

THE BROOKINGS INSTITUTION

U.S.-CHINA RELATIONS: A NEW PATH?

Washington, D.C.
Thursday, June 27, 2013

PARTICIPANTS:

Moderator:

JONATHAN POLLACK
Senior Fellow and Director, John. L. Thornton
China Center
The Brookings Institution

Panelists:

RICHARD BUSH
Senior Fellow and Director, Center for
Northeast Asian Policy Studies
The Brookings Institution

KENNETH LIEBERTHAL
Senior Fellow
The Brookings Institution

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

P R O C E E D I N G S

DR. POLLACK: Good afternoon and welcome. I'm Jonathan Pollack, director of the John L. Thornton China Center. And over the next hour and a half, I anticipate a spirited discussion involving myself and my two colleagues here on the stage today, but with also, hopefully, allowing sufficient time for questions and answers from the audience.

Let's look briefly at where we find ourselves today in the U.S.-China relationship. Less than three weeks ago, it seems a lifetime ago, President Obama and President Xi met in California for an unprecedented summit. In less than two weeks, we will see, of course, the Strategic & Economic Dialogue here in China. And intruding between the two, shall we say, have been Mr. Snowden and his escapades.

So if we look at these three events, the first was something that was arranged quite rapidly, if you think, by the two leaderships to pursue an unprecedented opportunity for the two presidents to meet. The second activity is a long-scheduled annual event. And the third is the reminder that there can always be elements of disruption that are unanticipated, unscheduled, and the like that can have a profound effect on U.S.-China relations.

So in that spirit, we're going to try to examine what we have seen over the last few weeks, but, more to the point, to try look ahead as best we can about the bilateral relationship and the factors that could shape it in the months and years to come.

Our format today is going to be a little unusual. We're going to have this initially with presentations by my colleagues. I'll come back at the end, but just so that you know in advance, we will begin with Ken Lieberthal, former director of the Thornton

China Center and senior fellow here at Brookings in Foreign Policy. Ken will talk about the domestic context of deliberations in China and the implications as he would see it for the U.S.-China relationship.

We will then turn to Richard Bush, director of the Center for Northeast Asian Policy Studies here at Brookings. Richard will discuss both the outcome and the context of the meeting at Sunnylands, as well as what we do or do not understand about this label that is now tossed around so regularly about a new type of major power relationship.

Ken will then come back and talk briefly about some of the implications for the forthcoming Strategic & Economic Dialogue to be here in Washington in less than two weeks. And then I'll come back, concluding briefly with some observations, including some observations from a just-completed trip from China, having returned only two days ago, but try to identify some of the factors that emerge from our discussion.

We'll then have a conversation among the three of us for a bit and then we will turn it over for Q&A for the audience. So, hopefully, you're not too confused by all of that. We're looking very much forward, all three of us, to the next hour and a half.

And so, without further ado, Ken, the floor is yours.

DR. LIEBERTHAL: Thank you very much, Jonathan. After that review of the agenda, I'm a little confused as to what I'm supposed to talk about. (Laughter)

Seriously, I want to start off this discussion with China's domestic situation that Xi Jinping has faced and then how that impacts U.S.-China relations. I think Xi Jinping inherited an extraordinarily full domestic platter, major challenges very well recognized at the top. This is not an outside analyst kind of creating images and what

they confront. This is exactly what you hear from the Chinese leadership themselves internally.

A, widespread popular criticism of the Chinese Communist Party against management of the economy, the environment, and a variety of other things impacting quality of life and opportunity.

Secondly, declining rate of economic growth. And the big issue there is not so much cyclical, it's structural; that the growth model that they have pursued so successfully for so long has now basically run its course. Very, very well recognized in Beijing. What's required, therefore, is major structural changes that produce significant change in the structure of the composition of GDP in China and how they get from here to there.

Third, environmental devastation, devastation to the point where it has become an enormous political and social problem in China. This was highlighted, in part, by the thick pollution fog that encased Beijing during the top meetings this past winter. And it just highlighted that this has gotten to a point where it has moved to the center not only of an environmental agenda and economic agenda, but the political agenda.

Fourth, widespread, deeply entrenched corruption, not only at the top, at every level of the political system, but also radiating out from the political system through the economy, the educational system, and other aspects of life. Topic of daily discussion almost everywhere you go in China.

Fifth, very powerful vested interests. Always hard to measure these things, but, if anything, vested interests in the former model, in the model they now want to move away from, are very, very deep. And so you have a problem of an approach that

was successful for many years creating huge winners who now want to see that approach basically continued or at least not modified in ways that adversely affect their interests.

And then finally, I would add to this 10 years of consensus decision-making at the top of the party in Beijing. In other words, the model that everyone's gotten used to is you need a consensus, not just a majority vote, on the standing committee of the Politburo in order to take major measures. I think they may well be moving away from that now, but there's that norm and practice that's been established and that has certainly been the case for at least the past decade.

With that being what Xi walked into, Xi and his colleagues, what is the strategy? I think Xi's strategy now is pretty clear. I don't know how much each of his colleagues has signed on to it. I think Le Keqiang is on board on it. Beyond that it's a little harder to tell. We'll see over time. But I think there are basically three core components of the strategy that he has adopted.

One, to fully support the continuation of the current political system with a political monopoly by the Chinese Communist Party and with measures taken to strengthen the party and its political monopoly. This is a politically illiberal -- not liberal, illiberal -- approach. They've just announced a rectification campaign that will take place over the coming year. It reminds those of us who have studied China for a long time of a much earlier period in Chinese party history, and also a strong anti-corruption drive. All of this is, you know, tough stuff to make the party a more disciplined, more cohesive, and more capable force in the belief that that is the pillar of everything else that will spell success for China.

Secondly, some immediate moves to win popular support. Again, the level of criticism of the party and the system before the 18th Congress last November and the NPC this March, I was in China for both of those, the level of popular criticism was, to my mind, utterly extraordinary, almost denigrating, a contempt for the way things were being handled. So it's clear that Xi came in with part of his strategy being to say there's not only a new sheriff in town, but there is a new dawn in China. And so you had the China dream.

Frankly, it reminds me very much of late 2008/early 2009, yes, we can. Right? And everyone can read what they want to read into that. That's, in a sense, the China dream, everyone can read what they want into it. We now have the China military dream, the China economic dream, the China environmental dream. Dream along with me.

Plus, the tough anti-corruption rhetoric and some very visible things on the anti-corruption side to, again, show I'm with you guys. You know, we're going to have to move on this.

And then thirdly, the promise of significant economic reforms. Here the details are slower in coming, not surprisingly. It's a very complicated and difficult set of issue. On the upside, we've seen the moving into key positions of three absolutely superb pro-reform people. Liu He, who is now vice chairman of the NDRC, but also is the head of the Finance and Economics Leadership Small Group Office; the combination is a very powerful position. He's really in charge of creating the overarching design, what they call top-level design, for economic reform. Second, Zhou Xiaochuan and, third, Lou Jiwei. Lou Jiwei now is minister of finance. Zhou Xiaochuan retaining his leadership of

the People's Bank. These are three very powerful positions. These are three really outstanding individuals with very well-known track records.

It will be the Third Plenum, which I am told will take place in October -- if not, it will be November, but I'm told it's pretty well fixed for October -- when they will actually lay out their program. So we're seeing some early indicators on how the Central Bank is operating and that kind of thing, but the overall program will be laid out in October, presumably with some real clarity as to what will come first. Where are they going to put their political muscle? What steps take place very quickly? And then what will they have to kind of develop as they see the repercussions of first steps?

But I think the biggest changes almost certainly will be on the financial side rather than in the real economy. That's because bureaucratically and politically it's much easier to make changes on the financial side. And, of course, those changes ripple into the real economy, so I think that's the strategy that they will be pursuing, and we see some early indicators of that already.

But I think, frankly, structural changes in the real economy are going to face some very, very serious obstacles. This is mostly in the form of, in part, pushback from state-owned enterprises, not only the 120 or so at the national level, but the 125,000 at local levels, each of which has protection from local political leaders. And then, in addition to that, local political leaders themselves, some 80,000 of them -- I'm counting roughly 2 for every local political unit: party secretary and government leader in the unit - - who generally have done very well with things as they are now handled and, therefore, may exercise the flexibility that they have to slow down or disrupt changes that will disadvantage their own careers and the way they've become comfortable in doing things.

So the bottom lines from this are, I guess, fourfold. Yeah, one, two, three, four. Fourfold.

First, Xi Jinping's overwhelming priorities are domestic. And I think it is now clear what was, to my mind, logical before he was chosen, I think is now clear from experience since he has assumed the top position that he desires to put U.S.-China relations on a solid path having felt that they were not on such a solid path during the couple years before he came into office. Put them on a solid path in order to reduce external pressures so that he can concentrate on domestic problems. He doesn't want the added burden of tension across the U.S.-China relationship; I mean, showing himself prepared, as Richard will get into, to take steps in that direction.

Secondly, I think prospects of domestic success on this huge agenda he has are very uncertain. They're uncertain, in no small part -- and I can't stress this strongly -- because the problems themselves are very complex. You know, this is the world's second largest economy. Issues such as environmental degradation are technically complicated and very wide-ranging. So it's the complexity of the issues combined with entrenched interests and combine that with corruption and its consequences and existing social tensions that make them worried about taking a misstep, all of that together makes the prospects uncertain for the degree of success.

Thirdly, Jonathan just got back from China, I've been there several times in the last two months, and I was particularly impressed on my most recent trip, which was about two weeks ago, I don't think I've ever seen a time when really well-informed opinion in China -- I'm talking about talking to ministerial-level officials and people like that -- directly involved in these issues. Well, I've heard such dramatically contrasting

views of what lies ahead in the next couple of years, some being really quite optimistic. These issues are very, very tough, but this leadership gets it. It has proven to be a can-do leadership. We'll bite the bullet, take the bull by the horns, you use your own metaphor, but in the next few years, they will put this country on the trajectory it needs to be on. And others saying we are just in deep, deep trouble and we are in for a very bad time, and the opinions are stark. And I think the reality is no one knows the answer, but the betting is very different among people highly vested in the system. You know, this is not liberal critics or conservative critics; highly vested in the system.

And then finally, let me just state the obvious and turn it over to Richard, which is as you think about China's impact in Asia, in U.S.-China relations, in the world as a whole, so much of that has derived and continues to derive not only from its economic accomplishments, which have been utterly extraordinary, but also from the expectations about its ongoing economic accomplishments, that I think this issue of whether or not being able to turn around the domestic economy and how smoothly that will be, you know, what are the bumps in growth from here to there, will have an enormous impact on China's international position and policies.

With that, let me to turn it over to Richard.

DR. BUSH: Okay, thank you very much.

DR. POLLACK: Yes, thank you, Ken.

DR. BUSH: I hope each of you is taking notes on Ken's remarks, not because there's going to be a test, but because it was the most succinct, precise, and accurate picture you're going to get of the situation in China today. Chris was taking notes. (Laughter)

SPEAKER: I wrote as fast as I could. (Laughter)

DR. LIEBERTHAL: And by the way, you don't have to say anything else. We've covered everything. (Laughter)

DR. BUSH: Of course China's been in this situation before. The first leader in recent memory who said China needs a peaceful international environment so we can deal with domestic issues was Deng Xiaoping. This has been a fairly constant thread through the whole reform period, but it's a reality that persists.

President Obama has problems of his own, mostly of a domestic sort. He needs a peaceful international environment if he's going to achieve what he would like to achieve. I hope that he has more sort of luck and good fortune or as much as Xi Jinping does, but let's just throw out the possibility that a good U.S.-China relationship could help each achieve his respective domestic objectives.

Now, a necessary but not sufficient condition for a good U.S.-China relationship is a good personal relationship between the two leaders. And I think this is something that American policymakers have understood for some time. It's one that Chinese policymakers understand. One of the reasons that each leader sits at the top of a very large and unwieldy governmental system, neither can know at any one time what all of the little subordinate units of his respective government are doing to create trouble, either domestically or around the world, and getting control of these unwieldy apparatuses, it works better from a top-down approach. So if the two leaders understand that they, in a way, have a -- they share a common situation, a common fate, it makes it easier, I think, to have a good relationship. Increasing trust between the top leaders makes it easier to have increasing trust between the two systems.

But, unfortunately, in the U.S.-China situation, the schedule of high-level meetings is back-loaded during each calendar year. It's in the fall that Xi Jinping and Barack Obama would normally get together in the routine course of things with APEC and G8 and so on. And so sort of early on this year there was a quiet surge to try and find a time when the two could get together and continue the work that was begun in February of last year to build that personal relationship where each could take the measure of the other, each could gain a sympathy of the other and his position. President Xi's Latin America trip provided that opportunity and the two sides seized it.

One other aspect of this meeting was that it truly was different from the normal leaders among Chinese and U.S. presidents who are often thrown into a very scripted situation and they are given reams of talking points from which to read. Every single issue in the relationship has to be covered. It's a foreign ministry's dream, but in terms of the needs of the leader, it's not necessarily optimal. And so the idea here was to give the two leaders more of an opportunity to interact on a more individual basis. Of course, specific issues were raised; that's part of the exercise. But it was intended to be somewhat less scripted.

Now, on the meetings itself, which took place from Friday afternoon, June 7th, through lunchtime, I think, on June 8th, which is a Friday and a Saturday, Friday afternoon was spent in a discussion of broad strategic vision, goals, and so on, where each leader had the opportunity to hear from the other what do I really want to achieve in the time that I have before me, and this was both domestically and internationally. Friday evening was a discussion over dinner and then after that on security issues. And on this one I'm told that much of the time was spent talking about

the shared problem of North Korea.

Saturday morning, President Obama and President Xi went for about an hour-long walk with just them and their interpreters. This was another opportunity to bond. And then the rest of the morning was spent discussing economic issues, including cyber.

As I noted, specific issues did come up. It's not every issue in the relationship. The conventional wisdom is that on some issues there was a convergence, apparently; others, continuing divergence; and then some areas where it seemed like there was some opportunity. The areas of convergence were North Korea, where I think that the United States and China are moving towards the same wavelength on how to deal with provocations from Pyongyang.

Another was in the mil-mil relationship. And this, I think, was an important consequence of the fact that Xi Jinping in February of last year, when he came as vice president, was convinced to make a visit to the Pentagon. Apparently, that went very well. He was very well received and he gets the importance of good relations between senior officers of the two defense establishments.

Climate change was another area, apparently, of convergence. And actually, the one specific agreement from the Sunnylands meeting was there.

The areas of continuing divergence seemed to be cybersecurity and activities in the East China Sea and South China Sea. I think here part of the U.S. purpose in discussing these was just to make sure that Xi Jinping himself understood what we believe about what was going on. If he is misled as to what's actually happening, that's a problem, you know. If we're misled about what's happening, that can

be a problem.

I think there are other areas of opportunity where more work can be done, things like Chinese investment in the United States. There are a lot of hurdles that have to be cleared on that, but there does seem objectively to be a shared interest in moving forward, so.

DR. POLLACK: Richard, would you want to make any characterizations about this new type of major power relationship and what it is?

DR. BUSH: Sure.

DR. POLLACK: Or not.

DR. BUSH: What is most important about this concept is the fact that it wants to be different than the old pattern of great power relations. And the image of that is that when you have a country that's rapidly accumulating power, it ends up, whether it wants to or not, challenging the established order and the interests of the major status quo powers. China and Chinese scholars have done a lot of study of the origins of conflict in previous cycles of power transition. It does not like what it sees. It does not want a conflict with the United States. It's not ready for a conflict with the United States and, as we said, it has its own problems. And it is much more tied in to the international system than maybe previous rising powers were.

The question is how to create that new pattern. And here I think there is a lot of work to be done to enrich the concept, to give it content, to give it operational practicality. When State Councilor Yang Jiechi was briefing the press after the Sunnylands Summit, he was asked about this. It was probably a planted question. And he replied with three phrases and a four-point proposal. The three phrases were

ostensibly what Xi Jinping had said to President Obama. I'm not going to go through these. The four-point proposal was how to get from here to there. My own reading of this was that the three points were essentially the end state that we wanted to get to. The four-point proposal had a lot to do with process and not a lot to do with content, and the sort of insidious dynamics of this process of power transition.

I think that the Edward Snowden case is a good example of how an issue can pop up totally unexpected, all of a sudden, and roil a bilateral relationship where each side wants something good and sort of pull them back towards the old pattern. And if only it is to create better response mechanisms for dealing with these surprises, it's worth doing. Thanks.

DR. POLLACK: Thank you, Richard. I suspect we may come back to Mr. Snowden at a subsequent point.

DR. BUSH: Yes.

DR. POLLACK: And if we don't, I'm sure that the audience will.

DR. BUSH: Yes.

DR. POLLACK: But my one observation I would make is that if we thought that the summit was supposed to be unscripted, Mr. Snowden's recent travels are truly unscripted kinds of events.

DR. BUSH: Yes.

DR. POLLACK: And we'll come back to this.

Ken, how would you see any of this now looking ahead to the S&ED which is upon us and the issues that presumably both leaderships are going to confront in that context?

DR. LIEBERTHAL: Important question because, as Richard indicated, neither side saw the Sunnylands Summit as an end in itself. Both sides saw it as, hopefully, a beginning of putting together a capacity to deal with each other in ways more meaningful that, over time, would build more confidence in the future than what had transpired before. And both sides at the time saw the next big step as the Strategic and Economic Dialogue. That'll convene June -- I'm sorry, not June, July 10 and 11 in Washington, and be preceded by two days of meetings of specialized working groups that have become an integral part of this S&ED.

I think there are four bridges, direct bridges, between the summit and the S&ED, so let me say a word or so about each of those in no particular order of priorities.

First, cybersecurity. As Richard indicated, President Obama took the occasion of the Sunnylands Summit to give President Xi a serious briefing on cybersecurity issues as we understand them. He drew a very clear distinction that much of our media has failed to draw as clearly and occasionally some of our government people haven't drawn as clearly, I might add. And that is the difference between commercial espionage -- stealing secrets from the private sector to give to your own firms for competitive advantage -- and other forms of espionage to get military and political secrets. And Obama said, effectively, everyone does the latter. That isn't what we're complaining about. You get our secrets, shame on us. We should have better defenses. We're sure trying to get yours. And every government does it.

What he complained about bitterly was commercial espionage because it goes to the heart of America's innovation capacity and has all kinds of spillover effects on employment, on investments in innovation, and so forth. And he effectively said very

clearly if you don't clean up your act on that, it will negatively affect our relationship. Did not expect an answer. You know, expected the standard talking points, but was -- to tee it up, to begin to get serious about it at the S&ED and beyond.

And, in fact, we have established with the Chinese a cybersecurity working group leading to the next big discussion, which will take place in one of these two-day lead-up meetings to the S&ED itself. That is a pol-mil meeting. In other words, it will have both civilians, civilian officials, and uniformed military in the room for the meeting. Our hope has been that that would focus on the particular issue of commercial espionage. You know, we certainly tried to tee it up that way.

Now, the Snowden affair obviously will juice up that conversation quite a bit. We'll have to see how it plays and we can talk about it more if you want to raise that in Q&A. But anyway, so cybersecurity has moved to the center and will directly be taken up.

Secondly, climate change and clean energy. Again, we've established a new working group with the Chinese. This actually grew directly out of Secretary Kerry's trip to China about six weeks ago. That will also meet as a carve-out of the S&ED. In other words, this won't be an issue that just comes up helter-skelter, but it'll be a focused discussion, you know, with a particular group whose agenda has been teed up by the working group. And the hope is the working group will continue afterwards to follow up, so this becomes more of a process and less of a one-off event.

The one deliverable from the Sunnylands Summit was an HFC agreement. It was an agreement between the U.S. and China to work hard together to eliminate a particularly powerful greenhouse gas from production and use by 2050, as I

recall. So it's a long-term process, but the Chinese have never signed on to that before, so it was seen as a real advance.

But what we both are aiming for is some major initiatives that address both air pollution and greenhouse gas emissions. That is absolutely the political sweet spot in China and is one that we're prepared to do a lot on, I think, on our side in projects and policies.

Third, economics and trade. My sense is this was not essential to Sunnylands. It was brought up. I don't think it occupied as much time and had as much intensity as a number of the other issues. At least the briefings all of us have heard would suggest that. But there was discussion of multilateral trade initiatives, both RCEP and TPP -- I'll translate those if anyone wants to pursue them afterwards -- but also, very importantly, a common agreement to try to accelerate completion of a bilateral investment treaty. And that is, to my mind, an extremely important development if both sides can, in fact, follow through on it effectively. And the S&ED will be -- you know, one-half of the S&ED is on economics, and so it will take that economic and trade component and focus on that. Hopefully, it will have been helped by the Sunnylands discussion.

And the finally, as Richard very rightly highlighted, there's been an agreement on enhanced military-to-military relations. What I find important about that is, I mean, obviously, in part, that we'll have more contact at more levels of our military and that kind of thing, but also, one part, the briefings afterwards to the press indicated on the American side -- and I think the Chinese agree with this -- that a purpose of this now is to have each military better understand the strategy and strategic intent of the other. Okay? That's something we really haven't talked about in a serious way before, to my

knowledge. And so that's put on the agenda. That's in the context of this broader effort to look to the future, to understand how each side really thinks about the future, and then build cooperative efforts within that broader framework, so those efforts actually are not simply a matter of negotiation over immediate problems, but rather are building toward at least what both sides think they understand as a future where our goals and efforts are reasonably compatible, at least not in serious conflict.

So the S&ED, in short, will be the first major platform to be informed by the Sunnylands Summit. There are going to be many more steps to go obviously in the U.S.-China relationship, so the real test to Sunnylands, to my mind, is whether three to four years from now, as we all look back in the rearview mirror, do we see this as the beginning of a better trajectory in U.S.-China relations or whether it was an interesting event, but without the kind of follow-on that it was intended to produce.

DR. POLLACK: Well put, Ken. If I can make a few observations and then we might discuss things a bit amongst ourselves and I'll pose a few questions. It does seem to me that in the aftermath of the summit most of the officials we hear from in China have tried to emphasize that they seem reasonably well pleased with the outcome. I was told the other day, for example, that in the walk between the two presidents, and I know we don't want to dwell on all these things, but, it was initially anticipated for a very short period of time and it ended up being much longer. Now, you can draw whatever implications you wish from this, but I do think we need to remind ourselves that a principal purpose here was to see whether or not these two leaders could establish some kind of a personal relationship that certainly enabled the kind of confident interaction that presumably they will have in other contexts in the coming months and years.

I think it's fair to say that President Obama found President Xi a more forceful interlocutor, and I mean "forceful" in the good sense of the term, recognizing that Hu Jintao may not have set the bar very, very high, but in that context Xi was able, through his extensive presentation, to put forward a set of arguments, if you will, looking ahead, that would be -- was a rare opportunity and to see whether or not they could find some kind of common perception. That said, it seems to me that the continuing challenge, one of the continuing challenges, will be whether or not the United States and China can jointly evolve and develop, if you will, a new strategic vocabulary to replace what precedes it. We are both still, in significant measure, utilizing frameworks and understandings that have preceded it, but there is a common recognition that that's not good enough anymore and that we are entering a different kind of an era. The question is whether or not we can avoid in some measure triggering reactions in response to events or developments anticipated or unanticipated that will test the determination and the commitment and the resolve of both states and both leaderships to proceed ahead more fully.

This is, of course, one of the question marks right now. It may be well and good that the leaders have established some degree of common understanding, but the relationship between the United States and China is obviously much bigger than the relationship between these two men. One could argue, on the one hand, that President Xi has a longer time horizon. But when I hear what Ken presented in the terms of his domestic agenda in China, he may, in fact, have a longer tenure in office, but the issues that he confronts are just so exceptionally daunting and does reflect -- and I've certainly sensed this, too, when I was in China -- a degree of restiveness that really is quite

extraordinary right now.

Now, here again, I did not detect in my own discussions in China that the Chinese wished to be put in any kind of a notional G2 framework. There is an expectation of being treated equally, of mutual respect, of coming to outcomes that both states can recognize their common interests. But underlying all of this, I think, is a recognition that China is not at some kind of an equivalent point with the United States notwithstanding its remarkable accomplishments of the last several decades. So the question is can both sides, in effect, manage expectations?

A couple of points have already been made and I would reinforce this. There does seem to be some significant movement in the mil-to-mil relationship which really warrants attention. This has been one of the very less-developed areas of the bilateral relationship. And if there seems to be much more of a commitment on the Chinese side, I think that this augurs well for the possibilities.

The other point that was noted, and I would be remiss if I didn't bring it up briefly, of course, is what appears to be much more common ground on the question of North Korea. I can say that from my own experience in dealing with this issue I have never before encountered the degree of open debate and discussion in China on this issue. But a common recognition among all different constituencies that North Korea represents -- that North Korean actions impinge upon Chinese vital interests, core interests, call it what you will, although I don't think that they use the "core interests" label, but it's implicit in ways that, in effect, remove the United States, if you will, as the villain of the story.

Here, again, one notes that while we're sitting here today, Park Geun-

hye, the president of the Republic of Korea, is in China on a state visit. That's a state visit that when I last checked Mr. Kim Jong-un, the young marshal, hasn't been offered by contrast. More to the point, the recent visits by senior North Korean officials to China have underscored the coldness in this relationship. So can the U.S., China, and South Korea and potentially Japan as well forge some kind of, if you will, an overall common purpose that denies North Korea -- denies them political space in between? Can we find a way to work in some degree of concert on this incredibly vexing issue?

Because it does seem to me that however promising, at least in theory, the idea of a new type of major power relationship might be, unless and until there is true meat on the bones, unless and until there is some kind of specific areas -- and certainly the relationship or the issues involving North Korea are very high on the list of vexing issues -- that we will confront something that sounds good, kind of, you know, great taste, but it's not too filling, to borrow from the beer commercial. And that's something that will confront both of us.

Let me, though, just quickly interject what has been the most extraordinary recent development. It was not the Sunnylands Summit, it's certainly not the S&ED, but what has happened in between. Now, my own understanding here, and a lot of this was playing out when I was in China, is -- although I know that there were various officials past and present who had all kinds of sweeping assertions here to make about Mr. Snowden and his affiliations that included former Vice President Cheney, who assured us that he must have been a Chinese spy. My view of this is that if for sake of argument that were true, it really wouldn't explain why, from my observation, the leadership of China was only too eager to see Mr. Snowden out of Hong Kong, and in the

tag-you're-it game, make it more Mr. Putin's problem rather than Mr. Xi's.

But that said, we can see, for example, that some very, very sharp remarks coming even from the White House spokesman, claiming, of course, that the Chinese leaders in Beijing must have been involved in this process, must have been, in effect, ordering Hong Kong to follow its bidding, if you will. I'd be curious if either of my colleagues have a perspective on that, and I certainly would share mine as well. But Ken, Richard, thoughts on this?

DR. LIEBERTHAL: Yeah, I have a few thoughts on it. Obviously, I have no way of knowing, none of us does, whether the White House has specific hard information that Beijing directed Hong Kong on how to handle the Snowden issue. I think the White House has made clear it believes they did, but whether that is because they simply believe the Hong Kong government always jumps to Beijing's tune or whether there is some specific intelligence data is just something that only a very few people would know, and we certainly don't.

I can say a couple of things, though. One is that from Beijing's perspective, first of all, the White House initially treated this solely as a legal problem with Hong Kong, which is perfectly appropriate given that we have an extradition treaty with Hong Kong and Hong Kong has a high-quality legal system. So we didn't go to Beijing on it at the start.

When we finally went to Beijing on it, it was, I understand, to encourage Beijing to make sure Hong Kong does not let him go. From Beijing's perspective, a complicating factor, which many in this room will fully appreciate, is that it's very dicey for Beijing to interfere early stage in a legal matter in Hong Kong while the basic law allows

Beijing to intervene only at the end of a legal process in Hong Kong. Final judgment can go to Beijing to reverse, if necessary, a --

DR. POLLACK: A higher court, in effect?

DR. LIEBERTHAL: Well, yes, court of last resort.

DR. POLLACK: Yeah, yeah.

DR. LIEBERTHAL: Yeah.

DR. POLLACK: It's the standing committee of the National People's Congress is the next step beyond Hong Kong's court of final appeal.

DR. LIEBERTHAL: But, you know, it's a very sensitive issue in Hong Kong to maintain the independence of its legal system. And so Beijing would not want to be caught intervening in that inappropriately, presumably, unless it was such a dramatic thing it was worth it to them to do so. So Beijing argues privately that they didn't do it, that they were constrained by that concern.

In addition, public opinion in China, as nearly as you can tell, there's a lot of opinion in favor of, you know, protecting Snowden from the U.S., our having just focused on cybersecurity, you know, in a very public fashion at the Sunnylands meeting. So Beijing was kind of conflicted on this, right? And the White House made clear that they do think Beijing intervened. Let me say there are reporters and lawyers in Hong Kong and think-tankers in Beijing who confirm that, so that is a widespread view. If accurate, I understand why the White House is angry. If not accurate, if the White House is simply assuming that Beijing did this, then I think the White House probably went farther than good sense or good politics would suggest they should have in the vehemence with which they denounced Beijing on this.

In any case, it's really quite extraordinary coming out of the Sunnylands Summit the huge investment by both sides to try to get the relationship on a good trajectory. With the S&ED coming up a couple weeks hence, to have the White House say Beijing's lying, they intervened, this will impose a price on U.S.-China relations. That was a quite extraordinary moment. We'll have to see whether there's follow-up to that or whether that was just a kind of intemperate set of comments that is best left to die down.

DR. POLLACK: Right.

DR. BUSH: I will note, first of all, that this is the second year in a row that the S&ED has been preceded by a major crisis in U.S.-China relations. Last year was the Chen Guangcheng case. Both involved issues of personal security and personal freedom.

I think I have a slightly different view on this issue of when Beijing intervenes. I think you're absolutely right on an issue concerning the interpretation of law, Beijing's at the end of the process. But I think, according to the basic law, Beijing has more absolute authority when it comes to foreign affairs and national defense. So if this is defined at the beginning as foreign affairs, then Beijing could get in. It's quite conceivable to me that Beijing would take a hands-off and allow Hong Kong to deal with it.

I think Hong Kong had very important reasons to deal with it itself: not only a desire to demonstrate the integrity of their legal system, but also their perspective on Chinese dissidents within the territory of the Special Administrative Region. Hong Kong has been very firm on not sending back people like Han Dongfang, who's a labor activist. Hong Kong as a haven for Chinese who are at odds with the regime remains

important. If Hong Kong were to have surrendered Mr. Snowden, even though this case does have a semi-political quality to it, it might have created, I suspect Hong Kong feared, a precedent for China to come back later and say we want Han Dongfang back and don't raise the argument that this is a political matter and, therefore, you can't do it because you did it for Snowden.

DR. POLLACK: Yeah.

DR. LIEBERTHAL: Let me say thank you for reminding us of Chen Guangcheng last year.

DR. POLLACK: Yes, yes, yes.

DR. LIEBERTHAL: I suspect if Vice President Cheney were still in office his conclusion would be, well, we had the S&ED last year with a crisis right before it, we have the S&ED this year with a crisis right before it. The logical implication is that we shouldn't have any more S&EDs. (Laughter)

DR. POLLACK: Thank you both. I mean, I do think what this discussion to me highlights is that some of the choices are very, very complex for leaders in Beijing. It's not just some kind of easy cut-and-dried circumstance that they confront. Whether the Chinese system or the leadership at the top has this capacity for acting decisively and quickly in situations that affect its interest still seems to me an open question. I would, however, say that from my own discussions in Beijing, this is a case where I don't want to say that all of this gets set aside, but this still continuing desire is to avoid being -- on Beijing's part, is to avoid somehow being trapped in events that kind of spiral outward in a way that really undermines this larger dominant agenda to buy as much stability in the U.S.-China relation as is possible for very, very good reasons from the perspective of

leaders in Beijing.

So with that, I'm going to open it up to the audience. There's a woman there in a white blouse.

SPEAKER: A reporter from the Voice of America. Back to this Mr. Snowden's case. I'm really curious here, where they allow Mr. Snowden to leave Hong Kong, will it make it easier for U.S.-China relationship or make it harder for U.S.-China relationship?

And my second is about Mr. Wang Yang and he's going to be the leader for the delegation for the S&ED and he's not really so much in the international scene, so I want your comments on him. Thank you.

DR. POLLACK: Thoughts on Wang Yang as opposed to Edward Snowden?

DR. BUSH: Why don't you do the Wang Yong and I'll do the Snowden?

DR. LIEBERTHAL: It's interesting, when people began to look forward to this year's S&ED, you know, all the four principals are different. We now have Secretaries Lew and Kerry instead of Geithner and Clinton, and the Chinese are also changing both. The only prior head for the economic side of the S&ED in China have been Wang Qishan, who also had charge of finance and economics. He was a logical guy. With the shift in China, there was a period of time where, frankly, the Chinese could not tell us who the counterpart for Secretary Lew would be even when Secretary Lew went to Beijing to visit. I think they've had a little trouble, you know, kind of getting a square peg into a round hole here.

I think Wang Yang is likely to be a good choice in that I think he

demonstrated in his time in Guangdong -- he was the top political figure in Guangdong for years before moving up to Beijing this spring -- I think he demonstrated an understanding of the economic and political world outside of China; dealt very extensive, obviously, with Hong Kong; initiated a lot of changes in Guangdong, mostly in the direction of greater opening, smaller role for the government, larger role for market forces, and that kind of thing; record is not 100 percent that, but, on balance, very much in that direction. So I think given the array of options, he was certainly a feasible choice and, to my mind, probably a good choice.

But this will be putting together a new set of relationships. I'm not sure whether Secretary Lew has ever met him before, but certainly most American leaders have not. But this is what happens with a change in leadership, you have to, you know, carry some from the past and then you have to build personal dynamics and educate both sides again.

DR. BUSH: The other thing about Wang Yang is that I think he understood before many Chinese leaders that the old model had run its course, at least in South China. And there was a need to move to a different one.

On the question of, you know, will Snowden's departure from Hong Kong be good for U.S.-China relations or bad, I think the key question is the one that Ken raised, and that is what is the U.S. Government's perception of China's role in this affair? Was it hands-off or was it telling Hong Kong at every step of the way what to do? If it's the former, then this is a crisis that will pass. If it's the latter, then that will probably hurt U.S.-China relations, at least for a while. And I share Ken's fond hope that the U.S. Government makes its judgment based on facts rather than simple inferences.

DR. POLLACK: A fair comment, Richard. Thank you very much.

Yes, the woman there and then a gentleman in the front row.

MS. SILVER: Thank you. Could you speak a little bit about Locke's visit to Tibet and how that might affect the bilateral relationship?

DR. POLLACK: Could you identify yourself, please?

MS. SILVER: Sure. I'm a Ph.D. student at the University of Pennsylvania. My name's Laura Silver (phonetic).

DR. LIEBERTHAL: It's Ambassador Locke visited Tibet. The question is how it might affect the relationship. Richard, why don't you take it? (Laughter)

DR. BUSH: It's my understanding that Ambassador Locke has wanted to do this for some time and that he feels a responsibility, as did his predecessor, to go to parts of China that are important to the U.S.-China relationship, whether China likes it or not. I don't know the details and the back-and-forth on setting up this trip, but I expect that this is something that China can accommodate to and it's an important reminder for China of the continuing interests that the United States has concerning the people of Tibet and Chinese policies there.

DR. POLLACK: If I could just add to this, I mean, this is one of these issues where whether or not Chinese leaders will revert to form or whether or not there is a capacity on their part to avoid the kind of usual triggering assumptions that are associated with, for example, the visit of, in this case, the ambassador of the United States to China. Here, too, these are going to be some of the operative tests beyond the atmosphere, beyond the slogans of whether or not you can, in fact, arrive at a different kind of an equilibrium point that doesn't presume the worst under every action that we

take and, contrarily, the same for the United States, whether we are going to have that capacity vis-à-vis China.

I'll recognize this gentleman here and then in row 2 and then here.

Okay, so.

MR. NELSON: Thanks, Jonathan. It's always nice to be called a gentleman, although I do have my State Department suit on today. It's Chris Nelson, Nelson Report.

Following on precisely that point, but picking up on a couple of phrases that you've used that I found myself circling, the notion of spiraling out risk. In other words, you start with Snowden, but end up being, you know, whatever. And then the earlier discussion about the mil-mil talks, finding some degree of consonance on goals and methods. And while you were talking about that I was remembering, was it two weeks ago, Fu Ying sitting where you are now basically repeating exactly the same very hard Chinese line that we heard at the IAS Singapore talks, and that is we're not doing anything wrong. What do you mean everybody's worried about it? You know, we're just preserving our territory. You know, stop complaining.

Are we hearing any indication -- both of you, you've all been there recently. You've been there so many times, you should buy property. Do we hear any indication that they're beginning to understand that their goals and methods are inherently a spiraling-out risk or are they just talking tough even if they do get it or do they not see that yet? Because if they don't see it, then I don't see where we can have any confidence that they get cause-and-effect connections here and we're going to have a problem. Thanks.

DR. POLLACK: Yeah. A fair question. I think that from some of my discussions, and these were more with, again, scholars and academics rather than senior serving officials, I think that there is some consideration being given to what I will call damage-limiting options. It's a little more manifest because if you really believe what you say about not wanting to confront the possibility for a much more contentious U.S.-China relationship, it seems to me that the best way to try to guarantee that is to look for options, again, requiring, of course, the cooperation of others in the region, that at least, if you will, declares if not a truce -- that might be a little too strong -- but looks for options that limit the risks.

Now, ultimately, I think that these are matters that China will have to interact with its neighbors, assuming its neighbors are often willing to do so. I mean, as we know, in the context of the China-Japan relationship, the Chinese are actively seeking an acknowledgement from Mr. Abe's government and from Mr. Abe personally, I should say, that, in fact, there's an issue between China and Japan. I mean, this would be stating the obvious, but it's clear that the Japanese regard this as having bigger strategic consequences if you give that kind of latitude to Beijing and letting them kind of enter that space. But I think that those reflect the realities of the situation.

The risk, as always, is of an incident that I think that neither state wants to see, something that could then trigger larger reactions and responses from within their own polities, their own populations. That's one of the tests of whether or not -- putting aside the desire for stability in the U.S.-China relationship, China's relations with its neighbors have, in a number of cases now, been much more problematic over the last several years. Is there an appreciation for that in Beijing about the potential risks,

potential consequences? I think we do see some quiet indications of that, but there, as well, it's going to be a function of actual behavior and actual initiatives in the time yet to come.

DR. BUSH: Chris, I would say that what's going on right now vis-à-vis the Philippines is not encouraging about any suggestion of Chinese restraint. It is puzzling that, you know, China says that it wants good relations with its neighbors, but tactically it seems to be doing everything to create fear on the part of its neighbors.

It occurs to me that one thing that may be going on here is that China's trying to compartmentalize its relationship with the United States on the one hand and its relationship with Japan, Philippines on the other in the hopes that it can have good relations with us and continue to put pressure on the Philippines and Japan, and, in the process, put pressure on us because we're the senior ally.

DR. LIEBERTHAL: I actually see a kind of compatibility between what they're doing with us and what they're doing locally. The compatibility is to follow on with us. They want to establish themselves as a major power, a country that is treated as an equal by the, you know, biggest guy on the block in a mature fashion.

DR. BUSH: With a major power that has rights in its own home region.

DR. LIEBERTHAL: Well, I was going to say --

DR. BUSH: Yeah, I'm sorry.

DR. LIEBERTHAL: -- secondly, therefore, as a major power within its own region, you aren't going to let littler countries, as Yang Jiechi referred to them a few years ago, you aren't going to let littler countries push you around, especially on issues of sovereignty. And so you kind of have both of those at the same time.

DR. POLLACK: Yes, exactly.

DR. LIEBERTHAL: I don't think they want any of this to escalate.

DR. POLLACK: Right.

DR. LIEBERTHAL: But they also really don't want to obviously back down, and so they're playing that middle ground.

DR. POLLACK: Yes, yes. A question in the second row, then in the first, so yes. And you can identify yourself.

MR. HAROLD: Scott Harold from the RAND Corporation. A question for each. Ken, I'd like to pick up on the conversation we were just having here because as I had in my notes your emphasis was that Xi kind of wants to stabilize the U.S.-China relationship because its primary focus is on domestic issues. And my question that I had was then, you know, is that going to lead us to assume that we'll also see less aggressiveness or assertiveness in Chinese foreign policy?

RAND is doing a study right now looking at China's soft power in Southeast Asia, and one of the complete obvious issues there is that China seems to have moved dramatically away from an emphasis on soft power. So I'd like to continue exploring that a bit, if we could.

Jonathan, this discussion of North Korea came up and I think there was an assertion that U.S. and China are moving towards the same wavelength that Richard made. I see it in terms of the atmospherics, yes, and the tone in terms of what you see in the media. On the other hand, China has a nuclear neighbor next door that it doesn't want to make angry and it doesn't want to lead to collapse, so could you help us identify where the sweet spot is between talking nicer and actions?

And then, Richard, I thought I heard a consensus that the new type great power relationship was a good thing. There's been a lot of writings by either Eli Ratner or Peter Mattis or others who've explored this concept's evolution and what they ask in it. It generally tends to be the case that the Chinese are asking the U.S. to make several moves to acknowledge their unique status. They don't generally tend to talk about a lot of things that China will do differently to avoid the possibility of conflict.

And just now you mentioned compartmentalization. I've always read it as, you know, A, it's a phrase. They've put a label on it. It has political weight inside their system. Could you talk about how that indicates possibly some of the motivations that lie behind it and whether or not those are synonymous with U.S. interests? Thank you.

DR. LIEBERTHAL: Let me, on the first part, answer as follows. As I indicated when talking about Xi's domestic strategy, part of that is the China dream. The China dream is a nationalist dream. It's a dream of a major power, strong political system, strong military, strong society that will become the largest economy in the world in the 2020s, if not before then. And the president of China, the party secretary, head of the military, that individual is the official in China who has responsibility for U.S.-China relations. Managing that relationship as the key was clearly established by Deng Xiaopeng and everyone understands that.

So you attach the China dream to the management of U.S.-China relations and it produces what we see at Sunnylands. These two leaders sit down in an unprecedented fashion. Richard stressed it was unusual. It, in fact, has never occurred before between U.S. and Chinese leaders. That shows a certain level of confidence and also suggests Obama hasn't sat down like that with any other Asian leader that I'm aware

of in his presidency. So this puts China where China wants to be.

Now, given that this a nationalist dream, it also makes Xi, if you will, hypersensitive to challenges to Chinese nationalism in the neighborhood. And, you know, whether it's the Philippines or Vietnam or Japan, he's going to react in a measured but very tough fashion. In other words, I don't think we're going to see him go off the handle, but I also don't think we're going to see him easily kind of *rangbu* --

DR. BUSH: Concede.

DR. LIEBERTHAL: -- concede, yeah. I have trouble going to English occasionally. (Laughter)

One other comment I would make as a segue into Jonathan, what a Chinese official mentioned to me just a few days ago I thought a phrase that captured something very well, which is to say we've all been very excited about China's greater willingness to engage on the North Korea issue in, a more realistic and forward-looking fashion. What he said was, you know, in the past, a lot of folks thought China put a priority on stability in North Korea and not on North Korea's possession and development of nuclear capability. He said, well, he said what I can say now is we give each equal priority.

Now, what he did not say was that if there's a choice, a necessary choice, between the two, we'll opt for de-nuclearization. So there's still -- so we shouldn't let our hopes get out ahead of reality there, although I do think that the Chinese are prepared to engage in ways that they were not prepared to before. Stability is the potential cost and I think we'll have to see how this sorts out.

DR. POLLACK: I do think there are enormous ironies, shall we say, in

the North Korea case. I mean, if there's this argument, this general argument, at least in terms of the chattering class and in the journalistic world, that China's being "assertive," that is it's pushing its weight around, it's prepared to take steps that undermine, the long-term what I will call walking on eggshell relationship with North Korea stands very, very starkly in contrast to that. That said, to me, I think the most interesting indications of change here may have to do not with the United States, but with the Republic of Korea. This is where China, I believe, is imposing a cost, psychological and political, on North Korea that is palpable.

Note, for example, that in the case both in the immediate aftermath of the announcement of the Sunnylands Summit, a North Korean vice marshal -- even though he's not really a military guy, but they give him a military title -- chases off to Beijing, probably very edgy about what this relationship or this meeting might imply in terms of U.S.-Chinese understandings about North Korea. Similarly, we see the visit of Kim Kye-Gwan, the nuclear negotiator for, interestingly enough, so-called strategic discussions, in Beijing, but note that this was not a party connection. This was foreign ministry because the Chinese have indicated all along that their desire is for a "normal" relationship with North Korea, which doesn't exactly look as if it has a larger strategic weight behind it.

Now, still, I mean, again, if we can just look at the -- comparing the Chinese relationship with South Korea and the Chinese relationship with North Korea, President Park has been interviewed in the Chinese media before her arrival. The Chinese have reminded us that the two-way trade in 2012 between China and South Korea exceeded \$250 billion; headed, supposedly, by 2015 to \$300 billion. I'm not saying that this is only a question of trade, but shall we say that North Korea's economic

prospects are a little problematic, to say the least.

So I don't see this as some kind of a sharp move that China will take barring, of course, future North Korean behavior. But it does seem to me that the terms of discussion involving North Korea have changed in a palpable way and that it's really, as in so many areas of China's foreign policy and its domestic policy, it's something that is being actively deliberated at present. But there's a comfort level now, if you will, in saying things that haven't been said before, which I think really, really bears careful consideration.

DR. BUSH: Just taking it one more step, I think the real litmus test of China's cooperation on North Korea is the degree to which they enforce sanctions and really limit North Korea's resources in a concrete way.

To your question about the new pattern, because of the special role that the United States plays in China's home region, this gets really complicated. If what China means by the new pattern, and you suggest some of the things they say indicates this, that the United States is just going to do a one-way accommodation to China, it's not in the cards. This is not a new pattern that we want and so on. You know, if it can be some kind of mutual accommodation, where each doesn't betray its own interests, but we expand the area of cooperation ground, then there's potential.

A number of questions need to be addressed. You know, first of all, who are the great powers that are going to share in this new pattern? Obviously, the United States and China, but Japan? Europe? Russia? And so on. You know, what are going to be the issue areas on which they actually cooperate? Are they going to be sort of soft things, like non-traditional security, or are they going to be really willing to tackle hard

security issues? What's the relationship between the major powers and the powers one step down, and particularly in this case South Korea? So there's a whole lot of work that has to be done and, in the process of doing it, I think we'll figure things out.

The other question that has to be answered was exactly what was the old pattern? What was it about the old pattern that led to war more often than anybody wanted? And, you know, if we misdefine that, then we could spend a lot of time on a fool's errand.

DR. POLLACK: Very good. Yes, right here in the front row.

MR. CHEN: Chen Weihua (phonetic), *China Daily*. Can you talk a little bit about whether you expect something new or different from the S&ED this time given that this will be held after the Sunnylands, there will be the expectation about something new, I mean, big maybe, and in format, substance, outcome? And also, this is, you know, after a lot of talk about to elevate such a dialogue.

And the other, if we can go back to Snowden -- of course we don't know where he is now -- and why the White House should expect in the beginning China should hand over someone who actually revealed the U.S. had been hacking on China and Hong Kong as they are? You know, this will be suicidal. I mean, this would only U.S. wish, I mean, not to -- I mean, maybe the rest of the world even think about. Thank you.

DR. LIEBERTHAL: On the S&ED, I have long been a critic of the S&ED as a format that has -- you know, it's the highest level annual engagement we have. The two cabinet secretaries on the U.S. side are especially invested with a higher protocol status than cabinet secretary for purposes of this meeting. On the Chinese side, it's

basically vice premier or state councilor level. Again, above a cabinet level. But this event has become an annual event rather than a process with an agenda and outcomes that are followed up on in a rigorous fashion. So I have long felt that we need to smooth this out, have working groups that help prepare an agenda, have the S&ED shape that agenda and task those groups to go forward, hopefully have some sorts of meetings in between the annual meetings, perhaps even divide up again what originally existed, which was a separate economic and strategic track. Because, frankly, the two of them in the S&ED convene simultaneously, but barely touch each other.

DR. LIEBERTHAL: In other words, there's not a real leverage in the (inaudible) on the other side. And especially on the Chinese side, I think it's extremely awkward. China never has two people of basically the same rank simultaneously lead the same effort. And so it's more difficult for them than it is for us and it's somewhat awkward for us. So I think there are a lot of reforms that could be made in this.

My sense is that there is a recognition of the problems with the way this has functioned in the past. There is not an agreement for radical reform and how it takes place. But the establishment of several working groups now, especially on the strategic side of this, I think, is a move definitely in the right direction, number one.

Number two, they've established a subordinate meeting within the S&ED. You know, the acronyms just keep on -- it's a gift that just keeps on giving. There is an SSD, Strategic Security Dialogue. This was developed two years ago -- a U.S. initiative; China finally agreed to it -- which it's the only meeting that I'm aware of that officially puts together uniformed military and civilians on both sides. We generally don't have trouble with uniformed military and civilians together. The Chinese have a great

deal of trouble with that. So we had to work very hard to get that.

I think the first two years it met they were short meetings with a wide-ranging agenda and really didn't get much beyond talking points. This year we're allocating more time to it with a more structured agenda that's better prepared. So, hopefully, that part of the dialogue, which I, frankly, regard as extremely important. If we're going to establish mutual understanding of strategic postures in the region and how we go forward, this dialogue is going to play a critical role in that. Hopefully, that will now become more substantive, serious, and more of a process, and less of just an annual meeting to spend a few hours together reading talking points at.

So I would judge the outcomes of the S&ED primarily in terms of the process, nature of engagement, degree of preparation, degree of follow-through. Then I would in terms of the fact sheets that each side will issue at the end, which are always loaded with everything they can think of, that looks like something was accomplished when, in fact, typically, very little that is concrete was accomplished. If on the economic side we get a bilateral commitment reinforced on the BIT -- on the Bilateral Investment Treaty -- I think that's a significant development.

And then almost certainly hazier, but it will be interesting to see if it comes out, is any language about TPP and RCEP. You know, the U.S. has the lead on the TPP -- Trans-Pacific Partnership -- negotiations. China just very recently has changed its tune on that. They had been portraying it uniformly as a U.S. plot to constrain China's economic engagement with the rest of the region and try to carve out a block headed by the United States. Just a month ago, China changed its approach on that and said, no, we're really interested in following this closely. We want more briefings

on it.

I was in some meetings in Beijing that involved, on the U.S. and Chinese side, some very serious people in this. And the attitude there on both sides was let's see whether we can take care not to have the RCEP negotiation, which is in its nascent stages -- China's a participant, but the U.S. is not; 16 countries -- let's take care not to have these agreements, these negotiations move forward in a way where they conflict with each other on key issues, but, rather, try to take care that they have similar provisions where conflicts might occur with the thought that eventually, well into the future, there may be a possibility actually of merging these, bridging them in some fashion to create a common Asia-Pacific trading investment platform. I think that's a terrific way of framing the issues. There are a gazillion steps from here to there, but it's a terrific mindset to have. And if we see some language on that coming out of the S&ED discussions, I think that, again, would be an indication that this is beginning to get really serious about issues of the future.

DR. BUSH: On the S&ED this year, I would guess the one thing that makes it special is that in addition to Wang Yong and Secretary Lew, there are a whole lot of other people who have never met each other before. And the building of those personal relationships between counterparts in the two governments becomes very important in the conduct of the relationship. If our secretary of commerce can pick up the phone and call China's secretary of commerce and deal with an issue on the spot, that's a good thing, but you have to have the prior personal relationship.

DR. LIEBERTHAL: You should keep in mind, for those who don't know, it's not unusual for one side to bring a delegation of 200 people to the S&ED in the other

countries. So we're really talking about something close to a circus here.

DR. POLLACK: If I could just add to this, the question here on trade, I mean, I know the United States has defined very ambitious goals about ratification, if that's technically what it's called, of the TPP. It seems to me these are things that have to evolve with time. The question that the Chinese, I believe, should be asking themselves is not so much where we are on these understandings today, but what's the trajectory? What's the path? Where would they wish to be on these kinds of fundamental issues in a 5- and 10-year process?

So the fact that there are some signals coming out of Beijing that are not reactively antagonistic, if you will, to the TPP is probably a positive sign. But, you know, this can't be, in any event, something that one side or the other just sort of says, you know, my way or the highway. It's got to be some kind of a longer term transition because the stakes are just that big and the interests are just that big on both sides. So maybe we, as always, need to be realistic about this.

One of the great virtues, it seemed to me, of the Sunnylands Summit was precisely the fact that there was not an expectation of deliverables. Let's not presume that we're going to sort this all out overnight. You know, we're talking about a much longer term transition.

In the interest of trying to get to a couple of other questions before we vacate, there's a very distinguished man with a white moustache back there that I'd like to recognize.

DR. LIEBERTHAL: Yeah, Warren, they're talking about you. (Laughter)

MR. COHEN: I had no idea.

DR. POLLACK: Could you identify yourself, please?

MR. COHEN: Warren Cohen, Wilson Center. I was surprised in an hour and a half the word "Taiwan" never came up. Is there anything of interest on that subject?

DR. BUSH: In State Councilor Yong's briefing to the press he said that President Xi raised with President Obama what you would expect him to say, that Taiwan is very important to the 1.3 billion Chinese people; that he hoped that the American side would abide by the three communiqués; remain committed to the One China policy; take concrete action to support the peaceful development of cross-Strait relations; and halt arm sales to Taiwan.

Ben Rhodes, the deputy national security advisor for communications, in his briefing said that President Obama, aside from reaffirming the three communiqués and so on, stressed adherence to the TRA, the intention to provide Taiwan with defense articles; expressed a positive attitude towards recent developments in cross-Strait relations; and the hope that future development would occur in a way that was acceptable to both sides. For the United States that's code for a recognition of Taiwan's democratic system, and that's a good signal to send. Thanks.

DR. POLLACK: There have been a lot of eager -- but there's a hand that's going up very vigorously, so you get to -- this is actually going to be the last question because we have to vacate this room very quick.

MS. SEGARE: Good afternoon, ladies and gentlemen. My name is Rosemary Segare (phonetic). I'm the president of SIG. Thank you so much for your presentation.

I wanted to ask about the Sunnylands Summit when you were in Los Angeles. You talked about international, you talked about local, America relations -- USA relationship and China. Looking at China and America, I come from Africa, did you ever touch on African issues? Maybe now that is coming up the next -- that African dream: America, USA, China, and African relationship. Maybe tomorrow there'll be the same as the U.S. and China. How do you look at that relationship when it comes to the summit and the upcoming dialogue? Thank you.

DR. POLLACK: So far as I'm aware, that did not come up as an issue in the Sunnylands discussions. You know, I mean, as always, if you think about it, and this isn't to make excuses, but you have a limited amount of time on which a whole spectrum of issues need to be defined. And, in any event, I think that the focus here was very much on bilateral relationships between the United States and China, even though, I suspect, in the context of deliberations about larger international strategies, by implication you might draw judgments about the possible effects for Africa. Only in the sense that in a meeting like this it's not a meeting of the minds, it's an opportunity to sort of sketch out longer-term agendas, longer-term ambitions. But I think that the real test, as always, is going to be in the ability to follow up one singular couple of days in California, but, offhand, I'm not aware. Ken, are you?

DR. LIEBERTHAL: No. The only footnote -- I think that's right in terms of Sunnylands, but do keep in mind that we do talk with China about Africa. We talk with China about standards for aid in Africa.

DR. POLLACK: Right.

DR. LIEBERTHAL: We talk with China about specific issues in Africa.

And the Sudan, for example, we've had long-term, very extensive discussions with the Chinese side on this. We talk with China about investing in Africa. So Africa is not excluded from our bilateral discussions, but I think Jonathan's right, there's no indication that it was specifically concretely included at Sunnylands.

DR. BUSH: The spirit of the summit was let's focus on and expand the areas where we can cooperate, where our interests are overlapping, and I think that's certainly true of Africa.

DR. POLLACK: I think what we can conclude from this, and I apologize for so many others who had questions, I actually felt we did better today at jumping right into the Q&A to try to get as much audience response as we could, but that this summit, the S&ED, other events, just highlight the shared stakes that the United States and China have and that the determination of the longer term will depend not on one meeting alone, one set of activities, but whether both leaderships mean what they say in terms of trying to build something that is different for the longer term. And on that, I suspect this is going to be a story that continues to unfold predictably and maybe not so predictably in the years to come.

Thank you all for your attention. (Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

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

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190