

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

in collaboration with

THE INSTITUTE OF INTERNATIONAL RELATIONS
NATIONAL CHENGCHI UNIVERSITY

CHINA FACES THE FUTURE

PANEL FIVE: ROUNDTABLE DISCUSSION

The Brookings Institution
Washington, DC
July 15, 2009

[Proceedings prepared from an audio recording]

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180; Fax (703) 519-7190

PANEL 4: GLOBAL ECONOMIC CRISIS AND CHINA'S RESPONSE

Moderator

Da-Nien Daniel Liu
Chung-Hua Institution for Economic Research

Presenters

Yih-chyi Chuang
National Chengchi University

Albert Keidel
Georgetown University

Gene Ma
ISI Group, Inc.

PANEL 5: ROUNDTABLE DISCUSSION

Presenters

Vincent Wei-cheng Wang
University of Richmond

Pang Zhongying
Renmin University, Beijing

Jay Chen
Academia Sinica

Richard Bush
The Brookings Institution

PROCEEDINGS

RICHARD BUSH: Why don't we get started, and we will begin our last session, which is entitled "Closing Discussion." And there's no plan for this. The people seated with me are going to talk about whatever they want to talk about, but for no more than 10 minutes. That's the only requirement. Why don't we start with Professor Chen at the other end and march back this way. Professor Chen?

CHIH-JOU JAY CHEN: I've learned a lot at this conference and have been thinking about how to make a contribution in 10 minutes. And, as a sociologist, I would like to focus on the factor of domestic social needs and to see how the factor affects how China faces the world and how China faces the future.

So the key issue is the Chinese society's demand for social rewards, and here are two propositions. First, as China's political and economic power continues to increase, its soft power cannot catch up. Second, for the post-reform Chinese society in the late 2000s, what are wanted are not only economic or instrumental rewards but social or expressional rewards for the people, especially for the emerging middle class groups in cities, which is the key for the state to maintain its legitimacy and social stability.

Social rewards or social returns refer to elements such as national pride, regime legitimacy, social justice, and personal spiritual satisfaction. For example, the factor of national pride may play a very important or more important role in China than in other advanced Western societies, when the country is engaged in international interactions.

And for example, we talk about the Chinese propaganda to build a harmonious society or the concept of scientific development. Both of them are two targets on the issues of social rewards or social returns. So the question is how the concern of national social rewards affects China's external grand strategy. For example, this is the issue we talked about yesterday.

And three propositions. First, to secure social rewards is placed at the top of China's work agenda at least on paper; and to search for or secure national social rewards, the trajectory of China's external grand strategy may be affected accordingly. That is, the rationale is not simply to secure instrumental rewards such as national security or natural resources, but also to achieve elements of social rewards.

And let me give you some examples of the symptoms of demanding social returns. For example, social protests, as we know, are

increasing in China, and we can look at complaints of the protests. Many of the complaints are non-monetary, which means they refer to issues such as government misconduct, ethnic and nationalism issues, and religious issues. And which social groups are demanding social returns? They include the middle class in cities, ethnic minorities, and religious groups.

So I would like to briefly, in five minutes, present my current study on Chinese social protest and to see how the social factor affects China's development. I have collected as many news items as possible on Chinese social protests from 1997 to 2009. We have more than 1,600 cases.

And then we can code the events. We have the information about the date, the location, and if you have the location, you know the development indicator of the location where the protest occurred. And we know who are the protest groups and what they ask for—their claims—and their targets, and the size of the protest, and the forms of the protest, whether they used violent measures and how the police responded. But surely, I don't have time to talk about this study today. Maybe Dr. Bush needs to call for another conference on this issue.

However, for example, who are the protest groups? We can see that what are decreasing are the protest groups of state firm workers. We can see recently several groups, including the ordinary city residents, blue-collar workers, white-collar workers, their protests compared with the SOE state firm workers are increasing.

So the protest groups are changing in China. And we can see the issues, the claims for the mass protests in urban China, and we can see the developments. To summarize, about 60 percent of the events are on economic rewards, and mostly they are about monetary issues for specific groups: very particular groups like factory workers who are laid off asking for compensation, and like displaced residents who have the problem of relocation.

And the second group of protest claims is social rewards, so-called. And for these protests, the issues cannot be resolved by money, and mostly they are public goods issues such as government misconduct, environmental safety issues, nationalism issues, ethnic conflict issues, and so on.

Then this is a status quo output. We don't need to go deep to the numbers, but just believe me. This is a result from the sample I just presented. The issue is to predict what factors affect the protest targets, whether it's in central government or local government.

Several remarks. First, white-collar groups, the middle class, in rich cities tend to target central provincial governments in China. And this

implies that the urban middle-class in rich cities is the source of challenge to Chinese central government.

And second, on the contrary, blue-collar workers in poor areas protesting local government misconduct tend to target city-level or lower level governments. And this is very different from the white-collar worker protests.

And thirdly, ordinary city residents in poor areas tend to use violent measures and mobilize large-scale protests.

So what I want to point out is that the domestic social factor is currently very important in China, and this is why the Chinese government has to be very careful about the strategy it chooses. So what I just want to mention for discussion is such a factor that would influence how China faces the world. Thank you.

DR. BUSH: Thank you, Professor Chen. It's a very useful reminder that China's future is a function of how its domestic system evolves and how the regime responds to popular demands. We now turn to my good friend and former colleague Pang Zhongying, whom we're very glad to welcome back to Brookings on this occasion.

PANG ZHONGYING: Thank you very much, Richard. Thank you for inviting me to this very important conference. My role here is just as a discussant based on my understanding and the readings on papers presented here. And I think the topic, the theme of China's future and the world's future is so important, and I would like to make several points as my comments and responses to presenters.

The first about the world—a rising, peaceful rising as China faces the world is my first topic. In the past 30 years, China has enjoyed rapid economic growth. Everybody knows. This morning's economists gave very good discussions, and China's rise is largely an economic rise. But the global financial crisis—the Chinese leaders favor use of the word “international financial crisis,” not a global financial crisis—this crisis has caused the largest, biggest, the worst impact on China's growth in the last 30 years. So it is a major challenge, one of the major challenges China now is facing. And so for China and the world, reality is a crisis, and it affects many things: there is a financial crisis, economic crisis, economic recession and ecological crisis. So I say that the world and China are in multiple crises.

China also faces strategic changes, strategic challenges in the Asia-Pacific region and the West. You know, people talk about Korea's nuclear weapons, and the people in China talk about how China is surrounded by nuclear

weapons states, from Russia to India, Pakistan, and the DPRK. There are other strategic challenges China is now facing, the rise of India and the rise of Korea, South Korea, and the rise of Japan— is it a normal country, normal power, or a re-militarized Japan?

I largely agree with speakers' view on the crisis, on challenges China is now facing. And in the future, in the long-term future, in the foreseeable future, China will continue to face a crisis-stricken world. The keyword of the Chinese leaders in the past 30 years has been "better international environment." Chinese foreign policy is for having a better international environment, but now this international environment is changing.

And second, let me talk about China's so-called grand strategy. The grand strategy is a word China borrowed from the United States from strategists here, and other international relations theorists. And I'm happy to see the Brookings Press published a book by my friend and colleague Yu Keping, "Democracy is a Good Thing." And the Brookings Press four years ago published Mr. Zhen Bijian's "China's Peaceful Rise."

And Yu Keping better cited my comments on Hu Jintao's argument, on the leadership's argument of the harmonious world. And you may go to Yu Keping's book to know my comment on the harmonious world. According to yesterday's presentations, I think China wants to continue to conduct a low key foreign policy or *tao guang yang hui* for the nation's peaceful development.

There are also many changes China is now facing, including domestic changes. China wants to do more in the world for world governance, peace, harmony, and prosperity and the recovery of the world economy. However, the real strategy, according to my own understanding, China has had is neither simply the continuation of *tao guang yang hui* nor a quick shift to *you suo zuo wei*.

China is seeking what I call continuities, what I call a very pragmatic, smart strategy. This is a metaphor from American's smart power, and China tried to manage continuities, world continuities, China's continuities, and the changes, and they tried to combine *tao guang yang hui* and the *you suo zuo wei*. So the policy idea of a harmonious world is one of China's smart strategies as I understand it.

And let me just end quickly on development. This month Hu Jintao cancelled his participation in the G8-Plus Big Five Developing Countries Summit in Italy, but State Councilor Dai Bingguo joined his meeting with the G8 leaders and other developing leaders, and Dai Bingguo talked about China's

attitudes towards global governance for the first time. This is a very good development and good news. China favors world global governance, and this is very similar, like the Obama administration now also discusses global governance.

And my third point about “China faces the future” is about China's relations with existing international institutions, and Dr. Arthur Ding mentioned and listed the existing international system, international order institutions.

I'll be very brief. At least partly, as China manages to enjoy almost all international institutions, it has benefited greatly from the existing international order, you know, the order organized by America. But China, like other countries, also perceives that the existing order must be reformed in order to be truly global, inclusive, and democratic and legitimate.

Second, China does not intentionally challenge America's leadership in international institutions. Just two recent cases – the BRIC Summit in Moscow last month, and China's attitude to the U.S. dollar's dominance, and the Chinese officials repeatedly said this is a scholarly discussion and so-called super-sovereign currency, RMB. This morning the three distinguished economists mentioned the RMB's future trajectory in the international economy. But the Chinese leaders are so cautious, and not to challenge the U.S. dollar's dominance in the world economy.

So my observation is that China is both a maintainer of the current international order, and a reformer in the future of the international order.

The next question is about China's relations with the United States. I think this is a very important relationship and maybe the most important of China's relations. China's future and the world's future largely is up to how China and the United States manage their relations. So the U.S. will continue to maintain or restore the world, strategies like those of Zbigniew Brzezinski, who I visited on this trip to the U.S. He termed global domination or global leadership, and many Chinese strategists and scholars still think America in the future, the foreseeable future, will still be the number one superpower. So both positively and maybe negatively, global challenges and the global solutions of global governance are gradually dominating China-U.S. agendas in the future.

If cooperation in dealing with common issues, regionally, globally, would occupy an increasing, key position in China-U.S. interactions—with new strategic understandings, frameworks, and paradigms, formal or informal, institutionalized or not—the ties between the two countries would be tremendously transformed in the future.

And finally, let me mention some dangers and problems. So one of the dangers may be the Taiwan issue, which was covered in this conference. The presenters talked about the economic benefits, but the mutual economic benefits—without the least political progress—may not be sustainable, in my view.

Dr. Bush mentioned three very bold theories and some security issues may disturb or damage or impact the interactions. The presentations yesterday used the so-called triangle: Beijing, Taipei, and Washington, D.C. Such problems should be better managed, for better U.S.-China -- China-U.S. relations.

Finally, I give my general conclusion about this two-day conference and Obama's key words on hope and change. I think the hope and the change should apply to China-related things. And many may want to maintain the status quo in order to recover from the old or the lost status quo. It is true that continuities of many things may be short term relief or solution to current problems. But facing the challenges we are, for us status quo is not a better solution. Thank you very much. I would take your questions.

DR. BUSH: Thank you, Zhongying. Vincent?

VINCENT WANG: Thank you. Since this conference's theme is "China Faces the Future," and yesterday I talked about China's grand strategy, I think I would like to build on my comments yesterday about China facing the future by looking back.

Yesterday we debated whether China has a grand strategy and so on, and I argued there is, even though China itself may not say so—it has a grand strategy. But if you define it as the systematic use of political, military, economic means to achieve national objectives, including the preservation of the party-state, then we can interpret that China has a grand strategy.

Today, I will use a different formula. I will call China's grand strategy in the last 30 years one of increasing power through plenty, so basically focusing on economic development, ensuring a peaceful international environment, leveraging globalization, managing the effects of globalization toward the party-state and domestic society and so on.

This basic strategy of increasing power through plenty has been very successful. The first row of this slide shows the United States, 1970, 1980, 1989, 2000, 2010, and 2020, et cetera. And for each period, the United States is given 100, and it is the most powerful nation, according to China's calculation of CNP [comprehensive national power].

And the second row is China's CNP over time, and as a percentage of the United States. As you can see in 1970, China calculated itself as the ninth most powerful nation on earth, and its CNP was only one-quarter of that of the United States.

But according to one study, fast forward to 2020, which is very close around the horizon, China is going to be almost destined to be the number two - *lǎo èr* - in the system. And, in fact, the distance is only going to be three points: 100 for the U.S. and 97 for China. So we're talking about a very close gap. As you can see, nobody talks about Japan as number one now. But my point is that China is definitely going to be number two. Perhaps if we add on this table, China will be number one.

So the results of this power through plenty grand strategy have been largely successful in reducing domestic poverty. China has lifted millions of people out of poverty, and has given a new lease of life to the party-state, which was trying to recover from the shame and disaster of the Cultural Revolution and has increased China's comprehensive national power. So it has been largely successful.

However, it is still a work in progress, and also China, as it is ironically, as China is coming to the number two position, it is actually facing a critical point. Because up to this point, as Professor Pang mentioned, even China has grudgingly accepted that it is a beneficiary of the U.S.-led international system. As long as China is comfortably in number two, then China does not have to face the critical choice of what to do with the United States, as you're about to overtake the United States. Now China is very close to that point, 97 versus 100. So China faces a very uneasy choice.

Of course, we have talked a lot about various debates such as whether the world should become a more multi-polar world. My take on this is be careful what you wish for, because so far, China has been a major beneficiary of the U.S.-led international economic order. The Cold War has ended, and the winners are China and blah, blah, blah.

China's role. China needs to rethink its role in the international system. So far, it has been very comfortable free-riding on the United States. But is China going to continue a free ride on the U.S., as China's capabilities continue to increase, and it also acquires more interests as its capabilities increase? It has to be more attentive to the perceptions of other countries, including China's neighbors, on China's growing capabilities.

In discussions of China's rise, one thing that is missing is the discussion of China's intentions. We can observe capabilities, but we cannot

study China's intentions very much. Of course, you can study all the official records, but they don't really tell you the real thing.

I don't want to dichotomize this debate into a simplistic status quo versus revisionist intention. But I do think that China wants to play a greater role than it currently enjoys, from simply accepting the rules to being one of the rule setters, if not the rule setter. I don't think China wants to be the rule setter, but wants to be one of the rule setters.

But China does not want to replace the United States. China is very comfortable being number two, but is becoming increasingly uneasy about just about overtaking number one.

China also has to tread very carefully. For instance, I think that certain aspirations of China—such as democratizing keystone international economic organizations, reforming the special drawing rights or increasing the weight of RMB as a result of China's economic power—it seems to me are quite reasonable.

China traditionally abjures interference in internal affairs, but China has also played a larger role in peacekeeping operations under the UN mandate. But China still has to be very careful about the precedents it sets. For example, China is very, very sensitive to interference in internal affairs, especially if it has peripheral problems.

Another observation I would make is that just like in the military field, in China's grand strategy, its doctrine has lagged behind its change in capabilities. So another way of saying that is that China has suddenly found that it has risen. Then they found that it needs a good doctrine. So, they say, okay, well, if it has risen, then perhaps we should say that, you know, we want a peaceful rise. Number one, this is the only way China can rise. Number two, it sounds better to other people. So the theorizing has actually lagged behind that of the change in the reality.

And finally, a point I want to make is that China so far—always encouraging and remarkable changes in its foreign external behavior, a more confident, proactive foreign policy—to me reflects more an instrumental adjustment focusing on process rather than a substantive discussion on the attitudinal change.

For instance, we know that China has talked about peaceful rise, but we don't know after China has peacefully risen what kind of country China wants to become. Is it going to be a forever peace-loving country or will China throw its weight around after it has become a powerful nation? And that moment

is coming up pretty soon.

But the interesting thing is that I am not sure if China itself knows that answer. And so, therefore, we still have a lot of debate. That is the impetus for the next conference. Thank you.

(Applause)

DR. BUSH: Thank you very much, Vincent. I'm going to follow on in the spirit of your remarks a lot.

Just to remind you of a couple of data points from earlier sessions: I think our speakers this morning were pretty optimistic on China's long-term economic growth. Dave Finkelstein talked yesterday in a fairly respectful way about how China is exercising the instruments of national power. And Vincent has referred to what I regard as the gradual but impressive way that China is building its military capabilities.

So something important is going on. And I actually think that rankings, which people in China love to do because they see their country going up in the rankings, they're really less important than a country's role in the international system and its interaction with other major powers. And this, then, puts in sharp relief the issue of how to manage China's rise or, to put it more accurately, the revival of China as a great power.

Now Vincent is absolutely right that a key question here is what are its long-term intentions, because that will shape the interaction with other major powers. And I agree with him that not only are those intentions unclear, but that China's leaders probably have not made a final decision.

Another key question is what the rising or reviving power's approach to risk is. Does it accept a lot of risk or is it risk averse? And so, you combine intentions and approach to risk, and you get different kinds of behavior, very different kinds of behavior, all of which are difficult to gauge, and create a difficult challenge to status quo powers.

Now China's situation is one where I think intentions are unclear and unknown. Whether China becomes a revisionist power or a status quo power is an open question and will be answered over time. And here the conclusions yesterday that maybe China doesn't have a grand strategy are relevant.

I agree with Pang Zhongying that China has a very pragmatic and smart strategy, but that's another way of saying it hasn't decided on its long-term intentions. It is cautious. It seeks to reassure, and so that has the effect of

possibly creating a sense of complacency if its intentions turn out the other way.

Now there are a couple of implications of all of this that I would like to highlight. First of all is how we think about the American approach to all of this. Mike Green yesterday spoke of the approach of the United States and Japan and others as shaping. And I think that's a good word. I think it's a good approach. I'm fairly optimistic that positive shaping can occur.

But part of shaping, of course, is preparing for the worst. And we can call it shaping, but the effect of it is hedging. You know, we may not use the word hedging, but that's what we do or that's how China sees what we do.

And China hedges as well. And there are elements in each government whose job it is to be suspicious about the motives of the other, and each do their job very well. It does create the danger of a vicious circle through the interaction of those suspicious agencies, not necessarily through the choices of top leaders.

The second implication. Because long-term intentions are uncertain with respect to China and because China is cautious, what becomes very important, then, is China's interaction with the United States, with Japan, with Taiwan on a variety of specific and concrete issues. It is in that interaction that China will draw some lessons about the intentions of the status quo powers, and the status quo powers will draw some lessons about China's intentions.

All of that could work out very well and strengthen the movement towards coexistence and China playing a very constructive role in the international system, or they could work out badly.

So what happens on North Korea becomes very important over the long term. What happens on Iran becomes very important. What happens on climate change becomes very important. If we can work out a good solution on that, between basically the United States and China because we're the two bad actors here, we can probably work out cooperative approaches on anything. But, if we get this wrong, it becomes harder.

I also think that what happens between the PRC and Taiwan is a very important litmus test of what kind of great power China will become. If the positive interaction that is going on is sustained and consolidated and built upon, that says something about China.

If, on the other hand, the various potential obstacles that some of us have talked about become more prominent, then that will lead all of us to draw other kinds of conclusions.

Finally, the implication of global governance. We talked some about China's role in international organizations. All of that is very important, and the existence of a dense web of international institutions is one thing that makes the post-World War II era very different from everything that came before, because it's a way of smoothing out tensions and frictions.

But I also think that a key here is the relationship among the great powers going forward. And if that relationship is positive and cooperative—it's something that the Obama administration is emphasizing very much—then the future looks much brighter.

If, on the other hand, the great powers cannot work together on the variety of issues facing us, then that's a different story.

Thank you very much. We'll now open it up to discussion we'll begin with Hsu Szu-chien.

QUESTION: Okay. I think it's very valuable that we have Professor Pang of China here. So I would like to direct my question to Professor Pang. In this panel, interestingly, we have one panelist presenting the domestic situation, and also Professor Vincent Wang presenting the rising image of China in the international community.

However, we have been able to observe there is some kind of asymmetry between these two images. As raised by Professor Susan Shirk from UC-San Diego in her new book, *The Fragile Superpower*, she depicts China to be fragile domestically, but becoming stronger internationally.

So, first of all, do you agree with such a depiction of China, with two faces? And, if you do, what do you think China should do to close that gap or balance that asymmetry for China to be a real great power in the future? Thank you.

DR. PANG: Thank you very much. I actually enjoyed Professor Susan Shirk's great book two years ago. And she also cited my points in her book.

My response to a great question is the current Hu Jintao leadership, and there is very important policy guiding line, to try to coordinate domestic affairs and international affairs—*tong chou, guo nei, guo ji, liang ge da ju*.

And this is a very good guiding principle—try to solve some conflict, contradictions, and dilemmas, and China's domestic development

freezing and China's foreign-policy freezing. Domestically, Susan Shirk may be wrong and some of them, China's also still strong. And as the economists this morning mentioned, economically in the past 30 years, relatively at least it is a successful story. But Susan Shirk is also right because China faces tremendous domestic challenges.

Your question about is China stronger in the international affairs? No, and China will continue to, as I imagine, will continue to pursue a low key foreign policy, continue to increase its international contributions and not be a free rider. And maybe some people still think China is a free rider. You tried to stabilize Central Asia, often it's Pakistan, and China benefits the regional stability. I think China supports the terrorism campaign made by the Bush administration. So China is not necessarily a free rider in many cases.

QUESTION: Thank you. Andrew Yang from CAPS. I think all the panelists, especially Professor Pang and Vincent and also Richard, simultaneously mentioned U.S.-China relations. Perhaps it will be the most important relationship in terms of formulating global governance in the future and providing a healthy path for a more stable and peaceful international order in the future. But what I want to get your perceptions on is how we are getting there.

We see China is rising. And Vincent mentioned its number two status. And Professor Pang mentioned that even China is thus becoming a strong power, China's still treating the United States as a leading brother. Are we going to manage the relations between the United States and China? I consider the United States and China as in a very critical point right now in terms of how to see each other. And we're having a huge task ahead of us not only in terms of Iranian issues, North Korean and climate issues as well. But those issues certainly will be a major indicator to see how the United States and China are going to conduct the course of interaction between two sides.

Vincent mentioned China's intention. You know, nobody knows what would be China's intention in the future, but certainly Mike Green mentioned something about the U.S. managing its relations with China. He used the word "shaping" China instead of "hedging" China. My question would be if China considers itself the number two, subordinate to the United States in the near future, how are you going to shape China in terms of making better relations between two sides in order to create a better world ahead of us? The United States will adopt a different approach or more cooperating between United States? Because we don't see anything happening right now, given the fact there are so many important, critical issues ahead of us and both countries are facing greater responsibilities in terms of providing a better framework for international order in the future.

So I want to ask the panelists, what are you going to suggest to both

the United States and China in terms of approaching each other, shaping or cooperative or proactive or whatever? Because so far as I can see, China is sitting back and waiting for the United States to take the initiative or China would be more proactive, assertive in terms of managing the common issues concerning each other and concerning the future world order. So I'd like to see, panelists, what would be the best way to manage U.S.-China relations, because that would be the key to solving global issues in the future.

DR. WANG: I feel that this question should be Richard's.

DR. BUSH: Go ahead, and I'll comment as well.

DR. WANG: Okay, sure. Okay, I'll give it a try and I'll say all the wrong things. You can correct me. (Laughter)

DR. BUSH: I doubt it.

DR. WANG: I think Richard's earlier comments have given us some indication. I think the United States either explicitly or implicitly might want to bestow more responsibility on China. I hate to use a word like, you know, "sheriff deputy," to just basically give China a few opportunities to prove its worth on the North Korean issue, on the Iranian issue.

And I also agree with Richard that you cannot have a peaceful rise with three major exceptions, namely very antagonistic attitudes toward Japan, Taiwan, and the United States. So these little things are data points that the United States needs to collect before it can make a fundamental shift of its policy or attitude toward China.

So before that happens it will be good for the United States to gradually shift—you used the word "shift"—or subcontract or delegate, whatever, some responsibility on those areas where China can play a constructive role. And if there have been enough data points proven satisfactory, perhaps there can be a qualitative change.

DR. PANG: Let me say some words about your question. And I think a very interesting observing point is about SED—yesterday's SED and today's S & ED. And this change, this name change, shows some implications for the future, the current and the future Sino-American relations. The key word is "strategic." And in the past five SED dialogues, agendas, the Chinese side agreed or tolerated. Discussions merely were on China's problems, China's questions, RMB and others. But gradually China realized the dialogues should also discuss America's problems, America's questions.

And so maybe yesterday, America shaped China much and today, maybe China tried to also learn how to shape the United States. So this may be a mutually shaped relationship. (Laughter)

DR. BUSH: I think that's right. And just to briefly respond, I think shaping can be done in a variety of ways: ensuring mutual economic benefit, which has positive domestic advantages in both societies; eliciting China's cooperation on a variety of issues, not just as a rule-taker or just following along as the deputy, but also sort of making its own contribution to how to address international problems. I think maintaining U.S. leadership is very important because that creates a context. And here, I think we have the capacity to do that. Whether we have the will is another question.

I personally think it's important to avoid a kind of duopoly situation where it's the United States and China only taking these roles. I don't think China's ready for a G-2 situation. And I think this great power cooperation has to include Western Europe, it has to include Japan if it has the capacity to do so—I hope it does—and Russia, if it has the will. But I think the whole system will work better if you include everybody. It puts less of a burden on the leaders and shares the responsibility. Nadia.

QUESTION: Hi. Nadia Tsao with the Liberty Times. We saw the recent riots in Xinjiang and also last year at Tibet. Most Western media seem to focus on the clash of Han Chinese and a minority. But I wondered, would you give us from an economic point of view—it seems like it's not only a racial question, but also disparity between the poor and the rich, but also between the West and the East Coast? This just seems like steam that accumulated to a point that just erupts. And is that steam built up to a point to drive a policy change from the Chinese government's point of view? Thank you.

DR. CHEN: Yes, I agree. I think it could be, Tibet and Xinjiang and the issues are both ethnic issues and class issues. Which means the economic disparities, the gap between the haves and the have-nots is increasing. And the haves are the Han people and the have-nots are the minorities.

Actually I don't see or I cannot see any trend of improving in terms of the economic gap between the minorities and the majorities. But, on the other hand, I don't see this kind of unrest would put any threat to the state dominance in these two areas. So maybe in the short term I would see that the repression would be still useful, and the social order can still be maintained, but the losers would be sacrificed. And this is my point.

DR. WANG: Just a personal anecdote. Two years ago, I went to Tibet with a group of professors from my university. Of course, this is very fun. We

checked in to a five-star hotel. We were greeted by the hata and Tibetan dancers, singing and all that. And it turned out that the hotel was run by a Han businessman from Jiangsu Province, who had the money to actually put on a personal museum on the second floor of the hotel. Yes, they employ local Tibetans, but they are reduced to dancers and singers. And all the key people, such as the cashier and so on, are Han. That's one thing.

And then another anecdote is that a colleague of mine actually showed me the English tourist map. You know, if you go to a city and pick up a tourist map usually it shows all the fun places, such as the Washington Monument, Lincoln Memorial, et cetera. But the map in Lhasa shows all the party and military organs: the Tibetan Autonomous Region government, city and party government, and military units, and so on. So my colleague interpreted that as intimidation. Basically the Chinese want you to know that they are here to say, and, of course, it's for a military strategic reason. They pour in so much resources, and why do the Tibetans still not love them?

And one night I insisted that we went to the Tibetan district of the city to go to a typical Tibetan lama, which is the Tibetan singing lounge. I wanted to hear, I really wanted to hear authentic Tibetan songs. And it turned out that, again, the entire clientele is Han Chinese except my colleague, who is a musicologist, a white Anglo, and me. And everybody else is Han Chinese and, again, the Tibetans were reduced to dancers and singers on the stage. So just that anecdote.

DR. BUSH: Okay. Bert?

QUESTION: Thank you. Bert Keidel, formerly with the Asia Office of the U.S. Treasury Department. I wanted to ask two questions.

One, Professor Chen, What does your research show about the balance between disputes that are triggered really by modernization -- groups coming together in Xinjiang perhaps, rural Uighurs coming into the city and coming in greater contact and coming into conflict for jobs, the spread of urban areas encroaching on rural land, things that are kind of inevitable in a very rapidly expanding society—and other things that represent other disputes, that represent really the failure of government, the crass corruption and the kinds of steps that don't represent a normal expansion. How would you characterize the balance between those two in the studies of the many cases that you've marvelously put together?

And then for the international, I wanted to go to this idea of China's intentions and ask the question: to what degree does the evolution of China's intentions depend on U.S. intentions and our treatment of the way China comes?

And I'm curious—because this is not my field, but it touches on my

field in a couple of ways—what really are the ways that the United States to date has benefited from its preeminence? One that we're all talking about, and Professor Skidelsky in the *New York Review of Books* has said, is the ability to print global reserve currency means that we have the wealth and liquidity to, among a number of things, expand ourselves in a military way. But the military footprints that we have, that we've been able to obtain in various ways, are a combination of relationships and often reflect our wealth. Also, China may have a more populist bent in the relations that it makes with countries, for example, in Latin America, that, again, bump up against property rights that are part of the inherited sphere in which the United States acts.

Is there some way that China's rise will actually bring to light or come into conflict with U.S.-inherited benefits from its preeminence? And will this pose a problem of how the United States then reacts that could, in turn, affect China's intentions?

I hope that's not too convoluted, but thank you for your patience.

DR. CHEN: Yes. I would put it this way. And for the disputes related to modernization issues they mostly are old issues—for example, the protest by state firms' laid-off workers. And for the others I would not put them as failure of governance, okay? The government is quite strong and quite responsive. I would put them to be driven by some fundamental institutional problems. One is the rural-urban division and citizenship problems, especially applied to the rural peasants.

And second is driven by the property rights institutions, for example, the relocation issues, the displaced residents. And some of the disputes, civil disputes, are related to the property rights between maybe the residents and the local governments or between the peasants and the village governments. So these are the issues related to the fundamental collective or unclear public rights in China.

And the third issue is the rule of law issue, the official or bad elements issues. This maybe what you call the failure of the government issue. But as we can tell, the governments are quite responsive, and maybe it's not comfortable, but it's quite responsive to these kinds of disputes. So I would put it this way. Thank you.

DR. PANG: Let me respond to the issue of China's intentions and this is my scholarly thinking. And I repeatedly and frequently meet this question in international conferences.

China's leaders and official intentions, and, to use Kevin Nealer's term from his presentation yesterday, "stated intentions," and China has stated many. This is one thing I think, but there are driving forces drivers. You know, in recent

years, China's relations with Africa, China's relations with Latin America, China's relations with the Middle East, you can see several other actors. China's economic sector, and not only the state-run companies, but also private sectors, and China's emerging civil societies and academic communities, and the science and technology community, too.

Their intentions, in my observation, are not necessarily identified with the government's intentions. Even the leadership and the officials continue to advocate that China will be a peaceful rising player in the world. But, if you consider such more complex sectors in the world, maybe the pictures become complex.

DR. BUSH: Bert, I think that you are exactly right, that U.S. intentions or, to put it more precisely, how China draws conclusions about our intentions from our actions is key. And this is an interactive process. One can look, for example, at the evolution of the Taiwan Strait issue over the last 15 years as one in which each side generally has drawn negative conclusions about the intentions of the other from our respective actions. China thinks that we're promoting Taiwan independence and we see a threat to not only Taiwan, but peace and stability in the Western Pacific. And one can identify going forward a whole range of issues on which this interaction will take place and lessons will be learned.

I do think as a patriotic American that our actions have had positive benefits. Forward deployment of our forces since World War II has provided security public goods for East Asia and allowed a lot of important things to happen. But we're reaching a point where how we have operationalized forward deployment is now bumping up against China's understandable desire to create a strategic buffer hundreds of miles away from its coast, and the tussles that are going on in the South China Sea, East China Sea, Yellow Sea are all expressions of that. Lessons are being learned by people who don't necessarily understand everything about each other.

I'm not so worried at this point about China's movement into Latin America as affecting our legacy rights. I think our legacy is sort of spotty, to put it mildly. And China may end up learning some of the same lessons that we have learned about how to operate in South America. But I think you're on to something here.

Let's go here. You had your hand up a long time ago, and I'll come to Eric. Okay.

QUESTION: My name's Jeff Jenoda. I've studied a lot of this stuff. My question is primarily for Dr. Wang and it might be related to Dr. Yang's question. You mentioned the increase of power, and we all know that with great power comes great responsibility. And with China, what it has dealt with, the West

has been dependent on China to use a lot of pressure, leverage on issues such as Burma, North Korea, and Sudan.

My question: How do you foresee the future of China's leverage, if you will? Because it is increasing in power and stature.

DR. WANG: I think it would be on a case-by-case basis, right? China looms larger on certain regional issues, such as Korea. Among all the major powers, China is, relatively speaking, the one with more leverage vis-à-vis North Korea than anybody else. China would probably play a less significant role, say, in some disputes happening in Africa. So it would be a case-by-case. China does not, at this moment, have global interests to the same degree as, say, the U.S.

DR. BUSH: Also, China's interests in any given dispute are likely to be mixed and conflicting, you know, economic versus security. I would also cite the United States as a country that developed huge power by World War I and then chose not to exercise it. We're the sort of ultimate free rider.

Eric? The mic is coming.

QUESTION: I can't help but to succumb to the temptation to join the conversation on Chinese intentions. I'm reminded that the Chinese often say to us they're not expansionists, they're not aggressive, that they do not intend to use nuclear weapons first. And even yesterday, when we were talking about what they would do with the missiles for Taiwan and the doubts that we have, I think it's worthwhile to listen and to hold their feet to the fire. In other words, let those things be said many times.

I would add the thought, before you mentioned the mutual shaping that—by the way, I kind of prefer the word “influence”—I had written that shaping is a two-way street.

I guess there are many Americans who fear that a more powerful China is a more dangerous China. And I guess there's similar fears with in Chinese views of the U.S. But I think it is a very valuable point that we are influencing each other. And it is hard for Americans to accept that we should expect to be influenced by China and there's the good possibility we might learn something.

With respect to the Uighurs, last week there was a Chinese delegation in town, the Yang Mingjie and others. And as I understood some of the comments they made that China, in their view, is entering a period of a series of crises that will happen in the next few years, and that this crisis with the Uighurs will be a landmark. But I'm not sure I understood all the implications of that. I wonder if you'd comment on that.

I have a real question that I come to here at the end. It's something that I sort of raised in the last period and I think you brought up as well. If we saw another G-20 develop and somehow that evolves—pardon this being a hypothetical question—into a G-2 with Obama and Hu, and the result of that was something that I hinted at before where they essentially tell the world so now what must happen is the U.S. must cut its excess consumption and China must increase its consumption, is that a remarkable development or something that we should expect in the global economic crisis? Because, of course, we're seeing a situation where things haven't worked out well, so what is our next step? And might that be the thing that the two presidents would present the world with? Pardon me for being so longwinded.

DR. PANG: Last week, I heard the South Korean ambassador to the United States' words. And the forthcoming September Financial Summit in Pittsburgh, he said, may be the beginning of the end of the G-20 process. And South Korea will host the next financial summit. He said that this may be the end of the—how to say, in English the end of the beginning? And he thinks the G-20 group is now facing tremendous challenges not only implementing the London Summit communiqués, so difficult to implement, but a lot of the process you needed to detail the solutions. You need effective measures taken. But a G-20 is still too big. Too big. Maybe if it's too big, it will fail.

And so my personal view is still for saving the world economy—China and the United States. These two countries as Richard mentioned, the Second World War, international regimes, big power, cooperation of more big powers plays the crucial role. So China and the United States' cooperation, economic cooperation is the key. It's not only a key. It is the key. Thanks.

DR. BUSH: Bert, go ahead.

ALBERT KEIDEL: Eric, I apologize, I don't think we answered your question in that earlier session.

U.S. GDP's about \$14 trillion, China's a little over \$4 trillion. And we have a big share of consumption, so we've got about \$10 trillion in consumption, they've got maybe \$2 or \$2.25 trillion. You can't match the excess on one with an increase in the other in a kind of a balance. China's just too small, so it really won't work in the way the world is run right now. A lot of the interest in China's economy is what we projected it will become, but its current status as an economic power is still quite limited and what it can be expected to do in this crisis.

And China, it's also if we're interested in demand and jobs. It's not just consumption, it's investment, too. And we could argue that the U.S. doesn't have enough investment. That's why we're having a lot of breakdown in our bridges

and a lot of shortcomings in public goods. Whereas China, with \$3,000 per capita, it needs enormous investments in order to raise its consumption levels and productivity. So I find this focus just on who's consuming more and who's consumed less kind of misses the real macroeconomic problems that we're facing now and China's really secondary, even tertiary, role in what the globe needs to do. The total global GDP is about \$50 trillion.

QUESTION: And it's not a psychological gesture or something, it has merit.

MR. KEIDEL: I think if China recovers the way it seems to be doing domestically, even though it's going to have a bumpy ride as trade collapses, its surplus, 8 percent of GDP may disappear this year. Now, they're not going to be able to recover that with domestic demand. I don't think it'll collapse that far, but that's a possibility. But they're going to come out the other end with more balanced trade and a domestic economy that's booming, probably inflationary. But that will be a psychological boost to the rest of the world, for sure.

But what lessons are we going to learn on it? China's being able to do this because of the system that it has crafted to help it grow fast. It has a Planning Commission. It has banks that are subordinate to the government; it doesn't have an independent central bank. It's just moving the money, it's planning, it's looking ahead, we need these, these, these, and these, and so it can do that. That's not a suitable system for a country like ours at the frontier of global economic development. So it's -- but psychologically, yes, you're right.

Sorry to take so long on that.

QUESTION: Why is the Uighur crisis a landmark event for China?

DR. BUSH: I would have to hear their logic to evaluate, you know, whether it is a landmark event.

MR. BUSH: Francis? And this has to be the last question, sorry.

QUESTION: Francis Kan from IIR. A while ago, Richard Bush mentioned how China is going to deal with Taiwan would have something to say about its role globally. I would add how China is actually conducting its military modernization will also say a lot about its global leading role.

I think many people in the world are expecting the rise of economic power in China. But I would suspect that there will be as many people who actually suspect that China is rising militarily.

I want to ask Professor Pang about how—you know, I think you have to explain to the outside world why China has to conduct its military modernization, why China has to build some kind of a string of pearls vis-à-vis India, overall. You already have answered that because other great powers have done the same thing so then why can't China, but I'm not satisfied with this answer. You have to answer who is the biggest threat to your national security? What kind of military power you're expecting China's going to become? And that would actually be in the interest of all.

DR. PANG: Thanks for your question. Good question I think. And, you know, in the past 30 years, China benefited maybe from relatively free riding. But there are no free lunches. And because China pursued economic construction development and modernization, military modernization, and developing—Deng Xiaoping, and Hua Guofeng who this year died, you know—mentioned *si ge xian dai hua*, four modernizations. And among the four modernizations, is military the first modernization? No, put it at it number four. And largely, the Chinese military sectors, military departments, other were modernized and developed first. So the building up, I think there are many reasons for making this process of the modernization of the Chinese military fast and to match the other sectors of China's modernization.

And, yes, of course, because this arms race threatens the environment and also this is a very complex environment. You can see today's discussions in China, recent China, official discussions of whether or not China should have aircraft carrier, you know. These discussions, there are many driving forces. And one of the driving forces is domestic security dilemmas and China is facing such security dilemmas. Thanks.

DR. BUSH: I have a slightly different approach or perspective on this. I think we're going to see the PLA Navy undertaking a lot more operations, like the one in the Gulf of Aden. And this has nothing to do with a big threat. These are what's called military operations other than war. And when you engage in those, you discover, or China is discovering, that from a very practical point of view, you need places around the world that you can use for pre-positioning materiel, for replenishment, to ease the process of logistics. Even for the very practical thing of giving your sailors someplace to go do something and get them off the boat, so their morale is better. And this has nothing to do with the existence of a big threat. It does have to do with the growing complexity of China's military tasks.

So this is what the United States calls "places, not bases." And I suspect that that is the direction in which China is going.

With that, I would like to bring our conference to a close. Did you have a quick –

SPEAKER: I'd love to get their final comments about these access functions in the West..

DR. BUSH: Very quickly, please.

QUESTION: Yes. Maybe for China, single, is not quite enough for the excess saving with respect to the excess consumption in the United States. But, however, if you consider actually 7 out of the top 10 largest foreign reserve holders, they are in Asia. Okay? So if you take Asia as a whole actually it's there. Adopting these kind of export-oriented strategies reflects only accumulation of foreign reserve, then, of course, this becomes an issue. And this financial crisis actually provides an extreme opportunity to consider changing this kind of twisted structure.

And for the Chinese point of view, from the perspective of economic development, we can see that the share of the consumption in China is actually far below or averaged by 15 percentage points. And also, the share of the stable income is also declining despite the increasing in the per capita incomes. Therefore, it is a matter, from China's point of view, to change its structure to domestic consumption. And it is also important, China is leading countries in this Asian economic integration, therefore, a corrected consumption health in this respect to change these twisted structures. I think that would be something that we should learn from this financial crisis. Thank you.

DR. BUSH: Okay. Thank you very much. And now I will bring the conference to a close.

I want to thank you all for coming. I want to thank the panelists for the last panel, but, most of all, I'd like to thank Dr. Cheng and his colleagues from National Chengchi University who have really made this collaborative effort possible and made the success of this conference possible. And it's been a very good two days, very good collaboration, and thank you very much.

(Applause)

(End)