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## P R O C E E D I N G S

MR. LI: Well, good morning, everyone. Welcome to this event. My name is Cheng Li and I'm a senior fellow here at the Brookings China Center. I'm delighted to serve as moderator for this panel discussion on the outlook for China.

China's economic development and the political trajectory are profoundly important in today's world. Presently, the PRC has the largest supporting reserves and has recently become the world's largest exporter. China is also America's largest creditor, holding the largest supply for U.S. Treasury securities.

China's importance, of course, extends far beyond the realm of economics. In virtually every important area of today's world affairs, the United States and the world need China to play a proactive and constructive role, ranging from North Korea to Iran, from Pakistan to Afghanistan, from energy security to environment protection, from climate change to public health, and from antiterrorism to cyber security. It is perhaps not an exaggeration to say that China has now become the second most important country on the planet.

As China becomes a major global economic power, her government's handling of domestic political issues, from human rights and the religious freedom to ethnic tensions and media censorship, has increasingly caught the eye of the international community. China also faces significant demographic challenges that relate to urbanization, regional disparities, environmental sustainability, and resource constraints.

Last week, I was in China, and particularly in Beijing, for the entire NPC, National People's Congress, meeting. I found that the prevailing mood in Beijing was not a sense of Chinese triumphalism in the wake of the global financial crisis as one might expect given that China was the first major economy to recover. But instead, Chinese officials

seemed to be deeply worried about how to deal with the many daunting challenges that confronted the country, especially the imperative to change the mode of economic growth. I found that the Chinese public's demand for affordable housing, equal treatment of migrant workers, media freedom, and official accountability shape the political and intellectual discourse of the country and even helped to set the agenda of the NPC meeting itself.

The Chinese leadership's sense of a major crisis in the making could be seen by the fact that as many as 700,000 people, including armed police, were engaged in the security of the NPC meeting. This number, 700,000, is actually reported by Chinese official media.

How can we develop a more accurate and more balanced assessment of present-day China based on these seemingly paradoxical trends? How do we envision the next phase of China's rise and of the U.S.-China relationship? How can we encourage cooperation with China without compromising our principles and our vital interests?

This morning, we have four truly distinguished panelists, among America's best minds in the China field, to address these important questions and share their expert insights on some of the most crucial areas. There are brief biographies included in the program handout, so I will not repeat them. But instead, I just want to say a few words for each of them and note the focus of their individual presentations. Let me do so in the order of their presentations.

Dr. Barry Bosworth is a senior fellow in both the economic studies and the global economy and development program at Brookings. China is not his primary focus, but Barry is among the small number of experts who are most sought out for comments regarding the Chinese economy, especially the issues surrounding currency or currency exchanges.

And, Barry, we are very fortunate to have you here to discuss a very

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controversial and complicated issue.

Dr. Joanna Lewis is assistant professor of science and technology in international affairs at the Georgetown University School of Foreign Service. Her research focuses on the renewable energy and the policy developments in China. Her excellent and original research in the field has not only earned her great respect in academia, but also made her appear on many important advisory boards on energy issues.

Welcome to Brookings.

Dr. Tony Saich is a professor of international affairs and faculty chair of the China Public Policy Program at Harvard's Kennedy School. He is a leading scholar on Chinese politics and social development. For the past decade, he has also run a training program for Chinese young and promising leaders at Harvard, and many of them have now emerged in the national leadership of the country, including very soon -- already some policy bureau members.

Tony, thanks for accepting our invitation this time after having turned down so many times. (Laughter) And it seems that only Ken can get him here.

Well, last but certainly not least, Dr. Ken Lieberthal is a senior fellow at Brookings and director of the John Thornton China Center here. He has not only successfully invited Tony, but also, in fact, he put this program together. The late John King Fairbank once said, in the China field there's no one that should be called a China expert, only China specialist, because the field is so big. But I think Ken is the only exception. (Laughter) He has expertise in many different areas, including politics, economy, security, society, energy, and environment.

He began to study China's energy issues, for example, as early as in the 1980s. Today, he will discuss U.S.-China relations in a changing global environment.

Ken, did I embarrass you?

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MR. LIEBERTHAL: Yes.

MR. LI: Okay. Well, each of them will speak for 15 minutes. I will also send a warning, you know, two minutes before the end. And we will have a Q&A session following their presentations.

And thank you very much. And Barry, the podium's yours.

MR. BOSWORTH: Thank you very much for this invitation to speak. This is a great time to be focusing on China again as we come out of this economic crisis. I guess a couple of remarks -- points I would like to make about it, maybe the term "economic crisis was good for China" is a bit strong, but China has emerged from this economic crisis in an extraordinarily strong economic position.

One, I think is it did not have any financial crisis and that differentiates it from most of the major economies around the world, particularly the United States. To the extent there was -- affected by the global economic slowdown is simply through the trade challenge. The collapse of aggregate demand here in the United States and in Europe and in Japan drove down China's trade, but trade is now recovering. But there was no negative damage, so to speak, the Chinese economy as a result of the financial crisis and it differentiates itself greatly from countries like the United States in that regard.

And the second one I think is that it turned out to be, by far, the most effective fiscal stimulus program of all the major economies. It was very large, a little larger as a share of GDP than the United States, but the big distinguishing feature of it I think is that they were able to implement it very quickly, so it truly did serve as an offset to the global crisis. Whereas in the case of countries like the United States, it has taken so long to get the fiscal stimulus program going that the -- basically the decline of the economy ran its course before there was very much fiscal stimulus. It will help us on the recovery, but it did not do much to slow the decline.

And the third one, and I think in some way most important, is that the global economic crisis I think has convinced China that it was overly exposed to a world economy that's not all that trustworthy. And it has speeded up a process that's long been recommended by economists inside and outside China, which is to shift the direction of economic growth back towards greater reliance on the domestic economy. And I think that's the major thing that we see taking place.

In terms of -- whoops. This is the estimates of growth in China. We recently got a figure for GDP growth. It's slowed, but from truly remarkable levels in 2007, an achievement of something a little bit short of 9 percent annual growth when other countries had so much bigger slowdown. And there is expectations that China should be able to return to something very close to 10 percent growth. That's the latest figure that the IMF is using, for example, in 2010. So it has emerged from this very strong.

Inflation is only running between 2 and 3 percent. We're seeing some shift of monetary policy towards a little bit more restraint now that the crisis is over. And there's a concern, I think, in China legitimately that asset market bubbles, particularly in real estate, may get out of trouble -- out of control. But the government, I think, has lots of monetary means to try to deal with those, that given what's happened elsewhere they're very aware of them. So I don't think this is the sort of thing that will be ignored or has a chance of greatly disrupting the economy.

In addition, China simply faces no fiscal problems for the foreseeable future in contrast to most other major economies who are now going to spend the next couple of years trying to rebuild their fiscal positions, having seen such an enormous deterioration. China will not have that same problem. I think instead what we'll see is a great emphasis on trying to expand domestic demand, particularly in the Western provinces where the supply excesses are most notable. Seemingly coming out of those last sessions -- discussions, I

think, greater acceptance that urbanization is unavoidable and instead of resisting it, it appears now that China's going to try to accommodate more to the trend towards urbanization within China.

The biggest problem that I think China faces -- and I'll say more about it in the future -- in this regard is domestic growth has been weak, primarily because households get so little of the income. And more and more, the income is simply going into enterprises who tend to hoard it or the government that tends to use it for overexpansion of investment objectives.

And you can see, I think, one aspect of this here, that China's national savings is very high. And everybody talks about excess savings in China, but it's not really a problem of Chinese households. The savings rate in Chinese households is not particularly atypical compared to the rest of the world. During stages of rapid economic growth in most other Asian economies with growth near 10 percent, you're going to get household savings rates of the same order of magnitude as China has had. The same thing was true in Japan in the 1960s.

What's unusual about China and has caused most of the problems is the extent to which savings has just soared in the enterprises, including the private corporations. Profits are extremely high and they simply hang onto the profits. They have not distributed them back in the form of dividends and they do not pay significant taxes. And hence, any profits largely flow through into retained earnings and that's the source of most of the increase in savings. And you also see that government saving has remained strong during this period.

The consequence of that is that most of the income's going to the enterprises since they don't have to pay it out to the households. And here you see the proportion of income in China that's actually received by households and it's steadily

declined in recent years. It is now down below 60 percent. For comparison, for example, in typical industrial countries you'd expect household income to be between 75 and 80 percent of national income with flow-through to the household sector.

So one of the great problems that China faces is that the -- it's difficult to maintain consumption demand when households don't get much of the income. I think most of the evidence is give them the income, they'll spend it, just like households do in any economy. And hence, one of the biggest problems is how to find a way to get more of this income to be channeled through into the Chinese households.

What I think the biggest problem internationally that we face is it does look like the conflicts with the United States are going to heat up a great deal over the next couple years. I'm old enough to have sat through most of this once before and it seems very familiar. It was called U.S.-Japan. And it seems to me if you just change the word "Japan" to "China," you're just getting a complete replay of the whole silly discussion that we had 20 years ago and 30 years ago with Japan. It really is a feeling of *déjà vu*.

What I think is true about the current situation is that both countries have to rebalance their economies. China has become too dependent on export surpluses as a means of promoting growth. And the United States became too dependent on a consumption-driven type of economy that sort of ignored the need to export for a period of time. Both will now have to change. And the realignment of those two economies -- China with a greater emphasis on domestic growth and a more balanced external trade position and the U.S. shifting back towards a much lower rate of consumption, higher national savings, and more exports -- will be painful for both of them. Right now, the political tendency is to blame the other for their problems and argue that the other one should adjust first. In fact, both countries will have to adjust. And I think in the case of China, the key to this is trying to change this distribution of income so that households get a larger proportion



of it. If they do, they'll spend it and there will be an automatic increase in the share going into consumption.

But the other aspect of it, as has been brought out recently, is a lot of debates over trade policy and exchange rates. And what I want to point out here is that this really was not a problem, China was not focusing on trade prior to the WTO Agreement in 2000. If you look at this data all the way back into the early 1990s, trade was basically a constant share of GDP in China. It was growing fast, but that's because the economy was growing fast and there were small current account deficits of no significant magnitude. Then in the WTO Agreement, both exports and imports began to explode up as a rising share of GDP. I wouldn't say it was a problem if exports were growing rapidly as long as imports were growing rapidly.

Then about 2005, the real change was that imports leveled out as a share of GDP and kept expanding at the past rates. And as we all know, China started to run huge trade surpluses in the subsequent years.

What has gone a little bit unremarked is basically that process peaked in 2006, and it has come down in 2007, and, of course, most recently very dramatic fall in which exports fell -- as you can see in the chart -- much more than imports did. So the magnitude of the surplus has actually declined. And so that I think that trade does show some signs that it's begun to adjust in China during this period.

I think another characteristic of it in terms of what effect it's had on the Chinese economy is an extraordinary proportion of Chinese exports are simply processing of goods that were brought in from abroad, processed trade imports. It's about 50 percent of all exports. Why is that important? Mainly because processed exports really don't have much value added. They don't have much domestic content. So even though they are large and have grown rapidly, they don't have that big an impact on the domestic economy.

They're mainly undertaken by foreign invested companies from Taiwan and other places that get trade concessions in China that they can bring in imported goods without tariff, use them and assemble them into a product which is then exported back out. And, in fact, what's really going on in Asia is China's become the center for assembling all the goods that are produced elsewhere in Asia and then exported to the United States. So these countries, like, say, Malaysia, Taiwan, et cetera, export very little to the United States anymore. They do it through China.

You can see some of the effects of this, one of the biggest participators in this game, I think, is Apple Computer that produces its iPod throughout Asia, brings it into China, assembles the iPod, and then ships it to the United States. And it's been widely pointed out in several studies if you sell an iPod for \$300, half of it's the domestic margin of Apple Computers, so that the import value is about \$150. How much of it was actually added in China? It's around \$6 because most of these parts are simply coming from elsewhere. So compared to ordinary trade, the value-added effect of processing exports is actually very small in the Chinese economy and, therefore, overstates the dependency of China on trade for growth. I think most of the growth incentives come, in fact, from the domestic economy.

Another way of looking at this is the Chinese current account balance. And here, too, you see the same pattern that it actually peaked back in 2007 and has come down quite dramatically in recent years. It has declined to about half of what it was at the peak. I think there is a lot of concern going forward as the recovery in the United States, as income goes back up, as there's a recovery in Europe, well, in fact, Chinese exports now just grow like they did before and we return to the same current account surplus that we had. I think that's still uncertain about what's going to happen to the trade balance going forward.

Another way of looking at this, what people worry about, is relative

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competitiveness of China in the world market. And it's widely noted that China has maintained a fixed exchange rate relative to the dollar. And that's true except for a period from 19 -- from 2005 up into the middle of 2008, when it allowed for some appreciation. But what really matters for trade is the average exchange rate with all your other competitors.

And in real terms this is the graph of what's happened to the real trade-weighted exchange rates of China and the United States. As you see, they've actually broken away from one another. China's had a very significant appreciation of its currency. That's why it's worried about its trade position because the Chinese exchange rate has risen relative to its competitors in Asia, not so much because it changed relative to the dollar, but because all of its other competitors have experienced sharp declines in their exchange rates on a trade-weighted basis. Say Taiwan, Singapore, South Korea in particular, and similar countries that have large trade with China have had huge depreciations of their currency, which you can see here a couple of examples of them. I think the most remarkable one is South Korea. But the point is that on a trade-weighted basis, which is what ought to really matter, what you see is the Chinese exchange rate is appreciating quite a bit while the U.S. exchange rate has depreciated.

And the other thing I think we should keep in mind about this, it's not clear to me that, in the case of China, changes in the exchange rate will have that big an effect on the trade balances, mainly because of all the price distortions that still exist within the Chinese economy. The exchange rate's not the critical price in terms of determining exports out of China. A lot of the price controls that they have on petroleum, other raw materials, limitations on labor movements within the country play a much bigger role in determining how effective the change in the exchange rate will be in altering trade balances. What we want to focus on is the trade balance. We would like to see the trade balance be reduced so that we actually see in quantity terms that the Chinese economy is shifting back towards a

greater emphasis on domestic growth.

I think we should be talking about trade flows and not exchange rates because if we just focus on exchange rates, I'm not surprised that China's resistant to changing the exchange rate. It's the starting point of this whole discussion. Raising the exchange rate's just a prescription for a falling trade and a slower rate of growth of GDP. What China needs to do is start with a promotion of domestic demand so they don't have to worry so much about exports and then you would naturally see a change in the relative price of exports relative to domestic output, and the economy would rebalance back towards that. So the interest of China and the rest of the world is that China have a balanced trade with the rest of the world.

A final point I would make, I do not actually think is of great importance to the United States, even though American economists love to argue about it. And the reason is that the United States and China are not directly competitors. We produce very few things that the other one produces. China is a low-wage, assembly-type process for trade. The United States produces high technology, high capital goods. And our major competitors are with Japan and Germany because those are the two countries that produce the same capital goods that we do.

And with respect to Japan and Germany, the American dollar has fallen quite dramatically in value over the last couple years. You see that we are more competitive in world markets and our exports have been growing recently at quite rapid rates. So mostly what the United States cares about is not what happens to the Chinese exchange rate. We are mainly interested in China as a market, as a place to sell our exports. Therefore, we want access to the Chinese market, low levels of trade restrictions, and a rapid growth in domestic demand that helps the United States.

Who ought to care about this is all the other low-wage countries in the world

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that have to compete with China. I would expect Mexico to be very vocal on this issue or most of Southeast Asia. Those are the countries that are affected by a process that keeps the Chinese exchange rate unusually low. It makes it difficult for them to compete.

Why do we care at all? Well, to the extent they're concerned about their competitive position with China, they follow the Chinese exchange rate down. They tie themselves to the dollar as a way to protect themselves against the Chinese RMB that also is tied to the dollar. If all the rest of the world's going to try to tie their exchange rates to the U.S. dollar, then that's going to focus all the adjustment of the U.S. trade on just a few countries. And that's where you see the resistance there, that if the shift in the world economy of a declining of the dollar in U.S. exports is widely shared among all the other countries, the accommodation's pretty easy to make. If China and a large number of competitors in Asia try to exempt themselves from that process, then the burden will fall more heavily on others.

Thank you very much. (Applause)

MS. LEWIS: Earlier this month, we heard Premier Wen Jiabao deliver his report on the work of the government. This included a review of work in 2009 as well as work planned for the upcoming year, 2010. And in this report, Premier Wen touched on many of China's key energy initiatives over the Eleventh Five-Year Plan period. In particular, he emphasized China's key programs to target the energy intensity of the economy through energy efficiency programs and through industrial restructuring. And he also laid out the country's successes to date, particularly in the areas of renewable energy, their ambitious plans for updating the country's power infrastructure, and the country's new climate change programs. So my remarks today, I'm going to focus primarily on these topics as well, first by assessing where China is as it reaches the end of the Eleventh Five-Year Plan period, including where it's made some major achievements and where it still faces

significant challenges; and then I will look to where China plans to go as it moves into the Twelfth Five-Year Plan period and discuss what we might expect to see from China on these topics in the next five years or so.

Now, one of the core elements of China's Eleventh Five-Year Plan was a national energy intensity target. Energy intensity is a measurement of the ratio of energy consumption to GDP. And the relationship between economic growth and energy use matters greatly to China because wasteful use of energy not only threatens national energy security, but it exacerbates the environment problems it's already facing, as well as increases greenhouse gas emissions. So when China roughly quadrupled its GDP between the years 1980 and 2000, it merely doubled the amount of energy it consumed over these same two decades. And this was quite a dramatic achievement in energy intensity gains that were really never -- we've never seen this paralleled in any country at a similar stage of economic development. This allowed the energy intensity of the Chinese economy to decline. And without this reduction in energy intensity we would have seen China consume three times more energy than it did during this period.

Between 2002 and 2005, however, this trend reversed. This is the little upward flip you see in the curve. And this was really the first time we'd seen this happen in decades. And this reversal had dramatic implications for greenhouse gas emissions in China, really throwing off all the projections that people had made of where China's greenhouse gas emissions trajectory would be going in the next couple of decades, and resulted in China's emissions surpassing those of the United States, for example, by -- according to these projections -- as much as two decades ahead of schedule.

This inflection in energy intensity which you see here caught the attention of the Chinese leadership. The increasing energy intensity came from a resurgence in heavy industry and industrial energy consumption as well as in coal use. And, therefore, as China

entered the Eleventh Five-Year Plan period, at the core of its goals for this period was this national energy intensity target, which aimed to reduce China's energy intensity by 20 percent over the Five-Year Plan period of 2006 to 2010.

So how are they doing in terms of meeting this target? Well, in the last four years, China's energy intensity is again decreasing. Both energy and GDP growth slowed last year, but the decline in energy intensity was less than was hoped for. And while final statistics are still being released, NDRC is reporting about a 14 percent decline over this 4-year period of 2006 to 2009. So they've made substantial progress towards meeting this 20 percent target, but they still have a ways to go this year. And this means that while a lot is working, not everything is working.

One thing that hasn't really worked as well as hoped has been structural adjustment in the form of a move away from the heavy energy-intensive industries. The Eleventh Five-Year Plan has called for a more rational structure of industries, products, and industrial organization as well as targeting about a 3 percentage point increase in the ratio of service sector value-added GDP to total GDP. And while this share of GDP has increased for the secondary sector, over the same time we've seen -- over the last few years, we've also seen the share of industrial sector energy use increase as well. And, in fact, if we take a closer look at energy consumption in the heavy industrial sectors, using decomposition analysis we can see that while production and structural change are indeed driving the increased energy consumption we're seeing in these sectors, the increases in energy efficiency made in these sectors has been sufficient to overcome the lack of success that the government has seen in driving structural change. And this is because the country's energy efficiency programs are working and they're working well.

Some of the key national energy efficiency programs are listed here, as well as their savings to-date. I want to mention a couple of them in a bit more detail. One is

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called the Top 1,000 Program. This is a program that targets roughly 1,000 of the largest energy-consuming enterprises in the country. They comprise about 33 percent of China's overall energy consumption, about 47 percent of industrial energy consumption, and about 43 percent of total greenhouse gas emissions. So this is not an insignificant group of companies.

The 10 Key Projects Program also listed here is a program that directly provides financial incentives to companies for implementing energy-efficient technology and they're paid by proving the results of the savings that they -- the savings technology they implement.

Other programs we've seen target the end use energy efficiency in buildings as well as in consumer goods. According to Premier Wen, we saw 5 million energy-saving air conditioners and 150 million energy-efficient light bulbs deployed last year alone in China. And many of the inefficient, smaller power plants have been targeted for closure.

We've seen China -- in 2009, the NDRC is reporting that 89.7 gigawatts of new power plant capacity were built this year. But they also shut down 26.2 gigawatts of small, inefficient thermal power stations. That is a huge achievement. That means that about one-third of China's new power plant growth has been offset by these plant closures. And we've also seen similar plant closures taking place in the inefficient iron, steel, cement, and coke plants.

So what are we going to see in the coming years? Well, in the next year, the government plans to continue working on tightening the accountability for meeting these targets and intensifying the oversight and inspection related to enforcement of these programs. These targets are strong and they really just need to be enforced a bit better. And we've already seen great progress in this area of increasing enforcement.



So, for example, in the year 2007, the Energy Conservation Law was amended and it formally established the responsibility of local governments to implement an energy statistics collection and reporting system. It also required large energy-consuming enterprises to implement systems for their own energy measurement and statistical collection. For this 20 percent energy intensity target program which I mentioned, each province and provincial-level city has been assigned a target, which is in the range of 12 percent to 30 percent, in order to achieve this national 20 percent goal. And specific governors or mayors are being held accountable for the meeting of these targets. And, in fact, we've seen every spring official from Beijing sent out to specific factories and the provinces to do onsite verification. And this has, I think, been important because not only does it signal serious intention of this program from Beijing, it also allows for what they see on the ground in terms of challenges and implementation being fed back into the policy process that's taking place there.

The 10 Key Projects Program, which I mentioned, has also been particularly interesting in the way that it selects projects that target technology improvements. But to participate, each enterprise must go through a comprehensive energy audit. And if they're successful, they are rewarded financially based on the actual energy saved. And this is done through an independent verification process for monitoring the energy savings, which has been put forth by NRDC and the Ministry of Finance. And this program, in particular, has been very successful. All of these programs are being scaled up in 2010.

So what do we have to look toward in the Twelfth Five-Year Plan? Well, China has announced that it will have a carbon intensity target instead of just an energy intensity target. And this is important because while you can do some rough estimates to convert between the two, energy and carbon, the key word there is "rough." And to date,

China has not actually released any official greenhouse gas emissions inventories to date since the year 1994.

China announced last week it will adopt this carbon intensity target as part of the Twelfth Five-Year Plan. It first announced this target last fall and again reinforced it in Copenhagen at the climate change negotiations. And the target is to lower its carbon dioxide emissions per unit of GDP in the range of 40 to 45 percent by 2020 compared with 2005 levels. And in the Twelfth Five-Year Plan, it will also be laying out specific emissions goals and monitoring rules for the regions and sectors across the country.

The National People's Congress has said it will start with an inventory of greenhouse gas emissions for the country in the years 2005 and 2008, using that as a yardstick for then setting specific emissions reduction goals across these different provinces and sectors. And it's going to put in place a statistical monitoring and assessment system to ensure that these greenhouse gas reduction goals are met.

In Copenhagen, we heard China agree to now publicly report its greenhouse gas emission every 2 years rather than every 10 or 15 years. And with these recent NPC announcements, we now have a better idea of how this is actually going to happen domestically in light of the fact that this is going to be no small feat for China to follow through upon as it will require a pretty major revamping of the statistical collection system there. We'll also be seeing a Twelfth Five-Year Plan mandate for the central and provincial governments for formulating local action plans for greenhouse gas mitigation.

So what does this mean? Well, there's been some debate over whether such a target will do much in the way of actually reducing China's greenhouse gas emissions trajectory. I would argue, however, that China's being able to quantify its emissions is a fundamental first step to more aggressive targets and, more importantly, to the effective implementation of any targets that it adopts. And in addition, carbon intensity

targets are not only going to reinforce the similar trends to increase energy efficiency as we've seen with the Eleventh Five-Year Plan energy intensity target, it will also help to promote the further development of low-carbon energy sources, such as nuclear, hydropower, and renewable energy sources like wind and solar, which leads me to the final topic I want to address, which is that of renewable energy.

In Copenhagen, China -- and in the National People's Congress meetings in the past week, China restated its goal of increasing the share of non-fossil sources of energy -- this includes hydro, wind, solar, biomass, and nuclear -- in its primary energy consumption to 15 percent by 2020. And China is meeting this with strong, high-level mandates, which include a national renewable energy law which was first adopted in 2006 and then just amended this past year at the end of 2009, and backed by preferential policies for the pricing of renewable energy technologies, like wind power. And apparently these programs are working because China's share of global wind power capacity has been increasing rapidly in recent years, as illustrated here. And in the year 2009, China became the largest wind energy market in the world.

There are several reasons China's wind power market in particular has been so successful. Part of this is due to the resilience of the credit market in China, which has allowed for continued investment in renewables while other countries have seen some lags, as well as changes to the renewable energy law, which I mentioned, that targeted some key barriers to projects, which included mandated interconnection to the grid; and the government promotion of big projects with big financial incentives. China is now building gigawatt-scale wind farms. This is a world first. And a focus in this sector, I should mention, has not just been on the deployment of wind energy, solar energy, renewable energy, but also on technological innovation.

Premier Wen and the National People's Congress reinstated their aim to

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promote the policy of independent innovation and to comprehensively build an innovative economy. And new energy technologies are directly benefiting from this focus.

Looking at solar photovoltaics, we see that in comparison with the United States, for example, China far lags the U.S. in terms of the deployment of solar panels, but is far ahead in technology production. And I mentioned that a key barrier to renewables has been grid connection as well as integration in China. This has been addressed in a couple of key ways.

First, the renewable energy law created a new renewable energy target that specifically requires grid companies to now purchase a fixed share of renewable energy. And these targets are now being enforced through penalties for non-compliance.

In addition, the Twelfth Five-Year Plan will include specific plans for a unified and smart grid system to be built nationwide by the year 2020. It's unclear whether they can meet this by this time, but we are certainly seeing extremely large investments being made in transmission infrastructure in China and renewable energy is being specifically considered in the design of new transmission planning investments.

So in closing, we can see that China has made some impressive accomplishments as it moves to the conclusion of the Eleventh Five-Year Plan period and has laid out some aggressive plans and targets as it looks to the next planning period. These targets and programs of the Eleventh Five-Year Plan period which I discussed today were made in response to worrisome energy consumption and emissions patterns that started in the beginning of this decade and they were implemented rapidly and, for the most part, effectively.

The Chinese have displayed foresight in thwarting coming crises to wasteful energy consumption, persistence in their drive to improve the effectiveness of how these targets are being implemented, and flexibility in rising to the demands of the

international community and taking what I would argue are the first important steps in developing a carbon mitigation program.

So while the next five years will no doubt be one of continued rapid energy consumption driven by the unrelenting economic expansion, and while the majority of this demand will be met with new coal power plants, large dam projects, and expanded natural gas networks and petroleum supplies, the high-level attention that China's leadership is giving to energy efficiency and conservation and to promoting the development of low-carbon energy technologies has already placed China on a very different trajectory than the one that it was on a decade ago.

Thank you. (Applause)

MR. SAICH: Thank you very much for the invitation. And Cheng, if you didn't keep arranging these things when I was teaching, I would actually come more often. (Laughter)

Let me first start with picking up on one point that Cheng made by way of introduction, and that is I think that while there is this -- I agree with you that a lot of the concern is nervousness about domestic development. I do think, however, that that is combined with a certain amount of triumphalism given that China, as Barry has eloquently argued, came out of the crisis so effectively. But it seems to me that nervousness comes from two different aspects as China looks forward.

I'll let Ken talk about the first aspect, which I think is that the Chinese leadership have a lot of concern about where the U.S. may be taking them and the world. I don't think they're challenging U.S. leadership basically of the global framework, but I think they are very concerned about the quality of the U.S. management of that global framework.

But secondly, there is a nervousness about the domestic challenges. And, in fact, we see this quite interestingly through the training programs that we've been running

for eight or nine years now. And whereas when we first started these programs a lot of things that they wanted us to talk about were infrastructure, planning, these kinds of issues. If you look at where the demands have shifted to, they begin to very much follow the kind of framework of analysis that Barry and Joanna set out. So they want us to talk more about urbanization, particularly questions related to taxation; effective urbanization and design; sustainable development, particularly how do you use market-based mechanisms to deal with questions of energy consumption or pollution control; and also questions of social development. And often there the issue comes up, and this is where I think a lot of the things that the previous two speakers were talking about run into issues with the political economy, is how do they shift the incentives to make sure that these things are applied much more effectively?

And they'll often say to me, well, look, you know, we know how to count GDP growth. You know, whether it's true or not, you know, we know that, we know a major -- we know those quantifiable things. What we don't know, and given that we only have maybe a five-year period before we're going to get promoted, how do I show within that period of time that I'm actually making progress on educational advance, health care advance in my community? So they're trying to work out what are a set of indicators to help them show that they're performing well.

So what then were the main socioeconomic issues raised at the NPC in this context? Are they the right concerns? And if not, what else should they be thinking about?

So the concerns that were raised at the National People's Congress, in addition to the general broad commitment to help those who have not benefited so well from reforms, basically all revolve around the question of maintaining social stability. And I think this goes to Cheng's opening comments about this nervousness of the domestic challenges. And obviously social stability so that it will ensure continued Communist Party rule.

In that context, it's not only the 700,000 who were drifting around Beijing. It's also worth noting that the budget for domestic public security was almost the same as the official projected defense budget, around 75 billion for this year moving forward.

So I think the three challenges explicitly or implicitly outlined by Premier Wen were the challenge of inequality, the challenge of corruption, and the challenge of the restive periphery. But at core, those all relate to questions of governance, which was not addressed directly, but rather the plea was to build a service-oriented government that the people are satisfied with in the premier's terms. And actually in that latter realm, as I'll come back to at the end, the Hu-Wen government is showing success, but I still think major challenges remain to the broader challenge of governance.

I would say that the three challenges are correctly identified. One could add in, I think, other longer term issues that they should be more concerned about: the aging of the population, which is going to become a significant problem starting in three or four years time; the skewed gender ratios; and, of course, as one of the earlier speakers talked about, the question of the effective urbanization and integration of migrants. But most of the problems in China stem from, I think, problems with governance. But let me say something about each of those three quickly and then come to the question of governance by way of conclusion.

First of all, inequality. While there's, of course, significant variation across regions of China, within cities, and so forth, within the rural areas, it's the urban-rural nexus of inequality which is the most important for China. And although the reforms up until 1985 actually led to a narrowing of the rural-urban gap, it's continually expanded since, so that by the latest figures it's already at a level of 3.33-to-1. And that makes the level of urban-rural inequality the highest in the world. We often think of countries like Brazil, the Philippines being very unequal countries, but they only have ratios in the 2-to-1 range. So China is

really quite an outlier in terms of the urban-rural ratios.

And that urban-rural gap is much more pronounced in the poorer areas of China. So for Shanghai, for example, the ratio is just something like 2.2-to-1, whereas if you go to poorer provinces, like Guizhou, Jiangsu, it's over 4-to-1. So the problem is more acute where there's more poverty.

A lot of people focus on the Gini coefficient. Yes, it's risen. Who knows what it is? It might be 0.5 and so on and so forth. But it's really not very relevant for helping us to understand the challenges in China. Basically as China urbanizes, the Gini coefficient is going to go up, but that doesn't mean that life is actually getting worse for the vast majority of people just because of the simple way the Gini measures that.

The one important thing that does come out of that, though, is that mainland China, for a number of demographic reasons, has a different path of trajectory towards development as compared with Japan, South Korea, and Taiwan, which made that transition to urbanization with relatively low levels of inequality and kept that income gap quite narrow. And that may set different political challenges for China moving forward.

Now, despite all the rhetoric about the need to develop the countryside and considerable investment in that endeavor, political representation for the relatively disadvantaged is extremely weak in China. Basically they have to rely on senior leaders recognizing there's a problem, usually because of security concerns, and then acting on their behalf. And so with the exception of Chongqing, there's no representation from the west of China in the politburo. It basically represents the more developed provinces of China, the wealthier parts of China. And that makes me presume that, on the whole, policy will continue to be biased in favor of the haves while rhetoric will continue to be paid to the needs of the have-nots.

So one important question is can a new political coalition be built that can



go against the interests of the pro-urban, the pro-SOE, the pro-coastal, and increasingly the pro-rich parts of China? And if that coalition can be built, can it be done in such a way that is not destabilizing?

Secondly, corruption. Again, at the core is also a question of governance. And Wen Jiabao has tried to tow the difficult line between acknowledging that corruption has become a major problem, but not accepting that there are systemic causes. He accepts the premise of the party itself can combat corruption through public punishment of a limited number of senior officials, by running morality campaigns, and tightening internal discipline mechanisms. And this follows the traditional CCP logic, that while the party has made mistakes, it is the party that has corrected them and people should trust it to do so in the future. But, of course, the pursuit of economic riches without genuine marketization and democratization, and where power remains hierarchically structured, where information is dependent on position and usually also party membership, that lies behind the corrupt activities of party members.

Now, it's not a new phenomenon at all. What is new is just there's an awful lot more to be corrupt about. And as a result, the stakes can be higher. And we see this obviously at the local level, Chongqing being yet one example.

But it is causing a lot of concern among Chinese citizens. An online opinion poll carried out last year, just before the 2009 NPC meeting, found that 75 percent of respondents ranked corruption and cleaner government as their top concern. I've been doing surveys of what Chinese people think of their government from 2003, and basically corruption is almost every year singled out as the area of government work that citizens are least satisfied with. It had the lowest rating, just lower than employment creation and unemployment insurance. And most citizens identify -- surprise, surprise -- major infrastructure programs as the magnets.

There's a nice little phrase in China now where they talk about the rainbow economy. I don't know if many of you have heard about that. But black represents money from robbery and theft; blue represents smuggling, often associated with Customs and the navy; red represents official corruption, of course the color of the party; white represents the gains from drug trafficking; and yellow represents the money from pornography and the sex trade.

The third then is the questions of ethnic unrests. And the riots, of course, in Tibet and Xinjiang have been major concerns. And while Wen Jiabao didn't refer to these explicitly, he did stress that a special effort would be made to improve the living standards of minorities and to ensure that they feel a sense of citizenship. I think that's a very important phrase, the idea of the notion of citizenship. But it's going to present an incredible challenge. Because, as everyone knows, people see the root cause of the problem quite differently. If you talk to officials in Beijing, they're baffled about why people in Tibet and Xinjiang are not grateful for all the investment, for all the economic growth. If you go to Tibet and Xinjiang, you hear a different narrative about the destruction of their culture, they want really genuine autonomy to be implemented. And I think it's here that we see the paternalism of the party.

And actually there was a great quote at the NPC meeting from 2007 by Tibet's party secretary, where he claimed the Communist Party is like the parent to the Tibetan people, and it is always considerate about what the children need. He declared the party's Central Committee is the real Buddha for Tibetans. Not surprising, then, we have very different perspectives about how the area should develop. (Laughter)

So the leadership has recognized this need for political reform. It's been doing a lot. There's been experiments with new systems for evaluation of officials, encouraging feedback and performance. But basically what it's offering is liberalization to

replace or to try and stave off democratization.

As I said, I think most of the problems that China confronts are related to questions of governance, whether it's the poor implementation at the local level of national regulations, illegal transfers of land by local administrations, or the lack of transparency in the government or corporate sector. But I think one of the interesting things is, in comparative terms, actually China's governance does not perform too badly.

This is the ratings that Danny Kaufman and colleagues through the World Bank have done. And if you can actually see it, what it shows is that China actually does quite well in comparison with large countries, like Indonesia and India. On questions like rule of law, control of corruption, not surprisingly voice and accountability it performs abysmally, even worse than Vietnam. But what is also interesting from this chart is where China wants to get to next. It's on all indicators a long way behind the next set of economic objectives from countries like South Korea, which have much higher indicators across the board.

Now, from the surveys, I just want to finish up with two -- a couple of findings from the surveys that we've been doing since 2003. And I think what is interesting here, coming back to a key question, it's not so much: what do we say about government, I mean, what do Chinese people think about their government and how it's been performing? And here I think there are two interesting findings that are coming out.

The first is that it doesn't matter which year you look at. Across the board satisfaction has dropped from the central government down to where local government, which is the purple band, interacts with the people. And that is significant because in China it is the local government that delivers the vast majority of public services and public goods. And this is actually the exact reverse of what you get when you run a similar kind of survey in the U.S., where satisfaction tends to be higher with the local level of government where

there's more close interaction and less satisfaction with the higher levels of government. So China is the reverse for this.

But as you can see, I think it confirms the views of many that the central government still retains quite a high level of legitimacy. Now, even if these are inflated figures, 90 percent of population being satisfied in one way or another with the central government is quite high. And I think it also shows the classic view that, you know, the center is trying to do good and it's really only at the local levels that they're doing bad. And so it's a question for many citizens of local implementation rather than central intent with policy. And very few seem to make a link between local abuses and systemic structures which emanate out from the center.

I think the second interesting finding from this is that you can see that under Wen Jiabao and Hu Jintao's leadership since 2003, citizen satisfaction with government has actually been rising and it's been rising pretty much with all levels of government, and particularly and importantly with the local level of government. Again, the purple band. And that might again show something, that citizens have been happy with the kinds of support that they've been getting from the central government. It tends to be the highest income earners and the lowest earners and their particular reasons that are most satisfied with this.

This just very briefly is we divided up questions. The red side being bureaucratic behavior by local government officials; the blue side being more pro-people behaviors by local government. You can't see the figures, I'm sure. The only thing that's important to know about it is that actually the blue side of the ledger, again, has been going up continually since 2003 showing some satisfaction.

The last point then I want to make is that what we also have talked about are questions about the provision of particular public services. Where people have said that work really does need improvement and they're most dissatisfied with government are in job

creation, unemployment insurance, hardship family relief, medical insurance, and environmental health, and, of course, corruption.

Where they feel government is doing a good job is road and bridge construction, water/electricity supply, religious belief, and family planning. Now, interestingly, family planning, if you ask them how important they think that is, they rank it as the lowest of their indicators. So they kind of feel they're obliged to say family planning is important, but they don't actually think it's something the government should be doing is what you get out of this.

But what this really then shows to us is what Chinese people are really concerned about is the kind of shift that Barry was talking about to something that protects them against the impacts which are household-based of the transition. Well, they're less concerned about the things that the old plan was really good at doing, the hard infrastructure development. And if the government begins to concentrate on those former issues, I think that will help resolve the problem that Barry was talking about as stimulating domestic consumption and being able to get more money freed up in household incomes instead of having to invest and hedge against future dangers and concerns.

Thank you. (Applause)

MR. LIEBERTHAL: I now want to turn our attention to the U.S.-China relations dimension of the very complex picture that's been laid out by the first three speakers. Clearly the narrative in U.S.-China relations has turned distinctly negative. You look at The Wall Street Journal, the New York Times, almost anywhere across the board here. And let me say reflected in China, too. And there's a clear set of tensions in the relationship that's very palpable at this point.

I want to take my 15 minutes or so to highlight how and why we've gotten here and then what I think we can expect going forward. First, for how and why we've

gotten here. Let's keep in mind that the Obama Administration inherited a relatively good U.S.-China relationship. Arguably, this was one of the success stories of the Bush Administration. President Obama himself came in I think with a very pragmatic view about what the U.S. could accomplish with China. You know, he brought very little China background to the table. I don't think he'd ever met a ranking Chinese official before he entered the Oval Office. But as he surveyed what was on his agenda, I think he very much felt that in almost every major area, establishing a good working relationship with China would make matters easier to resolve or easier to manage. And if the U.S. and China were at loggerheads, almost every major issue would become more difficult.

So I think he has approached China really in a problem solving mode. He is not someone who approached China with the thought of changing China. You know, not a kind of proselytizer or, you know, of democracy and democratic transformation and that kind of thing. This is a man who wanted to get some things done and saw a good working relationship with China as an important part of that effort.

He decided to spend the first year developing the capacity to work with China's leaders in an effective fashion. And that involved a quite conscious decision to put off some issues that perennially neuralgic issues in U.S.-China relations until the second year. And those issues most prominently at a symbolic level are arm sales to Taiwan and meeting with the Dalai Lama. He also sought though to change the agenda or significantly shift the agenda in U.S.-China relations, not to abandon the traditional issues that have so often occupied the leaderships on both sides -- whether it's the cross-strait relationship or, you know, economic and trade ties. North Korea has been built into that in a very prominent way, especially over the past decade and so forth. But rather to bring major global issues to the center of the U.S.-China relationship. While we had engaged on global issues before, it was frankly never in a way that could actually impact the quality and the future shape of the

U.S.-China relationship.

President Obama came in with the objective of bringing those issues to the center of the relationship. And the three major issues he had in mind were the global economic crisis. Obviously that was a new issue that had emerged and he felt working effectively with China on this would be absolutely critical. Secondly, the issue of clean energy and climate change, especially with all countries looking forward to the Copenhagen meeting in December. And then thirdly, the issue of nuclear proliferation, which goes beyond North Korea. Now the key ripple in that is Iran. But there's actually discussion of restricting the entire nuclear non-proliferation framework globally, and China would be a key player in that.

Now, moving global issues to the middle of the agenda reflect in part China's own emergence as a global power. You know, until very, very recently China was fundamentally a regional player and marginally a global player. And its, you know, people tend to forget now already that it's really only the last year or two that the assumption has been that on big global issues China is absolutely a crucial player. So this really marks a very significant change in China's position.

But it's worth keeping in mind that moving global issues to the middle of the agenda ran a real risk. The U.S. and China had developed a very mature relationship over the course of, you know, the time since normalization. But that was a mature relationship in that we learned how to manage the traditional bilateral issues on our agenda. These new global issues are ones that frankly we have never dealt with each other terribly seriously before on, and for many of them they are really new issues for China. And so China itself is trying to figure out how to deal with them and figure out how to deal with us on them. And, therefore, frankly, our capacity to work effectively together on those issues is, should we say, more of an open question than has been the case with the issues that we have gained a

great deal of experience with over many, many years in the bilateral relationship.

With that as background, 2009 it seems to me went very well through November. On the economic side there were a lot of accomplishments. We both adopted very powerful stimulus programs. As Barry noted, there are significant differences in timing and implementation and so forth, but fundamentally, if you go back to early 2009, the U.S. and China were the strongest advocates out there of major stimulus programs to get things going. We cooperated a lot in bringing into play the G-20, cooperated in restricting the funding of the IMF and voting rights in the IMF. A lot took place and took place relatively smoothly.

On climate change there was an enormous amount of consultation. Xie Zhenhua was in Washington it seems every other day. And on the odd days, Todd Stern was in Beijing. There was just a tremendous amount of work done on this and also on clean energy where we ended up signing seven cooperative agreements in November between the U.S. and China.

Even on the nuclear side things went relatively well. China again became very active in trying to reinstitute the six-party talks in North Korea, but also what was not terribly widely noticed, the IAEA in December of 2009 issued a finding that Iran was not in compliance with its obligations to the IAEA, and China supported that resolution.

So on these big issues things moved reasonably well I would say through November. And the President and President Hu Jintao met I think about five times during the course of the year.

This all culminated obviously in the President's trip to China in November. That trip, let me say, obviously in the U.S. did not get very good press. In China it was very highly evaluated. And frankly, the people on the trip thought the trip went very well from the U.S. side. There was real chagrin over the press coverage because the press missed what



had occurred on the trip. But I think both sides felt that this trip had marked a consolidation, if you will, of a new stage in the U.S.-China relationship where global issues are now key. If you look at the joint statement that was signed during the President's trip, most of it is devoted to issues that were not on the U.S.-China agenda before 2009. It's really quite remarkable. So it marked a real shift in the scope of what we focus on.

And for the first time, frankly, since 1982, we had been able to sign a very extensive, wide ranging document -- in fact, this was more wide-ranging than the communiqué in '82 -- indicating our points of agreement and our general principles that will guide the relationship. So I think that there was a feeling more articulated in Beijing than in Washington that the relationship had really entered a new stage, that things were really in quite good shape as we go forward.

Let me say this took place despite the fact that the U.S. made very clear to China before the President left Beijing in November that we would have a meeting -- the President would meet with the Dalai Lama early in 2009 and that we would be announcing our arms sales to Taiwan. So it is not that these decisions came as surprises to the China. We had teed them up quite frankly in private conversations.

Nevertheless, 2010 has gotten off to a bad start. Right? I mean, a lot of tensions have emerged. That's despite the fact that of the big issues that are raised for points of tension, it's only the Google incident that had not been anticipated and foreshadowed in discussions in 2009. So there's something, you know, it's a little bit of a puzzle to be explained there.

Here I think -- I didn't mean to get that going again. Here, I think that the U.S. position has, in fact, remained quite constant. So I think the kind of shift in tone has been more on the Beijing side and that's now evoked a counteraction in the U.S. So let me focus on the Beijing side and kind of discuss why we've gone from a real high point in

November to a real feeling of concern by March.

I think it's a combination of things coming into play. One is to an extent that I think few Americans fully realize, China's leaders felt both in '08 and '09 that they faced huge domestic challenges. Some of those were anticipated: managed the Olympics well, series of sensitive anniversaries in 2009, you know, et cetera. A lot of these were not anticipated. You know, not only the economic crisis, but the Guantunxiang earthquake. You know, just an enormous set of challenges from there to the Tibet problems, the Xinjiang problems.

And frankly, at the end of 2009, I think China's top leadership looked back and said, boy, we handled that pretty well. You know, I mean, there was a real period of testing. And I think at the end of the day they were pleasantly surprised with how well they had done in a series of very wide-ranging challenges. I think that gave them a sense of accomplishment and kind of, you know, we're not doing -- our judgment is pretty good. Right?

Secondly, the global economic crisis, as Barry suggested, has really narrowed the gap somewhat between China and the United States. The U.S. model has been tarnished. U.S. capabilities have been significantly reduced. China has come through better than any other major country. And so inevitably this is -- it isn't that China is now a stronger economy than the U.S. or a larger economy than the U.S. or any of that; none of that is the case. But the gap has narrowed and so perceptions of hierarchy have been effected by that. It made the Chinese a little more willing, I think, to try to take advantage of that to put forward longstanding Chinese objectives.

In addition to that, the Chinese, despite our having presaged our decisions on Taiwan arms sales and the Dalai Lama visit during 2009, they may still nevertheless have felt somewhat humiliated and angry at the leadership level of the fact that they had

trumpeted a new stage in the relationship and then suddenly we're doing the same old things and doing them very visibly. And so they may have decided that they really needed to push back a bit, in part to protect themselves and say essentially the U.S. has changed its policies in a way that isn't living up to the spirit of what they all had agreed to.

As a result of this combination of things, I think China has sought in recent months to shift somewhat the trajectory on a couple of issues that they have found to be neuralgic issues for a very long period of time, such as Taiwan arms sales and how we deal with the Tibet issue and with the Dalai Lama, and essentially pushed harder than they have in the past on these issues and expressed more chagrin over them.

In addition, and I've forgotten which person mentioned this, but it's quite important I think, the Chinese are also worried about what they've seen going on in the U.S. recently. They're worried about our not doing better on recovering from the economic crisis. They have placed huge bets on the U.S. doing well economically. It's extremely important to them. They have invested in it extremely heavily. And they frankly are very worried that we aren't doing better than we are. They're very worried about the size of our budget deficits. They're very worried about the paralysis on the Hill in dealing with a variety of economic issues. I mean, they're just nervous about all that.

Secondly, on the climate change issue where we have pushed them very hard, they, frankly, are very nervous that they'll get into a position where they take on international obligations. The U.S. says it will take on the same obligations, but then in reality ends up pleading domestic incapacity to pass necessary legislation. So we back out, but they still get stuck being expected to do a lot.

And I can't tell you how many times I've talked with key Chinese officials about it and they always come back to what about the Senate. Are they going to pass cap-and-trade? Let me say the news doesn't sound very good on this. So the U.S. is not doing

what Chinese last year had thought the U.S. would be doing this year, and there is a sense of real concern in China over the implications for China of that.

And then as we've heard from several of the speakers, Beijing is also nervous about its own economic and social stresses. It's on the one hand in good shape; on the other hand this is a huge complicated, dramatically changing place and rational people worry a lot about untoward developments that could occur.

With that as background let me look ahead. And I'll do so in two minutes because Cheng has just flashed me his sign and I know how tough Cheng can be. So let me make a couple of basic points.

One, it is frankly very easy to foresee serious problems in the U.S.-China relationship as we move forward. I think that is especially true on the economic and trade side. I think Barry's presentation really beautifully laid out what is really going on. And the difference between what is really going on and what the politics of the issue are in both countries, frankly, at this point is quite dramatic. And I think both sides are gripped by politics that are trending toward potentially serious confrontation. I think that the pressures are going to get worse, not better, as this year goes on. And I can go into that in more detail later. After I've sat down, therefore, I'm no longer under the two-minute rule.

Neither side feels good about what happened at Copenhagen. And there is some real nervousness about how they're going to reengage on an issue that is not going to go away: the issue of climate change. And so I think now we're beginning to see some tentative moves on both sides to get back in touch and kind of work our way forward. But the distrust there is substantial. Each side felt that the other at Copenhagen did not do what it had quietly committed to do. And so there's a real sense of mutual chagrin there.

And then on the nuclear issue, Iran looms as the next major test. China, I think, is likely to either abstain or to vote in favor of a resolution that it will have done

everything possible to water down before the resolution comes up for the vote. How the politics of all that will play out will depend in no small part on how other members of the U.N. Security Council vote and, therefore, how strong a resolution and how much momentum behind the resolution comes out of the Security Council. And we'll have to see how that works out.

Let me, though, conclude with some more fundamental observations, both downside and upside. On the downside, it is hard to overstate, I think, how much the U.S. economic model has lost its luster in Beijing. And that in a very real sense diminishes respect for the U.S. and diminishes the political cushion that that respect for our economy and we know how to do this stuff had created under our relationship. So I think we've got a thinner cushion than we had before in part because our model, frankly, has not performed well recently.

Also, on the negative side, the global issues are still ones that China is trying to figure out how to handle. And again, we can go into detail in Q&A if you want, but let me say there are debates across the board in Beijing about what do we now do now that we are seen as a global power. We're expected to be not the ones who sit in the back row, articulate broad principles like handle this well and wait for others to take the initiative. We're now expected to take the initiative. What should we be doing? How narrowly China-focused can we be? How much do we have to contribute to global public goods? These are very, very difficult issues. And I think China is unlikely to prove to be surefooted on them in the coming year or so. I think these are issues that just take a while to develop your capabilities to manage effectively. But their lack of surefootedness can create a lot of tensions with the U.S.

On the more positive side, and I'll conclude with this, both leaderships know that they really need the cooperation of the other, or at least not the determined opposition of

the other, in order to achieve their own core domestic and international goals. Each leadership is acutely aware of that, and I think both leaderships want very much to get this relationship back on track and to see how to do that in the most effective fashion. So I think they're trying to find ways to put tensions behind and to begin to develop new momentum.

In addition, frankly, I regard Beijing's leaders as relatively pragmatic. They tend to do things and then see what the results are. And if the results aren't what they had wanted they tend to evaluate and readjust. And I don't think the results of their recent rhetoric toward the U.S. have been what they wanted. And so I would anticipate that they will say, you know, we better kind of shift a bit in order to get things moving forward. And that's not only with regard to the U.S.

And in that light it's worth keeping in mind there are two major opportunities to move the relationship back on a more positive track: the Strategic and Economic Dialogue, which will meet in late-May; and the Hu Jintao return visit for Barack Obama's visit, which will be likely either in April or June. My guess would be more likely in June. Neither side will want either one of those events to go badly, to end up on a negative note. So there will be a lot of opportunity to shift things in a more positive direction here.

If there is a real downside though, it seems to me it's on the economic and trade side. And there, frankly, I think that could be the thing that swamps the relationship as we go forward. I hope it isn't, but it's going to take more political courage in both capitals than we have seen recently if this issue is not going to move absolutely to the center and just create all kinds of mischief.

Thank you. (Applause)

MR. LI: Well, thank you all for excellent presentations. I like Tony's metaphor about the rainbows. Now I realize that it can refer to so many good things.

Well, this event will be widely reported in China as so many Chinese

journalists are in the room. But unfortunately, we do not have a panelist from China for this particular panel. So please allow me to have a first round of questions largely from the Chinese perspective.

Now, for Barry, you talk about currency exchange rate and also take a very sympathetic view for Chinese. And there certainly is concern about the export -- concern about unemployment as a result of RMB appreciation. But it seems to me there's a deep concern by some Chinese scholars and the government leaders is the fact that China may potentially lose a huge amount of financial assets, like what happened in Japan. We referred to Japan several times in the 1980s. Do you think that concern, that worry is valid or not?

For Joanna, you also give a very balanced view about China's role, and particularly the contribution about the clean energy and these issues. This is very much in line with Wen Jiabao's remark at the recent national press conference after MPC. He defended China's position in Copenhagen. And particularly he said China's position, China's positive role, was misinterpreted, misunderstood.

Now, here is my question. Do you agree with him? Or in what areas are criticism of China valid? In what areas probably not fair?

For Tony, your talk -- there's a lot of questions I will ask you probably after the meeting. It's really a fascinating presentation. You talk about the different -- the people's attitude towards the national leaders and the local leaders. This is certainly in line with Chinese strategy which I call "think nationally, blame locally." (Laughter)

Now, that strategy has been around for more than 10 years. It may alienate the local leaders. They say why always blame us? Now we even don't have any resources in land leasing and tax and anything else. It sounds like only local leaders are corrupted; central leaders are clean. Now, people may ask us why; also think that probably the

problem does not lie in local leaders. Maybe the political system itself or top national leadership is really the problem. Do you see that kind of trend or tendency in the years to come?

Now, for Ken, really, again, very broad, comprehensive. I do not have any disagreement. I think it's really very accurate and also fair to Chinese, particularly talk about Obama's successful trip, well received in China. Chinese leaders headlined (inaudible) reach a turning point and reach a new high ground and also become strategic partners. All of a sudden all four Ts or three Ts -- trade, Taiwan, Tibet, and technology -- all come back.

Now, for Chinese there's certain things that embarrassed to say the least. Now, is there any room for administration to improve or at least should we be more articulate -- "we" refer to the administration -- to be more articulated to the American public why we should pursue that policy, why we should maintain a delicate balance? Is that an area we should improve, particularly with more events coming? So what's your suggestion for the Administration to improve, you know, both communicating with Chinese and communicating with the American public.

This is my first round. Would you please? You have a microphone. Start with Barry.

MR. BOSWORTH: I guess I can understand some nervousness in China about the correction on the external side. But China was very balanced trade right up to the 2005. It's just basically a return to their old economic policies, which was a balance opposed to growth. I don't think Japan offers lessons from the 1980s for China. I think they offered lessons for the United States. We're the country that's going through what Japan went through. The problem for Japan was an enormous asset market bubble in housing and in the stock market. And they didn't do anything about it and all of a sudden it crashed in 1990. That's what's happened in the United States. We are a replay of the Japanese crisis.



The lesson for China is that you do have to care about these asset markets, and they have worried about them. I think for lately are being quite effective in choking off some excess pressures that have begun to build up from the real estate market. But on the trade side, not with respect to the United States, but with the global situation, China has to be a good citizen, so to speak, globally. You cannot be a mercantilist in your trade policies when you're as big as China is. You cannot just run huge trade surpluses and suck all this demand out of the world economy and sock it away in reserves. It's not a responsible way to behave. I don't think it has big implications for the U.S., but I think it does for the world economy.

MR. LI: Thank you. Joanna?

MS. LEWIS: I think when we look back on Copenhagen there was a lot of press focusing particularly on the last 24 hours of the meeting. I'm sure you've all heard about how, you know, we had President Obama trying to track down Premier Wen, who was reportedly off scheming with the Brazilians, Indians, South Africans, and the drama that ensued from there.

But I think to really take a more fair look at Copenhagen we should look at the entire two weeks and how both the Chinese and the U.S. positions really played out. And in terms of your question about whether, you know, China should take any blame from the outcome of Copenhagen, I think they should. But I think the U.S. bears at least an equal burden of the blame for what happened there. In particular, we saw some tensions increase between these two countries in particular over the issue of finance. I would argue that these were sort of -- they became more political than actual issues and really just created the sort of tension that led into the second big issue which then came between the two countries, which is this topic called MRV, or measurement, reporting, and verification.

I think that the U.S., from a U.S. perspective, they were trying to tell us all

the MRV was a technical issue. It was about trust, transparency, being able to report emissions, and claimed that this is something China needed to move on. They acted surprised when China pushed back on it. From a Chinese perspective, I think that this wasn't a technical issue, purely a technical issue, because for all the reasons I just laid out in my remarks, China has made a lot of progress in the last couple of years related to data collection verification. This is something they're working on quite a bit domestically. And so I think the reason why this became such an issue of contention in Copenhagen is because this actually again was turned into a political issue where the U.S. was trying to use this as a way in some ways to break this firewall that we see in the negotiations between developed and developing countries and having very different requirements based on both. And they wanted the MRV regime to be the same for China as it is for the U.S. and start to move past this firewall.

Going into Copenhagen, China had already agreed to take on a binding national carbon target, this carbon intensity target which I mentioned. The U.S., in Copenhagen -- going into Copenhagen, agreed to take on a conditional national absolute target, conditional on congressional action. You can argue over which of those has more meaning. China's target is going to be implemented and the U.S., we're waiting to see what will happen here. And so I think for some of the reasons Ken mentioned there was this sort of mistrust and uncertainty going forward of where both countries should be.

So, you know, that maybe gives a little more sort of my thinking on what might have happened there. I think both countries are certainly to blame, but we're in a pretty tricky situation now moving forward in terms of next steps of climate change discussions now that we didn't quite get the outcome that many hoped we would at the Copenhagen conference.

MR. LI: Thank you. Tony?

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MR. SAICH: Yeah, actually, can I make a comment on Barry's question?

MR. LI: Please.

MR. SAICH: I think the interesting -- and I presume you've been talking to some of the same people that I have -- and the issue about Japan is actually not related to the reality, but it's a part of the conspiracy theorists. And the argument, just to make it clear, runs -- the U.S. deliberately got Japan to revalue its currency, to build up an asset bubble so it could crash the Japanese economy and bring it down as a competitor to America. That's what the argument is about. And so the people in China are arguing about this and saying this is what the U.S. strategy is because they did it to Japan and now they're going to do it to us. Now, I agree with your answer, but I'm just saying that's the political background to where that's coming from.

On your question, Cheng Li, I don't want to take too long. Let me just say, you know, two things. The first is, you know, as a lot of Chinese friends have said, you know, why in a survey like this criticize the central government? You know, it doesn't give a damn. You know, why irritate them? So they're going to say it's good whatever they think in reality. So the figures of the central government are probably lower. But I still do think there is this bifurcation. And, you know, it's essentially, you know, the center hands out mandates. But as we all know, it's the local government that has to pay the bill for most of them. So that's where the pressure does come together.

I think the central government is realizing that what you're talking about, that phenomenon is beginning to build up. And in part it's new technologies. You know, someone with a mobile camera, you know, is able to -- or mobile telephone is able to snap pictures of abuses in one village, it goes around. And so I think the leadership is becoming very nervous that, you know, underground linkages are forming, linking riots and demonstrations in one place to another. And that perhaps there is this tendency of thinking

that if this is happening in a lot of different villages, maybe it's more systemic than just an abuse by a local leader. And they've been very concerned to try to stop that spreading.

MR. LI: Thank you. Ken?

MR. LIEBERTHAL: First just a quick comment on Tony's comment on Barry's comment. (Laughter) Which it is really impressive to see the faith that the Chinese continue to have in the U.S. capacity to be extraordinarily skillful, strategic, tightly organized, disciplined, and conspiratorial so that no matter how badly we mess up, it is always a conspiracy to constrain China or harm China. I mean, it's really quite remarkable. I'm not sure what we have to do to make them realize that we just screw up very frequently.

(Laughter)

On your question as to whether Obama can kind of shift the rhetoric and educate the American public more on this and that kind of thing, I think it's very tough. First of all, both sides would have to change their rhetoric. Right? China can't be coming on strong and Obama be the only voice of reason out there. So there has to be a mutual shift. As I suggested, I do think that there will be some efforts to move in that direction. The SNED and what will be the Hu Jintao official visit will be important opportunities and I think we'll see some real efforts in that regard.

We have to keep in mind a couple of things. One is President Obama has a real problem with his own political party. And the real fire in the belly on the China, especially trade issues, is a Democratic fire in the belly. And the President cannot afford to lose Democratic votes on the Hill, not only for health care, but for financial reform and then for cap-and-trade legislation, you know, you name it and he needs every vote on virtually everything. And so he's got to be very careful about how much daylight he puts between himself and his own Democratic Party on the Hill. And that is obviously especially true with the November election coming up.

Finally, an issue I didn't raise before, but let me just mention now. I've really been struck. I had a couple of recent trips to China and one of the questions I've been asking there is kind of what do your leaders think of Barack Obama. Is this guy really tough, strategic, capable, et cetera? Or is he, you know, not quite up to the task, if you will? And I've gotten a remarkably consistent set of answers. Now, the N is well under 1.3 billion, right? (Laughter) But nevertheless, across an array of both officials and the kinds of think-tankers we all know who plug in a lot. And it is as follows: That this is a man who is very smart, you know, very intelligent guy; lots of good ideas; very articulate. But -- and almost every person has said -- but he is an idealist and Chinese are realists. Right? He thinks ideas, emotions will move reality. You know, we know better. Right?

So I think there's a real question still in the minds of Chinese leaders as there are in the minds of many Americans, frankly, as to whether the President can deliver; cannot only articulate the problem, but move it forward and make a lot of progress. And I think that he's going to feel the need to be more than someone who engages in rhetoric. He's got to demonstrate to the Chinese that he is a strategist with muscle. And so there is that counter -- not totally opposite direction pressure, but that additional layer I think inevitably to his thinking about how to move forward on all this.

MR. LI: Wonderful. Now the floor is open. There are a lot of hands already. I will limit each person for one question. There are no two-part questions.

(Laughter)

And please identify yourself and your name and also your affiliations.  
Ambassador Julia Bloch.

MS. BLOCH: Julia Chang Bloch, U.S.-China Education Trust.

Cheng Li, you said that this is going to be widely reported in China. I wonder if the terrific messages -- I shouldn't say terrific -- very intelligent and balanced

commentaries we've heard this morning from this terrific panel, the messages will get back to our Congress. How widely reported would their messages be to the U.S. public? Because what we heard this morning so contrasts the noises they're beginning to emanate from our Congress. Once the health care legislation is dispensed with, I think those noises are going to sound louder and louder.

I'm particularly concerned about what will come out of the Congress on the RMB revaluation, particularly hearing Barry Bosworth's presentation. Because this time around, and with our election -- mid-term elections coming up, and with Obama's many problems with his own party, I really wonder whether anything intelligent on this issue will result. And from the commentaries that we're hearing from our own political pundits, you know, our own system, not just economically, but politically, it's broken. And I'm very pessimistic. And I wonder whether any of you would have more enlightening thoughts.

MR. LI: Okay. And also in the future, also direct your question to a particular person or panelist. Anyone want to answer that question?

MR. LIEBERTHAL: We like to think that every member of Congress gets up in the morning and immediately reads the Brookings website. (Laughter)

MR. LI: Well, this is a good comment.

MR> LIEBERTHAL: It's a good issue.

MR. LI: Next question. Scott Harrell .

MR. HARRELL: My question is one of methodology for the three panelists on the left: Dr. Bosworth, Lewis, and Saich. You all cited statistics from China, many of which seem very difficult to gel with what we know about China, which is that, for example, when Chinese officials order something to happen, it happens. Yet, of course, when we go to the ground level we know that oftentimes the top has a policy and the bottom has a counter policy. Reporting of faith in the central government at 90 percent seems difficult to

square with the complaints we hear. And in particular with economic affairs, we've heard that China has a 30 percent expansion in its monetary supply over the last year.

So across the broad range of excellent presentations I walk away with some questions about the reliability of data. And I wonder if you could help us think through how as you weigh different inputs and fit them to what you already know about China, all three of you came out fairly positively when there are obviously voices with fairly good data that fit the data quite differently to the picture that we already have.

MR. LI: Is China's population number 1.3 billion accurate or reliable? Does anyone want to answer that question about the data reliable?

MR. SAICH: Yeah. Just two quick things. I mean, the first is I agree with you that, you know, if they say they want X, they'll usually get X in the reporting. That doesn't apply to GDP. The Premier asks every year for 8 percent GDP; he never gets it. They've also asked for rural-urban, you know, income differentials to go down for many, many years now. All the official data keeps telling you it's going up. So it's not in every case that it follows the demands of what the center says.

On the question, you know, the specific question about levels of satisfaction, let me just say two things. The first is it's a combination of extremely satisfied and relatively satisfied. If you broke it out to extremely satisfied, the rate falls back to with the central government something -- I forget the exact figures, but it's maybe 17 to 20 percent, which is much more in line with what the central party school has done with some of its surveys and data gathering.

So, and I think secondly is a number of people who said, and I said in my comments that, you know, why blame the central government? It might only give you trouble. So I think that is an inflated figure.

What I tend to say with the data is you can always quibble about the

exactness of it, but if you're using the same series, then at least you pick up trends. And that's what I see most important in Chinese data or this kind of survey data. Not a precise percentage, but, you know, is it significant that you can see a trend of what is happening?

MR. LI: Joanna?

MS. LEWIS: If I could just add a brief point on some of the data that I mentioned, particularly related to the energy intensity target. I mean, that target is, in some ways, a moving target because both the energy statistics and the GDP statistics have been revised, you know, after the fact, after they've already reported progress towards that target on an annual basis. So I think it's going to be overly difficult to assess at the end of this year whether or not that target is actually met. It probably will be met. And I think more important to assess is what impact it's having at the local level.

And I mentioned a lot of these programs that are actually the ones resulting in the energy efficiency savings that we're seeing at the firm level: the Top 1,000 Program and the 10 Key Projects Program. And those are measurements you can actually see. You can go to the factors, you can see technology being implemented and what energy is being consumed at that level.

So I think you need to in some ways triangulate between those types of performance data and the national level numbers.

MR. LI: Do you want to say anything?

SPEAKER: I would go along with what was said. The data is not very accurate and it's very limited, but that's true in lots of countries. What I think it's useful for is it's consistent over time and you can use it to project trends. I wish that China could produce more data, but compared to other countries in its stage of economic development it actually has more of the statistical bureau than they do. It has built it from nothing in the last 20 years because the old system has a completely different approach to everything. So I think



the general scoring is that China gets pretty good grades with respect to the data that it does release. We just wish it could produce more.

But other than that, the fundamental things -- did the money supply increase 30 percent? You're damn right it did. There's no question about that. That data is extremely good. As good as it is in the United States. And the question would be do you believe that the Federal Reserve's liabilities doubled in the last year? Unfortunately, they did. (Laughter)

MR. LI: Yeah, I fully agree with my panelists. I think we should not be too cynical. I think most of the data, you know, are reliable and it also conduct this survey research or quantitative studies usually trend in the United States in top schools or in the West. I think that the quality of data in China is as good as many other countries. So I -- we, again, in many ways, like, GDP gross, actually, China tends to underestimate rather than overestimate in the past decade, also. But we tend to think that China is overestimated in (inaudible) things.

So, in general, I think the data is quite reliable. This is my take.

Yes?

MR. QUINU: Thank you. Don Quinu with China Press. My question is for Mr. Lieberthal. How would you evaluate the impact of the public opinions on Chinese foreign policymaking? You mentioned that the United States' position remains constant, but I know many Chinese people believe that President Obama is getting tougher towards China under the domestic pressure. And are you concerned about the fact that it will be more (inaudible) for both countries' policymakers to be more friendly with each other, particularly when the Chinese people feel more (inaudible) confident after the financial crisis?

Thank you.

MR. LIEBERTHAL: Well, first of all, the issue of how much public opinion

affects Chinese's foreign policy, you know, are China's leaders sensitive to public opinion or what they see as public opinion? Yes, they are. Do they have a substantial capacity over time to shape that opinion? I think they do. What opinion really counts for actual concrete policymaking in China, I think it's overwhelmingly public opinion at the highest levels of the system, not out in the broad masses of the population.

And we have seen the capacity in China to seriously influence public opinion on issues. Tone it up, tone it down. Given the capacity of the system to put out particular themes on foreign policy issues and to highlight those themes either, you know, that there's new opportunity or that China's being treated very badly. So I think they are sensitive to public opinion, but not sharply constrained by it because I think they have a lot of initiative in it.

Let me say on the U.S. side, I think the dominant narrative in the U.S. media about the U.S. policy toward China during the last three months has been flat wrong because the dominant narrative has been that Obama finished 2009, looked back and said I was too easy with the Chinese; I've got to get tougher. And so in January of 2010, he decided to get tough and do the Taiwan arms sale and Dalai Lama and this kind of stuff. It's just totally wrong. I mean, if he decided in 2010, why did he tell the Chinese about it in November of 2009? Right? It's just flat wrong.

But you cannot get the U.S. media off of that story. So I can appreciate why many in China would think that that's what happened because you look at our major American media and it all says that's what happened. So shame on our media.

MR. LI: Well, we only have five minutes. Probably we can extend for five more minutes, so in 10 minutes. So we'll take a few questions, then probably we answer them together. Yes, in the middle.

MR. LEVINE: Thanks. Hank Levine with the Albright Stonebridge Group.

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A brief comment and then a question I'll direct to Ken.

I agree completely that the economic side of the relationship is the one we need to be concerned about in terms of future, you know, friction and problems, in addition to the RMB issue which inexplicably, you know, or not inexplicably, but is heating up. The new element that I see is a deep concern among large parts of the U.S. business community over these Chinese policies, which are either translated as independent innovation or here in town typically as indigenous innovation. And this involves government procurement policies, unique technical standards, so forth and so on.

In short, I think, I have heard, you know, some companies in town -- for the first time I think in 20 years -- so dispirited about these policies that they talk about sitting on the sidelines the next time that strong China legislation is moving through the Congress. This could really be a game changer.

And the question, I guess is, Ken, in your talk and your discussions with Chinese officials, do you get any resonance? Are they aware of the depth of concern that these policies are bringing? The extent to which, as I say, it could really change the political dynamics here in town.

MR. LI: Yes?

QUESTIONER: Nina (inaudible), (inaudible) News Agency. We know this is a highly political year and there is increasingly economic anxiety in the U.S. As The Wall Street Journal reported today, U.S. political figures and economists now want to make China's currency as a scapegoat and risk a trade war with China. I'm wondering -- my question is for Professor Bosworth and Dr. Lieberthal. What are your expectations that Washington will react if China dismisses the foreign pressure?

Thank you.

MR. LI: Thanks. Yes, please, you. Thank you for your patience.

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QUESTIONER: Thank you very much. First of all, excellent presentations.

I just wanted to follow up on the scenario that Ken was outlining that he could elaborate more on about the growing tensions on the economic side. On the economic side the tensions are really getting much escalated. The answers so far also imply they're going to get much tougher. So the real question is what can be done to try to diffuse them, because we see a political system that's beginning to react. We see a precedent that can't control him in his own party. That's the tremendous weakness in terms of delivering and the escalation of the tension. So what can be done to diffuse that? Because I agree with what Barry said in the analysis. And I'm very interested in politically what can be done to counter that because I think that's the key question. This follows up on that first question.

MR. LI: Okay, thanks. Burt Kyler in the back. Yeah.

MR. KYLER: Thank you. Burt Kyler with the Atlanta Council.

I want to ask Dr. Bosworth about your reply to Cheng Li's question where you sort of mixed caution about mercantilism on China and the requirement that it be responsible on the one hand, where you also said that it was returning to sort of pre-2005 trade patterns. And, you know, looking at, for example, your slide on the bottom of page 9, you've made a choice it seems. One of the two choices is to say that China's surplus in 2005 and after was a supply phenomenon in which output exchange rates were really what was going on as opposed to the response to a demand shock from the United States in which the irresponsibility needs to be shifted in the direction of our financial deregulation. And if it is this demand shock, then very hard to say that China risks being mercantilist and needs to be responsible.

So I wonder what made you decide? When the empirical data really seemed to sit behind the demand shock from the U.S. as responsible for the temporary

large trade surpluses in China rather than any exchange rate or supply phenomena, what has made you choose the sort of supply-side causal of explanation?

MR. LI: Okay. Any question for Joanna? We only have probably one question for either Tony or Joanna. Yes, in the back, the lady.

MS. RABJI: Lo Sung Rabji from Majik , a nonprofit that works on the Tibetan Plateau.

I'd like to ask Dr. Saich regarding the young Chinese leaders that you train, I'm very curious to know more about their generational interpretation, not only of the challenges outlined by the premier, but also the ones you mentioned on aging, the gender imbalance and urbanization and integration of migrants.

MR. LI: Okay. Would you like maybe Barry, you start?

MR. BOSWORTH: Well, I would only say, because time is short, these are two complicated issues to get into too much. I would be very worried about the rhetoric that has broken out of the United States in the last week or so. I think there will be a lot of pressure being brought on the government to say that China is a currency manipulator. I don't deny that China controls the currency. And as I tried to make clear, I think it has gone too far. But there's nothing to be gained by making this public claim that they're a currency manipulator.

The two countries are really dependent on each other at the present time. They cannot afford to have a trade war break out. And so I think it's just vital that they try to find a way to diffuse this by moving forward on some new bilateral agreement about the need for coordination on reducing global imbalances to which both have a bit role to play.

On the demand shock, I agree that, as I said, there are two sides of this thing. The U.S. has a huge imbalance of a deficit; China has a huge imbalance of a surplus. We are both responsible for what has happened and we both have to correct what we've

been doing. But I don't think you can say China is just the response to the United States. That reminds me of what Japan used to say in the old days as well. I think instead look at it. After the WTO there was a very broad explosion of Chinese trade. Not much changed in the bilateral trade flows with the United States. It was their relationship to the whole globe. To me it's a huge surprise because I think all these other countries though, oh, they had an opportunity to stick it to China at the time of the WTO negotiations and they all thought they got the best of them. And then what happened afterwards? China did so well. They seemed to have outmaneuvered a lot of their trading partners.

MR. LI: Tony?

MR. SAICH: Yeah. On the question, one of the things I do see is a clear shift over the years with the training programs. I would say some years ago some of the questions that would come up about integration of migrants into viable urban environments, the aging demographic challenges were not really taken that seriously. I would say now they quite clearly are. And there's a lot more discussion about it; a lot more desire to know about things like how do you build effective public housing, low cost housing. What kinds of ways might you integrate migrants into schooling? That is definitely alive.

It seems that there's been a very high level central working group set up specifically to deal with a set of policy recommendations about aging, so that is clearly being taken very seriously, and the ramifications of that are being registered. Perhaps because of the structure of the gender of the groups that come, the gender issue tends to still get a laugh and not be taken as seriously as it should be because that has all kinds of ramifications for, you know, posture. I mean, if you have 120 million unmarried men, it doesn't necessarily build a harmonious society.

And then the questions of governance, yes, is continually coming through. But a lot of it, as I said, is how do we get better feedback? How do we improve quality of

officials? How do we get some kind of feedback that they're accepted within their local community? And that's why I said it's sort of liberalization of practice rather than democratization. But, you know, more and more of this question of governance, how do we get effective governance, comes up in the discussions.

MR. LI: Ken, you have the final word.

MR. LIEBERTHAL: Yeah, just briefly in response to, first, Hank Levine's question.

I've heard the same thing from businesses. I have not discussed it with the Chinese, so I can't really answer your key issue. My sense is that if they are not aware of this potential change they sure need to be made aware of it very quickly because it's potentially serious politically here.

On how to resolve some of these tensions, let me just make a comment on the political side of this; Barry has covered the economic side of it. It seems to me that for political reasons the Chinese would be very well advised to begin to move their exchange rate. And there are a lot of explanations they can give for that that are quite legitimate, including the health of their own domestic economy. So this is not, you know, they can package it if they get on this now and start working with it. They can package it in a way that reduces the sense that they are simply responding to American pressures.

Secondly though, you know, it's always worth in politics keeping dates in mind. We are hoping to get President Hu here for the Nuclear Summit. That's the next big item on the agenda, right? Does anyone know the date of that? April 13th. Treasury announcement, April 15th. Do you think there's any possibility President Hu will come here if China might be cited the day after he leaves or a day and a half after he leaves?

(Laughter) I don't think so.

So I think that there is an opportunity here to do some sort of quiet, but

serious agreement that President -- where President Hu will schedule his state visit; that he will come to the Nuclear Summit; that we will not cite China as a currency manipulator; and that we will use the state visit and the SNED to address more seriously exactly what Barry suggested, which is to say how do we work together in a mutual effort to make the structural adjustments in our economy. Everyone recognizes it's so necessary for each of us and for the broader arena. Those kinds of really big events are a good opportunity to push that kind of macro agenda.

MR. LI: Joanna, do you have a final word?

MS. LEWIS: Well, I guess I'll just briefly make a comment on the point about current sentiment here in the U.S., both in the Congress and in the media about where U.S.-China relations are because I think the conversation we're having about currency manipulation and the financial linkages between our countries are going to -- we're already seeing them have a direct impact on energy and climate legislation discussions in this country where one of the key barriers to passage will be concern about competition between U.S. companies and Chinese companies. And we've seen some -- already some heated debates over Chinese clean energy technology being sold in this country. A couple of wind farms in Texas that raised concerns over, you know, whether or not we want to be deploying Chinese wind turbines or whether this is an industry we want to be in ourselves.

So I think that there's going to be a lot of these tensions within our own approach to climate change and energy here will be directly related to how far we can get with our relations with China on the more competitive economic issues, as well.

MR. LI: Well, during the NPC, the most popular blog in China is by Mr. Han Han, 28 years old, a very popular writer, a high school dropout. He really has launched a lot of criticism about the governance issue in China. I checked yesterday. His blog had 330 million hits. And we also have our website in Chinese. I think we want to compete with Han



Han and also hope Chinese leaders and also U.S. leaders look at our website. And this program will be available in transcripts in a few days.

And I want to ask the audience to join me, thank you very much for the excellent panelists for the panel. (Applause) And thank you for coming.

\* \* \* \* \*

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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