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PANEL 1: LEADERSHIP REALIGNMENT IN CHINA AND ITS CONSEQUENCES

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PANEL 2: THE ROAD AHEAD IN U.S.-CHINA RELATIONS AND REGIONAL
SECURITY

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PROCEEDINGS

MR. POLLACK: Good morning and welcome. I'm Jonathan Pollack. I'm a senior fellow and acting director of the John L. Thornton China Center here at Brookings, and delighted to have all of you here for what I think is going to be a most revealing set of events.

Less than two weeks ago, the United States and China culminated two very, very different political processes through which the leaders of the two countries were either elected or selected to serve. In the U.S. case, it was a very public and openly fought process, resulting in President Obama's reelection for a second term. In the Chinese case, the decisions were made behind closed doors and by nontransparent means, resulting in the announced appointments of new senior leaders at the 18th Party Congress of the Chinese Communist Party, most notably the designation of Xi Jinping as the new general secretary of the Chinese Communist Party as well as chairman of its military commission.

This morning, we plan to review the political outcomes that we have observed in both systems, ask what they could foretell about the future political and economic directions in terms of debate in both countries, note some of the major challenges that I think confront both leaderships, and then assess the possible implications for U.S.-China relations and East Asia as a whole.

Our focus, not surprisingly, will be much more on the Chinese side of the story. I think that this reflects the enormity of the challenges both internal and external that China confronts, the extent of leadership turnover in China, the question of whether new leaders will follow and old script or whether they will pursue very different paths than their predecessors in office. At the same time, of course, the United States confronts prodigious challenges of its own, even as President Obama must replace many of the lead officials who have been responsible for the formulation of U.S.-China policy during his first term.

So, the questions, it seems to me, some of them are quite obvious, but it's important to state some of them at the outset. Should we anticipate continuity or discontinuity in the bilateral relationship? How will both leaderships seek to protect and advance their interests? Will this reinforce or undermine the capacity and the incentives that both leaderships to cooperate on pressing international issues? And what, of course, are the potential consequences if there is increased stress and additional fault lines introduced into the bilateral relationship? And, last, what should we be looking for and anticipating in the weeks and months ahead?

I'm joined this morning by three of my colleagues from the John L. Thornton China Center and by two distinguished experts from

other institutions here in Washington, and who will respond to the presentations by the panelists and then moderate the ensuing discussions. We will, of course, try to allow for as much time as possible in questions from the audience.

Our opening panel will address China's new leadership and its prospects. I'm joined by my colleagues, Cheng Li -- where is Cheng? There he is, right there. A senior fellow and director of Research in the Thornton Center, by Ken Lieberthal, the senior fellow past director of the John L. Thornton Center, and then to be followed by Stapleton Roy. Stapleton Roy, former U.S. ambassador to China and director of the Kissinger Institute at the Woodrow Wilson International Center for Scholars and then this afternoon by Alan Romberg from the East West (sic) Center.

SPEAKER: Stimson.

MR. POLLACK: I'm sorry, Stimson Center. I knew I had it, but anyhow. In any event, since Cheng's presentation involves some slides at the outset, we're going to let Cheng go first and then the rest of us will join him on the stage.

So, Cheng, the floor is yours.

MR. LI: Thank you, Jonathan. And I'm honored to speak to you and also speak along with Ambassador Roy and Ken, whose writings

have profoundly shaped my thinking and the writing on Chinese politics over the past 20 years.

And in my presentation, I will cover three aspects. First, discuss about the scale and the scope of the leadership change. Second, main capitalistics of the new leadership by looking at their career paths, educational background factional identity, and, thirdly, I will discuss what I believe are the main issues emerging from the party congress and from the new leadership.

Now, first, the scale and the scope of leadership change. Now, this is an overview I just completed two days ago and look at the six major organizations elected or selected at the 18th Party Congress. The yellow color are new members. In the first column also included from alternates to the four members. So, out of 376, 240 are new members. It's about 64 percent turnover rate.

In the Discipline Inspection Commission, altogether 130 members, 100 are new, about 77 percent.

And the secretariat, the organization in charge of daily affairs, very important organization, altogether 7 members, only 1 is old, so, 86 percent.

In the powerful politburo, 25 members, 15 are new members. In the Politburo Standing Committee, 7, and, as we know, that 5 are new, 71 percent.

And in the Central Military Commission, and out of 11 members, 7 are new. If you consider the military members, actually, the percentage is 70 percent. So, it's very much as we previously predicted.

Now, this turnover rate, this is a look to compare with the previous party congress, though this is 18th Party, just completed 64 percent. So, it's the second highest turnover rate. The highest occurred 25 years ago in the 13th Party Congress, 68 percent. So, Chinese Congress Party, despite the one party's monopoly, actually internal turnover rate is quite impressive, probably higher than our congress and then European Parliament members.

Now, let's also look at the institution norm and the laws, despite the criticism we heard and I also will add my criticism. It is by and large the second peaceful transition of power. That's actually quite a remarkable development.

Now, also, look at some of the major norms and the laws actually follow, for example, the age limit. Anyone who was born in or before 1944 in the previous party congress, a party central committee retired. And, also, there's a regional bureaucratic representation.

I spent most of my past three days just calculating these numbers. Actually end up with a very interesting phenomenon. Sixty-two leaders, the four members, serve as the provincial leaders; actually, as we know, that in China, thirty-one provincial-level entities, each province or major cities has two people. That law also follows except Jiangxi Party Secretary Su Rong and Heilongjiang governor. Probably for reasons of maybe the interparty election eliminated. So, in Jilin and Xinjiang have three members. So, that's, again, follow the previous thing.

In terms of every major ministers, there's one full member, every military district, there are two members, and et cetera. So, this norm largely follows.

Now, also, there's Chinese adopted this so-called more candidates than seats, *cha'e xuanju*. Started at 1987, which basically gave about 10 percent more candidates on the ballot. This bottom 10 percent eliminated. Now, people eliminated including the Minister of Commerce, Chen Deming, Minister of NDRC, Zhang Ping, and the Minister of Supervision, a rising star, a very, very powerful woman, Ma Wen, also eliminated.

Some people are probably not in the ballots even, including Governor of People's Bank, Zhou Xiaochuan, Minister of Finance, Xie Xuren, and also very powerful military figure, Xong Chensen (Chinese

name 9:52) who raised some of the criticism early on in the (inaudible).

So, this is elimination.

Certainly, the most dramatic is Chen Deming. According to some sources, that he was considered as politburo bureau member and the vice premier, but he could not make to the Central Committee. So, that's one of the big news.

Now, also, I think the most important development is Hu Jintao's decision to step down as chairman of CMC. We cannot underestimate the significance of that development because otherwise Xi Jinping really surrounded by two bosses, retired bosses or not retired bosses, Chen Deming and Hu Jintao. By stepping down, and that important position really consolidated the relationship between the party, the army, and the state. So, it's a great contribution.

Now, I also should say that some of the elections, particularly the three things that are norms is not new. It started about 20-some years ago and not really can now see any progress. The difference probably just increased 1 or 2 percent in terms of election that eliminates the number. Twenty-five years, only one percent. That's the progress. So, in a way, it's an embarrassment.

Now, this is the top seven, the lucky seven, and several things are interesting. One is the age. Five years ago, Xi Jinping and Li

Keqiang were the youngest members of the standing committee. Five years later, they are still youngest. (Laughter) So, this means that in five years, there will be a major change. So, that'll probably start immediately after the party congress, five years, not that long.

Secondly, these are their positions. All these positions are very much already confirmed except Liu Yunshan is unclear whether he will serve as vice president of PRC. That's a question mark because rumor in Beijing said Li Jianguo who did not make it to the standing committee, will be vice president of PRC. There's, of course, a possibility there's two vice chairmen of PRC, but we do not know. But all other portfolios are very much announced.

Now, the interesting thing is other than that list, it's not balanced. Now, we divided Zhang's camp and Hu's camp. Zhang's camp, the core group is princelings, so, there are four princelings plus another person, Zong Gowlee (Chinese name 12:25). So, it's really at least the five versus two. Many people in Hong Kong believe that Li Yunshan, although he had affiliation with pompie (Chinese name), the Communist Youth League, but really he's even closer to Hu Jintao. So, it's really six versus one. So, that's the main issue I think formed in the media and the domestic public reaction certainly focused on that.

Now, this is the entire politburo except the seven standing committee members. Their positions are very much decided, although there are still some changes in the state council membership and et cetera.

Now, the interesting thing is that in the politburo, Hu Jintao's camp actually had more seats. So, ultimately, it's more even, these 25 members. It's very much like 13 versus 12. So, in that level, you do see the balance in the politburo. Many of them are Communist Youth League, Pompe.

Now, this is the new secretariat, which is in charge of the daily events and only one member is old, Liu Yunshan, and these are their portfolios. Lo Jabon (phonetic) in charge of propaganda. Zowl Lochee (phonetic) today already announced will be organizational head. Li Zhanshu will be in charge of General Office, replacing Ling Jihua. United Front to Ching Lee (phonetic) although he is not the director, he was a former director, and Chow Hungju (phonetic) will be in charge of discipline. He is the number two person in the Discipline Commission. And Yung Jin (phonetic) a minority himself I think of Mongolia will be in charge of ethnicity and religion.

Now, based on that, you will see more emphasis on religion and also ethnicity in the secretariat. Previously, there's no such position belonged to United Front.

Now, interesting also, not listed here, at least four members of the Communist Youth League started a career and this is (inaudible) as I mentioned half. Yo Gibow (phonetic) is Pompie. Ezan Su (phonetic) is also half and Du Ching (phonetic) is for Pompie. And Yung Jin is also affiliated with Hu Jintao for 30 years in the Communist Youth League. So, in the secretariat, Hu Jintao has the upper hand.

Now, the is the early on before the party congress talk about the 10-member Central Military Commission, as we know that 7 of them retired because of age, 3 of them remain, and they, indeed, remain, but their position in the Central Military Commission quite different. One became vice chairman, two actually remain as just members, not as people predicted as vice chairman. So, this is 11 members of Central Military Commission, all of a sudden Fan Changlong had like two or three steps promotion and Xilong remained as Central Military Commission, promoted to vice chairman. Now Ty Mancher (phonetic) is supposed to be also vice chairman, but did not get it. He will highly likely become minister of defense and the state counselor. And these are the other

important positions in the military. Now, also, seven of them are new members. So, out of the 10 military members, 7 are new.

Now, this is the likely composition. It's not announced.

There will be still some changes in the next state council, but most of the rumors in Beijing in the circle have that conversion. As we know that these first two are really decided. Liu Andong will become vice premier in charge of agriculture and Wang Yang will be in charge of state-owned enterprises, industrial development, replacing Xinjo Jon (Chinese name). Ma Kai, who got the position from Chen Deming, originally from Chen Deming, is in charge of finance and trade. And Wan Huning, state counselor, based on Beijing's rumor that he will take a portfolio of Liu Andong in charge of education and cultural affairs. Cho Menshen (phonetic) military, DoD, and Jone Kong (phonetic) will be state counselor and also general secretary, chief of staff. And, of course Enquin (phonetic) will become a state counselor in charge of police, will be also minister of police.

And, finally, Gee Benshen (phonetic) this is a surprise. I still have difficulty to understand, and he will replace Ji Bingxuan. Now, this may not happen, but that's current version. That person does not have foreign affairs background. Largely moved from Chinese Communist

Youth League and also from propaganda and currently he serves as party secretary of Heilongjiang.

Now, this is a really big surprise. None of the foreign policy apparatus make to that short list, but they still keep the four members of the Central Committee, including Yungates (phonetic). There's a possibility Yungates could become state counselor. There's also a possibility that someone like Wan Huning would be in charge of foreign policy. It's unclear. Wane (phonetic) also makes the four members. Wong Genya (phonetic) promoted from alternate to full member. Wang Jiarui still currently international department head and Xong Xadrene (phonetic) party secretary of the foreign minister and Pinchin Wah (phonetic) in charge of Hong Kong affairs. So, these are the foreign policy team in charge of various affairs, including Taiwan and Hong Kong and et cetera.

Now, the four financial teams, this is the four lists. There are a lot of more important figures in them, but these are the new members, including Chey Fusan (phonetic) a protégé of Wen Jiabo and Liu He, a childhood friend of Xi Jinping. He is a nickname as China's Larry Summer. I don't know if that's good or bad. (Laughter) But he is quite brilliant.

And Gow Fuchen (phonetic) also probably will replace Chen Deming as Minister of Commerce, although someone said (inaudible) governor will be the Minister of Commerce. And the leeway, Xilongus (phonetic), Misu (phonetic) also make four members of Central Committee. Now, these two currently work for the State Council Development Research Center. I think at least one of them will move out to be in charge of financial affairs.

Now, interestingly enough, these three are returnees, but overall the returnees are very, very limited in high level. In the politburo, last time, it was one. Xanjo Jung (phonetic) got his degree from North Korea, this time, the same. But two people had the visiting scholar experience and one year overseas, including Wan Funing who studied at Iowa and also work under Ken Lieberthal. He's a visiting scholar. Another person is Twinton Thai (phonetic) who spent one year in U.K. So, that's it, but the low level, I'm still doing calculations. It's not clear. Maybe another location, I will release my report. Probably more, I think, but the high level is quite limited only in the financial sector and et cetera.

Now, very quickly, to second thing, main characteristic of the new leadership. Several things.

First thing is the career paths. Now, this is the 25 members of the Politburo. Their previous main experience, actually 19 of them,

about 76 percent, three-quarters have experience as provincial parties' secretary governor or major city like Shanghai, Beijing party secretary or mayor. So, that is very important. So, still, provincial leadership is the main career path.

Secondly, this is rise and decline of technocrats based on my previous study also based on Ken's study early on about these leaders. You can say that minister and provincial party secretary governor in 1988, 1982, almost zero. Only one person, Li He, at that time was a minister. But 1987 increased dramatically. 1997 reached the peak, about 70 percent, and 2008 started to decline.

Now, this is becoming very clear in the current politburo. The red color is a standing committee, the blue color is politburo. These are from the various years. As we know, the 14th Party Congress and also 16th Party Congress, all the standing committee members are engineers turned politicians, therefore, all technocrats. One hundred percent. But started to decline last party's congress when Li Keqiang and Xi Jinping and many others like Bo Xilai entered. So, declined. Now, this time in the standing committee, only 1 person, Yu Gensen (phonetic) is a technocrat and in the politburo, only a few of them, 16 percent. So, we really see dramatic decline of technocrats.

Now, this chart probably for most of western audiences is not a big deal, but in China, could be sensational because leaders always claim they have advanced degrees, right? But then look at these degrees, most of them, the advanced degrees, 88 percent are part-time degrees. "Part-time degrees" in China means a lot of things, right? (Laughter) Now, only two, I think Wan Huning and Ma Kai really finishes out mass degrees four times in the middle or early 1980s.

Now, also, surprisingly, in the undergraduate level degrees, 8 of them, 32 percent also part-time degrees. Now, this you will see in (inaudible) China could be a serious criticism, although, on the other hand, I see here some of the leaders are very capable if they can prove their capacity (inaudible) if not, this will be some criticism.

Now, the most important things are about the rise of princelings. This is in the Politburo Standing Committee located from 14, 15, 16, 17, 18 in terms of total number in terms of number of princelings in terms of percentage, so, this is highest ever, 57 percent of princelings, as I mentioned, 4 members are princelings in the 7.

The Central Military Commission, and the good news is two princelings previously on the running, Lauria (phonetic) and Xon Hyong (phonetic) are gone, actually reduce the percentage. Otherwise, probably would be half, but now it's 36 percent. Still compared with the previous

years, it's unprecedentedly high. This is the criticism, particularly at a time people very critical about the corruption.

Now, last point, the main issues emerging from the party congress. I think four major issues.

One is for me, for many observers, it's a disappointment that they did not adopt the more candidates than seats (inaudible) election to the high level, meaning the politburo. They discussed that, but eventually dropped.

Let's imagine if they introduce that mechanism, no matter whom they elect, that really gives them a new source of legitimacy and new sources of mandate, but, unfortunately, that did not happen. Actually, most of the candidates could still get the politburo and the standing committee, maybe only a few would be eliminated, but still because those are people who are scared they would be eliminated resist strongly. So, in that regard, I think it's a very big disappointment. It's opportunity missed.

Secondly, check and balance is really broken in the highest level. That would be very, very costly. Yes, Xi Jinping's camps have won a lot of seats, but they will pay a huge price, may pay a huge price in the years to come.

And, thirdly, it's good news because now Xi Jinping has his own team. Previously, we criticized this kind of check and balance

between these two (inaudible). Sometimes constantly led at policy deadlock. Could not really move, particularly regarding economic and foreign policies, but now Xi Jinping has his majority and most of them are really capable in terms of economic reforms. They work around the financial economic sectors in the coastal regions. So, in that regard, could be very good news. They can resolve or reduce some of the policy deadlock.

And, finally, is because of Li Jianguo and Wang Yang could not make to the standing committee as some liberal intellectualists argue, particularly in the case of Li Jianguo and because of lack of real election, so, I think the political reform would delay. My sense is the new leadership will continue to push for even much bolder economic reform because people say that Hu Jintao's government did not do well in terms of economy. So, now there's a particular opportunity for them to prove they are capable economic administrators, may uplift the public confidence, but at the same time we know at this place of China's economic development requires political reform, requires rule of law, requires serious effort, anticorruption, which is lacking. Thank you very much. (Applause)

DR. LIEBERTHAL: I'm going to follow Cheng with some additional takes on the 18th Party Congress and what it portends. It's

always fun to follow Cheng. I get up here thinking there's nothing to add given the scope of his remarks, but I'll cover some of the same ground, but you'll see I come at it from a quite different angle and hope to add some additional food for thought.

First, on the congress itself, I thought overall this was not a very good show. It was divorced from public view, inviting social networks -- and, frankly, I was in Beijing during part of the congress just talking to everyone. A lot of popular ridicule in how it was being conducted. There was factional bargaining clearly until the very last minute. In fact, it went through part of the congress. There were ugly revelations going back to last spring. That continued right up to the eve of the congress.

The final choices, I would argue, were not necessarily driven by proven capability. I mean, all of these people at the top obviously have a lot of capability, but when you look back at the records, it's not at all easy to make the argument that those who have demonstrated the greatest capability and problem management and executive initiative and so forth were the ones who made it on the standing committee. Overall, I think this highlighted and symbolized within China how outdated many aspects of the political system have become given current reality socially and otherwise in that country.

There were some silver linings in this cloud. Cheng mentioned a couple of them. Let me highlight to some extent the ones he indicated, but then also add some to the list.

The Politburo Standing Committee was reduced to seven members. I'll regard that as a good thing. Increases the chances of getting the kind of consensus necessary to make serious decisions. I agree very much with Cheng that Hu Jintao's willingness to give up his position as head of the military commission was very good news. It resolves a kind of anomaly with several precedents in China that produce a very awkward position for the incoming party secretary and president. All Politburo Standing Committee members are from the previous Politburo.

Again, highlighting the kind of rules and continuity that you generally see in China. Age limits were adhered to and this *cha'e xuanju*, the notion of having more candidates than positions for the Central Committee did have some consequences and was a policy that was continued from the past, albeit as Cheng noted not expanded.

The political report, which is the kind of major programmatic document for the congress that Hu Jintao gave at the opening session, but let me note it was Xi Jinping who oversaw the drafting of that report over a period of months before the Congress actually convened. As was widely

noted, that report gave strong endorsement to continuity and to the accomplishments of the past five years, not surprisingly on his way out affirmed that he had done a very good job along with his colleagues, but there are a variety of lines and paragraphs sprinkled throughout the report that can be used by the new team if they wish to do so to pursue some real departures. And we've seen this before where what seems like an overwhelmingly kind of conservative, more of the same kind of document has a few things in it that in retrospect you see provide justification and legitimacy for significant new departures by the new people who take over.

Here I would note a strong endorsement of the separation of government from enterprise (speaking in Chinese) for the Chinese speakers here, stronger endorsement than I have seen. It's always mentioned (speaking in French) but this time it really got a very strong plug and I thought it's a very important thing for them to pursue. The notion that everyone and they stressed everyone is subject to the law, regardless of the level of political position, some nods in the direction of a more independent judicial system, and so forth. A number of things there that could be run with, even though there were other major parts of the report that seemed to move in the opposite or at least a significantly different direction.

So, all of those things to me are elements that are somewhat positive coming out of this conference. More mixed was the fact that while I think they appropriate and understandably had a major focus on corruption and the need to deal with it, they equally strongly said it is the party that has the problem and it is up to the party to fix it, which is to say they're not going to go outside of the party for any kind of independent judicial or other body to clean up corruption in the party; they're going to rely on a corrupt party to clean up its own mess and I think that's unfortunate because I don't think it has a very substantial chance of success, even with someone as capable as Wang Qishan leading the effort.

Within a very constrained set of choices, if you look at the kind of rules of the game in China, they decided to select in addition to Xi Jinping and Li Keqiang the five oldest people who are eligible for Politburo Standing Committee membership. Given my age, I think that was a wise decision. (Laughter) I like to see that precedent. Even older would be a little bit better. No, but seriously, what this does is to set up a major transition five years from now and five years from now, you can never be sure, but there's a good chance that Xi Jinping and Li Keqiang will have much greater say in who comprises the rest of their team.

This was the choice of five out of eight. There were only eight people they could choose from given their rules and they systematically went for the five oldest of the eight.

On balance, I think this succession showed both the partial institutionalization of the system and the sharp limits to date on that institutionalization.

Let me now turn to look ahead and here I want to posit eight givens, in other words, eight things to me that are clearly the case and then make some additional judgments based on those eight as framing background. They are as follows.

First, there is extremely widespread and serious recognition of the pressing need for major reforms. The recognition is not only in terms of social tensions of which there are many and they are obvious, but also the analyses by key economists, by key environmental specialists, by key people in the security arena, and so forth. So, there is, thus, great pressure both inside and outside of the political system for major reform.

Second, reforms need to be both economic and political. All of the major economic and social problems such as inequality of wealth, environmental degradation, over reliance on exports and fiscal investment, land seizures, massive corruption and so forth result from how the political system currently functions, not solely from economic policies. And,

therefore, political fixes are necessary as part of dealing with these sometimes seemingly purely economic issues and sometimes broader issues.

Political reform here need not seriously move toward western-style democratization, but failure to deal with deeply ingrained political practices will sharply limit the economic and social improvements that can be generated.

Third, reforms are necessary in the coming two years or so to avoid very deep problems a decade from now. In this regard, China is kind of like the United States. We have major decisions we have to make in the next two years to bend the curves, and if we don't bend the curves on expenditures and income, 10 years from now, we are in deep, deep trouble. I would argue with all the details are different in China, but that fundamental reality is the same. They've got to make some major decisions that they've already outlined, but they haven't implemented. They have to make major decisions to implement those changes in the next couple of years or if you look at the curves, they're in deep, deep trouble 10 years from now.

Fourth, Xi Jinping has not made his priorities clear either internally or publicly and his past record suggests that he is both capable and cautious. So, I've seen speculation about his priorities and how

strongly he'll pursue them almost across the board. Again, in China, talked to a number of people you would think would know and they're all over the lot, too. So, it's a little Barack Obama in 2008. You can pour any content you want into this general image, we'll have to see what content is really there.

Fifth, most other Politburo Standing Committee members likewise have not tipped their hands as to where they stand either on individual reforms or on their overall priorities. You've got to keep in mind you can have a group of people, everyone favors reform, but in a political system, you have to decide what's your top priority? What are you willing to really use your political capital for? And what's your second biggest priority because you're unlikely to get to your third. Right? You see Obama facing that now with climate change, a fiscal deal, immigration, et cetera, et cetera, et cetera, right? The issue isn't whether he supports all of those, it's what is he really willing to go to the mat for, right? And I think what we face on the Politburo Standing Committee may be a lot of people in favor of reform, but we don't have a clue as to whether they're prepared to go to the mat for the same reforms, right? And, therefore, whether they can reach agreement on tough decisions with an agreed upon priority for those decisions.

The candidates who did tip their hands as to what changes they would like to see did not make it onto the standing committee. Bo Xilai, early on, Wang Yang, and Lee Enchong (phonetic).

Sixth, factual ties, (inaudible) that Cheng gave us some information on, I think do not get you very far in anticipating substantive positions and priorities. It's a level of detail that broad background relationships and associations with various top people over a period of years doesn't necessarily get you to. But substantive positions and priorities are very important for anticipating what the future is going to hold.

Seventh, substantively, serious reform is a very complicated matter. Much more complicated in China than in the U.S., given the array of reforms that are really core to each country's future. So, you need to take that very complexity into account when you try to anticipate what's going to occur there. In China, this requires changes in the development model that China is pursuing and basically changes from the former model to at least what they've anticipated, in fact what they've stipulated in the 12th 5-year plan. In longer term, something close to what's in the World Bank DRC Report that came out last spring. These are very complicated and wide-ranging changes.

There are deeply-rooted, vested interests that will oppose parts of the 12th 5-year plan and these are very powerful interests. Just to tick them off, local territorial political leaders, this is in part because they benefit enormously from the current development model and they have a lot of power within their own bailiwicks and a lot of flexibility. It's in part also, I've been startled as I begun to get into this issue a little more, many of these positions are now bought and sold so that this is not necessarily a meritocracy move or not. People have to handle themselves effectively in these positions to move on, but then which of those people moves on is dictated a lot by how much money you've made and therefore have available to purchase the next higher level position. With a 5-level political system, some 80,000 of these 40,000 territorial units, therefore, if you just look at the top 2 people in each, 80,000 people you're talking about, many of whom have purchased their positions and see them as a basis for future wealth, not easy to carry out reform. The changes, the incentives, and changes the options.

(Inaudible) level, SOEs, the big national level State-Owned Enterprises, many of which are now tied to elite political families. Again, many of the reforms will be resisted from them. And many of the ministries resist reforms and I think what we'll see in the upcoming MPC is the greater move toward the super ministries and I think that frankly, that

is not necessarily going to help reform. You could argue it either way, but that's my instinct.

Tough reforms will also require disciplined decision-making on the Politburo Standing Committee. That runs against the grain of the way the Politburo Standing Committee actually functions, which is a division of labor, as Cheng laid out. You can tell what each one's responsibility is. Plus a consensus decision-making rule. Not a majority, but a consensus. You put those two things together, it is very hard to get decisions that run seriously against the grain that people in the bailiwicks of any of the members of the standing committee. You can get decisions to spend more money. It's hard to get decisions that really disadvantage key groups. We'll have to see whether they alter that system going forward.

And such reforms are also going to require tackling very sensitive issues. I would argue tax reform, the Hukou System, commercialization of land, the scope of the state's role in allocating scarce resources and permissions and so forth. These are not easy issues to handle politically in any kind of political system. So, reforms are complicated, they touch a lot of serious interest, they run against the grain of the current distribution of power in many ways.

And then eighth and finally among the givens, this is a transition period until the March National People's Congress. Given the likely large-scale reorganization of the state council that we're going to see in March, even beyond March, when the new people are there, you have to assume it's going to have to be some period of months at a minimum before everything has kind of settled down. And I think you're unlikely to get any serious reforms actually implemented before you have the state council settled down and the transition really over.

Therefore, what should we expect from the 18th Congress, and I'll move through this very quickly. I think she may try quickly to set a new tone, less jargon, more populous focused on corruption and so forth, although I will say I just read his speech to the first study session of the new Politburo and it was not encouraging in terms of moving away from jargon. It reminded me his graduate degree is in Marxism. (Laughter) But both Xis, real preferences and especially his operational priorities I think will only be revealed over time. The record to date, again, I think does not provide sure guidance on this issue.

Let me conclude with some comments on each of three broad categories of issues and what we might look for in each if we're going to see significant reform take place.

On restructuring the economy, again, I think we'll have to wait until the latter part of 2013 at least before we really can reasonably look for any of these things on a significant level, but let me indicate some things I will be looking for.

First, they will have to reconfigure interest rates in the state banking system to provide substantial positive returns on household savings. That should be the easiest of the steps that they can take. They need to adopt measures to separate the government from enterprises. I think that is very tough and frankly it runs against recent trends. I think they'll have to open up what are currently either monopoly or quasi monopoly sectors of the economy dominated by major state-owned enterprises and do so on sectors that are actually attractive economically for private firms to get into. Opening up railways as they have done partially, you can't make money in the railway system now. So, there are very few firms that would have any interest. If you get into financial services and other areas where there's real money to be made, that's a very different thing. And I think they're going to have to undertake major tax structure reform in order to create the legal basis for localities to raise a lot more budgetary funds.

That's just a very short list of what they'll have to do. And, frankly, even that is tough enough a short list that it may well take a

perception of genuine crisis to produce major steps toward economic structural reform with its intended political changes.

Secondly, in dealing with society, there is very important and relatively low-hanging fruit types of steps to take, in other words things that are so obviously so counterproductive at this point that if they don't do these, you really wonder what they will do. My short list of that would be first to abolish the Hukou System. This is now the greatest single source of inequality of wealth in China. You cannot see how they can move to household savings and especially household spending as a major driver of the economy if you maintain a system that prevents nearly 300 million people who live in cities from making serious money, acquiring serious property, and exercising their rights as urban citizens. All right, they can substitute criteria for urban residents, but they have to change fundamentally the system as it currently exists.

Secondly, move to an urban two-child policy. A one-child policy is a catastrophe by now in terms of the demographic pyramid in China. This, at best, will have only a very long-term impact, obviously, but if they can't do this at this point, you really have to wonder about their ability to take on anything that is politically sensitive.

Third, establish a legal framework within which NGOs can operate more freely. For example, environment is one of the issues that

they tag as one of their most important challenges. I agree 100 percent with that. I know of no major country in the world that has made significant progress on environmental cleanup without a vibrant green movement. And an NGO green movement that can engage in political activism as well as public education. Systems are built around the interest of the polluters. They're the ones with the power in the system. You need some counter pressure, not just pressure from above, but pressure from below, too, if you're going to change that significantly.

Let me conclude with political reforms. They need to reconfigure incentives for local officials. It's an enormously complex task. If anyone wants to ask a question, I'll lay out why it is in my view almost impossible to change the development model without changing the operational incentives for local officials from the provenance through the city through the county through the township. Otherwise, their vested interest just lead them to do more of what they've been doing on the whole, regardless of where Beijing thinks it is putting its money.

Secondly, they need to strengthen the independence of the legal system, hopefully to where top officials at every level are also subject to legal constraints.

Third, they need to increase genuine political competition up to the township level and I think within five years or so to the county level,

leaving genuine political competition vague in detail. There are a lot of different things they could do, but I think they need to move considerably beyond what they've done to date which is loosening up somewhat the People's Congress legislative system.

Fourth, they need to effectively implement the party rules on internal policy process and personnel decisions. They keep talking about this, but the real progress seems to have been very limited.

And, finally, they need to seriously attack corruption. One thing that Xi Jinping said in his speech of just a day or two ago, one thing that he really went into was corruption and implicitly compared China to the Middle East because he referred to other countries that had strong one-party systems that have collapsed recently and said we have to tackle corruption. So, he recognizes certainly the scope and magnitude of the problem. Frankly, I'm not optimistic about this, but I certainly wish them well.

My bottom line conclusion is that barring the perception of a major crisis that creates political discipline and leverage at the top, I think the odds of wide ranging very successful Chinese reforms are well below those of very successful U.S. reforms over the coming four years. And, frankly, I don't regard that as good news either for China or for the United States. Thank you. (Applause)

MR. POLLACK: Ken, thank you very, very much. I should note we've just had a very, very sobering presentation here and an equally rich one by Cheng Li. We will post as soon as possible a transcript of today's event on the Thornton Center Web site. So, we should be watching for that.

Stapleton, the floor is yours.

MR. ROY: Okay, I'll be looking eagerly for the transcript because I don't think you can get a better set of presentations on the significance of China's leadership transformation than we have just received. Cheng Li probably has looked in depth at the biographies, political alignments way down to the sublevel that he didn't even get into at this time, but he could discuss the sixth and seventh generation leaders and we're trying to analyze the fifth generation leaders. And Dr. Lieberthal has been working on the issues that he's just been discussing for literally decades and his comments clearly reflected an in depth knowledge of the difficulties of pushing through reform in a country the size of China.

This doesn't leave me a whole to say, but I would try to tease out some additional elements that I think are important in thinking about China's new leaders.

First, one-party systems function differently from multi-party systems, and one of the characteristics is that you do not know how

leaders will behave until they are in the top spots because you can't get to the top spot if you are taking a different approach from the predecessor leaders. Nobody identified Xi Jinping as a radical reformer, and, yet, he pushed through the most radical reforms in China's modern history. Nobody identified Gorbachev as a radical reformer, and yet he pushed through reforms so radical that it ended in the collapse of the communist rule in the Soviet Union and the disintegration of the country.

So, we have to be cautious in trying to assess exactly how Xi Jinping and Li Keqiang will perform as the top leaders. They are not supreme leaders; they have to preside over collective leadership, and, therefore, the attitudes of the other members of the collective are important, but they are in the most influential positions to try to shape a sense of where the country should be moving and if there is one thing that permeates the work report, as Ken discussed at considerable length, it's the idea that there has to be fundamental reforms in China, and I think this reflects the realities of the country. But when you think about reforms, Ken went into this down to a considerable level of detail, but I think it's worth thinking about it at a higher level. What are the influences that will affect the thinking of the leaders as they look at what needs to be done in China?

The first thing is age. China has through this system of age limits -- it means that every time they have a significant change in leadership such as they just had, the age of the top leaders is reduced. I think in the case of the 25-person Politburo, the average age is about 5 years younger now for members than the outgoing 17th Politburo. That produces a change in attitude. You also because of this assumption of a two-term service for the top leaders, you have a curious situation where the top leaders are younger than the other leaders. There are some people younger in the entire politburo, but in the case of Xi Jinping and Li Keqiang, they are almost five years younger than the other members of the standing committee of the politburo.

So, does age matter? The answer is it really does matter. China has gone through bigger changes over the last three decades than any other country in the world. I can remember some of you may be able to remember it, the incredible change on the part of American young people between those who were part of the Vietnam War generation and the immediate post-Vietnam generation. Serving abroad, I could simply discover in meeting people in college how radically different their way of thinking about things was simply because their formative experience was no longer centered on the Vietnam War, but on other issues. And in many ways, that transition paved a way for the Reagan years in the United

States. When the young college people were flocking into investment banking instead of communes and more radical forms of organization.

Well, China has had wrenching changes similar to moving from the Vietnam War period to the post-Vietnam War period. After all, reform and openness emerged almost directly from the great cultural revolution and that was truly a wrenching change reflected in the fact that two general secretaries of the Communist Party were purged in a 10-year period simply because the changes taking place were faster than China had a stable system for managing. And in some ways, that's the issue that Ken was addressing. We have had 20 years of growth at a destabilizing speed. To maintain a nearly average of 10 percent annual growth has produced incredibly dramatic changes in China, and it's not easy for a system to handle that and maintain stability unless it is able to adapt and it has adapted the ideology over the last 20 years in particular, but it hasn't adapted the way of managing things sufficiently to guarantee stability in the future and this will be an important factor.

I would also like to add on this, Cheng Li has done some outstanding work in terms of establishing concepts such as the princeling group versus the China Youth League Group and these are important distinctions, but there are some other distinctions that need to be borne in mind. I think, for example, in analyzing Xi Jinping, we need to look at his

father, Xi Zhongxun. After all, he was a princeling, he had impeccable revolutionary credentials, he was already a revolutionary and member of the Chinese Communist Party when the Long March ended in Shaanxi Province in 1935 and he rose to become a vice premier of China, but he was purged in 1962, and he spent 17, 18 years essentially in the political doghouse during the period from 1962 until the opening of the reform and openness policies. This had a major impact on Xi Jinping. He had extreme difficulty in getting into the communist party. He had, according to some of the accounts of it, he had to apply eight times before he found a party leader who was sufficiently courageous to be willing to move the papers forward and get him in. He ran into the same types of difficulties when he was trying to get into Xinhua University. So, in other words, he has experienced being a political pariah during the upheavals of the cultural revolution in China. And his father, when he was brought back by Deng Xiaoping, became the governor of Guangdong Province in the south and despite this background, impeccable communist credentials, both revolutionary and in terms of experience and the experience of being purged, he embraced the radical changes that were being introduced in Guangdong Province under the new circumstances that China was facing.

So, is Xi Jinping going to be similar? If he sees new circumstances in China, is he going to feel that radical changes are

necessary or is he going to be cautious in trying to introduce the reforms that need to be made? These are the sorts of things we need to wait and see. Not all princelings encounter the types of political difficulties that Xi Jinping encountered, and, therefore, we need to keep this in mind. But there are some bigger issues. China now has still an authoritarian political system in terms of the way that we Americans look at political systems. But it's almost unique among authoritarian systems in having a regularized system for changing leaders.

Now, in democratic systems, we recognize that to change policies, you normally have to change systems, you have to change leaders, and China now has a regular process for changing leaders. That paves the way for changing policies, but we don't know exactly how they will be changed until we see how the new leaders perform. And this is important.

Ken addressed some of these issues. Well, if you work your way through the work report and the speech by Hu Jintao at the beginning of the 18th Party Congress, it seems to me what you see is a basic call for fundamental economic reforms and fundamental political reforms with broad concepts in terms of what needs to be done.

For example, on the economic sphere, there's language that clearly indicates that the state-owned sector and the private sector should

get equal treatment. There's no language suggesting a major decrease in the role of the state-owned enterprises, but there is language saying they should have equal access to basically the capital necessary in order to thrive and at the same time we don't know what the details will be. So, this reminds me a little bit of the financial reform legislation that Congress has passed and in which the argument is over how the regulations for implementing the legislation are passed.

I look at the work report as basically setting broad guidelines for what needs to be done, but what actually is done can vary quite radically within the framework, even on the political sphere, as I read the political reform proposals, this is an effort by a one-party system to retain a one-party system and only introduce they use the term deliberative democracy. I would translate it rather as consultative democracy. Deliberation I don't think captures the idea for American minds as well as the idea of consultation.

The idea is that there will be more inputs from a variety of people before decisions are made, but then they are implemented through a one-party system. But that has a long range, and as was already detailed, the fact that they are introducing the concept of having more candidates for jobs and they may begin introducing that at higher levels, you begin to get a windowing out process in which people who push

policies that are radically unpopular will have to pay the penalty in terms of how the system functions. So, I have not read literature addressing the question of how an authoritarian system functions when you have a regular turnover in leaders in which younger leaders always replace the older leaders and that's something I think that we need to watch in China as we progress.

Now, one final comment and then we'll open for questions. Why did we end up with a seven-person politburo? Well, you can argue it in terms of conservative policy versus radical reformers; the two radical reformers supposedly didn't make it onto the standing committee.

But there's another way of looking at it. The 25-member politburo that came out of the 17th Party Congress was down to 24 because of the purge of Bo Xilai. Fourteen of the members had to retire because of age restrictions. That meant you only had 10 candidates to go under the standing committee of the politburo.

Previously, for two terms, it had been a nine-person standing committee. So, if you kept a nine-person standing committee, one person is excluded. That's embarrassing in any system. And, so, the solution is reduce it to seven. After all, the 14th and 15th standing committees were 7 persons. So, there was a precedent for it, but it explains why they decided to go to a smaller standing committee so that you didn't cause

people to lose face because they were the sole person excluded. But most of the stuff I've read about has struggles over fundamental policies and then, as Cheng Li pointed out, the ones who made it onto the standing committee are the 5 who have to retire at the 19th Party Congress and the 2 who didn't make it or the 2 of the 3 who didn't make it have the opportunity to move up to the standing committee at the 19th Party Congress because they're young enough to serve until 2022.

So, there may be some technical factors as opposed to policy factors that go into this and this is why we have to be very careful in not over-interpreting the results of what has come out of the party congress. But the one thing we know is we have a set of new leaders. They are younger than their predecessors; this is the first generation of China's top leaders whose formative experiences have been almost entirely in the reform and openness period. They are better educated, they have more exposure to the outside world, they are more conscious of how China has to continue its progress within a global environment in which there will be tradeoffs between domestic policies and international policies and they are highly experienced. Should that make us pessimistic or optimistic? I don't know the answer to that question, but I think that the way to think about it was very nicely presented by both Cheng Li and Ken Lieberthal.

Let's open the floor for questions. I think we have about --

MR. POLLACK: I'm going to assert executive authority and we're going to run a little longer because we've really so curtailed the discussion period here. Depending on the brevity of the questions and the rigor of the questions that you ask, we can run a few extra minutes. So, I would say we have until about 10:40. We'll have a very short --

MR. ROY: About 15 minutes.

MR. POLLACK: Yes.

MR. ROY: Please keep questions short. Let's start there.

MR. POLLACK: And please identify yourself and then ask your question.

MR. STRAWBRIDGE: Hi, thanks so much. I'm Jamie Strawbridge from *Inside U.S. Trade*.

I had a little bit of a personnel question for Cheng Li. Could you just expand a little bit on Chen Deming not making it back onto the Central Committee? Is there a reason or what do we know about the why there and do you think that would at all affect U.S.-China trade policy going forward under his apparent successor? Thank you.

MR. LI: It's not entirely clear to me, but he had a history. Five years ago, he was considered as minister of NDRC and but he was eliminated in the first round for the four members of central committee. He

did make it to be the alternate and if you failed the four members, you can go to the alternate election. He did become alternate member, but NDRC is so important, usually should occupy a full member of the central committee. So, that was five years ago. So, this time, it's even more dramatic that he was considered in a high position, politburo and vice premier, but eliminated at least in the full member. Whether he goes to the alternate member for election I don't know because this will be deciding the 41, the chairman group to decide. It's still information that's not leaked yet.

But the reason is also not clear to me and I met him several times and quite impressive and but internally, the minister of commerce also like him. In terms of factional identity, he's closer to Chen Deming factional actually I should say, but there must be something beyond me. I do not know. Yes, if anyone knows, I would be happy to listen, but based on all the information, it's unclear. Just unpopular.

MR. ROY: Yes, okay.

MR. LAW: Hi, my name is Eric Law. I'm with the (inaudible).

My question is for Li. The problem you're talking about, like pushing reforms. In the old days, it's like Deng Xiaoping is a strong man pushing reforms, but now I think that it's getting more and more of a consensus, but you talked about like how many people are from the Hu

camp and how many people are from the (inaudible) camp. So, it seems like there is a lot of like behind the scenes struggle within the party. So, I agree that I think it's very hard to push reforms when there is a lot of like former people still in the party.

So, what do you think would be the important thing that these reforms need to be pushed? So, what kind of scenario you can see that could make this happen?

MR. LI: Very good question. First of all, I want to explain. We probably need to be a little bit sensitive about the two kinds of reform. When you say economic reform, when it's political reform. They're not the same, although Ken said so well, I agree that you need to come together, but from there, old mindsets, sometimes they think China should continue with so-called China model, which you really have the economic marketization, but severe control of the political system.

Now, that view has been challenged by Wen Jiabao, by Li Jianguo, by Wang Yang, but certainly with that team, you can see these leaders actually quite open for economic reform. Actually, those Communist Youth League or even to a certain extent, Wen Jiabao, they have a lot of reservation with some rapid, drastic financial liberalization. They think it will hurt China's poor people and et cetera. So, you do see

the liberal and financial economic front may not be liberal in the political front.

Now, at this point, the team, we see in the six, seven people, most of them are not famous for any political reform, and, in fact, they just resist the election, certainly already make a very clear statement and, yes, Wong Cheysen (phonetic) be assigned to the anti-corruption czar. That's great news, but he needs to find the delicate balance. On the one hand, uplifting the public confidence about anti-corruption, but at the same time not offend some of the big families and the interest groups. That's an extremely delicate situation. If Wong Cheysen cannot do it, I doubt anyone can do it, but that's the situation.

So, the bottom line is that in my reading, these leaderships, they're probably not for election, not for open media, but probably will reach a consensus on the area of rule of law because it's a safe way to go because rich people, poor people, middle class, they all think that the rule of law is important in the wake of Bo Xilai scandal and also these elites who all of a sudden find my God, that the law could protect our interests. So, that's the mindset at the moment. So, I think we probably will see this kind of development, and, by the way, Brookings, we have a major event in the afternoon of the 28th and by a prominent Chinese legal scholar, very liberal, really challenge Bo Xilai and challenge the one-party

law called for traditional independence. He will give a speech. We have a book launch in the afternoon of the 28th, and the Supreme Court Judge Stephen Breyer and also several professors from Yale, Harvard, and U.K. Jerry Cohen will speak. So, particularly the Ambassador Jon Huntsman also will be here. So --

MR. POLLACK: We will put out an announcement on that --

MR. LI: So, that's the direction I think we should monitor very, very closely.

MR. POLLACK: Yes.

MR. ROY: Okay.

MR. ZANG: John Zang with CTI TV of Taiwan.

How do you compare the new Chinese leadership lineup to the Hu Administration in terms of the development of U.S.-China relations? Would the new leadership pose a greater challenge to the United States or would it be in a more corroborative mode in terms of U.S.-China relations? Thank you very much.

MR. POLLACK: Ken, do you want to take that on?

DR. LIEBERTHAL: Yes, although, we have a panel coming up that is on that issue. I'll give you just a couple quick thoughts.

One, keep in mind 2012 was a very difficult year for East Asia. Every single country during the course of the 2012 calendar year,

China, the U.S., South Korea, North Korea, Russia, and Japan, all have leadership succession or election during that year. It inevitably makes the top leaders focus inward on leadership issues, very unwilling to appear to be in any way weak abroad and so forth.

2013 is the opposite. You would expect the new leaders knowing they have to deal with each other for years to come, potentially have a more positive agenda, be looking forward. How do we build something that's not going to impose high costs and have few benefits? And every one of those leaders has enormous domestic problems that they have to confront and they want some more space to pursue that. So, I think that there's the kind of underlying tectonic plates are moving at somewhat different directions in 2013. Obviously, specific events can throw that out of whack, and if you look at the details, they're pretty tough.

On Xi personally, he has some exposure to the U.S., he's seems to enjoy being here. When he's been here, he has good relations with Vice President Biden and so forth. He seems to be an easier person to deal than Hu Jintao was. At the same time, he's been the guy in charge of the leadership's small group on maritime security. And that's been coordinating their policies on the South China Sea and Deowu (phonetic). Those policies have not been ones that make you think he is about to make major compromises to cool things down with the U.S. and with

others in the region. We'll have to see. I could see him going either way. My hope is that both sides will be trying now to figure out what a constructive agenda will look like and how to get that going as they engage during the course of the coming year.

MR. ROY: I would add that it's still not clear what the structure of the new foreign policy team will be in the case of China and in the case of the United States. But we'll leave that to Jeff Bader to straight out a little later.

Yes?

MR. MESSIDIC: Mike Messidic of the PBS Online News Hour.

Ken, you dropped a couple of interesting nuggets from your time in Beijing. First, could you explain to what extent your dates overlap the congress and give us more of a sense of how people got their information about what was going on and this phenomenon of independent commentary. Isn't this the first party congress where you've had this range of independent commentary going on?

MR. ROY: Two minutes, Ken, because there are a lot of questions out here.

DR. LIEBERTHAL: Okay, sure. All right, I was there during the central committee (inaudible) right before the congress and talked to

several delegates to the congress along with others. The chattering class phenomenon in Beijing leading up to a party congress is not new. Any of us who have been there on the eve of other party congresses, everyone's got the leadership lineup, everyone's got the facts and all this stuff, and everyone ends up having been wrong. (Laughter) Right? But it's kind of like Washington on the eve of the election.

What is new is the social media side of it. That's brand-new and that, it's a little hard to know what to make of it, but the leadership certainly is very sensitive to the fact that social media is out there dogging their heels all the time and with more than a little sarcasm and humor as they do it. So, there's an issue of I think some element of face and stature that gets caught up in this.

But China is full of strategic leaks in the lead up to a leadership change and my experience over a number of years now has been never believe any of them because they are strategically explained. Insiders and even highly-placed people, but in the (inaudible) don't really know what is going on in the core negotiations that are taking place internally.

MR. LI: Thirty seconds, can I respond, as well? Yes.

MR. ROY: Thirty seconds.

MR. LI: Thirty seconds. Besides the social media, I think another factor is that the list was leaked about two or three weeks before the party congress. It's 95 percent correct. And this part of the leak related to the fact that probably from the retired leaders still very powerful.

Now, let's raise the issue that the Ambassador mentioned, age limit creates a sense of fairness, but at the same time also creates problems. Any leaders retire in their late 50s or early 60s retire from various government positions. These people are very unhappy because they're still young. By our standard, late 50s is not that old. And you create a huge pool and some people same age, but they are not on the ballots, some of the leaders. They immediately make noises like the military officers Xong Chensen and et cetera. So, in the future, it's really this norm, this law should be changed. The best way is through election method within the system to really to create the next level of fairness. Otherwise, it's really a bizarre situation. The pool of retired leaders are huge. Some of the senior leaders, even standing committee retired leaders become very critical about the current previous administration like Hu Jintao and Wen Jiabao by retired standing committee members. So, that's the situation plus social media and also the independence of legal professions and intellectuals both on the left and the right.

MR. ROY: Yes.

SPEAKER: Thank you. I'm Tracy from the Singapore *Straits Times*.

I wanted to ask about the public security portfolio. It used to be with Joe Yoncong (phonetic) in the previous standing committee and since it's been reduced to seven, I'm wondering whether that portfolio is being handled by anyone in the standing committee and if it's not, what's the significance of that and who's handling it? Thank you.

MR. LI: Twelve hours ago, they announced the new chairman of the political, science, and the law commission. This is in charge of police. Meng Jiangzhu. So, it will not be on the standing committee level, will be in the politburo level. That's an important development because in the past decade, at least the past five years, according to liberal intellectuals and also according to legal professions, the central problem in China is the judiciary and the prosecutor and the police, under control by one person, one committee in various levels of leadership.

In China, as He Weifang, the legal scholar who will speak here in about 10 days, he said so nicely, he said the Supreme Court judge should report to the police chief. That only happens in China, but that's the structure because of (inaudible) position, but now that downgraded and there's a core in China's legal profession to completely abolish that

commission to separate these three entities because, otherwise, it sounds like everything just is controlled by the person. So, it's really there's no judicial independence at all. So, that's a welcome development, but we're still yet to see how that truly implemented, it needs serious effort to go that direction.

SPEAKER: But wasn't it a political decision or a policy --

MR. LI: Political decision. It's a political decision.

MR. ROY: Okay, yes.

MR. MITCHELL: Thanks very much. I'm Garrett Mitchell and I write *The Mitchell Report*.

And I wonder if the panel could address the political dynamics in the system. You've talked a lot about the composition of it and the issues that are being faced and given us a good look at the leadership, but when they take office, how do they get things done? What happens if Xi decides that he's got more reform in mind than his counterparts? We know what happens in a parliamentary system, we know what happens in a democratic system. So, how does the leader and then how does the group -- what's the dynamic look like?

MR. ROY: Before we answer, I'm going to take one more question and then that will end it. Yes?

MR. MADDES: My name is Joe Maddes; I'm a graduate student of American University.

I'm just wondering if the factional background, is this theory sufficient to explain the actions of all the members at the top level or are we going to see in the future development more of ideologically-driven factions because it seems like people are born into being princelings or marry in or they're hired and trained as pompies. So, it doesn't seem to be sufficient to explain their actions to me.

MR. ROY: Okay, dynamic and then --

DR. LIBERTHAL: Yes. My sense from having looked at China for a long time is if you want to understand why things are coming out the way they do, you have to have a combination of an understanding of policy process, an understanding of bureaucratic rules that help to allocate power, information flows, and so forth, and an understanding of the real substance of the issues they're dealing with. Real substance is very important, right? It shapes a lot of things.

And, so, I tend to personally play down kind of factional backgrounds because I think all of those provide in the broadest sense kind of political communities, but it doesn't get you to a policy level. And, so, I think that's very important.

If you study China closely, this is a highly bureaucratized system with actually pretty strong rules and norms, at least at the top through how information flows to the top, who puts it together, under what conditions do they push it up to the next level, and so forth. Obviously, we can't go through all of that here, but let me say at the very highest level, the Politburo Standing Committee level, Xi Jinping is certainly *primus inter pares*, right? He has the capacity to convene the meetings, he has the capacity to set the agenda, he has the capacity to sum up the discussion. Hu Jintao ran it in a way that if there was strong objections from any member of the standing committee, he'd table the issue for further consideration. We'll have to see whether Xi is tougher than that, right, for whatever reasons, whether he can shape it more than that.

Once a decision is made, there's a very bureaucratic process for how it's implemented. Which bureaucracies take the lead, which members of the standing committee oversee it, and so forth? The thing that I would stress overall --

SPEAKER: (off mic)

DR. LIEBERTHAL: Yes, last line. The thing that I would stress overall with the economic informed decisions is that there is a lot of flexibility for almost all of them. There is a lot of flexibility at every level of this political system so that something that can be decided pretty clearly at

the top, if you look two years later of what actually happened throughout the system; you'll find it often moved in a very different direction. And it's just at each of five levels, people exercising the degree of flexibility they have to contour this a little more in the direction that they prefer. And by the time you've gone through 5 levels and 40,000 units, you got a very different kettle of fish out there. So, you need to understand all of that to really get a grip on what actually happens as versus what the rhetoric is at the highest level.

MR. POLLACK: Cheng, a sentence or two.

MR. LI: Yes. First answer your question, I think Xi Jinping is the first equal and his power has limitations, although now he sounds like he does not have two retired leaders to interfere. Now he has a team that more or less in the same factional line to give him a lot of incentive. That's good news, but could be also a challenge. In the future, you cannot have an excuse because of my policy, it's blocked. So, he is the first among the equal. It's still very much a collective leadership.

Now, to answer your question, I think you're absolutely right that a factional approach has limitations, but the fact is that no approach is perfect, that each approach has limitations, but the important thing is that you look at today's Chinese politics in the age of collective leadership. Factional priority is the most important component.

This is the wide public attention in China, and also outside the world, focused on who gets in, who gets out because largely bifactional line, of course, there's some exception. Bo Xilai belonged to Chen Deming's camp, but they purge him, same case in Gee Wah (Chinese name 1:24:54) another heavyweight also purged or demoted early on, but the important thing is sometimes the leaders with scandal should be removed, but faction is so powerful to be dismantled, if dismantled would be a revolution.

Now, again, this is similar to a certain extent with democratic party and republican party. Do we think that all the democrats are same value, same attitude? No, but it gives you as clues they usually have their base, geographical and social economic class. The same things in China, these two factions. And with princelings, it's really (inaudible) it's entitlement despite all the differences. So, the public resentment of this group is overwhelming. The pompie has its own limitations. They are not so reform-minded into economic matters. So, the important things is check and balance because pompie provides another alternative for this very privileged, this kind of son of revolutions. So, (inaudible) power base for the party, that's important, but now you see the tendency that balance is broken or almost broken. So, that's a dangerous sign, but I still think

the party has a chance to overcome that, but let's see. Certainly, that party congress gives some kind of hope, but also a lot of fears.

MR. ROY: Okay, we'll take a break now. Ten minutes?

MR. POLLACK: Yes, a 10-minute break, but, please.

(Applause)

(Recess)

MR. POLLACK: So, without further ado, Alan, the floor is yours.

MR. ROMBERG: I'm going to be very brief in introducing our two panelists. I think they're -- I'm also going to be a discussant, for which Jonathan promised me two cookies, as opposed to one, doing double duty.

So I'm not going to really say anything substantive about this panel, other than that I think the two subjects -- that, is, looking at the U.S. side of things, and looking at the regional side of things -- number one, they mesh very well but, number two, they also mesh with the first panel in an important way, and I think we'll all be interested to hear how that is done.

Jeff, I think you're going first. And I think we all know Jeffrey Bader, I guess the founding director of the Thornton Center, and the senior director at the NSC under President Obama for the first two-plus

years, I guess. He has written, by the way, a wonderful book accounting that period, which I think is probably available in the Brookings bookstore, and which is a great read.

And then Jonathan Pollack, the current Acting Director of the Thornton Center, somebody -- I must say, on a personal level, when he was out in the wilds of California, which is someplace beyond the Appalachians, I think, I used to turn to his writings when he was at Rand to really understand what was going on in Northeast Asia. I didn't know him then, but I was always -- I found myself always in agreement, which, of course, meant his writing was really terrific.

But, without further ado -- Jeff, please.

MR. BADER: Thanks, Alan. And it's daunting coming up here after that first really outstanding panel, which had three presentations which each took different perspectives on the situation in the wake of the Party Congress, and complemented each other really magnificently.

I want to say briefly, at the outset, how I see the current shape of the U.S.-China relationship, I see it as basically in decent shape. I don't see the downward spiral or rising confrontation that I read about frequently in the media, and some scholarly commentary, both in the United States and in China.

To illustrate that, the *New York Times*, over the weekend had an article about President Obama's current trip to Myanmar, Thailand, and Cambodia, and talked about it as a "continuation of the contest -- " -- that's the word they used -- "with China." Now, if the *New York Times* sports section followed the same standards as the front page, then the Redskin game yesterday wasn't really against the Philadelphia Eagles, it was really against the Green Bay Packers. And one thing I learned in working at the White House is you can't do a trip to Asia -- it doesn't matter where you go, it has nothing to do with the countries you're visiting, it's about China -- even if in all the preparations, all the briefings of the President beforehand, all of the principals' committee meetings China is never mentioned, it's about China.

I'm not sure what standard is being applied to determine what constitutes a "good" or a "normal" relationship. I've been involved in this relationship for over three decades, and I can't recall a time when it was easy, or untroubled, or without substantial frictions. At least, perhaps, in the 1980s, when we were both transfixed by the Soviet threat, but at no time since then has there been across-the-board cooperation on security and economic issues. That isn't to say that I'm not concerned about some aspects of the relationship right now. It's just that I don't see it as beyond the capacity of our leaders to manage issues in a way that allows the

cooperative elements of the relationship to remain substantial, and to avoid conflict.

Perhaps that's not enough for people who don't like to live with uncertainty, or with the relationships that don't fall neatly into the category of "ally" or "enemy." But it's, my view, the right way about the U.S.-China relationship in the real world.

So what are the chief characteristics of the relationship at the moment when President Obama and General Secretary Xi will be dealing with in the months and years to come?

Well, first, as Secretary Clinton said in her speech at the U.S. Institute of Peace a few months ago, we are "interdependent." That's the word she used. Our economies are interdependent: China holds \$1.3 trillion in U.S. treasuries. U.S. companies have over \$60 billion invested in China. Two-way trade is well over \$500 billion. And this is a relationship - I think Larry Summers put it very well -- Larry, who was mentioned earlier today. I've heard him say that he could picture a 21st century in which the United States and China prospered, or a 21st century in which the United States and China did not prosper. But he could not picture a 21st century in which one prospered and the other did not.

Now, second, we have a fair degree of cooperation on the principal nuclear weapons threats, namely the Iranian and North Korean

programs -- though we do not agree on the proper mix of pressure and inducements.

Third, we are both watching the Arab Spring, if that's what it's still called, with wariness, as we see negative consequences play out in Syria, spill over into Mali, Libya, and in Egypt's relationship with Israel. But the U.S. remains more prepared to align itself with forces of change, whatever the risks, while China is hostile to any actions that would violate its sacrosanct principle of respect for the sovereignty of existing governments. So we confront each other over Syria, but one cannot rule out evolution of a situation there that could alter U.S.-China-Russia confrontation, such as the situation in Gaza.

Fourth, a three-way relationship among Beijing, Washington, and Taipei is positive and quite -- as quiet as it has been in over two decades. Since that is the only issue on which there is any realistic prospect of armed conflict, that is no small thing.

Fifth, the territorial disputes in the South China Sea and East China Sea are, in my view, the most troubling development. Chinese confrontation with U.S. treaty allies, principally with Japan, creates serious tensions, and introduces unpredictability into the U.S.-China relationship, as well as offering an image of China's rise that is unsettling to countries well beyond the concerned rivals.

And, finally, military deployments on both sides -- I won't discuss those here, since I believe Jonathan Pollack will do so in some depth in his presentation.

So what should we expect in President Obama's second term, and in Xi Jinping's first, in the relationship?

I think the main variable in the relationship, in my view, is China. President Obama has had four years to formulate and put in place an approach toward China. In broad terms, it is consistent with that of his predecessors since President Nixon. Its main features are a welcoming attitude towards China's rise, and willingness to accept a larger role for China internationally, and insistence that China's rise be consistent with international law and norms; a deepened U.S. presence and engagements in the Asia-Pacific region, including in international organizations like the East Asia Summit; strengthened alliances and partnerships with China's neighbors; gradual developments of military-to-military relations; openness to Chinese investments in the United States; avoidance of protectionist measures that rattle markets, but greater willingness than his predecessors to use trade remedies and WTO dispute mechanisms.

There is little reason to expect a dramatic change in this approach in President Obama's second term. But Xi's approach to the relationship with the U.S. is less clear.

Before getting to that, let me just pick up the point that I think Stape Roy was talking about, and Cheng Li alluded to: Who's going to hold the key foreign policy portfolios in China in the years to come? The names that Cheng Li mentioned on the Central Committee, I think, give us a pretty good universe to look at. You know, Yang Jiechi, Wang Yi, Wang Guangya, Wang Jiarui, and Zhang Zhijun. They're all Central Committee members. And, Cheng Li, correct me if I'm wrong, Zhang Youxia is an alternate member of the Central Committee. So I think that's the universe to look at for State Counselor and Foreign Minister.

I am not going to make a fool of myself and predict which one will be in which position. I had about a 75 percent rating in predicting the Politburo Standing Committee members, which is not that high. I was 100 percent on the U.S. election, thanks to Nate Silver. But, I'm not going to go out on a limb.

What I would say about these characters, these individuals, if you look at all of them, I guess only two of them have deep, longstanding backgrounds in relations with the U.S., Yang Jiechi and Zhang Youxia. The others, Wang Yi has known mostly in Japan and Korea and Taiwan. Wang Guangya has been international organizations and, more lately, Hong Kong. Wang Jiarui has been North Korea. Zhang Zhijun has been Asia.

But that doesn't tell us very much. I mean, if I think back to the 1980s, when we were wondering who was going to succeed Wu Xueqian, I remember one of the names that came up was Qian Qichen. And Qian Qichen -- what we knew about Qian Qichen was he was a Russia-hand. He knew Eastern Europe. So there was an assumption on the part of -- sort of an easy assumption that, oh, he must be friendly to the Soviet Union. Well, on the contrary, Qian Qichen turned out to be a great steward of the U.S.-China relationship without a background in it.

And, more recently, Dai Bingguo has been State Counselor overseeing the U.S.-China relationship. When I first met Dai, before he moved up, or when he was moving up, he had no real background in the U.S. relationship at all, and he has turned out to be, really, the foundation of the relationship in the last few years, despite not having that background.

On the other hand, people who are associated with the United States often feel defensive within their system about that relationship. They feel they're potentially under attack, seen as America-hands, much as China-hands in the 1950s, if you will, were under attack -- and sometimes overcompensate.

So, one shouldn't assume much about any of these individuals, about what kind of positions they'll take, except they are all

pretty well steeped in broad foreign policy and in the relationship with the U.S., even if it isn't the birthright of some of them.

In terms of Xi Jinping, I mean, I think Stape Roy absolutely nailed it, in terms of the unpredictability of people who rise in these one-party systems, as to how they're going to behave. There is no record to cite, in terms of the relationship with the United States, beyond Xi's rather successful visit to the United States, in which he performed well, showed some personality beyond what we're necessarily accustomed to seeing in General Secretaries. But it was generally on script, and that was not his script. So we don't know.

But while it's interesting to analyze the other foreign policy figures I mentioned, and the other members of the Politburo Standing Committee, this is going to be Xi's policy, as I see it. I remember I went to Beijing in 1997 with Madeleine Albright. We happened to land there, I think, one or two days after Deng Xiaoping died and Jiang Zemin was giving a funeral oration, the next day we met with Jiang at 9:00 p.m. And Jiang said to Secretary Albright that some years ago, when he assumed the general secretary-ship, that Deng had told him, "You are responsible for U.S.-China relations." That was a quote. And he made a big deal out of that. Basically it was passing the baton from Deng to Jiang.

If I look at the last few years, this has been Hu Jintao's relationship. He's been helped, I think, by Dai Bingguo. I assume he's been hemmed in, to some degree, by the rest of the standing committee, but it's been fundamentally his relationship. I expect nothing less from Xi Jinping. The other members of the Standing Committee are interesting, but this is going to be Xi Jinping's relationship.

There is one important respect in which I believe relations can be smoother in the next few years. Many Chinese intellectuals, and some officials, have reacted with alarm to President Obama's announcement of the U.S. pivot to Asia, the Asia-Pacific region, in November 2011. While the "pivot," or rebalancing, should not, in my view, be seen as a strategy of containment of China, clearly some of the military steps associated with it -- the deployment of Marines to Northern Australia, the plussing-up of Navy resources in the Pacific, the formulation of means to foil anti-access strategies, the U.S. posture on South and East China Seas -- these have thrown the Chinese off balance, just as they have been generally well received by other countries in the region.

But, by now, I think the Chinese should have absorbed the meaning of the rebalancing. There should not be more jolts from the U.S. side in the second term -- I would guess. If you read or heard Tom Donilon's speech at CSIS the other day, previewing the President's trip to

Asia, you will have heard and seen a vision that is essentially steady-as-she-goes, not a preview of new, dramatic, and particularly dramatic military initiatives.

The U.S. economy should be stronger in the next few years. China's growth has slowed from the blazing pace of 2000 to 2010 that accompanied, and probably caused, a lot of the assertiveness we've seen in Chinese foreign policy in the last few years. I would guess that the likely alteration of the slope of these two curves will mute some of the talk of American decline and Chinese dominance that has flourished in the last five years.

And, finally, I'd say the principal risk that I see that could lead to confrontation and serious deterioration of relations is the disputes in the South and East China Seas -- particularly the East China Sea.

Will China aggressively assert its territorial claims? Is it in a hurry to do so? Will it be pushed by nationalist voices at home, against the better judgment of the leadership?

If so, it is likely that U.S. alliances, particularly with Japan, will be strengthened and given a clear central mission of dealing with Chinese contingencies? This would lead to a different kind of U.S.-China relationship, and a different kind of security framework in Asia.

Thank you all very much. I look forward to your questions.

(Applause)

MR. POLLACK: Well, thank you. Given that Jeff has done such a really outstanding job of reviewing the different trends and possibilities in the U.S.-China relationship, I would set that issue aside in the time that I have, and focus, really, on two questions -- one of which Jeff touched on a little, one had been briefly alluded to in Cheng Li's remarks.

I want to talk about the turnover in China's military leadership, and what it, I think, may reveal about the shifting role of the Chinese military, the People's Liberation Army, in the Chinese policy process in the years to come. And then, related to that, I will talk about questions pertaining to the regional security environment that Jeff has also just raised.

Let me begin with the questions related to military leadership. Not unlike the turnover in the Party, there has been a near total makeover in China's senior military leadership, reflecting, again, the dynamics that are there that Cheng noted about how retirements are mandated at a particular age, and so forth. So if we look today, compared to where we were even only a few weeks ago, we see a change, major changes in the composition of the Central Military Commission. We see,

of course, two new military members of the Politburo. We see Hu Jintao's decision to retire from leadership -- noted both by Ken and by Cheng -- and potentially indications of the role that Xi Jinping with respect to military affairs.

We have new leadership in all four general departments of the PLA, as well as new leadership of the Second Artillery and the Chinese Air Force.

At the same time, it's important to note those who were not promoted. There were two generals, both very high ranking, both from ruling families, if you will, in China, who were associated with Bo Xilai, specifically Zhang Haiyang, who was Political Commissar of the Second Artillery, and General Liu Yuan -- and I should mention, Zhang Haiyang is the son of Zhang Zhen, who was a very, very powerful figure in the Chinese military in the past, had been a member of the Politburo. And then, of course, General Liu Yuan, the son of Liu Shaoqi, who was Political Commissar of the General Logistics Department.

Both of these officers did not receive promotions, obviously. And it reflects to me, I think, the continued effort to, in effect, consolidate in power professional military officers who are loyal to the Party, not engaged in Chinese internal politics, and in this context, suggesting over

time the gradual diminution of the dominant influence -- the pervasively dominant influence -- of the ground forces in China's military.

We can see this in a couple of respects. And, of course, related to this, the parallel rise of the Air Force, the Navy, and perhaps, to an extent, the Central Artillery.

Let's just look, for example, at the two new members of the -- the two new vice-chair of the Central Military Commission. Cheng alluded to them a bit before.

One, General Fan Changlong former commander of the Jinan military region --General Fan just did something very unusual. He jumped two grades. He had never previously served on the Central Military commission. In this case, he leapfrogged, if you will -- totally uncharacteristic in order to be promoted all the way up to vice-chair of the CMC.

The Jinan military region, I should note, has been the principal laboratory and location, the test bed, if you will, for trying on different kinds of concepts and doctrines related to military experimentation, related to major exercises that have been conducted there on a regular basis since General Fan assumed the command of the Jinan military region in 2004. So he has a personal and a professional identification with major steps in innovation in the PLA.

General Xu Qilang, former commander of the Chinese Air Force, he has spoken and written extensively about the role of air and space power in future strategy that moves well beyond very, very traditional concepts of the dominance, if you will, of a kind of an air-defense mentality in the PLA. No service chief previously has ever assumed this kind of leadership role in the past.

So we have a significant shift, it seems to me, with these new leaders, as well as the new leaders in the general departments and the Second Artillery.

If we look, for example -- to use one particularly telling case - - the new commander of the General Staff Department of the PLA, a General Fang Fenghui, he's a graduate of the National Defense University. He is widely published on a range of topics, in military journals and the like. He was the youngest of China's seven military region commanders, having been put in charge of the Beijing military region in 2007.

So all of these, I think, suggest to me a system that has become a bit more dynamic, certainly not following the established norms.

Now, into this mix, let's look at Xi Jinping. As many have noted, Xi has a certain amount of military pedigree. In around 1980 he

was the Secretary, the (inaudible) for Geng Biao, then the Minister of Defense of China, and an important political figure in his own right.

It suggest to me that between this and some of his career background as a party official, he may prove a more influential figure in military policymaking than either Jiang Zemin or Hu Jintao. We could also add to this his wife's career as a PLA singer, but he does have links into the PLA that his predecessors have not. These affiliations are family and through a variety of work experiences. He is, therefore, not nearly as much a stranger to the PLA. Ken Lieberthal noted before, Xi's leadership of the Maritime Security Small Group, so he has been much more active, I think, in this area than people might realize.

So, it begs the issue: Is Xi the leader and advocate, if you will, that the PLA has been waiting for? Even if the PLA did rather well under Hu Jintao, really seeing significant military modernization, significant increases in its funding levels, this suggests to me a different kind of relationship between the leader at the top and the services -- perhaps including a much more hands-on role in the formulation of military policy.

Not all of this, by the way, is necessarily happy news for the PLA. The question, for example, is: Will Xi Jinping put military corruption on his to-do list? We'll find out. We'll see the degree to which he is identified with that. But it highlights, to me, that his circumstances as

General Secretary, and as Chairman of the Military Commission, necessarily put him in a different kind of position than his predecessors.

The fact, in addition, that Jiang Zemin, of course -- that Hu Jintao, unlike Jiang Zemin, will not continue as chairman of the Military Commission, really gives him additional opportunities and possibilities that his predecessor did not.

Now, let me switch quickly to questions related to the implications of China's military development, and its relationship to Chinese foreign policy.

As has been noted, 2012 was a very tumultuous year in Asia, not just for reasons related to political transitions in almost all the states of the region, but also in terms of what I'll call China's own military activism -- most notably, of course, as Jeff Bader noted a moment ago, with respect to China's conduct and developments in the South China Sea and the East China Sea.

In my view, these developments, since the spring of 2012, have validated a more forward-leaning military establishment, though it is still, obviously, I believe, the dutiful servant of the Party leadership. To be sure, much of what we have observed in both of these domains has been more the activation of the different kinds of maritime capabilities -- the

white-hulled ships, if you will, not the grey-hulled ships -- but these have quite simply redefined the status quo off the coast of China.

We now see whether, with regard to the Scarborough Shoal in the Philippines, or with regard to the Diaoyu and Senkakus, what we see is, in effect, a permanent or an ongoing Chinese military presence, or maritime presence, in both domains. Effective control of Scarborough Shoal by China and the surrounding waters -- and, with respect to the Diaoyu/Senkakus, I can only quote from a Foreign Minister spokesman on October 31st, who stated unequivocally, "A fundamental change has already occurred in the Diaoyu Islands."

So we now see daily patrols, or near-daily patrols of Chinese ships in nearby waters, suggesting to me that, in an ironic way, this has been as much an opportunity for the maritime services as it has been a problem, if you will.

At the same time, there are voices that speak of a kind of a harshness and a suspicion among the very few senior officers who have had occasion to speak publicly with respect to relations with the United States. I don't want to make more of this than I should, but it really bears consideration. The vice president of the Academy of Military Science made some very, very harsh remarks publicly in Melbourne in October, in effect suggesting that there's an American hidden-hand with respect to the

tensions in both the South China Sea and the East China Sea -- even as the United States, of course, insists that it does not take a stand in either of these areas on the respective claims. But that seems to be falling on some deaf ears in China.

Now, of course, even with respect to the vice president of the AMS who spoke in Australia, it's counterbalanced by, what you will, formulaic reiterations of defensive intent on China's part, insisting that China is not pursuing regional dominance or an exclusive Chinese regional order; that security cooperation of various forms remains the fundamental driving direction of the PLA, even as there are none-too-cryptic hints about the roles of "external powers" -- guess who -- in his view of injecting new tensions in the regional environment.

All of this, again, is against the backdrop of an unsettled regional picture that has emerged over the past year or more. It will, I assume, be a major item for discussion at the East Asia Summit, which will take place, I guess -- is it tomorrow, Ken? Yes.

Now, the military, in all of this, I think is playing a larger role in how China presents its policy options. Certainly, there is an increased emphasis on the acquisition and development of new capabilities, even as -- and this is telling, as well -- the U.S.-China military-to-military relationship has actually been much more active in recent months.

Secretary Panetta, of course, was in China in September. And even, for example, when Xi Jinping was in the United States last January, he specifically wanted to pay a visit to the Pentagon, which he did. So it indicates that Xi is not necessarily distancing himself from this kind of a relationship. He may even see a kind of a value added in identifying with it.

But the way that China is trying to improve its advantage, if you will, is to present itself as a much more credible force in this context.

Now, would Xi Jinping be prepared to risk a major downturn in the U.S.-China relationship? For all the reasons that have been noted, I doubt this very, very seriously. But China has staked certain kinds of claims, literally and figuratively, that could very well reconfigure the regional environment for years to come, or at least enables China, in its own estimation, to better protect and assert its interests.

So the question for the longer term is: How does the United States choose to react and respond? This is among the operative questions, it seems to me, that the Obama administration is going to face in coming years.

Thank you very much for your time. (Applause)

MR. ROMBERG: So, my second role is to be a discussant, as it were, following on these two terrific presentations.

When Jonathan asked me to take on this role, I cautioned him that one problem would be that I would likely be in violent agreement with both of them, and that turns out, in fact, to be the case.

So, what is left to me, really, is to add a few comments to what's been said, not to pick at all at what they have said.

Part of what I would point to, though, as I said at the outset, is that I think there is a meshing, not only between these two presentations, but also with the first panel. And Jonathan's comments, and Jeff's, too, point to the importance of the leadership issues that have just been before us in thinking about these questions.

So I'm just going to tick off a few points to comment on.

First, on the personal role of Xi Jinping, I agree that he really matters. I think there are two elements in foreign policy of nations that matter, one is national interest -- that can change, but it changes very, very slowly. The other is the individual who comes to leadership with a different background, a different life experience, a different set of values, perhaps, than his or her predecessor, and that makes a difference. Granted, you cannot rise in that particular system without having been acculturated. And, as was pointed out -- I think Stape made the point you don't get to the top by expressing individual views that differ with then current leadership which you hope to succeed.

And I think we can see, at least in the case of Hu Jintao, that on Taiwan policy, it mattered. I think he, on that issue in particular, forged a new consensus. He did so by adopting a couple of positions which allowed him to say, "I'm in line with everything that's gone before," that is the essence of "one China," and also not sitting by if there's any form of Taiwan independence. But I think he really did forge that consensus at the leadership level, and, whether on that issue or another one -- and I'll come to some of that -- I think Xi Jinping is in a position to do this.

I think we all have this question. It's a collective leadership, but "primus inter pares" is a phrase that's been used. I think that's apt. We just have to see whether, the fact that you've got five lame ducks, if you will, sitting there -- but if they're all sort of in the same group, or more or less in the same group, can Xi guide them along policy lines that he favors?

The question of the U.S. relationship sort of touches on everything that I see in the region, and even beyond: the issue of mutual trust. People have talked a lot about that over the years, the lack of mutual trust, the existence of mutual strategic suspicion. What are we up to, from the Chinese perspective? What are they up to, from our perspective?

The whole question of rebalancing -- I see Jeff caved in and used "pivot."

MR. BADER: A slip of the tongue.

MR. ROMBERG: A slip of the tongue. It's fundamental.

What I see, though, I think the point Jeff made is really right, and that is that there has been an adjustment, a recognition, I think, more than when it was first announced, that this is about more than China. It's about China, but it's about a lot more than China. It's about security, but it's about a lot more than security.

And while I think there is still a debate going on in China -- including within the PLA -- about how much this policy is designed to constrain China's rise, to limit its power and influence, and how much it's about this larger set of American interests, I do think that it is not the consensus, at this point, that it is simply a way of controlling China's rise.

But the question is, if we do have, still, a sense of mutual mistrust, how do we deal with that? I've long felt that we needed a real conversation at the topmost level, not where you sit there reading your talking points and so on -- although I guess you start there -- but where you try to have the leaders -- and this is obviously prepared along the way at lower levels -- talk about what your ambitions are, your concerns are, your hopes about the other side, in particular, and so on. I don't think one

should overdo the value of dialogue, but I think without it, and that kind of frank dialogue, I would say, you're not likely to deal effectively with that question.

With regard to the United States, I couldn't agree more with Jeff about the status of what's going on, in terms of cross-Taiwan Strait issues at this point, certainly, the calmest and the best it's been probably in 60 years. The question is where it goes from here, and whether that creates any potential for problems in the U.S. relationship.

I think that that is not likely, except in the case of potential arm sales. And we've seen in the past that Beijing has tended to suspend, usually, military-to-military relationships and, after the last announcement of arms sales, in fact, the PRC took a rather more mild approach than it had previously, I think precisely because the things that were of greatest concern to them didn't get addressed, didn't get sold.

Is that going to be the case throughout the administration? I think a lot of people think it is, but we'll have to see.

In the meantime, I think that we saw in Hu Jintao's report to the Party Congress the first reference at that level -- that is, in a Party Congress Report -- reference to the 1992 Consensus. Hu had talked about it before, but not in his 17th Party Congress report, and so on. And

he talked again, as he had at the 17th Party Congress and in other contexts, about a peace accord.

I don't think that necessarily means that you're going to have, in fact, if you take these things together a lot of pressure applied on Taiwan, which could then implicate U.S. interests. But I think that's something to watch.

The Middle East, I would argue, is likely to loom somewhat larger in the U.S.-PRC relationship, in the sense that if things really go off the tracks with regard to either Iran or Syria or, now, with Israel's problems on the Gaza, and so on, I think that both sides are going to be careful to try and work as well together as they can, but they don't look at things exactly the same way. And it will matter, I think, at least to the United States, if we find that things we think should get done at the United Nations, or in other ways, are being stymied by China. I'm not predicting that, but I would at least put a star next to that as a possibility.

North Korea. I think we're going to see some renewed efforts over the next several months to see if there is a path forward with North Korea. I don't see the Obama administration changing the terms of engagement, and Sung Kim, our ambassador in Seoul, just reiterated that, in fact, we won't. But we will also have a new government in Seoul -- which, I think, no matter who wins, will be looking towards at least some

more engagement. And that could, indeed, complicate things and involve both the U.S. and China. And I think we have to pay attention.

Finally, on these issues, I think that the focus on the South China Sea, and particularly the East China Sea, is absolutely right. I think we see -- China is basically, if you talk privately to folks from the mainland, what you get is, "We didn't start it. The Philippines started it at Scarborough Shoal, or Huyen," and the Japanese started it with regard to Senkaku/Diaoyu. But, as one said the other day, "We fixed it."

And that's, I think, a rather unfortunate attitude. But I think it may be all too accurate a reading of how at least some important people on the mainland look at what's going on. And I think I have nothing to add to what Jeff said about the possible involvement of the United States in this. I think one thing one could say is that attitudes here about what China is doing are not very positive. And so it's not only a matter of alliance engagement, which is real, but it's a matter of how people think about what China is up to, and how it is behaving and could behave into the future.

I guess I'll -- I had a couple of questions or points to make with regard to Jonathan. He partly answered the one question, the big changes in military leadership. The question I always ask is, so what? And you partially answered that in terms of the rising role of the PLA Air

Force. I'm not sure the Navy necessarily came out all that well, in terms of personnel appointments, but I think clearly they are being given a greater role. And I think, in terms of what you said about the island disputes and so on, that's pretty obvious.

I do think that China is seeking to change the status quo, and the military, particularly the Navy, is going to play a fairly big role in that.

Why don't I just leave it at that, and I'm now going back into moderator role, so I'll be happy to take your questions.

We don't have a lot of time, so let me ask you to make short questions -- ask short questions, not make statements, if you could.

I'll go ahead with Chris.

Introduce yourself, say who you are once you get the microphone.

MR. NELSON: Thanks. Chris Nelson, Nelson Report. Wonderful discussions. I'm really relieved to hear that Jeff's love affair with the *New York Times* has not diminished since he left.

It's so interesting that, you know, I hear guys operating at your level, which is the very highest of levels, you're saying, you know, the Chinese are getting a better understanding of where we're coming from on this stuff. But then when it's all wrapped up, you then say, "Well, here's

what we're really worried about." And it sounds to me like you're really worried about do they understand it or not.

Jonathan mentioned that horrendous speech in Melbourne by the, you know, senior Chinese military academic. And I made a big deal out of it on the report. You know, just as a layman at this end of the information, I don't see, I don't hear, nobody shows me any evidence, that the Chinese are a little more understanding of what we're talking about with the pivot, and what we're talking about with engagement, containment, and all that; that, in fact, they are adopting a much more negative interpretation of why we're doing what we're doing.

MR. ROMBERG: Ask your question --

MR. NELSON: So that's my question. You know, what is it that you guys are seeing or hearing at the senior levels that aren't getting down to us folks down in the weeds? So why should we feel more optimistic about it?

MR. BADER: Well, I'll take the first shot again.

First of all, I think one needs to keep an eye on how much of the rhetoric that we've seen diminishes now that the Party Congress is behind us. I don't know the answer to that, and I'm not going to make a prediction.

But I think their system is not radically unlike ours, in the sense that when you have a leadership change that's coming up, that nationalist views tend to be the coin of the realm. So -- and what you alluded to, Chris, was a speech, and rhetoric. You know, certainly in the Chinese system now, with the *Global Times*, and different CCTV channels, more and more outlets, there are more and more actors who put their views out. And they tend to be on the nationalist side. That's, I guess, a concern, but not surprising.

A couple years ago when Dai Bingguo wrote his article, I think we had some hope that this would -- you know, reaffirming Deng Xiaoping's mantra, we hoped that that would empower people of different views to feel that they could safely publish their views without inundated with, you know, 30,000 pages of e-mails. But that has apparently not been the case.

I mean, if you talk -- you know, I'm not reading classified material. I'm reading the same things you are. I've still got access, but I don't use it, thank you. And if you're talking to senior U.S. officials, I think you are hearing an interpretation from their conversations with their Chinese counterparts which is somewhat more sanguine than what one hears from General Liu Yuan or, you know, Colonel Dai Xu, or people like that.

It would be nice if they said these things publically. Maybe after the Party Congress, we'll start to see that.

MR. ROMBERG: Jonathan, do you want to add anything?

MR. POLLACK: Yes, just a couple of points.

I think Jeff is absolutely correct that there is a private-public discrepancy, from what I understand, in terms of the interactions that U.S. officials have with Chinese counterparts -- even on the mil-mil relationship -- that it often has a different tone in that context.

What was troubling to me, in particular, about this speech that Chris Nelson and I have both referred to, is you're talking about a senior leader of one of China's most prominent military institutions. You're not talking about a retired officer. You're not talking about, if you will, for want of a better label, a "military academic," as such. This is somebody who sits high up within that particular military organization. And it was troubling.

Now, a lot of that edge may indeed reflect, as Jeff has also noted, the kinds of things you have to sort of say and do and posture in a succession period. But this is really work that needs to be done if we are going to, on the one hand, get past a lot of these latent tensions and suspicions, and if we are going to find a way to avoid what I think would be

an absolute disaster, and that is a militarization of the U.S.-China relationship.

I know those are stark terms, but I could see missteps along the way, or undue eagerness of one kind or another, to rationalize and justify a much more intense military competition in a way that, frankly, would serve neither country's interests, and, ironically enough, would stand in stark contrast to the efforts of the Obama administration to build a different kind of U.S. presence -- not just military presence -- in and around China.

This is not -- I mean, is China part of this story? Sure. Is it China directed, as such, in some kind of an explicit way? Not in the way I would see the characterizations in much of China's media.

But it does indicate that the U.S. responds, necessarily, both to observed changes in Chinese behavior and, as well, to the expectations many U.S. allies and partners in the region. So nobody is spoiling for a fight, but that's the way things can often happen.

Frankly, my immediate concern would be of an incident or accident. I do, like Jeff, worry most about the tensions with Japan. This is just freighted with meaning at every possible level. I think it's much more consequential than what has or has not gone on in the South China Sea, although I'm troubled by both.

And will China be of a mind to keep a lid on these tensions, to see whether or not there are ways you can back off the possibility of a confrontation? That's not for the U.S. alone to control, but it's something that we're going to have to be very, very mindful of.

MR. BADER: I just have one point -- I'm sorry -- to come back to.

But, Chris, you asked, you know, what are we seeing that you're not seeing? I mean, one thing, if we were seeing a sort of an unmitigated Chinese suspicion and concern about what the U.S. is up to, rather than a reflective approach, I think we'd see different rhetoric on Senkaku-Diaoyu. What we're seeing is ferociously anti-Japanese rhetoric on the subject, but rather careful evaluations of the U.S. role on the subjects. That's what we hear from visiting think-tank people, and that's what we're seeing in the media.

Now, that creates its own problems for us, frankly, from a policy point of view, because of the U.S.-Japan relationship, and the importance of our being closely aligned with Japan on alliance issues. But the Chinese rhetoric on the issue towards us has been far from extreme.

MR. ROMBERG: I'll tell you what I'm going to do, I'm going to take three questions at a time -- and I don't know how many we'll get to.

Jonathan, what's our witching hour?

MR. POLLACK: We have to be out of here by noon.

MR. ROMBERG: Okay. All right.

I'm going to start with Mike McDevitt, John, and Eric.

MR. McDEVITT: Hi, Mike McDevitt, from CNA. A question for Jeff -- and, Jonathan, if you want to chime in.

You said that you anticipated, based on Donilon's comment's the other day, that kind of the rebalance is now steady-as-you-go for the future.

Within the context of what we've just been talking about, the maritime issues and what have you, what's your sense of pressure from our friends and allies in the region about "where's the beef?" Because what we're actually moving into the Pacific, or putting into the Pacific, or our posture changes is not very big, and is not very, in terms of capability, hugely escalatory in the eyes of Chinese.

So, would there be pressure from our friends to essentially put more capability in the region?

And then that, of course, relates to the work report, as I understand it, where there was a call for China to develop as a maritime power. And, in fact, you say if Xi Jinping was in charge of the Maritime Working Group, and so there is presumable some -- those words may have been his.

And what relationship will that have to pressure from our friends and allies to put more stuff in the Pacific?

MR. ROMBERG: John?

MR. ZANG: John Zang, with CTi-TV.

Talking about the South China Sea, or East China Sea disputes, as Alan alluded to, a lot of people in China do believe that the Chinese action in those two areas is not something that China actually initiated out of a grand plan, but rather a forced reaction to provocative acts by other countries -- like in the case of the Philippines, arresting, chasing Chinese fisherman. In the case of the Diaoyu Islands dispute, it's the nationalization of the islands by Japan against reputed Chinese warnings.

So do you -- how do you resolve this? Does China have to back off? Can China back off? Are the Philippines and Japan at least partly to blame?

I mean, how would the United States act as a neutral, you know, peacekeeper?

Thank you very much.

MR. ROMBERG: Okay -- and then Eric McVadon here, and then to your left.

And if you could keep your answers short we can get one more, at least one more round.

MR. McVADON: Eric McVadon, the Institute for Foreign Policy Analysis.

The last exercise I can remember that we had with the PLA military, or the PLA, was about 2006, I think.

Are we hopeless on that count? Can we have any prospect that you build some trust and confidence that way? I know the atmosphere certainly is not conducive now, but should we be trying to make it that way?

MR. ROMBERG: Okay, who wants to start?

MR. POLLACK: Well, in reverse order, actually, Eric, I think that there was one recent U.S.-China exercise in the Gulf of Aden. I mean, very, very tellingly, that's, of course, where China has now deployed, I think, 12 or 13 counter-piracy deployments -- I'm sorry?

SPEAKER: (off mic).

MR. POLLACK: But -- whatever. But, my point: Very tellingly, that's far removed from the zones that we're discussing here.

But it does indicate, at least, at some level, I think, a kind of more of a self-confidence that some in the PLA have, perhaps born from their experiences in the counter-piracy operations, that it's not necessarily

so noxious, or whatever, to think about other forms of cooperation with the United States in what is arguably a very, very sensitive ongoing issue.

On the blame-game, John, yes, I think that this has been mishandled by all parties. It does seem to me that China's stance has been highly reactive, almost feeling as if you have to err on the side of doing more to demonstrate just how serious you are. Now, none of us are party to the inner deliberations of the Chinese on this, but, you know, I think at some level this instilled a believe that, "We..." -- China, that is to say, "...have to be better organized, better prepared to respond, ask questions later, do things now and ask questions later," creating, if you will, as I said before, you know, not facts on the ground so much, but facts in the water that have really altered the dynamics.

Now, it may well be that the Chinese believe -- and I've heard some Chinese scholars assert this -- that they feel that this is now kind of managed. I think Alan alluded to this, that they have the means at their disposal to sufficiently complicate life for others that it won't go from bad to worse. That may be the case, but that would depend very, very much on whether or not you would be able to avoid some kind of an incident, some kind of an event that would clear be, would be very, very troubling.

And, Mike, very good question. You know, I think in some many respects the challenge with China -- maybe it's a challenge for all states -- is that how do we try impart, seriously, what we think our behavior and our intentions are? And does anyone really believe you?

I mean, for example, if you take the case of China and Japan, you know, the Japanese leadership is insistent, you know, "We don't really want to do this, but, boy, it would have been a whole hell of a lot worse if other things had happened." And they may well be right.

But that doesn't really resonate with what is very much a domestic audience on these questions. I'm not talking so much about public pressures, but more how issues are deliberated within leaderships, and judgments that they draw upon.

And I think the answer is going to be: The proof will have to be in the pudding. I think as the fuller range of the goals of a rebalancing strategy are laid out, that's something that's going to really require Chinese leaders to ponder more than a bit. Because, in essence, the President's trip right now is much more about political and economic factors, not about the military. You can still worst-case those arguments -- and I've seen some of those already, but I don't find them, frankly, very, very persuasive, for all the reasons that Jeff noted before, about the article in the *New York Times*.

MR. BADER: Just a quick comment on each.

Mike, on your question, Australia's cutting its defense budget. Japan, we'll see what the new government does in terms of its budget. The loud voices on security issues may not prevail, when it gets down to actual budget.

My own view, my own sense is -- and I need to have more conversations on this -- is that what countries in the region are looking for is not so much visible evidence of new systems, new capabilities, as sustainment. What they want is a sense that the U.S. is there to stay, there to stay in a military sense, and that we have sustained capabilities. They're not necessarily looking for a spike.

And, John, your question, it's a great question on the one hand. On the other hand, I'm not sure it matters. What we're seeing is that the Chinese are moving, moving the flag down the field, whether at their own initiative, or because of the blunders of others. And that's the primary lesson of what's happened.

And I don't know if they have a road map or a blueprint, a secret road map or blueprint, but I'm not sure it matters. They're going to find opportunities to do this, and they're going to -- you know, they claim to have changed the status quo in both Scarborough Shoal and Senkaku-Diaoyu. I remember, some years ago they had a showdown, there was a

standoff which was not very well publicized, with the Indonesians in the Natuna area where, you know, the Chinese came very close to firing on some Indonesian fishing vessels. But they did not change the status quo in that instance -- okay? I think they went back to where they were before.

Now we're seeing a different kind of Chinese behavior. And I think that's what should all expect in the future.

This is, as I say, I think highly problematic. The U.S. position, particularly on the South China Sea, is we're not going to take a position on sovereignty, but we are going to take a position on coercion. And if there's going to be coercion, that's going to affect U.S. posture, it's going to affect U.S. relations with countries in the region. That's going to affect U.S. reactions and reactions of others. And it's going to affect how China's rise is perceived.

Do they still care about that? One hopes so. We'll see.

MR. ROMBERG: Okay, I'm going to take three more.

Peter, you haven't had a question. And, you here, right here.

The third one.

MR. SCHOETTLE: Thank you. Pete Schoettle, formerly from Brookings.

The question is about cyber attacks. Some months ago, the White House, for the first time, labeled China and Russia as sources of cyber attacks against the U.S.

And my question is whether this issue is likely to generate more trouble down the road?

MR. ROMBERG: Great. I'll also ask you to keep your question very short. We've got five minutes for questions and answers.

MS. NGUYEN: thank you. My name is Genie Nguyen, from Voice of Vietnamese Americans. And I'd like to ask both Dr. Bader and Dr. Pollack about the South China Sea again.

We know that President Obama has pointed out that he wanted a constructive and engaging China in the relationship.

So both Chairman, former Chairman Hu, and the President talk about the rule of law. And with the current situation in the South China Sea, where do you see the rule of law ideas can meet? Should the U.S. ratify the (inaudible)?

And also, the second part you talked about is the alliances. And that is an asset of our policy. So where do you see the role of Vietnam as an alliance to the U.S. in the South China Sea?

Thank you.

MR. ROMBERG: Thank you.

And the last question, here.

MS. ZHONG: Thank you. My name is Mi Zhong. I'm with the Sosa Group.

We haven't heard much about the sub-national dialogue, and the sub-national relations development between the U.S. and China -- although in the past four years we did see the flourishing of this level of relation developing very fast.

So I wonder, in looking up to the next four years, how much would you see that this kind of sub-national relation can develop? Is there a possibility that this relation can be elevated into a higher level? And, if so, in what kind of ways?

Thank you.

MR. ROMBERG: Let me take the opportunity to give Ken a question of the panelists here, and then we'll go on.

MR. LIEBERTHAL: Ken Lieberthal, just a very quick question for Jonathan Pollack.

Am I correct in interpreting what you said as saying one of the major developments in the military promotions is they have promoted people who are very innovative in their thinking? Or did I misread that?

MR. POLLACK: No.

MR. ROMBERG: Okay, let's --

MR. POLLACK: Yes -- that they have -- in other words, they have promoted.

MR. ROMBERG: Why don't you just go ahead and address all of this --

MR. POLLACK: Sure. Yes. Yes.

MR. ROMBERG: (off mic)

MR. POLLACK: No, I do think that they have identified people who have been instrumental in different kinds of -- at least at an implementation end, or an experimentation end, on the shape of things to come, and how military forces are put together and made more credible.

On the questions of Vietnam, there are about three questions you really asked.

Vietnam is not a U.S. ally. I think we throw around the term "ally" much, much too loosely in this world. Clearly, Vietnam has become a partner and a collaborator to the United States. I think much of that is to be encouraged. And the reasons for that, I think -- although, again, here again, as Jeff noted before, people can say it's always all about China. There are inherent reasons why the United States wants to build a relationship with China that go well beyond China. And I think that they are part of a bigger story.

That said, obviously whether or not the framework within which the issues related to the South China Sea can be deliberated is going to be key. Now, I must say, from my own discussions with Chinese scholars and the like, you really get a sense that, despite most characterizations of China's ambitions and the like, there is significant debate about China within China, because there's a recognition that, particular with respect to the so-called "nine-dash line," it has no standing in international law. If China is to abide by the stipulations and agreements that it has made, they have a credibility problem here. And it's recognized, I think, in some Chinese circles.

We've been encouraged to be, dare I say, patient as China works its way through this. But I think it is the object of significant internal deliberation in China. And I would rather they be deliberating this than acting to make things potentially even worse.

MR. ROMBERG: Okay, can I turn it to Jeff, do you have an essential thing? Your witching hour is --

MR. BADER: Real fast.

Number one, we should ratify the U.N. Convention on the Law of the Sea. There were 34 Republican Senators before the election who said they opposed it. I don't know, I hope some of them have lost. I haven't looked at the numbers lately. But I hope -- but also, the political environment has changed in the United States. Perhaps there will be more of a disposition to do what the U.S. Navy wants us to do, what the Joint Chiefs of Staff wants us to do, what every former Secretary of State wants us to do, and what the U.S. business community wants us to do -- and what will give us moral standing in the South China Sea. It would seem obvious.

On cyber, Ken Lieberthal has written a great monograph that I guess Brookings published, that would be a good -- you all should take a look at it. The short answer, Peter, to your question is, yes, this is going to be a bigger and bigger and more and more difficult issue. It deserves more than 10 seconds. But, particularly, the attacks on U.S. corporations, U.S. intellectual property, I think is the core problem.

Finally, on sub-national dialogue, I think it's a very interesting subject, and a great question. I think that there is a lot that can be done, particularly in the investment area -- and, related to that, in the IPR area -- that can be done more successfully at the sub-national level than at the national level. Governors in the United States, governors and party

secretaries in China really want to attract investment, often more than their national governments want to encourage it. And perhaps we can use leverage to improve IPR performance at the regional level in China, which is where the real problem lies. So I see real possibilities there.

MR. ROMBERG: Please join me in thanking this terrific panel. (Applause)

MR. POLLACK: Could I just note, as Cheng Li mentioned before, we have a really an exceptional book even opportunity nine days from today, in the afternoon of Wednesday, November 28th. We will be putting out an announcement. It's a book event related to He Weifang's new book.

Thank you.

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