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NEW TEAM, NEW AGENDA?
WHAT THE 19TH PARTY CONGRESS TELLS US

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P R O C E E D I N G S

MR. LIEBERTHAL: Good morning. I'm Ken Lieberthal, senior fellow emeritus at Brookings. Welcome to a thorough examination of the outcomes, significant implications of the 19th Party Congress that we've all been following avidly. In the build-up and in the actual convening of the Congress, concluded about a week ago.

This session is entitled: "New Team, New Agenda?" We now know that there clearly is a new team, and we know the rundown on that team. The question is really, to my mind: what does that new team say about any changes in the agenda, and the capacity to implement those changes, politically and administratively in China and in Chinese foreign policy?

So, we'll have a serious examination of the incoming members, or the new positions, incoming incumbents to positions in the Politburo Standing Committee, the Politburo itself, the Central Committee, I believe at the provincial level also. And we all know what the composition was, and thrust was of Xi Jinping's political report to the Party Congress.

The press has made a great deal of that, we want to pick that apart to see how much continuity there really is. I think most specialists would say there's more continuity than the press in the United States has been aware of, but still also there are new elements, and there are new emphases. And so we want to pick that apart in a variety of ways.

This is divided into two components this morning, the first will be a detailed analysis by Cheng Li, who is probably one of the most well-known experts in the United States on Chinese leadership changes, personalities and their implications, the groupings among leaders, and how they are chosen, what their constraints are, and so forth.

And so, Cheng will give his analysis of the incoming cohort of the 19th Party Congress and some of the implications of the choices that were made. And then we'll move to a panel, the panel will be moderated by Susan Lawrence, that will look more at a breakdown of substantive areas of policy and what we can expect, how much we know from this and what the

core issues are going forward.

For each of these we'll have time for Q&A. Cheng will speak for about 35 minutes, and then we'll have questions from the audience. I know Susan plans to allow a fair amount of audience time in the second panel.

So, to maximize the time that you will have at the end of each of these sets of remarks, let me ask Chen Li to come up to the podium. Thank you.

MR. LI: Thanks, Ken, for that generous introduction. I'm not only honored by your presence here today, but also profoundly grateful for your mentorship and the friendship for all these years, at Brookings, and also prior to your arrival here.

When I came to the United States about 30-some years ago, and actually, I was already old at that time, you were already a distinguished professor at Michigan. I was so fortunate to study directly and indirectly under you, as well as Barbara Scarpino, Doak Barnett who was also your teacher, and Michael Rosenberg, Lynn White, Ezra Vogel, among others.

Intellectual inquiry is like the formation of a wave, each succeeding wave owes its momentum to the strengths of those that went before. Thank you, Ken, for your pioneering role in contributing to what we now call, or what we used to call: Pekingology; the careful and empirical study of the (inaudible) of the Chinese top leadership.

I hope my presentation today reflects the great American academic tradition in this important field. I also hope, as I become really old, that young people, whether in China or in the United States, and continue to pay attention to individual leaders, their background. How their background translates to their views and policies.

Now, I also want to thank the speakers who will be participating on the panel today: Ambassador Roy, Richard, Susan; and my colleague, David, for sharing your expertise and insights with us. Your perspectives have all always challenged and broaden my views and understanding of China. And thank you. And also, thank you all for coming.

Now, in my 35 minutes or so, I will talk about the four issues. First, share with

you the research methodology, then I'll talk about what I believe that are the main findings; and thirdly, discuss about the rising elite groups, and finally, and probably most importantly, talk about policy implications.

Now, let me talk about the research methodology for a few minutes. Now, there's a conventional wisdom or perception largely in the outside world, so 30 percent in China as well, about the Chinese political leadership; it's rigid, opaque, ineffective.

Now, of course there's some truism for each and every one of them, but I think that Susan Shirk, professor at the UC San Diego once said, she probably not referring to this, but she said, I remember that sentence, "Cynicism, like dogmatism, can be an excuse for intellectual laziness." So, I think these three views could be highly misleading when you come to analyze Chinese elite politics.

Now, these are the speculations before the Congress, and now we can see the result. The five widely-spread speculations within China and outside China: the first that Xi will be elevated to chairman of the party, not the chairman of the PRC, as we know he is already president of the PRC, we sometimes call (Speaking in Chinese), but here he's referred to, the party chairman, which only Mao had that title a long time ago.

So, currently Xi Jinping is the general secretary, so the arguments that, or the speculation said that Xi Jinping was elevated to that position from general secretary to chairman, certainly, it's not true. And I actually think that never was in the agenda, even never thought about that anyway.

Second, is the one, is Xi Jinping himself, it is really adding to the CCP constitution, elevated. Like make him the third person, his name is mentioned, after Mao and Deng. Although Jiang Zemin (Inaudible) represents, and of Hu Qingdao's scientific development also in the Party Constitution, nevertheless Jiang's name, Hu Jintao's name was in the -- were not in the Party Constitution, but Xi Jinping now made it in his first term.

Now, the third one is Wang Qishan, you know, the (inaudible), the arguments

that he will remain on the Politburo Standing Committee, not happen. I personally think it never was in the discussion. Now, Wang Qishan may still play some important role, but he could not violate the norm and the regulations in the age requirement. So, in the past two years, you can see that I've been consistent saying that Wang Qishan will step down.

The third one is that -- or the fourth one is the speculation that the Xi Jinping may find a successor; my view was 50/50, but that eventually it did not happen. And finally that this argument, that Xi Jinping now has become so powerful, the Politburo Standing Committee, the most important leadership body shared all by his people, and that did not happen, so it's called the winners take all.

Now, of course prediction is important, I'm also in that business, but usually I'm hesitant to predict -- (inaudible) but it provides the candidates. This is the list I provided two weeks before the Party Congress, 12 candidates for the Politburo Standing Committee. The checks, that as later we added after the result announced, so seven, all seven of them made it through the list.

The other five all made it through the Politburo Bureau, which is a body of 25 people, so not too bad. But more importantly, a year ago, exactly a year ago, October 17, I gave a speech at the UBC in Vancouver, the University of British Columbia, I made several predictions, and one is talking about Xi Jinping's protégés, the ECC.

Most of them made it to the Politburo in the Standing Committee. Li Zhanshu, Zhao Leji, Li Xi, and Zhang Youxia, Liu He, and Cheng Xi, and et cetera. You see the list. Most of them are already in the Politburo Standing Committee now and the Politburo as well, with a couple of exceptions.

Also in that presentation a year ago, I made a prediction, these are the top nine candidates for Politburo Standing Committee. Now, of course, Hu Chunchua, did not make it, Sun Zhengcal is in jail (laughter), but look at the top seven people. Look at the top seven people, one, two, three, four, five, six, seven; someone said, they probably talked to Xi Jinping a

year ago, they got that list.

Now, of course, I personally never used the inside stories, and I'm very cynical about the inside story. So, all my research is based on the database I started to create 30 years ago under the guidance by -- later -- Barbara Scarpino at Berkley. That database that's a result is presented in my book published a year ago,

Basically, I have the 30,000 Chinese elites in that the database, these are the leaders, usually can show or nominated, approved by the Central Organization Department, (speaking in Chinese), at certain times about 4,000 people, so that the database is all that. So, the book has actually 84 charts and tables and about the Chinese -- 200 Chinese terminologies, and most importantly, here's the last one, it's 600 Chinese leaders, 500 of them are current leaders.

Now, so it's not due to a lack of transparency, if I can get it right a year ago, about the Seven Politburo Standing Committee; what I did is just I used the rules, and probably very few people really believe these rules as its norms, these regulations, people are so cynical. Of course I also look at the fraction of politics, look at the check and balance -- the check and balance, look at their career trajectory.

These are the things help me to identify the rising stars, I cannot say for 100 percent sure, it's kind of lucky I got the seven people right, in the top seven. But certainly the other two also tell us we should be humble, and because a lot of things, it's beyond our analysis, only the insiders who know, you know, a very small number of people.

Now, so my research is really focused on, not only just on Xi Jinping of course now, but look at the seven-member Politburo Standing Committee, and also 25-member Politburo, but most importantly, in my database, it's about 376 leaders. These are the leaders I will discuss.

Now, let's move to the main findings. This is the six most-important of the leadership bodies. First is the Central Committee, and 76 of them are new -- 76 percent are

new. The yellow ones are new members. And in the (Inaudible) Party 133 members, and only 10 them were in the past Commission, so it's about 93 percent are new.

The so called Secretariat, these, like the Chief of Staff Office, controls the flow of information to decide which leader, to which country, travel to which country, which foreign delegate, you know, Heads of State come, who should participate in the meeting.

This is the flow of the documents, a very, very important body, seven people, 100 percent are new. And Politburo as we now know, 15 of the members are new, only 10 stay, 60 percent, and the Politburo Standing Committee five out of seven are new; and CMC, Central Military Commission has probably less new members, but I will discuss, actually ironically, Central Military Commission has the fastest -- the military leaders has the fastest turnover rate we are going to see. It's already happened.

Now, this is the turnover rate, the Central Committee, it's nothing new. You look at it from 1982, and we always maintained on average it's 62 percent. Now, I should make it clear, this also include, the alternate members promoted through the full members also considered new, but if you do not consider to include them, it would be roughly 10 percent or less.

So, it could be like a 60 percent, you know, turnover rate, entirely new body, but usually all the previous studies, all included is from alternate promoted to Central. So, this Party Congress, 19th Party Congress has the fastest, highest gross turnover rate since 1969 during the Cultural Revolution.

Now, this is the Politburo Standing Committee before the turnover, two people stayed, five people promoted, these are the five new members. These are the seven members I predicted a year ago. Now, let's look at their factional identity, it's a very, very interesting. This is very, very important. You know, I mean not -- instead of winner takes all, and two -- I mean Xi Jinping has three including himself, especially Li Zhanshou and Zhao Legji, these are very powerful figures, and they formed a kind of a very close relationship for many decades.

But Wang Huning, and Han Zhang, as we know, both of them advanced their career from Shanghai, and both of them graduated from the university I graduate, East China Normal University in Shanghai. And they have the reputation as the Shanghai Gang. Of course that you can imagine Jiang Zemin really worked very hard to make sure these two people made it to the Politburo Standing Committee.

Of course, they are political allies for Xi Jinping, but they are not protégés by Xi Jinping, per se. Now, two others Li Keqiang, and Wang Yang, these people advanced their career from the Chinese Communist Youth League, which often the Chinese called, the (inaudible). These are protégés of Hu Jintao, so that's a very important composition.

So five years ago Xi Jinping has six versus one dominance of the 18th Party Congress; now, actually one person less, and the Wang Yang is a very ambitious man. Remember five years ago he fought vigorously with Bo Xilai at that time, with a different model of development. So, that's the new composition, that's very, very important, although Wang Yang probably does not have the -- his position as the Chairman of the PCC, as I'm going to say, it's not that critically important, but that whoever are in the Politburo Standing Committee is important.

Now, now why that happened? This all follows these norms and rules I mentioned in my book, and one is the age requirement. These are those born before 1950, disqualified for the membership of the 19th Party Congress, the 19th Central Committee. If you are not Central Committee you could not be Politburo, you could not be Politburo Standing Committee.

And five years ago, the age limit was 1945, and five years earlier, it's 1940. So, that age requirement is so solid, that's the reason why I predict Xi -- Wang Qishan will leave the Politburo Standing Committee. The second is term limits, no more than two five-year terms in the same position, and the three five-year terms at the same level of leadership. These usually refer to important positions, not the ceremony positions.

And further, the regional bureaucratic representation, each province has two full-membership seats, with the only exception of Xinjiang and Tibet could have three or four, but all other 29 provincial-level entities, just the two, usual Party Secretary and the Governor or Mayor.

Now immediately after the Party congress they can rotate, but during that time it's by their region. No more than two, no less than three. And also the military leadership, previously, five years ago it's 41 full members, 25 alternate members. This time it's exactly the same number.

And finally, there's "more candidates than seats" election. Now, China is no democracy, but China does have an election, it's a limited election, to choose the alternate members. So, basically full members, you elect 204, but there are 222 candidates, so 88.8 percent eliminated, the same thing alternate members.

You elect 176, but reported 189 candidates on the ballot. So 9.9 percent, almost 10 percent eliminated, those eliminated including Wang Weiguang, the president of the CASS, Chinese Academy of Social Sciences. And Song Puxuan, was the commander -- the chief person in the 60th anniversary parade in Beijing; and so really military confidant for Xi Jinping. And the finally, Cheng Lei, is a cabinet member, minister of water resources, they were all eliminated for various reasons, just as examples.

Now, the age composition of the entire Central Committee is 376 people, and it's quite interesting. Most of them belong to the -- were born 1950s or 1960s, and though there are only two people born 1970, and there's few people unknown, and so this is the age composition.

So, sixth generation is in the waiting, they already start to dominate at the provincial level leadership, but in the national leadership they still share power with those who were born in the 1950s. Now, very quickly, to see that the composition -- the likely composition of the State Council, as we know, that the Party leadership change already completed, but the state leadership will be announced March, but I think the transition already start.

So, these are the expected members, executive members of the cabinet: Li

Keqiang will remain as premier, Han Zheng will be exactly vice premier, and the other vice premier including Hu Chunhua, who just left at Guangdong, and Sun Chunlai, she will replace Lu Yendao, she's the only woman, you probably remember. And Liu He, many of our outside people who know Liu He very well, who was chief economic advisor for Xi Jinping, highly likely he will become vice premier.

Of course, I'll say, there's also a chance that he may replace Ma Fu Ying, as director of policy planning, but most people I believe that the Liu He will be vice premier. There will be several state councilors, but before that also, Yang Jiech's position is still not announced yet.

Previously the person in charge of foreign affairs only got the position as state councilor, the next level, but Yang Jiech, now made through Politburo. This is the first time for the past 35 years, or 40 years previously only one foreign policy person, Jen Jisung (phonetic), made it to the Politburo, so after 37 years Yang Jiech got that position. I'm going to comment to the significance later on.

But his position is not entirely clear. I also believe he could be, even could be a candidate for vice president of the PRC, help Xi Jinping to see foreign delegates, but again, this is purely a guess, there's no insider information, because I don't know where to put him, if not the vice premier of the of the State Council.

So these are the -- Now, the Military leaders, four of them are returning members, only three are new, this is very much expected, but this gives you the impression, early on central military turnover, is not as significant, but it's not true.

Now, for the only six M=military generals who are full members are returning members, out of 41 full members. So, basically 85 of the military members are new in the Central Committee, this is very significant. And in some other countries you can see this like a military coup, you know, never happened before, but only 6 out of 41 are returning members, these are the six generals.

Now let me very quickly mention about Xi Jinping's power base, how Xi Jinping can consolidate power in the other levels of leadership except the Politburo Standing Committee. Xi Jinping, as you know, is well connected, unlike some leaders, either just a have a base in the coast region or the inland region, and Xi Jinping has both.

And also, some leaders just identify as the well-to-do, also called Princeling, he is Princeling, but also he can reach out through grass roots, because of his formative experience, et cetera. So, that means Xi Jinping is well-rounded in so many ways. Now, he is a Princeling, so he has a lot of friends in the second generation of the Communists Red Nobility, so for the (inaudible).

And he has strong ties with Shaanxi Gang, either including his father's revolution experience, including he spent six or seven years when he was a teenager, as so-called sent-down youths, during the Cultural Revolution, and also including some of the provincial leaders in Shaanxi.

Also Xi Jinping has a lot of protégés in the four provinces that he served as a leader, started with Hebei, then Fujian, and Zhejiang, and finally Shanghai. And also, Xi Jinping served two years as the Secretary, Mishu, for DOD Secretary or Minister, that also made some connection with the military leaders, and also he graduated from Tsinghua as both undergraduate and a PhD, he has some good friends in Tsinghua. And finally, he has a lot of Mishu in his career, so he promoted them also very vigorously.

Now, this is the revised list that earlier on I showed in the UBC, but this will be a revised one, you can see from these years in Sahchi, Li Zhanshu, Zhao Leji become Politburo Standing Committee, Li Xi, Zhang Youxia, Wang Chen, become Politburo. Although in Beijing, in his childhood years and also he is really, really with Liu He, and Chen Xi, and his roommate at Tsinghua, and now become the organization's Head, Department Head.

In Fujian, yes, Cai Qi, that later promoted to be Party, Beijing Party Secretary, and Huang Kunming, he is a propaganda czar. And Ding Zuexiang, Chen Min'er, and could be

one of the successors, and Li Qiang (phonetic) now, just moved to Shanghai to be Party Secretary of Shanghai, just a week -- a few days ago.

And also in Shanghai, Xi Jinping worked for the eight or -- seven or eight months, he also made some strong connections, although some may not be his protégé, but he actually tried to promote some of them, but to start with Han Zheng, at least he gets along reasonably well, and Ding Xuexiang and Yang Xiaodu, both are in the Politburo. Now, this is Xi Jinping's power base.

Now, usually when we look at Chinese politics, we consider Xi Jinping versus Tuanpai; he purged a lot of them, put a lot of them in jail, and that the Tuanpai, this is the chart that tells us the Rise and Fall of Tuanpai. So, the last Party Congress Tuanpai had 96 members, yellow is the alternate, blue is more important, full members. Now only 35 significantly reduced, although still there, but significantly reduced.

Now, this is the one chart I made with my Research Assistant about three or four months ago to look, under Hu Jingtao, the Tuanpai leaders and the Provincial Chief, you know, Governor's, Provincial Party Secretary, rise dramatically then started to decline after he -- a few years after Hu Jingtao retired.

Now, what's the point of this chart? I think it's quite revealing. It tells you there's nothing unusual for Xi Jinping to promote his own people, Hu Jingtao did, did it very quietly, and probably Hu Jingtao did not have too many enemies, he did not have this kind of large purges, but he did the same thing, and with his people moved to the important positions.

Now, let me talk about the third issues, the elite, rising elite groups, now this is the dramatic rise and fall of the so-called technocrats, meaning engineers turned politicians, and in the 15th and the 16th Party Congress reached the peak that 7 or 9 members of the Politburo Standing Committee, they are all engineers, remember Jiang Zemin, Zhu Rongji, I mean Li Peng, and et cetera; and Wang Jiabao and Hu Jintao, they are all engineers by training, that period came to an end.

And this Party Congress zero for the Politburo Standing Committee, two, and namely: Chen Xu, graduated from Tsinghua; and (Inaudible), his Former Chief of Staff, these are two Politburo Members had Engineering Degree.

This is based on the highest degree counted, so that's a change. So this has also happened, the entire Central Committee, those technocrats also, you know, in the 1980s very, very small, only 10, and it was Central Committee, but the rapid rise then started to decline. Now it's the lowest at 17 percent.

And, instead, those who study social sciences, particularly economics start to rise, and I believe or not, and those who studied law also start to increase, and now it's the highest, and 18 percent in the Central Committee, the full members, and those who study social sciences, humanities, and also economics rise to 48 percent.

Now, another of the important things, is previously if we wanted to be top leader, you wanted Politburo, or Politburo Standing Committee you almost must serve as the Provincial Chief, especially Provincial Party Secretary, now that the requirement started to reduce -- significantly decline, so only 15 out of the 25 had such an experience. Instead, you see some new groups that emerge, one example is, that I described in my book, so-called Cosmos Club, their leaders advance their career from aerospace industry. Just look at these eight people, I will not be surprised, in 10 years, one of them will become China's Premier, and they are young enough.

And so these are people already in charge of Guangdong, and Zhejiang (phonetic), and in charge of Liaoning, and Heilongjiang, and in charge of important bureaucracies, and they are well experienced in the business world, and so as a CEO of the aerospace industries, or China's aircraft company for many years. And I will talk about implications. And many of them speak very good English, in the case of (inaudible) he speaks flawless English, I was told. I never met him but some of the mutual friends told me about him, that's a very impressive guy.

Now, also the Cosmos Club also includes some current leaders, these are all the Central Committee Members who alternate among these 376. When you have these, and so many you need, and the Xi Jinping wants to emphasize that industry, so industrial policy will apply for these people, but at the same time these are very competent leaders in their own rights.

Another trend is the university presidents start to be a very important group in the Chinese leadership, these include those former university presidents and Party secretaries, including deans, like Wang Huning, he served at Law School at Fudan.

And so these people, including Chen Jining, the Mayor, Mayor of Beijing, he got his PhD from London, and the previous, as I said, he's President of Tsinghua University, and also the Minister of Environment Protection, now he moved to the Frontier, a very important position, as the Mayor of Beijing.

Now, these are the current Party secretaries or presidents, and also made it to the Central Committee, and again it's a significant list of the people and to particularly pay attention to Chen Xu, she is a rising star, there are not so many women leaders made it to Central Committee but, she, in a few years could be a very, very important figure in Chinese politics.

Now, we talk about our returnees, foreign-educated returnees, foreign-educated people who returned to China and then become leaders. This will increase of the percentage, my forecast is 17 percent, but then actually 2 percent more than I anticipated. So it's a basically every five Central Committee Members almost one of them studied abroad, as a degree candidate and as visiting scholar, and some of them got very impressive -- and I'm going to explain -- but most of them studied in the United States, overwhelming majority of them studied in the United States.

Now these are the four Politburo Members, and Wang Huning studied at UC Berkeley as a Visiting Scholar, the University of Iowa. Actually Barbara Scarpino, I mentioned,

my mentor, was also his host at Berkeley. Okay. And Liu He got his MPA from Harvard Kennedy School; and Chen Xi, two-year Visiting Scholar at Stanford; and Yang Jiechi spent a lot of time as a young man in U.K., including London School of Economics.

Now, I'll talk about policy implications, very quickly. I want to cover three areas: one is foreign policy, one is economy policy, one is political initiative. I am a strong believer new leaders mean new policies, because a leader wants to do something different, wants to deliver. China is a big country, so still unclear where they will deliver.

But let me give you some -- my speculations in this regard. Foreign Policy Team, you probably will see a certain degree of continuity, but their role enhance, enhance dramatically. Remember, five years ago China's Military insult Foreign Ministry. I think that, yes, you are (inaudible) in Chinese decision-making circle. Remember that quote by some people. But now Yang Jiechi represents the importance of foreign policy, and that Xi Jinping's -- and with Xi Jinping's support, now these are -- this is a new team.

We do not know their position yet, the second-most important person will be Song Tao, who currently is the Minister of an International Department at the Central Committee. Also, Liu Jieyi will be very important in the Taiwan Affairs; and Wang Yi will remain, but his position is still unclear. There are also two rising stars, Le Yucheng, and also Zhen Zeguang.

And Zhen Zeguang is the only person, in my presentation today, is not the Central Committee Member, all other people I mentioned, you see the photos, are Central Committee Members or higher, but because Zhen Zeguang is important, and I just mentioned him.

Now, the Economic Team will be these six people, headed by Hang Zheng, and also Liu He, will play a very, very important role from advisor to policymakers, and along is He Lifeng, the Director for NDRC; Zhong Shan, the Minister of Commerce. And Yi Gang, we still do not know which position -- we still do not know which person will replace (Inaudible). But no

matter what, Yi Gang will be a crucial figure; and also Mu Hong, very few people know him, but he is a very important figure for Xi Jinping on economic policies.

SPEAKER: Is he (inaudible)?

MR. LI: The photos, yeah, he looks young, but he's not that young in terms of age, yes. (Laughter) Now, let me say, this is important. I will very quickly. Xi Jinping controls Beijing, Hebei and Tianjin Corridor; that would be very, very important to him. Remember Xiongan (phonetic) will be the third Economic Special Zone, he'll really want to push for that, so these people are all his protégés. And Tianjin Mayor just moved to Hebei, to become Hebei Party Secretary just a few days ago, and this is the team.

Meanwhile that Xi Jinping is also firmly in charge of three major Provincial entities namely, Shanghai, Guangzhou and Chongqing, these are all (inaudible) by his confidants. So, when you have these places, I mean the whole economy is already decided. So, I will talk about that policy implications just in a second, now let's talk of policy implications.

Under Xi Jinping's second term, China will have a New Urban Development Strategy which means, for example, Beijing, there are a lot of places, but the functions will be changed, will be moved out, Beijing only remain as a political center, international center, cultural and the innovation -- technology innovation center. All other functions, including economic function, industrial function, and educational function will move out.

So with that, it's a new strategy for development; the same strategy will happen to Shanghai, Guangdong in different ways, a different model will be added -- because of time I don't -- time limits, I will not have time to discuss.

Also modern equipment, modern manufacturing, this is the reason why he promoted so many people from aerospace, and from the shipbuilding. And so that's the emphasis of China. Now, he it is mixed for business communities, we will hear some positive news, like a green consumption, like service sector development, like the promotion about the new energy, and the new service sectors, and et cetera, these are good for U.S. business.

But you can also see these people could be quite naturalistic, could be quite professionals, so it's not that one-dimensional, it depends on how you look at the issues, and also that's, politically, there are some new initiatives. I wanted to finish in just one minute. Xi Jinping and the Party leadership decided to establish a Central Leading Group on the rule of law, and also they, I believe now, they talk about the Constitutional Review System.

These are the things, incidents, and the human rights lawyers argue for a long time, but now it's the Party, already accepted the Party's decision. And finally, establishment of the National Supervision Commission, very much similar to what happened in Hong Kong, it's a more institutional method to fight corruption rather than the previous five years, the campaign method.

Now there are so many people promoted with solid, legal background to important positions. And so let me finish with the things that, actually, I mentioned almost a year ago in another speech, here at the Brookings. This is also an epigraph, one of four epigraphs I used for my book. I use it because Xi Jinping used the same Chinese saying in two occasions.

This is Chinese, it's called (Speaking in Chinese), a friend of mine helped me translate, "Limited wisdom makes doers, moderate the wisdom makes managers, superior wisdom makes law-builders."

We don't know where the Xi Jinping will surprised us again for one more time, as he did five years ago with a drastic, anti-corruption campaign with military reform, with China's One Belt, One Road. How he will use the capital, whether it will be real change in the institutional development, we do not know, certainly I hope so. Thank you very much. For more things, buy my book. (Applause)

MR. LIEBERTHAL: Cheng, thank you very much for a masterful overview of the changes that occurred in personnel, and their backgrounds and, you know, just a kind of chock-full of data. By the way, will your slide presentation be available afterwards, on the web?

MR. LI: No.

MR. LIEBERTHAL: No?

MR. LI: But the video will be available, I believe. Yes.

MR. LIEBERTHAL: I was going to say, then I hope people took good notes very quickly.

MR. LI: Yes.

MR. LIEBERTHAL: We only have 15 minutes left in this session. I just want to ask you one question, and then open up to the group. One of the major themes of the Party Congress, and Xi's speech, was the increase in the role of the Party itself, at all levels of the system, ongoing anti-corruption and supervision efforts to assure discipline within the Party, and unity of thought in the Party, and politics as a -- politics in the sense of supporting the center, and agreeing with the center's program as being a critical element for promotion.

How have the incentives for local leaders to creatively implement the wide-ranging set of substantive issues that are on the docket, have those incentives evolved? It clearly was a complaint in the first five years of the Xi leadership, that local leaders, and especially at municipal and county and township levels, where the rubber meets the road, that local leaders often proved to be very timid because of the corruption campaign, the incentives are kind of turned against being creative, dynamic, and changing the way things work at the local level. What do you expect from this, or is it too early to get a sense of how incentives are shifting at the localities.

MR. LI: It is not too early. It's a good question. The previous five years, because of these local leaders, local meaning provincial or major cities, these are major entities. For example, in Guangdong, Shandong, Henan, and what else that this is one I mean the population has surpassed -- Germany with highest -- with the largest population in Europe, so this can be entities, in terms of GDP in Guangdong, is ranked the -- with a state like Mexico, at number 15.

So, these are gigantic entities, these leaders they should have their own incentive. For the past five years, these leaders, or most of them, as I mentioned, 45 percent were Hu Jintao's protégés. I think at least the six or seven are later arrested on the corruption charges, of course they did not have any incentive to do anything. Of course they said that they wanted to resist some of the policies, right.

But, now with Xi Jinping's people well positioned, so that dynamic starts to change, and they have their incentives to carry out much-needed reform, but they also have Xi Jinping's blessing. I don't think Xi Jinping wants to put investments -- anti-corruption on these people, no. I mean, they already went through some other kind of obscurity, that also explains some of Xi Jinping protégés cannot make it through the Central Committee, but of course, I don't -- I'm not saying that there will be no corruption involved.

But that's a different game, it's different kind of leaders, and with a different kind of background, with different kind of motivation, with different kind of connection with a new leader. So it's, they are motivated to deliver, so we will see very quickly some changes, some initiative, and maybe I'm naïve, failure to understand the difficulties, but again as the Chinese leaders, these new leaders, they certainly, very clearly, understand what they want to deliver.

One thing that is quite bizarre, if you look at their bios there's a -- all leaders had one thing, it's your head of a river, or head of the rivers in the province. (Inaudible), for example, he has only -- he had two titles, one is the Party Secretary of Beijing, this is before Party Congress, that and their membership, et cetera. The other is the head of the rivers in Beijing.

Now, why rivers? Because Xi Jinping says that, any provincial leader should be responsible environment for the lakes and rivers in their region. So, they all added to that in their bios, if you look at the People's Daily, or Shanghau News it's become -- I mean that's a clear message, that not only GDP growth, but also environment is also another -- criteria to test you.

So, China's economic growth model, already profoundly changed. So the strategies I mentioned, it's the things that were emphasized, this gives foreign companies, like in the United States or Europe, great opportunity but also could be another level of challenge.

MR. LIEBERTHAL: Okay. Let's open it up. I'm going to ask you, when I recognize you, to wait for the microphone to come please, you know, give your name and affiliation, and then direct a question in the form of a question, please, given the limited time. And why don't we start over here? While you are working on that, does that mic --

QUESTIONER: It works.

MR. LIEBERTHAL: It works now? Okay.

QUESTIONER: Okay. First, thanks Professor, for giving us this speech, it was really good. I'm Chi Feng from Johns Hopkins University. And my question has two parts, you know, which is a good way of raising actually two questions. The first question is: I've seen a lot of newspaper titles calling Xi Jinping as like, the return of Mao, and I was hoping to hear more about your view on that.

And the second is like, in the speech you mentioned a lot about like analysis, in their policy prospect, from their bio, their backgrounds. And I was wondering, like with regard to Hua Chuxing (phonetic) background, do you think there was like more think tanks in China in the near future? Thanks.

MR. LI: Very quickly, the first one, so they've got a lot of attention, but I just want to emphasize Mao was Mao because of the environment, Xi Jinping should be himself because of the new completely different environment. I mean you cannot make that comparison without a look at the environment. And during the Mao time, some people I grew up, during that period, we will condemn our parents, and they think Mao was right.

But how many people today think their parents were wrong and Xi Jinping was right? Now, seriously; I mean it's not that new. So, I don't think that comparison is fair, and it's legitimate and, yes, there are some components that's worrisome, yes there's a personality

(inaudible), yes there's tighter political control.

But the question is, whether this is temporary or long-term. I just think it is temporary, I mean, if you do not change the society, the other forces will force them to change, is my view, which might differ from other. Now, you talk about Hua Chuxing (phonetic), about think tank, is that your question, about the role of think tank?

QUESTIONER: About financial (crosstalk).

MR. LIEBERTHAL: Financial (crosstalk).

MR. LI: Oh, financial. Well, I mean, then I'm sorry that I did not included a pure financial team, I just mentioned that it's still unclear about who will replace (Inaudible). And a week ago I heard that they haven't decided yet, but you do see the candidates, you know, you'll see Hua Chijin, and Cheng Tao Lang, and Li Gong, these are the four candidates, and my colleague, David, will tell you better, I mean, a better assessment.

Each of them has strengths, each of them has weakness, but no matter what, all these four people play an important role in the financial development. Now, one issue area and China is extremely concerned is the financial instability, or financial risk, and so you mentioned about why things are not delivered during the past five years, as Xi Jinping promises through the Platinum.

Of course, first I think that it's largely true that's not fully delivered, but I cannot say nothing happened, if something important happened, the service sector was up, and domestic consumption is up, innovating actually become one of the driving forces for China's economy, which has really surprised many of us, including myself.

But largely not delivered because of the leadership, it's not -- because of the position, Xi Jinping's own people, not in their position, other people worry that they will be purged, and that they could not understand what Xi Jinping has in mind, et cetera. And also the priorities for Xi Jinping is anti-corruption, military reform, et cetera, and also there's a global financial uncertainty with what happened in the U.K., what happened in the United States.

They've got to be careful, but ultimately, they understand that China needs to reform that sector.

I think Donald Trump has good reason to push for that change, the service sector better, and particularly financial liberalization. Sooner or later China will do, but we do not have the timetable, hopefully that it should be sooner rather than late. But all these leaders, I think they are, largely speaking, I certainly don't buy this; these are the reformers, these are reformers, these are conservatives. And I think that in certain cases they are all reformers, in some cases they are all conservatives.

But at least there are some people more familiar with the market, more market orientated, so in that case, I (inaudible) and I'm actually quite happy with people, like Le Yucheng, (phonetic), like Liu He, like (Inaudible) and other.

MR. LIEBERTHAL: Thank you. Over here?

MR. WINTERS: Thank you. Steve Winters, Consultant. It's very interesting what you said about the Central Military Commission. Now, in my understanding there's been a major restructuring of the Central Military Commission; and of course also just within the past couple of years, they created their -- what they are calling their National Security Commission, and it's a little bit hard in finding information about that. So, how do these major restructurings fit in with this big change that you're talking about, and particularly in relation to XI?

MR. LI: What you say, are all true. Xi Jinping, really did remarkably well in this area. The Military Reform has three objectives; the first is to change China's Military development model, shifting from the Russian model, which emphasized Army, to a joint operation with emphasis on Navy and Air Force. This is number one.

Number two, very much an American model is what they want to pursue, and then number two is to restructure previously the four greater departments, you know, political, logistic, and equipment and Chief of Staff. They really hijacked the Central Military Commission especially the Civilian Leader. They are the decision makers, they are the one particular layer between the Central Military Commission, and reached out to either the services or operation.

But Xi Jinping, making these four departments marginalized, become four out of the ten, so instead, he directly controlled the services, services meaning that the Army, Navy, Air Force, I mean Strategic Force and also lock forces, and also now People's Armed Police. But at the same time directly control the five operation theaters, so this is what he achieves, this is the number two objective.

That explained that the Central Military Commission, the members previously represented are Army and also Air Force, but they all (inaudible), so you see that counts to layout and reduce the numbers. And then thirdly, it's to promote young guards, you know, (speaking in Chinese), in Chinese, two important positions, that explains that 85 percent of the turnover. So, that is what he achieved.

MR. LIEBERTHAL: We just have time for one more, quick question, and let's go back there. Yes?

QUESTIONER: Thank you, Mr. Li, thank you your wonderful and detailed speech. And I'm from China News Service. My question is about Mr. Trump's visit. We know that he will visit China next week, and he's the first foreign leader to visit China after the 19th National Congress. So what's your expectation of it? And there's a view that because the two country now has too many different -- many issues such as trade, and North Korea. So, it's impossible to expect some positive outcome of his visit. Do you agree with it? Thank you?

MR. LI: Well, I think both leaders will announce that it's successful, otherwise they would not pursue that, but the real thing is whether you can uplift the confidence of business community, in both countries that's crucial, because at least you need to make a business community, Wall Street, major companies in the United States think that China's market is not closed, and foreign companies really, I mean not so much go back to 1990s that's not realistic, at that time China desperately needs foreign investment.

But at least, as Xi Jinping promised, should be equal, should be fair, it should be real open, or should have equal market access. The same thing, Chinese business --

companies who wants Donald Trump, to say that you will not use sea fares to prevent Chinese companies to enter.

But I think there's an opportunity for -- because the both economies are so large, and we have the two experts, I mean Richard and David can talk about economic matters later on; but very quickly, I think despite the challenges, the tensions, because China becomes more and more competent, or China thinking that they have more leverage, that actually becomes a problem.

I think Xi Jinping said, rightly, he said that we should make cake bigger, so whether it really -- you can make cake bigger, this is another thing that later, I hope that that visit can deliver some of the things; now in the real substance, not in terms of just the empty words.

Now, the second layer, is certainly probably even more important, is the Korean Peninsula situation. I hope for it -- I mean I hope that North Korea would not launch a missile. I think, as you can see, that Xi Jinping must be very happy with 19th Party Congress; that North Korea did not launch a missile, but he did launch a missile during the One Belt, One Road Summit, and also at some of the other China's events.

So, whether you can have some real development, I mean most people are very, very cynical, and I'm not too optimistic. But the third area is more in term of goodwill, because the media will be there, although Donald Trump, I mean, is not a good friend of the media, and so the media will have the double negative report about the coverage, about China, about Donald Trump.

So, that's a challenge, and unfortunately Donald Trump will not deliver a speech, I mean maybe he's not good a speaker, or whatever, I don't know, but the Chinese actually like to hear from him, from the business leader, and then not so much of an ideological, not so much of a (inaudible) China, but with some kind of good spontaneity, but it unfortunately did not happen.

So let's see, without a speech, where they have some kind of -- you know, kind of

contact, or body language, or what he said, or what he quoted, or what some event could drastically change some of the discourse, and at the moment, this discourse about the relationship is quite a negative. And of course with China's political situation, you know, media censorship, and also got a lot of people -- or ideological indoctrination, got a lot of foreigners very concerned, and for good reasons.

So, again, I mean, we need to have something quite a vivid kind of image, or some kind of story, or some kind of remarks to touch the people, you know. It's not, you know, you prepare, it's more spontaneous. I mean, I think there's good reason. I do believe China in that, I'd say, don't want to engage a military war against each other. This is so insane. So with that in mind, there's a good opportunity to change the discourse, but maybe again, I'm too naïve. So, this is the way to answer your question.

MR. LIEBERTHAL: We'll have a chance to explore all of that in some detail in the coming panel. And unfortunately our time is up with Cheng Li. I would ask you to join me in expressing our appreciation for his analysis by buying (crosstalk). (Applause)

MR. LI: The books are available, along with my book, it's the recent book -- I mean, East China Sea; so, it's a hot topic.

MR. LIEBERTHAL: Thank you.

(Panel Discussion on Policy Implications)

MS. LAWRENCE: Well, thank you all for coming. I'm Susan Lawrence; I'm a Specialist in Asian affairs at the Congressional Research Service. I'm delighted to be here to moderate this panel on the policy implications of the 19th Party Congress.

We have three world-class experts on China here to join us in the panel. We have Ambassador Stapleton Roy, who is the Founding Director Emeritus and Distinguished Scholar at the Kissinger Institute on China in the United States; Former U.S. Ambassador to China, Singapore and Indonesia.

And we have Richard McGregor, my old colleague from the Press Corps in

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China. He was with the Financial Times in China, and then here in Washington among many other postings, and he is the author of two absolutely must-read books, one The Party, explaining how the Communist Party works. And what edition are we on now?

MR. MCGREGOR: The second.

MS. LAWRENCE: The second edition?

MR. MCGREGOR: Yes.

MS. LAWRENCE: Anyway, it's still a must-read, and he's got a new book out on China-Japan Relations, which I think is outside in the foyer.

And then we have David Dollar, who is here with the Brookings Institution, Former Treasury Department Special Envoy to China, Former World Bank Country Director for China, many, many years of experience, looking closely at the Chinese economy.

So, we are talking about the Policy Implications to the Party Congress. I'm going to start by just highlighting some of what came out of the last week. We had Xi Jinping's 32,000-word report to the Party Congress, 63 pages in English; three-and-a-half hours with a lot of detail about where he thinks China should go. We also got revisions to the Party Constitution that highlighted what in the 32,000 characters of report really matters.

The big headlines; one of course was: the writing into the Constitution of Xi Jinping's: Thought on Socialism with Chinese Characteristics for a New Era. We got a lot of Chinese ambitions, China -- Xi Jinping said he's going to be a global leader in innovation, a world-class science and technology country, Chinese culture is going to have greater appeal, there will be significant progress in reducing inequality, there will be a fundamental improvement in the environment.

He said that in the period from 2035 to 2050 China will become a global leader in terms of composite national strength and international influence, and he said that China will achieve socialist modernization, and national rejuvenation which, as we know, includes the idea of unification, perhaps, with Taiwan.

There was a big emphasis on the Party, Party control, Party conformity, align the Party exercises overall leadership over all areas of endeavor in every part of the country, that was both in the work report, and the revised edition to the Party Constitution. We had the new aspect of promoting China as a model for the developing world, the political model for the developing world.

Xi said that China's socialism with Chinese characteristics, quote "Offers a new option for other countries and nations who want to speed up their development while preserving their independence."

There is a slight contradiction there though in that the report says that the defining feature of socialism with Chinese characteristics is the leadership of the Communist Party of China, so it's not quite clear how that applies to the rest of the world.

There was a new principal contradiction rolled out, so the old contradiction, principal contradiction, which had been in place since 1956, had been between the ever growing material and cultural needs of the people, and backward social production, so now we have a new principal contradiction, which is between unbalanced and inadequate to development, so a focus on inequality and regional disparities.

A contradiction between unbalanced in the inadequate development and the people's ever-growing need for a better life, and the Party broke that down as meaning: economic, political, cultural, social and ecological needs, so that was -- the ecological piece was another big theme of the Congress.

And finally, in the economy, we went from the previous Party Constitution, had talked about giving play to, "The basic role of market forces are now the New Constitution," it says the Party will give play to, "The decisive role of market forces and resource allocation."

So, just to raise a few questions, big questions about what all this means, there's the question of: Does this make Xi, all-powerful, or is his power still constrained, and if so in what ways? What is Xi Jinping's thought on socialism with Chinese characteristics for a new

era? You know what exactly are the defining features of it? How do we understand this economic shift from the basic role of the market, to the decisive role for market forces? And what are the implications of China's grand goals for U.S.-China relations going forward?

So, Stape, if you could start; I think we are going to have each person speak for about five to seven minutes, and then we'll have discussions?

AMBASSADOR ROY: I'll try to stay within that. I'm going to put forward the proposition that the 19th Party Congress represented a giant step forward in demonstrating that China has the will, the resources, the leadership and the timetable for playing a much more significant role on the world stage, but I'm also going to argue, it represents a giant step backward in terms of the ideology underpinning that larger role on the global stage.

In essence, the Party Congress marks a basic shift in the direction of China's development away from what I would call modern concepts that held back to deliver the development of the modern world for many centuries. This shift is designed to reduce the influence of Western values and Western models which Xi Jinping, in my judgment, is confusing with modern values and modern models.

Xi Jinping made clear in his Work Report to the Party Congress that China will not become more Western as it modernizes, instead it will become something distinctively Chinese with the Party firmly in control. Now, in a sense this is the culmination of the campaign against Western values and concepts that has intensified in China over the last couple of years.

There were 77 references to the term "with Chinese characteristics" in Xi Jinping's Work Report to the Congress. Now, for several decades, China has been using the term socialism with Chinese characteristics to describe its move away from a centrally planned economy toward one significantly driven by market forces.

But in Jinping's Work Report the term, with Chinese characteristics, is now applied to virtually every aspect of Chinese society, including its military forces, its major power diplomacy, its legal system, its political development, its institutional arrangements, its medical

and health services, its culture, its philosophy and social sciences, and even its new types of think tanks.

Now, those of you who are students of Chinese history will immediately recognize that this takes us back, 2,300 years to the famous White Horse dialogue discussed by the Philosopher, Kung-sun Lung, back in the Third Century BC. He put forward the proposition of whether a white horse is a horse, since the quality of horseness does not necessarily include the attribute of color.

In this sense a white horse is not a horse, since a horse might just as well be black or yellow. Now China has made great contributions to science and philosophy over the centuries, but one could argue that to insist that philosophy or science should have Chinese characteristics is the denial of the universal attributes of philosophy and science.

Galileo encountered this difficulty several centuries ago when the ruling power at the time insisted that science needed to have religious characteristics, and we are struggling with this problem in the United States, where we have the concept of science with Republican characteristics, that rejects the global change.

Leaving these philosophical reflections aside, the message is clear. China intends to do things its own way but paradoxically, President Xi Jinping also claimed that China's example, an example that must be imbued with Chinese characteristics can serve as a model for other countries that want to speed development and maintain their own independence.

In Xi Jinping's words, "China is on a development path that is contributing Chinese wisdom and Chinese solutions for resolving the problems of mankind." Now, again I raise the question, of whether a white horse is a horse.

The other key aspect of the work report is the emphasis on having the Party in control of everything as reflected in the following quotes: one, "It's necessary to adhere to the leadership of the Party over all work." Another quote, "Among the Party, the government, the

military, the people, academia, and all circles the Party leads. In a separate passage, it's said that the Party had to provide guidance to virtually every aspect of behavior and thinking in China.

Now, this is an implicit rejection of modern values, because the heavy emphasis on doing everything in a Chinese way has a heavy dose of cultural chauvinism, an attitude that held back Chinese development for nearly a century. The emphasis on having the Party control everything represents a rejection of modern thinking on the corrupting power -- on the corrupting aspect of concentrated power, an understanding that is built into every modern political system.

So in essence, the Party Congress is saddling China with an anachronistic political system. The Party Congress revised the Party's Constitution to include language making clear that the Party and -- that the Party must rule the Party, and the Party must be comprehensively and strictly ruled. So, the four essential requirements that the Party must meet, as outlined in the Constitution, they added at a fifth one: Upholding, ruling the Party by the Party, and practicing strict self-governance in every respect.

Now, even the Romans two thousand years ago were smart enough to ask the question, "Who guards the guards themselves?" And there's some irony in the fact that by ignoring this question Xi Jinping is putting China on a collision course with modernity, so there's an ideological problem that comes out of the Party Congress.

Let me conclude my remarks just briefly by saying, it's an extremely wrong approach to compare President Xi Jinping to Mao Zedong, in my judgment. Mao Zedong is not a model of a strong leader; he's a model of a successful revolutionary.

Strong leaders in authoritarian systems I would divide into three classes: Stalin is an example in a tightly-controlled system, of a leader who through the purges from 1936 to '38 gained absolute control over the country and the Party that he led, and he was not challenged from that point on until his death.

Deng Xiaoping, in essence, did the same thing in China in a more relaxed

approach to authoritarianism, because while he strongly believed in one-party rule by the Communist Party he believed that that rule did not need to encompass every aspect of human thought and behavior, and he believed in letting a hundred flowers bloom. And he was able to maintain continuity in policy direction, and with some bumps, essentially a smooth path for rapid economic development.

And Lee Kuan Yew in Singapore represents, in a very relaxed authoritarian system, a similar approach of being able to maintain stability and policy direction. Those are the types of leaders I think that Xi Jinping should be compared to, not to Chairman Mao, because he was not a strong leader, his last 15 years were marked by massive convulsions in China because of challenges to his leadership from within the Communist Party. So let me end on that note. Thank you. (Applause)

MS. LAWRENCE: Thanks very much, Stape. Richard?

MR. MCGREGOR: Thanks very much. It's an honor to be on such a distinguished panel. I might say that Stape has already covered Galileo and the White Horse, so I'm just taking that out of my speech. (Laughter)

I think we've heard a lot about Xi's ascendancy in the last couple of weeks, elevated into the pantheon of Chinese leaders, along with Mao and Deng, are not the first person, I think, to comment that Xi is no Mao, and is no Deng. Mao was in power for decades, Deng Xiaoping as well for -- since '79, to when he died in the late '80s and the like. So I do agree that's quite a superficial comparison.

I will focus on two themes coming out of the Congress, one is confidence the other is centralization. Confidence, the Chinese state media has always contained lots of a steady diet of stern criticism of Western democratic systems. These days, I think it's become almost like outright trolling and mocking. Such as the way they see their system working and others not.

The point that Susan made about the decisive role for the market going into the

Constitution, I think that is also a display of confidence, and I also think it's something that's often misinterpreted.

I think the Chinese Communist Party talking about the decisive role for the market is not giving the market free reign, but it's saying they are going to be a greater role for the market without giving up or diminishing state power or agency, and I think there's a big difference there. That's another display of confidence.

To state the obvious, as well, in comparison with the U.S., with great respect, I'm not an American, but we have in China now the most disciplined leader in generations, and at the top of China which is more powerful than it probably has been for two centuries. Frankly, in the White House, we have the least disciplined President in generations, and so far given his record in Congress, quite ineffective.

There's quite one striking difference this week, we all know, I think, some months after Mr. Trump came into office, his U.S. Business Advisory Council was dismantled, because of strong disagreements. After the Party Congress in Beijing, we saw Xi meeting with his American Business Advisory Council.

Mark Zuckerberg, who can't even really do business in China, was there, to sit through a sort of short lecture from Mr. (Inaudible). Stephen Schwarzman, Hank Greenberg, Hank Paulson, and I think, actually, John Thornton was there. I saw him on the edge of the photo, so I think I should be diplomatic about it, but it was a striking comparison, nonetheless.

And these photos of U.S. business leaders tripping off to China, I think it becomes so pro forma that people barely remark on them anymore, and that's only a couple of weeks before Mr. Trump goes to China, and of course hoping to gain concessions from the same business -- for the same business people.

As Stape said, there's much more confidence in the Chinese system itself, one of the remarkable things about China's success, as China has got richer it's politics gradually, I would argue, have become more illiberal in the '90s, under Jiang Zemin and Zhu Rongji people

used to look back to the '80s as the halcyon days of liberalism in China. Once Hu Jintao and Wen Jiabao are in power, people used to look back to Jiang and Zhu's time in power.

These days, under Xi Jinping people are looking back to Hu Jintao, his leadership at a time, which, when China was much more liberal and open. And in that respects a lot of the coverage of the Congress had a sort of -- a sense of a whiff at the end of history Chinese style, like the Chinese model had finally emerged, and was just about perfected, but I wonder whether that is really the case.

Under the issue of centralization, this has been the theme of Xi's time in power, and I think has continued to be through the Congress. Centralization in the Party sidelining the State Council, centralization of power in his office as well, centralization in terms of technology in the Internet, we've all heard of the BAT, Baidu, Alibaba, and Tencent, these are mere monopolies, but I think the Party thinks that's great because you only need to call three people in China now to fix up the Internet and a problem therein.

I even saw on announcement, and I think that Cheng Li might have referred to this, about the PSB, the Public Security Bureau that's now reporting not to the State Council and the Central Military Commission, but just the CMC.

I'll finish this by talking about another issue which has been an issue of long-standing tension in Chinese policymaking, particularly economic policymaking about the center versus local. One of the things which I think is pivotal to the economy, and economic success, the future economic success revolves around fiscal policy, and essentially how local governments can fund themselves in a sustainable fashion.

I don't think it's unfair to say that Xi's global ambitions which we've heard a bit about today really depend, in the long term, about a healthy economy. Everything from the military budget, to the Belt and Road Initiative, and so forth, needs continued, sustainable, steady growth.

We also should remember, I think, that in that respect China is still in a rush. I

know we hear a lot of talk about the economy slowing, a different model, et cetera, et cetera, we are still in a rush I think until about 2020, after 2020 the population is going to sort of start to fall by millions, of people a year. The working age population is already falling.

So all of that is important against this background; Xi Jinping, as Party Secretary, has enormous executive power in the political realm, anti-corruption, putting his own people into various places, shaking up various ministries, et cetera, et cetera. The same kinds of executive power do not work so easily on the economy. You can't wave a magic wand and fix up economic problems, and you certainly can't wave a magic wand, and fix up the issue of local government financing.

Now, in that respect we saw one of the other announcements, which got a lot of attention this week, was about the government saying that headline growth numbers no longer mattered so much, but I didn't think that was actually very revealing because this is something that they've been saying for years or so. And I also think to think about it in terms of headline growth numbers alone; is misleading, because the local governments aren't simply going for economic growth, they are also trying to generate tax revenue.

They have an enormous shortfall of taxes at the local level, you need money to fund education, health, laid off workers, seed new industries, and the like, and unless you can have that growth and fund those unfunded liabilities at the local level, then you're not going to succeed.

So I think in many respects, we've heard a lot today about personnel, and the like, all of that is very important, but I suspect Xi Jinping's future and his legacy, depends much more on fixing the more mundane parts of the economy, and those are things that he cannot do with the source of a power he's accumulated in the last week. Thank you. (Applause)

MS. LAWRENCE: Thanks so much thank, Richard. David, would you care to give us your thoughts?

MR. DOLLAR: Thank you very much. It's a great pleasure to join this panel, and

talk about the prospects for economic policy. Let me start by saying that there's a lot of uncertainty about what will happen with economic policy in China, probably even more uncertainty about outcomes, so I think no one can predict confidently, what's going to happen but we can analyze, and speculate.

So, in that spirit, let me offer three points into the discussion. First, I think there's a very clear need for economic reform in China, the headline growth looks pretty good it's almost 7 percent going through the three quarters of this year, but there are a lot of reasons why this current pattern of growth is unsustainable.

Most importantly it's taking a lot of credit to generate this growth, you know, it's taking more and more credit to generate a consistent amount of growth. China has created excess capacity in a lot of different sectors, and you hear about it in steel, but also I think they've over built the infrastructure, and housing. You've got empty apartment buildings, empty cities.

So you've got a lot of excess capacity, and in that environment it's natural for investment to slow down, and they've been trying to gin it up to keep the overall growth rate up around 7, and that's led to this rise in leverage in the economy, and manifested in rising debt to GDP, and probably most alarmingly, the big run up in corporate debt relative to GDP. Now, the Chinese officials know about this, it was quite remarkable at our recent IMF meetings, Governor Zhou Xiaochuan of the Central Bank said publicly, that China may face a Minsky moment in which asset prices collapse. It's quite remarkable to have a Central Bank Head say this sort of thing in public.

Now, I don't think there's an imminent danger of a crisis, I think Governor Zhou does not think there's an imminent risk of a crisis, China has a lot of features that give it buffers, like its high savings rate, it's closed capital account.

But I think they are right to be worried about this rise in leverage earlier this year, Xi Jinping, at a meeting said that financial stability is a national security issue, and I think he's

right, and I think that that puts this issue high up on the agenda, so they need to have some macroeconomic adjustment, slow down the growth of credit, and that's going to expose a lot of weak state enterprises.

Xi Jinping in his Work Report said that enterprises needed to survive based on competition, and that creates hope that they might be willing to let some enterprises disappear. Now there's also a micro agenda. That macro adjustment will naturally lead to a slowdown in the growth rate, and some of which will be healthy, but it can also be mitigated by opening up more sectors of their economy, which they keep talking about.

Xi Jinping was talking about opening up the service sectors, and they do have very restrictive trade and investment policies when it comes to financial services, telecom, logistics, entertainment social media, just a whole long list of mostly social sectors. So, they definitely need reform. It's well known, if a lot of that was incorporated in the 3rd Plenum Resolution a few years ago, there just has not been much action on this reform.

The second point I want to make, is that I think there's now some hope that they'll move ahead on that macro agenda. I view the Balanced Standing Committee as positive for reform, because I don't see any of these factions as particularly reformist, and I think having balance on the Standing Committee, you know, creates a relatively good environment for reform.

You've got personnel changes that are positive. Cheng had penciled in Liu He as the Vice Premier, probably the one responsible for the financial system, you've got good candidates to replace Governor Zhou in Central Bank. So they definitely could move ahead with tightening up financial conditions, allowing state enterprises at the local level to go bankrupt. I'm cautiously optimistic they'll move on that agenda, because they recognized that it really is a national security issue.

The third point I want to make is it's hard to be optimistic about the more micro agenda of opening up the service sectors, and other market-based reform. Despite all the talk

about more reliance on market forces, the previous two speakers talked very eloquently about a lot of the political developments.

And Cheng, also talked about the industrial policies and that China made in the 2025 Program. it's just hard to see that this leadership is really going to open up those service sectors, many of those sectors I mentioned are quite political, you know, social media, financial services is the allocation of capital. So, I suspect we'll see some small progress, but it's unlikely that this leadership is going to do anything dramatic about opening up the economy.

And then the last point just very briefly, that has implications for U.S.-China relations, probably there will be a little progress opening up some markets that the U.S. cares about, perhaps some parts of financial services that are not too sensitive. But if I'm right that it's unlikely that there's any big reform, then the U.S. is going to continue to face this issue of a small amount of progress in the economic relationship.

Are you satisfied with that? Or do you want to try to take some harsh protectionist measures to really change the situation. I personally would be against the harsh protectionist measures, but the point I want to make is, this is the kind of decision the U.S. will probably have to face six to twelve months down the road. Thank you very much.

MS. LAWRENCE: Great thanks very much, David. (Applause) So, we'll be turning to audience questions in just a few minutes, we've got about 45 minutes left in the panel, we are going to be ending at 11:45.

Stape, I wanted to just start by asking you China is declaring that it wants to become a global leader in terms of composite national strength, and international influence, at a sort of meta-level. How do you think that the U.S. should respond, or should it respond to the notion of China as the competitor, the near-peer competitor, the peer competitor going forward? Do you think this is going to have some kind of galvanizing effect on the national security side of the U.S. Government in thinking about how to respond to China? You know, thinking about U.S. primacy in Asia and elsewhere? What do you think that -- impact that kind of language

might have?

AMBASSADOR ROY: I would like to say yes, but I can't. One would think that the rise of China would have galvanized us into action to address the factors in our own society that are holding back our ability to compete with a rising power, such as China, and we are not doing so. We are essentially following the Soviet model, where we are funding our military at the expense of our infrastructure, and as a result we are ending up with poor infrastructure, and we retain a powerful military.

That was the Soviet Union that I lived in. Most Americans have forgotten how appallingly bad the infrastructure was in the Soviet Union, but their military was first class, and that's the model that we are pursuing, and it's the wrong model, because China is modernizing the country. The philosophical point I would make, because I think that Xi Jinping identified what I consider an important contradiction in China, he said it's the main one, which is the contradiction between the desire for a better living standard, and the uneven development taking place in the country.

He said in the new era this is the principal contradiction. I don't think that's true. I think the principal contradiction in China is that the success of China under the reform and openness policies in modernizing the country, so that you now have vastly greater numbers of college-educated people, of people who have completed full high school. This is truly a miracle, but the Party will not modernize its political philosophy, and its concepts of ruling the country.

That's the principal contradiction in China it's the contradiction between its modernization of society, and its non-modernization of its political concepts. And that's why I put emphasis on this factor, because I think this has implications for China down the road, but I think from the United States standpoint, we should learn from China in terms of -- look at the 19th Party Congress, they set goals for 2020, for 2035, for 2049, they have policies that are actually geared to what they are trying to accomplish, which is raising living standards along with increasing comprehensive national power.

We don't have anything. We don't have any long-term strategy; we don't have any programs to make sure that our infrastructure is better. We give lip service to it, we don't put any resources behind it. That's why I said in my opening comment, China has the will, the resources, the leadership and the timetable to play a greater role on the global stage, and the United States is simply not intellectually coming to grips with that challenge.

MS. LAWRENCE: Okay. Dire words. Thank you, Stape.

AMBASSADOR ROY: Did I make myself clear?

MS. LAWRENCE: I think so. (Laughter) I think so. And, Richard, I just want to probe here, you're saying that you see much more confidence in the Chinese system itself, and I guess I've been sort of struggling with that a bit, I mean clearly one of the propaganda themes running up to the Party Congress, was that China now has self-confidence. This was the big propaganda word, self-confidence.

You know, the Chinese are now self-confident, the Party is self-confident, we are all confident, and there's something, a level where the system needs to tell us how often it feels confident that you begin to wonder whether it really is so confident, I guess. You did see references to a certain, I guess, I sort of see a duality of China feeling at some level that it's coming into its own, that that real success is on the horizon, but mixed with actually a lot of insecurity.

And you see that in language about, you know, outdated thinking, and institutional ailments and the need to break through blockades of vested interests, and the problem of formalism, and hedonism, and all these sorts of things, right, that they clearly -- there is some existential angst about whether the Party really has it all together to achieve this grand goal. So, I just wanted if you throw that at you, and how you might respond.

MR. MCGREGOR: Well I think it's true that in China the appearance of stability and the assertion of stability has always been an important part of having stability.

MS. LAWRENCE: Right.

MR. MCGREGOR: In other words, you know, it will be stable or else, sort of thing. And I think as far as the Chinese self-assessment, their own system goes, there's always been a strong dose of self-criticism attached to it, there has always been a lot of self-examination, there has always been, I think, a lot of enunciation of their own problems and the like, and there's always been a healthy degree of paranoia, and insecurity -- security which I think is not just hidden, but is in fact articulated.

But even given that I think the balance out of this Party Congress, be it in out of reality, or on the management of it, the display of confidence, I think, has far overwhelmed the sense of insecurity, and I guess for good reason, that for five years they've still had strong economic growth, they had a mini financial crisis a couple of years ago that seems to have passed. And of course the greatest competitor, Western democracies are in disarray. So in that respect I think the balance is much more towards confidence.

MS. LAWRENCE: Okay. And finally, I wanted David to actually take a quote from Richard, and ask you to maybe parse it. Richard was saying that he sees this notion of saying that the Party controls everything, and yet at the same time saying that the Party will give play to the decisive role of the market in resource allocation. Richard parsed that as a greater role for the market without giving up state power or agency. Is that how we -- do you agree with that that rationalization of those two, seemingly, contradictory impulses?

MR. DOLLAR: So, I think in thinking about whether there's, you know, contradiction to have, you know, this much state, and Party control, I would go back to my distinction between macro and micro. I think governments are always very powerful in the macro sphere, most importantly running the Central Bank. You know we talk about our central bank being independent, but that's within a framework in which, you know, the President nominates Governors, and the Chair, and these are confirmed by the Senate.

And I think that that's one of the most powerful macro tools that we have is the financial policy which then affects exchange rate policy and of course you have fiscal policy.

I've always found it little bit mystifying that the Communist leadership didn't rely more on those kinds of macro tools. You know, so if you want to direct things, you know, using interest rates, the exchange rate, fiscal policy all of these things are powerful ways that government or a ruling Party can legitimately affect the economy.

Interfering into the micro decisions, you know, that almost always works out badly. You know, you can point to some examples where China has developed solar panels, for example, but they've wasted a lot of money in their various industrial policy schemes. I'm always impressed when I travel around Guangdong, at how much authentic Chinese private sector there is.

So I see, you know, the glass is half-full in China, so the challenge for analysts is, do we think they are doing so well, because they have this really smart Communist Party running everything, or do we think they are doing well because they've opened up enough space for private initiative and market forces? And I generally subscribe to the latter view, but it's definitely worth debating.

MS. LAWRENCE: Okay. Thank you.

MR. MCGREGOR: You could sum up this, can I say, the end of that there, I mean we often hear though, the Party has lifted 700 million people out of poverty, you can also say 700 million Chinese lifted themselves, out of poverty once the Party got out of the way. So, so I'll lean to the latter as well.

AMBASSADOR ROY: I'd just like to add one point on this. I think you can interpret the 19th Party Congress as a retreat from the 3rd Plenum in terms of the emphasis on the market, because the 3rd Plenum, it said very clearly that the market should be the decisive factor in setting prices, and in the allocation of resources.

They have retained the statement about the allocation of resources, they have backed away from the setting of prices, there was a reference to it setting prices for the factors of production, but not for prices more generally. So I think -- and they put the Party in control of

the market, so in essence we have a contrast between the market as defined by Adams Smith, which was the invisible hand, and we have the visible hand of the Party in China that's supposed to control the market. And perhaps it will be more efficient than the invisible hand, but we'll have to wait and see.

MS. LAWRENCE: I was actually struck that the New Party Constitution has a whole long, fat paragraph on exactly how the Party should exercise its leadership within the state-owned enterprises. Yeah. Okay. I'm going to open it up to the floor. I had an initial hand way in the back, on the right, it's been up for a while, so we'll start there, and if you could identify yourself when you ask a question, that would be great.

QUESTIONER: Thank you. I'm a reporter from the Voice of America. I have a question concerning China's international influence. Chinese President, Xi Jinping, mentioned in his speech, that China is moving increasingly closer to the center of the world stage, yet at the same time he is saying China is stick to anything, everything with Chinese characteristics. So my question is; do you think the rest of the world can accept China's leading role in world affairs? And my observation is that most of China's labor -- Chinese labor is sort of hedging China rather than bad wagging with that. Thank you.

MS. LAWRENCE: I didn't quite catch the last bit of that. You said the rest of the world is?

QUESTIONER: Hedging.

MS. LAWRENCE: Hedging, okay against Chinese leadership. Got it, okay. We'll take maybe two or three questions at a time because we've got a lot of questions out here. So we are going to go with Julia, and then Chris, and then we'll get the panel to respond.

MS. BLOCH: Julia Chang-Bloch, U.S.-China Education Trust. I have a related question. Xi Jinping, clearly positive, that China now offers the world, particularly the developing world, another alternative, another model of development, so how do you think China will do in terms of winning that, what would you call it, (inaudible)?

MS. LAWRENCE: Okay. Thank you. And Chris Nelson?

MR. NELSON: Thanks so much. Chris Nelson, Nelson Report. Stape, I wish I could have just transcribed every word, and put that into the political discourse. Thank you. My question is: you've noted that there's a large business delegation in China now, and that Trump is bringing a whole bunch of them. What is your sense of the role of the American business lobby now in China, making China policy here influencing Congress?

We used to talk about the China Lobby; it used to be really strong. We all remember the WTO debates and votes in, you know, 2000, 2001, it was led by the business lobby. I've argued that the business lobby died with this innovation, project, and if you look at the white papers of the AmCham, since then they are increasingly critical, and detailed, and very, very concerned.

Is that going to change? Or are we going to see a return to a "business Lobby" that is worried about the U.S. backtracking now on the global system? That will be pulling out of the WTO, what? I'm trying to get my head around how it's going to work here now, whether or not Trump is the new normal, we'll set that one aside. Thanks.

MS. LAWRENCE: Li Cheng, did you want to add something quickly?

MR. LI: Yes. Please. Well first of all congratulations for each and every one of you, for really very insightful comments. I learned a lot from all your presentations. I have a question for Ambassador, that I'm so glad that you discussed the consequences, the foreign impact about the ideological indoctrination, et cetera. I hope that the Chinese leader will listen to you very, very carefully.

Now, but there's a one issue I just wanted to ask, which I feel it's -- now you talk about contradiction, I think it is contradiction. Yes, it's true that China or the document the Party Constitution emphasized on the socialism with Chinese characteristics, but at the same time there's a lot of emphasis on rule of law, as we know, and many traditions in China, rule of law is not a Chinese tradition, this largely comes from the West.

And Chinese leaders will not deny that, they did not say that rule of law was Chinese characteristics yet, probably they will say it in the future, but if you look at China's --

AMBASSADOR ROY: The speech, the Work Report talks about rule of law with Chinese characteristics.

MR. LI: Okay. So you (inaudible), if you look Constitutional Review process, you look at all its traditional development, you look at the all the teaching materials at Chinese universities. I mean without that -- I mean there's no such a Chinese law that can be taught.

So, now you see the personnel moving, I mean from the legal profession, so my question is: are all these things just a show, anything but a show? Or, is there something very, very important? Can you completely eliminate the possibility that Xi Jinping's second term will have some important development? Of course I'm not naïve to think that any country can make a jump to the rule of law.

I mean, Xi Jinping in that -- so far in that record it's mixed, to say the best, or to the least. But I think there's a contradiction here, I mean with the -- I mean strong emphasis on the rule of law, this is part of the Constitution. Yes, Chinese Congress Party claims that the Party should do everything, but also there's a language in Xi Jinping's report, saying that no individual, no institution, no organization should -- above the law, above the Constitution. So, how could you reconcile this contradiction?

MS. LAWRENCE: Okay. So, just to sum up, we've got four questions: China moving to the center of the world stage, can the world accept Chinese leadership? The Chinese model, can it be successfully exported? The American business lobby: to what degree -- what role will business interests, U.S. business interests play in the U.S.-China relationship going forward? And then Li Cheng's question: how seriously should we take the rule of law language in the Work Report and the Party Constitution revisions? Do we want to -- Stape, do you to start?

AMBASSADOR ROY: I will (crosstalk), yeah.

MS. LAWRENCE: Yes.

AMBASSADOR ROY: First, on the global role aspects. China's growing international influence is not a function of its growing military power, it's a function of the success of its economic development which has made it the major trading partner for countries throughout the world including virtually all of U.S. allies and friends, they have more trade with China now than they do with the United States.

The question of whether a model with Chinese characteristics will take hold in the world is a more complicated question because this is not Chinese characteristics; this is Chinese characteristics as determined by the Party. Now, just for example, culture with Chinese characteristics controlled by the Party will not be viewed as culture anywhere in the world, it will be viewed as propaganda.

And that's a problem that will apply to any other aspect, if we have Chinese science that denies certain aspects of science because they are considered by the Party to be non-Chinese characteristics, we have controlled science, and in the Soviet Union that gave rise to Cincoism, that science controlled by the Party. So, I think that China's model is going to flow from its economic success, not from its demonstration that everything has to have Chinese characteristics.

To go to Chris' question, very briefly, we can't talk about Chinese policy, Chris, we don't have the policy positions filled in the U.S. Government, and until we have those positions filled we don't know what Chinese policy is. So, I think the business community is watching what comes out of the summit from November 9 in Beijing between President Trump and the Chinese, will show us on terms of trade and other issues. But we won't be sure that that represents the policy until we have more fleshing out of the government. Your question, Cheng?

MR. LI: Rule of law.

MS. LAWRENCE: About rule of law, how seriously do we take the rule of law

language?

AMBASSADOR ROY: It's not rule of law, it's the old Chinese concept of rule by law going back to the legalists, you cannot have rule of law unless the law is placed above the Party, and the Party will not permit that. So, the closest they get, they repeated some of the language from the 3rd Plenum about legal reform in the Work Report Speech, it refers to exercising power in the sunshine, exercising power within a cage. So, they are gradually introducing a few elements of checks and balances, but they won't put law above the Party.

The Party is not ruled by the people, it's ruled by the Party, and that is not ruled by law -- by the rule of law, that's ruled by law. What they are hoping to do -- there's an irony, I mean I really want to emphasize this point. Xi Jinping has been carrying out a massive campaign, the longest one and the most successful one, you could argue, in Chinese modern history, against corruption, because the Party has been corrupted from top to bottom, and yet this is the Party that's supposed to rule itself.

MS. LAWRENCE: And that actually the Party ruling itself is emphasized repeatedly in this (crosstalk)?

AMBASSADOR ROY: Yes. He has two concepts, the Party must rule itself, and the Party must be strictly regulated.

MS. LAWRENCE: By itself?

AMBASSADOR ROY: Yes. And the two are contradictory, because who guards the guards?

MS. LAWRENCE: So, Richard and David, maybe you could both take on particularly the business community question.

MR. MCGREGOR: Can I say something on the model part?

MS. LAWRENCE: Yes, of course.

MR. MCGREGOR: Sorry about that. I think there's two parts to that, obviously China as a developing country has a great amount to teach other developing countries about

how to manage their economies, or how to build their economies, various policies which they've tried, the way of experimenting, and the like, managing capital controls, et cetera, et cetera, China, and that's a sense there's a massive success story, they've got a lot to teach the rest of the world.

As to a Chinese political system, I would say no on this level. I mean ask yourself a simple question: Could the Democratic Republic of Congo have an organization Department? I would say no, they don't have the bureaucratic or Leninist roots in most of the other countries which can replicate the Chinese system of government, replicating the so-called Beijing consensus, I think, for a lot of would-be dictators is it's kind of like: well, yes, I'd like to be an authoritarian country and have 10 percent growth a year as well, thank you; but not everybody can do that.

A third point of course, I think Xi Jinping, in some respects, has been following other world leaders like Mr. Putin and Erdoğan in Turkey, strategically eschewing succession planning, you know, I don't know whether that's a great model either. Just one other point, superpowers have their prerogatives, the U.S. has always had its prerogatives around the world, China is also becoming a superpower, I think in many respects, and many countries have railed against this, in some cases they would complain about the U.S. in the past having extraterritorial application of its law.

I think what we are getting in China -- with China, and I haven't really thought this through, but I'm thinking about it, we are getting the extraterritorial application of its political system and its politics onto countries which dare to disagree with issues, Tibet, Taiwan, whatever, which it regards as core to its political system, and that's a different kind of superpower pressure which Western countries are all struggling with at the moment.

MR. DOLLAR: On the first question about moving to the center of the world stage, I would add that China is playing a greater and greater -- a greater and greater role in the global economic institutions, so it's very active in the World Trade Organization, it's becoming a

key player in the International Monetary Fund, and I think, in general, the world is very welcoming for China to play that role.

It created a little bit of a brouhaha when it started the Asian Infrastructure Investment Bank, but we have a system with multiple development banks, so I don't see that as a challenge to the International Order, and the fact that now more than 60 countries have quickly signed up, suggests that there is quite a welcoming of that particular initiative by the Chinese.

Now, on the question about the business lobby, so I had three immediate thoughts as you were talking. We have this, you know, constant stream of American CEOs who go to China, and I've sat in on some of those meetings, they are generally very fawning of the Chinese leadership, telling them how wonderful they are, and it's too bad the United States can't get things done effectively.

MR. MCGREGOR: Name names.

MR. DOLLAR: No. You name names, I'm not naming names. (Laughter) But then you mentioned, for example, the AmCham white paper, you know, that's done by more of the level of management that's actually dealing with China particularly on the ground, they are increasingly frustrated, increasingly unhappy, and I think their voice resonates, back with Congress that they see the American business community is frustrated and the European business community.

But the last point is, you know, I suggested that down the road the U.S. is going to have to make some fundamental decision, China is not going to open up the way that President Trump wants. The U.S. is going to have to make a fundamental decision. When that happens, the business community will be saying: do not have a trade war with China. They may be frustrated, but they are certainly not going to want to trade war with China.

MS. LAWRENCE: Great. Can we take now, another round of questions? Okay. Let's go, this gentleman in the middle and towards back here, with your hand up. Yeah.

QUESTIONER: Hi, there. My name is Michael, a recent graduate student from American University. I was just curious, for the Hong Kong watchers, and Taiwan watchers, and then human rights watchers, what are some key takeaways from the 19th Party Congress; because I just haven't heard much said about that? Thank you.

MS. LAWRENCE: Okay. For Taiwan and Hong Kong, was it?

QUESTIONER: And human rights.

MS. LAWRENCE: And human rights, okay, got it. Yes, sir?

MR. CHUTLEY: Thank you. Pete Chutley, retired State Department, and retired Brookings. Chang Li mentioned how many of the leaders in the Central Committee and Politburo were educated in the U.S., graduate schools in the U.S. My question is: what implications does that have for their policies? Knee-jerk assumption would be that Chinese leaders, those that had college experience in the U.S., are more favorable toward democracy, pluralism, human rights. Is that an accurate guess or not?

MS. LAWRENCE: Okay. And let me see, to the very back row. We'll take four questions this round, so the back row and then --

MR. STRASSER: Hi. Greg Strasser from Shanghai Media Group. Regarding David Dollar's opening remarks, you've identified several key areas in economic reform that need progress, but are there some positive components of the Chinese economy, and if so what are they doing right, and what do they need to keep continued doing?

And for the rest of the panel, Mr. Trump is expected to push trade with President Xi Jinping during his China trip. They seem to have a contradictory relationship where Trump talks often about how positive their relationship is, it's the best among world leaders, but some of the things that he says doesn't really reflect that necessarily about China. So, it's very clear that America has a lot of expectations for China. What does China expect from America in return? Thank you.

MS. LAWRENCE: Okay. The last question here at the front?

QUESTIONER: Mike Mesitic, PBS "Online NewsHour." Was it a 90/10, 80/20 percentage breakdown in terms of how much the documents coming out of this Party Congress reflected confidence in their own future versus feeling of decline particularly, in the decline and disarray in the United States?

MS. LAWRENCE: Okay. So, we have: what do we learned about Taiwan, Hong Kong human rights policy? What's the impact of Western education on some of these leaders who are coming in, including on human rights? So, two human-rights-related questions. What's China doing right with its economy? What's positive? And what does China expect in return? And then this last question -- I'm suddenly blanking, sorry --

QUESTIONER: Confidence in the

MS. LAWRENCE: That's right, confidence in China's own system, versus, sort of looking at this perception of U.S. decline. David, you're leaning forward.

MR. DOLLAR: Why don't I start this round?

MS. LAWRENCE: Sure.

MR. DOLLAR: So, concerning the question about the leaders educated in the U.S., so I I'm not sure I have a strong view on that, but I really found interesting and Cheng's presentation that they used to all be engineers at the top. And I know what he's talking about. I remember sitting through meetings with the top leadership, and they always had engineering solutions, you know, there's not enough -- there's not enough water in Beijing so let's dig the world's longest canal, you know, instead of economic solution, we raise the price and let people move away to parts of the country that have more water. So, I hope the rise of economists will have a positive. (Laughter)

The question: thank you for the question from Shanghai Media. You know, I quickly jumped into some weaknesses and problems, but it's nice to be reminded that there are lots of strengths in the Chinese economy. My quick reaction to your question is, you know, the labor market is tightening in China because demographics mean that the labor force is not

growing -- it's growing rapidly, it's not really growing at all anymore.

And a lot of this growth of the service sectors is generating employment, so you've got a nice virtuous circle going, where wages are going up, consumption is rising rapidly, consumption is mostly services, and that generates employment, and so there's a lot of, you know, reasons to be optimistic that we are seeing this transformation away from the old focus on heavy industry and investment toward the services and consumption.

And then my comments were aimed at: but they still keep trying to generate, you know, more investment than is really necessary, and they could really buy into this new model, but they've got that fundamental strength there that should enable them to continue to grow well. And then anytime you travel to China you see these wonderful new innovations like the bike rental system, there's just a lot of private-sector dynamism still in China, so a lot of good fundamentals there.

AMBASSADOR ROY: Could I comment on the Taiwan aspect?

MS. LAWRENCE: Yes.

AMBASSADOR ROY: Overall, Xi Jinping's comments on Taiwan I thought were moderate in the Work Report. He reaffirmed the maintenance policy of peaceful unification, he repeated Beijing's willingness to deal with anyone and any Party on the basis of one China and/or the '92 Consensus on One China.

Now, the problem of course, there is that the President of Taiwan has not been willing, explicitly, to endorse the '92 Consensus, so there's a problem there, but the Chinese policy has not changed on that question. There was a change, however, that's significant although it did not -- it was not stated with urgency, shall we say.

In the Work Report there was a statement and realizing complete national unification is an inevitable requirement; the Chinese was (Speaking in Chinese), an inevitable requirement for completion of the great rejuvenation of the Chinese people. Well, the goal for rejuvenation, Great Rejuvenation is 2049, so in essence he's saying that by 2049 when we are

going to complete the Great Rejuvenation, we need to have completed national unification that amounts to sudden and implicit deadlines.

That's dangerous because we are talking about something only 32 thirty two years away, and the trends in Taiwan have been, that there has been this enormous development of common interests to the Mainland, and there's enormous support in Taiwan for maintaining the status quo in the Cross-Strait relationship, but there's been no growth in support for unification with the Mainland in its current form.

And so therefore, if the deadlines were to be held firm and we didn't have developments in Taiwan, we've got some contradiction, but again we are talking about, and 32 years is forever in the American view, because we can't think three to four years in advance.

MS. LAWRENCE: I have to say, I was struck that Xi has talked elsewhere about this idea of national rejuvenation including Taiwan's return to the motherland this idea of unification. And I sort of felt that in the Taiwan section of the Work Report it actually was just a little bit less explicit than he's made it elsewhere.

AMBASSADOR ROY: Well, the comment he's made before that is relevant to this language was his statement that the Taiwan issue could not be left for future generations.

MS. LAWRENCE: Is that true?

AMBASSADOR ROY: Which was an -- was taking the Deng Xiaoping comment about the territorial disputes with Japan, that they were too complicated and should be left for future generations, and he moved that into the current generations, which, in a sense set and implicit deadline, but the difference is, here he's linking international rejuvenation which has a deadline and therefore it represents a step closer to beginning to say it has to be done by such and such a time.

MS. LAWRENCE: Although, interestingly, he didn't sort of link them as closely in the Taiwan section. I think that's elsewhere in the report.

SPEAKER: Right.

MS. LAWRENCE: But then the Taiwan sector he's reaching out in a sort of -- he's also, he's got a six (inaudible). I think the biggest applause line in the report was the line, "We will never allow anyone, any organization, or any political Party, at any time or in any form to separate any part of Chinese territory from China;" and that was the biggest applause line.

AMBASSADOR ROY: On Hong Kong I didn't see any changes in the Work Report other than a very clear statement of China's basic position on it.

MS. LAWRENCE: And basically, I guess it was doubling down on one --

AMBASSADOR ROY: Two systems.

MS. LAWRENCE: One country two systems works.

AMBASSADOR ROY: Yes.

MS. LAWRENCE: "The practice of one country two systems in both regions has been a resounding success," said the Work Report. On human rights, I mean, there are, I think all this language about rule of law that Li Cheng pointing to, is trying to respond to a sense that people in China are looking for a more predictable, fair, equitable sort of deal with the government, and so there's a sense that, you know, in that sense that has implications for human rights, although I don't think he's thinking: that language is not about human rights in the sense that we might think of rights, safe or dissidents or, you know, for people who peacefully oppose certain aspects of the Communist Party's rule.

But it's more of a sort of ordinary people just so that in their ordinary dealings in life to have perhaps the system be a little less -- a little more equitable, and more predictable. So, I don't think we had, you know, any big breakthroughs on the Human Rights front.

MR. MCGREGOR: Can I say something on that too?

MS. LAWRENCE: Yes, please.

MR. MCGREGOR: I mean, also to the point on human rights, I think is that the U.S.-China relationship is much bigger, far more complex, the issue of human rights you don't hear so much about I think, because it's drifted down, relatively speaking, the agenda. And you

know leverage over China, with China, is palpably less than it was, and it was never that great anyway. Stape would know far more about this than I would. So, I think that that's one point.

On the issue of Education, I think there's no evidence really that the legions of Chinese educated here have gone back to China with the aim of transforming the political system.

AMBASSADOR ROY: Yes.

MR. MCGREGOR: They have all received excellent educations by and large, I would say, and excellent technical educations, and that's been useful for China, but it's not about changing China politically. But I'll make one other point on that, which is interesting, when I was in South Korea spending time there recently, the country with the most foreign students inside China is South Korea, but you get no sense out of South Korea that there's any been any sort of palpable Chinese influence, soft power influence, back into South Korea because of that.

It's almost all sort of utilitarian language learning, doing business, doing trade, and nothing about Chinese values, so-called Asian values, whatever, coming back into South Korea and changing it; whereas, of course, education from South Korea, Taiwan in the U.S. had a much bigger influence.

MS. LAWRENCE: Although you could say that maybe it's had influence in other places that, you know, the President of Ethiopia had studied in China, and implemented some aspects of the Chinese experience there. Okay, we are going to -- we've just got about 10 minutes left, so if we could have a couple of -- Oh, yes we had --

MR. MCGREGOR: On Mike's question. Mike, if it's the -- I would say if it's a zero-sum game, strong China weak America, I would say 60/40, strong China weak America, but there's no wisdom in that, my answer.

MS. LAWRENCE: Exactly. And you asked about in the documents, and in the documents, I mean, there is an explicit discussion of weak America, but that's sort of -- that's

kind of more I think in the way some people are interpreting from the statements China is making, that maybe China is making them because it perceives a weak America and therefore it feels emboldened to push forward with more -- a more ambitious set of goals. Okay. Can we have one quick question here, sir, and one back there?

MR. WINTERS: Steve Winters, Consultant. I would like to direct this to Mr. Dollar, and just, would you agree that there might be an alternate view to the one that you expressed about the technocrats? Because I remember a member of the U.S. Presidential Commission on Science and Technology Education in the U.S., I was on a trip to China, and during this period of the height of the technocrats, and the people on the Politburo said, oh, it's so terrible, it's so terrible, we are all engineers but our kids all want to be investment bankers like the guys in New York.

And, you know, you could just make the alternate argument that a lot of this wonderful growth they had was due to the fact that they had people with engineering degrees, just saying. Is there another view there?

MS. LAWRENCE: Can I just mention, one of my favorite quotes, I did a series of interviews with colleagues, series of interviews of Jiang Zemin back in the 1990s, and the first interview we had there was some questions about whether Jiang Zemin would be staying in power, he'd been put there by Deng Xiaoping after the Tiananmen crackdown.

And he had this great line, he said, "I am an engineer, and there's a rule of engineering --" so basically, basically: I am a large mass. And then he told us exactly how much he weighed in kilograms. He said, "I am a large mass, large masses are not easily moved." (Laughter) And that was his -- as an engineer that was his take on his political future. Sorry, and we had one more question back here. Yes, yes, the lady in white, the white scarf.

QUESTIONER: My name is Wai, and I'm just a recent graduate from Johns Hopkins SAIS. So, I do have a question about the U.S. and China cooperation in a short term, and given that the two countries are facing a certain level of pressure from their domestic

issues, and also the two Presidents have very different ideology in dealing with their future issues through modifying their roles in the global stage.

So, my question is: in a short term, especially regarding to the trip that Mr. Trump is going to have in Asia in the early November, is it possible that we are going to see the creation of some specific plans that is going to facilitate the economic cooperation activities between two countries, instead of just big plans, ambiguous without strategic contents? Thank you very much.

MS. LAWRENCE: Okay. So, we have five minutes for a quick response on the take on technocrats: what do we think of, and how do we understand how they behave? And then on specific plans to facilitate, you know, cooperation between the U.S. and China, can we expect anything like that coming out of the Trump visit to Asia?

AMBASSADOR ROY: I'll venture a --

MS. LAWRENCE: If one can get two minutes of your thoughts, and then we'll wrap up.

AMBASSADOR ROY: -- a quick comment on it. China has in place what is the most important factor in dealing with this administration which is a good relationship between President Xi Jinping and President Trump. President Trump has made it clear that he respects the views of President Xi, and therefore I think that we can expect that that factor will help to stabilize the visit to Beijing.

But whether or not they will be able to come up with a satisfactory compromise on the trade issues is the critically important factor, and I don't think we know the answer to that yet definitively, but my assumption is that the President will be going there with that goal in mind, and the question is whether or not they can horse trade and work that out. But this personal relationship is not identical to a policy, and that's what we still cannot get from this administration, because the key people who need to be part of the policy process have not yet been appointed.

MS. LAWRENCE: And I guess we also have this question of whether a trade is in some way linked to North Korea with what China produces on North Korea, as the President has sometimes suggested.

MR. DOLLAR: So for the question for me, of course there's an alternative view, okay. Yeah, I would like to think that economists should be included among technocrats by the way so one small criticism of my friend is to distinguish between technocrats on the one hand, and people with social science training on the other hand. But I guess the serious answer to your question is, I'm not sure what makes a good president, but at the next level down which would be, you know, the secretary level in the U.S., state council level in China. I think you need real experts.

And, you know, you need a diversity in them. We've had scientists dealing with climate change issues, and I think that that's quite welcome, but I think if all at that Minister level are engineers, I think that can create problems, and we did go through a period with China where it's just very hard to get the senior leadership's to think about economic solutions.

I remember discussions about the trade imbalance, where senior officials on the Chinese side would say, well, give us a list of products that we can buy, you know, and we'll see what we can do. And that's just not an economic response to a policy problem. So, I hope -- I'm happy to have some engineers, but I hope we now have more diverse training on both sides of the Pacific.

MS. LAWRENCE: And Richard gets the last word.

MR. MCGREGOR: So, I might say very quickly on trade, I think it's early days, U.S.-China. The U.S. is still embroiled in the NAFTA negotiations, the meeting in Beijing, as much as it's substantive, but would focus on the DPRK, any trade, trade-offs that would be at the margins. The big fights I think lie ahead of us, assuming, as Stape says, the current administration actually develops a coherent policy that it can stick to.

And on the engineering stuff, correct me if I'm wrong, I always thought that the

reason why the Chinese leadership was so dominated by the engineers, is because that was the safe thing to study, was it not, in the '50s and '60s. You didn't really dare study law or social sciences at that time, you studied engineering, and that's seems to be a natural sort of changeover now in the qualifications of the Politburo and the Central Committee.

MS. LAWRENCE: Great! Well thank you very much to our panel. Thank you for being a great audience. And we will wrap up. (Applause)

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