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PANEL 4: TRADE AND DIRECT INVESTMENT:

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P R O C E E D I N G S

MR. MELTZER: If everyone could please be seated, that would be great.

So far today in this program we've been focusing on the economic issues in China and the United States and also the global economic ramifications. This afternoon we're now going to bring the folks at the conference back more into the bilateral relationship. The kind of panel that's coming up is going to focus on the trade and investment relationship, and then the following panel is going to open this discussion up more broadly.

I think anyone who follows international economic issues can't but help notice how much the United States and China trade and investment relationship has really begun to dominate the discourse, and one obvious reason for this is just the sheer size of the relationship. And I just want to give you a few facts to flesh this out.

In 2010, the United States bilateral trade deficit with China was approximately $273 billion, which represented approximately 55 percent of the United States total trade deficit. And this can be compared with United States trade deficits with Japan of $60 billion, Germany $35 billion, and Canada $28 billion. If we look at the investment side of the relationship, however, we see, you know, quite a starkly different story.

In 2009 the stock -- the United States investment in China was worth approximately $50 billion, and this can be compared with the United States direct investment in Japan of over $100 billion, in Germany of approximately $115 billion, and in Canada of over $250 billion. And if we look at the Chinese side, China investment into the United States, in 2009 the stock was approximately $2.3 billion, and we can compare this with China's holdings of U.S. treasury securities in that same period of approximately $1 trillion.

So, what we see from just a cursory glance of these figures is, I think, a theme that has come up throughout today, which is this idea of imbalances in the trade and investment relationships; and how this sort of plays out in terms of bilateral trade investment relationships going forward is going to be -- I assume we're going to talk about it further this afternoon.

Another key theme I think in the U.S.-China trade and investment relationship has been the U.S. expectation, at least, that as China continues to grow, it is going to support and strengthen the international economic architecture, such as in the WTO or the IMF or the G20, from which China has benefited from so far. And in this context, I probably just want to draw attention to what was not spoken about really in the recent United States-China strategic and economic dialog last week in terms of the WTO, which is that it was more or less not mentioned at all.

In the comprehensive economic framework agreement that came out, there was absolutely no mention of it whatsoever, and in the fact sheet there was simply a reference to, you know, noting the difficulties of the round and committing to, you know, address these. And as the world's two largest economies, the approach that the United States and China take to international economic architecture, including the WTO, is obviously going to be key going forward.

All right, on this note I would like to just quickly introduce the three panelists today.

First is Ambassador Schwab, who is now Professor of Public Policy at the University of Maryland and strategic advisor to the law firm of Mayer Brown.

Ambassador Schwab served as United States Trade Representative from 2006 to 2009 and as deputy USTR from 2005 to 2006. As USTR, she concluded free-trade agreements with Peru, Colombia, Panama, and South Korea and helped achieve congressional approval of FTAs with Peru, Bahrain, and Oman; launch their Trans-Pacific partnership negotiations; and of course labor to conclude the Doha round.

Other notable achievements while a USTR include resolution of the softwood lumber dispute with Canada and conclusion of the United States bilateral WTO accession agreement with Russia.

Ambassador Schwab also has had extensive experience outside of government, including as dean of the School of Public Policy at the University of Maryland, and Director of Corporate Business Development for Motorola, to name a few.

Our second speaker will be Mr. Cheng Lixin, who has had extensive business experience in both the United States and China and will bring this panel a very crucial private-sector perspective on the United States-China trade investment relationship. In fact, Mr. Cheng brings over 20 years of experience in the U.S., particularly in the Chinese telecommunications industry with expertise across a whole range of areas. He's currently President of North America Region of ZTE, as well as the CEO, which is a leading global telecommunications company, and in 2006 Mr. Lixin established a consulting firm on telecommunications issues in the United States and Asian markets.

Our third panelist today is Mr. Charles Freeman, who holds the Freeman Chairman in China Studies at the Center for Strategic and International Studies. Prior to joining CSIS, Mr. Freeman held a range of other important positions in government and the private sector, and some of the most notable include Assistant USTR for China Affairs and legislative council for International Affairs in the Senate. He's also worked in the private sector as lawyer on political and economic risk mismanagement issues in China.

With the start, I'd like to welcome Ambassador Schwab.

AMBASSADOR SCHWAB: Thank you very much. This has been a very, very impressive day, an enlightening day, and the audience here is so knowledgeable about so many of these issues. My instinct is to keep my comments as short as possible and to make sure that we have plenty of time for discussion. So, my purpose really is to just throw out a couple of issues related to the following premise, namely, why is it that as our bilateral trade and investment relationship grows -- and as pointed out we're talking in terms of exports, double-digit growth in both directions -- why, as this incredibly important trade in economic relationship has grown, are the bilateral tensions growing accordingly? Bilateral tensions are growing at roughly the same pace at a point where one would think they would be diminishing, given the growing bilateral economic ties.

And I'm going to offer a couple of thoughts on that mainly from a U.S. but not exclusively from a U.S. perspective and hope we can get into more of a conversation about it with my other two panelists and then obviously this distinguished group.

Let me start by suggesting the most worrisome, call it, "indicator" that there is trouble afoot is that concerns about China are readily apparent not with just import-sensitive industries in the United States but in fact very competitive export-oriented constituencies and that the concerns are expressed therefore not just by the leadership that we have looked to in the past -- for example, in the '70s and early '80s when there were concerns about Japan becoming No. 1 -- but in fact there's a very widespread and spreading and deepening concern about -- and this gets to point 2 -- the perception that somehow the playing field is not level and that even companies, even sectors in agriculture, in services, and in manufacturing companies, enterprises in the United States that are doing a great deal of business in and with China express concern, first of all, that they're not doing as much business as they would be doing if market forces were allowed to work, that somehow there is intervention in the market, and that somehow the future bodes ill in terms of the intention of the government of China.

And, again, this is different from what I would argue we have seen before in terms of American trade politics and could at some point have more of an impact on U.S. trade policy.

Now, from a Chinese perspective, I've heard from Chinese colleagues and Chinese speakers on a number of occasions that there is in many ways just as much concern and at times antagonism on the Chinese side -- first and foremost, you Americans are too pushy. There's a real disconnect in terms of the time, or respective timelines for things to happen whether it is the evolution of the renminbi in terms of its appropriate international role, whether it is the protection of intellectual property, and so on. But the U.S. is just too pushy.

Second, the U.S. is simply making excuses for its own failings in terms of competitiveness, in terms of its own -- our own economic problems, and in cases where we have made progress -- we the United States with China -- on resolving some of these issues or addressing some of the issues such as in the intellectual property rights arena, perceptions in China that progress is being made and the reformers who are trying to undertake these efforts feel burned when the U.S. continues to criticize developments.

So, what are we to look at, and what are some of those areas that appear to be evolving as the most serious of these concerns, that perhaps if we can a handle on these we could be in a much healthier -- we would have a much healthier outlook going forward?

First and foremost -- and this has been mentioned a couple of times today -- is the entire issue of transparency. The lack of transparency of decision-making in China, for example, generates suspicion, generates paranoia even if it's not warranted. The fact that it is hard to ascertain who is making decisions, what those decisions are, and if you're a U.S. company operating in China at any given point in time this network of laws and rules and regulations that in many cases are contradictory, that are rarely enforced or fully enforced, that you know if somebody wanted to enforce them at some point you would probably be in violation of at least one or three.

Second, the evolving concerns and questions associated with, call it, "state capitalism," call it, "state-owned enterprises," "state-supported enterprises" -- and this, by the way, is not just limited to China but very much -- China's very much a focus, and I would note a couple of recent WTO appellate-body decisions have started to raise some question in the minds of those who assumed that the global rules of the road through the WTO were going to be adequate to address the potential unevenness of the playing field associated with this.

Stay tuned, but the robust conversation that I think we're going to see about so-called competitive neutrality is one that will be very, very interesting and could be very useful.

Intellectual property. I've mentioned that already a couple of times in my comments, and I mention it for a number of reasons but the principal one being if you are an economist, as I am, and you believe in comparative advantage and you believe that to a significant degree market forces work, the theft of intellectual property becomes an exceedingly troubling challenge. And I believe it is one where we saw this up-swell of concern from the U.S. business community over indigenous innovation. Much of that has to do with concerns about intellectual property and the perception that if in fact each of us needs to figure out how to move up to the appropriate place on the value-added chain, that becomes very difficult and that much more challenging if the intellectual property developed in one place is acquired perhaps inappropriately or through pressure from another.

Government procurement obviously fits into this, and of course, most important of all, where there are agreements to resolve some of these issues, some would argue that the outcome of the S&ED last week had some robust and promising deliverables. The key question is how much faith do we have that commitments will be delivered?

I would note here that the U.S. does not help itself by appearing uncertain or at times not particularly aggressive in terms of our own trade agenda, and I would say not without some bias obviously that passage of the three pending free trade agreements and the administration working with the Congress to achieve trade promotion authority would make a huge difference in terms of the U.S. credibility in this bilateral trading relationship.

Second, the U.S. needs to figure out what should be addressed bilaterally and what should be addressed more multilaterally or pluralaterally. Part of the challenge, I would argue, in terms of the renminbi, is, to the extent that the United States Congress has been loud and vocal, this has increasingly look like a bilateral trade issue. It is not a bilateral trade issue. And there are many countries that are just as interested, if not more so, indeed as one of our speakers commented earlier, about the value of the renminbi and its role in the global financial structure.

Finally, on the U.S. side, clearly the uncertainty associated with whether or not we welcome inward investment, particularly inward investment from China, is critical; and I would argue that is far more critical than any impact changes in U.S. export controls will have in the longer term. And if you look -- go back to Sea Nook, Dubai Ports World, and some of the differing signals that we have portrayed that we've presented to the world and to China in the last several years, it should not be surprising that our Chinese friends suggest that perhaps this is not a friendly environment and we need to change that.

So, let me close with two perhaps somewhat glib observations that we also need to keep in mind. One is that I have found over the years in terms of as a trade negotiator and in terms of international economic policy is we each see the other country as having its act together. None of us actually have our acts together, and we should just remember that regardless of the issue. None of us are as organized as perhaps our trading partners believe us to be.

Both of us, in terms of China and the United States, at this point in our histories, particularly on the economic side are very, very self-absorbed, and self-absorbed whether or not there is any predatory intent, and I would presume there is not predatory intent on either side; both sides are in real danger of self-inflicted wounds because of this disconnect in perceptions and because of the self-absorbed nature of our focus.

So, let me stop with that and thank you for the invitation to be here, and I look forward to our conversation.

MR. CHENG: Thank you, Susan.

It's a great honor to be here. And as I chatted with Ken during the break, I just realized actually I'm the only person in today's conference coming from the real corporate world. So, I have a heavy burden on my shoulder today to try to bring the real-time, real-life experience into this conference.

I also would like to take the opportunity to congratulate for the successful Caixin summit talking about the outlook of the next five years between the U.S. and China.

As we have discussed today, you know that society is changing and rapidly, and one important factor that plays in this changing actually is the information industry. So, the speed of information transmission in one nation has become an indicator of how advanced this country becomes, and the telecom industry and telecom infrastructures play a very important role in such kind of maga shift.

So, as the most advanced, developed country in the world, the development of the United States communications industry can be traced back to the 19th century when Alexander Bell was awarded the first patent for the telephone in 1876. And he not only launched a new way of handling transmission and receivers but launched a new way of communication between the people and the way people live their lives. It was 26 years ago, Mr. Hou, our founder and Chairman today, together with seven other engineers, founded, you know, ZTE in Shenzhen, China, with a vision to bring universal services to all of the people in the world. Since then, ZTE has started providing universal services to the remote villages in China and then getting into emerging markets.

Today, ZTE now has become one of the leading global telecom companies with 85,000 employees in 140 countries. ZTE is committed to continually advance the development of modern communications and eliminate the digital divide by providing the best possible product and solutions at an affordable price, satisfying our global customers.

ZTE has been recognized as one of the top promising companies in the world. ZTE is publicly traded in Hong Kong and the Shenzhen stock exchange. Around 20 percent of our shares are owned by U.S. investors, such as SunTrust, Fidelity, Morgan Stanley, and Goldman Sachs. And we also have an American citizen sitting on our board as an independent director, Timothy Steiner, who is a Harvard graduate and practices now in both New York and Hong Kong.

ZTE has the most comprehensive product portfolio and solutions with a leading edge over our competitors, with a specific focus on the development of cost-effective 4G wireless broadband technology. According to IDC, in 2010 ZTE became the No. 4 vendor of handsets worldwide. We are also ranked in the top 5 telecom vendors worldwide. So, we have established a relationship with most telecom carriers worldwide.

ZTE entered the North American market more than 15 years ago with a proven track record and established an excellent relationship with national and regional telecom carriers, consumers, and local communities throughout the United States. ZTE has become a very active participant and a change agent in the North American telecom market.

In the U.S., through cooperation between ZTE and AirCell, we launched the world first air-to-ground GoGo in-flight wireless internet network throughout the United States. ZTE has solved the difficulty issues, such as fast switch in technology from our space stations, why aircraft are flying at high attitude. Today GoGo in-flight internet is available on more than 1300 aircraft by nine airlines to provide a unique broadband experience on the flight.

Currently, ZTE USA has established eight local offices and five R&D centers in the United States. Our products serve the more than 5 million subscribers all across the United States, including wire and wireless broadband and terminal equipment. ZTE is partnering with many leading carriers in the United States, such as AT&T, Verizon, Sprint, T-Mobile, Metro PCS, and Cricket, and launched 14 devices in 2010 in the United States.

So, we have about 400 employees, and 82 percent of them are Americans, and here today ZTE has invested more than $300 million U.S. on American soil. Our goal is to develop the most advanced telecommunication networks and house the eco systems along with the local U.S. telecom carriers by providing innovative, efficient products to enable U.S. consumers to enjoy the best possible telecom experience.

ZTE's commitment to the United States is for the long term. Last November we announced a purchase agreement of more than $3 billion U.S. with U.S.-based high tech companies such as Altera, Broadcom, Freescale, Corcom, and Texas Instruments on top of the $4 billion U.S. payment we already made for intellectual properties and hardware in the past to U.S. high tech companies. Through our partnership with those leading high tech U.S. companies, ZTE is able to utilize our innovative R&D resources and efficient supply chain management to integrate U.S. intervention into our competitive solutions for worldwide markets.

This is a real time, real life win-win partnership between the leading American high tech companies and ZTE. So, we call this the ACW model within ZTE. So, A stands for America, so we would like to partner with innovative, high tech U.S. companies using them as the heart and the intelligence within our product. So, we work with them, pay a royalty for their invention, and also buy chipsets from them but combining that with the effective and vast resources we have in China in terms of R&D and put into our effective, you know, hardware costs and so become competitive in the worldwide market. So, this is really a win-win situation for everyone across the ocean and also around the world.

At the same time, we also hope there will be more and more communications and dialogue opportunities between the Chinese and the American government and among the scholars, media, and entrepreneurs between the two great countries. So, in an effort to dispel misunderstanding and to reduce barriers, ZTE is confident we'll able to successfully compete within the top competitive environment as long as there are fair and transparent market conditions in the United States. ZTE would like to become a reliable partner for the U.S. carriers and contribute to the further cooperation between China and the U.S. to, as we said in our slogan, bring you closer.

Thank you. Thank you very much.

MR. FREEMAN: Well, I've got a tough act to follow after Ambassador Schwab and Mr. Cheng. I will try to be neither sublime nor real world and instead opt for the ridiculous as I usually do.

But let me talk a little bit about trade, the politics of trade in China and the United States, and how that impacts not just some of the business environment that ZTE faces here but, more broadly, how that impacts one of the things that Ambassador Schwab pointed to in her last remark, a sort of sense that both sides know what they're doing, that both sides have strategies that impact the other. And I think one of the things that we need to remember through all of this is that there is no kind of master plan, nor is there a set of master executors in either country; and the fact that there isn't is sometimes forgotten by us and in the process we direct our diplomatic and negotiating efforts at master planners that don't actually exist. And so let me try to focus a little bit on that and then try to break down some of the political challenges that both sides face in our trade relationship.

A tiny bit of history, of course, that trade has been a primary source of stability in the U.S. and China diplomatic relationship for quite some time, certainly since the end of the cold war when, you know, the United States in particular withdrew a lot of the security attention from the Soviet Union and placed it on the next closest bet, which was China, and we went essentially from a position of working with China on security matters to treating China as something in between a friend and an open enemy, which changed the political and diplomatic dynamics considerably.

And what saved the United States and China from ourselves, the net process, I would argue, was that both the common interest in China of development through a much more open economic policy than anything I think any of us had ever seen and the natural self-interest of American and foreign business people in taking advantage of that openness to invest in trade with China. And that process really did a remarkable job for at least the period of Jiang Zemin and Zhu Rongji's tenure in China from about the early '90s until about 2001, and I think the crowning achievement of that was China's entry into the WTO, which, as Professor Xu talked about earlier, really showed a fundamental focus on removing barriers to trade both internally and externally and constructing opportunities for individuals and firms to take advantage of opportunities in China.

Since that time, I think we've gone in a slightly different direction both in China for good reasons but also here in the United States. In the United States and China I think it's important to remember that by and large the trade is extraordinarily complementary. If you look at something that Professor Samuels up in Harvard has done and showed actually a breakdown of trade between the United States and China, the degree of complementarity is rather extraordinary. What we buy from China we don't make and haven't made for quite some time, and what we sell to China, China doesn't make and isn't likely to make at least for a period of time, although as Ambassador Schwab noted earlier things are in the process of flux there because of policies in both countries.

That said, you know, that period between, say, 1992 and 2001 in which both sides were primarily focused in the economic relationship on achieving some sort of certainty in the relationship, China in the case of trying to join WTO was trying to get out of the box of the annual most favorite nation debate here in Washington and the sort of huge risk that that presented for ongoing long-term economic stability as a result of the impact on investments. And in the United States -- for the United States part -- getting China in the WTO was hugely important, because it would signify a much more transparent and predictable economic environment in China, and by and large that process was enormously successful. But since then, for a variety of reasons, both political and economic, things have moved in a wrong direction. And I think for the last eight years instead of maintaining that focus on achieving mutuality in terms of predictability of our respective economic environments, I think we've moved to a position where both sides are extraordinarily anxious about the policies of both countries and the impact on business whether that's local or whether that's multinational as in the case of ZTE.

What's the source of that anxiety? I would argue that by and large the anxiety comes from the center of both countries -- Beijing and Washington. I wanted to show as a beginning, as an opening to this act a recent political campaign ad by someone where an American father comes back home to a family and announces that his job has been shipped off to China and the candidate comes home and says he's going to fight for that job. I really -- if you look at the number of "jobs" that have been shipped off to China, I find it staggering that this has become a political question, but nonetheless the center has developed all these anxieties about trade with China.

Likewise, in China there has been, over the course of the past few years, a series of policies that have emanated from the center that have created a great deal of uncertainty, and even U.S.-based and other firms that operate in China that are doing 20 percent year-on-year growth are extraordinarily anxious about the long-term viability of their businesses in China because of these policies. And, you know, again, I think there are good reasons for that and less good reasons, but the fundamental thing that we have to remember -- and, again, getting back to Ambassador Schwab's notion that there really are no master planners out here and a lot of this is happenstance -- a lot of the things that we're anxious about may emanate from the center, but a lot of the decisions that impact businesses are much more decentralized. And getting back to what Professor Xu was talking about earlier, in the case of

China a lot of the economic decision-making is done. In fact questions about investment, all the rest, are done more on a local level.

Here in the United States while Congress may talk a lot about particular issues that require attention, and while there is a great amount of fomenting of anxiety here in Washington, a lot of the decision makers in the United States that are impacting the decisions that affect Chinese businesses in this marketplace are much more decentralized and much more local.

Let me talk a bit about some of the key areas of sources of anxiety -- policies in both countries -- and then try to draw an example that hopefully will be somewhat provocative of the interplay of these dynamics in a way that creates a bit of a self-fulfilling prophecy of anxiety.

In the United States, again as has been mentioned ad nauseum here, the sense of a lack of a level playing field with respect to dealing with China and Chinese exports in international markets and including here, I won't delve too much into the currency issue as a trade matter. I particularly am less convinced that China's currency value has a huge impact on American manufacturing employment. I think that if you look at the trends of American manufacturing employment, they are pretty consistent with long-term trends and the role of the renminbi, although you do see -- you know, when you incorporate a quarter of the world's -- or a fifth of the world's working population into the global supply chain, you're going to have an impact. I think it's been much less significant on the currency level than otherwise might be understood.

The role of cheap credit to Chinese companies in the international marketplace and the role of subsidies to Chinese companies in the international marketplace again create a sense of a lack of a level playing field in international markets but also impacts U.S. and other foreign firms in the Chinese marketplace.

The intellectual property rights question. Again, getting back to a fundamental bargain of the United States with our people that, you know, intellectual property rights are something that are going to protect your job of the future if these aren't being honored in China or other international marketplaces, then it's very difficult to maintain that essential bargain, and that undermines the trade agreement.

Then industrial policies. Ambassador Schwab alluded to the indigenous innovation question. There are other standards and other things that tend to try to move Chinese firms up the value chain to the apparent discrimination of American and other foreign firms.

And, finally, I think on a defensive level and otherwise concerns about security issues with respect to the role of Chinese companies here, the role of cyber security, and the impact on trade matters and others, these are fundamental questions that the United States has about China. And you've heard today, and I think will continue to hear for a long time, from Chinese friends about their concerns -- No.1, the ability of Chinese firms and entities to acquire higher technology imports from the United States or at least access to higher technology here and restrictions on investment here in the United States.

Personally having looked at both the question of export controls and export restrictions, the actual raw number of denied licenses to Chinese firms of U.S. technology is extremely small, on the order of $7 million a year. And even if you argue that there's not a lot of application for technology exports to China as a result of concerns about the licensing process, it's really hard to get from $7 million to a really significant figure. So, I think there's something else going on here.

Similarly, the question of restrictions on investment. If you actually look at the number of Chinese investments that have to go through a CFIUS -- a Committee on Foreign Investment in the United States -- process, it's really a very miniscule amount. So, the question is what's really going on here?

And are the simple high-profile cases that have appeared in both the issue of -- I'm going to tell my quick story, Ken, and then I'll shut up.

In the case of investment and high tech sales from here to China, you know, really the numbers just aren't there to back that up, although clearly it's something we need to work on.

Let me just tell a really quick story about how all of these issues interplay and how when you've got industrial policies in strategic sectors, where you've got the role of intellectual property rights, the role of high tech exports, the role of subsidies, and the role of investment -- and security to a certain extent -- all interplaying, and this is in the area of alternative energy.

Let me say very quickly that I am not a huge believer in the capacity of alternative energy to be a huge new source of jobs and employment. That said, we've all bought into the notion that green jobs and technology are going to save us all, so I'll use the example for lack of a better one.

The Chinese government decided because of its desire to move up the value chain and because of concerns about resource usage in China, it decided in about 2205 to make alternative energy be about 10 percent of the total energy mix required or used in China in 2010 and 15 percent by 2020. Overnight what happened as a result of this industrial policy, you had the number of wind turbines manufacturers grow from 6 in 2005 to well over 270 in 2010. So, you had massive over-capacity in supply into the marketplace. At the same time, Chinese purchasers of wind turbines who were in the marketplace for new turbines were going out and surveying who could sell what and you had Western firms going -- and because of concerns about not high tech exports so much but of concerns about intellectual rights protection unwilling to sell first-generation technology in wind turbines to Chinese purchasers. So, what they would do is they would go in and say the right model of this wind turbine for China is about a

750 kilowatt wind turbine.

Well, the Chinese knew that in the United States and Europe the same firms were selling 2000-kilowatt turbines. So they said no, we want this thing. So, what would happen automatically is that any of the 70 Chinese companies that had at one point been gear producers or flag pole producers or whatever they might have been that were now wind turbine producers said right, that's what the customer wants; we're going to produce 2000-kilowatt turbines. And all of a sudden because these 70 producers were getting local support because of all of them were being sponsored by local municipalities or provinces or what have you, they were producing at under-cost and selling and foreign producers couldn't make sales. And what that became is foreign producers essentially deciding that the industrial policy of trying to bring China up the value chain in wind power was effectively a Beijing-led command, that to subsidize massive amounts of (inaudible) all these wind turbine producers to undersell U.S. and other foreign exports and sales into the marketplace.

On the Chinese side as all these firms had begun to come up the value chain and had been encouraged by the Center -- again, these are local firms largely and these are rational economic actors -- been encourage by Beijing to go out and invest in the United States, well, they come to the United States and, frankly, their investment are warmly welcomed, but if you've actually looked at the economics of investing in a wind turbine farm here, knowing the price of natural gas doesn't make these economic at all, you're not going to be, as a rational actor, willing to invest in the marketplace here. So, what you've heard from some of these turbine producers and some of these investors is that it's too tough to invest here, because there are restrictions on investment, which is a rational business decision that, for whatever reason, has been convoluted and turned into a political decision. Likewise, you've had rational business decisions from the United States in terms of not selling it IPR, that that may be stolen, so you've turned that into a sense of high-tech restrictions on exports from the Chinese side.

The point of all this discussion is there's a lot more going on here than a lot of us understand and, frankly, what we have, what we've done is we've essentially pitted the center and the center together in negotiation over issues that don't always add up, and, frankly, the sense on both sides that there are these dramatic strategies that are driving economic activity in both countries is flat out wrong, and how we get over this is, frankly, I think just greater understanding and greater interaction, which is just going to require more time and activity.

Thanks.

MR. MELTZER: I think we've got about 10 minutes for questions. I'm going to ask one question and open it up to all the panelists and then I'll open it up to Q&A from the audience. And what I just want to do is ask a question that focuses back again on the investment relationship. A recent Asian Society report came out that is speaking about potentially trillions of Chinese dollars, you know, in the next decades to come in FDI that's going to be looking for homes around the world in the role of the U.S. as a home for some of that FDI. And so the political dynamics to that challenge -- and which have sort of been brought up in, I think, all of the speaker's presentations today -- you know, concerns in the U.S. that have stemmed from the economic downturn and the high unemployment rate, the sense that Chinese companies might be getting unfair advantages, whether its access to cheap credit and the like, which makes them super competitive in the markets like the United States, and also, you know, there's I think a sense that the role is state-owned enterprises, you know, possibly raising also a range of political sensitivities as arms, potentially arms of the Chinese government rather than some investing on strictly commercial lines. I think if we sort of look at trying to grow the investment relationship, you know, what do you see as challenges and how particularly do you think the U.S. could respond if looking to attract more sort of Chinese foreign direct investment?

MR. FREEMAN: The question is what could the U.S. do to attract more Chinese foreign investment? I think the first thing is to, you know, offer better returns. You know, one of the problems with -- I think, we had Mr. Jin earlier say that we're happy to invest in the infrastructure as long -- but we want handsome returns. That's going to be tough to deliver, and, you know, I have close Chinese friends who have the responsibility to invest abroad and they say you know, we're getting killed here because we're being compared with our colleagues who are allowed to invest domestically in the returns that they're achieving. You're on your -- dwarf anything we can achieve in the U.S. or other developed markets, and so it's -- you know, we're all being passed over for promotion as a result. So, I think that the challenge really is to make sure that not only are the long-term returns available here but the stability for some of these investments is more ensured. Is that an infrastructure? Possibly. But that's going to require a lot more thought and a lot more -- sort of more of a master plan than we've achieved today.

AMBASSADOR SCHWAB: I would approach it in the following way. If we look historically at what Japanese companies have done, what Korean companies have done -- what Brazilian companies have done in many ways, the United States is a very nice place to manufacture. I mean, one of the biggest myths out there is that somehow we don't make things anymore, and it's one of the ironies of the political debate, because the fact of the matter is there's a great deal of manufacturing going on in the United States. Some of that manufacturing is by foreign-invested enterprises, significant amounts of that -- green field sights as often as joint ventures. But if you look at where manufacturers invest, they invest near the customers, and this is a viable and vibrant and productive workforce, and I suspect we will see more and more of that kind of investment going on here. ZTE -- Mr. Cheng ought to speak to this issue, because you have invested here, including green field sights, and so -- I mean, perhaps we ring our hands prematurely on this particular matter.

MR. CHENG Yes, I would like to endorse Susan's point. Just to give you a real example, we have -- you know, last year we set up a local D.C, distribution center in the Dallas

Airport area, and of course, you know, why we wanted to set up in D.C. was because we have so much, you know, product distribution in the United States. So, it's from an economic and appreciation point of view that we need to set up this operation center in the United States. Of course, first step was just shipping the product from China and distributing this to different kinds of warehouses of our customers. Very soon we realized that we can do more here. So, then we started local packaging and local (inaudible), and now we are evaluating local production and manufacturing here.

So, that's led to another question: Why do we want to invest in the United States? So, number one, we want to take the market share. We want to sell in this market, right? ZTE now is global leader in 140 countries, so there must be a good reason for us to have been winning the competition on the global marketplaces. But the United States counted around 20 percent of the total telecom equipment market worldwide, so if we want to maintain our leading position in the world market as a telecom vendor, we've got to be here. We've got to have a significant market share here. So, in order to achieve that -- we have demand for a customer; they need a local base for services; local base for support; and a local base for manufacturing. So, in order to keep our customer happy, achieve our market share goal, we've got to invest in the United States.

And, secondly, it's for profit. You know, the United States is not only the single biggest telecom market worldwide but also is the most lucrative, most profitable market worldwide. It's because, you know, of the protection and also, you know, the incumbent players here. So, we come here because our sales here -- it's a much better profit margin than any other part of the world.

And the third reason we invest here is because we want to be close to our suppliers and our partners. As I mentioned in my presentation, we have so many high tech companies in the United States, and we have joint development of -- you know, we have to learn from them and also pay their royalty and help them realize what is our demand and they will be able to help us realize those kinds of good ideas. So, we need to have joint innovation labs and all these things together.

So, with that, we want to invest in the United States, and that is the motivation we have behind those investments. Thank you.

MR. MELTZER: I'll open it up to audience now, and as has been said please state your name and affiliation, and it would be appreciated it if you could keep your answers very short -- your questions very short and to the point.

Yes, at the back.

MR. BARFIELD: Claude Barfield, the American Enterprise Institute. Since we've got ZTE here, I want to ask this question specifically about the telecoms area.

You presented a very optimistic view of ZTE's potential in the United States. Charles Freeman talked about the fact that CFIUS really doesn't screen a lot or turn down a lot of proposals for mergers. But certainly it seems, if one looks back over this last couple of years, the CFIUS process has given a very strong signal that the United States government, at the moment, is quite nervous and anxious about contracts and mergers and acquisitions in this area. They have turned down Huawei; they turned them down in terms of mergers and acquisitions and also in terms of contracts. I think ZTE has not been in the crosshairs because you haven't really been as bold. Have you thought about how you will actually crack the U.S. market? Clearly, there are security concerns. Again, is there anything you are thinking about doing about that in terms of source codes or something like that, or maybe more transparency in terms of corporate governance, becoming not a state-owned enterprise? Admittedly, it hasn't helped Huawei, which is a private company. But I wonder if we could talk a little bit more realistically about your specific company and that specific sector in the United States.

MR. CHENG: Thank you for the great questions, although I'm not prepared to comment on any activity of our competitors. But I will comment on what we are going to do and why I'm optimistic about what we are doing here.

First of all, my optimism is based on our actual achievement, and during the past three years our sales in the United States have achieved a compound growth rate of 131 percent, which is very good. So, this is a real result, you know.

Secondly, about transparency, and I have to tell you that, you know, part of the key words of my presentation is "transparency," because ZTE, first of all, is not a state-owned company. As I mentioned, we have about 20 percent of foreign ownership in our company, and you can find every single shareholder of our company on our annual report, because we are a public traded company in both Hong Kong and the Shenzhen Stock Exchange. As you know, Hong Kong has very reputable regulatory mechanism. All right, so our report also was audited by Ernst & Young, which is a reputable American firm. So, we have a transparent corporate ownership structure and also governance structure. I want to add one more. So, we do have some state-owned enterprise shares -- our company -- and those shares are only 16 percent and are diluting every day as we speak. And so that is the answer to your question.

And then in terms of actual security concerns, and I will answer this from two aspects -- No. 1, from a technical point of view, ZTE has been very open to any kind of technical concerns in terms of security in hardware and software aspects. In terms of sourcing code, we have offered to the United States government and also our carrier customers a sourcing code ESCO, which we means we can completely open line by line to a third party. They can audit any element of the software code for the security risk.

We also are willing to ESCO in the third party, which means in certain circumstances if something happened between the two countries, our carrier customer can get access to such consultant code so that the system can continue running without, you know, support from China. And the puzzle I have today is actually the transparency from the U.S.

regulatory point of view, and still today I don't know what the real issue is, okay? So, there is no standard I can follow in order to comply with this kind of requirement.

But I did, by myself -- I went out to hire a third party, a company called Menerve. They have audited millions of lines of our software and our hardware and have the report ready for the U.S. government and also carriers. And of course they found some issues during the process, which are normally the issues you can find in any software, right, but there is no security risk found. So, I think, again, it's coming back to our intention of coming to the United States. We come here for market; we come here for profit; we come for partnership. So, that's the intention, and we will do whatever we can to achieve such kinds of goals in the United States. Thank you.

MR. MELTZER: Unfortunately, we've run out of time, so I just want to thank our panelists for what was a very rich and very interesting discussion. Thank you.

We're going to take a ten-minute -- five-minute break and then we'll come back for the next panel.

(Recess)

MR. LIEBERTHAL: Thank you. Our final panel this afternoon is on the U.S.-China relationship overall. We have three wonderful presenters. I'm going to ask each to come up to the podium to give his formal remarks and then sit down. We will keep these to about 10 minutes apiece so that we have some time for Q&A at the end of this. As you know, this panel has been shortened a bit because of our AV problems a little earlier in the afternoon.

Our first speaker will be Professor Shi Yinhong, who is professor of international relations and director of the Center on American Studies at Renmin University in Beijing.

Our second speaker will be David M. Lampton. Mike to everyone who knows him well. And Mike is right next door at SAIS where he is the George and Sadie Hyman professor of Chinese studies. He is also the dean of the faculty there, as I recall. Is that correct, Mike?

MR. LAMPTON: Yes.

MR. LIEBERTHAL: Yeah. And then our third speaker will be Doug Paal. Doug is the Carnegie Endowment -- if you go out and take a right instead of a left, that's Doug -- where he is Vice President. He's former several things in the U.S. Government, including the American Institute in Taiwan, head of the Taiwan office I guess we call it, and formerly a National Security Council member and so forth.

So these are three people with strong academic and practical experience in U.S.-China relations, and let me begin with Professor Shi.

MR. SHI: Thank you very much, Ken. And it's my great pleasure to be here to discuss this significant topic: China and the United States in the next five years. And what I would like to talk about is the role China ought to play in the world. And I think that at least and-- for the next 5 years, but also for the next 15 years or 10 years or even longer. I think that China--rising China at least ought to play four roles in the world.

Role number one China ought to play in the world is as the major value provider with domestic progress. And I think that more than transnational values can be reduced in two basic categories: economic growth, liberty, social justice, and newly born environmental protection. The primary national achievement that China has made since the initiation of reform mainly falls into the category of economic growth. But this transnational value itself is definitely not all of China's creation. And this assuming of economic growth of China has been over many years much accessible at the expense of social justice and environment protection. Social justice, I'm sorry, four values: economic growth, liberty, social justice, and environmental protection.

And since the beginning of reform, the economic liberty of Chinese society has been realized, a great expansion of liberty in the history of the world. However, this value itself is also not an innovation by China. And economic liberty in too many cases in China now is virtually like *laissez-faire* with its huge cost in social justice and the environmental health, not to mention that there is still a very long way to go before China fully realizes some other basic liberties of her people.

So the historic challenge China faces is can China make sufficient domestic progress in addressing the major problems pointed above to create really a set of Beijing consensus that is innovative and has much transnational relevance and equitability? There is increasing hope for developments while also increasing difficulties in this vital aspect of future national life. China has to successfully cope with this challenge if China is to become a really sustainable world power.

While all of the above should be pointed out that one major aspect China has already shown, likely prospects of contributing to the future world really innovative historic value, which was created brilliantly by Mao Zedong and adapted by Deng Xiaoping for contemporary China. That is what is most important and decisive is Chinese own practice and experience in the particular Chinese circumstances and situation. What is best for Washington elsewhere is not necessarily best for China, just as what is best for China is not necessarily for any of the others. People in the world should and are fully entitled to move on their own roads, respectively, according to their own practice, experience, and decision. This so-called local Chinese experience being created by a successful revolution, reform, and growth could surely have its global significance.

The role number two China ought to play in the world is a strategic power and this is closely connected with the prospects of China-U.S. relations. And with the assumption that China's peaceful rise sustains, the United States may tend to consider with increasing seriousness certain peaceful so-called final settled. That is to differentiate the different balances of strengths and influence in different functional and geographical areas, so adopting rationale, in my words, of selective preponderance instead of comprehensive superiority or advantage distribution. That means not only accepting China's leading position she might obtain in terms of GDP, foreign trade volume, and economic or even diplomatic influence in Asia, but also accepting the material strategic deterrence between China and the United States and China's mutual parity or even a marginal superiority to the United States for China's offshore only and a peaceful limitation of two sides of Taiwan strait together with China's so-called strategic space in a narrow but substantial span of Western Pacific. This means the United States must accept China as a legitimate, strategic great power.

But indeed, on the other hand, the great power so-called structural rivalry between Beijing and Washington is becoming broader and more profound than in the past, perhaps the lack of a gathering storm over the distant horizon. What's particularly important is that Chinese's lasting and escalating military buildup will surely become or even already begin to become the most prominent problem in the minds of American strategic and foreign policymakers. This contradiction is surely not absent of a possibility of paralyzing the future of China-U.S. relations.

Role number three China ought to play in the world is as a major builder of international responsibility. For China's grand strategy and its practice, especially in collaboration with the United States, European Union, and other Western powers, as well as in increasingly prominent wide issue of global governance there has emerged the major issue of China's bearing of international responsibility. The outside world is not only expecting China's peaceful rise, but also China's responsible rise. There should be no doubt in China that she must increase greatly her bearing of international responsibility as long as such bearing first will not violate against her vital interests and surpass her fundamental capability. The second results from the equal consultation between her and the external world rather than from any so-called dictation or coercion by the latter, so it largely matches with an increase of her reasonable international rights and privileges. International responsibility is rapidly becoming a primary keyword and issue of China's strategy and foreign policy and a major challenge that China has to meet actively and positively.

And lastly, role number four China ought to play in the world is a restrainer of abusive or excessive power in the world. And this is closely connected with one major question for China's future foreign policy: What might be China's future foreign policy orientation? And in recently years, for the first time an emerging of two contending possibilities. And one is, in my frank words, checking American power gently and prudently, but also consistently. This has been a traditional orientation since Deng Xiaoping. And this means a comprehensive and balanced Chinese diplomacy. This means for China to keep old friends, to win new ones. This also means for China to focus on the issue, pay sufficient attention, and efforts to China's relations with other powers on other continents besides the United States and Northern America.

And it also has its domestic implication. And this is to make the Chinese state and society healthier through domestic reform, to reduce appropriately the excessive interdependence with the United States in terms of political economy. Or second possibility, this is, in my words, G-2, the Chinese version, some people in China have had since about 2008. This means increasing further the interdependence with the United States and to reduce the trouble from this superpower through so-called extra accommodation while dealing with almost others perhaps more harshly or less attentively, and to obtain the recognition of the so-called number two status and position from the United States through the same way.

My personal point of view for years is that China ought to insist on the above first option along with the vitally important and feasible cooperation with the United States and against the interference of the second. And adapt it to changing China and the changing world in order to make China herself an independent world power in the not so distant future. Thank you very much. (Applause)

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