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MR. WITTES: So, we’re going to get started. Welcome to the second to the last event of the Brookings Campaign 2012 project.

My name is Benjamin Wittes. I’m a Senior Fellow in Governance Studies here at Brookings, and the Director of the Campaign 2012 project.

Just so that you know, our last event -- this is the last of the issue area events of the project. Our last event will be kind of a wrap-up the day after the election, both a sort of wrap-up of the project, but also, obviously, a post-mortem on both the Congressional side and the Presidential side. By then, presumably, we’ll have some results, and we will talk both about the transition, the next administration, and, of course, the election results.

For those of you who haven’t been to any of our prior Campaign 2012 events, this is a year-long project that we’ve involved a lot of people throughout the institution in.

And what we did is we sort of divided the world up into 12 areas, and for each of those areas, we asked a scholar -- or, in this case, pair of scholars at Brookings to write a main paper that kind of assesses the Obama administration’s record on the subject, assesses the critique of that record, that the opposition party -- first, the party and now the opposition candidate has made or is making on that area, and third, tries to synthesize the merits of the record and the merits of the critique in something like recommendations for the next administration on that subject, whether it is the next Obama administration or next Romney administration -- or first Romney administration.

And for each of these papers, we then asked two people from elsewhere in the institution to write shorter commentaries, response papers to that. We published all the sets of three papers as a book, and we have held one of these events for each of
the sets of papers in which we get sort of the main paper authors and the response paper authors on a stage to sort of talk about the issue and how it's playing in the campaign.

So, China is an issue that has bubbled along in the campaign. It's never front and center, but it's never far beneath the surface — both of the foreign policy discussions in the campaign, and, to some degree, of the domestic policy discussions in the economic sphere.

And so to have this conversation with us, we have the two authors of our main paper, Jonathan Pollack and Ken Lieberthal, and we have our two authors of our response papers, Richard Bush and Joshua Meltzer.

I am largely—because I'm actually the person on this stage who knows almost nothing about U.S./China policy, so I'm going to try to keep my role, really, to a minimum. We're going to have a conversation among the authors, and then we'll invite the members of the audience to ask questions a little bit later on.

I'd like to start with Jonathan—just kind of give us an overview of kind of how this issue is playing in the campaign, and kind of what the candidates are talking about when they talk about U.S./China relations.

MR. POLLACK: Thanks, Ben, very much, and thanks for pulling this all together, and glad to be here with our colleagues for this discussion.

I think that, as you noted, China has not been a dominant issue to the degree that foreign policy writ large has come into the discussion. But the fact that it is somewhat subordinate does not mean it is unimportant to what is being deliberated.

There are clearly areas of difference between the candidates here, significant areas of difference, I would argue— that although President Obama, I think, is somewhat more cautionary than he was, let's say, in the 2008 campaign, in terms of expectations vis-a-vis China, you see a lot of elements of continuity in what he is
endeavoring to do -- which, in a way, shouldn’t surprise, because he’s trying to build on the record that he has tried to establish in terms of his policies towards China over the last few years.

I dare say that the persistent theme for President Obama is trying to get a China that, as he says, “plays by the rules.” That’s true very heavily on economic matters, which, I think, if any issue comes across as being dominant in the discussions about China, it is very, very much the question of China’s economic emergence, what this implies for the United States, and so forth.

Romney’s tone, in a way, has been, dare I say, more nationalistic, less wedded to international norms and so forth. We know that Romney, at various points in the campaign, has emphasized not only that he sees China as a currency manipulator -- though he’s waffled a bit on that in the debate last week, where he talked about, “Well, when and if they cheat,” to use his words.

But his impulses seem to be more directed toward unilateral actions, rather than actions that are embedded in this larger either regional context or multilateral context, in terms of norms and rules, if you will.

So, for example, Obama has emphasized very, very much that if there are these areas of objection on Chinese trade policy and so forth, he still sees this primarily being adjudicated through WTO procedures, whereas Romney really has not called much attention to that at all.

So, in broad policy sweep, I think that there are some significant differences of emphasis, and we can see this in various areas, extending not only on economics, but also on the question of China as a national security issue.

But in the campaign advertisements themselves, the campaign commercials -- which we’ll show in just a moment -- you see here, if you will, China as
the piñata of the campaign -- or one of the piñatas of the campaign where, in essence -- well, I’m going to let Romney and Obama speak for themselves -- if you could cue the two videos.

(Video playback)

MR. POLLACK: Well, it’s not exactly what I would call an elevated discussion on the part of either one of the candidates, but I think it highlights how both think that they can exploit this China issue.

I think it’s a fair question to ask whether or not, at the end of the day, public attitudes will tilt decisively on these questions. I mean, recent polling studies -- Chicago Council on World Affairs, Pew studies, and so forth -- really suggest that it’s the political class that has a much sharper definition of these differences than necessarily attitudes held in public.

But I think in either way, both are trying to capture that sense of agitation and insecurity that is reflected in the protracted American economic problems, which, directly or indirectly, are being attributed to China. So, that’s the way how both are playing it. Whether it’s going to make a difference in the actual way votes are cast and where, it seems to me is something that we could discuss.

MR. WITTES: So, in that vein, when I watch those two ads --

MR. LIEBERTHAL: I know; you’re speechless. I can tell.

MR. WITTES: Well, I’m a little bit stymied as to whether those reflect actual policy differences, or whether they simply reflect a kind of belligerence: “It’s his fault.” “No, it’s his fault.” “No, it’s his fault.”

Does the China discussion in the campaign reflect any significant difference in approach to the issue between the two candidates, or is it just one of these issues where, in fact, there’s a lot of common ground, and we amplify very small
differences in times of political combat.

MR. LIEBERTHAL: Yeah, it’s a very good question. It’s a very good question in part because there’s a long history of China being an issue in U.S. presidential campaigns. And the short version of that story is, in almost every campaign, the challenger accuses the incumbent of having been too soft on China, and says if the challenger is elected, he’ll be much tougher on China.

And the reality is, the challenger is aware they’ve been elected, gotten into office, gets somewhat of a rocky start as they try to meet some campaign promises, and then over a relatively short period of time, revert to their predecessors’ policies, because they realize those policies actually make sense, and then build on it from there.

And the Chinese have watched this over and over, and they understand that narrative very well, which is one reason why you haven’t seen a lot of Chinese commentary on the U.S. presidential campaign, and the role of China in it.

So, having said that, which should highlight to you that it’s very hard to know what the relationship between campaign rhetoric and actual policy will be -- nevertheless, let me talk the rhetoric somewhat seriously, to respond to your question.

I think if Governor Romney has a theme that is consistent between both his debate persona and his campaign persona before the debate -- those look to me like two somewhat different candidates in those two frame-in. The consistency was that with regard to China, there’s a new sheriff in town if he is elected -- so that the new sheriff in town will be more supportive of a very robust American military budget.

He’ll raise our military budget from its current -- about three and a half percent of GDP -- up to four percent of GDP, even after withdrawing from Afghanistan. And he will engage in a more substantial naval shipbuilding program. Frankly, it’s only marginally more substantial, but nevertheless, more substantial -- and that he will
package all of this more clearly on the Asia side as being directed at containing China -- doesn’t use the word “contain,” but pushing back against potential Chinese mischief.

Secondly, over trade, while in his debate, as Jonathan mentioned, he signaled that he is not quite necessarily going to declare China a currency manipulator on day one; nevertheless, he’ll be tough on trade issues with China.

The way he’s expressed it at various times during the campaign is, the U.S. economy is so important to China that they cannot afford to wrong side us if we push back. And so if he shows that he’s tough and adopts strong measures against China on the trade side, they will come around, because they can’t afford not to do that. I would argue that’s a wrong analysis, but let me say that has been his.

Thirdly, that real stress on strengthening alliances of the United States in China and elsewhere, and also, recently highlighting our democracy agenda globally. You saw that very much in his talk two days ago on foreign policy at the Virginia Military Academy.

I think Obama is actually pursuing much the same agenda as what Romney has articulated, but he’s done it within more of an explicit framework of both building bridges to China and building bridges around the region to our friends and allies.

So, this is America’s overall posture and priorities, but this is not against China; this is to put us prominently in Asia over the long run, do it with China, because China is core to Asia, but also with friends and allies, because no one in Asia will accept the U.S./China condominium, and we have our own concerns about China, right?

So, it’s more of an integrated, region-wide set of initiatives, and we have a lot of history from his first administration on this, and he hasn’t repudiated any of these initiatives from the first administration. In fact, he stresses he wants to continue them.

So, just to recapitulate those very briefly, rebalancing toward Asia,
otherwise called the pivot toward Asia, has economic/military/diplomatic components, along with a large component of reassuring our friends and allies in the region of our enduring presence and support, as we go forward.

On the economic and trade side, the biggest single initiative is what's called the Trans-Pacific Partnership to establish a new trading investment platform in Asia, multilateral. How many will participate and what the final terms are are still a work in progress, but it's a major effort that President Bush began, but President Obama has really pushed quite strongly.

He's made clear that we will have 60 percent of our naval assets in the Asia Pacific region -- that's, right now, a little over 50 percent. That, again, is a goal that was articulated by President Bush in 2008, but one that Obama has reaffirmed.

He says, "We will protect the Asia Pacific region from budget cuts in our military," so those cuts will come elsewhere, but not out of the regional account, and he has really increased substantially American participation in Asian regional organization -- multilateral organizations -- to my mind, most prominently and importantly, the East Asia Summit, but more than that, we have simply showed up with enormous frequency throughout Asia, on a diplomatic level -- something that the Bush administration did not do with as much rigor.

So, to put it simply, I think that the key difference between Obama and Romney on Asia in general, and China in particular, is one of packaging more than substance. I think the differences in substance are small, and are likely to be overwhelmed by events, so that what actually happens on the ground in the next few years will tailor what resources we really have there, how quickly TPP moves ahead, and all of that kind of thing. Whether you're more bilateral or more multilateral, events tend to drive those in directions that presidents have only marginal control over.
But the packaging is really quite different. For Romney, the packaging, at least at this point, is, “this is really to put China in its place, and make sure that China doesn’t step over lines that we don’t want them to step over.”

For Obama, it’s, as Jonathan said, “We want to encourage China’s success, but success within a rule-based framework, and work with them as much as in the region as a whole.”

To me, the problem here is that packaging makes a huge difference. The Chinese themselves are at a period of major transition. I’m sure we’ll be talking about that during the course of the next hour and a half, but they have a new leadership coming in, and one of their big issues is: how big of an America problem do they have?

And if we start off, apparently, in their minds, gratuitously challenging them, I think the new Xi Jinping leadership will have to respond negatively and strongly, because Xi is in a position domestically -- you know, you have to keep in mind, in the Chinese system -- in our system, first you build your name, and your reputation, and your stature, and then you run for the top office.

In the Chinese system, first you get the top office, and then you start building your name, reputation, and stature. It’s just a very different system -- so that Xi actually has very little popularity in China -- very little. I mean, name recognition, yes, but anything about him, no, all right?

When he gets into office, when he has to start building his political capital to get things done -- and if the U.S. really challenges him at that point, I think, for two reasons -- one, to show the U.S. this is the wrong way to get Chinese cooperation, but B, very importantly, to make sure he has the domestic political capital necessary to follow his domestic agenda, and be reasonably effective on it. For both those reasons, I think he would have to push back very strong.
And so bottom line is, I think, unless Governor Romney, as President, quickly decides to reframe what he’s trying to do, I think this could be a difference between the candidates that -- put it this way: a distinction that does make a difference, rather than a distinction that doesn’t make a difference.

MR. WITTES: So, Richard, I wanted to -- the point with which Ken started --

MR. BUSH: Mm-hmm.

MR. WITTES: -- which is that we have this long history of, you know, amplified distinctions between the candidates in the contests of elections in which the opposition party claims it will be tougher on China and then isn’t actually one that you develop in your paper quite a bit.

So, I’m interested. Do you see this as of a piece with that history, or do you think that there are real, substantial differences here, just differences of packaging, just differences of packaging, but the packaging matters? How do you assess it?

MR. BUSH: Well, first, I’d say that -- I mean, I agree with Ken’s basic presentation. I would note that, when it comes to China, the differences in our system are not between parties; they’re within parties. And you get the exploitation of those differences during a campaign.

But in terms of basic goals and basic strategy, the foreign policy advisors of each party tend to be very much alike. Now they may differ on tactics. Republicans may place more emphasis on balance of power, and Democrats more on engagement and cooperation.

But I do see this as part of a trend, a long-term trend. I actually lived through one episode of it, because I was on Capitol Hill when President Clinton came into office, essentially threatening to impose economic sanctions on China if they didn’t clean
up their human rights act. And his assumption was the same as Romney's; that the Chinese economy was far more dependent on the U.S. economy than the other way around, and so they would bend.

The Chinese had the opposite assumption, and they ended up being right; it was Clinton who blinked. I was actually part of a group on Capitol Hill that sort of gradually pulled Clinton back to a centrist position.

Let me drill down a little bit on the Romney pledge on currency. One can paint, as Steve Roach of Yale University has, a very dark scenario about how this could create a trade war involving reciprocal retaliatory tariffs -- us on China, China on us -- and we would both suffer tremendously.

But I actually think once Romney gets into office, if he gets into office -- thank you -- if and when he gets into office -- he may well have to back off himself. I think the first thing would happen once he took office, if he did, was that there would be a fight among his sort of conflicted advisors over exactly whether this is a good idea.

It's important to note that if China is named a currency manipulator, all that current law requires is that the two countries negotiate, and China already believes that it has been involved in negotiations of a sort with the United States since 2005. It's now called the Strategic and Economic Dialogue.

Second, if such negotiations took place and failed, which is what I expect would happen, a President Romney would not have the legal authority to impose retaliatory tariffs for that purpose. He would have to get authority from Congress, and that's not a sure thing. The American business community does have some residual influence within the Republican Party, and they are heavily invested in China. Do we really think that the business community would sit still if a Romney administration went in this direction? I doubt it.
Similarly, our friends and allies, with whom Ken correctly says a Romney administration would make common cause, they use China as an assembly and production platform for exports to -- where else -- the United States. So, if we impose increased tariffs on their goods, they’re going to suffer as well.

So, I think that a way will be found to back off from this campaign commitment. It may have served a useful purpose of laying down a marker, but the end result will be a reversion to type.

MR. WITTES: What do you think, Josh? So, Romney was initially promising name China as a currency manipulator on day one. As of the debate, he seems to have backed off to day two or three, but, you know, there does seem to -- do you take this sort of “get tough” rhetoric seriously, and do you think that the first few days, weeks, months of a Romney administration would be profoundly different from the first few days, weeks, months of a second Obama administration?

MR. MELTZER: Thanks. I fundamentally agree with most of my colleagues' views. I'll probably just amplify a couple of points.

I do think when you look at these campaign videos, that clearly the strategy, I think, on part of the Romney campaign, at least, is consistent with their view that they want the focus to be on the economy and on jobs, and China is a useful way of getting at that issue.

And so if you’re going to try to get at this issue by using the China example, then I think the currency falls into pace, because if you look at what Obama’s been doing, certainly this year and, really, in the last four years, has been a strategy which has been both one of intensive negotiations on a bilateral level through some forms as strategic and economic data, which have produced some results in other multilateral forms, such as the G20, of course, but also, being very prepared to use WTO
dispute settlement when there are tried policy disputes which just cannot be resolved through consultation.

And obviously, there was a recent announcement by the administration about a new WTO dispute against autos not so long ago, and that plays out in the context of the campaign. I don’t want to suggest that it hasn’t got any real legs from a legal perspective, because I think it likely does, but it’s -- yeah, in terms of actually the size of the dispute that they’re talking about, it’s fairly small, because it’s in the range of a billion or so dollars, and I think it amplifies -- you know, the Obama claim at least -- “Look, we’re being really tough on China. Look how many WTO cases we’ve taken” -- now they’ve clearly, also, been talking to China on regulating intensively, which I don’t think is great campaign material.

So, I think if you’re Romney, and you want to highlight a difference here, currency is one area where you can make a bit of a splash. So, it then leads, sort of, I guess, to this issue -- what does it mean, you know, in terms of the different campaigns, and if they actually enter into office?

And I agree, essentially, with what Richard has been saying, in that, in a sense, even if China is labeled a currency manipulator, the next step is to talk, which is already happening.

And if you look at the outcome -- say, for instance, in the G20 -- and we can go to the most recent outcome in Los Cabos, I mean, there’s specific words in there, and they’re constantly in there, in all the G20 outcomes about, you know, China moving towards a more freely floating exchange, when in fact -- you know, since the horse has almost bolted on this one, in that if you look at currency movements, there’s been a reasonable, steady appreciation -- also, particularly once you take into account different inflation rates in China and the United States, the currency appreciation has been even
larger.

And if you actually also look at other figures -- for instance, such as the -- China’s overall current account, that’s also come down dramatically, to around three percent of GDP, now up from where it was in the nine, ten percent range four years ago. And recent IMF projections suggest that this might actually be science of quite a significant structural change in the Chinese economy, and it’s actually beginning to work through these type of external balances.

So, in a sense, there may be a lot of progress going on anyway. So, whether in fact -- so I think at the end of the day, I don’t think you’re going to see any fundamental differences, whether you have a Romney administration or Obama administration next year, though I do agree, I think, with Ken’s point -- is that candidates can sometimes lock themselves into particular courses of action, which, in the short term, can be damaging, and they have to walk themselves back from that. And whether that’s the case with Romney on the currency issue, I think remains to be seen.

MR. BUSH: If I could, I’d like to come back to an issue that Ken raised: that the fact that we are in the middle of a Chinese succession process. This is kind of uncharted territory, if you will, in terms of the U.S./China bilateral relationship, in the context of a presidential election campaign.

So, the combination of the fact that the Chinese find themselves at a very unsettled process, let’s just say that the succession has not gone quite as seamlessly and smoothly as the leadership might have wished. That creates potential vulnerabilities and the like within China. Add to this picture the fact that China’s own growth is slowly significantly, so a lot of the calculations that may have been made up until now about the way China would proceed economically, the fact that China itself confronts enormous problems about a transition in its own economic strategy -- whether
the leadership is going to be capable enough of doing that is obviously a very, very big issue in coming years.

But in this context, the question is, if you have an unsettled U.S./China relationship or something worse, then it’s going to make this a far more complicated situation early in the next presidency. That, of course, is assuming that if it were, Governor Romney is elected -- whereas I think if President Obama is reelected, you’re going to see largely an effort at continuity in policy, but continuity, even in a changing political and strategic context that will influence not only what American options are, but also, at least as important, how we believe the Chinese might respond and adapt to those circumstances.

MR. LIEBERTHAL: Let me carry this one step farther, if I can. I think that one of the major factors that will shape U.S./China relations in the coming five years will be how effectively each country handles what is a core issue for both at this point in time. And that is, can they overcome political obstacles to carry out the economic reforms that they desperately need to carry out?

In the U.S., that focus is obviously on our fiscal problem, right? We all know we have to address it. We haven’t agreed on how to do that. A huge question will be which president, with whatever Congress emerges from this election, will be able to reach a deal that actually puts us on a reasonably sound fiscal path as we go forward into the future, all right?

All of Asia is looking at that question. Our credibility in this region with our rebalancing toward Asia and all that kind of thing all hinges on that question, because the big question is not, do we have the strongest military? Are we the smartest folks around? Do we have a great innovation system? Do we have great university? The big question is whether we’re going to shoot ourselves in the foot to the extent that this not
sustainable -- not sustainable politically, because we’ll be in the defensive crouch, and not sustainable in terms of resources, because our economy isn’t generating the resources we need, right? And they’re all looking at it.

China has an equally large set of issues. In fact, I would argue larger on whether it can transition to a major set of sectoral rebalancing within its own economy. Like us, they know what they have to do. They haven’t had the political capital, the political will to do it.

The question is whether the new leadership is going to be able to do that. If they can, they’re going to be as dynamic and important in the region as they have been in recent years, and, frankly, I think, more open to being a good partner with the United States.

If they don’t, then our thinking about China internationally is going to have to change. And ironically, we’ve had this kind of disconnect, to my mind. The thinking about China internationally has not reflected much the domestic troubles that have grown there. So, we just assume this is a country still roaring along, and this is the kind of challenge, and these are the opportunities we’ll pose internationally.

While everyone focuses on China domestically, they’re saying essentially, “Oh man, do they have problems, and boy, are they facing a difficult transition, and we don’t know whether they can do it or not” -- implications for political stability and all that kind of thing. You get some nuanced differences, but nothing very fundamental.

So, the analyses of domestic haven’t caught up with the analyses in China and the international arena, but China and the international arena, as for any big country, is overwhelmingly shaped by China domestically, all right?

So, on both sides, we have this issue. And frankly, what the underlying
tensions our relationship will be in no small part a reflection of your bet on how each of us will handle that domestically.

I raise all that to say that one of the big bets that every citizen has to place, if you’re concerned about U.S./China relations, that kind of thing, is, which American president will be more successful in forging the kind of overarching agreement that will put us on a solid fiscal path? Because that actually is probably more important than most of the campaign rhetoric that we’ve been talking about.

MR. WITTES: See, this is one of the most -- to me, anyway, as a complete neophyte in this area -- it’s one of the most surprising aspects of your paper, that this argument that U.S. credibility in negotiations with China over trade is heavily contingent on the credibility that arises or doesn’t arise from our having gotten our fiscal house in order, which is something that I thought of in a sort of completely different part of my brain.

You know, and I’m curious whether the two of you buy this argument, that this issues are as deeply connected as Ken and Jonathan say that they are, and, you know, whether the best thing the next president can do for U.S./China relations is, you know, avoid a fiscal cliff, and, you know, cut a deal with the opposing party.

MR. BUSH: I would go further. I think that the biggest challenge to the United States in this century is coping with the revival of China as a great power. And the big question in that challenge is what we do at home. And it’s a question of whether we can rebuild the pillars of national strength that made us a superpower in the wake of World War II.

And the heart of it is, as Ken says, our fiscal policy. If we can’t fix that, we can’t do anything else. But it extends to other areas.

First of all, are we going to have the kind of education system that will
staff a high technology economy for the long-term future? Will we give the kind of support to science and technology that is needed to ensure our competitiveness? Are we going to acquire the kinds of military assets that are important, et cetera, et cetera?

If we can do all those things, then we can stay well ahead of China, and it will probably accommodate to us. If we fail at that, then that just opens opportunities for China that we don’t want to talk about.

MR. WITTES: Josh, do you agree with that? Is this really, at the end of the day, all about domestic policy?

MR. MELTZER: You know, I do agree, actually, with that proposition -- and particularly when you look out to the medium and to the longer term.

I mean, if you think about it from a couple of different angles: Firstly, any trade negotiation is, essentially, certainly in its hardest parts, a domestic negotiation amongst key stakeholders. And it’s about having the political capital to make the tradeoffs that are necessary to do the type of trade liberalization, which can then do a deal internationally.

And so when you’re in a position where there’s economic anxiety and job losses, it’s harder to then make the case that further trade liberalization is necessarily going to be a good thing, particularly to those communities which are going to be negatively affected by trade opening.

And so under situations where, you know, the economy’s strong, people are feeling more safe and secure, politicians are in better places to make those types of deals, which can then translate into more progress internally. And that’s true for the United States, and it’s also true for China. So, that’s one thing.

The other thing that we’re beginning to see, I think, is that, you know, particularly this concept of multilateralism is not really making much progress is that trade
negotiations -- and particularly the TPP, which Ken mentioned -- are sort of becoming somewhat of a proxy for competing economic ideologies, if you want to put it that way, in the sense that, to some extent, I think the United States sees the TPP as a vehicle for ensuring that the Asia-Pacific region develops in a way which is commensurate with the way the United States thinks economic development should occur, which is essentially a market-based one, with certain degrees of transparency and openness.

And, you know, that is being placed in increasing -- say for instance, juxtaposition, say for instance, a China model, which is sort of increasingly becoming more state-driven -- not a way -- I mean, with a role for a market mechanism for allocating resources, but certainly growing state ownership of factors of productions.

And you see that in some of the very discrete topics being negotiated in the TPP, such as, for instance, on state-owned enterprises, on issues like free flow of data across borders, which affects internet restriction, these type of things.

So, if you carry that tendency forward, that possibly leads us into a world of fragmented trade and competing original architecture, which is not a good theme for anyone. So, you know, getting domestic economies lined up and more productive in a growth-oriented way, I think, is one way of sort of heading that off.

And the other final point, which I think is the point which Ken made, which I very much agree with, is that whether China -- the types of reforms that China does or does not embark on over the next five to ten years will have a significant impact on the type of act that China is internationally. And if China embarks on the type of reforms that, say, you know, reduce government ownership, increase opening market transparency, and these type of issues, you'll likely see the type of domestic act as a lining in ways that are probably more in synch with the United States, and probably be a basis for greater cooperation going forward.
MR. WITTES: So, Jonathan, I want to go back to Obama’s ad, because it seems to me an interesting way to talk about the question of what his real record in this area is, you know.

So, it’s not an ad where he says, “Look at all the wonderful things that my administration has done about China.” It’s an ad that says, “Bain Capital really stinks, and you’re responsible for it and every job that it’s sent overseas.”

And I’m wondering, does that reflect just a sense that this is one of Romney’s personal vulnerabilities, and so it’s a soft spot that you can kind of stick a knife into, or does it reflect a sense of weakness as to the defense of his own administration’s record on the substantive issue area?

And to the extent that it reflects anything like the latter, you know, I mean, how do you assess that record? Is it a record that the administration should be defensive about? Is it a record they should be proud of?

MR. POLLACK: I suspect there are elements of both in what you’re describing. I’m recalling a conversation that Obama had in California several years ago with the late Steve Jobs, where he asked, “Well, was there any reason why iPods couldn’t be made in the United States?” And Jobs told him, “Those jobs -- no pun intended -- those jobs are gone, and they’re not returning.”

Obama’s intuitive understanding that the economy that the United States is going to require that plays to American advantage in the 21st century is one that, you know, is more kind of an ideal in theory, but the inability, the frustrations of getting from here to there, the fact that you still have these extraordinarily high unemployment rates, that so much of the jobs in the manufacturing sector have not returned to the United States -- not yet, although there may be niche opportunities that are there.

You know, I’m reminded, of course, if you look at the box on an iPod,
what does it tell you? It tells you, “Designed in America, assembled in China.”

And it seems to me that so much of what we’ve experienced with China over the last -- not only the last 10 years, but over a longer structure of time, but especially over the last 10 years -- has been precisely that kind of -- almost a bargain.

Now when I say China, let’s be realistic about this. So much of these, as Richard noted, are American firms that have placed major facilities, or, in a number of cases, Taiwan companies that have major facilities in China, that are using China as a base for export production -- whereas it does seem to me the goals of many American companies -- that may be there in part, but the related goal is to try to tap into the emerging Chinese market. That’s what Obama has emphasized, in fact, when he’s emphasized that -- everyone acknowledges that China has been the most rapidly growing export market for the United States in recent years; it’s number three in the world now, after Canada and Mexico.

But if you can’t link that up with a sense of job growth here at home -- or, indeed, whether those two goals are reconcilable -- then it seems to me Obama gets in a much more defensive position about how does he articulate and justify what he’s done?

So, he’s looking for a villain here. I don’t want to suggest that this is a highly elevated presentation on Obama’s part about why he warrants reelection, but it is a natural tendency, particularly when you’re looking at, again, critical states that have suffered so much. So, if you can make Mr. Romney or other outsourcers the villain of the piece, you think that you’ve got a basis on which you can garner some votes and so forth.

But, as I say, I think it’s a very misleading picture, because we are, at a minimum, an economy with enormous embedded strengths, which many, many people recognize -- and indeed, even many in China recognize this as well. If you look about where Chinese elites -- where they send their kids to get higher education, including the
incoming President of China -- so, you know, there’s this -- almost this contradictory impulse that our -- the source of our strength, again, is in our capacity for innovation and the like, not just simply, if you will, brute force production.

And what Obama’s trying to do, I think, or his campaign is trying to do, is to reconcile these things in a campaign commercial that, in effect, says, “What’s really happened here are there are interests in the United States, special interests, including Governor Romney or the company that he used to head, that really are taking advantage of these opportunities.”

I think we ought to be able to do better, but, you know, this is -- you know, politics is a blood sport, and it’s a very close, intensely fought campaign for his reelection, and so he’s looking for wherever he thinks he may have advantage.

MR. LIEBERTHAL: I think part of your question was, is Obama attacking Romney on this because he has nothing to brag about himself, in terms of what he’s done --

MR. WITTES: Yeah, I’m trying to sort of hone in on the question of, what is Obama’s distinctive record in this area, to the extent that there really is one?

MR. LIEBERTHAL: Yeah. Well, I think the problem with China, from an incumbent’s campaign frame-in, is that there is not an issue that is amenable to bragging about your successes.

No, I’m serious, because this is -- when you think about it -- let me recount a brief anecdote. A few of us -- Martin, and Dick, and I, and one other person -- one other Brookings scholar -- were addressing a group of hopefully future donors to Brookings up in Easthampton this summer.

And Martin started out -- Martin, as you know, is head of foreign policy. He’s basically a Mid East specialist, but with a global view. He started out walking
through a whole set of issues on nuclear weapons, on Iran, on other issues in the Middle East, such as Syria, on -- global climate change is a big issue on the global agenda, the global economy and so forth. And he, you know, went through his thoughts on each of those.

I stood up and began with a statement of the obvious, but took everyone by surprise: On every single one of those issues, China is a major player, along with us. On every single one of those issues, if we can work either in parallel with China or cooperatively with them, the issue will become more manageable.

And on every single one of them, if we work at cross-purposes, the issue becomes difficult to totally unmanageable, all right? None of those were Asian regional issues. All of them were outside of Asia. All of them were either Middle East regional or global issues, all right?

That highlights the problem of making China into a positive campaign issue. It gets involved in everything, and the key to an effective China policy is, on balance, doing somewhat better across the board. So, you need China on Iran. You would rather have them be more cooperative on Syria, but Iran is really crucial on our checklist at this point.

You know, on climate change, you got this, and so it’s the complexity and scope of our interaction with China that makes it lousy for a campaign sound bite, but critical to good governance of the United States and stewardship of our interests. And that’s the problem.

I would argue on balance, I think Obama has done a good job with China -- not a home run, but a very competent overall, you know, A- kind of grade -- and I was known as a tough grader when I was a professor.

MR. WITTES: Do the rest of you agree with that general assessment?
Are we talking B+, A- territory, or should it be significantly higher or significantly lower?

MR. BUSH: I would say that President Obama came in with fairly high expectations of what would be possible in working with China, whether it was on foreign policy issues, economic issues, environmental issues.

I think it’s fair to say that he’s been disappointed, for reasons that don’t necessarily have anything to do with his aspiration, and so I would be -- on that score, I’d be inclined to do a B+ rather than A-. But generally, I think he’s handled the portfolio well.

MR. WITTES: Well, one of the themes that I think you’re all pushing toward without quite saying is that there are sort of larger structural factors at work here, that are, you know, quite independent of who becomes elected President in November.

And I’m interested in all of your sense -- and maybe we can just go down the line of sort of what the major ones are. You know, is this largely a question of, you know, choices that an American president will make between these very narrow options, or is this just an area where we’re going to be living with a certain degree of friction in the trade relationship, in the securities relationship, and those factors sort of exist extrinsic to choices the President makes, or to the identity of the President?

MR. POLLACK: I think, you know, Richard talked previously, characterizing China’s revival as a great power. And that is a fact. I mean, we can look to the uncertainties of that process, both domestic and otherwise, but the challenge for the United States, in a way, has been the same challenge that have existed for previous presidents, about how, on the one hand, do you sustain the kinds of relationships the United States has enjoyed historically with many other states along the rim of China, but simultaneously have China folded into what we might call a template or a design for a regional order for the 21st century?
Now that sounds, you know, kind of -- in tone, it sort of seems kind of obvious. But I think that the problem often has been, how do you reconcile what to many seem as overlapping but not totally congruent sets of objectives? Because I dare say that at the end of the day, there is still a profound American ambivalence about the reemergence of China as a major power.

It’s interesting to think that, you know, within sometime in the next 10 or 15 years, depending on what kind of a measurement tool you use, barring some kind of a catastrophic outcome, China will then be, in the aggregate, the world’s largest economy. That will have a psychological effect, I think, on the people of the United States.

MR. WITTES: And over what timeframe do you imagine that?

MR. POLLACK: I don’t know. I mean, everyone can play the guessing game. It depends on how you measure China’s current aggregate economic status, and, you know, we don’t want to get into the arcane measurement tools, but it’s going to happen. It’s going to happen. Like, you know, let’s say, you know, certainly 10 or 15 years.

Again, in a relative sense, China will still be much less developed. It won’t be as innovative a place. But it will speak to this larger transformation that I think, actually, Obama has been very good at articulating -- recognizing that it is in Asia, in the large, but in China in particular, but extending beyond China, that we see this profound transformation of the global balance of economic forces. And congruent with that has to be some kind of a larger political and strategic concept.

In this context, can the United States accept an order where, you know, although our power may be much greater, it will not be as singular and as dominant, and where, in fact, as Ken noted, if we’re going to get to the capacity for solving problems large and small, there’s simply no means to do it if you have a highly contentious
U.S./China relationship.

MR. BUSH: I think I would just supplement that, and say I think that we are already in a series of test cases with China, North Korea, maritime East Asia. Ken’s mentioned Iran and Syria. Cyber-warfare is another. The list goes on and on.

But what’s at stake here over the long term is what each of us learns from those test cases about the long term intentions of the other. And it’s not in our interest, I think, for China to reach the conclusion that we’re out to contain them. But that sentiment is growing. I would refer to work that Ken and Jonathan did in a chapter in the book on strategic mistrust and a monograph that Ken and a Chinese colleague did.

The stakes are quite high here for the long term future of East Asia and the planet.

MR. POLLACK: Let me pick on that and carry it one step further if I can, because I completely agree with these comments. To me, there’s a core issue that the next president will have a -- the next administration will have a huge role in determining -- and that is, given what Richard just talked about, which, say, over the long run, we don’t know how much we can trust each other, right?

MR. WITTES: Mm-hmm, mm-hmm.

MR. POLLACK: And you can easily envisage a substantial continuum of feasible possibilities over a 15-year period or so, right?

When you think about major weapon systems and weapons platforms, the time in general, from initial decision that you want to move in that direction to the research, development, testing, evaluation, production, procurement, deployment, and integration into doctrine -- 15 years.

In other words, decisions are made now, based on the world that you anticipate 15 years from now in the military sphere. And these are very, very big ticket
items. These are the items that constitute, other than U.S. military personnel costs, probably the largest stream of money in a single budget in the history of the universe, okay?

So, it’s serious, right? It’s serious.

I have a real concern, and the concern is that, you know, that kind of money -- and I’m not being cynical here; I’m just being -- you know, the real world that we all know -- that kind of money attracts a lot of interest around it -- interest in members of Congress who want money spent in their districts, interest of major defense contractors who are also major employers who are well-intentioned but have products they want to develop, and capabilities that they think we need, and interests of various other actors in our system.

The only major threat I can see that potentially warrants really important new platforms and systems is China, right? You don’t need that for a smaller -- you don’t need a deep penetration stealth bomber for a small country, right?

So, China is -- I mean, maybe my imagination isn’t fertile enough, but at a first cut, China is the most attractive option out there for people who, for a variety of reasons, think that we need to beef up our military with major new investments in major new systems, in a time that most of us think will be a time of significant budgetary stringency on the military side.

And let me say, you then flip around and look at the Chinese perspective. We’re very open, as countries go, on what we’re doing in our military, because we have an appropriations system and all that that just pours out information about what we’re worried about, and what we’re thinking about, and what we’re planning to build and so forth, right?

Chinese go over that with a fine-tooth comb because they recognize a lot
of that can be directed at them, right? And they have their own military industrial complex. They have their own set of interests, right, who are very eager to take what they see happening here and use it for their own purposes, right?

In other words, those who are more skeptical on each side, who are more convinced that the other side strategically wants to constrain them or even disrupt their rise, depend on each other, and utilize each other to make their cases. We’ve seen this before. This is hardly new stuff.

My worry is that -- because I happen to think that the future is malleable, that it will be shaped by decisions, good decisions or poor decisions, on both sides, and elsewhere around the world. So, I think it is actually feasible to shape a normal big power relationship -- not a highly antagonistic one -- we aren’t going to be best buddies -- but a normal big power relationship that constrains the costs of animosity, and leverages the opportunities for cooperation.

But it’s feasible we’ll get into something much worse than that, and I worry that the next president will be making decisions that may tip the balance very sharply in a negative direction. And his counterparts in China will do the same.

You know, I frankly don’t know. As I look at President Obama and Governor Romney, I honestly don’t know which would be more likely to make the wrong decisions. I mean, at a first cut, you could say, “Yeah, Romney wants to be tougher on China,” and that kind of stuff. But in the real world of pragmatic decision making, with responsibility for your decisions, I’m not certain that I would know for sure which will go in what direction.

But to me, that is a very big issue. So, who is elected -- it's kind of like in China, when you talk about the succession in China. You can always say, "Who will actually be on the Standing Committee of the Politburo bureau will make a big
difference."

Unfortunately, we don't know what that difference is, because we don't know what these folks actually are thinking and what their real priorities are individually. But they're going to be extremely powerful.

Well, it's somewhat like that in this issue in the U.S. I don't know exactly which president would come out with the best chance of a better outcome -- lower cost, higher benefit outcome for the U.S. -- but I do think the next president will be making decisions that are highly consequential in this --

MR. BUSH: If I could just interject here, though, that, at least in terms of what the two candidates have said and what their campaigns are saying, the assumption that Obama is making is, we are going into an area of diminished military expenditure, and that that's got to be part of this transition that the United States has to confront over the next five to ten or more years, whereas Romney has emphasized a major spike in the level of defense expenditure.

Indeed, if John Lehman gave an interview -- former Secretary of the Navy, who is working very, very closely with the Romney campaign -- he even specified the plan in -- at least the operative plan in Romney's, you know, projections on the requirements for military modernization is that we're going to ramp up really quite significantly -- not inconsequentially -- the rate of ship production, such that we would aim for a level of 350 ships at some future date, which is probably about 100 ships more than the U.S. Navy is planning on now.

You could say it's all a numbers games, but the question in all of this is, what does it mean to be a great power? What are the requirements to be a great power? Are we doomed for the indefinite future to some kind of an accounting of how our relative capabilities stack up?
Because, presumably, what we do militarily should be a function of what our real estimate of our military requirements might be, which, of course, is very hard to know, given, as Ken noted, the kinds of lead times you face in developing these systems, and the number of -- dare I say -- agendas that are being served by the kind of increases that some might advocate on defense expenditure.

But certainly here, this is an area where there is a pronounced difference. Though again, real circumstances might dictate Obama as well making a different set of choices if he’s reelected.

MR. WITTES: Josh, you were trying to get in?

MR. MELTZER: I’ll just say briefly that -- I might just bring this quickly back to the domestic economic realm, and then try to tie it in with what’s going on in terms of these countries of actors -- but I think it’s always worth recalling that when Obama obviously was elected, he walked into a financial crisis. And that, I think, shaped U.S./China relations also in very significant ways.

In a sense, you have the United States. You know, the economy obviously suffered greatly. But also, I think, importantly, broadly, the so-called Washington consensus, and just the general idea of intellectual leadership on a range of sort of financial and economic matters took a hit.

And I think similarly in China, there was a period of increased optimism and increased confidence in their model, combined with, obviously, a massive stimulus at the time, which sort of led to, for a period, you know, these very widening rates of economic growth, which, I think, fed into these ideas, which, for awhile, I think has made also cooperation on a range of things more difficult than they otherwise would have been in a more normal trajectory.

But I think also that out of the scenario -- I think Obama has got some of
the key principles right. One, which I think underpins everything, is his concept of rebalancing. I think, you know, the financial crisis that was the end result of what was significant imbalances, certainly in the United States, domestic economy, but also globally. And the impacts have been global -- as much as for China as for the EU, as for other large economies.

The need to rebalance is recognized as in everyone’s interests, though the transition is hard, and the transition takes a long time, and these are steps that happen through cooperation, dialogue. It also requires significant domestic reform, which, as everyone here has pointed out, can be particularly difficult, and we don’t know whether, in fact, China will make the type of domestic reforms which do lead to the type of rebalancing that China needs to go through.

Now that said, there are some structural changes happening in the Chinese economy, irrespective of what the leaders do. There’s going to be a demographic change, increase to urbanization, and these are going to change the Chinese economy anyway, and they’re going to change the external relationship for China as well.

But this gets me back, though -- I don’t think we want to overlook, though, the currency issue. I mean, it is a declining issue, but certainly, no one -- I meant to be talking about trade, and I haven’t mentioned the currency anymore.

But yeah, if you do a bit of a post-mortem, clearly, one of the underlying issues there, which made concluding the round so difficult, was the currency issue. It was not just vis a vis the United States, but it was actually a lot more with regard to the impact that China’s exchange rate policy was having on other developing countries, who compete more directly with Chinese exports, and who saw a surge of Chinese imports with an outcome -- you know, should they have reduced their tariffs?
And you can see, for instance, particularly in countries like Brazil and India, you know, this has been a major concern, and it’s been one of the underlying dynamics, which has made getting multilateral outcomes, at least on trade, very difficult.

So, rebalancing, which is also going to require currency reform, is going to have implications, certainly, for the type of progress you might be able to make multilaterally, and I think getting back to a space where progress on the trade front multilaterally would be a very good thing for the raises I’ve talked about, in terms of where regional sort of type of trade arrangements can possibly head.

MR. WITTES: So, let’s go to the audience. People should wait for the microphone when I call on them, and tell us who you are, and if you could ask a brief question directed to one of the panelists, that would be terrific.

Let’s start with Gary in the front.

MR. MITCHELL: Thanks very much. Garret Mitchell, from the “Mitchell Report.”

I want to come back to an observation that Ken Lieberthal made, that seems to me to be critical here, and that is that both China and the United States are facing huge, almost seemingly intransigent domestic policy issues, which must be solved in order for both countries and economies to be healthy and to be major players on the global scene.

I would venture that most of us in this room know what the components are on the U.S. side of the agenda -- entitlements, major tax reform, balance between cutting and raising revenue, and we know the process. It’s going to take presidential leadership to deal with the Congress. We understand the calculus of dealing with whatever happens in the Congressional elections.

I wonder, Ken, if you could just quickly flesh out, what’s the domestic
policy agenda in China? And what does the process look like? Who does what, and where --?

SPEAKER: (off mic).

MR. WITTES: Great question. It’s an insider’s joke. I’m sorry.

MR. MITCHELL: That’s right.

MR. WITTES: What’s the agenda, and who’s responsible?

MR. LIEBERTHAL: The bottom line is that China has pursued a development model over the last 30 years, which has been enormously successful. But its underlying assumptions are now largely exhausted.

It’s a model based on a virtually unlimited amount of cheap, young, flexible labor.

It’s a model based on the assumption that you can develop now and clean up later, as every advanced industrial economy did.

It’s a model that’s based on the assumption that the global economy will continue to be able and willing to absorb rapidly increasing Chinese exports.

It’s a model that’s based on the acceptance of the Chinese population of some costs of transition, from a plan to a market economy, that include increase in corruption and increase in inequality and distribution of wealth.

As I said, all those assumptions are now basically exhausted. I could walk through them, but that’s the bottom line.

The Chinese model is enormously resource-intensive. It is enormously capital-intensive, and it is increasingly socially destabilizing in its consequences: inequality in wealth distribution, growth and corruption, environmental deterioration, and so forth.

They recognize all that. Everything I’ve said, they agree 100 percent
They’ve also adopted a new model in their 12 five-year that they adopted last year, that says, “We must shift to an economy that’s much more driven by domestic household demand, that is much less energy and resource-intensive, that is much higher up the value chain, so they aren’t assembling iPads or actually creating high value in China, that is much less export-dependent, and that can accommodate substantially increased social safety net, substantially increased services, and substantially increased wages,” all right?

And they’ve laid out what that looks like. The question is whether they have the wherewithal to get from here to there.

And the big problem is that the political system itself has evolved around the previous model, so that the incentives -- keep in mind -- between Beijing, the national capital, and the lowest levels of the state administration -- if you count just the top two people in every locality, in every territorial base of power -- every city, every county, every township, every province, right? Just count the top two people, the top party guy, the top government guy. You’re already upwards of more than 80,000 people, okay?

And if you look at their incentives, as this system has evolved to implement the former model, their incentives are all built around the former model. Those incentives serve them very well, in terms of promotion, in terms of family wealth, in terms of prestige -- serve them very well. And they’ve been selected and promoted over time, because of their great skill in working within the former model.

The question is: how do you change the incentives sufficiently, given that each of these folks has tremendous power within their own locality? A lot of flexibility as to how they’re going to get things done. How do you change those incentives sufficiently to have them on balance skewed to the new model?
Okay, no one’s figured that out. But you are talking about changes that will, arguably, not sit well with more than 80,000 key political figures, throughout the length and breadth of the country.

In addition and finally, the old model has built up tremendous vested interest in huge national champion state-owned enterprises, many of which are now linked with very powerful families, who are the sons and daughters of the revolutionaries, who made the revolution. There’s a true marriage of wealth and power, all right?

So, you have to scale back many of their prerogatives, shift more to the private sector, undo a lot of the monopoly sectors of the economy. They’re dominated by these major enterprises. And a lot of that will go against the interests of the most powerful families in China.

So, that’s tough. What I’m saying is, this is economically easy to understand, and politically, extremely tough to do. You have to, at a minimum, have a really strong commitment on the part of the entire Standing Committee of the Politburo bureau, which would probably be seven people coming out of this succession, and a willingness to break eggs to make their omelet. And that’s no easier in China than it is here.

MR. WITTES: Yes, in the back?

MS. TSAO: Hi. Nadia Tsao with the “Liberty Times.”

I just assume that Taiwan will, you know, continue to be an issue between U.S. and China. Recently, Frank Hsieh, the former presidential candidate from the opposition party visited China, and draw a lot of attention.

I wondered, from your point of view, do you see a new dynamic from the opposition party? How would the U.S. eyes see the change? Is it, you know, significant?

MR. LIEBERTHAL: Thank you, Nadia, for your question. I think I should
probably be the one to answer it.

I think that Mr. Hsieh’s trip to the mainland reflects an ongoing discussion within the DPP -- the Democratic Progressive Party -- about how to position itself on the China issue in order to do better in elections.

And as you know, there are different voices within the party on this question. I think that Mr. Hsieh’s voice is probably one of the more sort of -- I won’t say creative, but sort of new thinking, perhaps. It’s not new thinking, because he’s had this idea before, but I think from the United States’ point of view, for this sort of thinking to go on within the party, for new alternatives to be considered is probably a good thing, because it will strengthen the party system in Taiwan, and be good for the people, that they have a good set of choices in future elections.

MR. WITTES: Yes?

MS. NGUYEN: Thank you. I’m Genie Nguyen, with Voice of Vietnamese Americans.

Would you project the visions of either candidate -- either President Obama or Governor Romney -- when they get elected, how would that affect the Asian-Pacific, especially with South Korea and Vietnam have relationship between them, and China, and also, the stability in that region?

MR. POLLACK: I think it’s fair to say that over the past year or more, we have seen a much more contentious and unsettled atmosphere in East Asia -- maritime East Asia -- not just, I might add, between China and its neighbors, but also extending to close U.S. allies -- for example, Japan and Korea.

This is going to be a big job no matter who the next president is going to be, because what we’re really observing, despite the Obama administration’s effort to, as they say, rebalance its strategic interests -- we’re also seeing simultaneously, kind of a
breakout, almost, of highly nationalistic pressures and tendencies all across the region, suggesting, if anything, perhaps, that all of them are preparing for their own future competition independent of how they deal with the United States.

So, the United States here, no matter who the next president is going to be, has to be very, very attentive to, on the one end, the intention to keep Asian free from military conflicts, but without at the same time giving signals to any particular state that, because of a heightened U.S. role, they have more latitude in what they might choose to do vis a vis China.

And I don’t know that anyone really has an answer to this, but frankly, I think anyone in the U.S. policy process who deals with these issues -- if they’ve not noticed them before, they notice them very, very much now.

And the challenge here for the United States is, can you come to a creative solution that acknowledges these enduring suspicions that exist between various Asian states, and just see whether or not there is a different kind of path -- not to say that the United States is detached from all of this and has no long-term relationships with various and sundry states, because we do.

But we’re going to have to find a way to -- dare I say -- to juggle, to a certain extent -- certainly to be balance, to be very, very mindful that we’re not talking about a weak East Asia anymore. It’s not just China. You’re talking about states that are becoming much more militarily consequential, but without having a larger framework within which all of them interact with one another in the security sphere.

It’s just simply going to be an issue that goes beyond a pure U.S./China bilateral model, and much more to what is the concept of the region in which they are all going to be operating in the future?

All of this, I might add, in the context of huge economic and social
interactions between China and various neighboring states, but it’s not yet carried over into a larger design that all are mutually agreed to, that inhibits the possibilities for rivalry, and avoids the potential for severe miscalculation that would directly affect the United States and its interests.

MR. WITTES: Gentleman in the corner here.

SPEAKER: Hi, thank you. A question to Mr. Bush: You talked about the different agendas. And to what extent do you think the U.S. business lobby will try to, say, supersede the national security hawks who are calling for a boycott of Huawei and ZTE? As in there’s sort of a bit of a tradeoff between the kind of industry side and the more national security side, and how that might play out in the future.

MR. BUSH: To be perfectly honest, I don’t know. But I would only note for your consideration that large American corporations themselves have been victim of the kind of sort of theft, if you will, that is the concern with Huawei and ZTE. And so this may be an issue where the quest for profits overlaps with the imperative of security.

SPEAKER: But is the access to China more important than maybe, say, any IP issues? Like, which of the two is more important?

MR. BUSH: Well, I think you just have to go company by company. Each one is going to have a different situation, and each is going to have different costs and benefits. I don’t think it’s possible to say on a sort of macro basis.

MR. LIEBERTHAL: I think it’s also very unlikely that China will, somehow or other, shut down access to China because of our unwillingness to let Huawei and ZTE do their business in the United States.

China has its own national security reviews. It has its own sensitive sectors, where it limits or totally bars foreign investment. This is not a new set of issues, so I don’t think the consequences will be very substantial.
MR. WITTES: Yes?

SPEAKER: Hi. I'm Aviva from American University.

So, after the presidential debate, one of the most popular trait is about Romney say that, “I don't want to spend money on things to borrow money from China.”

So, it's really interesting to see how the young Americans paid attention to China issue. So, what do you think of all the public opinion of China during this campaign?

Thank you.

MR. LIEBERTHAL: Can I make a quick comment on that?

MR. WITTES: Please.

MR. LIEBERTHAL: I will bet that at the end of this campaign, when you do post-campaign analyses for president, for the 33, I believe, races in the Senate, for the 435 races in the south -- in the House, not a single one will have been determined by views on China.

MR. WITTES: Anybody have anything to add? Sorry.

Yes? I think this is going to be the last question.

MS. DAVIS-GREEN: So, just to kind of conclude, given this --

MR. WITTES: Please identify yourself.

MS. DAVIS-GREEN: Oh, sorry. Kate Davis-Green.

Given this negative rhetoric towards China, do you believe whichever candidate is elected will have some ground to make up with Politburo members? And if so, what will that look like?

MR. WITTES: So, why don't each of you use that as an opportunity to briefly wrap up, as we have only a couple more minutes?

MR. BUSH: Well, this is one reason why the simultaneous transition is a
good thing -- that our new leaders will have a new set of Chinese leaders to deal with, and they can just sort of ignore what’s happened in the past, to an extent.

MR. LIEBERTHAL: I think it’s been striking that, at least in terms of what is being publically discussed in China, the debate, such as it is in the United States about U.S./China policy, has not been a major factor -- because, dare I say, the Chinese system has higher priorities right now than simply the question of what one or another candidate may do.

Add to this has been noted already -- the experience with American presidential campaigns across the decades perhaps suggests to China that, you know, there’s been a learning curve, if you will -- that don’t take what the Americans take -- do seriously, because ultimately, practical interest will dictate what any future American president may do.

But those calculations, though, still can’t ignore the fact that, depending on the outcome and the degree to which these issues related to China stay heightened, it’s going to affect calculations very, very much in China about the capacity and the necessity for close cooperation with the United States.

And that’s something that I think either President Obama or Governor Romney has to be keeping very, very much in mind -- or ought to be, at least.

MR. WITTES: Okay.

MR. POLLACK: This will be a leadership transition in China of unprecedented scope. Roughly 70 percent of the party, the army, military, and government leadership will change between now and next March. This is a new generation coming in.

I think that they therefore will have enough sensitivity to what the relationship to the United States is going to be like going forward. What are the real
possibilities here, and what are we coping with? Because the U.S. is the elephant in the middle of the room as China looks out on everything that concerns it internationally.

So, I think the early signals from the next administration of the United States will be very consequential. They'll start a dynamic that may be positive or it may be negative, and will take a lot of work to overcome.

I'm pretty confident, only because, you know, we've seen what Obama's done over the last four years. I'm pretty confident I know what the early signals from him would be -- and that is much along the lines we've seen to date: "We want to work with you, but we have some issues of real concern."

I'm less confident of the early signals if Governor Romney is elected, simply because he has been all over the map, as to what he would -- I mean, I saw what he signaled in the debate being very different from everything he said before, so I kind of hope his debate approach is more a harbinger of what he would do, but I don't know.

And frankly, my guess is, what he will really do will be determined overwhelmingly by who wins in the Congressional races, and therefore, what he has to play with on Capitol Hill, as he works out whether he is on the far right or basically just right of center.

But anyway, so I think it could make a real difference, but, you know, this early period will be very important. But frankly, we'll have to wait to see what unfolds.

MR. WITTES: Josh, take the last word.

MR. MELTZER: I don't want to be Pollyanna-ish, but I just want to haul out one small area of cooperation that's happened recently which hasn't got mentioned, which was the outcome in APEC -- where there was an outcome on -- it's a small deal.

But something was achieved there on finding on a gray list of tariff lines for grain foods and liberalizing that, which has made no progress, and the WTO in China
is obviously a member of APEC, as is the United States and a lot of other countries.

Juxtapose that to next year, where you have, say for instance, hopefully, steadily improving U.S. economic growth rates. You have a trade scenario where a lot of China’s major trading partners are now looking at doing deals which do not include China.

So, it just includes the U.S. and the EU, possibly the EU in Japan, possibly Japan joining the TPP, and it creates a framework where we might possibly see some renewed engagement on the trade front with China in the next year.

MR. WITTES: Thank you all for coming, and please give a round of applause to the panel.

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CERTIFICATE OF NOTARY PUBLIC

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

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