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CHINA AND SARS:
THE CRISIS AND ITS EFFECTS ON POLITICS AND THE ECONOMY

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RICHARD BUSH: If I could have your attention, please, I think that because we have four speakers and a very interesting topic, we should go ahead and get started. We won't pick up the entree plates until after the event's over, so just go ahead and manage your dessert however you can. (Laughter.)

Again, it's my great pleasure to welcome you here to Brookings today for a program on SARS and China. I think that SARS sort of gave us a really useful window on the Chinese system and how it works. And we have four excellent people to speak to us today.

While I have the floor, I'm going to take advantage and make a brief commercial. And that is to note that Brookings has just released Bob Suettinger's book on U.S.-China relations from Tiananmen to the year 2000, called: "Beyond Tiananmen." It's available in our book store. It's not exactly a beach book -- (laughter) -- unless you're looking for a pillow, but it will be the sort of point of reference for a basic understanding, any understanding of this very important period in U.S.-China relations.

Turning now to our program, as I said, we have four outstanding speakers. I'm going to go ahead and introduce them all.

First is Laurie Garrett, the award-winning medical and science writer for Long Island Newsday. And she spent six weeks in China in the spring covering SARS. Second will be Bob Kapp, my dear, old friend, president of the US-China Business Council, who's going to talk about the economic impact. Michael Swaine, senior associate and co-director of the China Program at the Carnegie Endowment, will talk about crisis management and cross-strait relations. Minxin Pei, senior associate and the other co-director of the China Program at Carnegie, will talk about the impact on China's political reform.

So without further ado, I'd like to invite Laurie to make the first presentation. I think because we have Power Point involved, the rest of us are going to sort of move to the side so we can see as well as you can.

Thank you again for coming.

MS. GARRETT: Thank you.

And I don't know if you're going to be able to see anything unless the lights -- okay. And also, if I stand here you won't see anything, either. So I'll be seated while I make my remarks.

I want to thank Richard and Carnegie, the Atlantic Council, U.S.-China Business Council and Brookings for this kind invitation, and all of you for suffering a mere journalist's insights. I know that I'm overwhelmed by extraordinary expertise in this room among China scholars and analysts, and I hope you'll accept some of my insights. But I'm the first to tell you that my primary expertise is in public health and science. What I do is cover epidemics, among other things.

So I would like to start out by taking you to Chau Tau Market, located in Guangzhou, about an hour and a half train ride from Hong Kong. This is an interesting market. It's one of about five or six of its kind in Guangdong Province. It's a massive place. You're looking at one aisle, of which there are many, in a facility that's more than a square block in size.

Each aisle specializes according to the species that it sells. You have fellows working there who are walking the borderline of legality. Their everyday activities, the products they sell, the way they treat the products and how they're sold are all marginally legal. So it's a tight-lipped group, a surly group. You're not going to get much information out of them. And they are prepared to lift their entire market up and relocate it in a black-market area at a moment's notice.

By the way, their products are underneath this game board. And the products will be specialized. Some of the aisles in the market specialize in exotic birds, such as peacocks and endangered songbirds, rare tropical birds and the like. You'll have whole aisles that are just bird species, entire aisles that are snakes and reptiles. All of these, of course, are bound for somebody's dinner table. The snakes and reptiles are often stored in sacks, writhing around on the ground where someone could easily step on them; cobras are brought from as far as southern India. There were snakes from every part of Southeast Asia and all over the region. Endangered turtles, including several that are on the Endangered Species List. And some of the turtles I analyzed and realized actually came from North America. You're looking at tortoises and turtles that are of every imaginable type and, again, very difficult to find these days in the wild.

Sichuan barking deer are a particularly popular item in the market. This one, interestingly, illustrates a key point about the exotic food market. The animals must be served fresh. They must be slaughtered just before being prepared. They must survive their journey from wherever they are hunted and be presented in absolutely the best possible health prior to slaughter. So this barking deer is on an IV drip. You may see the drip, the saline solution. This was, according to the tight-lipped seller, to, quote, "freshen it up."

But overall most of the animals, on close examination, are, of course, severely traumatized, ailing. Many have tried to escape their encagement by biting off limbs, so they are bleeding. And they are often caged next to their predators or prey in such a way that they will end up defecating and urinating on each other. This allows for a fantastic amount of spread of microbes from species to species within the market.

The animals are captured in the wild using snaring techniques that will, hopefully, not mangle them, because they will not sell well if mangled. And they're wired into these plastic boxes and then shipped huge distances, often going days jostling in the back of a truck somewhere with no water and no food. When they arrive, of course, the customers can't see them in these plastic boxes, so they get transferred, as this civet cat is being transferred, into a wire cage box which allows the would-be chef or purchaser to closely examine them and decide if this is suitable. Each of these steps is traumatic for the animal.

The way the handlers treat the animals is very cavalier in terms of their own personal health. This woman is reaching into a bucket to pick up a venomous snake. She's bare-handed and

bare-footed. There's another venomous snake on the ground, and she will skin it alive with nothing to protect her. Tests have been conducted by the University of Hong Kong team of T. K. Yuan and Malik Peiris showing that a very high percentage of these animal handlers have antibodies against the SARS virus. Tests in the marketplaces, like this one, Chau Tau, and the others in the Guangzhou area, show the antibody positive rate is in excess of 50 percent of the animal handlers. So very clearly, these people were exposed.

And what species might it have been? Very hard to say. As you all have heard undoubtedly the masked palm civet has tested positive in two laboratories in Hong Kong. And so have the Chinese badger and a couple of other species. The problem is that some laboratories see no infection at all. And that is the official line from Beijing. Not one infected animal has been found in a marketplace in Guangdong, says Beijing. And they reinforced that just yesterday.

However, there's tremendous skepticism about the methodologies being used by the Agricultural Ministry. Interestingly the government farmed out the testing to the Agricultural Ministry, meaning a Ministry that has a commercial stake in perpetuating this market.

And most of the scientists who are not intimately connected financially to the industry say that they're finding contamination and infection everywhere. So, in fact, we don't really know what the index species is because there are so many species in these marketplaces. I counted more than a hundred species of animals. And they're all caged next to each other. And they're often caging predators next to prey, as I said, which results in tremendous trauma, bleeding, and therefore a perfect zoonosis.

Now zoonosis is a biological term that means the transfer of microbes from one species to another. This is a zoonotic epidemic. SARS never previously existed in human beings. And I can go through about 20 very solid lines of biological reasoning if anybody cares later to show you why we know this is brand new to *homo sapiens*.

But we don't know which species it came from because the more animals that get tested from these markets, the more species are turning up infected. And it looks like we're just seeing massive zoonosis inside the marketplaces.

So, where did it originally come from? The problem is that the animals came from all over the world. In the little bits of information I managed to pry out of these market dealers, animals came from as far south as Sumatra and as far north as Siberia. Some are grown - about 40,000 a year for example, are grown in civet ranches, mostly on Taiwan. But most of the animals are caught in the wild. So we don't know where it came from. Not knowing either geographically or in what species SARS came from means we cannot predict its future behavior. Anybody who tries to is being ridiculous.

To quickly review some of the key findings. We have been able to find the genetic traces, what's called PCR; those of you who followed the OJ Simpson trial know PCR evidence was the key to what looked like the guilt of Mr. Simpson. The PCR evidence seems very strong except, as I said, from Beijing. And there's now more evidence just since I prepared this slide a week ago.

So we're left with this great mystery, all of which was covered up. And covered up for a considerable amount of time. My information from sources I spoke to at all tiers, particularly in the Scientific and Health Ministry, is that there was a deliberate cover up, and it was carried out on two levels. The first is, that within Guangzhou itself, the Guangzhou CDC or Center for Disease Control, and the Guangdong Provincial Health Department, those leaders outranked the Chinese National Minister of Health within the Party. They had the right to ignore everything he said to them, and they did.

And there's a tremendous flurry of competition going on between research laboratories in China now, because they've gone free market. So everybody wants patents. Everybody wants to become an overnight billionaire. And, you had active sabotage going on with one laboratory refusing to share samples with another laboratory because they all thought we're going to be the lab that gets the big patent, that results in the vaccine or the cure or whatever, for this new disease. So you had a political issue and a profiteering issue that was in the way.

And then, finally, there was a decision, all my sources tell me, very high up within the Communist Party, to hush this all up until after the NPC in March. The hope was that nothing could disturb this sort of general, positive transition of power from Jiang Zemin to Hu Jintao. Now, of course, all of this fell apart when SARS left Guangdong. With every traveler who went out of Guangdong, SARS was a hitchhiker. It showed up in Vietnam, in Singapore, in Hong Kong, in Canada, and in more than a dozen nations around the world.

But I think the most severe response was what you saw in Hong Kong. By the time I reached Hong Kong in mid-April, it was a ghost town. There, all economic affairs had been utterly shut down. Most people were staying indoors, and the key thing that pushed panic was Amoy Garden. Now, probably you all heard about Amoy Garden because more than 300 people living in the Amoy Garden estate developed SARS.

They all developed it in a matter of days from one another, and the the Amoy Garden outbreak came under control only by transferring all these people into quarantine, and scouring every inch of Amoy Garden. Now, a lot of people have the impression that Amoy Garden is some kind of a tenement or slum. That is not the truth. That is not the case at all. In fact, you're looking at two out of 19 condominium towers of Amoy Garden. This is a massive, middle class condominium complex. Every one is 36 stories high. And almost all 300 cases occurred in just one tower. And the majority of them occurred in two apartment lines within one tower.

Most of the people living in the Amoy Garden are young couples. This is the typical, first starter apartment for newlyweds. And you're going to hope to make money and trade up to a larger apartment in a different part of Hong Kong as life goes on. So, before the Amoy Garden outbreak, the average age of the SARS victims was quite elderly. And all of a sudden they skewed the demographics and the average age of SARS patients dropped down into the thirties.

There were two noteworthy things about Amoy Garden besides the mystery of how everybody got infected. One was that they did not present respiratory symptoms. The diagnosis was initially missed with most of them, because they had diarrhea as their primary indicator and

they were suffering tremendous gastro-intestinal tract, GI tract, problems. They often developed respiratory impact secondary to initial GI tract problems.

This suddenly forced the whole scientific world to realize this virus was causing a much more complicated clinical picture that anyone has previously appreciated. But the real issue is how did it spread in Amoy Garden.

After much research, the Hong Kong Health Department ended up deciding that plumbing was the culprit. And those of you who've been in Hong Kong know that even in very, very elegant buildings all over Hong Kong, plumbing is built on the outside of the building rather than buried in the walls as we do here.

And the key issue, it was decided by the Health Department, was this particular sort of plumbing feature, that you would see going all the way up and down the line on the outside of the building. The large pipe, this one, is the central sewer pipe. The smaller pipes are taking water from the shower, the sinks, and so on. The fat pipe here, from this angle you can't quite tell, but it's a U-shaped pipe, it's meant to always have a little water in it so that fumes and material from the sewer pipe cannot back up into the bathroom.

And that usually always did have water in it because the old style of cleaning bathrooms was to take a whole bucket of water and just pour it all over the bathroom. But now, in Hong Kong, people are cleaning their bathrooms the way we do with a little spray of Fantastic and a little scrubbing on spots. So, there wasn't enough water in these U-pipes, and the belief is that things were backing up.

The index case was a man, a traveler from Guangdong who was a renal patient and had severe SARS but nobody knew it. He was entirely expressing it as diarrhea. And it's believed that he filled the sewer line. Well, this explanation has not been accepted by the condominium association of Amoy Garden. And the reason is that the majority of the cases turned out to be 10 or 15 stories above the index case. So it's very hard to imagine how sewage went up 15 floors into people's bathrooms.

The bottom line is this case remains a mystery. This means that we really don't know how SARS spread there. We really don't have an open-and-shut case. Similarly, the Metropole Hotel in Hong Kong, you had 12 people become infected who happened to only share one thing - they all stayed on the ninth floor of the hotel in February. I just found out this hasn't been published yet: they have managed to extract SARS viruses from the carpeting outside of the room of a physician who came from Guangdong, was deathly ill, and died in Hong Kong and was the first super-spreader. About 30 percent of the first wave of cases in Hong Kong were health care workers who treated this one fellow who came in.

What's the best explanation? Well, it goes partly to a question I know is on all your minds, will this virus come back? We now know this virus is very hardy. And in cool temperatures, down below 60 degrees Fahrenheit, this virus can live on plastic, it can live on steel surfaces, it can live on banisters, on doorknobs, and it was just, just announced two days ago from Malik Peiris'

laboratory at the University of Hong Kong, this virus does not thrive in the presence of humidity. So it really may have a specific seasonality.

When this virus comes back, we're going to have more of the same problems we had this time. One is, we missed a lot of cases. We had to create a diagnosis in the absence of a laboratory test. We still don't have a good lab test for SARS. So the diagnosis set by WHO was a fever about 38 degrees Celsius, cloudy chest x-ray, and difficulty breathing. But as I told you, a very substantial number of cases presented primarily with diarrhea. So we were missing a huge number of SARS cases. And now there's a considerable debate among physicians about what should be the diagnostic criteria for SARS.

This fever thing by the way is extremely important because, as I will get to in a moment, the entire mainland Chinese effort to control SARS was based on only one thing, fever. That's it. So if you had any other symptom you got missed, and you're still missed, in China.

It also looks like the virus itself is not terribly deadly. It's not the virus that kills people, it's the immune response to the virus, which as I said, I could at some point if you're interested tell you all the lines of reasoning of why we know this is a brand new virus to the human species. But this is a key one. When SARS shows up, the entire immune system goes ballistic. It responds so outrageously that it ends up causing massive collateral damage, killing human cells in its wake. And people who have recovered from SARS have permanently damaged lungs, permanently damaged livers. They will probably be sickly the rest of their lives.

So, SARS, by the time I left Hong Kong, had caused a really severe panic. Food was rotting in the marketplaces because people were afraid to come out and buy perishables. People were hunkered down inside, watching DVDs, playing video games, and eating canned foods. And the main thing that they were fearful of was China. They didn't know if China was telling the truth. They didn't know if there were millions of cases in China.

And as you all know, on April 20, Sunday Bloody Sunday, China announced that they ordered the resignation of the Minister of Health and the Mayor of Beijing, and yes, we have a SARS epidemic, and yes, we've been lying all along. You had an immediate market impact on the announcement. But more importantly, you had a prolonged, devastating economic impact in China.

This photo, ladies and gentlemen, is two days before May Day, the Forbidden City. That day, at three in the afternoon, I bought ticket number 100. And any of you that have been in the Forbidden City have never seen it like this. (Laughter.) No matter where you went in China, you saw the masks. Even outdoors. And the wearing of the masks was utterly ridiculous. There's no way this virus is going to fly around outside and find your nostrils. (Laughter.)

But more importantly, the mask itself became an additional source of fear. As you saw people wearing masks, you became fearful and wondered why am I not wearing one? Anywhere you went, indoors or out, the masks were a constant. And by the way, the masks these people were wearing, the ones distributed in China, don't work. They're utterly, completely useless.

Tiananmen Square. And this is Golden Week. You probably never saw Tiananmen Square this empty. It's basically employees. Great Wall. I bought ticket number 203 on the Great Wall on May Day.

So, when anybody tries to tell you that there won't be a significant economic impact from SARS, I would show this photograph to them and ask them to explain how that's not an economic impact. And I saw it out in the provinces. This is outside Datong, a very famous fifth century Buddhist Shrine. I waited half an hour to get some people in the picture (laughter). This is Pingyao, another very, very famous Ming Dynasty village that's always just packed with tourists. They told me in the entire month of May they sold one museum ticket for the entire village.

Inside Beijing people tried clever ways to lure the customers and to convince them that life was safe. And individually people thought, if one mask would work, why not two, why not three, a real sense that there wasn't enough protection. Well, what did the government do? How did the government bring it under control?

First, they made a lot of mistakes. And I don't have time to go through detail by detail, but throughout the response, it was contradictory and you sensed that the Jiang Zemin faction was putting out one set of orders to the society and the Hu Jintao faction another.

For example, the floating people. In Beijing, the first thing the government announced was we're canceling Golden Week because we don't want to spread SARS everywhere. Immediately all over Beijing the Jiang Zemin supporters put up posters that told floating people, get out of town immediately or else we're going to imprison you. You are SARS spreaders. And tens of thousands of them went to the train stations and fled, often taking SARS to the provinces. This was exactly the opposite of what Hu Jintao wanted, which was to have them all remain within the city.

Similarly, students fled by the thousands because rumors spread on text messaging, which, as all of you who've been in China know, is fanatic. On cell phone text messaging, messages said, they are going to lock up all the college students. So thousands and thousands of college students fled Beijing and went out to the provinces.

The sources of panic were numerous. I don't have time to go into the details. But the bottom line was since the government had no credibility, no matter what the government said, it couldn't calm people down. And no matter how wild the rumor was, it seemed just as credible as whatever the government was saying.

Eventually Beijing was turned into an island. There was no way to drive outside of Beijing in a passenger vehicle. Even commercial trucks had a hard time getting in and out of Beijing. This is in the week following Golden Week.

Put in charge of the operation were the Beijing CDC and the National CDC. But it's important to understand that the Beijing CDC is just one of several thousand local Centers for Disease Control all over China. They are basically just immunization stations. They have no genuine epidemic expertise whatsoever. And the National CDC was only seven months old at the time of the epidemic. Prior to that, it had been an academic Public Health Department. It had no

expertise in epidemic control. There was no agency in the entire Chinese government that knew how to handle an epidemic.

Similarly, the laboratory capacity was primitive, at best. When I got inside this lab, and it's amazing I was able to - an indication of a lack of security, it looked like my high school biology lab.

The CDC did learn one lesson by following how the American CDC responds. They set up a hotline. And this is something very new for China - the ability to call in completely anonymously, nobody takes your name, there's no repercussion, and you can ask for information. The day I was there the number one reason people were calling was that there was a widespread rumor on text messaging that cats and dogs carried the virus and people were throwing their neighbors' cats out of apartment windows and killing them.

There is scientific expertise. It was not tapped, as I said. But the government did use the classic, mass mobilization responses. In six days, they built a 1,000 bed hospital on the outskirts of Beijing. In six days. The workers were confined on site, were not allowed to leave - sleep where you land. This is the inside of a hospital. It's basically styrofoam and aluminum walls with containment facilities for the individual patients.

When eventually they moved the SARS patients here, all the staff were People's Liberation Army physicians and nurses. They did do classic quarantine. Any facility that had two or three or more neighbors with SARS was placed under quarantine, no one allowed in or out except residents. They quarantined most of the hospitals, placing the physicians on permanent lock-down themselves, isolated from their families. This is Ditan, the leading infectious disease facility. These doctors and nurses lived under quarantine with their patients for two months.

And then in a big publicity effort, they disinfected everything. This is in the Summer Palace, where of course, there must be SARS on the sidewalks, so they disinfect every inch. They set up disinfection and fever stations in all the train stations and airports, and that became pivotal.

Outside of Beijing, you saw the villagers take the law into their own hands, setting up their own SARS obstacle courses. No one could get into this village for example, unless they were a resident, because they didn't want SARS to come to the village. And by the way, the people told me, “It's not the virus we fear, we're old, we're going to die anyway. We can't afford a night in the hospital. One night in a hospital is a year's income for us. That's what we fear. It's being financially devastated.”

The suburbs most of you are familiar with around Beijing set up their own fever stations. You couldn't get into any of the gated communities without thermometer checks. And out in the provinces, the same thing. The people took the law into their own hands. None of this is official. And no one could get in unless they passed the scrutiny, even if they were delivering goods.

The official efforts out in the provinces and all over Beijing involved stopping vehicles just about every ten miles. Vehicles were subjected to this inspection. Everybody must come out of the vehicle. They go through registration and a fever check. And the entire effort rested on these little

fever guns. If you had a fever of above 38, that's it, off to quarantine, sayonara baby. These were everywhere. I got up on mountain passes in the middle of rural provinces and there were fever stations.

And the other key was try to get the people to like the health care workers and be willing to go to the hospital. Tough sell since most people detest doctors, detest the hospitals, feel that they're a bunch of scheming thieves that will steal everything out of the pockets. And in fact last year, 70 percent of all hospitalizations, according to the Qinghua University study, were terminated prematurely for lack of cash payment by the patient. Even during SARS when the government claimed all SARS care would be free, in truth I was able to document numerous cases where contagious SARS patients were kicked out of hospitals when they ran out of money.

At the village level, you saw people bitterly angry because some of the big SARS spreaders who never faced any prosecution were Communist Party officials. In this village for example, outside of Taiyuan, the key spreader resulting in 139 infections and six deaths was the local party boss. He has disappeared.

The Jiang Zemin faction of the Communist Party responded by saying, "SARS will be defeated." Let's see [the sign in the photo says], "The SARS will surely be conquered by our government under the leadership of the Communist Party of China." And all efforts were put on trying to maintain productivity. Many workers in factories told me they were locked in because they didn't want them to flee the epidemic.

Finally, economic consequences. Some people say this epidemic has had only minimal economic consequences. I think that they are out of their minds. I can't imagine exactly how Hong Kong is going to recover. Just today they've launched their big tourism campaign, you've seen the full page ad in the newspapers. Come to Hong Kong, we'll practically give you free hotel and airfare. Just come. I think it's very doubtful you're going to see a revival of tourism.

But it's more than just the tourist impact. We're seeing whole industries making the decision to pull some of their production out of China into south Asia to diversify the location because of this fear of epidemics. Of course, I would argue India is not exactly your disease free zone, but --

The one interesting thing is this surge in automobile sales. It was a record automobile sales month in China because people were so fearful of subways and buses that they finally went out and bought the first family car.

And you're probably all aware of the recent IMF adjustments in economic forecasts for much of the region, all reflecting the impact of SARS. Japan is reeling from SARS and they never had a single case. Just a couple of days ago, Kodak claimed that all of its losses are due to SARS. Now, of course, some companies may be taking advantage of this for other reasons. But I think that we have to acknowledge that Asia has suffered dearly from SARS. Many Asian economists said to me, "It's worse than 1997." Long term, it may not be worse because if SARS does not return, the economy will build up.

But I'm prepared to guarantee you, SARS will return. And even though the quarantines are over, the students are out of the universities, schools have reopened, and life is back to normal in most of Asia, this virus is still there. It is still in some species. We don't know what species. It is clearly a seasonal virus. And come November when the temperatures cool down in southern China, and the species in question is back in the marketplaces again, SARS will probably resurface. And then the only question is, "Will China handle it any better the next time than it did this time?" Thank you. (Applause.)

MR. BUSH: Thank you very much. And now we have Bob Kapp's take on the economic implications.

MR. KAPP: Thank you, Richard, I assume these mikes are to be used.

MR. BUSH: Yes.

MR. KAPP: Well, I only asked for 10 minutes, which means I'm going to talk fast. Michael Swaine invited me over to his office after the Party Congress last fall to meet two people from one of China's think tanks who were in town to see what Americans thought of the new leadership line-up. And when it came my turn to offer my view, I said, "Look, at the end of the day, all this Sinology doesn't matter, whether Hu Jintao served in Gansu or Guizhou, whether he was tied up with Hu Yaobang, none of it really matters."

"To Americans, what really matters are two things. Number one, how the new leadership treats people of different political views, and number two, how the leadership responds to adversity. Because every government encounters unexpected adversity and how your government responds when you are faced with a crisis of sudden adversity is going to be very, very important to the way Americans perceive your new leadership."

So when SARS broke out, I wrote to one of these guys and said, "You remember that conversation? This is it." And I had felt for some time that this SARS epidemic did pose a sudden and immediate challenge which would, in a sense, help to define the character of the regime. I'll come back to that point later. But listening to Laurie I was reminded about that meeting in Michael's office about 10 months ago.

If you pick up that piece out on the table outside that I wrote in our last issue of the magazine [*The China Business Review*], called "Out of Nowhere," you'll see that I myself steer carefully on the matter of SARS as a morality play. You know, I hate to go into animal markets in Guangdong. It's very disturbing to me. I care a lot about the treatment of animals. But at the same time I am intensely aware that there is a tradition in American thinking, especially popular thinking about China, that Chinese people eat rats, that Chinese communities are dens of the germination of diseases and noxious vapors. This is a subtext of the American perception of China all the way back into the 18th, 19th century, all the way back to the Knights of Labor, the California anti-immigrant campaigns, and so forth and so on.

And I try myself to steer a very fine line between seeing SARS and these zoonotic phenomena that we've been reading about, seeing the phenomenon of man and hog living cheek by

jowl, if you'll pardon the expression, (laughter). All of these aspects of the South China settlement patterns and populations and densities: somehow I struggle with an acceptance of certain scientific realities here that have epidemiological consequences. But the danger, nevertheless, that an event like SARS becomes a kind of a symbol or a kind of an emblem of something about China that for Americans and for people around the world is peculiarly fearsome.

And in the little essay I wrote out there called "Out of Nowhere," I hit the Chinese government very hard. I mean, the U.S. China Business Council doesn't go around beating up on the Chinese government, as a rule. I did make the case very bluntly that the withholding of information is itself an act of information about the withholder. And there can be no denying then or now that the government, in both in the law which treats epidemic diseases as state secrets, and in the orders which clearly went out saying, "Don't talk about it, we're having the National People's Congress, don't talk about it for whatever reason," acted in a way that was irresponsible for the people of China and for the people of ultimately the world, certainly Hong Kong, Vietnam, Singapore, and elsewhere.

But you know, when we talk about China, we all tend to get wrapped up into an inescapable process by which everything is defined in normative terms. There is this sense that SARS is just another example of a giant joke which is perpetually being inflicted on everybody else by China.; that nothing is as it seems, that there's some kind of hard-wired conspiracy to prevent reality from ever being perceived by those outside. And I'm frankly not sure we should go that far down the line with SARS as an example of that.

For business. Yes, there have been effects. Tourism, travel, anything requiring the movement of people, absolutely. Wal-Mart began video conferencing. Wal-Mart turned its major sourcing efforts out of south China and Hong Kong, brought them to Dallas, people flew across the Pacific with their sample cases and they did their demonstrations of 12 different kinds of denim in Dallas rather than in Dongguan. There was a great deal of that.

The transactional stuff, the stuff where you have to go, meet somebody, look him or her in the eye, sign, kick the tires, you know, chew it: those things were badly crippled in the immediate sense. And obviously the spin-off effects go beyond that. If you're not flying your airplanes, if the airplanes are on the ground, they don't wear out as rapidly, and sooner or later you buy fewer airplanes. So, the long-term spin-off effects of this economically, as Laurie suggested, are yet to be seen and there's no question that it was a serious matter.

The mantra for business, of course, is stability and predictability. Businesses are supposed to plan. They're supposed to say, "Here's where we are, here's where we're going to be 12 months from now, here's how we're going to get there," and for that they need stability and predictability. SARS threw that all up in the air, most importantly because one did not know and one still doesn't know the real epidemiological behavior of the disease.

The whole issue of whether it's coming back in the Fall: unknown. So you know, if you knew that you couldn't go to China in October and April, okay, you could live with it. You go in May, or you go in September. If the pattern over the next couple of years in this disease becomes established, and you know that when the temperature goes over 28 degrees, or when the calendar

says it's September second, you can't go anymore, all of that is basically manageable as long as there is pattern and predictability.

The difficulty in the first instance was that nothing could be known. Do you get it on the airplane? Who knows? Can it live on plastic for 48 hours? All of that stuff was unknown. And that led to a kind of sea urchin-like constriction on the part of many businesses as to just the behavior of individuals. I mean, I had a board of directors trip seven months in the planning, due to meet in Beijing on the fifth of April, and on the 28th of March, I pulled the plug. (Mick Jagger bailed me out later in the day fortunately, by canceling himself.)

I had directors of huge companies saying, "Our board of directors has said there'll be no international travel for any of the executive officers of our company until further notice." So there was this sort of sea urchin-like first closure. A lot of that, however, obviously has passed now that the advisories are off. (I might say the raising to god-like stature of the WHO in particular, and the CDC secondarily, as some sort of source of objective judgment around which other people could make rational decisions relating to their actions was instantaneous. Everybody looked to the WHO in this regard, and said "This is the standard. If they say we can go, we can go. If they say we can't, we can't.")

Damage, yes. But my own feeling is, just to conclude, if it comes back, if it strikes hard, if it causes social disturbance in China, so that you find people fighting with the forces of law and order to get out of a city, for example, or you find villages attacking the militia or the People's Armed Police who come in to make sure that the trucks move, if anything like that happens later, as basically it didn't happen this time, that would obviously be very discouraging to business.

But it didn't happen this time. You may argue that it's a violation of civil liberties to take peasant girls from Sichuan and lock them in the factory in Dongguan, in the workplace where they're sewing all day long. But to my amazement the workplace of south China, SARS can't have been concealed. The workplace of south China was not swept by this disease. That would have been a major misfortune for China. Absolutely catastrophic. But it did not occur.

And the rest of the world didn't say, "Oh, oh, I read the paper this morning, the virus can live for 48 hours on plastic, so I'm not going to buy anything air freighted out of China into my local store because it might have the SARS germ on it." Nobody went down that road. And the production mechanism in China was in fact not seriously affected, not seriously affected.

A second recurrence, especially if it took on the social dimensions or the dimensions of the breakdown of the social fabric that were feared on the first case, would be a very serious matter. I agree with Laurie on the Indian matter. And that is, by the time you get to that point, my hunch is that the relocation of production out of China to India, is probably not very significant. My hunch is that by the time you get to the point where you say, "Okay, that's it, we're not going to produce in China anymore, let's go to India," the whole world will have been so affected by the spread of this disease in comparable environments, that India is not going to provide an answer.

And thus to the concluding point. Thus far SARS has not altered the fundamentals which have created these tidal movements, the characteristic movements that have defined China's advent

in the world economy, over the last 20 years. That is, organization, labor force, cost of labor force, relative infrastructure strength: I mean all the things that have put all that FDI into China, and that show you when you go to the supermarket now, or to the department store, that so much is made in China:, none of that has really been changed.by SARS, yet, and I don't really think it will be.

On the other hand, the multibillion dollar deals, the pipelines, the chemical plants, and so forth, three months' worth of SARS didn't do much of that either. I know of one transaction whose final signing had to be postponed because the principals could not gather in Beijing. But in the larger scheme of things that is not a lot. The large domestic infrastructure effort by the Chinese government, to the extent that it involves the international economy and global partners, was not yet affected either.

So, ironically, thus far, I do understand what Laurie was saying in the final thought she had about business impacts. If I were Kodak, I mean, it would hurt. Nobody was touring. Nobody was getting on the plane. Nobody was taking pictures. But my hunch is that up to now, this is a passing moment. I will be very concerned if SARS recurs in a way which actually defeats the forces of normalcy in Chinese society because it is that unpredictability and uncertainty that is as damaging to the American business or international business engagement with China, as anything else. Thanks very much.

DR. BUSH: Thank you, Bob. (Applause.) Michael Swaine.

DR. SWAINE: Thanks, Richard. Well, we're already behind time here and I'm supposed to be covering two pretty extensive topics in 10 minutes, so I'll try and just sort of hit on some of the highlights and hope that I will be able to prompt some questions and thoughts in the question and answer, if there is a question and answer period left.

The first comment I want to make has to do with crisis management and what I see as the basic problem here. And there are actually a lot of problems. I mean, most specialists who look at the issue of how to deal with crises in domestic situations say that you have to have at least half a dozen types of features in order to really be effectively treating this kind of a very significant problem.

You have to have a pre-existing information structure with databases that's designed to identify the problem, to collect information without any obstruction to report it to the relevant authorities, track the evolution of the problem, and then disseminate that information about the evolution, something that is like the U.S. Center for Disease Control in the United States.

You have to have a pre-existing management structure that clearly identifies lines of authority among relevant local and national organizations, as well as the right procedures for interacting, reporting, developing strategies as the event unfolds. That allows you to be more flexible and to respond to it and keeps clear from entangling lines of authority. So, you have to have some type of, in other words, of command system for crisis management, similar perhaps to the U.S. Federal Emergency Management Administration.

Thirdly, you have to have a system of education and training to prepare personnel for handling different types of crises. You have to have a system of crisis assessment. Once you had the crisis past, it will actually allow you to analyze and assess what has happened and be able to develop ways of more effectively dealing with similar crises in the future.

Now undergirding all this, you have to have several features in the society that operates this kind of a system. First of all, you have to have really a culture or belief system that is supportive of the idea that information is important to disseminate to the public. An openness is important at both macro and micro levels, as they call them. Macro in the sense of saying what's the scope and size of the problem. Micro in the sense of saying how is the problem evolving specifically, what areas are in danger, what areas are not in danger. You have to have a supporting set of laws and regulations that will enforce proper functioning of all of the above, and make it sure that people, if they are violating different procedures will be punished, whether they are high level officials or lower level officials, or just ordinary citizens.

And then finally, you have to have an adequate financial and human resource base to facilitate all of this and maintain proper functioning as resource demands will increase as you try to deal with what could become a very serious problem. The Chinese system displays big problems in every one of these areas. And I'm sure we don't have the time to go into the detail here to run down this list and say exactly what the problems are, but let me just try and tick off a few of the major problems. Some of them have already been mentioned by Laurie and by Bob.

First and foremost perhaps is a basic culture of secrecy in China in treating events that could threaten social or regime stability. Both regulations that are in place at historical experience in China, biases a system towards really extensive caution in identifying, tracking, and reporting bad news. There are biases against sharing information with and receiving assistance from foreigners as well, for reasons that have to do with fear of provoking panic, fear of generating higher level censure and punishment, fear of undermining economic growth, and fear of generating outside interference.

These things are not necessarily intrinsic to communist systems or to Chinese communism, they are intrinsic to a lot of systems, but they are particularly evident, I think, in the case of China and pre-communist China to some degree.

Now some observers, including Chinese observers, say that all of this is exacerbated in the case of China, however, by the fact that you also have a very poor recognition in government and society of the need to protect human rights as a top priority, including the right of the public to life and information. That this was viewed in some cases actually as secondary to order and development. And that of course is a very debatable argument, but some people and I'm saying in China as well, make this argument.

Laurie made reference to the fact you didn't get reporting because of desires not to disrupt the National People's Congress, which I think is almost certainly the case. There's also a desire not to disrupt the Chinese New Year holiday at the end of January. That was another big issue that was in effect in the south. So you have that kind of consideration.

Second major problem in China, the above problem of information management is exacerbated by specific bureaucratic procedures and authority relations. In serious incidents like SARS, lower level entities will report upward for guidance and decisions. And they're highly limited in their ability and willingness to take an issue to deal with a situation at local levels. There are a lot of different indications of this in the SARS case. The state secrets law prevents local authorities from even discussing an emerging problem until the Ministry of Health in Beijing has announced the existence of a problem.

That really creates enormous disincentive for local authorities to act on issues. You have other kinds of similar problems, a very sort of marginal but relevant is a school, a school suspension. If a school decides that there is a real local problem that they have to deal with, they have to get permission before they can suspend school in the event of some kind of an emergency from authorities higher up in the chain of command in the Ministry of Education system.

An additional problem which Laurie did mention is the issue of party versus civilian authority within the system as a whole. Knowledgeable entities such as health units, for example, at different levels are often subordinate to the decision-making hierarchy in the decision-making hierarchy to hierarchically subordinate political units. In other words, the Ministry of Health as Laurie said, is really subordinate to Shanghai and Guangdong Party secretaries. So they can assert their perspective on a particular issue and trump the ability of the Minister to try and control a situation. The head of each city local health bureau is appointed by local party cadres, not by the Ministry of Health. So that itself is a problem.

In addition is the issue of the fragmentation of authority and the lack of communication across organizations, not just vertically but horizontally in China that has exacerbated the problem. Perhaps the biggest example of this in the SARS case was the failure of PLA hospitals in Beijing to report their high level of SARS cases to civilian counterparts in Beijing. This ultimately required ad hoc intervention by a retired surgeon, who we've all heard of, Jiang Yanyong, and his effort to try and announce in the face of what was going on in the civilian government that the -- (audio break) -- much higher level of SARS cases than were being reported. And it was just fortunately because you had leakage of information, because you called people to try and get this information out. And within the Chinese system, as I understand it, it did not get out, but it did eventually leak to outside news organizations through which it eventually did get out.

Even afterwards, however, you had reporting of resistance by the Chinese military to report accurate data on SARS as it evolved to the WHO and other organizations; so not just within the Chinese government, but also outside of China.

And then a further factor, a problem that's of course been operating in China, has been the exacerbation as a result of the depth of personal and political calculation among officials at all different levels. And this is evident in any system, but it seems to be particularly pernicious in China.

It adds to caution in reporting, and to manipulation and distortion of information and the exercise of authority both to please superiors and to undermine opponents of one sort or another.

And, of course, you can add to this not just political consideration but profit consideration, as Laurie mentioned.

A further factor which really exacerbates the situation is the almost total absence of adequate health care infrastructure in many localities, especially in rural areas, that is essential to implement crisis management at local levels.

Now, some observers really blame this evolution and they say it's really a consequence; it's not a pre-existing condition for what has existed in as bad a situation since 1949, but it's occurred or been exacerbated because of marketization in China. Because of the movement toward profitization, you've got a reduction in public health care services. You haven't got a substitution of viable private entities or public entities to replace those former public health services.

Two last areas where we're seeing a problem is the inadequate legal and regulatory infrastructure. Not only have you had the secrecy laws that I mentioned before, but also you've had very weak punishment and enforcement mechanisms for not observing proper procedures in dealing with this kind of problem.

One individual commented, a Chinese source: "Presently the health law, drug law and other laws only set forth the department's powers, but they make no specific or detailed provisions for the responsibilities that administrative officials must bear if they break the law," quote/unquote.

Finally, inadequate financial resources. The ministry of health had allocated 80,000 yuan a year to the operation of a system for epidemic monitoring for the Chinese CDC. That amount of money was reduced. (Laughter.) And eventually eliminated, so it was reported, at the end of last year. So you've got to think, in the face of this kind of situation, to have that kind of context is really kind of mind-boggling.

Let me just say a couple of words about how the system -- after dumping on the Chinese system so extensively -- how it has responded to these deficiencies. And, you know, one must say, officials are not oblivious to these problems. I'm not saying something that's new to Chinese officials at most levels, at least. And I'll just tick off a couple of items here.

A new emergency response bureau is supposedly going to be put in effect, established by the end of the summer, to handle future health crises and natural disasters of other types. It's backed by a set of regulations that Wen Jiabao announced in May, that demand local authorities create reserve funds and enforce penalties against officials who attempt to cover up disasters.

It's supposed to be modeled, some people argue, against the U.S. Federal Emergency Management Administration. It's supposed to be housed in the state council and comprise the heads of several ministries and commissions. It will draw up plans for emergencies and study responses to different scenarios. It will allocate financial resources, and it will be in charge of trying to assess crises as they unfold.

The question, of course, is what level of authority does this entity have within the Chinese system as a whole? What will its relationship be to senior levels of authority, political authority, in China? How does it relate to non-health-related party bodies in particular?

The second area is promulgation of the regulations, which I won't go into for lack of time, that Wen Jiabao announced in early May. And then third is, at the local level, there's been reports last month of efforts by the Beijing municipal government to improve an emergency command system that's been under some discussion since actually 1999 that has a whole level of city level and district level components to it, with a subsystem for anti-terrorism, firefighting, et cetera.

It's all supposed to cover a variety of different types of contingencies, not just a health crisis. It's supposed to be headed by Wang Qishan, the acting mayor of Beijing City, with about 12 or 13 relevant commissions and offices in the area of Beijing participating. And a specific plan on this system is supposed to be announced by the end of this year.

In addition, you've had response on the mass mobilization side, which Laurie mentioned. The PLA is very much involved in that, much as it was in the case of a severe flooding that occurred in China some years ago. They threw essentially masses of people at the problem with health care personnel from the PLA working in different areas to try and probably take people's temperatures and monitor various aspects of the disease and then set up this hospital that Laurie mentioned. That was a PLA hospital.

I've already exhausted my time. I haven't even gotten to cross-Strait issues. So why don't we stop here and maybe -- I'm very sorry, but there was a lot. We can talk about it in the Q&A. (Applause.)

DR. PEI: SARS is such an interesting problem that I do have things to say after three perfect speakers. I will cover the political effects of this crisis.

In my judgment, and I think in the judgment of most other China watchers, this crisis is certainly the biggest shock to the system since Tiananmen. It's bigger than the Falun Gong crisis in 1999. The important and interesting question is, what has this shock produced in political terms?

Very briefly, I will say that this crisis did create a very small window of opportunity for the Chinese leadership to open up the political system. However, recent indications are that this window of opportunity may be closing or may have already closed.

Why did I say there was this window of opportunity? I saw three very hopeful signs when this crisis was in full swing. The first one is that the long-dormant liberals in China appear to be waking up or appear to be seizing this opportunity to push their political agenda. Of course, we saw a lot of aggressive coverage of the crisis by the Chinese media, despite lots of restrictions.

In the crisis, we should remember that the central propaganda department issued very detailed guidelines as to how this crisis ought to be covered. Yet despite those detailed restrictions, we still had a huge amount of coverage that was clearly not subject to those restrictions.

I have a very simple way of knowing whether the Chinese media is open, is relatively open or not. I judge it by the number of pages I can print from various web sites every day. Sometimes during the outbreak, I could download a lot of pages. Nowadays I can download one or two pages a day. So that gives you a rough indication.

But the real issue the liberal media and the liberal intellectuals were driving at was not the outbreak itself but what outbreak really meant politically. And they were driving at one of the issues the top leadership had tried to avoid debating about; that is, whether the Jiang Zemin model of growth at any price should be re-examined.

Of course, you cannot say this in those terms. However, if you look at how they framed the debate in the media, it's always whether we've neglected our social development. And, of course, we know that because of China's headlong rush into economic development, there have been a lot of social deficits, and public health is one area.

In addition, during the outbreak, the liberal media tried to expand the coverage into other areas that had very little to do with the outbreak itself. And one example was this case of a college graduate, a graphics designer, who was arrested, detained as a migrant work in Guangzhou and was beaten to death. And that caused a huge media uproar in China.

Eventually it led to the demand for constitutional review, the legality of the regulation that sanctioned detention of migrant workers without documentation. In the end, the government decided to abrogate that regulation. So when that was happening, most outside observers were quite encouraged by the direction of the situation.

The second cause for encouragement was that the new leadership seized this crisis to consolidate its power. We all know that Hu Jintao and Wen Jiabao were not Jiang Zemin's picks for the job. However, during this crisis, these two new leaders quickly asserted their authority and tried to, I think, bring a new style, a new rhetoric China's government.

I think, in particular, Wen Jiabao strengthened his position tremendously. I think Hu Jintao had, to some extent. But the real winner out of this crisis is clearly Wen Jiabao. I think, therefore, he had the authority of using his power as premier to abrogate the vagrancy law, the troublesome vagrancy law.

On the other hand, if you look at television coverage, media coverage of Jiang Zemin's allies within the party leadership, they appeared to be doing very, very poorly, because they had very little direct role in fighting the crisis. They had to appear at some aeronautics show to say a few words about SARS. So it seems to me that the lack of relevance to the actual tasks of government in China may have undermined them politically.

And finally, toward the end of this crisis, the Chinese media as well as the foreign media were fueled with rumors about additional initiatives for opening up the political system, making local elections more competitive, increasing the level of competition within the communist party, or even instituting some constitutional reform to make private property more secure.

However, in the last couple of days, we saw all of those promising developments quickly come to a halt, because the Chinese government immediately reasserted itself, especially in the media. It criticized or took action against several media groups, media outlets, that were very aggressive during the crisis, such as TaiJing (ph) Magazine and (Nan Fung Zo Mor ?).

They also banned the coverage of SARS -- no more discussion, no more reflection on the crisis in the Chinese media; a total media blackout on the huge banking and real estate crisis, real estate scandal in Shanghai, which had the potential of tainting the entire Shanghai leadership and their patrons in the central government. And I think most disappointingly, the much-rumored political reform initiatives that Hu Jintao was supposed to deliver yesterday turned out to be nothing but rumors.

So I think recent trends do not really encourage us to think along those lines. But also I think the Chinese government may have learned the wrong lessons from its success in fighting SARS, because when you look at how in the end the crisis was contained, it was contained with the application of brute force. It was contained through the application of very draconian measures. And the very success of these measures may have convinced the leadership that nothing fundamental needs to be done to the old system. The old system actually has proved its vitality in this crisis. I mean, you can really draw very different conclusions by looking at this.

In the final -- although I think personally I like the style of the leaders -- I think they're much more down to earth, pragmatic, and speak the language of the ordinary people -- I really want to caution against projecting our own wishes on the new leaders. They may have their own political agenda, but it may not be exactly the political agenda that a lot of the liberals in China and outside China have. So I think, on that note, let's say we should not fundamentally change our assessment of China's political situation, which is that it remains highly uncertain and the transition process is fraught with risks and uncertainty.

DR. BUSH: Thank you very much, Minxin. (Applause.) Thank you very much. We were supposed to close at 2:00, but why don't we let things go on while there are questions to be asked. If you need to leave, slip quietly out the back door. I would ask you, when you pose a question, to wait for one of the mikes, identify yourself, and try to state your question or comment as crisply as you can.

Sir.

Q Ed Rowny, former arms controller. About 1993, I joined -- right after the first attack in New York -- joined the group called CIAG, Critical Incidents Analysis Group, which has analyzed, post-mortem, every attack here and overseas.

One of the things we developed, especially since the SARS attack, was a concept called shielding. That concept says that the wrong thing to do is to panic and flee, spreading it to other people. The wrong thing to do is go to a hospital and infect other people, call and then try to get in the back door with people who are in the protective gear. And above all, if your infrastructure permits it, go home and hide and let the first responders come to you.

My question is of you experts, does this have any appeal to you? Does this make sense? Or are we off on the wrong track?

MS. GARRETT: What China ended up doing constituted a 19th century approach to an epidemic or public health catastrophe. It essentially said the whole population is a suspect, and surveillance will be of 1.3 billion human beings.

What we do in the United States in an epidemic is something called contact tracing. And it overlaps with what you're saying, but it's not exactly the same thing. It's much more efficient. It's much more rapid. It's certainly a lot cheaper.

You start by noticing one individual who has an abnormal illness. You have to have a higher index of suspicion and training in your emergency room staff so that they notice it. Then they have to know who to call. There has to be somebody who accepts that call. And that individual activates the system that tracks down every person this individual who's become ill has been in contact with, and create circles of contact. So it's really a very scientifically-rooted approach to bringing an epidemic under control.

We would never shut down all the highways of America and have checkpoints every 10 miles in America for fever. I can't even imagine the United States population tolerating such a thing. But we don't need to.

What you're describing is a little further extreme, I think, than most public health scientists would be willing to go. But what I think is very important about what Michael Swaine was saying to you is the infrastructure had to be in place, and it had to be in place way before there was a catastrophe. It couldn't be invented on the spot.

And it had to be an infrastructure that assumed one thing that I think you're getting at, which is the average citizen should be in a crisis feeling that the safest place to be is at home, hunkered down, waiting for those who know what they're doing to take care of the problem. And they have to have trust and faith that those in charge will take care of the problem and will do what's in their interest, and they have to believe, if they call a phone number and say, "Help," someone reliably responds.

None of that, as I think was obvious from my colleagues' comments, none of that was available in China, or I think any time in the near future ever will be.

DR. BUSH: Next?

MR. KAPP: Could I just add one quick thought to that? If you listen to the WHO and CDC, looking back on what is now beginning to be a phase which is over, they don't disagree with what Laurie said, but they do even make explicit the fact that this round was ended as a result of the implementation of not only 19th but 14th century techniques.

You know where the word quarantine comes from. It comes from a 40-day waiting period, imposed on ships lying off Venice, if there was plague on board, before they could enter the port.

And, you know, the Heymanns and the Gerberdings of the world now basically say, "Yes, I mean, we've fought this thing with a 14th century method."

Laurie is absolutely right; the method that led to the isolation and the quarantine in the developed economies -- although the second instance at Toronto is a cautionary reminder that even there things that didn't always go according to modern industrialized nations' models of effectiveness -- the general model was that you did the contact tracing, which is where China was just not able to begin to do a good job, in order to figure out whom to isolate.

But, you know, if you're sitting around in Beijing and the WHO is looking over your shoulder and the WHO is saying, "Now, the way to do this is to trace all the contacts" and you went to your colleagues and you said, "Geez, you know, the foreigners don't know it, but we don't have a prayer of ever doing that. What do we do?" one of the answers might be -- and this is not a civil liberties argument -- "Stop everybody within 10 miles, take their temperatures." And in the absence of a better way of figuring out who talked to whom and who breathed on whom, do it that way. It's not perfect. And you're right, it's wasteful, profoundly, in a world in which all states and societies have the same resources with which to deal.

Now, as to the question of whether China should have had more resources in the public health sector and whether they did the wrong thing by building more real estate and not putting money into clinics and diagnostic services, that's another issue.

DR. BUSH: Eric.

Q Eric McVadon, a consultant on East Asia security affairs. You mentioned the PLA several times and its role, including hiding the extent of the crisis in Beijing and so forth. Have we directly associated that with Jiang Zemin's role as chairman of the central military commission?

DR. BUSH: Mike? Minxin? (Laughter.)

MR. SWAINE: I don't know, to give you an honest answer. There's been some press reporting that he was involved in some decisions taken by the central military commission that were designed to try and keep control and maintain military control of the situation. But I have no way of judging at this point how accurate those might be.

Q Can I ask you a follow-up on that? Because when I was in Beijing, all the seasoned, been-here-20-years expatriate types were making a whole lot out of the submarine incident and the fact that Jiang Zemin very publicly and quite immediately made a comment, and were implying that that was because of SARS, because of the kind of international focus and some attempt to show a new transparency. Were they reading too much into it?

DR. SWAINE: Not necessarily. I mean, it does depend, though, on whether or not you think that Jiang Zemin clearly saw himself as not having played the SARS thing properly to begin with. And then he learned a lesson from it, and then he came out.

Some people say that -- they make the argument -- Minxin can comment on this -- that Jiang Zemin was not at every stage involved in the effort of trying to control SARS in order to defend his own position, but, in fact, he was not wanting to sort of place himself in the front in order to allow Hu Jintao and Wen Jiabao -- you can either say, you know, to stick their necks out or you can say to delegate and exercise their legitimate authority in dealing with the situation. It's probably a combination of both. But, I mean, how do you disentangle those two?

DR. PEI: I think the submarine incident should be read differently. I view this as a preemptive strike, Chinese-style, because if you look at the details of the incident, it appeared to be the case that they saw they could no longer hide, because it was almost two weeks since the accident occurred and the sub was drifting around and you had spy satellites must have really nice pictures of it.

The story broke in foreign media, and then, coupled with the SARS cover-up, China would look really bad. So it was a very timely, smart move to forestall coverage or exposure.

I think, from what I have read about this crisis, it seems to me that the top leaders were aware of the outbreak in early February. There's just no question about it.

Q Before that?

DR. PEI: The earliest to mention, because I can only go about the official coverage, the Shanghai party secretary, a Politburo member, was aware of this. As a result, he instituted very effective preventive measures for Shanghai. So that was in the beginning, and to what extent whether the top leader himself was aware of the crisis, nobody knows.

DR. BUSH: The gentleman right there.

Q [Mr. Larry Wu, Embassy of the People's Republic of China] I would like to address this question to the whole panel. You have made a perfect discussion of how the SARS crisis may have impact on China's economic and political system, but I would like to know, how do you view possible impact on the public opinion or the opinion of civil society, because I think the political system itself is very important, but in the long term, in any society, it is the public opinion decides what a common -- (inaudible) -- just like the Supreme Court in the United States a couple of days ago issued a new judgment on -- (inaudible) -- and the people make comments that this is nothing more than reflection of the shape of public opinion.

So in the short term, account may stand against the way -- (inaudible) -- majority of people, and if it is willing to take some extreme measures. But in the long term, how a government works and operates and uses its power must affect the opinion for the public. So I am very interested. How do you think the society of China may change their point of view or how the government should function for them?

DR. BUSH: Why don't we start there and move on?

MR. KAPP: Larry, you know, Americans as a whole, including, I'll bet, everybody on this panel, have a sort of optimism about the way human societies evolve. And even if none of us is a missionary and a proselytizer and a converter of people in China to our particular religious or other beliefs, I would wager that practically every American in this room, and more broadly, thinks that China has already taken steps along the lines of the evolution of a more socially plural, economically plural, and eventually politically plural society. And I think we would all applaud that and think that's all to the good.

The question is, I think for many of us, whether the Chinese government still regards the populace as a mass, not in the sort of positive sense that a Marx or Lenin or Mao might refer to "the masses," but a mass in the sense of something far more threatening, something which must, in a more imperial tradition, be controlled and guided and managed by those who hold the title of *guan*, those who are the officials. If the *guan* continue to regard the mass in that sense, I think we have a long time to wait. And I think many Americans get quite impatient about that.

On the other hand, what we don't really see yet is civil society speaking in its own voice. We see the pluralization of social organizations. We think this is wonderful. But at least to the outsider's perspective, we don't see an established pattern of social organizations not formed by government but rather formed by those who share a common interest. We don't see them standing up and saying anything that really goes seriously against policy coming out of the level of the *guan*.

And in that sense, I'm not sure how optimistic to feel here. You know, everybody's watching now. Everybody's watching. What are they doing to do about Jiang Yanyong? Jiang Yanyong is an absolute marker of how this entire administration is going to behave toward the populace. And for the moment, while it looked for a minute as though he would be widely honored for his courage in breaking through the wall of silence on SARS, it now appears that he is being kept from public expression and public view. I find this very disturbing.

Abroad, a great many people watch developments in Chinese journalism. Everybody looks at the interior game that's going on and says, "Well, you know, they've shut down some important newspapers, but that happens all the time. They'll be back next week." And we just don't know. But I don't see this as, in and of itself, a moment when civil society stood up and said, "We, our civil society, we need to go into debate with our government about fundamental policies." And frankly, Larry, I think that a lot of Americans, including some of China's best friends, wish that there were more rapid movement in that direction.

DR. PEI: I want to add, I think the biggest long-term impact, as far as civil society is concerned, is ordinary people's concept or expectations regarding political accountability. What this crisis has done is to make hundreds of government officials lose their jobs.

During the crisis, officials who failed to perform adequately were sacked on the spot. And, of course, if you bring in the naval commander who lost his job as well, and I think maybe from then -- maybe, I say -- people will start holding their officials accountable, at least by some standard. If that's the case, that's a very positive outcome.

DR. BUSH: I would argue, though, that I think that what we see going on now is a fight within some information units to frame people's understanding of SARS and how the party dealt with it. And you throw some officials overboard, but you maintain the high image of the party, so that six months from now, a year from now, people's recollections of what happened will be different from what actually happened.

Laurie?

MS. GARRETT: If I can have the book removed from the cover of the Power Point projector, and see if we can get the lights down so people can read this. I think this will summarize what you're saying.

First, on May 29th, in the ever so official China Daily, we had this editorial which seemed to say, "Our big take-home message is we cannot be isolationist. We are part of a world. There are cross-boundary security questions. And if we're going to be engaged, we have to be engaged across boundaries as security partners."

This kind of thing you also heard on a more mundane level about things like, "Well, maybe it's time to start investing in public goods. Maybe it's time China actually did build a health care system and a public health system, and more than just highways."

But the very next day, this happens. And all of a sudden it seemed like we were rewriting the history to say there never was a cover-up, there never was a lie, nobody got fired. Hello. We're back to the bad old days when we reinvent our history immediately.

I would just say a couple of quick things. I do agree accountability was an issue. Certainly during the epidemic, I saw many Chinese media members get spinal cords for the first times in their careers. But it didn't last very long.

I'll just throw out two very personal observations. First, Beijing, to try and restore some sense of order and credibility, started having twice-weekly, nationally televised live press conferences. This is something entirely new. They didn't really know how to do it, and sometimes they were pretty dreadful. And it became obvious that if you were asking a tough question, they weren't really going to answer it. So what you were really asking was a question for that national television audience to see.

I knew that they were lying and covering up their database. I knew they were using a couple of very specific mathematical tricks to distort the mortality rate, to make it look like China was most successful of the whole world, with only a 5 percent mortality rate, when right across the border, in very sophisticated Hong Kong, there was a 16 percent overall mortality, 55 percent mortality rate for SARS victims over 70 years of age. So clearly they were lying.

I also knew that they could not explain where most of the cases came from. And now we know 70 percent of all SARS cases in China have gone unexplained. We don't know how they got infected or from whom, because they can't do this contact tracing. So in a press conference, I knew they won't answer my question, but I want the Chinese people to hear the question. And I had my

translator start rushing to give the translation so that their translator couldn't distort my question to the Chinese people. And I demanded the answer.

For weeks in China, I had total strangers coming up to me on the street -- I'm rather recognizable in China -- and saying, "Keep asking those questions. You make our people accountable. We count on you." And even as I was leaving the country, I had a number of Chinese journalists call me up and try to beg me not to leave. "Please don't go. You're the one that's asking these questions. We can't ask them."

The other thing, though, is that I was on CNN International to talk about why the Chinese people detest their health system and why there was this massive propaganda campaign underway in mid-May to create this new image of doctors and nurses as heroes. But I was saying it will fail.

And I explained what the average Chinese person in the provinces actually thinks of the medical system of China and of the doctors and the nurses, who reach right into their pockets and take the cash and then decide whether you get a sterile syringe or a filthy, disgusting one with Hepatitis-B on it stuck into your arm, based on how much money you show, which is why China has a 10 percent Hepatitis-B rate, the highest on planet earth.

So I was saying this on CNN. All televisions in China went black for eight and a half minutes.

MR. KAPP: Well, I would really echo what Richard said. I think it's too soon to say what the public's reaction is, in my view, to what has happened and that there is indeed an effort to try and find what that event has been. This game is not over. If we get into the fall and the epidemic recurs, and if you have more clear indications of public malfeasance and cover-up and ineptitude, then you have to look at this again and you have to see what sort of issues this will raise in the public's mind.

My own sense is thus far it hasn't generated a response to the effect of saying, "The entire system that we have here is corrupt and incompetent and unable to deal with this." I think there is an element of thought that says, "What we need is better control, more efficient ways of understanding and controlling an event like this, so that the society doesn't get destabilized."

And many Chinese, I would imagine, agree with that. I mean, I don't think they draw the conclusion that the best way to handle this kind of situation is to have systematic information dissemination and the ability to use that information across the society. I think that scares the hell out of a lot of Chinese at some level. I may be unfair to some of you for saying that, but I think there is a sense that they would rather have efficiency and control than, you know, dissemination of controls throughout the society.

At the risk of falling into the old moral equivalency accusation that I have run across before, in that piece I wrote called "Out of Nowhere" where I socked it to the Chinese pretty hard, I do point out at the end that everybody manages information. Companies manage it all the time, of course, in relation to environmental disasters or other public relations disasters. They hire PR firms at enormous expense and pay them to frame [the information] and they take their lumps for it.

And I might also say, at the risk of being the skunk at the picnic, that other governments also do not always reveal everything that ought to be revealed to their people, and sometimes get away with it to the tune of 70 percent. (Laughter.)

Q Where's the weapons of mass destruction?

MR. KAPP: You said it; I didn't. But 70 percent -- even at Brookings, 70 percent speaks for itself.

DR. BUSH: Another question?

Q My name is Helen Ho. I am an international lawyer. First I'd like to thank Laurie. Ever since I Googled to one of your articles in late March, your coverage on SARS has helped to allay a lot of fears and cure a lot of doubts. Thank you.

And I have two little questions: One is about what I've read about the political secretary in Guangdong province who was the main force behind the Guangdong suppression of information, and also he persecuted and closed down several liberal presses before SARS became known, and he is said to be a protege of Jiang Zemin, and he has been praised for his effort in leading the Guangdong effort. And apparently he has been held in high regard, despite the fact that 400-500 unfortunate souls have been sacked for incompetency.

So this is another example of disparate treatment. And I wonder what you think about that, and then also about the new law that prohibits the importation and sale of wild animals, whether you think that's going to be one of the hundreds of thousands of laws and regulations on China's books in their model of ruling by law?

DR. BUSH: Do you want to take the first one and you the second one?

DR. PEI: I think, as far as the Guangdong party secretary is concerned, there are lots of suspicions, because he was just appointed -- he used to be party secretary of Sichuan province. And people say that he is a protege of Jiang Zemin. But right now he is not really taking any responsibility for this. It's all part of this press reporting, and I have not seen enough independent evidence to verify this.

However, that person does seem to have an incentive to cover up, because he would be held directly responsible for the outbreak.

MS. GARRETT: The only thing I'd say about Guangzhou is that among my Chinese journalist colleagues, there was a sense that their counterparts in Guangzhou had been severely repressed for articles they wrote on February 9th, 10th and 11th. And after February 11th, not one word appeared about SARS in any Guangdong media until after April 20th. So there were two whole months of just complete blackout. Somebody did it.

MR. KAPP: There was an attack on, I believe, Hoffman-LaRoche for trying to sell an atypical pneumonia drug, where the drug company was accused creating popular panic.

MS. GARRETT: There was an editorial claiming that the drug company, which was offering a potential anti-SARS medication, had fomented the panic in order to create a marketplace for the sale.

But on the animal thing, yes, a number of regulations have been put in place that supposedly will greatly restrict the wild animal trade in China and, you know, stave off the possibility of a return of the virus. But here's my reasons for thinking that that won't do the job. First of all, the civet growers or the civet ranchers of China have filed a $10 million lawsuit against the University of Hong Kong for saying that they found virus in civet.

Secondly, when you travel in northern China, people will tell you, "Oh, those Cantonese, they eat anything. Oh, those Cantonese. We Han, of course, would never eat a rattlesnake, but those Cantonese -- if it walks, they'll eat it," you know.

But there was a survey done -- I think you mentioned it previously also -- 50 percent of responders China-wide said that they do occasionally eat exotic animals. So if you have something that is that entrenched in the diet and the cuisine and the tradition and the culture, I don't think that any regulation is going to make the actual trade in these animals disappear. If anything, it could drive them further underground and make it harder for public health authorities to have any idea what's going on. So I don't think that China has come up with an answer on how to stop zoonosis.

Q Could anybody on the panel please talk a little bit about the impact of SARS on cross-Strait relations? Thank you.

DR. BUSH: Michael.

MR. SWAINE: We haven't got enough time. We really don't have enough time. Well, I'll just say a couple of remarks. The bottom line is, it certainly hasn't helped. And it's created problems in several areas. I think all of you are familiar with the outlines of this. It's been used, on the one hand, as a political football in the argument about raising Taiwan's representation in the international community. And the WHO membership was the primary example of this.

And I think it's intensified the bad blood on both sides as to how both sides treated this issue, although I think, on balance, the onus is by and large on the side of China, and China's really excessive efforts to constrain the ability of Taiwan to have contact with U.N. officials and to gain some kind of hearing in WHO on this issue. Although, at the same time, I would echo something that Laurie said before we began, which is the argument that Taiwan put forward that it didn't have access to adequate health expertise, when I think, as you said, there were thousands of CDC specialists from the U.S. running all over the island, was a little disingenuous.

So I think both sides were manipulating this issue to try and gain points. And it's unfortunate, but there you have it. The issue is so sensitive on both sides that they're not going to just treat this problem as purely a health issue. When the Chinese side offered levels of equipment, different types of monitoring equipment, and other things to Taiwan when they thought they had a shortfall, the Taiwan government's response was "We don't need these things. Don't give them to us. Use them for your own people. That's where your real problem is."

And it was obvious that Taiwan did not want to have China use this as a way of exerting an indication of sovereignty over Taiwan, in Taiwan's view. And China, of course, wanted to use it to try and assert that it had some influence there, even though I'm sure they would say it was purely for humanitarian reasons. So that's one.

There are two other areas. One was the referendum issue, and the third one was cross-Strait, as the mini-three links. The referendum issue, after the WHA denied Taiwan what they requested for a bid for observer status in May, Chen Shui-bian's immediate response was to say, "We need to have a referendum nationally on the question of WHO membership," which is, of course, kind of crazy, because every Taiwanese is going to say yes. So it's not exactly an issue in debate in Taiwan.

So you immediately have the question of, “What's going on there?” And you still have that issue, and that has now been developed into a referendum on the fourth nuclear generation plant and a referendum on [reducing membership in the legislature by one half], I think, all of which have to occur before the presidential election.

So this plays obviously into Chen Shui-bian's calculations about the election, but again, being able to use an aspect of the SARS epidemic and the crisis there to gain greater public recognition of the need to put forward these kinds of initiatives. And the Chinese response, of course, is -- I don't have to spell out the details; it's pretty predictable what the Chinese response is to this.

One point on it, though, I should say is that the U.S. position on this has been significantly distorted in the press. The U.S. position, as reported by some Taiwan media and others, is that the U.S. says to Taiwan, "Thou shalt not hold a referendum" and warned them against doing this. And Doug Paal has been pilloried in the press over this. And to my understanding, this is not what Doug Paal communicated to the Taiwanese government.

It's not what the U.S. government's position was. It was simply to state that this whole issue is not terribly welcomed by the United States government, although it certainly is not passing judgment on whether or not the referenda should take place -- didn't censure it, didn't warn, didn't approve it, as far as I can tell. Now, if somebody has a different take on that, maybe Richard or somebody, I'd be happy to hear it.

The third is the mini-three links. In that area, the Taiwan government has suspended contact that it had begun in 2001 with Jinmen as a result of, they said, concerns by residents of Jinmen that they were going to get exposed to SARS as a result of this. And there's also been some reporting that there was an initiative underway by Chen Shui-bian, just prior to the SARS epidemic,

to try and expand the dialogue on this whole issue and that that has now been shelved as a consequence of this.

Whether that's a reflection of the calculation of the sensitivity in terms of the impact of the epidemic or it's really just a convenient excuse that allows them to shelve this is something that I really can't comment on. But the bottom line from all these things is that it certainly hasn't improved the situation between the two sides.

DR. BUSH: One last question. Yes, sir.

Q Thank you. I'm -- (inaudible) -- from (inaudible). I share the Minxin's observation that China -- Chinese (inaudible) -- something wrong. I think he provided very, very good judgment on this matter. But I just have a question for Minxin -- (inaudible) -- the 1st of July speech, since outside have a great expectation but then he did not deliver what was expected. I wonder whether we can look at this issue from other angle, to look at it strategically and strategy of Hu Jintao.

He did not necessarily want to call for a bigger kind of openness, and to meet outside expectations. He might do things very quietly. And that might be his strategy. If he does that openly, quickly, there might be a political suicide. So he does this very quiet; just do it without debate, without outside kind of propaganda. I wonder if you might change your judgment on Hu Jintao.

DR. PEI: Actually, I have read his speech. It's a very boring speech, so it's tough to get through. I think you can interpret the lack of specific reforms mentioned in the speech either as a sign of weakness or as a sign of practical flexibility. Either way, it underscores the point that there must be some political opposition to those reforms. If there were no political opposition, he did not need to be flexible.

DR. BUSH: Unless he doesn't want to do it.

DR. PEI: Yes. However, I think that, commenting on his speech specifically, I do see some interesting points which I will share with you in private. But what's interesting about this whole episode is it shows how easily things can get out of control in China, because toward the end of the episode, the Chinese media was expanding into a lot of areas the government did not want them to go into. Essays that were very provocative, very critical of the government, were beginning to appear that had very little to do with the SARS crisis itself.

So I think because of this dynamic, Hu Jintao and his people want to slow things down a little bit. To me, if it's two steps forward, one step back, it's better than being stagnant all the time.

MR. KAPP: On the Taiwan question, there have been very interesting articles on SARS in Taiwan. There was one in the Taipei Times a couple of weeks ago that I just read this morning -- it was in English, in fact -- really quite dispassionately analyzing the system failures that SARS brought to light in Taiwan in terms of funding issues and the distribution of health care, in terms of the fact that health care workers simply refused to go on to do their jobs because they felt they were

being put in life-threatening positions without the necessary protections to do their jobs effectively, in terms of emergency response, as has been discussed early in this panel.

And I think it'll be interesting to see whether SARS, which hit Taiwan also relatively hard, especially with that sort of second round, whether SARS in the Taiwanese case brings about institutional or financial or other forms of changes of behavior because of what Taiwan has learned, just as is the case on the mainland.

And in a sense, it would have been great to bring in not just cross-Strait relations in the conventional sense but comparative phenomena between the island and the mainland early on in the discussion, because sometimes they were actually seemingly quite similar problems of behavior or even of administration. We'll have to see how Taiwan handles that in the months and years to come.

DR. PEI: He also used civil society.

MR. KAPP: Well, this is civet society. (Laughter.)

MS. GARRETT: No. Boo. The only thing I would add -- this is a sorry note to close on, but on May 30th, the same day that this fellow Gao said that there never was a cover-up, it was made known publicly that Jiang Zemin has Gao Qiang to his home and they met for several hours. So it was a way for Jiang Zemin to say, "My personal physician, who had been the minister of health, should not have been told to fall on his sword over the SARS epidemic."

MR. KAPP: Didn't Gao Qiang do another 180 about four days later?

MS. GARRETT: Yeah, he did do a 180 four days later. But that appeared to have been because of the international response, which was, "Wait a minute -- what?" And WHO went ballistic. I happen to know, through channels from Geneva, they were saying, "If you're going to try and tell us that you were not lying before, and so on, we are going to have to pull our office out of Beijing. We can't work with you anymore."

MR. KAPP: And I think the sense that Michael and Minxin have brought forth here is that SARS is just another manifestation of this endless, endless give-and-take, back and forth. It's not that you conclude from a still shot on a single day that this is the complexion of the Chinese political system. It's that if you look at it over a week and a month and a year, and find this endless alternating kind of yin and yang quality of trying to run a government.

And what we struggle to figure out, those of us who do this work for a living -- not so much me, as you've seen in Michael and Richard and others, is who are the yin and who are the yang? And are they the yin and the yang on everything, or are there coalitions that form the yin side on this issue and the yang side on this issue but that then rearrange themselves on some other issue? It's easy to talk about "the moderates" -- what are the usual terms? – “the pragmatists” and “the hard-liners" -- (Tape change) -- and regard SARS as a reminder of this endless fluidity, which is compounded by a legal system whose laws themselves are often indefinite and not subjected to uniform application. We're still swimming in thick soup, and the question is, because SARS is not

national, because it is global, because the disease does travel, how does the world engage with a China that is not going to reform itself overnight simply because it's got an epidemic problem on its hands?

DR. BUSH: On those cosmic notes, I'll bring things to a close. Thank you all for coming. (Applause.)

Thanks to the Atlantic Council, the U.S.-China Business Council and Carnegie for allowing Brookings to partner with you, and thanks most of all to Bob, Minxin, Michael, and especially Laurie, for an outstanding program. (Applause.)

[END OF EVENT.]