

THE BROOKINGS INSTITUTION

OBAMA IN CHINA:
PRESERVING THE REBALANCE

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Introductory Remarks:

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Morning Keynote:

THOMAS DONILON
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The State of China's Economy and Free Trade in the Asia-Pacific:

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U.S.-China Cooperation on Climate Change and the Environment:

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Afternoon Keynote:

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Deputy National Security Advisor for International Economics
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The Domestic Issues and Politics Influencing Obama-Xi Relations:

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The Evolving Security Climate in Asia:

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P R O C E E D I N G S

MR. ANTHOLIS: (in progress)-- I get to learn from an extraordinary dream team of scholars here at Brookings on China related issues, and those scholars are both the scholars on our staff and a wide network of non-residents and senior advisors, and we have a lot of them here today.

This is really quite a culmination of over a decade of our investment in China, and the rise of China is one of the most important issues in the world including the creation of the John L. Thornton Center on China here at Brookings and the Brookings Tsinghua Center in Beijing, and both of those outfits are amply represented here today.

We're also delighted to have two really important policy makers, one just recently policy maker and the other later today actively in the Administration. Of course that's Tom Donilon who is one of the real -- in addition to having been National Security Advisor and before that Deputy National Security Advisor, was a real force on U.S.-China relations and an architect behind the many good things that have happened in the relationship over the last six years of the Obama administration.

And also, of course, later Caroline Atkinson who is a key player in that effort and in particular on the President's upcoming visit to China both for bilateral meetings with Xi Jinping and as part of the APEC Conference, and I had the pleasure almost two decades ago now of having worked with Caroline when I worked on G7 affairs at the White House.

But then we also have a great lineup of speakers; Brookings Senior Fellows and non-resident fellow and others on the economic relationship, on the climate and energy relationship going from the local to the global, on domestic politics, and the broader security engagement between the United States and China. I could go through

the list. I won't.

You have the agenda for the day and the bios of the various speakers, but I will tell you in my own effort to get educated on China a few years ago I had perhaps the best group of colleagues and teachers on this team, and they can take you from the local to the national to the global on U.S.-China issues and back again and do it in an incredibly well-integrated way.

Many of them were my teachers here at Brookings. At the time a few of them were in government service, and they were kind enough to give me their time and effort, and it's an embarrassment of riches, and I'll just tell one anecdote. When I was in China there was a front-page story on the paper of record, and it cited three different people analyzing U.S.-China relations, and the embarrassment of riches was so embarrassing to that newspaper that they only recognized one as a Brookings Senior Fellow. They recognized another as a former U.S. government official, and they recognized the third as a leading scholar on U.S.-China relations, and those three scholars I am happy to name are here today: Jeff Bader, Ken Lieberthal, and Cheng Li. And they could have talked to four or five other scholars at Brookings, but I think it would have been embarrassing for them but not for us. So, you will get to hear from all of those folks here today.

Lastly, I do want to thank our two leaders on China. First, Cheng Li, who is the Director of the John L. Thornton China Center. He's been a great friend and colleague of mine, but he's terrifically well positioned to lead the center now. He's been doing now for about half a year, I think, and his understanding of both the United States research on China but also China itself, having grown up there, and he represents the best of the young, bright leadership here at Brookings, as well as Qi Ye, our director there.

Qi was -- when I was in Beijing almost three years ago now -- was at Tsinghua as a professor in the School of Public Policy and Management on issues that I have paid attention to; climate and energy issues, and he was a real tutor to me, and we've been delighted that we were able to recruit him to run the Brookings Tsinghua Center, and the two together provide a really unique bridge to U.S.-China relations. Both know and understand the United States, but they also know and understand China in a very intimate way.

This is also a terrific opportunity and a moment where Xi Jinping has talked about the importance of developing think tanks in China, and while Xi Jinping's style of leadership, which is certainly a return to a strong, centralized approach to leadership in China, also seems to recognize the diversity -- the innovativeness that think tanks can bring. He's encouraging a globally-oriented role for think tanks and one that promotes research on social issues, and I think the Brookings Tsinghua Center, particular over the years both in previous leaders but also under Xi's leadership will be focusing on all of those things, and that's a real opportunity to make a difference on major issues in China and in U.S.-China relations from urbanization to the reform of their economy to the restructuring of their energy and environmental systems and to the U.S.-Chinese security and political relationship.

So with that I'm going to hand it off to Jeff Bader. Jeff was a teacher and mentor of mine when I was in government. When I came to Brookings he was here and was the first director of the John L. Thornton China Center. He then went back into government and worked with our first speaker today very closely, and we've been lucky enough to lure him back to be at the Thornton Center, so with that I'm going to hand it over to Jeff.

MR. BADER: Thanks, Bill. This is kind of a reunion for me. I spent the

better part of the last few years joined at the hip with Tom Donilon, our speaker today. We were together at the National Security Council from 2009 until 2011 when I escaped over the wall in a state of semi-exhaustion. Tom may or may have been exhausted but he kept plowing ahead until 2013 as National Security Advisor. In that capacity he chaired principle's committee meetings at torrid rate. Most importantly from my point of view he was the grandfather of the rebalance policy which the Administration continues to pursue today towards Asia.

You have Tom's bio. He's most importantly of all, of course, an Honorary Trustee of Brookings. He's at the Belfer Center at Harvard. He's the Vice-Chair of O'Melveny & Meyers, and he's Senior Director at BlackRock. How he finds time to do this I'm not clear, but anyone who's worked at the White House understands that after that you can find time to do anything.

Today Tom will speak to us about the rebalance policy towards Asia and China for as long as he feels he needs to cover the topic, probably 20 minutes or so, and then he and I will have a moderated discussion which will be a pleasure for me since I was used to having moderated discussions with Tom in the White House with someone waiting down the hall demanding our answers to his questions almost immediately, and this will be somewhat more leisurely, and then we'll open to questions from the audience. So Tom, please. (Applause)

MR. DONILON: Thank you, Jeff, Bill. Great to be here today. Jeff mentioned that we worked together in the Obama administration and probably wishing to forget our ages. He forgot to mention that we began working on China and Asia together some 20 years ago in the Clinton administration when Jeff was really my tutor on all things Asia when I was a chief of staff at the State Department during the Clinton Administration. So, it's great to be here, Jeff, with you today; a wonderful friend and

really a mentor on these issues.

I'm going to spend a few minutes as Jeff said talking about the so-called rebalance to Asia, where we are today, what kind of report card I'd give the rebalance, what we need to do going forward, and then spend a few minutes on the President's upcoming trip to Asia. So, thanks for inviting me here today. The conference is next on the opportunity to review the current state of the rebalance and U.S. engagement in Asia, consider some of the challenges and opportunities that lie ahead, and it really couldn't come at a better time.

As I referenced, President Obama will travel to Asia later this week to attend the Asia-Pacific Economic Cooperation Summit in Beijing followed by the East Asia Summit in Naypyidaw, the G20 Summit in Austria, and also have an important and extended bilateral meeting with Chinese President Xi Jinping.

President Obama's trip, which is the second trip to Asia this year, will serve to highlight and advance the U.S. efforts to rebalance our global posture towards the Asia Pacific, a region that continues to grow in commercial, political, diplomatic, and military importance. In my judgment, the rebalance with all of its elements is the most important geostrategic initiative of the Obama years, and I'll talk about that for a couple of minutes here.

As I said I want to use my time to touch on three areas of the rebalance: its origins and objectives, the state of our effort to achieve it, and finally how the President's trip will advance it.

Let me begin by talking about the origins and objectives of the U.S. rebalance to the Asia Pacific. Before the start of his first term, during the transition, President Obama directed his national security team to assess the U.S. footprint in the world, assess the projection and impact of U.S. power around the world. We asked

ourselves during that period where we were overinvested in the world and where we were under-invested.

We concluded that the United States had become substantially underinvested in the Asia Pacific Region, and underinvested across a full range of dimensions: diplomatically, militarily, commercially, and really critically in terms of policy-maker attention, mind-share.

You know, bandwidth is a very important concept when you think about how governments conduct their policy, and we had had a tremendous amount of bandwidth focused on the war efforts in South Asia and the Middle East, and during that period we became under-invested in our judgment in Asia.

By the way, it's often reported that their so-called rebalance and merge at the end of 2011 as a U.S. initiative. That's not true. As indicated here, the U.S. rebalance to Asia was an issue from the outset of the administration, and indeed that was manifest right in February of 2009 when Secretary of State, Hillary Clinton, took her first trip as Secretary of State to Asia, the first Secretary of State to do that since Dean Rusk in 1961.

Now, our conclusion with respect to underinvestment in Asia was rooted in two key propositions. The first is a recognition of the essential stabilizing role that the United States has played in Asia for the past 70 years. U.S. efforts to ensure peace and security in Asia have provided the platform on which the region's unprecedented economic and social development has been built. Second was a recognition that our future is increasingly intertwined with Asia's future. The Asia Pacific is the world's most economically dynamic region accounting for half the global population and nearly 60 percent of global GDP. As President Obama said, "Asia will largely define whether the century ahead will be marked by conflict or cooperation, needless suffering or human

progress.” And Secretary Clinton has said on a number of occasions, and I agree with this: “The history of the 21st Century will largely be written in Asia.”

Given our stake in Asia’s future, an extension in reinvigoration of the U.S. historical role is essential, and that’s what the rebalance is all about. Put in one sentence, the overarching objective of the rebalance is to sustain a stable security environment in a regional order routed in economic openness, peaceful resolution of disputes, and respect the universal freedoms and rights.

Now, some have questioned -- maybe some in this room -- the sustainability of these strategic priorities especially in the wake of or in recognition of the crises elsewhere in the world; Iraq and Syria and West Africa, putting pressure on U.S. resources. This is not a new test though for American leaders in terms of America’s global role. Every U.S. administration must ensure that cascading crises do not crowd out the development of long-term strategies to address transcendent challenges and opportunities, and requires intense focus on the rebalance.

From the outset, the rebalance has been a multi-dimensional, long-term endeavor. It involves each element of our national power. While this means devoting necessary resources to implement a rebalance effect, it does not mean or imply that we would turn away, (inaudible) in other regions or abandon our obligations elsewhere.

This goes to this debate over pivot versus rebalance. Should I dive into this, Jeff, or is this too controversial? On the issue of whether to call this a rebalance or a pivot, I’d say the following things. Rebalance is much more accurate description of the policy and has been an accurate description of the policy from the beginning. Pivot was a word that speech writers liked a lot because it was strong, but a more accurate description about what we did, particularly in the wake of reducing our military efforts in the Middle East and South Asia was to rebalance resources of freedom to Asia as part of

our overall global strategy.

Now, the rationale for the rebalance into Asia is a powerful today as ever. Our national interests in Asia's economic rise has never been stronger, and renewed geo-political rivalries and the reemergence of debates over historical grievances underscore the need for a stabilizing U.S. presence in the region.

So, how are we doing? How are we doing in the face of the described here a world that is characterized by an unusually large number of volatile and unstable situations? How are we doing with respect to the rebalance? I think it's fair to say, and this is the argument that I'll make today, that the fact is that the United States has made and continues to make steady and significant progress in implementing the rebalance to Asia across its key dimensions. And it's worth taking a couple minutes, I think, to detail the progress we have made.

First, alliances. Central to the rebalance is our effort to strengthen our alliances in the region. Our global alliance system is a unique American asset. No other nation has anything like it. Now, some question the purpose of the U.S. alliance system in Asia. I, particularly, have had this conversation of late with many Chinese friends. Specifically, they wonder, against whom are our alliances aimed. Some even go further suggesting our alliances are actually destabilizing.

I couldn't disagree more. While our alliances were forged during the Cold War, they remain equally important today. They are the principal means by which the United States engages in Asia. Our alliances are the foundation of the security platform, the support to Asia's economic growth by reducing rivalry, ensuring security and stability, and enabling Asian nations to prioritize social and economic development. The fact is this. Without the U.S. alliance system in Asia, the region would be less secure, less prosperous, and less free, and indeed our alliance commitments in Asia are the

strongest statement possible of the your long-term commitment, and our alliances in the region have never been stronger.

They've garnered great popular support on both sides of the Pacific. A recent survey in the United States has shown that 80 percent of Americans think of the United States and Japan as partners, and 64 percent favor a long-term military presence in South Korea. The U.S.-Japan alliance remains the anchor of security in Northeast Asia. We're currently reviewing the guidelines of our defense cooperation with Japan and expanding the scope of our bilateral cooperation. I think the Administration has wisely embraced Japan's new approach to collective security which will enable both countries to cooperate more closely and effectively across a wide range of undertakings.

Now, our alliance with South Korea is no less essential. President Obama has enhanced our partnership with Seoul with an eye toward addressing a range of regional and global challenges that we face together including the North Korean aggression and the denuclearization of the Korean peninsula.

President Obama's visited South Korea more than any U.S. president in history. We've also reinforced our enduring alliance with the Philippines. Recently the United States signed an agreement with the Philippines that will improve bilateral coordination by allowing U.S. forces greater access to Philippine bases.

Now, one concern of note with respect to alliances in Asia. We must continue to make progress in the Japanese-South Korea relationship and cement a strong trilateral bond among our three countries. The United States has a vital interest in encouraging its two closest allies in Asia to work together. That's why President Obama brought together President Park and Prime Minister (SIC) Abe in The Hague last year for their first face-to-face meeting.

Our countries know better than anyone the importance of cooperation in

the face of regional challenges. These are challenges best addressed with a unity of purpose, and while we need to ensure that historical grievances are addressed fairly, we should continue to hold regular trilateral dialogues and signal our shared resolve, and the United States should stand by ready to do all it can to facilitate a healthy trilateral relationship.

Next, our security presence. In addition to bolstering our alliances, the United States is implementing a global shift of assets toward the Asia Pacific. Our efforts to enhance our military presence in the region continue on course despite ongoing budgetary pressures.

Now, with respect to the security presence, I call your attention to two or three things. Number one, I call your attention to the President's Canberra speech before the Australian Parliament in 2011. That really is the fundamental statement with respect to our shift in assets to Asia.

Second, the 2012 Defense Policy Statement that we put out that I had a lot to do with in terms of coordinating. And third, look at our budgets. I think you see there a commitment conceptually, Presidential commitment, in terms of resources to our security presence increasing in Asia. Both the Navy and Air Force will have stationed 60 percent of their forces in the Asia Pacific by 2020. The U.S. military is now overseeing the four largest construction projects in the Asia Pacific since the end of the Cold War. We've expanded our force posture in Australia, and we're investing in capabilities and assets in developing the doctrines and approaches that will allow us to meet our defense obligations and responsibilities in Asia.

Now, the United States is not only rebalancing to Asia, it's also rebalancing within Asia by enhancing our focus on vital economic and security partners in Southeast Asia. Together action nations constitute a region of 600 million people, and is

now the United States' fourth largest trading partner. We are deeply involved in an institutional relationship with Vietnam. The Obama administration has devoted more attention to developing ties to Southeast Asia than any administration in memory. Under President Obama the United States became the first country outside the organization to appoint an ambassador to Vietnam. I think it's also notable that we are (inaudible) partnership with Vietnam by advancing on cooperation on counter-terrorism and trans-national crime and disaster response, and we recently bolstered Vietnam's ability to patrol its waters by easing a long-standing ban on the sale of lethal weapons.

Next, economic architecture. Another vital element of the rebalance involves strengthening Asia's economic architecture. To this end the United States has a number of efforts underway; first, U.S. leadership in APEC. The APEC Forum has helped to make it the foremost arena for multilateral cooperation on economic growth and trade and investment in the region.

Second, we're working to develop our bi-lateral economic partnerships. We've already begun to see the fruits of the KORUS Free Trade Agreement with South Korea. Since the agreement went into force, South Korea's become the United States' sixth largest trading partner.

Now, our chief effort is now completing negotiations on the Trans-Pacific Partnership or TPP. The TPP is the most important trade negotiation underway in the world today, and it is the economic centerpiece of the rebalance. TPP-partner countries represent nearly 40 percent of global GDP and 30 percent of global trade. Our TPP partners constitute our largest goods and services export market, and the agreement is expected to provide the United States with some \$78 billion in annual income.

The TPP is designed to embrace all Asians that are willing to accept the rules and obligations of the agreement, but even more important in my judgment is the

TPP's strategic impact. This is about U.S. leadership in Asia. The agreement will be a win-win for all of the nations involved, but it's a strategic matter. Together with negotiations over free trade pact in Europe, the TTIP, this puts the United States at the center of a great project writing the rules that will govern the global economy for the next century: an open platform that countries can sign onto provided they commit to its high standards that will incentivize the spread of free markets and liberal economic principals.

There are development aspects, by the way, of the TTP which don't get as much recognition as they should. Mike Chroma's recent piece in *Foreign Affairs* underscores this. The United States commitment to sustain broad-based development bolstered by rigorous labor and environmental requirements can help developing countries in the Asia-Pacific alleviate poverty, promote stability, and preserve and expand economic growth.

Now, the President is uniquely positioned to further these aims on this trip. His trip to Beijing will allow him to meet with our TPP partners, I hope, on the margins of the APEC summit in Beijing, and the goal should be -- my judgment -- to secure political commitments at the highest level in order to have an agreed text ready to submit to nations at the early part of 2015.

I would also note, by the way, in the wake of yesterday's mid-term elections, I would hope that in the United States we can move forward on an expedited basis, maybe even begin a conversation in the lame-duck session on getting trade promotion authority in place as the base on which we consider this very important agreement.

Just as important as Asia's economic architecture is its security architecture. By strengthening diplomatic institutions, the United States can support constructive engagement on a range of regional and international challenges including

territorial and maritime disputes.

Following the APEC Summit in Beijing, President Obama will travel to Burma for the 9th Annual East Asia Summit. Our goal, the U.S. goal, has been from the time we decided to participate at the head of state and government level has been to make the East Asia Summit the principal form in Asia to address diplomatic and security issues. That's why President Obama made the decision to participate every year.

President Obama should aim, in my judgment, to enhance the stature of the East Asia Summit by using it as an opportunity to address a long-standing territorial disputes in the South China Seas, and although the United States doesn't take a position on the merits of thee competing claims it maintains important interest in protecting freedom of navigation and encouraging the peaceful resolution of disputes. The United States will and should press for a code of conduct in both East and South China Seas to ensure that differences are resolved constructively through diplomatic means.

Now, 2015 marks the 10th anniversary of the East Asian Summit. At (inaudible) this month Asia-Pacific leaders in my judgment should begin developing objectives for the next 10 years of cooperation among East Asia participants.

Now, China. Forging constructive and productive relationship with China has from the outset been a centerpiece of the rebalance. Why is that? A number of points. First of all it was a judgment of our administration coming in that constructive or productive relationships between and among great powers was absolutely essential to our ability to pursue our interests and absolutely essential to the global ability of countries to pursue global interests and solve global problems. Absent that cooperation, you have a much more difficult time doing that, and we see it today by the way. That proposition, I think, is proved today by the difficulty in addressing a number of key global situations because of Russia's actions, which -- adversarial with respect to the United States and

the great power relationship.

Second, it's hard to imagine tackling the diplomatic, economic, and security challenges facing the United States and the Asia Pacific today without cooperation with China, and third, engage productive and constructive relationship with China is absolutely essential to ensuring that the rebalance is stabilizing and not destabilizing.

President Obama's upcoming meeting with President Xi will be the most substantial United States-China bilateral engagement since the two leaders met at Sunnylands in June of 2013. Indeed, in my judgment, it's the most important bilateral meeting the President will have this year. In Beijing President Xi and President Obama will reiterate their commitments to comprehensive, constructive bilateral relationships.

At Sunnylands, both leaders endorsed the goal of a new model of relations between very different major powers. This approach was a conscious effort to address and make less likely, which some historians and international theorists see, as an inevitable conflict between an existing and a rising power. Indeed there are many dynamics that result in such conflicts through history.

In many hours of conversation with Chinese counterparts we agreed, though, that there's nothing preordained about great power confrontation, and international relations is not subset of physics. It is not a law of physics, but a series of choices by leaders that result in conflict. Others have called for containment. We reject that, too. A better outcome is simply possible here and it falls on both sides of the United States and China to bring that about. You know, it's interesting. Lots of discussion about this parallel, this concept of rising powers and existing powers and inevitable conflict, particularly in the light of the fact that we have the 100th anniversary at the beginning of World War I in 1914, and indeed we discussed this at some length in our conversations

between the United States and China.

Now, there are lots of differences between the current circumstance in Asia and the circumstance in 1914, but what is interesting is the two -- at least two of the really, I think, five studies of that, Christopher Clark's *Sleepwalkers* and Margaret McMillan's *The War that Ended Peace*, actually come to the conclusion that, in fact, it is, in fact, individual decisions; the foibles and follies of individuals that lead to conflict and not some inevitable set of -- in that case -- and not some inevitable set of kind of law of physics kind of dynamics. I think it's a very interesting analysis.

Now, the challenge with respect to this concept of a new relationship between very different major powers or great powers is to give definition and content to the concept in order to show stakeholders everywhere that it is more than a phrase. That is really the challenge right now; definition and content to the overall principle.

It's important that China and the United States have clear agreement on the fundamentals because without this agreement inevitable frictions will come to dominate the relationship. Specifically, I think this upcoming summit, the United States and China should now identify in advance concrete, ambitious, and mutually beneficial projects that will demonstrate that a new model of cooperation is feasible and constructive.

And let me suggest a half a dozen or so specific areas that could constitute such an affirmative agenda. First, the United States and China should work to conclude in the next year negotiations on a high-standard bilateral investment treaty. We should aim to have that treaty ready for submission in 2015. Now, this should be the centerpiece of economic engagement between the United States and China for a number of reasons.

Number one, there are tremendous benefits on both sides to getting this

done, including by the way, and especially from a U.S. national security advisor's perspective in terms of treatment of U.S. companies in China, and obviously provide benefits on both sides. Second, the clear interest in both sides I think has been demonstrated to complete the treaty. Third, I think it's very important to have a trade negotiation underway with China at the same time we're completing the TPP. I think it's a very important strategic position for the United States to take. It's important that we have these parallel tracts. And third, I think it's -- a side point here -- I think the TPP will be very important as was China's accession to the WTO in terms of aiding reform in China, so for a variety of reasons I think that the bilateral investment treaty negotiations and their completion with respect to a text and submission for next year should be the centerpiece of the U.S.-China economic interaction in the short-term.

Second, it's critical that the United States and China confront growing environmental and energy challenges. Both countries should seek to produce a joint agreement outlining an ambitious and agreed-upon set of emissions-reductions targets for next year. This is really kind of an acid test, if you will, of China and U.S. cooperation; two of the largest economies in the world coming together demonstrates to the regions and the world that they can work together on an ambitious and concrete set of goals on climate and energy.

Third, the United States and China should work toward productive military relations. There is a need to develop further confidence-building measures including procedures for notifications, exercises, and guidelines for air and maritime operations.

Fourth, the United States and China are well positioned to elaborate on a host of transnational issues ranging from counter-terrorism to Ebola.

Fifth, the United States and China share an interest in preventing Iran

from developing a nuclear weapon capability, and China is a vital partner in the P5+1 diplomatic effort to reach an agreement with Iran.

Sixth, coordination with China is crucial to efforts to ensure stability on the Korea peninsula. We share China's interest in a secure and peaceful North Korea, a peaceful Korean peninsula, and value China's insistence that North Korea abandon its nuclear weapons program.

Now, while the United States and China see eye to eye on many bilateral and international issues, areas of competition and disagreement will persist, and that is natural for a relationship of the complexity that exists between the United States and China.

Our relationship is least developed, however, in the strategic area; strategic and military doctrine, nuclear issues, space, and cyber are the issues that can have the greatest impact and the greatest potential to disrupt the overall U.S.-China relationship. On these issues, by the way, I'd point you to Jim Steinberg and Michael O'Hanlon's recent excellent book, *Strategic Reassurance and Resolve*.

In particular, I want to address one of these. Cyber is an area where a dialogue is deficient and I think needs great attention. The United States and China, as the world's two largest economies, have a strong interest in a secure and reliable cyberspace. As both our economies and businesses and governments and peoples increasingly conduct their business in cyberspace, this joint interest should grow even stronger.

That said, over the last couple of years the United States has repeatedly raised with China the specific threat of state-sponsored cyber-enabled economic theft. These activities have cost the United States businesses billions of dollars of value, and they really can't be allowed in a modern economy where in many cases a business's

value is reflected in the intellectual and other property in which it has invested great sums over long periods of time. The situation should be addressed and a serious senior dialogue with the goal of arriving at an agreement and a set of norms.

Now, I know that we had a dialogue under way and in the wake of actions by the United States, China walked out of that dialogue. It's important that we re-engage that dialogue. This is really going to be an issue between the United States and China. It's really going to become a core economic issue, and we should sit down and address it. We have both sides, as Secretary Kerry addressed yesterday, both sides have a deep interest in addressing this in a much more serious way than we have done to date.

There are some doctrinal differences that need to be confronted and addressed with respect to what should be allowed in cyber and what shouldn't. The big point here though is it needs to be addressed because there really is a serious disagreement between us and really can undermine our economic relationship.

Now, let me close by reiterating the importance of the U.S. stabilizing presence in Asia and Asia Pacific. It is the U.S. promise of security that has ensured that rising powers rise peacefully and disputes are resolved constructively and economic growth proceeds unhindered by instability and militarism.

The rebalance is well on its way as we've talked about here, but realizing and preserving the vision of a free, secure, and prosperous Asia will require a sustained commitment of energy and resources. The region's continued success demands a robust U.S. presence and commitment enabled by strength in the alliance system, comprehensive multi-laterally economic agreements, and a constructive relationship with a strong, prosperous, and stable China.

There are a lot of challenges ahead to address. There is on the whole a

tremendous opportunity for greater cooperation for the United States to contribute to a more peaceful future in the Asia Pacific. As I said at the outset, I think the rebalance will be a major strategic legacy of the Obama administration, and you've been terrific giving me so much of your attention today, and I look forward to your questions. Thank you.

(Applause)

MR. BADER: Okay, Tom. Thank you. You covered the extraordinary amount of ground in 20 minutes. What struck me is two points. You highlighted the comprehensive character of the rebalance; something that's sometimes forgotten where people think it's just military. You made clear was security, political, economic, and military and described the various aspects of it.

And the second thing that was very striking was your description of China, not as the target of the rebalance but a fundamental part of the rebalance. Those are two pillars that leap out at me from the speech.

Let me go into a couple questions on China that you touched on during your speech, Tom. There's a lot of anxiety about China in the region. I was just out there the last few days in Japan and just got home from China a few hours ago. There's anxiety about their behavior in the East China Sea, South China Sea, our own military-to-military encounters with China in the Western Pacific, relations across the Strait have been pretty solid, but North Korea's always unpredictable. Do you see China's behavior in the region as newly or increasingly assertive and as threatening to U.S. interests, and what do you think we should be doing about it comprehensively and individually?

MR. DONILON: What was your question? (Laughter) Let me address your questions. Number one is I think that from a macro perspective that a U.S. commitment and presence really is essential to having a stable, secure environment. And again I address this issue directly of the question (inaudible), what's the purpose of

our alliance system in Asia given that it really did arise out of the Cold War, and it is just the kinds of issues that you're addressing which is to provide the kind of reassurance and balance, of keeping our commitments and obligations to ensure a stable and secure Asia, so I think the key point here is the clarity with which the United States communicates and acts to demonstrate its staying power and its ability to meet its commitment and to be a force that's going to be there for a long time. That really is the essential in terms of the security situation.

And then there are specific issues with respect to each of these that you outline. Obviously in the East China Sea there are nicks of history and nationalism and unresolved disputes, and there's not, obviously, in the interest of the United States to have high-level tension between China and Japan, and hopefully some progress can be made on that, maybe even around the margins of the APEC meeting in China.

With respect to the South China Sea, the kind of engagement that I talked about with respect to our committing ourselves to our allies and others, with respect to our pressing principles that we want to see met in the South China Sea, with our reinforcing multilateral organizations to address these issues like action in East Asia, East Asia Summit. I think that's the way forward there.

Obviously China's continuing to try to build step by step a case for its claims in the South China Sea and does still in some ways which are disruptive and provocative, and our presence there and through the ways that I talked about, our continued military presence there, our continued insistence on key principles of freedom of navigation, peaceful resolution, our continue to press for a code of conduct, our support for countries taking absolute legitimate efforts, for example, in international legal organizations to press claims. Our presence there, our organizing, our reassurance I think is absolutely key.

Military-to-military relations generally between the United States and China -- military-to-military relations have really been substantially well behind our economic and diplomatic relations with China and has been this way for a long time. We've made progress through, I think, on that in the last year or so. I think Secretary Hagel and General Dempsey have done a pretty good job of enhancing these military-to-military relations. We need to do a much better job though. There really will be no substitute for having these kind of relations between our uniform militaries and working through the kinds of questions I talked about in my speech.

You know, I would say to Chinese counterparts on a number of occasions we can continue to have these diplomatic dialogues. We'll build out our people-to-people relationships. We will build out our economic relationship, but it will be some miscalculation or mistake some place that neither of us can correctly pronounce that will take this relationship into a crisis, and trying to prevent that from happening is absolutely essential, and we are still behind on that. We're still behind on that (inaudible) lot of continuing attention by leaders on both sides.

MR. BADER: Tom, specifically in the South China Sea, there have been reports that the Chinese have been building some extended air strips on some of these tiny islands. You have the second Thomas Sowell where the Filipinos have this old rusted hulk that they periodically need to resupply. There are activities going on -- I guess what you call gray zone. Discussion about the possibility of China possibly creating an ADIZ in the South China Sea which does not seem to be on the horizon, but could come some day. What tools does the U.S. have at its disposal to deal with these? I mean how important are these, or are these primarily -- are responses primarily diplomatic-political? Are there military dimensions to our possible responses? How do you see these kind of gray zone areas? What kind of challenge --

MR. DONILON: In the first instance, of course, these actions are -- they try to unilaterally change the circumstance, right, is -- should be pushed back upon, and the United States does push back on that on all sides, right, in terms of unilateral changes that are provocative, number one.

Number two, I do think that, as I said earlier, I do think the United States continuing to press and work in concert with multilateral organizations with respect to responses and trying to put in place rules of the road here are very important to continue. Our continued efforts to underscore the importance of these fundamental principles to the Chinese leadership, which by the way they have a global interest in, and I've made the point to Chinese leadership repeatedly, that is, peaceful resolution, adherence to national law, and freedom of navigation are important.

Next, I think it is important for the United States to make unequivocal its commitment to its alliances and meet our obligations, and I think we've been doing a pretty good job of that in the last two years in terms of clarity with which we have made our commitments and obligations known, and taking steps to manifestly enhance those (inaudible).

QUESTIONER: Tom, (inaudible).

MR. DONILON: (inaudible) that's an important -- that's a good case study. I'll take that just for a couple seconds. So, China unilaterally declares an ADIZ in Northeast Asia. The principle target of that declaration was mostly likely Japan, but it involved both an unprecedented declaration with respect to activities within the ADIZ, not just coming through the ADIZ to China.

It also involved, obviously, a number of countries including South Korea, Japan, and Taiwan with respect to overlapping ADIZ, but the response was really important. The fact that the United States responded but it wouldn't recognize it. The

fact that the United States took a strong view there was absolutely essential, I think, in terms of China having to realize that there were multiple costs to this kind of unilateral set of steps and took steps, I think, to lower tensions with respect to it. It's an important, I think, case study of U.S. presence and active involvement in lowering tensions around these potentially quite provocative steps.

QUESTIONER: Let me ask you a two-part question, Tom, with the President's trip around the corner. As you know in these conversations with Xi Jinping much or most of the discussion will be about global issues. That's the history of the U.S.-China relationship; issues like Iran, now ISIL, counter-terrorism, Afghanistan, North Korea. Ebola has made the agenda, I imagine. How do you regard the quality of cooperation between the U.S. on these issues about which our leaders often speak about the need to cooperate?

And related, slightly different of question, do you see China as still intent on full integration into global institutions and norms? That was kind of the path that China was on in the 1980s and 1990s, joining international organizations and the direction in which we tried to pull them. Do you see them as now moving in a different direction towards creating a parallel organizations and turning their back on the exiting framework?

MR. DONILON: There are two very different questions, right, so let's take the first batch of questions. With respect to the cooperation between China and United States on regional security and other challenges around the world, that essentially was going to be your first question, so. And I think that there's -- and it varies according to the circumstance, but the United States and China have had active and constructive cooperation in relationships with respect to a number of issues that you identified. So, let's take them in order the best I can remember them.

Iran -- the United States and China have worked cooperatively with

respect to the P5+1 effort to seek a resolution of the Iranian nuclear program. China's been an active and constructive member of the P5+1. China has acted in accord with the U.N. Security Council resolutions, and I think it has been a positive play with respect to seeking a resolution to the Iranian circumstance.

And, of course, China shares an interest with the United States in this obviously. China and the United States should have a deeply shared interest in avoiding a military conflict and severe destabilization in the Middle East, and China's interest in that is growing. As the United States' reliance on energy from the Middle East is going like this given the extraordinary story of our energy developments in the last five years, China's reliance on Middle East oil and other forms of energy is going like this, so we have a shared interest, I think, in a stable Persian Gulf. We have a shared interest, I think, in not seeing Iran developing nuclear weapons, so we've had good cooperation with respect to that I think.

With respect to North Korea, we've also worked very closely together. The United States continues, I think, to believe correctly that China can take additional steps to push North Korea in the direction of a constructive negotiation with the international community on their nuclear issues, but we have worked together on a number of occasions with respect to North Korea including China's efforts to head off provocations by the North Koreans. I think we have a ways to go here, but certainly that's a big topic between President Obama and President Xi for the summit.

With respect to Afghanistan I think we have -- I think we are underway a number of projects that for the post-December 31st, 2014 phase in Afghanistan.

You know, on Syria and Iraq, at the United Nations China continues to work in cooperation with Russia. I think with respect to Syria that's been a mistake, and frankly the inability of the international community -- what I talked about earlier with

respect to this principle that we had in place at the beginning of the Administration, that constructive and productive relationships among the great powers is the platform around which you can address a number of these global issues, and absent that, is exceedingly difficult. That's what's going on in Syria, and China has not broken with Russia with respect to Syria.

So, I think on balance with respect to a number of these issues around the world that you laid out that we have had -- it's varied, but I think generally constructive cooperation with China, the ones that you set forth.

On your second part of your question was essentially, as I heard it was, is China still invested in becoming a member of the broad set of international organizations and politics and economics, or is it developing a parallel set of institutions and approaches? I think I'd say three or four things about that.

Number one, China has been a huge beneficiary of its integration into the international organizations, especially economic organizations in the world. I think that's a fair point. China's integration into the WTO was a strong force for reform within China, and it has been one of the keys to its progress, and I think it's also beneficial to the world generally. So, it's been a big beneficiary of that kind of integration. And by the way, this integration has been a strategic policy goal of the United States through seven presidencies.

Next comes the question of what next as China becomes a more powerful nation, becomes a more economically stronger nation? Where does it want to go with respect to its continued cooperation in these organizations? Is in the phrase of some of the policy makers, are they going to be a rules taker or a rules maker going forward? I don't think that China has a strategic interest in kind of turning over the apple cart here and having some fundamental change in national organizations, but you will

find a country as it emerges to start to pursue organizations that it thinks better reflect its interests, and you've seen some of that. You've seen the development of the BRICS Bank. You've seen the development of the proposal for the Asia Infrastructure Investment Fund. You've seen the Shanghai Cooperation Organization Fund Initiative.

In some of those cases, obviously China is trying to pursue its interest. In some though, it is an important point to reflect on though, and that is as China and the world changes, the international organizations are going to have to reflect in a more direct and fair way their participation.

If it's going to accept and take responsibilities and make contributions, I do think that some of the governance points need to reflect China's changing circumstances and obviously one example of that in Washington right now is the IMF quota of legislation which is pending on the Hill. Failure to act on is really causing the United States great damage in the world frankly, and it's interesting. Geoff Dyer's book, *The Contest [SIC] of the Century* I think it's called, was a terrific book; makes the point that it's an odd fact that these institutions that the United States built after World War II and which have advanced U.S. interests and principles and values all over the world are unpopular here and don't get the level of support that they deserve in our own interests, and to the extent that we don't support them and we don't work on their evolution, we're going to see efforts like those by China to build parallel institutions. Is that clear enough?

QUESTIONER: It was terrific. It's very clear.

MR. BADER: Tom, do you think we have time for a few questions or -- okay. We have a few questions in the audience. If you'll please wait for a mic to come around and then identify yourself and ask a question. Over here? Please be kind.

QUESTIONER: Hi, (inaudible) *China Daily*. You talked the beauty of the rebalance strategy and also you mentioned strategic relationship is at least developed.

So, the reality (inaudible) seems to be that the rebalance strategy also, you know, is the (inaudible) many of the tensions with China in the last few years, and the Chinese has, I mean, deep suspicion about U.S. trying to use this as rallying it's alliance and China as a non-alliance country, and has a non-alliance policy, so how, I mean you -- the rebalance policy has been rebalanced over the years from over-emphasis on military component, so how do you think this rebalance policy should be further rebalanced to make it a better sale to the Chinese and to make China feel it's actually balanced? Thank you.

MR. DONILON: Great. Thank you. Let me say three or four things about that. Number one, we've had -- and I've personally conducted many conversations with senior Chinese leadership about what the rebalance is and what is isn't, and the rebalance is not an effort to contain or constrain or encircle China. We know what containment looks like in the United States. We executed a containment strategy for half a century, and containment does not look like having a half a trillion dollars a year economic relationship with the supposed target of your containment.

What the rebalance is about, as I said earlier, is about building the platform and continuing our efforts to reassure so that, in fact, China's rise can be peaceful, and that we continue to have social and economic development across Asia. And it's our observation and our belief that our doing that over the last seven years has been tremendously constructive, and I think based on the circumstances we analyzed in going in the future it will continue to be absolutely essential and constructive to see a continuation of Asia's economic and social development.

Second is that as Jeff pointed out, the military aspects of the rebalance are just one part and maybe not the major part right now of the rebalance, and in fact, it is very much about diplomatic engagement, building institutions and architecture and security and diplomatic areas such as the East Asia Summit, and it's very much about

economics.

Now, the TPP is the current thrust of the rebalance for the United States. A dozen nations that doesn't currently include China, but as I argued, I think that ultimately that actually is an important force for reform in China ultimately. Ultimately, in addition, as I said, I think we should be pursuing with China a bilateral investment treaty so we have an important economic engagement with China in parallel to the TPP. But the point being that the rebalance is not centrally a military exercise but rather a comprehensive exercise that include lots of non-military aspects, especially economics.

MR. BADER: We have time for one more questions. On the left here --

MR. KOUNALAKIS: I'm Markos Kounalakis from the Hoover Institution. I'm curious how the United States adjusts its calculus as Russia also has a rebalance towards China, whether it be an energy policy or otherwise?

MR. DONILON: Well, in Asia I think the rebalance in all its elements continue to be the right strategy. Now, what you're talking about, Markos, is basically a set of moves by Russia, particularly in the wake of sanctions on Russia in the wake of its incursion into Ukraine, and Russia looking for alternative markets and sources of financing. I think a couple things about that. Number one, the economic relationship between China and the United States, for example, dwarf any economic relationship that China has with Russia, and will continue, I think, to be the most important relationship that China has and one of the most important relationships that the United States has, so I think it's important to keep it in perspective going forward.

Second, as I laid out, I've laid out kind of a path towards a U.S. presence and a big presence in Asia across a number of dimensions for really as far as we can see, and I think that continues to be the right strategy regardless of what might be the issue of the moment like the sanctions on Ukraine which caused Russia to try to turn to

China for, as I said, markets and for economic support. The key relationships I think remain the same, and the scale of them I think is the really important thing to reflect on.

MR. BADER: Thank you so much, Tom. I think we've used our hour extremely well, covered a tremendous amount of grounds, and a lot of very interesting things and some things that were new to me as well, as much as we've talked in the past. (Applause) Who's next?

MR. DOLLAR: Let's get started. There was no time scheduled for a break. Let's move the program along. I'm David Dollar, Senior Fellow in the John L. Thornton China Center here at Brookings. This is the economics panel.

I would say the narrow topic is President Obama's trip to China, APEC Summit, and G20 Summit, and some of the economic issues that are going to come up. This morning's topic is really China's economic reform and U.S.-China economic relations.

We are very fortunate to have an outstanding group of Non-Resident Fellows from our China Center here, so all three of our panelists are Non-Resident Fellows. I don't know if this was by design, but it showcases very nicely how we use the Non-Resident Fellow position.

You have the full bios, so I will just say briefly, Charles Freeman, International Principal at Forbes-Tate, a firm here in Washington, long time involvement in U.S.-China relations. Malcolm Lee has worked all over the U.S. Government. I couldn't even name all the different agencies. Also, head of Microsoft Strategy for China, so the business perspective. Wing Thye Woo, old friend of mine, macroeconomist, Professor at UC-Davis, also teaches at a range of universities in China and around East Asia.

We are going to go in alphabetical order, starting with Charles, and really

ask them each to stick to seven minutes initially so we will have time for a conversation and time for Q&A. Charles?

MR. FREEMAN: Thanks, David. It's great to be here, and it's fun to be a Non-Resident Fellow with such distinguished fellow panelists as well as those of you in the audience.

Like a lot of political junkies, I was up most of the night, to what end, I'm not sure. (Laughter) If I'm incoherent, I'll blame it on that.

I'm going to talk a little bit about the U.S.-China economic relationship in the context of both regional and bilateral economic relations. I think this is a conversation really about the clash of good policy and politics, whether it is good or bad.

I think if you look at the U.S. policy with respect to the region on trade and economics and with China, you know, as I think Mr. Donilon articulated very, very well, you have some very sound reasons for what we are trying to do, both in the TPP and with the bilateral investment treaty.

With the TPP, clearly on a strategic macro level, you have a focus on trying to maintain U.S. relevance if not primacy in the rulemaking organizations that are going to set the stage for global trade rules for the decades to come, and you have a real emphasis, particularly on the TPP, with trying to set the rules on areas that have not been traditionally covered by trade agreements, particularly looking at the flow of data and information across borders and looking at the importance of intellectual property, as a function of trade. Looking at the realities of a very dynamic and complex supply chain and the movement of intermediate goods across borders, as well as dealing with some traditional areas like agriculture, which are always difficult. That is a very good agenda.

With respect to the bilateral investment treaty, you are looking at an

effort really to try to deal with some of the things that were left out of the WTO session 10/12 years ago that continue to raise challenges for U.S. businesses, as well as set the stage for what I think is kind of the new move to increase China's investment in the United States in ways that are foreseeable and transparent and useful for both countries.

On the Chinese side, I think you are looking at the bilateral investment treaty, as I think Mr. Donilon said, as a means to try to use external pressure to drive internal reform. Very good, very useful, look at things like the creation of the Shanghai Free-Trade Zone, as a kind of tool to try out some of the concepts that are appearing in the discussions.

You have strong interest in the TPP as a potential means of driving China's reform. Both good policies in Beijing and Washington. The politics will intervene.

I know many people who are trade enthusiasts, trade policy enthusiasts were cheered by some of the events last night with the arrival of a strong Republican Majority in both Houses. The challenge is that trade votes, regardless of who you are, are tough. They are painful.

I don't think just because the Republicans are there, without the President pushing a lot of Democrats to move towards voting for TPP, you will see it happen.

Given kind of the distance that we have seen Senate and House Democrats take from the President, that is going to be easier said than done, particularly when you can look at trade votes as being a vote for the have's versus the have not's, and where kind of the mood of the country is on any quality. I think it will be much more difficult to push for a passage of either TPP or frankly the BIT than otherwise.

In China, the politics, you have rapid centralization and consolidation of power under Xi Jinping. He has taken on a huge political agenda. Does he really have

time to focus in this climate where he's dealing with a huge anti-corruption campaign and getting the house in order -- does he really have time to get at the nitty-gritty of reform in the short term in ways that would allow the BIT to proceed, an ambitious negative list in the BIT to be brought forth?

I'm not sure, and I'm frankly quite skeptical. I'm not sure you have politics in place in either Washington or Beijing that would allow some of the good policies to be implemented or pushed forward in the next few years.

That is against the background of, I think, a somewhat deteriorating U.S.-China business relationship. You have a perception at least in Washington and in the United States that foreign firms and U.S. firms in particular are being singled out in a discriminatory way in areas like the anti-monopoly law, food safety, pharmaceuticals.

You are seeing kind of the beginning of enforcement by Chinese agencies without kind of the software to run that kind of a complex device. I think you are seeing that.

As Mr. Donilon articulated, the issue of cyber is enormous and looming and presents a huge challenge to the two countries in terms of forwarding the bilateral relationship, even absent the political situation in both Washington and Beijing.

MR. DOLLAR: Thanks, Charles. That was great, very self disciplined. I'm going to push you when we get to conversation, push you a little bit further on the politics both in China and in the United States on the BIT.

Malcolm?

MR. LEE: Thanks, Charles. Thanks, David. I'm going to elaborate a little bit on some of the strategic themes that Tom Donilon hit on the economic side. He really did cover it all.

I'll start with the proposition and concern expressed by some Chinese

colleagues, that the rebalance to Asia is really focused on isolating China. I think that couldn't be more from the truth. China is the world's second largest economy. It accounts for 29 percent of global growth.

This President and this Administration understands that strengthening our economic relations with China needs to be at the centerpiece of the Asia rebalance. At the center of that rebalance with China is China's own rebalancing of its own economy to a more sustainable model of growth that contributes to global demand. It's a goal both President Obama and President Xi share.

The general direction in China has been set, through the third plenum, but the key is whether China will make the reforms quickly enough and with a broad enough scope to prevent a hard landing, a hard landing of the Chinese economy and also to avoid a hard landing in China's economic relations with its major trading partners.

Economists forecast China's growth by. I'm not an economist, but as I look at their predictions, the variations depend to a large degree on success, pace and scope of the economic and rule of law reforms that China has set forth.

Taking China's economy to the next stage of development by increasing consumption, that means household consumption, not necessarily purchase of more raw materials from around the world, openness, market forces, competition, innovation, respect for intellectual property, and rule of law are all part of China's plans, as I mentioned by third and fourth plenums.

Movement has been slow from an U.S. perspective, and it is very clear that the party will retain a very significant if not dominant role in rule of law, and that industrial policy remains very firmly infused in significant portions of China's economy and regulation.

Let me talk a little bit about free trade agreements. The topic of this

session is free trade in the Asia-Pacific. The two major regional trade agreements in which the United States is engaged in are the Trans-Pacific Partnership and our negotiations with Europe, and arose in significant part out of the need for higher disciplined trade agreements that can address the really tough regulatory barriers behind the border that can effectively deny market access.

These negotiations arose because the multilateral liberalization trade process has stalled, and because some countries have not shown a lot of willingness to address these behind the border measures in their own market. These are extremely difficult issues as Charles mentioned.

These go to how countries organize themselves to their values, very difficult, but it is the next stage of liberalization. These are in many ways defining what free trade means in the 21st Century.

As the White House indicated earlier this week, the U.S. does support a longer term goal of an Asia-Pacific free trade area, but built on the strength of strong, high disciplined regional arrangements.

How can China respond to this? China will make its own decisions. I think there is some positive movement already. As Tom indicated, the bilateral investment treaty is an enormous opportunity for both countries. It's going to be a rules based anchor that will take that discipline and the high level of openness to the next level. Strategically and economically, it's vitally important.

I would also say as Tom mentioned, China and the United States are no two countries that have benefitted more than an open multilateral trading system. Many people are questioning the viability, the utility of the multilateral trading system. I think China and the U.S. need to join to show leadership to make the WTO round of negotiations productive and useful, so it can produce some results.

There has been some positive cooperation where China and the U.S. supported a trade facilitation agreement. It has been held up by some other countries.

I think as the President heads off to Asia and China leads in the APEC meeting, there is a great opportunity for China to show its leadership in supporting the liberalization and expansion of the information technology agreement, which zeroes out tariffs on a wide range of technology products, and is well overdue for updating.

APEC in the past, in fact, the original ITA in 1996, I think, was a catalyst for the WTO's initial ITA agreement. China can play that role again.

There are some other multilateral rules that China has yet to join but I think the time has come. China committed in its succession to the WTO to join the government procurement agreement, which increases transparency in government procurement, fair bidding, and non-discrimination at a certain level of purchases. It would be timely, I think, for China to step forward and join that agreement.

Moving beyond the multilateral, what can we do bilaterally? I think the most important thing we could do bilaterally, certainly negotiation of a BIT is important, but we need to ensure on the economic side that the strategic and economic dialogue at the JCCT are functioning well, that commitments are fully implemented, that we are shown to be making it work.

It's where each country brings our toughest issues, and while may view the progress as incremental with similar issues appearing year after year, if you read the principles of these declarations, they are meaningful and can move the ball forward.

I'll just mention two areas that are extremely important. One is intellectual property. Intellectual property is essential to China's own movement to the next stage of development, for innovation. Intellectual property is where many of China's trading partners have their own competitive advantage.

It is essential that for China's own development and for the global trading system to work that intellectual property be respected, that it be protected, that it be treated without regard to the nationality of ownership of the intellectual property.

Secondly, our regulation. It is very important that regulation be divorced from industrial policy. Charles mentioned the business climate of foreign companies feeling somewhat targeted, that their confidence is somewhat lower.

In fact, I think over years there have been many, many challenges faced by multinational companies in China, but interestingly, in the last year, we have seen an actual decrease in China's foreign investment. As of August, it was \$7.2 billion, down 14 percent from the year before, which is the biggest decline in four years.

There are other reasons that may contribute to that, slowing growth of China, but it certainly is something to take note of.

China released a survey that found 60 percent of companies in China feel China is a less welcoming place to do business, up from 41 percent in 2013.

Just one area that Charles also mentioned, enforcement of the anti-monopoly law. It combines issues of industrial policy, market access, transparency, due process, rule of law. Why does it matter? China does need an anti-monopoly law. It should be enforcing its anti-monopoly law.

As Charles mentioned, the software is very, very important as these investigations precede, as China reviews global mergers with potentially global impact with respect to remedies on merger reviews, remedies on investigations.

To the extent a remedy is imposed, it can not only have impact in China for goods sold to Chinese consumers, to the extent a good is produced in China, and most IT products are produced in China and shipped abroad, a limitation of the royalty of a patent or a limitation of a royalty of a patent into a standard, can have global

implications.

IP is an area that has been identified by both U.S. and foreign businesses and the U.S. Government as an area where there is a feeling that there is a targeting of intellectual property.

One response has been well, there's no discrimination, there is no discrimination against foreign companies. China is enforcing against its own companies as well. You know, I think the response is issues of due process, issues of transparency, should apply not only to foreign companies but to domestic companies as well.

This is an area that is not subject to clear WTO rules, and China has an enormous power because of the size of its market and regulating its market and because of its role as a major world manufacturer.

MR. DOLLAR: Thanks. Malcolm raised some important issues about China's domestic reform and how they interact with different negotiations and with U.S.-China relations. Good issues to follow up on.

Wing?

MR. WOO: Thank you very much for including me in today's event. The two issues for this panel are the Chinese economy and free trade. For each of these components, I will focus my comments on a tradeoff in each of them that is holding back progress.

For the Chinese economy, the tradeoff that is holding back progress is a tradeoff between the state's desire to maintain control over social, economic and political life, versus allowing the private sector to become an even bigger driver of growth, and in the free trade area, the tradeoff is really that of the U.S., between the U.S.'s desire to push for common prosperity through a global framework against concern about the strategic implications of the rise of China in East Asia. I think the two tradeoffs are

holding off progress.

On the economy, since the Xi government came to power, it has been busy correcting the overdose of macroeconomic stimulus that was introduced to fight the global financial crisis.

The macroeconomic overdose took the form of infrastructure spending which caused a property bubble, which then allowed or rather drove the local governments to undertake unusual financing, the domestic financial system, and the local governments also engaged in more land grab, which exacerbated social tension. The whole infrastructure bust naturally allowed amounts of corruption that was unprecedented.

What is happening now is the economy has slowed since 2001/2002 compared to previous years, a lot having to do with trying to correct the excesses that were created. This is good politics. After all, if you have to have a corrective recession, you should do it at the beginning of your term rather than at the end of it. (Laughter)

What are the instruments that are available to reflect -- what has been happening in the last two quarters is that international trade has been very important in holding up economic growth in the last two quarters, but the fact that the Japanese on October 30 is undertaking an enlargement of its quantitative easing program shows the aggregate demand in Japan is not doing well.

In today's times to profit, Brussels has now cut German growth rate from two percent to 1.1 percent in 2015 and French growth rate from 1.5 percent to .7 in 2015. Basically, half of what the growth in the Eurozone is going to be.

What has been holding up the Chinese economy the last two quarters has been removed. Clearly, domestic demand has to play a bigger role. The easiest way to generate demand are the ways that the government has no wish to do. One of

them is certainly to let the construction sector rip again. After all, what is our quantitative easing?

Buying mortgage-backed securities, the very instruments that caused the 2008 collapse. The Chinese certainly do not want to have another housing bubble, and they do not want to have an infrastructure program that results in expensive public works that spawn corruption.

The real choice is to allow the private sector to expand investment and consumption. The investment side would mean removing the investment financing constraint that all private Chinese enterprises suffer from. They are simply unable to get adequate working capital loans from the banks, largely because it's a monopoly state banking system.

China needs to have private banking, especially small and medium private banks. Together with that, to grow the private sector, you have to allow development of housing sector that is sustainable. Most of the housing that is built in urban China, bigger cities, are for the middle class and upper middle class. The people moving in are the peasants, so that is a mismatch.

The way the mortgage system works is the way to get a mortgage, you have to put down collateral. If you have collateral, it means you already have an apartment, so use existing apartment to buy, use as collateral to buy another apartment.

You need private housing cooperatives and I think China needs to have a public housing program that works. A housing program should only be a small part of that stimulus because it is a hard thing to manage, to be free from corruption, and to be efficient, and be built in the places where the poor are willing to live, and setting up of private businesses through the financial sector deregulation is important.

In order to allow the financial deregulation to lead to the setting up of

small/medium private banks that work, you need to have, I think, the privatization of rural land, so that the rural people could move out from the countryside and do not feel that they should stay behind to claim the land when it is privatized.

Furthermore, this allows them the capital to start a business, by giving property rights to the land, and together with that it would not be effective unless coupled with great relaxation of the household registration system, so financial system deregulation and promote sustainable urbanization through rural land privatization and ending of the household system.

That would help to talk about the difficulties, but I think let me get to free trade. On free trade, I'd like to make comments on the global level, the regional level, and the bilateral level.

In a recent interview with Tom Friedman, President Obama said that China has been a free rider on the international scene for the last 30 years. This is certainly the case when you look at WTO. In fact, China has been such a free rider in the WTO that it is against its own best interests.

What is holding up the Doha Round? What is holding up the Doha Round is agriculture protectionism in the Western European countries and Japan and the United States, and on the developing countries' side, they do not wish to relax a lower tariff on manufacturing goods.

Let's say that the U.S. is able to prevail on its former Cold War allies or rather present allies in the new Cold War to lower agriculture protectionism. Would the developing world be able to lower tariffs? It would not happen because the leadership of the WTO bloc of the LDCs is hated by Brazil and India. Brazil and India do not want this lower -- not because they are afraid of manufactured imports from the G7, they are afraid of manufactured imports from China.

What it means is China should take over the leadership of the developing countries in WTO and push for the completion of the Doha Round.

On the regional level, we have the following strange situation. If you look at the multinational banks -- the international financial organizations, World Bank and ADB were set up to hand out money for hardware infrastructure, but over time, it has come to be replaced by the Ten Commandments of the Washington consensus, for example.

This neglect of hardware provision by the international development banks is possibly inevitable given that the Cold War is over, so the Chinese have come forward and said since you're not giving enough money for hardware development, we will set up the Asian Infrastructure Investment Bank, and it is naturally welcomed in Southeast Asia.

For the U.S. Treasury to be going around telling people to do what's not in their best interest, which is don't join the Asian Infrastructure Investment Bank, is shooting ourselves in the foot. Why are we telling these people not to pursue things in their best interest?

In the regional free trade area, the Chinese have proposed the RCEP, Regional Comprehensive Economic Partnership, which will be a free trade area of the ten Asian countries and the six countries, Japan, Korea, China, Australia, India, New Zealand. The U.S. has responded with TPP because we want high quality free trade area.

Nice words but who has signed up for TPP so far? It is so high quality that we cannot get new members to sign up, which is embarrassing. What do we do? In pursuit of Malaysia and compromising high quality, Malaysia can keep its raised base garment procurement policies, for example, to sign the TPP.

Basically, why don't we have something that is more inclusive than TPP, let's have one that encompasses both sides, the free trade areas of the Asia-Pacific would be a much bigger grouping and would encompass everybody, and China actually should apply to join TPP. Orida had one of its proxies in the present TPP structure to apply to dominate China for membership.

Let's get to the bilateral level. The bilateral level, we are concerned about the value of the Yuan, Chinese trade imbalances, because a big trade imbalance means they are stealing our jobs. There is no doubt there is a transfer of jobs out to China, especially after the signing of the WTO. There was a natural correction of that artificial division of labor that was caused by the Cold War.

That is not our real concern. What should be our real concern is not the stealing of present jobs but the stealing of future high paying jobs that is done by industrial espionage.

Intellectual property rights should be a much bigger issue than it has been rather than this focus on gains of trade balances and the value of the Yuan.

MR. DOLLAR: Thanks. A common thread through all of this that I saw was some thinking about important economic reforms in China, what is the progress for them, how they relate.

I'm going to start with Charles. You talked about the importance of the bilateral investment treaty negotiations, and the two sides. Each side is going to come with an initial negative list in the first quarter of 2015, and you alluded to the possibility that China might come with a relatively small focused list, kind of a quick negotiation, and would reflect some real soul searching in China about moving ahead with opening up sectors and reform, or they could come with essentially the whole investment catalogue, and that would be kind of a disappointing signal.

You talked about the importance of politics. I would like you to speculate a little bit, maybe stick your neck out a little bit on what we are likely to see, and then if you want to get into the U.S. side, do the results last night make it more likely we get a BIT within two years? Takes 60/70 percent of the Senate. Is it really pretty hopeless to get a BIT within two years?

MR. FREEMAN: First of all, to answer your second question, I doubt very seriously that we will actually finish the negotiation of a BIT before the end of the Obama Administration, so I just can't see us getting to that question until 2016 at the earliest.

On the question of what the politics will be that will drive whatever negative list China puts forward, I think it is very difficult, if you talk to some of the people that have been put in charge of the reforms in China, you are already seeing the shaking of the heads, this is a lot tougher than we thought it was going to be, gosh, the interests really are dug in.

You don't have the kind of institutional process in China where the vested interests go and communicate to the regulators or the reformers in a kind of transparent way of what the issues are, and there is no real capacity to measure what the genuine economic impact would be at the institutional level of presenting a more ambitious negative list or otherwise.

In that kind of circumstance, I think what you will see is a bit of a Solomonic splitting of the baby, and you will get something that looks half ambitious and half difficult.

I think Tom Donilon rightly referred to the importance of mind share among policy makers. If you are presented with a negative list, if China presents a negative list in January 2015 that looks like it is going to require an awful lot of deep

digging by the Administration in order to get this thing through by the end of the term, I'm not sure that if I am Mike Froman, that's where I would spend my mind share.

There is plenty of other stuff to be worried about with TPP, with TTIP, ITA, maybe even the trade and services agreement, how much time do you really want to spend knocking heads with recalcitrant Chinese negotiators who will leave blood on the floor.

MR. DOLLAR: Is there a risk that the U.S.-China economic relationship languishes because this becomes a long drawn out multiyear process and the business community gets frustrated and loses interest?

MR. FREEMAN: I think there is a strong chance that happens and will require real leadership both in Beijing, here, not only in the White House, but on the Hill, to make that happen.

In answer to your question about whether this new Congress is going to be more welcoming of a BIT than otherwise, I'm not sure. If you talk to people even in fairly safe districts that are nominally very pro-free trade that don't have a lot of angst about the Chinese-U.S. economic relationship, even they would rather not vote on something like this. There is not a whole lot of benefit to laying yourself out for something like this.

Unless the business community generally gets excited and enthusiastic about a BIT, it is going to be very difficult to push something through the Hill.

MR. DOLLAR: Malcolm and Wing, you each raised some very important economic reforms that are going on in China or potentially, intellectual property rights protection that Malcolm was talking about. Wing talked about financial liberalization, development of private banks, and some pretty radical things, privatizing land and eliminating the Hukou system.

What I really would like from each of you, starting with Malcolm, is kind of a more political assessment of what is the prospect for these reforms going forward.

Malcolm, I believe you were the one who alluded to the fact that there are a lot of different forecasts for China's growth, and they really come back to an assessment about the appetite for reform and the implementation ability of the Xi administration.

If you think there is going to be a lot of reform, then it is easier to be optimistic about China's growth.

The Conference Board came out recently with kind of a very negative assessment, doesn't see any reform going forward, forecast growth at 3.9 percent.

Malcolm?

MR. LEE: I'm going to mix metaphors here. I think intellectual property will improve at the pace where there is demand. It's demand led. China clearly wants to move to an innovation led growth model away from a manufacturing low end export model.

The head of Microsoft Research used to say innovation equals I.Q. plus IP. There is plenty of I.Q. in China. Bill Gates said when he was asked why not open a research facility in China with 2,000 researchers several years ago, I figured with 1.3 billion people, there would be a couple of smart ones. (Laughter)

No question. The capabilities of China are immense, the raw intellectual capacity. You need the software. You need the regime that is going to encourage innovation. It will move as fast -- already, there is significant litigation, the majority of it between Chinese firms, on IP rights.

I think the leadership and the government understands it. Every Chinese IP law is being amended, revised, rewritten. There is still an enormous gap on

enforcement. There is concern about it's difficult to get paid for intellectual property.

Intellectual property is being stolen.

Of concern to China's trading partners, there have been policies that have treated domestic intellectual property more favorably than foreign intellectual property, for tax benefits, for qualification for government programs. That has not been done anywhere else in the world.

It's really important there be a neutral playing field in this regard, and I think the pace of that progress will depend on the development of intellectual property in China, which is happening. It's probably viewed by both the West and China's leaders as too slow.

MR. DOLLAR: Wing, you urge China to do a lot of radical reforms, financial liberalization, privatizing land, limiting Hukou. What's your expectation? Do you think these reforms are likely to happen? What time frame? What happens to the economy if they don't reform?

MR. WOO: The privatization process already took place in the urban areas. If you look at all the small/medium enterprises, they were either given away to the workers or to the managers who were in charge. The privatization of housing in China, giving it to the people who are already staying in it.

For the poorest of the population, that process has yet to come to them, and that, I think, has to do with the fact that if that is land privatization, that would remove the power of the local cadre to reassign land, and also it will remove an important revenue base for the local governments. That will require them to undertake fiscal reforms so that the local government does not get its money from land grab and selling the land for industrial projects.

I think it would greatly increase the ability of new migrants to the cities to

be able to make the down payment on housing and to start their own workshops if they have some capital from the ownership of rural land.

More importantly, if you want to talk about productivity increases, the most fundamental driver is to increase human capital. Increasing human capital means the easiest way to do it is to recognize that the best rural schools are many times worse than the worse urban schools. Urbanization would be a great way to educate many more Chinese who are neglected in the rural areas because their parents are working in the past.

Furthermore, it is much cheaper to supply good housing in urban areas than to expand the rural medical system. We know any childhood that is characterized by frequent illness in the young days results in an I.Q. that is 50 points lower. That makes you less able to work and less able to learn.

That, I think, the urbanization process, has to be accelerated, but that must be accommodated through the provision of affordable housing. Right now, given the real estate financing mechanisms, these people will never be able to buy real estate.

That requires small, medium private banks, and also requires doing what Chinese societies have done successfully, which is providing affordable housing, Hong Kong and Singapore. They were able to do it because they own the land in these places; the only thing you spend the budget on is building the structures.

In the U.S., we cannot do affordable housing because once you pay for the land; you won't have a budget left for the structures.

In the case of China, this is something well within their ability to do, which would enhance human capital accumulation in education and in health, which is the ultimate drivers of productivity in the long run.

The other driver of productivity increase is to acquire the existing best

technology. Here is where China lags behind, in that many times it wants to invent the technology indigenously, partly for social political control.

Here, inventing it indigenously, I think, has gone overboard, such that it caters to a lot of ransacking by the state linked corporations. I think China should open up a lot more in its state procurement policies and in its licensing practices. That, I think, would allow a flow.

For example, what is the quickest way to get inflow of banking technology? The best way to get inflow of banking technology is to get the best banks in the world to open branches in China and at some branch; a Chinese conglomerate hires away all the top management and starts their own banks. That is a proven formula that works.

China wants Shanghai to become an international financial center, but what do we see? Paralysis, nothing is happening there because, I think, they are stuck between advice saying it is dangerous to open up because you would be setting yourself up for a financial crisis. That is actually quite misguided.

To prevent a financial crisis, you have the adequate regulatory framework in place and so forth, and the other one is to be able to have financial firefighting capacity. What do you do when a crisis breaks out?

For example, there is no such thing as permanently open or permanently closed capital accounts. Malaysia has shown that when you need to fight a fire, you will close a capital account. What are the long run implications? None, regardless of what the IMS saved in 1998. The outcome was a good one.

So, this concern fostered by many well meaning people that China has to go slowly because you need to have this already competitive domestic banking system in place, already a well functioning prudential system in place, how do you get these two except through practice?

It means instead of opening everything straight up, you just open it in stages and in increasing degree. That is how you get a financial system that works and regulatory authorities who know how to handle a crisis.

Part of this is the effort to promote the use of the RMB as an international currency. International currency not in the sense that it is freely tradable, easily available by opening the capital account. In that sense, the Swedish krona is an international currency. Stockholm is an international financial center because anybody could set things up.

What China wants is for the RMB to become a status, more like of the U.S. and Europe, and Shanghai to be more like New York and London, than Geneva, Zurich, or Singapore.

All of these things are high value added industries, and that is where I think progress can be made. The amazing thing that you hear is gradualism is the right way to go. I've said that's not true. The important thing is to focus on financial firefighting capacity, and the other thing is economies of scale as an international currency is very important.

MR. DOLLAR: I think we are going to have to cut that off. I want to have time for some questions and answers from the audience. What I suggest is we take several questions and then I'll give everybody a chance. That is probably going to eat up our time.

The young man right there. Do we have microphones?
Stand up and identify who you are, please.

JACOB: I'm Jacob from George Washington University. Thank you for all your sharing. I have basically two questions. The first, at the latest consultation conference held by the Premier, Li Keqiang, there were two major economists present

saying a pessimistic attitude towards the current Chinese economic situation, maybe we need to adjust the economic structure -- stabilizing the economic growth.

All of you mentioned we should like decrease the financial stimulus in the domestic economy policies.

Do you see there could be a possibility for another round of government stimulus in the next few months, and would that be beneficial to the long term economic structure adjustment?

The second question is about the trade, would you see a possibility that the U.S. Government would lower the limits of the high tech product export to China in the next few years? Thank you.

MR. DOLLAR: Over on this side of the room? (No response) I will hit these two people, starting with the man I pointed to in the front.

MR. HU: My name is Shu Jin Hu from Japan. I have a question to the three panelists about TPP. It seems to me the United States is trying very hard to promote TPP. However, I'm not sure the United States will convince China to join the TPP.

Instead of TPP, in my opinion, China will establish a free trade agreement in the Asia-Pacific region. President Xi Jinping will announce a new proposal.

My question is do you think the United States will convince China to join the TPP? Secondly, do you think there is some conflict with TPP and free trade agreement in Asia-Pacific? That means China may take leadership in Asia-Pacific free trade agreement but the United States is now taking leadership, so do you think that is a conflict or challenge?

The third question is the United States will promote bilateral trade relations with China, how does this matter, the trade, TPP and free trade agreement?

Thank you.

MR. DOLLAR: The woman I pointed to right there.

MS. LU: Hi, I am currently independent strategy consultant because no company or organization will hire. (Laughter)

I just come back from China. I can see now the Chinese leader in the crisis not understand the war because of a lack of personal experience. The situation even worse (Inaudible) -- they all have personal experiences. They have basic sense to understand the war. Now, China wide open, the kind of leader, they don't have personal experience.

They really try hard, I believe. While I was in China (Inaudible) intensive research, one Japanese general wrote a book about how the French President (Inaudible)

For the political issue between U.S. and China, nobody really truly researched and truly understand, huge business. He tried to establish the communication channel by himself but (Inaudible).

My question is whether -- I'm an U.S. citizen -- whether the U.S. is ready for this situation.

MR. DOLLAR: I'm going in reverse order, starting with Wing. We have about three minutes per person. Why don't you take any of those questions that appeal to you? I'll clean up. I'll make sure each question gets addressed.

MR. WOO: The question of whether a general stimulus is coming, I think that would certainly be positive, in other words, trying to extend credit to hopefully private enterprises and to sectors that are really not characterized by excess capacity.

The housing sector ought to expand, but not in the usual way, of providing housing to the middle/upper middle classes. There have to be changes in how

this stimulus is delivered.

The big word should be to drive the economy by unleashing the private sector and increasing productivity to reforms rather than cheap money and start a housing bubble and increase investment.

On the issue of TPP, is this succeeding? Who are the new members who signed on? No progress. The Japanese were our possibly best, most reliable allies in the Pacific, and they have declined to sign on because we have such high quality TPP. That is not going anywhere.

I say that in the spirit of big power competition rather than the provision of global public goods. I think that should be free trade area that is pushed on both sides of the Pacific.

I think if there is one thing I'd like to mention in my last few minutes it is the elections that happened yesterday. The question is what's going to happen to Obamacare. I think if Obamacare is rendered invalid, this will reduce U.S. flexibility in adjusting to changes in the composition of production.

Right now, medical care is employer based. You don't want any employer to go out of business. That means protectionism for companies. What Obamacare really does is it increases the flexibility of the U.S. Government to adjust to people changing jobs and hence, not having to worry so much for medical care.

I see protectionism as a likely outcome of yesterday's election if they were to go on to eliminate a whole slew of social protections, which enables the U.S. to respond more flexibly to trade adjustments.

MR. DOLLAR: Malcolm, can you answer the question about export controls and anything else?

MR. LEE: Why don't I try that, I'll try export controls. The President,

Tom, and Mike Fromin, and the Secretaries of Commerce, State and Defense have helped lead a major liberalization of U.S. export controls.

That said, some export controls continue to apply. Some export controls continue to apply specifically to China by law and for national security reasons.

Having participated in several years of strategic and economic dialogue in JCCT discussions, export control liberalization for China is a perennial topic, just like market economy tests is a perennial topic.

I think that the frustration on the U.S. side when several specific cases have been raised is that the information that is needed to make the final determination on a particular item is occasionally not provided. I think there is potential for some exports to go for which there hasn't been a ruling yet, within the context of the broader liberalization, but it requires effort on both sides.

MR. DOLLAR: Thanks.

MR. FREEMAN: Just a follow up on that, I think there has been a misunderstanding in China of the export control system, and there is a perception in Beijing that export controls -- the U.S. export control system is uniquely designed to prevent the exports of technology to China. In fact, the U.S. has a broad export control program that applies everywhere, and the same system of management and checking and follow up checking on the disposition of exported goods applies everywhere.

China has traditionally been very reticent about providing that follow on access to their market after the technology is exported, and that actually tends to prevent some otherwise exportable technologies from reaching their customers in China.

That said, you know, given all the other questions about the cyber theft of intellectual property and other things, I think it is very unlikely that you are going to see a wholesale abrogation of national security laws in order to provide more technology to

China.

On the question of the U.S. inviting China to join TPP, the U.S. is just one of 12. It is perhaps the U.S. leadership that is driving TPP but it is one of 12. I respectfully disagree with Professor Woo that Japan is completely out of the game. I think Japan will ultimately come --

MR. WOO: Ultimately, everybody is.

MR. FREEMAN: I think you are going to see a TPP agreement that is ultimately a first rate agreement that we can all appreciate and enjoy. I don't know that it is going to become like the WTO, an agreement onto which third parties that haven't signed on thereafter accede. That hasn't been done with other agreements. I'm not sure the TPP is that kind of model.

What I do see is the TPP providing a very important intellectual anchor and policy anchor for what you raised, which is the FTA. I see down the road, without the TPP, I doubt very seriously that you have that kind of genuine intellectual basis from which an FTA can be negotiated.

I don't think there is as much conflict between the RCEP and the TPP as some might say. I think they are quite complimentary. While Mr. Donilon this morning talked about the development aspects of TPP, it is not really a development agreement. RCEP might be. The two together joined together might actually provide a very useful, broad agreement for Asia.

I'm going to find it very difficult for an RCEP to be negotiated as long as India is a driving force at the table, but maybe that is a personal bias.

I didn't quite understand the question at the end.

MR. DOLLAR: I'm happy to take the leadership. I want to weigh in briefly on TPP. There are estimates of the static gains from RCEP and from TPP. The

static gains from RCEP are rather small, because what is being discussed is a rather small amount of trade liberalization. I agree with Charles. As long as India is in there and you have a lot of veto powers, it's not much trade liberalization.

The estimates for TPP are very large, and the relative gains are extremely high for developing countries like Malaysia and Vietnam and the Philippines that are a part of the negotiations.

The ambition of TPP is to have really deep integration. I see this as very important but a risky endeavor, and I link back to what Tom Donilon said, this is a really important part of the U.S. engagement in Asia-Pacific, trying to create deep integration, and the hope is not that the U.S. would persuade China to join.

The hope is first we make TPP succeed among the countries that are involved, and then China will want to join because the benefits of being involved will be extremely large, and the cost of being excluded will be very high.

I think it is important that the U.S. be open and encouraging of China joining, but as Tom Donilon said, it's an issue of meeting the standards, and this is a somewhat risky game, because it's possible we will end up with different regional trading blocs, and that is a very bad world.

What I'm hoping is that aggressively pursuing TPP and the BIT negotiation will in fact get us eventually to a very open, deeply integrated Asia-Pacific economy.

I think we were a little bit confused about the question on leadership, but what resonated with me is in my Treasury job, I got to sit in on a lot of very senior meetings between the U.S. side and the Chinese side. It always struck me that there was a real lack of understanding on both sides, which I would relate to your point.

Generally, our leaders tend to be up there in their late 50s, early 60s,

maybe into their 70s. It's just the way our history has played out on both sides. Those are people who never really had an opportunity to go and live in China; you couldn't go and live in China 40 or 50 years ago as an American citizen or scholar. That generation of Chinese leaders you're talking about, they didn't have much experience in the United States.

I put a lot of faith now in the young people. We have 200,000 Chinese students in the U.S. We have a smaller but growing number of American students studying in China. I'm hoping we get more understanding with these coming generations, and that the next 10 years or so is a risky period where we have leaders who don't necessarily understand the other culture very well. If we can get through the risky period, then I think we are going to have a growing number of people on both sides who have a real deep understanding.

We have come to the end of our time. I really want to thank the panelists. Let's give them a nice round of applause. (Applause)

Ten minute break and then we come back for environment and climate change.

(Recess)

MR. LIEBERTHAL: Welcome to the third session of this day-long event. This panel will address to my mind the crucial issues of U.S.-China cooperation on climate change and the environment. This is a great time to focus on this issue for three reasons. One, the UNFCCC series of global climate change reports has just --

QUESTIONER: The mic isn't on for you.

MR. LIEBERTHAL: It's not working? It sounds like it's working here, no? Is this okay now? Okay. I'm not going to rewind the whole thing, but let me say this is a very important time to be focusing on U.S.-China cooperation on climate change and the

environment. We have been warned now more categorically and with a greater sense of urgency about the dangers of climate change and the huge role that human beings and national policies have in the unfolding of this potentially globally disruptive process. Secondly, in December of next year the countries of the world will be asked to declare what their targets will be regarding emissions in the post 2020 period. So this coming year, from now until then, is one of those really critical times when this issue will be on the global agenda and it will be on the global agenda to reach specific agreements on specific targets and modalities over the coming 12 months. And then thirdly, as I'm sure you all know, the United States and China are the world's two largest greenhouse gas emitters; China by far the largest now, the U.S. the largest if you took a cumulative historical emissions. But more than that as you look around the world everyone looks to see whether both the U.S. and China are going to be credibly addressing this issue in an ambitious fashion and within each country the politics become easier if both of us can move together and become tougher if you're seen as, you know, your leaders are pushing to take the lead on this and the perception is the other country is not going to be equally ambitious and equally committed.

So this is a great time to take up this topic. We have a terrific panel to do so. We'll do it in the following order: Qi Ye will address the factors that affect emissions peak in China and how the Chinese put this issue together in terms of peak emissions. Jake Schmidt will provide insights from his working intensely with the Chinese on the issue of limits of future coal consumption in China given that coal is highly polluting and is the major source of energy in China. Dan Wright will give a private sector experience view on dealing with the Chinese on developing renewable energy and clean energy projects. And finally Kelly Sims Gallagher, who was able to join this panel only at the last moment due to -- well, she works in the White House so you can imagine the schedule

she is on now -- will discuss what in a say realistic but the optimistic side of realistic, in other words what can you expect if things go reasonably well, going from here to the Paris meeting in December of 2015, how would you expect events to unfold, especially between the U.S. and China on the climate change emissions issue.

Briefly Qi Ye is the Senior Fellow of Brookings and the Director of Brookings-Tsinghua Center. He has long been on the faculty of Tsinghua University School of Public Policy and Management and has had a career both on the analytical side and also in close advising and working with the government in developing their positions on climate change both domestically and international negotiations. Jake Schmidt is the Director of the Natural Resources Defense Council's International Program. Much of his career has been focused on climate change and related issues of sustainability. He has recently been participating in a project with the Chinese whose formal output will be available I think within a few weeks. Is that right?

MR. SCHMIDT: Yeah.

MR. LEIBERTHAL: In a few weeks, but we'll enjoy learning some of the insights from that on how the Chinese are now thinking about managing limits on coal consumption as they go forward. Dan Wright is a Nonresident Senior Fellow at the Brookings Thornton China Center. He is also the CEO of Greenpoint Group which is a boutique strategic advisory firm that he founded five years ago to provide counsel to corporate and nonprofit decision makers on their China strategy. He also has a background of substantial interest and his client base includes clients who are interested in cooperating on shale gas development and other kinds of cleaner at least energies with the private sector cooperation. Dan also was in Treasury under Henry Paulson and was very much involved in the U.S.-China negotiations on the 10 year energy and environment cooperation framework and other related issues. And then Kelly Sims

Gallagher is in the White House, is Senior Policy Advisor in the Office of Science and Technology Policy. She is on leave from the Fletcher School at Tufts University where she is Director of the Center for International Environment and Resource Policy. She is an Associate Professor of Energy and Environmental Policy and has done a great deal of academic work on the energy and environmental issues with a particular focus on China's policies and the implications of those policies for Chinese emissions.

We'll start off with no more than seven minutes of opening prepared remarks from each of our speakers. We'll just go down the line in this order. Then I'll moderate a brief discussion among us and then I want to quickly turn to the audience because frankly I think the most interesting questions come from you and we're anxious to be able to engage with you.

So, Qi Ye?

MR. YE: Well, thank you, Ken. Good morning everyone. I have been travelling the last week away from Beijing. Normally I'm pretty happy away from Beijing because of the smog. And this time it's quite different. My friends just keep sending these beautiful pictures of this clear sky now (laughter) in Beijing. And I must say the Chinese government and the society in general have been very enthusiastically tirelessly working toward this goal, have a clear sky during the APEC meeting. This includes the shutdown of the industries within Beijing. Also with this 400 miles of (inaudible) surrounding Beijing area. And of course six days of, you know, holiday the people are enjoying right now.

But these actually have some interesting implications for policy. Since I told my friends I'm coming to this event they send me some policies; I summarized them right here. Number one is to make Beijing as a permanent site of the APEC meeting. (Laughter) Number two is to extend the APEC meeting as long as possible. If none of

this happens just make sure President Obama will stay longer in Beijing. (Laughter)

Well, I want to get it very seriously. You know, if we look at this there are quite a few things we can learn. Number one is really the major cost for the environmental problem and the carbon emission is the fossil fuel burning. We shut down this many cars and factories and power plants and all the sudden we see a very different result. Number two is this problem, this is a very big environmental problem and also carbon emissions problem can be reversible. You know, in the past we even lost hope and now, you know, this can be reversed. Number three, the international community can play a very important role for the domestic air quality in China. So my second point I want to lay out here is five years after Copenhagen, now we're heading to Paris next year and China has been very serious about this meeting and so are other parties. There are some major lessons we can learn from the Copenhagen process, especially when we put it in comparison to the Kyoto Process. The Kyoto Process has been largely a top down approach that the international community come up with an international global agreement and to be implemented by nations and then by some national unities and enterprises. Copenhagen was considered a failure and it is considered a failure because before Copenhagen everybody, especially the NGO communities, wanted a fair, ambitious, and legally binding agreement. And of course we did not get that. What we did get was something called the Copenhagen Accord which is not legally binding and not ambitious considered by many, however when we look at the implementation of the performances of nations the honored commitment of these voluntarily pledges of the nations, everybody's actually doing a very nice job. Looking at, you know, China, Australia, the EU, India, Russia, you know, all these major parties according to the United Nations assessment are well on track to deliver the results. And looking at the United States has also made some major cuts of the emissions. The power generation sector

for example, already by the end of the 2013, 17 percent of cuts already. So major progress. You know, we can learn from this. Even though considered to be an unambitious and non legally binding agreement can really produce some interesting results.

So learning from this and also looking at the situation in China we just mentioned about this carbon emission peak, because the IPCC is saying, you know, the world emissions has to be peaked before 2020. And now we have seen the studies for the peaking time of China all the way from the 2025 to 2035 and, you know, there are of course a number of factors contributing to this including this economic slowdown which probably I can expand later in the discussion. Really what we can learn from this, and especially putting it in this current context that President Obama is meeting in China will have a couple of points that I would like to make, you know, as the kind of policy directions we can see there.

Number one it will really great for this time or the next couple of months for China and the United States, particularly before President Obama and President Xi Jinping get together to, you know, openly declare world leadership on climate change. Together align with this EU commitment that the EU just a week ago announced their commitment, 40 percent of emissions cut, legally binding, 27 percent of renewables, legally binding, and 27 percent improvement in energy efficiency. So if the two countries, U.S. and China, they can jointly declare, you know, reach a political consensus on this I think it will be really great.

Number two recommendation is following your recommendations made five-six years ago which is to make this a collaboration on energy, planet changes, and environment really a centerpiece in U.S.-China bilateral relationships, focusing particularly on this technological cooperation for clean energy, environment, and climate

change.

Number three is to review and assess the existing programs so far; especially those related to this clean energy research tenures. The tenure framework that Dan, you know, helped coordinate many years ago and other programs. And then to extend that program and to expand in scope and also to consider allocating more resources for promoting that.

So let me stop.

MR. LIEBERTHAL: Great. Thank you.

MR. SCHMIDT: Thanks. And thanks, Ken, for putting together this great panel. It's an honor to be here. I enjoyed this morning and it's always good to sort of get some broader context of the Chinese landscape. So as Ken mentioned I'll try to provide a bit of a snapshot of some of the work that NRDC has been doing. Just to give you a tiny bit of context we've been in China for over two decades and now have a staff of about 30 in Beijing that work primarily on environmental issues related to climate change and energy efficiency and sort of environmental rule of law. And one of the major things that we've done in the past year is launched an effort with 20 leading Chinese research institutions, government agencies, and scientific universities and so forth to look at a peak of coal consumption and to put in place a coal consumption target and to begin to analyze the sort of benefits of that. So this project includes researchers from Energy Research Institute, Tsinghua University, the Minister of Environmental Protection, and so forth. And as Ken mentioned we'll be launching a number of findings from that the week after Obama is there. It wasn't intentional; I think that's where the sort of clean-up crew so maybe we can keep the air nice for you for one more week longer. And so I won't be able to provide you with all the details, but obviously the debate has shifted quite a bit in China. And in my years of working in international climate I think that one of the sort of

main shifts that we've seen that's been a huge, you know, change in the direction has been this, you know, old debate about that countries like China are not doing enough to deal with this challenge. And that's a debate that sort of dominated American politics back in the Kyoto Protocol days, so about two decades ago now. And that debate I think needs to shift and it shifts because of reality. The reality is that China is doing a number of things to reduce its greenhouse gas emissions and it's poised I think for even deeper action.

You all know and you've seen many of the statistics in terms of the deep deployment of clean energy that China has made. China has sort of broken effectively every record in terms of wind and solar deployment around the world. They've embarked on arguably one of the largest energy efficiency programs in the world, and so they've made a number of major strides. But obviously those have not been sort of enough and I think that the growing public awareness around air pollution is a very striking fact in terms of the reality that the clean has been fantastic and it has helped to drive less of the, you know, polluting sources but it hasn't been sufficient. And so the recent sort of air apocalypse, and its front page news as everybody knows pretty regularly in China, it's gotten to the point that it's become the number one sort of social unrest issue in many places, taking over for land reforms, become the sort of dominant theme in terms of a lot of the policy discussions. And so in response you've the Chinese government, the state council adopt a number of I think key signals and I expect a number more will come forward.

So in terms of addressing air pollution the state council has adopted air pollution control plans for some of the biggest regions of the country. And those have included direct measures to deal with air pollution, but they've also directly covered coal consumption targets because the reality in China is that about 50 to 60 percent of China's

fine particulate matter, so PM2.5 is contributed from coal. This is the sort of nasty air pollution that leads to premature deaths, leads to asthma, and leads to all the kinds of things that we've seen in the U.S. and elsewhere that have been damaging. In fact one of the findings from our work recently, we just released a report with researchers from Peking University and Tsinghua University that found that about 670,000 people in 2012 suffered from premature death from the air pollution caused by coal. And that doesn't include all the sort of subcomponents that are caused by asthma and lost days and so forth. So that's a striking number of people that are, you know, suffering from this air pollution and it's a predominant debate obviously in China.

In terms of going forward I think what we see as a huge opportunity in China and part of our work is finding -- is identifying is that solving the coal problem solves a number of other challenges that China is facing. Set aside the climate challenge that it helps us solve which is, you know, a critical piece of the puzzle; it solves the air pollution challenges. I mentioned a number of people are dying; the air pollution in Beijing and elsewhere throughout the country is largely driven by overconsumption of coal. Second is dealing with coal consumption in a more direct way helps China deal with sort of its need to shift to alternative sources of economic growth. So China is very unique in the sense that about half of its coal consumption comes from non power sector sources, so that's iron and steel and cement and producers; that's a rare breed in most places in the world. So beginning to deal with the sort of overcapacity in a number of these sectors will also decrease the demand for coal and put, you know, a reasonable target on that front.

The second piece is coal obviously has a number of other environmental impacts and water impacts and so as China deals with coal it will have positive impacts in terms of water scarcity, in terms of water pollution, in particular if it is coupled with

solutions that don't just sort of shift the coal expansion to the west and build new plants there to deal with the air pollution that's happening in the eastern part of the country. And so it needs to have sort of a comprehensive coal consumption target to deal with that piece.

The last piece is obviously the climate piece of the puzzle. China's emissions are predominantly from coal; it's not all from coal but solving the coal problem and beginning to put a cap on coal consumption with a peak in 2020 will put it in place to have a CO2 consumption target or CO2 target peaking in 20205 or before, which something like that is critical to what we need as we go into Paris and as we go into solving climate change. And so beginning to solve this coal consumption challenge is a key solution for air pollution, water, and public health, while at the same time is a key driver of China's efforts to deal with carbon pollution that as we go into this next round of climate negotiations that Ken mentioned will be a critical piece of the puzzle.

So we are optimistic that the pieces are emerging in China, that just a couple of years ago when we started this effort the debate was really around okay, that's a nice theoretical idea that China will have its coal consumption peak and its CO2 peak, to a very live debate in the government around when will that peak occur, at what level will that peak occur, and how do we enforce it and implement it on the ground. And so what kinds of new tools does the government and so forth bring to bear in terms of developing that. And that's a critical shift as we go forward and one that I think will show hopefully quite a bit of promise in the next coming months.

Thanks.

MR. LIEBERTHAL: Thank you. Dan?

MR. WRIGHT: Thanks. I first want to thank Dr. Cheng Li and the Brookings Team for a great day and it's really a timely opportunity for us to come together

before the summit next week. And I think all the panels are couched against U.S.-China cooperation in these different areas.

Where I would like to kind of put the tag on my remarks is clean energy for crowded places. At the end of the day that's kind of what it's about. I need to confess that I'm not a climate expert; I'm not even an energy expert. I named my little company Greenpoint after a town in Kansas called Greensburg. So that's where the green comes from. So please don't ask questions about climate. But I have had the privilege both when I was at Treasury and now with the advisory firm to work with some great energy and environmental companies on how to get from here to there. And, Jake, a lot of what you're talking about is you do see a shift from the theoretical to really a buckled down focus on how do we move the needles in these different areas. What I'd like to speak to is a little bit more around the investment side, because at the end of the day it will take investment, commercial activity both from U.S. companies and frankly Chinese and global companies to be involved in this clean energy space. So I have three points with that.

The first, if you're looking towards clean energy you want to look for what are some of the fundamental constraints that if we could address could really kind of release more investment into that space. Secondly, I took note of Secretary Kerry's comment yesterday on energy policy, so what's the solution there. And then thirdly some practical thoughts around U.S.-China cooperation that can support us to get from here to there. As Bill said earlier today, going from the local kind of to the global, and obviously we need both directions.

So as I was thinking through kind of the issue of what is the fundamental constraint issue around clean energy I don't really see it as fundamentally a money issue or a technology issue. I really see in my experience in China it's fundamentally an issue

around policy process, policy coordination, the wrong type of regulatory structures for the issues that will really release that type of investment and participation. I think there are three reasons for that. Back in political science in graduate school, and Ken Lieberthal's great book, *Governing China*, we learned about fragmented authoritarianism as a term to understand the Chinese political system. And the reason that came to my mind is particularly in the policy process the fragmented nature which we're seeing in the renewable and unconventional area, and the challenges around coordination. So that's one issue. Second, of course, the incumbent energy sources in China really grew up and were facilitated by a certain type of policy and regulatory structure which doesn't really work for clean energy. And we can talk about that more in the Q & A. Of course the embedded interests that come up around that, that incumbent structure. And then finally, we all know, and this is I think what I'm speaking to is really emblematic of the larger reform implementation of third plan reforms, policy coordination. There's a lot of churn in the Chinese government about who does what, how does one coordinate. So I think this is actually in some ways a case study to the broader challenges of reform implementation. Two very brief examples just to tag, and we can come back to if you'd like, there's a ton, it's an amazing -- as you said, Jake, the activity in wind and solar, but at the end of the day if they're not connected at the grid and delivering energy into the grid it's a lot of wind and sun with not as much delivery into the grid which gets that clean energy to crowded places. So that's the coordination; that's one practical area.

And then another area, of course shale gas has been such an important part of the U.S. story and shale has potentially a huge potential in the China story. What I'm seeing there is really a regulatory framework that's governing shale right now that was really developed for more traditional fossil fuel. It doesn't work. Just the nature of expiration around a very different energy source just doesn't work. And that really needs

to be addressed to begin to attract investment into the shale space. Secondly, around the solution of -- I'll just quote Secretary yesterday -- I was struck with how he brought it down from the global very specifically, and this is his quote, "The solution is energy policy. It's as simple as that. Make the right choices in your energy policy; you solve the problem of climate change." And I would add policy process, policy coordination around that energy policy as fundamental.

And then finally the opportunity for U.S.-China cooperation in this area. The good news is there are some very solid mechanisms already in place, the oil and gas industry forum, U.S.-China renewal energy forum, U.S.-China Climate Change Working Group. So there's some very good dialogues and some very good conversation going on including reverse trade missions. I think two weeks ago the National Energy Administration was in California with commerce looking at how we're struggling with some of these same issues. But I would just encourage decision makers across the U.S. government to perhaps be a bit more intentional and more focused around this issue of policy process and coordination. I think if we could be more focused on that through these existing mechanisms that could help us make progress both the policy as well as ultimately kind of the invitation or the channels where more investment and staying power would come from the commercial and private sector.

MR. LIEBERTHAL: Terrific. Thank you. I can't help saying it's a little bit of a mixed blessing to have a silver-haired, mature, CEO of a company --

MR. WRIGHT: Referring to your --

MR. LIEBERTHAL: -- saying I read your textbook in college. (Laughter)
Let's move on, shall we? Kelly, please.

MS. GALLAGHER: I did too, Ken. (Laughter) Well, it's a real pleasure to be here today. I'm so glad I was able to make it in the end and thanks to Ken and to

Cheng Li for inviting me. And it's also a pleasure to be on this panel with the three of you, and in particular my old friend and colleague, Qi Ye. I really have four points I want to make and then I'll -- if I have time in my seven minutes, Ken, I'll answer your question, and otherwise you can come back.

The first which is very consistent with what we've already heard today is that the United States and China are the two most consequential countries on climate change. They are the two largest emitters in the world and together account for more than 40 percent of global greenhouse gas emissions. And I think they're also both very influential in the international negotiations. And as we move forward in the Paris process these two countries have the potential to play a very important leadership role and give us a fighting chance to get a successful agreement in Paris. To your point about energy they are also the largest energy consumers in the world. And so the energy policies and energy technology cooperation that the two countries pursue individually and together can be very consequential. I think it's fair to say they're the two largest investors in clean energy innovation as well.

So my second point is that pragmatically both countries have already begun to address climate change in a serious way through their domestic policies. I won't go into a lot of detail, but just to give you a flavor of this on both sides President Obama announced his Climate Action Plan in June 2013. And since then the administration has announced a whole series of measures that are intended to get the United States on a path to make good on President Obama's commitment in Copenhagen to reduce U.S. emissions in the range of 17 percent below 2005 levels by 2020. And the Climate Action Plan has already released a number of specific policies, the clean power plan that was already referenced, but a number of others including an HFC program, a heavy duty vehicle standard, very pragmatic, concrete, specific policies

that are getting the United States on track to make good on that pledge. And just last month we had another really nice development I think which was that the private sector stepped up and came and joined us in the White House for a roundtable on voluntary actions to reduce HFCs. And so together with their voluntary commitments and the administration's announcement to do a new rule making under that Significant New Alternatives Policy, the SNAP program, we're going to get some significant HFC reductions which also makes good on a commitment the President made to Xi Jinping at their last summit in Sunnylands.

But even though the United States has made a lot of progress domestically I think we have to acknowledge China has as well. And the 12th 5 year plan I think was a really significant shift from previous 5 year plans in terms of energy policy commitments and, of course, China's first carbon intensity target. And that target I think many people probably know was a 40-45 percent reduction in carbon intensity below 2005 levels by 2020. And in September at the UN climate summit Vice Premier Zhang Gaoli announced that China intends to reach the top of that range which I think is also quite significant. So in other words China will reach the 45 percent carbon intensity target by 2020 which puts them in a better position to have a more ambitious target for the post 2020 period. Jake already mentioned that China has very ambitious goals on renewables, solar, and wind; also ambitious goals on nuclear. And it has established 42 carbon development zones in provinces and cities, and it's piloting 7 cap and trade programs at the city level. It's introduced coal caps in some regions. And I think all of these domestic policies create space, make international policy more possible than it has ever been before.

So my third point is that leadership by these two countries has the potential to catalyze many other countries to make their own domestic commitments, to

reduce emissions, but also to engage in the international process leading up to Paris. The United States and China are already working well together. We have a robust program of cooperation through the Climate Change Working Group which was launched by Secretary Kerry in April 2013, and that has an enhanced policy dialogue, but also very specific and pragmatic focus areas including smart grids, forests, heavy duty vehicles. It sounds almost, you know, tedious. It's very, very focused. And the intention of the Climate Change Working Group is to get very pragmatic outcomes. Even though the United States and China are major emitters they cannot solve the problem alone. So I think they have an important role to play in galvanizing other countries to be more ambitious domestically and internationally. In addition to that the two countries' leadership on climate also provides a means for constructive cooperation within the bilateral relationship at a time when there are simultaneously a lot of challenges. And this is something we have to continue to bear in mind.

Fourth, energy cooperation is already a major bright spot in the relationship between the two countries. I believe and have done a lot of academic work myself that as major economies these two countries can work together on energy technology, research, development, and demonstration and over time really drive down the cost of these technologies. And I think we already saw some evidence of that in the solar case for example. And the U.S.-China Clean Energy Research Center has been a really successful model for collaboration between the two countries on energy technology cooperation. It's had a great run in its first five years I think in part because of the unique and important IP model embedded in that Center. And we hope that it will be extended and expanded over time. And we know that both countries think it's a model that can be pursued in other areas beyond energy, but also that we can grow this specific program on energy cooperation. I think one area we haven't done as much as we could is in the

area of demonstration of technologies. The CERC has been mostly focused on the R & D side with some pilot scale demonstrations. But one area that we hope we can expand over time is commercial scale demonstration of technologies in both countries through cooperation programs, and in so doing we can share the cost of demonstration so that over time we can reduce the cost of the technologies themselves.

So, Ken, I just got an end, but I'm happy to come back on your question on the optimistic scenario for Paris.

MR. LIEBERTHAL: We'll give you an opportunity to do that.

MS. GALLAGHER: Okay.

MR. LIEBERTHAL: Each of you has given a very interesting set of comments in a kind of macro perspective. Let me ask, since we have this meeting of our two presidents taking place next week right after the APEC Summit concludes, I think all of us who have talked with government officials who are preparing for this meeting, getting a sense of the agenda and that kind of thing, what I hear from every official is that climate change is going to be a serious part of this. I guess my question -- let me ask for the first three of you because Kelly I know is deeply involved in the specifics of this and it's not fair to ask her to lose her security clearance and her job (laughter) and return to Tufts early in order to answer a question on this panel. But, for the first three of you what would you expect to see come out of this summit in terms of climate change, whether it's going to be rhetoric or targets or commitments or just a broad kind of feel good gloss? What do you think is likely? And let me just ask for a kind of quick bottom line response from Qi Ye, from Jake, and from Dan.

MR. YE: In light of this relief of the European target I really hope to see that both countries will have some clear indications as what would be, you know, a target, you know, will be heading. I do not really expect the target is going to bring you a miracle

but, you know, some type of quantification, you know, will be really helpful. Kelly just mentioned the September 23rd meeting at UN headquarters Vice Premier Zhang Gaoli indicated that China will peak the carbon emission as soon as possible and the United States, you know, with its new power plan and 30 percent cut of emissions from the power sector, I think we're pretty well positioned to moving toward that kind of indication of a target.

MR. LIEBERTHAL: Okay. Jake?

MR. SCHMIDT: I think two things, and to build in Qi's point, you know, both countries, you know, quite clearly can take deeper commitments as we go into this next round of climate negotiations. So having deep targets in 2025. I talked a lot about China; the Chinese for the first time in recent history have had a declining coal consumption target in the first three quarters of this year. I think that that is a sign that a peak of coal and a peak of CO2 is possible and achievable and so that's something that I would expect would at least be a part of the sort of nice conversation that the two leaders will have, you know, on that front. And on the other side I think the United States is actually poised for even deeper cuts continuing what the President has outlined in the Climate Action Plan. So I think what Qi outlined is right. I don't expect that they will -- unless Kelly sort of gives us two winks -- that they will commit to particular targets in that timeframe coming in the heels and a lead up to Paris, I expect that will come kind of early next year as these countries get closer to that early March deadline that a number of countries are supposed to come forward with their commitments.

The second piece, and was sort of briefly alluded to, is there's a huge opportunity for the two leaders to advance the discussions on hydro fluorocarbons under the Montreal Protocol. They've made amazing progress; the opportunities are ripe for Chinese companies to leapfrog. The U.S. actually now has set in motion a set of the

regulations that will begin that domestic phase down for the United States. We are now going into the next critical round of the Montreal Protocol and historically India has been the most difficult in that front, but on a recent state visit with Obama, Modi and Obama agreed to I think important progress on HFCs. So as we go into the next round of Montreal Protocol I think there's a huge opportunity for the U.S. and China to continue to assert that they are going to phase this stuff down domestically and to engage in getting an agreement under Montreal Protocol, you know, next year.

MR. WRIGHT: I would pitch in not to underestimate the importance of leadership in the relationship and that climate change being kind of front and center at this summit really is very important. Set aside the substance of what you're talking about which is also important, but as kind of a non climate person just the importance of these two leaders giving voice to this issue is really important because it opens up space, it encourages the appetite for these working groups we were talking about earlier between our two governments, commercial partners become more enthusiastic about their own work. Because at the end of the day from my perspective, which is more of a bottom up, it becomes very workman like. It's really about one decision, one negotiation, one trip, one exchange at a time. So leadership, really important.

I would like to add that I understand that there are active negotiations going on to resolve the U.S.-China solar dispute. If that under the right terms could be brought across the line next week that would be probably more symbolically important than kind of really moving the needle on these issues. But that could be a great signal that, you know, our top negotiators really know how to solve and come up with mutually acceptable solutions to big problems. So hopefully we'll see that. But that would be something we should all be keeping our eye out for.

MR. LIEBERTHAL: The major issue here if not for public consumption

next week, certainly as we go into next year is the issue of making commitments for particular targets after 2020. I hear on both the U.S. and Chinese sides the big issue is well, what will the other side commit to, how early will it commit to it, and how credible is the commitment. And let me ask Kelly, since I gave you a pass on this first question --

MS. GALLAGHER: Thank you for that.

MR. LIEBERTHAL: -- I'm going to put you on the spot on this one which is given that President Obama has made climate change a central issue, has really moved forward on this issue in practical terms in the United States, given that the Republican party has made an equally central issue that climate change has no human component to it and that any effort to address it is wrong headed simply saps, you know, U.S. jobs and reduces U.S. competitive capability and so forth. And given last night how does the U.S. under President Obama establish credibility for any targets that we stipulate where those targets would have to be supported effectively by President Obama's successor and probably that successor's successor? In other words how big an issue is credibility on this and what would be the argument that we would make to really move the Chinese side forward and the two of together move the world forward?

MS. GALLAGHER: Well, that's a good, tough question. Thank you.

MR. LIEBERTHAL: My pleasure.

MS. GALLAGHER: Let me answer that in two ways. I think the first one is that the United States has earned a lot of credibility in the last couple of years through the creation of the Climate Action Plan and the series of concrete steps that have been. And as a result of those steps we can clearly show that we're, you know, on a path towards achieving this target. And I know that the President is deeply committed to making good on his pledge from Copenhagen. And I think we already concede that that has earned the United State finally some room for -- it gives the Unites States some

leverage for asking other countries to join in making, you know, progressive domestic policies, but also for engaging in the Paris agreement. And I think, you know, the administration intends to stay the course to keep following through on the Climate Action Plan and to see how much we can practically get done while we're still able to do that. And I think the steps that Europe took by announcing very early their targets for 2030 are also very helpful because we have as I mentioned, you know, a pretty robust domestic policy measures in the United States and China, and now we have a very clear plan from Europe about what it intends to do over the next 10-15 years. And so you put all of those together -- and I know we don't have targets yet from the United States and China, but Zhang Gaoli stated very clearly that China intended to release its targets by early next year and the United States does as well. So I think everybody wants to avoid another Copenhagen scenario. And if all three of these major countries, regions, can step forward with ambitious commitments by early next year then I actually think that puts us in a very strong position for encouraging other countries, both industrialized countries and developing countries alike to make their nationally determined contributions and announcement early so that we can start putting together a robust agreement in Paris.

MR. LIEBERTHAL: Thank you. Let me ask, Jake, in your discussions about the future of coal in China how much does the question of clean coal come into the equation? Coal can't be burned without any emissions, even with the best possible technology, but there is an issue of carbon capture and sequestration and carbon capture and use for enhanced oil recovery and that kind of thing. And my sense is there's a lot of debate about whether this really has a future of consequence or really does not. As you've been engaged with the Chinese on the future of coal, you know, when coal will peak, what are the assumptions about emissions from coal since the peaking is very different from not using coal? It's going to be a major factor in the Chinese fuel base for

a long time to come. Do you have any insights into what the thinking is about the cost effectiveness and technical feasibility and technical utility of carbon capture sequestration or other purchase that are being discussed to produce "clean coal"?

MR. SCHMIDT: Well, I don't have any trade secret kind of ideas on this but, you know, I think, you know, it is a part of the conversation in China. China has a number of carbon capture in storage, pilot projects, they have a bilateral relationship with the U.S. on -- in China they like to call it CCUS, its carbon capture utilization and storage. I always forget. There's too m any acronyms out there in the world. So it is a piece of the puzzle. I think, you know, the reality is that, you know, most of the conversations around coal consumption, you know, peak and decline are around restructuring of the economy, you know, to more service oriented industries. They saw this with the recent downturn in coal consumption. GDP still was, you know, increasing at reportedly pretty solid rates. There's, you know, a key piece for the energy efficiency part of the portfolio. China has embarked on a massive set of efforts on that front, but they have, you know, more to do in the sort of leading program that they have called the 10,000 Enterprises Program which focuses on the biggest 10,000 enterprises, as the name is to deal with the energy efficiency there. There, you know amazing robust targets that consistently get changed on clean energy, on renewables, and wind that if they do meet them will make, you know, what has been done anywhere else in the world look like, you know, a pittance in terms of the clean energy deployment because these are, you know, astronomically high rates o f penetration these pieces. So it's sort of a, you know -- and there's, you know, a clear interest in sort of shifting towards more natural gas and so that's why you've seen some interest in, you know, fracking in China and just expansion of natural gas opportunities. So it's a bit of a all these pieces are going to sort of move together, and looking at carbon capture and storage as a piece of the puzzle is clearly something that the Chinese, you

know, deal with and are interested. And at least for us part of the thing that makes us think that in China in particular this is something that needs to be pursued is that, you know, in the next 20 -- if China builds all the coal plants that it's going to build according to IEA between, you know -- that they've already built and that they're going to build between now and 2020 and those run for the sort of normal life that a coal plant typically does, that will eat up about 40 percent of the carbon pollution that we have to stay on a two degrees Celsius world. So, you know, obviously they don't need to keep those plants, you know, running for 40-50 years, but as we get into this next, you know, kind of deep targets that they're going to have to take many of these coal plants will be sort of middle aged plants and the sort of economics of shutting them down might make it more viable to have a carbon capture and storage, you know, facility sort of attached to it to deal with the air pollution and the climate pollution at the same time.

MR. LIEBERTHAL: Thank you. Why don't we open this up to audience questions? I think we'll collect three questions and then turn to the panel to respond. Feel free to direct your question to a particular panelist if you wish. And when you get the microphone please first say who you are, what your affiliation is, and then what your question is. And why don't we start back there. Scott?

MR. WRIGHT: And I've got a question for Qi Ye whenever you think it's right to work it in. Just -- (laughter).

MR. LEIBERTHAL: The third of the three questions in the first round will be asked by Dan of Qi Ye. (Laughter) Okay. So two questions from the audience first though.

MR. WRIGHT: Thank you.

MR. MOORE: Hi, Scott Moore from Council on Foreign Relations. So implementation came up in a couple of your statements and, you know, it certainly kind of

how you measure, verify, or report emissions is challenging for any large economy, but for China obviously there's sort of a particularly uneven track record in that record. So the question that I'd invite any of you to respond to is China's NVR kind of capacity, is it robust enough to inspire confidence in mission's reduction targets in the context of an international negotiation? And if not what needs to be done to make those targets or commitments credible? Thanks.

MR. LIEBERTHAL: Thank you. Yes, here and this lady, fourth row back on the center. Please come forward on the center aisle. Yeah, right up here. Thank you.

MS.: Thank you. This is --

MR. LIEBERTHAL: Oh, wait, I'm sorry. I thought you were carrying the microphone to the person I recognized. (Laughter)

QUESTIONER: Quick question.

MR. LIEBERTHAL: Please give it to her and then I'll come back to you after this, oaky? Sorry for the confusion.

MS. YOUNG: Thank you. My name is Li Young. About all these panelists, first I appreciate your presentation about with this and economic development I'm very much concerned while want to progress in climate change or economic development, can we solve the social problem at the same time? And I always think about United States and capitalism, and clearly we are having a financial crisis, all the homelessness that nobody really want to talk about it. They cannot conceal and suppress. They don't want people to talk about it. So I wonder if Obama go to China can we agree to press for social progress in terms of like well-being for the general public rather than for the few people, wealthy and, you know, one percent versus ninety nine percent. What I'm trying to say is that we -- in terms in our climate change, we have

technology and we have wind power, we have solar power, we can go (inaudible) and a lot of wells. One percent, if they want to invest, they have a lot of money, they don't need subsidies, and they don't tax credit. But let's simplify the tax code and really make an effort to the progress of technology and well being of the general public.

MR. WRIGHT: Thank you. I'll share my question with the other -- friend in the back. You had a question as well, real quick. And mine will be then very short.

MS. JING: Thanks. This is Hi Jing from (inaudible). It's very good to see Dan and Kelly here. I have question for them. I like Dan's code very much as you make a good choice of energy policy then you solve the problem of climate change. I think it's probably also true when it's about the U.S. and China you find you make a good choice of energy cooperation and you solve the problem for climate change cooperation. So my question is what do you think is a smart move for U.S. and China new energy cooperation? Thank you.

MR. WRIGHT: And if I may my question, I often ask Qi Ye great questions in private; he's provided great counsel over the years. But here's more of a public question and it actually fits into this mix of questions. You advise and work closely with local government officials in China and their city strategies and you observe these things and how would you see bureaucratic behavior really at the city and below the city, how do you see bureaucratic behavior changing in China say over the last five years on this mix of issues? Because that's really important too and it's kind of the other side of my question around policy process and coordination.

MR. LIEBERTHAL: Do you want to take that up and then we'll take up the other questions?

MR. YE: Sure. Well, 2010 China made the first round of low carbon pilots including 5 provinces in 8 cities. Two and a half years later at the end of 2012 and

China made another round that Kelly just mentioned. All together right now there are 42 of them, 42 low carbon pilots. These are the cities and provinces that are generally higher, with higher per capita emissions, with higher per unit for GDP emissions. And what we have seen in their planning and their target, they almost universally have a higher target, a greater target in reducing the carbon emission and improving the energy intensity. I have also seen that, you know, over the last five years and particularly that you just mentioned, and they are very much struggling on this issue for going a low carbon economy. On the one hand you do not need to explain why you need to go low carbon, and they pretty much know that very well. What they really need to do is a how question, how we can actually do this low carbon economy. Looking around the world they want you to provide some good practices that worked in other countries and other cities and they are really willing to copy that model. On the other hand, and they are very much struggling with the going low carbon economy and also there's a social issue the lady just mentioned, the Chinese as a country -- the country as a whole and also the cities, they often caught in between higher growth and lower growth. With the higher growth economy you face tremendous pressure, natural resources, and the environment. And with the lower growth you also face a series of social issues. And you just mentioned that cutting the carbon emission from the power sector in the five years between 2006 and 2010 and China cut 73 gigawatts of the power generation capacity, smaller ones. I mean that is so much bigger than, you know, many of the countries, 20 percent higher than the entire generation capacity in the United Kingdom. That also caused some, you know, social problems. So I find them often in that kind of a dilemma that they are facing.

Let me just quickly address Scott's question about the credibility of data.

As a matter of fact, you know, my previous work via, you know, meeting that Climate

Policy Institute, what we do every year is to review that data. But I think more convincing evidence about the credibility is the United Nations environmental program, each year they produce a report on analysis of the gap, basically the performance of the committed parties and also, you know, what is really needed for further action. So they have come up every year with a gap analysis report and as one conclusion is from that unit report and they consider, you know, China among some other parties is well on track and delivering its own pledges, commitment. We also see from some of the testimony in the Congress, so basically you see at the national level and higher level you see the data actually comes at the much greater credibility as if you go to the lower level of a government, you know, go to a smaller city, and even lower you probably have a greater margin of uncertainty.

MR. LIEBERTHAL: Let me build on that to ask another question. You have 42 low carbon pilot project areas, when you want to expand from 42 to cover the over 2500 counties, how do you get the incentives right for that given the enormous array of mandates that local leaders are now being confronted with under the reforms? Has that been something that's been thought through fairly effectively at this point or is this really going to be something that we just have to watch very carefully and learn by experience over time on?

MR. YE: Well, as you can tell Ken is the leading political scientist in the world. I don't really think so. I don't really think the design was very much, you know, thought through all. The 42 pilot programs --

MR. LIEBERTHAL: I was hiding my skepticism in a neutral question.
(Laughter)

MR. YE: Right. But I would not -- you know, as a pilot of that scale, that great number, I would think it would be really, really hard to draw some conclusions that

you can scale up at a national level. I would rather to see a smaller set of cities and provinces and then go for that. But this also reflects the level of enthusiasm as a sub national and the local government. They really want to participate and they have a motivation to participate. There was no or very little financial incentive for participating in these pilots. Same thing can be said about the pilots for the carbon markets, right. Now, you know, China is becoming the largest carbon market in the world. People don't really realize that. In Guangdong Province alone, which is one of the seven pilots, already the trading volume is greater than the entire state of California under the AB 32. Everybody knows that one. So I think that there really were some serious design issues over there, as in how you design the pilot and how you draw out the conclusions, and then scale up for policy making at the higher level.

MR. LIEBERTHAL: Good. You had the comments on?

MR. SCHMIDT: Yeah. I mean I'll take on the transparency MRV, is China actually doing what it says that it's doing because it's obviously a, you know, critical question, you know, on my fronts. You know, I think there's a couple of things. I mean jokingly there's probably the least -- and Qi had mentioned one -- there's probably at least ten different groups that will analyze whether or not China and the U.S. and others are actually meeting the kinds of targets that are out there in a sort of era where that information is pretty readily available. It's, you know, much harder to hide your inaction than it was just 10 years ago when countries, you know, typically would make promises and never sort of follow through. But then I think there's a number of tools that haven't yet emerged, but that are clearly on the cusp that haven't gotten a lot of attention in China that I think provide at least some nuggets of where there might be sort of more tools, you know, on the table, you know, because as we found that what you need is to have, you know, in the U.S. and elsewhere that one of the critical pieces is to have, you

know, information on, you know, whether or not people are doing what they say they are doing and then to the tools on the ground actually help enforce and implement those, you know, in a meaningful way. And on both fronts I think there's some recent reforms driven primarily through the air pollution lens, but that will have I think broad potential implications for China's climate policies. So first is, you know, because of the air pollution there's now readily available air pollution data through the country. You can get a smart phone app and track this stuff on a daily basis, 15,000 largest facilities are now required to report annual air and water emissions onto the internet. Still not quite a perfect systems but it's moving in the direction of having that kind of information, you know, publicly available so that citizens and others can sort of, you know, look at where the bad players are in driving that air pollution and kind of connect the dots to people.

The second is that China reformed its environmental law and put in place a couple of pieces that we found have been very, you know, critical to, you know, enforcement tools on the ground in U.S. It used to be that you could sort of pollute into the water and get a daily fine and you'd be done for the rest of the year, but China reformed its law to allow for the local environmental officials to have daily fines so that the tallies can rack up quite fast and that obviously if you're a company the last thing you want to do is have to pay a daily fine so you hopefully quickly clean up your problem. The second piece of the reform which is, you know, we'll have to see how it plays out is that China allowed 70 Chinese NGOs the right to bring lawsuits through the Chinese courts for companies that are failing to follow through on its law. You know, neither of these have been completely tested, but those are, you know, nice little sort of nuggets of hope.

And then the last piece is because the air pollution is so bad and has become such a dominant theme in China the Chinese have put forward -- or Beijing has

put forward an air pollution reform law and for the first time they've made that publicly available, the draft of it. So think it's creating a bit more of a transparency in terms of the law and the law if properly reformed would have an additional set of tools to help local and central government officials sort of ensure that the air pollution targets are not just blown past.

So there's a lot of nuggets. I think we'll have to see in the next couple of years how those sort of play out, but as my team in Beijing tends to point out as I ask them why this is different is I think the reality is that a growing middle class in China has sort of been told that they should become a middle class citizen and now they're looking at the middle class lifestyle but going I can't breathe the air, can't drink the water, can't eat the food, is that a good deal. And air pollution, water pollution, you know, food pollution, those are sort of unavoidable whether or not you're in the one percent or the ninety nine percent. You know you step out of your apartment in Beijing and the air is bad if you're a really wealthy person, and the air is really bad if you're a poor person. So I think that has shifted the debate quite a bit and hopefully will lead to some of the sort of implementation at the local and provincial levels which we know has always been sort of one of the challenges in China. And it's a challenge in every country.

MR. LIEBERTHAL: Great. Thank you. One, two, three here. So start here.

MR. MASSY: Thank you. Kevin Massy with Statoil. Great presentation; thanks very much for the insight. My question is to Qi Ye and Jake, but I'd be interested in other views. The international climate negotiation discourse has been dominated in the last few rounds, certainly starting in Kyoto and through Copenhagen, by a kind of classification system, developing countries versus developed countries and this taxonomy of Annex 1 versus Non-Annex 1. Large part of what we've been hearing in the

lead up to Paris is that this is less useful in respect to China's kind of position. What is the thinking in China when it comes to this distinction? Is there a view that the country is moving out of that category and how do you think that will affect the negotiations in Paris? And one follow-up if I may, on the negotiations how does the Chinese view the Obama administration's Clean Power Plan? I mean do they see it as sufficiently ambitious enough for them to bring something extra to the table beyond what they're already committing to?

MR. LIEBERTHAL: Thank you.

MR. Xue: My name is Xue Jinjun from Japan Nayoga University. And old friend of Professor Qi Ye. We also copy each other about the climate change policy and energy policy on a consultant to the Chinese comment. And he is the editor-in-chief of China low carbon annual work -- something like that. I am editor-in-chief of annual report of China's low carbon economy. So similar name but we have not (inaudible) and research.

I have two questions. First question --

MR. LIEBERTHAL: I want to ask for one question, only because we've only got six minutes left to wrap up the session. So if you could get to your question and then we'll have one more and then we'll have very brief answers.

MR. JINJUN: Yeah. Yes, yes. My first question about the sort of ETS in Asian trading (inaudible) in China because I'm consultant to (inaudible) carbon exchange. I am one of designer of the concept but since that China will promote this kind of local carbon market to the nationwide in the next three years, and this is very powerful because now China shares about 60 percent of carbon market now. So I'm wondering whether United States willing to cooperate with China about this issue. This first (inaudible). The question goes to Kelly about that.

Second question about --

MR. LIEBERTHAL: Thank you. No, I'm sorry; we have to move on to the last question --

MR. JINJUN: Okay.

MR. LIEBERTHAL: -- because we really only have five minutes now left to wrap up the panel before you all get to lunch and I don't want to stand between you and lunch.

Yes?

QUESTIONER: (Inaudible) from George Washington University. So I hope the panelists can talk more about solar disputes. So Europe and U.S. they applied anti dumping duties on Chinese solar panels and they're claiming that Chinese government is subsidizing these companies, but China has denied the charges. And this anti dumping duty has driven up the renewable energy price which has not only affect the Chinese solar panel development, but also the renewable energy industry in the U.S. So I want to ask how optimistic are you about resolving this problem? Thank you.

MR. LIEBERTHAL: Okay. Thank you very much. Given that we only have a few minutes left let me just go down the line in reverse order from what we did with our original presentations and ask you to respond what you want to respond to in terms of the questions and wrap up comments.

MS. GALLAGHER: If you don't mind I'm going to draw on a couple of the older questions.

MR. LIEBERTHAL: Please.

MS. GALLAGHER: So to Scott's question I just wanted to say that one of the very pragmatic steps in the Climate Change Working Group is to have a project on greenhouse gas data management. And I think that is a great example of the very

pragmatic, let's learn from each other, let's solve problems together, and I think that's a promising approach.

I also wanted to come back to the clean energy cooperation question because one of the points I had wanted to make originally is that I think another promising way to move forward and to deepen and strengthen the energy technology cooperation is to do a much better job of bringing in the private sector. We have already had quite a lot of private sector participation in the CERC which was not really anticipated. It was hoped for but not really anticipated. And there's been a significant matching of funds on both sides. But I think as we look forward we should be looking at public-private partnerships on energy technology cooperation. I think that's good for firms in both countries, but it also helps to, you know, share the costs and reduce the public burden. And that's a really promising approach we should be pursuing.

MR. WRIGHT: Let me just sort of comment on the solar dispute which you raised. I'm not on the inside so I really don't know how to handicap the chances that something will get done, but my sense is that there are kind of good forces, good kind of drivers that there's a clock ticking in terms of how this case is set up, that fines will go into place here later in the year if nothing happens, so that of course the higher level focus around climate I think also creates a positive context to resolve something. But ultimately it's down to the negotiators and my sense is this is the kind of thing you don't sleep for a couple of nights while you're in Beijing to try to get something done. So I'm hopeful and it would be just both substantively important but also symbolically very meaningful to say our two countries can get something done. And then it opens back up kind of the green revolution as we say which is going forward.

MR. SCHWARTZ: Just very quick because I know you're tight, you know, on the division between developed and developing countries I think the reality is

that you're unlikely to get an agreement that such a division has evolved, but the reality has already shifted in terms of what countries, you know, come forward. So while at the same time I think that there will be differentiation between what countries do, the kinds of targets that china is putting on the table, I mean we're talking about a growth target and a peak and in the U.S. we're talking about a decline below kind of historic levels. So just the nature of the targets that countries have put on the table will be, you know, very different. And I think that that's true because China is different than the U.S. and the U.S. is different than China, and China is different than India.

You know, I think on the emissions trading system, you know, we'll have to see kind of how this evolves, but there's I think clearly a growing awareness in the policy level within China that the sort of command and control system that they've -- you know, worked very well in the past to drive some of these shut downs of these plants, there's a limit to that as they kind of go to the second and third generation of environmental controls. And so things like emissions trading, things like, you know, stronger fines and kind of more market based, you know, mechanisms are clearly something that the government is interested in. So we'll have to kind of see how those evolve, but they have committed to some big efforts on those fronts.

MR. LIEBERTHAL: Thank you. Qi?

MR. YE: Real quick in the reverse order, the solar panel trade dispute, I think it's a very interesting case, a very important case indeed to, you know, for this dilemma, how you balance accommodating this trade, isolationism, right, and addressing the climate change. What is interesting through from that case of development is, you know, with the U.S. and European barriers put it over there and China was able to develop a much larger domestic market for that which turned out to be not so bad actually. You know, in the past 95 percent of the solar panels were going exported. Now

the big share of them going inside China which is really good thing I think.

The ETS question I think is really good. The problem is so far we have not really seen a very convincing model that's really working in EU ETS, right. I just came back from Europe; you know, people have very, very different views on that. So I'm not very certain about the future, the prospect of the Chinese ETS.

Then for question on including division developing country or developed country, under the Durban Platform and looking toward Paris, I mean this becoming less of an issue and although I would assume from the Chinese perspective also to stress the continuation of this common but different responsibility, this system nominally still there but less and less we see the real content of that principle in there.

And the Chinese view on the new power plant, I can't speak for the Chinese government for that, but it is very, very interesting proposal and have different views here in the United States. I think one way to compare is how you compare that to the European program because that probably, you know, put it on more of a comparability level of that. If, you know, I -- like under 30 percent you compare cost of that, that basically makes you go back to close to the 1990 level for the power sector. So but I want to emphasize though I think that the Chinese Climate Change Policy is primarily driven by the domestic factor rather than economic factors, political, and social factors, rather than by the international pressure. As President Xi Jinping made it very clear in his meeting with John Kerry on February 14, and he said, you know, once we do this that's because others want others to do, but because we really need to do this.

Finally, one second, I want to echo what Dan said earlier which is I see what is lacking. I think this UNFCCC process is primarily driven at the technical level rather -- I think what is really important is to build a political consensus at a higher level and also the -- I see the importance of the leadership, you know, national leadership,

international leadership. That's really, really important. That's why I would feel very excited for instance like the September 23 UN meeting, and this meeting APEC. APEC meeting, the leaders represent 60 percent of all emissions. And the UN summit only 40 percent emissions were represented by the presence of the leaders. So every time we have chances like this it's a really great opportunity we should seize.

MR. LIEBERTHAL: Well, thank you very much. This has been a very rich discussion, packing a lot into a short period of time. I'm sorry to have been the -- had to be the time enforcer, but we are providing lunch buffet style. So go out and get what you wish. You can feel free to bring it back in and eat here. It's right in the hallway out here; either of these two doors.

I want to stress that the next session begins at 1:15 p.m. We have our second keynote address; Caroline Atkinson who is now the Deputy National Security Advisor for International Economics at the White House. So please go out, get your food, eat expeditiously and neatly if you're going to be back in here. And please join me in thanking our panel. (Applause)

(Recess)

MR. LI: Good afternoon. I'm Cheng Li, Director of the John L. Thornton China Center at Brookings. I want to thank, again, thank you all for joining us for this very special day-long conference in advance of President Obama's trip to Asia. This morning we heard from one of the architects of the Obama Administration's rebalance to Asia and this afternoon, we now have the top, one of the -- really the opportunity to hear one of the top practitioners tasked with sustaining it, Caroline Atkinson.

I was just in Beijing last week where I was excited to see in the official media many pictures of you meeting with Chinese leaders like Vice Premier Wang Yang and some other very senior Chinese officials. She clearly made a great impression

because I later observed the Chinese Government busily planting flowers and cleaning the streets and cutting pollutions in preparation for her visit this coming week.

Now, all joking aside, Caroline served as the Deputy Assistant to President and the Deputy National Security Advisor for International Economics. Since joining the Obama Administration in 2011, Caroline has played a central role in the Administration's response to the European financial crisis and led U.S. Government work with the G8 and G20. In her current role, she serves as the President's personal representative to major international economic summits.

She also coordinates the policymaking process in the realm of global finance, trade and investment, development, energy and the environment, all of which will be featured topics at APEC. I particularly want to thank Caroline for her extensive work in China over the past few years and advancing U.S. economic interest in China. It's really a tough job but she did remarkably well.

Now, I understand that Caroline will have quite a busy month first with APEC, followed by G20 summit in Australia. So we are especially honored that she could join us in the midst of her busy schedule to deliver this very timely and important speech. And please join me in welcoming Caroline Atkinson.

MS. ATKINSON: Thank you very much, Cheng, for that introduction and I'm looking forward to seeing the flowers and breathing the air next week when I'm going to be with somebody else who may well think that they're all for him. It's a great pleasure to be here at Brookings and to see many former colleagues and friends here. Strobe, of course, is an important feature here. Bill, Ken, others and Cheng have built this center, the John Thornton China Center, into a global leader for strategic thinking on U.S.-China relations.

And we, in the Administration, are indeed grateful for your thoughtful and

innovative ideas and indeed for putting on such an important conference today. I know you've dealt with a number of topics already today including with one of my colleagues discussing energy and climate on a panel. As you know, the President is going -- this trip that's coming up next week is his second one to Asia this year. He starts in China for the APEC leaders meeting and then, for an important bilateral State visit with President Xi. He, then, will go on to Burma for the East Asia Summit and the U.S.-ASEAN Leaders Meeting and then finally, to Brisbane, Australia for the G20 Leaders Summit.

I'm going to focus today mostly on China on the President's economic objectives for his meeting with President Xi, or a number of meetings with the Chinese leadership. But before turning to that, I just want to note that some of the important economic themes that he will discuss there, but also in other stops, will sound throughout the trip. And themes that, in many cases, build on initiatives where there has been important U.S. leadership.

Now, the President heads to Asia at a time of increasing strength and, I think, confidence in the U.S. economy. But at the same time, there are renewed concerns about the impact on the strength and durability of the global economic recovery from less good developments elsewhere.

While the United States grew at a robust rate in the third quarter, there are signs of slowing momentum in some parts of the emerging world and, most importantly, even a renewed risk of stagnation in the Euro area and in Japan. And one of the President's core messages throughout this trip will be the clear need for action to strengthen global demand and prevent an economic slowdown and really reinforce the economic recovery to provide jobs and better living standards. And this is particularly important for countries that possess ample fiscal space and the surplus economies.

And I am glad to say that the importance of strengthening global growth

to provide high quality jobs, a theme that the United States has fought over a number of years to put at the center of agenda, is now there in the G20 discussions. Another key issue there will be finalizing agreement and moving to implement the financial regulatory reforms that G20 countries have agreed on now to protect taxpayers and limit risks of a future financial crisis.

This is another area where the United States acted early, acted decisively and where I think our experience has shown that that is indeed the best way to lead to a revival in the ability of the financial sector to do what it's supposed to do which is to provide credit to support investment and to support growth in the economy. At APEC opening markets and deepening economic ties within this dynamic Asia-Pacific region is at the core of the agenda and has been for a number of years.

As you know, we will continue to insist that this be done on the basis of strong rules and high standards to create a level playing field for American companies and workers and those of other countries that reflect our values and our standards on labor, environment and other key issues in today's economy. Infrastructure investment is of course a major concern here in American but it's also one in many countries of Asia.

There are other important issues that the President expects to speak about and to discuss whilst in Asia in all of these stops including importantly global challenges. One of the most urgent and immediate that he has been dealing with and calling many leaders around the world on is the Ebola outbreak. Another key issue, of course, in a very different time scale is climate change.

This is something that is increasingly at the forefront of the international agenda. And then, there will be other issues such as boosting the potential of economies to grow by supporting the role of women in the workforce.

Now, talking of global challenges that major economies need to work on

together brings me to China. And we are increasingly seeking to find ways to work together, as the two largest countries and two largest economies in the world, to address global issues whose resolution is in our common interests. At the same time, we're working to deepen on our bilateral economic ties of trade and investment provided again that this is done, this must be done in a way that safeguards the interests of American workers and firms and farmers and in a fair and transparent and rules-based system.

And I should add that we do believe that this fair, transparent and rules-based system is one that is, in fact, in the interests of everybody because it promotes -- it's the surest way to promote strong growth, high quality jobs and better living standards. It's not a zero sum game. It's a positive sum game.

We would like to see policies that lead to a further substantial expansion of American exports into China on the bilateral agenda as part of their economic rebalancing and as part of their opening up. And a China that is more open, more transparent and more welcoming to foreign investors is also something that we believe to be importantly in the interest of the United States and in the interests of China.

Now, we, of course, have a very rich and deep bilateral economic relationship with China at all levels of the government and throughout many agencies. I don't need to tell you about the strategic and economic dialogue lead by Secretaries Kerry and Lu, the JCCT with Secretary Pritzker and Ambassador Froman, all of the -- and then, many other streams of work that go to make up these discussions.

From the White House in preparation for this trip and to make progress on many of the issues that we want to work together with China on, Ambassador Susan Rice, the national security advisor, was in Beijing I guess it's about two months ago now at the beginning of September. And as Cheng mentioned, I am just back from there where I was discussing their President's economic agenda.

And as Cheng alluded, I was both -- both Ambassador Rice in her contacts and me in mine and others in the Administration have been very impressed by the clear desire of the Chinese officials to work closely with us, to make sure that we build on the historic Sunnylands meeting between Presidents Obama and Xi to deepen further the U.S. and China bilateral relationship both as it regards common global challenges and as it regards bilateral issues.

We know that for China this is a very important meeting as well and we have been very gratified by the warm welcome that we received there. We know also that Chinese officials are managing a complex set of issues and challenges domestically as they make progress on the Third Plenum reforms that, as you know, promised a decisive role for the market at the same time as President Xi advances his important agenda on anti-corruption.

I want to just take a couple of minutes to lay out how President Obama views the U.S.-China economic relationship and to describe our strategy. First and most importantly, President Obama starts from the premise that a stable and prosperous China is in the interests of the United States. We have no doubts about that. China can provide a big market for American exports and it can be a source of strength and stability in the global economy as we say after the global financial crisis.

But the President also recognizes that there are challenges from China's rapid ascent. Some of those challenges are being felt increasingly in China itself and even lead to some change in how the leadership perceives its own interests and the interests of China. For example, air pollution and environmental concerns have meant that climate change is now an important area for potential collaboration.

Other issues present more acute challenges for American workers and farmers and companies and can cause bilateral frictions that we work to address. As I

said, in this more or less constant exchange of discussions and visits between officials. And on a global level, I believe that the world is looking increasingly to China to abide by the international rules of the road that have after all supported its stunning and impressive growth over the last 35 years in the context of an increasingly integrated and open global economy.

The President is looking forward to a strategic and open discussion with President Xi of how best these two can work together and our two countries can work together to grasp the opportunities and to address the challenges in the interests of the people of both countries. I'll just point to some of the data that we believe is important context.

The steady entry of hundreds of millions of Chinese into the global labor market has substantially expanded the world's potential output and yielded benefits for U.S. consumers in the form of additional goods and lower inflation. As I mentioned, China's market is increasingly important for U.S. exporters and U.S. goods exports to China expanded by over 70 percent in the last five years making China our fastest growing export market.

The President would like to see that figure rise rapidly over coming years as China moves towards a more consumption-based growth model and continues to be an important source of demand for U.S. goods and perhaps increasingly services. China is also investing in the United States at unprecedented rates and this supports American jobs here. The stock of Chinese investment, Chinese direct investment in the United States, has risen by some six-fold in the last five years.

And during the -- this -- I'm just going to dwell for a little bit on Chinese investment in the United States because this is something that we've looked at very carefully. It's quite difficult, actually, to find the best data to measure this. But we see

increasingly that Chinese companies are moving in as other foreign companies do here and then establishing factories and plants and other elements here that, of course, provide work for Americans.

During the global financial crisis, just looking at the world more generally, China joined with the United States and other G20 countries. This was really when the G20 leaders group got started; to mobilize a worldwide response to the collapse in the world economy. And China introduced a big package of measures that maintained the growth of domestic demand and reduced their current account surplus and helped deficit countries to adjust.

In large part, due to our efforts to bring China into international economic institutions such as the G20 and I'll just as an aside mention that I was in the United States Treasury with Secretaries Rubin and Summers in the last Clinton Administration at the time when the precursor to the G20, the G22, got started. And that was when there was the crisis in Asia, not in China, but in other parts of Asia that really led us to understand that it was important to have a broader set of countries around the table. We needed to discuss these economic matters with the big economies that themselves mattered and this lead directly to the G20 which, of course, was so important in stabilizing the global economy after the global financial crisis.

Now, turning the United States economy, our performance and our ability to deliver the kind of high quality jobs and better living that we want to do for the American people is really overwhelming the result of the policies and institutions here at home. But we know that, and recent academic work has shown, that the rapid growth of China's manufacturing exports has led, of course, to increased competition and required adjustment in its trading partners including the United States.

That is, in part, just due to the sheer size of China and the speed of its

entry into the global economy. And that's part that we will need to adjust to. But it's also the result of certain Chinese policies and practices that we hope will change and we press for change in over time.

China poses some challenges to the existing rules of global trade and finance and challenges that were not envisaged when those rules were first designed. Just to name a few, China's exchange rate continues by most measures to be undervalued. Since President Obama took office China and we have made significant progress in moving towards a more market-determined exchange rate but more is still needed.

We believe that that is in the interests of China as well as in the interests of the rest of the global economy. We know that China has aspirations to become an innovative economy. That also would be in the interests of China and the rest of the world. I don't believe you can have too much innovation but China's approach in the near term, which has been mostly to identify domestic champions, focus on transferring foreign intellectual property, sometimes illicitly acquired; runs counter to the kind of environment that you need that will really foster innovation.

We have, I have a new colleague in the White House who's the Chief Technology Officer who comes from Silicon Valley, is full of ideas and energy and she is always talking about the important of openness to foster innovation. And that is something that we believe is really important if you want that kind of innovation to flourish.

This cyber-enabled theft of trade secrets and confidential business information for commercial gain is an especially serious concern. This has been one that your speaker this morning, Tom Donilon, brought to people's attention and it does adversely affect the fundamentals of the United States-China relationship.

In key sectors, China continues to promote its state-owned enterprises and other national champions at the expense not only of foreign firms but also at the expense of less well-connected Chinese private business. As a result, United States and other private businesses are forced to compete on unfair terms not only in China but in third markets. And while China recognizes that it will need to reform this system over time, we will continue to press for a change to level the playing field right now.

And this applies, by the way, to another area where there is -- where we're working with China to promote its entry into global -- the global system of rules and that's on the financing of exports. We used to be in a competition with all sorts of countries to finance exports more cheaply and then, the kind of rules-based system developed out of the OECD as everybody agreed to some basic rules that saved everybody money and promoted decisions that were based more on what was appropriate than on what kind of financing could be obtained. And that is a system that it's important for China to come into.

Agricultural trade is another area of enormous potential for mutually beneficial cooperation. But where Chinese actions so far have been tending to distort global markets and if not change could even ultimately pose a threat to global food security. China has not approved biotechnical products in a timely manner based on sound science. Has not allowed these sorts of seeds to be imported and this has led to long delays in the planting of new seed varieties.

More importantly, this kind of behavior stifles innovation and this is innovation in a sector that will be critical to feeding a growing planet. Resolving this issue will help American farmers but it will have far wider significance in addressing global food security which is an area, of course, where China has an enormous interest.

And finally, China's industrial development has made it of course the

world's largest emitter of carbon. We used to have that dubious honor and contributes to the country's pollution and of course to the global climate problem.

Finally, with China's population aging rapidly and its labor force beginning to fall and Chinese wages now rising, U.S. competition with China will shift increasingly to higher value-added products and it is critical that we also work in these technology areas to make sure that we have an appropriate level playing field which allows for strong and vigorous competition and for consumers to get the most benefit.

I want to discuss briefly the Third Plenum reforms which President Xi introduced last year which I mentioned earlier. These were, of course, ambitious and far-reaching and very positive. Now, it's perhaps unsurprising that, and many of you here would know this better than I, that the Chinese government faces important resistance to these reforms from vested interests in the party and the government and especially from state-owned enterprises.

But if they are implemented, if this resistance is steadily and firmly overcome, these Third Plenum reforms we believe could address a number of the challenges and frictions in our economic relationship to the benefit of both countries. Reducing the role of the state in the economy, for example, could improve the operating environment for foreign companies as well as domestic private companies.

I mentioned innovation in biotech and innovation more generally. As China seeks to become an innovator, it will be important and increasingly obviously in its own interest to strengthen intellectual property rights protection. And this strengthening even if maybe initially designed to promote innovation in China will have important spillover effects and benefits for foreign companies.

Reform of Chinese state-owned enterprises will also help to promote a level playing field that will allow for a better bilateral relationship and make China a

stronger force for global growth. Financial and currency reform which is also on the agenda would also promote the rebalancing of China's economy towards consumption helping to make China's future growth sustainable and holding the potential for a big increase in our exports to them.

Now even as it reforms, it's possible that China could do that in a way that discriminates against foreign firms and favors domestic firms even if not state-owned. But such a strategy of discrimination against foreign firms, we do not believe serves China's own economic interests in the long term. And, in fact, there are already some signs that the flow of -- inflow of foreign direct investment into China may be slowing as foreign companies face a more difficult operating environment particularly this year.

We have followed with growing concern the way that China is enforcing its anti-monopoly law. Now, every country has a legitimate right to protect its consumers from business conduct that harms competition. China has committed to the principle that the objective of competition policy is to promote consumer welfare and economic efficiency and not individual competitors or industries. And it is also committed that the enforcement of competition law should be fair, objective, transparent and non-discriminatory. And the Obama Administration will be holding China, is holding Chins to these commitments.

Let me turn now to a bit more on our strategy towards our economic ties with China. We believe that these deep economic ties can be and should be a stabilizing influence on our overall relationship. And I believe President Xi said that himself. We each have an enormous stake in each other's economic success but that does mean addressing critical issues ranging from currency to intellectual property rights to opening market access on a transparent basis to China becoming a full participant in the

economic and trade rules-based system.

So right from the beginning, the Obama Administration has had, if you like, a four-part strategy in its relationship with approach towards China on the economic field. First, we engage with China bilaterally and multilaterally the encourage economic reforms that we believe will promote a shift domestically to sustainable economic growth which is, in turn, a critical factor to promoting strong and sustainable and balanced growth in the global economy.

That includes reorienting China's economy away from a development model that relies too heavily on exports and on credit-fueled investment in real estate and infrastructure to one that increases consumer spending and contributes to global demand. Central to this goal, as I mentioned earlier, is China moving increasingly towards a market-determined exchange rate. I don't think any of us really knows what is a right exchange rate and that's one reason why we encourage countries and have agreed with many countries to focus domestic policies on domestic goals and then let the exchange rate be determined by the market.

We have also sought to address sources of friction in our economic relationship with China by pressing China to address discriminatory policies and practices that may harm U.S. companies and workers and that undermine the returns to innovation. And we have engaged China at the highest levels in our annual SNED and JCCT and we've made significant progress in areas of concern.

Where engagement has not succeeded, we've pursued a robust enforcement strategy to defend American workers and companies and enforce U.S. laws. And we have, of course, brought a series of important cases to the World Trade Organization, the WTO.

I wanted to mention a bit about the bilateral investment treaty, the BIT,

which has been a topic of a lot of discussion. Now, we are committed to negotiating an ambitious, high-standard bilateral investment treaty with China with just narrow, limited and transparent exceptions. And when I was in Beijing I emphasized just how narrow, narrow can be in terms of the United States BITs with other countries.

China has shown a strong interest in these negotiations, in part, I believe understanding that a strong BIT with the United States could help to support and drive fundamental economic reforms and could help to transform the way that China treats foreign investment. That it needs to sustain its future growth and productivity growth.

A key breakthrough was achieved last year with China's agreement to focus on a negative list and pre-establishment. As you know, the Chinese government intends to propose its negative list early next year. This will be an important signal of this seriousness about opening up the economy and following through on reform measures. And it's difficult. I don't want to underestimate how difficult it may be domestically in China to winnow down all of the demands that there will naturally be from today's closed sectors. But at the same time, we, in the United States, need to have political support for a BIT with China and that will only come if it is really a high quality and ambitious BIT.

Third, we're seeking to continue to work with China internationally and to give it a greater voice in the current economic architectural rules, norms, institutions that have governed the global economy since the end of World War II and which, as I mentioned earlier, have benefitted China's economy as China industrialized and lifted millions and millions of Chinese citizens out of poverty. We elevated the G20 to be the premier for international corporations to provide a seat for China at the table of international policy considerations.

At the same time, with that seat at the table comes responsibilities. To anchor -- now, we understand well that to anchor China in global economic governments

and to make sure that this is a fair exchange for China, we, in the United States, need to follow through on our commitment to modernize the governance of the IMF. The President considers the approval of the IMF quota on governance reform to be an immediate and vital national security and economic policy priority.

The rest of the world has acted and United States action is the last remaining hurdle to the implementation of these reforms. And we well understand that that is important in order to demonstrate to emerging economies that they can have an appropriate voice and role in the international system that we help to design to uphold the rules and values that we have.

Fourth, we've worked in multilateral and plurilateral settings as you will all be aware to establish in the trade sphere new 21st century standards that will include strong disciplines in areas such as intellectual property rights and state-owned enterprises. The Trans-Pacific Partnership, or TPP, will set open and fair standards for trade in the world's most dynamic, economic region that covers 40 percent of global trade now.

It can be the core of a far broader effort to define the rules of the road and integrate the economies across the Asia-Pacific. And it grew out of the APEC. We believe that TPP's high standards will set the model for 21st century trade and will help to drive reforms in those -- the 12 countries that will be members that are now negotiating and others alike.

Now, we know that China has a strong economic interest in freer world trade. In recent years, it seems to run into some trouble in dealing with protectionist interests at home and that make it difficult for it to reduce tariffs or for government officials to agree to reduce tariffs and open up to foreign competition even in areas where China's domestic industry is strong on the global stage; a case in point, the current

negotiations over the information technology agreement, or ITA.

This pact would eliminate tariffs on everything from MRI machines to semi-conductors. Now, as the world's dominant producer of many IT goods, China would be among the top beneficiaries of ITA expansion. But we're still waiting and some of my colleagues on airplanes right now flying to Beijing to further discussions; we're still waiting for China to come with a balanced package that will make the deal work. And a balanced package that shows that in the interests of overall economy, Chinese officials are able to withstand the pressures from some vested interests.

So let me just conclude, the President's upcoming trip is obviously an important critical time to advance this agenda, to advance the agenda that I laid out at the beginning about ultimately driving for stronger growth and better jobs in the United States and around the world. And a stronger, more stable global system that also addresses challenges that are more real today because of the global economy, whether there are challenges such as infectious diseases that can move across the globe more quickly or challenges that are -- that no one country can tackle alone such as climate change.

The President intends to have a strategic conversation with President Xi about how China and the United States, the two largest economies in the world, can help to set the course for the development of a free and open and rules-based competitive economy. And he will, of course, raise a number of concerns in the specific areas that I've mentioned from IPR to biotech to the AML.

But above all, his goal in Beijing and the discussions, the bilateral discussions there on the economic side, is to deepen and discuss together how best to deepen our trade and investment ties with China over the coming years so as to expand opportunities for American companies, create high quality American jobs and we believe support the strong growth of the Chinese economy. Thank you.

MR. LI: Thank you very much, Caroline, for sharing the really very uplifting agenda for President's trip to China. And you lay out very clearly that the job market access, maybe infrastructure development can benefit the American economy and world consumers certainly labor.

You also have it right that when you mentioned the Third Plenum it's really implemented because heavily emphasized on service sector and especially like education, public health, entertainment, logistics and the green consumption. These U.S. companies certainly have, you know, leverage. You also lay out some concerns. You know, I don't want to repeat. So it's really, you know, you cover so many things.

But my question is that as you said that the U.S.-China economic relation should be positive some gain, it should be win-win. So in your view, what kind of headline from Chinese leaders' perspective you want to see after the President's summit? Because you talked to Chinese leaders Liu He and Wang Yang and many other major policymakers and so, in your observation what do they want to get as the top headline news after the visit?

MS. ATKINSON: Well, I don't want to be presumptuous about what Chinese leaders want to get. I can tell you what I think American leaders want which I also believe will be in the interests of both countries and that is that we have found agreement on some positive areas for collaboration, that we have aired our differences openly and candidly and thought about how we can address those and that, we are collaborating importantly for a strong and stable and growing and cleaner economy or global economy or world.

MR. LI: Well --

MS. ATKINSON: Maybe that's too grand but --

MR. LI: That's fine. Let me move to another question that you probably

noticed. Foreign Minister Wang Yi about a week ago lay out the major agenda for APEC, basically three areas. Started with the economic integration, second is economic growth, innovation and reform; third is what the Chinese call the connectivity and the infrastructure development. Now, in light of all these kinds of objectives, China certainly wants to accelerate the plan to establish so-called Asia infrastructure investment bank which U.S., as I understand, think it's undermine the current, you know, this kind of ADB or World Bank.

But the situation is that China seems to determine to move that direction. So in your view, how to deal with this phenomenon that as we know that ADP and that World Bank heavily emphasis of poverty relief but the Chinese approach sounds like they want to emphasize infrastructure development and maybe resonating very well in the -- for the region. So what's your position and how this will be part of a negotiation and how to deal with this China may want to establish its own and in additional to breaks banks and et cetera, this kind of phenomenon.

Will this be a part of a negotiation or should ask that China should stop that practice or continue to reform the current institution? So what's the strategy in that regard?

MS. ATKINSON: Well, first of all, China has developed an MOU and announced the Asia Infrastructure Investment Bank so I think that's sort of not something that will be discussed all over again in APEC. What I will say about the United States is that we have a great interest, as I mentioned, in infrastructure investment in the United States but also how to develop the financing for this and the best way to do it internationally. It's actually an issue that has come up in the G20 over a number of years and we're hopeful that this year we will be able to make some real progress there on an infrastructure initiative that Australia has been pressing for as well.

And one of the interesting things is that people will always say there are big infrastructure needs but there is a big amount of capital somehow. The two don't get together and part of that is about improving the investment environment where there are infrastructure needs so that private sector investment goes there. Part of it is just can be simple things like having good project preparation. Having standardized legal documents, sharing experience about public/private financing arrangements and developing financing tools that can link together these pools of capital with the opportunities that -- and share out the risks in a way that make it possible to bring to the two together.

We're very interested in all of that work and we're also, you may be aware that the World Bank has started the global infrastructure facility which is aiming to look at some of this work. We, of course, have a big investment in the existing multilateral institutions, whether it's the World Bank, the Asian Development Bank and we believe that there is scope for more creative use of their balance sheets, to expand their ability to finance investment, to work on some of these issues of the investment environment to attract private capital and we do believe that these institutions have, you know, representative global governance structure. They've built up expertise and safeguards over a number of years and we intend to work vigorously, including with China, in those institutions.

MR. LI: Okay, that's great. Now, I just want to have more audience questions for Ms. Atkinson.

MR. HUA: Cheng-weng Hua, China Daily. Yeah, I mean you give just a very long list of demands for the Chinese and so, it seems to me it takes probably if not decades many years. And Chinese would ask, I mean, how Obama could accomplish anything of that scale of profound on the society, I mean, given -- waking up this morning

to see the U.S. more looking like Chinese red flag.

I mean, so my question is, you know, continue what Li Cheng, just Cheng Li just said. Chinese at least are quite disappointed to see U.S. seems to already have a verdict for this APEC, brick bank and Asia Infrastructure Bank, you know, before it's actually taking form. So like very pessimistic, so why is that?

And also, the Chinese Deputy Finance Minister Zhu Guangyao lately said, I mean, the TPP is not -- is incomplete with Chinese participation. So would U.S. or Obama during next week say something more positive about say Chinese potential participation of TPP or say the free trade agreement of Asia-Pacific Chinese been proposing? U.S. obviously is kind of (inaudible) and also, U.S. is pressing pressure on Australia, South Korea for the infrastructure bank not participating in the other bank. Thank you.

MS. ATKINSON: Okay, well thank you very much. That was obviously a very long list from you as well. And first of all, I'd like to say that I don't really see the things that I ran through as being a list of demands. We're not in a relationship of demands. We're in a relationship as Cheng said where we are seeking to find how we can work together in the interests of both parties.

Many of the reforms that I was describing are ones that China and President Xi laid out in the Third Plenum last year. So these are things that China has identified as being in its own interests and which we welcome because we think that, as I said, right at the beginning our starting point is that a strong and stable and prosperous China is in our interest. It's clearly in China's interests but we also believe it's in the United States interests and the interests of the world.

Maybe going to a couple of your specific points, we believe that, as I mentioned, there is an important need for increased infrastructure, sorry. I turned away

from my mic. For increased infrastructure investment, other, you know, infrastructure investment is a complicated matter because you need to make sure that the projects are well-designed and well-executed and so on. And as well that they're financed. This is something that we want to work globally to support in many different ways.

On TPP, right now we're focusing on finalizing agreement or reaching agreement. Finalizing is perhaps a little bit too ambitious but moving towards agreement with the existing 12 partners, 11 other countries in the United States. I believe that my colleagues will -- Ambassador Susan Rice said earlier this year and my colleague Mike Froman has said that over time we envisage the TPP and other, the TTIP for example which we're negotiating with Europe, with the EU, to be the sort of open-ended agreements that can welcome other countries as they meet the high standards that will be part of those agreements.

And perhaps finally, I can just say something about the free trade area of the Asia-Pacific, FTAP. Now, this of course is something that began at -- it's possible even that United States proposed it back in 2006 and it is a long-term strategic vision as I mentioned that the entire region should be able to reduce tariffs, not just on particular ranges of goods or for particular countries but more broadly. Because this we believe helps to support development across the region and that is certainly a longer term goal that we'll get towards.

And in APEC this year I believe there have been some important developments towards reducing the costs of trade which has been a very important development of APEC over the years. APEC began the environmental goods tariff reductions which China is also now a part of those negotiations. So I think there are many ways in which we're working together with China and I would frame it much more that way than the way that you did.

MR. LI: Well, midterm election aside, the President does have good news which is the U.S. economy.

MS. ATKINSON: Yeah.

MR. LI: Do you want to say something about that?

MS. ATKINSON: Well, certainly as you know the U.S. economy and this is actually something that I notice having gone over a number of years to G20 meetings and certainly a few years ago, you know, we might have had a sequester or budget shutdown or fiscal cliff, all of these problems that I would try to reassure my colleagues would be addressed. And now really there is a lot of -- there aren't really complaints about the way the U.S. economy is working in the global system.

I think people understand that the measures that we have in place domestically which have been supporting this return to growth and a steady sustainable private sector growth so that our economy, our economic output is now significantly above the previous peak, whereas in Europe it's still below, that this is actually in the interests of the global economy. We have unemployment now down below six percent. We, as I mentioned, have a strong third quarter. There are other, you know, we would like the economy to be growing even more strongly.

We would like there to be more jobs and we would like there to be stronger wage growth. Last night there was a lot of support for minimum wages in States. That is something that we helped push in the Administration. So certainly, as you say, we're coming from a position of strength.

Then lastly, I would just mention on the -- on our economy, again, we will not say it's done but we certainly made progress in strengthening our financial system in a way that other countries have not yet managed to do and that can provide a good underpinning for private sector growth.

MR. LI: Great. How much time do we have? Three minutes. We'll take two more questions if it's okay.

MS. ATKINSON: I'll keep my answers shorter.

MR. LI: Okay, in the back, yeah.

MR. YU: Thank you very much. My name is Dong-hu Yu with China Review News Agency. My question is regarding the midterm election. Do you think President Obama still have the mandate or incentive to have a free trade and investment agenda with China or he will be more tougher in economic policy towards China? Like bargain with China for the currency issue or labor right or something like that? Thank you very much.

MR. LI: We take one more and the gentleman, yes. Yes, him, yeah.

MR. SCHEWEL: Hi, thank you. My name is Matt Schewel. I'm from Inside U.S. Trade. So I just wanted to follow-up, Ms. Atkinson, on your comments on the ITA, information technology agreement. In your discussions with Chinese officials when you were over there, do you have any indication or through your other colleagues who are heading over there now, that you know China is willing to be flexible? I mean, the U.S. and you seem to be calling it it's up to China to make a flexible offer.

And so, do you have any indication that that could happen while the President is over in China and do you expect President Obama to address that issue directly with the Chinese leader Xi? Thank you.

MS. ATKINSON: Perhaps I could say and it goes a little bit to what one of the other questioners were asking, we believe that we have been quite flexible and creative as we've been working to craft what is complex agreement because this is a plurilateral trade agreement. I'm talking about the ITA. It's not just a bilateral agreement with China. So but it is now, China is such an important player in this market that the

nature of China's offer will be extremely important for bringing this to conclusion. And you know, it's not over yet is all I would say about timing.

On the other question, look, I spoke to the President this morning and he is very determined to continue to do what he was elected to do which is to promote, and he's going to be speaking soon, I think, to promote a strong American economy for the middle class and to work on an international agenda that is supportive of that.

So again, I want to go back to, you know, we need to be firm about where we have bilateral frictions in the economic sphere with other countries but it is a positive sum game and United States policy sort of demonstrates that. We are open economy and this is something that we believe has helped to foster our growth and development and resilience to prices. Thank you.

MR. LI: Well, just speaking for myself, you know, I observe your team, really wonderful team and they have a solid understanding of Chinese political economy and really push very hard to advance the U.S. interest but at the same time have a very solid understanding of China's interest and the Chinese domestic politics and Xi Jinping and his team's concern. Actually their team is also not bad. I hope that --

MS. ATKINSON: They're very good.

MR. LI: I think with these two teams with two Presidents really want to leave some legacy, I hope their trip; the President's trip will be a very, very successful one.

MS. ATKINSON: Thank you.

MR. LI: And thank you very much for spending time with us.

MS. ATKINSON: Thank you, thank you.

MR. OSNOS: Welcome, everybody. Good afternoon. I'm Evan Osnos. I'm a non-resident fellow here at the China Center, and it is my great pleasure to

welcome you to this panel discussion of the domestic politics and issues influencing the Obama CG and (inaudible) relationship, and for obvious reasons, this is an extraordinarily appropriate moment to be having a conversation about domestic politics.

It occurred to me that perhaps President Obama might not mind the idea of a few days, a few thousand miles away from Washington, DC this week, given the results in the newspaper this morning. But in thinking about it, I think we also want to remember a comment from Wang T. Shen, member of the standing committee of the (inaudible) bureau, as related by John Huntsman, U.S. Ambassador to Beijing, who said - - in this forum, a year ago, he said Wang Tu Shen told him, don't forget (inaudible), we in China also have our politics too. And I do think it's important to remember that. Indeed, they do. And we have a terrific group today. Couldn't ask for a more knowledgeable group to help us decipher and anticipate some of the things that will be important to be thinking about.

Very briefly, I'll just introduce them. I think you have information in your programs. David Shambaugh at the end is a senior nonresident fellow at the China Center, and of course also a professor at the George Washington University, where he runs the China policy program. Susan Lawrence is a specialist in Asian Affairs at the Congressional Research Service. She lived in China for more than a decade, interviews Jung Zemen, for which I am very jealous. And now also, specializes not only in Chinese politics, but also what's happening here, and she'll be able to tell us more about that today. And then, of course, to my left is Cheng Li, who really needs no introduction at this point. I am very grateful to him for having us here today, and for convening this discussion, and if it's okay Cheng, we'll start with you. You have the floor.

MR. LI: Well, first I want to add to what he said. It's a really wonderful panel. David has been my academic brother, and really has inspired my research on

Chinese politics. And Susan has not only helped me in my research on (inaudible) in China, but also has been a candid critic of some of my naïve views, (inaudible). I really appreciate that. And Evan has just joined our China Center as a Nonresident Fellow, who really brings new ideas, fresh perspectives of the upcoming generation of China (inaudible). It's so nice to have you. Now, I want to focus on (inaudible) in my seven minutes. I believe that the international media coverage of the APEC and the Xi-Obama Summit will give a greater deal of attention to President Xi, partly because he is the host, partly because of why Obama has only two years in office. But Xi just finished his first two years in office and is supposed to have another eight years, but mainly because there's a great deal -- a greater need to better understand Xi Jinping. His leadership style, the strengths and constraints of his power, and his policy agenda and his world views.

Now, unfortunately, there has been many misperceptions and a poorly grounded, narrowly minded assumptions of Xi. Not only the outside world, but within China, in my observation. I'd like to address three prevailing assumptions about Xi.

Number one, many people in china and Abroad believe that Xi JinPing's power has already surpassed We Zhao Ping, and he will even become a (inaudible) like figure. Second, Xi JinPing has already determined his politically conservative agenda, and some Chinese and foreign analyst argue that the (inaudible), and Xi JinPing's (inaudible), there is no such word as compromise. And (inaudible), Xi JingPing has already altered Deng Xiaoping's foreign policy, particularly, in terms of friendly and corporate relationships with the United States. He has become very firm that sometimes very critical, and may really challenge U.S. leadership, et cetera.

Now, despite some truism in each end of these three assumptions, I think they are largely misleading and make the Us policy towards China ineffective. Let

me very quickly (inaudible) each of them one by one, very quickly.

First, Xi Jinping's power has already surpassed Zhen Zhao Ping and may also, whether he liked it or not. Maybe he's really interested in becoming a (inaudible) like figure. Now yes, he has launched a very strong anti-corruption campaign, which really boosted public confidence and support for him, contributing to his strong image -- a strong and decisive leader. Yes, he not only holds (inaudible), positions in the party, government, military. It's quite remarkable.

This is only considered that it seems like he has monopolized all of the power. Yes, he has undermined the power of the (inaudible), and not to let him speak on some occasions. Traditionally, (inaudible) should (inaudible) and (inaudible) draft committee for some of the (inaudible), et cetera.

But all of these kind of observations can be just temporary, in my view, largely due to the fact that he has majority support in the standing committee, which is six versus one -- only (inaudible) belonged to Fu Jing Tao's camp. So that gave him tremendous power. (Inaudible) argue that because he has very strong (inaudible), and all the times that people were really tired of the pervious leadership, Hu Jingtao, Wen Jiabao, were considered too weak. They want to have strong leadership for the time being. Now, this is important (inaudible) that in his final year, Deng Xiaoping did not have any leadership position, except the title as honorary chairman of the Chinese Bridge Association -- Poker, association, but no one at that time doubted who was boss.

So this is, as someone said, to have this kind of position is not a sign of strength, but could be a sign of weakness -- the sense of insecurity, you could even argue that. Now, it is one thing for the Chinese public to want to have a strong leader, but it is quite another thing to conclude that China is ready for another Mao. It's quite a different thing.

Now, in my reservation, Xi Jinping has confronted many daunting challenges -- social, political, economic, demographic, foreign policy. These challenges themselves are overwhelming, but at the same time, he deals with leadership. Okay, I see that I have two minutes. It's not so easy to change that nature of the collective leadership. Now, I will go back to the Q and A.

Secondly, Xi Jinping, the argument or perception that Xi Jinping already determined his political conservative agenda, and he will not compromise either domestic or foreign policies. Now, yes, Xi Jinping has adopted what I call political conservative and economically liberal approach in his policy agenda. Yes, he has controlled media and sometimes I think that he's kind of a modest approach alienate a lot of intellectuals, and his marketed reform agenda alienated conservative intellectuals, and also, his proactive and assertive foreign policy may make some Chinese neighboring countries very nervous. These are all truths.

But again, his politically conservative approach could be considered as a kind of sense of sequence. At the moment, he needs to uplift the popularity through his (inaudible) reform, strong anti-corruption agenda -- the way he gets capital, he could start some other political reform. You could argue that, whether it's true or not, we do not know.

And also, Xi Jinping does show some flexibility and compromise in many cases, and from time (inaudible), I'm going to quickly mention some of them. For example, in a recent party meeting, he called for judiciary reform. Even judiciary independence. Those were things he previously rejected. And also, that (inaudible) student's protest in Hong Kong, that he actually allows the dialogue, and allowed the students to stay in the (inaudible), not like someone suggested that they should close before the (inaudible) or before the APEC meeting. So at least this is compromise,

although maybe too small.

And also, in the CICA summit last May, in the Ya Xing meeting, that he said the United States -- that Asia should be Asia's -- you know, Asia, United -- really undermines U.S. leadership. But now he no longer uses that rhetoric. He basically gave up. And also, we know that in July, that China announced that number 981, the (inaudible) actually removed, withdrew earlier than it was supposed to. These are all signs of compromise.

Now, finally, Xi Jinping has already changed Zhen ZhaoPing's foreign policy, or particularly (inaudible) for foreign, the friendly or corporate relationships with the United States. Now, I just want to give you some specific examples that he may change certain aspects of Deng Xiaoping's foreign policy, but because of rapid change of environment. But it's highly inappropriate, at least far too immature, premature to talk about that he is kind of anti-U.S., as some Chinese observers believe.

I'll give you some examples. First of all, in my observation, he has, most of his foreign friends are Americans. He is famous for his love of American popular culture, all of the movies and sports stars, and some of the novels. His wife was heavily involved with the Bill Gates Foundation, AIDS control and tobacco control, AIDS prevention, and the fact that he sent his daughter to study at Harvard for four years. These are all the sentiment, or the testament showing that he has a friendly approach to the United States.

And so again, I don't want to do into too much detail. A (inaudible) example is that more than any of the previous Chinese leaders, he is very forthcoming and critical of North Korea. Certainly it's also a big challenge for the United States -- the North Korea proliferation. Now, in conclusion, my main point is that there is nothing certain about, or pre-determined, in terms of Xi Jinping domestic and foreign policies. In

the next few years, Xi Jinping is to decide what kind of leader he wants to become, and what kind of -- what legacy he wants to pursue. And what direction that China is heading.

Now, so for the United States, it would be wise to work with him rather than just think that he's a person we cannot work with. This would really undermine American interest. I think that the upcoming summit is a really great opportunity for President Obama to capitalize at Xi Jinping desire to be a transformative leader. So I think that we just want to make sure that the transformative leader also better served the interest of U.S. China relations, and the U.S. can provide some help and support, if he's moving into the right direction. Thank you.

MR. OSNOS: Thank you. Terrific. Cheng, thank you very much. I think you've forced us already to challenge some of our assumptions about Xi Jinping and I'm sure we'll return to those later. Susan, over to you.

MS. LAWRENCE: Thanks very much to Cheng and to the Thorton Center for the invitation to speak here and to Evan for the introduction. I should note that my comments today are my own and don't necessarily represent those of the Congressional Research Service or the Library of Congress.

That said, the midterm election yesterday changed the makeup of congress with potential issues in U.S. China relations. I work for the U.S. Congress, so I thought I would use the minutes allotted to me to highlight the role of the U.S. Congress and foreign policy, and specifically in china policy. The Constitution divided foreign policy powers between the president and the Congress, so they share in the making of foreign policy. The constitution doesn't say which branch should have the final word -- and issue that's now before the Supreme Court.

The president is usually seen as in the driver's seat for much of foreign policy, but when Congress chooses to do so, it can have a very significant role in shaping

foreign policy. With a hat tipped to my former CRS colleague, Dick Rivet, there are six broad ways that congress makes foreign policy. They include one, legislation to set objectives and guidelines, two, resolutions and policy statements. It was common sense of the Congress Statements or House or Senate, or Concurrent resolutions, which are not legally binding. Legislative restrictions placing prohibition from presidential freedom of action or on foreign policy, sometimes through funding denials. Oversight through hearing or investigation reports. Legislative pressure and formal advice.

All those come to play in China policy and play into the dynamic like the Obama-Xi meeting next week. Just thought I'd give you some examples, starting with legislation to set objectives and guidelines and direct the administration to undertake specific activities. Perhaps with influential, such legislation in the U.S., China relationship is the Taiwan Relations Act, enacted in 1979. It include a provision that the United States will make available to Taiwan such defense article and defense services in such quantities may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

Basically, the Taiwan relationship acts ensures that arms sales to Taiwan remain a major issue in U.S. China relationships. Another example of that kind of legislation, directive demonstration (inaudible) activities is something in the current congress. We have a law that has directed the secretary of state to develop a strategy to obtain observer status for Taiwan at the International Civil Aviation Organization Assembly -- ICAOB. China saw that law as a gross violation of the one China policy, and the principle that (inaudible) China U.S. joint communicates.

Other -- some big broad legislation that directs the U.S. China relationship -- the U.S. Hong Kong Policy Act of 1992. It declares among other provisions that democratization is a fundamental principle of U.S. foreign policy, and that

this naturally applies to U.S. policy towards Hong Kong. Also, the Tibetan Policy Act of 2002. Among other things, it requires the president and the secretary of State to encourage dialogue between the Chinese Government and the Dalai Lama, or his representatives, leading to a negotiating agreement on Tibet. It also requires the president and the Secretary of State, when they meet with Chinese Government Representatives, as president Obama will do next week, to request the release of political and religious prisoners in Tibet, and seek access for international humanitarian organizations to prisoners in Tibet.

These kind of legislative directives obviously play a role in preparations for any high level meeting between the United States and China, including, we can assume, next week's meeting between the two presidents. Resolution from policy statements. There are lots of these. Just a few examples from 113th Congress, from the current Congress. We had Senate Resolution 412, second (inaudible) U.S. policy supporting allies and partners in the Asian pacific region, opposing claims that have pinged on the right freedoms and lawful use of the sea. (Inaudible) disputes for that intimidation force. Supporting development of mutual institutions to build cooperation and reinforce the role of national law, and assuring continuity of operations by the U.S. and Asia-Pacific region. Obviously, implications for U.S. Policy on the South China Sea and the East China Sea.

Separately, Senate resolution 361 condemned actions taken by China to suppress freedom of the press, and it urges the president to use U.S. influence to support the free flow of information to the people of China, including through the internet and other electronic media. Resolutions are always critical of China. Senate resolution 115, (inaudible) by Senator Warren, commended the heroism, courage and sacrifice of victims of the Boston Marathon Bombing, including the Chinese student Lu Ling Xa, and they've

included language saying that Lu Ling Xa is a reminder of our common humanity, and it's senseless acts of terrorism such as the bombings that occurred at the Boston Marathon are crimes that have no borders.

Another category -- legislative restrictions. Appropriations acts of 2013 and 2014, (inaudible) NASA, the National Aeronautics and Space Administration and the White House Office of Science and Technology Policy from using appropriated funds to collaborate in any way with China or with any Chinese owned corporation company, except in certain circumstances. The National Defense Authorization Act of 2014 stated that (inaudible) Missile defense systems should not be integrated into the missile defense systems of any of the U.S. or NATO, of reference to Turkey, which was considering buying Chinese Systems.

Other -- another category is oversight hearings, investigations, reports. Often, Congress will request administration officials to testify before Congress and clarify administration policy, sometimes on subjects on which the administration, left to itself, might prefer not to speak out publicly. We had two hearing this year on Taiwan, noting the 35th Anniversary of the passage of the Taiwan relations act. One hearing was house, one in the Senate, during which administration officials were pressed on such issues as arms sales to Taiwan and support for Taiwan's membership in international organizations, Taiwan's role in the rebalance and so on.

We've had many other hearings on aspects of the rebalance. Foreign purchases of U.S. food companies, human rights in China, the posture of the U.S. (inaudible) Command, and many other issues. And finally, of course, there are some subjects in which -- ways in which Congress influences foreign policy and what it doesn't do. So, for example, it hasn't passed the IMF quota in government's reforms, but we've increased IMF quota share of developing countries, including China. It had not so far re-

authorized a trade promotion authority for the president. I'll stop there.

MR. OSNOS: Susan, thank you. I have to say I take back my statement earlier that the president was leaving Congress by going to China. I think Congress will be with him every step of the way. That's quite clear. David, over to you. Thank you Susan, very much.

MR. SHAMBAUGH: Thanks Evan, and Cheng for inviting me to be a part of today's really fabulous program. In my allotted seven minutes, and I know it's seven minutes because my student JingJing is sitting in the front row with a sign that says countdown. JingJing, you may want to remember the grade I gave you on your midterm. If I can buy a couple of extra minutes because of that. Anyway, for my seven minutes, I'd like to sort of describe China's domestic internal scene as I see it, and then end with a few observations on what that might mean for the U.S. China relationship. Some of what I think, Cheng has already said, and we share many view about China in common, so I might reinforce some of what you already said, and might disagree slightly with a couple of things.

So, let me -- if I can kind of encapsulate the way I see China's domestic scene today, I would do so in the Chinese metaphor, Wai Ying Mai Run. Hard on the outside, soft on the inside. That's a metaphor that I think it quite apt, because if you look at China today, internally, for some of the reasons Cheng has just given, there are a number of indicators that show strength of the system on the surface, but I would argue not under the surface. I see pervasive weaknesses throughout the system under the surface, so that's sort of my takeaway argument. But let's start with the strengths in Xi Jinping.

Again, I share some of what Cheng said -- he is certainly a strong leader, and he's tried to consolidate his control over various Shi Ton -- various bureaucratic

systems -- indeed, the whole system. He is not a weak apparatchik, such as his predecessor Hu Jintao was. He's not a coalition builder as Jung Se Min was -- bureaucratic coalition builder. He's not a withdrawn fickle and tyrannical leader like Mao was. He's much more like Gung, but without Gung's authority.

Gung of course built up his authority over several decades. Xi has not had that benefit yet. He was trying, I would argue, to assert his authority without really building it. And he doesn't inherit it, really either. But he's certainly trying to assert it, and trying to assert it, first of all, over the military, which is critical to any Chinese leader's position, and longevity. He's done so in several ways.

First, by giving -- by touring all military regions and a number of bases within his first year in office. Only Jung Somin has done that previously. Hu Jintao -- that was a big mistake Hi Jun Tao made. He never paid attention to the military, and it cost him. But Jiang Zemin had did so immediately, right out of the gate. And he gave some very tough speeches during those first six months, and if you examine and read those speeches, there is one phrase that is used repeatedly. Quote, prepare to fight and win wars, unquote.

I have a student who did research on these Perfect28Perfect2dozen speeches and found something like 15 references to that phrase. Obviously, the purge of Soo Sai Ho, for corruption cases, for his corruption case over bribery -- that's a major signal to try and assert his control over the PLA. He's also asked for loyalty pledges from the officer core and the PLA and then last week, astonishingly, they had this meeting in Fujin, in which the entire central military commission, all the senior brass and the PLA convened on this revolutionary site, and again, sort of pledged their support for Xi. So again, I would say Xi's assertion of authority over the PLA is pretty successful so far, from what I can tell.

Over the state council and government apparatus, I would say the whole third (inaudible) reform was a big effort to do that. Cheng has referred to the fact that Li Ku Chong was not even on the drafting committee; he certainly didn't share the drafting committee, which he should have done in an (inaudible) way. So, Sud Sai Ho tried to assert control over the government apparatus there subsequently, and over the party, finally, through the Mass Line campaign that began last summer, and certainly the anti-corruptions campaign that's been going on for a year and a half.

I would say in all these areas, except in the PLA -- I don't see any real indications that PLA (inaudible) seen signs of pushback against, well, against the third (inaudible) reforms. Doesn't mean it's necessarily against Xi, and it's a rather predictable pushback. China may not be a democracy, which it certainly isn't, but it certainly has, as John Huntsman said, interest group politics, and certainly has bureaucratic politics. And it has entrenched interests, and it has a lot of so-called iron rice bowls that don't want to be broken. And it has a lot of corruptions.

So, a lot of the third plenum reforms, I think it's pretty widely viewed. I'm not an economist, but they've bogged down -- they've never really gotten out of the starting gate. A few, yes, but most, no. And there's -- I would say there's somewhat of an arbitrary nature in this anti-corruption campaign. On one hand, it is an anti-corruption campaign, but I would first of all argue it's a campaign against the manifestations of corruption -- the so called four bad work styles; hedonism, bureaucratic, formalism and extravagance, right?

It's not against the sources of corruption, which are quite different and more difficult for them to tackle, but the point I really want to make is this anti-corruption campaign is partially anti-corruption, but it's also partial purge. This is a political purge that's taking place. And it's a purge of who? It's a purge of Jiang Zemin's

network. This is highly risky, in my view. If I was advising on how to build your power base in the party, you don't go after the patron godfather while the godfather is still alive. Jiang Zemin is still alive, and this network is pervasive throughout the PLA. Shun Sai Ho is central to Jiang Zemin's (inaudible) network, and it's pervasive elsewhere. So it may well cause some -- it's causing pushback, I think, and it could -- we're going to have to see how it unfolds, but it could be dangerous for Xi.

He's also broken the collective decision making norm that they've worked for the last 25 years, (inaudible) to cultivate. He's a very singular decision maker. He's taking lots of decisions, apparently, on his own. Now even with consultation of the rest of the (inaudible) bureau. I don't have any real empirical evidence for it. But he's a strong leader, and he's a strong leader with a vision. This is a man that has a good sense of self and where he wants to go, and I just remind us all, two years ago on the eve of the 18th party Congress, all of us analysts were saying China needs a strong leader with vision, right? Because Hu Jin Tao had not been -- had either. So we've now got a strong leader with vision.

And that's probably a good thing, but I would just indulge Jingjing for one more minute, if I can. He's sitting on, I would argue, a quite volatile, very frustrated, and unstable society. The economy is beginning to stagnate; China's caught in the idle income trap. It's not making much progress on the whole macro-economic transition that they outlined in the third plenum before. It's overcapacity, over production, growing debt levels. I'm not an economist, and you've already talked about that, but -- so that's one course of instability. Economic. Ethnic instability. Highly volatile. XinJiang, Tibet, and one can argue maybe Hong Kong is volatile. Got to know if it's unstable.

So the reaction of Xi Jinping and the party to this volatility and instability has been -- it's been what? Repressum. We've had, I would say -- China is

now -- it's the most repressive since it has been since the aftermath of the June 4th event in 1989, in the early 1980s. It's gone from bad, under Hu Jin Tao, to worse under Xi Jinping. Media -- social media, descent intellectuals, civil society, all cracked down upon very hard, and being squeezed. So this represents, to me, insecurity of the regime, not security. This is an overreaction, and this is what I mean by soft on the inside. The party has a real sense of their -- the volatility of their society, and the problems in their own party, so I would argue that these repressive, harsh measures are not the act of a confident, comfortable government. Just the opposite.

So what does this combustible cocktail mean for the United States? I'm going to end on that point. I think we need to be cognizant of China's weaknesses, China's insecurities and China's volatility. We are not dealing here with a stable country or a secure regime, in my view. It's quite to the contrary. So just because Xi Jinping and Wan Xi Song and these others look kind of strong on the outside, they're not, or the system is not, on the inside. And if you look at the system systemically, and compare it to other authoritarian and other previous (inaudible) systems that fell from power, you see a number of similarities.

I'm not predicting that the Chinese Communist Party is about to fall from power tomorrow, but there are a number of systemic similarities to the former Soviet Union, Eastern Europe, and other authoritarian states in East Asia. So just bear all that in mind. We're not dealing here with a strong state. We're dealing here with a very weak state, I would submit.

MR. OSNOS: David, I can't let you go far after saying that. We have a lot to, I think pursue, and that was a fascinating view of how it looks to you. I wonder if I can follow up with you. So you've described a state that is going into a summit meeting with the United States, in a position of some anxiety on the Chinese side. How does that

affect their decision making when it comes to the United States? Can I push you a little further on the U.S. China relationship? If they have this many things on their agenda at home -- if the things that are keeping Xi Jinping up at night are domestic concerns, what does that do to his relationship with this country?

MR. SHAMBAUGH: Well, I think they're walking on two legs with the United States. As (inaudible) Mao used to say at the time of the great leap forward, one leg is the leg that Deng Xiaoping set them on. They don't need problems with the United States, because they have so many problems domestically and regionally, that if they find themselves in a confrontational relationship with the United States, it's only going to exacerbate all of these other frictions. So they really, you know, it's -- in some ways that's the Tang Wang Yung way -- approach. (Inaudible) the U.S. China relationship.

But the other leg, I would argue, is building, or try to build pillars or points of support in other parts of the world. And those points are with Moscow, with the bricks, in South Korea, in Central Asia, and then there are some hardy perennials, like Pakistan, and with Brazil. So, China sort of has an alternative set of diplomatic approaches that had nothing to do with the United States, but in the way, they do, because they are trying to build China's global power base, if you will. I don't know if that's the right word, alternatively to the U.S.

They don't like the American order, and I guess the last thing I'd say of them is they see a weak United States, right? That's probably the same way that I just described China. If you had this session in the China Center of Brookings about the United States, before the election or after the election, they'd probably say the same thing. Weak country, you know, all kind of internal problems, can't control its foreign policy. Budget deficits, you know, polarized politics, et cetera, et cetera. So in some ways, we're kind of mirror image of each other.

MR. OSNOS: Cheng, you've described Xi Jinping as a more, perhaps a more flexible figure than the unexamined image of him would be. Drawing on what David said, how does this look to you? Do you think he is in a position to make substantive progress with Barrack Obama in the relationship?

MR. LI: At the moment, he is very popular. He got support from general public, got support from middle class, got support from military, in general, maybe some of the senior military officers, they have some different views. But that's a tremendous resource for him. And certainly, the leadership actually at the moment, almost gives him a blank check, at the moment.

MR. OSNOS: How do you think he's going to cash that check? What are his priorities, do you think?

MR. LI: There's a risk -- I agree with David, that you have this (inaudible) positions. Since it went wrong, you cannot blame others. You cannot blame (inaudible), he was not involved. And so, that's a tremendous pressure on him, but I think that it also tells us that it's a great opportunity. Can you imagine if he announces that the summit failed or the APEC failed? No, (inaudible) successful. So, successful, you need to throw some negotiations. My point is, in contrast to some of the people who think he's stubborn, he's determined, he's preoccupied with anything. I do see the other side -- the flexibility to seize the moment, and he was good at that. So I think there's a good chance that they will -- we will, you know, reach some of the agreement, et cetera.

But my worry is exactly what he said earlier on -- the public opinion, quite nationalistic. Partially related with some of the leaders, you know, leave everything to the United States. Now, they continue to pay a cost for that. So that's a very, very tricky part. That constrain -- he could not be seen a leader to compromise China's interest, although at the moment, he is not seen that way, despite the fact that he, for many

evidence that he quite pro-U.S., otherwise he would not send (inaudible) to United States, he would not have so many American friends, like your former Boss, Hank Posen, et cetera. I could give you a long list, but I don't want to.

MR. OSNOS: So, more personalized politics also makes him personally accountable. Susan, let's look to you.

MS. LAWRENCE: I just wanted to jump in on the factor -- the domestic factors in China that might be affecting the Obama Xi summit. I mean, it seems like the instability in Xinjiang has clearly led to much greater Chinese interest in Counter-terrorism cooperation, and that's now very much part of the U.S. China agenda in a way that it wasn't, you know, even a year ago. I think that China thinks it's got -- it's very worried about pandemic disease, sort of causing all sorts of problem in China and having been through the SARS experience -- I lived through the SARS experience. It was really quite (inaudible) experience. I don't think China wants any kind of repeat on that. So they are really very keen to sort of cooperate and do what they can on Ebola, and you've seen Chinese teams going out to Africa to set up treatment centers and China is going to send the PLA, and it's a great opportunity for U.S. China cooperation, but it's also very much in China's interest.

And finally, there are many examples, but I would say actually that the BIT, the Bilateral Investment Treaty is something that Xi could use to deal with a lot of this internal pushback that he's getting on some of the reforms, if he's able to say look, we're working on this BIT with the United States. China has a history of using these international agreements or negotiations to try to (inaudible) domestic forces into line. Maybe he could do that with this. Maybe that's part of the Chinese change in attitude towards the BIT that we saw starting in July.

And just, picking up on Cheng's point about Xi, I mean, I think there is a

debate about how do we see Xi. Is he compromising in those examples, you know, is he being flexible, or are we just seeing real confusion in Chinese foreign policy. And there are some people that would say that actually, its confusion. That we're seeing policy statements, which don't add up, or that sometimes, in the same speech, one idea is put out and then it's contradicted later on, or these big initiatives get thrown out and then nothing happens.

So, is that because we don't have a national security leading small group up and running and doing what it was meant to do? Is that the problem, or is it more that he's compromising and being flexible? Just kind of throwing that idea out there.

MR. LI: (Inaudible) Same.

MS. LAWRENCE: Same?

MR. LI: Well, the inconsistency is also flexibility, in a way.

MS. LAWRENCE: Or confusion.

MR. LI: Well, because still earlier, he cannot continue forever, but in the early periods in the second year, he's facing serious challenges. He needs to position himself, so, in a way, it's not, you know, you can see the reasons for that.

MR. OSNOS: And on this panel, inconsistency is a virtue. We are rewarded. We are going to go, in just a moment, to questions. In fact, if we're ready, I think, let's go ahead and do it right now. Please wait for a microphone, and if you can, make sure that you ask a question rather than make a comment, and we'll start right there.

MR. WASETEC: Mike Wasetec, PBS Online News Hour. You've talked about the flexibility, particularly up to now regarding Hong Kong. There's increasing speculation there that as soon as the international attention and the cameras move out of Beijing at the end of this meeting, that there's going to be a crackdown on these

demonstrations. What is your estimation on how long they are going to allow this ting to continue before they just decide to clear it out?

MR. LI: That's a good question. It is a possibility. I was in Hong Kong last week, and I talked to an entrepreneur, a very prominent entrepreneur, Chinese entrepreneur that lives in Hong Kong. I said it's not over yet. He said what do you mean, not over. He says I haven't stopped yet. The whole thing's (inaudible), you know. Civil liberty and democracy, justice is just starting to emerge in Hong Kong, and to some extent, the (inaudible) in China. So it's a long term challenge. So, he needs to, at a certain point, he needs to seize the opportunity to make some initiative.

When under pressure, he will not compromise, you can say. He will only compromise a small way. This happened early on, that also there is a lot of criticism of CH Tong, early on. Then, at the moment, he supported him, but later on, Beijing tried to take advantage to take some initiative and change the leadership. I was (inaudible) that Xi Jinping certainly doesn't want see Hong Kong fail. And because this (inaudible) with Taiwan, in two years, and is related with many other issues. So he cannot afford to be seen as a failure, but at the same time also, the national sentiment will make him a little bit cautious. So what I'm saying is that yes, he still has some room for compromise. He wants to seize his moment, his opportunity to change. But (inaudible) whether he would (inaudible), he should -- I don't think at the moment, he's made up his mind yet. You will see the reaction and short term and midterm, and (inaudible) calculation to see the public opinion. Now, ironically, that Xi Jinping is popular, as I mentioned earlier on, among the Chinese public, and when middle class -- may not necessarily be popular with the elite and officials. But in Hong Kong's case, it's just the opposite. He is popular among the Hong Kong elites, but alienated among middle class people. So that's also quite a challenge for him, or embarrassment for him if he cannot handle (inaudible).

MR. OSNOS: Why do you think he's not as popular with the elites in the Mainland?

MR. LI: Well, first you have to (inaudible) for anti-corruption campaign, second, as Susan said, you confuse them. One day you say A, second day you say B. So these officials are so confused. So what are they to do? So that's alienation as well? Now, as David said about the vision, and I hope the Xi Jinping has a vision. I'm still very, very hopefully, but that vision was not clear to many officials in China.

MR. SHAMBAUGH: I think the vision has been put forward in kind of three ways. In fact, I was going to bring today the copy of Xi Jinping's selective works, which has just been published a couple of weeks ago. I'm a proud owner of a copy, which -- the cover of which looks like Kim Il Sung's collective works than Xi Jinping. Nonetheless, the vision is on some ways, in that book. I mean, he's given a lot of speeches on a lot of different topics. They are in there. It's also in the so-called China Dream rhetoric discourse that has emerged since he came into office, and it was in the third plenum reforms. That's part of -- that's a big part of the vision. And it was in the speech he gave on day two on the job at the National Museum on Tianmen Square, where he led the standing committee and the polit bureau over to look at this road to rejuvenation exhibition -- the Fu Shing Jer Lu Jan Lan in the National museum. That was a very important speech and set of comments he gave there. Very tough, actually. So he put all these together, you know, there's a two year track record of speeches and announcements that I think do comprise a vision, in fact.

MR. OSNOS: Does that vision give us any sense of how you think he will respond to Hong Kong?

MR. SHAMBAUGH: I'm surprised, and maybe the question -- I don't really want to speculate about Hong Kong, but the way you posed the question is

interesting. Once the cameras clear out of Beijing, we'll see the fist in Hong Kong, if that's how I understood it. Sort of similar to the Gorbichoff visit in 89, and then came the fist. I don't know.

I think his assumptions -- it's hard to read this leader's mind, but I think the Chinese communist parties. Predilections towards Hong Kong would be to clear it out, you know, immediately. And in fact, it's festered as long as it has caused great anxiety and angst inside the polit bureau, and that they're -- but they're caught, because if they do just clear it out, then they've got world public opinion to deal with and cameras, and not to mention the one country, two system framework.

They're already -- the one thing you can say about Hong Kong is they've already lost Taiwan as a result. There is no incentive on the island now, if there ever really was, to buy into this one country, two system. And he was willing to do that because he had no choice, in effect. I mean, there was no option for Xi Jinping that would have allowed him to salvage this Taiwan relationship in a meaningful way.

MR. OSNOS: Well, he inherits -- I mean, Taiwan relationship, and I think Richard Bush is somewhere here.

MR. SHAMBAUGH: Yes, he is here, front row.

MR. OSNOS: You know, that's the one accomplishment of Hu Jin Tao's. You look at ten years if Hu Jin Tao -- Chinese say ten lost years. Well I would argue that the one real accomplishment of the decade was the cross-strait relationship. So, if Xi Jinping inherits that -- he hasn't done anything directly to Taiwan to undermine what he's inherited, but what he's doing in Hong Kong, my point, is undermining the Taiwan -- one country two systems formula for Taiwan.

MR. OSNOS: Let's come back to the audience here. Yes, just on this side of the aisle.

MS. YUNG: My name is Lih Yung. Thanks for your presentation. In just -- just one about human rights. I'm comparing (inaudible) and things like that. Just one -- the current teenager (inaudible) says Obama should (inaudible) on the wall. And Obama, at the beginning, wanted to start but he failed. And when Obama went to (inaudible), introduced him and other industries, but they said they are too big to fail. So I think what we have instead is (inaudible) villains. Xi has (inaudible) search. We have military airstrikes. Are we going to lose all of human rights compared to (inaudible)? How are they going to talk to each other now?

MR. OSNOS: Well, let's take it as a basis for a question on human rights in this visit. I think we've heard that there has been a crackdown in China. How high on the list of -- on the agenda do you think human rights concerns will be? Susan, do you have a feel for that?

MS. LAWRENCE: I mean, it's obviously on the agenda, and this is always the question when you have a bilateral relationship that includes so many different issues -- where do you put human rights, and does human rights get onto the agenda? Obviously, it is on the agenda. And the president, I'm sure, will be making statements on what's been happening in china. It is, and a lot of people argue that this is the fundamental -- the fundamental gap between the U.S. and China, the Fundamental friction between the U.S. and China is the different political systems different approaches to issues like human rights, that China doesn't buy into the political and civil human rights, it focuses on the economic human rights.

And I don't see us being any closer to resolving that difference -- resolving those frictions. I mean, the U.S. continues to speak out on these issues, China continues to feel that this is unwarranted interference in its internal affairs, and also, I guess China worries that, and coming back to this theme of instability and fragility, that

U.S. advocacy for democracy and human rights is fundamentally threatening to communist party rule, and that's a pretty fundamental difference between the two countries.

MR. LI: Well, that certainly is a part of American values and American foreign policy. I think we should stay with that, we shouldn't be shy. But how to deliver, and I think that the (inaudible) already do that in a way. It's a dialogue, rather than lecture China. Now, I noticed there will be no press conference, no public, you know.

MR. OSNOS: Joint statement?

MR. LI: Joint statement, yes. So I think this time may not be the right time to push, but I think privately, certainly, you should discuss that. But again, discuss it not as formal law professor, but rather as an African American president. Talk about your own experience as (inaudible) constantly mentioned. That it's in China's best interest to improve if you want to endure long term stability and progress these fundamentally important issues.

MR. OSNOS: Mm-hm. Right here.

MR. FITZGERALD: Yes. Dave Fitzgerald, retired foreign service. I have a question about the flexibility that you talk about for president Xi and Maritime security in East Asia, and his relationship with the military. Do you see any flexibility on that, or is he -- in his efforts to try to get control over the Chinese military, or greater control over it, he's yielding on whatever their goals may be for East Asia, which leads to a continuing, or continuation of the tension with Japan and Southeast Asia on these Maritime issues.

MR. LI: David is the expert, but let me start. So far, all evidence shows that he is in charge. He fired Xu Xai Ho, the person who controlled military personnel for ten years. He probably also fired another formal (inaudible) in the purge, and one after

another. So, he is in control, and the military, for the past two decades or so are really under civilian leadership. But as we know, there's expectations. There will be a new announcement about the military leadership change, then this will be very, very interesting to watch, that who he will promote, whether these people promoted, you know, goes through the regular channel, respect among the military officers. If not, it may create some potential problems.

But in terms of maritime issues, I think that we really have a different perspective in the Chinese -- because they will be put in a corner. We are not, you know, the party to be, you know, to initiate all these disputes. It's the Japanese that started it, right or wrong -- it is their perception that United States backing Japan caused all these tensions. So this is their mindset.

MR. SHAMBAUGH: I think we should leave this question to the next panel. We don't want to interfere in the internal affairs of the next panel.

MR. OSNOS: Our panel should be applauded for its self-discipline in all things. Right there, please.

MR. JACOB: Thank you. This is Jacob from George Washington University. Really, thank you for sharing, and I have a question about the mutual distrust between China and the U.S. How do you think domestic politics play a role in the mutual distrust and how would you see a leadership (inaudible) good resolve this issue. Maybe it relates to the image that Mr. Shambaugh said, how would you deliver it more on this issue? Thank you.

MR. SHAMBAUGH: Alright. Well I would agree, first of all. There is profound and pervasive mistrust in the relationship across the board, and in fact in my blog post associated with today's meeting, I discussed this -- the sources of it and the manifestations of it, but your question is about the domestic political sources of that

mistrust, or that domain, and I would agree with what Susan just said. From the Chinese perspective, there is profound mistrust in the United States, because they perceive the United States because we tried to subvert their system, and to overthrow the communist party. If you don't believe me, just read central document number nine of last year, and the book that's come out -- been reissued now, the (inaudible), the six wise book, and the (inaudible), the seven don't want book. The propaganda campaign is actually intense, but it's also extremely revealing about the way the communist party feels about the United States. So they really profoundly distrust what they receive to be American actions and intentions. Now, the American government, if you ask the American government, do you perceive diversion from China, I don't think you would get a positive answer, but you certainly do in the other way around.

So that's a source of mistrust. There is an ideal -- I would go so far as to say there's an ideal logical competition between these two countries. Many people say ideology died with the cold war -- we don't have an ideological conflict between each other, but really we do, over model of governments, global governance as well, with domestic governments, over human rights, and over the staying power of the communist party. So I think your question is a good one. We have mistrust in the Asian Pacific region; we have mistrust in the economic domain, the security domain, the military domain, the economic domain. But we also have it in the domestic political domain. That's my view. And it's not going to go away, as long as the Chinese Communist party has all these insecurities and sees the United States as either trying to exacerbate them or actually undermine their position -- their rule.

MR. OSNOS: So is there anything, in fact, that the United States can do, or what can the United States do to provide that kind of reassurance?

MR. SHAMBAUGH: I don't think we can. We can say publicly, and

president Obama can say privately, we are not trying to undermine your rule, but the Chinese communist party won't believe it. I think we should say it publicly, so we're at least on the public record, and some of that public record will actually trickle into China, and some Chinese might actually read that. It'll be blocked but it'll get through.

Basically, there is such -- this is a DNA kind of assumption on the Chinese part about the U.S. It goes all the way back to 1955 and John Foster Dulles. It's not new.

MR. OSNOS: Well, and this gets to one of the interesting questions about Xi Jinping, which I think, Cheng you alluded to before, that in some ways, he has a cultural affinity for parts of the United States. His daughter is studying here; he's talked about the importance of Western Pop Culture and things like that. Does this message of distrust, to the degree that we can figure this out -- does it begin at the top, or is this the kind of thing where, if he's going to address it, he has to address it later in the list of priorities? Do you think that he has a fundamentally distrustful relationship with the United States, or do you think he believes this is a partner?

MR. LI: Well, I think that he needs to wait and see, because otherwise he will be put into a corner that, if U.S. policy really challenges China's interests, and make him like a person, you know, not tough enough to defend China's interests, so he needs to join a clear mind. But I think that at least some of the people (inaudible) him (inaudible) enough to understand that this is not really (inaudible) China. The reality is more complicated. But the public opinion now feels that way. I do believe that we also should -- United States should also reveal our policy, our, you know, delivery to China -- why the large population in China -- particularly young people feel that there's a threat, and contentment, and that kind of feeling that (inaudible) is on the rise, not -- it's dangerous. And I think that certainly promotion, (inaudible) education changes, and

(inaudible) like us to (inaudible) and try to challenge this common perception.

Each (inaudible) a different kind of mechanism to do that. I always believe that why the relationship didn't go long is because of the personal ties, especially like Wang Qishan. You know, 30 years ago, he, you know, developed a very close working relationship with American business people that made him to understand better about the American domestic politics and economy. I hope it's this kind of (inaudible) and kind of connection and association will ultimately prevail, but at the moment, there is a danger.

MR. OSNOS: We'll go back to the audience in just a second, but Susan, I was struck in this midterm election that we did not see the kinds of advertisements that we have in recent years, in previous races, these kinds of very xenophobic anti-China ads, basically saying the Chinese are coming to take your job, and such and such leader is not doing enough to stop that, or some version of that. We didn't see that. Do you have a sense that there is any movement at all in the kind of message that circulates in American Politics about China right now? Is it moving in one way or another, or was this just an aberration?

MS. LAWRENCE: I mean, I do think -- we are definitely seeing ads talking about outsourcing of jobs and that sort of thing -- it's not just China specific, right? I mean, I think I -- I work right next to the Capital South Metro station, and the Capital South Metro station is currently plastered with advertising Gate's fast track -- the trade promotion authority for the president. And it's lots of messages about how trade undermines the average American and leads to lost jobs and lost incomes and so on. So there's a bigger narrative in American Politics, I think, about some of the risks associated with trade, and of course China is a huge trading partner of the United States.

But I think -- I mean, I think the Maritime disputes have been very

damaging to China in terms of its image, both with the U.S. administration and with the Congress, and I think China's human rights (inaudible) is something that Congress has always taken a particularly strong interest in China's (inaudible). I think out of a sense that maybe the administration sometimes -- for the administration, sometimes human rights can get lost in the shuffle, so therefore, the Congress has an obligation to try to make sure that it stays on the agenda, and so, that whole rain drift of developments that we've seen in the last year have not helped China's image on the Hill.

I guess I'm not seeing profound change in the political discourse.

MR. OSNOS: Okay. My attempt to find a bright spot did not succeed.

Alright, we're going to go right back there to that -- alright, thanks.

MR. BROWDER: Hi, Joe Browder. At three events in the last year about China, at other institutions, after the event, Voice of America people have come up to those who attended and started asking questions like, how could you believe a word they said because they are communists, and communists always lie. Or, how could you care about what they say about the environment, because they're poisoning their own people. This is voice of America correspondents. So, if you were a Chinese person overhearing this very loud and very obvious attacks against the Chinese, from an outfit of the U.S. Government, wouldn't you wonder if there is perhaps some anti-Chinese thinking going on somewhere in the level of government?

MR. OSNOS: Any concern up here about Voice of America and how it's received in China?

MR. SHAMBAUGH: I would at least base your perception on actual transmissions of the Voice of America, rather than overheard conversations in the hallway. It's not a very reasonable. (inaudible).

MR. OSNOS: Right here in the second row, please.

MS. DOLMA: My name is Dolma and I am Tibetan, so really good to hear about human rights and all that, but to be more cosmopolitan, and you know, after getting education and guidance, and you know, whatnot, besides the ugly stuff, I would -- I lost my train of thought. What I mean to say is, the human rights and all those things, for me, like being here today, I see a lot of youngsters, Chinese, and I hope we are all originals, you know, from there, not like, you know, one in DC and one in Beijing and one in Guan Don, that kind of stuff, which I'm sure the elderly ones here know about those trade of the current state of the world. So, the human rights thing, I think it sounds too obsolete or too minute to be talking about. But since Dalai Lama -- I'm not trying to take his credit, but he seemed to be the ones who are among the great leaders to be looked up, and to seek guidance by many great leaders still. Do you think on the broader issue, Tibet will be used -- I mean, from my personal minute observation, I feel that damage is done.

MR. OSNOS: I encourage you to get to your question.

MS. DOLMA: Oh, yes. My question is, do you think -- or any of you guys, if you could shed some light on whether Tibet could be used as a platform to still try to curb what -- a lot has been done for decades and decades you know, McDonalds and all that, you know? So, could -- do you think, and then like, encourage the other nations to stop, you know, using, or stop eating each other, in terms of our (inaudible)?

MR. OSNOS: I think -- let's talk about Tibet for a second. Do you think Tibet is -- where is Tibet on the agenda for a visit like this? Has it -- does it still have the place that it has had historically, or is it not there anymore?

MS. LAWRENCE: I think Tibet is on the agenda. I mean, the U.S. has made a number of statements over the last year about developments in Tibet. I think the South Asians among Tibetans is an issue of profound concern. I think Chinese -- the

Chinese policies -- the communist party's involvement in religion, this sort of thing, I think the U.S. is definitely going to be -- it's something that is of continuing concern to the U.S. We have a policy on Tibet -- it's sort of interesting, because we have a lot of program. We have programs that are focused on Tibetans in Tibet. We also have a lot of programs that are focused in the Tibetan refugee population in South Asia and India. And (inaudible). And there's actually a lot that the U.S. government does to support the refugee population, and a lot of appropriations go that way. Scholarships, other sorts of activities.

But yes, the U.S. -- and the U.S. has been, has pushed for a long time for dialogue between the Dalai Lama and the Chinese government. That's been (inaudible) since 2010. It's not looking very optimistic in terms of getting those negotiations -- dialogue back going again.

MR. OSNOS: There was a brief reference to the fact that unrest in Xinjiang may create an opportunity for U.S. Chinese cooperation's on -- perhaps on anti-terror activities. You remember that when the leader of ISIS named the countries that he believed were targets because of their treatment of Muslims. China was at the top of the list. What is it you think -- what kind of opportunity does that create for cooperation between U.S. and China today? Do you see counter terrorism as a place where there will be meaningful cooperation? Yes, David.

MR. SHAMBAUGH: I think, (inaudible) a tremendous opportunity to be grasped by both side, but particularly the Chinese side, because they are -- there is a direct linkage between they're terrorism problem in Xinjiang, and let's be very clear, China has a terrorism problem. They (inaudible) -- whatever they're cause, however worthy their cause may be, their tactics they are using are terrorist tactics.

So that's real. And there's a direct linkage from XinJiang through Central

Asia, through the Caucuses, all the way to Syria. So China is very directly affected by this. There are 100 Chinese citizens, many of the weager, in ISIS control of territory today, according to the Chinese Embassy. That's where I get that figure. And -- so there's obviously reason for China to be involved in it. The question is whether China will be involved. So far, they have not become involved in any real, as I can tell, any tangible or even rhetorical way. We are seeing, once again, what I call the risk aversion. The kind of -- not head in the sand, but the sort of Chinese position on Global Hotspot issues - - global crisis. Whether it's Libya, Syria, or they exercise a double veto twice with Moscow, you know, and here we have yet one more, very serious challenge to many countries. And that's why there's a coalition of 23 countries that are doing things and taking military steps to combat ISIS.

China can be part of that coalition, if they decide to be, but I would hope and invite China to be part of that coalition, but so far, we haven't seen it, and that's -- I would hope, very high on the agenda for discussions in the great hall of the people between our two presidents.

MR. LI: Not only just a weager or minority, but is actually somewhere between 50 and 100 (inaudible) Chinese joined the terrorist group in the past few months. Now, the issue is about religion. We do see the contrasting, contradictory kind of phenomena or (inaudible). On the one hand, you see the tight crackdown, and even (inaudible) religion and the catholic church in (inaudible), just demolished a lot of churches there. And at the same time, you see Xi Jinping wanting to invite the Pope to visit China. There's some dialogue going on, and also (inaudible) with the (inaudible). I noticed his (inaudible) expressed that his hops it hat Xi Jinping will take initiative, but I think there must be some dialogue going on between his special (inaudible), with Chinese government.

Also, in light of the XinJiang situation, I don't think the Chinese government is going to lose it's (inaudible). It think things are getting worse in that area in terms of control, et cetera. But maybe, Xi Jinping, in this kind of environment, hopefully he will try to have some breakthrough in other (inaudible) of religion. He cannot just (inaudible) all the religious groups. It would mean 100 million people or more, and so, we do not know. So I think at the moment, it leaves a lot of ambiguities, but sooner or later, in a matter of years, he needs to directly address that issue.

MS. LAWRENCE: (Inaudible) on counter terrorism, I think maybe we should be thinking about this a little more broadly. China has expressed a willingness to get a whole lot more involved in Afghanistan, and that in some sense, is a counter terrorism measure, in just the idea of supporting Afghanistan, ensuring that it doesn't fall back into a state where it would become a breeding ground for terrorist, and have that kind of activity spill into China. That's something China is concerned about. You have seen China stepping up and getting more involved there. So that's an example. There are a lot of others, but I think -- counter terrorism, I think, is -- it seems to be sort of on the.

MR. OSNOS: On the agenda. I'm afraid we are out of time for this event, but please join me in thanking our panel for today.

MR. POLLACK: Well, good afternoon again. I realize it's like we've had you on a force march drill all day. This has been a very, very comprehensive agenda. And I think that the last panel will not disappoint in terms of injecting any number of other issues, some of which have been touched upon, but now much more comprehensively.

First, let me introduce myself. I'm Jonathan Pollack, senior fellow in the John L. Thornton China Center and the Center for East Asia Policy Studies here at Brookings. We are fortunate to have today an exemplary panel in terms of people with

very, very diverse experience, both in the government world, but also all people who have thought and written seriously about many of the issues that we'll touch upon today.

Our topic this afternoon is the evolving security environment as seen from different perspectives, different capitals, if you will. It's also a fair question, I think, to ask whether the events from yesterday, which, of course, were American domestic politics, whether it would change at all and in what ways the agenda that might come up next week in Beijing and beyond.

So this sequence we will go in is, from my left, my good colleague Richard Bush; followed by our friend and nonresident senior fellow and we're delighted to have here today, Tom Christensen from Princeton; and then finally I would say batting clean-up, but here Richard's already told me that you need four people to bat clean-up, but that Jeff Bader will follow.

The very rough division of labor I've created for today is simply to ask Richard to speak to questions related to how he sees the United States perceiving what we are broadly calling security in the Asia-Pacific region. I realize that's a very, very elastic concept, depending on how you define security and what kinds of issues you examine and how you debate these issues, both internally and externally, but I'm sure Richard will do an exemplary job.

I've asked Tom to do the same, not so much from the point of view of telling us the inner thinking of the Chinese leadership, but Tom has recently returned from an extended visit to Asia, including time in China, and I think might have some interesting perspectives on how Chinese that he spoke to conceptualized issues of security and the like.

And finally, Jeff will conclude both with an eye towards what we should anticipate next week and whether indeed there is a ground on which the United States

and China and others can meet to address what, without getting overly discouraged, looks like a pretty daunting international security agenda.

So without further delay, Richard, welcome back after many, many weeks on the road. And we'll all look forward to your remarks.

MR. BUSH: Thank you very much, Jonathan. I just want to identify a couple of major risks and uncertainties that I think are animating the Obama administration as we go into this summit. And I'm going to start with the risks and uncertainties that are clear and present.

The first of these is in the East and South China Seas, where, to my mind, there's a danger of some kind of accidental physical clash between China's maritime vessels and aircraft with those of other countries in the region, including those of the United States. Now, such a clash could come about as countries that claim islands and rocks assert their claims in a relatively assertive and unrestrained way. Obviously a clash in the area is more dangerous than one at sea for obvious reasons.

Now, the Obama administration, for a long time, has stressed that the way to reduce the possibility of such clashes and everything that would come with them is for the parties concerned to work out understandings to regulate how maritime vessels and aircraft operate. This is not a new problem. There are ways to do this.

Also vexing for the United States is the tendency of Chinese entities to expand China's presence in the South China Sea very incrementally. And that complicates any effort to deter or resist those moves, but the end result is the same: China's presence is expanded and our friends and allies are disturbed by both the changes in the status quo and what they perceive as a U.S. reluctance to respond.

So, second, there is always the danger of increased tensions on the Korean Peninsula. This could come as a result of a new North Korean nuclear and

missile tests, which might lead America's allies to question our deterrent resolve.

Although I'm prepared to believe that China, through some mix of incentives and disincentives has dissuaded Pyongyang from doing these tests, I'm somewhat fatalistic. I think at the point that North Korea decides for technical and political reasons that it's time to test, it will do so and it will have already created some pretext for going ahead.

Now, tensions and outright conflict could also occur because North Korea undertakes limited conventional attacks on South Korea, as it did in 2010. Unlike 2010, I believe that the South will likely respond more robustly and violently, which raises the possibility of escalation and the challenge of escalation control.

One place where I do not yet see a security risk is over Taiwan. It is true that Taiwan will hold a presidential election in 2016, and that opens up the prospect for a change in cross-strait relations, which have been pretty stable for the last 6-1/2 years. But we don't know who will be running in the election. We don't know who will win. We don't know what their foreign policies will be and how Beijing will assess those policies for its own interests, so it's really too early to say. Stay tuned.

My third risk and uncertainty is longer term and it is the possibility of strategic rivalry between China and the United States, and rivalry could occur for a combination of reasons. If Beijing and Washington end up at continuing loggerheads on specific points of friction, like the East China Sea, South China Sea, North Korea, Taiwan, and other things, that could lead each to draw dire and broader conclusions about the other's long-term intentions, and so lock in a certain policy mindset.

Second, I think China is becoming less and less willing to accommodate to the United States as it often did over the last three-plus decades. And some say it has begun to capitalize on its growing power and influence to gradually build its own China-centric regional order.

Third reason for my concern is that China's regional military strategy is focused on reducing the freedom of action of the U.S. Navy and Air Force in its "near seas." And that complicates any effort by the United States to help our friends and allies defend themselves if we should ever have to do so.

And finally, there is growing disagreement, I think, over bilateral rules of the economic game on how open each economy should be to the business activities of the other and on China's theft of U.S. corporate secrets, as we've heard a couple of times today.

So the list of regional security concerns, both current and long-term, is not short. It tends to get longer every day and that is all the more reason why the leaders of the Asia-Pacific region, and particularly the leaders of China and the United States, need to gather periodically in the hopes of mitigating and managing these concerns.

Thank you.

MR. POLLACK: Thank you, Richard, for being admirably brief and appropriately throwing out things to make us feel a little depressed.

MR. CHRISTENSEN: He ceded his time to me.

MR. POLLACK: Yes, right, right, right.

MR. BUSH: That's right.

MR. POLLACK: Yes. Well, now, Tom, we'll turn to you and ask whether you would see a view of views from Beijing, how would you see it, similar or different from what Richard has outlined?

MR. CHRISTENSEN: Well, thanks a lot, John, and thanks to Cheng. This is a great event and I'm really pleased to be here and on this panel especially. It's a great honor to be here with this group.

And I'm going to say what I think I heard in Beijing, the Chinese views,

so I'm supposed to say at the outset that since I advise the State Department that my views are not the same as the State Department, but they're Chinese views, so they're not the same as the State Department's. (Laughter) It's pretty obvious, right?

And I also would just ask you, you know, please just hear me out and don't shoot the messenger, right? I'm reporting to you what I heard. Don't say Tom Christensen said X, Y, or Z. I'm reporting to you what I heard about their views about the United States foreign policy toward China, United States foreign policy towards the Asia-Pacific region, and United States foreign policy around the world to touch on some of the issues that came up in the previous panel. So I'll go in that order.

And I was somewhat surprised about what I heard about the bilateral relationship because I've spent a lot of time in Washington on my sabbatical year this year. And I've heard a lot of American observers outside the U.S. Government talk about how unstable the U.S.-China bilateral relationship is and I heard a lot of confidence about the actual bilateral relationship in China that it can't get too back and it can't get too good. You know, we have a very strong economic relationship. We have lots of dialogue in the diplomatic side and we have an improved mil-mil dialogue. It's not going to get too bad, it's not going to get too good for all the reasons that others laid out earlier. We have different political systems, we have differences of opinion over very serious issues. So it's pretty stable.

And the only thing I really heard on the negative side was disappointment, and that disappointment took the form of the Obama administration didn't latch on to the New Type Great Power Relationship slogan that we like so much, that Xi Jinping likes so much. And it became pretty clear and it was always pretty clear to me that what the Chinese mean by "New Type Great Power Relations" is actually old type great power relations. It's sphere of influence. You know, we have our sphere of

influence, you don't mess with it, and we avoid World War I because you don't mess with our sphere of influence and we don't have escalating tensions. So there's been some frustration, particularly if you just get to the regional affairs, in the region that the United States, while the bilateral relationship is solid, the United States seems to be, from a Chinese perspective, to be mucking around in the region causing regional instability between China and its neighbors, not directly between China and the United States.

And while the sphere of influence idea is there for the New Type Great Power Relations, there are people in China who are unsatisfied with China's recent foreign policy, going back to the late Hu Jintao years to the Xi Jinping years. They believe that China has been too assertive in East China Sea and the South China Sea and they've unnecessarily caused tensions with neighbors and they need to return to a more moderate approach. There are people like that and I talked to several of them. And their view is that it's very hard for them, because of U.S. foreign policy, to gain traction in domestic debates. And they complain about basically two realities for their perspective.

And one is that the United States has chosen a relatively assertive or provocative slogan for its own foreign policy, whether it be pivot or rebalancing. The United States has pictured itself as very muscular, returning to Asia after the wars of the last decade and taking on China. And that is used by hawks in China against them in internal debates when they raise arguments about, well, maybe we need to moderate our policies. And then that colors the perception of the American actions. And I would say that even the moderates think that the U.S. actions have been too assertive and too supportive of disputants in the disputes that China has with its neighbors, and that's the Philippines and the Second Thomas Shoal, the partial lifting of an arms embargo on Vietnam, P8 access to Malaysia, various statements about international law and freedom

of navigation; and even in economic affairs, the idea that maybe the United States is trying to block China from making progress on some of its new initiatives that Cheng raised earlier when he was playing the moderator role.

The second issue that they raise, and, again, don't shoot the messenger, is that the United States is seen as distracted and weak. And I'll go in reverse order.

Weak. The Obama administration is seen as weak at home and weak abroad in China. And this was told to me by people who don't agree with the analysis. They say we actually don't see it that way. We understand American politics. But we lose in the domestic debate because the Obama administration's widely seen as weak, particularly in the second term. It's a question that was raised. Why is the foreign policy of the United States weaker in the second term than in the first? It usually is the reverse.

And the second thing is more about the pivot or the rebalance, which is it seems like some people in China bought into the argument that is implied by the pivot and the rebalance, which is the United States can really only do one thing at once. So if the United States can only do one thing at once, then since you have ISIS and you have the Middle East and Secretary Kerry's very engaged in the Middle East, therefore, you're distracted in East Asia, which means the hawks can say not only are the Americans wanting to come after us, but they're unable to defend these allies and friends that they have incited into taking provocative action and we don't need to curb our own behavior because the United States can't actually back up what they're doing in the region. So we should push forward and don't tell me to moderate my behavior. That's unwarranted and unnecessary.

And then we get to the U.S. around the world and this is the last piece, the global governance piece. And here I really noticed in my stay in China, which was relatively brief -- it was about nine days -- and I talked to various people, but I also

wanted the television and the television news, and I was surprised at how objective Chinese television news was about Kobani and Syria. It seems like the Chinese government, from my reading of watching the news, they're really concerned about ISIS, for reasons David raised before. They're really concerned that the Middle East is unstable and so have implications for Xinjiang and for the Middle East itself, which China cares a lot about.

But I think that while there's this shared sense of concern about global stability and Islamic extremism, no love for ISIS, and no glee that the United States seems to be doing poorly in Iraq and Syria, I think that there's a problem in the analysis that they just don't believe the United States is a good partner, even if they were willing to partner with the United States; that the United States doesn't have a wise strategy towards these problems. And they cite Libya and Syria as the two examples.

How do we partner with you when you call for regime change? We're against it for domestic reasons and we're really concerned about domestic reasons. You did it in Ukraine, too.

The Chinese perspective is the United States and the Europeans destabilized the Ukrainian government and that caused a lot of problems between Russia and Ukraine. But it's really about the United States and its regime change fetish. How do you partner with that when we don't agree on the way that you carry through with your ideas?

And even in Afghanistan, which came up, you know, stability in Afghanistan is in China's interest, but how do we partner with someone who wants to have liberal democracy? It's just difficult. It's a difficult goal and we don't see it as realistic. So it's more out of sadness than anger. It's kind of what do we do with you even if we could?

And I don't get the impression, to get back to the last panel, that China's eager to get involved in the Middle East. It's not eager to contribute lots of kinetic activity to any sort of multilateral effort.

And then this is real domestic concern and it's pervasive, so everything is fed through that domestic lens. I don't think that the Chinese elites feel like the situation in China is stable. The Hong Kong situation worries them greatly. And partially for strategic reasons and partially, I think, for sincere reasons, they believe the United States and others are partially involved in that. That makes them less willing to partner on these global governance issues.

So, again, that's my report. Don't shoot the messenger. I think enough of you have read things I've written that I'm not -- this is not the views of the State Department, Princeton University, or Tom Christensen. But I thought that I was going to stay true to Jonathan's mission and try to report the sense that I received when I was in China on my most recent trip.

MR. POLLACK: Well, Tom, thanks a lot. I'm reminded of what Sergeant Friday used to say on *Dagnet*, "Just the facts, ma'am."

SPEAKER: You're dating yourself.

MR. POLLACK: Yeah, I know I'm dating myself. Yes, you, too.

(Laughter)

MR. CHRISTENSEN: I saw the reruns.

MR. POLLACK: Okay. Okay, Jeff, what realistically or unrealistically can President Obama, under these kinds of circumstances, expect to put on the table when he meets with Xi Jinping next week? I mean, is there a ground on which we meet at least on some of this array of issues that both Richard and Tom have outlined?

MR. BADER: Well, it's great to be the last person speaking at the end of

a very long day. And John Kerry, having spoken yesterday on this subject, Tom Donilon this morning, Caroline Atkinson at lunch, and the last panel having swept right over this landscape, I'm not sure what to add. I thought terrific presentations in the last panel and here. I think Tom Christensen's got a future as a spokesman for the Chinese government (inaudible). (Laughter) If things don't work at Princeton.

MR. CHRISTENSEN: It is known to all.

MR. BADER: Yeah, you missed a few key phrases, but you do a better job of it than they do.

Okay, how important are presidential trips to China? Obviously they're important enough so that we convened a panel, so we actually do think they're somewhat important. I've been on a few of them, but how many of them really have made history? How many have been really consequential? Nixon's. Nixon's. Since then, except for a few of us experts, supposed experts, how many of us can remember the accomplishments of the numerous visits since then and what impact they've had on the broader relationship? I mean, I would argue that -- well, I'd argue against the previous positions I've held that the impact is somewhat limited.

The public reporting that one will see about the trip in advance and during and after, what happens on the trip that reporters look at? There's a photo op before the meetings, two minutes of President Xi saying something and President Obama saying something. There'll be a press conference and there'll be some staged public event. And out of that, journalists who have to write something about the trip will weave some elaborate narrative about the historic events that have unfolded based on these few snippets. They do the best they can. Sometimes they do a very good job. Sometimes, in my experience, they have a narrative worked out before and then they see a few things on the trip that confirm it.

But all that said, I think that there are some real things that a presidential trip can accomplish and that I look for this trip to accomplish. The first thing and the most important thing is the relationship between the two presidents. I mean, that's what this is about. They're going to have, I don't know, probably seven or eight hours together, the two presidents, in either private or slightly larger settings. And countries don't make decisions, people make decisions. And for the two presidents to have a sense of what each other is about, to have some sense of predictability about how the other one reacts, some confidence in their word, that's a really important thing. So I think this, particularly in a crisis, this pays dividends. So I think that's the first thing we should look for.

The second thing is trips force bureaucracies to reach conclusions on issues or to try to produce that horrible government word "deliverables," so that our presidents can show how much they've accomplished on the trip. I think the two sides always try to indicate beforehand don't expect deliverables in order to lower expectations and then they trot a few things out showing that they have exceeded the bar that they've set on the ground somewhere. (Laughter)

The ones that we should look for on this trip, I think we should look for something in the military-to-military area. They have been discussing agreements on major military movements, on avoiding incidents at sea and in the air. The militaries on both sides have been working on it. Hopefully, they'll have something ready by the time of the trip.

They have been working for quite some time on facilitating people-to-people contacts, including through our somewhat broken visa process. I think climate change, Secretary Kerry spoke about that at some length. There's been a lot of discussion about some kind of agreement that points the way towards specific commitments on caps on emissions by 2020. I don't know if they'll get there or not, but I

expect there'll be some kind of a statement on climate change.

And finally, the bilateral investment treaty, that's not going to get worked out this week. I think that's got a long way to go to get a bit through the Senate, to get anything through the Senate. This is probably 67 votes. When was the last time there were 67 votes on anything in the Senate? We couldn't get 67 votes on a U.N. convention on people with disabilities. So this is going to be a huge challenge to get the votes, but it's really important. This is a bit like the WTO in the sense that serious reformers on the Chinese side are looking for a bit to motivate domestic change inside of China and this is an opportunity that we should not miss.

Finally, of course, global issues, that's mostly private discussion, whether we'll see substantial changes on the vast array of issues, you know, obviously issues like Russia-Ukraine, ISIS-ISIL-IS, whatever we call it nowadays, Afghanistan, Iran nuclear program, North Korea, and Ebola, Africa, to name a few. I think it was mentioned in the previous panel, the Chinese -- I think the Chinese are making pretty substantial contributions in dealing with Ebola in Africa. They've already put out, I think, 400 million RMB and they're looking to commit another 500 million. They've sent a few hundred people to the area. I think it's very impressive what they've done.

And, yeah, someone mentioned they have their own motives. Sure, we all have our motives for doing things. But if we're talking about China as trying to become a global stakeholder and trying to contribute to public goods, this is a good opportunity and this is a good example of China doing something in that category.

I'd say the fourth thing one should look for on a trip like this is to try to set a positive trajectory for U.S.-China relations after some difficulties over the last year or two, as I think Tom went through in some detail and others have talked about. The Chinese are connecting a lot of dots right now. They're connecting dots of U.S. behavior

in the East China Sea, what they see as U.S. backing their adversaries in every territorial dispute, Hong Kong where they see a U.S. Black Hand, what they see as U.S. subversion of the Chinese Communist Party, the South China Sea.

We have policies on all these. Our policies, we should not be defensive about them. We should state them very clearly, but, at the same time, we should make clear to the Chinese that these are dots. These are not part of a grand conspiracy. And our positions are going to remain, but they're not going to -- but this is not a sign of a plot designed to overthrow the Chinese government.

We need to come out of this trip with some sense of the stability of U.S.-China relations. We've got a lot of problems in the world right now and we all know about them. And the idea that we should add to sort of chaos in the Middle East, infrastructure breakdown in Africa, and revival of Cold War tensions along the lines of Eastern Europe, an unstable U.S.-China relationship, that really would be sort of global system overload.

And the other thing to remember when you're messaging on these trips is your message is not only, of course, to the Chinese, but there are other countries in Asia that are watching very closely what you do and what you say on the trip. And so this can't be a one-sided set of messages.

And the last thing I'd say that the President is going to have to try to achieve on the trip, it's been alluded to, but I have to close on this point, something happened yesterday. The Chinese know it. The President is not going at the strongest point in his presidency. Look, I went on a trip with the President in 2010. We went right after what President Obama referred to as a shellacking in the polls. So this is -- how should I say it? -- this is redox. He's familiar with this problem.

It is critical for him to project that whatever is going on in the U.S. Congress and whatever's going on in our domestic agenda that he has a clear vision of

his foreign policy, that the President runs and conducts foreign policy in the United States, that he can do so whether it's 54/46 in the Senate or 100 to 0 in the Senate. He has a constitutional ability and a constitutional prerogative to do that. He has to demonstrate the clarity of his policies on each of these other issues. This is absolutely critical.

Look, China's rise has occurred in the last 40 years in the context of a U.S.-dominated international order. And if we reach a point where the Chinese are persuaded that that U.S.-dominated, U.S.-led -- whatever word you use -- international order is being shred or is weakening, I think all bets are off in terms of the directions in China is to go. So the President has to be very clear on that messaging.

MR. POLLACK: Jeff, thank you very, very much. You get the Stakhanovite award because you helped begin this program this morning and now you're ending up at the conclusion, as well.

The conclusion I take, and I would, rather than ask each of you individual questions, just make a general comment and then open it up to the audience, is that irrespective of the suspicions, the uncertainties, Chinese paranoia about one question or another, there are compelling reasons for the two leaders to carve out at least some degree of common ground.

I also take away from this a sense that whatever the negative perceptions of the United States and even if President Obama is in a much weaker political position now than he was 24 hours ago, you know, there are 2 years left in his presidency and there is a lot that, indeed, can be done. In fact, I would say from what we've been hearing from a number of individuals today, including people in the administration, there's a belief that there can be some headway, maybe not on the classic hard security issues in all cases, but rather than sit still or do nothing or just kick

the can down the road, you have to see what you can achieve because two years in politics is a very, very long time.

And we have to assume that within Beijing leaders there are asking themselves do we just fritter away the next couple of years? Is that a realistic objective? Or do you try to advance where you can interests that overlap? And I think that the answer, to me, even amidst all these uncertainties and suspicions, is pretty self-evident to the degree that in this very, very contingent world we can sustain all of that.

Sure, Richard, yeah, please.

MR. BUSH: I think that if you're sitting in Beijing, and let's assume you have a certain amount of common sense, you have to ask yourself will the next President of the United States, in terms of his or her policy preferences, be better than what they've got now? And is there a way to use the next two years to create an environment for the U.S. campaign and for the next administration that sort of hedges China's position and protects its interest?

MR. CHRISTENSEN: Can I just say one thing on that? I heard persistent concerns that former Senator and former Secretary Clinton would be the next President of the United States.

MR. BUSH: Well, that's --

MR. CHRISTENSEN: Persistent concerns. In other words, the idea that the first term of the Obama administration was much more focused and assertive, and that if she were in charge, that maybe they'd have more challenges from the United States. And, again, I'm just reporting that. It's not a partisan statement.

SPEAKER: Don't shoot him. Don't shoot him.

MR. CHRISTENSEN: It's a partisan statement; it's a Chinese Communist Party statement. But that was a persistent -- do you think she can win and

do you think she'll be anti-China if she does? Those were the kinds of questions I received.

MR. BUSH: Yeah.

MR. POLLACK: Tom, I wonder if you were in Beijing today would the questions be posed less about her and more about her presumptive Republican challenger?

MR. CHRISTENSEN: I don't know.

MR. POLLACK: You don't know.

MR. CHRISTENSEN: I don't know.

MR. POLLACK: No, and we don't know.

MR. BADER: I mean, on that, as you just said, I mean, I've had that conversation with the Chinese. What I've usually said to them is, you know, we don't get to pick your president and you don't get to pick our president. (Laughter) Your president isn't necessarily the one that we would choose --

MR. POLLACK: Yes, right.

MR. BADER: -- and our president won't be necessarily the one you would choose. I mean, speaking from experience with the Secretary Clinton. Look, Chinese officials know her extremely well by now.

MR. CHRISTENSEN: Yeah.

MR. BADER: I agree with Tom that there is a perception that has been spread about Secretary Clinton that we all pick up when we travel, but I think that the senior leadership does have a pretty good sense of what she's about. And I think Secretary Clinton (inaudible). Just as Tom spoke for the Chinese Communist Party without authorization, I'll speak for Secretary Clinton without authorization. I think that there are two sides to Secretary Clinton that are relevant here. One is someone who's

had some experiences in China that were not ideal: the Women's Conference back in 1995; the editing of her autobiography, the massive editing of her autobiography without authorization; she has strong views on a number of issues, such as human rights, which caused the Chinese leader his problems. On the other hand, she is an eminently practical person and she is not ideological in her approach to relations. So, you know, were she to be elected, that's kind of the two sides they'll be dealing with and they'll have to figure out how.

MR. CHRISTENSEN: And just to be clear, the senior Chinese leadership was busy while I was there, so I didn't (inaudible). (Laughter)

MR. POLLACK: This banter on the stage has been great fun, but it's unfair to audience. So in the sense that I'm sure a number of you have questions, raise your hands, identify yourselves, keep it short, and make it a question. No comments. If anyone goes off on a long sermon, I'll make sure that that's the end of your sermon very, very quickly.

The first hand I saw is here and then the second one I saw is over here.

MR. STEVENS: My name is Fraser Stevens. I'm here on a personal (inaudible). There's been a lot of talk today about China-American cooperation. What is missing in the discussion thus far, in my opinion, is taking China's strategic concerns seriously.

For example, naval exercise and intelligence gathering off China's coast. I mean, there's militarization of the Miyako Strait by (inaudible) allied Japan and the overall Chinese feeling of containment by U.S. and its regional allies.

My question to you is isn't it required for mitigating the security dilemma dynamics between the U.S. and China and moving the relationship towards, A, what Henry Kissinger calls a Pacific community, that China's core security interests are taken

seriously? I thank you.

MR. POLLACK: Fair question. Does anyone want to tackle it?

MR. BUSH: I'll start. I think that, first of all, how China looks at its strategic situation is a function of its own system. And that system can have an accurate perception of China's threat environment or it can't. And previous speakers have talked about sort of the DNA of Chinese Communist Party approach to this as assuming that if the actions of the United States are somehow directed negatively against them. So, certainly, we should do our best to reassure China about what we're up to and why we do what we do, but, at the end of the day, there may be aspects of how China sees this as debt we can't fix.

Second, on respecting China's core interests and major concerns, in theory, yes, but how China defines those core interest and strategic concerns often conflict very much with U.S. long-established interests. And if the result of respecting their core interests is spheres of influence in the East Asian region, we're not going to go there.

MR. POLLACK: Tom, was there --

MR. CHRISTENSEN: What he said.

MR. POLLACK: What he says, okay.

MR. BADER: The only think I'd say is we get hung upon the phrase "core interests." I prefer personally phrases like "vital national interests," and every country has vital national interests. We should all be cognizant of every country's vital national interests, but that doesn't mean we accept every country's definition of its vital national interests 100 percent. I think Richard summed up perfectly the potential areas of conflict between vital national interests.

MR. CHRISTENSEN: Just on that thing, it's more of like a baseball

score. If you look at core national -- core interests that China describes for itself and the U.S. view of its role in the region, the first core interest is the preservation of the single-party rule of the Communist Party. The second is territorial integrity by the current Chinese map. And the third is an environment for economic -- that's conducive to economic development.

The U.S. really only agrees with the third. You know, it's very difficult on that basic level to say those are your core interests and we have to constantly respect them. I think both sides need to be realistic about how they approach those problems. The United States can never say that we support the permanent one-party rule of the Chinese Communist Party, but we can say we're not taking actions to destabilize your nation. And, in fact, when we encourage political reform in China, it's for the benefit in our opinion of the Chinese nation and the long-term stability of the Chinese nation that you would open up your political system over time. And, fortunately, there are a lot of Chinese who agree with that, so it's not an outside imposition. There may not be a lot of top Chinese Communist Party leaders who agree with that, but there are lots of people in China who agree with that prospect, that for China as a nation to be stable, it will need, over time, to open up its political system.

MR. POLLACK: Tom, this issue actually came up in the last panel, as well, and several -- I mean, the question here is do you think it would be appropriate or necessary or useful for an explicit public statement by the President of the United States along more or less lines you just said?

MR. CHRISTENSEN: I think it has been made.

MR. POLLACK: In the past, yeah.

MR. CHRISTENSEN: I mean, I don't have an encyclopedic memory of everything that President Obama's said or everything that President Bush said, but that

was certainly, when I was in the government in the last administration, that was the way we approached the human rights dialogue, it's the way we approached discussions of democratization. It wasn't that this is against China and we rejected the anti-China label that was often applied to those proposals. It was it's an expression of our concern about the long-term stability of our nation which is important to you. It's also important to us. We wish you well, but to do well, you can't have an increasingly complex society with a simple political structure at the top of it. That won't last and lots of your own people recognize that.

And then the question is how do you get there? Now, we're not going to try to, you know, roll an explosive device under your table so we destabilize your country, but we are going to encourage you to do the right thing to stabilize it over the long term, which is going to require some degree of reform and political risk. And it's unfortunate for everybody when that isn't adopted.

Human rights, the same thing. With the human rights dialogue the first 20 minutes, when I was involved in it, was Assistant Secretary Kramer, he spent 20 minutes talking about American human rights violations. The Chinese seemed very surprised, but I thought it was brilliant. He talked about slavery, he talked about the fact that women couldn't vote, he talked about Jim Crow laws, he talked about Abu Ghraib. And he said we violated universal principles of human rights and we have no intellectual property rights over human rights. Now learn from our mistakes and let's talk about some of the problems you have and we can all be better off for it.

And I think that what Jeff has said so powerfully about President Obama's, you know, own background and how that can send a message to the world I think is very powerful.

MR. POLLACK: Jeff.

MR. BADER: Jonathan, I mean, the whole basis of the Shanghai Communiqué was a recognition that we had different social and political systems, but we were nonetheless going to move down the path towards normalization, which we ultimately achieved, because our interests in the world required it. And a lot has changed since the Shanghai Communiqué, but I think that still remains the fundamental underpinning of the relationship, that we understand we have different social and political systems, but we've got to find ways to work together on all these other problems.

Now, what Tom said about political reform in China, I would agree with every word that he said. I think that the challenge always with China and with Chinese is finding ways to communicate and ways to affect the situation because usually, when we talk about such matters or our editorials talk about such matters, what the average Chinese hears is not what we think we're saying. What they are hearing is the imperialist attitude, lecturing a China which is now finding its way in the world with your supposed superior knowledge on things that we can handle quite well without you, thank you very much. That is the attitude one is going to encounter when one has these discussions.

So one needs to find a language and a way of dealing with human rights, political reform issues that circumvents or goes over or under or around or permeates through this wall of interpretation that not just Xi Jinping, but even the ordinary Chinese will bring. And there are ways of doing it. It can be done. But we should be thinking not in terms of how do we posture ourselves so we look good for a domestic audience, but how do we say and do things that actually have an impact on audiences and actors in China.

MR. CHRISTENSEN: We should stop saying "American values" and stop saying "Western values," and just say "human rights, universal values." That's a pet peeve of mine. I don't like it when we say push American values.

MR. POLLACK: Tom, I had never heard that, the story you told about Assistant Secretary Kramer, but that was inspired.

MR. CHRISTENSEN: Yeah, it was a great moment in our diplomacy. And the reaction on the other side was marked. I mean, they were visibly surprised.

MR. POLLACK: Fascinating, fascinating. I think our esteemed director has a two-finger intervention. Do you want to make a two-finger? No, because there are other questioners.

SPEAKER: (inaudible)

MR. LI: I can wait.

MR. POLLACK: You'll wait, okay. So the next is Susan Lawrence.

MS. LAWRENCE: Thank you. Susan Lawrence, Congressional Research Service. I'm sorry to take us off this topic because I thought that was a very powerful set of discussions, and particularly appreciated Tom's comments. But, Tom, you brought up Middle East and I just wondered if you might give us an evaluation of what I see as China's big Middle East initiative, which is this Silk Road economic belt that we hear so much about, that is meant to go all the way from China west to the Middle East and up to Europe.

MR. CHRISTENSEN: They have a lot of initiative like this in various regions. I'd just say my own opinion of these things -- infrastructure investment, trade deals, anything that increases the connectivity of the Central Asian states in multiple directions so that those states are not fully dependent on Russia, which is the traditional dependence -- are basically good for everybody. And if China succeeds in some of these institution-building processes, my guess is the situation will be better than it was before that success was registered, but that where the -- it's not really competition. Where the friction occurs with the United States and like-minded states is the opportunity costs that

are missed when different mechanisms are used instead of the Chinese-driven mechanisms. In other words, that there might be a better way to bring in more people and have higher standards of transparency for the institutions that do the same service as the Chinese-led one. That would benefit everyone, including China.

And I don't really see it as a zero-sum game, so if the TPP stumbles because it's kind of a strange grouping and some other free trade agreement goes through, I don't think that's an enormous loss for our country because the more free trade there is in Asia is probably good for the Asian region, which is probably good for our economic, probably good for the European economy. But it would be better still if we had a higher standard. And I think that's the way we should pitch it because, otherwise, it looks like instead of running a race where you're trying to go faster than the other runner, it looks like we're playing football and we're tripping up the Chinese, trying to knock them over so that they don't make any progress with their neighbors, which is -- it's not really a prospect that's going to work over the long run because the neighbors can't afford it. And it makes us look kind of zero -- it gives us a kind of zero-sum mentality, the impression of a zero-sum mentality that doesn't really work.

MR. POLLACK: If I might just make another observation. It's very, very striking about these numbers that were tossed around just a day or two ago about the amount of money that China would put into the maritime (inaudible) corridor. What I'm curious about, since this is clearly seen as a Chinese government initiative, as distinct from the AIIB, which is at least, on the face of it, supposed to be a new multilateral institution, are these separate pots of money? Or, in a way, does this demonstrate why there is unease, legitimate unease, among a lot of parties on exactly this issue?

MR. CHRISTENSEN: When I was in China, in *The China Daily* Jao Da-Jung, you know, the professor, very, very smart guy, he stated in *The China Daily*, I was

surprised, he said the AIIB is good for one reason: our foreign investment in infrastructure is really corrupt. So if we have a lot of other foreign countries involved in the same bank, our foreign investment will be more effective because it will be less corrupt. And this is a Chinese professor who said this in a Chinese newspaper.

MR. POLLACK: We have a lot of other hands going up. The next one I saw was here.

MR. MOORE: Thank you. Scott Moore of Council on Foreign Relations.

So North Korea has come up a few times today, but I just wanted to invite some additional views from this panel on the extent to which we do have a greater convergence of interest between the United States and China toward North Korea. Thank you.

MR. POLLACK: Yeah, I might take that. The other factor here, of course, is the position of the Republic of Korea. And I think actually there's a very interesting story here, which is actually more, if you will, a good news story in the sense that I see a clear connection, in part, between the development of the China ROK relationship and China's effort -- or Xi Jinping's effort, I believe, to distance himself in some measure from the DPRK, for its behavior, for a whole host of factors. Because, frankly, when the Chinese look at the two Koreas, they can see that there's one that works clearly and one that does not and then some.

Where do China's long-term interests lie? This entails the question of nuclear weapons and missiles, but it goes well beyond it.

So, in a lot of respects, I think that the fact that South Korea has evolved the kind of relationship with China, there are things that can come up between the two of them that, very frankly, it may not be as easy for the United States to address with China. This is a long-term story, but, ironically enough, at a time when the arguments have been

made about China being "assertive" here, there, and everywhere, what we're pushing is an argument we want them to be more assertive vis-à-vis the North.

Now, I don't know what the end of this story is. I don't think -- I think a point that David Shambaugh -- I guess has just left -- made is Chinese risk aversion. They're not going to do anything in just some sweeping gesture. That's just not the way they go about taking any kinds of risks or changes on as consequential a foreign policy issue as this. But the direction is clear in my view. The Chinese are doing this for their own interests, but it's also something that serves, I think, a much larger regional interest, as well. So it's a continuing ongoing saga, but I think that the shifts in direction here are, to me at least, increasingly clear.

MR. BUSH: I agree with that. I'd only elaborate. There are some in China who hold the view that the impasse is really our fault. It's the United States' fault that we're not flexible enough and we're not willing to engage the North. I think the mainstream view here is that if North Korea was interested in changing its policies, then there might be a reason to engage, and that was reiterated I think just last week by Sid Salter, but we don't see any sign.

MR. CHRISTENSEN: Yeah, we just phrase it a little bit differently. If North Korea were willing to meet its obligations that it already negotiated, right, it's not that it would change, that it would return to its earlier policies from which is diverged. And in China they say you have preconditions for talks. That's not a precondition for talks. The precondition is being raised by North Korea, which is their precondition is you recognize us as a nuclear state and you forget about everything we've agreed to before, and now we can talk. That's the precondition and that needs to be driven home in Beijing.

And I guess I'm a little bit more pessimistic. I realize that the reputation

is that Xi Jinping is tougher on North Korea than his predecessor. That may be true in terms of optics and the foreign ministry instead of the Communist Party liaison department dealing with the relations and the end of the special relations, but from 2009 to 2013, from what I understand, there's been a real deepening of the economic relationship between China and North Korea. So for them to dial that back a little bit still gives the North Korean regime tremendous sustenance, and that's what it's really all about.

And I think it's a real shame and I know a lot of Chinese observers agree with me, it's a real shame that China's foreign policy portfolio is so seriously damaged by its dysfunctional relationship with North Korea. I think it has a lot to do with party politics more than national interest. And I think it's a real shame for China, it's a real shame for the region. And the opportunity costs in terms of trust-building and in terms of confidence-building in Northeast Asia are huge. China's losing a lot in this process.

MR. BADER: I guess I did have a couple of points. First of all, it's very clear to me that Xi Jinping does hold a more hostile view towards Kim Jong-un and towards North Korea and the regime than his predecessors. So that's obvious in any number of ways and in any number of Chinese interlocutors will tell you that directly.

The fact that his first visit was to South Korea and North Korea's not on the horizon tells you something. Chinese senior officials have told me of measures they have taken to constrain or damage relations with North Korea. They're all aware that their relations with North Korea are perhaps the worst they've ever been.

And speaking to senior South Korean officials recently, what they have said is when they speak to Beijing about North Korea now, what they hear from Beijing sounds shockingly like what they hear from Washington. That's not my opinion. That's what South Korean officials are saying.

MR. POLLACK: I might just add to that that some of the very high --
yeah.

MR. BADER: (inaudible) ranking positions.

MR. POLLACK: This has seeped into Chinese public commentary, as well, significant public commentary. Again, they're drawing their own conclusions in their own way. I agree with Tom that they're frittered away a lot of possibilities and opportunities here. If you really want to give a very, very specific manifestation to how you work and some measure of common purpose, if you really believe there is some new model of --

MR. CHRISTENSEN: Let Jeff finish. He's about to agree with me.

MR. BADER: I'm going to work my way towards agreeing with Tom. I'm circling around.

MR. POLLACK: He's just circuitous, yes.

MR. BADER: And the North Koreans clearly know they have a big China problem, which is why they've been reaching out to Japan --

MR. POLLACK: Exactly.

MR. BADER: -- so Prime Minister Abe of all people.

MR. POLLACK: Right.

MR. BADER: That's why they've been reaching out to Russia and why they're doing their own fumbling version of reaching out to the U.S.

Now, as Tom said, we have a September 2005 agreement. That's how you reach out to the U.S. And the North Koreans have persuaded themselves that they can release a prisoner and that that constitutes a détente.

There are only two ways in which North Korea can ever reach out to the United States. One is by serious commitment to denuclearization and the other is

through a serious commitment to economic reform, which can only be tied to the serious to denuclearization.

So, I guess at the end of the day I come out kind of where Tom is in being skeptical that we'll see dramatic changes, visible changes in Chinese behavior towards North Korea, that, you know, bring North Korea to the point where we want them to be. China's lost some leverage with the deterioration in their relationship and there are within the Chinese system significant constituencies, particularly in the PLA and in the party, who have these longstanding nostalgic lips-and-teeth type tight relations with the North Koreans. So this is not a simple thing for this ocean liner to change course.

MR. POLLACK: Yes, David, right there.

MR. SEDNEY: David Sidney, formerly with the State and Defense Departments. A question for all three.

The other big rising country in Asia is India. How do you see that playing into some of the dynamics you talked about, maybe not just in terms of events next week, but over the next two years?

MR. POLLACK: Who's our leading India person here?

MR. CHRISTENSEN: Who's our leading India person? Jonathan.

(Laughter)

MR. BADER: David, let me just start with something. I thought that Xi Jinping's visit to India was a staggering lost opportunity the way it played out.

SPEAKER: Yes.

MR. BADER: I mean, clearly, Xi and Modi wanted to put this relationship on a more solid track than it's been in the past. They both see benefits in a better relationship than China and India have had. And then, all of a sudden, on the eve of the visit you have the Chinese ambassador to India who's been at post for, I don't know,

some months, suddenly recalled for unknown reasons.

Then you have episodes along the line of control, which replicated the same pattern that occurred before. Li Keqiang visited a year earlier, after which they reached agreements on new mechanisms to prevent such episodes. Modi raised the issue in, as best I can tell from the Indian press, in like three different occasions with Xi Jinping during the visit.

What exactly happens? Who on the Chinese authorize who to do what? I'm not making assumptions about who caused it or who did what, but Xi Jinping could not have been happy about having Modi take over the meetings with him with the actions of a platoon up in the mountains. And I'm seeing some of the subsequent press commentary in India, which has not been favorable or positive about the relationship.

So wherever they're going, they're going on this. And the BRICS bank, obviously, is an attempt to try to build some sort of solidarity and they clearly work together or are in parallel on lots of issues, like climate change, for example, a position in contradiction to the U.S. They didn't get off to a good start.

MR. POLLACK: I was just going to add to this, when Modi was chief minister in Gujarat, he traveled to China, I think on three or four separate occasions, took examples particularly from Guangdong about things that India could do and, indeed, in Gujarat he felt that he had some real successes along these lines. So I think that Xi or for whatever reasons or China writ large frittered away a significant opportunity here, it doesn't mean that the door is any way shut.

I think it would be exceedingly healthy if we had a much more productive Sino-Indian relationship that recognized that India has a serious prime minister who has clear intentions to make more of his country and its position in the world than heretofore had been possible. But it's yet again a reminder of the kind of slippage that often

happens in the Chinese systems for reasons that we really don't well understand.

And again, I would only note here the irony, we think of Xi Jinping as this (inaudible) command model, but some of the times the theory and the practice seem at some significant variation. So we will see, but I clearly think that Xi decided -- Modi decided to limit what could have been a much more productive visit than actually occurred.

MR. CHRISTENSEN: I'll say one thing about India as it applies to a lot of regional actors. I think India has an important role to play in that China needs to understand that some of its assertive behavior in the region is causing trouble not just with Washington and Washington isn't behind everything, it needs to understand that that behavior is leading to closer relations among Asian states, among themselves. And I think India has a real role to play there.

I think, you know, it's healthy for India and Vietnam to get along -- have closer relations as China does some of the activities either on the land border or at sea. It's healthy for Japan and the Philippines to tighten their relationship. It would be healthy and it's a shame that it isn't happening for the Japanese and the South Koreans to get along better in response to their common challenges with North Korea, which has an indirect impact on China's foreign policy towards North Korea.

And I thought that Jeff and company handled this extremely well in 2010. I was in China at that time on leave. And China really noticed when North Korean behavior started to create a tightening between Japan and South Korea and the United States, but in that order. Japan and South Korea, because these, from a Chinese perspective, are cats and dogs sleeping together. Right? So you have a very unusual situation.

And when they were brought together by North Korean behavior I think it

really got their attention. And from all public reports, it seems that China took a more constructive position on peninsula affairs late in the year and I think that was an accomplishment of the first term of the Obama administration in a very difficult time.

MR. POLLACK: Cheng.

MR. LI: Cheng Li, Brookings, China Center. Excellent panel. I have one quick comment and also a question for Jeff.

The comment is that, Tom; you not only represented the Chinese Communist Party's perspective, but also share your experience in the Republican administration. I think this is particularly wonderful for Brookings really, I mean, reflect the best tradition of Brookings. Thank you.

MR. CHRISTENSEN: Because political maps, there's very little overlap between Communist states and (inaudible).

MR. LI: Sure. (Laughter) The question for Jeff, you know, I look at the basket of issues you outlined, the expectation. On the economic front you only mentioned about a bit, so there's not much on that front. I understand this is the panel for security, but, on the other hand, both sides really have high expectations to discuss about economic issues. So if that's the case and the bit also will not lead to any concrete result in the near future, so do you think this will be perceived as kind of a lack of success on both sides? Particularly the APEC meeting is about economic issues and out of that, also, there's a concern, there's an expectation or kind of people's sentiment just hope that something on the economic front will be achieved.

MR. BADER: Well, I think -- I have very little doubt that the President and members of his team will talk about the implementation of the anti-monopoly law. That's been a huge concern to American business and you all are familiar with the issue, the way in which mainly the NDRC, but other agencies, as well, have used the anti-

monopoly law to impose fines and trade remedies for supposed monopolistic behavior on foreign companies.

Now, the Chinese respond, we're doing it to domestic companies, as well, but there are sort of standards that have been developed in the United States and in Europe and elsewhere for how one applies anti-monopoly laws. And China's fairly new to the game and I think that certainly there are elements in NDRC that want to use the law for protectionist purposes. In some cases, it's simply inexperience. So I think that that issue will come up.

Another economic issue that's been touched on, not so much a bilateral issue, and I tread in this area with some trepidation, is the Asia Infrastructure Investment Bank. I doubt that President Obama will be raising it. It's conceivable that the Chinese may be raising it. Without commenting on the administration's policy, which is somewhat murky and hard to read since they haven't said very much publicly about this institution, my personal view is that given the massive infrastructure needs in Asia, the idea that more resources are being proposed by China and potential partners is something that should not be dismissed lightly; that there should be an active dialogue with the Chinese by the U.S., by the South Koreans, the Japanese, the Australians, the others who have not participated on what kind of a bank would satisfy the basic requirements of the international system, conform to the best practices of the World Bank and the ADB.

I think that for countries to simply stand outside and say this is a bad thing and countries should not accept funding from this institution for needed dams or highways, and then when they come back and say, well, can you help us and the answer is no, but don't take money from them because we don't like them, I'm not sure that's a compelling answer. (Laughter) But I think even more fundamentally --

MR. CHRISTENSEN: Stated mildly, right.

MR. BADER: But even more fundamentally, this AIIB is kind of an interesting example of how we deal with the rise of China. Do we see here is a China that suddenly is bringing massive resources to a problem, potential resources to a problem? And we are rightly insistent on the importance of multilateral norms for how such institutions work. Well, isn't this an opportunity for us to put these two things together and say that China is bringing new resources to a situation, the world has norms that have operated, well, can't we marry these two things together rather than simply saying let's go to our respective corners and fight?

So I don't know how the issue -- you know, I've probably gone further than I should.

MR. CHRISTENSEN: What he said. I agree entirely.

MR. BADER: But I think that's an issue that deserves a lot more discussion than (inaudible).

MR. CHRISTENSEN: That's what I was saying earlier, Jeff just said it better.

MR. BADER: He said briefer.

MR. POLLACK: We have time for one last question and I see a hand right there.

MR. NORRIS: Thank you. Will Norris at the Texas A&M Bush School of Government. I'm here this year at Carnegie for the year.

I had a question and I was wondering if the panelists could just kind of give us their impressions, maybe a nice one to wrap up with, your interpretation of Xi Jinping and Xi Jinping's impact on China's foreign policy, both regionally and globally. And you've each kind of touched on it, I think, in your initial opening remarks, but I wanted to give you a specific mechanism by which you can tell us a little bit more about

how you view Xi Jinping and his influence on China's grand strategy or where it's headed. And that is at the end of his time in office, what would you envision Xi Jinping's definition of success looks like in a security context in the region and globally?

MR. CHRISTENSEN: You know, when Jonathan sent his organizer's email to me, he asked me to talk about how Xi Jinping and the top leadership in China view the United States and the region. I just don't know. So there's not a lot of transparency in that system. I had the pleasure of spending about an hour with him when I was in the government, when he was vice president, and I was quite impressed with his ability to talk about things all around the world, even though his job at the time was the unhappy task of running the Olympics, which, you know, you had to succeed, right, so it was pretty high stress. But he did a terrific job of going through the entire world with my boss, Ambassador Negroponte, who was running the senior dialogue. So I was very impressed with his skill and intelligence.

I don't know what he thinks about these various problems. China has various claims that it's claimed for a long time and it finally has the capability to do something about them. And I'm not so sure how he differs in substantive ways from an invented Chinese leader that you would put in his place.

I can be sure that since he's a political type that whatever happens, at the end of this year it will be declared a success. Right? (Laughter) He will have achieved lots of things. Whether he will actually be satisfied or not is more of a personality issue.

I don't think he's raring for lots of fights. I don't get that impression. I do think that there's plenty of room, given China's domestic fragilities, perceived domestic fragilities -- I don't even know if they're real, but perceptions are reality in politics sometimes -- they're perceived domestic fragilities that he could stumble into a lot of real

problems in being assertive on the claims that already exist, and that's what worries me.

And I'll just close by saying in 2000, I wrote an article with Richard Betts, in which I said we're worried about China's rise and how it's going to manage these disputes. Right? And I said we're not picking on China here on a cultural level because if China handles its rise as badly as the United States did in the late 19th century and the early 20th century, then that region's in big trouble because I think it's that kind of jingoism and it gets into that kind of mess, like we did with Spain in the late 19th century, the region's going to be in big trouble.

So let's hope that doesn't happen and let's hope that his success is a non-event, which is he avoids that outcome.

MR. BUSH: It's an interesting question. I can only speculate. I mean, I would think that if in 2022 he could point to a more explicit understanding with Taiwan's leaders about what One China meant and how Taiwan fit into that, if he would look out over East Asia and believe that Asian governments were somewhat deferential to China's interests, if he believed that the United States was sort of more accommodating to China than it was when he came in, that from his point of view should be seen as a huge success. I don't know if that's what's going to happen. I sort of would sketch out a different version of the future.

If I have a concern, in addition to the ones that Tom mentioned, it is that he has just a very general sense of where he wants to go over his tenure as general secretary, and may be surprised, maybe has already been surprised, at how his general approach is leading to reactions and outcomes that were not what he expected or was led to believe he could expect.

MR. BADER: I think those answers were on the mark. The only thing I'd add is I think he is not a rash man. I think he's decisive, but not rash. And I think his

view is that the incremental approach towards Chinese expansion of influence in the region and globally has been successful. And there's no reason to abandon that by a sudden Hail Mary. I think that the goals are, as Richard laid out, having a greater sway, greater influence over its neighbors and having the U.S. respect its position in the region, but not a tense relationship with the U.S. The problem is, of course, there can be miscalculations and there are a lot of opportunity for miscalculations in all of the issues that we have in the region on which we have different views.

MR. POLLACK: Thank you to all the panelists. I wish we had more time. I know there were a number of other hands going up, but all of you have been very, very patient and attentive. I hope you have taken a great deal from the day today. We certainly have.

Let me also in closing thank the members of the Thornton Center staff, without whom this event would simply have not been possible. I see one directly in the back. (Applause)

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