

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

AN EMERGING EAST ASIA
AND THE NEXT AMERICAN ADMINISTRATION

**SESSION ONE: EMERGING STRUCTURES OF INTERNATIONAL
RELATIONS IN EAST ASIA**

A joint conference with the Center for International and Strategic Studies,
School of International Studies, Peking University

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Panel 1: Emerging structures of international relations in East Asia

Zhu Feng, chairman

Deputy Director, Center for International and Strategic Studies, Peking University

China increasingly active, America increasingly distracted

Ding Xinghao

President, Shanghai Institute of American Studies; CNAPS Advisory Council

Forms of East Asian regionalism

Qin Yaqing

Executive Vice President, China Foreign Affairs University

Non-traditional security issues

Wonhyuk Lim

Fellow, Korea Development Institute; CNAPS Fellow 2005-2006

Security dilemmas in Asia

Richard Bush

Senior Fellow, Foreign Policy

Director, Center for Northeast Asian Policy Studies, The Brookings Institution

Panel 2: East Asia's economic dynamism

John L. Thornton, chairman

Chair, Board of Trustees, The Brookings Institution

Is China's growth sustainable?

Chang Ka Mun

Manager Director, Li & Fung Development (China), Ltd.; CNAPS Advisory Council

What are the prospects for Japan's economy?

Seiji Takagi

Managing Director, Japan External Trade Organization, Hong Kong Office

Visiting Fellow, School of International Studies, Peking University

Will the U.S. continue to embrace globalization?

Barry Bosworth

Senior Fellow, Economic Studies Program, The Brookings Institution

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Long Guoqiang

Senior Fellow and Deputy Director-General

Development Research Center, State Council of the People's Republic of China

CNAPS Visiting Fellow 1998-1999

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China's Peaceful Development and the Harmonious World

Li Zhaoxing

Former Minister of Foreign Affairs, China
Professor, Peking University

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Tom Mann

Senior Fellow, Governance Studies Program, The Brookings Institution

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Wang Jisi, chairman

Director, Center for International and Strategic Studies, Peking University

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Ivo Daalder (remarks read by Richard Bush)

Senior Fellow, Foreign Policy, The Brookings Institution

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Goldman School of Public Policy, University of California - Berkeley

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Senior Asia Advisor to the Majority Staff, U.S. Senate Committee on Foreign Relations

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CNAPS Fellow 2003-2004

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Anne-Marie Slaughter

Dean, Woodrow Wilson School of Public and International Affairs, Princeton University

PROCEEDINGS

WANG JISI: We all want to see how East Asia will emerge from the horizon. And we all want to know who will be the next U.S. president. And we all want to know what kind of U.S. foreign policy this next administration will carry out. I'm sure that by 4:00 this afternoon, we will probably have all these questions answered.

This conference is co-sponsored by The Brookings Institution's Center for Northeast Asian Policy Studies, also known as CNAPS, and our center. There are so many people in this hall who deserve our recognition, but I see that the one I want to introduce is missing from here, Mr. Thornton. Is Mr. Thornton here?

RICHARD BUSH: I haven't seen him yet. He'll be here.

DR. WANG: So, I will introduce him later on. And I would also like to invite Dr. Richard Bush for a few remarks. Dr. Richard Bush is well respected in China and elsewhere for his knowledge about U.S.- East Asian relations, and in particular U.S.-China relations over the Taiwan issue. Dr. Bush is director of CNAPS, and I'm working under him on the CNAPS advisory board. So, he's my boss. So, without further ado, Dr. Bush.

DR. BUSH: Thank you, Dean Wang. It's our great pleasure, those of us who come from Brookings, to be here today. We are very pleased to be able to participate in this conference, and we are deeply grateful to Wang Jisi and his entire staff for all the outstanding preparations that you've made for this conference.

And we hope that the exchange of views and information that takes place today will make a contribution to our collective understanding of the trends of East Asia and what will happen with the new U.S. administration and the policies.

This conference is one in a series that my center, the Center for Northeast Asian Policy Studies, holds each year. It brings together many of the individuals who have been visiting fellows at the Brookings Institution over the years, and we're very happy to have many of them here today and happy to have many of them on the program as well.

So, we look forward to an outstanding conference. I'm very grateful that so many people have come today. And I think that we should get started. Thank you very much.

(Applause)

ZHU FENG: We will have our first session very quickly. Please would the panelists in this session come up? Good morning, ladies and gentlemen. My name is Zhu Feng, the Deputy Director of Center for International and Strategies Studies here at

Beida. We are so happy to have the Brookings Institution here with us to lead the panelist section on a couple of very timely and significant topics. As Dean Wang said, we need some answers. We also need a fruitful exchange of views.

The first session is about the emerging structures of international relations in East Asia. We are very happy to have a very strong and esteemed lineup for the panel. All the panelists are very well known in their expertise. So, the first speaker in this session is Professor Ding Xinghao. He used to be the senior research fellow of Shanghai Institute of International Studies. Now, he's leading a Shanghai-based NGO focused on international relations. Professor Ding is the president of the Shanghai Institute of American Studies. Please.

DING XINGHAO: Good morning. I am very much honored to be here to speak to this distinguished audience this morning. I have been asked to speak about how China is increasingly active in East Asia and America increasingly distracted. Before I came to Beijing, I looked at the Oxford dictionary --- what does distracted mean? Kevin wrote me to say that I would be the first to speak on the panel and that I would establish a baseline for discussion. So, I'm afraid my remarks may be misleading to the following panel discussions. From this topic, I think China looks active but is not as active as many people imagine. And the U.S. looks distracted but still has a goal in mind which remains pretty big.

Let me first talk about America. I changed the order. A good point I want to state is that America remains the most influential power in East Asia, though its attention is diverted. For decades, the principal strategic goal of the U.S. has been that there should not be a single nation or a group of nations that dominates the Asian Pacific region, which, of course, includes East Asia.

To date, the U.S. is still the predominant power in East Asia. However, since the end of Cold War most nations have changed, to different extents, and have been especially transformed by globalization. Therefore, the economic, political, and security landscapes of this region have also changed remarkably. The eternal and unique diversity of East Asia brings about even more issues to be handled, more problems to be solved, all of which make things more complicated.

For example, on the North Korean nuclear issue, progress has been made and the U.S.-North Korean relationship has improved, but whether this crisis is over, whether this nuclear issue would be solved for good by dismantling the nuclear device, remains uncertain.

Another point is U.S.-Japan relations. Differences, if not quarrels, often happen, though the two are close allies. Most recently, the U.S. has not been happy with the expiration of the Self Defense Force mission in the Indian Ocean. On the other hand, Japan is dissatisfied with U.S.-North Korean interactions, specifically the rapid improvement of their relations without a solution of the hostage problems between North Korea and Japan.

The third point is U.S.-South Korean relations. This issue was discussed somewhat I think last May at the [CNAPS conference in Tokyo](#). One of the speakers talked about U.S.-Seoul relations and described them not as the worst, but as pretty sour. I don't want to draw out the details.

And there is the Taiwan problem. The reality is that Chen Shui-bian is determined to have a referendum for Taiwan's entrance into the United Nations. It's very difficult for the Bush administration to handle.

Finally, my last point, that America's relations with other countries are affected, because America's attention is fixed upon whether China is beginning to or will challenge America's predominance in East Asia. Therefore, to some people, America's attention is diverted and its efforts are diverted.

Then comes the point of the emerging—but not threatening—new international relations fora in East Asia. There are a number of mechanisms in East Asia, which have also diverted America's attention. America favors APEC, Shangri-La Dialogue, and 10 Plus 6; the other nations are in favor of the ASEAN Summit, 10 plus 1, 10 plus 3. So, there are differences, but I believe the U.S., China, and other nations still can get along. Then, counter to this last point, America is concerned. Some Americans have observed that China has taken advantage of 9/11 and Iraq to increase its economic weight and military capability to try to challenge the U.S., and, in particular, to face America in East Asia. I think this is a misconception.

Now, let me come to the role of China. As I said earlier, China is active but not as active as people imagine. First, China is relatively active. China used to be viewed by foreign countries, especially in the West, as re-active in managing foreign relations and in the diplomatic arena. Today, China has become a little more pro-active, but only in comparison with its past. There are some factors or driving forces behind this change.

A) Thanks to economic globalization and its contacts with the rest of the world and western countries in particular, which gave China an opportunity to accomplish some corrective progress in the past 10 years, China has gained some confidence.

B) China has been encouraged and asked to play a more active role in the region and at the global level as well. In a 2005 address, former Deputy Secretary of State Robert Zoellick called for China to be a responsible stakeholder. Acting on its own interest, as well as being called upon by America, China has taken positive steps in managing its foreign relations in this region and in world affairs. The North Korean nuclear issue and Darfur issue in Sudan are good examples.

C) China is active in national defense. In the interest of its defense, China has made efforts to improve relations with neighbouring countries, even including Japan,

so that there would be a peaceful environment for China to continue its economic development.

D) China and America have different interests and ideas for methods of economic cooperation in East Asia. China will not reject ideas of others. China believes different methods are complementary in this region, rather than exclusive. So, I agree with the comments on this topic. I hope I did not disappoint my friend, Richard, and his colleague, Kevin. Thank you.

(Applause)

DR. ZHU: Thank you, Professor Ding. Our next speaker is Professor Qin Yaqing. I'm sure he's well known to most of you. He is a leading IR theorist in China, a big promoter of the theory of contending constructivism. Sorry I use the word contending constructivism because in China we also have a very contending theoretical debate on which one was more likeable, preferable in China. Please, Professor Qin.

QIN YAQING: Thank you. Thank you, Mr. Chair. And also, I would like to thank Peking University and Brookings.

Some information about theory, I'm not talking about theory today. My homework is the forms of East Asian regionalism, so I'm tied to my presentation today. East Asian regionalism has been largely successful so far. We've all seen the great achievements through this process. Since the 2005 East Asian Summit, many questions have come up, debates, discussions about the future of the East Asian regionalism. And the big question is, whether East Asia? Questions include: Could East Asian regionalism be closed and exclusive? Could there be a tense competition for leadership of the regionalism process, especially between China and Japan? And also, will the U.S. role be reduced, especially when China is growing.

With this in mind, I argue that East Asian regionalism at best should be process-oriented. It means that at this stage of regional development, the most important job is to keep on with the process that started decades ago.

Ten years of regional cooperation has brought about peace and development, and has encouraged nations to make further efforts throughout the community. Despite that, the distrust remains strong among the regional nations, and the region itself largely dominated by a western [inaudible] culture.

First, I would like to explain further the process of regionalism. This is the basic form. It's different from Europe. The most important feature of East Asian regionalism is the significance of this regional process itself.

The goal of East Asian regionalism was set at the 2004 "10 Plus 3" Summit, that is building an East Asian community. A decade of tenacious efforts has led to an important achievement, that is, the creation of this process of regional cooperation.

It is true that the initial dynamic for this process is economic in nature. And it is also true that most tangible achievements in the region are largely functional. At the same time, the process produces dynamics of its own. Norms of cooperation have been spreading rapidly, reaching out to include and to socialize the major powers in the region.

After 10 years of cooperation, East Asian regionalism faces new problems, like the questions I just mentioned. At this crucial moment, it is important that the regional process itself is preserved and promoted. If the process is maintained, the cooperation will continue and a new platform for developing common interests and spreading cooperative norms will be created. Otherwise, the regional cooperation would get off track.

To make this possible, we should not treat the multiple and multilayered mechanisms and channels existing in this region as a negative factor, rather, as important parcels of this process. Naturally, being there at this stage of East Asian regionalism, if we look at the development of East Asian regionalism with a menu of different possibilities in mind—10 Plus Three, 10 Plus One, East Asian Summit—we can see that all these different channels and methods are products of this process. And they complement each other well.

Second, open regionalism. Open regionalism is both shaped by the regional history and present necessity. Keeping the cooperative process up means taking the process forward. First, we're thinking about history. The openness of East Asian regionalism is shaped by the U.S. security system, so the United States is playing, and has been playing, a very important role in this respect.

And also, the openness of East Asian regionalism is shaped by its market oriented nature. East Asia has so many channels of economic connections with the world, so you cannot make it closed. Also, the internal process of East Asian integration with ASEAN at the core, parallels the development of the region's numerous linkages to the outside world. If you want to keep the process up, this openness is a plus, rather than a minus.

The next point I would like to talk about is ASEAN leadership. This has been a very big topic recently. I argue that keeping up the regional process requires the continued leadership of ASEAN. Recently, there has been doubt about ASEAN leadership of East Asian multilateral regionalism.

Some use the EU as the model, saying that we should have major powers playing the leading role. Some have begun to talk about the regional power transition and rivalry between China and Japan in the regional process. Some cite to China, Japan, and South Korea as the three major giant economies in the region, accounting for more than 90 percent of the GDP

It is true that China, Japan, and also South Korea are large and important nations in the region, but none of them can play the leading role in this process at present. China, Japan, and South Korea are late comers. China and Japan have still a great deal of distrust around them.

So, ASEAN is not waiting. They're very much reluctant to hand over the leadership to China and Japan, the two giants in region. So, realistically speaking, ASEAN is the only qualified driver in the regional process if you want to take the regional process on to make regional integration possible and to work.

An adoption of the chartered efforts to enhance the cohesiveness of ASEAN are encouraging. Efforts should also be made by other actors like China and Japan to support a more cohesive ASEAN, so that the regional process will continue to move ahead.

The last point I would like to make is about the U.S. as an actor in the equation. If we want to keep the process up, we need more active participation from the United States in the East Asian regional process. The United States is outside East Asia, but it's a very special outside factor.

The U.S. initially did not support East Asian regionalism very much. In the first years after the Cold War, the United States clearly stated that its policy was not to support regionalism.

With the rise of China, some people are thinking of the possibility of China replacing the United States in terms of influencing the region. At present, the United States's policy seems to me somewhat unclear. While it is not opposed to East Asian multilateralism, it is at least not actively supporting of it.

The United States has two major concerns. Its first concern is whether East Asian regionalism would or should replace or threaten the U.S. bilateral system. Second, whether China would dominate the regional multilateral process. The United States is very worried about this. If East Asian regionalism continues to go on like this, it will diminish the role of the United States in the region.

These worries have made the United States quite hesitant. And its policy today is still unclear, and far from active participation. One decade's practice has proven that East Asian regional integration can bring about stability in the region and also prosperity, which is in the interest of the U.S.

So, it is time that the United States joined in to work with the key actors in the East Asian regional process and started making more constructive contributions to the regional integration process. Especially for the next administration, I think it's a question to think about seriously. Thank you very much.

(Applause)

DR. ZHU: Thank you. I think America's participation in the regionalization of East Asia is also very important. Now, we just heard the views of two Chinese speakers. Let's move on to Korea's view. So, the third panellist is Dr. Lim from KDI, the Korea Development Institute. And he is also a fellow of the Korean National Strategy Institute. Dr. Lim is a Stanford graduate and also had a lot of publications. So, please.

WONHYUK LIM: Thank you. My presentation is not necessarily a Korean perspective. I was asked to give a talk on non-traditional security challenges for East Asia and beyond. Non-traditional security challenges, as you know, are sort of a mixed bag. In my presentation I will start by defining and conceptualizing these risks, then move on to historical background and then I'll talk about non-traditional security challenges and responses in East Asia, cover key issues in responding to these challenges, and finally, briefly touch on the impact of these non-traditional security challenges of international relations.

As you know, non-traditional security challenges have to do with the survival and well being of people and states that arise primarily out of non-military sources. They are rooted in social, economic, and cultural conditions. They're traditional in scope and instigated mainly by non-state actors.

Brookings's own Strobe Talbott played a big role in expanding the concept of security. And in the 1994 National Security Strategy of the United States, there's a clear statement about non-traditional security challenges. Not all security risks are military in nature. Transnational phenomena such as terrorism, narcotics trafficking, environment degradation, rapid population growth, and refugee flows also have security implications. That is a very clear statement.

One way to think about these non-traditional security challenges is to consider two critical elements, conceptual elements. And one has to do with a weak state's capacity relative to the scope and scale of the challenges it faces. I emphasize relative because non-traditional security challenges concern not just the problem of weak or failed states. When the scale and scope of the problems is large enough, it might overwhelm what we usually consider sort of normal states as well. The second conceptual element that is important is permeable borders in an increasingly integrated world transformed by globalization and revolution and so on. So, these two conceptual elements are important to remember when we talk about non-traditional security challenges.

Historically, although many seem to think that non-traditional security challenges are a post-Cold War construct, if you think about it, there were precedents during the Cold War period with regard to non-traditional security challenges. As we all know, during the Cold War period security discourse tended to focus on military security, interstate conflict and so on. Even during the Cold War, when we had [inaudible] in the

1970s, it became pretty clear that security involved challenges beyond the obvious military dimensions.

Also, as we think about the Helsinki process starting in the mid-1970s, there was a notion of expanded security, comprehensive common security that involved not only military security, but also cooperation in economic, scientific, anthropological, and environmental areas, as well as the human issues - people to people contact, human rights, and so on. At the time, there was a clear recognition that common security would require progress in all these areas. You can't just focus on military security. And in the post-Cold War period, as we know, events such as the Asian economic crisis, 9/11, Bali bombing, SARS, tsunamis, and global warming all tended to drive this notion of non-traditional security challenges.

I thought about presenting visual images of all these events—9/11, SARS, and the tsunami—and while they would have made a more colorful presentation, those are sort of depressing images, so I just stayed away from that.

In East Asia, we can think about non-traditional security challenges and responses along the following dimensions. I listed about 7 categories before, things like infectious diseases, natural disasters, trans-national crime, terrorism, poverty and refugee flows, economic crisis, environmental degradation, all of which are regarded as non-traditional security challenges. And I think it's kind of useful to categorize them and group them in the following way.

First, there are non-traditional security challenges that have to do with natural calamities. There are no clear human agents who are producing these natural calamities, things like infectious diseases, natural disasters. So, for example, in 2003, we had a SARS epidemic and now we talk about the possibility of an avian flu breaking out in East Asia. Regional responses have been as follows: ASEAN set up a fund for avian flu, which was not a big amount but is still useful; second, there was a declaration on avian influenza prevention, control, and response at the first East Asian Summit. So, things of that nature elicit regional responses. Natural disasters—obviously a clear example is the tsunami in 2004—and ASEAN again has come up with a regional response, regional catastrophe emergency simulation exercise.

The second group of non-traditional security challenges have to do with identifiable actors and tends to involve weak or failed states. Transnational crime driven by profit motives—things like piracy, narcotics, human trafficking, terrorism, poverty, and refugee flows that tend to be linked to ethnic issues as well.

I argue that the second group of non-traditional security challenges tends to require the greatest amount of security responses, because they tend to be linked to military risks as well, including transnational crime, terrorism, and refugee flows. Here we have interesting regional responses as well. For example, there was an ASEAN Plus Three ministerial meeting on transnational crime and in the wake of 9/11 and the Bali bombing, there was an ASEAN-U.S. joint declaration for cooperation to combat

international terrorism. And as we all know, the Shanghai Cooperation Organization tended to focus on the possibility of combating international terrorism as well. APEC also extended its mandate from economic and technical cooperation to regional non-traditional security issues as well. And finally for poverty and refugee flows, interest from an NGO, the ASEAN Trade Union Council, drafted a plan for an ASEAN social charter to narrow the development gap.

Finally, the third group of non-traditional security challenges has to do with human-made risks but more diffuse risks so they are not really associated with identifiable non-state actors like trans-national crime terrorism, economic crisis and environmental degradation. In fact, the Asian crisis of 1997 tended to create a sense of solidarity, a collective purpose among Asian countries, and led to the Chiang Mai Initiative. You can take almost a constructivist approach to regionalism, discussing the birth of ASEAN Plus Three coming right after the Asian crisis of 1997. And as for environmental degradation - forest fires in Southeast Asia and, yellow sand in northeast Asia have elicited regional responses as well.

Now, going back to the key conceptual elements, capacity and border control, I think non-traditional security challenges are complicated by the fact that they involve both domestic and global dimensions. Under domestic capacity, we can talk about infrastructure for public health and emergency relief, law and order, and most importantly the resolution of political, economic, and social discontent.

Although some people talk about the possibility of non-traditional security challenges leading to greater regional cooperation, a lot of non-traditional security challenges have to do with the lack of resolution of political, economic, and social discontent at home. So, it's a much, much tougher issue to tackle.

In addition there is the issue of border control. We should look at prevention, detection and screening, and containment of the problems. Naturally, these issues raise the problem of jurisdiction and sovereignty, because you can question external advice and guidance as you can characterize external advice and guidance as sort of interference in internal affairs and trans-national crime tends to be associated with corruption at home too. In order to tackle these problems, we have to deal with the issues of resources and governance as well.

Finally, what impact does the non-traditional security threat have on international relations? There's a school of thought that creeping institutionalism that deals with these non-traditional security challenges would eventually produce a regional community—a sort of process oriented view.

But, I don't know whether they really add up to that. One thing I would like to emphasize is that for traditional security threats amongst multilateral cooperation, you have security dilemma dynamics. So, when interstate conflict is your major consideration, you look at the possibility of balancing, alliance, and so on—the idea of collective security. And when a security dilemma becomes large enough, where mutually

assured destruction becomes a distinct possibility, even two warring sides can look at the possibility of cooperative security.

And one problem with traditional security threats in multilateral populations is that oftentimes attempts to do something about trans-national security threats within the framework of cooperative security are viewed as veiled attempts to constrain super powers. For example, if we talk about regional security cooperation in East Asia involving the United States, some Americans might interpret that as a veiled attempt to constrain U.S. power in this region.

In contrast, non-traditional security threats tend to provide more opportunities for cooperation. There's socialization, prophylactic problem solving, and they provide an easy common denominator for everyone. But at the same time, these problems tend to be transnational, not necessarily regional in scope. And it's not clear to me that creeping institutionalism will be enough to achieve comprehensive common security. In fact, I believe in sort of a Helsinki approach where the interested parties directly recognize that achieving comprehensive common security through military, economic, and human cooperation would be the wiser course to take. Thank you very much.

(Applause)

DR.ZHU: Thank you Dr. Lim for your very excellent presentation. But the controversy in this reading is that non-traditional security concerns divert attention from traditional security issues. ASEAN also made that point. They said that the ARF focuses too much on the non-traditional dimensions. In East Asia, traditional security deserves greater concern. Luckily, I think Richard also will just give us his insight in this field. I think there is no need of even a single word for the further introduction of Richard Bush. Please.

DR. BUSH: Thank you very much. I hope I'll provide some more insight. I've certainly learned something from the previous speakers. My assignment, which I gave myself, is to talk about a possible future for East Asia where there is suspicion, mistrust, hedging, and even the possibility of conflict among the different actors.

And this would occur in spite of the economic and social interdependence among states, which gives them obvious reasons for cooperation and in spite of the ongoing efforts to create regional multilateral institutions that Professor Qin spoke about so clearly, that should buffer friction.

I want to do this using the concept of the security dilemma. And I wish to note that some Chinese scholars have been using this concept with great insight and sophistication. I'm thinking of individuals like Feng Zhaokui and Jin Xide of the Academy of Social Sciences and Xia Liping of the Shanghai Institute of International

Studies. Although the concept is not perfect, I find their intents to apply it to the international relations of the Asia Pacific to be very impressive.

Now, what I'm offering here is a hypothesis. I don't want it to happen and I, by nature, am an optimistic person, but I think there's value in thinking about how things might go in a negative direction. Now, the essential elements of the classical understanding of the security dilemma are as follows. Number one, that the international system is anarchic. That simply means there's no power up here to regulate the behavior of states and prevent conflict.

Number two, in an anarchic system, there exists the objective possibility that states can enjoy mutual security and cooperation, but there's no hegemony, no authority that requires them to do so.

Number three, each state must guard against the possibility that in the future another state will commit aggression against it. And at the same time, it cannot credibly persuade the other states that it itself is peaceful. Even though it is peaceful, it can't give 100 percent assurance to the other state that it's peaceful.

Each state's effort to prudently prepare to defend against aggression by the other is likely also to create the ability in itself to threaten the others. The more you strengthen yourself to defend yourself, the more you create the ability to commit aggression yourself. Others will see self-strengthening as a threat.

And many other states will acquire new capabilities and alliances as a defensive measure when they come to see the first state as hostile. And it's this interaction, rather than conflicting goals, that causes a downward spiral.

Now, there are many things that we could say about this concept. There are many distinctions that could be drawn. One has to do with the scope of the security dilemma. Does it apply to the whole security relationship among actors or does it just stem from their relationship over specific issues? I'll come back to that.

Some scholars argue that it's too restrictive to think of security dilemmas simply in terms of military capabilities and alliances. Some say that this perspective should be broadened to include the considerations of images, the lenses by which people look at the other state. Some might say that for China to look at Japan, what's important is not Japan's military capabilities, per se, but the memory of what Japan did here in the 1930s and 1940s. And that memory colors your perception of the capabilities that you believe that Japan is acquiring and so on. And so, this lends to a much more sophisticated understanding of the security dilemma.

Finally, I would say that it's very easy to assert that a security dilemma exists, but it's much harder to prove. Scholars are quick to say, for example, that there's a security dilemma between the United States and China, the United States and North Korea, China and Taiwan, and so on, but getting the evidence for these hypotheses,

particularly when it comes to the views of government leaders, which is a really key element of it, is not so easy.

Now, if we look at the current and potential security dilemmas in East Asia, there are quite a few to look at. First, there are those that involve North Korea. Now, for many observers, the basic story of the past 15 years is that the United States and North Korea could have had a cooperative outcome, but they were frustrated because of the mistrust that each felt towards each other, in addition to the negative mutual images.

The Six-Party Talks facilitated by China offer a process that includes mutual trust building and the chance of a cooperative solution. North Korea gives up its nuclear weapons, it receives economic assistance, it gets the normalization of relations with Japan and the United States, you get security assurances, and so on. That's a very good outcome.

Now, we all hope that North Korea accepts that bargain. And if that occurs, that will be good for U.S.-China relations. But in my personal view, that may be a hard bargain for North Korea to accept because of its lingering sense of insecurity. It looks out and sees a dangerous neighborhood, particularly with the presence of the United States which retains formidable military power in the region. It has no real allies. Even if it had allies, it wouldn't trust them completely.

Under those circumstances, would it really trust the security guarantees that it would be offered? So, there's a logic for North Korea to remain a core nuclear power. But what happens then?

One interesting question is how the United States responds. Even more interesting in thinking of future security dilemmas is how Japan responds to the increased vulnerability it feels because of a nuclear North Korea. Would it begin to debate a nuclear program of its own? I'm not saying I want this to happen. I'm just saying that it's something we should think about.

Now, a key variable in thinking about Japan's vulnerability is how the United States and Japan respond. Do we jointly sympathize with Japan's position and take steps to reassure Tokyo? Or does the United States take Japan's side, leaving China to, for reasons of 20th century history, remain suspicious of Japan's intentions?

Even if North Korea accepts the Six-Party Talks offer and reduces Japan's sense of vulnerability, Tokyo will still have anxieties about China's military buildup. Will China acquire power projection capabilities in a way and to an extent that Japan regards it a serious danger to its security even though China has no desire to threaten Japan? Here, the fact that China has nuclear weapons and Japan does not come into play in Japan's calculations. And how does Japan respond? Will it seek to strengthen the alliance with the United States even more? What would Washington do in response? Would Japan, again, seek its own deterrent? Will it play up symbols that it knows China will regard as reminders of its aggression in the 20th century?

China's military modernization and its impact on Japan are also connected with cross-strait relations in an interesting way. The cross-strait relations are a special kind of security dilemma, I think. The situation between the two, mainland China and Taiwan, is one of mutual suspicion. Each side fears that the other is preparing to challenge its fundamental interests.

China fears that Taiwan's leaders are going to take some political action that would frustrate its goal of ultimate unification and permanently separate Taiwan from China. Beijing is increasing its military powers to deter such an eventuality. Taiwan fears that China wishes to use its military power and other means to intimidate it into submission. Taiwan's deepening fears lead it to strengthen and assert its sense of sovereignty. And Taiwan's assertion of sovereignty is regarded by China as pushing toward independence for its permanent separation. So, you have a vicious circle: mutual fear, mutual defense mechanisms.

And that's the situation we've been dealing with for over 12 years. But what happens if, as a result of the next Taiwan presidential election, there's a turn for the better and the two sides can stabilize cross-strait relations and reduce their mutual fear? One of the reasons for—or maybe the main reason for—China's acquisition of power projection military equipment is removed. And that would deter independence.

So, will the acquisitions decline or freeze? You don't think so? They'll continue. Okay. Well, we have Professor Zhu's prediction.

So, what will Japan think? If China continues to acquire power projection, and equipment, what will Japan think?

DR. ZHU: I think that basically Japan's reaction will be very negative.

DR. BUSH: Yeah, exactly. You make my point. Now, coming to my final point. There's a distinct possibility that these various security dilemmas, or most of them—the North Korean and the Taiwan ones—are merely elements of a more basic one, and that is the one between the United States and China.

We all understand that despite the many areas of actual and potential cooperation between our two countries in the security realm, there's a cautious hedge going on. The United States is engaging China on the one hand and hedging against downside risks, and China is doing the same thing. We each are uncertain about the long term intentions of the other.

Perhaps the China-Japan security dilemma and the mainland-Taiwan security dilemma are nested in this more fundamental U.S. and China one. And this suggests that the primary security dilemma, U.S.-China, and the subordinate ones can affect each other in a reciprocal and dialectical way.

If cross-strait relations and the Six-Party Talks go well, then it will have a positive impact on U.S.-China relations and perhaps shape the U.S.-Japan alliance in a way that's stabilizing for both the United States and China. The not-so-positive scenario is that if North Korea makes choices that reinforce Japan's sense of vulnerability and if Taiwan takes political actions that Beijing believes will close the door on peaceful unification, then these stimulate actions by the United States and China that exacerbate the Chinese and American suspicions about their prospective long term opinions.

If the United States and China can avoid the conclusion that we are each other's future adversary, but instead continue to emphasize the opportunities in our bilateral relationship and we can accept our joint responsibility to work for the preservation of regional global peace and security, then it will reduce the possibility of future conflict Thank you.

(Applause)

DR. ZHU: Thank you, Richard. You are truly abreast of very daunting issues, not only with China but also for the regional members. So, the security dilemma, if we look at the facts, I have to say it's deepening. But there are, you know, other dimensions of the relationship, for example, the China-U.S. relations.

I don't think it's a mutual gap between the two powers, but as Professor Ding said, China's confidence also proves that, so that's why I don't think that they are highly motivated to just pursue large scale military capability or projection capability. The problem is the Taiwan issue, in next year's election season the Taiwan Strait may become stormy waters. If we can get through it, it can end differently. So, I think that we could also just keep thinking of the situation as it narrows.

Okay. Let me open up for questions for all of the participants. Please raise your hands. We also have a wireless microphone. Professor Slaughter first, and Andrew second.

QUESTION: Thank you. Anne-Marie Slaughter from the Woodrow Wilson School. I enjoyed the panel very much. I have two questions. One for Professor Ding. We often hear that all the various East Asian or Asian regional mechanisms are complementary, that there's no reason you can't have many of them and they can all somehow fit together. I find that view attractive.

But if you think about it from the point of view of bureaucratic politics, you know that the more of these networks there are, the more time they take to actually put in the diplomatic effort necessary to maintain the relations, and then, the United States is of course a member of Asian networks but also European networks and Latin American networks whereas China of course, is more primarily focussed on Asia. So my question is, why shouldn't the United States worry that with that proliferation we can't spend enough time to play the kind of role that we'd like to whereas China can?

My next question is to Professor Lim and Professor Qin on the questions of socializations, particularly in ASEAN. And I have written for 15 years about the value of socialization, about networks of national government officials. I strongly believe in this. But what are the right metrics to tell whether this process is working? Because as you all know, here we have the ASEAN charter. This should be the triumph of ASEAN. And the Western press says, and I think with some justification, that there is all this talk and the socialization hasn't even worked to the point where you can get Gambari to brief ASEAN leaders on the situation in Myanmar. Obviously, it's not working.

So, I'd be interested in your sense of what the right measures are for us to say that this gradual creeping institutionalization is having any effect at all.

QUESTION: Andrew Moravcsik. My question builds on the second question about regional cooperation and socialization. I'm wondering how we move from process-oriented regionalism to outcome-oriented regionalism. I don't think it depends on hierarchical international mechanisms or commitments at the international level.

But at the same time, I don't think we can be entirely dependent simply on process. Instead, I think when we look at international organizations, what's most effective is process linked to some kind of commitment at the domestic level. That is, when we set up a trans-national network, those domestic participants in the trans-national network have to be able to act autonomously and credibly at the domestic level. And when you look internationally at effective cooperation, say in a financial regulatory area, or you look at regulatory harmonization in Europe, which is almost entirely enforced domestically by domestic courts and domestic administrative bodies, this is a process of domestic commitment, not international commitment.

So the real question, it seems to me, in Asia is whether or not countries are moving toward that kind of domestic commitment that would be necessary to make Dr. Lim's processes or Dr. Qin's processes work. And I'm wondering whether you think we see that process moving forward.

PROFESSOR DING: Well, thank you very much, Professor Slaughter, for your very kind question. I think it will be a long process before reaching a point of cooperation and agreement in this region. Secondly, it's very complex in that there are so many mechanisms. You like this, I like that and we should look at this issue in a positive way rather than a negative way since we cannot resolve it very quickly. So, why not? We have the principle of agreeing to disagree. So, that's my very brief response.

DR. QIN: Thank you, Professor Slaughter. And nice to see you here again, ma'am. Your question about socialization is really interesting. I think all the different kinds of mechanisms or approaches that allow for socialization to take place can be successful. We know the process of socialization, especially major powers, is not that easy. But if you look at the ASEAN norms, some of them have been accepted.

I look back at the processes I have been taking part in that usually involve the ASEAN countries. When we have Ten Plus Three track two meetings, they have consultations and make the Plus Three wait outside until they reach a consensus. And then they come up and say okay, this is the consensus we reached. Do you accept it? Usually, the Plus Three accept it.

I see the kind of exception first and also kind of competition between the major powers, the Plus Three countries, to accept this kind of norm. In this way, I stress process, because it's that process that produces norms and spreads norms to the major powers. It's not an easy process. It's very difficult sometimes. But so far, it has been somewhat successful. We have to recognize this. So, this is an interesting way to study East Asian regionalism. It's not major power directed. It's lesser states directing. Why can they do that? It's an interesting point.

As for the second question, let me give the floor first to Professor Lim, then I will have one or two points to say. Thank you very much.

DR. ZHU: Professor Lim?

DR. LIM: If we look at the European experience, it's difficult to believe that a process-oriented approach alone would lead to substantial cooperation. Because in the European context, you had, in my view, three major institutions: NATO, EU, and CSCE, later developing into OSCE.

NATO's primary task is believed to be the collective defense of the NATO members, but there's an important additional element in NATO's goal that is to almost take advantage of the extra-regional power, the United States, so as to contain and prevent intra-regional conflict, especially between France and Germany. I think that's part of the reason why NATO survived after the collapse of the Soviet Union. There's an important element of extra-regional power coexisting with regional powers that were engaged in conflict.

The European Union expanded upon that approach. There an extra-regional power was not involved, but here you had a major reconciliation in the two dominant powers of Europe, France and Germany. We don't have that in Asia. And finally, with respect to CSCE, you had security dilemma dynamics reaching the stage where mutually assured destruction became a distinct possibility, thus forcing adversaries to come together to confront that possibility and make compromises in three different areas to try to create comprehensive cooperative security in the region.

Now, in the Asian context, yes, it's better than nothing to have all these collective problem solving mechanisms, socialization and so on, but I don't think it's going to be enough. When we try to move from this sort of easy common denominator—collective problem solving—to more political or directly security related issues, we have problems. Part of the reason, I believe, is that although process-oriented approaches help

to produce norms and so on, there's a limit when major powers have not really made an agreement to try and achieve cooperative security.

In the Asian context also, I really hope that China and Japan will reconcile with each other and try to lead regional cooperation with the United States involved as a major extra-regional power. I think that will be sort of a very stable and desirable outcome. But, if we don't have that, another kind of positive possibility we can hope for is a competitive dynamic between China and the United States producing more regional cooperation.

What I have in mind is that China and the United States become both concerned about what the other is doing with respect to regional cooperation, and by having countries in the ASEAN take some kind of leadership with other middle powers in the region also taking the initiative, maybe we can create a multilateral architecture that would involve both China and the United States, and hopefully build a more stable structure.

Other than that, I think it's really difficult to believe that process oriented approach alone would result in cooperative, comprehensive situation.

DR. ZHU: Yes, thank you.

DR QIN: Quickly, a few points. The questions are well structured. I think it's really a good question. I just want to say that outcome-oriented and process-oriented processes are not conflicting each other. They are two complementary models.

If you look at East Asia, I think one of the distinct features of East Asian regionalism is that it is process-oriented. First, we need a minimum norm foundation and a rule foundation to accept these processes so that people can cooperate with each other, and also the web of related networks. There are a lot. Anne-Marie mentioned this. It's time consuming. But I remember in 2004, we had a working group from Malaysia discussing whether we should have an East Asian Summit to replace Ten Plus Three or to have the two processes going on. The final consensus among all the 13 countries was to keep the two processes going on. This is a very relational process network.

The second point I want to make is about domestic actors. Domestic actors are extremely important. In fact, I see some emergent networks of sub-governmental actors in the region, for example, Guangxi province in China, and ASEAN countries in Guangdong province. They are sub-national. They are not the Chinese central government, but they try to establish networks that facilitate cooperation with ASEAN countries.

So, they are quite interest driven. At the same time, if they join in on this cooperation process, we redefine their interests. This is another very interesting phenomenon in this whole process. Thank you.

DR. ZHU: Thank you, Yaqing. Let's get back to course. Professor Chen Yixing first, James Tang second. If anyone else should raise their hands, I can call right now. Report your name and affiliation.

QUESTION: Thank you, Chairman. I am from Taiwan. I am a professor of Tamkang University. I am now a visiting scholar at Peking University. My question was directed to my old friend, Richard Bush. In your presentation, you mentioned that if party talks worked well, then it would have a positive impact on U.S.-China relations. Otherwise, you believe it will create a security dilemma between the two great powers.

My question is that in the face of increasing tensions in the Taiwan Strait, what kind of law or in what way can the United States help to manage or stabilize the cross-strait relations and to continue to be a balancer or to play a new kind of role of guarantor or mediator? Thank you.

DR. BUSH: Do you want me to go ahead? Well, that's a very good question. If you could tell me who our next secretary of state is, I might be able to give you a better answer to the question.

The approach that we have pursued for the last 10 or 12 years is one of what I call "dual deterrence," which is dissuading Taiwan from taking provocative political actions and dissuading Beijing from considering any kind of use of force. And that has been fairly successful. We're involved in doing that right now. It's a kind of limited intervention. If there were a stabilization of cross-strait relations, which I talked about briefly, and the two sides, Beijing and Taipei, were able to better manage their relations themselves, then maybe we could pull back from that because we had greater confidence in Beijing and Taipei's ability to do it themselves.

The U.S. government has always been reluctant to get more involved as a mediator for a variety of historical and political and practical reasons. I expect that that would probably continue. I expect that we are going to be distracted and preoccupied for a few years after the next administration takes power, and so we would not want to take on that responsibility.

DR. ZHU: James?

JAMES TANG: James Tang, University of Hong Kong and former CNAPS fellow. I want to go back to the question of leadership that Lim Wonhyuk mentioned. After 40 years I think ASEAN seems to have reached a point when the kind of norms and stabilization that we discussed earlier has already achieved whatever they had wanted given the thickness of all these interactions, and what's going on, number of meetings, and all sorts of other things that Yaqing and others have been participating in regularly.

Now, the question of Myanmar, and perhaps the recent discussions in ASEAN on decisionmaking reform, really demonstrate how agitated and frustrated some

of the people involved in the process have been. Yaqing, I believe you mentioned the ASEAN leadership. In terms of all these new issues and problems and the security dilemma that we are facing, many people are now looking towards China for exercising greater leadership.

So, I have two questions. One is, to what extent do you think China is willing to take greater responsibility and leadership in the region? Some observers have been talking about the two visions involving ASEAN Plus Three or the East Asian Summit, which could exist in parallel but somehow there are all these discussions about where China is going, and whether there will be relatively close regionalism or more increased regionalism. So, I'm wondering if you have some thoughts on that.

And going back to Richard's security dilemma, to what extent, Richard, do you think issues like those identified by Lim Wonhyuk on non-traditional security problems are different from traditional security problems, and how would they form the basis for a revival to some extent of say, U.S.-China cooperation, whereas Asia's security dilemma might be a bit more confusing for cooperation.

QUESTION: Thank you for an excellent presentation. I'm Kiyoshi Sugawa from the Democratic Party of Japan and a CNAPS fellow in 1999-2000. My question is very straight. Why do we stick to ASEAN leadership? Well, of course, I welcome the advances and the progress that ASEAN has led to. However, if you compare Asian regionalism to European regionalism, the biggest difference is the lack of political will on the part of Asian countries for integration.

I'm afraid that if we stick to the ASEAN-based regionalism, then it could be used as an excuse to do nothing. So, what do you think about creating other platforms for Asian regionalism? And I think Richard mentioned that the potential security dilemma between Japan and China could be a big problem, but one answer to this problem could be a regional approach. So, I want to ask Dr. Qin and Dr. Lim, is there any, for example, Japan, China [inaudible] or is the new regional approach, such as "regionalism of the willing?"

QUESTION: I didn't think I would have a chance to ask a question, but I'm very grateful to have a chance. My name is Masahiro Matsumura from Japan, and it's true when you introduced Professor Qin's presentation, you referred to contending constructivism. But as long as he's here: China's approach is more focusing on a neo-liberal approach, focusing on how to maximize the cooperation of like interests, not talking about anything about threats or identity formation. But if we like to pursue the full regionalism based upon enlightened interest based cooperation as Richard suggested that security dilemma poses a major challenge to regionalism.

So, my question is do Chinese leaders and electors seriously consider a formation of a collective identity and for that purpose, in particular, has China already begun to talk about decelerating building armaments or to put less focus on building

power projection capabilities? Otherwise, I think we don't have any sense of community in East Asia.

DR. ZHU: Today, we also have the LSE-Beida joint MA program students to join today's conference, so Dean Wang and me are also teaching them this message. I want to just have one or two questions out of them. So, please, any questions? Please.

QUESTION: Hi. My name is Joan. I'm from the United States, and I'm a candidate for the double masters degree. In looking at all of these regional structures of influences in East Asia, I'm interested in learning more about the perspective and the influence of soft power, especially as the United States' soft power declines and China's soft power increases.

I'm also interested in asking Dr. Ding and Dr. Lim about these non-traditional security issues and how they specifically relate to the soft power influence declining from the U.S. perhaps, or maybe not declining, and what the view is from the Chinese perspective as well. Thank you.

DR. ZHU: Okay. Thank you. So, now let's move on to the last part. So, each panelist has just one minute to respond. Please.

DR. BUSH: Thank you. For James' question, I think that non-traditional security issues are a good place for the United States and China to build habits of cooperation, but I think that the main areas will be the traditional security issues. The Korean peninsula, Taiwan, Iran, and South Asia—that's where the game will be won or lost.

I would also like to say that with respect to East Asian regionalism, I hope that the United States in the next administration will sign the ASEAN Treaty of Amity and Cooperation so that we can attend the East Asian Summit. I hope the scheduling issues will be resolved, because I think it's better for us to be part of that process, whatever its outcomes are. Thank you.

DR. ZHU: Dr. Lim?

DR. LIM: I think the leadership provided by ASEAN in the Asian context is similar to the facilitating role provided by the Benelux countries in Europe. It cannot be much more than that in the end. And as an alternative approach or alternative form, I think it would be important to get Six-Party Talks institutionalized, and have a forum where all the major powers—the United States, Russia, China, and Japan, as well as North and South Korea—get involved in regional cooperation.

As for the idea of trilateral cooperation between China, Japan, and Korea, we had a lot of activity in that regard around the year 2000. We are now beginning to turn the page on this tumultuous five years or so, and now there are better prospects for

something like that with the new administration in Japan, the new administration coming into power in South Korea next year, and China becoming more accommodating as well. I remain somewhat cautiously optimistic about that.

DR. ZHU: Yaqing?

DR. QIN: All right. Thank you, Mr. Chair. One minute, three questions. The first is James, China's leadership and responsibility. I think China should have more responsibility. That does not mean exactly leadership, because it's not possible and not conducive at this stage for China to take the lead.

Second, the Japanese question is whether ASEAN leadership means we do nothing. I don't agree. I have two questions back. First, in the last decade, we have done much with ASEAN and the Chinese. Second, if not ASEAN, who? The third question about identity formation, my Japanese friend's question. I don't think these two processes, this concept of neoliberal cooperation and identity formation, are two separate things. They are interrelated. Countries join in the process for their interests, but once they are in, that kind of identification is going on. But nobody can say we tried to force an identity. Japan did that in 1930s and '20s. Identity comes naturally out of the cooperation process. Thank you.

DR. ZHU: Professor Ding?

DR. DING: I don't have much to comment. Since I have two title here, Shanghai Institute of American Studies and also CNAPS advisory council, I was trying to strike a balance in my remarks. But anyway, I think talking about political and security cooperation in this region, we have to take first the considerations of concerned ASEAN nations. Secondly, I think the most important thing is for the big powers to reduce suspicions and increase the strategic trust. Thank you.

DR. ZHU: I would like to thank all of the excellent panelists for doing a fantastic job. We will have 15 minutes coffee break.

(Recess)

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

AN EMERGING EAST ASIA
AND THE NEXT AMERICAN ADMINISTRATION

SESSION TWO: EAST ASIA'S ECONOMIC DYNAMISM

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JOHN L. THORNTON: [In progress] ...so I'm, as I said, putting my panelists on notice that after they finish talking, I want to return to this question. So, with that general background, I'm now going to turn it over to Mr. Chang to begin.

KA MUN CHANG: Good morning, ladies and gentlemen. The topic I'm going to talk about is whether China's growth is sustainable: the very simple answer is yes. Let me explain why.

If you look at the recent development of the Chinese economy, China enjoyed very promising growth of more than 11 percent GDP with the CPI growing at 4.5 percent. This growth has caused the very rapid urbanization of China, and, we can now see that most of the growth rate in China is actually influenced by market forces. So this is a very, very important indication about the economy of China. China is also integrating the economy. Everybody knows about that.

I want to talk about the reason why I'm so confident that the Chinese economy can be sustainable. To do that, we have to look at the structural reasons behind its growth. This is crucial.

The first one is the shift in the industrial structure. This is very important. If you look at the development of the economy, you shouldn't simply look at the growth rate every year. You have to look at the structural reasons behind. For example, in the 1980s, the Chinese economy was mainly driven by the leading sectors of the economy, which were the light industries. In the 1990s, people were demanding new home appliances, some infrastructural projects, and the situation was also very good.

However, in 1997, I can remember there were lots of Chinese economists talking about how to find the economic so-called hot spots that were the focus of the economy. They were lost to a certain extent. During that time, people were very worried about the economic situation in China. So they are looking actually at the so-called economic hot spots. In other words, what's the leading industry of the economy?

Nowadays, the situation is much easier for us to discern. It's that people are looking for new kinds of consumer goods, the first thing being durables. People are talking about the new big items—property, cars, new IT products—all those kinds of things. If you look at all these kinds of products, you have some very strong linkage effect to the economy.

For example, if you want to produce cars, you need to have the supply, you need steel or some other similar metal to build the material, and you must also be able to generate electricity and a lot of infrastructural products. According to the experiences of other countries, if an economy enters this stage, where for the mass consumer first looks to buy a car. Then the economy can be sustained for around 20 to 30 years.

The same applies to property. I would also say if Chinese people are always looking for a house, then I think it can be also. For these sectors alone, the experience in other countries that it can sustain the economy, the growth, for at least 20 years.

If you look at the history of the U.S. economy, especially the past 30 years, the whole U.S. economy has mainly been driven by the real estate market, the car industry, and the steel industry. So it's the reason why I'm quite confident because as a result of the structural, industrial shift.

The second is, of course, urbanization in China. You know there is a very ambitious target of the Chinese government to transform more rural populations into the urban centers. However, this is always debatable, because some people think that the cities cannot sustain that. Therefore, they are also advocating other ideas of creating a new countryside. I think it's more reasonable.

But, at least if you look at the rather rapid rate of migration rates, you can see that there's a lot of demand for all the utilities in the city, especially for infrastructure and housing. So I think it's the reason why China is energetic.

I really want to look at the third issue from the demand side as well as the supply side. If you look at the Chinese economic reforms that have occurred in the past few years, you can see that there are lots of very energetic entrepreneurs rising in China. In the past, I think around five to six years ago, there was a lot of discussion about why things were fantastic according to macroeconomic indicators but on the micro level, it's very, very bad. It is this kind of inconsistency we cannot really understand, because during that time, I think the Chinese economy outpaced the market. Therefore, a lot of people were producing, but were forced to put all their goods in the warehouse.

But nowadays, the situation is different. If you look at the financial income of the government, every enterprise in China enjoys big profits. So the micro and the macro levels have become consistent. So I would say that because of the market and all the economic reform, then there is another important driver of the economy that can sustain Chinese development.

Finally, I would like to comment on the government's smart policies. I will elaborate on it in the next session but after mentioning that I do not want to underestimate the challenges facing the Chinese economy. I won't go into detail because I think everybody knows what I am referring to: balanced growth, structural problems, the imbalanced development, and the underdeveloped service sector. In addition, everybody talks about the huge Chinese export surplus and debates the issue of currency appreciation.

But this is all very debatable, because a lot of people are saying that all the hot money going into China has nothing to do with these issues. The liquidity problem in China is not totally a result of its large export surplus, but rather is due to the fact that

people want to speculate in the Chinese renminbi market.

The other thing is, of course, environmental and the natural resource issues, which has caused great concern. And there is concern about disparity and there are a lot of poverty issues. I think it is very, very important issue based on the experience of other countries. If you do not devise a very good social welfare system, you really can't instill confidence in your people to spend, and the economy will not be able to sustain itself. So it's the reason why at this stage, the Chinese government is always talking about the so-called scientific model of development.

So I won't go into the details about this. Everybody knows about Hu Jintao's very, I would say, sophisticated and forthcoming principle of scientific outlook of development. But I would really want to say that this is very, very important because it addresses all the issues about people-centered balance and sustainability and, more importantly, that there is huge implication to the business environment as well as the enterprise level.

Now you know the three drivers of the economy. Domestic consumption has become more significant in driving the economy of China. So I think that if the Chinese government emphasizes domestic consumption, the impact will be that it will be more able to narrow down the trade surplus, as well as the investment on the foreign market. Furthermore, it can also absorb domestic production capacity, because there's a lot of concern about whether there is a surplus economy in China.

You should look at the right-hand side of this. This is the reason the policies of the government affect the Chinese business environment. I think with the trade surplus pressure and the foreign investment, there will be a diversion. There is a lot of control over all the problematic products, and this has very important implications for the manufacturing enterprises and it will affect the core structure of China.

I'm from a company called Li & Fung, and we encounter a lot of manufacturers in China. They are all telling you that there is a very sharp increase in the production costs. In China, in order to curb the trade surplus, the Chinese government changed its processing trade policy. I want to get back to this point a little bit later.

This table summarizes a very controversial issue, and I think a lot of people are very much concerned about production costs in China. Our understanding is that over the past two years, total costs have increased by around 12 percent and, in some sectors, there has been a 30 percent increase. If you look at the idea of the scientific model of development, I think it has a very important cause implication.

So you can see that in order to curb renminbi appreciation, they really want to stop the processing trade. In order to protect the environment, there are lots of charges laid on the manufacturing enterprises, and you can see that wages have also surged by almost 25 percent in China for the past two years.

This is a summary of what is included in the recent National Party Congress. I won't go into detail, but I just want to tell you that this is the most important initiative of the Chinese government. A lot of people are talking about the kind of policy that will be adopted by the Chinese government to counter the current economic situation, both in the short-term and long-term. I would say that if you look at the details of all the policies laid out in the National Party Congress, you can actually get a very, very good answer to it.

The first is, of course, to encourage innovation. The second is to upgrade industrial structure, also by means of scientific R&D. The third one, which is very relevant, is to work toward creating a balance between the urban and the rural populations. However, I think that the current shift is to be away from the countryside. I think that's more important. The fourth one is to improve energy efficiency and environmental conservation to enhance China's capacity for sustainable development. The fifth policy is to work on regional development. This is very important to us because the Chinese government also wants to go west and there are strong implications to this desire. We will see, in the future, that China will be more integrated into the East Asian economy. The sixth is to improve the current economic system. I think this is very fundamental for China. The seventh is developing more macroeconomic control. The final one has strong implications for the economy of the East Asia, because they are talking about a more open investment policy.

In the past, the Chinese government has always been careful about investment. But now, because of its large reserves, they are now encouraging enterprises to go abroad. You can see that Chinese enterprises are always looking for investment opportunities in East Asia, as well as other parts of the world.

The other is mainly about some short-term measures adopted by the State Council for the fourth quarter of this year. That is to tackle the short-term economic problems.

In conclusion, it is my feeling that the Chinese government is very smart. They understand all the problems, and have found some very reasonable means to tackle all these difficulties. It is one major reason why I'm quite confident, other than fundamental economic national development, that the Chinese economy can be able to sustain its development for at least 20 years. Thank you very much.

(Applause)

SEIJI TAKAGI: Thank you very much for giving me the opportunity to talk on the prospects for Japan's economy here. I'll talk about three points: the current status of the Japanese economy, major issues affecting mid- to long-term growth, and policy responses to address these issues.

Japan overcame a decade of stagnation, which had continued since the collapse of the asset price bubble in the early nineties. Its economy has expanded from

early 2002 until now. Corporate earnings have shown good results, and banking has also recovered to normal levels. According to the quarterly estimates of GDP by the the Japanese government, the real growth rate in the third quarter of 2007 compared with that in the second quarter was 0.6 percent, and this is converted to the annual rate of 2.6 percent. This growth shows that though growth has been continuing steadily since early 2002, and that the rate of growth is gradual.

Comparing the current expansion and the past expansion in terms of real growth rate, the present rate of 2.2 percent compared with past growth rates of 11.5 percent or 5.4 percent. Comparing the current with the past in terms of normal wage rate, the current figure of 0.2 percent, which is a bit different from the past. These figures support the beliefs of some people, who think that this current expansion is not necessarily improving or much better than the situation in the 1990s.

Looking at the components of this growth rate in the third quarter we see that two-thirds of the total growth came from net exports. Including the contributions of exports to the growth rate is a steady trend throughout this economic discussion. Regarding domestic demand there has been a significant decline in private investment, reducing the contribution of domestic demand to GDP growth.

Regarding short-term forecasts, the graph shows the average figures of a private think tank forecast for Japan. They predict a 1.73 percent growth in this fiscal year, 2007, and 2.11 percent for the next fiscal year. These figures are around one month old, and it seems that more economists are now forecasting a bit lower growth rate for this fiscal year such as 1.5 percent.

There are four main risk factors for the Japanese economy in the short term: of course, obviously, how the U.S. economy is going from now; and appreciation as stock prices fall; certainly, expensive natural resources price, especially crude oil; and the further stagnation of housing investment.

In regard to the housing investment, the stagnation will not stay long. Maybe it will stop in the next quarter or after the next quarter. So the main risk comes from the external side.

I'll change the topic to the major issues affecting mid- to long-term growth. The biggest issue is the population decline and aging. Second to that is the emerging inequalities, and also Japan, like other countries, needs to respond to changing global issues.

The Japanese population is, at present, 128 million, and this figure is almost the peak of our population according to some estimates. As we are seeing in this graph, our population is gradually decreasing. Maybe in 2055, the population will go down to 90 million. The percentage of the population between 15 and 64, which is sort of the working age, is estimated to be around 50 percent in 2055. So we need to expand the age range for employment. The percentage of the population above 65 is currently

one quarter. In 2030, it will become one-third, and more than 40 percent in 2055. These figures show a trend in the total fertility rate: it is decreasing gradually. There is a need for a policy to reverse this trend.

This is a comparison of the total fertility rate and, except for Korea, Japan is overwhelmed. So Japan needs to tackle this difficult aging and population decline first and maybe after some years, the other countries [inaudible].

I'll turn to the second major issue affecting mid- to long-term growth, and that is emerging economic dualities. Widening economic disparities are raising concerns that the benefits of Japan's expansion are not being equally shared. Income inequality, as measured by the Gini coefficient, has risen steadily, and now exceeds the OECD average. Growing inequality is also related to shifts in the labor market. Regional inequalities are rising. Metropolitan cities like Tokyo and Osaka, and regions with export-oriented industries such as Nagoya, with Toyota very close by, are growing much faster than other regions, such as Hokkaido or Okinawa. Dualities are expanding in industries: big and small, IT-related and not IT-related, export-related and not export-related. While enhancing growth, there is a need to address these emerging disparities. We also need to cope with several global issues. There are so many I don't need to mention, but a lot are related energy and environmental issues.

Thirdly, I'll go to policy responses to address these issues. First of all, there is a necessity to increase the number of people working, actually working in Japan. There is some need to reverse the trend of the declining total fertility rate by easing the burden of raising children. There needs to be an environment of encouraging more employment of the old and female population. Finally, employers may need to further encourage specialized and technical fields.

Second, the improvement of productivity and in-house growth potential is also essential. The improvement of education and movement of personnel to highly productive sectors is necessary. Important industries such as the service sector, which occupies 70 percent of the GDP, should receive special attention. Promotion of entrepreneurship and new investment in R&D activities are both important policy objectives.

A liberal trade and investment environment is the basis of Japan's economic growth, and Japan will cooperate with other countries in pursuing global trade and investment liberalization and trade facilitation with the WTO, EPA, APEC, and others. Other global, regional cooperation is important to Japan, to the region, and to the global world. Initially, it is important to bring in more foreign investment and highly skilled human resources into Japan.

As aging continues, social security costs will surely rise, therefore Japan needs to improve the social security system in order for it to be sustainable with a good balance between costs and benefits. In addition, it needs to continue to improve budgetary deficits. Also, it needs to cut down budgetary expenditures.

Of course, it's quite difficult to forecast the mid-term growth rate. This is a test calculation by a cabinet office for 2010 to 2011. Based on the high growth scenario, the annual real growth rate in this term will be 2.4 percent. Under a low growth scenario, the annual real growth rate would be 1.7 percent. So Japan's growth, would be around 2 percent, which would be modest compared to that of high-growth economies, such as China, but with efforts to increase productivity, Japan may be able to contribute to the global economy through innovation. Japanese companies have been competitive in many industries, such as energy, the environment related industry, automobile, home appliances and so on. So we will continue innovation in those areas.

Many Japanese companies are working in the regional and global trade and investment network, and they will contribute more in the future to the global growth through that regional and global network. Furthermore, the Japanese experience responding to fast-aging society will be very useful to other countries that will face the same issue some years after Japan.

I thank you for your attention.

(Applause)

BARRY BOSWORTH: Thank you very much. I was, in this session, asked to speculate a bit about prospects for U.S. political attitudes towards the global economy, particularly in this upcoming election. To begin with, I just want to make a couple of simple points. I think that I may sort of echo a bit what John Thornton said at the beginning. You stole some of my lines, as a matter of fact.

The first thing to remember is that the United States has a surprisingly weak link to the world economy from an economic point of view. We have a large foreign policy presence, but a very small economic presence. For example, exports to the world from the United States are 7.5 percent of the United States's GDP, compared with 35 percent for China. That is one reason people in China would say the global economy is good for them, because it's a very important and very large portion of the Chinese economy. It is not a large part of the American economy.

Second, most Americans have long perceived the global economy as basically having a negative effect on their lives. They understand, I believe, that they gain as consumers—and they like to have their choice of inexpensive products that come from Asia, for example—but they have a lot of fear about job losses on the other side.

In booms, consumers dominate and fears about foreign trade decline. In recessions, they come back. So if the United States should go into a recession, in the current situation, you can expect a dramatic increase in anti-global feelings in the United States, and a lot of politicians speaking out against trade policies.

The third aspect of it, I think, is that there has long been historical political

opposition in the United States for multilateral policies, and we don't like supranational organizations. The United States was at a unique period in its history with the outbreak of the Cold War in which it ever agreed to enter into many of these international agreements. Now that the Cold War is over, a lot of the political support for such activities is vanishing in the United States.

Fourth, the United States's large external trade balance heightens the public perception that the international trade system does not support American interests. So there's been a huge loss of national consensus on new international economic policies. It was camouflaged in the early parts of the Bush administration because since the Republicans controlled the Presidency and the Congress, they decided to ram through their own version of an international trade policy. But now that the Congress is in the hands of the Democrats, this has now broken down. There is no fast-track authority. The WTO negotiations are dead, and the President will not, in his term, ever again get authority to negotiate an international trade agreement.

I think trade policy is emerging as a major issue in 2008, particularly among the Democrats. Some of them strongly oppose any extension of international trade agreements. I think within all of this, the relevancy to this group is the current focus on the United States's economic relations with China. This is one way, I think, of demonstrating some of the concerns about the international imbalances.

This year, the United States is estimated to have something a little bit under an \$800 million current account deficit with the rest of the world. That represents about 6 percent of U.S. GDP. The U.S. has currently got a foreign debt of about 20 percent of its GDP. If those numbers stay the same, about 6 percent a year. It's obviously an unsustainable economic situation.

When you look on the other side, if the United States has got this huge deficit, who's got the surplus? Asia. Obviously, countries in Asia would say the economic situation is highly beneficial to them. They like the current economic situation. The United States does not.

Japan has always had a current account surplus, and I think a lot of the rhetoric you're going to have here the next year is going to sound just like 15 years ago when there was a debate with Japan. When Americans had difficulties, they wanted to blame Japan for their problems. When they have difficulties this year, they'll want to blame China for their problems.

But this time the difference is that Japan continues to have a lot of surplus, but China has a truly astounding surplus, particularly when you realize how small China is compared to the United States. You're talking about a current account surplus as a share of GDP that's more than three times greater than that of the United States, and it's going to spiral up again even further over the next year head.

Also, an interesting shift that's now occurring is that Europe used to have

a surplus as an offset to the American deficit, but with the rise in the value of the Euro, European economies have now fallen into a current account deficit. A European leader was just here in China, and what's the first thing they want to talk about? Exchange rate policy—because even more than the United States, who's got a big exchange rate change vis-à-vis a problem with China? Europe. Now it turns out that both the United States and Europe are both focused on the Chinese exchange rate system.

The rest of the world, I think, is pretty much unaffected, except you should remember that Middle East countries, OPEC producers have an offset as well and will continue to have a surplus in future years.

I think we can also be clear about what all these imbalances reflect. First of all, an incredibly low rate of savings in the United States; the United States has been on a consumption boom. Americans spend almost all their income, and signs are they'll continue to do it in the future.

On the other hand, remember there has also been very weak investment in the rest of the world, particularly after the Asian financial crisis. When that crisis hit, the United States sort of became the engine for growth in the world economy. There was a current account deficit before the Asian crisis, but it was really quite small. It has exploded since 1997 basically because the world is using the U.S. market to keep itself going. So it's the ability to export to the United States's market that's been crucial to continued growth here in Asia. When that ends, there's going to be difficulty.

Secondly, there's the need to recycle the OPEC oil surpluses with high energy prices, but there's also growing focus on exchange rate interventions by China and other countries seeking to maintain an export-led expansion.

Here's a way that maybe illustrates just quickly why it is the United States is not terribly impressed or interested in trade with China. Most Americans would say we import an incredible amount of goods from China but, in fact, we import about the same share of our GDP as Japan does, a little bit more than that of Europe. We do not stand out as being particularly unusual on the import side.

What's unusual is that the U.S. exports almost nothing to China, and the current account is different between the United States and Japan. When Japan says economic relationships with China are good, it's because Japan exports a lot to China. The United States does not.

Here's another way of looking at it. You can see the large current account deficit of the United States is now about 6 percent. What I think I would like to impress today is that I think it's over. We are now headed in the opposite direction. The American dollar is falling at present. It's going to continue to fall in future years, but the U.S. current account deficit is going to go down and the ability to use the American market as the engine for growth in the world economy is basically coming to an end.

This is a painful adjustment for everyone, but the surprise will be it's actually going to be pretty easy for Americans. When the exchange rate falls, what's going to happen? The United States is going to be able to sell more in world markets. It's at full employment today, and it's likely to face increasing employment opportunities in future years.

Where are the painful adjustments? In the countries that can no longer expect to have an export surplus with the U.S. economy.

What stands out most in that respect? Asia. Asia is incredibly vulnerable to an American economic slowdown in reversal of its trade deficit policies. It's a particularly unique situation for China, because until about three years ago China never ran significant current account surpluses. It basically had balanced trade. All that changed, and this imbalance with China developed in the last three years, but it's worsening at a rapid rate at a very bad time for China because if the U.S. boom is going to end, China finds itself very exposed in the external dimension of trying to sustain its economic growth.

I think if we look in the future, we're going to see an extreme increase in discussions about exchange rate policies. The U.S. dollar will decline in value, and the Euro will appreciate. The pressure is going to basically mount on Asia, and the focus of that will be China's policies about trying to maintain a fixed exchange rate policy.

The multilateral trade negotiations as a result of these pressures are basically dead. I do not think that they will be renewed any time in the near future. Whether it's a Democratic president or a Republican president, there is no longer consensus in the United States in favor of active trade negotiations. I don't think that's terrible for the world economy, because the current trade system is actually doing quite well.

On the trade rounds, I think we do face a lot of pressures going forward. Public support in the United States for renewed trade authority does not exist. I think the Democratic Party has splintered over the issue of trade. Maybe the biggest thing, as mentioned at the beginning, is we never had much exposure.

Why did Americans support the growth of an international trading regime in the past? I think the basic reason was the Cold War. The United States wanted to build an economic system as a counterpart to the Soviet Union, and try to bring in countries that were somewhat independent into support of the American side. So, basically, in trade negotiations, the United States government was in the business of trading political advantage for economic advantage, support for us in the Cold War in return for access to the U.S. market.

That tradeoff is now dead, and there's no interest in the United States in trading political for economic factors. That means it's going to be economic interest versus economic interest, much more direct conflict over who's going to gain out of the

trade negotiation. I think the United States remains basically ambivalent about the value of those negotiations.

There is currently a bilateral negotiation between the United States and Korea for a free trade agreement. I think that has become very unlikely to be approved. It has to be voted up or down, but at the present time I don't think we have the votes in the U.S. Congress to pass it.

The final one is the Doha Round. To restart the Doha Round, it requires that the United States get fast-track authority again for the new administration. I don't think that's possible to achieve regardless of who wins the presidential election. Therefore, for the time being, I think the United States will be a bystander in international negotiations over trade.

I do not think, though, if we end up with this that the United States is about to pull out of the global system. That would be a gross exaggeration of what's going on. But the United States does not see great benefits anymore to continue the expansion of the system through very active government policies. I think it will be a period where, for many years, the current system will be largely on its own, trying to manage and sustain the trade system without a new round of negotiations.

Thank you.

(Applause)

LONG GUOQIANG : Barry told me just now that economists are more likely to use PowerPoint. I'm afraid I'm not a qualified economist, because I cannot prepare PowerPoint as my assignment was to do a presentation based on the three former presentations.

I would like to express my appreciation to the three panelists for their excellent presentations. They provided excellent scenarios of the three major economies, both in short term and long term, and the prospects of possible strategies and policies.

So, based on the presentations, what are the regional implications for East Asia's economy? I would like to make three points.

Firstly, the East Asia economies need to continue to deepen cooperation and improve economic relationships with the United States. The reason is very simple. Even in the long-term, the United States will still be the biggest economy, especially in terms of its scale, its innovative capability, and its influence in the world economy. In the past, actually, the United States was the most important economic and trade partner to East Asia.

To improve cooperation in the short-term, I think from Barry's presentation, we see that East Asia runs the biggest trade surplus, about 700 billion U.S.

dollars. Most of the trade surplus is recycled to the U.S. financial markets. In the short term, I think the East Asia economies should adopt a strong U.S. dollar policy to prevent the continuation of the so-called subprime loan crisis on housing in the American financial market.

The second point is because of the booming of the Chinese economy there is a restructuring of the Japanese economy, mainly based on the aging of the population and the possible adjustment of the U.S. policy toward a multilateral system. I think the East Asian economies should very seriously consider accelerating the pace of this regionalism.

In the past, from the trade figures, we can see that the intra-regional trade in this region has greatly improved. The fiscal reason, actually, I think maybe is very unique in this region. Intra-regional trade is mainly driven by relocation of the production capability from Japan and from the newly industrial economies to less developed economies in this region. As the result of the relocation in this region, it has already improved the regional production network. This trend will continue because of the change of the three economies just mentioned.

There are a lot of choices, as in the presentation by Professor Qin in the last panel. There are a lot of choices, a lot of articles, and a lot of facts in the process of globalization in this region. Actually, the present dilemma of the game theory has provided a very clear solution for the economies in this region. The only solution to accelerate regionalism is to improve the cooperation among the economies.

The last point is that China needs to accelerate its transformation of its development model from the former input-driven economy to an innovation-driven economy. In the external sectors, China also needs to adjust its strategy from export-oriented to a new strategy of mutual benefit external strategy.

Actually, we need to adjust from relying on external demand and we need to accelerate domestic consumption, and also we need to improve relations with the international community by means of further opening-up China, improving its position in the global production chains, and acting as a responsible player in the international community. Thanks.

(Applause)

MR. THORNTON: Okay, now, we have a little bit more than 20 minutes. So, while you all are thinking of your questions, I'm going to start with a question of my own for Barry. I just want to clarify something, and this is both a near-term question and then a longer-term question.

In the near term, if we assume that the United States is in a recession or an economic downturn or approaching a recession, what is the impact of that on the Chinese economy?

Then if that's the beginning of the next, let's say, decade, going back to the comment you made. You said something to the effect that the changes that were happening in the world, that the U.S. could adjust to those relatively easily, and it was going to hurt Asia more than the United States. Talk us through the politics of that and how you see that over a longer period of time, how you see that playing out both inside the U.S. and then outside the U.S.

DR. BOSWORTH: I think the worst possible outcome is there are a couple of bills in the U.S. Congress that I think will get renewed life that would call for a tariff probably against China alone. This is also the thing that's now being talked about by the Europeans.

I think in a recession, public support goes up dramatically because the U.S. does run a type of labor economy that runs big risk if you lose your jobs. What makes the American system work is you lose your job—lots of people lose their job, but they can always get another one. But, in a recession, they worry about getting another one, and so this lack of security, economic security, plays a big role in American politics and things will shift a great deal.

One of the reasons that's even come up at all at the present time is you say: Well, the economy is very strong. What's the problem?

And, it is. At the aggregate level, it's growing rapidly. But people at the bottom of the distribution have not been doing very well in recent years, and so the Democrats have found there's some support for this economic insecurity issue in the current election even though we don't have a recession at the present time.

Why do I think it's going to work out easily? The fundamental problem is the United States has a large current account deficit. The only way you correct that is the value of your currency falls.

It's true; they have to increase saving in the United States or reduce investment. I think the latter is more likely than the first in the short run, but for the U.S. to have a restoration of domestic savings investment balance then the external sector has to adjust. The only way that can happen is for the dollar to go down in value, making imports become more expensive and exports cheaper.

This is not theory. We've been through this exact same process before, in the mid-1980s. The dollar fell about 25 to 30 percent, and we went back to current account surplus.

What was it? It was a boom for the United States and a lot of problems for other countries because they no longer could run trade surpluses with the United States. The burden of it in that time fell largely on Europe. I think this time the burden of it is going to fall largely on Asia, and so I think there will be a lot of strains.

I think that the answer to such concerns is exactly what was said: Asia has to accelerate its regional development because it has to develop alternative markets to the United States, with a concentration on China in particular. When the domestic growth faltered, the Chinese redirected everything into the external sector, which has put China at risk at the present time. China's domestic demand growth slowed down dramatically after 2005, and the substitute for it was to go to export-sustained expansion. But that was a very sharp change in China's policies, and it's left them at this time in history in a very exposed position if the United States dollar should continue to fall in value and the adjustment continues on the American side.

MR. THORNTON: Thank you. Sir?

QUESTION: Erich Shih, TVBS News Washington Bureau Chief and former CNAPS Visiting Fellow. Two short questions, the first one to Mr. Chang and then Dr. Long: In terms of China's economic growth and its ability to be sustained, one thing that the people in the West have voiced concern about is the social stability issue, and it's coming back year after year. What are your views for social stability vis-à-vis economic development for 2007, and a short-term projection?

It's the same question for Mr. Bosworth. It's a follow-up on Mr. Thornton's question with a twist. Should the U.S. economy go into a recession, what are the other factors in your mind that could contribute and compound that situation and possibly lead to a global recession? Thank you.

MR. CHANG: Yes, I think the Chinese government understands there are very, very important social issues. Therefore, when you look at the National Party Congress and the Chinese Communist Party, they always emphasize economic, political and cultural development, but they are also talking about social development, stability, and building a harmonious society.

If you look at the financial expenditures of the government this year, you can see that most of the expenditures, especially the incremental part, are targeted at tackling those issues.

I would say that social unrest is a real thing in China. However, I think it won't affect stability building in the sense that as people in general become richer, they understand that stability is really important for the Chinese economy. I think this is a real issue, and that the Chinese government uses what I would say are practical means to tackle it. I think it won't affect the stability of Chinese development.

DR. LONG: The Chinese government has already realized the importance of social programs, and they, in recent years, have targeted such programs. The central government allocates funding to the construction of social harmony. I think this is a very important thing for the future of Chinese development, and the government has already adopted a lot of measures, for example, to improve social security, and to improve the

income of the farmers. If you look at the figures from the Ministry of Public Security the mass incidents have already decreased.

If China can balance that with rapid economic development, most of the problems can be solved through the development. The government has a strong ability to solve such kinds of problems. With implementation of the strategy of social harmony, the situation will get better and better. Thank you.

DR. BOSWORTH: I think the U.S. recession can translate into a global recession, basically because in the mid-1980's the offset to the adjustment in the United States was that Japan stepped in and for about a five-year period was the engine for global growth. But this move was very costly to Japan, and I think they deeply regret the fact today that they ever played that role in the mid-eighties. They're certainly not going to play it this time around.

I think you're very hard-put to find a country that's going to step forth and be, so to speak, an engine for creating demand for the global economy. I think that puts countries back on their own resources. They're going to have to do things themselves to stimulate domestic demand within their own economies. I think that's a particularly big and difficult task for China, to be able to accomplish that at the present time.

QUESTION: Thank you for your excellent presentations. My name is Alexandre Mansourov. I'm from the Asia-Pacific Center for Security Studies. I have a question about the foreign exchange reserves. Six years ago, before 9/11, foreign exchange reserves in East Asia stood at three trillion dollars. Now, six years later, they stand at 5.7, I think, almost six trillion dollars, and the greatest portion of it is in China, Japan, Russia, and other countries.

Of course, the management of the foreign exchange reserves is becoming an increasing challenge in terms of performance, in terms of efficiency, especially when the dollar value is declining, and will be increasingly difficult when the long-term interest rates in the U.S. come down. So what do you do? The recent trend is the emergence of sovereign wealth funds.

My question is to Barry. From the U.S. standpoint, what are the potential difficulties in terms of the entry into the U.S. markets by the sovereign wealth funds, and how can those difficulties be mitigated or overcome by the governments of these nations? Thank you.

DR. BOSWORTH: I think they just highlight the dilemma that these countries face. You cannot have a sovereign investment fund and invest in non-dollar assets, and still maintain a policy of a fixed exchange rate against the U.S. dollar.

The only way, for example, that China can maintain the current exchange rate is it just pours this money into the U.S. economy. Now it would help some to diversify it. You could hold some equities, some corporate bonds and not just all

government bonds. But, as you've seen with the mortgage debt crisis, there is some risk associated with that, and governments don't manage risk very well.

The other alternative, which is to diversify as a way to handle the risk and move into a lot of other currencies, I think is a very good idea but it doesn't maintain status if you're going to have a fixed exchange rate.

People are talking past themselves when they keep saying: we're going to have sovereign wealth funds, we're going to keep our fixed exchange rate.

You can't do both, particularly in the current situation when lots of other investors, private investors, are losing faith in the continued reliance on the U.S. market. You're fighting against the trend. You have to pour in more money to try to maintain your exchange rates against the dollar. So I don't think the sovereign wealth fund solves the problem of the exchange rate.

I think it's excellent investment advice. Taiwan, I think, is a country that stands out in my mind that would love to give that advice to others, given their experience in the mid-1980s. They lost their shirt when the U.S. dollar went down in value. Singapore lost incredible amounts of money in the mid-1980s. Those two countries know what it's like to lose it. So I think there are some lessons for others to learn from it, but it's not an answer to the exchange rate policy.

I would also argue I don't think sovereign wealth funds are a good idea, basically, for most countries. There used to be what are called provident funds back in the 1930s. A whole lot of countries ran their social security systems with them, and they all went bankrupt in the Great Depression. Governments don't manage risk well.

A country like china has lots of other uses for its foreign exchange reserves. In particular, why don't you spend it to try to improve the education system? If there's such a shortage for college students to go to school here in China, you could take all this foreign exchange money and send them abroad. There are lots of ways to spend the money. This seems like a really low return.

I do think we've walked away from the 1997 crisis. We've learned a lesson: don't rely on the IMF; protect yourself; and countries better have reasonable levels of reserves. I think that's absolutely right and East Asia deeply believes that.

But the current levels of reserves are absurd. They're not consistent with that notion. They're much more aimed at trying to maintain a specific exchange rate which is not in the interest of the country in the long run.

QUESTION: Wonhyuk Lim, former CNAPS fellow and fellow at the Korea Development Institute. I have a question for Dr. Bosworth. I don't know if it would be relatively easier for the United States to make adjustment to exchange rates, flat changes.

I see a somewhat different implication for what we had in the 1980s and early 1990s. When the United States was basically at a trade deficit back then, it did have to make some adjustment. I mean we remember Bush 41 in a statement about “read my lips, no more taxes,” but it did have to get its fiscal policy in order. Also, it did have a somewhat mild recession in the early 1990s that led to the election of Clinton in 1992.

Although I read that Japan kind of created a bubble by trying to be a growth leader in that period, I don’t think the U.S. experience back then adapting to exchange rate change, was not all that painless.

In this case now, it seems like there’s going to be less emphasis on fiscal policy. Yesterday’s *Wall Street Journal* had an article saying that tax cuts could be floated as a more intellectually defensible proposition next year, when the United States is more likely to be in recession than it is now. If that’s the case, if the savings/investment balance is restored, not through increased savings but more through contracted investment, I think the adjustment the United States will have to face will be pretty significant. The question is, do you really believe the U.S. adjustment will be less painful?

DR. BOSWORTH: I think I fully agree with you. In trying to make a point, I kind of overstated it. I don’t think this will be painless for the United States, but it will be much more painful for other countries, who are trying to find some way to offset rapid declines in demand.

The U.S. problem is if we don’t act, what do we get? A little bit of inflation pressure, drive up the interest rates; the Fed can handle that.

But I agree. Painless? No, not completely, but manageable. For the U.S., this is a much more manageable situation than it is for the people on the other side, but I think your cautions are all well taken.

QUESTION: Zhu Wenhui from Hong Kong. I am a former CNAPS fellow from 2004-2005. I have a question to pose to Barry. As you mentioned, one response to the regression of the U.S. dollar and the slowdown of the U.S. economy [inaudible]. If you look at the details of this kind of equation, the ultimate object of this kind of network is the most efficient management by the Chinese economy. [Inaudible] which means the whole region will depend more than before on the U.S. market. [Inaudible] an economic slowdown or the U.S. attitude towards globalization will impact the whole region; China, the tigers, and Japan.

Furthermore, China’s exports have shifted gradually in the last year, from U.S. to European markets. So that is the reason for the E.U.’s trade deficit increasing 20 million U.S. dollars every hour. So how do you see this change because if you look at the demise [inaudible]. What I mean is that the whole equation is basically some kind of production network, efficiency.

DR. BOSWORTH: You go first. You proposed it. I agree with you.

DR. LONG: Thank you. Thanks for Wenhui's question. He pointed to the real situation, the relationship between the East Asia region and the United States.

Actually, I just mentioned the regional production network and its final market, which is still in the States. China imports upstream inputs from East Asia economies and re-exports to the States after assembly. We call it process trading.

The trade surplus of China to the States is actually the trade surplus of the region, not purely China. If you look at the figures, China's trade deficit with bordering economies, except Hong Kong, is almost the same amount with China's trade surplus with the States. If there is a trade sanction against China, I think it's not only against China. It's against this region, and no one will win.

Actually, I share the same view with Professor Qin in the last session, that the States has a very special role in this region's regionalism in terms of its relationship with it.

DR. BOSWORTH: I agree completely with that. I would only add what can be done. I think people have not sufficiently realized the extent of the change in China's policy in just the last few years. Up to 2005, China did not run large current account surpluses. It was a balanced growth economy. Domestic demand grew just as fast as exports did. Exports were a constant share of GDP until about 2002.

Then with the WTO agreement, all these countries thought they were going to take advantage of China, right? They forced Beijing into giving up a lot. Instead, what happened after 2002 is that trade exploded on both sides, exports and imports. It was great for all the countries.

But since 2005, exports have continued to grow rapidly out of China, while imports have leveled out. It's kind of a puzzle. Why are the imports not growing as a share of GDP anymore in China? The basic reason is the weakness of domestic demand here in China, and they have been working fast enough to try to offset that.

The rest of the story is that, since 1997, East Asia outside of China is no longer a high investment economy. They used to be known for high rates of capital formation, but investment collapsed in 1997, and never recovered. The Chairman of the U.S. Federal Reserve says the world is awash with savings. We've got a savings glut. More accurately, we've got an investment shortfall, and most of the investment shortfall was here in Asia if you exclude China.

These other countries got to either stimulate investment domestically to offset this problem or find some other domestic demand stimulus. A good example that someone mentioned earlier was Korea, who tried to stimulate investment, and there was a

big consumption boom in Korea, but they ran into debt problems, which swung them back the other way.

But I think Asia has got to look out for itself more. It's got to have more balanced growth either within individual countries or within Asia as a whole. It can't just be a production network dumping products in other parts of the world. You can't sustain that type of growth, and that's not the way Asia got to where it is today. That's not the history of Asia, it has not always been running big export surpluses. Rapid export growth, yes, but matched by rapid import growth.

MR. THORNTON: Any final questions?

QUESTION: Andrew Moravcsik from Princeton and Brookings. By the way, before I ask the question to the whole panel, John, you should include in your large countries of the world a United Europe? There are a lot of countries in there that are so interdependent that exports plus imports are more than 100 percent of GDP. I think if you did include United Europe, there would be four large regions and countries of the world in 2008.

MR. THORNTON: I think you're an optimist.

DR. MORAVCSIK: This is for the whole panel, but let me start by pushing back on Barry. You say that this will be a wrenching adjustment for countries of the world, and particularly for a place like China that's not ready for the adjustment to the new role of the United States.

Now, let me understand this clearly. China has six trillion dollars. It definitely wants to make exactly the adjustment that you say they should make. They want to increase domestic consumption. It's a desperate policy imperative for social, political, and technocratic reasons. Until 2005, they had exactly that kind of policy. So they've had it for two years. Now they're going to go back to the policy they had before that.

So what's the wrenching adjustment? It seems to me that it's actually just going back to business as usual, and it's the right policy. Maybe for some other countries, it's a problem. I'm wondering why the rest of the panel isn't pushing back hard and saying, in fact, this is going to be a pretty easy adjustment for China. Where's the beef?

DR. BOSWORTH: If I'm supposed to answer that, I think I would agree. It's very easy for China to do. It has the resources to do it. It just lacks the will. It won't change the exchange rate. China hangs on, I think, in stubbornness because if the Americans want it, it must be bad. If the Europeans want it, it must be bad. It's easy to do, I mean in that respect, but I think it's a fearful thing.

If there's one country that would really be hurt by a recession, it's China.

China has all these people who need jobs even more so than people in the United States. I agree with the Chinese government. They should be very fearful about the risk involved in letting that exchange rate go without knowing you've got the domestic demand stimulus in place. It is not going to be easy to coordinate the resource shifts that are required.

DR. MORAVCSIK: Then I'll be provocative before the rest of the panel jumps in. I'm a political scientist, so when I see a government that has an obvious thing that technocratically it should be doing, and it isn't doing it, I think they are very strong political and distributional reasons why it doesn't choose to do it. Why is it that China, which has been talking about doing precisely this policy for five years, hasn't done it?

DR. BOSWORTH: You have to ask the Chinese government, but part of the answer is: they have. This is an issue of the pace of change, right? China has loosened up. They are worried about going too fast.

I think there is a huge concern about this 150 million people who still need jobs. That's on a scale that someone from the United States can hardly think about, and we cannot be so glib as to say, oh, you should do this as though there's no risk involved at all. There's a lot of risk involved.

I'm just saying there's not going to be a lot of choice on China's side if the United States falls in a recession. It looks to me like the dollar has now fallen, and that the rest of the world is not going to be able to support this.

Even six trillion dollars worth of reserves is not enough for East Asia to run what was called a strong dollar policy. I don't think that East Asia can do that. That's basically the fundamental problem.

MR. THORNTON: Okay, I'm sorry. I'm going to have to bring this to an end because we're running a little late and we've got lunch with the former Foreign Minister.

I want to thank our panelists for a riveting conversation—we can continue this later—and also encourage all of you in the audience to go out and spend all your money this afternoon very quickly.

(Applause)

(Recess)

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

AN EMERGING EAST ASIA
AND THE NEXT AMERICAN ADMINISTRATION

SESSION THREE: CHINA'S PEACEFUL DEVELOPMENT
AND THE HARMONIOUS WORLD

A KEYNOTE ADDRESS BY HON. LI ZHAOXING

A joint conference with the Center for International and Strategic Studies,
School of International Studies, Peking University

Wednesday, November 28, 2007
Peking University, Qiulin Lecture Hall
Beijing, China

Transcript prepared from an audio recording.

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WANG JISI: Your attention, please, ladies and gentlemen. I hope you have been enjoying some lunch. And I take this opportunity also to give our thanks to Mr. John Thornton, whose contribution to this conference and to Beida and to Brookings should be duly recognized. So, at this time, I would like to give my personal thanks, and also the thanks from all of us, to Mr. Thornton.

(Applause)

The main speaker at this time is Mr. Li Zhaoxing. Mr. Li Zhaoxing does not need an introduction, because all of the people here know that he is the former Foreign Minister. Even so, some of you may not know what he has been doing since his departure from that official position. So I feel I'm very privileged to say a few words about this.

After his departure from his former position, he has been even busier than before, traveling within China, traveling around the world to places as far as South Africa. And, of course, he also spends much of his time teaching in China.

When he was in Africa he joined a small group of people known as "The Elders." Although, personally, I don't think he is qualified —

(Laughter)

— as an elderly person. He was joined by some others like Nelson Mandela, Jimmy Carter, Archbishop Tutu, and many others. Obviously, they are all older than he is.

I think he also is young enough to be a professor, above all, at my university. I should also mention that he's an honorary chairman of our newly established Peking University Center for International and Strategic Studies. He has been very active in our activities. He is also a professor, and he has positions at other universities in China: Xinhua, the Foreign Affairs University, Nankai University, and the Foreign Languages University. Probably there will be more universities in the future. He has brought with him a few students from Nankai University in Tianjin. And I'm very jealous, because he never brought me anywhere.

(Laughter)

He is, of course, also very much plugged in to policy-oriented issues. He will now share with us his views about China's peaceful development, and the prospects of a harmonious world. Now, without further ado, Mr. Li Zhaoxing.

(Applause)

MINISTER LI ZHAOXING: Thank you, Mr. Chair, my alumni. I only keep my fingers crossed that you'll not regret to give me the floor.

(Laughter)

And I also hope that your co-chairs, Mr. John Thornton and Mr. Richard Bush, will not regret this either. For the simple fact that I'm so excited, I might speak too long.

(Laughter)

Simply because I feel very much at home.

Mr. Wang Jisi is so kind to offer that warmhearted introduction about my humble self. However, there is one thing I want to add to his statement. That is when he said I have an honorary teaching post at "*his* university." Well, nothing entirely wrong with that, but I would prefer to say at "*my* university." This is indeed my own alma mater, from 1959 to 1964, when I left the school to join the foreign service of new China.

So I'm so happy to be back home—so excited, so delighted. It is especially wonderful to be at this beautiful, abundant luncheon. When I look at all the food on the table, I certainly recall the days when I was a sophomore in 1960, when the whole country was suffering from economic difficulties. We did not have enough to eat in those days, even at this university, perhaps one of the best known in the country.

In that year, for me and many of my schoolmates, the big terror was to lose a food coupon. Imagine, you have to go to classes, but you feel that you don't have a full stomach. I do envy those professors and students here today. At least you have enough to feed yourself. In those days we didn't.

I also am delighted and honored to see so many of the old friends I made back in the States, across the ocean. I stayed in the U.S. for six years: three in New York, when I worked for the United Nations, and another three in D.C., where I had many happy days, and a few not-that-happy days.

(Laughter)

But they made me and my colleagues happier to return. I made a lot of friends in the States. It's always nice to recall that. Some friends were made, for example, on top of Capitol Hill. Some, or more, at the foot of the Hill. I had a lot of friendly chats with my American colleagues. I also had a lot of arguments, but each argument helped to further strengthen our mutual understanding and friendship.

I really don't know where to begin. I have so many things to talk about among friends. I'm not really a man of Shandong origin. People there drink a lot. I never take anything stronger than beer. However, I remember one line of a Tang Dynasty poet, which goes to the effect, "When you are with friends, even one thousand cups of strong liquor are not enough."

As I don't like any liquor, I sometimes translate that line of the poem into something different in English: "when you have friends to talk to, even one hour of chatting is far from enough." So I hope, dear friends, you will not regret to putting me up here. I'll go on talking and talking. So please go ahead with your food while I speak. Otherwise, you may starve.

I simply want to share with you my thoughts in a very honest and candid manner. At the head table here there is Mr. Richard Bush. I want to share a story with you, as a symbol of thanks to you for my belated congratulations or greetings on the Thanksgiving holiday.

Not too long ago, when I was still active in my diplomatic service, our two countries' leaders had a meeting in Beijing. The Chinese leaders told the American president, in Chinese that he would be very candid and honest. The Chinese foreign ministry interpreter was very good, or maybe too good. He turned that Chinese saying into, "I'll not beat around the bush." And the American president was a little bit surprised. "What? Beat around me?"

(Laughter)

That's fun, of course. Both sides had a good laugh. And today, I'll be following the example of my leader: to talk, and not to beat around Bush, my friend.

In the recently concluded Party Congress, President Hu Jintao emphasized, according to my interpretation, two things. One, China will be firm in marching on the road of peaceful development. And, two, China will be firm to materialize the scientific outlook [inaudible] itself.

My personal understanding is this is China's domestic policy. However, it also has a lot to do with our foreign policy. Domestically, we will remain firm on that road of continued development. We will rely on our own people's efforts as the main force to develop ourselves. China will never follow the road of those powers, one or two centuries ago, which sent troops abroad to colonize other lands. We will simply make the best use of our own people's talents and hard work. Also, to work for ourselves, for our own people.

So this is, indeed, a road of peace. A development by the Chinese people, of the Chinese people, and for the Chinese people.

Eternally, China will surely follow the spirit of the U.N. Charter. The dean, Mr. Wang, said that among the audience there are a few of my students. Indeed, I told them that one of the books they must read is the U.N. Charter. I told them that I do understand students now are different from the students in my days. You have a lot to do, a lot of things to enjoy. In case you don't have time enough to read the full Charter—which is not very thick at all—then at least read and remember the very first sentence, which came into effect the 24th October 1945.

In the very first sentence of the Charter, there are three principles clearly mentioned or provided for.

One, we should work to ensure that everybody enjoys basic human right.

Then, there must be equality between men and women.

And thirdly, countries, large and small, are all equal.

Very simple, yet difficult to implement. In China, we are determined to translate all these principles into reality. We want to make friends, and to be good partners with all people around the world. We hope that the world will be one of peace and common prosperity, all the world enjoying harmony.

The United States being the biggest and richest country in the world, it is an important factor in our internal affairs, as well as our external affairs. I believe the Sino-U.S. relationship is China's most important bilateral relationship.

We ought to thank God that since the visit by President Nixon to China in 1972, relations between our countries have made great progress, despite a few setbacks here or there. And I have to thank all the American friends present here at this luncheon hosted by Mr. Wang, the Dean, for your contributions, which have worked to make the relationship so good, so useful to both sides, and a relationship which has brought a lot of real benefits to the people, as well as to the rest of the world.

To begin with, in recent years, the nature of our bilateral ties has been even more clearly defined. Our two countries have agreed that we are not only stakeholders, but constructive partners as well. This is the important.

Both sides agree that we do have differences. That's only natural. However, the issues in which we find common ground outweighs the areas where we have differences.

Second, our strategic dialogues have been pretty fruitful, and more and more frequent. Between our two countries we have already had six rounds of strategic and strategic economic dialogues, which have brought us even closer.

Third, and maybe more importantly, we have a lot of cooperation in all fields. Take, for example, between the years 1949 to 1971, altogether, only 1,500 Americans traveled to the mainland of China. In so many years, only 1,500 American friends came to the mainland of China. However, now, on average, every day, every 24 hours, more than 5,000 people from both sides fly to each other—every day. The change is tremendous. This progress is remarkable.

Another example is in the field of trade. According to the statistics available to me, from January to October of this year, our bilateral trade volume has already surpassed \$248 billion U.S. dollars. It's probably safe to say that by the end of the year, our bilateral trade volume will be surpassing \$300 billion U.S. dollars.

Education-wise—again, according to figures that came to my eye early this morning—we have now some 90,000 students studying at American colleges and universities. In this field, America enjoys a big surplus. You have some 10,000 students studying in Chinese colleges and universities. These are only a few figures to illustrate how close we are now to each other, and how fruitful our bilateral cooperation is for both our nations.

In international matters, our common grounds have increased. I came back to Beijing only two days ago. I came from Korea, where everybody was talking about the Korean nuclear issue. Now, the name of one of the co-chairs, Mr. John Thornton, came to my mind. He told me just now that his name does come from the word “thorn” or “thorny.” He must be from a rural area, a village with many thorns, rather than bushes.

(Laughter)

However, it was even on this thorny issue, or complicated and sensitive issue—the nuclear issue in the peninsula of Korea—that China and America do have a lot of common interests and can find common ground. We worked so well together in the Six-Party Talks. Both of our countries are for peace and stability, and the non-nuclear proliferation of that peninsula.

Further away from us there is another thorny nuclear issue. That is the Iranian nuclear issue. And, again, China and America are working together, with other parties, to find a diplomatic solution which will ensure peace in that region, as well as for the rest of the world.

Even further away is another important issue, the issue of Darfur of Sudan. Here we can find our countries' diplomats working together. The day before yesterday, China sent its first group of peacekeepers to that faraway land. We are very happy that, together with so many countries, including America, we are now working for a better future of our African friends.

Naturally, when you have a friendship, even when the friendship is so strong and so good, you have problems. Just like a coin, it always has two sides. One of my former teachers, Qian Zhongshu, wrote in his book that this is a queer world. The people in the city want to go to the countryside to enjoy their holidays or weekends. The rural people want to go to the town, or to the city, to see what the people there are like. Those who are single want to get married, and those who are happily married, after a few years maybe, want to, well, get out of wedlock, and so forth.

(Laughter)

For countries, too, even if you have a friendship and a lot of cooperation, you have problems. We have also to be very prudent in handling each others' concerns or differences that happen to exist, so that we can have our cooperation be further expanded and deepened.

For U.S.-China relations, the most sensitive issue is still the Taiwan question. For us, that is the most important. That is the softest spot on the heart of every Chinese, for it has a bearing on our national sovereignty, territorial integrity, and the national sentiments of the entire Chinese people.

On many occasions, President Bush, and the American government, told the world that America will honor its commitment that they enshrined in the three joint communiqués between our countries. America will pursue the one-China policy, and will oppose the so-called Taiwan independence, or the so-called joining into the U.N. of that island. We only hope that all our American friends will honor their promises.

On our part, we believe both Taiwan and the mainland belong to one China, and the people on both sides are all Chinese. We will make every effort, and with our utmost sincerity, to work or to strive for a peaceful reunification. At the same time, we absolutely will never allow or tolerate anybody to separate Taiwan from our great country, our great motherland, in any name or by any means.

We hope we'll get your sympathy, your understanding, and your support for us on this most important issue. That will be in the interest of our friendship and partnership, as well as in the interest of America itself.

On other issues, we can work together to first increase our mutual trust on hot international issues, and on a few differences that crop up in our trade cooperation, education cooperation, and so on and so forth.

Take for example, the renminbi rate issue. I don't know even how much salary I have. I send all the money every month to somebody else in my family.

(Laughter)

So I know very little about currency or financial matters. Earlier this year, when my American colleague came to me for an official visit, the first issue she mentioned was that the renminbi rates should be further appreciated. She said that was the opinion of the current administration, and that there strong pressure from the Congress and from the people.

I told her, off the cuff, for I wasn't prepared, that I was under even stronger pressure. Among other things, the Chinese National People's Congress has by far more members than the American Senate and the Congress put together. In addition, we have more people. Many Chinese kept asking me, then, as the foreign minister, "Why does America, a friendly foreign country, worry that much about China's domestic matters?" I simply could not answer. So the two of us compared notes. We're confided in each other our own respectful concern, and we reached consensus. And that was good.

I believe if our countries could resolve issues like TCK, or Florida, where oranges, tangerines, we can also resolve other issues, through patient, honest dialogue and consultation.

Another thing I'm very happy to talk about is the upcoming Beijing Olympic Games, and then the Shanghai World Exposition. I want to express thanks, through our American friends present here today, to the American government and people. We thank you for supporting Beijing's bidding for the games.

About one-and-a-half months ago, I was in Washington, D.C., and I had a good meeting with the other Bush—

(Laughter)

—President Bush, the father, as well as the current president, George W. Bush, who told me so happily that he would be the Honorary Captain leading the American team to the competition. I was so happy. I told him that I only hope I could find the opportunity to go to welcome the American team, and to cheer for the American young men and women, for them to collect many medals, gold, silver or bronze.

We also hope our American friends, after you supported Shanghai's successful bid for the 2010 World Expo, will come to join us in Shanghai. I hope that will further expand trade, as well as cooperation on economic, scientific, and technological issues.

In short, dear friends, I'm pretty confident that if we bear in mind the strategic common grounds we enjoy, the common interest our two peoples have, and look at, and handle, all the issues from a long-term and strategic point of view, that

the relations between our countries and the friendship between our peoples will surely be further strengthened and enhanced.

In these few words, I wish all of you, in advance, a “merry Christmas and a happy new year.” Thank you.

(Applause)

DR. WANG: Thank you very much, Mr. Li Zhaoxing, for this brilliant speech. My only personal reaction to this is that I wish he would serve another term as China’s Ambassador to the United States.

(Applause)

But he is so kind to agree to us that he would entertain two questions, because we are running a little bit over time.

MINISTER LI: Is that my fault?

(Laughter)

DR. WANG: No, no, no. We began late. Yes, Mr. Zhang? No? I don’t remember the name of this gentleman.

QUESTION: Hello. My name is Masahiro Matsumura, I’m a former Brookings visiting fellow. We are very much impressed with your unscripted address, and very much impressed with your mentioning [inaudible], very much amazed that you referred to the human rights.

In today’s real world there are many countries which violate human rights in the domestic domain. When you find such a state, what can the rest of the members of the United Nations do? States vary case by case, but I’m very much interested to hear your opinion. Thank you.

MINISTER LI: For me, I believe every government responsible for its own people, and for world peace, stability and development should be caring for people’s basic human rights.

And, again, we have to be factual. That is, every country has its own specific conditions. Take China, for instance. China is not just another country. China is the biggest developing country in the world, and has the largest population.

When I was Foreign Minister, I felt ashamed that I didn’t know even how many countries there are in the world. Only towards the end of my term, I started to love again mathematics, a subject I liked the best when I was a pupil in

primary school. I started my calculation, and I discovered that, according to my standard, there are now 196 or 197 countries in the world.

Last year, the total GDP volume of the whole world was made known. I made my own calculation, and again found that the Chinese GDP total ranks number four among all the 190-more countries. We were number four. Not too bad.

However, I also recall President Hu Jintao's remarks. President Hu Jintao told us that we must always bear in mind we are still a developing country. We have a lot more to do. So I calculated our GDP in per capita terms, and found that China was only ranked 108th in the world last year.

So, on the one hand, we have to be confident that China's future will surely be good under the leadership of President Hu Jintao and the Chinese government. We will overcome difficulties, and let all the Chinese live a better and better life, step by step.

On the other hand, we have to know that we have long to go human rights-wise, too. We are now making sure that the gap between the coastal areas and the hinterlands will be narrowed, and that the gap between the poor and the wealthy should be narrowed too, on the basis that all of us should be better and better off in our living standards.

Just like the well-know American poet, Longfellow, once wrote: let us try to ensure that each tomorrow would be better than today. This is also true with our human rights record, I hope.

Education-wise, we have such a lot to learn from developed countries, particularly America. According to the Education Ministry's figure, last year among the same age group, only 21 percent of the young men and women of China could be admitted into universities and colleges. In countries like the United States of America, Great Britain, France, and Japan and Korea, the rate was something between 70 and 80 percent. I believe education is also part and parcel of human rights, not only food and housing or the right to elect or to be elected.

Even environmental protection has a lot to do with our people's living standard. That is why China is so active in participating in the so-called global climate change diplomacy. We want to have a sustainable development. We want our people not only to have good food, but also have clean air and clean water to enjoy.

So, in this regard to this topic, I believe scholars, or the elites, to quote my table-mate, Dr. Ann-Marie Slaughter, we also have a lot to do together. I thank you.

(Applause)

QUESTION: I have a question. My name is Alexandre Mansourov, and I'm a former CNAPS fellow. Some people look at the rise of China, and are concerned. They look at the Chinese energy policies, and the increasing militarization underway in China. What would you tell the people of the world, including in the United States, why they should not be afraid of the peaceful development of China? Why they should not be afraid of a rising China?

MINISTER LI: Good. Thank you very much for this very important question. Now you are in China, you have so many Chinese around you. I believe you can answer this question yourself.

(Laughter)

But I want to add to your potential reply. One, military-wise, I'll just give you two figures. In China, the total military budget is less than 10 percent than that of your country. And in per capita terms, it's less than 1/60. But, more important than that is: China is a country with a tradition of peace loving, and we need peace.

Energy-wise, China mostly relies on its own supply of energy source. For example, China is now the world's biggest coal producer. Naturally, we important crude oil, but, according to President Hu Jintao and the Premier Wen Jiabao, the biggest source of China's energy is to practice economy in the use of energy. We will do that. We will learn high-tech methods that the increase efficiency of our oil use, from you and from countries like Japan, and so forth.

I don't think people in other countries have any reason to worry about the so-called China threat, which has never existed, and will never crop up—except for those very tiny number of people who perhaps have ulterior political motives. I don't think there is anybody like that—at least in this audience. I thank you very much.

DR. WANG: Professor Li, thank you very much for your clear and comprehensive statement of China's external policy. You do us a great honor by being with us today and talking to us. On behalf of all of us, I wish to give you a small token of our appreciation. Thank you very much.

MINISTER LI: Thank you very much.

(Applause)

I was in the States for six years, so I have learned something from my American friends. That is to let your friends share your joy by looking at the gift you happen to receive.

(Laughter)

Another thing is for self-protection. To ensure that that has nothing to do with a so-called political contribution or things like that.

(Laughter)

Thank you.

(Applause)

DR. WANG: Thank you all. I think the lunch is closed. All of us will move to the meeting hall and continue our session.

(Recess)

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

AN EMERGING EAST ASIA
AND THE NEXT AMERICAN ADMINISTRATION

SESSION FOUR: THE 2008 U.S. PRESIDENTIAL ELECTION

A KEYNOTE ADDRESS BY THOMAS MANN

A joint conference with the Center for International and Strategic Studies,
School of International Studies, Peking University

Wednesday, November 28, 2007
Peking University, Qiulin Lecture Hall
Beijing, China

Transcript prepared from an audio recording.

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WANG JISI: [In progress]...Dr. Tom Mann. I think we all have the description of his career, so I don't need to read it. What I've heard from many of my American friends is how much they are impressed with the accuracy of his predictions. So, we will know after the election how accurate his predictions are today. So please, Mr. Mann.

(Applause)

THOMAS MANN: The accuracy depends upon me predicting the outcome of elections that have already passed. Just for the record.

Let me say how pleased I am to be here with you. This is my first trip to Beijing and to this great university since 1985. I've been looking around for something I can recognize, and I haven't found it yet, but I still have several more days to go. It's also a pleasure to see once again a number of the CNAPS fellows that I had occasion to speak with at Brookings in Washington. It's a real pleasure to see how you have enjoyed your time at Brookings in Washington, and how you have come back to Asia and developed such interesting and constructive careers here.

Now given the assignment from Dean Wang, I was tempted to switch it immediately. Why talk about the future U.S. elections when we can talk about the recently concluded Australian elections? I have to tell you I've become a genuine student of Australian politics and elections, having made five trips there in recent years and having met Kevin Rudd first in 2000, and then subsequently at least a couple of times a year since.

It's a fascinating election, a huge swing in Australian terms. Six percent of the national vote, it looks as if the seat swing will be 28, when only 16 were needed to claim the government at a time of economic prosperity, something that is virtually unprecedented. Not just in Australian politics, but in politics more generally, there is something about people wearying of governments in place for extended periods of time. There also is a sense of change. One of the curious things that we saw in Australia was the overwhelming support among the younger cohorts for Labor in this election.

We're seeing something similar in the U.S. where, say, if we go back to the Reagan era, Republicans were doing very well with young voters, but now over the last half dozen years, and picking up in intensity, the young voters are swinging rather dramatically to the Democratic Party, which adds a whole new set of issues. Many that have been discussed at this conference this morning are coming to the fore.

But alas, I will forgo the opportunity to analyze Australian elections, and instead talk a bit about what's happening back home in the United States. In the time I have I'd like to speak briefly about the broad political environment in the States at this time, then something about the structure of the presidential nominating system. I'll then turn to the contest for the Republican and Democratic presidential nominations, and conclude with some observations about the general election in November, hopefully

setting the stage for the panel this afternoon to talk about some of the policy consequences of a possible change in political regimes in Washington.

Now I give you advance warning. I, especially after that introduction, have less confidence in forecasting the outcome of the nomination battles than I do in forecasting the general election outcome. Now you may say, well how can you do the latter without having decided the former and knowing who the candidates are? It's because I've decided that since the generic Democratic candidate runs so strongly in the polls against the generic Republican candidate—with a double digit lead—that whoever is nominated will wear a cloak over his or her head and run as the generic Democrat, therefore we won't have to know anything about the qualities of the individual candidate.

Laugh, I'm kidding. Don't take that seriously.

Okay, first a bit about the broad political environment. It's a bit of a downer. There's a toxic public mood in America at this time. We are setting records for the percentage of the public that believes the country's off on the wrong track, definitely not moving in the right direction.

We have our current president, George W. Bush, who has had an extended period of job approval ratings under 40 percent. He will within a matter of weeks best the low point of Richard Nixon in that regard and if he stays anywhere near where he is, before leaving office he will break the all time record of Harry Truman in the period from 1950 to 1952 during the Korean War. Not to worry, it's not just the president. It's the Congress that, in spite of the dramatic changes that we saw in the last mid-term election in 2006, is really suffering from low approval ratings.

The Congress's job approval ratings have moved below 20 percent, hitting historic lows. I think this means that neither the president nor the Congress will be invited to speak at Columbia University. It's gotten that bad. They may be able to handle Mr. Ahmadinejad, but not the two main branches of our government.

The country is mired in an exceedingly unpopular war. The recent surge and decline in violence is reflected in some upturn in the assessments of Americans about the level of violence and how things are going, but not an inch of movement on their belief that we ought to remove our troops as soon as possible based on the very low assessment of the job the President is doing on the prospects for achieving victory.

Economic insecurity, in spite of a healthy macroeconomic performance as Barry Bosworth discussed this morning, is high. The consumer confidence measures are plunging, the sub-prime mortgage problem, the high energy prices, the continuing healthcare cost escalation, the lack of real wage gains, and now growing concerns of macroeconomic distress. Namely, recession and unemployment has created a real sense of pessimism among Americans. At the same time they are disheartened by the scandals that have riveted through American politics in recent years and are genuinely discouraged by signs of incompetence on the part of government from Iraq to the Gulf Coast and

Hurricane Katrina.

All of this occurs in the context of a deep ideological polarization between the political parties that has developed over a period of years, but it has taken on a sort special character and definition in the last several years. Something the public has contributed to, but deplors at the same time.

So that's the public mood in this context. I do not see anything akin to what Ronald Reagan did in his last two years in office or what Bill Clinton did following the Democratic Party defeat in the 1994 elections; that is, an effort to acknowledge the outcome of the election and move toward some level of accommodation with the other party that controls the Congress.

Instead, we have a lame duck president governing in a very partisan fashion. We are engaged in a set of symbolic appropriations battles. It's called patrolling at the margins, in which we fight over miniscule numbers relative to re-estimates of the cost of the wars in Iraq and Afghanistan, and certainly nothing compared to the additional debt burden the country has each year as a consequence of adding roughly \$4 trillion to the national debt over the last six and half years.

As a consequence we don't get serious engagement on real problems because there is such a lack of trust. The trust issue came up in our discussions this morning. Now it is between a Republican president and Democratic Congress, and there is none. The Democratic majority in Congress is frustrated by its inability to change the course of the war in Iraq, and by the fact that the President will win his symbolic appropriations battles ultimately due to the Democrats' inability to move in a fashion they would like on intelligence oversight and with some of their priorities, and finally they are certainly frustrated by the low job approval ratings they are getting. So it's not the environment that leads the public to begin to think better about the performance of their government.

One other change in the political environment that is very important, something we have talked about for a number of years back in the U.S., is the "50/50 nation." The parity between the parties that has developed at every level of government—federal, state, and local—is evident in elections to the White House, to the Congress, showing narrow majorities and occasionally disputed elections.

We have, with little notice, moved off the position of partisan parity to one of Democratic advantage. What was roughly a country divided equally between Democrats and Republicans now shows an advantage of 10 to 15 percentage points for the Democratic Party.

If you ask people which party is best able to handle serious problems confronting the country, Democrats have double digit leads on most matters. Even in the area of foreign policy and national security, where Republicans' strong advantage has paid substantial political dividends in recent elections, Democrats have now equaled or

moved to a position of slight advantage. It's only on terrorism where republicans retained an advantage, but it's moved from 20, 25, 30 percentage points to less than five.

All of the polling information shows that generic votes for the president and Congress produce double digit Democratic leads. If you look at the nature of a party coalition, you will see young voters, Hispanics, the well-educated married women are moving into the Democratic ranks, and that some of the longtime stalwarts within the Republican coalition including religious conservatives are beginning to discover agendas beyond the hot-button social issues, and are very much concerned about AIDS and climate change, as well as a host of other non-traditional issues.

Finally, if you look at states, you will see Democratic gains in Virginia, Colorado, New Mexico, Ohio, New Hampshire, and Iowa that have not been matched by losses in other states where there are Republican gains. That is the structure of the party system, and it has tilted over the last six years in a Democratic direction.

Yet these changes are still modest—not overwhelming, and nothing like the New Deal Coalition. We don't know how permanent these changes will be. Clearly, it was driven in part by the unpopular war and the performance of the Bush administration, nonetheless it becomes sort of distinctive—a commentary on a first analysis of the Republican Party quest to build an enduring majority. That effort has failed. It is over. The Republicans, in my view, will decline more before they will be able to rise up again to compete for that position.

Now let me say a few words about the presidential nominating system. You have heard many times that this is a historic election, the first since 1928 in which there is no incumbent president or vice president competing for one of the party nominations, making contests in both parties remarkably open. I want to qualify that and will in a few minutes when I talk about the Democratic race, because I think Senator Hillary Clinton is as close to an incumbent vice president seeking the nomination as you can get without being an incumbent vice president, but that's another story.

We have an uncertain and front loaded schedule; only last week did New Hampshire set its primary date. It will be January 8th, five days after the Iowa caucuses on January 3rd. In the old days we used to have three weeks between Iowa and New Hampshire, and then some time before the other events.

Instead, after these two events we will have a rapid succession of events in Michigan which is breaking both party rules, the Republicans' South Carolina primary then Florida, where both parties are breaking the rules. We also have the Nevada caucuses built in for the Democrats, which is part of the system, and then what we call "Tsunami Tuesday," the February 5th event, during which at least 20 states will be holding their primary or caucuses to pick a nominee.

An incredibly early start to the process this time with the exception of Fred Thompson who meandered into the race a little late, but the others understood the

necessity of getting up and running, raising money and being in a position to concentrate fully on the early events once the formal process began in earnest.

The fundraising has been unprecedented. The amount of money the candidates have been able to raise, of course, is made easier by the fact that virtually all of the serious candidates have opted out of the nominating matching public financing grants and therefore have no spending limits to live with. As a consequence we've seen Hillary Clinton and Barack Obama on track to each raise \$100 million in the calendar year before the formal events. Had they stuck with public financing their limit would have been just over \$50 million for the entire process.

One important sign in the fundraising is that Democrats are substantially out-raising Republicans, another indicator in that this is shaping up to be a Democratic year. There is lots of talk and focus on the issues, but it's very important to recognize this reality.

Virtually all of the serious Republican candidates, setting aside Ron Paul, agree on the agenda, and on the issue positions, and almost all of them embrace the positions taken by President Bush during his term. That is to say that the electorate will not have issue differences with which to choose a Republican nominee. This is similar on the Democratic side. There is relatively little difference between all of the six serious Democratic candidates for the presidency. Yes, we get some arguments, but much of it is rhetorical. Even the populist rhetoric of John Edwards goes well beyond the substance of most of the proposals that he's absolutely pushing.

So there's little difference among Republicans on the right, and little difference among Democrats on the left, but the gulf between all of the Republicans and all of the Democrats is striking. It is as if there's a different world, a different agenda on what issues are important and what actions ought to be taken to deal with the problems that confront the country.

My final point here is that an early resolution of both nominations is possible. I can spin you a scenario starting at Iowa that leads as it often has in the past to an early front runner who uses the momentum and the opportunity to wrap up the nomination by the time the first group of delegate rich states weigh in, but this is not inevitable.

I can also spin you a scenario in which the majority of the Republican side is still present by February 5th. I can also create a storyline for the Democratic race in which two major candidates manage to stay in the race and have the resources to make February 5th an interesting day of balloting in America.

Now let's look at the Republican contest first. I'm going to try to be as analytic as I can and use indicators of what Republicans and the public think. This is a relatively weak field of nominees that has generated relatively little enthusiasm among Republican voters. The contrast between the Democrats' happiness with their choices

versus Republicans has been present all year, and continues as I speak. None of the candidates has been able to unite party factions; each of them has at least one and often times several problems within their own party and problems looking ahead to the general election.

Rudy Giuliani has maintained a stable but modest lead in the national polls for sometime, but is an accident or a bomb waiting to explode? This man has so many vulnerabilities. In fact, I like to say Rudy just got some good polling news from his staff. They told him he was up to 50 percent support, unfortunately that was only in his family. One wife with him, two kids against. Rudy has a very complicated personal and professional life, and his entire reputation rests on success in reducing crime in New York and being present in the hours and days after 9/11. But we are going to begin to see the other candidates, in the press, pull out his very strong statements in support of choice on abortion, of same-sex civil unions, on gun control; that's part of the problem. But the other problem really goes to his leadership style. To his friends and enemies, as the line goes, "either you love Rudy or he hates you."

It's an interesting perspective on the candidates, but there really is a problem of loyalty, of cronyism. He was a very polarizing mayor, especially in his second term, and as Joe Biden said, all of his campaign speeches begin with a noun, a verb, and 9/11. That even made it into his piece in *Foreign Affairs*, on his foreign policy. So there's a man who is in the lead, but has the potential at any point to absolutely self-destruct.

Mitt Romney, who looks like he's straight out of central casting to be president, is an impressive individual. He's bright, articulate, he built an amazingly successful career in business, he bailed out the Salt Lake City Winter Olympics, he managed to get elected governor of the Commonwealth of Massachusetts and pass a major health reform bill. He's rich, he's using some of his resources. He's well organized, he's very disciplined.

The two problems are: one, he's a Mormon. It turns out that prejudice in America is declining toward women, toward racial minorities, African Americans. There are only two that remain. One is against Mormons; somewhere around 30 percent could never imagine electing a Mormon into the White House. The other is against seculars. Only five percent could imagine a secular person in America being elected president.

Romney has a scenario that all depends on his early investment and work in Iowa, New Hampshire, and South Carolina, which would then catapult him into the lead for February 5th.

I remember chatting with Fred Thompson some months before he entered, and I said there sure is a vacuum in the field. I can imagine why you are thinking seriously about it. Thus far he has underwhelmed those who have watched his campaign, and while something is always possible, it hasn't happened yet.

John McCain began as a frontrunner and was immediately uncomfortable. He spent too much money. He spent too much time defending positions of the administration, and lost all of the appeal that he had when he ran as a maverick in 2000. His campaign appeared to collapse over the summer, but he's recharged it and his hopes hinge on the other candidates collapsing before New Hampshire, allowing him to move into the lead there, and then going on from there. It's a long shot, but it's not impossible.

Finally, good old neighborly Mike Huckabee, who I think is the most attractive, interesting, and engaging of the Republican politicians running. But he has raised no money, had no organization or campaign staff, but now, partly as a consequence of unhappiness with others, has emerged as a real factor in the nomination.

Given that array of candidates, what sane analyst would confidently predict the outcome? Who could really imagine how this is going to come out? I can't. I can paint a scenario for Mitt Romney, so if I had to pick someone I would pick him, but the probabilities would be well below 50 percent. Romney still has the most likely prospects beneath Giuliani, in spite of all the frailties I talked about. Just as on the basis of the kind of bluster and toughness on terrorism and crime, Giuliani could overcome the obstacles and work to a plurality lead. I also think John McCain could resurrect and become a force.

So the contest remains wide open: hold your fire. Why do we have to predict these things in advance? We live through a whole year of campaigning, let's enjoy the act of voting or participating in caucuses by real Americans and see what they have to say.

On the Democratic side, as I said it's a relatively strong field satisfying the rank-and-file Democrats. All of the major candidates are broadly acceptable within the party. If you're going on experience and résumés, it's the second tier that ought to be the first tier. It ought to be Biden and Dodd and Richardson leading not following, but none of the three has been able to break out at all—even though we have awarded the debate points to Joe Biden more than any other candidate during this contest, and he's been so effective in giving one word answers thereby upsetting the expectations of the viewing press.

It seems to me that this race has throughout the year been exceedingly stable. Hillary Clinton has dominated from the beginning, as I said she's closest as you can get for being an incumbent vice president. She's very well known, not just among Democrats, but in the country as a whole. Her negatives are unlikely to get higher, because everyone who doesn't like her knows her and is happy to speak on it. She is smart, savvy, tough, and disciplined. She really has run quite an effective campaign, which is evident in her large lead in the National polls.

Even so, she faces a candidate, Barack Obama, who is very unusual—and it's not just his youth. We've had younger candidates who've moved into the White House—Teddy Roosevelt and John Kennedy—but he looks 20 years younger than he is.

It's kind of hard to demonstrate the gravitas on foreign policy and pass that threshold test by looking so young. And yet, he's clearly a very intelligent, articulate, inspiring candidate, who on the basis of his fundraising became a sort of instantly serious first tier candidate, but then plateaued in the national polls for a long time at roughly 25 percent.

John Edwards became known, of course, from his candidacy in 2004 and his being the running mate of John Kerry in that general election. He's been running for president ever since. He has a standing in the polls, but it's 10 percent. He's raised less money, and it appears that he will forgo the opportunity to raise unlimited sums because he can't take public financing that puts him in a distinctly disadvantageous position.

We don't have a national primary. The national standing in the polls matters only so long as it gives candidates the lead in the early events or the strength to rebound from an early, early defeat, and that's what makes the Iowa and New Hampshire events exceedingly important.

Obama is the best organized in Iowa. I think, as Anne-Marie said in our conversation, he's taking advantage of his organizing experiences in Chicago. It's formidable, he's invested the time. His strength as a candidate is that he connects with the zeitgeist of the times which is, God it's ugly the way the partisan teams are fighting one another, can't someone bring us together?

As I said Richardson, Biden, and Dodd are going to fold their candidacies soon. I don't know whether they'll stick on until February 5th or not. Richardson has raised more money and spent more money on Iowa and New Hampshire, and he shows up, but the chances of approaching the others is really slim. The strengths of the candidates I think are known. I've mentioned both. But there are weaknesses too.

Hillary is seen as somehow too calculating and too polarizing. Barack Obama is too inexperienced and too gentle. I say too gentle, because while we don't like the ugly atmosphere in Washington, Democrats are mad and they want to get even. They are prepared to talk about bipartisanship and accommodation only after they deliver an electoral shellacking of the Republicans, and they want to be sure that Barack Obama is up to the task.

We have a fascinating campaign of surrogates going on now. Some of you may have seen it on CNN. Oprah Winfrey is in Iowa campaigning for Barack Obama, Bill Clinton in the same state campaigning for Hillary Clinton. As you know Bill Clinton is sometimes called America's first African American president, and now here he is campaigning against the first real African American campaign.

What I would say is that the odds still favor Hillary Clinton. She has the strength, her national standing, and the resources to absorb an initial loss to Obama in Iowa. If she were to win that decisively, it would be very hard for him to break through in subsequent states. But the way it's shaping up, my guess is it's going to be at least a mixed outcome continuing the race to New Hampshire and Nevada and South Carolina,

and then February 5th.

Meaning: relax. This is going to be a more interesting contest, not a coronation within either party, but between the parties. The Democratic contest has more shape, stability, and a bit more predictability than the Republicans.

I conclude with a few observations on the general election. There are those who believe that Iraq will recede as an issue given the fact that the president and General Petraeus have already committed to reducing troop levels. In fact, in July of next year we will be back to where we were in January, before the surge actually began. And if my instincts are correct, when Petraeus comes to the Congress to report in March he will say that the surge is working. We will deliver on the promise to remove those additional brigades, and we're going to be able to make some additional reductions after that.

By the time the next president is coming into office we may be down from what is 160,000 troops now, to possibly 100,000 troops. Now that becomes a little more difficult if in fact the level of violence increases immediately upon the withdrawal of U.S. troops. Since it's resulted from many factors other than just the additional troops, it may be possible that it could diminish the war in Iraq as a major issue, but it's already factored in. It accounts for people's pessimism about the country, for the low ratings given to the president and the Republican Party, and therefore will be an obstacle even if it isn't dramatically discussed.

What replaces it are broad concerns about the economy. Based on macroeconomic performance, we now anticipate a serious slow-down in the fourth quarter of this year, and a possible recession next year. Gas prices are unlikely to go down and could go up. In addition, there are all of the insecurities about being able to change jobs and having access to affordable healthcare. To have some confidence in one's pension. To cope with no real wage gains over the last six years will very much come to the fore and be the mega issue. I would argue that healthcare within that cluster will be exceedingly important.

Republicans certainly hope that immigration will emerge as an issue. My own belief is that those Democrats in districts where it's problematic will talk tough about borders and border security. Presidential candidates are likely to be a little wary and give a little more rhetoric to sealing the borders, but they will at the same time respond to questions that support the broader comprehensive approach to dealing with immigration. Basically, they're not going to talk about it unless forced to. They will keep the focus on Iraq, on the economy, and on the problems of incompetence.

I end with this series of questions. There are signs that a conservative movement—built around the three pillars of tax cuts, moral traditionalism, and an aggressive nationalism in world affairs—is coming to an end. That the linkage to the problems that we confront and the sentiments and orientations of ordinary voters no longer connect with those issues, and if anything, Democrats have the agenda advantage.

So the question becomes, will the Republican nominee be able to break with President Bush enough to be competitive in the general election without demoralizing the Republican base?

They are walking a very tight line. If you read the *Foreign Affairs* pieces you will not see the words “George W. Bush” mentioned by any of them. It’s as if he doesn’t exist. Still, they don’t depart from any of the positions he’s taken, except McCain criticizing the way in which he’s managed some aspects of the war in Iraq. So it becomes very tricky. Can they make that movement? If this election is a referendum on George W. Bush, it would be a landslide if even I were the nominee. I mean, that’s how distinctive it would be.

What could derail a likely Democratic victory in the presidential election? A military strike in Iran, a successful terrorism incident in the United States? My guess is everyone looks for “October surprises” that never develop. It’s the nature of surprises. You can’t predict them, and when you try to they almost never are realized. What I suggest is that the issue agenda is so favorable to the Democratic Party that the only chance the Republicans will have is to undermine the credibility of the Democratic nominee. That will be the focus of their campaign for the most part, because the country is looking for change and difference, and only if the general public is scared into believing the Democratic nominee is not a safe choice would the election produce anything other than a Democratic victory.

Given that, I expect fully that Democrats will win the election. To anticipate your question, yes—Hillary Clinton. The first really major female candidate with a possibility of winning that, in spite of her polarizing quality, can win a general election. As could Barack Obama be our first African American president. Given the strong partisan feelings it’s unlikely to be an overwhelming victory, but it’s not implausible that a Democratic candidate could win 52, 53 percent of the popular vote which would produce a substantial victory in the Electoral College.

Similarly, Democrats are almost certain to pick up seats in the House and the Senate. We’re getting retirements. I heard yesterday Trent Lott decided to the surprise of all of his colleagues to retire by the end of this year. There are many opportunities for Democrats because of retirement announcements by Republicans in both the House and the Senate. Democrats are razing the Republicans and their party committees. It looks like a banner year for them in spite of the low approval ratings of Congress.

It turns out the electorate still tends to focus on the party of the president and that’s the basis on which they make their judgments about how well the government has governed. Now if I’m correct and there’s a new unified Democratic government, the question is can they govern and how would they govern? That’s a really interesting and important question.

In conclusion, I want to say two things. One, virtually all of the serious

issues that confront us can't possibly be dealt with under narrow partisan majorities. It just can't happen. So the new president will have to have a strategy of trying to begin to breach the ideological divide and create the condition under which substantial numbers of Republicans in the country and in the Congress would come together with him. That means engaging in serious negotiations with groups that often allied themselves with the Republican Party. You can see this beginning to change on energy and climate change policy, as well as with healthcare policy, but it will be a real test.

A final point to return to, China. It's been a fact that in four out of the last five presidential campaigns the successful candidate has said unfortunate things during the campaign that have lead them to take positions in U.S.-China relations that created difficulties for the two countries in the first year or so of their administrations. That could happen again. The 2008 Olympics might be the occasion for it. If there are lot of protests, there may be a strong refocusing of attention on human rights. Focusing attention on trade imbalances, it is possible that candidates at both party conventions, which immediately follow the Olympics will be inclined to respond in ways that would not be especially helpful.

On a more positive note, if you read through the campaign statements made by most of the serious candidates, I would argue it's actually rather more encouraging than that, and every once in awhile we learn from the mistakes of our predecessors. One can only hope. Thank you.

(Applause)

DR. WANG: Thank you very much Dr. Mann for this excellent analysis of the current political situation. We will have questions and comments after the next session so that we can save some time.

(Recess)

THE BROOKINGS INSTITUTION
CENTER FOR NORTHEAST ASIAN POLICY STUDIES

AN EMERGING EAST ASIA
AND THE NEXT AMERICAN ADMINISTRATION

SESSION FIVE: U.S. FOREIGN POLICY UNDER THE NEXT
ADMINISTRATION

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WANG JISI: The next speaker should be Ivo Daalder, but he's absent for some other event, so he has given some remarks to Richard Bush.

RICHARD BUSH: Ivo very much wanted to attend, but had to stay in the United States for sudden personal reasons. He did send me his remarks and I will summarize part of it and read another part. The title of his remarks are, "American Foreign Policy in 2008 and Beyond." Let me make several points.

Point number one. One year before he leaves office, President Bush is a spent force, an exhausted force. The American public has given up on the president with barely a third of Americans approving of the job that President Bush is doing. A large majority of Americans long ago concluded that George W. Bush was a failed president.

Point number two. There are many reasons for this state of affairs, but none is greater than the war in Iraq. Like the rest of the world, most Americans now believe that the war was a mistake. They want it to end, and they want American troops to come home. President Bush on the other hand is unwilling or unable to see that his policy has failed.

Point number three. Meanwhile, President Bush has sent out Secretary of State Rice to try to rescue the legacy of his foreign policy. Her immediate focus is to negotiate a peace between Israel and the Palestinians, starting with the Annapolis Conference taking place this week. North Korea represents Secretary Rice's other attempt at rescuing Bush's legacy. It's a measure of the disaster of President Bush's foreign policy that in both the Middle East and North Korea the administration is claiming possible successes by returning to the situation that existed when it entered office seven years ago.

Point number four. A looming issue is the uncertainty over Iran. Many people wonder whether a military strike by the United States will occur. President Bush and Vice President Cheney have talked in a tough way. Ivo believes that although this possibility of a military strike cannot be excluded, he is not convinced that it will occur. President Bush faces real constraints on his ability to forge ahead. Senior military leaders oppose the idea of attacking a third Muslim country, especially one that can do great damage in Iraq, Afghanistan, and the Persian Gulf. Congress would be a far greater obstacle than it was in 2002, and the media should be more inclined to examine the public case for war than it was before the war in Iraq. None of this assures that there will be no war in Iran, but it does make Bush's decision far less certain than many now assume.

Final point. The real foreign policy battlefield in 2008 will be in the United States itself, where the race to replace President Bush has been underway for many months. Foreign policy has become the most divisive issue in the election. There are differences among both Democratic and Republican candidates, but the real difference is between the two parties. The two parties are presenting voters with a clear

choice between two very different and clearly competing world views. For Republicans, the terrorist attacks of September 2001 represent the organizing principle of their view of the world. 9/11 revealed that there was a new enemy of the United States, Islamic terrorism. Like the fight against fascism and communism before, the Republicans believe, this new confrontation is an ideological fight between opposing forces of democracy and despotism, which can only be won by the complete destruction of the enemy.

Once more, America is called upon to use its military might to defeat this new totalitarian foe. All of the major Republican candidates agree that America is a nation at war, and all of them are fully committed to fighting and winning the war against Islamic terrorism. That is what American national security policy must be about, they say. Everything else is secondary—no matter whether it is trade and financial stability, relations with allies in Asia or Europe, resolving conflicts in Africa or the Middle East, or addressing other global challenges.

For Democrats, on the other hand, the terrorists' attacks represent something very different. Not just that there were evil people determined to do Americans great harm, but that we now live in an interconnected world that makes it possible for these people to do so. From this perspective the defining feature of our world is that developments anywhere can have profound consequences everywhere. Terrorism is only one of many challenges Americans now confront at home as a result of the world having come to America. These other challenges are deadly diseases, massively destructive weapons, catalytic climate change, bad food, and poisoned toys. These are all things that Americans must worry about. All of this means that Americans must understand that their security, prosperity, and even their freedom now depend on the security, prosperity, and freedom of others. It isn't, in this view, about defending a deadly foe on our own. It is about building a better world together with other nations.

These are profoundly different perspectives of the world and America's role in it. They represent opposing paradigms of international politics. While Americans will determine which of these two visions will occupy the Oval Office come January 2009, the rest of the world will have to live with the consequences.

The triumph of the Republican worldview will represent an attempt to continue Bush's main policies with regard to terrorism, Iraq, and other issues. I—this is Ivo speaking—fear it will likely leave the world more distressful and alienated from America, and America more alone in such a world. Still, the triumph of Democrats will also create problems for the world. It will likely raise great expectations among Americans of the rest of the world, taking on much more of the responsibility of addressing the global challenges that confront us all.

Yes, America would now have to do more to combat climate change, reduce reliance on nuclear weapons, engage in active diplomacy and resolve conflicts, and reduce barriers to trade and investment, but so will the rest of the world where there are many who have used America's inaction in recent years as an excuse for not making

hard choices of their own.

The reality is that the global challenges confronting Americans also confront people in Asia, Africa, and the Americas. We are in this situation, all of us, together and we will have to forge together the structures and policies of cooperation that will make it possible to confront them successfully. Thank you.

Applause)

DR. WANG: Our next panelist is Professor Michael Nacht from UC-Berkeley.

MICHAEL NACHT: Thank you very much. My topic is on defense and security perspectives confronting a new administration. I'm really going to speak as though what happens between now and January 20, 2009 has happened. So I am only going to speak beyond that.

I do want to make one process point in case you are not all familiar with this. In November 2008 there will be a presidential election. Presumably someone will be elected—it didn't quite happen that way in 2000, but usually someone is elected. When that candidate is elected and becomes president-elect, the next morning they have a whole stack of briefing papers on every subject imaginable that they had been using in the campaign.

Those briefing papers become the basis for the transition teams that are then established to create the plans for the new administration and between November and January 20th in the transition period. There's a lot of to-ing and fro-ing about those papers and revisions of those papers—actually most of the papers don't matter. There's a gigantic struggle that takes place for jobs, and people use these papers as really a kind of camouflage to get the job that they want, often not getting what they want.

So now you have a new team begin to take shape. On January 20th, with a new president, only the initial Cabinet members are usually selected and it takes several months and it could be quite a number of months before the sub-Cabinet officials are appointed. So the point I'm trying to make here is that a new administration has, what I call, a going-in set of policies that may be predicated on what the campaign was about, although these rapidly change for several reasons.

First, the people who are actually selected for the cabinet jobs may or may not have been involved in the campaign, may or may not have agreed with the campaign statements, and therefore they may begin to offer their own views and compete with each other. So already there's a distortion of the going-in strategy almost from the first week of the administration, because there is not a uniform agreement on what the policies should be. And that's true on almost every issue.

Beyond that, occasionally you have Congress, even very early on, sort of

causing trouble for the new administration, having its own ideas. Finally, and most importantly, the world is not asleep. The world changes, things happen. Almost immediately adjustments to the going-in position take place because the world does things unexpectedly.

To give you one simple example, Condi Rice, who was clearly a key foreign policy advisor to Governor Bush in 2000, wrote an article in *Foreign Affairs* in January 2000 on what the foreign policy of the new administration should be and I think she actually reflected what the governor, now president, and what the key advisors felt, which was a return to great power politics in dealing with Russia and China, and not dealing with what she called tertiary issues like Bosnia and Haiti and things like that.

In that entire article, very well crafted, terrorism was never even mentioned. Not even cited. It didn't exist. It wasn't that it was a fourth priority—it wasn't in the article at all because frankly, terrorism was not viewed as a central issue of American foreign policy that the Bush administration was going to have to deal with. Eight months later it became almost the sole issue that they were dealing with.

Now, maybe that only happens once in a great while. Hopefully we won't have another catastrophe like this in 2009, but it just goes to show that you can't guarantee—based upon what the candidates have been saying, what the people have been writing, even what they are saying—that this will really reflect what the policies are going to be.

What can you do? Well, you can try to think a little bit in a detached form, I'd say, about what are the core issues that will happen, to be confronted with no matter who's in charge, and in a way to some degree no matter what happens.

Let me just quickly go through a few of these because I know time is short. Let me focus primarily on defense and security. This is a conference, according to this banner, on "Emerging Asia and the Next American Administration." Well, I don't mean to be impolite, but I would say, from a defense and security perspective, Asia and particularly East Asia are what I would call at the moment secondary and derivative issues in U.S. national security. Now this could change tomorrow afternoon or it could change in February of 2009, but right now they're secondary and derivative. What do I mean by that?

Secondary: they're important issues, but they're not quite at the top of the list. I'd say the top secondary issue from Asia on the security agenda is, of course, the North Korean nuclear program. There has been some progress, but no one really knows whether this progress will be translated into concrete closure of the North Korean program. If it doesn't close down the new administration will be dealing with this and there could be a new crisis, not only in U.S.-North Korean relations but there could even be difficulties with China, because the U.S. sees China as the main body of influence on North Korean policy.

A second—what I call derivative—secondary issue is Taiwan. It's very important, but it doesn't appear to be ripe for real confrontation; we could have been discussing it in 1995 and 1991 and 1985 and 1978, in 1973 and hopefully we will continue to discuss it for the next 2,000 years and nothing will happen. This would be wonderful. I hope that nothing happens, that prosperity reigns everywhere, and not a shot is fired by anyone against anybody else.

But, as we know, governments make mistakes. I served in a government. Mistakes are made everyday. I made several myself, and people misread the motivations of others. So Taiwan is always lingering as a potential flashpoint in U.S.-China relations, but I would say at the moment, and going into a new administration, it will be viewed as a secondary issue. We do not have to resolve the Taiwan issue tomorrow afternoon, and no new administration is going to come in with the attitude that we do.

East Asia is derivative and China is derivative because Chinese influence on a number of other issues outside the region are very important. You know the list: the Iraq War, Iran in particular, and the imposition of economic sanctions on Iran, the Israeli-Palestinian issue, dealing with Islamic fundamentalism, and global terrorism. The declining security situation in Afghanistan, the rise of Russian authoritarianism and Putin taking on a new role as Prime Minister. He could be the chess champion, but he'll still be running the place.

Oil: oil politics and oil economics. Very importantly, Pakistan and the sort of perfect storm that Pakistan represents as both an ally, quasi-adversary, a Democratic regime, an authoritarian regime, anti-Islamic fundamentalism, harbors fundamentalist terrorist, with nuclear weapons. It has everything. Pakistan checks every box of American national security.

These are all huge issues that are not centrally involving China and East Asia, but China has a role to play in almost every one of them. Frankly, it is seen in the U.S. that China, and Russia to varying degree, uses the U.N. Security Council and the threat of its own veto as a way to contain American influence. Whether this might modify in the future years, I don't know, but the inability of the U.S. to really move forward its own policies through the Security Council because of the known anticipated veto power of the Russians or the Chinese and sometimes of the French is an irritant in U.S.-China relations.

These are all issues on the agenda. There's a separate American defense issue, which is the straining of the American Army and the American Marine Corps because of multiple tours in Iraq, and because of the declining situation in Afghanistan. And the notion of opening up a third front with a strike in Iran which, even if it doesn't initially involve ground forces, could ultimately involve ground forces. This seems kind of far-fetched given the current state of the American military.

Finally, let me say a few words about the U.S. defense community's views of the China military situation. Without going into a lot of detail, I would say this. The

notion that China is on the brink of developing a sort of power projection force that's going to kind of emulate the Japanese in the 1930s, is only viewed by a few sort of very recalcitrant characters in the Pentagon, who I don't think have a lot of influence and won't have a lot of influence no matter who is president. What is of concern is what appears to be a kind of smart Chinese strategy of investing in high technology to counter American capabilities in the event there ultimately is a conflict with the U.S. over Taiwan. I will just cite two of them.

One is the emerging anti-satellite capability of the Chinese represented in their recent tests. The second is very, very sophisticated and extensive cyber warfare capability against the United States. These are large issues and we could have multiple-day discussions on each of them, but it shows a Chinese military strategy of asymmetric warfare in anticipation of a possible conflict with the United States.

There are a number of other issues that could cause more frictions in U.S.-China relations that I don't see rising to the top of the heap of security issues. Most recently, it has been the continuing human rights issue. I don't know how many of you are aware of this, but there was quite a major, almost theatrical event in Washington. There was a hearing chaired by Congressman Lantos of California in which Jerry Yang, the president of Yahoo, was excoriated for permitting Yahoo to acquiesce to Chinese rules, regulations, and pressures, which led to the incarceration of a figure here in China. This is not a winner in improving U.S.-China relations. This is definitely a poisonous development in U.S.-China relations, whatever your views about it.

Kyoto, climate change: the inability of the Chinese to be any more willing to behave properly in energy terms than the Americans are—which is terrible. This is an issue and it probably will change under the new administration, because the new administration is going to shift from the Bush policies on climate change. I think almost any administration will do that. Then the U.S. and China will not be in sync on energy policy. You will have a view that we will be considered as not being helpful.

And third, as former Foreign Minister Li cited, trade issues and the currency issue. There are economic frictions here that are important, but they're not first-order security issues. The future of the new administration, I think, in terms of U.S.-China relations will be engagement, in every way it's been really since Nixon: economic, political, security, educational, technological. Hopefully we'll both be beneficiaries of all this. Again, this is just a snapshot about what will happen in the future based upon today, and we know that tomorrow there will be new developments, none of which I've cited, which could change everything I've said. Thank you very much.

(Applause)

DR. WANG: Thank you very much Professor Nacht. I think we can go directly to China-related issues with Frank Januzzi.

FRANK JANNUZI: Wang Laoshi, xie xie ni. We have all been listening

to presentation now for an hour and a half, and so I would ask you to join me in standing up and stretching so we can all refresh our brain. I am going to stand up and invite you to all stand up.

DR. NACHT: That's a great idea.

DR. BUSH: Hear, hear.

MR. JANUZZI: Okay. I feel better. This is what I learned teaching at Keio University last year, because I had to teach a three-hour seminar after lunch, so after one and a half hours we always had to take a little xiuxi period.

It is my great joy to be back in Beijing. The first time I was here was in 1984 as a foreign student. I visited Beida at that time and there has been big change and I am so excited to see what is happening in China. I'm especially delighted to be back to talk about the next U.S. administration.

For me as a Democrat to even say the words "the next U.S. administration" brings joy to my heart. I don't care if it's a Republican administration or a Democratic administration—still to say the words makes me happy. I hope that maybe this time I will get to vote for a winner, because usually I cast my vote only for the losing candidate. I hope that this time I will have an opportunity to cast my vote for a winning candidate. I very much enjoyed Mr. Mann's presentation, and I agree with his analysis of the electoral prospects for the Democratic Party in November.

I would add briefly two points. One is that the American people are not only unhappy with the situation in Iraq, but also with the corruption of this administration. I think that this administration will probably go down in history as the most corrupt U.S. presidency in history, both in terms of the number of people who were arrested and convicted of crimes, but also in terms of the sheer scale, the sheer volume of the corruption in terms of the dollars that have been stolen from the American people.

I think the American people probably will be sending a Democrat to the White House, but this will be a great challenge for any future president to the world that the next administration is going to have to manage. I should declare that my boss Senator Biden is one of the Democratic candidates, so I am a partisan today. I cannot give you an objective analysis like Mr. Mann. He can give you a more balanced, objective opinion.

I would say the one difference I have with Mr. Mann on his analysis is that I think there are some big differences among the Democratic candidates in terms of their policies. Not only on their domestic policies, where they are on healthcare, where they are on education policy, but also on their foreign policy. Some of the Democratic candidates are much more protectionist, tapping into the feeling of economic insecurity that many Americans feel; and some of the candidates, like Senator Biden, are more internationalist and see the world more as a place of opportunity rather than as a place of fear and danger. I think there are differences, but I agree with all of his basic analysis.

I have been asked to focus on China and Asia, on what will be the next administration's China and Asia policy. I grew up in Austin, Texas. I went to the same high school as the Bush family, but I chose the wrong party so I am, thankfully, not a part of this administration.

In Texas we have a lot of rivers and we like to go canoeing. The canoe is a very good boat as long as the water is not too rough. If the water is very rough, then you need a different kind of boat. You need a kayak. A kayak is a very maneuverable boat and it has a cover on the top so that the water does not come inside. The problem with the kayak is that it is very hard for a kayak to go in a straight line because it has no keel. It does not have any line on the bottom of the boat to help keep you in a straight line because it is designed to be maneuverable.

Well, on Asia policy I think the Bush administration has done a little bit of kayaking, all right. They came into office in 2001. China was the next great enemy and we had the EP3 surveillance plane incident which dramatized the Cold War-style conflict between China and the United States. And the president of the United States said that he would do whatever it takes to defend Taiwan.

The United States was obligated to defend Taiwan, but then about six months later he kayaked—he took a big change after 9/11 because after 9/11 there were only two kinds of nations in the world for the Bush administration. You were with us or you were against us, and China was with us.

So suddenly China was a friend, a strategic ally of the United States, an invaluable partner in the war on terrorism and in the denuclearization later of the Korean peninsula. There has been some kayaking by Bush, but I think where he ended up down the river is not a bad place. I think the Bush administration's China policy is not bad. I think, in fact, that its Asia policy is not bad.

I would cite the notable exception of its North Korea policy which again, in the first six years, was a complete disaster. But now, finally, they sort of stumbled upon an approach that is making some progress.

The good news is that I believe the next administration, whether it's a Republican or Democrat, is going to be in a canoe. No more kayaking. No more kayaking. Stay the course. I don't anticipate major changes from the next administration.

So what will be the agenda on Asia? The DPRK nuclear program. This is the most dangerous situation, and I will predict that next year the situation will not be solved. I think that is a safe prediction. It would be almost impossible to solve this problem in the next 12 months. The next president, whoever they are, will inherit a world where North Korea possess 8, 10, 12, 15 nuclear weapons, and the means to deliver them. It's a very dangerous world because North Korea is not a country that is a responsible

stakeholder.

The first job of the administration in Asia is going to be to complete the job that Bush has finally started, and it will probably take the entire first term of the next president to accomplish this objective. They will be lucky to do it in four years.

I also agree with Professor Nacht. He said that the Asia issues in general are going to be secondary or derivative issues. I agree. In the United States today the joke about our foreign policy is we have three or four foreign policy priorities. The first priority is the Iraq War. The second priority is the Iraq War. Our third priority is the Iraq War. Maybe the fourth priority is Iran. Or maybe the fifth priority is terrorism and the Middle East. Where is Asia on this agenda?

Immigration is probably a higher foreign policy priority for the next administration than Asia policy. So after the North Korea issue what is the next issue in Asia? I think the next administration will have a focus, I hope, on regional economic growth and this will be a shift away from terrorism.

The United States has lost 7,000 people due to terrorism and the Iraq War. Four thousand soldiers, roughly, and 3,000 dead on 9/11. It's a terrible toll over the last five years. Even so, last year in the United States there were over 12,000 murders, so the terrorism issue eventually is going to be put in perspective by an American president. We kill many thousand more American people every year than are killed by terrorists in the whole world.

So I would hope eventually as the memories of 9/11 fade and as a president takes office based not on fear but on hope—and that's not an endorsement of Obama—that we will be able to move beyond and that's why I think that regional economic growth and regional integration in Asia will be an important priority in the next administration.

I think good governance in Asia will be a priority. This is a little bit of a modification of President Bush's idea of extending democracy. I think good governance and democracy are not always identical, not always synonymous. There are democratic regimes that have very bad governance. Prime Minister Thaksin in Thailand comes to mind. There are authoritarian regimes that have relatively strong governance and responsive governance. Singapore comes to mind.

I think good, responsive, accountable, transparent, democratic governance will be a priority, and then I think the fourth level concerns in Asia are going to be counter-terrorism, non-traditional security threats, proliferation, pandemic flu, disaster relief and so on.

I'm going to talk briefly about China strategy specifically. I recently participated in a bi-partisan 16 month long study group on China policy. The remarkable thing about China policy, as has already been said, is that China policy not really a very

partisan issue today between Democrats and Republicans. It's an issue between centrist, internationalist, pro-engagement forces in both parties, and the extremes of both parties who are either extremely concerned about a possible national security threat that would be posed by an ascendant China, most of whom are in the Republican Party. Or on the other flank, Democrats who are extremely concerned about human rights in China, about environmental degradation that is occurring in China and what it might mean for the world and who are deeply dissatisfied with the Chinese government policies in these areas.

So you have on the wings of both the Democratic Party and the Republican Party some pretty harsh critics of China and of China policy. In the middle you have a bi-partisan consensus that basically is in support of engagement. The outcome of our 16 months of work was a variation on the theme of China as responsible stakeholder. It was a slight canoe paddle to the left, but not a kayak swing to the left. We moved to a policy of China as a responsible stakeholder. That's really an outcome. To talk about China as a responsible stakeholder, that is the objective. It's the outcome.

But the question is what should be the U.S. strategy? How do we paddle there? What course do we take down the river to get there? And so we are advocating a course of integration. Integration. And what does that mean? It has three parts. Engage. Engage China. Now this is traditional engagement. Bilateral, U.S.-China. We discuss our differences, we have strategic economic dialogue, we have military-to-military dialogue. We have human rights dialogue, environmental cooperation, and energy security cooperation. Traditional engagement is one part of a strategy of integration.

Second part is what we call weaving. China is very good at weaving. Everything we wear is made in China. Woven in China. Weaving—this is the weaving of China into the international system. This process has already been underway for more than 30 years, but it's not finished. China is not a member of the International Energy Agency. China is not a member of the G8, but probably should be a member of the G9.

The integration of China serves two purposes. One purpose is to help China become a responsible stakeholder. The second purpose, frankly, is to communicate norms, to transfer norms, standards, and procedures from the international community to China for China's consideration. And if you agree that these norms are good and you want to be woven into this international community, then it serves our mutual interest.

The third element of the strategy that I think the next administration will pursue, no matter whether it is Democrat or Republican, is balancing. Some people call this hedging. I don't like hedging. Hedging is something you do in the stock market to protect your bet. The problem with hedging in international affairs is when you hedge in international affairs everyone can see you hedge. Right?

If I go to the horse track and I bet a lot of money on the favorite and I bet a little bit of money on the long shot, the favorite horse does not get discouraged. He

doesn't know that I bet against him. He's just a horse. How does he know where I put my money? In contrast, when you hedge in international affairs, if we start betting against a successful U.S.-China relationship, China sees us hedge, so China hedges too. Before you know it, you might have a spiral of action and reaction which can be very negative. Let's be real. China's future is uncertain. I don't know what China's future is.

Twenty-three years ago, when I arrived in Beijing, I saw the billboard that talked about the future is coming, and it showed Chinese people driving in private cars on the streets of Beijing. I looked at this billboard and I said, "Crazy. Absolutely nuts, it could never happen." I didn't see the future coming. I rode my bicycle 45 minutes from the northwest to Tiananmen, and maybe I did not pass a single private car.

And now, look at this. We have six ring roads, and maybe they will build a seventh one before the Olympics, I don't know. The point is that I don't know China's future. China doesn't know China's future. We cannot be certain about China's future, so there will be balancing. It's a kind of risk management, but it's not the same as containment. Some people think balancing is containment. Balancing is not containment.

Containment is when you deny trade; we are investing. We are one of your biggest investors and we are your biggest market. All right. Not containment.

I've already used up all of my time, Mr. Chairman. So I will stop there and look forward to questions later. Thank you.

(Applause)

DR. WANG: Thank you Frank for having kept all of us alert, at least for the time being. According to our schedule we will have to go to Yuan Peng, but I think we have an excellent participant who is not listed here. She is here with us today and we are very happy to have Anne-Marie Slaughter. She is Dean of the Woodrow Wilson School of Public Affairs –

ANNE-MARIE SLAUGHTER: Public and International.

DR. WANG: Public and International Affairs at Princeton University. She is taking her sabbatical leave in Shanghai, and we are very happy that she could join us. She is scheduled to leave early, at 4:15. So without further ado, Dr. Slaughter. After her speech we will let the Chinese have the final say.

DR. SLAUGHTER: Thank you. I'd actually like to begin by recognizing something that Americans, at least, take for granted. The dollar may be losing its place as the world's reserve currency, but English remains the world reserve language, and I would like to acknowledge that we have spent much of the day listening to Chinese, Korean, and Japanese participants all speaking in English. I sat there this morning thinking this is impossible in the United States. You could not find, even among foreign

policy experts, enough people to staff panels like this to speak in Mandarin, Japanese, or Korean. So I would just like to acknowledge my gratitude and my recognition of the luxury that we English speakers have and the effort that all of you in the audience for whom English is not your native language and on the panel. It is an extraordinary accomplishment, and Americans have a long way to go. That is one reason why my children are sitting in Shanghai learning Mandarin.

I think the period of the next administration, following Frank's locution, is an extraordinary period of diplomatic opportunity for the United States. When Condi Rice moved from national security advisor to secretary of state in 2004, she announced that this was the year for diplomacy. She was essentially trying to signal a shift away from her reliance on force and toward an emphasis on diplomacy. And in some areas she has been successful. I agree with Frank about the overall direction of the administration's Asia policy and China policy.

One of the reasons is that these policies are being run out of the State Department under Condi Rice and that she more or less has had a freer hand. In many other areas, as anyone watching U.S. politics can see, she has not had a free hand, so she's been trying to practice diplomacy, although she has had a number of major obstacles still in Washington.

I do not think the next administration will have that problem. I think there will be more unity on the value of diplomatic approaches, if only because we no longer have military options. We're going to be spending our time rebuilding our military rather than using it.

As I look around the world, I see tremendous opportunities particularly for the United States. Indeed, if you look at the polls, the popular sentiment is "America Go Home, we're very opposed to the United States." But if you talk to governments, what I hear and what I've heard very strongly in Asia over the last three months, is "America come back."

So let's start in Asia. We heard this morning from our very first presenter. It is very important that America be engaged in Northeast Asia. It is very important to have America engaged in part to create stability for Chinese-Japanese relations, for the Six-Party Talks. Obviously in Korea as a whole, having the United States as part of the region enables the other powers in the region to do lots of things.

In Southeast Asia, when I went to Singapore in October, there was a universal refrain from all of the members of ASEAN that I talked to, which was "America come back. We want you engaged in this region. We do not want you to ask us to choose between you and China. We will not accept that choice. That's not your role, but we do want you engaged in the region again, so that there is stability on the great power level, and so ASEAN can play the role ASEAN wants."

Even in Europe today we see a similar attitude at the leader level. Think

about European leaders today. It's Angela Merkel, Nicolas Sarkozy, and Gordon Brown; these are all new leaders. They are effectively saying to the United States, "Join us. Join us on climate change. Join us reforming international intuitions. Join us on working together in Africa and other places, so that we can put our two powers together."

In Africa, again, there is a lot happening. There are emerging African democracies. There are African countries that are starting to really grow economically. China has been very active in Africa. Many African countries are saying, "We also want the United States engaged here, on our terms. Not on the United States's terms or not on other countries terms, but we want the United States actively engaged. We also want China engaged. We want active diplomacy."

And finally, in the Middle East. The Middle East is our nightmare, but it is also the area in which we must be engaged, and an area that is desperate for creative diplomacy. As we sit here today, we will see what comes out of Annapolis, but even if Annapolis exceeds all our wildest expectations, it will only be the beginning of a diplomatic process. The United States in the honest broker role will play a critical role moving that region to some kind of stability and some kind of institutions. The Middle East is the least institutionalized region in the world.

There are very important opportunities for creative, sensitive, and skillful American diplomacy. Not America alone by any means, but America as the power that can convene others. A power that can bring others together. A power that can sometimes stand back and provide a stable platform for other diplomatic efforts. That kind of diplomacy, I think will take three forms. Again this is assuming a great deal, and I will come back to that.

There will be lots of bargaining, and again the United States will be engaged in bargaining, directly in some cases. In other cases it will be facilitating bargaining in other areas. Again, we heard a lot this morning about how the United States and China, if they were both engaged in Southeast Asia, would facilitate the process of Southeast Asian economic integration.

Second, there will be a lot of guaranteeing. Here think about the Middle East. We will not get to some kind of settlement in the Middle East without NATO guarantees, and specifically U.S. security guarantees, for a number of the major parties. Not just Israel, but some kinds of guarantees for the Palestinians, guarantees elsewhere in the region for small states who would otherwise feel threatened by large states.

And finally, institution building. Here it has been very striking for those of us who call ourselves liberal internationalists, which means we subscribe to the American foreign policy in the post-World War II era. We believe in building international institutions and building an international order where we can integrate other nations, to paraphrase Frank.

We look around the world and there is a power doing all of those things—

and it is China. The Chinese have been doing a great deal of institution building, certainly in the rest of Asia and beginning in other parts of the world as well. America will need to come back and bargain, guarantee, and help build institutions.

Indeed perhaps the way to summarize all of this, to paraphrase Winston Churchill on democracy, is to say that America is the worst possible global leader except for all the others. Find me a country better able to do all of these things in different regions. Now to be able to play that role, we've got a lot to do. Indeed, that's a ten year agenda not a four year agenda. The next administration, if it wants to engage in that kind of diplomacy, is going to have to restore America's moral and political legitimacy. That won't be done by rhetoric alone.

I'll just tick off the things that I think are quite essential. We will have to get out of Iraq in a way that leaves Iraq relatively stable; we can't just abandon the Iraqis to a blood bath. We'll have to close Guantanamo. We will have to return to an interrogation regime governed by the Geneva Conventions, not just for the U.S. military, but for all American interrogations. We'll have to soften our attitude toward the International Criminal Court. I'm not certain we'll join it right away, but we'll have to make clear that we are not opposed to it and we support its goals.

We will have to take a major leading role in climate change—not just talk. We'll have to actually be out there prepared to make commitments, and be prepared to make sacrifices. Finally, we're going to have to be serious about reforming international institutions from the UN to the IMF to the World Bank. What that's going to mean is essentially making room at the table of power.

Frank just said China should be in the G8—well, the G9. It's not just going to be a G9, it's going to have to be a G10, a G11, a G12. You are going to have to have India, Brazil, South Africa, and Muslim states. We are going to have to reform the institutions to reflect the power structure of the 21st century.

Some of those things can be done quite quickly. Others will take longer, but if America can do those things and make it clear that it is committed for the longer term to a period of active diplomacy, there are these great opportunities.

Finally, to do the things I said we had to do to restore our moral and political legitimacy, we will need a new foreign policy consensus at home. I think Frank just described it. There is that consensus. I can find countless members of the Republican Party who are moderates and who effectively agree with moderate members of the Democratic Party, but that consensus needs to be named. It needs to be supported. It needs to be led from the presidential level.

Second, we are going to have to change the way we think about national grand strategy. The number of problems the world faces and the number of regions in which we much engage, means we can no longer have a grand strategy that just has two or three priorities. We're going to have to find a way to work on multiple priorities. It's

not okay to say it's Iraq, Iraq, Iraq, and Asia's seventh. We can't afford to leave Asia to be sixth or seventh. We're going to have to do multiple things at one time, and we're going to have to do those multiple things with multiple actors.

If you listened carefully this morning what you heard was that we have energy cooperation. We have environmental cooperation. We have health dialogues, we have strategic dialogues. Those are all different actors. Some are in the treasuries, some are in the environmental ministries, some are in the health ministries, some are in the trade ministries. We and other countries are going to have to rethink the way we manage our foreign policy so that we have multiple actors working on multiple problems in multiple regions.

Finally, to really take advantage of the diplomatic opportunity that I see in so many regions in the world, both parties ought to be starting to talk about that possible common ground. It's true, as Tom Mann said, that the Democrats are angry, so these conversations should be behind closed doors, but we should also be starting those conversations with our friends around the world who will be indispensable partners in these efforts.

We ought to be doing that precisely through the kinds of conferences that we are having today, through the kinds of partnerships that the Brookings Institution is creating both here at Beida and with Tsinghua. Indeed through the kinds of efforts that Dean Wang Jisi has done so much to foster.

So with that I would say there's a world of tremendous opportunity for a United States administration that can do the things necessary to restore its moral and political legitimacy in the world, and can take advantage of its many friends and partners around the world. Thank you.

(Applause)

DR. WANG: Thank you Professor Slaughter for these very comprehensive views. I will make very short observations before I give the floor to Yuan Peng.

First, this afternoon we haven't heard many good things about the current administration and its foreign policy, but we are going to U.S. embassy tonight to hear probably some more observations, some kind of counterweight. That is what we see in the United States: different voices, but one interest.

Second, I forget the second.

(Laughter)

DEAN WANG: Second. Anne-Marie said she has heard so many things like "America come back." I don't know whether she is hearing the same thing in

Shanghai, but I don't hear the same thing in Beijing. My personal observation is America has not left. So that's why most of our students are learning English.

(Laughter)

DR. WANG: Yuan Peng.

YUAN PENG: Thank you Professor Wang for the invitation, and I think I'm less qualified to speak on this topic of the "Chinese view." I'm also very pleased to sit next to my former boss, Richard Bush. I served as a visiting fellow in Brookings's CNAPS program in 2003-2004.

Just now Frank mentioned that the Chinese future is a little bit uncertain, but for me, for a Chinese, I think the Chinese future is quite certain. For example we have the Hu Jintao doctrine. That is, a harmonious world outside and a harmonious society inside. We have a grand strategy that is peaceful development or peaceful rise. We have a series of policies like constructive cooperation policies toward big powers. We have a good neighbor policy with surrounding countries. We have a very good policy with developing countries. We have an active engagement policy with multilateral organizations.

So Chinese policy for me today is quite clear, but a little bit puzzling for me is that when reviewing American official policy I'm a little bit uncertain. For example today the Iraq difficulties remain, the Iranian issue is emerging, and the greater Middle East, and terrorists are still very active on the border of Afghanistan and Pakistan and in Iraq and elsewhere in the world. And Russia is rebuilding and China is rising. India is rising and North Korea, Pakistan.

So I'm thinking about what the next American president is thinking and will do. So today when we read *Foreign Affairs*, *Foreign Policy*, *Washington Quarterly*, *National Interest*, or other foreign policy reports about America, we find today that there is a very hot debate in the States talking about the future of America's policy. Later on when we look through the website of think-tanks like Brookings, CSIS, Council on Foreign Relations, Carnegie, and Princeton University we find lots of long term reviews and reports.

It seems that all serious scholars and strategists are thinking about the future. Even the candidates, the top three on both sides, have already published their articles in *Foreign Affairs*. Some brilliant scholars like John Mearsheimer published a very brief book. He is real lobbyist on U.S. foreign policy. He publicly criticized the Jewish lobbyists for kidnapping America's foreign policy.

I remember former vice president of Brookings and today president of the Council on Foreign Relations, Richard Haass, calling today's debate the fourth greatest debate in the American history, and Brzezinski said this debate will decide whether or not America can seize the so-called second chance. So for me, today's debate is not anti-Bush or for the next election, but for the future of long term American primacy and America's future.

Back to the topic, how will America rethink its East Asia policy. I think today Americans face some real challenges in this region. That is China rising, and India, and the regional economic integration is developing very fast at the cost of America's exclusion. And all the allies, like South Korea—my American friend told me that today South Korea looks more like a Chinese ally rather than an American ally. And, we're very happy to see a Chinese speaking new Australian prime minister. In Thailand, it seems as though the Thai people like the Chinese more than the Americans. So all of those traditional allies are showing signs of loosening their ties with America.

So if I were Hillary Clinton or Giuliani, what would I think about the future of East Asian policy? I have some suggestions for my...

(Laughter)

First of all, I think that Iraq, Iran, and promoting democracy will still be the slogan or the banner that should be held high, but under this there are some basic shifts in the last two or three years after the transition period. East Asia should be given more attention geopolitically, and its rising power should be more focused strategically, and given regionalism will be given more attention economically. Pakistan, North Korea, and Taiwan, rather than just Iraq, will be given more attention. This is the basic direction.

Under this I think we will have "four twos." Number one is a two hands policy with China. Some may use different words like stakeholder and hedging or integration and balancing, but the two hands policy would be the same.

Secondly, two supplements. The first supplement is to supplement the current security system. The current traditional security system is not that attractive, so it should have some new partners like India, Mongolia, and possibly Vietnam as the supplement factors. The second supplement is to add some functions to APEC which is nearly controlled by Americans. Add some new functions like security issues to the APEC framework. The third two is two engagements. One is an engagement with the Shanghai Cooperation Organization. Another engagement must be with the Ten Plus Six, maybe we should be Ten Plus Seven, or the SCO Six Plus Four Plus One. Maybe.

The final two are two constructions. One construction is the construction of the Northeast Asia security cooperation regime, which is still a vacuum of big power cooperation. Another is construction of the bigger East Asia order with China or with China and Japan, or some other big powers cooperation and with multiple organizations.

This is my basic observation from the debates, and according to my understanding of American strategic logic, this is my outline of the future. Thank you.

(Applause)

DR. WANG: Okay. Richard and I agreed that we will probably extend the discussion until 4:30 sharp. Because we have many, very knowledgeable speakers, and we covered a great deal of topics, especially the elections. If you still have doubts about who will be the next U.S. president, Professor Mann is here. If you have any other questions also this is the time for you to raise them. So the floor is open.

QUESTION: Thank you. My name is Vorontsov and I am from the Russian Academy of Science and am a former CNAPS fellow. First of all thank you very much for the insightful presentation. I have a question for Mr. Nacht. You listed some priorities in security concerns. You told us that East Asia is a secondary priority. Would you be so kind to enumerate what are the first, third, fourth? Thank you.

PROFESSOR NACHT: Perhaps I wasn't clear. Based upon the current situation, it's most likely the combination of Middle Eastern issues, Islamic fundamentalism, oil politics, and instability in Pakistan. This is the number one strategic priority for the United States: to get that whole range of issues in a more stable situation. Beyond that I actually don't think there is a second, third or fourth. I think there are a variety of issues that will be competing for American attention.

It's actually wonderful to hear Anne-Marie say it's a complicated world. We have to be able to essentially do multitasking. But even a large government like the United States, at the highest levels, is not very good at multitasking. We actually look at one or two things, and ignore a lot of other things even if they are more important.

So for example, if the elections in Russia next year produce further developments of policy that are viewed as antithetical to American interests, if tensions rise between Moscow and Washington then, no matter where you originally put it on the list, this will become a major priority. This is because it has profound effects on so many other issues about relations with countries in the former Soviet Union and Eastern Europe. Oil politics, Russia's assistance with Iran, and how Russia is a reemerging great power. There are pluses to that, but there are many potential minuses to that. It's hard to know, it will be very dependent on the conditions that develop in a number of other countries as to what is number two, three, or four.

I still believe that, to the extent that you can predict, East Asia and Asia more generally is an area of enormous increasing economic prosperity. That's not true in a lot of the Middle East. It's not true in Africa. It's true spottily in South Asia. So, of course, economic prosperity can bring new tensions, but it's actually opportunities for greater cooperation. I'm pretty optimistic that East Asian and Asian issues generally will not be at the worrisome point in American priorities compared to some other areas that we've discussed.

DR. WANG: James Tang.

QUESTION: Thank you Chairman. Although Professor Nacht reminded us things can change and that anything can happen, I think the panelists have more or less

projected this idea that East Asia and China will not be the highest priority for the United States, no matter which party wins the next elections.

I have two questions. The first one is, if that is the case what would be the implications for the United States's position in this region in general and for U.S.-China relations? The other question is do the panelists see that there are any potential issues and areas that if things are not handled and addressed properly then the secondary nature of some of those problems in this region will then grow and contain more primary problems for U.S. foreign policy? Thank you.

DR. WANG: Richard.

DR. BUSH: A couple of quick responses. I think that even if East Asia is not a strategic priority, that does not mean we should not be paying attention. I actually think that we have a lot of catching up to do, and that we would be hurting ourselves if we didn't treat Asia seriously, like it was a strategic priority. Even if it's not a strategic priority, we should pretend that it is. One key indicator here will be the travel of the president and the secretary of state. If the president and secretary of state don't come to Asia in the first year we're in big trouble.

Your second question, what's a small problem that could become a big problem. I think a growing sense of insecurity on the part of Japan. If Frank is right that the North Korea problem extends through the whole of the first administration, and I think he may be right, then Japan's sense of uncertainty, vulnerability, and so on will extend for a long time, and so it may have doubts about the United States as a solid ally. That means we have to do a lot of work.

DR. MANN: There is another strategic priority with respect to Asia, namely the president trying to contain potential harmful actions taken by Frank's great institution, the first branch of government, the Congress. We've had mention of issues bubbling up. Certainly product safety has become a huge issue around the Christmas season. There was reference made to the Lantos hearings; Yahoo and the nature of internet access and use is a big issue. We also mentioned how the trade imbalance is playing out, and the potential of resurrecting a really lousy piece of tariff legislation. Those sentiments will probably intensify, not diminish, between now and the time a new administration takes over. One of the challenges and priorities of a new administration is going to be to manage that.

DR. NACHT: Let me just raise one uncomfortable possibility and that is that if the kind of troubles that developed in Burma developed in China, if there were, again a resurfacing of what's perceived in the U.S. as human rights restrictions and crackdown by the government, this would be damaging to U.S.-China relations. I personally do not believe that threat to increased tensions in Sino-American relations comes from overt foreign policies of America or China.

I think it's going to come from American reactions to Chinese domestic

policies. If it turns out those policies are seen in the U.S. as benign, no problem. But there are some who believe that when you go from a country of bicycles to a country of automobiles, and you go to a country of multiplicity of centers of wealth and influence, that this can lead to a desire for political diversity. A desire for political diversity can lead to trouble, and if that trouble is not handled skillfully then that will cause tension in U.S.-China relations. How serious of a tension, I don't know. It's not going to lead to an imminent conflict, but it will damage U.S.-China relations.

MR. JANUZZI: Just very briefly. I would say there's no danger of the United States truly neglecting Asia. When you have Secretary Paulson leading half the United States cabinet to Beijing for talks with their Chinese counterparts, it's not fair to say that the Bush administration has neglected the U.S.-China relationship. But Richard's point is an excellent one, which is that showing up does matter. If you don't go to the APEC meetings, if you don't go to the ASEAN summit meetings—this symbolism is very important, and so I will I hope the next administration will take that to heart.

In terms of the wildcard, the sleeping issues that could through our lack of active management cause us trouble would be Taiwan. Clearly, this issue has the potential to roil relations.

Finally, I would just say on the Olympics, there's one thing I know for certain, I can promise you today. That at the Beijing Olympics there will be protests. It may be Tibet, it may be Falun Gong, it may be Taiwan. It may be all of the above, but I promise you a thousand percent it will happen. Absolutely it will happen. The only question is how the government will deal with it. That's the only question.

This will be happening at a very sensitive time in American politics. In the middle of our nominating conventions, when our candidates for president are going to be appearing for the first time on a national stage and talking about what is important to them. So how China deals with these inevitable protests is going to send a vital message to the American people about the kind of China that is emerging in East Asia and its desire to live in a harmonious world.

DR. WANG: So Frank you are not only keeping us alert, you are keeping us worried.

(Laughter)

DR. WANG: Final question will be given to Professor Chen from Taiwan.

QUESTION: Thank you. My question will go to Tom. Although it is too early to forecast who will be the next president, but long term scholar on presidential elections probably you can tell us, between the two parties who has—who will be the most hopeful within each party, and who has what I call the face of a president. That is what in Chinese I call the *zongtong xiang*. Thank you.

DR. MANN: The what? Did you get that? What was the last part?

MR. JANNUZI: Who has the face of a president?

DR. MANN: Oh, the face.

(Laughter)

DR. MANN: The face of the president of course is Mitt Romney who I told you came straight out of central casting. He looks like a president, but then we never have presidents that look like presidents.

(Laughter)

DR. MANN: In fact, I would venture to say that the next president will be Hillary Clinton or Barack Obama. I think the probability of that happening is quite high now. If you were to ask me to give probabilities of which party will win the presidency in 2008 I would say 65 percent Democrats.

Now obviously that leaves room for something happening to alter either the broad political environment, where right now the structural factors drive toward a prediction of a Democratic victory, or if somehow the Democratic nominee is undermined or diminished in sort of a more personal way through the campaign. But I would say right now the likelihood is Clinton or Obama, and between the two of them give Clinton higher odds, but you wouldn't make them great odds until we see actual voters and caucus participants begin to weigh in and we get a sense of whether a dynamic will develop in the first weeks of the campaign that could alter that.

DR. WANG: With that favorable tilt toward the Democrats, this concludes today's discussion, unless Richard you have something to say.

DR. BUSH: I would just like to say one thing in conclusion, and that is to express on behalf of the Brookings Institution our deep appreciation to Dean Wang and the Center for International and Strategic Studies for your outstanding assistance to us for putting on this event. I hope it has been useful to the audience here. The questions have been outstanding, but without the work of you and your staff it would have been impossible and we're really deeply grateful to you. I have small token of our appreciation. You won't get into any trouble for accepting this gift, but our gratitude goes much beyond this small token. Thank you.

(Applause)

DR. WANG: So my last comment is this: good Americans don't go away. Thank you very much.

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