

THE BROOKINGS INSTITUTION  
CHINA'S PROSPECTS ON THE EVE OF THE 18TH PARTY CONGRESS

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PANEL I:

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**Panelists:**

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PANEL II:

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

MR. POLLACK: Good afternoon, and welcome. I'm Jonathan Pollack, Senior Fellow and Acting Director of the John L. Thornton China Center here at Brookings. We are delighted to have all of you here today for what I think will be a very memorable event. I couldn't help but notice the other day in the "Washington Post" that one of their columnists was talking about what she considers the frivolous debate in our political campaign, and she said, "We need more serious discussion, maybe not as serious as a policy seminar at the Brookings Institution," so we'll see whether we rise or fall by that standard.

This afternoon we are going to have I think a really, really very, very excellent program looking at China as it approaches the 18th Party Congress of the Chinese Communist Party where new leaders will be formally installed. This afternoon though we have an opportunity here with a very, very broad array of talent from Brookings, both Brookings personnel here in Washington and especially are gratified that several of our colleagues from our center at the Brookings-Tsinghua Center will be with us today both to give a sense of added perspective we hope on some of the pressing issues that China presently confronts and what some of the implications might be for China's larger relations with the outside world and with the United States in particular.

It has been a very tumultuous and unsettled year in China to say the least, not at all the image I think that the party leadership seeks to convey to its own public or to the outside world. But it highlights it seems to me what many of the potential stress lines are and the fact that China confronts a huge and daunting policy agenda in any number of areas, but sometimes things that beyond the headlines are not as well understood as they ought to be. So I think that the real purpose here today is to try to dig deeper as we can through two separate panels beginning first with a panel that will focus on the internal factors as we approach the party congress, looking specifically at the state of China's economy, the implications of a declining economic growth rate, looking then at

some of the social challenges that China confronts as it approaches the transition in leadership. And finally and by no means least, looking at questions of China's political leadership and how it approaches the impending succession. So we'll both do a little looking back if you will but also looking ahead. And the second panel that will be introduced by my colleague Richard Bush, Director of the Center for Northeast Asian Policy Studies, we will examine some of the external considerations. But for now I would like to ask the three panelists on the first panel to join me on the stage and we will look forward to all of their remarks.

What I will do is briefly introduce our colleagues and let you know the order in which they will all speak. We will begin with Tao Ran who is of course a Nonresident Resident Fellow at the Brookings Tsinghua Center BTC. He is also Professor and Director of the China Center for Public Economics and Governance at People's University in Beijing. We will then proceed to Wang Feng, Director of the Brookings Tsinghua Center, who will talk about some of the social challenges, very unusual social challenges, that China confronts as the process of leadership succession unfolds. Then finally my colleague here, both a Senior Fellow here at Brookings but also Director of Research at the John L. Thornton China Center, Cheng Li, will talk about leadership factors and other things that he has intimated he wants to talk about today just to make sure that we have a truly accurate understanding of what really may be going on in China. So with that, I will turn it over to Tao Ran. Tao Ran you have up to 15 minutes to speak. If you want to take less, that's okay too.

MR. RAN: Thank you. It's an honor to speak here. I'm going to talk a little bit about China's growth model and the potential developments in the next few years. As everyone knows, China's growth since the middle 1990s is heavily dependent on exports and investments. This resembles the Eastern Asian model that we saw in Japan to some extent and South Korea and Taiwan, but this model is different. I would call it an extreme version of the Eastern Asian model because actually China's investment rate is even higher than that of Japan, South Korea and consumption as a

share of GDP is even lower than those East Asian economies. What's driven this model, the China model to an extreme version of the East Asian model, is local government competition. Generally, what local governments did is to compete for manufacturing investments by providing very cheap land and by relaxing labor and environmental protections to attract business. Usually the game that local governments played in China is that they borrow money to requisition land from farmers and pay for the infrastructure and then lease the land out usually at zero or even a negative price to manufacturing investors. Then they get only 20 percent of the tax from manufacturing investors. Where are the other taxes? Seventy-five percent goes to the central government. That will not help them to make their money back because they incur significant cost in preparing the industrial parks.

Then manufacturing -- development. Then they tax the service sector. Business tax is 100 percent owned by the local government and then they also lease land for commercial and residential purposes and they make money there. So basically you see in China half of the land every year used is for industrial purposes. This is a very, very significant number. In most other developing countries when they urbanize only 20 percent or 10 percent is used for industrial purposes. In China you see over 50 percent. Maybe China has 10,000 industrial parks. You don't see anything like this in any other developing countries. And local governments also -- residential land so that they can maximize the revenue. Then you have a real asset bubble.

This model by lowering the price of production factors really helped China to attract a lot of manufacturing investment. And then by keeping China -- cheap, most of this production capacity is exported to the world. This growth model has brought about fast growth, fantastic growth, between 2002 and 2008, but -- in 2006 when the world financial crisis comes so there's an external demand shock. This resembles to some extent what Japan saw in the late 1980s. The Japanese yen was forced to appreciate by 100 percent in one year. That's exports slowing down. China did not appreciate the renminbi very fast, maybe 30 percent, and then you have the world

financial crisis so that the exports also slow down. But both governments reacted by installing very huge physical and financial stimulus packages both leading to the housing bubble. Basically you saw the housing bubble in China in first- or second-tier cities in 2008, but by 2009 and 2010 you saw bubbles everywhere in all tiers of cities. Even in many poor counties the housing price is over for example \$700 per square meter. But what makes China a little bit different from the Japanese is that the Japanese yen appreciated so a lot of Japanese manufacturing firms moved out of Japan. In China, the Chinese renminbi did not appreciate enough and a lot of banking loans go to local governments. Then they use this money to build even more industrial parks. If you go to inland China, basically you see every county is building industrial parks, even in -- so this sounds a little bit crazy because if there is already overcapacity in manufacturing, why do you want to do that? So one explanation is that with the housing bubble there, local governments think there's a physical illusion, this bubble will last forever so they will be able to get some revenue from leasing commercial and residential land and finally pay back the industrial parks. So I think this kind of stimulus package is a source of many problems in China now.

The bank lending after 2009 mainly goes to the local governments and also some government SOEs. Some of these SOEs also use the loans to speculate on the housing market, make the housing bubble even bigger. Now after 3 years of this fiscal and financial stimulus package, China is beginning to taste the bitterness. A lot of bank lending is potentially becoming nonperforming loans and exports still grow very slowly and the bubble, the central government has to use different policy instruments to restrict the bubble from growing even larger. So China's growth from 2002 and 2008 basically depends on a very fast-growing export sector and also the real asset sector. Now both engines are slowing down. So the question to ask -- and there's potentially a lot of nonperforming loans in the banking sector, so one needs to ask how can China sustain its growth in the future?

Now I think inside China everyone agrees there is need to reform, but

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what kind of reform to start with? One proposition is to liberalize the financial system. For example, actually that's what the Chinese government is doing now. But I would argue that financial reform is risky. If China now liberalizes the financial system, that will mean two things. First, the interest rates will grow. But that will make the local governments and SOEs who borrowed huge money feel an even higher burden in paying back the loans. Second, is the Chinese bank. They make money by giving very low deposits to the savers and then lending it out at higher rates. So basically the difference between deposits and lending rates are quite significant. If you do financial reform, then this difference will narrow. In normal times this would be good. That will mean more efficient allocation of financial resources. But if there are potentially large nonperforming loans, then if you narrow it down it's different. That means the banks will have less leeway to pay for the nonperforming loans. So I think this kind of reform might be risky. What China needs to do is perhaps do some real sector reform. There are some competitive sectors, for example, the consumer goods sector. In almost every competitive sector there is overcapacity in China. So if you don't deregulate those sectors that still have growth potential, for example, the housing sector because now the housing land is regulated by local governments, undersupplied. You have to deregulate this sector so that farmers can build houses for migrant workers. This is one source of future growth. The other is government monopoly sectors, telecommunications, the health sector, electricity, auto transportation, these sectors. There are still growth potentials. China has to open this sector so that future growth can be sustained. When growth is sustained, you have more productive investments and then you have more financial resources in the banking sector, then the nonperforming loan rates will decline and then China can carry through the financial liberalization. But what I see now is that there is not much real reform in these real sectors, but there is some reform in the financial sector which I think is quite risky.

To carry out this reform in real sectors, there are interest groups, local governments and also central government SOEs; they are strongly opposing this kind of

reform. This reform is really very difficult to do. So I think unless the Chinese leadership has the courage to push forward this reform to release the pressure from these interest groups, China's growth prospects will be very slim. I think the worst scenario case is that there must be some significant economic slowdown and even some type of financial crisis.

MR. POLLACK: Thank you, Tao. I'm sure that very sobering picture gives us a lot of questions that I'm sure we'll want to talk about further. Wang Feng, please.

MR. FENG: Good afternoon. Thank you, Jonathan. When I started to prepare some notes on social challenges the Chinese leaders will face, many came to mind. So among the many challenges here, I'd like to address briefly three. The first is the need to build social infrastructure, by which I mean health care, a pension system and to some extent public housing. The second is reducing inequality. Inequality is rampant, has been on the rise and has become a systemic feature of the Chinese society and has to be addressed soon. The third challenge is how to manage social discontent in the age of the internet. These are the three challenges among many that the leaders who are coming in will face, and these challenges will become increasingly more daunting time goes by, and I'll explain why.

Before I go into these three challenges, I'd like to address three base conditions. What are the baselines we're looking at? Tao Ran just addressed the economy and I'd like to add to that as well. Many things have happened in China, but there are three base conditions that are quiet different now as we look forward. The first is the rising standard of living, actually what we call a middle-income country. China has solidly moved into a middle-income country in the last 10 years and this actually sets a different set of expectations and raises new demands for leaders to manage the society. As we know, between 2000 and 2011, in normal terms China's GDP grew almost five times, 4.7, five times in 11 years. Government revenue increased at a much faster rate. So in 10 years or 11 years, government revenue increased almost eight times. So in

2011 the size of Chinese government revenue was almost the same as China's GDP 10 years ago. That's why we see all the spending, all the construction especially hardware in the last few years. There's a lot of money to be spent. And also in terms of per capita standard of living, China now depending on what number you use is \$5,400 by Chinese official definition or by the World Bank's standard, about \$8,500 per person. That's a middle-income country. What this means is that the population now unlike 10 years ago expected to live in a middle-income country which means good roads, safe roads, good schools, clean air, safe hospitals and some basic provision of social welfare such as a pension system and decent health care. These are the new expectations that come with being a middle-income country. So this is the first baseline that has changed.

The second is demography. China is going through a rapid aging. The number that people need to be aware of is what we call 5 to 2. That is, right now there are about actually not quite five persons aged 20 to 59 if you consider that as a taxpaying age to each person aged 60 and over if you consider that person as pension receiving. So it's 5 to 1. In 18 years by 2030 that number becomes 2 to 1. So imagine any government, how are you going to get money to face with this within a matter of less than 20 years from 5 to 2? And the number of elderly population aged 60 and over will increase from about 185 million right now to over 350 million and that's going to be larger than the size of the United States right now. So with such a basic rapid aging, together with that is what has happened in part because of the one child policy, that is, over 70 percent of urban families with only one child. This is unprecedented and you'll find no comparison in other aging societies, so that's demography. So the share of labor is declining and for the elderly it's rising.

The third is thinking with what Tao Ran just said is the slowing down economy. We're going to have to see a new normal. The hyper-fast growth rate over the last 10 years is unlikely to be replicated in the future. Tao Ran has explained some of the underlying mechanisms why the economy will not be able to grow 10 percent per year for another 10 years, perhaps not even 8 percent. What's important here is that when the



economy grew very fast, government revenue grew even faster, but what we have seen is that when the economy slows down, government revenue has slowed down at also a faster rate. Let me give you some numbers. In the first 6 months of this year, national GDP grew only about half of the rate as the same time a year ago, and in fast-growth provinces in the past, the high-growth areas, high GDP per capita areas, the economic slowdown was much more pronounced in Beijing, in Shanghai, in Tudang. So government revenue in August for instance grew only 4.2 percent. That's not bad if you consider for the last 5 years the annual growth rate was 18 percent. So when you go from 18 percent revenue increase to 4 percent, that's quite a change. What's behind this among others is the rapid decline in profit of the SOEs which certainly calls for reasons in talking about reforms. And in China's major cities last year, actually, spending far outpaced revenue. In Beijing, Shanghai, Kingjing Tunching, Shenden and Guandgo, all six cities last year the government operated in deficit. In the first 6 months of this year, the comparison of spending versus revenues in China's large cities, in Beijing spending grew 22 percent and revenue increased 5 percent. In Shanghai it was 19 to 7. In Guandgo it was 19 to 5. So spending increased 19 percent, revenue increased 5 percent. This kind of change, this new normal of slower economic growth but much faster slowdown in government revenue facing with the spending burdens, and this is the third kind of baseline. So middle-income country, demography and the new normal is slower economic growth.

Let me quickly go into how this links to the challenges. The first is the provision with social welfare. Both demography and the economy do not speak for an easy job to increase the level of support for the pension system. China right now has seven different schemes for elderly support. Health care costs have been going up 15 percent per year in the last few years. These two critical social infrastructure components how the new leadership will be able to shift the declining resources in terms of rate to these areas is going to be a challenge. What's important is not spend more money. It requires reforms. For instance, in health care reform the verdict is it failed. So

unlike spending money building airports, highways, bridges or fast-speed trains, reforming the health care system, reforming the pension system all required touching upon existing interests. They are much harder than spending money in the last 10 years. So that's number one.

Number two: inequality. Inequality is now longer just a social issue. We've been talking about how to raise domestic demand, consumption demand. When we have not only rising income but rising inequality across different social categories, what's happening with inequality is not just income differentials among different individuals, but between state SOE employees versus regular private enterprise employees, and we are looking at the recent number is the wage difference is four times. The state-owned SOE employees make four times of the private enterprise employee. Very importantly, for the migrants, there are about 200 million of them in the cities and their income has gone up but fast below those who are the old city residents. What do you do with this? They require reforms.

The third one very quickly is how the government can maintain its legitimacy in the age of the internet. I've looked at some numbers. There are two numbers that are quite interesting. One is looking at what also has happened in China, the rapid expansion of higher education among young people. It's phenomenal. Between 1990 and 2010 for China as a whole, the proportion of the share of young people aged 20 to 25 with a college education increased eight times from 3 percent to 24 percent and that's phenomenal. Among city youth it's from 9 to 39, four times. So 40 percent of urban youth of this age are college educated. They have access to the internet and they are on it all the time. What's also interesting is that they are all in cities. If you look at Beijing and you look at Shanghai, these places have way larger share of young people than the Chinese countryside. So the Chinese government will be sitting right in the middle around it surrounded by these young people who are college educated, large numbers, and many of them are migrants who need to settle down. So I think in terms of the challenges, these are among the three, infrastructure, inequality and

managing social discontent with this kind of population. So these are not challenges that have short-term solutions and they will be hard tasks for the next leaders. Thank you.

MR. POLLACK: I'm beginning to appreciate the comment of the columnist about serious conversations at the Brookings Institution. Now we will have my colleague Cheng Li who perhaps will sober us further. I don't know. We shall see. Cheng, please. The floor is yours.

MR. LI: I'm honored to speak along with two of my colleagues who are based in Beijing who have just offered us the first-hand observation and really keen insights. I'm also delighted to see so many friends in the audience.

My assignment is to provide an assessment of Chinese leadership politics on the eve of the 18th Party Congress and beyond. I will make one observation and three arguments. The observation is that in assessing the upcoming CCP leadership transition, the overseas China watching community has in general tended to gravitate to the extremes. Prior to the -- crisis, a large number of prominent China watchers seemed to be overly optimistic about the likelihood of a peaceful, orderly institutionalized transition as was the case in the last leadership succession 10 years ago in 2002. But then came a series of shocking events early this year. The overseas China watching community as a whole has turned into overly sensitive and cynical. Many have become obsessed with waiting for the second shoe to drop.

That in my view explains why so many sensational rumors have recently appeared in Chinese social media have often become the source of stories in the mainstream media of overseas coverage of China especially in the West. The latest example has been the groundless speculation about Vice President Xilai's disappearance. Despite the fact that the PRC foreign minister has repeatedly said that Xilai has simply injured his back -- said that to a press conference, said it to the delegation in which they cancelled meetings. Now I also noted that the -- Brookings part of this kind of rumor monger group and we always said there is no evidence because if really something serious happened, you should have some other evidence. In my view in

today's China despite a lot of coverage, I don't think any leader dares to cover the fact that -- is dying or has a political problem or has some assassination. What's the point to cover that? You should immediately within 24 hours. So that's the basic knowledge.

What we need is a balanced and knowledgeable perspective on China. This is crucial for the international community in general and Washington in particular especially at the time when China now has more influence over the world economy and regional security perhaps than any other time in modern history. As the distinguished writer my friend James Fallows once said, "If our -- are distorted, our policies will be too." That is my main observation. Now let me turn to my three arguments all of which center around how we underestimate developments in China.

First, the overseas China watching community as a whole tends to underestimate the impact that the ongoing Bo Xilai crisis is having on the CCP rule. In an astonishing way, the Bo Xilai crisis has revealed some of the fundamental flaws of the Chinese political system. For one, official corruption is completely out of control. We know that the Bo Xilai family was very corrupt -- 13 million pounds as a commission for just one project. This is according to Chinese official accounts and not by rumor. This comes as no surprise for many people in China why they should because a couple of years ago the Chinese official media, the People's Daily -- called Global Time, revealed that the bureau chief of China's railroad named -- had a bank account in Switzerland in the United States totaling \$2.8 billion. He and his boss, minister -- both will be tried later this month. We do now know how much money minister -- stole from the state assets, but he has a nickname called Mr. Four Percent. He got 4 percent as a commission on every railway deal. China's railway business is enormous. According to some Chinese economists, 600 billion -- adopt 2009, 45 percent of them spent on the railroad. Think about that, 45 percent of 600 billion he got 4 percent at least since 2009. That kind of corruption is really unprecedented in China's history.

Ironically, Bo Xilai had been seen as a leader as iron hard policy agenda had been to crack down on corruption and smash what he called the underground mafia.

The recently exposed scandal in Chongqing especially -- of use of power on the part of the police vividly detailed to the Chinese public who the mafia in present China actually is. At the end of the day, it is not just a crisis for Bo Xilai and his family, nor just for the four princelings the faction he belong to, but it is a crisis for Chinese leadership as a whole. The public trust and confidence in the government are at the lowest point in the post-Mao era.

Also ironic is that Bo Xilai still has a significant number of supporters in the country. Bo Xilai's ultra-nationalistic views, his pro-violence tendencies, his pronounced hatred of the rich and his image of a leader who can get things done all -- among certain sectors of the country. This factor has further complicated this ongoing crisis especially in terms of how the Chinese leadership resolves this very difficult Bo Xilai crisis.

Now let me turn to my second argument: that we tend to underestimate the strong incentives and design on the part of the competing political factions within the Chinese leadership to unite rather than divide in the wake of crises such as the Bo Xilai crisis. I believe that factional politics especially the dichotomous competition between Cheng Zhu Ming's camp and Hu Jintao's camp, or princelings versus the Chinese Youth League. This is probably the single most important characteristic of Chinese elite politics. One simply cannot comprehend Chinese politics without grasping factional dynamics. But it is important to realize that these two competing factions or camps are not always mired in constant competition. From time to time when there is a strong need for cooperation, they have shown that they value unity and solidarity especially when confronting major crises such as the Bo Xilai crisis and also in the case of China's foreign policy challenges as is happening now in the escalation of the tension with Japan. They tend to unite together. You are not going to see any evidence or signs that they split. They don't want to let the public know that.

Let me make clear though that the strong incentives and desire for cooperation do not mean they can reach consensus or compromise easily. The delay in

announcing the dates of the 18th Party Congress for instance seemed to reflect serious disagreements within the leadership. Some difficult issues certainly require much deliberation and negotiation. Now let me give you very quickly several reasons, several areas of difficulties they are dealing with. The first is in personnel appointments about the standing committee members. They want to make sure that their protégés will represent them well and so that the balance of power is very much needed. But also related issues when Hu Jintao will step down as the chairman of the CMC, how about Ghung Chow Ming and his role in the decision-making process because you end up with two retired leaders who try to interfere in politics and they need to sort out how to deal with that. If Hu Jintao really stepped down immediately after the 18th Party Congress as the chairman of the CMC, what about the new premier Li Ka Chow to be another vice chairman of the CMC representing civilian leadership? These are all legitimate issues -- some of the discussion.

Second, particularly the politburo membership, I don't think that you see different versions. The truth is we know the candidates, but no one knows who will finally get in these positions. Ghung Chow Ming does not know, Hu Jintao does not know. Probably the only thing that we will start to know better will be one week before the 18th Party Congress. But there is a discussion going on whether they will introduce, this is the next point, the multiple candidates' elections the Chinese call more candidates than seats election. If that really takes place, then we will not know until the formal announcement, this could be that if they decide to choose 25 politburo members they will give 28 candidates. It's highly likely this time they will adopt that, but the next level, for the seven or nine standing committee, they may add one more candidate and maybe let the politburo to elect the standing committee. These are all considerations not decided yet. Also whether the number will be seven or nine, the number itself is not that crucial, but the crucial thing is they will abolish two important seats currently held by the propaganda czar and the police czar. That will link to China's political reform. If that happens, it's a very clear indication that they want to consolidate the rule of law and move in that

direction and not let propaganda and the police too much interfere. This is another important -- dimension. Constitutional amendment, whether they should emphasize the party in the future in the wake of all of these crises -- under the law rather than above the constitution. That's a very important issue. If they do it, it means that a lot of change is underway, but if they do not do it, people are cynical about all this progress and the crises earlier described really tell you they need to do something big. And also the -- the congress report is also important because that will decide how to evaluate Hu Jintao's and Wen Jaibao's 10 years and how to introduce anticorruption mechanism, so this is another area.

Now economic policy, my colleague already mentioned some of the challenges. Whether or how to crack down the state monopoly industry seems to be the problem and how to assess the property bubble. I just read somewhere in Beijing, 3 million housing units are empty -- for speculation, 3 million, and I don't know whether it's true or not. That's a rumor anyway, and also that -- relations. So these are very important economic decisions. You need to have some kind of direction or sense of direction in party congress report. The Bo Xilai case, it does not mean some leaders support Bo Xilai or are sympathetic with Bo Xilai. In my view, none of the current leaders are sympathetic with Bo Xilai. But they may have completely different views in terms of how to really punish him. The reason is the public reaction. We do not know. It could be a disaster one way or another. Certainly, 2 days ago the Tsinghua released the major long report about -- I think it's bad news for Bo Xilai. In my view actually from day one I always believed that Bo Xilai will be under criminal charges and certainly that report seemed to indicate that direction.

Finally, foreign policy I don't want to say because the next panel really will talk about that. It's so difficult. You don't want the 18th Party Congress in the shadow of the conflict with Japan or xenophobic movement in the country. So all of these seven or eight areas need some time, but eventually I think sooner or later they will cut a deal or make a decision. When they argue that the contention on these issues are so vicious

and even result in factional infighting spiral out of control, true, I believe that China's one party, two coalitions or two factions formula to describe today's China may eventually lead to either the formal split or the Chinese communist party or legitimization of the factional -- within the party very much like LDP Japan. But this will not happen in the next few months. At least it will take some time. So we do have more likely in the near future, Deng Xiaoping's camp and Hu Jintao's camp will most likely will reach a sort of compromise.

Now let me very quickly present my third and final argument. We tend to underestimate the role of the constructive societal forces and the possibility of serious political reforms being instituted from the top. Troubles within the CCP leadership do not necessarily mean that China as a whole is weak. Among the profound differences between 1989 Tiananmen and the current Bo Xilai crisis is the fact that in the latter case the Chinese society and economy have largely remained not disrupted. There's a good chance that it will remain so. Why? Because some forces currently very, very dynamic, none of them existed in 1989 Tiananmen such as the middle class, such as the ever expanding legal profession, such as the commercialized media and the strong presence of foreign business firms in China, and also earlier on I mentioned about the checks and balances within the collective leadership. None of these existed in 1989.

Nothing of course is certain. It will be intellectually and politically naïve to believe that nothing will go wrong in China, but if we are to take the necessary balanced view of the CCP's future political trajectory, we must explore seemingly contradictory trends in the various competing scenarios and that will in turn broaden our policy options toward this very rapidly changing country. Thank you very much.

MR. POLLACK: I think we would all have to agree as we wait for everyone to be miked up that we all have a lot of food for thought here. There are any number of issues that we might concentrate on. I'll pose several at the outset and then turn it over to the audience because that to me is always the highlight of Brookings' events.



We've had views that have ranged from the bottom up to the top down to things that are in between, but what I am struck by in listening to all of the remarks are, if you will, the incentives that often do exist to as we say in an English metaphor to kick the can down the road, that the consequences of dealing comprehensively seem so fraught with possibilities and worries that everyone has a kind of shared sense that to dodge the big issues even as they seem to create the possibility for a longer-term crisis within the system which would of course be very, very destabilizing. So without making a prediction, I would ask all of our panelists to say what is it that you think might work against the idea to just kind of find a way to paper over differences or otherwise not address what seem to me to be fundamental flaws and dangers potentially in the system, whether it is the questions that Tao Ran raised of just the local authorities having collusive understandings about land use and very, very embedded corruption, or whether it's in terms of what Wang Feng very aptly describes as almost a ticking time bomb whether it's considered demographic, social or otherwise. Or in the case of Cheng Li, a belief that the stresses that are here within the system clearly have a kind of urgency to address them because of popular sentiment and cynicism that might ultimately emerge. I'm not looking for bold predictions, but I'm wondering if any of you would want to speculate on what is it that might affect this kind of an overall situation and affect when might it happen. Can they paper over some of these differences over the longer-term or is there an immediate urgency to some of these questions? Is there anyone with any thoughts on these questions?

MR. LI: I want to make two points. First, that the economic slowdown is very, very important because 2 years ago Chinese intellectuals including some leaders talked about the China model. Because of China's economic success, they deny the political kind of lag or bottleneck. The current slowdown of the economy partially related with the Euro Zone problem which hurts China's exports. But also reflects what Tao Ran said, the difficulty -- the structural change of the Chinese economy from export, labor-intensive economy to innovation driven and consumption driven service sector centered

economy is still very difficult. So in a way innovation service sector driven economy requires political openness, requires the rule of law more than any time. So in a way the economic slowdown is the result of the political bottleneck, but further reveals fundamental flaws of the political system.

In concrete terms, which means that 10 more million, 20 more million become laid off and so we know that college students already lay off -- huge number of percentage lay off. With this additional closedown of Japanese stores, et cetera, that will be more layoffs. So that kind of economic crisis and also the property bubble and the stock market still doing poorly, people, the middle class really complain that the monopolized companies has stolen all this money. So the revolution is a scenario. People in China talk about that. But even without economic problems, even China makes progress in all areas, I think this success also will lead to some further change, further demand. And so the troubling factor could be very unexpected. It could be a health crisis. China has a serious public health crisis. And it could be social injustice -- baby and food safety issues. I mean we do not know. But we do know the mood at the moment is very, very dangerous. I don't know whether you have read or not, I read this from official media, saying that in the past 2 or 3 months that in three or four cities including Shanghai and Quinmin, I forgot maybe two other cities, that -- passengers in airport for some reasons, delayed or other things, they just broke the door, just ran to the runway to block the landing or takeoff the aircraft. Happened three or four times in the past 2 or 3 months. No one is really punished. That kind of anger. So it's very, very dangerous. I think it's a wakeup call.

MR. POLLACK: Cheng, from your characterization, would you say it's more likely that these phenomena will be experienced in the urban areas of China rather than in the rural areas? What you described is certainly disaffection within the cities.

MR. LI: The new leadership still has chance to deal with that problem, but they need to do something very serious, not just stay where they are.

MR. POLLACK: Could I ask then in this context our two colleagues who

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live in Beijing, from your own sense, the mood or conversations with various individuals whether students, professors or anyone from any walks of life, do you think the people of China are prepared for sharper change, something that would really upset, alter this kind of an overall pattern which now seems to deeply entrenched within China? It's often asserted that the Chinese have a kind of cultural disposition to be fearful of chaos and confusion and so forth, but I'm wondering does that still hold or do you think people would be prepared for something deeper in the way of change?

SPEAKER: In the past several years I just feel more and more people lose confidence and have lower trust in the government and I think the main problem for me is still the economy. Starting from this year a lot of manufacturing firms began to close down and many college graduates, if you don't have good connections you never get good jobs. So if the economy further slows down, we really don't know what will happen. So the government has to do something before things go too bad.

MR. POLLACK: Wang Feng?

MR. FENG: One of the ironies of the great prosperity of the last 10 years is that all kind of people complain. It's like when you look at the policymakers, the migrants, the people in the lower classes, they complain and the employees who are working in state owned enterprises, they are not happy either because of this talk about reining in SOEs. And the masses are not happy, and the officials themselves, they are very fearful. Look at Bo Xilai how one day he is one of the most powerful persons in the world and the next day he is somewhere still waiting for his formal trial or whatever. So people of all ranks have ways to complain to be unhappy. But I don't see how -- sense is that as Cheng just said, you have these positive social forces that are already looking for stability for reform, not for something more dramatic or drastic. Of course, that could be the case if certain -- happen, but what is clear is that the tasks for reform are so overwhelming in part because things have been postponed. Very small things like the one child policy. Very, very few people think that still makes sense for China. They cannot act to start to phase it out. So that's just so indicative of how paralyzed the

leadership is. So by postponing reforms in different arenas, political, social, economic, they've just made the process of reform so overwhelming and they could immobilize the leaders where to start. So that's one possibility, that we may not see something that's going to happen fairly quickly.

MR. POLLACK: Thank you very, very much. The floor is open to questions. I would ask you first to identify yourself. There will be a microphone that's passed around. I see David -- so he'll get the first question. But try to keep your questions relatively brief, relatively succinct. We have about half an hour for questions. So we'll begin right here.

MR. BROWN: I want to thank the whole panel for very thoughtful presentations.

MR. POLLACK: Could you identify yourself?

MR. BROWN: David Brown from SAIS. The question goes to Cheng Li. At the end of your presentation you said we underestimate the possibility that the leadership may be able to in fact guide reform. So my question is, given the fact that this is a collective leadership without any clearly strong leader to guide the process, what is it that gives you a degree of confidence that these overwhelming problems will in fact be grasped by the leadership?

MR. LI: Now we have so much criticism against the collective leadership, but the moral area is a single strong leader. That is not good. I think you have a tradeoff. The collective leadership, they do need to have a clear definition about the number one leader, the president or general secretary, his or her responsibility -- and that they find that in general, collective leadership is not necessarily a bad thing. It avoids a single-minded approach and the checks and balances is part of democracy. So now you make it more legitimate, more transparent, more accountable for different social groups, different regions, because there -- at this point. I think that in general this kind of one party, two factions model could lead a Chinese-style democracy. But the important thing is you do need to open for intraparty election then eventually for general election.

Then you give tremendous legitimacy. Now certainly China is not yet in that -- so the 18th Party Congress is a great opportunity particularly -- is bad, but also good, good because it's a wakeup call.

Look at China's recent history. Bad things sometimes lead to good results. The Cultural Revolution was such a disaster for 10 years, led to Deng Xiaoping's openness. 1989 Tiananmen was a real tragedy. China still paid huge cost for -- but actually that came out with Deng Xiaoping's integration with the outside world that emerged as an economic powerhouse. But now it's very clear, it's the -- whether they can change or not change, whether we go along with the right side of history or just out of -- so with these kinds of things I think the leaders are smart enough to know, but current at the moment it's so intense, there are so many kinds of problems and challenges occurring in the same time, from their perspective they are very, very nervous for a good reason. But again, the leaders to a certain extent for a new generation why a little bit optimistic? Because crises is the best thing for them. They can rise to the occasion to demonstrate they are a capable leader. So we just wait to see. Give them 5 months, 6 months or a year to see whether they can demonstrate or not. So I do not know the answer. It's not an inevitable process. I certainly can deeply worry, but -- but I just don't think that currently at the moment the parties are split. No. They're united together.

MR. POLLACK: A question here and then way in the back after that. First that gentleman there.

SPEAKER: Thank you. I want to thank the panelists a lot. This is a very interesting discussion.

MR. POLLACK: Can you identify yourself?

MR. HERWITZ: I'm Eliot Hurwitz and I'm retired. In the West here we read a lot about the implementation of local democracy in the PRC and I would like to ask the panelists is local democracy for real and which way do they think it's headed?

SPEAKER: Tao Ran worked on village elections. I don't know how -- was that? Do you want to say something?

SPEAKER: Let me say first I actually 2 or 3 years ago I traveled as a guest of the President Carter Center to China to observe local elections in the remote area of -- I think in general the village elections are doing well, but they could not move up to township or county level because particularly when you move to the county level that -- and political lobbies, et cetera, so they become -- so the idea is that they still wanted to do the local particular village elections because in the backward, less-educated places people can know how to vote that enhances the confidence of the general public about democracy. I think in that way it has a very positive result. But at the moment, I think in the future China's real change should come from both top down and bottom up. You need to give some pressure. But -- attention to the intraparty democracy, rule of law, media freedom at the moment rather than local elections because it seems to be -- but sooner or later if the top starts to open, all elections in urban areas, township elections, will also start. But at the moment I have a mixed assessment. There is some tremendous achievement in education of democracy, confidence -- quality of election depends on some are very, very good with the candidates, with the competition and some are bad and money politics. You also see what happened in Guangdong now -- Township election. So not completely hopeless. I think there are some good signs, but there is no breakthrough of course.

MR. POLLACK: Tao Ran, did you want to follow that up?

MR. RAN: Yes -- elections -- village level, village is not a level of government in China -- autonomous organization. And that kind of election is more or less nationalized after rural tax reform after 2006 because now the village -- get salaries from the government. So farmers now have less incentive to vote for someone who is paid by the government -- the government expands the cities, requisition the land, our research recently finds that local governments began to manipulate some village elections because they want to get the land cheaply. They need the coordination of village cadre so they have to pick up the guy that helps them with the land requisition. So my general assessment is that there is still a long way to go. But if I may also add two

observations. One is just from the reports we see higher level officials for their corruption cases, many of them involving getting money, receiving bribes from lower levels for getting their positions. So in other words, in villages and townships and counties at every level people are paying a price for getting to a position so they can benefit and they do a good calculation. If I pay 300,000 to the mayor, I will be able to get twice of that much back during my -- is tendency is getting more and more spread. And we see a lot of the prosecution of corruption cases that all involve what are called the -- you pay to get a position. So you could have the election, but I also hear in some villages or locales the local cadres pay the voters to get that position and so they will get this back from other sources. That's one. The other is, I don't know from what -- the trend or the idea of separating government and the party started to be reversed so at least at the provincial level. Now the head of the People's Congress or local I mean provincial party secretaries. So if you think in terms of the election of in terms of the legislature, the head of the legislature now in provincial levels, they are all party secretaries. So that's a trend that's reverse of what was happening in the 1980s. So from those two indicators, you will see that elections are not going in the direction that was happening in the 1980s and early 1990s.

MR. POLLACK: Next is the gentleman in the back of the room there.

MR. CALL: Michael Call, ICCI. In looking back over the last half-century and developments of societies that had gone through rapid change, China is clearly sui generis. However, a group of us that have been following it closely were wondering why would China be any different if as has been the case in the overwhelming majority of forced change society has gone through upheaval when it is coming up, when there is a plateau reached and instability sets in and a catalytic event brings what would otherwise be disparate discontents into alignment? Why would China be any different than what has happened in the overwhelming majority of other societies?

SPEAKER: I think the Chinese political leadership and as well as a large segment of the population are interested in the very same question under the name of

middle-income trap. But by that name, they also point to societies that escaped from the middle-income trap which you are referring to and so China does -- certain people certainly want to be in the category that can escape what's called the middle-income trap. So it's not every country that went through this kind of growth or fell into what is called social upheaval. So China, I think people are aware of that.

MR. POLLACK: Over here, please.

MR. MITCHELL: I'm Gary Mitchell and I wrote "The Mitchell Report." I think this question may relate to the one that's just been asked, so if it's overlap, move on to the next one. As I listened to the discussion that's been taking place, there were two other countries that it made me think about. One was the United States when you were talking about the need for reforms like the one child policy, et cetera, and the inability for government to get it done so they kicked the can down the road. That sounded pretty familiar. Then the second is what seems from your remarks and others that we've heard that there are enormous pressures on the Chinese society and on governance particularly that are going to become more significant as the economy slows down, and that made me think about a study that ostensibly that's been fairly reported that the Ayatollah Khamenei commissioned in Iran in advance of what he faced in 2009 where he ordered a study to take a look at the other color revolutions and how governments dealt with popular uprisings and which were successful and which were not and what was the lesson for him.

MR. POLLACK: I think you meant Khamenei and not Khomeini because I think he's been out of the picture.

MR. MITCHELL: Khamenei, the current. I'm talking about the current supreme leader. In any event, the point of this is he anticipated that this sort of spirit of revolution was headed in his direction, commissioned people inside Iran to do an analysis of how other countries' leaders had dealt with their various color revolutions which he used as a roadmap for dealing with it in the way that he did which was that if you're going to give, give way, way, way in advance and not when the pressure is on as the shah did,



for example. So this is a long way around the barn of asking the question whether the Chinese leadership in addition to having to do all the things they have to do day in and day out is taking a long look at other examples around the world of where societies have faced the issues that they're dealing with some successfully and increasingly some not so successfully. Is that a way that they think and is there that kind of study taking place so that they have a sort of range of scenarios to think about in terms of how to deal with everything from corruption to slower economic growth to the middle-income trap, et cetera?

SPEAKER: Yes, absolutely we have experts -- here he wrote a book about Chinese discourse. I think in Chinese discourse at least 100 books published openly and a lot of internal reports going on. I think they are really aware of these things. Now actually in 2009 in the fourth plenum of the 17th Party Congress there were some bold ideas for political reform, but then all of a sudden they stopped and stopped for two reasons. One is the 2008 global financial crisis made the Chinese system not that bad because other countries -- democracy -- Western countries also had a problem. But the most important one is the second one; the Arab Spring really shocked them. From the leaders' perspective -- and publicly nowadays in China there's an argument, hoping that the leaders will overcome that argument, that the real danger is that you want to start political reform, so that kind of discussion is going on in China so it's all in the background about other countries. In a way, certainly what happened elsewhere will have an impact on China, but China has been lucky in the past few years -- sometimes will not be always at the lucky. So I think the leaders understand that that they need to change. So, yes, they all studied all these things. Whether they have a great understanding of that, I don't know. It depends. Some leaders do and some leaders don't. But, yes, it's very much on the debate and on the discourse.

SPEAKER: And to add some evidence to that and a comment, the comment is actually probably they are doing too much of that. Let me give you a piece of evidence -- the Prime Minister Wen Jiabao has been focusing on one thing which is hold

down real estate prices and from what I've heard, it's not just economic considerations. They've studied the greatest complaints on the internet, and these are all migrant young people I've mentioned, they're on the internet all the time and the greatest complaint is we can't afford housing. And so that's behind this apparently seems to be an economic decision, it's a political decision to control not just high prices but now fast it increases.

And the most recent example again is how the government reacts to the internet, it's on retirement age. There was some talk about the inevitable increase in age of retirement. Right now it's 55 for women and 60 for men, and the effective age of retirement is much below that. And so when the idea was brought up with aging -- with raising the retirement age, again on the internet, over 90 percent of people opposed. So quickly the government makes the statement we're not going to do this right now. So in some sense the government is paying very close attention to what's in the -- 300 million people have account and what are the strong sentiments and they react to that sometimes like in the case of retirement age I think is now -- a lot of the complaints were actually targeted toward public employees saying if you raise the retirement age, they're going to be in power and they're going to be able to corrupt for even longer, so that's totally not relevant to the fear of the shortage of pensions.

MR. POLLACK: That gives a whole new meaning to internet voting. Yes, the gentleman in the white shirt back here.

MR. CHOW: This is Richard Chow from Johns Hopkins CSIS. My question is over the past years we have seen a heated debate on social media about China policy whether it's economic, political or social. My question is what kind of role do you think the social media plays in China's public policymaking? Do you think it's like to make it more transparent, pluralistic, going to that direction, or that there is still a grim picture like the Chinese government still exerts a certain level of control or even blocking some -- issues? Thank you.

MR. POLLACK: Does anyone want to address that?

SPEAKER: I think the examples I just gave will in part answer that

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question. The government does censor from time to time, but they realize that this is I think in part learning from the experiences of the Arab Spring that this is a place where you have to allow people to vent. And this is also an important channel of information for policymakers to gather what's in people's minds. Of course, social media and the comments expressed there are not necessarily representative of the population, but that is a segment of the population the government is paying the most attention to. And they've done a lot of -- I just gave two examples. There are many other examples. For instance, the recent -- the watch incidents (?). I don't know how many of you followed -- and you don't see that in other countries. That's because the government responds to those kinds of issues reported through social media.

SPEAKER: Certainly it's a new player and very, very powerful and its role sometimes is complicated. In a way it will make the political process more transparent eventually. At the same time, the social media spreads sensational rumors itself is a problem. Secondly, the relationship between social media and the rule of law is very complicated, sometimes probably hurt the rule of law and interfere with the justice system. But the thing is that the Chinese government certainly has difficulty to deal with social media. The more you control, the rumor become more sensational, more powerful. So eventually Chinese leaders should learn lessons like my colleague Ken always said that they say eventually should let the mainstream to become the main source of information. Therefore, you can really prevent these kinds of sensational rumors. So I think that this is certainly indicative that China enter a new era that the leaders are certainly very much concerned, but still social media can -- or another. So this is something we all need to think about, particularly how it relates to the emerging legal system in China. Of course, in China at the moment the legal system is very weak, but what about in the future?

MR. POLLACK: Time is short so I'd ask you all to be discrete about the questions that you're asking. Did you still want to ask a question, David? Yes, right here. And then we'll go to several in the back. I see hands raised. And then we'll have to

break for a while. And here too. We'll do our best. Be brief.

MR. SHAMBLA: I'll try to. David Shambala from George Washington University. I guess the question is really for Cheng Li. But the one I keep wrestling with myself is what would a real political reform package look like in the next -- after the 18th Party Congress versus a kind of cosmetic political reform package? Cheng, a second ago you just referred to the Fourth Plenary Session decision of 2009 which I would call a kind of cosmetic package. It was bold but it was all -- all inside the system. A second ago Wang Feng described party/government separation -- which we haven't really seen since the years of Chow Zeyung. And one of the major lessons that the Chinese communists learned from the collapse of the Soviet communists and Gorbachev's moves toward -- is don't go there, comrades, or you will wind up like Gorbachev and -- so they seem to have a combination of the lessons learned from the collapse of the Soviet Union plus the 1989 debacle has really boxed them in to an inability to take real political reform. So I guess, Cheng, what I'd like to ask you for is what would a real political reform -- a feasible political reform package look like in your mind versus this kind of -- model that we've seen?

MR. LI: The ultimate result we know of the political reform is democracy because ultimately you will lead to elections, rule of law, media accountability, media supervision. This is the definition just like any other country. Because when you open it you not know how to stop it. All the issues will emerge. The verdict of Tiananmen, the issues of Taiwan, the issues of Tibet, ethnic tensions and they will all emerge together. Now certainly the party wanted to make it more incremental manageable step by step through institutional changes. To a certain extent we already see some of the real institutional -- like term limits, like the age of retirement, like regional representation. This is why -- because of age limits. We know the regional representation. We know the military only can have two or three seats, et cetera. But eventually this is not enough because some of the solutions become new problems. You ask leaders to retire at 59 years old, but 59 is very young -- source of opposition -- what said -- what other leaders

said is quite damaging for the system. So again the ultimate result is clear. And also let me make mention that when the leaders talk about intraparty democracy, they also acknowledge -- this is particularly liberal leaders, this is not the end but -- ultimately is general democracy, but how to achieve general democracy without a chaotic situation. That's the issue. I cannot answer your question specifically, but basically it's to surrender some of the power to the constitution and make the party intraparty democracy as a transition at the same time all these things will happen, civil society, NGOs, local autonomy, not political and et cetera. So that's really the domino effect that in a way it's very scary but it's people in China talk about that. Particularly I read a scholar named -- I strongly recommend read -- it's a real name, that he talk about all these things direct answer your question about how to make structurally sound step by step, but he end up with the conclusion you cannot design. It's not by design, but by necessity. By the reaction.

MR. POLLACK: We still have many other questions. There have been two in the back who have been very patient and the woman here in front who also has been very patient. So we'll go very quickly to the back.

SPEAKER: -- from the U.S. China Commission in the U.S. Congress. I have a question particularly regarding China's transition to an innovation society. It's been 6 years since the MLP -- plan for science and technology was introduced and 2 years ago there was this plan for some strategic industries -- emerging industries. Do you think that those plans are indeed achieving their goals? And do you also think that this move to upgrading to more technology and -- intensive industries can resolve some of these structural imbalances you've identified today? Thank you.

MR. POLLACK: Time is tight, so if you could quickly answer that. I think what we'll need to do is just run a very short few minutes after this because I don't want to interrupt the next panel.

SPEAKER: Actually overinvestment even in some so-called strategic industries, new energy. Local government is borrowing money to finance some new

energy sectors. They now find it difficult to pay. So basically I think still China's growth in the next decade still lies in the sectors that's not monopolized by the government, not the so-called high-tech sectors.

MR. POLLACK: I regret that my colleagues are giving me the signs that we should not interrupt the tyranny of the clock and I apologize to those who haven't had a chance to ask their questions. Perhaps there will be a chance during the break that if others do have questions you can approach the speakers. We will reconvene in 15 minutes for Panel II, but first let us all give a very, very nice round of applause.

MR. BUSH: So, thank you for your cooperation. My name is Richard Bush. I am the Director of the Center for the Northeast Asian Policy Studies here at Brookings. And it's my pleasure to moderate this panel which is on China's external environment and what the succession means for it.

I think if I were a perspective Chinese leader and heard the first panel, I think I'd reconsider. But if you add on the foreign stuff it's even worse. So, we're going to learn why.

We have three outstanding scholars and two former officials to frame the issues for us. You have their bios. They need no introduction. So, let's get started.

Ken Lieberthal.

MR. LIEBERTHAL: Thank you Richard. When I was preparing my remarks which will focus on the US China relationship I was a little concerned that they perhaps a little too downside, you know too pessimistic. But after the first panel I feel like I'm the deliverer of good news.

So, seriously I do want to focus on the US China relationship and that relationship, we have to keep in mind, is really very wide-ranging and very mature. We have very extensive contacts between our two governments on a constant basis and across a very broad scope. On each side I think we have a good knowledge, good understanding of each other's views on the major agenda items that we confront. And neither leadership, I would stress, seeks to worsen the US China relationship. Both want

to make this relationship work as well as it can work going into the future.

But I think politics in both countries may create some signification problems and so I'm going to focus more on the problem side of this and I will be, frankly, quite candid in my remarks.

First, on the US side. You know the big framing issue here is the US rebalancing toward Asia, popularly being called the pivot toward Asia. I think this is, in fact, a strategy with which if implemented well is a very positive strategy, not only for the US and Asia but for US China relations over the long run.

It's conceived of as a balanced overall shift toward a greater US focus on Asia and engagement in Asia with China very much integral to that effort. It is not engagement against China; it is engagement with China and the region on a regional basis across military, economic, and diplomatic spheres.

Let me make five points about concerns that I have about some aspects of the rebalancing toward Asia and then a series of other issues. First, is on the rebalancing toward Asia. Despite some progress on the economic side toward developing the Trans-Pacific partnership and despite a fairly active diplomatic effort, I think to date it is really the military that has dominated the actions and the rebalancing headlines to date. And this, obviously, has very much caught the attention of those in the People's Liberation Army.

In part, this is a result on the US side of reaction to specific developments in the region and in part it also obviously reflects our winding down of our wars in the Middle East. But in a time of looming military budget constraints in the United States, I think that this is also, in part, reflecting a growing competition to protect or enhance the slice of the military budget pie that key players have.

In this, China presents the only feasible type of threat that could support major new weapon systems and weapons platforms over the next 10-15 years. And those systems and platforms are the big budget items. Outside of personnel, they are the big budget items in our military budget.

I think notions like the Air-Sea battle concept provide a still ill-informed but nevertheless slippery slope to pull major resources into a China centered set of decisions. And to do this, it invariably creates the inclination to focus the rhetoric on the kinds of threat that China could conceivably pose. Not knowing what will happen to highlight the trends that could lead to very serious security challenges for the United States.

Now, I'm no believer in the notion that China is a lovable panda. But I do know from experience the array of forces that will buy into an approach that will potentially channel huge streams of revenue into particular Congressional Districts and particular companies. And I'm also aware of how readily those in China fighting their own budget battles and seeking to get more money for their new weapon systems will point to and utilize and leverage these discussions in the United States in order to enhance their own position in their budget competition.

So, this is a -- this kind of military budget competition and the drivers for it is one thing that makes -- I think is worth keeping in mind and following as a potentially increasing source of trouble as we go forward.

Secondly, in evaluating China, cause after all China's intentions, what China is signaling, how China is thinking through issues, is extremely important to how we will position ourselves over time. I, frankly, am struck at our current situation where I think it's fair to say now that nobody at the Assistant Secretary level or above in the US Government, Assistant Secretary to my mind is the lowest real policy making level in the US Government.

No one at that level or above in the relevant bureaucracies is a China specialist by training. And thus, we have no one at that level who really, by training, deeply understands how the Chinese system works and the ways that Chinese policy makers think. Don't get me wrong. A lot of people at that level have tremendous experience in dealing with China, right? But that's different from looking at it, being able to look at it from the inside out, right?



This reflects, I think in no small part, the enormous focus on building up Middle East expertise over the past decade for reasons that all of us are well familiar with. I, frankly, do not see this as being rectified in the coming four years. And it puts us in a less than ideal position as we try to make decisions regarding our most important bilateral relationship.

Third, we're now seeing China policy increasingly cloud up in our own Presidential campaign. This reflects, frankly, a general phenomenon in Asia, in the politics of Asia in 2012. This is an utterly extraordinary year in the region. The US has our election campaign. China, as this event highlights, is about to have a major leadership change itself.

We had a presidential election in Russia. We had succession in North Korea. We have a presidential election coming up with South Korea with a new candidate as of yesterday that is potentially going to make that far more interesting. We will probably have an election in Japan by the end of this year or the first month of next year. And we had a presidential election in Taiwan. My God, that's never happened before, right?

And during times of national leadership election or succession, for very understandable reasons regardless of the political system, leaders become extremely sensitive to domestic opinion, domestic positioning, and less sensitive to the nuances of foreign policy. Less willing to give others face if it's going to cost them, potentially, politically at home. So, we've got a problem here. So does every other country in the region including China.

The question, and not surprisingly therefore, we've seen all kinds of tensions really escalate in Asia especially in the last few months. And to my mind the question is whether on all sides leaders can address these domestic demands and avoid doing things that they cannot then walk back next year. You know, this year everyone is under pressures to respond to domestic sensibilities.

Next year, it is quite possible that they'll seek to be tamping down

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tensions around the region in order to focus on new initiatives that they want to take; new leaders will want to take in domestic programs. The question is whether anything will happen this year that really can't be walked back next year, right? And or can people maintain the degree of restraint that really is necessary. And, frankly, at this point the answer is not clear on that.

Fourth, Governor Romney in particular is stressing how much tougher he will be on China than President Obama has been. And that is with the focus especially but not exclusively on trade issues. And may I remind he's also pegged our perspective defense spending at four percent of GDP which would be roughly 30 percent higher than it currently is as a percentage to GDP even though we're winding the war in Afghanistan.

And we've seen such rhetoric in a lot of past presidential elections in the US. And it's usually produced, if the challenger wins, a period of varying length from a few months under the Bush Administration, under Bush II to a few years under President Clinton, of a rougher relationship with China. As the new President comes in, tries to act in accordance with at least some of his campaign rhetoric, the Chinese push back and over time the new President comes to decide that what his predecessor did was not quite so bad after all and moves back in that direction, the relationship moves forward. And Beijing knows this history very well. You talk to top people in China about it, they can cite it chapter and verse.

It's very possible that Governor Romney, if he's elected, will in fact think better of this when he has to actually assume responsibility for outcomes of his actions. So, let me turn to the China side to see the potential there within this framework.

The new Chinese leadership in the wake of the 18th Congress and next year's March National People's Congress is going to face a very daunting set of issues as this first panel really highlighted. Economically, they are going to have to take major moves to begin serious structural reform of the economy and otherwise economic growth is not only going to be increasingly inefficient but also increasingly socially destabilizing.

This is going to require taking on major vested interest both among the

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large state owned enterprises and elite families that they are connected with. A kind of marriage of wealth and power, and also among local officials from the provincial level all the way down to the township level which is a huge bureaucratic mass of powerful individuals who do not have, on the whole, a strong interest in the kinds of reforms that need to be made.

Beyond that, I would argue they will have to and one of the Q and A issues that came up speaks to this a bit from the last panel. They are going to have to change the norm of decision making at the time. Currently, you have a Politburo Standing Committee of nine members with a division of labor among them. So, it isn't that they're all wrestling with the same set of issues. Each effectively represents a huge bureaucratic and/or economic apparatus in China. And a norm of decision making that is consensus decision making.

And what you have when you have nine people with different responsibilities, each having enormous power by virtue of their position, having to reach a consensus to get a serious decision made is you can get agreement to spend more money because I'll spend more money in your area if you'll support spending more money in my area. But impossibility of getting agreement for things that involve major structural reforms that will really seriously disadvantage any of the nine, you know any of their bailiwicks.

And we've seen the results of that under the Hu Jintao Wen Jiabao administration. I think that has to change. It has to change if the Politburo Standing Committee is going to be able to both reach and then have the political capital and will to implement decisions that will seriously challenge the major vested interest among local leaders and among major state owned enterprises and elite families with which they are connected. That is a very tall order.

I think, therefore, that Xi Jinping, once he is office, is going to be overwhelming focused on domestic issues. Keep in mind that a Chinese leader, unlike an American Presidential candidate, Chinese leader does not become widely known,

prestigious, and respected and then becomes the leader. You become the leader and then you build your reputation and respect. Then you acquire your political capital, right?

So, it's just a very different system. Xi will be tremendously concerned with garnering the political capital necessary to take on the issues that panel number one highlighted so vividly. Against that background, I suspect, I may be wrong, I suspect he will really want to tamp down international tensions especially tensions with the United States because we're the biggest player out there. And see things smoothed over quite a bit.

Regardless of whether that's true or not, if a US President takes the opportunity next year to get much tougher on China, in President Romney's terms if he becomes President, the way he has articulated it, to teach China that they can't push the US around, right? Our market is big and so consequential we can name them a currency manipulator, we can slap on additional measures and they will bend, right?

I think, in fact, the incentives will be overwhelming to Xi Jinping to push back extremely hard, in part, to teach the new US President that if you want to get cooperation from China that's the wrong way to do it. But, in part, also and critically because to yield to what is clearly a step up in US pressure in the early months of his administration would be to undermine his capacity to garner the domestic political capital that he needs to take on the issues that were raised in panel number one. So, there's a potential for a serious disconnect to develop.

Finally, just to step back and look at it in a more macro sense, the reality is that in a fundamental sense the US and China in the coming few years are in, at least at the level I'm going to talk about, in broadly comparable positions. Comparable positions in the sense that both us, both countries are at critical turning points in their histories where past approaches are clearly in need of major change or there will be enormous damage done to the future prospects of each of our countries respectively.

In the US, I'm clearly referring to our fiscal crisis. In China referring to panel one this afternoon, but the need to carry out major sector restructuring in order to

put China on a new development path because the old development path is now exhausted. In both countries top leaders and political elites know, at least generally, what must be done. This is a not a secret, right? But in neither country has the political leadership been able to date to muster the political capacity to make and implement the necessary decisions.

Notably, US China relations were therefore in the coming few years will be determined, in no small part, by the degree of success each of us has in pursuing our own domestic reform agenda. That will affect each of our national psychologies, how confident and flexible we are internationally, and also will seriously affect our national capabilities and therefore, how we think about the other. The changes in each country that are necessary, I would argue, are both critical to the future of that country and very much in the interests of the other country. If you look at the changes China needs to make, they're the ones in many ways that we have recommended and they're good for the United States.

China is deeply invested in the United States at this point. If we really screw it up and the dollar goes off a cliff, China suffers enormously badly across an array of areas. So, this is a really a mutual interest, but it's also in each country extremely difficult to do. Therefore, a major determinant of US China relations over the coming five years will the extent to which each national leadership is able to adopt and to implement the tough decisions necessary to put its own economy on a sustainable trajectory.

To the extent that US China tensions flare, this will make it more difficult for each leadership to focus on this key domestic issue. And to the extent that each fails to effectively tackle domestic reform, US China tensions are more likely to increase.

So, to conclude US China relations are wide ranging and mature. It is not easy to do serious damage to the US China relationship. This is a deep relationship. But in both the short term and the longer term there are reasons for serious concern. And it's going to take strong strategic leadership at the top of each political system to keep things moving in a primarily constructive direction. Thank you.

MR. BUSH: Our next speaker is Jeff Bader.

MR. BADER: Thank you, Richard.

The overarching question for China's policy toward the Asia Pacific region under a Xi Jinping lead party, which is the subject I've been asked to talk about today, is the one that Deng Xiaoping answered over three decades ago and which State Counsel Dai Bingguo reiterated with the same answer in 2010. Does China continue to adhere to the basic strategy of *to kwong yuen wai* the translation of which much better linguists that I have struggled with but which fundamentally has meant a foreign policy of caution and prudence?

Deng understood that China's rise depended on a peaceful environment and good relations with its neighbors including the United States because number one, they are the source of trade investments and markets. Number two, frictions, tensions, or conflict would lead to diversion of attention and resources. Number three, China's rise inevitably will induce anxiety among its neighbors. Deng and Dai's answer was to emphasize reassurance, to solve or shelve territorial disputes, and to recognize and build relations with old enemies.

Before getting to the future, which I'm supposed to prognosticate, allow me a very brief look back two years because I believe it's relevant. In 2010, spurred by nationalist voices, China seemed to turn its back on these lessons. That year, briefly, they threatened US companies that were engaged in arm sales to Taiwan. They expressed solidarity with North Korea in the face of its international provocations. They retaliated fiercely to Japanese detention of a Chinese ship captain in the Diaoyu Senkaku Islands area cutting off rare earth exports. So, this week has been kind of *déjà vu* all over again.

They assumed an aggressive posture in the South China Sea and they refused to engage in military to military relations with the United States. But by late in the year China's leaders had discovered that its relations with its neighbors were all suffering. The instinct to blame the US for colluding with China's neighbors gave way to self-

examination and reflection and policy shifts to pressing North Korea to avoid further provocations, beginning to talk with South China Sea claimants, resuming military to military relations with the United States, attempting to rebuild relations with its neighbors, and sending a prudent constructive Hu Jintao to the US for a visit in January 2011.

This was all previewed in Dai Bingguo's well publicized article in November 2010, presumably endorsed by Hu Jintao, demanding continued fealty to Deng's *to kwong yuen wai* policy. The US, the Obama administration did not call our policy at the time rebalancing or a pivot, but the US policy of reassurance to China's neighbors of more deeply embedding ourselves in the region and the pushback to Chinese overreach clearly affected China's behavior.

So, what comes next? It is safe to assume that the decision in late 2010 is not permanent. *To kwong yuen wai* is the subject of intense debate among Chinese security thinkers despite Dai's authoritative article with Hu's support. Will China, believing in its increasing power and influence, assert its rights and claims vis-à-vis its neighbors? Militarize its regional policies? Pursue hegemony and dominance in the region? Or will it stay the course on *to kwong yuen wai*? Will it incrementally or even dramatically cement its claims on the South China Sea? Or challenge Japanese control of the Senkakus?

It's important to disaggregate the types of issues on which China is more and less likely to be aggressive. The ones that have incited Chinese leaders to take stronger measures fall into the category of what they see as issues of sovereignty, territorial claims in the South China Sea and the Senkakus Diaoyu Islands, and of course, Taiwan.

China described sovereignty as a core interest. Chinese assertiveness on sovereignty issues does not prefigure a move by China to a posture of generalized aggressiveness. But China cannot count on the rest of the region to make a neat, sharp distinction by offering forgiveness on issues of China's claimed sovereignty and resistance to other actions by China. All will be seen by China's neighbors, in my view,

through the same lens. Parenthetically I might say, even under the scenario of a regionally aggressive China on sovereignty issues, it's hard to see the status quo across the Taiwan Strait coming under serious challenge for the next four years.

Ken Lieberthal and our earlier panel have discussed Xi Jinping's challenges, in particular his domestic challenges. These should preoccupy him and make the salience of the Deng-Dai formula evident and attractive. But clearly there are other forces and calculations in policy making.

Sino-Japanese tensions over the Senkakus Diaoyu Islands have demonstrated that this last week. Popular nationalism has driven the need for strong action by China's leaders. Perhaps, Japan is a special unique case, perhaps. But China should understand the likely impact of what's happened on Japanese investors' decisions as they consider the newly emerging political risk they've seen on display in urban China as well as the impact on other foreign investors who make political risk calculations.

Other neighbors are unlikely to be soothed by the thought that Japan is a special or unique case even as Chinese leaders seem to be moving to diffuse the situation. There also could be an impact on Japanese defense policy which is unlikely to be welcome in China. In addition, China's use of what I would call asymmetric diplomatic warfare techniques, in this case, is striking and potentially counterproductive. Violent demonstrations as if Chinese were aggrieved Arabs or Iranians, angry over an insult to the Prophet Mohammed, and flooding the zone with fishing vessels could open a Pandora's Box.

These kinds of rent-a-mob tactics could prove attractive as well to Southeast Asian states including South China Sea claimants which have a history of violent anti-China demonstrations, and where China and ethnic Chinese are vulnerable. China should not wish to legitimize this form of political and diplomatic expression. China has more to lose than to gain from the precedent of tolerating or encouraging angry mobs to go on rampages against foreign targets.

How will US rebalancing affect China's calculation? Rebalancing is

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likely, in my view, to be continued by the next administration perhaps without the name or with a different name. But the Obama administration has said repeatedly that rebalancing is not primarily military. Recent problems in the Middle East and the likely ratcheting up of tensions with Iran in 2013 mean that the rebalancing, or whatever it's called, will not produce a military pivot away from the Middle East. But rebalancing does provide comfort and reassurance to the region's countries and will affect their confidence vis-à-vis China.

It will encourage these countries to more effectively maintain their national interests and reduce Chinese ability to pressure or compel them to bandwagon with China. This was evident in the events of 2010 that I described earlier.

So, Chain's approach on issues like the South China Sea, relations with Japan, North Korea will be made in the broader context of their fundamental decision on whether the Deng-Dai formulation should continue to serve as the guiding principle. If, as expected, the US maintains its robust presence in the region, if its actions convincingly demonstrate the long term durability of its presence, and if the US shows respect for China's legitimate interests, that should strongly reinforce China's commitment to the Deng-Dai approach.

On the other hand, if we pursue rebalancing by whatever name clumsily or allow it to become an instrument for blocking China's rise or legitimate interests, it could have the opposite effect encouraging China to see every regional issue as a proxy struggle with the United States. Besides rebalancing and *to kwong yuen wai*, the other major regional factor that will affect Chinese behavior, in the coming years, is the rise of regional nationalism.

Recent incidents of Sino-Japanese tensions, South Korean-Japanese frictions over Dokdo Takeshima Island, I always have to say both, and China-Asian quarrels over the South China Sea are the prime examples. Inflamed populations and weak leaders in transitional governments, as Ken Lieberthal pointed out, are limiting the option of ruling parties and raising the stakes in the case of miscalculation.

To my mind, the benefits to China of rededicating itself to a policy of conciliation and accommodation, in other words to *to kwong yuen wai*, toward its neighbors is evident. Now, China needs good relations with the countries of the region to maximize its prospects for continuing economic development in the peaceful rise. And coercive behavior will not achieve that. But it is very hard to envision a Chinese government that consistently pursues such a strategy without deviation in the face of rising expectations from a population affected by growing national sentiment and the ambitions of a PLA.

So, it will be a major challenge for the next leadership to act sensibly with restraint to pursue China's national interest in harmony with its neighbor's interests. I'm convinced that if China's leaders fail to pursue such policies, they will face substantial costs in relations with other Asian players who are not as China's Chinese demonstrators would have it, "little Japan" or little anything. And will not simply rollover.

Sometimes, however, leaders choose wrong strategies. Xi Jinping seems like a leader capable of making the right choices. We will see if he can and if he does. Thank you all very much.

MR. BUSH: Jonathan?

MR. POLLACK: Thank you, Richard.

My remarks are going to be more directed at China's military development, looking back a bit to reflect on what has happened under the leadership of Hu Jintao and those around him, and then, perhaps to some extent, looking ahead as well.

During Hu Jintao's tenure as General Secretary of the Chinese Communist party and certainly given his leadership since 2004 of the Central Military Commission, there has been a sustained commitment to China's military development that, although first initiated in the latter part of Jiang Zemin's rule, is now bearing significant fruit. And is increasingly the preoccupation of observers abroad and government beauracracies, particularly in the United States but in other countries as well.

We have witnessed, of course, annual double digit increases in the defense budget, although as we were reminded in the first panel this reflected broader trends and rates of economic growth in China. But Hu made a commitment very, very early in his tenure as Chairman of the Central Military Commission to a set of so-called historic missions, which tried to provide a rationale for China's longer term emergence as a significant military power. In effect, guidance or instructions for the longer term well beyond questions related to Taiwan.

As a consequence, over the last 10 years or so, we have seen an array of new programs and weapon systems that, in essence, have fulfilled Deng Xiaoping's long ago pledge that the PLA, although it would have to wait, would ultimately be the beneficiary of China's more fundamental economic emergence. The paradox, however, of China's military advancement, though, is that there's little sense, at least based on what China's military leadership says that they feel either confident or self-assured that the PLA is up to tasks of modern warfare even as China's capabilities increase.

If, for example, you look at the bi-annual Defense White Papers that China addresses -- publishes, that the first White Paper was probably more optimistic on the overall security situation than subsequent documents. So, there seems to be a kind of a contradiction here, seemingly, at the same time as, in different ways, both Jeff and Ken have noted, there is strategic uncertainty all around China's periphery as others respond and react to the emergence of a more powerful Chinese military.

Even so, for all of China's attention to these requirements, let us recall that the PLA, for all intents and purposes, has not fought in a significant military conflict now for almost three and a half decades. It has never employed its air and maritime capabilities except in exercises and in training that project its power much beyond the Chinese mainland, the only expectation, major exception, being, of course, the operation in the counter-piracy activities near the Gulf of Aden.

So, the question is what to do and where to go? There are, in all of this, multiple voices in China which leads many to conclude that there are more "hawkish

views" within the Chinese military as compared to others who might have a much more measured view of China's military needs and concerns about the responses that others might make to China's acquisition of military power. In this context, I think it's important to note that domestically in China, the PLA still exists as a system apart, largely apart, from other Chinese bureaucracies.

There are complaints, of course, abroad about China's presumed lack of transparency and so forth. But I think this is something that may be widely felt within China as well. It's really a much less understood system. So, what we have then is a situation that potentially, if for political or other reasons is not handled well, creates this gestational elements of a longer term strategic competition, first and foremost with the United States but also potentially involving regional states that could reconfigure regional security, and even global security, over the longer term.

We see capabilities. Ken Lieberthal mentioned the Air-Sea battle concept. It is a concept. It's not an actualized capability but necessarily as the Chinese look, as they long have, at how they respond and react and evaluate American military programs, they recognize that they lag well behind. And that may, if anything, induce significant added efforts and military measures that China might undertake.

We see this also with respect to ballistic missile defense. The United States, of course, has long argued that our ballistic missile defense capabilities are not China directed. That is to say, not directed against constraining China's strategic capabilities, strategic nuclear capabilities, but long-term trends particularly China's, over time, its building up of its conventional military, conventional missile capability with a capacity to, at least in theory, reach American carriers, reach bases in Japan, could over time actually close that circle. Because if you look at US ballistic missile defense policy enunciated under the Obama administration, the protection of American military assets and military personnel and military bases is considered part of the fundamentals of US ballistic missile defense strategy.

So, if I look at both the American military and the PLA, although both

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militaries have made a commitment to heighten the engagement with one another, they seem in various ways to prepare for the potential of a very, very different future. So, there, at a minimum, is a need for a greatly elevated strategic conversation between the United States and its Chinese counterparts.

Now, how does the United States fit into this picture of looking at China and its emerging capabilities? I think even if you look at the DoD bi-annual reports on Chinese, or annual reports rather, on Chinese military power, there is a recognition, appropriately, that China will, as a major power, build up its capabilities, commensurate with its economic advance. Still, there is an ambivalence or an unease about the goals of Chinese military development and what they could ultimately portend.

We need, in one sense, to recognize that there will be capabilities that China acquires that could, under extreme circumstances, inhibit the ability of the United States to operate militarily in the West Pacific. On the other hand, other capabilities that China is acquiring may be relevant to missions that all major powers have a shared stake in, including things like ensuring the Sea lane security, counter-piracy operations such as we've seen in the Gulf of Aden where the Chinese have learned an enormous amount about how to conduct operations, how to cooperate with other states militarily, and so forth.

So, both go on at the same time. The worries in American circles about not only Chinese missile capabilities, but China's involvement with cyber warfare and the like, generate fears or concerns about what these could portend over the longer haul. And create again the possibility of a higher end competition that perhaps neither state seeks, but could readily find itself in.

There is, in addition, obviously as Jeff was noting the growth of tensions in the maritime area to China's east that, of course, affects a number of regional states. Raising, yet again, about whether or not there is an essential compatibility between China's emergence including its military emergence and what may be happening in East Asia and beyond. Ken alluded to, and Jeff did too as well, to the rebalancing strategy.

This has actually, in many respects, generated ample Chinese suspicions of what the ultimate purposes are, even as the United States, including Secretary Panetta in recent days in Beijing, insist that it is not China directed as such. By the same logic, many US officials will insist that the idea of an Air-Sea battle concept is also not China directed.

Not only does this fall on deaf Chinese ears a lot of the time, it just seems, in some respects, to be something of a forced argument particularly with respect to Air-Sea battle. So, if we look at where China's military finds itself today, the capabilities that it is acquiring, the commitments that are being made to the building of a more modern military, this now gets passed from Hu Jintao and the Hu Jintao leadership to Xi Jinping.

Will China sustain this kind of military development over time? Or will some of Chinese strategies be modified? This is not, of course, a question for China alone to determine but I think a couple of signs we might want to be watching. First, and this came up in the first panel, does Hu Jintao remain as Chairman of the military commission for at least several additional years beyond his relinquishing the General Secretary's position? That's how Jiang Zemin approached these questions or is Hu really intent on doing something that looks more like a genuine retirement?

After all Hu has been able to promote into senior positions in the Chinese military leadership, those who owe their jobs in some sense to him, would he want to avail himself of those circumstances and continue to have a particular impact on Chinese policy or not? We'll wait and see what happens.

Another factor, it seems to me, that is, warrants notice is, of course, the question of a declining Chinese economic growth rate. The costs of these weapon systems are prodigious, not only for China but for other states as well, obviously beginning with the United States. If we should see a significant slowing in China's economic growth, will it follow inexorably that the rate and pace and directions of military modernization will itself slow. Or alternatively, will this lead to arguments within China that in essence try to sell a military threat as a basis on which you will sustain longer term

budgetary commitments in the defense area.

It's happened before in other countries and it could certainly happen in China as well. So, I don't want to simply say stay tuned but it does seem to me that the issues and the potential uncertainties are very, very great in this area and it will have lasting consequences for the kinds of relationships that the United States and other powers hope to be able to build with China in the years to come. Thank you.

MR. BUSH: Thanks to each of you for your outstanding presentations. We will now move to questions. And just a second, the rules are first, wait for the mic. Second, identify yourself. Third, identify to whom your question is directed and keep your question brief.

You can tell we have very smart people up here; you don't need to have a very long question for them to understand what you're getting at. And while we're getting miked up, I'd like to push two of the presenters on a couple of points they made.

For Jonathan, Ken suggested we have a bit of a civil military relations problem here in the United States. To what extent does the PLA use its unique position in the Chinese system to skew policy in its direction? To what extent does it use professional autonomy to implement it, implement policy in interesting ways?

For Jeff, you posed China's regional approach as either/or thing *to yuen kwong wai* or something else. Is it possible that they want to have it as a both/and, to follow *to yuen kwong wai* strategically but engage in a kind of course of aggressiveness tactically or maybe to be robust in the summertime and then calm and reassuring in the wintertime?

Jonathan?

MR. POLLACK: Thank you, Richard. It's a very good question. I think that what we see in terms of the increasing autonomy over time in the PLA reflects a trend that goes well beyond the PLA in China. It's the devolution of power within the Chinese system has been widespread but what makes the problem, perhaps, different in the case of the PLA is that you are dealing with a military that is increasingly capable,

that is modernizing, and that we even hear a bigger voice from time to time in terms of some of the regional tensions with neighbors.

Now, I don't want to exaggerate this. It does seem to me, for example, if you look at the recent developments with Japan that Jeff has so artfully characterized, and I won't try to repeat his language, I don't see any distance between what military figures are saying and what people in the foreign policy establishment, or dare I say Chinese Netizens often are saying either, although they made it in a more extreme way.

So, the question, it does seem to me on balance this is still very much a party led military. I can't see evidence either of defiance and the like, but what you do see is more what we might call lobbying of a kind. There may be, to some extent, collusive understandings there in ways that China, for example, is making a significant to the refurbishing of its defense industrial infrastructure in a way to make it less dependent, for example, on purchases from Russian and the like. Because I think in the long run sense, China like all major powers would rather be able to do these things on its own.

So, I would -- the question, it seems to me, is will there, is there or will there be a process within China at a senior level that ensures that no one is going off, if you will, half-cocked, that there is accountability within the system and a need to adjudicate these issues at a very, very senior level of the system. That's been an open question. Not so much because I see the Chinese having a rogue military establishment or anything of that sort but more that some of the areas of tension, the possibility of incidents and accidents, may reflect frankly the relative newness of the PLA to these kinds of activities in ways that could have lasting consequences that would be worrisome.

MR. BUSH: Thanks. Jeff?

MR. BADER: Well, Richard, you know there is a temptation we all have to look for one formula that describes all policy decisions. And of course, the real world is very different from that. There's also a difference between strategy and tactics.

I described this *to kwong yuen wai* formulation as defining as a way of giving some structure for how we think about what China will be doing in the next few



years. I wouldn't want to suggest that every time there is a foreign policy problem or difficult situation that the Chinese leadership is going to sit down and look at that formula and say that tells us the answer. I actually was trying to say that I think there's going to be great pressure on the leadership to maintain the guidance of that formula as the PLA role increases and as nationalist sentiment increases.

So, I think we're likely to see a mixture. But I think it's still important, it's still very important if there is a general adherence to an overall strategy of that kind just as China has a fundamental Taiwan policy. And that doesn't mean that there aren't dustups and difficulties, but they have this fundamental policy about how to handle Taiwan that guides them, that prevents them from going off the rails.

You know, just one other point. I mean if we look at issues like South China Sea and East China Sea, Senkakus Diaoyus, I think what the real question for China is if you have a *to kwong yuen wai* approach, then going back to the first panel, that means kicking the can down the road. It means that China does not surrender its claims of sovereignty. Perhaps it even advances incrementally. But it does not seek a dramatic resolution.

On the other hand, if they abandon that overall strategy, the can is right here.

MR. BUSH: Okay. Thank you very much.

I think the lady right over here had the first question and the mic is right here.

MS. HART: Hi, Melanie Hart with the Center for American Progress. You mentioned that the US needs to avoid overplaying its hand, I would say, on the rebalance to the Asia-Pacific and avoid pushing China into a response. Personally, I've been a little bit surprised at how strong the US has been this summer in the Asia-Pacific. I believe Panetta was in Japan twice within a one month period. In early August he was there promising to use US drones, if I understand correctly, to survey the Daioyu Islands and Chinese activities there.

So, I wonder to what degree the panelists think that perhaps China's behavior regarding the Japan situation over the past few weeks is evidence of the US maybe going a little bit too far than we should.

MR. LIEBERTHAL: Oh, I was hoping you were directing that at them. I think, first of all, I think that Japan's actions have been key in explaining what China has done. I mean Japan took what was a very longstanding territorial dispute where for a very long time going back to the 1970s there was an explicit agreement between Chinese and Japanese leaders to keep this on the back burner. And they moved it to the front burner.

They did it largely, Jeff mentioned in passing, because of the weaknesses, political weaknesses in Japan now where Noda had to respond to something that Ishihara did and so forth. The Chinese, in that context, responded very strongly. I would agree with Jeff's comments, I think, that a lot of their response was ill-advised tactically but you could understand why they responded.

The way in which the US has come into that at all is the argument that while Japan may not have acted that way, had they not been confident of strong US support based on the alliance and our affirmation that the alliance covers all territories administered by Japan and that would include these islands. But keep in mind that affirmation of the alliance scope goes back to at least the mid-1990s when Richard Armitage made it extremely clear and very bluntly in public and private comments.

So, there's nothing new there. And my sense in talking with serious people on the Chinese side in the last few weeks is the US dimension of this really doesn't come up very much except to say please don't do anything that would encourage the Japanese still more. They recognize this is, in part, weakness, you know a reflection of Japan's internal policies. But at the same time, they, for their own reasons, feel they have to hit back very hard on this because it's kind of disrupting a longstanding consensus about broadly how to handle this issue which, you say, postpone it. And don't move it to the fore.

And also, one authoritative person in China said to me recently, "We think that the Japanese, regardless of their internal politics, what Noda is doing is trying to present a real change in the status quo as a fait accompli at a time with China is very concerned with its own internal affairs, and we can't let him get away with that."

MR. BUSH: Okay, Jeff?

MR. BADER: Yeah, first of all, I completely agree. You know, in my comments I was talking about Chinese conduct and I didn't really talk about the Japanese role in bringing about this situation. I completely agree with Ken that the Japanese bear a considerable responsibility for this issue having arisen in the way it did. Then, as I say, I think China went off the rails in response but no question about the Japanese role in bringing it about.

But on your question about are we overplaying the rebalancing and what message are we sending to the Chinese, I think that there's some distortion in the way the media -- I know that sounds shocking, but the way the media interprets policy. I mean, just a couple of weeks ago I remember, I think it was about two weeks ago, in a very brief period we had visits to China by Tom Donilon National Security Advisor, Secretary of State Hillary Clinton, Deputy Secretary of Homeland Security Jane Holl Lute, talk with the Ministry of Public Security.

The Chairman of the Export-Import Bank, Fred Hochberg talked to counterparts. They were all in China at the same time and right on the heels of that Secretary of Defense, Panetta. This has been in, I don't know, a five week period. And this is a period when the media, as I say, are still focusing on how balancing is directed at China. Rebalancing is directed at China and it's cornering China. You know there are -- the Chinese understand quite well there are two, the way the Chinese put it, there are two hands to our policy. I mean their description is there's engagement and containment. That's not the vocabulary we use but that's how they say it.

What we say is that we have a policy in Asia that looks to build a relationship with China and respect China's rise in legitimate interests but at the same

time build close relations with China's neighbors. I think that's what we've seen. I don't think it's a mystery or a surprise or a covert policy. But as I say the media frequently miss it.

MR. BUSH: Okay. Beverly?

MS. FINCHER: Right. Beverly Hong-Fincher. I was talking to the Chairman earlier. Don't forget that, you know, China's neighbor also includes Taiwan and Taiwan's President Ma Ying-jeou has made a great strong statement about (inaudible) and I hope our government would take care, would take notice of this. You know if they think that the mainland China is warlike and if they are instigating all these demonstrations in China, but don't forget that on this avenue, on Mass Avenue, there have been two demonstrations. One day, that was Sunday was by the mainlanders, Chinese, and these are American citizens. And then on Monday there was another demonstration that's from the Taiwanese Americans.

So, you have both sides of China demonstrating for (inaudible) and don't forget that Ma Ying-jeou was the key player in the '70s of this (inaudible) movement, okay? So, I hope that when we took, you know I'm not a political scientist but when we analyze these things we should take the context into consideration. Thank you.

MR. BUSH: Anybody want to comment?

MR. LIEBERTHAL: Actually, could I make a brief comment on that? I want to stress very strongly two things. One is the American position on this issue and as on South China Sea issues is that we have no position on sovereignty and on the validity of various claims.

MS. HONG-FINCHER: However --

MR. LIEBERTHAL: Let me finish please, okay? That is a very longstanding US policy position. I think it's absolutely the right position. In other words, it's up to the disputants themselves to resolve these issues. We have, obviously, an interest as other do in having them resolve peacefully and insofar as international law applies, hopefully applying that law to the situation. But we are not a disputant.

Secondly, I think we make a huge mistake when people in the administration make comments that suggest that, in fact, we do have a position on those territorial disputes. I think that does us no good and occasionally some comments like that have come out. And I think that they're regrettable.

MR. BUSH: Okay. I want to get to some other questioners please?

Gentleman right here, right in the middle. Yes?

MR. DYER: Thank you very much. Geoff Dyer from the Financial Times. I wonder if I could ask if any of the panelists have any insights into what they think the relationship between Xi Jinping and the military will be. A sort of hawkishness in the military that Jonathan was talking about, some people have attributed to Hu Jintao's weak personal ties with the military, Xi has a very different kind of background by much stronger personal ties. Is that going to make him more like -- is that going to give him more control over the military or is that actually going to make him more likely to channel some of that hawkishness?

MR. POLLACK: Obviously Xi has some prior history at a much earlier point in his career and some relationships in the past with people in uniform, but I think it's really pretty speculative to kind of determine in essence, well, does this make him more likely to try to control the PLA or less. I mean, I think, frankly, on the question of Xi Jinping's demeanor and his orientation this would go well beyond questions of just simply Party-Army relations but just much more generally, to whether he will be a leader who is prepared to sort of act in shall we say a fairly decisive factor. Even, if you will, in a disciplining kind of factor and within the Chinese system.

And I don't think we have enough information here really to go on. I mean, obviously, under Hu Jintao the PLA, as an institution, has benefitted in terms of budgets and the like. They'll probably continue to benefit under Xi but I can't yet, on the basis of what I can observe, draw any kind of a clear conclusion about his larger attitudes here. You know, I think in addition, the question here of whether or not Hu Jintao remains as Chairman of the Military Commission or lets Xi be elevated to that job will tell

us a good deal about his capacity to act regardless of how he chooses to act.

It's one of these eternal mysteries, if you will, of the Chinese system. But I don't know that we have a clear basis on which to draw a conclusion one way or the other. I don't know whether either Jeff or Ken would want to comment but.

MR. BUSH: Okay, the woman over here? The mic is coming to you.

MS. DELILAH: Thank you. I'm Delilah. I'm a graduate student out of George Washington University. And my question is both for Dr. Lieberthal and Dr. Bader. Dr. Lieberthal, you mentioned there is no China specialist in America's decision-making body. But worse in America's case, we don't even have an International Affairs Specialist in China's Politburo Standing Committee.

And so, my question is do you think the standard routine characteristics of China's top leaders male born before 1960s, technocrats, these characters contribute to China's predictability of *to kwong yuen wai* policy as Dr. Bader has mentioned? And do you think any change of China's top leader towards younger and gender mixed, hopefully background mixed, leadership will ever add to the unpredictability of China's foreign policy trajectory? Thank you.

MR. LIEBERTHAL: I thought you also had a -- oh the same thing for both of us. First of all, I'm not going to comment on the impact of gender on foreign policy, by the way.

(Laughter)

MR. LIEBERTHAL: I've been around too long to be suckered into that one. We are getting a transition to a younger leadership, at least from my perspective younger, but more importantly to a more diverse leadership in terms of background. So, that we are no longer going to see a Politburo Standing Committee of engineers, engineers, and more engineers. We now have people from very different professions and very different educational experiences.

So, I think we're beginning to that kind of, if you will, pluralization or evolution that you're referring to. What the impact of that on foreign policy will be, I don't

know. I think it, in part; I regard China's top leaders generally as very pragmatic folks. And so, I think that what they confront shapes a lot of what they end up doing. And that is especially true on foreign policy where they control very little. You know, it's the same with every leader. The International Arena presents you with problems and constraints that you have very little leverage on even as President of the United States as we see all the time.

So, I think that the new leaders will react fairly pragmatically. My own sense is unless there's a huge crisis, they are likely to pursue a kind of -- basically the *to kwong yuen wai* but maybe with a little more assertiveness than was true five years ago. Because China is playing a bigger role in the world and has more capability. If China runs into deep trouble domestically, that can affect things. And the first panel raised that possibility.

So, I think, you know, I go back to my favorite philosopher Yogi Berra who said, "Prediction is always difficult especially when it's about the future." And I think he was right.

MR. BADER: Love your questions. Maybe I'll venture into the gender one briefly though.

(Laughter)

MR. BADER: Follow the model of my friend and colleague in the Obama Administration in that regard, Larry Summers, who used to specialize in these questions. The short answer is we've had three Secretary of States in the last 10 years, Madeleine Albright, Hillary Clinton, and Condoleezza Rice and I would be hard pressed generally to find policies or strategies or tactics or ways of pursuing foreign policy goals that were distinct to those three individuals in comparison to Colin Powell or other Secretaries of State we've had in the last 20 years. I mean, the only distinction that sort of leaps out at me is that Hillary Clinton has paid enormous attention to women's issues and women's empowerment issues because of a deep personal commitment.

But beyond that I would have a difficult time making distinctions. So, I

don't know that the answer to your question would necessarily -- that there would necessarily be dramatic shifts. Maybe China's different that way.

As for the next Standing Committee, I guess we've mentioned almost no names today. We've been very cautious. I guess, I mean just breaking that pattern being in cautious I think that there are four people who are generally judged likely to be in the next Standing Committee, Xi Jinping, Li Keqiang, Li Yuanchao, and Wang Qishan, some national level figures could be wrong but those are four names one hears most often. And of those four, I think three of them; well first of all, as Ken says they have very different backgrounds from the last Standing Committee. They don't have engineering backgrounds. They have social science backgrounds.

And secondly, at least three of those four have a fair amount of experience with the United States. Li Yuanchao in studying at Harvard and Xi Jinping, his time in Iowa, and Wang Qishan who's been a telephone partner with Hank Paulson and Tim Geithner for the last six or seven years. So, you know, I mean I personally regard that as sort of a favorable sign that we have, likely three of the top figures who have a very thorough, well more Qishan in particular, grounding in the relationship and understanding of the degree of China's interdependence with the United States. That won't necessarily be decisive but I think it's an interesting and usual distinction from the current one.

MR. BUSH: Okay. The reporter in the back?

MR. INA: Thank you very much. My name is Ina with the Voice of America's Mandarin Service. I have a question to Mr. Lieberthal. The question is how much confidence do you have with Mr. Xi Jinping and his leadership to carry out some meaningful reform, both economically and politically as you mentioned earlier that reforms are very important to avoid clashes between the US and China. Thanks.

MR. LIEBERTHAL: We don't have a record to build on that clearly determines that outcome. In other words, he hasn't spent the last few years being one of the key advocates; he hasn't been Wang Yang or something like that. Having said that, I



frankly have a fair level of confidence that he does recognize the importance of very significant reform in the economy and he's smart enough to understand that there are major political obstacles to that and therefore the political reform is also necessary.

Having said that, there's a, as I suggested in my remarks, I think there's a significant difference between advocating reform even as General Secretary and actually being able to get it adopted and implemented. We now have a political system in China where the General Secretary is not a Mao Zedong and even if you had Mao Zedong in this system he wouldn't be able to do all that much. You have to get a consensus among top leaders. And then you have very, very powerful interests in this system deeply ingrained in this system that will resist many of these reforms.

And so, this will be a slow process in getting real change in terms of restructuring the economy and making the political changes necessary to do that. What they can do quickly, and frankly what I expect them to do, and I gather from Tao Ran's comments that he may not think this is a good idea, but I think that they will move on national level financial reforms. Because those are things they can decide at the top and simply change policy. This is on things like interest rates, QFI quotas, those bank reserve ratios, et cetera. Those things are real changes in the system you do not have to ram those through recalcitrant bureaucracies. You can make those decisions at the very top.

They have done that to some extent over the last six months or so. Going back to early last spring and I would expect the new leaders to go much farther in those directions. But I think the basic changes that are necessary are going to be very hard to come by and I am hopeful that the new leadership will be able to go there. Because I think it's in China's interest and in our interest, but I am not enormously confident that they will be able to do so.

MR. BUSH: Question in the back? And then I'll come up here. Back there?

MR. CHIBA: Thank you, Akira Chiba of the Japanese Embassy and my  
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question goes to, I think it was Dr. Lieberthal who mentioned the common belief that there was a tacit agreement between Japan and China to show the issue. However the Japanese position has always been that there is no territorial issues. So, what is the logic for Japan, do you think, to agree to shelve an issue that doesn't exist at all? How do you understand this?

MR. LIEBERTHAL: My understanding, frankly, is that in discussions at the highest levels between the Chinese and Japanese sides in the 1970s this issue was taken up explicitly and that Deng Xiaoping and his counterpart at the time agreed that there is no way to resolve this issue in this generation or maybe even the next generation. So both sides should adopt the position that they will not put this on the front burner, that they will not make this an immediate issue.

And, you know, I have been told by a variety of people who are well-informed that in fact those discussions did take place and that was the consensus reach. If that's misinformed, I haven't gone into the archives of either China or Japan to confirm that but that is my understanding. I'm sorry?

MS. TIEZZI: Shannon Tiezzi from the US-China Policy Foundation. I have a two part question, first part for Dr. Lieberthal, second part for Dr. Bader. Dr. Lieberthal you mentioned that Xi Jinping and his administration will probably be consumed with domestic issues. So, I was wondering what you thought the implications for this were on China potentially taking a leadership role on global issues such as climate change non-proliferation.

And for Dr. Bader, if China is reluctant to take on a leadership role, do you think this will have an impact on US-China relations since American administrations tend to want China to play more of a global leadership role?

MR. LIEBERTHAL: My short answer is I think it may have a negative impact on China's playing more of a leadership role on issues of global public goods. Again, I hope I'm wrong on that but you can certainly see the logic that would lead you there and I think it may well be the case. Especially if China's economy slows as the first

panel anticipated that it will, then China's willingness to take on international obligations, which is really what we're talking about here, that go against this Ax II standing under the Kyoto protocol, I think, will likely diminish.

MR. BADER: Yeah, just briefly. I think we talk about the importance of China playing a bigger global role. We always do this with the unspoken implicit hope and assumption that they will do so consonance with our interests and our views. Of course, if not, then we wouldn't be all that enthusiastic about their playing a bigger -- having a bigger global role. But I think on issues, on security issues like Iran and North Korea, which are I think the major issues that we'll face in the next coming years, it will affect US-China relations if China is passive.

The judgment of Obama administration at the outset was that there were a whole slew of international issues including those, climate change, energy security, global economic recovery, which would not be successfully managed without a Chinese role that was more than a free rider position. So, if China is, in fact, passive and passive isn't really the right word. Really the right way to describe it is if China pursues its national self-interest on issues like relationship with North Korea and Iran rather than thinking about the regional and global impact of proliferation then it will have an impact and it will have a negative impact.

MR. BUSH: In the back?

MR. YU: Thank you. Dong Gui Yu with Chinese (inaudible) Agency. A kind of follow up question. When we talk about a dispute in the South China Sea and East China Sea, nationalism is always emphasized as a major force to escalate tensions over there. But many Chinese people actually believe that United States rebalancing strategy emboldens some countries like Japan and Philippines to catch the opportunity to challenge China in territorial issues and also tax the US determination to apply for the mutual defense treaties. What do you think about that? Thank you.

MR. POLLACK: I think that these issues are often, dare I say, spun to an unusual extent. Sometimes, for example, characterizations that we see in Chinese

assessments strike me as somewhat exaggerated in one critical aspect. It presumes an American ability to orchestrate these relationships in a way that often is, quite frankly, beyond the capacity of American decision makers.

Having said that, I do think it's fair to observe that statements on the part of the United States that is it reinvigorating its regional presence necessarily will affect the calculations of various regional actors. The question is whether it affects it in a way that is beneficial to building a long term regional order or undermines it. And that's where there may be a more credible argument.

The problem, though, it seems to me is that all countries including the United States are afflicted by a sense of what I often call strategic narcissism. The idea that their understandings and their issues and concerns are uppermost and nobody else can really understand them in quite the same way. Even, for example, if you take the case like the tensions between China and Japan, and I would agree with my colleagues. I wouldn't let either China or Japan off the hook here. But that said, there is a credible argument that can be made in the Japanese context that Noda was acting in a way because Governor Ishihara otherwise was going to make things that much worse.

That falls on very deaf ears in China. In fact, many Chinese accounts have argued Ah-ha! Noda was working hand in glove with Governor Ishihara which I find not credible. So, we're kind of stuck because I think one way or another, countries find their interests intersecting in very, very palpable ways. The question is whether they will have the capacity to look beyond narrow concepts of their self-interest recognizing the larger stakes that are there if countries let relationships go down much more adversarial paths. It's really that simple.

MR. BUSH: I would just add that the United States has a long experience in having to shape the expectations of our friends and reduce the possibility that they will try to entrap us in commitments that we don't feel are in our interests. This is happening right now with Israel vis-à-vis Iran, but I would also say that if we were not to emphasize our commitment to be a Pacific power that has cost as well in terms of how

both our friends and our adversaries see us.

Finally, and on a different point I think that the United States is more conscious than most of the way in which the activities of various claimants and parties in the maritime area can lead to outcomes that nobody really intended but can have hugely negative consequences that are very hard to manage.

Another question? Go back here in the middle then we'll go to the back. The person in the blue shirt in front of the TV Camera. Okay, the woman on the corner then.

MS. GOSHINDORI: Thank you. My name is Sato Goshindori from TV Asahi Japanese News Agency. My question is this rebalancing strategy how long does it take? I mean how long actually last? Because Asia is now is the cockpit of the world economy and everybody knows the US economy is weak and US has to rely on the region right now. But once the US economy is actually get back and then confidence, maybe this rebalancing strategy is going to be obsolete and you don't need Asia anymore. So, how long does it take? How long does it last? That's the question. To Dr. Bader if I can.

MR. LIEBERTHAL: Oh Jeff, you're the economist, go ahead. And we want weeks and days, or hours.

MR. BADER: I'll set up Dr. Lieberthal on this one. As is quite clear from what I've said earlier I've never been crazy about any of the vocabulary that's been used to describe US policy. I dislike the term pivot. I regard rebalancing as somewhat better than pivot but not ideal. As to say, well when I was in the administration through 2011 perhaps because of my weak imagination we didn't have a name for our policy. We just did it.

And the policy was basically to embed, implant ourselves more deeply, more thoroughly, more profoundly in the Asia-Pacific Region than we had in the past because of our economic security and political interest there. You know US interest in the Asia-Pacific is not going to disappear ever so far as I can tell. I mean the interest is

simply too comprehensive. What the Obama Administration was doing was not radically inventing a new policy it was building on decades of bipartisan interest and presence in the Asia-Pacific region. It was just that we felt that there had been a certain amount of neglect because of understandable concentration on the War on Terror and the War in Iraq.

And we were concerned that countries in the region were anxious about the future in the context of a rising China and they wanted to see us more present. So, I think the logic of that is abundantly clear and I don't see that that's going to change.

MR. BUSH: Back there?

MS. JIN: Thanks. Yu Jin, an intern here with Brookings Energy Security Initiative. My question goes to Energy Security. So, with the ongoing American shale gas and oil revolution and as the US increasingly becomes energy independent, the foreign policy implications are that the Middle East is going to be less important to the US. Or rather is tempted to turn to Asia for its energy demand. So, have such kind of policy discussion appeared in the policy circle?

MR. LIEBERTHAL: Can I take the first crack at this? You know, what is happening now is really of strategic significance. I'm very glad you raised the issue. The US now imports 17 percent of its imported energy from the Middle East. That is likely to go to zero percent within five years. It's on a steep downward trajectory. There's been a little change this year for temporary reasons but it's a steep downward trajectory.

So, we'll basically not be depending on energy from the Middle East five years from now. We will still have an enormous interest in the free flow of reasonably priced energy out of the Middle East because this is a global market. So, if oil prices go up in Asia they also go up in Kansas City. So, there's that interest. Plus, obviously, we have an interest in the vibrancy of the global economy and energy prices and availability have a huge amount to do with that.

So, we will retain an interest but still it's very different, I think, psychologically and politically from what it was say in the 1990s when we had enormous

dependence on Mideast oil. China now imports about 50 percent of their energy from the Middle East of its imported energy. And that, if anything, is likely to go closer to 70 percent within a decade.

Still a decade from now, we will clearly remain the most powerful outside military presence in the Middle East. Even if we draw down, you know, according to plan, you look at our basing and that kind of stuff; we will be the major outside military presence. China 10 years from now militarily will still not have the capability to shape outcomes in the Middle East. All right?

So, it seems to me we've got to get engaged with China; not only China but certainly with China among others in a much more sophisticated discussion of the balance of economic, diplomatic and security interests in that region. And that discussion is in its very early stages, inhibited in part because on the Chinese side they have no specialist in the Middle East who knows anything about US-China relations. And by the way, we have very few in the US who know both the Middle East and US-China. So, it is not only a new issue but it is an issue that brings together people who haven't sat in the same room before.

So, we need to get started quickly and we need to focus attention on this, as to my mind, the most important of the kind of third area issues that are now going to become increasingly important in the US-China relationship.

MR. BADER: Two quick points. One is, I think as your question indicated or implied, the price of gas is very, very low right now because of shale gas. This is a good thing in terms of East Asia. The images that people have of the South China Sea being the source of massive quantities of oil and gas, at least for the foreseeable future, these are largely fantasies. No one's going to go looking for exploring large gas fields in the South China Sea with the current and foreseeable price of gas. Simply not economically attractive.

And the second point is that the Middle East may, as you say, be an area of declining US interest but not so long as Iran is there and is pursuing its current

policies. US presence in the Middle East and interest in the Middle East is not being driven solely by energy issues but by Iran's behavior.

MR. POLLACK: Which I might just add this just underscores that the notion of a rebalance, the implicitly that other areas become less important trivializes frankly important security concerns and geopolitical concerns for the United States and for others. So, maybe we need to rebalance the rebalance.

MR. BUSH: One implication of your question is why should the United States continue to bear the burden of ensuring that China, South Korea, Japan, Taiwan, and others continue to get an unimpeded supply of Middle East oil. And so, maybe there should be a rebalancing among the security responsibilities and burdens of various countries concerned. I have no answer to that question. I just know that our time has come to an end. I want to thank you for your great questions.

Thanks to the China Center for sponsoring the program and thanks to our panelists in panel two for their great presentations.

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