

CHINA-2017/01/24

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U.S.-CHINA RELATIONS IN TRANSITION:
THE TRUMP ADMINISTRATION AND THE 19TH PARTY CONGRESS

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Introduction:

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P R O C E E D I N G S

MR. JONES: Good morning, everybody. My name is Bruce Jones. I'm the vice president and the director of the Foreign Policy program here at Brookings. And it's my pleasure to welcome you here today for the launch of Cheng Li's book, "Chinese Politics in the Xi Jinping Era: Reassessing Collective Leadership."

Of course, we are at the moment when lots of people are reassessing leadership in lots of different countries. And as the Trump administration begins its tenure in Washington, the eyes of the world are on us. Across the globe questions about America's role and how it will proceed, and front and center in that discussion is the U.S.-China relationship, which is clearly in play.

And today, in going forward, Brookings scholars will continue to catalyze the discussion around the important geopolitical and geo-economic issues in that relationship and its implications for the world in which we live.

And to help us with that discussion today we are delighted to have the former secretary of commerce, the Honorable Barbara Franklin, joining us for this morning's keynote address. She will share insights from her extensive experience working directly with Chinese leadership and the U.S. leadership. Her trailblazing career, I think that's the only way you could describe it, and it touched almost every sector, corporate, governmental, economic and entrepreneurial.

She's an expert on corporate governance, on auditing, financial reporting practices and on trade. She currently serves as president and CEO of Barbara Franklin Enterprises, an international consulting firm. Her extensive experience and expertise, first with the retention of President Nixon, and she served also for President George W. Bush, as the 29th secretary of commerce.

And in that role I think many of you will recall her historic trade mission to China, which was instrumental in reopening commercial relationships between the two nations. I'm trying hard to avoid already asking her a question about current trade policy. But we'll no doubt come to that. Needless to say, we are looking forward to her thoughts on the U.S.-China relationship.

And following her remarks, Cheng Li will present his book, "Chinese Politics in the Xi

CHINA-2017/01/24

Jinping Era: Reassessing Collective Leadership.” As you know, he's the senior fellow here at Brookings, and the director of our John L. Thornton China Center. His work highlights trends in Chinese elite politics, and also shares his forecasts about leadership change, potential leadership change with the outgoing 19th Party Congress.

He is a China scholar who needs no introduction. His book, which I have to say, I think is a master work -- and I don't use that term lightly or commonly -- has solidified his status, as what Andrew Nathan recently called our leading expert in the Chinese political elite, and a leading Chinese scholar in general in the United States.

We are very proud of Cheng Li and of his book. I frequently travel to China with Cheng Li, and everywhere we go, we meet very senior Chinese leadership, and what happens is, we'll have a discussion, and then they kind of push me aside, and pull Cheng Li over and say: Can you tell me what's really going on? And it's quite impressive to watch. So, we are very honored to have him here, to have him as the director of our China Center, and I'm very proud to be a small part of helping launch his book.

But for now -- and I'm sorry -- following his talk, we'll have a broader panel discussion on China-American relations with David Lampton, Richard McGregor and Dennis Wilder; and I'm very pleased that our own nonresident fellow and staff writer at The New Yorker, Evan Osnos, will moderate the panel today.

So, with that, thank you all for being here. And please join me in welcoming The Honorable Barbara Franklin. (Applause)

MS. FRANKLIN: Good morning. And thank you very much, Bruce, for that generous introduction. I'm delighted to be here, and I have to tell you, speaking of momentous change, I just wonder what has happened between the time I left home and arrived here. So, this promises to be a year of momentous challenge and change, possibly change, in the relationship between the United States and China.

And today I'm particularly talking about the economic side of that relationship. And a relationship that I believe is the most consequential bilateral relationship in the world. Now, it's obvious, to state the obvious, on the U.S. side, the change is the election of President Trump. And on the Chinese

CHINA-2017/01/24

side, Cheng Li will tell you what changes are going to emanate from the 19th Communist Party Congress in the fall.

But first to think back for a minute about the Sino-U.S. economic relationship. It has grown exponentially since 1979 through both Democratic and Republican administrations, from a modest beginning two-way trade is well over \$500 billion. And I'm proud to have played a role in restarting that economic relationship when President Bush sent me, after he lost the election in 1992, to both remove a ban on government-to-government contact, but also to restart the U.S.-China Joint Commission on Commerce and Trade, JCCT, getting the economic relationship started again after a rather more few years.

And now, of course, I think we all know that China is the third largest market for U.S. products and services, a \$400 billion market that many think should be even larger. And according to a new study prepared for the U.S.-China Business Council, by Oxford Economics, the trade relationship, two-way trade relationship supports roughly 2.6 million American jobs.

Now, turning to President Trump. Who, as a candidate said a lot of things about China. He pointed to the trade deficit more than \$300 billion in China's favor, and he says, that's a drag on U.S. GDP growth. He said the U.S. has lost millions of jobs to China, he said China engages in unfair trade practices and currency manipulation, and has threatened new tariffs on Chinese products. I'm sure we've all seen all of that stuff, 45 percent is one of the figures that was mentioned. In other words, he is calling for a rebalance in the U.S.-China trade relationship.

Now, concurrently I am fascinated and encouraged by President Xi Jinping's recent speech, particularly the one at the World Economic Forum in Davos, where he lauded, "Economic globalization and free trade and investment." He had some wonderfully poetic language in that speech, it's an absolute masterpiece, and the quote I particularly liked is this one, "Pursuing protectionism is just like locking oneself in a dark room, while wind and rain may be kept outside, so are light and air." Wonderful quote.

Now, the U.S. business community has also applauded President Xi's comprehensive agenda for economic reform that was put forth at the 18th Communist Party Congress in 2013. Yet, so

CHINA-2017/01/24

far, we don't see too much specific progress.

A key question here: Do both leaders mean what they say? Now, I'm not going to pretend to read the mind of either one, I'm going to leave the Chinese side to Cheng Li, but I am going to comment about President Trump, based not on reading his mind, but based on what I'm seeing, hearing and watching him do so far. And what I also know from decades of participation in the political process here, is that campaign rhetoric often dies down and disappears once the reality of actually having to govern, sets in for a new President.

This time, however, I think something is different. When he was running for President, President -- now President Trump, gave voice to the frustration and anger felt by millions of Americans who felt let down by the ruling establishments of both political parties. And they elected him, because I think they thought he was serious about making the changes he advocated.

In his Inaugural Address last week underscored what he had been saying in the campaign. And I would note that one point in that address, he said forcefully, "I will not let you down." So, what I think is different this time, is the sheer determination with which President Trump, his Cabinet, and advisors will pursue the changes he campaigned about. And change in trade relationships was one big issue, and of course that includes the rebalance with China.

And we can see already what he's been doing, talking about renegotiating NAFTA, and then pulling us out of the TPP just yesterday, by Executive Order.

The further evidence to support the determination, I believe I see, is the appointments he has made, and the views that those people have expressed. Now, Commerce Secretary Wilbur Ross, for one, and I know you here at Brookings know him since he has been a Trustee for some time. He used to have a big role in trade policy, and he has been quite outspoken about the things he believes China isn't doing properly, and if anyone has read the transcript or watched his confirmation hearing, you will have seen and heard a lot of those comments.

There is Bob Lighthizer, who will be the Trade Representative, he also has an outspoken point of view on some of these trades, trade to activities, particularly enforcement. And then there is Peter Navarro who Heads this National Trade Council in the White House. Now that is a new animal, and

CHINA-2017/01/24

we'll have to see just how that works. But he, too, has spoken and written very candidly about China, and is very hawkish. And this is going back some years.

And, if we look at the whitepaper that Wilbur Ross and Peter Navarro authored during the campaign, their concerns about China and where this relationship should move in the -- forward, I think is really quite clear.

Now, in addition, President Trump, in his own words, and by all accounts, is a master negotiator. So, it may be possible that what he has said during the campaign and what he might do subsequently, is the opening round of a negotiation with President Xi about the changes the U.S. would like to see in this relationship.

In any case, however we look at what is going on now, and what we are seeing so far, I believe everyone ought to take seriously the determination for change that I see coming out of the President, and so far, this administration.

Turning to the Chinese side, there are some things that China could do that we'd like to see to start the rebalancing. First, market access: the U.S. market is wide open to Chinese imports. The U.S. has been very welcoming to investment from China which has skyrocketed in the past few years, and yet the Chinese market still has some 100 sectors which are closed or restricted to foreign investment.

Now, opening these sectors could make a good start at the rebalance; so could finishing the negotiation for the Bilateral Investment Treaty, the BIT. I know the State Council has made some moves in the opening up direction, but we haven't seen, yet, the results.

Second, China has a variety of tariff and non-tariff barriers to trade, I won't try to enumerate those, but a lot of us know what they are, and I think China could work at lowering those.

Thirdly, China has an overcapacity problem in some industries, notably steel and aluminum. And that has caused the dumping of those products at below market prices in various countries, including the U.S. Now, the U.S. has been working for years on the steel issue, and just a few days, 10 days ago actually, Mike Froman, the outgoing Trade Rep, filed a complaint with the WTO alleging that China is illegally subsidizing aluminum, and saying that this overcapacity problem really

CHINA-2017/01/24

should be corrected. And we hope that China will work harder on correcting the overcapacity issues.

The final thing I will mention here, is the state-owned enterprises. Chinese companies, particularly those SOEs, often receive benefits that give them a competitive advantage over foreign companies, and that the U.S. side very much supports the kind of reforms that have been put forth for the SOEs.

Well, given this situation and all, the different kinds of issues that are moving around there on the economic front, there is a lot to talk about, and it's important that the two sides continue to regularly engage with each other, just as they have been doing for the past few years. They are a multitude right now, 50 or more, of governmental bilateral summits and dialogues, such as the Strategic and Economic Dialogue, the U.S.-China Joint Commission on Commerce and Trade, JCCT, and many others.

These or something similar should be continued even if the new administration wants to restructure them. And I would say, parenthetically, I think the S&ED does need to be rethought, it's gotten too big and too cumbersome, and quite frankly, I'd like to see the economic side of it, just stand by itself the way this all began a few years back. Anyway, stay tuned. We'll see what happens here.

But the point is, that these dialogues provide a serious and a regular way for those who lead the two largest economies in the world, to talk together, identify problems and work to find common ground to overcome them. But, there's a big "but" here. But there must be leadership from the top. The tone and priorities for these dialogues must come from the two leaders.

Therefore, a great deal is riding on the relationship that will develop between President Trump and President Xi. I'm hopeful that the two of them will meet and talk regularly, and will establish a personal relationship. They've had an introductory phone call which from all reports was cordial, with both expressing a desire to work together. And I'm hopeful that they will, can and will look for ways and issues on which they work together for the good of both countries as well as the global economy. And where there are disagreements, and we know already that we have some disagreements, I'm hoping that they will look for common ground to begin to find solutions.

A trade war, as some are predicting, harms both countries, creates uncertainty for many

CHINA-2017/01/24

other countries, and is an activity that has no place anywhere in the interconnected global world of the 21st Century.

So, I think that this is not going to happen. I think it will be averted. Instead, I must believe that these two leaders are pragmatic, that they understand the stakes and the need to continue a stable relationship. So, they should, and I hope, will start the kind of communication and negotiation process that will be a win for both countries and the global economy.

Just one final observation here. And it's this. It's true that when there's so much change possible, and so many moving parts, there's always opportunity in it. There's opportunity for new understanding, innovation in ways of doing things, new processes, just new thinking. If, if we have the will, the leaders now, have the will to seize that kind of opportunity. It's a big if, but I really am hopeful that they will do that. Stay tuned for this too.

And there's one more thing. All of us in this room, I believe, are here because we care about the stability of this relationship between the two countries going forward. And it has great importance, not only for our countries, but for the global economy.

Now, we all have friends, and colleagues, and networks, on both sides, on the U.S. side, on the Chinese side, or both, now is the time to motivate ourselves and our friends, colleagues and networks, so that we can all do what -- everything we can do from where we sit, to help this relationship go forward in a stable and productive manner. Thank you. (Applause)

MR. LI: First, thank you, Bruce, for that overly generous introduction. And I really thank you for the strong support for the China work, in general, and also my work on the Chinese leadership, especially this book.

It is really incredible honor to share the stage with Secretary Franklin, and to have her Keynote at this event. Barbara is a personal friend for many years. But most importantly, more importantly, she is a great pioneer and a strategic thinker, and really, in every sense of those words.

From her early work in the Nixon White House to recruit women for high-level government jobs, is demonstrated in your book. And also particular efforts to normalize trade and relations with PRC, and as President George H. W. Bush's Secretary of Commerce, and to her service

CHINA-2017/01/24

almost to 20 international businesses, or American business corporation. And that will promote trade in the international economy.

So, it's really wonderful to have you at this critical moment. I think your remark is both realistic, but also optimistic. It's really fascinating.

MS. FRANKLIN: Thank you.

MR. LI: Now, in a little while, I will present, you know, about the Chinese leadership, but I think that we wanted to have that opportunity to spend 10 to 15 minutes to the audience, to ask you some questions. If you don't mind.

MS. FRANKLIN: Mm-hmm.

MR. LI: But let me ask the first question. President Trump certainly has a very ambitious plan for infrastructure development. Based on your experience, could he do that without China's capital, maybe even China's input? Is that realistic in today's world? Maybe change a little bit: Can China benefit from this gigantic infrastructure project, from your expertise? So this is my question for you.

MS. FRANKLIN: I've been told that China would like to engage in this infrastructure project. I would think that there will be many, many players in this infrastructure project. And where that goes, given everything else that President Trump has said about America first, I'm not entirely sure right now. I'm not entirely sure. I think this is one of the things we need to continue to watch. But I do think America is still open for investment. I don't think America first is going to change that.

MR. LI: Especially by the state government actually (crosstalk)?

MS. FRANKLIN: And, yeah, we know that our state governments are often more welcoming than some others are. So, I don't know. I think this is a very good question, and it will be something to follow as we get a little more clarity about where this infrastructure project is going, and where the funds are coming from -- at the governmental part of our (crosstalk).

MR. LI: Okay. Great. So, please, raise your hand, and also state your name and your affiliation, and also limit your question for one. John?

MR. ZANG: Thank you, Li. Madam Secretary, you have been --

MR. LI: Identify yourself.

CHINA-2017/01/24

MR. ZANG: John Zang with CTI TV of Taiwan. You have been realistic and optimistic, but if I ask you to give us a worst-case scenario, what can a trade war between the United States and China take us? Where can that take us? What is the worst-case scenario? Thank you.

MS. FRANKLIN: I don't even want to go there, because I really don't think -- this is the optimistic -- I don't mean to be Pollyanna, but never is a -- reality does set in when people have to govern. It really does. And other influences come to bear and consequences become more apparent. I just don't think it's going to happen. I think we've got two pragmatic leaders here. I hope I'm not wrong, but I think we do. And so somehow, somehow they will find a way out of the clashing of points of view right now. But that's what negotiation is all about, it's to find some common ground. So, I don't want to go there and even paint the picture of a worst case. So, call me optimistic, but I am.

MR. LI: You are also very diplomatic, that's what -- The gentleman.

SPEAKER: My name is Alex Syme from Russia, a Fulbright student at George Washington University. A representative of probably the only country that's really excited about this new page in history (laughter). Myself, very excited as well. I am very sorry for -- well, I'm being very happy about what's going on.

But anyway, my question is about the Chinese barriers, the Chinese protectionism, the Chinese favoring of local producers, local protectionism, and other barriers that China had -- did not pull down, which I guess, has made commitments to do, and that Davos, I guess, as the newly pronounced leader of the globalized world, it will probably have to set a standard in liberalization of international trade.

I see a lot of people in Trump administration are sort of like ratcheting the bargaining position, almost and even thinking about weaponizing Taiwan, and many other issues, and it sounds like they want to open China. It's like a wrecking ball for genuinely opening China. Just like maybe Reagan's threats against Japan were to open China.

The question, I'm sorry for that. The question is, do you see that this could be as successful as Reagan's opening Japan was? Thank you.

MS. FRANKLIN: I think I don't accept that that's what they are doing, for openers. So, I don't know how to answer that, I guess. But I don't see a wrecking ball here. At least not yet.

CHINA-2017/01/24

MR. LI: Well, I'll just follow up. And President Trump constantly, or frequently during campaign compared himself with Reagan. And as a person, you worked for that administration, with President Reagan before, right? Did you work also with his --

MS. FRANKLIN: Yes, I did.

MR. LI: Yeah. Is there any similarity from your perspective? (Laughter)

MS. FRANKLIN: I think it's too soon to tell. So far not too much, but it's too soon. I do think, it's been amazing in a way, the alacrity with which this President has started to do things that he said he was going to do. And I think that has got to play well, certainly, to the people who voted for him. Now, where this goes, and will it be a sustained level of activity, because things get tougher after a while. You can do a few things, but then, you know, he needs the Congress to do some things, or two at least, help to implement his ideas. And there are other forces that come to bear. I think it's a little too soon to make any big pronouncements. So I'm just -- but I will leave it at that.

I've been, I guess, both impressed and amazed so far at the force and the determination, and the alacrity with which he has gone after some of the stuff. Like the TPP, like anything.

One other thing, you were getting at a little bit at something that I didn't say, that I think concerns U.S. business people. And that is this, if there is tension in the relationship, I'm now moving over to the other side of it, to the strategic or whatever, the South China Sea, or whatever kinds of things might happen. When there is tension it causes, I think, business people to get nervous, and it causes uncertainty, and that kind of thing could impact the economic relationship. That is the point I just wanted to make.

MR. LI: Okay. I'll probably take a few, and probably we close -- Yes, the young lady first. Yes.

MS. LI: Thank you, Dr. Li, and Secretary Franklin. I'm Jiangning Li with Shenzhen Media Group. So, the U.S. has just pulled out of TPP, and Chinese Prime Minister also immediately afterwards that China has made good progress on RCEP negotiations. And in your opinion, is it likely that China will complete the negotiations in the near future? And what does it mean for the economy in China and the Asia-Pacific?

CHINA-2017/01/24

MR. LI: We will take a few questions together. Yes, the gentleman next. Okay. Hold on, maybe probably together, because it's (crosstalk).

MS. FRANKLIN: Oh. Okay.

SPEAKER: I'm (Inaudible), Portfolio Manager for Raymond James. So, but my question is kind of driven by, and which I find interesting, that you believe Donald Trump is pragmatic. You know, what do you feel from your, either personal experience with the team that is he engaged with him, or maybe overtly that drives you to think that he's going to approach these in pragmatic way?

MR. LI: Okay. The last question, Mr. Chen.

SPEAKER: Chen Weihua from China Daily. You know, you just quoted President Xi's poetic, you know, remarks in Davos. So, I mean, the impression about Donald Trump is going to retreat from the globalization free trade. So what do you think, you know, the leadership in global trade or free trade globalization is going to look like in the coming -- in the Trump era? What role China can play, and what it takes for China to play that role? Thank you.

MR. LI: You have three questions. TPP, and pragmatic, pragmatist as President, and President as pragmatist; and our last one is China -- potential China's leadership, or any leadership, I mean, in the global integration.

MS. FRANKLIN: Let me start with pragmatic. And the reason that I think that is because of the business empire that he has built. He's got to be pragmatic to have done that. And I don't see him as an ideological person, the way some Republicans are ideological. I do not see that. I see him as someone who wants to get results, and I think want to get results, I think you have to be pragmatic and you have to negotiate, and you have to do what he's done. So that's where my comment about that comes from.

TPP, let's see. Yes, I have to say I've been a supporter of TPP, but it seems as though that support on both sides of the aisle seems to have evaporated, or lessened. I do think -- and I don't know what you were asking about RCEP, the Regional Comprehensive Economic; I don't know where China is in the process, or those countries. That's an agreement that's not as high a level agreement as TPP would have been.

CHINA-2017/01/24

If we are not going to -- if the U.S. is not going to be engaged in TPP, I do not believe we can just walk away from other trading partners in Asia. There are some big countries there -- Japan being one. So I think that the U.S. will have to, whether it's bilateral or something else, have some kinds of relationships with some of those other countries if absent the TPP's situation. What was the --

MR. LI: The last one about the international leadership.

MS. FRANKLIN: Oh, leadership. Well, I think this remains to be seen. I do believe that the two biggest economies in the world are both going to have to show some leadership here. But the U.S. still is the largest economy in the world, but it underscores the reason why these two largest economies must come to some common ground with some of these issues that are dividing them. I mean, to me there is no other choice. There is no other choice.

MR. LI: Is it okay, to take one more question?

MS. FRANKLIN: Mm-hmm.

MR. LI: Okay. Yes?

SPEAKER: Thank you, Dr. Cheng Li. This is Solia from VOA. You did mention, Madam Franklin, you did mention the newly established White House National Trade Council, I'm just wondering if you can tell us a little bit more about this new organization, what kind of role it's going to play in the U.S. trade policy towards China? How it's going to work with the other government agencies that deal with trade relationship with China? Thank you.

MS. FRANKLIN: Well, if I knew that, I would be a mind reader. I think it remains to be seen. And this is something to watch. This is new. And another element here, and as we have to watch going forward, besides the two leaders and their relationships, are the relationships among these other players who are also new to this ship, which, be the Commerce Secretary, the Trade Rep and the Peter Navarro.

Now, those people haven't all worked together before, and we have to see how all of that's going to work, and whether -- how they work with each other, and how they do what the President wants them to do. And I have no answer about how all that's going to work. But this is one of the kinds of things that I think we all have to be watching as this administration goes forward, and as these people

CHINA-2017/01/24

actually get into their jobs.

They are not all in their jobs yet either, so I think we have to see. Lighthizer still has a -- I don't know if that hearing has even been set. Has it? Does anybody know? He has not had a confirmation hearing yet. Wilbur Ross is not yet confirmed. I expect he will be soon. So, we've got to watch all of these relationships and how everybody works together.

I'm one of these people who believes that relationships count; relationships count, leadership counts, because this is a really basic stuff. Tone at the top counts, from my corporate world, getting back to leadership, yeah (crosstalk).

MR. LI: Well, you said so well, leadership counts, public discourse count; public policy count. I mean, you're absolutely right that this still so early, and too early that he has been in White House for few days. And of course it's a lot of adjustments, there's a lot of learning curve, and also, you know, along the way as you -- you know, it's almost every administration there will be learning curve, but for him, of course, we should give him some time, et cetera.

But what you said is very, very important. You lay out the ground, lay out issues, and also express the importance and also at the 21st Century, the global economy should look like. And also you constantly emphasize the win-win.

Now, I'm sure that in our panel, we also have some experts on economic affairs, and will continue to address the issue. I apologize to some of the audience that I cannot -- you know, because of time concern. And also Secretary, also has some other engagements, that you also have a very busy week. And I hope that --

MS. FRANKLIN: I'm staying to listen you --

MR. LI: Besides, you probably also would look, you know, look at the Twitter from the President in some (crosstalk).

MS. FRANKLIN: We need to see what's happened since we left.

MR. LI: Okay. But again, thank you for joining us today, and also for sharing your really incredible wisdom at this critical moment in world history, especially on world trade. I mean, this kind of regime that is still unfolding. And I want the audience to join me to thank you again for giving -- sharing

CHINA-2017/01/24

(crosstalk) with us. (Applause)

MS. FRANKLIN: Thank you. Okay.

MR. LI: It's a very difficult followed step. But anyway, that I will now move from, mainly United States to China. Talk about Chinese leadership. Of course this year there will be some other elections in Europe, other leadership changes around the world. But probably it's fair to say that Chinese leadership change in the fall this year, will be very, very important.

It's clear today than any time before that China now expresses its aspiration to play a leadership role on global stage, for the economy, maybe climate change, or maybe even lead the security domain.

But of course, that compared with the United States, that when we have the election everything -- so much things raised, a lot of details. Probably what we experience in the past few months was probably the least civilized, you know, presidential election, so a lot of noises, a lot of dirty politics.

But in China, it's quite mysterious, and sounds like, you know, people said that the black box manipulation going on. So my book which was published just two months ago, try to demystify a lot of things going in China, in Zhongnanhai. And the book, it's quite long, it's 500 pages, originally it's 600 pages, and during the first proof, but the Editor said, no, I mean, this is too bad, we are supposed to be using the text book for graduate school, or high-level undergrads. She said this would be so intimidating, they wanted me to cut.

But I said, no, I don't want to cut, I spent three years on that one. So, as a compromise they changed the size -- the font, the size, (laughter) so everything -- no paragraph is cut, still 500. It has 84 charts and tables, I will share some of them, 800 footnotes, it's quite long, 200 Chinese terms, most of them are new terminologies. And finally, 600 Chinese leaders, among them 500 are current leaders.

This is based on the database I began to establish 30 years ago in 1987 as a graduate student at the UC Berkley, in over 30 years, I built up a database about this so called Zuzhibu(组织部), the organization department designated appointees, about 4,000 at a certain time, altogether. It's about 30,000, almost 30,000 people in the database. But of course I focus on -- just, I will mention in a minute, about Central Committee Members.

CHINA-2017/01/24

Now, in the next, maybe 30 minutes, or so, I will cover three topics. One is to share with you the objectives of the book, or the issues raised in the book, and why -- or basically, why did I write this book? There are so many books about Chinese politics, or Chinese Elite politics. So, how this book differs from others.

Secondly, to talk about the methodology, and findings in term of how does this book approach the issues raised. And finally, it's the argument we'll try to -- what I try to argue, and also the outlook about the upcoming leadership change in the 19th Party Congress.

Now, I'll talk about objective. Certainly there are few things in my mind, and one is try to explain, the background and the reasons for the drastic change under Xi Jinping. There were actually a lot of changes over the past four years since he became public leader. And also I want to challenge what I call the two extreme views about Xi Jinping's leadership, about Chinese political trajectory.

One extreme is the argument that Xi Jinping is very powerful, he's already become like Emperor-like figure, or strong man, like Mao or Deng. You see the cover of the Time Magazine, Newsweek, economists have said, looked like Emperor. And that powerful leader, and along with this military reform and many other things, will make China very strong, ultimately will challenge U.S. presence in South China Sea, East China Sea, and even challenge the status of the U.S. leadership in the world. So, the policy, the accommodation, is to contain China before too late.

The other extreme is just the opposite, arguing that Xi Jinping actually is quite weak, his anti-corruption campaign made so many enemies, and he really could not get things done. Look at the Economic Reform Plan outlined in the Third Plenum when you actually become top leader. Most of his policies, according to some critics, not incremented, and the force is, and especially, you know, officials, or liberal intellectuals, and other forces, especially when economy cannot deliver, and all these forces were assembled, would undermine Xi Jinping, and not only Xi Jinping is weak, but also the Chinese Communist Party is in big trouble.

But ironically, that extreme view also came to same conclusion, to contain China, because there is no cost in doing so. Now, I believe these two extreme views really undermine American interest, the truth, as you probably will agree, is somewhere in between. He's neither that strong nor that

CHINA-2017/01/24

weak, otherwise he cannot explain, you know, some of the things that I'm going to discuss. So, this book, certainly, try to challenge these two extreme views, and to also argue, U.S. should not lose this great opportunity, and we should engage with Xi Jinping, with his leadership.

Otherwise, we'll really undermine American interest. And certainly that I want to assess the so-called collective leadership framework. More importantly try to find whether there's an institutional mechanism and certainly, I believe, yes, institutional mechanism which really -- you know, we basically fail to understand how durable and how dynamic that mechanism. And finally, forecast the upcoming 19th Party Congress.

Now, talking about leadership change, and I use that picture. Previously, seven members of the Politburo Standing Committee, Xi Jinping is the first among equal, but now he is far more powerful than the other six, in that leadership body.

And he holds 13 top leadership positions, including many leading groups, and just a few days ago, he got another one, and it's called Central Military and the Civilian Integration Development Committee, just only three or four days ago. So, altogether he has basically 13 or 14 leadership positions. So, this is called the concentration of power in contrast to Jiang Zemin and Hu Jintao era. And also that usually, Mao, you know, towards the later period of his life, the start of this kind of work published, but Xi Jinping, in the first couple of years, already published his work, this is actually for eight foreign languages.

There are pictures, there are cartoons, all seem to echo what some liberal intellectual criticized, the personality cult, or Cultural Revolution style with or without justification. But that's the -- that things change over the past four years in contrast to Jiang Zemin and Hu Jintao era.

But some questions hardly address, or inadequately address, among the China studied community, in China and outside China. Here are the three questions I think we should pay attention: First, what caused this change? Secondly, how could this have happened? And finally, are these changes temporary or long-term?

Of course my analysis will tell us that it's short-term, it's temporary, cannot be sustainable, this is certainly my argument. But let's look at the first two questions: What prompted this

CHINA-2017/01/24

change? And how could this have occurred?

Now, people tend to have short memory, including myself, sometimes I just don't have -- what happened with Bo Xilai, and other things like the long history. But this is only five years ago. And before Xi Jinping came to power, let's look at what China looked like. There was rampant corruption, there was a serious logistic crisis, and there's fragmentation of the leadership. Now, each Politburo Standing Committee in control of one department, one, you know, bureaucracy. This sounds like there's no communication, no coordination.

And this is particularly in the case of uncontrolled power of Bo Xilai and especially Zhou Yongkang. And this is called, again, fragmentation has reached a very high degree that the Communist Party leadership almost become malfunction. And as also POA start to resist the civilian leadership during the Wenchuan earthquake, Wen Jiabao, you know, stood in front of the TV crying, begging military send troops to the poverty relief -- up to the disaster relief area. But still Guo Boxiong and other leaders refused to take an order.

And also the central government economic policy, or orders, were resisted by local government, local meaning provincial or municipal government. So this is the famous saying that, "Order cannot go beyond Zhongnanhai."

And finally, foreign relations also experience some problem, as Zi Zhongyun, a distinguished Chinese public intellectual, who used to serve as a Translator for Chairman Mao and Zhou Enlai. She said, China -- again four or five years ago -- she said China did not have a friend, except North Korea and Cuba. Now, that's the situation that Xi Jinping experienced. Of course he needs to fix all his problems.

Now, let's very quickly look at the corruption. This is actually, I would think, the first, the biggest scandal related with the Railroad Ministry, by the Bureau Chief, Zhang Shuguang, according to the media in China and overseas, that that guy had US\$2.8 billion in his offshore bank account. Although the final, you know, prosecution report had a much lower price, but early on that was the number frequently quoted.

Now, his boss, Minister, we never seen how much he had stolen from the state, but he

CHINA-2017/01/24

has a nickname called "Mr. Four percent" and also that it's common knowledge in China that guy had 374 luxury housing units. Now, he's not a particularly attractive guy, looking at the appearance, but he's extremely generous to give the women he had affairs, you know, one unit after another, you know, et cetera. So that's where 374 units came from.

Now, the military guy, this is also the first caught Lieutenant General, Gu Junshan, and he was in charge of logistics, and this is his villa, the building in his hometown Henan, and they found four trucks of gold and Maotai, it's expensive in the -- more expensive than gold, the Maotai Chinese liquor, but four trucks.

These all come to the public knowledge. Now this is the famous crisis I don't need to tell you about, the Bo Xilai, really it's the biggest crisis probably ever in the PRC history.

And this is another one, it's by Hu Jintao, Chief of Staff, Ling Jihua which involved his son who drove a red Ferrari. This is his wife, and also two Tibetan women, one of them was killed along with the driver, Ling Jihua's son.

Now these scandals, or incidents, all in the Chinese domain, in Chinese public eyes, the most important one is these three, these are the highest-ranking civilian and military leaders' purge, that the Chinese call the biggest tigers.

Now, this goes back to the other questions: How could this have occurred? Xi Jinping get rid of them, and start to change. This is largely due to the fact that we still do not fully understand how that occurred, that all of a sudden he and Jiang Zemin, his patron, really had a landslide victory, and after the 18th Party Congress. I am going to explain in detail.

Then also Xi Jinping launched a bold, and a big and broad, anti-corruption campaign, the largest ever in the PRC history. He also started, very successfully, a large-scale military reform, although the military reform will take five years to complete, the most important part already completed within six months. And this is the reform that even Deng Xiaoping wanted to do but failed to do, but Xi Jinping achieved it with the support of the Party.

And also that in 2013 he, at least, outlined a very ambitious marketing reform plan, and finally he adopted a so-called New Proactive Foreign Policy including the concept, a new type of major

CHINA-2017/01/24

power relations largely referred to in the United States, and also, One Belt, One Road Initiative, and Asian Infrastructure Investment Bank. And also as Secretary Franklin mentioned, that his recent appearance in Davos, reflect that -- China's ambition in the global affairs.

Now these are the background, this is explaining why it happened, how it happened, and let's look at the second things that I pay attention. It's the methodology, it's the book, really about an individual leader versus the institutional constraints that are dynamic. Try to find the best balance in the Chinese context. But my source is usually from almost -- most of them from the official bio information which I collected over the 30 years.

But, time to time, I also use non-official sources, but are always verified in the book, and I do not use too many rumors, and especially we are into the rumor season. You can see, basically you get any kind of rumors. I mean, very, very sexy, many of them. And also that there's a balance between quantitative and qualitative research, but the emphasis, the book is actually both, with a strong component of the analysis of 376 members of the 18th Central Committee; the Current Central Committee.

And finally, the book also use the Western series called Elite Series, but are tested in the concept I try to develop, the notion I developed about 10 years ago, called One Party, Two coalitions, following Deng Xiaoping's famous line, "One country, two systems," to analyze Chinese politics.

The basic argument is Chinese leadership is not -- China is a One-Party State, but the Chinese leadership is not a monolithic rule, it's consistent by -- of competing factions, and factions that form coalition or camps, and this is, in a way, to a certain extent similar to America in a two-party system, Republican and Democrat.

Now, this is an organization chart, at the top is General Secretary, Xi Jinping; then it's a seven-member Politburo Standing Committee, and then it's a 25-people Politburo, then the 376 Central Committee, they were elected by National Party Congress Delegates, 2,268, they only met once every five years. They met once to select these 376 Central Committee Members, and finally that the Party has about 88 million members.

Now, this part is the focus, is the Central Committee, it's the one I focus, about 376, this

CHINA-2017/01/24

is actually, if you want a political future you should belong to that group. These are people -- this Central Committee -- the Central Committee includes, you know, Provincial Party secretaries, governors, vice governors, ministers, vice ministers, senior military leaders, and organization department, propaganda, and et cetera. All together 376.

Now this is what happened four years ago, in the 18th Party Congress. The yellow column, the new members, the blue are remaining members, in these six most important regional bodies: Central Committee, Anti-Corruption Commission, Secretariat, this is charge of daily flow of information or paper; and the Politburo, very powerful, 25 people, the Politburo Standing Committee, and the Central Military Commission.

In these five -- six major bodies you can see majority of them are new. That tells us that the very strong, you know, kind of who -- very dynamic flow of the Chinese leadership. Now this has not only happened four years ago, this is a look at the Central Committee since 1982, on average it's 62 percent change. Now, I always try to find the percentage of our Congress, Senators, or Congressmen, and what I heard from staff they said that's probably less than 20 percent every four to six years.

So, China is three times, China is no democracy, but the kind of circulation of the Chinese Elites much, much faster. That explained how come his party survive over the years, how the party try to remain to be relevant to represent certain interest groups, et cetera.

Now, the up and coming 19th Party Congress, the red color, I estimate will be 70 percent. This is based on each individual's calculation. Some of those are -- 25 of them are already purged, and some of them already retire, and some of them do not look good. And so you end up with 70 percent change.

Now this will be the largest change since 1969, during the Cultural Revolution, so it's already happened in the local level, Hunan Province for example, there are 13 Standing Committee of Hunan Provincial Party Committee, 12 of them are new, this is certainly indicate, what kind scale of change we can expect. Now, this is also the average tenure income years of the provincial party secretaries and governors, these are very, very important positions, and later I will continue to emphasize.

CHINA-2017/01/24

The average tenure, is very brief, very short. You know, Provincial Party Secretary usually serve only two years in their spot, on average. The governors, it's even less; it's one-year-and-a-half this, again, very fast turnover, extremely fast turnover. You probably you cannot find this turnover rate in any country but China become almost regularized this central change. Some retired, some promoted, and some transferred to other positions. Now these are all related with the institution norm and the rules apply. For example, the age limit, anyone who were born in or before 1944 will automatically disqualify for membership in the 18th Party Congress. Four years before is -- five years before is 1939, you can expect that the up and coming year is 1949, anyone who were born 1949 or earlier will retire.

Now, it's yet to see whether this norm will be changed or not. My sense is it's very difficult to change that norm. The term limits is not just norm, but are rules, so every leader can serve two five-year terms in the same position or -- and three five-year terms at the same level of leadership. For example, that if we are Standing Committee Members, you can only stay there for three terms, even if you change position, Premier or the General Secretary. So, that's the rule, will restrain some leaders to go beyond, you know, three terms, or two terms depend on the definition of the position.

And also this regional representation, that's very, very important development. This really contributed to Chinese internal check and balance, during the Party Congress, each province will have two full seats, two membership seats for four Members of Central Committee.

Now, of course half of the Party Congress they can rotate, they change, but during the time, this 31 provincial level entities, each has two. And also there's elections going on in China, almost for 30 years, it's limited election, it's called more candidates than seats, for example, if they want to elect 376 Central Committee Members, they will put 10 percent or more, 7 to 12 percent or more candidates, and those, the lowest will be eliminated, so that's the limit to things.

Sometimes people are considered for Politburo, for example, the Former Minister of Commerce, he probably met, Chen Deming, and he was considered as a Politburo member, but he was eliminated in the election. So, you must be Central Committee then will consider as Politburo so immediately disqualify, so that's the election, it could be quite effective in a way.

CHINA-2017/01/24

Now, despite China's, a lot of deficiencies in Chinese political system, we should not forget a couple of things. One is, China already experience, not only once but twice, largely orderly, generational transfer of power, orderly and peaceful generational transfer of power. First from Jiang Zemin to Hu Jintao in 2002, then from Hu Jintao to Xi Jinping in 2012.

And also not only generational change, but also occupational transformation of Chinese leaders, twice. First from old-fashioned communist to technocrats, meaning engineer turn politicians. And then from technocrats to a more diverse group of economic managers, SOE, entrepreneurs and legally-trained political leaders. This is some of the pictures of a transition.

This is the study of the rise and fall of technocrats. Again, in 1982, there's only one minister who met the definition of technocrat, that was Li Peng; Li Peng, who later became Premier. And there was no technocrats as Provincial Chief or Governor. But they increased in later 1990s, reached a peak, and then start to decline. This is a typical case of the rise and fall of technocrats in China over the past three decades.

And this is the Central Committee it's the same pattern. And look at the highlighted level leadership, even more so this red color is the Politburo Standing Committee, and the blue color is the Politburo. Now, it's only 16 percent to 14 percent, about 10 years ago, or so, in the so called 14th and 16th Party Congress, all Politburo Standing Committee are engineers by training, but now it's come to an end, they currently in term of highest degree, only one person, Yu Zhengsheng has an engineering degree, and it is his highest degree, so that pattern changed.

Meanwhile there's the rise of those trends in social sciences, and believe or not in law, and blue color is the social sciences, and red color is law -- in term of the Central Committee Members, full members. Of course those in term of law, there's some group, I've divided them. One is only law degree in name, you know, actually to study politics, or to study Marxism, according to Chinese definition of Marxism, is law, so therefore they have law degree.

But this is only the first category. The second is really legally trained and really very much like Western training, because the Chinese discipline of law is largely adopted by Western by, you know, German, American and Japanese models, and that's where China did not have the legal tradition.

CHINA-2017/01/24

So, these people received this training but never practiced the most of the example is the Premier Li Keqiang, he got a scholarly law degree at Bei Da(北大), Peking University, but he never practiced as a lawyer.

The third group is not only got that law degree, and some of them actually overseas, and some of them, not only undergraduate but also advanced studies. But also practice and spend entire career in the legal profession, and in the court and prosecution, and et cetera. So, this is the last group, it's about 25 percent, so this is the division.

Now, let me also, very quickly, move to the provincial leaders as a stepping stone for top leadership, as we know China's top leadership usually is selected from provincial leaders. You look at the 76 percent, about two-thirds of the Politburo Members in the past a two-party Congress advanced from the provincial chiefs, governors or provincial party secretaries.

Now, it is interesting to see, this, I just completed, just yesterday, because two or three days ago, some local government had changed the leadership, like Beijing, Tianjing and Shanghai. But this, I was talking about the provincial leadership, but this leader serve in the business firms, and the major companies, not private firms. Private firms, is still yet probably at one generation for people like Jack Ma, and to emerge as political leaders, but not now, he still needs to wait, even he met with Donald Trump before Chinese leaders.

But these are the CEOs of major companies in space industry, in many other -- in banks, agriculture banks, and the concession banking, et cetera. And these other people really running in firms, much like in the global competition. They are CEOs for many years, but now they are located as governors, and even provincial party secretaries. Many of them are still young, they can have two terms, so I will not be surprised, in 10 years, a CEO -- today's CEO will become public candidate for Premier, and this will happen in about 10 years, probably.

Now, let me very quickly mention that my basic series is what I called One Party, Two Coalitions. This could be controversial, I got a lot of criticism, but I still stay with my argument. And I'm going to go back to that. The One Party, Two Coalitions, for the two camps represented two different sociopolitical and geographical regions, not purely for the power, but also have local or institutional

CHINA-2017/01/24

representation.

These two coalitions are usually, though not always, equally powerful, and tend to rotate terms in the driver seat. And then thirdly, they have different policy initiative and priorities. They complement each other in term of leadership skills, and expertise. And finally, they compete with each other, on certain issues, but are willing to cooperate on others. The bottom line is they are in the same boat, and the same inspiration for China's rise, and for survival of the Chinese Communist Party.

Now this is a divide and formation of the two coalitions. I call them Jiang and Xi Coalition. Now that's a controversial part. Many people think that Jiang Zemin and Xi Jinping are engaged in vicious power struggle. Our journalists recall that. I think this is terribly wrong.

Now, Falun Gong, I saw some of the friends here, Falun Gong's friends here, representing newspaper, also had the advertisement when Xi Jinping visited the United States, about four years ago, that The New York Times advertisement, saying wonderful things about Xi Jinping, because Xi Jinping will arrest Jiang Zemin, but that's certainly is not going to happen because -- of course you have some differences, but they are very much on the same coalition.

And sometimes there are some different views, but by and large, they come together. But the things that certainly not of Falun Gong, and China's scholars of many people in China and outside China believe these are in-fightings, but I do not see that. Yes, some of the people purge, Jiang Zemin's protégés, but that's related. Several things, when it's bad luck, you really cannot protect something with bad luck. Sometimes the outrageous nature, sometimes for the common survival you need to sacrifice for various reasons. This should go back case by case.

So, previously, it's Shanghai Gang, the core group now become Princelings -- the Taizidang, the core group. But include SOE, entrepreneurs, urban leaders, coastal region leaders, but Hu Jintao, Li Keqiang coalition has the same core as the Chinese Communist Youth League, this is by strict definition. Those leaders in the provincial and central level of Youth League, who work under Hu Jintao, when Hu Jintao was in charge of the Youth League or under Li Keqiang, in the 1990s, when Li Keqiang was in charge of the Youth League.

You also entered a limit to some people, actually closer to the other faction, but also

CHINA-2017/01/24

advance their career from Youth League. So when that definition, you can distinguish the two groups. Now, interesting to see that 10 years ago, the number one, and number leaders, in these six organizations, most important powerful, organizations, one of each, and 10 years later, now, also look at the seven most powerful leadership bodies, including Standing Committee, number one, number two leader. The President, and only Vice President, State Council is the Premier, or executive premier, Central Committee Commission, Chairman, Executive Vice Chairman.

Again, all number one and number two come from two different coalitions. Now this is the one I use six years ago before Bo Xilai's fall. If you look at all these important bodies. In the Politburo Standing Committee Members are fifth generation. Xi Jinping and Li Keqiang one of each. Only six of them consider as the fifth generation, three of each. Secretary; and two of each, Vice Premier, altogether four, two of each; State Councilor there, altogether five, one is the military. I deleted military, two of each.

Now you can see this coincident, but I think this is structured tendency to divide this leadership into two coalitions to check-balance each other. But what surprised people is, four years ago, it's become imbalanced largely because of some of the scandals that Jiang Zemin -- Xi Jinping got landslide victory, this is 6 to 1 ratio, and this is Tuanpai Leaders, largely marginalized. But the next level, Politburo is more evenly divided.

But then you look at Central Committee among the 376 people, it's just opposite. This, the Tuanai Youth League, yellow is the alternate members, light-blue is the full members, they had altogether the current party Central Committee 96 members, although probably like 12, 13 of them are recently purged, but when it's established, this is the largest faction, it's almost a quarter of the Central Committee. But the Princelings, it's the small numbers.

Now, very quickly, go with the Youth League representation in top leadership bodies, you look at the Politburo --24 percent of Youth League, Secretary -- 42 percent, I mean, it's really quite well represented;The Central Committee a quarter, as I mentioned, the 96 people; State Council -- 10 Executive Members; Premier, Vice Premier and State Councilor -- 40 percent; and the Minister of State Council -- 30 percent; most well represented in Provincial Party Secretary and Provincial Governors.

But the last two things started to change over the past few years. This is, again,

CHINA-2017/01/24

provincial chiefs. You can see that the Party Secretary who are Youth League members, declined from 45 percent to 16 percent, this reflect Xi Jinping's consolidation of power, very remarkable change over the past few years.

Again, Provincial Chief is most important stepping stone, you always see that Xi Jinping consolidate his power, and also in the governance of this change. Now this is the, again, it's the newly-appointed Provincial Chief, like a Beijing Mayor, Shanghai Mayor, Tianjin Mayor, they are all Xi Jinping's confidante. These 10 people are relatively new. Many of them, particularly the first line, they are all leading candidates for Politburo later this year. They all work under Xi Jinping for many, many years, and in some cases 30 years ago. Now, they are well positioned to take over.

Now, let's look at my argument. I have time limits, I understand. Number one, despite the continuing of the One-Party State over the past three decades, the CCP has continually sought new mechanism, institutional regulations, political norms and policy measures to resolve the inherent deficiencies, for the sake of survival. And secondly, China's collective leadership model with its internal checks and balances is more dynamic and enduring than many overseas analysts believe, probably also more than the Chinese intellectuals believe.

Finally, Xi Jinping's power and legacy which may better be assessed following the 19th Party Congress, will largely depend on whether he embrace the institutional political institutionalization in the governance of this increasingly pluralistic society. Because if he goes against the trend, I think that he will experience some very, very difficult challenges, because institutional norm and regulations, it's far enduring than we thought.

Now, the focus, the 19th Party Congress, still, will be on the Politburo Standing Committee, not on the leading group. And this is 10 years ago, the change -- this is five years ago, the change, the Politburo Standing Committee. Now, just in several months, later this fall, five of them will retire. So, who will be their replacement?

There are lots of big question marks, these are the leading candidates, and they are qualified in term of age and based on their recent position and their activities, and it sounds like most of them will survive, will be strong candidates. But the tricky part is, whether you will identify a successor or

CHINA-2017/01/24

not, previously, you know, after five years he should identify successor, but this is very unclear whether Xi Jinping will identify successor, which means the so-called Six Generation Leaders.

There are four people in contentious positions, probably more, but at the moment these four are identified, including two Politburo Members, current Guangdong Party Secretary, and Chongqing Party Secretary, but also two rising stars who very closely work with Xi Jinping, and Guizhou Party Secretary, and Jiangsu Party Secretary. The first two are not Xi Jinping's protégés, the other two are Xi Jinping's protégés.

Now military also experienced major change, and of the 11 members only two or three will stay on, so that will be the largest military turnover we can expect.

Now, let's very quickly look at Xi Jinping's power base. He actually is uniquely positioned, most of the other leaders' position, they either coast region or inland region, but Xi Jinping reached out to both, and he is a Princeling, represent the so-called Second Generation of Communist Red Nobility, *hong'er dai*.

But also he has strong ties with the so-called Shanxi Gang, and Shanxi is not only his father's -- no, has strong family ties, his father pursued the revolution experience in that region, and was born there. And Xi Jinping himself was a so-called Sent-down Youth during the Cultural Revolution for seven years, live in Shanxi.

So a lot of his people promoted actually come from that period, but also he advanced his leadership in the provincial leadership, especially Fujian, and Zhejiang and Shanghai, and many of the protégés now in the fast move for promotion. Xi Jinping as we know also served as two, three years as the Mishu, Personal Assistant to DOD Secretary, that made him -- have some connections with the military; and also many of his Tsinghua classmates also on the fast move. And finally, he has a lot of mishus, personal assistants.

Now, I summarize, these are the rising stars. And start with Shanxi, Li Zhanshu, Zhao Leji and Li Xi. And then in Beijing his childhood friend, Liu He will play a very, very important role on the economic affairs. Chen Xi his classmate -- roommate at the Tsinghua will be promoted. Cai Qi is already promoted as Beijing Mayor, highly likely he will become Beijing Party Secretary. And He Lifeng,

CHINA-2017/01/24

Wang Kunming and Song Tao, is currently ranking number two person in the Foreign Ministry -- Foreign Policy establishment, only next to Yang Jiechi.

And Chen Min'er, as I mentioned Li Qiang, both from Zhejiang years, now they are well positioned; and Ying Yong just recently appointed as Shanghai Mayor. And in Shanghai including Han Zheng, and Ding Xuexiang, and Yang Xiaodu, currently, just recently appointed a person in charge of supervision.

These are the rising stars, but even all of them as designated to the Politburo Standing Committee and Politburo and Secretary, they still only occupied 40 to 50 percent of these major bodies. They cannot take all these positions. So, again, Xi Jinping has to share power.

So, let's look at the -- finally look the four scenarios, what we can see. There are four options: one is winner take all, the Politburo Standing Committee becomes Xi Jinping's personal Cabinet, upon you and you and you. Maybe even disregard age or terms. This is one option.

Second option is return to the so-called Team of Rivals which means you should let some Tuanpai leaders to join the Politburo Standing Committee.

Thirdly, is downsizing the Politburo Standing Committee, change 7 to 5, and not allow any sixth generation leaders to enter that body, so which you delay the succession process, to wait and see, but also enhance the role of Secretary.

And finally, previously that Xi Jinping was weak in the Central Committee, but now Central Committee become 70 percent new members, many of them his protégés, or like-minded people, he asked them to elect Politburo. Highly likely his protégés will be elected, and then he has legacy as the man who started the new stage of the so-called Intra-Party Democracy.

Now, I don't want to go with the list, but the thing is each of them involve some difficulties, involves challenges, but Xi Jinping needs to address them. Now, previously, Xi Jinping is a man of contradiction in virtually every issue area, you cannot make generalization without somewhere a "but" as you said, a but. For example, that economic reform, he lay out the very ambitious marketing reform, but he also a champion for state-owned enterprises, making them bigger and stronger.

And on the role of intellectuals, intellectuals are very critical about the media control,

CHINA-2017/01/24

about the personality cult, but at the same time Xi Jinping is a leader to want to promote think tanks. By definition think tank is a place for intellectuals.

And on religion freedom, I mean, he's not so, you know, forthcoming with Tibet and other religious issues, but we should not be surprised if the Pope will visit China some day in the near future.

And on the Color Revolution, certainly that's the thing he strongly resists, but Xi Jinping is also a man who met with Burmese Leader, Aung San Suu Kyi, not only once, but I think two or three times, and this is the very symbol of Color Revolution.

And also Xi Jinping's wife, First Lady, heavily engaged in NGOs, foreign NGOs, like tobacco control, AIDS prevention, and women's rights, and children rights, you know, et cetera.

On rule of law, as we know that human rights lawyers are arrested, and a lack of control, but at the same time, Xi Jinping devoted, there were meetings in the Central Committee Meeting on rule of law. He, probably more than any other leaders, you know, try to adopt more regulations, laws, et cetera. And according to people very close to him, that Xi Jinping really wants to leave some legacy in this area. Of course at the moment, we see a lot of criticism.

On major power relations, he certainly wants to improve relations with Russia, play around, the China-Russia relations, but ultimately he -- care more U.S.-China relations than anything else.

Finally, that in Asia-Pacific security, one day he said, Asia belongs to Asia; then following week he said, Asia-Pacific is big enough to allow the United States and China, both to be there.

Now, with all these contradictions, he certainly wants to position himself, but at this point in the early stage, probably it's a smart move for him, but sooner or later he needs to make some decision, I think next five years, will be very, very important.

To end my presentation, let me quote, this is Chinese saying, but interestingly enough that Xi Jinping use it last year, when he talked about Chinese leadership. This is a quote, "Limited wisdom makes doers, moderate wisdom makes managers, supreme wisdom makes law-builders." Again, Xi Jinping used that term, just that quote in one or two meetings recently. So, of course we should test the five years whether he really means that.

CHINA-2017/01/24

And thank you very much. The book is available. And I will be happy to sign. Then possibly I'll take some questions. Take a few questions. Yes, please.

MR. MCCRAE: Chris McCrae, Norman McCrae Foundation. I particularly like the last chapter of your book, because I read it as given a map of the next two years, which are, maybe, very critical both in China and the U.S. I was wondering could you maybe make a list of the top five things on the agenda for Xi Jinping over the next two years. Obviously, you've mentioned the 19th Party Congress, and we've had the U.S. -- America relations. What might the other three be?

MR. LI: Well, China, like the United States, sometimes is driven by event, so any extreme event will drastically change his top priority. But assume that he could relatively control, I think three things he will do. Number one, actually, the economic reform. At the moment, you know, if you buy my argument, he is really not firmly in control, because that a lot of leaders are Tuanpai, come as Youth League. They may be resist some policies, but after the 19th Party Congress his people will be far more, you know -- far better positioned, so he can carry out the economic reform that he actually not have been doing so well in the past few years.

Now, someone said that Xi Jinping do not care about economic reform. I don't buy that. Of course for him, the priority is consolidate his power to pursue military reform, I mean, I think there's a legitimate reason for him to do so, without which, he himself would be in big trouble. But if he does not care, economic affairs, he will not kind of control all these positions, particularly economic leadership position. And so that means that he wants to make, you know, his legacy in this particular area. It is very, very difficult, but I think we will see that he will carry out a lot of reform program, which are delayed. That's number one.

Number two, again, he is not known as a political reformer. But on the other hand, he understands the importance of institution development. Ultimately his legacy will be determined by that. So, whether he will pursue some institutional reform, and of course that my view, he may not identify successor later this year, but that does not mean that he can resist any kind of arrangement.

So, how to make arrangement? I don't know. But I think that he must think hard if you just refuse to take that you -- not only your critics will go after you, even your allies think that you do not

CHINA-2017/01/24

do a good service. So, that the things -- is the big challenge. Now, certainly he will have more control about party, discipline them, and establish more mechanism, but what kind of details, yet to see.

Finally, it's international arena, you will see he's quite busy, he travels a lot, and he probably more than any other of his colleagues wanted to, you know, seize the moment to make China as a leader in certain areas. But of course to be careful, he'll need to make sure that it's not a necessary, you know, prematurely pursue that position. And so these are the three things, I think, his top priority. Yes?

SPEAKER: I'm (Inaudible). My question is, there's this speculation among Tibetan scholars that was -- Chinese Xi Jinping consolidates the power, there's a chance that he may not engage directly with Dalai Lama, but there is a possibility that he, you know, release some -- remove some restrictions on religious -- Buddhist stuff, because he mentioned Buddhism as one of Chinese civilization in Paris two years ago. So what do you think of that? Thank you.

MR. LI: Well, in general, I think that there's a strong tolerance about Buddhism activities, but Tibetan Buddhism is probably a different issue. And we certainly expected that for a long time partly because of his father, actually, his personal friendship, his present friendship with his Holiness Dalai Lama. But Tibetan, you know, community thought that a great opportunity, but certainly we did not see any progress over the past four years, whether he will make some move in this area, I do not see much evidence, but it all depends on -- because I do believe that probably from Chinese leadership perspective, you do see a lot of pressures, I mean, from their perspective, Taiwan, Hong Kong, now I mean, Xinjiang Uygur issues, the Tibetan issues.

These are all very, very difficult challenges, and whether he will make some move in certain areas. Whether it's because of his success or because of his difficulties and pressure, I do not know. I try to find a pattern that probably sometimes you would take initiative rather than under pressure. But the dialogue, negotiation with the Pope, and that has been going on, it's become open, you know, whether he probably will go with that first, then to see the reaction.

But on the other hand, that some of these people are famous for crackdown in home church. But at the same time, that you do see the other trend that, you know, talk about some Buddhism

CHINA-2017/01/24

should be promoted, and et cetera.

So I cannot answer your question, but I do see that the framework of what you lay out so nicely. And the next few? Yes, the woman, the young girl?

SPEAKER: Hi. This is Yijia Chen. I have a question regarding your argument about the One Party, two --

MR. LI: Two Coalitions.

SPEAKER: -- argument post to that era, a lot of turnover, about 70 percent for each, like, four years --

MR. LI: Central Committee.

SPEAKER: And now another argument from me would be the quick turnover, also put some incentives that those governors choose more short-term policies that may induce short-term legacies for them, because they only have two to five years, which cause some other negative externality, like the pollutants or other things. Would you think this is kind of incentive for them? Thank you.

MR. LI: Well, you right. That's a problem. And that's why Bo Xilai wanted to plant grass rather than trees. Trees take many years, grass only one season, so that will tell you, you know, why they have -- usually have short terms. In a city, in Dalian, was a lack of water. Actually, you really need to have trees rather than grass, but against that plan for the reason that you point out.

But let's face it, in our system, the election, and President Donald Trump said it's so long, I mean, he would think it's so long, but it's long, also a lot of distractions. So, again, these governance issues in, you know, each system has some problems. But the good thing is that they move around at the same position, they can't practice. China certainly has much longer period for training, for learning, and then so all of a sudden someone with no experience whatsoever promoted to a very high level.

But at the same it's not transparent, it's not democratic in that way, so there's a tradeoff, but your concern is legitimate concern, the short-term behaviors. Yes, you?

SPEAKER: Thank you. This is Beichen Wu with Shanghai Media Group. I have a quick question. Given your extensive knowledge of the leadership on both sides, do you think the two sides understand each other well enough? Like, does the Chinese side know well enough about the Trump

CHINA-2017/01/24

administration? And does the Trump administration understand well enough about the Chinese leadership?

MR. LI: Do we know the Trump administration well? (Laughter) Do you expect the Trump administration to know China well? Well, I think there are a lot of limitations. You have good questions. I think that in a way, previously, since the 1970s, especially since the step to normalize the relations in 1979, China and the United States have lot of things going on, not in the top level, but also basically, 100, 200 including some of my colleagues here.

There's a lot of communications, but when Trump -- when the White House, there's really a huge gap, the Chinese do not know who to call, and that's could be very, very anxious and highly problematic. So, at the moment, there are a lot of anxieties, and China is probably not the top priority for Donald Trump's team, but at the same time, I do believe that the administration understands the importance of China. But there are some other urgent issues both on the economic front, and also security front.

So, I think it will take some time, and the whole team has not formed yet, and so far, as Secretary Franklin said, China's reaction has been cautious, not overreact, and that's probably smart on their part. But the question is, the Chinese, just like we, have a media, their media become increasingly critical, and some of the bottom, you know, redline issues like Taiwan, et cetera, if the administration, the top leader constantly push, will make Chinese more antagonistic. So that's the dimension, we should look at that. There's a lot of -- it's a new game, but ultimately I'm optimistic.

I think that the fact that, yes, we don't have too many choices, and certain issues will be lose-lose, certain issues will be win-win. Trade should be win-win. Taiwan issue if not handled appropriately, will be lose-lose, and for all parties. So, again, I mean, this is not so difficult to imagine, and for any leaders.

We will take one more, then of course we'll move to the next panel. There are so many experts. Yes, please, you waiting so patiently; yes?

SPEAKER: Thank you. I'm Mark Dawson, Professor of Political Science, and I'm at sabbatical at GW. I wanted to ask about how your One Party, Two Coalitions idea, and you mention the

CHINA-2017/01/24

idea that they are creating constituencies, and I wanted you to sort of explain what you mean by the constituencies. I mean, you've got the inland and the coastal and the rural and urban, are they actually representing some way those constituencies? And also, if there's so much circulation, unless that -- if their turnover is every two years, if they are not retaining jobs with constituency, let's say, internal to the inland area or not; then how do they actually build any kind of connection with those different groups?

MR. LI: Excellent question. It's only a buildup largely because of your career, who promoted you. That's the key. And usually there are no ambiguities who promoted you. And also, that we take about, these two coalitions. Of course there are some exceptions. You look at our country, Democrats and Republicans sometimes, you know, probably even more vicious. But also these factions, these coalitions could change, now Tuanpai is certainly in trouble, but the start is not completely done yet.

But even not Tuanpai, some other forces will form coalition to try to constrain power automatically, in a way, because their seats are represented by different regions, and also there are some election mechanisms, there's also tendency that all other forces come together to try to contain some of the power. And all these norms and regulations, laws, actually are designed in a way to constrain power.

Now most interestingly the reason the party meeting got Sixth Plenum, I thought they may not use the term collective leadership, actually used the term collective leadership. They talk about constraints of power. So, again, compromise, is necessary, at the moment, the party wanted to give Xi Jinping enough power to carry out the much needed reform. Could you imagine without such power he can do all these things, anti-corruption, military reform, and the China's foreign policy change? No. But does that mean that he has -- there's a free, you know, (inaudible) check, can do whatever he wants to do. No?

The fact is, a lot of intellectual criticism itself is constrained, and that you also should constantly deliver, and so it's a very dynamic situation. And so it's ever-changing, but at the same time, that mechanism, already has been used for the past 30 years, and that China, just like us, becomes increasingly pluralistic. The face a media problem, I mean, constantly change, and so in that regard, I think certainly when I wrote that book, the critics of the American system, is not that well known, I mean, even in the circle of Washington or academia.

CHINA-2017/01/24

And so that's certainly, when I write this book, I always, constantly, you know, have a sense of humility to appreciate more about the things, the experiments China wanted to do. You cannot say this thing is completely hopeless. And I think they already found some mechanisms.

Now these are not legitimate, some of the factional politics, is not completely transparent, although you ask a taxi driver, they will tell you, which leader belongs to which faction, that the new appointment is whose protégé. So they are not in a complete dark. So, that also gave you the sense that, you know, Chinese political structure, probably based on that, will continue to unfold in a way that institutional mechanism will -- and it's already effective will continue to be, you know, challenged or tested, and hope that they will survive.

So, let me finish here. We have a wonderful panel, just -- and we really cannot assemble a better people. These are the stars, or practitioners in their own right, are prominent figure, but also they are leaders in government, in journalism, in academia. So, please me to welcome the next panel, and moderated by Evan Osnos. Is he here?

SPEAKER: (off mic)

MR. LI: Okay. I hope that -- Yes, so please come to the stage. And thank you so much for your attendance. Yes. Thank you. (Applause)

MR. OSNOS: As soon as we get our band wired up, we will be ready to perform.

We've got a few people coming in just in the back of the room, so I'd say we are ready to go.

Well, it's a pleasure to welcome you to the third and final segment of this morning's program. I'm Evan Osnos. I'm a nonresident fellow here at the Thornton China Center. And I think this morning you have already heard a number of valuable insights. Of course, from Secretary Franklin, who reminded us of the value, the essential value of trade and leadership in this relationship, and then, of course, we heard from Cheng Li, whose absolutely fundamentally essential book, I think, reminds us that not only are the people at the top worth paying attention to, but we have to be looking at this relationship as a set of figures. So the people that they are surrounded by and the people who are beneath the top guys in this case are also important for us to understand. We're just at the beginning of decoding what

this administration in Washington will represent for the China relationship.

And that brings us to this third, and what I think I can confidently predict will be a very interesting and stimulating discussion from three very different vantage points.

Before I introduce our panel in just a second, I just want to mention a couple of points of context that I think are relevant for framing this discussion, things from the near past. As Secretary Franklin mentioned at the outset, you sort of have to check your phone before you start talking about U.S.-China relations to see if anything has happened in the last 15 minutes.

One point I want to mention is from yesterday, of course, when Donald Trump formally withdrew the United States, began the process of withdrawing the United States from the TPP. One of the reasons why this is important beyond just the explicit effects on trade in Asia and for the United States is that I think it should force us to revise what has become a bit of a conventional wisdom in Washington, which is the idea that perhaps we should take this administration seriously but not literally. I would argue with that and say perhaps we need to take it a little bit more literally than we have, and what you've seen in the early days is that many of the things that this administration campaigned on are, in fact, now becoming matters of policy. So it's perhaps useful to look at the record.

The second point I would mention is that in the last week we saw who -- Rex Tillerson, who is likely to be secretary of state, talk about the U.S. posture towards the South China Sea in terms that we have not heard before. Yesterday, Sean Spicer, the White House spokesman was given an opportunity to clarify, and he reiterated the idea that the United States will take some form of hardline position perhaps on this Spratlys. China, to this point, has been cautious in responding, though it did say yesterday that this is a matter of nonnegotiable sovereignty. If that's the case, then we are in for -- that's going to be a substantive issue to deal with.

And the third point I would mention is that over the last several weeks we have seen that Xi Jinping was in Latin America, and at the time he was making deals that would bring an investment of \$250 billion. He signed some 40 deals in all. So we're at a moment now where the United States as we all know is talking about building walls and China is using this opportunity to project a very different message around the world.

So that's some of the very complicated, and I think uncertain foundation on which our conversation will follow. And we're fortunate to have a terrific group to help us do it. Beginning at the end, I'll introduce Richard McGregor, who was the Washington Bureau Chief for The Financial Times from 2011 to 2014. He led the newspaper's coverage of American politics after having served as Beijing bureau chief and Shanghai correspondent. So he knows both sides of the relationship. He's the authority, I think, as many of you know, of The Party: The Secret World of China's Communist Rulers.

In the middle, Dennis Wilder, who is one of our government's most esteemed analysts of China. He has advised various agencies. From 1995 to 2005, he was the head of China Analytic Studies and the director of intelligence. And went on to be the special assistant to the president and head of East Asia in the National Security Council, among other duties. He's now at Georgetown, teaching on the subject of the POA, and he is a senior fellow at the Initiative for U.S.-China Dialogue on Global Issues.

And to my left, of course, is a friend to many in the room, David Michael Lampton, who is the Hyman professor and director of China Studies at Johns Hopkins School of Advanced International Studies, where he also heads up SAIS China, which is the school's overall presence in Greater China. He's chairman of the Asia Foundation, and his newest book is Following the Leader: Ruling China from Deng Xiaoping to Xi Jinping.

So we will start, if I may, Mike, you have the floor.

MR. LAMPTON: Well, thank you very much, and thank you all for attending. And thank Secretary Franklin in abstentia at this point for her remarks, and certainly, Cheng Li, you really deserve an enormous amount of credit for your intellectual achievement, not only in this book but all your prior work. So you have, I think, all our admiration.

I want to thank the Thornton Center, and thank Evan, and thank my colleagues here, and that will end the formalities part of my introduction.

A little background on my remarks, because we're all a function of what our latest experience and preoccupations are, and I've had an experience that's sort of shaping my -- what I'm going to say here. I just got back from a trip to Vietnam, Indonesia. I will confess it was to Bali to relax. So I don't want to hype that. But certainly, China and Hong Kong, indeed, I was in my hotel room

CHINA-2017/01/24

watching in Hong Kong, watching the inauguration. So I just got back, but it was interesting to be at this moment in various parts of Asia, and certainly, I'm going to focus on what Asia seems to be thinking about China. But I would just flag the issue of what Asia is thinking about the U.S. is a very interesting question as well.

I was interested -- it's been expressed several ways. The U.S. is building walls, or at least talking about building walls. China is building railroads, and I'm doing interviews on the building of connectivity between Kunming and Singapore by three different routes, and I'm interviewing in all the countries there. And this economic leverage that China has and the power to forge cooperation by virtue of its having a vision I think can't be underestimated. So I'm working on a book with that with two colleagues, one from Singapore, one from Malaysia. So in any case, that's why I was in Asia and that will shape what I have to say.

I guess I want to make two broad points and then a third, I think, fairly telegraphic point on Taiwan. Point one really deals with the reaction to the election of Donald Trump and the aftermath of his election in China. And secondly, the second broad point is regional reactions to U.S. foreign policy and the evolving U.S.-China ties.

Point one, that is to say the Chinese reaction to the election of Donald Trump, I'd make a couple of points. One is it strikes me that we've seen the Chinese in very rapid succession move what I would call through the four stages of buyer's remorse. What struck me is when I went to China just before the election is how many people entertained with great equanimity the idea that Donald Trump would be elected. Some thought he was a businessman, would be pragmatic. They know how to do business, negotiations, this is the kind of guy we can deal with. I think that was a very prominent one.

There was a subset that was much darker and that is if, in fact, he is serious about what he's saying, this will be in a way a windfall for Chinese foreign policy because it's going to create vacuums all over the place which we can fill. But either way, the initial predisposition, at least in the people I was talking to, was at least equanimity, if not a kind of welcoming idea at the thought of Donald Trump. This was compounded by a set of attitudes I won't go into about Secretary Clinton and her whole experience dealing with China. Now, but they reinforced and went to a sort of positive.

CHINA-2017/01/24

I say that rapidly after the election really began to sort of switch to what I would call concern, and that concern had certainly gotten its initial impetus with a telephone call with the president of Taiwan and president-elect Trump. But also, I think the Chinese were almost immediately surprised that the rhetorical level didn't drop as Secretary Clinton was -- he seems to be serious about what he was saying. I think the Chinese tuned into that very rapidly.

I think this concern then rapidly morphed to what I would call high anxiety, and that was when they began to see the personnel appointments, or at least the rumors followed by nominations, followed now by testimony. I think this has really boosted their concern. And we just mentioned the Tillerson remarks, but certainly, Peter Navarro at the National Trade Council, the Chinese are fully capable of going to YouTube. Even the citizenry can't get it. They can look at all the YouTube videos by Mr. Navarro and get the picture very rapidly. So I think it morphed to high anxiety, and now I would say it's growing alarm. And sort of symbolic of that is the whole discussion now of the utility or applicability or whatever you want to say about the "One China" policy, or as the Chinese would say, the "One China" principle. And then, of course, the issue that was just alluded to about denying access to China's occupied artificial islands and other claimed sovereign territory in the South China Sea. So I would say it's almost striking how rapidly the Chinese have reassessed what seemed to me to be a rather benign view prior to the election. The Chinese -- so that's sort of one response is just sort of how they're trying to process this.

The second category response, it seems to me, is China moving into what I would call a whole set of at least perceived, if not actual, power vacuums. And certainly, one of them is just assuming the rhetorical historic mantle of the United States posture on globalization. It's almost a Xi Jinping and Davos sounded like Robert Zoellick in 2005 talking about the responsible stakeholder, almost in a sense implicitly lecturing the United States about responsible global public goods and so forth.

Secondly, it seems to me the Chinese are pushing into -- I want to say one thing. We've given Mr. Trump the pulling out of TPP, killing TPP, what all, but in fact, this is a murder victim with a lot of knives in its back, TPP. Right? I mean, it wasn't going anywhere in a sense no matter what Mr. Trump did, but he certainly embraced that. But China is now pushing RCEP, and over the weekend you see

CHINA-2017/01/24

Australia and Japan getting together, the prime ministers talking about how they're going to relate to RCEP. Their hopes that somehow something out of TPP can be salvaged. A lot of things going on there, but China is moving very rapidly into the multilateral trade cooperation sector that they see abandoned by the United States.

We see China also wooing, I will say, allies and quasi-allies of the United States. And I would point just as three examples, the Philippines, Thailand, and Malaysia. They each have their own checkered history with both China and the United States, but clearly, China is working on what you might call the noncore elements of the U.S. alliance and friendship system in Asia, and I think having considerable influence. And that's why I bring up the railroads and investment. The amount of economic leverage China is able to exert in this area is considerable. And you're going to see a railroad from Singapore to Kunming going right through Laos, Thailand, Malaysia, to Singapore in the next 10-15 years I'm pretty certain. And that's then going to force other infrastructure involvement and so forth. And one of the core questions for the U.S. is are we going to be involved in this or are we going to be bystanders? Is this going to have economic consequences as well as geopolitical?

Certainly, another way we see China responding to this is China's ratcheting up the pressure on Taiwan, and I'm glad to deal with that, as I'm sure my colleagues are, but clearly the pressure is going up on Taiwan, not just because of Mr. Trump, but certainly Madam Tsai Ing-wen has a role in this whole thing, and indeed, domestic Chinese politics does. So that's where I would say China has had a lot of reactions to what's happened.

The other thing that I wanted to talk just briefly about is the regional reactions to the election of Trump and to Chinese behavior. One thing that came through to me is as I started by saying, I think the region is almost as worried about us as it is about China. And if you don't believe me, just look at the reporting and interaction between the Australian Prime Minister Turnbull and Abe. And look at the conversation they have about the emerging power configuration in Asia.

I suppose that you could look at it in a number of ways, but Japan and Australia are upping their security cooperation partly because of uncertainty about what the U.S. role is going to be and what is the emerging direction of U.S.-China relations? I think if you look to Northeast Asia and you look

CHINA-2017/01/24

at Japan and South Korea, they're alarmed about the potential for use of force on the Korean Peninsula. And of course, they're not happy with North Korea, but they're not happy with the prospect of a unilateral U.S. forceful intervention.

Let me just conclude with a few comments on Taiwan because I think this is really the deal buster in the whole relationship. And I would like to share, and I do on the economic side in some sense share Secretary Franklin's optimism. But when I look at the emerging Taiwan situation, I find it rather difficult to be overly optimistic.

First of all, it seems to me clear Taiwan does not want to be used as a bargaining chip in some larger geopolitical game. So Taiwan is even ambivalent about the way things are going. Second, I would say tweaking China on the "One China" policy, or what China calls the "One China" principle is really, to use the cliché that came out in 1950 prior to China's intervention, is "playing with fire." And I mean, I actually think it's just that important in the Chinese political system, thinking that Beijing will negotiate on the "One China" policy, I think, quite frankly, is fanciful. I may be wrong and I maybe have listened to China for 40 years and am incapable of thinking anything different, but I think it's a fanciful thought to think they will negotiate on that. I would say at any time, but certainly in the run up to the 19th party Congress and everything it means for China's future, being weak on Taiwan is not where you want to be at this moment that Cheng Li was describing. It seems also to me that Taiwan is likely to bear the brunt of the initial Chinese retaliation, whatever it may be, and we're already seeing some of that in the economic tourism and certainly diplomatic isolation and so forth.

And finally, I would just call -- I think at this moment it's well to remember history, and if you think of 1950 and the Korean War, you sort of think of 1962 on the Indian border, and you think even in 1979, in Vietnam, when the Chinese used force, it came as a surprise to most of the people on the receiving end. And I think China is still capable of surprise. And so we've got to be careful.

Thank you.

MR. OSNOS: Thanks. Yeah, that was terrific.

Dennis? Over to you.

MR. WILDER: First of all, let me thank Cheng Li and Brookings for inviting me today.

Terrific occasion. Couldn't be more topical. Couldn't be more to the point.

Let me take a little -- I'm going to try and be optimistic because I fear we're all getting ourselves now spiraling down and down into the mud here and it's pretty ugly. So let me try and just be a little more optimistic.

First of all, I was very much involved in the Bush administration, and I remember the beginning of the Bush administration. I remember the fights between -- and I reviewed some of these, between Donald Rumsfeld and Colin Powell over China policy. There could not have been two more polar opposites. There were a lot of voices at the beginning of the Bush administration who felt they had the answer. And eventually, the President of the United States had to figure out where he wanted to take the relationship, and as you may recall, 9/11 occurred. He went to Shanghai for the APEC meetings, and he, which I think was already his inclination, to be honest with you, but he realized that having the Chinese on side was more important than some of the issues that some of the others had mentioned to him.

I'll just tell one quick story just to -- and this is Steve Hadley's story, the former National Security Advisor to President Bush. You remember early in 2011, perhaps, that an ABC news reporter asked President Bush, "Would you defend Taiwan if it was attacked?" And Bush said, "Well, of course I would." He saw that the reaction was very strong to this immediately as he said it and he turned to Hadley afterwards and he said, "Did I say something wrong?" And Steve Hadley said, "Well, you've blown away 20 years of strategic ambiguity."

So, you know, there are these problems at the beginning of an administration where you come in, you have some views, but they're not terribly well-founded, and we may be seeing some of this at this point.

That all said, I think that China has to accept that Trump is a discontinuity of 36 years of American foreign policy toward China. Through most of this period, democrats and republicans held relatively similar views on how to deal with China. We had some differences, but I don't think they were nearly as great as the differences we now have with Trump. And I think that China has got to see that the American public, the American consensus has shifted, and it is not just Trump. It's the Democratic Party,

CHINA-2017/01/24

and there is the feeling that the trade situation, the way the trade has been structured between the United States and China, has advantaged the Chinese ordinary citizen more than the ordinary citizen in the United States. There's been a tremendous amount of growth and wealth in China. We know the emergence of the middle class. But you look at the middle class in the United States, and they worry for jobs for their children. Yes, China has brought them cheap goods, but if you don't have a job, buying cheap goods at Walmart doesn't really make much difference to you.

And so I think China needs to understand that there was a lot of enthusiasm as was talked about with the Third Plenum and the Third Plenum document, and I think American business was very optimistic at that point in time, and David Dollar and others have written on this. But it quickly became apparent that, for whatever reasons, and Cheng Li has given some of them today perhaps, there was not the follow-through on that. And as we were opening up to China after all last year -- what, we took \$51 billion worth of investment in American companies -- China didn't do the same. There was a lack of reciprocity in a new period of time when China was a much greater power. China had become the world's leading trading partner, I mean, for the world. And so I think Americans in general feel it's time for a recalibration; that this needs -- that we need to find a new place to be.

Now, there's been a lot of talk about Trump and tariff and other things. To me, I think what Trump is trying to do is find some new levers. I think that he feels that the Obama administration really had no levers in dealing with the Chinese, and as a negotiator personality, he knows you need levers if you're going to get a better deal. So I wonder whether some of this talk of trade adjustment, taxes, and other things is to build the kind of leverage he thinks he needs.

So I really think that Beijing needs to think about how to move forward on the economic reforms. I'm a little worried about Cheng Li's presentation because if I accept his line of argument, we're on two different timelines. The administration wants to see something soon, and Xi Jinping wants to wait until after the 19th Party Congress. That's going to be a problem because I think for China, I would argue, and I have talked to Chinese about this, I think China needs to move fast. Mexico is going to move fast. Canada is going to move fast to work a new deal with the United States. I think it's incumbent on China to figure out a way to put some, if you will, gifts on the table and show some willingness to reconsider that

CHINA-2017/01/24

part of the relationship.

The other part of the relationship that just has to have recalibration at this point, there's no way around it, is on North Korea. China can't, and the U.S. both, are running out of time and running out of room to figure out a way forward on this problem. I do take, as Evan said, very seriously what President Trump said that he won't allow the North Koreans possess a capability to strike the United States with nuclear weapons. I think that is a serious statement and one that we need to look at. I would also agree that a military showdown in Northeast Asia, it would be horrendous. It would be a horrible thing.

So the question is, how do the United States and China find some sort of way to move the North Korean situation to a better place? Obviously, that will involve negotiation, but I also think that China's reluctance to go too far with sanctioning over time has allowed the North Koreans to calculate that they're really never going to get that kind of pressure on them from the Chinese. And this is very different from the Iranian situation where the sanctions were imposed by the international community in a very coordinated and tough manner. I am not as convinced that China has sent that signal simply because I don't see any indication that the north is at all worried about its situation. So I think this has got to be recalibrated.

The third recalibration is a tougher one and I'm not sure I have a lot of answers for it, but it's the military-to-military side of the U.S.-China relationship. It does involve the South China Sea. China's military is going global. There is a fundamental change from first with the brown-water navy. Then you had sort of a green-water navy. Now we're in a blue- water navy. And Djibouti is just the beginning, I'm sure, of a Chinese attempt to create logistic spaces and other things overseas. This means that American and Chinese military forces are going to come into geographic proximity to each other much more than in the past. I don't think we've gotten to a point of transparency where we deal with that very well. While I'm glad to see that we resolved in a day the issue of the underwater drone that the Chinese picked up in the South China Sea, that was a clearly very odd incident in that it occurred outside of Chinese waters, and therefore, you know, could be perceived as an illegal activity.

So I think that we're not there on the military side. We have some hotlines. We've done

CHINA-2017/01/24

some work in this area, but I think a lot more discussion of confidence-building measures and understanding of each other's operations is going to be needed.

Just one quick final point. You know, I've heard Chinese express the view, you know, perhaps a little jubilantly, that the United States is now a divided nation. And I'm certainly not going to sit here and tell you that on social issues we are not divided as the march on Saturday certainly exemplified. Obviously, on some key domestic issues we're very divided. But I would be a little careful of carrying that conclusion into the international sphere. I think there's a strong, as I said, view in the United States that the China-U.S. relationship needs recalibration and that we have to find a way to solve the North Korean problem, and I think a strong U.S. presence in East Asia, both military and economically is something that Americans clearly understand is in their interest, and a good relationship with China I would also say is understood to be in our interest.

MR. OSNOS: If that's the optimistic take then we've got a long way to go.

MR. WILDER: Oops, did I fail?

MR. OSNOS: It was superb and much needed. Richard -- thanks for that, Dennis.

Richard, over to you.

MR. MCGREGOR: Thank you. I'm going to talk a little bit about the CCP and economic policy under Xi Jinping. I just want to bounce quickly though off a couple of points by Professor Lampton which I think are pertinent today.

It's fascinating to hear about the railway linking Singapore to China. I can remember -- I'm old enough, actually, to have lived in Southeast Asia in the '80s and '90s and you used to see those sort of Florida-style drawings with palm trees on it, the sort of mythical railway linking Southeast Asia. And frankly, it's going to be a reality. And you know, with the U.S. internally preoccupied, the sorts of things that we've talked about in good and bad ways circled Asia for Asians, got a very bad name in the '30s. A lot of people were very frightened when Xi Jinping talked about it himself. It had a sort of nasty racial edge in the '80s and '90s when Mahathir used to talk about the East Asian Caucus. You know, the caucus without Caucasians and the like. But if you see this sort of way that the region has just been knitted together economically, it's really going to give greater political impetus to regional institutions,

CHINA-2017/01/24

which may not exclude the U.S. but will probably marginalize the U.S. in some ways. So that's fascinating.

And the second point about a Taiwan crisis this year, I know, you know, I think the people in the U.S. will always tell the Chinese with good reason this is our political season. Don't do anything silly now. I mean, China has a selection year, not an election year, but I do believe things are much more sensitive, and you can get a very good idea of that from looking at what happened in 2012 between Japan and China when they had their last fight over the Senkaku/Diaoyu Islands and really, the bilateral relationship has never recovered since. I mean, there's another dynamic happening there, but this is the absolute worst time to dump a sensitive issue into the internal politics in Beijing.

So let's talk a little bit about the economy, some of the issues touched on here, economic reform and the like. And about the different ways to judge how well Xi has done on economic policy or how poorly he's done, and the different kinds of benchmarks we like to use both internal and external. I mean, I think ultimately Xi's legacy will be determined by how well he does on the economy. If you have a successful economy, it helps in just about everything -- managing social stability, foreign policy, paying for all the military hardware that the PLA wants, the funding for government programs, particularly pensions with the demographic collapse coming.

But I think it's also the area where Xi has been least active, least confident, and I would say least successful as well. In other words, where he's really, in western eyes at least, really grievously fallen short of his promise.

So let's have a look at where CCP politics and current economic reform debates intersect. I think the argument you hear from some in China is that, you know, Xi subordinated economic reform to party consolidation, and the argument is in favor of party reform and a cleaner Communist party basically later lays down the tracks for more substantive and genuine economic reform. It's the same kind of argument you hear about the anticorruption campaign, that somehow this is magically going to morph in his second term into, you know, genuine legal reform.

Leaving aside that on the economic policy front there's little evidence of that, it's not clear to me that the kind of economic consolidation that Xi has undertaken so vociferously in his first term

CHINA-2017/01/24

bodes very well for economic reform in any case, whatever the sequencing may be. If, in fact, we agree, mostly if everybody in China agrees, if we agree that liberalization in some form is what China's economy needs, then I think party consolidation, particularly the kind of party centralization that Xi Jinping has imposed, I think instinctively pushes the debate in the other direction.

All the sorts of powers that Xi has been able to use as general secretary in his first term, personnel changes in the military, reorganization of the military, which in fact, he did I think just before the Taiwan election, which I think shows remarkable confidence in that area, the enhanced role for the anti-draft policy, the way he's marginalized Li Keqiang in the State Council is probably the weakest State Council in a generation, all of these are tough decisions and they look from the outside to be tough decisions. But they also allow Xi to pull the levers of power that he has at hand as party secretary, and he can't do that with the economy, which is a vast, complicated, and globally integrated economy. It doesn't respond to threats. You know, it doesn't respond to people being locked up except in a marginal sense of fiscal policy. And the interest groups can't be managed in the way that personnel in the party can be managed. And so I think in that respect, you know, the economy is a much harder nut to crack and it's one that really Xi not only hasn't been so active on but doesn't really have the easy tools at hand that he does on party consolidation.

What about as Cheng Li was talking about, the sorts of personnel changes we're going to have in the second term? Let's assume, for example, that Xi does get his way. Not just in the standing committee but way beyond that in all the sorts of areas that Cheng Li was talking about where you've got the Chinese League in theory still in charge at the Provincial Party level, Provincial governorships and the like. That kind of assumes that, well, once Xi, you know, he's already meant to be the most powerful leader since Deng Xiaoping. What does he want to do now? And that kind of assumes that we know he's got a masterplan for the economy, that the Third Plenum rhetoric about a central role for the market is genuinely held, and I think that so far we don't really know what he wants to do once he gains even more power in the party. And the sense, my sense from, you know, that there's not some inner entrepreneur in any case waiting to jump out of Xi Jinping's skin once he gets a real lock on all the positions, and I think that's one of the great mysteries of the second term, what he, in fact, wants to do

CHINA-2017/01/24

with the economy, and whether, in fact, he can be successful.

A couple of other points. You know, the coming collapse of China has been a theme for many, many years. It hasn't happened. I doubt it's going to happen. I do think the system is pretty resilient and I think the system is resilient enough to have basic economic stability. I don't know what's going to happen, when there will be a financial crisis, when the chickens will finally come home to roost on debt and the like, but you can also look at the Chinese economy in recent years, and this is not anything of Xi's doing, where the metrics are much better, both from a sort of western perspective and a Chinese perspective, or Chinese Communist Party perspective, if you can delineate the two.

First, I think we've now had five consecutive years in which the services and consumption have been bigger than the industrial output. That amounts to something. From the Chinese perspective, I think there's a couple of ways in which -- one particular way in which you can judge Xi's stewardship to be much better than it appears from the outside. If you look at the way, you know, the party's desire to sort of boost comprehensive national power as they call it in China. Obviously, the military, I think, is a way that's gone up substantially, and that's not really just because of Xi. I think Dennis will correct me, but he's got a lot of hardware coming online that's been coming down the tracks for a long time, so China can use military seemingly in a way that they could never do before.

But on the economy, and I think the other aspect of comprehensive national power is the accumulation of technology, whether that's homegrown technology, whether it's because China has begged, borrowed, and stole it, or developed it, or been -- had it handed over to them by guileless foreign investors and the like.

There was a fascinating statistic in a recent IMF report. I think this has been reported. And to Professor Lampton's point about Asia, this is a report on China and the CMLB region, which put me on a learning curve. That's a new area. That's the Cambodian, Myanmar, Laos, and Vietnam economic zone. I had this interesting statistic. Basically, processing trade, which you know, everything sort of being that China is the final assembly point, that used to be about half of Chinese exports. Now it's only about a third of Chinese exports. And if you look at the domestic value-added ratio of Chinese exports, they now actually exceed South Korea and Taiwan, and I thought that was a real sort of

CHINA-2017/01/24

benchmark, and it just shows you how, I think, well, China is doing in accumulating technology by whatever means. And that's the sort of benchmark that I think, you know, Xi would be judged internally on very, very well.

Just one final point which Cheng Li talked about as well about institutionalization, about Xi being in favor of institutionalization. I personally don't see any evidence of that. One of the most remarkable things about his time in power is I think that he's made an already opaque system even more opaque. A tightly held system even more tightly held. And all the sorts of things that Cheng Li enumerates so well in his book about the norms and rules and conventions, and they are separate things. I agree with him that if they start to be overturned, starting with the party congress this year, there will be a really big backlash against that because that's been one of the keys to China's successes, underrated two peaceful transfers of power, and if you start undoing that, I think it could be very dangerous.

I'll finish there.

MR. OSNOS: Thanks, Richard.

One of the things I think that comes through as you hear these three presentations is how much the conditions on the ground on both sides of this relationship have changed faster than the other side has been able to perceive it. So, for instance, if you talk about the economy, Richard points out that you now have a pretty large service sector in the economy, which is generally not reflected in the political conversation, the sort of topline political conversation in the U.S. where we're still talking about currency as if it was three or four years ago. Dennis makes the point I think absolutely right that the Chinese perception of where the U.S. public is obsolete because the U.S. public is in its sense kind of ripe for a moment of change. And then, of course, Mike, I think, is making a huge point about the idea that the "One China" policy or principle, if that is regarded as a negotiating or a bargaining chip by our incoming administration, then they are dealing with a different playbook than the people across the table will be who regard this most likely I think as an item -- a nonnegotiable item certainly.

I identify that fact because I think it points to this underlying issue, and I wonder if -- I'm sure you will all have thoughts that would reflect on each other's comments, but before we turn to the audience I have one question that I thought would be interesting to explore, which is if you look at Henry

CHINA-2017/01/24

Kissinger last year said that we are at a moment -- no alarmist I would say on the U.S.-China relationship, but he said last year that we are at risk right now of being in a situation in which we have tremendous interdependence but we could find ourselves ambling into a confrontation. I'm paraphrasing here. Ambling into a confrontation nevertheless. And it gets to, in a sense, the predicament that we're in, which is that in the beginning of the modern U.S.-China relationship, you had a consensus, and the consensus was you were unified essentially against the Soviet Union. Later, we had a new kind of consensus, which was the idea that there was this win-win relationship to be had over trade and economic interdependence. And now I wonder, we're into this phase and I don't yet know how to describe this phase. And the question I guess I would sort of generally pose to you, but by all means, take it any direction you want, is whether or not we have at the moment a consensus in the relationship that is recognized on both sides, that is operative, and that can form a basis for cooperation or at least conversation at a period where there is so much turmoil and uncertainty.

So Mike, if that's a jumping off point or anything you want to comment on the others, I think we've got a few minutes before we turn to the audience.

MR. LAMPTON: Well, I guess several things come from your comments and reaction to my colleagues. First of all, I thought Dennis had a superb point that, I mean, the relationship does need to be recalibrated, certainly in the minds of, I would say, a vast majority of Americans. And that the way in which it would be recalibrated is in the direction of something, the complicated term legally, but reciprocity. Just, of course, China is five times as big as we are, and so what would equate to an equal or more equal relationship isn't so easy to define. But nonetheless, politically, it's important to think there is a relationship that's going in a more equal, fair, balanced direction. I think that's -- and you could build a consensus, your question, about that. I would say that the economics is the core but I would say that lack of reciprocity is not limited to economic realm. And I'll just give a couple of examples, but I think a lot more immediate relationship, what would you, Evan, say about the relationship between China having, what, we'll say hundreds if not low thousands of media people here.

MR. OSNOS: Right.

MR. LAMPTON: And our major daily journals have trouble getting visas to China and are

CHINA-2017/01/24

on a pretty short leash when they're there. So just that whole realm.

MR. OSNOS: Yeah.

MR. LAMPTON: And I'm always amazed, incidentally, how journalists seem to be nervous about doing anything about that, or having the government act on their behalf.

Certainly, in other areas, just visa reciprocity. China's America watchers and intellectuals have 10-year visas. Bingo, no questions asked, as I understand. I think we're getting under a much tighter visa requirement to get into China just for example. So, I mean, we could make a list, but this reciprocity is in a broader area. We find research on China limited and limited numbers of Chinese scholars asking to come and spend a year researching the United States and so on, and I've spent my whole career favoring that kind of thing and I still do. Don't get me wrong. But the point is this reciprocity is gnawing at the foundation of this relationship.

On your Kissinger comment, ambling into conflict, I guess the import of what I was saying is I'm afraid of that as well.

MR. OSNOS: Yeah.

MR. LAMPTON: And I think you don't have to hypothesize where the ambling may be occurring, but certainly, the South China Sea would seem to be one area. I mentioned Korea and so did Dennis there. And then I must say I'm a little more -- I hope, and I think there's some prospect that Secretary Barbara Franklin could have been, you know, correct that reason will prevail in the economic relationship. I must say though I am more worried about ambling into a trade conflict than I detected she was. So the long and the short of it is, I think -- it gets to a point, you said we ought to take some solace. George W came in with an agenda and look, he sort of got, you know, through events and through maybe his own inclination, but he had Hadley around him. He had Colin Powell around him. He had his father. Right? So if I look for what I would call the intellectual safety net, I'm a little more worried. (Laughter)

MR. OSNOS: Dennis?

MR. WILDER: A couple very quick thoughts. One is that, you know, I think (inaudible) was the one who always loved to say we're in the same rowboat together, the United States and China. There is a rowboat we are in together, and that is this profound changes of our economies in the 21st

CHINA-2017/01/24

century. The Cyber Age some people call it. Some people call it the Fourth Industrial Revolution. We are both going to struggle with the robotics changes in our countries. We are both having trouble figuring out where the jobs will come from in the future. You know, we look at the driverless car. An entire part of the American economy, trucking, is going to change, and not for the better in terms of the number of jobs available. So, and I think China has the same issue. If you look at their factories, their major factories, they're all talking about downsizing. And so I think this is an area where if we can be constructive with each other, we need to figure out how we're going to make people's lives prosperous and productive in a very different age.

The second point I would make is the Trump team does need to have the discussions internally, get their act together internally, figure out what kind of going-in position they're going to have with China. I also think it's very important, and I am a great believer in what Hank Paulson did in the Bush administration. I think you need a point person. I think it is vital that some cabinet-level official be designated on the Trump side to begin this process. Because if we're going to have all these competing voices with the NTC and USTR and the secretary of commerce, you know, I actually feel for the Chinese trying to negotiate with a system that has that many voices. So I would really recommend that they figure out how to make some sort of clear delineation of who is going to handle the economic account.

MR. OSNOS: Somewhere in Beijing there's a PowerPoint that looks like the opposite of what Cheng Li had up here, trying to make sense of the new faces on the U.S. side.

Richard?

MR. MCGREGOR: I'd just say none of us know what will happen, obviously, but I think, you know, Trump's core campaign pitch was about the economy rather than the South China Sea and the like. That seems like more of an afterthought for him. You know, I've done a lot of work lately looking at the trade wars between the U.S. and Japan in the '80s. I think a lot of us forget what an intense period it was. You know, all sorts of incredible -- the Plaza Accord, a massive revaluation of the currency, voluntary restraints by the Japanese on exports. At one stage, Reagan put 100 percent tariffs on semiconductors on an issue the Pentagon got onboard on with the USTR and the like. But of course, speaking of safety nets, there was always the U.S.-Japan alliance which was under that and kept it

CHINA-2017/01/24

contained. And I think the opposite is the case with China. So that's pretty scary.

And I guess the other point with that, I feel that the Chinese are able to endure more pain than Americans or Europeans or whomever, because it won't be isolated. And I guess one of the problems with that, and Mr. Trump may learn this and maybe won't care, but a trade war with China is a trade war with Asia. And that was a really big issue for the U.S. in handling Japan in the '80s. They got a lot of pushback from their Asian allies, and I think that makes it even more difficult to manage.

MR. OSNOS: In a few moments we're going to turn to the audience for questions, but before we do, Dennis, I had one sort of specific question about the military and the civilian leadership which I think runs through this broader question of how will China respond if there is a moment of crisis? Do you have a feeling these days for the degree to which the civilian and military leadership, how they're responding to each other? Whether, in fact, the military is in its proper place in the Chinese conception, that it, in fact, remains loyal and subservient to the civilian leadership?

MR. WILDER: First of all, the changes of Xi Jinping on the military side are probably the most dramatic of anything he has done. No one in Chinese history has really gone through the military the way he did on the anticorruption campaign, the cleaning out of the officer corps, and now the restricting of the military districts or military regions if the theater commands. This is an enormous change for the PLA, and I think that right now there are, I'm sure, ground forces, land forces, officers in China who are feeling the pain of this because they have lost a bit of their authority in the system. On the other hand, those who want a more professional military are probably very excited about these changes. We just had a navy officer selected as the head of one of the theater commands, the Southern Theater. That is unprecedented. Never happened before. The ground forces always dominated because the ground forces came from the revolutionary period. So I think Xi Jinping is actually in a much better place today in terms of controlling the PLA than certainly Hu Jintao was at the end of his administration. I always felt that Hu Jintao never really figured out the military relationship. But Xi Jinping's background gave him this opportunity. I think Cheng Li talked about him serving with Guangbiao in the early 1980s. He understood something that Deng Xiaoping understood as well, and that is when you're going to consolidate power, you'd better consolidate the security services and the military very quickly. And he learned that lesson,

CHINA-2017/01/24

and he's put it into effect, and I think as far as I can see, it is pretty comprehensively.

MR. OSNOS: Yeah. That's encouraging.

Okay, well, I think there's going to be a lot of questions here. I would remind you only please to identify yourself, wait for the microphone, and also to try to keep your question short, and rather than a comment, make it a question.

We'll start right here.

MS. FIKE: Hi there. Verinda Fike with the U.S. Trade and Development Agency.

You spoke briefly about some of the U.S. domestic issues and how the China perception is that we have some divisive issues at home that may preclude us from being a responsible stakeholder, to use your words. China also has some inhibiting factors domestically, whether it's pollution or job creation or rebalancing their economy, just to name a few. I was wondering if you could speak to some of those factors as being perhaps inhibiting factors for them being a more global player. Thank you.

MR. WILDER: Mike, do you want to take that one?

MR. LAMPTON: Well, Cheng Li talked about it at the end of his presentation. It was essentially the management of pluralism as the way I understood the core challenge. And segueing from that observation to your question, I think whatever you want to say about reform over the last 40 years, it has fundamentally changed Chinese society, organization of the economy in many respects, middle class, all of these things. And the institutions capable of managing this, to take the example of the stock market fiasco where they're trying to pump up the stock market and then deflate the stock market and capital controls and so on, this is not institutional, predictable management of a pluralized economy. And so I think ultimately the question is -- the institutional question, is China going to be able to build the institutions that can productively manage pluralism? And I don't think he's gone very far on that, that core task. And I'm waiting to see.

The other thing I think is a fundamental contradiction in their basic economic policy. We've talked about the Third Plenum. The market will be the decisive allocator of resources in the Chinese economy. That was the operational phrase. Well, if you ask yourself in what organization, what mechanism has been the decisive allocator of all resources in China up to let's say the Third Plenum, and

CHINA-2017/01/24

I would say to today, answer, Chinese Communist Party. Or let us say a very important allocator; right?

So I don't see how you can move to the decisive allocation of resources in China to an impersonal market and maintain the centrality of the Chinese Communist Party. I mean, ultimately, I don't know how that contradiction will express itself in short time periods, but over the long time period that's a fundamental. So I see the key problem, which is the inhibitor that is going to, you know, constrain China's action in the world is going to be this problem of institutional development and the legitimacy of the Chinese Communist Party. And everything you see is a reflection of the rear that the party is, you know, not as solidly ingrained in terms of longevity and adaptability. I hear what was said, this has been a pretty adaptable party. I agree. But on the other hand it's acting like a very insecure regime in many respects. So I think that's going to be the fundamental inhibitor, whether it's in terms of domestic policy and/or dealing abroad.

MR. OSNOS: We'll go right here, and then we'll go back there in a second. The mic is coming just over from that side.

MR. NELSON: Thanks so much. Chris Nelson, Nelson Report.

Incredibly important discussion, both this morning and you guys just now. And enormously sobering.

A quick point on the Taiwan "One China" thing and then a question. I think we will need to put a lot of hope and focus on the able representation of TECRO here and TPP here to remind the Trump people when they are in place that if you're going to help us, you need to talk to us before you start to help. Left to Navarro and Bolton, God help us. Let's see how that one plays out.

My question is on the North Korea stuff. As you know, because most of you get my scribble, the --

MR. MCGREGOR: Very valuable.

MR. NELSON: Thank you. The daily screed.

If the ICBM really is the strategic threat, and I tend to agree with Bruce Klinger that we've exaggerated that, but having said that, if it is a strategic threat and it does require kinetic American response, given the point that you guys made that we need to take Trump more literally perhaps than we

CHINA-2017/01/24

thought. If he says you're not getting to your islands, maybe he's going to do something about it. If he says you're not going to get your missile, maybe he's going to do something about it. That is, of course, also leverage, this trajectional thing. In your minds, from dealing with China, is the threat of American military action against North Korea a viable leverage approach, or is that a real recipe for disaster? Because I think that one we can see coming if it comes at all. Thanks.

MR. WILDER: I would say it's a very complicated question. It's not a simple yes or no answer because I certainly felt in the early 2000s, when the situation with North Korea was reaching a crisis point, the Bush administration signaled pretty hard to the Chinese that if China wasn't willing to step up on this issue, the United States might have to. And out of that came the Six Party Talks process really. And so in the sense that China recognized that America was serious about the need for action on this problem, I think it was helpful, and certainly, the Trump -- I mean, the Bush group had great credibility in the idea that they might intervene abroad. And so the Chinese had to take it seriously.

I think today -- I think they've got to take this seriously. I think that whatever -- whether the threat is as great or not from a nuclear ICBM in North Korea, I think that an American president -- I find it very hard to see how an American president can simply say, oh, that's okay.

I also think that we're missing another point here which is as the North adds to its fissile material stockpile, there is a proliferation problem coming for us. And we're not, I don't think, paying enough attention to that question and how we're going to deal with that seriously. So I think that yes, there is some utility in saying we are reaching the end of the line here and we need China to step up and help us ameliorate this situation.

MR. LAMPTON: Can I just ask a question to follow up?

MR. OSNOS: Yeah, please.

MR. LAMPTON: And so now we've got our two core allies, certainly in Northeast Asia and probably in Asia, Japan and the Republic of Korea. And so where does our relationship with them stand if we go the logic of force? And then what does that do? We've been talking about alliances in other regards. Now we can toss that set of reasons on the pile.

MR. WILDER: Well, I think, you know, I think that, look, it's sort of like Secretary Franklin

CHINA-2017/01/24

this morning. If we get too far into talking about what does a trade war look like or what does a war with North Korea look like, we're kind of missing the point of the moment which is we want to avoid that because thinking about that, there are so many horrible things that could happen. You know, a North Korean assault along the border on the South Koreans, I mean, there are all kinds of ways that this could spin out of control. And that's why it has to be in all our interests. And not just China, Russia. The entire region has to take this problem seriously.

MR. OSNOS: I think the gentleman there. Yep.

MR. KEITH: My name is Jim Keith. I'm a retired U.S. diplomat and a current business consultant. Thank you for the opportunity to hear from all of you and from you, too, Cheng Li. Thank you.

Mike, I wanted to expand on the point you just made, what from the American perspective might be the conundrum between authoritarian control of the country and society with market allocation of resources and ask you -- ask anyone on the panel to expand on that in this question of China filling the void that Americans are creating. And perhaps one means of getting at that is to expand a little bit more on the Davos speech, which Secretary Franklin mentioned earlier today. I mean, those of us involved in crafting the responsible stakeholder speech might have been delighted to see the Davos speech as a reply in those days, but the context has changed. I would argue that it's slightly less than invigorating to hear some of the elements of the Davos speech given this domestic conundrum. Does that give you enough to respond on what the boundaries might be in terms of the Chinese filling the void left by the Americans? Thank you.

MR. LAMPTON: I think in my remarks I mentioned that I think we have to appreciate actually the scope and the vision of what China -- we talk about OBOR and now the Belt and Road Initiative and all of that, and a lot of these are going to be projects that aren't in any vision. It's just aggressive local officials throwing it under the umbrella to get support for whatever their pet project may be. So I don't want to overstate what this vision is. But I was struck, even in Vietnam when you talk about this connectivity that China is trying to build, they're trying to figure out how to relate to it and still keep their autonomy. Everybody sees pluses in this and everybody sees minuses. And China is dumping enormous amounts of money into Malaysia, import development, urban development, airport

CHINA-2017/01/24

development, railroads, the whole nine yards, and it is buying. And I don't mean that in a negative sense. It is using its economic power to get compliance and it's going to have developmental payoffs for China. It's going to be, you know, it's exports of high technology. You mentioned technology. It's impressive what China has done in terms of it's the development of the underlying technologies and high speed railroads, from the French and the Germans, and put it together and modified it and now is exporting it and so forth. It has a huge contract in Boston. So I guess what bothers me is the conjunction of us sort of bailing out on -- we haven't been for quite a long time all that enamored of infrastructure abroad in our foreign aid and so forth. I think in the one area where I would see a possibility for this administration seems very sold on the idea of infrastructure, domestically for sure. But I think if we can find a way to relate positively to the development thrust that China is putting out there -- somebody asked earlier where is a conjunction point in terms of interest. And I think building in this really dynamic area and cooperating with China. All of those countries where I'm interviewing, they all want to see U.S. companies there, which they generally don't or not nearly to this extent. So at the same time, we have all these strategic and reciprocity issues and so forth. I think there is an area where we can cooperate on development in the most fundamental sense in Asia. I mean, what China is proposing to do now is build more than three transcontinental railroads out of Kunming. I mean, it's just unimaginably huge.

MR. MCGREGOR: Evan?

MR. OSNOS: Yeah, please, Richard.

MR. MCGREGOR: I was going to say you can look a number of ways at the Davos speech. Given the state of the world today, to be making a pitch for hearts and minds at Davos would, you know, be totally politically tone deaf other than for the people of Davos itself. So, but also, of course, I think the message is Chinese leadership is not really Chinese leadership. You know, I think Xi Jinping was defending the global trading, liberal trading order, not the global liberal order. It was like you can have the global trading order. We'll just throw the liberal bit out. And, you know, so in that respect it's technically astute, but I think pretty transparent.

MR. OSNOS: Do you think, just to round out this point, I think is interesting. Do you think that when China envisions itself as a, let's call it a kind of -- perhaps a form of responsible

CHINA-2017/01/24

stakeholder now or filling in this role of leadership, does that extend to things like humanitarian intervention? Do you think we will begin to see China taking the lead on the next Ebola crisis? The next Zika crisis? You know, when it's time to form some sort of major response. Do you get the sense that China is prepared to do that? Because it has so far hung back. Even though it has expanded its commitment, for instance, to peace keep, U.N. peacekeeping operations, you get the sense that they don't want to be in the lead position on this.

MR. WILDER: I think they're still very reluctant. You look at the situation in Syria. China hasn't offered to take any of the refugees that I know of. And you mentioned Ebola. Very small commitment at least at the beginning until we sort of pushed on that. I think in peacekeeping operations, China is now the largest contributor to those. So they've moved out in certain areas, but I think they always have to worry that getting too involved in humanitarian things abroad while they still perceive such great poverty in some areas of China is politically a bit difficult, and I don't think they have the, if you will, the habit that we have of feeling the need to be directly involved.

MR. OSNOS: Richard, do you have a quick follow-up?

MR. MCGREGOR: I was going to say you might, on that question, look closer to home and look at -- and I hope this doesn't happen -- say, the next tsunami crisis in Asia. When that happened previously, of course, it was the U.S. military that was able to deliver goods and services, rescue people very, very quickly, and at the time said, oh, my God, China couldn't do that. And the other side of the coin was, well, thank God they couldn't do that. But I think these days they could. And if there is a natural disaster in Asia and there regularly are, I think, you know, the Chinese would no doubt be thinking about stepping up themselves. And that's a very good extension of -- I don't think China does have much soft power but I think that would be a very smart thing to do.

MR. OSNOS: We're down to just the last few minutes here. We're going to -- I think what we'll try to do is take three questions at once and then we'll answer all together. So please, in the second -- yeah, right there.

MR. ROOT: Hilton Root, George Mason University.

My question is, isn't there a way to link negotiations concerning Taiwan with the

CHINA-2017/01/24

discussions about North Korea? I particularly address this to the gentleman from the Bush administration because I know that that question came up there.

Second question is the sectors that are closed to the U.S. economy, the so-called negative list, they're all sectors that have a very high socialist component of employment, and this is why they're not as easily opened up as earlier sectors were. And I just wonder if you have any commentary on that.

MR. OSNOS: All right. We'll take a question here. Just right back there.

SPEAKER: Thank you. (Inaudible) with The Globalist.

One quick question about possible areas of leadership for Chinese leaders. What about the climate where he would quickly become a star in Europe if he moves into that area?

MR. OSNOS: All right. And let's go ahead and take one last question here. We'll answer as best we can in the allotted time. We just have a few minutes left. Yeah, right here in white, please, in the second row.

MS LI: : Jlangjing Li with Shenzhen Media Group.

So picking up on Dennis's idea of a contact person with China, we can name a few within the Trump administration that are China critics, but who do you see that are more friendly to China and can potentially continue to have cordial conversations with China? Thank you.

MR. OSNOS: And gents, we may need monosyllabic answers for this given our time constraints. But if there's anyone that wants to jump in on one of these, I would encourage you.

MR. MCGREGOR: I was going to say on climate, you know, China has intelligently made a virtue out of necessity. They could continue to do that and win brownie points for that.

MR. LAMPTON: I would say Dennis had something that resonated with my thinking, and that is the need for a coordinator. The Chinese system with the vice premier has a useful level of the system above the department level, natural coordinators, and we don't seem to have in our structure. And I thought elevating Paulson to sort of prime (inaudible) Paris was one way to deal with that. I guess, making Henry Kissinger in charge of everything at one point was the way to deal with that. I'm not recommending that. But in any case, I think we need to get somebody that's going to ride herd because

CHINA-2017/01/24

the wiring diagram that's emerging right at the moment has got a lot of contenders for influence over this policy area.

MR. WILDER: And I'm not sure it has to be somebody who already has a good relationship in Beijing. You know, we now have an ambassador designated to Beijing that has a very good relationship in Beijing. So he can help to build the bridges from his position, and I commend President Trump actually for that choice because I think it gives the entrée necessary for whoever he decides to put in. But the key is not whether or not they have a good relationship with the Chinese; it's whether or not that individual understands what the president wants and has the entire backing of the system to move forward. And that sometimes, I can tell you from personal experience, doesn't always happen in the U.S. government.

Just very quickly on tying Taiwan to North Korea. I'm very nervous about tying different issues together. I think that, you know, when we've been most successful, it's when we really work an issue solidly with the Chinese and in the lanes, but I may be wrong. But I'm not a believer in tying them together.

MR. OSNOS: All right. Well, I think we are out of time. We've covered a tremendous amount of ground. Thank you all for terrific questions, and please join me in thanking our terrific panel.

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