no way the intention.

MR. LI: I think we have a bit of time to squeeze another round of questions.

MR. DOLLAR: Actually, we are going to go to 12:30.

MR. LI: 12:30?

MR. DOLLAR: Yeah.

MR. LI: Good. Wonderful, wonderful. Okay, wonderful, plenty of time. And now we really -- Okay, wonderful. Three questions; let's start with this young gentleman.

QUESTIONER: My name is Ben. I'm a Researcher with Eurasia Group. And my question is for Professor Gao. Do you think that the government intervention in the stock market correction could have an implication for China's Financial Reform Agenda; especially towards establishing the equities market as a viable platform for corporate financing?

MR. LI: Very good question. Okay, the lady to my right, the New York

Times.

MS. POULOS: Hi, I'm Jean Poulos from the New York Times. I'd just like to ask about the birth of AIIB, what was it that made Xi Jinping choose to go ahead with AIIB, rather than Hu Jintao, because after all some of the same circumstances were still existing, huge deficit, and infrastructure, China was still out in the cold in the IMF Reform; and maybe as Zheng Xinli will say something.

MR. LI: Mm-hmm. Good question, yeah. I've got it. Yeah. Okay. One more question from there, I think it's Stephen from St. Louis.

MR. NICHOLSON: Yeah. Thank you so much to all four of the speakers. My name is Ryan Nicholson, from Washington University in St. Louis. Mr. Bader, you mentioned that a decline in the U.S. ‘s opinion of China. And recent studies have shown that only like 38 percent of Americans view China approvingly. Like, four years ago that number was 51 percent. So what do you see to be the root causes for some of these trends, and what can be done to kind of reverse that with two countries, that you’ve said, are destined to be interdependent going forward?

MR. LI: Wonderful question. Shall we start with the stock market, with the Gao Xiqing, Mr. Gao Xiqing?

MR. GAO: The answer to that question to whether or not the recent government intervention into the stock market would sort of stop, or either, you have a long-term negative fact of the reform process, that’s really a -- that really depends on a few things, because right now, this is extremely immediately after the correction, and I have been proposing to the government that we should immediately start a committee investigating on the reason why this happened.

You know, it's no longer useful to discuss whether or not the government should or should have not interfered with the marketing, government did it, and was in the words of the popular media, it's saving the market by violence, and if you -- the violence is already done, but to me, the most important thing is why would this market be allowed to develop into that sort of thing.

And if you actually look at the technical side of things, there are many, many issues with this happening of this so-called “crash”, but quite a few of those would relate to the shorting technology relating to allowing OTC market to let the money into the market, so that our two margin was no longer a 50 percent, but some will come down to 10 percent or even 5 percent. But that’s okay, of course, you can -- that’s a good recipe for any crash, thinking about the 1929 Crash.

So if the government looks at it, and comes back and contemplate on it, and form a committee, looking at all these issues, and I think that there's going to be probably a positive indication that the government is going to continue with the Financial Reform, and I make the market more a market rather than making the market as sort of a government-controlled institution.

At the same time of course, a lot of people are complaining about those other issues, especially these conspiracy issues about, you know, the foreign money coming in, trying to disturb the market, or some political factions coming in to stop the market from going further into the market.

But not, you know, personally I don't -- as a long-term regulator I would say that there are so many things that we can do as regulators, that the market -- we have to learn from the U.S., from other -- mostly this country rather than many of our European friends. That, you know, you look at -- every time after the crash you look at the thing and so you immediately, meant, you face these technical issues, so that eventually people would not think of all these fancy ideas, conspiracy.

By that time things would be narrowed down to a few issues, and that would be much easier, so I think for China today, I would quote from Ray Huang, that many Chinese Superior -- you'll probably know 黄仁宇. He once said that China was never, for 2000 years, was never used to running the country mathematically, because we don't -- the Chinese always have this way of doing things by, you know, much sort of the Chinese painting the mechanism where we just do it by a Taoist "way of doing things by not doing things."

But today, in today's world, the market had become so sophisticated and the country has become so popular that we really have to run the market, run the system with mathematical accuracy. And I think we have a lot to do in that regard, and once we do that, I don't think we need to worry that much about those other political issues, because those issues are beyond my scope, and beyond the scope of most people. We can't really do it because that's God's will but for the regulators we really can do a lot.

MR. LI: Mm-hmm. Good. For AIIB the issue would list the Director Zheng Xinli be comfortable in answering? How come President Xi listened to you, but President Hu did not?How come the Asia -- the President quoting -- and listening to you but the President -- he will listen to you.

MR. ZHENG: Just for my suggestions for AIIB, that I proposed back in 2009, and at the time, that I attended the Boao Forum, I proposed that suggestion, and at the time, I proposed to establish two banks, one is Asia Infrastructure Bank, and one is the Asia Agriculture Bank.

So from 2009 to 2014, in these six years of time, that we have a study of this topic, and that we have a lot of papers coming out on this one. I think in the first few years the situation, the conditions were not mature, and after the 18th People's Congress, and to that, the conditions were mature, and also that the President, Xi, made the decision there.

And also in a G20 Meeting, and also in APEC, in Indonesia he made an announcement in Indonesia he made the announcement himself in Indonesia, during the APEC Meeting. So the decision of establishing AIIB, I make the proposal and it's based on three considerations, first is that the infrastructure investment in Asia is huge.

According to the Asia Development Bank, until 2020, that there will be a trillions of the need for investment infrastructures, that for such a big -- such a large need there's, such a huge need, that would not be satisfied The World Bank or other -- and Asia Development Bank, and it will be very difficult for those countries to do the financing themselves, too.

And so that, and I have the Politburo it allows and inviting me over there to give a speech. So, when I was giving speech at the (inaudible), that when I went to Cambodia and Laos, and there, those people there, they were living in the very shabby place, but it's so poor, but they have so much of resources, and they have so much of good land, but they don't have one mile of a highway.

There is no infrastructure there. And the second is that China has a huge foreign reserve, and we are trying to find a way out for those to use those foreign reserve; and third, is that China as a large country, a big country in Asia, to help our neighboring countries, so that other countries to get on the wagon of our development that will helpful to them.

And that with the infrastructures then we can exchange with other countries, and we can transform the resources advantage of those countries into economic advantages, and we can meet our agricultural products need. And so, this is a win-win situation, so such a proposal for AIIB that is open efforts, nothing harmful.

And it's not exclusive either. We hope that Japan, the U.S., any counties who want to be part of that, will be part of the AIIB, because this is good thing, good deed to do. So that's why, that China proposed to establish the AIIB. And that Jin Liqun, that he is a very talented person, and he was the vice chairman of The World Bank, and he is fluent in English, and he understands the Asia situation, and his English is actually better than his Chinese.

So, actually, this is a very good condition for him to do his work. So that I believe that operation where AIIB will be very smooth, especially with the leader of the -- with the experiences of The World Bank, and ADB, and we can learn from them, and also with their help that would have set very high standards, and they will have a mechanism that's based on the market mechanism. And that AIIB will have a bright future. Thank you. Thank you very much.

QUESTIONER: A just, Mr. Zheng, why would I talk about this, the standard, that you said the conditions were not mature, and later on the conditions were mature -- what do you mean by that? So, basically does that have to be the leadership style?

MR. ZHENG: No. No. It has nothing to do with that, and basically, it's more the economic development as a whole, and China's capability to invest overseas, and also the demand for financial development of every country. And I think by 2014, all the conditions are in place, are mature, before that, so the conditions are just not maturing enough.

MR. LI: And now the American citizens' (view) of China? Yeah.

MR. BADER: Those numbers have fluctuated down through the years quite a bit, in numbers about favorable ratings towards the United States and China, and fluctuated similarly. I don't frankly worry enormously about where the number happens to be at a particular time. But as to why that's the case, look, I think there are multiple factors and they have to do with the rise of China; with China's relations with its neighbors, with the South China Sea and the East China Sea frictions.

I think they have to do at least as much with economic anxieties in the United States, the class wage stagnation over the last -- over the last generation, as China's economy has, you know, as suddenly rocket ahead, and the concern among ordinary Americans that we may -- that we either are not, or will not be the preeminent economy in the world before terribly long, it's the anxieties. It has to do with, I think, the propensity of the American media to look for exciting stories rather than true stories, in many cases.

And so to highlight and in many cases exaggerate what the Chinese are doing and what their intentions are. And I think it has to do with the fact that we have a new leadership situation in China. I mean, basically, we have a leader who is much more decisive, than any leader in China in the last decade at least. And we have China with a magnitude greater capacity both on the economic side, and on the military and security side.

So, if you put that altogether you have the appearance of a China that could be a revisionist power, and alter regional and global balance. I mean, I think that these are very complicated questions, and I don’t think there's a bumper sticker to answer them.

MR. LI: Would that approval rating of China fit into the upcoming Presidential Election? Making the election extremely focused on China?

MR. BADER: No. No. I think that, you know, the three big foreign policy issues in the upcoming election are going to be the Iran Nuclear Deal, ISIS and terrorism, and Russia, Ukraine and Russia's relations with Eastern Europe. China is, I would say, a distant fourth. China can become in the top three if something dramatic happens in the region. And I don’t expect, and I certainly hope that doesn’t happen.

But, you know, look, I mean, I was the one who was briefing President Obama before -- I think it was before Hu Jintao's visit, and we were talking about what we might achieve on the visit on economic issues and on security issues, and on human rights issues.

And, you know, in my briefing I basically said, well here is where we are with the economic issues in this picture, security issues, we have a substantial set of agreements, and human rights, of course, nothing, which was always the case in our bilateral visits.

And, you know, President Obama's reaction was; well, the American people care much more about the economic issues than they do about the other issues in the relationship. And my reaction to that was not to correct his assessments of the judgments of the American people, I think. I judged that -- as a matter of fact I said to him, I think you can judge the attitude of the American people better than I can, you've demonstrated that, but all the issues are important.

But when someone like the -- when President Obama who, I think, has his finger on the pulse of ordinary Americans much more than I do, certainly, and probably more than people in this room, says that economic issues are what's on the minds of ordinary Americans, I believe him.

MR. DOLLAR: Can I just very quickly add?

MR. LI: Please, please.

MR. DOLLAR: So, you know, I agree with Jeff, I think the main issues that have affected opinion over the last year or so, security issues he mentioned, but I would just add that it used to be that the U.S. business community was a kind of cheer leader for China. You know, they would weigh in about the benefits of the economic relationship.

The U.S. business community is really soured on China, very much, you know, for a variety of reasons, having to do with cyber attacks, implementation of the Anti Monopoly Law, but I think the most important issues is that, you know, China is still relatively closed to foreign investment in the service sectors.

So, so many sectors that are important to the U.S., you know, they started doing a little bit of investing in China with joint ventures and partial opportunities, and they thought things would open up, and now they are frustrated that things are not opening up.

MR. LI: Hmm? Maybe the upcoming visit of President Xi, may make some progress, let's hope in this regard, right. Okay. The next one; our friend from VOA, you asked a question last hand?

QUESTIONER: Pei Xu, from Voice of America. Yes, talking about governance, we know that crony capitalism, or 权贵资本主义 now is a dangerous topic in China. If you insist talking about it you'll get fired, if not arrested. So, what's our Panelists' take on that? Yeah, thanks, that's my question.

MR. LI: I think I will direct that question to Gao Xiqing, because you -- I guess you are more familiar with Chinese Internet than our friend in VOA. You live in China, right? So you can correct this judgment on this one, or not, right? Maybe he's on this --

MR. GAO: Should we do it now?

MR. LI: Later on, later on. Okay, yeah. Our friend in the back?

MR. ALGARÍN: My name is Miguel Algarín, from the U.S. Congress, Korean Nationals on the Exchange Program. So my question is, as China begins to assert itself with territorial disputes between Philippines, Japan and Vietnam, and the U.S. has announced a pivot militarily towards East Asia. Mr. Bader expressed his opinion that he thinks the U.S., the future U.S. administrations will try to pursue stability with the relationship, but I'm curious, from the Chinese standpoint, as the potential for confrontation increases between U.S. and China, how they feel that potential may impact the relationship or specifically the economic relationship between the two countries?

MR. LI: One more question. In the back, I always want to go where people sit in the back, right?

QUESTIONER: My name is (inaudible), I'm from Tufts University. I wonder that how will China advising economic power affect regions, and Asian Pacific region, and the small countries of the region? And do you see any cooperation or contradiction, friction between these countries and China? And I also I wonder that what are the priorities of China and the U.S. towards these regions? Thanks.

MR. DOLLAR: wait, what was the last word?

MR. LI: Towards this region.

QUESTIONER: What are the priorities of U.S. and China towards this region?

MR. DOLLAR: Central Asia?

MR. LI: Central Asia.

QUESTIONER: Asia-Pacific Region.

MR. LI: Asia Pacific Region, okay. Please, pick up.

MR. DOLLAR: Well, I'll take the last one; I think that’s really the only one that’s appropriate for me. So, I mean, it's hard for me to speak for China, but I think these recent initiatives like AIIB, and One Belt One Road, we haven't said much about One Belt One Road, but Zheng Xinli, I think articulated the logic of China going out.

Chinese companies have a lot of capabilities, they want to invest, China has an interest in improving infrastructure; so I view all of that really as quite positive, and that's why I've been supportive of that. And I think the fact that so many developing countries quickly signed up for AIIB, you know, it's a sign that the region welcomes this. Countries like Vietnam, Philippines, that have somewhat difficult relations with China, they don't hesitate to try to strengthen the economic relationship, so I think that's very telling.

We've talked a little bit about TPP, so I'd like to make the point that China's initiatives are strengthening the hardware of trade and integration in the region. The United States, frankly, puts more focus on the software, right? So, TPP is really all about upgrading the rules of trade, so that trade and services can perceive for protecting intellectual property rights, creating investment foundation.

So, I think it's interesting that some of the countries that quickly signed for AIIB, they are also negotiating the TPP arrangement with the U.S. So I think a lot of the countries in the region, see no contradiction between participating in the Chinese initiatives, but also welcoming this U.S. vision of deeper integration.

My hope is that in the long run, these two will come together, so we might see the U.S. eventually join AIIB. Jeff Bader has said, not in the next -- not in the near future, but you can imagine the U.S. eventually joining AIIB. I can imagine China eventually either joining TPP or trying to negotiate something equivalent.

So, I think that's my vision for the region, is, you know, we are going to need the infrastructure, but the software of integration is equally important, or arguably more important.

MR. LI: Potential of military conflict, Ambassador Bader, only you can answer that one, right?

MR. BADER: I'm not sure I can answer that easily. Look, the U.S. and China are negotiated an agreement last year on encounters at sea, for communication between alienating and (inaudible). I think there can be negotiating a comparable agreement before President Xi's visit on encounters between aircrafts. I think that sends the recognition that highest likelihood of conflict comes from accident not from intention. Neither the U.S. nor China has any intention of a conflict. Okay.

The only scenario I can envision of a conflict would be where someone does something stupid in an airplane, or in a Navy vessel, and there is an episode, and then a demand for retaliation that produces some kind of a, I would say, short-term exchange between military forces. I'm not predicting that, I'm just trying to worst-case what we need to worry about. I think that the idea to nuclear power isn't going to descend into a major conflict, is not something that I would -- that I stay up at night worrying about.

MR. LI: How about a third party, intentionally, unintentionally provoke something, dragging the U.S. and China into a conflict?

MR. BADER: Well I think that, what we've seen and the question, I think touched on this quite properly, you know, what we've seen in the East China Sea and the South China Sea is a perception on the part of the Philippines, Malaysia, Vietnam and Japan, that a rising China is a threat to their sovereign claims, to these various rocks and metals in the area.

And, they have in turn, sought to increase their security ties with the U.S. in response. I think, you know, a lot of Chinese I talk to think that the U.S. is orchestrating this response which, from my perspective, is not the case. You know, these countries come to us because of concerns about Chinese conduct. We have to find a way of managing the situation, and the notion that, you know, China and Japan, for example, that their relationship is dominated by, you know, a couple of Rocks in the East China Sea that have a few goats on them and no people that, you know, that this is the dominant issue, in China-Japan relations, when China and Japan are thoroughly integrated economically, and from a trade and investment point of view, and cultural ties and historical connections, positive and negative, that it's all about rocks.

It's frankly ridiculous, and I think it -- I'm very pleased that Xi Jinping and Prime Minister Abe seemed to have put the safety net under the relationship of late, they've met a couple of times, they expect to meet again, it's not going to be a warm relationship anytime soon, but at least it's no longer plummeting, and I think we need a comparable process in the South China Sea.

You know, there's supposed to be a code of conduct, all parties agree to a negotiated code of conduct when they sign the Declaration of Conduct. I think it's important that serious efforts towards negotiation of the serious code of conduct be revived.

MR. LI: And the issue of chronic capitalism, I thought that they are much more sexy topics in the Internet, right, about corruption, and the mysteries claimed mysteries of the officials. To me this is not a -- what do you think? This is not an intentional topic, right? It's not a topic people are talking about?

MR. GAO: Right, right, correct, on the Internet, so I don't think that you cannot talk about it, and maybe the official media would refrain from talking about anything that's too provocative, but this term was really created by Professor Woo Jinglian and who is still, you know, very much vocal in many ways, and we read about his speeches, and so his articles all the time.

So he is never shy about claiming, but we are suffering from very much of that in various ways, but I think since the new government came in, and with the Anti-Corruption Movement, popular sentiment against that has waned hugely, because, you know, people in the long -- Of course you will always have people complaining about it, but the thing is, it's no longer something that everyone, immediately, you know, gets up as say, oh, that's so bad.

Most of these people, especially again, crony capitalism the people who stand to benefit the most are the children and relatives of these very high-ranking officials, powerful people, but now these people are all so careful, so afraid, that they -- you know, Mr. Wang QiShan is the institution that, I don't think anyone would just actually go out and try to, you know, do things against the popular sentiment.

So, it is still a big issue, but it's no longer as much of an issue, as say, two, three, four years ago. And I think the people have been waiting for the government to come out with a detailed set of rules, not only addressing the symptoms, but really addressing the roots of the problem.

That, we have always been the same as Professor Wu -- same as Professor Li, have always been advocating on the overall long-term fundamental set of rules, so that the government -- the government officials can no longer have that much power to wield. So that's probably more relevant than, you know, just the symptom itself.

MR. LI: I think we have time for three very quick questions.

MR. DOLLAR: I'll tell you; it's 12:26 now.

MR. LI: Mm-hmm. Okay, so --

MR. DOLLAR: How about a compromise. How about we -- you take one question as a compromise, okay?

MR. LI: Or actually, how about this, we ask three questions, but pick only one. It's a competition, competition, which one is -

MR. DOLLAR: Are you sure that's fair? Okay, okay.

MR. LI: Okay. Three very quick ones, okay, competition starts, right? The lady in the back.

MR. DOLLAR: Unless people want to each lunch, so.

QUESTIONER: Hi. My name is Eugie Su from Seoul National University, I'm here as a Congressional Exchange Student. I wanted to ask more about the Chinese domestic policy -- about how voices, there are multiple voices in China, domestically, joining in -- chiming into the foreign policy of the Chinese Government. So I wanted to know what the Chinese Government, especially on the Internet -- not the government, sorry, people thought about AIIB. There has been, I think, there is an assumption that --

MR. LI: Got it. Okay, we've got the question, right. Let's move on. Let's see, this gentleman has been raising his hand for several rounds. Please, be quick.

QUESTIONER: Thank you. My name is DonHuiyu), with China Real Agency of Hong Kong. And I hope my question will be chosen by Mr. Bader. It's a little bit personal, it seems to me that the U.S. is, at least in academic circle, is debating its policy toward China. Somebody said the U.S. should not continue to engage with China. And are you concerned that your modest voice is being overwhelmed by those who suggest that the U.S. should be more tough -- tougher, containing China? If you have an opportunity would you like to join in the campaign with Hilary Clinton or whoever in the (inaudible)? Thank you.

MR. LI: That’s the question. Okay. Last one, the last -- Okay, gentleman, to my right?

MR. DOYLE: I'm Randal Doyle, from Georgetown University. Very quickly, over the past six months, the Chinese Government, Xi Jinping has been cracking down on human rights lawyers, and I think over 200 have been arrested, individuals have disappeared. And very quickly, is this indicative of some new waves and some new domestic situation that’s evolving that perhaps we don’t know about, but while they are cracking down on this particular group of individuals, and their working in China?

MR. LI: Got it. I think sexiest question is whether Ambassador Bader will join the campaign. That's sexy, and the most difficult one is the last one. Which one do you want, sexy or important? SPEAKER: The important one.

MR. LI: Important, okay, important question. You are a lawyer, you are a lawyer, right? Gao Xiqing, you were trained as a lawyer?

MR. XIQING: That's a very dangerous question. Well I read about it in various ways. But I don't think -- you know, people have great differences to the number, because you said 200, and it's the first time I'm hearing such a large number, but some people said 100, and then recently some have said it's only six, and people who have actually accepted what I heard it was about 100, but most of the people were called in by the police and questioned and then let go.

So, now there's only six people arrested. But I don't -- No, personally I'm not privy with the numbers. The way I look at it, it's because I had a counsel or the Central Government TV on that, and they say, the claim that these lawyers were instigating people to certain -- it's like these adult chasers, trying to really start trouble and doing things.

That's from the official TV. I personally do not have enough facts on that, you know, China now have 170,000 lawyers, and we -- you know, there must be lawyers who try to, you know, instigate trouble, but, you know, I'm sure anywhere in the world.

But, on the other hand, I also -- I have a lot of lawyer friends, and many people called me and asked me -- said, they were very much concerned; because as a lawyer, myself, at least former lawyer, I would consider the protection of the lawyers' rights to -- at least to speak for their clients, to say things is important in a society, especially for a stable society.

And I think the purpose of the government to do whatever, is to, what we call 维稳), to maintain the stability. If we do want to maintain the stability, then of course they will let people talk, and let people vent to their -- the frustration they have. So I don't know what exactly is happening, but I would say -- but I would hope that the government would do things by the law, rather than by some political enthusiasm. So I don't know if I answered?

MR. LI: Thank you. Thank you for your very brave answer to this difficult question. Okay. I would like to give the final words to David Dollar who is the conductor of -- producer of this whole program. But before that let me say only one thing, I learned one thing; to be a successful think tank; that it starts with wonderful audience. Today we have a wonderful audience, and wonderful questions. Thank you very much. (Applause)

MR. DOLLAR: Yeah. I agree. That was an -- thing that I can endorse. So, we had a great audience, we had another great Panel with this group. We had a lot of frank questions, and so I think this contributes to a better relationship between China and the U.S., just having this nongovernmental group having a fine discussion. So, now we finished the program, there's lunch for the Chinese delegation, and the rest of you are on your own. (Applause)

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