China, America, and the Shifting Balance of Prestige

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MICHAEL SWAINE: Well, good afternoon, everyone. I think we should start. You've probably all had your – had a hit at the lunch table and at least have gotten through most if not all of your lunch, so we'll begin. This is scheduled to go until 2:00. My hope: For a good deal of that we'll have time for a conversation with the audience, take your questions, comments and other things.

It's my great pleasure today and privilege to be here to introduce to you Chas Freeman and Chas' latest book, which you've all seen, and no doubt every single one of you purchased – (scattered laughter) – from the table on the outside. And if not, we are taking names. (Scattered laughter.)

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As many of you know, Chas is a singular figure in both the history and in the analysis of U.S.-China relations as a direct participant in the opening to China, as Nixon's primary interpreter and a career foreign service officer negotiating with Beijing and representing the U.S. during many pivotal moments in the history of the relationship and as a perceptive, insightful and at times highly provocative and controversial commentator on the state of U.S.-China relations, Chinese views and behavior and especially U.S. policy toward China. I would say that perhaps Chas and maybe Stapleton Roy have in many ways personified the history of this complex and challenging relationship over the past 40-plus years since the opening to China. So it's really a privilege to have Chas here today to speak about his book.

I first met Chas in 1993 – this goes back a while – when I was a new but not so young analyst at the RAND Corporation and Chas was the assistant secretary of defense for international security affairs and a kind of sponsor of sorts through the Office of Secretary of Defense, a sponsor of my research at that time on China and Chinese military and defense issues in particular. So I was asked to go in and brief Chas on China security issues, not knowing much of anything at the time about his background or knowledge of China and thinking I had many illuminating things to say – (laughter) – to him.

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Well, I got about two minutes into my spiel when Chas began an extended and what was – turned out to be a superb soliloquy on the state of U.S.-China mil-mil relations and the larger security picture that rapidly reversed the analyst-student relationship. (Laughter.) And I thought to myself, they're paying us? (Laughter.) Maybe the – maybe these Chinese diplomats know something beyond the fine art of banqueting and the occasional negotiation.

And this view of Chas was then reinforced in spades in my mind when I next saw him at an Aspen Institute roundtable on U.S.-China relations where he held forth with Stapleton Roy and other luminaries in the China relations history – both officials, retired and current, and academics – on the history of the U.S.-China relationship and U.S. foreign policy. And at that time the contrast – for someone such as myself, who had come out of academia, had been just basically newly minted in RAND, in the RAND Corporation, was just getting to know that environment but was mainly new about China, largely based on my studies – I had been to China quite a bit, but not all that much. I certainly hadn't interacted with anybody at senior levels in the Chinese government at that time, so my experience was largely limited to what I had read in books and had learned in seminars and such at Harvard and elsewhere. But the contrast at that time and the level of knowledge and insight between those two seasoned China diplomats, Chas and Stape Roy and the very well-known and shall be unnamed academic China scholars who were also in attendance at this meeting was just remarkable to me, just remarkable.

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In any event, the book that we're here to discuss provides an excellent example of the qualities that Chas has brought to our understanding of China and the bilateral relationship. But I won't drone out and bore you further. I want to turn it over to Chas and let him make some remarks, and then I'm going to make some comments based on my reaction to the book, and then we'll open it up to a discussion. So Chas, please.

CHAS FREEMAN, JR.: Well, thank you, Michael. I'm told that flattery is fine as long as you don't inhale. (Laughter.) So –

MR. SWAINE: Oh, the humor part. I forgot that element.

MR. FREEMAN: And I'm trying to – it's just amazing what a meal, a free mean will do in Washington. (Laughter.) I was trying to remember why I was here – (laughter) – because I'm getting old, and it reminds me a bit of the story of the two old guys sitting around in their living room talking to each other while the wives are in the kitchen rustling up dinner, and one of them turns to the other, he says, you know, my wife and I went to this unbelievable restaurant the other night, incredible food, impeccable service, just perfect. So his friend said, well, what's the name of it? He said, well, um, hm – he said, what do you call that red flower with the thorns that you give to women you love? So his friend says, a rose? He said, yeah. Hey, rose, what was the name of the restaurant? (Laughter.)

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Anyway, so I guess I am here to talk not about rose and celebrate banqueting but talk a bit about interesting times. And Just World Books, which is the publisher, of it – Helena Cobban, I think – (inaudible) – in the back – Helena is the publisher. This is her first book on China. She did a book on Middle East that I wrote in 2010. It's now got a Chinese edition with an absolutely wonderful cover by some Chinese artist that shows Dick Cheney in his hunter's costume just after – just after he shot his friend. (Laughter.) And so – never say the Chinese don't have a sense of humor. (Laughter.)

Anyway, Just World Books has been mainly about the Middle East, but it's now branching out, and it's a very fine, innovative young company. I owe the two words "Interesting Times" in the title of this book to Helena. And she thought the phrase captured the spirit of the exciting, trying, exhilarating, exasperating but always surprising progress that China, the United States and the world have registered over the past half-century.

I – you know, I'm looking around this audience, I see some people I know, and I see some notoriously finicky ones sitting out there. (Scattered laughter.) And therefore, let me admit at the outset that while Chinese has many wonderfully distinctive epigrams, the celebrated curse "may you live in interesting times" is not among them. It was apparently coined by the British ambassador to China, Sir Hughe with an e, Hughe – Sir Hughe Montgomery Knatchbull-Hugessen KCMG around 1937 after he'd had the interesting experience of being strafed and wounded by a Japanese fighter jet – fighter aircraft in Shanghai. So the curse does originate in China, but given the inscrutability of Sir Hughe's name, no one's been able to remember for long – (laughter) – who first uttered it or where. Living in interesting times doesn't even have a standard Chinese translation. And Beverly (sp), you could – you have a standard –

Now, in my – in my view, the energetically vexing uncertainties of modern life in Chin deserve succinct expression in some sort of snappy four-character phrase. And so, by the way, does the other apocryphal curse, "may you come to the attention of people in authority." (Laughter.) Perhaps the publishers of a future Chinese edition of "Interesting Times" can crowdsource some new (in Chinese).

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Let me turn to the book itself. There is a mythical Chinese animal called the subuchem (ph) – that is, the beast that is unlike four others. It has a cow's hooves, but it doesn't moo. It has a horse's head, but it can't be sold as beef in European butcher shops. (Laughter.) It has a deer's antlers, but it does not live near strip malls in the suburbs. It has a donkey's body, but it is not an ass. And some say its bite it fatal, and some are simply horrified by it. And this book may horrify a few people, but I doubt it will bite and still less kill anybody.

Like a subuchem (ph), it is tempting to define "Interesting Times" by what it is not. It is not your common Washington suck-up to the administration of the day. It's not a work of sinology. It's not a think-tank study and it's not a belief-tank polemic – because of course, belief tanks outnumber think tanks in Washington by quite a bit. (Laughter.) It contains an anecdote or two, and for better or ill, it reflects the author's place and perspective about things when they happened. But it's not an autobiography, nor is it a Washington insider account of how the author invented devilishly clever policies, personally sold the president on them and imposed them on unwitting foreigners. (Laughter.)

This book expresses my views rather than those of any institution or group of like-minded people. In turn, it reflects who I was and who I am and what I saw and see changing in and with China. I was a career diplomat, and I am a businessman who dabbles in sinology. I'm not a sinologist, securocrat or policy wonk who dabbles in diplomacy or business.

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China has been around for a long time. When I first discovered it in 1963 in Widener Library at Harvard University when I sought refuge from the intellectual desert of law school by reading world history. Later, when I entered the foreign service of the United States, I fought to get into the Chinese language and area studies program so I could learn Mandarin and Taiwanese. I convinced myself in the mid-'60s that geopolitics would force a Sino-American rapprochement. I thought it would be exciting to be part of it. As it turned out, it was. To one degree or another, I've been happily engaged with China for 44 years.

"Interesting Times" contains observations about a half-century or so of developments in Sino-American relations. It looks at changes in the regional and global orders brought about by China's recovery from its previous catelespy, convulsions and foreign incursions. The book documates – documents my efforts at various times to understand and explain what China was up to and to project where it might be going.

In addition to what is in print in the book, there are supplementary materials that reside – (inaudible). For example, there is a memorandum inspired by a delicious bowl of noodles in Tiananmen, which I ate in 1979 and still feel the result; you can see it right here. In the memo, I rationally attempted to forecast what China might be like 20 years later, in the year 2000, so you can look at that. A lot of my hypotheses then and on other occasions, as Michael mentioned, did not coincide with the conventional wisdom and were controversial. Better analysts than I roundly criticized and sometimes denigrated me for my views. And sometimes they were right to do so. China is a moving target that's hard to grasp.

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It's difficult to overstate the speed and scope of the changes that have occurred in China and in its foreign relations over the course of the 41 years since I first set foot in Beijing. The Cultural Revolution had then shut down China's foreign relations. China had only one full ambassador abroad, Huang Hua (ph), whom Zhou Enlai protected by not recalling him to Beijing from Cairo, where he was. Today China is a presence everywhere and a major actor, determining the reactions of the international community to advance well beyond its immediate periphery. In this regard, for example, consider G-20 and IMF meetings, peacekeeping operations in Haiti, the Congo, Lebanon, proposals for foreign intervention in Syria and sanctions against Iran. That's before you get to current affairs in North Korea, the Diaoyu of Senkaku Islands or the Russian armaments industry.

The basis for the huge expansion in Chinese global and regional influence is of course mostly economic. In 1972 – Nixon trip occurred in 1972 – my first visit to Beijing was then – in current dollars, China's GDP per capita was about $130 annually. When George W. Bush took office in 2001, this had grown to over a thousand dollars. Last year it was over 6,000 (dollars) with purchasing power equivalent to about 9,000 (dollars). Think about what that means for ordinary people in China. That's a 47-fold increase in wealth. In 1972 Taiwan's 16 million people had a GDP larger than the mainland's 875 million. The Chinese economy is now expected to surpass ours in purchasing power terms by 2016, the year in which we will hold our next presidential elections. China will almost certainly overtake us in nominal exchange rate terms before the 2021 centennial of the founding of the Chinese Communist Party.

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In 1972 – again, Nixon visit – China's worldwide imports and exports came to $6.3 billion, including U.S.-China trade of about 95 million (dollars). Last year China's trade in goods alone, not including services, was $3.9 trillion. U.S.-China trade in goods and services came to $536 billion. Those are U.S. statistics; Chinese statistics would be different. There was no investment by either country in the other in 1972. Now there's U.S. investment everywhere in China. And our states and localities are pushing for some sort of 21st century version of an open-door policy for the United States. In 1972 there were no Chinese tourists or students in the United States. A few hundred

Americans visited China in that year. This year there are over 200,000 Chinese students here and almost 1 ½ million Chinese tourists will visit while 2 million or more Americans go to China.

You get the point. This is a very consequential relationship that is in the process of becoming more so. I don't have to drone on for you to appreciate the extraordinary dynamism of China and U.S.-China relations and their effects on Asia and the world. And having just waxed uncharacteristically numerical, I want to assure that while there are many references to facts and figures, there are no dreary charts and graphs or statistical recitations in "Interesting Times," no PowerPoint presentation.

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This book does, however, contain a fair amount of exploration of how China changed and of the nature of what I call cadre capitalism, (in Chinese), otherwise known as socialism, or is it Leninism, with Chinese characteristics. Cadre capitalism is something new. For ideological reasons, it's poorly understood in China and greatly misunderstood abroad. Cadre capitalism is a party-based system that links political boosterism to economic entrepreneurship. It makes so-called state-owned enterprises formidably competitive and businesses in China highly efficient. It's a unique artifact of Chinese culture that in my view cannot be exploited as a model or borrowed abroad. And perhaps that's just as well. If corruption is at heart the result of an inability the result to separate personal interest from public or enterprise interest, then cadre capitalism promotes corruption as well as business efficiency.

"Interesting Times" spends a lot of time looking at the origins and evolution of the question of Taiwan's relationship with the rest of China and America's role in this. One (online ?) piece looks at Taiwan and foreign strategies towards China since the 17th century. Mostly, however, the book tracks the evolution of the Taiwan in U.S.-China relations, in whose development it remains a significant inhibition. And it examines the effects on China's neighbors and the United States of China's remarkable return to wealth and power. It looks back 40 years, but it also tries to look ahead to the next 40.

On that very incautious note, let me turn the podium back to Dr. Swaine – known to his friends as Dr. Swine (ph), of course. (Laughter.)

MR. SWAINE: I knew you were going to say that. (Laughter.)

MR. FREEMAN: – who will – who will definitely want to refute everything written in the book and – as well as everything I've said today before we turn to questions, comments and some dialogue. Michael.

MR. SWAINE: Thank you, Chas. (Applause.) Chas refers to a pronunciation of my last name that is rather common among many Chinese friends. (Laughter.) They can't get the hard A sound out no matter how closely I encourage them to do so. (Laughter.) In fact, they think they are saying it that way, but they're not. (Laughter.) Anyway –

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MR. FREEMAN: He once – he once – he once advised them, let loose the hogs of war, did you not? (Laughter.)

MR. SWAINE: Oh, God. (Laughter.) Well, all right, before you tell me – disintegrate into – we could disintegrate into a lot of jokes too – (laughter) – let me just say a few words about my reaction to Chas' book.

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If – those of you who haven't looked into it yet, it is essentially a collection of over 20 – about 25, 27 or so of his essays, articles, speeches from the '80s, particularly the 1990s and some from the 2000s covering virtually every significant aspect of the topic, from details of the diplomatic wrangling that went on during the opening to China in 1970-71, which Chas was personally involved in, as well as the development of the famous communiques with Beijing and diplomatic normalization; to detailed treatments of the Taiwan issue, as Chas just said, and its evolution into the so-called Taiwan problem for the United States; the logic and significance of Zedong's revolution, as he calls – properly calls it, I think; the reforms; comments – a very interesting chapter on Mao's very disturbing and contradictory legacy for China, which Chas gave – I don't know when it was, just in the late '70s or early – maybe later than that –

MR. FREEMAN: I think it was probably in this – in this century. It was at SAIS, and – yeah.

MR. SWAINE: OK. I mean, it was – it's a – you should really take a look at it. It's fascinating. And of course, as he said, comments and essays on the scope and meaning of China's global and regional impact; and perhaps of greatest interest to me, given my area, analysis and observations on the strategic implications for the U.S. of China's rising power and what Chas and many others view as Washington's often misguided response to that rise.

I mean, there's a lot in here for both specialists and for nonspecialists alike that provide both people interested in history and the evolution of the relationship and interested in assessments of where we are now and what are the major strategic and intellectual as well as analytical and policy-related interests that we're facing and challenges that we're facing in dealing with China.

There are really too many points for me to sort of go through and cover them all, but I have selected out a few which I think are particularly interesting, because I think they do inform Chas' view on China not just as reflected in this book but as also found in other areas where he has commented. And I would say in general terms, Chas' take on the U.S.-China relationship and on U.S. policy often involve arguments that are devoted to analysis of the limits, the misperceptions, the mirror imaging and the myths about China, about U.S. notions of China, about Chinese notions of the U.S. and about many aspects of our respective policies. It's trying to define those elements of misperception that I think are, for me at least, the most valuable and interesting of Chas' analysis.

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So in this regard, I guess you could say he is very much of a contrarian in many ways, particularly from the perspective of what you would regard as conventional or mainstream views about China and about U.S.-China policy. And let me just mention a couple of what these are, because I think they really are critical to any understanding. I mean, they really do tend to define what the issues are in looking at the role of China today and its impact on the United States and indeed, on the world.

And the first is that in Chas' view, Americans tend to view China as an analog or a mirror image of themselves and their notion of what great powers do. Americans have a belief and a need to maintain or attain a level of influence, often predominant influence, often expressed in military supremacy, particularly in the maritime area, that in Chas' view the Chinese simply do not share. They don't share the same set of references, the same perspective, the same geostrategic, the same political orientation that would bring them to agree completely with those sets of assumptions that seem to animate American foreign policy, particularly on the security side. And they're not, therefore, in Chas' view, interested in dominating Asia militarily, much less the world. They could be – I gained that view – they could be if they were pushed into it, is very much of, I think, Chas' argument. So hence, the role of the U.S. here becomes pivotal. And in this regard, Chas –

MR. FREEMAN: Intended, I assume.

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MR. SWAINE: No pun intended, of course. (Laughter.) And in this regard, Chas believes that the U.S. needs to give up its belief for – in predominance in the Western Pacific and start developing a strategy to move China and itself and the region toward what in effect is a more – the reality of a more multipolar structure that is more cooperative in nature, based on mutual limits and balance and on Asian states, particularly Asian allies, doing more on their own behalf in the region. Such a move is strategically less dangerous than one dedicated to trying to sustain a predominance that is likely to prove to be unsustainable. And it's also dangerous because it relies on certain types of strategies and doctrines that could be seen by the Chinese as highly provocative and indeed, could be very escalatory in a crisis with China.

So in other words, Chas certainly does not buy into the notion that the past status quo that the United States has pursued in general in the Far East and with regard to China for the last 40-plus years is either sustainable or desirable over the next 40 years and beyond.

Now, beyond this critique of China, however, the second point, from my vantage point, is that China – Chas also lays bare many facts that show that China itself has a very basic problem in dealing with this issue. Chinese leaders are permeated with an unshakeable sense of their own domestic vulnerabilities and limits based on their unique and untranslatable and unexploitable form of cadre capitalism, which he mentioned, huge development challenges and historically – and a generally historically defensive mindset. These and other features of China are not translatable. They're singularly unattractive to foreigners. There is no China model that could be translated overseas, in Chas' view, so the Chinese don't represent a force for change in the world the way the Soviet Union thought they did.

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It speaks directly to the whole question about, what is the threat that China might pose to the United States long term? And on that basis, based on Chas' analysis, the Chinese are just not in that ball game in that same way. Their orientation is much more towards domestic problems, and their sense of their security environment is much more oriented towards defending themselves against near-in threats in a variety of different ways.

So what this ends up with producing is a regime that is in some ways very narrow in its legitimacy based on development and based on bringing up China's prestige and honor in the world but with not – with very little in the way of other clear strategy for China's future development. So in many ways, it's brittle given the nature of Chinese communist rule within China. It's cautious, and it's defensive. At the same time, it's growing rapidly in power and capability, internationally in particular.

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And that situation creates a fundamental contradiction, as I see it, from Chas' perspective that doesn't mix well with or, more precisely, respond well to U.S. efforts to treat China as a proto-America or proto-Germany or proto-Japan in the 20th century. Indeed, what it does is it leads China to become defensive in looking at the United States, suspicious, overreactive out of a sense of insecurity and vulnerability and yet subject to internal pressure to push back, in some ways push back excessively when it thinks it is being threatened.

So all of those two points to me sum up a lot of what Chas analyzes as the basic problem we have in both U.S. and Chinese perceptions. Now, what is the fundamental, underlying catalyst that could really produce problems in the U.S.-China relationship based on these dispositions and these perspectives and these outlooks? Well, it is primarily – and I certainly agree with Chas on this – it is the persistence of the problem of Taiwan, and it's the persistence of the problem of China's and other Asian nations' claims for territories and resource areas that are disputed by China and its neighbors. This is really a fundamental source of deep tension and potential military conflict.

And in this regard, as I read Chas, he sees the United States as allowing itself to be more drawn into these disputes with China and its neighbors than we should be and then we need to be and that we've run the danger of getting into real conflicts with China, another continental, rapidly rising nuclear power over issues that are really secondarily of interest, national interest to the United States.

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So Chas asks the question at one point, can two such large, proud countries compartmentalize their differences, continuing to enjoy close economic cooperation and expanding political partnerships while their military relations turn hostile? Given nationalist passions in China and the martial traditions of the United States, this seems doubtful.

So that seems to suggest a somewhat pessimistic note, although I wouldn't say from this book that actually China – that Chas is pessimistic about the future, because in many ways, he lays out a situation whereby the forces of change in Asia and in the world are such that the United States – that the only thing that the United States will likely – that will likely undermine the evolution of the system towards a more stable system would be if the U.S. indeed persists in not recognizing the change in national and international powers – relative power that is occurring in Asia and beyond and continues to try to exercise the level of power and influence that it has exercised for the last 40 years and by doing so, misinterprets a lot of what the Chinese are doing, and the Chinese then, of course, misinterpret back what the U.S. is doing and overreact in some cases.

Barring that kind of miscalculation, in fact, as I read it, Chas sees problems like Taiwan, the near-seas disputes, the Korea dispute and others as basically getting resolved, getting resolved in the coming decades in ways that both sides, all sides can live with, that this is not an impossibility. But it will require a different psychology, a different way of thinking about the region and about what is really essential in the region and how the United States needs to lead and be involved with directly the Chinese in working to transform these perceptions in the region about what is it that creates stability, that it's a much more interactive, multipolar, mutually interdependent pattern of interactions that can no longer rely upon the United States as the predominant power that it once was.

And that argument and the way it's laid out and the way it's linked into China's history and China's perceptions as well as those of the United States is for me as a security analyst the key value of what this book of essays holds for anybody interested in these questions. And they are the questions in dealing with the U.S.-China relationship going forward.

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And I'm really very grateful that Chas has put this book together and has attempted to grapple with some of these problems. He doesn't lay out easy solutions; he lays out the problems. He gives a hint as to where these solutions need to go, but they are going to rely, as he says, on a level of statecraft and a level of sustained attention that we haven't seen in recent years from either the United States or China. And I'll stop here. Thank you.

MR. FREEMAN: Well, thank you, Michael. I had no idea I was so brilliant. (Laughter.) And – no, thank you. So thank you very much. That is a –

MR. SWAINE: Tell me if I was inaccurate.

MR. FREEMAN: No, I think you very accurately – (laughter) – capture the spirit of the – of the book.

I just would add one thing more before we, perhaps, open up for a wider discussion and that is that I am optimistic, not just because optimism is to diplomats what courage is to soldiers but because the problems are resolvable with sound statecraft and sustained attention of a sort, as Michael indicated, I lament we have not seen much of in recent years.

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The United States, in short, needs to get its act together not only domestically but internationally, and we need to recognize that we're in a new era and new solutions and new approaches are required. I'm confident that that's something we can do. Whether we'll do it or not is another issue, but it's certainly possible. So I think we should – subject to your chairmanship, we should open the floor.

MR. SWAINE: We should open it up, absolutely. We have – we have an hour.

MR. FREEMAN: No, no we don't. Can't possibly. (Laughter.)

MR. SWAINE: No, it's OK. You don't have to stay for an hour.

We'll see how many questions there are. We don't have to stay for an hour. I think there's a microphone. So when you take the mic, please announce who you are. And I'm going to use a method that was used at a conference I was at yesterday, which I thought was very useful, which is one person can ask a question and then I will ask if somebody else has a question that is related that has a – has some kind of direct relationship to that question, and then we can take two or three at a time and then we'll go on from there.

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So let's start with that gentleman there. Thank you.

Q: Hi. My name is Eric Long (sp). I'm with the (Free Observer ?). My question is that, you know, like, I think a lot of people, and especially in the South China Sea and all these countries, have a view of, you know, like, China is very strong, but they think – also believe that America also has a role to play in the Pacific Ocean and all these situations. But I see that there's a reluctance of America to get involved in these disputes or involved in these situations. So did you say that America should be more engaging or maybe retreat from these issues, or maybe even more proactive in trying to get a solution out of it? Thank you.

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MR. SWAINE: Anybody have a question along these lines of the degree to which the United States should be either more proactive or less proactive in managing some of these contentious disputes – I assume territorial and others – that China's engaged in?

Sir?

Q: Yes. I'm David Chalmers (sp).

MR. SWAINE: You will get a microphone.

Q: And I have a microphone. I have a specific question that I would like Mr. Freeman to answer or give me his views. What is going on with the Diaoyu issue? How did it get so virulent so fast? I went back home to my hometown in Ohio, where this is a Chinese-American woman who's lived for 30 years, and she just lit into me about the Diaoyu Islands, and I hadn't heard about them three years earlier. So that's my question.

MR. SWAINE: Is this related? Yes, then let's go to Chas.

Q: Jeffrey Stacey from SAIS up the street. Thank you for the really humorous way, Mr. Freeman, that you take to these pretty serious issues, but on this topic that is critically serious, do you share a concern that, you know, having heard Dr. Swain explain that your view – and we've heard you before talk about there isn't really a need for a massively competitive, arms race-based competition with military tensions at their height between these two countries in the next several years, let alone five to 10. But is there a danger that despite the optimism that was just pointed out, that you still have, that the U.S. approach right now that has led to the perception of containment in Beijing, is that now strengthening the hardliners in Beijing who are ascended?

And we see now not only in the new president but especially in the new military leadership and a lot of their comments recently, is this – if we take your view that we can pull back a little bit and adjust, get a little smarter about assumptions in these things, is not there another danger that's coming from – internally from China? And with all these what you might call internal Chinese contradictions with their environmental crises – and there are just so many of them – will not this lead to the leadership needing to play the nationalist card down the line? And the only way they can really do that is to sort of wag the dog a little bit internationally. And could this be a danger, even if we get the short term right, taking your advice, that could come from China in the future?

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MR. FREEMAN: Well, I think that's – those are actually indeed related questions, very complex one at the end. I'll try to address them.

Historically, the United States has been very careful not to insert itself in the specifics of disputes between foreign countries, even close allies. You can look at the American position on the Falklands or Malvinas Islands between the U.K. and Argentina and see this.

The United States obviously recognizes Britain's control of the Falklands, but does not take a position on sovereignty. And even though our sympathies, obviously, lay mostly with the British – the British didn't think they were sufficiently with them during the conflict – we tend to be very careful not to volunteer to get between people who are working themselves up to a war where we don't have any intrinsic interest at stake.

The intrinsic interests at stake for us in either the South China Sea or the Diaoyu Islands or Senkaku Islands are not very persuasive. These are mostly uninhabitable rocks and reefs. A few have the possibility of supporting human life, and in recent decades, the Philippines and Vietnam, in particular – and China, to some extent, but a lesser extent – have populated these islands in an effort to establish their control and advance their claims.

But it really doesn't make any difference to the United States what happens, who owns what, as long as the people who own it don't interfere with freedom of passage for our ships and for the world's trade.

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The world's trade is not at issue; nobody's ever alleged that there was any issue with freedom of navigation for trade through the South China Sea or in the area north of Taiwan, where the Senkaku Islands are. What is at issue is the right of naval vessels to conduct reconnaissance in zones, the special economic – or the exclusive economic zones that surround populated islands. They don't surround unpopulated islands. That's an issue between the United States and China. We've had a different view on that, and I think we need to discuss that.

But to say that we need to discuss that is a very different matter from actually getting in the middle, putting ourselves out front between the various claimants, which is what, to some extent, we have done. That is very risky, and that is – the question of sustainability comes in in that regard.

There is a difference between the South China Sea and the Senkaku or Diaoyu issue. The difference is, first of all, South China Sea has multiple claimants who claim against each other as well as against China; China meaning Beijing and Taipei because they have the same claims on the same basis. So there's no clarity about who could do a deal if one were actually proposed. If Vietnam agreed to something, would the Philippines accept it or vice versa? We don't know.

[00:43:03]

So one argument one could make is that if the United States is really interested in solving these issues, it should first try to solve them between the lesser claimants, if you can apply that word to Southeast Asian nations, and then between them and China. The formula the United States has proposed is, frankly, murky and not very persuasive to anyone, and so I think we have a policy that's highly questionable on these islands.

The Diaoyu or Senkaku issue is complicated greatly by the fact that both Taipei and Beijing agree that it's part of Taiwan. So if it's part of Taiwan, from the Chinese perspective, how can Beijing talk about it with Japan to resolve it before the Taiwan issue itself is resolved?

What right does Beijing have to speak for the people of Taiwan on an issue of concern to them? And the answer is, you know, maybe there is some sort of legal right in theory, but politically, it would be catastrophic for China to attempt to speak for Taiwan in the absence of reunification. And this is why Deng Xiapoing was wise, in my view, to argue to defer this issue for later.

Now, the issue has been there for a long time and it's got a complicated history, and there are passions on both sides, as was indicated by the lady in Ohio. There is – you hear the same sort of thing on the Japanese side. They say, well, we – we stole it fair and square, and it's ours – (laughter) – and get out of the way. And the Chinese say, well, wait a minute.

And there – the Chinese arguments, a large number of them, turn on what happened in the misty annals of history before the modern concept of sovereignty ever intruded on Asia, and they rely on retroactively applying concepts of sovereignty where they didn't exist.

It's – one could – I don't want to go on on this as – I could go on for – (laughter) – I will try not to. The overall effect of a rebalancing to Asia, to use the term that is now preferred – I prefer to call it a rotation of the tires. (Laughter.) But whatever it's called, the pivot or the pirouette or whatever it is, this – this maneuver first of all reflects a sound strategic judgment, in my view, that Asia has been underweighted in American global strategy.

We've been so distracted by pursuing men with beards and lice who live in caves that we have forgotten about the fact that Asia is now the center of gravity in the world economy and is becoming ever more important politically and militarily as well. So it does make sense to turn our attention much more to Asia. That's the first point.

Second, countries in the region who are faced with a return of China to wealth and power are naturally apprehensive about what this means. I think, without exception, they recognize they must reach a new accommodation with China. I think it's natural and entirely appropriate for them to seek American support as they work out such an accommodation.

[00:46:50]

What they don't want to do – and what some enthusiasts in our country sometimes imply they should do – is choose sides between China and the United States. They want time and support to work out a sustainable relationship with China in which – and the U.S. has a role in this. We have been a Pacific power since we knocked down the doors of the Japanese shogunate 150-something years ago. And since 1945, when we decisively defeated the Japanese imperial navy, we have been the dominant force, right up to the waterline, throughout Asia. This is, of course, somewhat questionable in terms of its sustainability, but we've gotten accustomed to it.

We need to – we need to recognize the utility of our presence in terms of helping people recognize the realities of China's strength, but at the same time, we need to avoid overdoing it. It requires a kind of balancing that is more subtle than, I'm afraid, many in Washington are capable of.

What happens in Washington when you announce a policy like the pivot is that the militaries salute and go do it and everybody else mills around in confusion trying to figure out what this means.

[00:48:23]

There is an economic component to it called the Trans-Pacific Partnership, which I don't think is viable. I mean, quite aside from whether it makes sense or not to go into an area which is now centered on China – all supply chains run through China – and you somehow are going to go in there and produce a trade deal that excludes China as China becomes the largest economy in the world? It doesn't really compute. So I don't think this is a very well thought-through policy.

What does it look like for the Chinese and could – how would they react? I think your question basically is, will they apply Chairman Mao's doctrine that when the enemy retreats, we pursue? So if the U.S. pulls back, will China step forward? That presumes that we're in a – in a zero sum game. I don't think the Chinese see it that way, although I think if we work hard enough, we can bring them to see it that way. And I think we should be trying very hard not to have that happen.

Nationalism, finally. The general assumption – or the narrative here; I won't say it's an assumption, but the narrative is that somehow, the leaders in Beijing sit up there and they inflame nationalism deliberately, and they use that to legitimize themselves. Nationalism is a reality. You can't be a legitimate government in China any more than you can be in the United States without responding to it.

And in China, actually, a great deal of the leadership's effort are bent at damping down hotheads on the Internet and, as we saw in the disgraceful Chinese riots against Japan last fall, which really should be taken as – by all Chinese as a blemish on China's honor. As we saw then, you know, this gets very easily out of control. The government is trying to damp it down, not inflame it.

[00:50:28]

So I think we have a – sort of cart before the horse view very often of the issue of nationalism in China, or in Japan. What is it that's driving Mr. Abe? Is he behaving – is he talking about going to the Yasukuni Shrine? Is he talking about withdrawing apologies to so-called comfort women? Is he talking about revising textbooks because this is personally he made up or is this something deep-rooted in Japanese nationalism? I suspect the latter. So it's a very complex interaction and I don't think we can assume manipulation from the top.

MR. SWAINE: Right, three more – or some more. Let's got to the back, the hand that's way up in the back there. Yes.

Q: Charlie Firestone from the Aspen Institute. Following up your comment about a narrative, I'm interested in the – your views on the – President Xi's narrative on the China dream and what its impact or significance might be – or usefulness might be, both internally and externally.

[00:51:44]

MR. SWAINE: Any other questions along those lines – interpretation of Xi Jinping's China dream or any other utterances?

MR. FREEMAN: Well I think – I think the – Mr. Xi hasn't really explained his dream very clearly so far. I don't see it as significantly different from the aspirations of his predecessors as they have – as they have stated them. Chinese history for the last 150-odd years has been a struggle to recovery dignity, prestige, wealth and power. And it's been a conflict within China between people who believe the way to do that is to borrow ideas and technology from abroad, and people who like the technology but not the ideas. And so I think Mr. Xi is entirely in the Chinese tradition.

One other thing, there is – Mr. Xi's predecessor once removed, Jiang Zemin, came up with a – what he called the Sange Daibiao, Three Represents theory, which basically did away with the class struggle and made the Communist Party all inclusive in China. I don't think it's an accident that Mr. Jiang used to recite the Gettysburg Address, with its government of the people, by the people, for the people – Sange Diabiao, Three Represents – embedded in there. And I don't think Mr. Xi's invocation of the China dream is unconnected to the constant American iteration of the American dream. I think he thinks a great country needs a great dream. And so far, however, it's a script that's largely unwritten. And what we've seen looks very much like what went before.

MR. SWAINE: OK. Over on the right in the back there – yes. Oh, that lady there.

Q: Amanda Blaisedale (sp). I'm here with Harford Community College.

MR. SWAINE: I'm sorry, which community college?

[00:54:10]

Q: Harford Community College. I had a question on a slightly more international scale with the functionings of the United Nations with conflict occurring between China and the United States, since they're both major players. The question in a more concrete form would be the U.N. supports the right to self-determination of smaller nations. And that's a conflict within Southeast Asia as to what country can determinate – or self-determinate. So my question is, would conflict with the China and United States relations impact in a negative way the functioning of the United Nations?

MR. SWAINE: Hmm. Any other questions similar to that? Sir.

Q: This week the BRIC – Tony Carroll of Manchester Trade. This week the BRIC countries are meeting in Durbin, South Africa. In that discussion includes the creation of a development bank, which the Chinese have pledged up to 40 percent of the capital. That's still a work in progress, but also last year during the IDA round within the World Bank, they were also very generous in stepping forward. I'm just wondering, how do we divine from those positions what will be the Chinese commitment to the Bretton Woods institutions going forward – sort of a multilateral, institutional question, I think related to the U.N.

[00:55:28]

MR. SWAINE: Anything else along those lines? One last one? Yes, sir or ma'am. I don't know who it is.

Q: Thank you.

MR. SWAINE: Sorry, I thought it was – or I didn't see – go ahead. Go ahead.

Q: Yeah. (Inaudible.) The big loser from NATO's attack on Libya, other than the Libyan people themselves, would seem to be the Chinese, who had billions of dollars' worth of contracts and 30,000 workers in Libya prior to the aggression. Do you think the carrot we offered the Chinese to get their abstention on the Libyan resolution was the resignation of the Dali Lama from his political position? Apparently not. (Laughter.) Then I won't you the – ask you the follow-up, which is if so, do they think they got a good deal in retrospect?

MR. SWAINE: (Inaudible.)

MR. FREEMAN: Yeah, OK. I don't think the issue of the U.N. functioning between the China and the United States is centered at all on the issue of self-determination. That's a very murky concept which originated at the beginning of the last century. Woodrow Wilson was its primary proponent. And it's been applied historically extremely erratically. Ask the Kurds or the Palestinians about that or, for that matter, Taiwan independence people. They are – or ask the Navajo Nation.

You know, there are loads of instances of peoples who have aspirations to become nations and have their own state who don't achieve that objective. So I don't think that's the issue. But I do think you raise a very important point, and I'll just make a couple of comments. First, China is, of course, a permanent member of the Security Council.

[00:57:27]

It was made a permanent member of the Security Council because Franklin Roosevelt vastly overestimated its weight in global affairs, imagined that Generalissimo Chiang Kai-shek and Madam Chiang Kai-shek would rule over a staunchly Christian and pro-American China, and that therefore we could safely give China a role as our proxy vote in a – in managing the world's affairs.

None of that worked out. But the fact is that China has now grown into the role that Roosevelt wrongly assigned it, minus the Christianity, Generalissimo Chiang and Madam Chiang. And it is a major force in shaping world order. China has great – a great achievement of American diplomacy, I think, has been the fact that China has essentially bought into the world order that we created after World War II. It's a staunch defender of the U.N. system. It supports international law – more consistently, actually, than we do these day.

And it does so for the reasons that anybody supports the rule of law or procedure, and that is because it is relatively weak and vulnerable, as Michael alluded to. So that's the background. Now, what is the issue with the Chinese? They've bought the Western oriented – Western created international order. They've accepted that, but they will not allow the West to determine the next evolution in that order. They've bought the Westphalian system, hook, line and sinker, and they are not going to allow the West to deviate from it, as the West now proposes to do with doctrines of limited sovereignty, humanitarian intervention, the responsibility to protect and other notions that come to play in the issue of Libya.

I don't think the issue with Libya was – certainly there was no deal over the Dali Lama, who made his own decision, which the Chinese don't find entirely credible anyway. The – I think the issue with Libya was, and remains, evident in the Chinese approach to Syria. The Chinese have no concrete interests in Syrian of any importance, unlike the Russians. They do have an interest in Syria not seeing the application of the Libyan precedent because they are opposed to the Libyan precedent. They think they were snookered. So do the Russians. That is, the U.N. passed a resolution allowing a limited no-fly zone and that very openly turned into a campaign for – military campaign for regime change. And so the Chinese look at this and they say, we're not going to allow a situation where you first help to foment unrest and a humanitarian catastrophe and then you use the existence of a catastrophe as an excuse to intervene and change regimes. So, we're going to stand firm on the Westphalian principle of sovereignty. One Chinese interest in Syria – that's the main one. The other one, of course, is staying on the good side of Russia, the importance of which Mr. Sei has just illustrated by traveling there.

[01:00:50]

This question of global ordering or the order of the world and the setting global order is emerging as an interesting difficulty in U.S.-China relations. It's not so much that the – it's not that the Chinese propose to change the existing order; they don't. We're the ones who are proposing to deviate from the order that we helped create. When was the last time you heard anybody in the United States refer seriously to the U.N. charter as a constraint on American activity? When was the last time you heard that we needed Security Council authorization to conduct pre-emptive attacks? We used to make those arguments; we don't anymore. In a sense, in encountering China, we have met the enemy and the enemy is us as we used to be. And that is not unimportant.

Bretton Woods was a major achievement of U.S. diplomacy. We now know from the records that we kind of snookered the British when we did that. Lord Keynes evidently went away very unhappy with what we had – the language that we slipped in at the last minute. But the Bretton Woods system is essentially dead anyway. The gold standard was nixed by Nixon and the floating system that replaced it is now in some disarray.

[01:02:25]

I think what the Chinese are saying when they talk about the – not just the Chinese, but the Chinese are obviously the major actors in the BRICS. What they're saying when they propose to organize a parallel set of institutions is, look, if you won't adopt these institutions to the new realities, which are that the G-7 doesn't have control of the global economy anymore and that there are others whose role is, in fact, vastly larger than the institutions envisaged or recognized, if you won't make those adaptations, then we will create alternatives. That is the threat, although at this point, as you said, the details remain extremely unclear and we don't know what will happen.

A last thought on this: The United States got used to, for a long time, having a monopoly on international monetary affairs. The dollar, under Bretton Woods, was the universal instrument of exchange. And it still accounts for something north of 50 percent of the transactions internationally, settlement of trade, and it is about 50 percent or so of global reserves; maybe a little more still. But it's shrinking as the size of the American economy relative to others shrinks; as others grow. And, yet, we use our power over the dollar as an instrument of American sovereignty to impose unilateral sanctions in places like Iran that others find very threatening.

[01:04:22]

And so the reaction is – and you can see this happening; it's not just China. You can see the Indians working out rupee and barter trade arrangements to deal with their energy supply requirements. The Chinese actually have been fairly good about this. But if you – I guess the point is if you abuse the power that you inherited or appear to abuse it or appear to be indifferent to the arguments of others that you need to respect their interests, then you shouldn't be surprised if they go out and create new institutions that bypass you. And that, I think, is what's going on.

[01:05:02]

MR. SWAINE: Just a – just a comment on the one issue of – the issue of response – intervention and the so-called R2P, the "Responsibility to Protect" concept in the United Nations, which is not part of the charter. It is still under evolution, and I would say – I mean, I looked at the Chinese views on this in some detail for a copy of the China Leadership Monitor that I write on a – three or four times a year.

And I think the Chinese are actually pressured in a different – in a variety of ways. Their position is not as clear-cut as it once was on this because they see the potential downside, particularly politically in certain regions of the world, if they appear to be turning a blind eye to popular unrest against a tyrannical regime. And they confronted that in the – in the Libya case to some degree, but they were basically on board for the reasons you gave. They definitely felt they were snookered afterwards and so were very, very hesitant to back anything in Syria.

But in the Syrian case, they looked at that as being something that was – it was – it was a tough situation because the opposition there clearly was becoming increasingly popular. And so they tried to basically have it both ways, to some degree. They invited the opposition to come and talk to them after some hesitation; they invited the Syrians to come in and talk to them after some hesitation. And so they wanted to play the role of broker without having sort of sanctioning the simple R2P concept and allowing for intervention. They thought there was a middle ground, which would be political resolution. But it wasn't to reject the R2P concept out of hand. I think they realized that they're going to have to in some way respond to it with a more sophisticated response than what they've done in the past.

MR. FREEMAN: I don't disagree with you, Michael, but I would put it a little differently. I think structure of the – of the global order is shifting toward devolution of authority.

The young lady asked about the U.N. The U.N. is no longer the central instrument of global governance that it once was. Increasingly the regional orders manage their own affairs. Libya became an imperative for the Chinese – that is, to step aside from NATO – actually it wasn't NATO; it was NATO a la carte – French and British intervention with a few others. The Chinese decided to step aside because the Arab League was strongly behind the idea of a no-fly zone.

[01:07:44]

The Arab League – some of the Arab League was not in favor of what subsequently happened, which was regime change. So, that raised the question – in the case of Syria, we could get off on a – on a sort of non-China topic indefinitely. But in the case of Syria, that is an extremely complex situation in which covert action by Saudi Arabia and Qatar has played a very large role, with some support from the United States intelligence agencies. It's very clear – it's been very clear from the outset that the U.S. favors regime change. The minute our secretary of state said, as she did, that Assad has to go and will go, the opposition had no incentive to negotiate a peaceful settlement, and did not.

MR. SWAINE: And the U.S. –

MR. FREEMAN: And so –

(Cross talk.)

MR. FREEMAN: And we have an objective with some other states in the region, two of which I named. Israel is also in this group; maybe Turkey to some extent now.

We have an interest, which we very clearly expressed in Syria, in detaching Syria from the list of Iranian assets. Removing it from the Iranian balance sheet. And I'm very sorry to tell you that if that's your objective – anarchy in Syria accomplish it just as much as regime change, and it means that the pressure to do anything about the appalling suffering in Syria is very low.

So, one thing just happened which will, I think, bear importantly on the Chinese attitude in this regard, and that is that the Arab League just ceded the Syrian opposition in place of the government as the sole legal representative of the Syrian people. And I think China is very much deferential to regional groupings and authorities, and I don't think this is sort of R2P-driven so much as it is – or it's certainly not driven by popularity drive by the Chinese. But, it is driven by the Chinese sense of an emerging multipolarity that is regionally organized, which they think is a vast improvement on the American unilateral moment.

[01:10:00]

MR. SWAINE: Sir, right there.

Q: Bill Jones from Executive Intelligence Review.

Chas, President Clinton at one point had said – when he was asked about where China would be 20 years down the road, he said that where China will be is largely determined on how we react between now and then. And I think that's also a theme of your book; maybe you were the source of President Clinton's comments. But it seems to be kind of the theme of your book.

And the question is, 20 years from now, it's not Xi Jinping and Li Keqiang who are going to be leading things, but their children or grandchildren at that time. And there is, of course, generational changes going on in China. It's a generation that is experiencing not the trials of World War II and not the years of communism, more open to the world. They use the Internet to a large extent. They come to the United States – anybody that goes to the Lincoln Memorial as often these days as I do will see that there are many, many Chinese groups down there. If my Chinese were better, I would like to hear what the group leaders are telling them about the memorial. But they do have that experience.

[01:11:11]

And – but at the same time, they're influenced by Chinese culture, by the feeling that they are coming out of a hundred years of oppression, the feeling that they have now found their place in the world. And there is a growing nationalism. And I was wondering if you could say something about what you see as happening with the younger generation of the Chinese – how you see that developing? We think it probably will be a good thing because of this openness, but there are also countervailing tendencies there. And if you could just say something about what you know from your extensive experience?

MR. SWAINE: Any other related questions on this important issue of the next generation in China? Sir. You? You.

Q: Yeah, Bill Tucker. I have done a lot of work in China, and travel over there frequently. And the related question I guess I would have is that – on this one child policy in China. I have observed a number of occasions where there's a young child and two sets of grandparents, and the parents – or the child is flopping around on the floor because he didn't get – he or she didn't get something in the department store that he wanted. And two grandparents and the parents are going, oh, oh, oh, and trying to please this child. And so they are – they are raising a bunch of spoiled brats – (laughter) – with this one child policy.

And the other related question is that, by this one child policy, a lot of couples, you know, kill the child if it's a girl. So there's going to be a lot of boys and not a lot of girls in China to mate up with. And the other problem is the other end of the scale – China doesn't have an adequate Social Security – you know, Medicare, Medicaid, et cetera policy. And so this – the old people are not being taken care of. They have to move in with the children when they get old or find some other means, because the state is not taking care of the older, aging population. So at each end, they have a problem which is going to develop.

[01:13:37]

MR. FREEMAN: So we're talking about – before we go on, perhaps just, since a lot of questions have been raised about internal developments in China – and by the way, Bill, the Department of Commerce estimates that in 2017, there will be over 4 million Chinese visitors here. This is actually one of the great phenomena of the age, which we don't see much in the U.S. because of the particularly unwelcoming visa system we have.

But if you go to Paris, for example, you'll find sections of department stores now with the signage in Chinese, and the concierge speaking Putonghua. So this is – and so the immediate conclusion one might draw from this is, if you run a hotel or a bar, you better start serving hot water as well as ice water and – (laughter) – because the Chinese are coming.

[01:14:42]

MR. SWAINE: Chinese tourists, on average, spend four times the amount that Americans spend overseas.

MR. FREEMAN: Yeah. And that raises a question. If you – I mean, actually, it goes back to what I was saying earlier. If you go to a place – my wife and I were in Barcelona about a year and a half ago – and pick up the local paper and discover that 40 percent of the luxury goods that are being bought in Barcelona are being bought by Chinese tourists. So – then it sort of says, well, who are the tourists? Well, 90 percent of them are Chinese officials. So where did they get the money? (Laughter.) Well, there's a clue in that they all seem to pay cash. (Laugher.)

MR. SWAINE: Cadre capitalism.

MR. FREEMAN: It's – so, cadre capitalism. This is – you know, this is an issue. There is a middle class rising in China, of enormous proportions. Absolutely, horrendously large. I mean, if you're – if you don't like the Bourgeoisie, watch out – (laughter) – because you're talking 600 million, probably, by – within 20 years. And one thing that people in the middle class like is predictability – certainty.

And I think that when Li Keqiang now talks about reform in the way that he does, and when Chinese talk about rule by law – maybe not rule of law, but – "fǎzhì" – it's somewhat ambiguous in Chinese – that they are responding to a genuine popular demand for a greater predictability. And this actually coincides with other changes in Chinese society – the one child policy may be a factor; I don't know.

But clearly, just as neighborhoods in Chinese cities, which, when I first went to China, were entirely stable and secure – boring – there was the neighborhood committee, the ("jūmínwěiyuánhuì" ?) that took care of the neighborhood, and there was the – (in Chinese) – the granny police who were watching everybody. This broke down when the – what do you call it – the "liúdòng rénkǒu"– the people moving in from the countryside came in and nobody knew any more –

[01:16:53]

MR. SWAINE: Floating population.

MR. FREEMAN: Floating population. Thank you. When the people came in and you didn't know who they were anymore, you got – you got the same phenomenon that sociologists described in Europe in the 19th century with urbanization – anomie – you know, collapse of value systems and so on. That's actually probably accelerated by the spoiled brats who are the little emperors who have come into being.

So I think what's happening now is that you have, at the national level, something like what happened at the local level – a demand for law and regulation and order that's imposed by the government and not just by social forces as it used to be. So one prediction I would make is that, in fact, the rule of law, or rule by law is likely to advance very considerably over this coming 20 years by popular demand.

[01:17:50]

The gender imbalance is a problem, and I – if I were Chinese, I'd be watching the Supreme Court very carefully to see how it comes out on same-sex marriage – (laughter) – because China's going to need to do that. (Laughter.) And so – you heard it here. (Laughter.)

The question of – the question – I think the question of the aging of China is a vital one. I frankly don't find a lot of the arguments about China growing old before it grows rich and so forth terribly convincing for two reasons. One is that, in fact, the Chinese have very intelligently designed a future social safety network which depends on, for example, the National Social Security Fund, which had been collecting money and not paying it out for the last decade. It's supposed to get allocations of shares in Chinese state-owned companies to forward fund obligations.

The Chinese are not going to do what we mistakenly did, and that is, develop a large set of unfunded liabilities. They're funding those future liabilities. So I am not convinced that, given the possibility of the transfer of wealth from the state assets control commission to the National Social Security Fund and so forth that this is the problem that many imagine. It's a problem, but it's fixable by policy, and I've seen the Chinese make new policy and fix problems. And I think they can do this one.

The second reason I don't take this seriously – as seriously as some others is that China's aging is coinciding with an age of robotic innovation. Labor-saving devices – I mean, we're – we have a – the lowest labor participation rate in history now in the United States, and it's partly because of automation. And it's accelerating. And you hear about Foxconn, this Taiwan company, replacing Chinese labor that makes all of the Apple products and so forth, with 1 million robots by – I've forgotten when, 2015. I don't think they can do it, but anyway, that's their objective.

[01:20:28]

I think you're going to see the coincidence of Chinese aging and robotics leading to some very, very interesting developments. And so wages in China are going up rapidly. I don't think China's – intends to compete in the long run with low-labor-cost countries like Bangladesh. They're quite happy to send their industries off there. And so I think we're about to see another adjustment in China that will startle us, and that is this problem of aging's not going to prove to be quite as dreadful as many expect.

MR. SWAINE: Sir, right here in the front.

Q: I'm Ray McGovern from Veteran Intelligence Professionals for Sanity. I was responsible, from the Soviet side, for analyzing relations with China from 1964 to 1972, making me an artifact around here. (Laughter.) In those days the leverage acquired by the very debilitating role we played vis-à-vis China and Russia paid handsome dividends. For example, I was in Moscow in May 1972 when the strategic arms agreements were made. We had an agreement on Berlin. Our notion in those days was that the deep hostility between Russia and China would never, ever, ever end. Unequal treaties, irridenta, all kinds of rivals – it would never end.

And so I've come to the realization that this great expression, "plus ca change," is absolutely wrong. The more seem – the more things seem immutable, the more they change, OK? And the only difference is, as I've learned in my old age here, is that it takes a lot of time. OK, so go back 45 years, where we had this deep antipathy, would never end, and now we have the incredible witness of just the past week with the visit from China to Moscow. We have the BRICS; we have the Shanghai group.

Let me just ask this question. I'm not going to be around four (sic) years from now. Most of you are. What's it going to look like in 40 years with respect to relations between Russia, China, the United States, the BRICS, Shanghai and the rest of it?

[01:22:59]

MR. FREEMAN: Well, that's an easy question. (Laughter.)

MR. SWAINE: Two minutes. Give him – I think give him two minutes.

MR. FREEMAN: Yeah, I think you have – the moment when you were working on Soviet-Chinese relations, I was not yet in the government. I came in in 1965. I concluded there was a Sino-Soviet split and that the force of international geopolitics would compel the U.S. to adjust. And we did. You're absolutely right. If you look at – I mentioned FDR's scheme for China as sort of the American supervisor – American-oriented supervisor of Asia, which didn't withstand contact with the Soviets.

We then went through a period of, I don't know, 18, 20 years in which we followed a containment policy toward China on steroids. What we did with the Chinese in terms of sanctions, embargos and so forth makes what we do with Iran today look like a very mild regime indeed. You couldn't use a dollar to do anything with China. No American citizen could travel to China. You couldn't buy a Chinese product. You could not import anything from China, and so forth, and so on. So I mean, we had – we had a draconian regime which was supposed to change China but ended up, of course, confirming it in its opposition to us.

[01:24:34]

And then Sino-Soviet split, and Nixon and Kissinger finally recognized that the world had changed and that we could do something to our advantage, and they did it. So we went into a third phase with the Chinese. And remarkably, China turned out – this immutable part of the world turned out to be the biggest variable in the entire Cold War. And actually, if you think about it, from 1945 on, we've gone through at least four, maybe five different frameworks for dealing with

China. This has been the most erratic pairing in global geopolitics. So it's very hard to sit here with any assurance and say what will happen over the next 40 years.

[01:25:25]

The Sino-Russian relationship has reversed. From senior partner, Russia has now become junior partner. Russia began the post-Cold War era as a sort of – with a kind of armaments going out of business sale – (laughter) – you know, "Weapons 'R' Us," you know, and come up with your shopping cart – (laugher) – and leave with whatever you can take. And that's gone.

And we now have serious cooperation between the Russians and the Chinese, with the Indians, by the way, and some others, the BRICS, trying to craft a less Washington-centered world. I suspect they'll succeed at that, not just because trends will help them, but because I look at Capitol Hill and the geniuses in our Congress and their wonderful ability to make decisions about basic things like budgets and national policy, and I really have to say that's not very encouraging. I suspect eventually we will come to our senses. We have enormous potential, if we just get our act – if we just get our act together. But I think history shows that we have to fall pretty far before we pick ourselves up.

So I'm not sure what will happen. But I know that the volatility of the U.S.-China relationship, in a strategic sense, is really quite striking over this period.

MR. SWAINE: Let's go to the back now. Yes, gentleman over there in the back. Yes, the one who's looking around. You're the last one there.

Q: Jeffrey Lin (sp) from Senator Angus King's office. I was wondering how, given congressional partisanship, divided Congress and all, and also divided government in general, how that would affect our ability to go to Mr. Freeman's observation that we need statesmanship to sustain a sort of a – well, a sustainable evolution of the global world order.

MR. FREEMAN: Well, I don't know what the prospects are if we continue to behave like blundering idiots. I suspect they're not very good. And I think we have – we have – we're always talking about fiscal deficits in this country. I think we have a strategy deficit and we have a leadership deficit, and in many ways, they're more serious than the fiscal deficit. And I'll just leave it at that. You know, I – as an American, I hope we'll get – we do something about it. But I keep waiting, and I don't see it happening.

And I would say also that there is – I don't hear a clamor abroad to emulate our system anymore. There's nobody out there who says, hey, where's our John Boehner? You know, I mean – (laughter) – you know, I don't – I just don't hear it. (Laughter.)

[01:28:40]

MR. SWAINE: This lady here, yes.

Q: Could I have a mic?

MR. SWAINE: It's right there.

Q: Thank you. My name is Beverly Humfincher (ph). I'm an old friend of Chas. But anyway, suppose – speaking counterfactually, suppose Xi Jinping asked you to be his adviser. As – you know, he famously quoted the national anthem – Chinese national anthem, to say China is facing the most critical time, you know – (in Chinese). And so in other words, he is facing these critical problems at home. What would you advise? And I – by the way, I think your capitalism – you know, cadre capitalism is so apt. Thank you.

MR. FREEMAN: Thank you, Beverly (sp). Well, my first advice to Xi Jinping, if he hired me, was – would be to fire me – (laughter) – because he doesn't need a foreigner telling him what to do. And –

[01:29:48]

Q: But counterfactually.

MR. FREEMAN: Yeah, I know. I heard you. (Laughter.) But why does he say this is the – a grave moment for the Chinese people? I think he says that because of a lot of things, which actually, some ways, parallel our dilemmas.

You know, in many ways, our model – our political model, our economic model has come to an impasse. Our politics are not working. Our economy looks like it's in a long-term recession. Lord Keynes would have defined that as a depression, by the way, since the definition of a depression is a prolonged period of economic uncertainty and lagging growth with no clear prospect for change in either direction, which is where we are. So we have a problem that we've outrun, apparently, the ability of our system, in many ways, to work.

[01:30:45]

But so has China. The Chinese economic model that has been applied since 1978 has outrun its useful life. It has to be changed. China needs to have – and Xi Jinping and Li Kequiang both recognize this. China needs to shift toward more consumption, less investment, a more domestically driven, less export-driven economy. It needs to tackle issues – I think it's doing not a bad job, by the way, but it needs to tackle issues that impede innovation. That includes intellectual property regimes and that sort of thing. And it needs to do a great deal of reform in the area of economy, law and politics. I'd put it in those orders.

And there is a sense of urgency in China about this. There is a sense that the Chinese Communist Party, as it comes toward its hundredth anniversary, has diminished legitimacy, that the only thing keeping the government afloat is the fact that it is able to deliver rapid growth in living standards and employment, that it's going to have more trouble doing that in the future and that people are going to ask, OK, given the fact that you have this official Marxist-Leninist ideology, which is irrelevant to our daily life, and you no longer have a clear vision – this is the China dream, perhaps – you no longer have a clear vision of the future, and our living standards aren't coming up as fast as they used to do, why do we need you guys?

And so I think there's a sense of genuine urgency on the part of the Chinese communist leadership about reform, about change. I don't put it past them to make these changes. Many

Chinese ask – and I know it's politically incorrect to say this, but I've heard many Chinese ask me, you know, where is our Chiang Ching-kuo? Where is this guy, the son of Chiang Kai-shek, who came in and who changed the political economy of Taiwan in a way that enabled Taiwan to have a second birth of success? People in China look to reform. They want change. They want strong leadership. Mr. Xi is starting off as though he understands this and is trying to provide it, but we don't know yet whether he will.

[01:33:32]

MR. SWAINE: Chas, if I could just interject a point, because what you're saying about China's future growth and the uncertainties that it faces strikes me that it presents a little bit of a contradiction in what you argue in your book, in the sense that the way I read it, you – even though you acknowledge there are many problems that China faces, you are pretty confident in projecting out levels of growth and levels of military spending for China, surpassing that of the United States by about, if I remembered, 2025, or is it thereabouts.

MR. FREEMAN: Actually, it wasn't my projection, but that – others have made that.

MR. SWAINE: Yeah, that – but that is really the basis for – at least one base for, I should say, your notion that what we're looking at here is a multipolar world where the United States in particular will not be able to exert the kind of influence, including through the military area, that it has enjoyed in the past. But if China's future is that uncertain and its development could very well lag in very significant ways, then you have a real uncertainty in that estimation. And in my – my view is that uncertainty and its relation also to the U.S. economy is what makes a lot of individuals continue to basically say, well, given that uncertainty, we're going to go with the status quo. In other words, we're going to – we're going to essentially opt for the United States maintaining the same position, the same strategy that it's had for the last 40 years, by and large, because the Chinese could very well, to put it indelicately, crap out.

MR. FREEMAN: Yeah, I think the – we're, in a sense, saying the same thing. It's just that I'm optimistic, having looked at China over the period that I have, that Chinese leaders will rise to the occasion, that China will recognize the policy blockages that constrain it and address them. You know, I have – I have to say, of course, that may prove to be wrong. But we sit here in 2013, and it looks like a pretty good bet that China is going to continue to grow, at least for the next bit, at about 8 percent a year. It looks like a pretty good bet that the U.S. is not going to grow at historic rates. We have a – we have no flexibility fiscally anymore in this country. We are going to have to do less with less, not – more is not less. Less is just less in our – in our immediate future. And that's not the case with China, which brings me – I actually don't think the U.S. contest with China is basically military. I don't think that is the main issue. And I don't think it's a competition of systems, since the Chinese can't explain theirs. (Laughter.) And I'm not –

[01:36:36]

MR. SWAINE: They can't transport it.

MR. FREEMAN: And I can't – and they can't export it.

MR. SWAINE: Export it.

MR. FREEMAN: And I'm not sure what our system is these days either. So I don't think that's the – there is no central ideological question confronting the world anymore. There's no bipolar confrontation. There's no main enemy. There's no main idea that is being contested. It's a very fluid, confusing period.

[01:37:02]

But I have to say, you look at U.S. fiscal situation, the United – it's improving a little bit. But basically, the United States is running up debt at around a trillion dollars or so, more or less, a year. We have government debt that is now well over 100 percent of GDP. That does not included unfunded liabilities, which we would – if the federal government were a state government or if it were a corporation, it would have include on its balance sheet. Those are 500 percent of GDP. Those are – that's Medicare, Medicaid, Social Security. By the way, those are doing just fine at the moment, despite all the political rhetoric. Those are future issues. But the immediate issue is that we have a budget which is catastrophically out of balance. We have wars that we paid for by credit rollovers. And the loans are coming due. And you know, we –

MR. SWAINE: You're still optimistic.

MR. FREEMAN: I'm still optimistic, but – because the United States, in addition to having probably – without any question, I would say, the best geopolitical situation in the world, tremendous agricultural, water resources, a geographic position between two great oceans with harmless neighbors to north and south, you know, a population of 310 million that is remarkably diverse and therefore a source of strength, because we have something of everything in this country in terms of – in terms of human potential. This is a country with – which has built great institutions, which has played a key role in directing history, for much of the last half-century, anyway, maybe the last century.

And we've had traditions that made our republic the envy of everyone in terms of its level of civil liberties and the freedom of people to achieve whatever they can – whatever they can achieve. We now have something of a garrison state, which is reducing our civil liberties, which I lament. We have social mobility that is the lowest in our history and significantly lower than many parts of Europe, from which the ancestors of many Americans came in search of social mobility. We have – we are disinvesting in our educational and other human infrastructure as well as our physical infrastructure. So I look at this picture and say, tremendous potential and wacko-bird politics. (Laughter.) And so maybe the wacko birds can be whacked out of the room and we can get on with taking advantage of what God gave us, which is pretty damned good. (Applause.)

[01:40:11]

MR. SWAINE: We're almost at the end. We have time for one last question. Please, the young lady right here, yes.

Q: Hi, I'm Aiswim (ph) from – master of Asian study from Georgetown University. Recently some scholars suggesting China should march west, either response to the appeal to Asia or such from – (inaudible) – development. So how do you assess China's capability for a march west? And do you see more chance for cooperation or tension with United States there? Thank you.

MR. FREEMAN: I think that – I have to say, honestly – although I haven't talked with the author of that piece, I know him well, as Michael does. And I suspect that was a straw man, that in arguing for China to march west, he was basically arguing for China not to pick a fight on the east, meaning avoid responding to the pivot; look elsewhere; don't tangle with the United States because that is a losing proposition. And certainly in military terms, the United States remains unbeatable anywhere in the world. So you don't want to fight with the United States. And I think – I think he very carefully – I think he very clearly understands that, and he has a long-term optimism about the United States based on exactly the facts that I just outlined.

[01:41:49]

What is to China's west? There are – China actually – there are things for China to do to its west, and it is a useful reminder, or it should be, to Americans that China is not just an Asian-Pacific country; it's a Central Asian country; it's a South Asian country; it's a North Asian country. It borders on Russia, and it borders on Kazakhstan and Kyrgyzstan and Tajikistan, and it is active in Uzbekistan and even in Turkmenistan, which is a very isolated country. It is – borders on Afghanistan. And we are going to see, following the U.S. withdrawal from Afghanistan, a great deal of turmoil in Afghanistan and from Afghanistan again in Central Asia. And China has crafted the Shanghai Cooperation Organization, with Russia, to kind of control – to damp down that unrest and to take advantage of oil, gas and other resources in Central Asia.

South Asia – China has built a tremendously productive relationship with India, despite strategic suspicion. It continues to have a vigorous relationship with Pakistan and recognizes Pakistan's strategic conflict with India in a way that, unfortunately, the United States never seems to be able to do.

And now, of course, China has this very productive relationship with Russia. So I'm saying that China is – yes, China is very much a Pacific – Indo-Pacific country, but it's also something more.

And from a military point of view, it borders the European Command, the Central Command, the Pacific Command, Space Command and Cyber Command. This is not Cambodia. So I think we need to take seriously the idea of China's role to its west, but we need to understand that it just probably was not a serious argument on the part of the author.

[01:44:09]

MR. SWAINE: And with that, we've reached the end of our time. Please join me in thanking Chas – (applause) – and congratulating him on his latest book. And please –

MR. FREEMAN: Please go buy it. (Laughter.)

MR. SWAINE: Go buy it. And he's here to sign it if you wish to get him to do so, unless that's – is that OK?

MR. FREEMAN: Yeah. Good.

(END)