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PARTICIPANTS:

SESSION 1: CHINA'S MARITIME DISPUTES

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SESSION 2: THE FUTURE OF U.S.-CHINA RELATIONS

Welcoming Remarks:

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Commentary:

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PARTICIPANTS(CONT'D):

Featured Speaker:

THE HONORABLE KEVIN RUDD MP
Former Prime Minister and Foreign Minister
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P R O C E E D I N G S

MR. POLLACK: Good afternoon. I'm Jonathan Pollack, Senior Fellow and Acting Director of the John L. Thornton China Center here at Brookings. And before we begin today, I think we would all be remiss if we did not take a moment or two to reflect on the events of last Friday in Newtown, Connecticut. Thank you. I can only tell you that I was in Korea when this transpired, and it wasn't any better over there either.

Today, however, we also have some very important events to investigate. We might call this maritime insecurity, or we could call it East Asia's time of troubles, or as one of my colleagues, Jeff Bader, just suggested, the sea of troubles. But without dwelling on the labels too much, I think that we are witnessing in the maritime domain between China and its neighbors in Northeast and Southeast Asia developments that are both deeply worrying and quite stunning. In a very short period of time, really for all intents and purposes since last spring, we have seen a near breakdown in the kinds of bilateral understandings that exist within East Asia on the rules of the road such as they are in the maritime domain. And the loss of restraint, both verbal restraint and actual physical restraint, that in some cases have been operative in these seas for decades.

So a lot has unraveled very, very quickly, or at least we hope only temporarily, but it leaves future possibilities, I think, very uncertain and very worrying. These include, of course, declarations of intent by a variety of the maritime claimants, a test of wills, displays of maritime capacities of different states, and maybe even ultimately and more worrisome, the possibilities of military confrontation or even a military conflict. The implications here, obviously, for the regional order, for freedom of navigation, for unimpeded commerce, and for a whole host of other issues in these disputes over national sovereignty, and, of course, the ongoing disputes over various territorial claims,

leave us with a very sobering sense of the stakes and the risks that have materialized so quickly.

I'd note that if we look at the ingredients for all of this, we don't have to reach very far. We see in a number of cases newly installed leaderships and power, many of whom may be more intent on demonstrating their bona fides in a nationalist context. We see popular nationalism that is manifest in a number of different states, almost sometimes without regard to consequence for the sentiments that are expressed. We, of course, see disputes over territory and control of waters, all in the context perhaps of resource claims and the like.

It's a very, very rich menu of issues, and this is why we are convening this event -- one of two events today as I will explain -- to both address these issues and then, of course, to assess their implications for American political and security interests.

So we have two separate sessions today, but they are closely related. First will be an examination through a panel on China and the maritime disputes with its neighbors looked at from several different vantage points, first from the perspective of decision making in China -- what we do and don't understand about the factors that may be driving recent events. Then we will turn to questions related to China's evolving concepts of maritime power and how it fits in China's defense concepts. And then finally we will turn to some issues about the implications for U.S. security and political interests and what, if anything, the United States can and should do to deal with these circumstances.

We have an outstanding panel at first of people who have done very serious work on these issues. We will then be followed in a separate event to follow on the break between events and a major address on the future of the U.S.-China relationship and its implications for Asia and the Pacific over the longer term that will

feature The Honorable Kevin Rudd, Former Prime Minister and Former Foreign Minister of the Commonwealth of Australia. I certainly hope all of you or most of you will be able to participate fully in both events.

So without further ado, we should begin. And we will start with Bonnie Glaser from the Center for Strategic and International Studies who will talk on matter related to Chinese decision making. The panel as a whole will convene up here after the individual presentations have been made. Bonnie, the floor is yours. And I will especially thank Bonnie, she of the broken foot. She's quite literally walking the last mile to do this. Thank you.

MS. GLASER: Thank you, Jonathan, and thanks so much to Brookings for inviting me today. This is indeed a very important topic. And I thought that before I talk about what is driving Chinese decision making, I would at least give some examples of some of the incidents that are occurring. Obviously, I will not be comprehensive or I would spend the entire time. But at least let me summarize what's going on first in the East China Sea.

After the Japanese government purchased three of the disputed islands, the Senkaku or Diaoyu Islands, in September, a Chinese maritime surveillance vessel stepped up patrols around the islands. These are not new. They were conducting patrols before. But these patrols are now taking place on virtually a daily basis, sometimes operating in the contiguous waters and, according to the Japanese press, entering the 12-mile territorial waters around the disputed islands 15 times.

I believe it was on Friday, a Chinese state Oceanic Administration surveillance plane entered the airspace over the islands and this was the first time ever, which prompted the Japanese Air Self-Defense Force to scramble F-15 fighter jets. And

I'll leave it to Mike McDevitt to assess what the implications of that are for possible accidents in the future.

I think also importantly, about a month ago Beijing started officially protesting what it claims are Japanese violations of its sea space, and then we just saw this protest for the violation of its airspace. Now, of course, these islands have been under Japanese administration for many decades. And China is evidently using various means to contest Japanese control and ownership, including its submission of baselines to the United Nations. I would posit that there is a fairly coordinated strategy here, at least in terms of the toolbox that China is using -- legal means, diplomatic means, economic means -- to try and more assertively enforce its claims over these islands.

Now in the South China Sea, we've seen a slew of episodes, most recently Chinese fishing boats severed cables of the Petro Vietnam seismic survey ship. This is at least the fourth time, I think, by my count. The Chinese claimed that it was accidental. The Vietnamese claim it was not. We had a new regulation approved by the Hainan People's Congress that authorized Chinese law enforcement vessels to board and search ships in China's claimed territorial sea; not really clear how that would be applied.

We had new Chinese passports that were issued last May that contain maps of China's claimed territory that include the 9-dash line and also Taiwan. And I think most critically, the April standoff between China and the Philippines at Scarborough Shoal is important to mention. It was, in fact, precipitated by a Philippine warship which attempted to arrest Chinese fishermen who were poaching. Beijing failed to implement a verbal agreement that was negotiated with Manila to withdraw its ships, and the result is that China has full control over Scarborough Shoal. The status quo has very much been

altered in China's favor. China will no longer permit fishermen from the Philippines or other countries to fish there.

So having mentioned these examples of recent developments, I want to turn to the question of what is driving Chinese decision making, and I'd like to talk about five different drivers. The first is clearly domestic pressure. Domestic public opinion is certainly in support of a more assertive defense of Chinese sovereignty, at least there is a perception that this pressure has increased. I don't know if it's actually increased, but there is, in fact, a surge in the public's use of the Internet in recent years to voice critical opinions about Chinese foreign policy. And the pressure to assert China's sovereignty over various disputed islands is one of those topics that the public pays a great deal of attention to. So I think Chinese leaders feel that they are responding to demands from the public that if not effectively managed, could create problems for the Party's legitimacy.

Second, the Chinese believe that the other claimants, particularly in the South China Sea, of course, have repeatedly violated the 2002 Declaration on the Conduct of Parties in the South China Sea, the doc or the DOC, while China is seen as being restrained in its behavior. There's a consensus in China, I think, that Deng Xiaoping's policy of setting the dispute aside while pursuing joint development enabled other nations to nibble away at Chinese interests. This is particularly true in the area of energy where China complains that in the Spratly's it hasn't extracted a drop of oil and other nations have done so. So China is clearly more resolutely determined to enforce its territorial and maritime claims.

The third I think is important and that is opportunity. Challenges to Chinese sovereignty by other nations have created opportunities for Beijing to use its expanding toolkit to enforce its claims. In many of the cases where we have seen both in

the South China Sea and perhaps, according to some interpretations one could say in the East China Sea, that other nations have provoked China. In the case of the East China Sea, I believe that the Japanese government was trying to avoid a worse outcome in having Ishihara purchase the islands. But the Chinese believe that the Japanese started it; they were the provocateur and that they altered the status quo. So the Chinese view their responses as reactive. For example, one week prior to China's upgrading of the administrative unit in Hainan Province that oversees the South China Sea from a county level to a prefecture level city, Vietnam's legislature passed its own national Law of the Sea. And that asserted Vietnamese sovereignty over both the Paracel and Spratly Islands, so this was seen as provocative. But I think it's clear that in most of these cases, if not all of them, China's reactions have been disproportionate. And we can clearly see this in the case of Scarborough Shoal, and I think it's also the case in the Senkaku-Diaoyu situation.

A fourth driver of Chinese policy is the expansion of China's capabilities. China's expanding fleet of large patrol ships has enabled Beijing to enforce its claims in ways that only a few years ago really was not possible. So capabilities are providing China with options that it did not have in the past.

My fifth point is probably the most controversial. It's my view that China believes that basically time is on its side and that the neighborhood will eventually have to accommodate to Chinese interests. China had a very different policy, particularly towards Southeast Asia, in the 1990s when it made concessions and negotiated a free trade agreement with ASEAN, wanting to win the support of its neighbors. It was a very effective policy. And I think that today Beijing is using sticks in addition to carrots, teaching lessons to those neighbors that misbehave, and feel that they can tolerate a degree of tension and friction with their neighbors for a period of time. I would

underscore that the use of economic coercion over the last few years -- we saw it against Japan with the rare earths. We saw it against the Philippines with the quarantining of tropical fruit. And one could also argue we're seeing it again with Japan and the decrease in the sale of Toyotas. So these are the five major drivers that I would point to.

The next question that I want to turn to is how coordinated are China's actions? Now I think it's clear that China continues to struggle with coordination of policy, and particularly policy implementation, on maritime issues as well as other issues. But steps have been taken to improve central control, and I do want to at least run through what some of those are. It's been reported that an office was created this past September, immediately following the Japanese government's purchase of the disputed islands, to formulate and implement a response. Xi Jinping was put in charge of this office. I have heard that it has over ten representatives from various units, including several from the PLA. Clearly the collective Politburo Standing Committee provides guidelines on the issue, but this office is in charge in implementation of the guidelines.

Now in 2010 I think we can say that China's moves in the South China Sea appeared to be highly uncoordinated. At that time State Councilor Dai Bingguo was put in charge of South China Sea maritime issues, but he appeared to lack sufficient clout to effectively coordinate the numerous Chinese actors. And this past summer a new maritime security leadership small group was set up to handle South China Sea issues, and Xi Jinping, again, was put in charge of that group.

There is some evidence, I think, that coordinating implementation remains a challenge in the South China Sea. There's some evidence that the new Hainan regulation that I referred to earlier was not well coordinated; certainly it was not well coordinated with the Foreign Ministry. And I think one of the signs that I keep seeing is that we are seeing a very weak Ministry of Foreign Affairs. And that has always been

true in China, but it appears to me to be even weaker now than in the past and sometimes cut out of decision making. Also the release of the new passports it seems to me was not well coordinated from what I have heard. But in the case of the East China Sea, it looks to me from the information that I read and the people that I talk to that the actions of Chinese white-hulled, paramilitary vessels seem to be better coordinated.

Finally, I want to address the question of how Chinese leaders assess the risks and benefits of pursuing a more active strategy. And this takes me back to the fifth point that I referred to earlier about the drivers of Chinese foreign policy on these issues. I believe that China has not abandoned its peaceful-wide strategy or its good neighbor policy, but it is pursuing both conditionally. It will implement these policies premised on a more forceful assertion of its sovereignty claims than in the past. I think that any perceived challenge to Chinese sovereignty and territorial integrity will be responded to firmly. I think Beijing will not hesitate to punish nations, those that seek to enforce their claims at China's expense. Opportunities will certainly be seized to alter the status quo to China's advantage when they present themselves. I think this tougher approach is welcomed at home, and it will help to bolster support for the regime. China's leaders undoubtedly recognize that their actions run the risk of alienating their neighbors and driving many nations to embrace the U.S. and American presence more closely. This is not an outcome that China prefers, but again it appears to me that China is willing to pay this price in the short term. Of course, the Chinese are working to improve their relations with their neighbors and particularly with the other claimants. But, again, I see them as willing to tolerate a degree of friction over disputed territorial claims. They're willing to keep this on a low boil. After all, China's power is growing and the nations of the regions are dependent on China economically. And I think that that's China's perspective; again that in the long run, these nations are going to have to accommodate.

As one Chinese scholar told me in Beijing last week, as long as the situation is controllable, China will continue to press its claims.

Another factor is that I believe that the Chinese believe that they have found a sweet spot between them and some of their neighbors where they can push, they can pressure, they can use coercion, and the United States will be very, very cautious in pushing back. This is an unfortunate judgment if indeed it is the case.

So it's my assessment that the Chinese expect that overtime the region will accommodate to Chinese interests and positions; that China, in fact, is playing the long game. This poses tremendous challenges for the United States, but U.S. policy was not the topic that I was assigned today. So I will stop there.

MR. POLLACK: Our next speaker will be Peter Dutton from the Naval War College, my old colleague from my days in Newport and delighted to have him here. Peter has a slide presentation so we will go dark in order to enlighten.

MR. DUTTON: Nicely done! Thank you. I am interested in talking and elaborating on some of the points that Bonnie just made. I think she and I agree and have come to very similar conclusions, although from a different approach.

The burning question behind my research has been what are the connections between China's legal policies, which frankly baffle lawyers, and their regional actions, which seem to baffle political scientists, and China's motivating strategy, if indeed there is one? So the nexus between those three things is what really motivates what I'm thinking about, and I've entitled my presentation today "China's maritime defense sphere" because this is the term that recently was used by the Ministry of Foreign Affairs in August actually. You can get this on YouTube actually. I learned screen capture to do it. But this is a very interesting thing because it's a great way of capturing some of the Chinese thoughts about this particular topic in the Chinese words

themselves -- I checked the translation very carefully myself and this is an accurate translation of the terms -- and the harkening back to China's history. It's very interesting going back to the Ming Dynasty period, which the Chinese obviously have of looking back into their past of maritime strength actually.

So this is a concept, China's maritime defense sphere, that although we haven't heard the term before, we certainly understand the concept. It includes three components. It includes a sense of Chinese extension of sovereignty out into the maritime domain. It includes a sense of Chinese expansion of its security perimeter, a very kind of continental approach to developing a security strategy. And third, a Chinese sense of entitlement to the resources in the region. By the way, these slides will be available on the Internet afterwards. Feel free to take pictures if you like, but you don't have to.

So what is it that they're actually working on in terms of this strategy? I'd like to say that when we're thinking about China, there are three enduring strategies or three enduring challenges that China has to address. Obviously, China has over its very long history had to deal with threats to internal stability presented from the continent, land threats.

The second, obviously, is the maritime sphere. Threats from the maritime sphere really are something the Chinese very rarely had to face except in the period after 1800.

So the third, however, enduring strategic challenge that China has to face is holding it altogether, internal stability. As the Empire expanded and contracted overtime, there were various needs to maintain internal stability that were strengthened and weakened overtime.

And the Chinese have focused more recently on the maritime sphere, obviously, and have extended the continental approach to security into the maritime domain. And this really, I think, is the key to understanding the phrase, China's maritime defense sphere. And what you can see is the completion of the arc, China developed its control over the regions, abutting traditional Han territories over the millennia of its history, and developed a physical control that created a buffer for China for resolving some of the tensions over its land-based security issues. And China has overtime various ways and approaches to deal with its internal stability and has only recently begun to develop an effective approach to completing the arc, if you will, and developing control over the maritime domain.

I think it's very important to understand that as it goes about this, there are actually three competing disputes and objectives. And here I'm going to touch on them lightly, and we can come back to them during question and answer if you're interested. The three basic disputes are legal in nature -- the sovereignty dispute over the islands themselves. Any physical piece of territory in the maritime domain China has staked a claim, as we all know from 4 degrees south latitude in the South China Sea all the way around to all of the features in the South and East China Seas. That's the sovereignty disputes that we hear so much of.

The second are the jurisdictional disputes. We know the U-shaped line or the 9-dash line in the South China Sea, and we've seen recently in the press China's depositing at the United Nations a claim for a continental shelf in the East China Sea, which again we can come back to during questions and answers, but I'll tip my hand a little bit. I think China gets an A for analysis and an F for the final result because China has unfortunately employed all of the wrong law -- done it very brilliantly, but it's the

wrong law. And so in the end China's claim is, in my view, utterly worthless in terms of -- did I say that strongly enough? -- in terms of its approach to the East China Sea.

The third issue is the issue of control. And this is really, what is the balance, the legal balance, between the coastal states' rights to develop security and international rights to exercise freedoms of navigation, including military freedoms, in the areas off China's shores?

So these are the three disputes, but motivating each of these disputes are three objectives that China's working actively and balancing in its policies in the near seas. I've labeled them here credibility, security, and resources, but credibility really in the end has a very significant component of China's desire to exercise a certain amount of regional leadership. China, naturally, sees itself as a natural leader in the East Asian region and has historically been such, and in my view seeks to reestablish some measure of its leadership -- we can debate exactly how much -- but some measure of its leadership within the region.

So here -- and this touches on a point that Bonnie made -- I think there's a misconception that I'd like to dispel and that is in some places these disputes are referred to as sort of China's international challenges; that China is trying to balance its international issues with its overall peaceful rise, its policy of peaceful rise. And the problem here is a failure to understand that these in Chinese eyes are not international issues. This is China's domestic territory or jurisdictional zones in its maritime domain. And so I believe, and my Chinese colleagues confirm, that in the Chinese mind there really is no paradox here between China's peaceful rise strategy, which is an international relations strategy, and China's movement in the East and South China Seas because China sees these largely as domestic issues, recovering sovereign zones and sovereign territories that China believes it has a rightful entitlement to. And so while

these do have international ramifications, China sees these as largely issues of others improperly understanding what is, in fact, China's and not theirs.

Now I would like to talk briefly -- the next two points I'd like to make have to do with understanding how China has balanced those three enduring geostrategic questions I talked to you about earlier -- land security, maritime security, and internal stability. And Taylor Fravel has done outstanding work -- I hope you all have had a chance to read it; if you haven't, please do -- on how China pursued for decades a policy of pacifying its land borders. In other words, as many as possible of its land borders China chose to resolve, sometimes even in favor of the other negotiator in my view as a way of giving China the opportunity that we now see unfolding, to move as many resources as possible into the maritime focus rather than having to waste the resources on the land domain. And so this was really a decades-long preparation for what we're seeing unfolding today -- pacify the questions on the land and you can focus the resources to the sea. And I think we've seen this. There's a very good article that brings up the two terms -- (speaking Chinese) -- as the two basic approaches where China has pursued the way of stability on the land, pursued the way of struggling to achieve China's rightful place at sea. And so my assessment, very similar to Bonnie's, is that China's regional maritime strategy involves using mostly nonmilitary instruments of state power to apply this constant pressure against other regional states while managing the escalation - - I think China believes it can manage the escalation -- both with the other states and with the United States because, like Bonnie, I agree that the Chinese have assessed that the United States prefers not to escalate these disputes.

And then China is seizing opportunities to make gains. We see this in the Scarborough Reef incident and also with the Senkaku. I think, quite frankly, the Chinese had a choice. They could have downplayed the Senkaku incident and focused

on bilateral ties with the Japanese. They could have praised, frankly, the Japanese government for its decision to take out of the hands of the nationalists the future of how the Senkakus unfolded. And yet no, the Chinese chose a third policy, which was essentially to escalate the issue. So in my view that was a policy choice and the Chinese had options. So they're seizing opportunities to make some gains, and don't make any mistake of it, the Chinese have made some gains in relationship to the Senkakus.

But at the same time we do see economic incentivization, the sort of renewal of economic incentivization, and I expect we will see more of that especially as China takes with one hand, I expect giving with another, as a way of understanding how the relationship with China can, in fact, benefit all parties if they only play by Chinese rules.

So we know where this is unfolding, in the Scarborough Reef incident. My view as an international lawyer, what I'm really quite concerned about is that Beijing is fundamentally rejecting institutionalization of resource and security disputes and is taking advantage of opportunity created by others here to leverage state power to achieve these gains. And I say rejecting institutionalization fully aware that the Chinese have been submitting claims to the United Nations conventions on the limit of the continental shelf, but in my view recognizing that that is utterly the wrong forum and that nothing will actually ever come of this particular forum and yet it provides a stage for Beijing to further its perspective on this topic. And, of course, we've seen the same with the Diaoyu or the Senkaku. Beijing is using the maritime disputes -- in my opinion what we're seeing play out in the East China Sea is really a two-pronged motivation for China. One has been over the last year to externalize internal pressure frankly. This is my assessment; feel free to pushback on that issue. But having traveled to China several times in the last three months, I have seen a steady -- in fact, every day in September when I was in

China I saw either a Chinese language or English language newspaper with above the fold a big Senkaku-Diaoyu dispute question; below the fold or even on page 2, 3, or 5, a discussion of the Bo Xilai incident and the prosecution of the various parties. So my view is one of the motivators for what we've been seeing over the last several months has been to externalize internal pressure. But I think largely what we're seeing is the unfolding of a strategic approach that, as Bonnie described, is something that Beijing has predetermined.

So I'm going to conclude here by saying what we have really is a strategic concept. I'm not quite as convinced as Bonnie that there's actually a well-articulated strategy with sequenced and synchronized actions that follow it. I'm not convinced that we're seeing that yet. Bonnie may be right; I can't say otherwise. I just haven't seen it for sure. I think there's still room for some debate on that point. And it really matters because in the end, if we the United States and others are attempting to shape Chinese policy or at least to have American preferences considered in the way Chinese policy unfolds, it matters who the decision makers are because if there's a very small group of decision makers, then that's who you're trying to influence. But if, however, there's just a broad concept and the ministries are actually sort of actively pursuing various components of that more or less on their own, then you have a whole different set of actors that are likely to require shaping.

So China's strategy, as I've said, involves this continual pressure by mostly nonmilitary actors. The military's always in the background, however, and China's increasing power is not something that anyone ever forgets. And this in my view is something that enables China to remain on what I would call the strategic offensive. Yes, the Chinese do say that they are reactive to many different issues, but here's the key. The distinction is if you are on the strategic offensive, you have an ultimate end-state or

an end-objective that you're trying to achieve that fundamentally transforms the region, as opposed to on the strategic defensive where you're trying to maintain the status quo or something similar to it. So my view is Beijing is on the strategic offensive because it is trying to formulate a new regional relationship, including achieving those three objectives as I mentioned.

Its policy, however, is currently prioritizing the security and the resources over the regional leadership question or the credibility within the region that I mentioned earlier. They're willing to take that friction in the region, hoping that later they'll be able to repair that. And I expect to see both East and South China Sea tensions to continue for the foreseeable future as this policy or this strategy unfolds. And I thank you, and I'll look forward to your questions.

MR. POLLACK: Peter, thank you very much. And now batting cleanup, even though we've only had three speakers, my good friend Mike McDevitt from CNA.

ADM McDEVITT: Thank you, Jonathan, for inviting me. I'm delighted to bat cleanup because I knew that Bonnie and Peter would cover most of what I wanted to say, so I'll be able to just hop around a bit here.

Jonathan, when he asked me to come, asked me to talk about both policy implications as well as military posture or military issues within the context of what's going on in the South China Sea and East China Sea. So let me first turn briefly to the security posture in the region.

I think everybody is probably familiar with the changes that have been announced in conjunction with the U.S. rebalanced toward Asia, which involves the eventual home porting in Singapore of four small U.S. Navy surface combatants, now known as LCSs which I would call frigates. So everybody understands it's a small warship. We have moved some Marines to Australia. The Air Force -- I was looking for

the plan for the Air Force and the Army, and it turns out that other than the Deputy Secretary of Defense, Ash Carter's, speech in New York in August this year, not too much has been said or written. But he indicated that the Air Force intends to shift important surveillance capacity from Afghanistan to the Asia Pacific, including the MQ-9 Reaper -- that's a drone -- U-2 reconnaissance airplanes, and Global Hawk and other high-altitude unmanned reconnaissance aircraft, and also is planning to rotate some bombers through northern Australian airbases and what have you. And I think there were recent discussions in Australia somewhere in the last six weeks that also indicated some space surveillance systems will be relocating from -- one was in the Caribbean and one is in Arizona -- into Australia so that you have a better view of space debris and things like that.

With regard to the Army, Deputy Secretary Carter said probably the most important thing about the Army, he said that the Army presence in South Korea is going to be protected from any budget changes. So in terms of our footprint on the Korean Peninsula, that appears to be -- at least the Army footprint on the Korean Peninsula -- that appears to be off the table for the moment.

Peter essentially covered I think the most important point that's going on in terms of security posture over the long term, which is the evolving strategic balance in Asia. And having discussed it, I would just say the bumper sticker to remember is China's defense perimeter is now moving hundreds of miles to sea. And what that has done and what political scientists like to say is creating a security dilemma for the countries that live in the shadow of China. As China's defenses improve, their security situation gets worse, those that depend upon a U.S. alliance to underwrite their security.

And so one of the things that's going on in terms of security policy, which is what I would call the long-term game or the U.S. strategic game, is what has been

characterized as air-sea battle or in another iteration called the joint operational assured access plan, something along that line. Essentially what it involves is the U.S.'s ability to make sure that as China's defense perimeter extends hundreds of miles to sea, they, in fact, cannot keep U.S. military presence and reinforcements from supporting our allies in case of a conflict in East Asia. So what we see as the long game going on in terms of -- because the East China Sea and the South China Sea are essentially what China considers its near seas, we have a capabilities competition going on as the U.S. is trying to introduce new capabilities to make sure that we can, in fact, live up to what we say we can do, China in the meanwhile is building this defense perimeter to make sure that if the chips are down and there was a conflict that the U.S. could not intervene. So that's the long-term strategic context that's going to be going on, I think, for a very long time.

Now let me shift to policy issues. I think the best way to think about that is separate the East China Sea from the South China Sea. In the East China Sea, of course, the U.S. has been involved for a very long time because Taiwan is at the southern end of the East China Sea, and we have at least an implied security commitment to Taiwan. So there's always been a military component to U.S. involvement in the East China Sea. I think it was at least ten or 12 years ago when then Deputy Secretary of State Armitage indicated that the U.S. security commitment or the U.S.-Japan Defense Treaty would apply in the case of the Senkakus; in other words if some foreign power attacked the Senkakus because it's under Japanese administrative control. We can go into the particulars of that during the Q&A, what that may or may not mean, but the bottom line is subsequently when Secretary Clinton in 2010 reaffirmed publicly, in a very public way, that Article V of the U.S. Security Treaty with Japan applied to the Senkakus, that was intended as I believe as a deterrent signal to make sure that

everybody understood that if you try to throw your weight around and attack or seize the Senkakus, you could involve the United States.

So the East China Sea has two potential flashpoints between the United States and China -- Taiwan and the Sankaku -- serious flashpoints that potentially, now potentially, could lead to conflict. Now the idea that the U.S. would go to war over China over three uninhabited rocks in the middle of the East China Sea, i.e. the Senkakus-Diaoyu, I'm sure would be questioned. But the point of it is, that is one of the major policy issues, the reassurance to our Japanese ally; and in the Taiwan context, the reassurance to Taiwan of our implied commitment to their security. Those are things that we have to keep in mind that makes the policy formulation in the East China Sea very, very difficult.

Switching to the South China Sea, I think the best way to understand the South China Sea is to think of it as there are four baskets of issues that are all related, but you have to untangle them to be able to come to grips with them I think. The first basket, of course, is the competing claims. We have Vietnamese claims, we have Philippine claims, we have Malaysian claims, and, of course, Chinese and Taiwan claims, to all or part of the various islands and rocks and shoals and reefs in the South China Sea. Why does anybody care? Well, because since the Law of the Sea was passed, having sovereignty over those specks can either give you a 12-mile radius water column for all the resources, but if, in fact, they're big enough where they can support human habitation -- to be defined legally what supporting human habitation means is it means it has to have a fresh water supply or can people live there when they have a desalination plant -- that gives you a 200-mile radius exclusive economic zone, which gives you sovereignty over the economic resources -- the fish, the gas, and the oil, whatever else is on the bottom of the sea that might be useful.

The second basket of issues revolves around the so-called 9-dash line that China has put on their charts and, in fact, had in one submission to the United Nations listed on that submission. It's an undefined dash line that encompasses most of the South China Sea. The PRC inherited it from the Republic of China. Nobody's quite sure what it means. Many people think it's just a way to connote that we have sovereignty over all of the rocks and shoals and islets in the South China Sea. Other people say no, no, it also means that it means sovereignty over the water. China has refused to identify exactly what the 9-dash line means. I'm told informally that there are processes underway in China right now that they hope to have resolved within a year; that they'll have a public announcement of what the 9-dash line means. But in the meantime it creates huge ambiguity because that 9-dash line intersects and cuts through the middle of the exclusive economic zones of the Philippines and Vietnam. And as a result if they want to explore for gas or oil and it's inside that 9-dash line, they get pushback from China. And so there's a great deal of uncertainty and certainly most foreign petroleum companies are not willing to invest a lot of money and effort into something that's going to wind up either causing them a fight with China or that may turn out to be legally dubious. So this has a huge impact on the ability of the Philippines and Vietnam to exploit the resources that people believe are there.

The third set of issues directly involves the United States; that's what military activities are permitted in the exclusive economic zones of China. Peter referred to that briefly, and obviously this EEZ issue also applies to the East China Sea. But essentially what the U.S. believes the Law of the Sea permits is we have the right to exercise high seas freedoms, which include peaceful military activities, which include surveillance in the inclusive economic zone of any country, including China. China says not so fast. I don't agree. I don't care what was agreed on in the Law of the Sea. We

passed domestic legislation that says that's not permitted without our permission. And so that's what led to the EP-3 and F-8 collision. That's what led to the harassment of the U.S. surveillance ship, the *Impeccable*.

And finally the fourth basket of issues is fishing, the various fishing grounds that fishermen have been pursuing in the South China Sea for hundreds of years. And everybody knows fishermen are a pretty feisty lot, and so there have been lots of problems with fishing over the decades really. This is not a new problem. This has been something that's been going on.

So that's kind of the outline. So what's the U.S. policy been? Essentially, up until -- I guess it was August of 2010 when Secretary Clinton was at the ASEAN Regional Forum and made a statement about U.S. policy that we don't take a position on the territorial disputes, but we want the disputes resolved peacefully and we are willing to assist in a collaborative solution to the problem. That essentially took us from a position of what I would call studied aloofness and cheerleading for everybody to act responsibly to putting us strategically in the game. We're in the game now on the South China Sea whether we want to be or not in terms of at least behavior. In other words, now I think the mantra that the U.S. government uses is we remain neutral on whose claim is better, but we are not neutral about bad behavior. And so as you heard from Bonnie, I think there's at least a consensus in this town that China's behavior has been pretty bad in the South China Sea in terms of how they've pushed the Philippines around, and obviously back in 1988 where they shot up a bunch of Vietnamese on one of the shoals, and back before that when they threw the Vietnamese out of the Paracels altogether.

So what should we be doing about that? Well, it seems to me that most of the government policy chips are in ASEAN right now; that the focus seems to be

ASEAN unity; that if we can get ASEAN together and have them act as one that that would be the best way to deal with Chinese assertiveness or aggressive behavior. The trouble is that's really hard because all of the ASEAN countries have very different interests. There's only three or four of them that really have skin in the game in terms of the South China Sea, and the rest of them have very varied interests with regard to their relationship with China, their trade relationship with China, their historical relationship with China, the fact that they're always going to live in the shadow of China. So getting ASEAN together on this I think is going to be difficult. One suggestion I would offer in this regard would be the U.S. should actively pursue mediating between ASEAN disputants over sovereignty in the Spratly's because both Vietnam's and the Philippines' and part of Malaysia's claims in part of the Spratly's all overlap. So if you want to have a united front against China, the first thing you have to do is make sure Vietnam and the Philippines agree, and that Malaysia and the Philippines agree, and that Malaysia and Vietnam agree. Now that's something the U.S. could pursue. I'm sure that China would not be very happy about that, but nonetheless -- and probably Vietnam and the Philippines and Malaysia might not be very happy about that -- but if you're unhappy with the current stated policy and are hoping for the ASEANs to be the framework for making something happen, then it seems to me the first thing is ASEAN has to get its own house in order with regard to the claims in the South China Sea.

The second thing we could do is while we're not a party to the U.N. conventional Law of the Sea, we have -- and Peter is one of them -- we have an incredible number of really talented international lawyers in the United States, many of whom work in the State Department. There's no reason why we couldn't speak out about what we consider legally dubious activities on the part of China or anybody else for that matter with regard to the agreed-upon rules of the Law of the Sea. Up until 1996 the

State Department published -- from the mid '70s to '96 -- 117 of these limits in the sea documents, which are legal interpretations of claims. The last one, as I said, was in 1996 and it talked about and took issue with the straight baseline claim that China made. While they stopped in '96, we could easily issue one of these that addresses the 9-dash line or what other issues are associated with what islands would rate an EEZ and what not. I'm just saying if you want to be more proactive, that's one way to do it without taking sides on whose claim is better.

It seems to me then that the final thing is we have to appreciate, no matter how frustrated I think many people are about what's going on in the South China Sea and the East China Sea for that matter but more so in the South China Sea, there's a real asymmetry of interest. China cares a heck of a lot more than the United States does in terms of who eventually gets sovereignty. It's kind of like our policy on Taiwan. We don't care what the solution is as long as it's agreed upon peacefully and everybody on both sides agrees. I think Washington would hope that we don't really care whose claim is better as long as it's arrived upon peacefully and everybody agrees with the solution so that we could reduce tension and what have you. But because there's this asymmetry of interest, there is, I think, reluctance on the part of the United States to get too far involved because we have much bigger equities between Washington and Beijing with regard to our relationship with China. Thank you very much.

MR. POLLACK: Just so that all of you know, we will have till about a half an hour. I'll have a brief discussion with the panel, but then I will turn it over so that we can get a maximum number of questions from the audience.

First of all, let me thank all three of the panelists who have done very much what I hoped they would do and then some. And I think what they have captured is just how much realities have changed; that although there may have been some areas of

China's actions that have been somewhat reactive to circumstances, I don't think what we observed today has occurred in a fit of absentmindedness or inattention.

So we have this new reality, and it really requires us I think to think seriously not only about the factors that are driving Chinese policy and their own calculation of interest, risk, and so forth, how they seek to justify in a variety of ways the steps that they have taken, and finally how this highlights questions that frankly the United States has really not had to think very much about for a long time, but it really does now. So I think we've got a rich menu here.

I don't have any queries for the panel except only to see if they would agree with me with the general sense that this is not something that has just sort of happened out of the blue. I like to say it's not so much the facts on the ground, but the facts in the water that are changing as we speak. I suppose the one thing that I would pose, though, is what do any of you see happening next? In other words, you've all talked about a trajectory, a path that China seems to be headed in. What do you think would be required for China to reassess this course of action if it is prepared to do so? Is there anything that the United States might do in this context? Or is this something where we still have to be quite judicious if you will in how we approach it even as we do make adjustments in our military posture? So the floor's open if anyone wants to comment on that or we can proceed directly to questions and answers from the audience. You want to say anything Bonnie?

MS. GLASER: Sure, happy to, very briefly.

MR. POLLACK: I'd be disappointed if you didn't.

MS. GLASER: I do think that we really need to watch the space in the East China Sea. Obviously, they just had an election in Japan. There are off ramps if the Chinese are looking for a way to diffuse this situation. I think that the Chinese really

do care about a spiraling deterioration should that occur in the economic relationship. This is not something that China wants to see. A little bit of punishment here and there at Japan, but there's going to be blowback on China's economy as well. So one possible scenario is that both governments quietly find some kind of way to diffuse tensions. But I think that for China there is now a minimum, a bottom line here, and that is to have Japan recognize that a territorial dispute exists. Now some people have raised some way of sort of fudging it where Tokyo basically says well we don't think there's a territorial dispute, but some other countries do. My own view is that that won't be enough for Beijing. But I think more importantly from Japan's perspective is that if it is to take that step, it has to get something for it. Otherwise China would just pocket it and ask for more.

But there are ways that tensions could be diffused, that both nations could back away from this without, of course, making any concessions. But, unfortunately, I think that unless cooler heads prevail in both governments and they can't find a way to manage their own pressure from public opinion, we are looking at a potential escalation as we have seen with the escalation from the seas to the airspace that could very well result in an accident. I think it's very, very dangerous whether it's an EP-3-type situation or a naval clash or a Chinese fisherman being killed. One could imagine all sorts of ways that this could go badly.

MR. POLLACK: Yeah, very good, very good. Mike?

ADM McDEVITT: I would just -- on the East China Sea I think we have to be patient for a little bit to see how Mr. Abe and his government and how they react and what policies and what suggestions they come up with. I think the argument from the point of view of Tokyo that there is no dispute is patently absurd in the face of what's

actually going on. So at least at that stage of the game potentially he would have the option of doing it. Whether he will or not remains to be seen.

But in terms of the aircraft -- Bonnie mentioned that earlier about launching the F-15s and the E-2. First of all, by the time they got there, the Chinese National Oceanographic Administration aircraft had long departed the scene. Even if they're going fast, you still have a time-distance problem from Okinawa to the Senkakus. But more realistically, we need to recognize that the Japanese have been intercepting aircraft throughout the Cold War and what have you. They're pretty good at it. They know how to do this, and they have very tight rules of engagement. So I don't expect that anybody's going to be trying to shoot somebody down, but there is the possibility. There is the possibility that if China sends another unmanned surveillance aircraft, it will feel compelled to fly PLA Air Force escorts. So now you've got fighters from China and then you've got fighters from Japan out there at the same time and what have you. So there's going to have to be very strong command and control to make sure that one fighter pilot doesn't think that he's disadvantaged because the other guy's got him in his sights or in his missile range in a way that would disadvantage him. So there is that possibility. I think it's low probability, but it needs to be thought about.

MR. POLLACK: You know I'm wondering as I think about these issues of Chinese calculations to the degree that these issues have been joined within the Chinese leadership. And that's a question that I suspect we will want to talk about. Certainly I would agree with Bonnie there is certainly more evidence of purposeful organization on these issues, but it may be that Chinese calculations presume that the risks are manageable and that if it's a question simply of deploying assets of one kind or another to patrol -- it's kind of like the old Jay Leno line about Fritos of don't worry, we'll make more -- that they may feel in a relative resource competition in terms of what kinds

of assets you can put in the area to kind of symbolize and dare I say try to stake out a legitimacy claim, they may be more advantaged at that than anybody else.

ADM McDEVITT: I would agree with that, Jonathan, and I think -- I share the views of my colleagues that China is in the process of creating a new reality on the ground or in the water --

MR. POLLACK: Or in the air or under or over it.

ADM McDEVITT: -- in the Senkaku. And that reality is something that all of us are going to have to accommodate because nobody wants to try to use force to push it away.

MR. POLLACK: Right, very good. Peter?

MR. DUTTON: Yeah, I'd like to jump in on this question of sort of what comes next and how do we effectively shape it. What I observe is a momentum of Chinese confidence, which in some sense is actually quite good. I mean that's a healthy thing, but to the extent that it then begins to affect regional stability and sort of impede on American vital interests, then we need to pushback. We need to focus on our vital interests. This is my personal view that focusing on our vital interests and actively reasserting freedom of navigation questions and the right to undertake military operations and exercises, including intelligence collection, these are important things that the Secretary of State, Secretary of Defense, and the President, have all articulated as American vital interests. So I think we need to ensure that as the Chinese confidence gains, they also need to understand that the United States has enduring vital interests in the region as well. And they need to know that we're going to assert those interests.

MR. POLLACK: Okay, very good. The floor is open for questions. Please identify yourself and keep it brief in the interest of everyone getting a chance to

have at it over the next 20 minutes. We're going to start way in the back. I see two hands in the very last row or maybe three and there are two hands in the front.

SPEAKER: Yes, thank you very much. So am I the first to get the question?

MR. POLLACK: Yes, please.

SPEAKER: Thank you, sir. I am Kenichiro of the Japanese Embassy. The official position of the Japanese government is that there is no sovereignty issue concerning the Senkaku. And what the Chinese want is the Japanese to acknowledge that there is a sovereignty issue over the islands. It's not about a dispute or whether there's a dispute or not or if it's a sovereignty issue or not. And having said that, my question is I understand that the official State Department position is that wherever sovereignty issues are concerned, the State Department takes no position. Now isn't that already taking China's side because Japan is saying there is no sovereignty issue? If you acknowledge on sovereignty issues you take no sides, that's taking China's position. Thank you.

ADM McDEVITT: I think -- not I think, I know the U.S. position on sovereignty with regard to Senkaku-Diaoyu is that we take no position on the sovereignty issue. I know the government of Japan is wishing we would, but we won't.

MS. GLASER: This has been a very consistent U.S. position. The fact that it happens to coincide with China's is not the issue. We should not purposefully take a position that is contrary to China's. This is just consistent U.S. position.

MR. DUTTON: Can I jump on that point because I actually think all of the sovereignty disputes in the region should be acknowledged as such, and it's an equal opportunity problem. The Japanese refuse to acknowledge that there is a dispute over the Senkaku-Diaoyutai. Okay. I think quite clearly there is a dispute. We've seen it

unfolding in front of the papers over the last several months. But the Chinese have a similar problem with the Paracels and the Vietnamese. They refuse to acknowledge that there's a dispute over those islands. I think it's very important that everyone come to terms with the fact that there's a lot of tension over these questions in the region. The same thing is true between the Koreans and the Japanese by the way as I understand it over the Takeshima, Dokdo and Takeshima. And so all parties really should come to terms with the lingering questions that need to be resolved.

MR. POLLACK: I see the beginnings of a trade in the making. There was one other question in the back and then we're going to go to the front and then we'll go to the middle. Yes.

SPEAKER: Thanks. Ian Chong from East-West Center and also the National University of Singapore. First I just want to clarify one point. There's no home porting of the littoral combat ships in Singapore. We are a rotational deployment.

ADM McDEVITT: You're absolutely right, thank you.

SPEAKER: But my question actually goes to you, ADM McDevitt. So when you talk about hoping that ASEAN will take the lead or even sort of the U.S. working with particular ASEAN members to go through their disputes, it seems to me that right now most ASEAN members, particularly the older leadership, seem to be somewhat distracted by domestic issues and they aren't really onboard with foreign policy issues. So to get surprised twice at the ASEAN EAS meetings, I think that's quite indicative of their sort of lack of attention. So coming from the U.S. side, if your interlocutors aren't keeping their eye on the ball in terms of dealing with the South China Sea issue, what are you going to do?

ADM McDEVITT: That's a very good question, and that's I think one of the many policy questions that the U.S. has to wrestle with. If you decide that you're

going to count on ASEAN -- if the government strategy as I perceive it is to count on ASEAN to have a single position on resolving disputes and establishment of a code of conduct, then the problem you raised is one of the problems associated with effective diplomacy. You have to be able to persuade your interlocutor that it's important that they do that. If you can't, if that's impossible because they're distracted or they can't agree on working out the disputes amongst them, then it seems to me U.S. policy that's based upon ASEAN to solve this is doomed to fail.

MR. POLLACK: Let me -- so that my colleagues feel that they get equal billing here, we're going to turn to the two guys in the front row. Your name would be what?

SPEAKER: I'm Jeff Bader -- I wish I were. Ken Lieberthal, Brookings Institution. Let me see if I can raise this to a little bit more of a strategic level discussion. I mean a lot of this has bordered on strategic, but let me put it boldly in that framework. A premise of all of your remarks is that China has huge equities in this region. It has been developing its security concept and the geographical dimensions of that. It is obviously there forever, and it will be able to apply increasing resources to the pursuit of its goals in the region.

We are pushing back in a variety of ways. Secretary Clinton in August of 2010 I think marked a significant notch in the way the U.S. looks at this. In the short term that is getting some benefits in terms of U.S. position among many of the countries around China in the region, but it has a large cost to it. One is, I think, an increasing danger of a tail-wags-the-dog phenomenon, and I especially worry about the Senkaku issue there. And because the consequences if there's an incident that then pulls in the U.S. militarily, I don't mean to fight the PLA, but just gets us involved militarily, the

consequences of that or of our not doing it are vast, are huge. I mean that's a different order of magnitude.

And then secondly, any of us who have been in China recently -- I know many of us have -- know the reality; that regardless of our intentions in what we say, the Chinese are utterly convinced that we are behind a lot of the pushback they're getting from Japan, from the Philippines, from Vietnam, and so forth. You can make the argument to the contrary, but it is increasing Chinese distress of our strategic intentions in the region. I don't think that's what we're doing, but that's their honest perception I think.

So the question is, given the reality that all of you accept and that I accept of the long term, China's a major player throughout this area with probably increasing capacity to affect outcomes in the area. How should we be structuring our policy so that ten years from now we've got the best outcome? Presumably the best outcome is not our going head to head with China across Asia. No one else in Asia will support that that I'm aware of, and it would be very resource intensive in a lot of ways and not where we want to head. So if we want to head to a region where we have deep engagement, significant influence, can protect our vital interests, but are dealing with the realities of China, what would you suggest we do at this point because what we're currently doing I'm not at all confident will lead there? I don't mean that sarcastically. I just mean I'm not confident. So are there modifications you would recommend that would increase our level of confidence about where we'll be ten years from now instead of one year from now?

MR. POLLACK: I'm going to ask Jeff Bader to follow up right away and then we'll turn to the questions they both addressed since I suspect both of them are at a strategic level.

SPEAKER: I'm Jeff Bader. Not too much to add to Ken's wonderfully strategic and insightful points. They were great presentations, but I want to pick up one more thing that Bonnie -- that I took from Bonnie's presentation and secondarily I think from Peter's. You seem to be suggesting that there was, and I think correctly, that China's determined to stay on a certain course in the South China Sea driven partly by sovereignty claims, driven partly by domestic developments, but there's kind of an inexorable quality to the direction in which they're going. That's what I picked up from what you were saying. You said that they were prepared to do this, that they calculated the costs and the costs were acceptable. I guess my question here is have they really calculated the costs?

Jonathan's question at the end of your presentation touched on Japan and Abe's election. In your discussion you were talking primarily about I think ability to assert local dominance, impact on relations between countries, but what's happened in Japan is of a different order of magnitude entirely. The election of Abe with an entirely new agenda, a new platform, taking a hard look at Japan's defense posture, looking at a comprehensive defense plan, looking at the nature of Japan's security capabilities in the region, looking at the nature of the relationship with the U.S., the security alliance -- I'm not sure how much of this China anticipated in September. But if you are a Chinese leader and you are weighing local dominance in the Senkakus versus the possibility of a fundamental reorientation of Japanese security policy and the U.S.-Japan security relationship -- which I don't regard as a foregone conclusion, but that's in the air -- where does that fit in with this inexorable march of asserting local dominance? Isn't that a significant cost that they need to think about, and I wonder if you think they have?

MR. POLLACK: Why don't we start with Bonnie and just work our way down.

MS. GLASER: Well, let me start with Jeff's question. I think that the Chinese always have a cost-benefit calculation that can be influenced, absolutely. And then the question is finding a way to influence that, not just the United States but working with partners in the region. I do think that the Chinese have not correctly judged where Japan is going. They don't understand the drivers. They believe that it's the alliance that's pushing Japan to go in the direction it is. But we have to look for ways along with our partners in the region to make the costs higher. I would say that's true across a range of issues. I mean also in terms of China's support for North Korea, which we're not discussing today. I think we just have to create more consequences for China's support of North Korea. So I think it's not in a sense inexorable. I think so far the Chinese have assessed that the costs are acceptable, and as I said earlier, controllable. But I don't think that's in perpetuity. So I think we should think about ways of influencing that along with Japan and other countries.

Do you want to go on to -- can I make a couple of comments on Ken's question?

MR. POLLACK: Sure, go ahead.

MS. GLASER: I'll just be really brief. I think we do have to pushback against Chinese behavior a little bit more firmly than we have. I think this assessment in China that they can get away with anything short of using military action, using this economic coercion, changing the status quo, is really worrisome. I don't think we've done a good enough job in that, and I think we need to call out China for changing the status quo. It is not Japan that has changed the status quo in my view, and it wasn't the Philippines' attempt at -- arresting Chinese fishermen was not aimed and not in my view a changing of the status quo. So I think we ought to be clear about our interpretation of international law, as Mike suggested, and call out China for not playing by the rules.

And then finally I would say it is very important to listen to the region. We can't get out ahead of our allies and other countries in the region. At the same time, I think we have to be careful to not be seen as swinging back and forth, which we're doing in reaction to the region. There's this lack of consistency in the U.S. approach --

MR. POLLACK: You mean not pivoting?

MS. GLASER: No, we're pivoting back and forth. On certain principle positions we need to have a little bit more consistency rather than always listening to ASEAN and saying now we want you to stand up against China or some country. Now we want you to step back. Now we want you to lean forward. There's a perception in China that we are being inconsistent, and I think that's problematic.

MR. POLLACK: Mike?

ADM McDEVITT: Just a comment on Ken's intervention. It seems to me that one of the problems that long-term strategic policy formulation in the United States revolves around the feeling, the belief on our part, that we have to reassure our allies that our extended deterrent is credible. And so many of the things, perhaps the intervention in the South China Sea or the intervention by Secretary Clinton was based upon an attempt to show our friends in the region that we're not being pushed out by the Chinese. So that's part of the dynamic that's going on there, I believe, that the U.S. policymaking community feels compelled that we have to prove our bona fides, that we really will be there, that they won't take our word for it, that we have to keep demonstrating that we're committed to the region. And I'm not sure how you break out of that because the alternative narrative is you're on your way out the door. But that, I think, is what frustrates the ability to come to the larger strategic problems that you raise.

MR. POLLACK: Peter?

MR. DUTTON: I'll take a quick stab at each. In terms of how to structure U.S. policy for the best outcome, there are three things I think. One is, as I mentioned earlier, we need to focus clearly on U.S. vital interests in the region. And that includes to what degree do we have overlapping vital interests with our friends and allies in the region, and how are going to pursue them. The second is we need to then be honest with our friends and allies in the region about where the deltas are. We have been ambiguous sometimes with our friends in the region as much as we have with our competitors. And then the third in my view is that we need to drive relations with China toward accommodation of overlapping vital interests in the same geographic space. That is a hard thing to do, but that's what we're really trying to achieve, I think, is the long-term staying power of American power in the region which guarantees our political and economic role in the region as well. But that's where we have to shape it towards, that accommodation of overlapping vital interests in the same geographic space with the U.S. and China. We need China to recognize that as much as we need to recognize China's interests.

Finally, I think the Chinese are bad at calculating costs quite frankly. In 1995 they did not do a good job and had to shift their policy toward the region. In 2010 I think they were surprised by the reaction that they got in the region; 2012 may very well be one of those years. But what I said the Chinese have calculated is that the United States has a policy of disfavoring escalation of some of these disputes. So I think we need to make sure once we understand what our vital interests are, very clearly recognize what our levers are to pushback when necessary.

MR. POLLACK: We probably have time for one or two more questions. Yes, the gentleman here with the baseball cap. Is it a Redskins cap? I can't really tell.

ADM McDEVITT: Yes, that's a Redskin's cap.

SPEAKER: Thank you. I'm Elliot Hurwitz. I'm retired, and I'll try to make my question short. Several of the discussants mentioned nonmilitary instruments and nonmilitary actors. Now we all know what the Communist regimes did during the Cold War. They called their actors and their instruments nonmilitary, but they were far from that. They were powerful military instruments. What are the implications of that?

MR. POLLACK: Let me take one more question. The gentleman right behind him.

SPEAKER: David Brown. In a way this follows on. Scarborough Shoal illustrates something that I have trouble getting a handle on, and that is a core part of the U.S. policy is that we want these issues resolved peacefully. And yet in Scarborough Shoal it seems if by using nonviolent means, the Chinese have been able to change the reality. What can we do about circumstances? Do we have to change our definition of what's unacceptable to us, or if we're even going to stick with wanting to support nonpeaceful solutions, how do we respond to a circumstance like Scarborough Shoal?

MR. POLLACK: Please, any -- excellent question that speaks to both of those questions that were just raised, so please.

ADM McDEVITT: I would say one response to Scarborough Shoal whether the dots all connect directly or not is increased U.S. presence, rotational presence, in the Philippines. It's been under the radar, but there's been a number of stories out there about how much the overall U.S. "training" and access arrangements with the Philippines are changing in a fairly dramatic way. That can't be something China's happy about.

MR. POLLACK: I would want to make an observation because we're really almost out of time, but I do find it kind of ironic that we are now just a year over since the administration with great bells and whistles unveiled its rebalancing strategy,

which, of course, we have all been endlessly reassured is not all about China. Probably the ones who are the most skeptical of it not being all about China are the Chinese themselves. But I think what this discussion in my mind highlights is that we really have questions of the rules of the game and the regional order now that have come to the fore. These are questions at least as much not only for U.S. allies and other partners, but as well for how, as Peter suggests, you try to envelop China in some kind of a common framework. That's a strategic task that goes well beyond the issues of the moment here from which there's no escape, but I do find it ironic. And I'm not blaming anyone else, and I'm not saying that correlation is causality, but a year after the President unveiled this policy, the region looks a whole hell of a lot more unstable than it did a year ago. So we may want to ponder that.

We are going to have to conclude at this point, but I am certain that Former Prime Minister Rudd is going to turn to many of these issues in just a few more minutes' time. But if we could give a very, very nice round of applause for an excellent panel.

MR. INDYK: Thank you very much for joining us again. I'm Martin Indyk, the Director of the Foreign Policy Program at Brookings and it's a great honor for me to have the opportunity to introduce to you the Honorable Kevin Rudd who is going to speak on the issue of Chinese leadership and the future of the U.S.-China relationship. Kevin is no stranger to the podium here at Brookings. We've had the opportunity to host him on a number of occasions in his previous capacity as Australia's Foreign Minister, a position he held from 2010 to 2012. Immediately before that of course he was Australia's Prime Minister for the period between 2007 and 2010. He was elected as leader of the Labor Party in 2007, and as Prime Minister Kevin Rudd led Australia's response during the global financial crisis. The most notable thing about that response was that Australia was

the only country in the OECD not to go into a recession.

He is gained recognition internationally for the role that he played in the formation of the G-20 as the premier decision-making body for the international economy and a driving force behind the 2010 decision to expand the East Asia Summit to include the United States which of course the East Asia Summit has become a critical institution in what's become known around this town as the pivot in American strategy toward Asia.

As Prime Minister and Foreign Minister, he also oversaw the doubling of Australian foreign aid and has since stepping down as Foreign Minister continued to play a vital role on the world stage and remains one of the preeminent experts on China. It's in that context that we are very pleased to welcome him back to the podium to give us his views on the leadership changes that have taken place there and what we can expect regarding Chinese policy engagement with the world and China-U.S. relations. Kevin, thank you for doing us the honor of speaking to us again today and welcome back to Brookings.

MR. RUDD: Thank you very much, Martin, Jeff Bader and my good friend Chung Li and other friends from Brookings, Ambassador Beasley, the Ambassador to the Commonwealth of Australia and Her Majesty the Queen's Most Excellent Ambassador to these former colonies of the United Kingdom, the Ambassador of Indonesia, a good friend of mine -- good to see you, other ambassadors, excellencies, friends one and all. What Martin delicately skipped over was the fact that when I first came here I spoke as Prime Minister, the second time I came here I spoke as Foreign Minister and this time I speak as a backbencher, and God knows what will happen next time. In fact, in my most recent career adjustment when -- I became Foreign Minister, I remember not long after that going to Beijing and I was greeted by one and all. I was opening an art exhibition at what was called the Red Lantern Gallery on the old remaining

sections of the Ming Wall not far from Jianguomenwai and I was greeted by Beijing television who said, their first question to me was -- which is Kevin, you're still alive. A kind of interesting reflection on Chinese domestic policies isn't it Chung Li in terms of what happens if you get on the wrong side of history? My response was along the lines of I began as a son of a farmer. I went to university. I studied Chinese. And then because no one else would give a job I saw employed by the Australian Diplomatic Service, and then I worked in the China Section of the Australian Foreign Ministry. I went to Beijing and served in the embassy as its First Secretary. I went back to Australia and I became the Secretary General of one of our state administrations in Australia. I then was elected to the House of Representatives, became the Shadow Minister for Foreign Affairs, later of the opposition. I was elected as Prime Minister. Then I became Foreign Minister, and now I'm a backbencher and my next job will be back on the China Desk in the Australian Department of Foreign Affairs. Remarkably, the Chinese broadcast that with a sense of humor, so it's good to be back here and to be able among friends, but among those who take the business of the Middle Kingdom seriously and how we engage this great challenge and great opportunity of the 21st century. I'll speak for about 35 minutes if that's okay and then open it up to whatever questions you want to ask, and if it's really too sensitive then Ambassador Beasley will answer on my behalf.

The end of 2012 has seen three very different electoral processes take place in the world's three largest economies. President Obama was reelected here in the United States and will hold office until early 2017. Xi Jinping was appointed General Secretary of the Chinese Communist Party and Chairman of the Central Military Commission where he will remain at least until 2017 and in the absence of domestic political catastrophe will retain this positions as well as the Presidency of the People's Republic until 2022. Then yesterday in Japan Nationalist LDP leader Shinzo Abe was

elected in a landslide as Prime Minister, Japan's eighth Prime Minister since 2001, but given the size of his likely supermajority in the Japanese Lower House, he now has a reasonable prospect of serving a full 4 year term.

My core argument today is that much of the strategic political and economic future of the Asian Hemisphere for the first half of this century is likely to be crafted either by accident or by design by the decisions taken in Washington, Beijing and Tokyo over the next 4 to 5 years. I also argue that if our common objective is for an Asian Hemisphere based on a regional order that both maintains the peace and maximizes open economies, open societies and increasingly open politics, that it is far better engineered by common strategic design rather than consigning our hopes to the prospect that it will simply all work out in the end somehow. Strategic drift is not an option. China for one does not operate that way. Nor should the rest of us.

I then today put forth three basic propositions. First, that for a range of reasons we should not discount the possibility that Xi Jinping could turn out to be a transformational leader or at least a leader at this stage the United States can do business with at a strategic level. Second, despite this, the Chinese do not have the bureaucratic culture, institutional capacity or probably the political will within their own system to develop a new strategic framework for redefining U.S.-China relations either at the regional or at the global level. Third, that if there is to be any strategic redefinition of this relationship for the future as I believe there should, it would need to be generated by the United States as the world's remaining superpower and put to the Chinese as a possible new historic communique, a new Shanghai Communique, one which doesn't deal with Taiwan, that's dealt with elsewhere, but a new Shanghai Communique in a similar historic tradition to that of the two previous communiques of 1972 and 1979 which established much of the architecture of China-U.S. relations which prevails to this day.

Some will question why is any of this necessary? My response is that the strategic direction and decision by the Obama Administration during its first term to rebalance to Asia was absolutely right in conveying a clear message to the region that America is strategically there to stay. But having reestablished the realist foundations of the United States position in Asia, the time has now come to build on those foundations and construct a framework of strategic cooperation with the Chinese both globally and regionally. This is not a substitute for hard power which our friends in China understand all too well. In fact, it seeks to supplement that hard power by now seeking to institutionalize a new cooperative strategic relationship with Beijing which seeks to minimize the possibility of conflict, manage the issues of contention and maximize now what the two countries can do together. Prior to the rebalance, such an approach would have been written off as idealistic claptrap by the Chinese. After the rebalance despite public protestations to the contrary from many in Beijing, a new framework for strategic cooperation is more likely to be greeted with greater credibility in mapping a constructive path for the future. This would certainly be the case if the Chinese concluded that the absence of such a cooperative framework may increase the possibility of regional tension, conflict or even war, thereby undermining China's economic development agenda which remains absolutely central to the leadership's ambitious for the decade ahead.

Others will question why there is any particular urgency to this task given that history teaches us that every generation believes that somehow its challenges are of a unique significance. The truth is that we are living through a decade of profound global transformation when China is likely to emerge at its end as the world's largest economy. When this occurs, it will be first time since George III that a non-English speaking, non-Western, nondemocratic state will dominate the global economy. This is not a small

matter. It is a large matter. Anyone who assumes that political foreign policy and strategic power are not ultimately derivative of economic power is blind to history. It is therefore far better in our view that these global and regional order challenges be confronted now while we are in the midst of a period of transition particularly given that the strategic guidance contained in the Chinese Communist Party's Work Report of the Eighteenth Party Congress is centered on what they describe as solidifying the domestic and international foundations for China's development as a great power. This brings us in turn to the core question of China's new leadership and whether the United States, the West and the rest including us can do business with Beijing on these critical challenges of our time.

China's new leadership. It's important that we have an understanding of the political and policy orientation of the new Politburo Standing Committee and in doing so I make judgments based on their career so far, what they've said most recently, and having spent a reasonable amount of time in conversation over the years with four of the seven members of the Standing Committee, most extensively with Xi Jinping and Premier-elect Li Keqiang when they visited Australia while I was still serving as Prime Minister. Xi Jinping I believe is comfortable with the mantle of leadership. His is confident of both his military and reformist background both through his father's career and his own. He therefore has nothing to prove to either of these constituencies, the military constituency or the economic reform constituency. He is widely read and has an historian's understanding of his responsibilities to its country and its potentialities for the future. His is by instinct a leader. He deeply admires Deng Xiaoping and is highly unlikely to be satisfied with the safe option of simply maintaining the policy status quo. He speaks directly and in my experience without notes. Of all his predecessors, he is the most likely to become more than a simple -- albeit it still within the confines of collective

leadership. Let us not forget that Xi Jinping was appointed immediately as Chairman of the Central Military Commission unlike his predecessor who had to wait 2 years until Jiang Zemin finally relinquished that position. These attributes of leadership have been on clear display in the 30 days or so since Xi became leader.

Unlike his predecessor, Xi Jinping released his first public statement within 3 days of taking over the position, stating starkly that corruption could destroy the party and drawing direct analogies with the Arab Spring. He said, "In recent years, a number of countries have experienced popular anger, street protests, social unrest and regime collapse. Corruption was among the most important of the reasons." No Chinese leader has ever been this explicit before about the potential collapse of party legitimacy and the potential collapse of the party itself. In a hugely symbolic move, Xi also decided to travel to Shenzhen where Deng had launched the first of China's Special Economic Zones more than 30 years ago. The SEZs as they are called are the embodiment of the entire program of the internationalizing of the Chinese economy in China's domestic political imagination. Not only was Xi stating that Deng got it right when he went to Shenzhen, he was also emulating Deng's so-called Southern Expedition, his -- 20 years in 1992. When following the conservative reaction to Tiananmen back in 1989, Deng went back to Shenzhen to state that reform now needed to proceed any faster. Almost exactly 20 years later, Xi returns to the heartland of the Chinese economic reform and opening project and tells the party and the nation again that there must now be further reform of the economy.

Lest we conclude from all of this that Xi has forgotten his military background, Xi also in late November made a public point of lauding Luo Yang, the architect of China's Carrier and Aircraft Program as being the father of China's rising status as a maritime power. Official Chinese media immediately echoed Xi Jinping's

statement declaring Luo to be the new Qian Xuesen, the latter being the father of China's nuclear program.

Finally, there is the question of style where Xi Jinping is seeking to make an immediate and radical departure from that of his predecessors. He has not sought to heap praise on Hu Jintao's accomplishments as would normally be expected. Instead, he has issued a stern rebuke to the party apparatus saying there are too many content free press statements, something which politicians in other countries could pay attention to as well, too many content free ceremonies, same as above, and simply too much going through the motions in the formal engagements of the party. To give visual illustration to the dictum, he issued to the first meeting of the Standing Committee over which he presided. During his later visit to Shenzhen, he chose to travel by minibus, not limousine, not closing down the traffic system as his predecessors have always done and not having wall-to-wall coverage by the official Chinese media, instead relying on large part on Chinese social media to get the message across that despite being a princeling himself, he did not intend to behave like one. This is an important measure in seeking to relegitimize the party or at least its Supreme Leader in the eyes of the people given universal contempt for party privileges.

What are the rest of Xi Jinping's team? Rather than give a lengthy dissertation on the character and policy predilections of the rest of the Standing Six, and I'll be reluctant to do so with an expert such as Chung Li in the room, my overall conclusion is that the overwhelming center of gravity lies in the direction of further structural reform of the Chinese economy, a cautious approach to what is described in the Chinese system as political reform, while an open question remains on the future directions on Chinese foreign policy and security policy given that none of the Standing Seven have a particular background in these domains.

Policy priorities. If this is the nature of China's new leadership, then what are their policy priorities and what are they likely to be as the next 5 years comes to pass? In answering this question, sometimes analysts perhaps speculate a little too much on the tea leaves rather than look at the open source documents that the Chinese leadership themselves produce to explain their priorities to an 82 million member party and to the nation at large. The core document to be examined is the Eighteenth Party Congress Work Report which like its previous editions goes back to the 1980s, and it's used to provide strategic guidance to the party's priorities for the upcoming 5 year period. Xi Jinping himself has led the drafting chain that completed the Work Report which was supported, and only the Chinese could see the virtue in telling us all this, by 46 individual investigatory units producing 57 separate subsidiary reports on issues ultimately incorporated in the work of the report itself, the fastidious lot of the Chinese bureaucracy. To the extent that the Chinese Communist Party and the nation at large has a policy bible for the next 5 years together with the twelfth five year plan, the Work Report is about as close as you get. In a recent analysis by Timothy Heath, it's argued that the Work Report presents the functional equivalent of desired strategic end states and interim strategic objectives to support these end states along with timelines for each.

On the economy, the Work Report argues clearly that economic development remains the key to resolving all problems in the country and therefore a new development model is needed. On political reform, the Work Report emphasizes systemic reform to standardized decision-making processes, to institutionalized procedures and to strengthen laws and regulation in part in response to the grave threat posed by corruption. Heath in his analysis argues persuasively that the section on foreign policy guidance contained in the Work Report stands out for the sharpness and the specificity of its guidance compared with the previous sections. The Work Report

specifically identifies the following tasks for the next 5 years. One, revision of great power relations. Two, consolidation of China's influence in Asia. Three, leveraging developing powers to promote reform in the world order. Four, leveraging multilateral institutions to encourage reform of the international order. And five, protection of Chinese rights and interests in the maritime and other domains.

Of all these international imperatives, the one which stands out most starkly from the previous Work Report is that for the first time China defines itself as a maritime power and will firmly uphold its maritime rights and interests. Critically, the reference to China as a maritime power is included in the section dealing with resource security.

Economic reform. The first priority of this new Chinese leadership is the further reform of the economy in the context of a weakened global economy over the last 5 years and one facing limited prospects of rapid global economic recovery. China knows it must now change its economic growth model for one that served it well for the last 30 years to one which sustain it over the next 30. In the twelfth five year plan, the Chinese recognize that the old growth model based on low wages, labor intensive manufacturing for export made possible by high levels of state investment underpinned in turn by high levels of domestic savings has already reached its use by date in China's coastal provinces, a reality that is working its way westward across China's central provinces to Sichuan and then farther to the west again. The leadership has concluded that the new growth model should be based instead on high levels of domestic consumption, lower savings, more generous government safety nets, the rapid expansion of the services sector to meet China's equally rapid urbanization process as well as greater opportunities for private capital. I believe the new Chinese leadership may well embrace the following policy directions. We are likely to see further market reforms of

the Chinese economy. I believe we'll see reforms to China's state-owned enterprises and the possible privatization of some. I believe we'll see reforms to the Chinese financial services industry and a greater ability for Chinese private enterprises to have easier and more competitive access to finance and to sustain and expand their operations. I believe we'll also see further reforms to Chinese currency markets which over time are likely to make Chinese imports more competitive in the domestic market.

Political reform. Many have asked the obvious question, If this is going to happen in the economy, what are the prospects for real political reform in the People's Republic? My own belief is that Xi Jinping's leadership is that if he successfully prosecutes the formidable economic transformation tasks described above during his first term, then the leadership may embrace a small of small p political reform during his second 5 year term between 2017 and 2022. This will be a contentious task and one which will certainly galvanize the political energies of the leadership. It does however remain an open question whether the Chinese leadership facing the social forces ultimately unleashed by economic reform and its own at times out of control social media whether the leadership attempts to manage a political transformation process or face in their mind the prospect of a political transformation subsequently managing them. As I've speculated elsewhere, this might involve experimentation with a democratic franchise for China's advisory parliament, the Chinese People's Political Consultative Conference, type of constitutional convention first convened in 1949 and which continues to have an advisory role today. This would be the safest place for a small p political reform process to perhaps begin.

What of foreign policy? Looked at from Beijing's perspective, China faces an increasingly nonbenign foreign policy environment given the party's stated desire to increase its strategic influence in Asia while at the same time avoiding serious

conflict that would in any way undermine the centrality of the economic growth agenda. What Beijing sees is an increasingly hostile northeast Asia, an increasingly problematic maritime southeast Asia, a still fractious border relationship with India and over the last 12 months, the loss of strategic monopoly over Burma. In northeast Asia, the relationship with Korea remains difficult following China's refusal to repudiate North Korea's hostile actions against the south during the course of 2010 and 2011. The relationship with Japan has now in fact become mutually toxic over the Diaoyu-Senkaku Islands dispute which has progressively contaminated the political, commercial and security dimensions of the relationship with Tokyo. Beijing may assess that the return of the LDP, Japan's natural party of government, given the depths of the LDP's foreign policy experience in dealing with China over the decades, may now assist China in stabilizing the relationship. I believe any such analysis would be wrong. By instinct, Shinzo Abe is a nationalist, China figured prominently in the Japanese elections and there has been a quantum intergenerational shift in attitudes to China in the Japanese Diet even from a decade ago. We cannot for example rule out the possibility of the Japanese now seeking to amend the constitutional constraints on the capabilities and mandates of the Japanese Self-Defense Force, a wider role for Japan across wider east Asia as recently requested for example by the Filipino foreign minister, as well as the possibility of Japan placing meteorological equipment on the Diaoyu-Senkaku Islands which would inevitably attract Chinese countermeasures and the further escalation of the dispute. In the South China Sea, the region is more unstable than it has been at any time over the last 40 years. Whereas the Philippines has attracted most of the international media attention in recent times, China has focused much more on Vietnam. Vietnam's recent statements that Chinese vessels have recently severed Vietnamese cables in an area 65 kilometers off the Gulf of Tonkin has sunk relations to a new low. The Chinese responded by saying that Vietnam had

breached its undertakings on the management of South China Sea disputes which were reached when the Vietnamese party secretary visited Beijing in late 2010. Right now it is difficult to overstate the level of toxicity in the Beijing-Hanoi relationship and given relatively fresh Chinese memories of the 1979 border war, it is entirely possible that in this theater conflict reoccurs.

From China's perspective the United States pivotal rebalance to Asia under the Obama Administration has compounded the difficulties they confront in their foreign and security policy environment. The rebalance is routinely described in Chinese official statements and literature as part of the concerted policy of containment of China by the United States and its allies in Asia. Beyond the region and at the global level, China's desire to assume great power globally is also seen to be frustrated by the democratic world's concentration on the lack of democracy in China and its support for nondemocratic regimes abroad, for example, the Sudan and Syria, as well as China's perceived reluctance to take on the nuclear nonproliferation challenges represented by both the DPRK and Iran. From China's perspective therefore it's broader foreign policy environment is not all going China's way. China's diplomacy however has always been agile and it would be foolish to assume that following China's foreign policy and strategic setbacks over the last 3 years that it will not now contemplate new diplomatic approaches that are consistent with China's long-term strategic objectives. We should not forget that China's stated strategic goal in our hemisphere, that is, the Asian Hemisphere, is to increase its strategic influence which means decreasing the strategic influence of the United States and over time decoupling where possible the United States from its allies. In the meantime, China continues rapidly to increase its military expenditures and equally rapidly modernize its military capabilities across space, cyberspace, nuclear forces and the projection of significantly greater maritime power and offensive air power as part of an

integrated strategy of area denial.

There has been much debate in recent years around the question of whether the Chinese leadership have an agreed grand strategy for the future. Chinese reformers have dreamed over the last 100 years of China retaining national wealth and power in order to regain its historical status as a global great power as in the days of the Ming, the Sung and the Tang Dynasties. The question which therefore arises in the minds of the rest of the region and the rest of the world is now that China has acquired national wealth and power, how will it then use it? In other words, is there a particular end state in mind on the part of Chinese leaders for the immediate neighborhood, the wider region or the world at large? We should take seriously China's stated aim of becoming a high-income economy by 2030. We need to take seriously China's stated objective that it regards the South China Sea within the so-called nine dotted lines as a combination of Chinese sovereign territory and Chinese exclusive economic zones, although most regional states fundamentally contest these claims. We should take seriously China's stated aim of increasing its strategic influence in Asia just as we should seek clarity from the Chinese as to what ultimate purpose is served by such influence. We should take seriously China's statement that it wishes to become a great global power, but also seek clarity on what sort of great power China wants to be, just as we should take seriously China's stated desire to reform the international order, but given that the nature of the international order radically affects all of us, it is entirely legitimate for us to ask our friends in Beijing what elements of the international order they would change and for what purpose. Within this framework we also need to be clear-sighted about the continuing central role of the Chinese Communist Party for the further development and implementation of any grand strategy as well. With the death of Marxism, the continued legitimacy of the Communist Party hangs on the twin dynamics of

the economy and nationalism. If the party is to continue to develop 7 percent plus economic growth into the future, continue to raise living standards, to generate new jobs, to lift the remaining parts of the Chinese population experiencing poverty out of poverty, the transformation of China's economic growth model over the next 5 years is crucial for the party itself as well as of course generating profound consequences for the world at large. Similarly, with the rising forces of Chinese nationalism which have not been manufactured by the regime. These forces are by and large genuine. These will need to be subject to increasingly sophisticated political management if they are to deliver a continuing positive dividend to party legitimacy on the one hand, while not resulting in a regional conflict or crisis that could jeopardize the economic modernization process on the other. Some commentators have suggested that to continue to purchase and sustain the domestic political capital necessary for the new leadership to deliver contentious and controversial transformations of the economic growth model the leadership will have to maintain a hard line on foreign policy and national security policy issues in general and its very offshore islands disputes in particular. Whereas the domestic political logic of such an approach may appeal to some, the international consequences for the period ahead would prove to be highly problematic particularly given the competing nationalisms which have been brought to live across much of southeast Asia.

Taking these various end game conclusions as well as their underlying political drivers together as we seek to decipher the content of any Chinese grand strategy for the future, we are ultimately brought back to a more fundamental question, that is, will Xi Jinping on balance turn out to be a reforming globalist or more of a conservative nationalist in charting the country's future over the next decade. The first possibly assuming that China succeed in its economic transformation ask over the next 5 years is that the party will not begin any form of democratization of the country at large,

that its state capitalist model will by and large remain in place, that China's military modernization will continue at pace with China's growing budgetary capacity to deliver that modernization, that China will become increasingly engaged in a type of zero sum game balance of power politics with the United States both in the Asian Hemisphere and beyond and that China will over time become the region's dominant foreign policy influence and then seek to change the rules of the global order. That's the first scenario. The second possible end game is that the Chinese economic transformation succeeds over time, a small d democratization process in fact begins and that China begins engaging strategically with the United States and other partners within Asia to build, sustain and enhance the multilateral rules based order. A third possibility of course is the same as the second without assuming that any long-term democratization process is necessary in order for China to contribute effectively to the regional and global rules based order as an active, responsible stakeholder.

How China turns out will in part be the product of the dynamic process of interaction between China and the rest of the region and the rest of the world rather than simply the sound of one hand clapping even if it is the sound of one Chinese hand clapping. That is why many governments in their policy approach to rising China have deliberately chosen a hedging strategy which embraces strategic cooperation with China's liberal globalizing forces on the one hand, while not discarding practical precautions should Chinese nationalist forces prevail on the other. In other words, we seek to maximize cooperation with the China that is transforming its growth model, continue to encourage that China to recognize the value to China itself of sustaining and enhancing the global and regional rules based order which have served China well so far. By these means, the international community's objective will be to cause the Chinese leadership to conclude that once they have become a regional and global great power

that it's entirely consistent with China's continuing interests and China's internationalist values to sustain that rules based order into the long-term future. Should China in the meantime also begin a long-term program of partial democratization, then so much for the better.

On balance, I have long been an optimist that with significant political will within China itself and with a complementary policy of cooperative engagement with China on the part of the rest of the world, China can over time be socialized into full, active and most critically continuing global and regional engagement within the framework of the existing rules based order. Nonetheless, it will remain prudent given the realities of 21st century statecraft for countries also to hedge against the possibility of an alternative Chinese outcome which seeks to fundamentally change the order itself.

How then should the United States now respond in the precious years now available to the newly elected Obama Administration? I argue that President Obama and President Xi Jinping need to outline a new 5 year U.S.-China strategic roadmap. In the absence of such a strategic roadmap, there is always the danger of strategic drift. Alternatively, the bilateral agenda simply being dominated by the challenges of the issue management of the day whether they are strategically important issues or not. Furthermore, it provides central organizing principles within both administrations therefore forcing the various agencies within both administrations to agree to and implement a central strategic policy with agreed rules of diplomatic engagement. A China-U.S. strategic roadmap would assist in removing some of these ambiguities and uncertainties. Further, I would recommend five elements to such a roadmap for the future. First, President Xi and President Obama need to meet regularly with all the key members of their respective staffs. These individuals need to become highly familiar with each other. At present they are not. This should involve three to four sets of substantial

engagement scheduled regularly throughout the calendar year. Fortunately, the G-28, the U.N. General Assembly and possibly the EAS provide opportunities for regular engagement, but these need to be substantive, full or half-day engagements around a long-term structured agenda, that is, a strategic roadmap, not just the protocol requirements of the day or for that matter the issue management of the day. Second, both Xi Jinping and President Obama need to have an undisputed point person to be the ultimate go-to person for the relationship. At the United States end, this should mean the National Security Adviser or a senior official within the NSC who can speak comfortably across the administration and with authority. At this critical juncture of U.S.-China relations, America needs the next Henry Kissinger for all the back-channeling that is necessary both behind and between official presidential meetings. Similarly, China needs its own Henry Kissinger as well. Third, the United States and China should embark on a realistic program to make the current global rules based order work. Increasingly, that order does not work. We're all familiar with the impasse over Syria which is not likely to be resolved in the near term, but in other critical blockages in the U.N. system, e.g., Doha, on trade, climate change, nuclear nonproliferation and global economic imbalances currently under the continued supervision of the G-20, both the United States and China have an interest in demonstrating that the rules based order can work and can deliver real results. Both China and the United States should identify at least one of these areas of potential global collaboration which together they can drive to a successful global conclusion in order to demonstrate to one another and the world that they can in fact make the global rules based order work. Fourth, a new U.S.-China strategy roadmap should embrace the principles how to build a new rules based security order for East Asia or how we can create what I've called elsewhere a new Pax Pacifica which is neither a new Pax Americana by another name or for that matter a Pax -- this

involves working and agree on the strategic and conceptual language of such a regional rules based order that is comprehensible in both countries and the rest of the region. It should also include basic principles of regional security cooperation as well as specific confidence and security-building measures that help facilitate dispute resolution as well as prevent conflict through miscalculation.

Fifth, a new U.S.-China strategic roadmap should also be consolidated into what I've described already as a new Shanghai Communique between China and the U.S. A proposal such as this would need to be prepared by the United States and put to the Chinese given that there is now almost a third of a century since the last communique was produced and this occurred at the very beginning of Deng Xiaoping's program of reform and opening and it can be credibly argued the dynamics of the relationship have radically changed since then not least because of China's new economic and strategic size, but also the end of the Cold War between the United States and the Soviet Union which had underpinned U.S. and Chinese strategic collaboration during the 1970s and 1980s, as well as the democratic transformations which have now occurred across former military dictatorships across Asia, Korea, Taiwan and Indonesia. As noted above, a core element of a new U.S.-China strategic roadmap for the next 5 years lies in developing a new basic security architecture for the Asian Hemisphere in the future. A Pax Pacifica would seek consciously to build the habits, customs and norms of security and strategic cooperation from the ground up. Such a concept does not ignore the underlying strategic realities of the region, the rise of China, continuing military and diplomatic engagement with the United States and the region's future. Rather, it accepts these strategic realities, but it also seeks to create new possibilities based on these realities. The truth is in Asia we have embraced very few confidence and security-building measures of any description. That is in part why our security policy environment

is so brittle. There are in fact no shock absorbers in the system so that even minor security problems become magnified beyond their inherent significance.

What might the principles of a new Pax Pacifica look like? One, China's peaceful rise should be accommodated by the United States and by the rest of the region that China has recognized legitimate national security interests. Two, China should equally accept that continuing United States strategic presence in the region is normal and that U.S. alliances are to be respected. Three, China and the United States need to accept that the other member states of the region also have major equities in the region's future and hence an equitable voice in the region's management. Four, all states should collectively develop, agree and accept the basic norms of behavior for a regional rules based order. Five, this should include the nonuse of force in dispute resolution. Six, regionwide dispute resolution mechanisms along the lines outlined in the Treaty of Amity and Cooperation, the ASEAN Code of Conduct and the United Nations Conference on the Law of the Sea, UNCLOS. And seven, the freezing of all existing interstate territorial claims and the development of protocols for joint development commissions for the common extraction of resources from disputed territories. Furthermore, the East Asian Summit and the ASEAN Defense Minister's Meeting Plus 8, the ADMM Plus 8, should prepare a program of practical action to create a set of confidence-building measures to enhance regional security cooperation, hotlines between the relevant national security agencies within all member states to deal with incident management, detailed protocols for managing incidents at sea, regular high-level meetings between all the region's military so that networks of relationships are built over time, joint exercises in search and rescue and counterdisaster, counterterrorism and counterorganized crime, and finally, in time, transparency of military budgets and of national military exercises. As to where the specific work can be done, the United States' recent accession to the East Asia Summit

means that this institution provides the best possible vehicle given that its membership that covers all of East Asia plus India and given the fact that the EA's formal mandate covers political, economic, as well as security questions. Both the EAS and the ADMM Plus 8 have an identical membership, the former with heads of government and foreign ministers, the latter with defense ministers. On one level, the EAS at summit level can help agree on the broad directions for security policy cooperation, at a different and practical level the ADMM Plus 8 could be given specific responsibility to develop the raft of confidence- and security-building measures referred to above.

To conclude, any foreigner visiting Washington will concede that this country has an increasingly overloaded political and policy agenda. The rebooting of the United States' economy remains fundamental to all that I've proposed in this paper on the future of U.S.-China relations. At one level, the global financial crisis and the great global recession that followed it caused something of a shock to the Chinese system given that the Chinese had by and large concluded over the last 30 years that whatever defects the collective West might have, they did know how to run economies. Those assumptions have now been shattered. Therefore, the United States' economic revival is critical to the overall Sino-U.S. strategic equation for the future and many of us who are students of the United States' economic history are confident of this great continent's capacity to renew itself assuming of course the restoration of functional politics here in Washington between the Executive and Legislative Branches. The economy therefore remains the key as in China itself. Nonetheless, critical foreign and security policy challenges also confront the administration at the same time. These include the need to finish a Middle East peace settlement, the nuclear programs of the DPRK and Iran, as well as a new strategy for engaging the China of the 21st century based on a combination of strategic realism and political cooperation. Foreign policy priorities are always a choice between

the urgent and the important. The China challenge represents both.

When we look at Asia today we see it driven by two conflicting change drivers, the forces of globalization bringing our countries, economies and peoples closer than ever before in contrast to the forces of ethnopolitical nationalism which threatened to pull our countries and economies apart. It's almost as if we have 21st century dynamic economies being dragged back by set of almost 19th century security policy realities in turn anchored in ancient unresolved cultural animosities and territorial disputes. I for one do not believe there is anything determinist about history: ideas matter, politics matters, policy matters, foreign policy matters. The key challenge confronting us all therefore as we consider the rise and rise of China is how we recognize the strategic and economic realities unfolding before us, reconceptualize the problems we face into opportunities which could in fact benefit us all and then develop a concrete program of policy action to give these ideas practical effect. The reengineering of strategic mindsets is arguably our core challenge. If we and our friends in China simply conclude that the difficulties we experience are just too hard to deal with and that at one level or another conflict is somehow inevitable in the long term, then the prospects are grim indeed. If however both our ideas and our analysis are capable of engineering an alternative mindset which is neither utopian nor delusional but instead seeks to maximize cooperation, minimize conflict and manage the rest within the overall principles of an agreed strategic framework, then we are capable of changing the course of history. As a former prime minister and foreign minister of Australia, a country whose most important economic partner is China and a country whose oldest continuing ally is the United States, my purpose in Washington today is to leave these various proposals with you in the hope that the United States, China, Australia in partnership with other countries of our wider region can in fact build a truly pacific century together. I thank you.

MR. BADER: you all will bear with us for a few minutes, what I propose is to have a brief conversation with Kevin about some of the ideas he's put on the table here for a few minutes, pose two or three questions and then open it up to the floor of your comments and questions.

I think what you heard just now from Kevin was an extraordinarily rich presentation in which is hard to picture any former official in any country giving with such texture and such depth. You can all appreciate why when I was in the Obama Administration we considered Kevin to be a unique thought partner on Asian issues, on China policy, on global issues, things like the East Asia community, the East Asia Summit, the G-20, climate change -- climate change may not have worked out all that week, but trust me would have worked out worse if not for Kevin's role. Without going into detail on what I said was an extraordinarily rich presentation which I think will bear reading and rereading, I'd highlight features. One was Kevin's emphasis on the mixture of hard power, accommodation, and that's the word he used and that was a word used also in the first presentation, accommodation of China's legitimate interests and norms for conduct in the Asia Pacific region. A second aspect was his relative optimism, and I use the term relative advisedly, about the prospects of economic reform under Xi Jinping in his first term and perhaps some form of steps on political reform thereafter. Third, the importance of U.S. initiative on the strategic relationship between the U.S. and China in enunciating regional and global norms and with some specific ideas that Kevin put on the table about security- and confidence-building measures built around the ADMM Plus 8.

Kevin, as I say, you were our thought partner and in some cases our thought leader, so you'll be shocked to learn that I agree overwhelmingly with what you had to say but in the interests of making this a more lively discussion, let me pick out a few things that I agree with you on but let me ask you to spell them out a little bit more

because they're not intuitively obvious. One is you talked about Xi Jinping among the seven, but you talked about him having a special role and perhaps a larger role than his predecessor. If you look at Chinese history since the 1950s and 1960s, you've had a series of general secretaries going from Mao Zedong to Deng Xiaoping, skip over -- to Deng Xiaoping to Jiang Zemin to Hu Jintao with diminishing power and authority. What is it that tells you that we are about to see a reversal of what appeared to be an historic trend?

MR. RUDD: Firstly, it's impossible to replicate the careers of Mao and Deng simply because of who they were and when they lived. These were both significant prerevolutionary figures now in particular, therefore they carried about them a particular aura. Post-Deng, no one has acquired that status. Why I suggest that Xi Jinping will be more than a *prima inter pares*, first among equals, is partly his pedigree. He is familiar with what it is to lead by family experience and his connection with his father. Secondly, he is a highly intelligent person who knows what needs to be done if the party is to continue in power on the question of the economy and I suggest more broadly as well. Thirdly, it's the actual style of the guy who in my experience of most Chinese leaders since Deng and having been young enough to then have met Deng in the earlier halcyon days as a carrier of embassy bags in Beijing back then is that this guy is the first one I've seen since Deng Xiaoping who speaks directly without notes, tells you what he thinks, tells you what he feels and tells you what he intends to do about it and that's based on a series of private conversations. Does this all add up to a definitive science? No. But political science is the correct adjective in the incorrect noun. So therefore my on balance assumption that he has the potential therefore to Lead in a capital L way and to be potentially transformational with one caveat. That is given that none of his bureaucracy will be fashioned in that direction and none of it capable of providing an

architecture within which China could for example develop a regional security-based order which accommodated everybody, then frankly the United States as the remaining superpower I believe has a unique opportunity to present that to the Chinese. If I was President Obama I'd go to Beijing very soon. I'd take the Chinese by surprise. I would arrive. I'd say, okay, we need to develop a new communique. We haven't had one for 30 years and here are the possible elements of it. What do you think? No one in Beijing would be expecting that, but I think it's the right way in fact to engage a character like the one we currently have as the new Chairman of the Military Commission as well as General Secretary of the Party and about to be President of the country.

MR. BADER: Let me pick up on the communique with you for a second. As you stipulated, let's put the Taiwan issue aside which of course is an important element in previous communiqués, but how would the Japanese, the Koreans, the Australians, other ASEAN countries, respond to a communique, even a brilliantly drafted communique? Would they see this inevitably as a new G-2 even if it were not advertised and disguised and wrapped as such?

MR. RUDD: I don't know anyone in Asia who is not a realist, and by realist I mean a security policy realist in the Morgenthau-E.H. Carr tradition, that is, they recognize where power lies. We have a very big country. It's called the United States. They have a pretty large country. It's called China. And there's another country who has just changed its politics and it's called Japan. I think most of us recognize that there are significant therefore power players in this region measured against most of the indicators. Therefore, if the objective is to, A, maintain the peace of wider East Asia, B, not to have peace at any price but one which is principles, that is, the continuation of the global rules-based order and the construction of a regional rules-based order based on the principles of a global rules-based order, if that can be agreed between the two large powers then I

cannot see there being a large degree of regional concern. Of course, India is in a slightly different situation because of its own self-perception and its own inherent standing. The rest of us, and I'm always reluctant to speak on behalf of other countries, but given that Indonesian ambassador is here, I'll chance my -- I think the rest of, Korea, Indonesia, Australia and others, would of course be separately engaged diplomatically with the two powers in the negotiation of such a communique, but the key thing is to get the fundamental dynamic right. This is a strategically competitive relationship at the moment with a high degree of external complexity now being driven by the proliferation of subregional disputes for which there are no rules of the road, East China Sea, South China Sea and the rest. I don't see it's a zero-sum game. If it's done in effect by a G-2 but the rest of us are working shall I say behind the scenes on the script with both partners, then I think it can still be a fundamentally good outcome. What is my concern about there not being a defined new document which outlines a strategic future for this bilateral relationship in the region more broadly is that we simply drift and the relationship becomes one of day-to-day, month-by-month issue management. That's fine. Issues have to be managed. All of us in the foreign policy game know that -- it all blows up in your face. But if you simply are doing that in the hope that the general strategic direction sorts itself out in the end based on hope, optimism but no plan, then I think we serve ourselves badly by that both unnecessary.

MR. BADER: You referred in your speech and just now to a rules-based order which I think is an idea that runs through -- President Obama's speeches about China. But let me ask about your view of the likelihood of China becoming a true adherent to a rules-based order. If you look at China's history through the dynastic era -- system, in the mid-20th century using the Soviet Union against the United States and using the United States against the Soviet Union, in more recent years what we have all

seen is a policy founded on pretty clear-headed realpolitik, as you say they're good students of American international relations theory and Hans Morgenthau, what gives you the basis for optimism or at least hope that this historic approach of China which has not been in this direction can be transformed?

MR. RUDD: There are a number of scenarios. One which is often put up is the straw man scenario which is what's anyone got to worry about because China has never invaded anybody? There are a few exceptions to that if you happen to be in Vietnam and depending on your view on the part of certain other neighboring states over several-hundred years, but it hasn't been a French empire, it hasn't been a British empire and hasn't been a Dutch empire and, frankly, we should bear that in mind. However, that is the false question. The real question in terms of let's call it the Asian Hemisphere is not whether China becomes so powerful that it seeks to militarily invade with the view of territorial or resource acquisition, it's simply the exercise of political power and foreign policy power and the foreign policy independence and freedom of movement of policy movement of countries across the wider region. That's essentially the question. And you therefore draw the analogy which is in Henry Kissinger's book on China about Chinese traditional statecraft around Middle Kingdom-ism which is this was not about even when they could in the days of the Ming and Jung go off and sail around the world with very large ships and it never crossed their mind to actually establish Chinese colonies. What happened was all these folks got brought back to Beijing every year or two to pay tribute, pay obedience to the emperor and maybe go to the odd party or two sometimes with pretty girls. That tended to be if you read Henry's book carefully the statecraft of the time.

Let's go to another set of scenarios which is this modern China that we're dealing with has therefore got within its history none of the shall I say demons of a repressed imperial past that you see in other European cultures, that is, a desire to go

out and conquer again. It is however a deep desire to be respected in the councils of the world and we should never underestimate that. Which brings me to the third point I'd make about engaging China in a rules-based order given historically the Middle Kingdom has simply seen itself as being self-contained. Go therefore to the question of self-interest. Look at the one that's most immediately apparent, and that is for example intellectual property. Suddenly China discovers that it has a big interest in global rules to protect international property because China now has a fair bit of intellectual property it wants to protect and it is a question of an approach of becoming gamekeeper or something along those lines. As China's self-interest is engaged frankly by the range of interests it has alive in the global economy, so it discovers the utility of global rules in order to do that. At a different level, the Chinese understand that if they're going to grow their economy, having rules which make security predictable rather than simply chaotic within their own region is an important underpinning of ensuring that you've got a stable environment in which to grow economies. But you're right. At the end of the day, China is going to have difficulties at a conceptual level with a number of these principles. A final point would be though China as a great power will want to be respected as such and part of the collective Western pitch to China should be to be a great power means being a contributor to the global order and its rules and what contribution do you propose to make, and given already nascent Chinese contributions to peacekeeping under the U.N. flag, given nascent Chinese contributions to forms of overseas development assistance and the beginnings of a contributory arrangement to various U.N. agencies, you see the beginnings of that work, but there is much distance to be traveled.

MR. BADER: One last question, Kevin, before opening up. You mentioned the U.S. policy of rebalancing and pivot and you said briefly that you strongly supported that. An argument has been made by various American and Australia scholars

that --

MR. RUDD: Their names and addresses.

MR. BADER: No names come to mind, that in fact the rebalancing is causing a reinforcement of -- nationalism in China, it's causing China to see the relationship between the U.S. and China as a zero sum game, causing escalation of Chinese demands, causing China increasingly to see the U.S. as an enemy and is contributing to a new cold war in Asia. How would you respond to this kind of argumentation beyond your simple assertion that it you regarded as constructive policy?

MR. RUDD: A critique against it is just intellectually invalid. Firstly, it assumes that China was not rapidly for example building its military prior to the announcement of the rebalance in the president's visit in effect to Australia at the end of 2011. China's military modernization process had been underway for a long, long time prior to that and Chinese declaratory statements by various members of the PLA of a sometimes provocative nature had well preceded any such announcement of rebalance on the part of the U.S. administration. Secondly, if you look at the immediate theater of the South China Sea, the partners in southeast Asia, their reaction to what was happening in the South China Sea built during the course of 2009, 2010 and 2011 prior to any statement on the part of the United States about rebalance, you simply would sit down in the various presidential and prime ministerial offices of southeast Asia to hear their rendition. Which brings me to my third point and something I put to a panel of Chinese national security scholars recently, perhaps our friends in China could name which of the governments in southeast Asia or across wider East Asia outside of Pyongyang and Beijing, announced their formal objection to the U.S. policy on rebalancing. I can't name one. Of course there will be a critique mounted by some that the use of declaratory language as opposed to simply the operational actions to

rebalance and to deploy real assets and to act by what you do rather than what you say would have been sufficient. I think judging the temperature and mood across East Asia, they're in the mood for something quite different to that. The final point is this. For goodness sake, let's actually unpick the strategic reality of what's occurred. I think there are three pillars to the rebalance, the military one, the diplomatic one and the commercial one. The military is in terms of U.S. assets not being withdrawn, if you've got 60 percent of the U.S. Navy globally located in the Pacific and you got a drawdown of overall U.S. military assets globally, you're probably going to end up with the same number of assets in the Pacific. I'll leave the U.S. side to answer that question -- is looking at me in a puzzled way, so perhaps I've got that slightly wrong. Diplomatically the rebalance consisted of the United States joining the East Asia Summit. Prior to that you were not really active in the region's diplomatic architecture. Commercially by your embrace of TPP, the Transpacific Partnership, in opening the door to Japan and prospectively China, that's you back in town in terms of frankly the region's free-trade agenda as well. These were I think very, very solid and welcome initiatives across the region. But on the specifics of say one element of the rebalance which has been most focused on in Beijing which is the deployment of Marines in Darwin, for goodness sake, in the past we've had 1,500 Marines on rotations of up to 3 months over the last 15 years, now we're going to have 2,500 Marines for rotations of up to 6 months. They should reissue the global balance by the IISS in London to take account of this fundamental strategic shift because it's basically upset the global balance of power. This is just absolute balderdash. So we've got to actually separate out what I would describe as substantive policy declarations, the associated real actions, from shall we say propositions which may be exploited for other rhetorical purposes. Apart from that I thought that was a great idea.

MR. BADER: I'm not sure what the term is in cricket for throwing

someone a soft ball and watching him hit it out of the park, but we'll take questions. We've got about 10 minutes, so let's start in the first row with the Vice President of Foreign Policy for Brookings. If anyone could identify themselves and fire away.

MR. INDYK: Thanks. I'm Martin Indyk from Brookings. Kevin, first of all, thank you for a really provocative speech in terms of thought provoking. And of course your timing is very -- given the fact that we have a second term and a new secretary of state coming in and a new secretary defense, so I think your ideas are fed into the system just at the right time. Even if they have an Australian accent, in my experience they still get heard.

MR. RUDD: If not understood.

MR. INDYK: Two quick questions. One is on this notion of getting the Chinese to accept a rules-based system. How do you package it in a way that doesn't get them to say they're your rules, they're not our rules? The second question is about India because it too is a rising Asian power and you kind of breezed past India. But from an American perspective how should we be thinking about engaging India in this structure that you're putting forward?

MR. RUDD: Thank you, Martin, for the questions and for an Australian-American to acknowledge again your contribution to the foreign policy and national security policy debate in this great land. A couple of points. The core question is how do you anticipate and effectively respond to the Chinese objection that this is simply the imposition of Western nostrums? One, any such principle such as those that I outlined for regional security and order in Asia are consistent with those which the China have already signed up to through their accession to the United Nations. There is nothing remarkably different or new in what has been described by me regionally to what they have already concurred to globally. That's the first point. I think the second is this.

There is a real danger, and I appreciate both your questions and Jeff's on this, of things being lost in translation. I've spent a lot of time thinking about this question which is in part why I've spent a fair bit of time speaking to counterpart institutions in Beijing, in fact, giving a lecture to the hardliners at the National Defense University in Beijing next week, so if I don't come back, Cheng Li, you know where to find me. When you look at how you translate this question of order, for example, what does it mean in Chinese? When you look at the question of a rules-based order, what does it mean in Chinese? The thing I go back to is Hu Jintao's notion of harmony. What's Hu Jintao's stated policy objective for China at home and abroad? The Chinese Communist Party summed it up on two phrases, a harmonious society at home and a harmonious world order *hexieshehui hexieshijie*, you think what does that mean? It's nebulous. The term *hexie* or harmony is not nebulous in Chinese at all. It actually digs deep into Chinese philosophical traditions of statecraft. If you go to questions of *hexie* you're down to questions of *pingheng* which are questions of balance. If you're down to questions of *zhongyong* which are those in Confucian philosophy of what's called the Golden Mean, that is, the middle point, you're going to these quite deep resonances within the way in which the Chinese explain their internal political arrangements within China and how they seek to prospectively organize them abroad, although these are concepts which have been primarily applied at home. Take harmony, take the Golden Mean and the mid-point, take questions of balance, these are hugely influential philosophical concepts in Chinese conceptual language. Please nod enthusiastically, Cheng Li. Thank you. He did just a bit anyway. My overall point is there is a danger of being lost in translation, but if we frankly work carefully with Chinese colleagues, several of them who know this stuff backwards and are working on projects along these lines of a common conceptual language of why order and rules-based order and a rules-based multilateral order is not some construction of

Locke, Montesquieu and the Founding Fathers here but in fact are equally alive within the Chinese tradition dressed up in frankly different philosophical concepts, then I think we can make some progress. What's the answer? A, recognition of these foundational concepts which I think can be married in a common conceptual language. B, very practical work in recognizing that what's been asked for regionally here is entirely consistent with the various provisions which exist under the United Nations framework. And C, frankly, a high degree of self-interest now in preserving the peace and making sure that Chinese companies around the world are treated fairly and equitably, as they are now active around the world and subject to global jurisdictions and global dispute resolutions and therefore international commercial law and other laws.

India, a large country to the southwest. Actually, I delivered a lecture on this question in Mumbai just last weekend, a IISS conference in India. India's overall preoccupation with China is focused I think on two things. One is the border, and of the three sets of border disputes, it is the most stable frankly despite the fact that it's more extensive and potentially much more controversial. This is not for any idle reason. Neither China nor India want to have a breakout as they see emerging frankly in the East China Sea and the South China Sea. The second Indian preoccupation with China is economic. India's bilateral trade with China is half that of Australia's bilateral trade with China to put it in quantitative terms and India is a vastly bigger economy. Therefore, there is a great desire in India to frankly do the economic game better. Whereas we engage I think in a fair bit of foreign policy projectionism about India's role I frankly the ultimate strategic calculus with a balance with China, I think from New Delhi's perspective it is much more complex and less forward leaning than that. That is based on my discussions there. Kim actually knows much more about Indian political systems and political culture than I do, but I would actually exercise a word of caution. A final note

though. India is in the EIS and one of the things I -- in New Delhi and spoke to -- and the national security adviser and the foreign minister about these questions, is if we get this thing going then we want active Indian participation on rules-based orders for security and I think they're up for that.

MR. BADER: We're running out of time, but I'd like to ask Ambassador Djalal if he has any question or comment or refutation.

AMBASSADOR DJALAL: Kevin, you are I think the first leader who pushed the region to begin talking about the architecture issue and this was at a time when many in the region were not --

MR. RUDD: Singapore hasn't forgiven me --

AMBASSADOR DJALAL: Pardon me?

MR. RUDD: Singapore hasn't forgiven me.

AMBASSADOR DJALAL: Yes, at a time when some or many in the region were not comfortable about it, but now I think it's very fashionable for everybody to talk about it in the region and I think you've been too modest in taking the credit for this and the East Asia Summit, although there's a different name I think has a large number of -- to the Asia Pacific community which you -- talk about. My question is now that we're looking at the East Asia Summit today, how close or how far are we from developing or achieving that sense of community that you had in mind?

MR. RUDD: What I've said about -- gave a speech about the nature of the Asian Pacific community as prime minister, and frankly I was worried about many of these long-term trends particularly in terms of polarization of the China question and I thought it was necessary for us to begin a profound discussion-dialogue about how we begin to think and work together as a region before a split. The second point is the Asia Pacific community in its fundamental elements is the EIS by another name. I laid out

three criteria. One, that it include all the major powers in the region including America. America was excluded. I could never actually see how it would work in America's absence. Two, that it had a clear and undisputed security agenda as well as a political and economic agenda, and the Kuala Lumpur Declaration which set up as you know the AS in 205 did that for us. And thirdly, that it met at summit level so you'd have whoever ran China in the room with whoever ran the United States as well as the other equity holders in the region. The EIS architecture is the APC, the Asia Pacific Community, architecture but it's not yet a community. What you've basically got is the bare bones, but if you don't have the bones and if you don't have a skeleton you can't have a body and so that's where the task lies. One of the bits of flesh to be put on those bones is what I've been talking about which is the security order and that's where the work must now occur. It's the next phase of work.

MR. BADER: I would like to thank you all for coming for these two sessions we had this afternoon. If you could please give Prime Minister Rudd a round of applause for his presentation. If you missed anything, you can read it on the Brookings website in the next couple of days and if you'd prefer to read it in Chinese, we'll try to put it on the Brookings Tsinghua Center website in Chinese. Thank you all very much.

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