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ON CLEAN ENERGY COOPERATION

Lunch Session

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MR. TALBOTT: Do I have everybody's attention please? Thank you very much.

I'm Strobe Talbott, and it is my great honor to be associated with the Brookings Institution where among many traditions we have a tradition of eating and talking at the same time. So, this is a working lunch in that Brookings tradition.

It's also my pleasure to be able, in my personal capacity, to add to the welcome that you heard this morning from the chairman of our Board of Trustees, John Thornton and the founder of our John Thornton China Center at Brookings and also from Ken Lieberthal, the director of the Center. I want to echo their thanks to you for participating and also their thanks for the chance that we at Brookings have had to work with our partners from the China Institute for Innovation and Development

Strategy.

This lunch, as you know, falls between two related events of some significance. Just before the lunch we had the formal initiation of the U.S.-China Clean Energy Research Center, and just after lunch we will have a signing ceremony in connection with the founding of the CERC. Both of those events of course reflect the joint endorsement of the U.S. Department of Energy and China's Ministry of Science and Technology and the Chinese National Energy Administration for the fundamental premise that all of you have been developing during the course of the morning. And after this lunch, we will be going into working groups. And our thought was to use this working lunch to hear from two speakers who each in his own way will put the issues before us into a broader context -- C. H. Tung and Justin Yifu Lin. I'm going to introduce each of them before he speaks, and then after each of them has spoken, I will come up and join them here at this table, and there will be a little bit of an opportunity for some give and take with all of you before we need to break to prepare to go into the afternoon sessions at 1:30.

C. H. Tung, I should say, is a good personal friend, a very good friend of John and Ken's, and a good friend of the Brookings Institution. As you all know, he is the vice chair of the 11th National Committee of the Chinese Political

Consultative Conference. He served with great distinction as Hong Kong's first chief executive after reversion in 1997. He is also the founding chair of the China-U.S. Exchange Foundation, which has funded numerous important projects, including several involving the Brookings Institution. He has a long and distinguished record of helping to improve U.S.-China mutual understanding and thereby lay the basis for a strong, productive U.S.-China relationship in the coming years.

So, C. H., I would invite you up to offer your remarks.

And then I will return to the lectern briefly to introduce Justin after C. H. is finished.

MR. TUNG: Chairman Talbott, friends, ladies and gentlemen, I'm delighted to be here to be speaking before you. I have not learned how to speak and eat at the same time. I guess I shall go hungry and look forward still to you to invite me back for a nice dinner one day. Friends, ladies and gentlemen, I'm delighted, honored to be invited here.

The subject I'll be talking briefly on is on China-U.S. relations, on the importance of building strategic trust. Tomorrow President Hu Jintao of China will begin his state visit to the United States. The visit come at a exceptionally important time because of the many common challenges we currently face. Indeed, all eyes around the world will be

focused on Washington tomorrow.

Since President Obama's assumption to the presidency, the two leaders have actually met seven times already. Frequent meetings and dialog have helped the two leaders build mutual understanding and trust and have also helped the two countries move the relationship forward in a time of need. But despite the progress they have made, pundits, commentators, and critics have very often cast the Sino-U.S. relationship in a negative light.

To be sure, there are difficulties in this relationship that needs to be worked out. But on a eve of President Hu's visit, let's look at the three areas of success that serve as example of what can be achieved and what cooperation can mean for the two -- for our two nations and for the world at large.

The first is the cooperation on economic issues. In a series of G20 meetings that the United States initiated in 2008, nations were (inaudible) to adopt expansionary fiscal measures and loose monetary policies as a result of measures adopted and actions taken by the G20 countries. We successfully prevented the world from sliding further into abyss. Indeed a foundation is now being built of global financial stability and economic recovery.

What is more encouraging is that in the United States

in recent weeks there has been signs of recovery in jobs, increased consumption, and enhanced confidence in economy, giving hope, although tentative, giving hope that a sustained recovery in the United States is now possible.

Over the last two years, China played an active role in promoting global economic growth and itself became an engine of economic development for the world in 2009 and 2010. The Asian economy grew with China. American exports of goods to Asia grew rapidly. American exports of goods to China also grew rapidly. In fact, China has become the third largest importing nation for American goods in the world after Canada and Mexico. America's strong export performance has created many new jobs in the United States. Additionally, companies such as General Motors, Ford, Federal Express, McDonald, KFC, Procter Gamble have all benefited enormously from China's booming domestic economy with their direct retail presence in China. Indeed, some of these companies estimated that for every 10 jobs hired in China and all overseas, two new jobs would be created in the United States. That, in fact, further stimulated the job growth here.

There are but a few instances -- these are but a few instances of how the United States and China have both benefited from working together to support the global economy.

Second is the cooperation on climate change. In

December 2009 amid high expectations, the world stumbled at the Copenhagen Conference on Climate Change. Not much was therefore expected at the follow-up at Cancun Conference in December 2010. But to the surprise of many, a breakthrough agreement was reached. It was not an agreement to solve climate change challenge in one felled swoop, but it has hopefully laid the foundation for successful climate change meeting in December 2011 in South Africa and beyond.

The Cancun agreement would not have been possible without a cooperation between the developed nations and developing nations. Working together, the United States and China helped to contribute to the successful outcome in Cancun.

Third is on the subject of Korean Peninsula. In December 2010 there was a real danger of a devastating military confrontation on the Korean Peninsula. It was only after intensive diplomatic effort by China, the United States, and others that the confrontation was averted. A successful easing of tension gave all nations involved the opportunity to resume dialog and hopefully -- hopefully -- to restart a process of bringing about peace and denuclearization on the Korean Peninsula.

Here again, the efforts of China and the United States working together were critical. Indeed, the U.S. Defense Secretary Gates noted during his recent visit to Beijing that

China played a constructive role in lessening the tension on the Peninsula.

Looking back on the past year, it is evident that the United States and China have worked together to overcome some of the world's most pressing challenges. There's every reason to believe that this cooperation can and should continue in the years ahead.

As we enter the second decade of the 21st century, the challenges the world faces are many. They're about continued economic recovery and financial stability. They're about the prevention of nuclear proliferation and building of a non-nuclear world. They're about fighting terrorism. They're about energy security, food sufficiency, fighting climate change, and generally how to make sustainable development possible. Above all, they're about building peace and prosperity around the world. The people in the United States and China share a strong desire to achieve these goals.

When President Obama visited Beijing in November 2009, the two presidents called for building of a positive, cooperative, and comprehensive relationship between the two nations of the 21st century. And, in fact, this morning (inaudible) suggested the building of a community of common interest. In fact, much has been done since the meeting of last year, but still much more needs to be done.

To be sure, there are differences between the two nations. After all, we have different culture and histories. We are at different stage of development, and therefore our needs are different. But differences are not significant as compared with the common challenges we both need to face, and we need to face them together. Indeed, there is too much at stake. I am confident that President Hu's visit to Washington tomorrow will give the two leaders the opportunity to create necessary new momentum to move the relationship positively forward.

Thank you very much.

MR. TALBOTT: C. H., I personally protected your chicken and spinach, so you still have it, but we look forward to having you back for that good dinner as well.

Our next speaker, Justin Yifu Lin, is, as you all know, senior vice president and chief economist for the World Bank, which means in a nutshell, he is responsible for guiding the Bank's intellectual agenda. He plays a key role in shaping economic research, and he has also got a very distinguished CV, which includes being founding director and professor at Beida's China Center for Economic Research, and he is the recipient of numerous international honors.

When I had the chance to welcome him when he arrived over here about an hour ago, he had a big smile on his face, and I'm surrounded by economists at Brookings, and I don't always

see them smiling, so it was good to see a smiling economist, and I'm sure he has maybe a little good news for us this afternoon.

Justin, the lectern is yours.

MR. LIN: Distinguished guests, ladies and gentlemen, I would like to thank Mr. Talbott for the nice introduction and the invitation to speak in this important forum. I say it's important, because the U.S. is the largest consumer of energy in the world and China is the fastest growing consumer of energy. The strategical cooperation between U.S. and China on clean energy will determine both countries' energy future, as well as the world.

But I'd also like to say this conference is very timely, because the global economy is recovering from the worst crisis since the great depression. And we know the unemployment rate in U.S. and other high-income countries are still extremely high, and this kind of high unemployment rate reflect large underutilization of capacity not only in the (inaudible) sectors but also the (inaudible) sector in the high-income country. And the way out for the global crisis, especially for the high-income country, is how to promote investment to create a demand for capital goods in order to generate employment and growth. And with that the demand for housing will increase, and (inaudible) in financial sectors can decline, and a global economy can resume to normal flows.

And I'd like to say clean energy is a very important area for the type of investment and demand for capital goods. Well, you know, that in 2009/2010 globally the fiscal stimulus reach \$3 trillion U.S. About 1/6th of those expenditures -- that is, about 500 billion of the fiscal stimulus -- was used for green economies. And China alone contributed about 250 billion. That was about 40 percent of China's \$685 billion U.S. fiscal stimulus, and U.S. contributed 110 billion in the green economy. Two countries combined together contributed to about two-third of the global investment in green economy.

And now according to the Greenberg -- the Bloomberg, in 2010 the expenditure on green energy investment reached \$243 billion U.S., and it was about 30 percent increase on the basis of 2009, 200 percent increase on the basis of 2006, and a (inaudible) increase on the basis of 2004. And this kind of high-trajectory increase in clean energy is (inaudible) based, certainly with special forecast on wind energy and small panel solar energy. And such expenditure is not only an investment but also in R&D. Again, according to Bloomberg, the public investment on clean energy, R&D in 2010 increased 30 percent. (Inaudible) increased 12 percent, and this is encouraging because we know the global economy is still full of uncertainty and the private sectors was willing to increase its investment

in these areas. Certainly, all of this investment contributed to the global recovery from a contraction of 2.2 percent in 2009 to 3.9 percent positive growth in 2010.

I'd like to say China is a big player in the clean green economy. In 2010 China made a \$50 billion U.S. investment in clean energy. And China was the largest single country contribute to the global investment in clean energy. And it was a 30 percent increase compared to the investment in 2009. And the reason China was it possible to reach such a level (inaudible) very ambitious policy goal in China to achieve the development of low-carbon energy in China. But it also made it possible by a set of policy and a mandate.

First, the Chinese government had a policy to reduce 20 percent of energy intensity, 4 per (inaudible) of GDP in China between 2005 and 2010. The target has been achieved.

China also had a policy to -- made a few -- 10 percent of its energy sources coming from renewable clean energy, and it was (inaudible) existing levels in China.

I'd like to say at this juncture the World Bank also participates actively in the clean energy field. In the fiscal year 2010, the World Bank made a \$5.1 billion U.S. loan in clean energy, and it was a 60 percent increase on the basis of 2009, and about one-third of this 5.1 billion was carried out through the International Finance Corporation. That is the private

sector arm of the World Bank group. So, it actually used the market mechanism to promote clean energy.

From the agenda of the conference today, I know that there are going to be a lot of discussion on the specific types of energy in R&D corporation. And for me, I'd like to offer some other view about the opportunities and challenges for the U.S. and China cooperation in clean energy.

From the opportunity side first, as I said, clean energy investment will create a demand for capital goods and is good for the U.S. job creation and a sustained recovery. And, second, such a cooperation can also benefit China, because China is not only a supplier of clean energy technologies. China is also a growing demander -- source of growing demand for clean energy technologies and especially in renewable low-carbon, low-polluting technologies. And such kind of demands certainly is good for China to achieve sustainable growth in the future but also good for the high-income country which provide those kind of capital good.

But this kind of cooperation is not only good for China, for the U.S.; is also good for the world, because China and the U.S. are two of the largest economy in the world and (inaudible) cooperate to develop clean energy they will make the (inaudible) economy realize. Reduce the cost of production and the uses, and it will be good for the world, because today

1.5 billion people in the world do not have access to electricities. About 3 billion people in the world -- they rely on traditional energy sources, and those kind of traditional energy sources produce smoke and collect those kind of wood with the frustration, so it is bad for the health plus also bad for global warming (inaudible). (Inaudible) if U.S. and China can cooperate together to reach an economy of scale, redo the cost of clean energy, it can also help the people to get access to electricity to improve their health in a country (inaudible) the reduction of carbon emission and to reach the target of climate change.

But there are some challenges. The challenges are currently the technology is not (inaudible). And a large-scale operation in many country requires subsidies, and those kind of subsidies is financially not sustainable, especially in the low-income country. So it's imperative to make this technology more affordable and also to in a way to new, better technologies. And how to do that, to way. Increase the scale of use and production is very important, because economy of scale. But it also require more investment in R&D for new, better, efficient clean technologies. For this I think U.S. and China can make a very important contribution, because both countries have the political will to make this goal realized. Both countries also have the economies of scale in use, in production, and both

country also have the means to make necessary investment in R&D and also to finance the initial commercial production of new technologies. And U.S. and China also have a history of cooperation in new, clean energy.

So, let me conclude. The cooperation in clean energy between China and the U.S. is good for the U.S., good for China, and also good for the world. It's a win-win for now about the global recovery. It's also a win for the future, because it can reduce carbon emission and also reduce the danger of global warming. Certainly to make this kind of cooperation realized, it requires a change of scientific findings, policy experiences. It also requires reexamination of investment policy, trade policies in both countries. And today's meetings, I'm sure, will be a very important step toward that goal.

Thank you very much.

MR. TALBOTT: I want to thank both C. H. and Justin for those two very strong and focused statements. We have about 10 minutes for a few brief equally well-focused questions from all of you. So, while I'm slightly blinded by the lights, I think I can at least see hands go up, so if we could turn the rest of the luncheon program over to you.

A bashful group. I find that hard to imagine.

QUESTION: I was wondering if you could tell us from the vantage point of the Bank whether you see any change in the

Bank's longstanding antipathy towards atomic power and whether the Bank is ready to change that policy, particularly given the great interest we have in the room today about the future of atomic energy.

MR. LIN: Should I answer --

MR. TALBOTT: I seem to have -- I heard the word "Bank" in there, yes, sir.

MR. LIN: Well, you know, you have the best person to answer this question. That's Kathy Sierra, and she was the former vice president of our Sustainable Development Network and in charge of the Bank's policy on the clean energy (inaudible). And as I mentioned, last year our lending increased 60 percent in the clean energy areas, and that was made possible, I think because she made a very important contribution, and it showed our commitment. Certainly, we hope to get more fund available was in the clean energy facility (inaudible) and to mobilize more resources from the private sectors so we can support our IFC (inaudible) but (inaudible), this is a policy direction we committed, and Kathy made that possible.

MR. TALBOTT: Yes.

QUESTION: In the United States, the clean, low-carbon energy resources are being deployed, but they are heavily dependent on government incentives, especially in the lack of an explicit carbon policy. I wonder if you could comment on the

dependency of these clean resources in China on government incentives and how long do government incentives need to last in order to have real penetration, and how long do you expect them to last?

MR. LIN: Well, I don't have a crystal ball to say how long it will last. As I mentioned in my opening remark, currently in our -- the clean technology is not cost effective compared to other sources and as I recall the government mandate, the government support. And as I indicate, in the wrong one that's not sustainable. And that's why it's very important for two things as mentioned. One is to increase the scale of production and use, and that can dramatically reduce the cost, get in experiences, and for that, that requires government mandate and policy support not only in those country -- maybe other country. But fundamentally, I think more important, is technological breakthrough. And to reach that technological breakthrough I think we need to have more R&D. Certainly, other sectors need to put up some more money. I have a friend here, and he is very active -- Mr. Wong -- in doing those kind of R&Ds. But the government support in basic research is also important. And I think (inaudible) kind of marketing mechanism usage is (inaudible) this goal shall be achievable.

MR. TALBOTT: C. H., would you like to add anything?

MR. TUNG: I also add this. Firstly, this sustainability of our development is so pressing that development -- successful development of renewable energy -- has such a big state on every one of us.

So, the more we can do, the better. America, you are very strong with the private sector initiative, private sector drive to move this forward. I understand that. But in China at this stage of development, the involvement of the government is very, very essential.

And one of the questions I've been very often asked is, is that fair competition? I think that's a fair question to ask. But from my point of view as a human being living on this earth, I just want to see success to start with. Because success is important to sustainable development. And the key question is that how we can all work together to bring about the success.

Thank you.

MODERATOR: We have time for one more question. All questions have been asked and answered. Ken, I'll invite you up to say a word or two about the afternoon program.

KEN LIEBERTHAL: Thank you very much, Drew. We've had a very full morning of hearing a variety of speeches. This afternoon we begin to move into the more interactive part of our program as we divide into working groups and roundtables.

I want to ask you to go from this lunch as quickly as you can to your working groups. Everyone here should know which working group you're in or which roundtable you are in. Let me just note, you have a schedule on this. But for those in the clean coal working group, you go to room Oriental A. You have a diagram of all the rooms in your program. Those in the renewables go to Oriental B. Those in the nuclear group go to Oriental C. Those in the roundtable on U.S.-China relations over the coming decade have a one-hour break. And then convene at 2:30, and that will be in the Gallery room. Okay?

You all have translation facilities in your various working rooms, so you don't need to bring earphones and that kind of thing with you.

So let me add my thanks to those of President Talbott, for our wonderful speakers, and for this program.

MODERATOR: Thank you. Please all join me in thanking C.H. and Justin for an intellectually nutritious lunch.

SPEAKER: I'm sorry, can I get your attention for just a minute please? There is one additional announcement. Can I get your attention for a moment? Because there is an error in the program. The DOE signing ceremony. For those who are going to that, will begin at 2 o'clock. The program says 2:30 but there has been a change. You're going to the DOE signing ceremony, 2 p.m., please.

Thank you.