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EVENT TRANSCRIPT

US-China Relations: 21st Century Compact?

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JEAN-FRANCOIS DI MEGLIO: Good evening, everyone. For once we will break with the bad French habit not to start on time, so I'm very happy to welcome all of you on behalf of Asia Centre which I have a pleasure to chair, and as you know, Asian debate, or Debat Asie we call it, is a monthly event which we organize with the Centre d'Accueil de la Presse Etrangère and this Procis [?] du Commerce Extérieur de la France. So without saying any more, I will give the floor to Mr Duchâtel, who will be chairing the evening, and also Fabrice who will introduce Dr Minxin Pei, who we are very proud to welcome tonight.

MATHIEU DUCHATEL: Thank you very much, Francois, and good evening. I've very glad that we have the topic today, US-China relations. When I was asked to come here, I saw that it was a very timely time to talk about US-China relations, but then on second thoughts I thought that it would be timely at any time of the year to talk about US-China relations, because there are so many events, and the US-China relationship compasses so many different issues, from the bilateral level to global issues, that the game is always to assess whether a new development on one issue of US-China relations will have an impact on the broader relationship, and also on world affairs, seen from Europe.

From that perspective, given the number of events that occurred recently, in the last couple of months, including the big one, President Obama's visit to East Asia in November, I would say that the date is very well chosen. There is a sense now that initial expectations of the

Obama administration are not exactly met, and I think that if we had held that debate only one year ago, the conversation and discussion would have revolved around the G2, would have revolved around the prospects for US-China cooperation on global affairs, on regional crises, and also the debate would have revolved on the consequences for Europe, though irrelevant in world affairs.

But now, after Obama's visit to China, after the Copenhagen Summit, the atmosphere has really changed, and I have the sense – and I will ask that question of Dr Pei – that there is clearly a sense of disillusion in the United States. When you look at all the issues, you can see that Obama has been ignored on almost all of the issues he had put up on the wish list for cooperation with China during his State Visit last November: sanctions against Iran; cooperation in Afghanistan and Pakistan; the Xiamin Pi [?], the currency issue; even human rights, with the symbolic 11-year sentence given to Chinese dissident, Liu Xiaobo; and even media freedom. Because some of you may recall that the last broadcast of his dialogue with students in Shanghai was cancelled at the last minute. So, if you add to the list, trade issues; if you add to the list Washington's recent move on arms sales to Taiwan, and if you add to the list the personal humiliation that President Obama must have felt at the Copenhagen Summit when he, according to the New York Times, had a finger pointed at him by the Chinese negotiator or Vice-Minister at the NDRC, that gives a lot of reasons to think that we are very far away from the G2, but also that the US-China relationship will become increasingly confrontational in 2010, and could even enter what I would call a circle of mutual limited retaliation on limited issues. So this raises a lot of questions on the future of organized policy towards China, and the future of US-China relations, and to decipher all these questions, I will turn to Dr Pei. But first I will ask Fabrice Pothier, who is the director of Europe's head office of the Carnegie Endowment for International Peace to give a short introduction on his structure and on Dr Pei. Thank you.

FABRICE POTHIER: Thank you very much, Mathieu. I will be brief because we are only here to listen to Minxin and his views on the question, so very quickly first I would like to thank the Asia Centre for hosting this discussion. We very much appreciate this first in hopefully a longer series of cooperation between the Asia Centre and the Carnegie Endowment for International Peace. As Mathieu said, I'm the Director of Carnegie Europe, which is the European Foreign Policy Forum of the Carnegie Endowment. We were created a bit less than three years ago, and our main goal was to bring the different perspectives of Carnegie's scholars and work across the world, to the European Foreign Policy table. But basically the goal is to build the first truly global foreign policy think-tank with our headquarters in Washington, but also offices in Moscow, in Beirut, in Beijing, and now in Brussels. The underlying principle is that there's not such a thing as a local foreign policy any more, but foreign policy made either in Brussels, in Paris, or in Washington needs to have the other perspectives from the other side of the world. Having Minxin here today to speak in Paris about this complex, competitive and sometimes frustrating, US-China relationship is a perfect example of the mission that we have in Europe. So with no further ado, let me just introduce our speaker today, Professor Minxin Pei, who is an adjunct senior associate at the China Programme of the Carnegie Endowment for International Peace. Professor Pei is also at the Claremont McKenna College on the nice Californian coast, where it's much warmer than here. I think to use a shortcut, Minxin is one of the most prominent analysts on this thorny question of China today, and of the relationship between the US and China. You have

been widely published, and very frequently in the Financial Times, in Newsweek, in Foreign Policy, and there are some samples of Minxin's latest articles that are available at the back of the room. So with no further ado, let me turn to Minxin and thank again Asia Centre and its president, Jean-Francois di Meglio, and we look forward to a good discussion. Thank you.

MINXIN PEI: Thank you very much, Fabrice. I want to thank tonight's organizers for having me here tonight; it's a great honour. I always find excuses to come to Paris, and this is a very good excuse. Having heard what Mathieu has just said I think I should simply stop, because he said everything I was going to say. But I agree with the diagnosis, the description of the problems the US and China appear to be having at the moment, and probably these problems are going to get worse before they get better. However, we should remember that a frictionless relationship between the US and China is not normal. For a year after Obama became the president, there were no problems, practically speaking, in US-China relations, and that was a very unusual period. So to some extent we are seeing this bilateral relationship returning to normalcy: normalcy means problems, because the US and China have conflict of interests, they have conflict of values, and today they have conflict of perception as well. But I want to make some points to elaborate what I have just said.

Today's problems are different, the underlying dynamics are different because today's US-China relationship is not yesterday's US-China relationship: the nature of the relationship is changing. This is the first point I want to make. Because of this change, China has become less accommodating to the US. In other words, China is getting tougher, not the US getting tougher. And then finally, as Mathieu has just said, because of this change, we're going to see this relationship getting more and more unstable, more and more problematic in the future.

Let me explain why the nature of the relationship is changing. Until now, people in the West have been looking at the US-China relationship mainly from Washington's perspective, essentially a US-centred perspective. We understand China through the eyes of the Americans. So that's how we've been looking at US-China relationship. First of all, we view this relationship as largely being managed by Washington. In other words, a policy of engagement is a policy which the US has control of: China is a country that is on the receiving end; it's perceived to be a passive actor in this relationship. Washington, through its engagement policy, somehow could determine where China was going, could influence China's policy choices: Washington was seen as in the driver's seat of this policy. Of course there's another aspect to Washington's policy for the last 20 years, and that's the so-called hedging policy. Washington, while engaging China, was also very worried about China. Washington thought that China would one day become too powerful, so in engaging China, Washington also has made preparations in case China became an aggressive power, became less accommodating. In other words, Washington was preparing for China to become a competitor in the future. But again, this policy was seen in the West as being determined by Washington, because Washington again was laying a framework of both engaging China and campaigning China.

Washington's policy has been quite successful. If you look at China's behaviour over the last 20 years - this policy really came about after the end of the Cold War - China has been relatively cooperative and very accommodating to Washington. China always acceded to Washington's wishes on many important issues, and China also became integrated into the

international political, security and economic systems. But this perspective is outdated; this perspective no longer can help us understand the US-China relationship, because it misses China's perspective. It misses China's motivations; China's strategic thinking in dealing with the West, in dealing with the United States.

So what is China's perspective in dealing with Washington? One thing we need to remember about China is that Chinese leaders are rigorists. China's leaders are very pragmatic and one thing they think about all the time is power; what determines Chinese behaviour is their assessment of the equation of power, of the balance of power. The second thing we need to remember about Chinese leadership in their strategic thinking is that they have very long term objectives. Starting very early, they looked at the US-China relationship from a very long term perspective. Of course 20 years back China was very weak and China's strategic [unclear] was to buy time, was to keep a very low profile and build up China's own strengths, because Chinese leaders believed that once the power dynamic changes, once the power balance changes, China will be able to defend its national interests a lot more effectively. So this period, this policy, really began in 1989, and I think it ended in 2008. It's actually a very useful period. A 20-year period is what Washington would call a unipolar moment. This is a period of 20 years in which the US maintained unsurpassed, unchallengeable superiority across a wide range of areas. It's also a period in which China began in a position of extreme weakness. 1989: Tiananmen; the collapse of the Soviet Union; and also China's economy was relatively small. It ended with China's rapid rise in economic power and rapid growth in its international influence, and also enormous increase in China's self-image, China's own self-confidence. So if you look at this relative power shift, and look at the numbers, you will find the shift is truly historic and mind-boggling. I doubt whether there has been such a shift in relative power among the Great Powers in the world ever in history. Let me give you some numbers, the shift.

In 1992, when Clinton became president, China's GDP was less than 7% of American GDP. I think China's total foreign currency reserve was less than US\$20 billion. Then the year 2000, the beginning of the century, when Bush was elected president, China's GDP was less than 15% of American GDP, and China's foreign currency reserve was less than US\$100 billion. 2008, when Obama became president, China's GDP was about 31% of American GDP, so all of it (...) and of course China became the US's largest creditor. If you look at this 20-year shift when China was able to increase its relative strengths with the US by issuing orders of magnitude, China remains the weaker power in this equation, but China today is a lot stronger than it used to be, and you can practically explain China's changing behaviour recently in this shifting balance of power between the US and China. So, on the one hand, you see this very rapid increase in China's power, but at the same time the unipolar moment was wasted by the US. Starting in 2000, the US was engaged in imperial overreach: war in Iraq; and war in Afghanistan, and the US also wasted a strategic moment to forge an enduring relationship with Russia, with the NATO expansion, missile defence, and interference in Russia's neighbouring states. And if you look at the US domestic policy, again the US administration wasted these 20 years with tax cuts, with bubbles - in other words, lack of reform in health care, and with rapid rise in inequality in the US and also with a particular American version of crony capitalism.

Of course these 20 years when the US was actually in decline, American psychology was that of triumphalism, was a belief, a very narcissistic belief in American superiority. So after the unipolar moment was over, Chinese leaders believed that they can afford to be tougher on the US, because today, if China wants to accommodate the US, the costs of accommodation are greater than before, and of course China now has the ability to say, no. So if you look at where China is today, why China and the US have more areas in which they find their interests are in conflict, that's because China's influence and China's footprints, China's interests, have expanded greatly in the last 20 years. 20 years ago, China was not in Africa, China was not engaged in acquisition of natural resources, China did not have any strategic equity in Iran, and China's trade was much less than it is today. But if you look at this picture everything has changed: China is in Africa; China is engaging and acquiring natural resources; and China has enormous interests in Iran. So there are more opportunities for China and the US to see their interests clash.

There's another very important change that's very recent in China's thinking about the US. Not only has this power equation changed, China's assessment of American strengths has also changed. First of all, China was caught by surprise by the rapid decline of the US. China was not prepared. But once the rapid decline began, China's leaders appeared to believe that the US decline may be irreversible. So when you believe the most important competitor is in terminal decline, of course your behaviour changes. And this behaviour, as Mathieu said, we have all seen: Obama's visit to China; even Bush got a lot more respect from the Chinese, and Bush was tougher on China than Obama. Obama began to be very friendly with China and he did not even get a televised speech. And of course Copenhagen, and there's a currency policy, China's human right behaviour, and most importantly for the US, China's position on sanctions on Iran.

So right now we are at this very important moment in the US-China relationship, because of the peril of trends: American decline, China's rise, and China's perception of American decline. We do not know how Beijing's ruling élites deliberate, because policy-making in Beijing remains very opaque. But we know that Beijing uses one formula to determine its foreign policy and its policy towards the US. It used to be this formula. China needs the US a lot more than the US needs China, and when that formula was reality, China was very, very careful, very, very accommodating to the US. However, as China's strength increases, the formula changes. Yes, China needs the US more than the US needs China, but China needs the US less and less. In other words, China, if you look at this part of the bargain, it's very interesting. While the Chinese leadership was very careful in maintaining ties to the US, China was also actively developing ties with other countries: with the EU, with developing countries, with Russia. So as a result, China needed the US less and less. So what is the moment, what is the equation to today? I think the equation now is China needs the US, but the US needs China as much as China needs the US, and that is a fundamental shift in the bilateral relationship. When the US needs China as much as China needs the US, China has the ability to drive a much stronger bargain, and that's what we are seeing. Because if you look at where China can be very helpful to the US, you have a very long list. Seven years ago such a list did not exist. But it exists today, and the Chinese leaders are realists: they understand that they can now afford to drive a hard bargain.

So we are now entering a period in which US continues to be a stronger power, but the underlying power dynamics are changing. And then a period in which perhaps this relationship becomes more equal. It used to be an unequal relationship, now we are seeing a relationship in which inequality is decreasing, while equality is increasing. So both sides will have to learn to adjust. China will have to learn not to be too pushy, because once you become stronger, you can become arrogant; you can become too self-confident and become too pushy, and now we see that China may have acted in a way that is not good for its long term national interests. But the US has to learn to be a little bit more humble, a little bit more accommodating, because it needs to know that in the long run, it is in an unequal relationship. But this is going to be a difficult period, because learning to be equal for the US is not something the US can do very easily, and of course for China, after biding its time for so long and now it has this moment, Chinese leaders are too focussed on domestic issues. Top Chinese leaders may actually not be as worldly, as internationally knowledgeable, as we think they are. So the risks are very high that they may miscalculate, misbehave, and take steps that will eventually cost them dearly. Thank you.

MATHIEU DUCHATEL: Thank you, Doctor. This very realistic view based on the balance of power and international relations area is very convincing to me. I won't challenge this. Agnès and I may have more precise questions on several issues of US-China relations, but still I feel that there is a gap between the actual balance of power between the United States and China, and I would say the balance of perceptions, the fact that they are growing more equal doesn't mean that they are already equal, and that doesn't seem to me exactly like going back to normal. There is still a gap between the actual balance of power and how the interests and perceptions are distributed in the relationship.

I would like to ask three questions, in fact, on three things. The first is on the future of US policy towards China, and how it will adapt to this series of events, because that was a very harsh series. We have no figures and we have no post [?] - at least to my knowledge, maybe there are - but I don't see how it will be possible to avoid a kind of revival of China's Red [?] theory in the United States. And to my knowledge what I've heard, there was always a gap between this new engagement policy of the Obama administration and the perception of China among the US strategic community at the administration level, at the Pentagon and the Department of State. And now given this series of events, my question would be whether you think that domestic support, including within the administration for this comprehensive engagement step policy of the Obama administration, will be shrinking, and to what extent it could bring a kind of shift in Washington's policy towards China, especially on the sensitive topics that the Obama administration have been trying to avoid since it came into position, such as human rights and all those sensitive issues for the Chinese. And that leads to my second question which is more precise, I only have one issue.

We learned recently that the United States have agreed to move on arms sales, missile defence. The timing is really interesting because it's a couple of weeks after Obama's visit to China, at a time when almost everybody in the US strategic community was arguing that there will be no move on arms sales for a while, and that the United States will push the issue as long as they could. Nowhere has there been that move, there will be retaliation from China, probably on the military to military relations. So my question on that would be do you think it's a first step of retaliation and to use your word about the driver's seat and

being in the driver's seat, which is very important in great powers' relations, do you think that could be the response from the Obama administration to gain back a position on the driver's seat?

And last question before I turn to Agnès for a couple more questions, sub-question on the way China sees the US-China relationship. I totally agree that China's perceptions, right from the beginning, right from when the Obama administration came into function, was very cautious on all these calls for cooperation, was seeing the Obama administration as asking for cooperation because of its weaknesses. But there is another view, and that's the view you can often hear in China, once the administration was asking the Chinese was more like asking China to cooperate on a wide range of issues, to turn it into a kind of new Japan, somebody, some country that could pay for all of the original crisis, but without representation. So I would like to know more about your views on how China sees this demand for cooperation, and if it's really going to go on a collision course with the United States on these issues, to refuse them. Agnès? Or as you prefer?

AGNES GAUDU: I have two main questions, one which is maybe a question of detail, but an important one, about the climate and environment policies. Before and after Copenhagen Summit, there were quite a few comments in the American press that China was actually doing more at home for containing the damages to the environment, than America itself, especially by engaging in bio- and clean-energy devices, also putting a large part of the economic crisis, into green economy, as they say. What do you think about these appraisals? How can the apparent commitment of China's government into a green economy be appraised? Can it be evaluated? That will be the first question.

The second question would be why is it so important for the West, for the US, or for Europe, to determine whether China is actually becoming a superpower or not? Why is it in the middle of debate? And there is something I noted in what you said about how the Chinese themselves would comment on their relationship to the US. You said China needs the US less and less; that is what they now say. But I read recently a comment by a high representative in the foreign commission of the consultative conference, saying, word for word, that the world needs China more than ever, which means that they spell out some of those comments that were making China not the superpower, but at least one of the least powers in the world. So would you comment on that step up in the expression from the foreign specialist?

MINXIN PEI: Last question first. I think when you praise somebody too much, it can get into their head and then they somehow think that they are what you say they are, even though they are not what you say they are. China's perception of its own importance to the world is partly the result of foreign praise of China. Because for the past few years, Western leaders go to China and they praise the Chinese government, Chinese achievement, and then the Chinese leaders somehow believe the propaganda, the rhetoric. Your question first, [unclear]. On China's green energy approach, if you look at China's climate change of policy, it has two parts. One is a very tough position on mandatory caps: China's not going to accept any mandatory caps. But there's another part which has received a lot of attention, especially in the columns of Thomas Friedman, who has become the most bullish person on China's green energy. That part is China does have a strategy to invest in an increasing part

of what is green energy in Chinese economy. The question we have here is will China's investment in green energy offset the rapid increase in greenhouse gasses China is going to produce? I'm not an expert on this, but who is? My guess is it is not, because China, for the foreseeable future, will continue to rely on coal for its energy production, and green energy remains very, very costly in China. But of course China's government believes that green energy is an economic opportunity, and that's why it invests in green energy. It does not do so purely because of climate change concerns. But whether it's successful, effective or not, I really have no way of knowing. They are investing a great deal, but at the same time they are also building a lot of coal power plants. Whether China is a superpower or not is not an important issue for policy-makers. It is a very important issue to journalists, because they need to have something to talk about. So when you have this question, all kinds of journalists have a job to do. But for the US, for EU, it is not a very useful issue: China is China. Whether China is a superpower, in what sense China is certainly a trade superpower; it's the biggest exporter in the world. But is China a superpower in the same way that the US a superpower, certainly it is not. So for countries, for specific leaders, they don't even think about these issues.

Of course China is not an equal power with the US. China is still, if you look at the GDP, probably half of that of the US. But there is one important thing to remember: the US has enemies all over the world. The US has problems all over the world. The US has this much power but it has to be spread all over the world. When China deals with the US - China has only one competitor - China focuses all its energy and resources on dealing with the US. So you have an inequality of power, but also you have an inequality of focus. The Chinese leaders are 100% focussed on dealing with the US. Poor Mr Obama, he wakes up, there are 300 different problems on his desk, not all of them related with China. So I think there the US has a big problem, because it is a weakened superpower, but it is still the only policeman in the world. And China, it's just one of the residents on the block.

The future of the US policy toward China. I think the US will be assessing this changing power relationship. I don't know whether it will go back to a much more confrontational mode; I do not believe that's going to be the case. But the US will be tougher on certain issues. I think the US will be tougher on trade. The US will be tougher on human rights. On Taiwan, the US cannot be tougher, because the relationship between Taiwan and mainland China is changing, and the US has lost a very important leverage because of this change. One thing that the US needs to do, if it has to be in a much stronger position vis-à-vis China, is to invest in Asia. Not economically. I think the US has not maintained strong relationships with Japan. I think the Japan relationship has to be built up, as has South-East Asia, otherwise China now has a much bigger influence in Asia. You may not know, starting January 1st, China-ASEAN Free Trade Zone has become operative, and the US has not even passed a Free Trading agreement with South Korea. So I think the US will have to be very active on the trade front, passing that Free Trade Agreement with South Korea, and then passing another one with South-East Asia.

MATHIEU DUCHATEL: Thank you very much. Dr Pei, the floor is open to questions. I know there are many knowledgeable people on the West and on US-China relations here in the room. We must start here by one here. Fabrice?

FABRICE POTHIER: I'm not part of the knowledgeable ones, but I do have a question which refers to this notion of superpower, and I think you make the argument in one of your recent articles that China does not fit the typical criteria to be quoted a superpower. But I'd like to challenge that and hear your view on that fact that one could also argue the criteria that you use to say that the US is the superpower, are pretty much based on the Cold War criteria of the mix between economic and military and political power. But one could argue that China is actually defining the stages as a superpower on its own terms, and if you look at the symmetry of military power of China not only on cyberspace, but also on anti-satellite missile that we saw two years ago, if you also look at China's capacity to lend to developing countries, lend a big sum of money, competing with the world bank, both in Africa and Latin America, you can argue that China is winning its appeal and its own superpowerness [sic], but not on American terms: on its own terms. So I'd be interested to hear your answer on that.

MINXIN PEI: I think economically China is certainly close to being a superpower, because of its nature as the world's biggest exporter, so it has a lot of foreign currency to lend. But a superpower really has to have an ideological appeal; it has to represent something. And I challenge people to tell me what China represents, other than dollar bills. China doesn't represent anything. I mean the political: it doesn't represent the future, a future political system. People go to China, not because they want to copy the political system; they want to do business there. And of course you can do business in a lot of places. So that's one. And then you can look at another aspect of being a superpower, is that the country's own political system has to have a high level of security, stability. China, from the outside, looks very strong, but China, from within, looks very weak. China's Communist Party worries about its hold on power all the time, that's why it censors Google, it censors Internet, it maintains control of the press, and it applies lots of secret police, internal police. And China also has enormous ethnic problems, Xiang Zhou Tibet. So its internal political cohesion is relatively weak. As far as a country is politically weak internally, it cannot project power abroad. So I think we tend to overvalue China's status as an economic superpower, and overlook its weaknesses in other aspects as a superpower.

MATHIEU DUCHATEL: The floor is open for questions, please raise your hand. You may introduce yourself. Can we take a few of them before Dr Pei answers?

SPEAKER1: If I may, just as a start I would like to say I tend to agree very much with what you said on the fact that when Jintao wakes up in the morning, probably he only has one question in mind, the US, as opposed to Mr Obama. I would just like to make a few comments on his background which I consider very appropriate and probably one derived question from that. The first comment is that not only did China, two years ago, show its power in space, but it did two days ago something that only one power did before, which is shoot at a, I would say, a satellite that should have been a missile which, as we know, is that technology is extremely sophisticated and which is definitely designed and mimicked by the States and today it's obviously the will to show that there is as much parity as post-war.

My other comment would be that probably if there was anything like comparing one to the other, there's also the ying-yang approach to what some people would call the G2, and probably in the ying-yang approach, it is much better to be in the ying position, because you

can always hope that you will become that yang at one point in time. Whereas when you are the yang, there's only one way to go, which is become the ying and I think the G2 is probably by its [unclear] towards its strength in the Chinese mind. And that's a problem. Those are my comments. My question would be, in your mind, why is it so that instead Mr. Hu Jintao would prefer to have the US as a peer, as opposed to having a policy and an attitude which would multiply the peers, the countries to talk to, and why is it so that for example, as we very often say at the Centre, is Europe so weak in interpretations of Hu Jintao. One of the explanations I would tend to give is linked to the very last sentence of the analysis which is that he has so many problems at home that it's very easy and very convenient to focus on one issue, let's be just like the Americans. There may be other explanations; I don't know what they're thinking about.

CLAUDE MEYER: Coming back to the question of economic superpower, I wonder whether, as I understand, we wouldn't clear up the definition of what we call superpower in economic terms. I would like to have your view on the fact, as you've travelled extensively in China and you meet a lot of people, it would appear to me from here that, of course I mean superpower, may mean the size, and with respect of course, the size, well, the acceleration of the size of the Chinese economy, which is just incredible and is strictly a record that would go on. But quality-wise, I'm wondering when, for example you mentioned the exports, if you compare to the situation of Japanese exports during the 80s, the situation's completely different. When they're aware of this problem it will be US and Japan for the trade, the product which we're exporting from Japan, were purely Japanese. If we take the exports, if we take exports from China, around 35% of that so-called high-value products, and out of the 35%, 60% are produced by a foreign company, and 75% are exported by a foreign company, the first one is [unclear], as far as I know, only 30% of the technology used in Chinese manufacturing come from manufacturing, in particular textiles and paper are authentically Chinese, and the broader the plan from 2005 to 2008 for the [unclear] and the value, to reverse. So I don't know if you can say that economic-wise, a struggle between two Chinas in terms of size possible, but in terms of the technological edge, I mean the gap seems to me so deep between the two countries that I'm surprised you use so much this term of G2, because the two countries are not comparable economic-wise in this respect. Those were the comments I wanted to make and to have your viewpoints. Thank you so much.

MATHIEU DUCHATEL: Thank you, Professor Meyer. We will have Dr Pei answer these questions, and then another round.

MINXIN PEI: The first one is Europe in China's thinking, is that the question? But China does not think much about Europe, because Europe itself is not unified. I mean, China respects power and if Europe, its power, comes from unity, and as long as that unity is elusive, China has difficulty in according to Europe the attention it needs. And Europe also waffles, changes all the time. Of course Europe is very important in China's thinking. China believes in a multipolar world, and Europe is one of the poles of global politics. And to that extent China wants Europe to be unified. And if Europe is strong, China somehow believes that Europe and the US have different agendas, have different interests. But China's foreign policy focus has always been, and will remain, to be that of the US for the foreseeable future.

China as a superpower. China is a trading superpower; China of course is not a technological superpower. Talking about superpower I think we need to think about impact of a country, and today, because China is the world's third largest trading power, it has enormous impact. I mean, Germany is an economic superpower. Japan is an economic superpower. Because what China does can affect the market. China, what China does in oil, the oil market, in copper, in steel, and to that extent we can say that China of course remains in per capita terms very poor \$3,500 and then technologically it of course cannot compare with the USA, or even Europe.

ASHRAF RAFDJE: Good evening, my name is Ashraf Ravdjee, and I'm working for UNICEF. For me the issue is not is China a superpower or against America. For me the issue is in the competing country. I take three examples. Terrorism: what is the position of China against terrorism? Oil: America goes to Iraq, one the reasons is oil. Do you think some day China will be going to other countries for oil? And the third point is the region's impact with China. For example the relationship between US and China is correlated with India, with Pakistan and Afghanistan. So the issue is not is it a superpower, the issue is to analyze the areas of conflict, and [unclear] areas of competition? Do you think these areas of competition could become areas of conflict?

SPEAKER 2: Hello, my name is Jean-Baptiste [unclear]; I'm a student. I was wondering: I know that China is a superpower economically, but what about the military part of it? But what about the relationship, and the relationship between the US and China, how does it influence the military on either part, and does this influence the economy of China, and what would be the repercussion of this?

SPEAKER 3: L'Association de la Presse Etrangère: Foreign Press Association. I would like to ask you in terms of the conflict a specific question. It is important that President Obama will meet the Dalai Lama. I would like to know your comments on this. My question is what are the [unclear] that Obama has to meet the Dalai Lama. What if he came? Would he meet him and what are you views?

MINXIN PEI: Excellent question about risks of conflict between the US and China over three areas. On terrorism there is no risk: both China and the US are on the same side, even though China's terrorists are sometime not necessarily the same terrorists the US deals with. China's much more focussed on internal terrorism rather than international terrorism; the US of course is almost exclusively focussed on international terrorism. Oil? China and the US both cooperate and compete in oil. Both countries have an interest in seeing oil prices come down, because they both consume: the US it the biggest consumer; China is the second biggest consumer. I do not believe China is very aggressively trying to purchase equity in oil-producing companies, countries. But there's no reason to believe that China will send troops abroad to occupy or to take over oil-producing assets. Regional third party relationships. China is very unhappy with the US relationship with India, because the US was using India to contain China; it's very apparent. But in this game, China's relationship with India has deteriorated. China is not strong enough to retaliate against the US, but China can retaliate against India. So I see there you have a risk of conflict in the future, and because of Pakistan. Handling third parties is very difficult, because right now the US is very closely involved with Pakistan, but Pakistan is one of China's strongest allies, and of course

the China-Japan relationship right now is improving, and Japan is America's most important ally in East Asia.

Military relationship between China and the US is not good. Both militaries view each other as threats. China's modernization in its military capabilities is worrying the US a great deal, and the two militaries do not have an ongoing exchange programme, a robust one, because they have a nominal relationship which does not have a lot of content. It's very hard to change their relationship as long as that perception remains the same, because the PLA views the US as a military strength, and the US views the PLA as a military strength. However, there used to be one area where the US military and the Chinese military could theoretically get into a conflict, and that's Taiwan. The good news is that because mainland China and Taiwan have been improving their relationship so rapidly, the risk of conflict over the Taiwan problem has receded. Maybe it has not completely disappeared: it may come back in the future. But for the next few years, this is not an area we need to worry about.

Obama meeting the Dalai Lama. The US policy for the last 20 years has always been the US president will meet with the Dalai Lama in his private capacity. The meeting takes place not in the West Wing, but in the East Wing. If you know the White House, the West Wing is the official part of the building where the president does his official business. The East Wing is his family residence. And according to the American plan, this meeting – the meeting between Mr Obama and the Dalai Lama – was to take place last October, but because Mr Obama was still in China, he wanted to be nice to the Chinese leaders, so he delayed the meeting: he never promised the Chinese leaders that he would not meet with the Dalai Lama. He actually told the Chinese leaders that he would meet with the Dalai Lama after his visit to Beijing. Whether Mr Obama is going to get anything out of the meeting politically, he will affirm America's commitment to human rights. Of course he also sends the Chinese a message: do not think that I'm soft on human rights. Whether it will set back the US-China relationship, I don't think so, because the Chinese are very pragmatic: they will be very angry, rhetorically, about meeting, but they cannot retaliate, neither can they retaliate against France. I always wondered, why did Sarkozy cave in? Why did [unclear] cave in? If they meet with the Dalai Lama, they can meet with him. Of course they have to be very clear: do not meet with him in an official capacity; that's political. If they meet with him as a religious figure, in an informal setting, it's going to cause enormous damage to anybody's relationship.

SPEAKER 4: Hello, I am Christine Gear [?], from Executive Intelligence Review, and I have the following question. There are many changes going on, as you have indicated, in China and also in the Far East, but before one thing that is extremely important it seems to me in the China-US relationship is the question of the dollar, which means that they have each other by the throat basically, also because China has advised it has close to \$3 trillion reserves.

MINXIN PEI: No, no, no. 2.2.

SPEAKER 4: 2.2 [unclear], even though they would like to, whether Obama liked it or not, because in the rules [unclear]. And I find it very interesting that last October there were

these very important agreements between China and Russia in the Far East to invest dollars in the economy, but nuclear power has been very old on both sides and very far-reaching agreements. Also I feel that the CIC will be investing in high-speed rail also in the United States as a means to give value these dollars. Also in this context, the relation between China, Russia, but also with India, is changing, because relative to Pakistan for instance, China is not playing the role that the Pakistani and also the Shanghai corporations [unclear] organization. It is not as if also giving it more nuclear power, and so it is promoting the role of India right now as the global superpower in this whole region. So in this context there is an American strategist called Lyndon LaRouche, who is calling for import power agreement to solve the economic crisis in Korea with the introduction of the dollar in China, Russia, the US and India. Do you know anything about this?

MINXIN PEI: No. No.

SPEAKER 4: Because this is in opposition to Obama.

SPEAKER 5: In your speech earlier, you quoted and you finished your speech by mentioning Iran as the main problem and the main issue of the Chinese national interest. The situation in Iran is very unstable at the moment. How do you see that evolve, and could you elaborate on the national interests of China in Iran?

MINXIN PEI: The instability in Iran poses a problem for China, because China currently has a bet with the current regime: China has bets placed on the current regime. So if the current regime falls, then China can lose a lot. So I think the Chinese leaders must be very, very worried about that. However, Chinese leaders also believe that business is business. Whoever comes to power in Iran will have an interest in maintaining a strong economic relationship with China. Because the Iranians – I don't know who they are; I've never been to Iran; I don't know Iran – if I were the Iranians I would like to have my relationship diversified. The US is of course very important, and they will always have an interest in having China on their side.

MATHIEU DUCHATEL: Since we are into power security issues, I ask one question on Afghanistan and Pakistan. One of the new issues on the US-China dialogue, was precisely that US has asked some Chinese corporation on the F-Pack [?] issue, all the other issues discussed in Beijing in November have already been discussed in the past, but that is a new one. So I wonder how you see the prospects from some level of coordination between the United States and China on their policies towards Afghanistan and Pakistan.

MINXIN PEI: I'm sure the US has approached China to seek its help on F-Pack [?], but the Chinese government has kept its mouth completely shut on this. China does not want to talk about it as a matter of policy; in principle it does not want to talk about its relationship with a third country. I think because of this, very few people know about what exactly the US was asking, and what how China has responded. So I really don't know anything about it.

MATHIEU DUCHATEL: One more question.

SPEAKER 6: Thank you. My name is Francois Debut [?] from the African Advice Report. How would you qualify Chinese strategy towards Africa, and what are the loopholes of this policy? I ask this question because I think there might also be US action in Africa, in particular the US-Africa Command. Are you aware of that?

MINXIN PEI: Yes.

SPEAKER 6: The answer of the Chinese regarding this. The second question relating to the currency issue. Last year the China Central Bank Governor wrote a paper about the national currency reserve, so it attacked the dollar supremacy. So where are they now regarding this issue? And also regarding the issue of monetary policy, the new Japanese leader seems to be in favour of Asian monetary funds, a project that failed in the 90s, because of the opposition of the US. Do you think such a project will be a new issue? Thank you very much.

MINXIN PEI: China's objectives in Africa are both political and economic, but it's not security. I cannot imagine China setting up its own version of the African Command [?]. Political, because China needs Africa's support on human rights issues in dealing with the US and the West. If you look at voting in Human Rights Council, Human Rights Commission in the UN, African countries tend to support China. So China needs these friends. And of course economically China needs commodities, and Africa is a continent rich in natural resource, so that's the economic equation. And of course with economic aid and investment, China believes it can strengthen the political relationship as well. Whether that's a successful strategy or not, nobody knows. Because from Africa's point of view, having China as an alternative, is better than not having an alternative at all. But of course the West is worried for other reasons.

International reserve - the central banker of China did write a very provocative paper: he proposed a new form of international reserve currency. It was a very interesting intellectual debate, not very new, but it did point out one common problem, that the dollar is not a buyable long-term international reserve because of American policy. But in the short-term it doesn't change a thing, because everybody has to use the dollar for a long time.

Asian Monetary Fund - today, if somebody wants to do it, if Japan wants to do it, it can be done. But when you ask what it will actually provide, not much. That's why very few countries are leading the charge in Asia to set up the Asian Monetary Fund. In fact, there's a lot of cooperation among Asian countries in monetary things. They have the Swap agreement, the Xiaomei [?] agreement and they're talking about an Asian bond issue. But I think Asian Monetary Fund is not something that's high on their priority list.

SPEAKER 7: Somehow it's easy, or easier, to talk about the president, because we can say that China is not a superpower, it's still a developing country. My question is where do you see China in 30 years? Will it be another United States, and if so, will it be a Cold War with the US, or in an incorporated relationship?

MINXIN PEI: The honest answer, sir, is I don't know, and nobody knows. Truly. Many variables. The first variable will the China Communist Party be in power? Even the Chinese Communist Party does not know. Ask Hu Jintao who in the Chinese Communist Party will be

in power in 30 years? 2040. If he were honest, he would say, no, I don't know. Of course he would have to say, of course the Chinese Communist Party will be in power. But nobody knows. Will Chinese economic growth continue at a high rate, defined between 7% and 8%? I don't think so. Not many people can continue that for 30 years. It may continue for another ten, 15 years. So that can change the power dynamic. The third is will China become a democratic country in 30 years, if China becomes democratic? Of course, it's a separate issue. We tend to think if Communist Party falls from power China will become a democratic country. That's not necessarily the case. We're not the Soviet Union. The Soviet Communist Party fell from power, and now we have Putin. So there can be a Chinese Putin. So if China becomes a democratic country, that changes dynamics as well.

MATHIEU DUCHATEL: There is one lady here on the left.

SPEAKER 8: I'm working inside an aid [?] agency. I have two questions. One question is [inaudible] because we hope that. Also in China we have a problem [unclear] I think is aging population. Also if the Chinese does consider as having this problem, because for the future it is an important issue so I would just like to know if there's a strong project [?] for that. And the second question is if China is still developing and consolidating its position, I wondered if the question of soft power is already rising in China, because China has also been attractive culturally for a long time, there was also the Cultural Revolution then [unclear] was quite involved, I'm not sure that in ten years, or even now, maybe its government, also in a private battle, this question of soft power [inaudible].

SPEAKER 9: Just now you said in your article that China is not a strong country. Partly I agree with you. But partly I don't, because as a Chinese you will know, you must know, there is, I assume, a very critical discussion within Chinese Communist Party and the government and Chinese nationals. But now the question is how will China improve technologically, or how will China improve as a social model. For example, simply put, Western democracy is probably not very complete. My question is how, personally, do you think China will evolve more towards a better society?

MINXIN PEI: I think the one-child policy, and population aging, are China's biggest challenges, because if you look at China 30 years from now, one thing we know for sure, the country will be aging. We don't know whether it will be a superpower. If it were a superpower, it will be an aging superpower. Europe has this problem. Japan has this problem, and if this problem becomes very serious, then China's economic growth will be affected 30 years from now.

Soft power. I think countries made this a very popular concept. I think Chinese culture has a lot of appeal. I agree with you: music, arts, and some Chinese movies. But somehow also includes political ideology, values, universal values. So you have to say, what kind of political values that China has today that are of universal appeal? Big question Mark. I don't see any. I think the Chinese government, the Chinese Communist Party, actually – you don't know about this – has been criticising universal values, because universal values...

SPEAKER 9: [inaudible].

MINXIN PEI: No, no, no. I'm not talking about individuals.

SPEAKER 9: [inaudible].

MINXIN PEI: But there are voices inside government who are against ideas of human rights, democracy, and of course the political system itself embodies values. I find it inconceivable that China will be held up as a political model if it remains a one-party system. I think we will admire China for its economic achievements, but we're not going to emulate China's one-party system, because we want to have our own personal freedom; we don't want our own Google to be censored; we don't want our press to be controlled; we don't want to come through our door one night and arrest us without a warrant. So I think for China, some ideological appeal, the way China is evolving? This is a question I think about all day, all night. I think it really depends. I know where China is evolving in society: Chinese society is evolving toward a much more open, globally-connected, cosmopolitan, a much more free direction, and that's a very healthy direction, but I'm not sure that the Communist Party knows where it is evolving. I think the Communist Party so far, since 1989, has demonstrated it does not want to evolve. It wants to maintain its current political monopoly. So you have this split in China: you have a society which is evolving in a much more positive direction; and you have a political system which is not evolving in that same direction. And that's I think where China's future tensions will come from.

MATHIEU DUCHATEL: We'll take two or three more questions.

MARC EPSTEIN: Marc Epstein, from L'Express. I have a question about Japan. You mentioned briefly that relations between China and Japan were improving. China is by far Japan's biggest trading partner, but Japan is the US's strongest ally in this whole region. How do you see relations evolving and what kind of mileage in a way does China expect from an improvement in relations with Japan?

MATHIEU DUCHATEL: Another question?

MINXIN PEI: I think for now Japan has a left-leaning government, and that government somehow sees improvement in relations with China as a game changing. Because for a long time, for the last 60 years, Japan's policy has always been rely on the US as its source of security. And of course when you rely on the US too much, they neglect the relationship with China. But if you are too close to China, then the relationship with the US suffers and that also means your relationship with China will suffer, because China takes Japan takes seriously only in the context of US-Japan relationship, because China does not want Japan to be used by the US against China, and in that sense Japan has strategic value. But if Japan becomes a junior partner of China, then it will not be given the same kind of benefits it now receives from the US. If you want to be a junior partner, I would rather be a junior partner with Uncle Sam. But it's not going to happen. I think eventually the China-Japan relationship is not going to evolve into one of genuine partnership, of equality, because China does not view Japan as an equal, and it's very difficult to develop a partnership if you do not believe that Japan is your equal.

MATHIEU DUCHATEL: But China believes that the United States is its equal.

MINXIN PEI: Yes.

MATHIEU DUCHATEL: It doesn't want to develop a partnership neither[overtalking].

MINXIN PEI: China wants to develop a partnership, but a partnership in rhetoric, because China wants the glory of being the superpower's equal, but China does not want the responsibility of being the superpower's real partner, because you have to pay.

MATHIEU DUCHATEL: We can close the session. Thank you very much Dr Pei. This was very comprehensive [overtalking]. So thank you for coming, and thank you, Fabrice, and Francois.