CHINESE ECONOMY, COAL, AND SINO-U.S. RELATIONS

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KEVIN JIANJUN TU: Ladies and gentlemen, my name is Kevin Tu. I’m a senior associate at the Carnegie Endowment for International Peace. I direct Carnegie’s China energy and economic program. Today, it’s a great honor for me to organize this event with Mr. Mao Yushi. As you may have already know, because of his personal achievement, Mr. Mao was recently awarded the Milton Friedman Prize. The award ceremony will be held at the Washington Hilton tomorrow evening. So first please join me and congratulate Mr. Mao for his marvelous achievement. (Applause.)

I doubt anyone in this room haven’t heard about Mr. Mao before. However, I will still like to share two personal stories about Mr. Mao, in addition two take-home messages as today’s bonus. First, Mr. Mao is not only one of the best well-known economists in China, he is also a(n) established energy expert. That’s why I first met Mr. Mao at a coal gasification workshop in Beijing many years ago. Back then, I was a graduate student struggling with my research on China’s energy security – (inaudible) – pollution and carbon emissions. After we met, Mr. Mao spent quite some times and patiently answered all my research questions. During our conversation, I raised one question about his book. Guess what? The next day he brought a copy back to the conference room and signed the room – signed the book as a gift for me. After so many years, I still have this book with me. This book clearly shows Mr. Mao’s willingness to transfer his knowledge to younger-generation intellectuals. So that’s why Mr. Mao is considered by so many younger-generation men and women, both in China and outside China, as a great mentor. So my first take-home message is if you’re meeting Mr. Mao in Beijing, next time don’t forget to mention at least the name of one of his books. (Laughter.) However, these tricks won’t work today. I have already checked. He has no book with him now. (Laughter.) Second, what Mr. Mao does is always consistent with what he truly believes in. For those of you who knows China well enough, you may understand how difficult this may be. I will give one example. As our energy expert, Mr. Mao actively promote energy conservation in China. He’s also a true believer of lower carbon emissions lifestyle. So when Mr. Mao was a little bit younger, he often rode a bike in order to speak at different conference in Beijing. So for some reasons, all your contacts who told me this wonderful story about Mr. Mao are very young and attractive women. (Laughter.) So each time I can clearly see how they strongly admire Mr. Mao.

So the second take-home message is only for a selected privileged group in this room. For those gentlemen who are still single, if any of you will go to China and speak at a conference, please don’t forget to find a bike for yourself. If so, you may be able to make a huge difference, not only for the environment but also for yourself. However, for those gentlemen who have already got married, please think twice before you do this. (Laughter.)

Before I invite Mr. Mao to speak, I’d like to introduce Doug Paal who has kindly agreed to serve as today’s commentator. Mr. Paal is the vice president for studies at the Carnegie Endowment. And he currently direct Carnegie’s Asia program, among all the
impressive positions he has worked in the past, he was the director of America Institute in Taiwan under the Bush, Jr. Administration. Without further ado, ladies and gentlemen, please join me in welcome Mr. Mao Yushi. (Applause.)

YUSHI MAO: Thank you, Kevin, for introducing me. Ladies and gentlemen, it is my great pleasure to be here and to give a brief talk. I will speak on three issues. I – the first one is on Chinese economy and its politics as well. Second is the coal consumption in China, especially its true costs, that means the market true price plus associated costs. Finally, I will speak a few words on the Sino-U.S. relationships.

[00:06:35]

If we want to understand the current situation in China, we’ll have to come back to the beginning of the economic reform in the year 1978. That was the year – the ending of the Cultural Revolution. Mao Zedong died on 1976. Go back further, the People’s Republic of China was formed in 1949. We know the ending of the second world war was 1945. After four years, the People’s Republic was founded. That was 1949.

So the – Mao Zedong, he ruled China for almost 30 years from 1949 to 1976. At this time, about 50 million people died because of the wrongdoings on politics. In these 30 years, 1949 to 1978, there was no foreign troops, no foreign airplane coming to Chinese territory. So the killing of the 50 million just because internal clash. As Mao Zedong said, this is a class struggle. But in fact, there’s nothing really to do with class. It is in fact the cruel rule of the dictator against its people.

The biggest killing was in the year of 1959 to 1962 – ’61, three years big famine; 36 million people died. At that time, I was in the village. I almost died because short of food. My neighbors, many of them died. In this small village with, say, 8(00) or 900 population, about 10 percent of people died because of no food. And we know the biggest killer in the 20th century was Hitler, Stalin and then Mao Zedong. And then Mao is the biggest one among them.

So – but Mao Zedong’s idea is very attractive. Up to now, many Chinese still believe Mao is right. That’s a big problem. I will explain why it is so. Because over 30 years of ruling with Mao Zedong, the per capita income in China reduced by almost half. This is 30 years of class struggle. Then it’s the productivity of Chinese economy. The biggest damage might be in the agriculture sector. So after the – (inaudible) – after Cultural Revolution, there are – there were about (34 ?) million people suffered from hunger, no sufficient food.

[00:11:12]

After the economic reform, the average income of Chinese has increased by 12 times. And the 30 million – 30 million people have been got rid of absolute poverty. Now every Chinese has sufficient food. And we have average income goes up, as I said, 12 times. But the income gap is quite big. (Inaudible) – population was lowered from 11 (percent), that is the average of the 30 years from 1949 through 1977, to 6.6 (percent).
That is average of 30 years from 1978 to 2010. That means the mortality rate cut almost by half. And the transition of the state power has become an increasingly institutionalized process, though a setback did occur recently. As compared with other development countries, the procession of state power has been peaceful – no killing. The fight among the top no longer is a matter of life and death. Probably, you know, the Prime Minister Zhao Ziyang, he was defeated, but he still live in peace. But in the – during the Mao Zedong’s era almost most of the top leaders killed because of factional struggle.

I give some example, the progress in China. China – now we can manufacture sophisticated equipment at relatively low costs. Before the economic reform, almost all these kind of equipment have to be imported. But now we can export quite sophisticated equipment, such as the computer and then telecommunication equipment. And we also export power plant, export automobile. The second example is the safety record of aviation shows the achievement of Chinese industry. The record of Chinese aviation safety have been among the best one. And we know the safety of aviation is the combination of many factors – the training, the equipment, the institution. The safety means China has a quite good combination of the – of these factors.

Since 2000 – (inaudible) – of coal mined in China has been lowered by 90 percent. Previously it was 3,000 deaths per million ton of coal. Now we reduced to 300 deaths per million ton of coal. But it’s still 10 times higher than the death rate in the United States. From 2002 to 2011, (load ?) traffic casualties were reduced from 160,000 to 62,000, while the number of cars have almost quadrupled. These examples are small indicators, but it indicates how the Chinese society has been changed.

Chinese economy in the international context: We supply global supermarkets with low-price goods and has raised the living standard of average citizen around the world. We export (freezer ?), washing machine, and recently we export cars with low price and adequate quality. So many people in the developing country, they can purchase a (freezer ?), can purchase cars, washing machines, because Chinese goods is quite cheap. China also import increasingly high amount of goods and services from the rest of the world. We import lot of resources material such as timber, iron (ore/, oil ?) and food.

We have a very developed infrastructure, including express highways, airports, power plants, ports, subways and a (telecommunication ?) system. As compared with other developing countries, I think China’s infrastructure is the best. China has many luxury hotels, even more luxury than hotels in the United States. I don’t think it is a good thing, though – (laughter) – because the rich and the poor has a very big income gap. But China has run a very large trade surplus, loading (ph) – leading to 3.3 trillion foreign exchange – 3.3 (trillion ) dollars of foreign exchange reserves. And it creates a big imbalance in the international financial sector.

What is happening now? Political reform has lagged behind. So the economic reform we have progress quite big, but the political reform lagged – very much lagged
behind. The human rights protection is – although it’s improving in a way, it still very lag behind. Vested interest groups are becoming increasingly powerful. Frequent abuse of government power – so (there is ?) a clash between the people and the government. Human rights are not well-protected. Privileged social classes are prevailing. On international affairs, China may not always stand on the right side. (Very often ?) we stand on the side of North Korea or – (inaudible) – and Zimbabwe. Current economic boom cannot be sustained without serious reform. That is the current situation in China.

Now I will say a few words on China’s immediate challenge. Most of the primary energy supplies in China come from coal. By year 2009, coal – (inaudible) – the carbon emission in China is greater than the national carbon dioxide industry in the United States. But the population in China is four times as big as the U.S. population. So as China relies so much – so heavily on coal, so clean coal technology might be the only solution. We cannot get rid of (all ?) coal.

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China was an oil exporter before 1993, but now more than a half of the oil consumption comes from imports. And we don’t have a strategic oil reserve, not like the United States and Japan. You have large amount of strategic oil reserve to prevent the interruption of supply. China is developing at an expense of its environment. Almost all rivers and lakes in China have been polluted. When I visited Japan last year, I see every water in Japan is clean, no pollution. I admire Japan very much.

The true cost of coal in China – the coal price in China is too low, (as ?) I think, because it doesn’t include the social costs because of the environmental damage. The social costs include land – (inaudible) – contamination of underground water (reserves ?), not only contamination, damage the underwater system. So the supply from underwater system frequently was damaged because of coal mining. Coal (washing ?)-related water pollution, air pollution, emissions, (discharge ?), mining accidents, et cetera. That is the coal social cost.

The true cost of coal in China is at least 23 percent greater than its market price. If externalities were internalized, the GDP would only be reduced by less than .1 percent, while total social welfare would increase by 1 trillion yuan – that is for year 2007 – due to the corrected coal price signal and a more efficient resource allocation.

Finally, I will talk on the relationship between China and the United States. I think the misunderstanding between these two countries – before the year 1949, these two countries were close allies. United States helped China defeat Japan. If – without this help – (inaudible) – can never defeat Japan. Since the Korean War, in the year 1950, bilateral relations became hostile in nature. During Mao Zedong’s ruling, he very often organized mass protest against the United States, saying United States is the biggest enemy of the Chinese people.

[00:23:46]

After economic reform, this idea greatly changed. But I think still there is a big misunderstanding between these two countries. And I think China often is (still ?) on the
wrong side and have not realized it’s made mistake for a very long time. More than 60 years have passed. It is a time to – for China to change its position.

Communism has lost attraction, because the failure of the Soviet Union has taught the whole world, especially China, a good lesson. China has moved to a capitalistic economic system, which has proven to be very successful. But old ideologies die hard. Communism is still China’s official ideology. It is a theory with great attractiveness in the – (inaudible) – Chinese society, especially with great mass of poor people. They believe that communism could be – provide a bright future.

China perceives U.S. as a potential enemy. That is the Chinese official standpoint. Every action taken by the U.S. government is suspected with evil intention. For example, this time I got the – awarded prize of Milton Friedman for Advancing Liberty. And the Chinese government – in fact, this prize helps the Chinese people to get more individual freedom. But the Chinese government don’t think so. They try – they made me think that United States see this kind of prize includes a certain evil intention.

Problem on the United States side – don’t fully understand that Chinese government is actually performing quite well, much better than the average among developing countries, both our economic aspect and our political aspects. There have been no capital punishment for political prisoners in the past 30 years. As we know, in Egypt, in Syria, in Libya there are many killing – capital punishment against political prisoners. But in China there has no. China is very open. Every Chinese citizen can go abroad without any problem. China has ample opportunities to access outside information. Almost all Chinese government official, they have go abroad. They have – they have abroad. And they know what’s happening in – outside of China.

[00:27:31]

China is no longer what it was 30 years ago. And it is advancing towards liberty, though slowly. Although the danger of being outspoken – and the rate is declining in China. I am a person of outspoken, but I don’t fear any danger. OK, thank you. This is my presentation. (Applause.)

MR. TU: Thank you, Mr. Mao, for your comprehensive review of the Chinese history, the Chinese economy, the true cost of coal in China and Sino-U.S. relations. I’d like to open the floor to you for comment.

MR. PAAL: Well, thank you, and good morning, everyone. If you have your cellphones on, please turn them off, because it’s – when we get to the question-and-answer period, it'll interfere with the system here.

First I want to say what an honor it is to be invited to make a commentary on Professor Mao’s presentation this morning. Just to be in his presence is a great honor. The history he has talked about is the history he has lived. The contradictions in Chinese society and modern history are things he’s experienced. And so we have a true witness here to the very passionate and dramatic changes that have beset China over the last 50-plus years. The ability, as he as demonstrated, to speak truth to power from a position of knowledge and
speciality (ph) in his energy studies is something that really stands out in China. That’s why we have seen people stand up and sometimes pay very high price for expressing themselves in China today.

[00:29:35]

Mr. Mao talked about China’s successes with economic reform. And anybody who goes to China today will see these in the big urban areas certainly: dramatic infrastructure, as he mentions, the high rises, the hotels he mentions. I just came back from overseas and arrived at Newark Airport and was reminded of how our positions have changed in the world. Newark and Bangladesh are pretty close together while the China that people think about – the China people experience today is what we used to think America stood for in terms of high tech and progress.

Nonetheless, China is beset by these contradictions. The economic reforms that took place starting in 1978 proceeded at a pace more accelerated in the very productive years when Zhu Rongji was premier of China. And he – as a strong leader, with the support of his – the rest of his government, drove reform to a very significant degree, to the point where China actually joined the World Trade Organization in 2002, left a great legacy of China emerging into the international environment.

But in the last six, seven years, maybe a little bit longer, financial sector reform has lagged. It seems to have become the property of a small number of people in China who have privileged access by virtue of their party position. And they’ve chosen to freeze the financial system in time. You can see, by watching closely, that there are people in China trying to move the consensus – again, trying to move forward on financial reform. But it hasn’t happened yet.

[00:31:17]

And I think that’s one of the great questions that hang over us today: Will China be able to resume the kinds of reforms called for in the recent volume produced by the World Bank and the National Development and Reform Commission called China 2030, which said that you need reforms across the whole range of domestic, financial instruments, from currency to interest rates to diversification of investment vehicles and a diversion away from the property focus of so much investment in China in the last five, six years.

On the subject of political reform, there again we’ve seen a lot of progress in the ordinary lives of Chinese people. Many of you will have come from China. Many kids can make decisions about their future they could not make not long ago. But you still find political expression is extremely confined. And in recent years – last three or four years we’ve seen actually retrogression in terms of the ability of people to organize politically and to speak out politically.

Yesterday we witnessed a very remarkable event. In the morning we saw a well-known activist – I don’t call him a dissident – Chen Guangecheng. He’s been trying to enforce Chinese law and get justice in China. To me, that’s not what a dissident does, that’s
what a justice seeker does. In the morning, he seemed to have been granted the ability to
have a new kind of life in China.

And that, to me, struck me as a major step forward, potentially, that the Chinese
government would contemplate the terms that had been agreed with the U.S. government.
But for very understandable reasons, deep mistrust continues to exist in China about
whether the Chinese government would keep promises as it has just made. And now we see
this story has taken many twists and turns in the last 24 hours. And the outcome is still
uncertain.

[00:33:18]

Professor Mao mentioned his admiration for Japan, dealing with the pollution in
Japanese waters and air. I look at Japan and I see what China can do. I first moved to Japan
in 1972. And when I went into Tokyo to the Kawasaki District, I could not see from one
street to the other because of the heavy pollution from the coal-fired steel industry in the
Tokyo suburbs. In those days the Japanese had started to wrestle with the poisoned waters
of Minamata Bay where lead, brought into the water by chemical processes and nearby
industrial plants, was literally poisoning the people who ate the fish from that bay.

It’s – they were able, though – in Japan, through high technology and through social
cohesion, to overcome this major objective and that’s – obstacle. And I think China has
every prospect of doing that too, but it’s going to take tremendous leadership and awareness.
I want to thank Mr. Mao for being part of making the awareness of what coal and its
burning in China is doing to the water, doing to the air. That’s the one thing you do notice
beside the high buildings and the infrastructure when you get to Beijing.

[00:34:36]

Just finally, I’d say it’s really fitting that you get the award of the Milton Freidman
Award. Very much like Milton Friedman, I think the people who selected you understood
that you’re – you stand up and speak truth to power and do it in a way that applies itself to
the practical economics of our life, and now economics and personal freedom reinforce each
other. It’s interesting that your website has been shut down, seemingly in reaction to the
award of the Milton Friedman prize.

It was in – I forgot which year – but it was in the late 1990s that Zheng Bijian, the
then-deputy head of the Central Party School, invited Milton Friedman to come and lecture
at the Central Party School. People have forgotten so quickly in China, and sensitivities
seem to be unnecessarily high in China over this kind of discussion. Let’s hope soon that
you will be back at the Central Party School and helping to fill in for the absent, passed away
Mr. Milton Friedman.

[00:35:42]

So those are my observations. I look forward to the questions from the audience.
Thank you. (Applause.)
MR. TU: Thank you, Doug, for your wonderful comments and also your optimistic view about the Chinese politics. Before I open the floor to the audience, I’d like to raise two questions. The first one is about China’s energy sector, for Mr. Mao. (Inaudible) -- met with you in Beijing, it’s a pity for me to know you don’t work on energy issue anymore. However, I’m still very interested in knowing your opinion about what’s the three most (surprising/pressing ?) issue in China’s energy sector.

MR. MAO: I think there are three pressing issues. First one I think is to save the oil supply. China does not have a strategic oil reserve. We have very little – less than one or two weeks import as a strategic oil reserve. The second one is to raise China’s energy efficiency. China consumes lot of energy, but the efficiency of consumption’s quite low. So I think we should raise the energy efficiency. Just – (inaudible) – (three points ?).

MR. TU: Oh, OK. So because the U.S.-China relations is certainly the most important and complicated bilateral relationship in the 21st century, so I would like to raise another question on behalf of those political junkies in this room for Mr. Paal. So if the White House seek your opinion about what the U.S. president should pay attention to in order to sustain the U.S.-China relations, what would be your response?

MR. PAAL: Well, I think the thing that’s – we haven’t had in quite a few years – it’s been three decades, really – is a serious conversation between the paramount leaders of both countries about their long-term ambitions and concerns. Just as a point, an example is North Korea. We have a lot of suspicion of one another about our ambitions for the Korean Peninsula. The U.S. is suspected of trying to destabilize North Korea and to reunify the Korean Peninsula under the South Korean government.

And China, but – from its own position, believes that stability on the peninsula and no threat to the North Korean regime is the preferred outcome so that China will not be confronted one day with a U.S. ally on the Yalu River at its northeastern border. It wants to have a buffer state of North Korea. The cost of that to both us has been very high because of the misbehavior of the North Korean regime.

[00:39:15]

I think our two leaders should sit down and explain to each other what we will and what we will not do if events transpire in North Korea that – and leading to a collapse of the regime. The United States can offer, for example, an assurance that we would not put our forces on the Yalu River or in North Korea. That would be for South Korea to do if it takes the government over as a unified Korean Peninsula. China can say that it would not send its troops to defend such a regime, but would help in cooperating internationally on the refugee flows and international assistance that the very poor people of North Korea would need in such a circumstance.

And we can go down the list, concerns about each other’s activities in the South China Sea, where China has territorial claims and ambitions and the United States is suspected of trying to contain China using the Philippines and other countries. These are things that should be addressed at the highest level. We haven’t really done that since Zhou
Enlai sat down with Henry Kissinger and Richard Nixon. And it’s time to find the — summon the wisdom and courage to do that on both sides.

[00:40:22]

MR. TU: Thank you. Now I’d like to open the floor to the audience. Before you raise your question, please first await for the microphone and identify yourself and your affiliation, followed with a short and a real question. (Laughter.) And because of Mr. Mao’s age, you are encouraged to speak as noisy as you can. (Laughter.)

This gentleman in the front.

Q: Professor Mao, very nice to meet you. I’d like to ask you a question about the current political situation in China, dealing with Bo Xilai, and not so much about Bo Xilai but the ramifications — for instance, the leading families, the powerful families in China, it was kind of an unspoken rule that they never got challenged. They were kind of left alone.

But now with the Bo Xilai situation, obviously his wife may go to prison; he may go to prison. And with the unstable power transition taking place in China, is there the potential where more in-fighting could occur among this new crop of leaders in China, especially with the delicate economic situation that is also at stake?

MR. MAO: (In Mandarin.)

INTERPRETER: (In Mandarin.)

MR. MAO: The first, to comment on this change, is the very little transparency within the top leaders, not like the case in United States. Your president is under a glass box. Everybody can see him. But in China, the top leaders are circled by — not transparent. So we know little about the — who says what and who against who is — or they are fighting each other. We know very little.

Just because Wang Lijun, the chief of the police office, went to U.S. consulate in Chengdu, and this exposed his views. Without his coming to the U.S. consulate, Chinese people were told nothing, would know very little. So first one is, I think it exposed the internal clash among the top leaders. Otherwise we don’t know.

[00:43:07]

The second one is Bo Xilai’s policy. He followed Mao Zedong’s idea. So in Chongqing he constructed big status — (in Mandarin) —

MR. PAAL: Statue.

MS. : Statue.

MR. MAO: -- statue of Mao Zedong, very big one. So you see this very big conflict in Chinese people. For me myself, as I (say it ?), Mao Zedong killed 500 million — 15 million
people because Great Famine which caused some 300 – 36 million – and also because he killed political prisoners – a mass killing. So I said he's the biggest killer in the 20th century.

[00:44:16]

But still, many Chinese people who are – who have hard living – hard life, they still believe that Mao Zedong could provide a better future. That is the big problem with Chinese society. The current government tried to hide the wrongdoings of Mao Zedong. So that – what’s happened in the Cultural Revolution, what’s happened during the three years of Great Famine? The young people don’t know at all. We old people, we know. We suffered by ourselves. But the young people, they know little about this – Mao Zedong’s case. So there would be a big problem with Chinese future.

But anyway, I think the young people whose age is less than 40, they know very little about the – Mao Zedong. Anyway, the facts will be revealed. It cannot hide forever. Anyway, it will be – the truth will be told to every Chinese. Then – only in this case we can adjust Mao’s idea and we will accept the so-called common value – (in Mandarin) –

MS. : Common values.

MR. MAO: -- common values – worldwide common values, that is liberty, human rights, democracy, rule of law. Only this case – in this case China can accept the common idea – common values.

MR. PAAL: Universal values is a term, yeah.

MR. TU: Yeah, this lady here.

Q: Hi. Thank you, Professor. My name is Lisa Friedman. I’m a reporter for ClimateWire. We’re an energy policy magazine here in D.C. And I also would like to turn it back to energy, if I might. China won a lot of praise for its carbon intensity target it made before the Copenhagen big climate summit a couple of years ago, to cut carbon intensity 40 (percent) to 45 percent below 2005 levels by the end of the decade.

I’m wondering, do you think that goes far enough? Can you – can you give us a little bit more detail about what you’d like to see China do when you say internalize the true price of carbon? And does it involve setting up a carbon market? What are – what are perhaps the prospects for that? I know there’s some pilot projects in China, but would a – would a carbon market help do that? Thank you.

[00:47:29]

MS. : (In Mandarin.)

MR. MAO: (In Mandarin.) As I said, the energy efficiency in China is low, especially compared with Japan. So we have a big potential to improve the energy efficiency and to reduce the coal emissions. Chinese government has published a policy to encourage the development of renewable energy. So we have maybe the biggest producer of wind
power and photovoltaic. But because of the high costs, I see that is a big burden – economic burden for the Chinese government. If we have such large portion of renewable energy, so it might not be sustainable.

As long as we have no (breakout ?) on technical innovation, renewable energy, I think the renewable still takes a small percentage on the total – (inaudible) – energy supply. (In Mandarin.)

MS. : (In Mandarin.)

MR. MAO: One issue is on the future of the nuclear power. In China, we developed many nuclear power plant. Usually we – because no (much coal ?). As I said, about three-quarters of the (prominent ?) energy supplies come from coal. But now we have more and more power supply coming from nuclear power, although it’s quite expensive. But we are trying to reduce our carbon emission, so we construct a lot of power – nuclear power plant. That might be adjustment on the carbon emission.

[00:50:04]

Additionally, China will – China has a big reserve of coal – of shale gas. (In Mandarin.)

MS. : (In Mandarin.)

MR. MAO: Shale gas. But we – the technology in China is – we don’t have the sufficient technology to explore the shale gas. But I believe in the coming years, China will get the support, especially from the United States, to develop the shale gas. That will reduce the carbon emission by replacing coal. (In Mandarin.)

MS. : (In Mandarin.)

MR. TU: One quick comment. When we look at China’s rising carbon emissions, that’s a fact. In 2009, coal-fired carbon emissions in China were 10 percent higher than the national carbon dioxide emissions in the United States. But we need to pay attention to at least the Chinese government is very serious about climate change. I give you two examples.

First one, during China’s 12th five-year plan period, the NDRC and the National Energy Administration plans to cap China’s national energy consumption at 4.1 billion tons of coal equivalence and the national coal supply and the consumption at 3.9 billion tons. However, this will – this won’t work real well. If you want to know why, please see my op-ed outside this conference room.

[00:51:56]

And second issue, China is preparing its national climate adaptation strategy. And they are preparing for a scenario the global temperature rise will be about (two-tenths ?) a degree by 2015. This just shows how serious they are about their climate change issues. So because the rising global carbon emissions is a global challenge and we need global solutions.
So that’s why it’s very important for both United States and China to work together closely on this issue, because these two country – (inaudible) – are the leading carbon emission economies in the world.

OK. This lady.

Q: Hi. First, thanks, Mr. Mao, on your wonderful presentation and congratulations on the prize. I – my first question is on the state-owned enterprise. So as we already know, the state-owned enterprise are vital sectors – are in vital sectors in China. And they have done tremendous work. But recently, their tough leaders from the government have been stressing on the reform issue of the structure of state sectors. And I think it’s very important and I want to hear your take on that.

[00:53:33]

And also the second question, follow up your shale gas comments, so as all know, shale gas development in the States is largely driven by technology and market incentives, normally small- to middle-sized companies. And that doesn’t really exist in China. So if you want to develop shale gas in the long term, we have to figure out ways to develop the enterprise that’s probably – reform or enterprise that’s separate from the big, state-owned ones. So I wanted to hear if you have any suggests for the reform.

By the way, my name is Lin Xi. I’m from the CSIS energy program. Thank you.

MS. : (In Mandarin.)

MR. MAO: On the reform of the state enterprises, in (years ?) 1980s a mass number of state enterprises has changed to have privatized because many of these SOE, state-owned enterprises, they are losing money. So it create a big burden for the Chinese government. In order to reduce these kind of burden, the Chinese government has to change the ownership of the state-owned enterprises. So more than 90 percent of the state-owned enterprises privatized.

[00:55:36]

As – at the beginning of the economic reform, there is absolutely no private enterprises – 100 percent were state-owned enterprises. So in the 1980s, 90 percent – more than 90 percent of these SOE have been privatized. The remaining SOE are very big company, especially in the banking system. Almost all of the banks – Chinese banks are state bank. In the – (inaudible) – industry, in the telecommunication, in the railway, all of these are state-owned enterprises.

Their efficiency is low, but they have monopolized the price – the price high, so they create a huge amount of profit, not because they’re efficient, but because they’re monopoly. So – and their profit, they not handing it to the state. They retain their profit for internal use. In the past 10 or 15 years, the state revenue, because of the SOE, were very, very small. So it didn’t make sense to retain this kind of ownership. So there’s a strong voice to change the ownership.
Anyway, these big enterprises, they have become very powerful not only on economics but also on politics, because they have a huge amount of resources in their hand. They can collide with the – (in Mandarin).

MS. : (Off mic.)

MR. MAO: They cooperate – collaborate with the political force, become a very strong structure of the vested interest group. So now it's very hard to (build ?) this kind of structure. It is a big challenge ahead of Chinese economy.

[00:58:21]

The second way is on the shale gas. You're right, China has quite a few – not so many small and medium enterprises. But anyway, after 30 years of economic reform, the private sector is growing. So it comes from the zero percent now it take more than, say, (6 ?) (percent) or 70 percent in the economy. The state enterprise takes on 30 (percent) to 40 percent in terms of employment or in terms of – (inaudible).

MR. TU: Yes. The energy sector in China is tightly regulated by the central government. And whether those state-owned energy company can provide a similar level of technological innovation, which is a key for the development of shale gas industry in the United States, that is still an open question in China. I'm not very optimistic about shale gas development in China. (Inaudible) – for those (poor ?) missing shale gas basins in China. Water availability might be a concern from a Chinese company to tap into shale gas potential in the future.

Gentleman in back.

Q: Thank you, Professor Mao. Paul Courson from CNN. Your – the third part of your presentation today was on Sino-U.S. relations. And I'm wondering if you can elaborate on how the impact of the Mr. Chen matter might affect U.S.-China relations and whether anyone else in a situation to be able to help someone like Mr. Chen will now be frightened against doing so, which could hurt human rights in China.

MR. MAO: (In Mandarin.)

INTERPRETER: (In Mandarin.)

[01:00:38]

MR. MAO: Oh. (Chuckles.) I know very little about the case, because I said in China we got very little news about this case when I was – tomorrow – yesterday I was in Beijing. I got almost no news from official China. We’ve got only some idea from the Internet. But on the Internet there are different kind of news. Sometimes they are tell the truth, but sometimes they tell a lie. I don’t know what is true or is false.
But I have an idea that Chen Guangcheng’s case, for himself, is a very big – because it is a problem of human rights, individual human rights. However, in this case, to set in the relationship between U.S. and China, I think it is very small one as compared with so many big problems with these two countries. This case should be a small one. But the diplomatic officials in both countries, they make the minor case into a big case. This is their job – (laughter) – to make simple case a complicated case, an individual case become a state case.

So I wonder why these diplomatic officials – their job I think should make complicated case into a simple case, but – (inaudible) – they make – they make a small case into a big – very big case. Carnegie Foundation is a peace foundation. (Laughter.) I would advise Carnegie Foundation – (inaudible) – the diplomatic officials, all of the world to change that habit. Don’t make simple case to be a complicated case. They should – (inaudible) – the opposite – complicated case become a small case. That would provide a better world peace.

(In Mandarin.) (Laughter.)

MR. TU: Yes. Doug, since this recommendation was made by Mr. Mao to you, not to me – (laughter) – so I'd like to know whether you have any follow-up comment?

MR. PAAL: Well, I – my – one of my mentors was – (clears throat) – excuse me – former ambassador, now the late Ambassador Jim Lilley. And one of his watch words was that when you work on China, if you can’t stand contradictions, get another line of work. (Laughter.)

[01:03:54]

We’ve had – we’ve had some hopeful signs. I think the Chinese government in the management of the case that we’re discussing has shown a pragmatic approach throughout the – they proceeded to hold, starting today, the Strategic and Economic Dialogue talks. I don’t imagine the talking points prepared on the Chinese side have really changed in the last week despite this event that took place, that they are trying very hard to educate the Chinese people to understand that this – the U.S. relationship is very important to China’s future, and they’re trying to keep it on a pragmatic basis.

But the contraction that is there too, which is we’ve now had American consulate in Chengdu and the American embassy in Beijing dragged into China’s internal political struggles and in close proximity and with big consequences. This is risky for diplomacy. This is risky for diplomatic institutions. It’s not what diplomatic institutions are supposed to do. As the announcement said from the State Department yesterday, this is supposed to be an unusual occurrence, not one to be repeated, because there are – the repercussions can be quite large.

[01:05:05]

And I worry that there might be a double edge to this one. I’m getting lots of information. All of us who watch China closely are getting lots of information about deep
distrust of the United States growing in party and popular ranks over American policy in a
number of dimensions. And I can easily see where forces that want to set back this
relationship could harm us – these two separate but powerful episodes internally – to try to
change the direction of policy. So I think this is a time for us to be very careful, very modest
in our expectations and requests and try to do the best that we can for the individuals
involved. Thank you.

MR. TU: This gentleman in the front row.

Q: Thank you. My name’s Zhou Tianqiu (ph). I’m a graduate student in public
policy of – from George Washington University. And thank you very much for Mr. Mao
and Douglas. I have two – I have two question for both of you.

First question is about the political reform. Just as Mr. Mao mentioned, China’s left
behind the political reform and after the economic reform, so – and you know the premier
minister, Wen Jiabao, also said many times that the – if we don’t have political reform, the
benefit again from economic reform will lose again. So I want to ask you, are you optimistic
about political reform in China in the near future, and especially after Wang Lijun’s – Wang
Lijun’s case and Chen Guangcheng’s case? I think this is very important for our Chinese
student to study or work in China, especially for us in public policy. So I want your
comments on that.

[01:07:11]

And the second question is about the Sino-U.S. relationship. It’s very sad to say that
China always stays behind with Russia when we are – we want to, like, deal with some issue
like North Korea or Syria or Iran. So what’s the real reason for the misunderstanding
between U.S. and China? It’s only about historic or ideologic (sic) reason or there’s other,
like, political benefit or – so do the Chinese leaders really embrace the common values in
China now? And so thank you.

MR. TU: Doug, why don’t you start first?

MR. PAAL: On political reform, I have a reasonably optimistic outlook, but it’s not
a short-term expectation. It’s a long-term expectation. And it’s founded primarily on the –
my confidence that generational change is going to drive it. We’ve – going in this current
year, we will see the departure of a generation of technocrats from the Politburo Standing
Committee in the Central Committee replaced by people who’ve been educated largely in the
– what we call the social sciences. And that will – and there are many people in the new
leadership who’ve got much more foreign experience and whose children are in the West
and who are sources of feedback on the outside world conditions. And I think that’s going
to have a beneficial effect, but it’s going to take time.

[01:08:50]

It is still taboo in China to tell the true history of China. You can – you have to tell
the 1954 version of Hu Qiaomu’s portrayal of the depredations of the West and the heroism
of the Chinese people. And if you stray from that to say, well, maybe the West did
something good in the 19th century, you’re in trouble. And that – if you can’t open people’s minds to the reality of history, you can – it’s a difficult foundation for political reform in the short-term. But I think in the long-term, Chinese are curious people. Their minds wander. They will – they will get to this point when they are – when they find the freedom to do so.

Second question was about the U.S. relationship and the sources of concern – why we have such different views. The – China has – of course comes with a history of relations with the Soviet Union, North Korea, fellow socialist states. There are very few left. And China has – because of this historiography of China’s standing up alone against the world, they’ve – they have – it’s not easy to articulate in policy terms alliances with other kinds of countries, the nonsocialist countries. It’s difficult – it has always been difficult for China to be in an equal relationship with its neighbors, because the neighbors have tended to be much smaller than China and the – China had a dominant position vis-à-vis each of them.

[01:10:15]

In the last two years, China has gone through a cycle where in 2008, 2009, 2010, China had massive successes in dealing with the world financial crisis, hosting the Olympic games, the Shanghai Expo, the Asian Games, economy was rippling along, money was coming in. In 2010, we saw when China confronted some issues in the South China Sea, the East China Sea and on the Korean Peninsula. The leadership in China was – responded to this sense of pride and boastfulness by sort of overreaching. And China managed to score an – (inaudible) – (in Chinese) – as they say in Chinese, against itself by overreacting, causing the neighboring states to retract themselves from their relations with China and to draw closer to the U.S.

I would say the U.S. has now – in terms of international relations in the region, has readjusted the coalition of forces. Many people in China think the U.S. is on a steady decline and – our powers. But in fact, the last few years, the U.S. power has actually grown in the region and has the promise of continuing to do so. China, meanwhile, sees its allies – Burma is now moving West, Russia is not an ally they can trust, North Korea is a hopeless case. And so they need to take stock of the situation in which they find themselves. I think China’s leadership, as I said earlier, is very pragmatic about this. But the underlying political support for foreign policy in China is still blinkered by this – blinded by this historiography that has unnecessarily limited the flexibility of a great nation.

MR. TU: Certainly China is at a critical crossroads to deal with its political system and also the international relations. Mr. Mao, what’s your opinion?

MR. MAO: (In Mandarin.)

MR. TU: (In Mandarin.)

MR. MAO: The brief question is the future of political reform. If we look back the 30 years after the economic reform, we can see the very big progress in – not only in economics, but also in politics. So the general trend is getting better and better. But it always have up and then downs – (inaudible) – to get the political reform.
The source of the conflict between these two countries – I think that is a legacy of the Marxism. I think Marxism is still attractive. For example, in the United States, you have the – a few – a few months ago you have the Occupy Wall Street; that is a – people not only in the United States but also in Europe – European countries. There are some strong response to the case of Occupy Wall Street. That means people pursuing equities is a very strong force.

So not only in case between U.S. and in China, but even within the United States as well within China, we have these kind of conflicting interests, some pursuing equity, some pursuing efficiency. So these kind of clash might be always in the future – I think this – when the mental source of the social unrest in – (inaudible) – U.S., in China, in all of the countries.


Q: Thank you very much for your remarks today. I’ve enjoyed this talk very much. My name is Katie Kiely (ph) from the Department of State. My question is, you just touched on equity. And I was wondering if, in your opinion, what do you believe the impact of rising inequality in China will have on the adoption of increased political transparency, greater human rights and just overall advancement toward democracy? Thank you.

[01:15:49]

MR. MAO: The transparency of political affairs, I think it is a process going through the rule of law. If we have rule of law, the transparency must be provided. Otherwise, like the case in China, especially in Chongqing, especially like the Chongqing government, there is no rule of law, just a rule of one person, that is, Bo Xilai. Before the economic reform, the rule of one person, that was Mao Zedong. These are a very dangerous case. If we have a rule of law, then everything greatly becomes transparent. So I believe – I believe the problem of the transparency is a problem of rule of law, also a problem of – the purpose of rule of law is to protect the human rights. I said in the – in Chinese case, the protection of human life is getting better. And in the year of 2004, we changed the national constitution. We included human rights, Chinese government protect, recognize, admit the human rights and protect human rights. It is included in the national constitution. However, it’s just lip service, not in fact.

If there is a rule of law, we have – still have the problem between the rich and poor. It is always a problem of human society. I cannot imagine everybody has the similar income. It’s almost impossible – unless, in the Mao Zedong era: Everybody is the poor one. Nobody – no rich body in Mao Zedong’s era. Everybody is poor. That makes sense, (that indeed ?), we are equal. But I don’t see this as a good future for our country. So they’re not – if you provide free choice, free and equal – (inaudible) – there must be a difference of income. It is unavoidable.
MR. TU: According to Mr. Mao, there are good income disparity and there are bad ones. How China could find the right balance in the future (in key ?) for the country to move its economic and political agenda ahead?

This lady here.

[01:19:15]

Q: Thank you, Professor Yu (ph). Congratulations for your prize, as well as thank you for your great presentation. Actually, I have a question for both of you, Doug and Professor Mao – Professor Mao.

STAFF: Identify yourself.

Q: OK. I'm a graduate student at – (inaudible) – School of International Affairs – (inaudible) – University. My question is, actually I have – from your presentation I see some differences between – differences of energy security visions for – both at Beijing as well as United States. Actually for – on Beijing’s (side ?), it assumes that the Chinese government has established state control over national – over natural resources as well as the energy and transportation, roads. But on the U.S. side, the energy is kind of – the energy structure is kind of based on, like, integrated and transparent global market as well as, well, I mean, a private investment and private technology innovation. So how do you – how do you envision the character of energy relationship between China as well as the United States? Do – if there is no bridge – I mean, how to establish a bridge over these two power? And do you see China – in terms of energy security, is China a kind of revisionist power, or is China a status quo power? Thank you.

[01:20:58]

MR. TU: Before Mr. Mao respond to this question, I’d like to make a short comment. If you look at China’s energy security picture, currently China’s foreign oil dependence rate have peaked at historic high at 56.5 percent. That’s a very serious – (inaudible) – for Chinese decision-makers. If we look at the picture in the United States because of domestic shale gas and the shale oil development, currently United States dependence rate on foreign oil keep declining. And now it’s far below 50 percent. I will say this type of reverse trend can certainly create room for closer bilateral collaborations between China and the United States on global energy security issues.

Mr. Mao?

MR. MAO: Yes. On the energy market – on worldwide energy market, U.S. and China are competing to supply of oil. U.S. is still an oil importer, although it’s declining. And in case of China, we are increasing the oil import. So on world market, China and the United States are competing oil supply – not only these two country, but also Japan and many other oil-importing countries.

However, there is a world market – the market rule, so – (inaudible) – kind of conflicting interest. So there’s no war for oil supply between U.S., China, Japan and the
European countries, because there is a world market arrangement. So in this sense, I always say because of the world – global – (in Mandarin) –

MR. PAAL: Globalization.

MR. MAO: -- global market integration –

MR. PAAL: Globalization.

MR. MAO: -- the war because of resources will never happen again, because there’s a market. You can purchase any kind of resources on the market, but not use your warships to fight, to open fire to get the resources. Before the second world war, Japan invaded China because he wants to development, but he does not have any kind of resources. So Japan occupied China and occupied Southeast Asia just for resources. Now Japan becomes a very well-developed country. And it has some ample supply of various kinds of resources, but not through warship, not through battle, but through the market. And also in Chinese case, we have import a lot of resources. We don’t have any war against other countries.

So I think the primary importance of the statement of all the country is to protect the market, not to damage the market. But I think many – the leaders of the country, they don’t understand the importance of the world – of the market. The integration of the world market provide world peace. If you violate, damage the world market, then war must follow.

MR. PAAL: The United States is on the verge of achieving energy independence after decades of fighting over what our energy policy should be. And it’s being done by the private sector without an energy policy. I think the promise of U.S.-Chinese cooperation on energy is also in the private sector. If you look at the recent purchase by the Chinese National Overseas Oil Corporation of a large percentage of Chesapeake Energy, which is the leader in the shale gas-producing industry in the U.S., you can see a good example.

[01:25:57]

In the 1950s, when the U.S. suddenly had the world thrust upon itself, we went looking for oil farther afield, and we ended up in some very awkward places in Africa and Middle East and other, where we didn’t know what we were doing but we stamped our feet a lot and made ourselves kind of ugly. In 1970, we really learned to trust the market, as Professor Mao has been saying. The trick is time. In 1970s, Japan did the same thing after the oil shock. They went into all sorts of places, tried to lock up strategic relationships and prices to guarantee an energy flow. But over time, they – Japanese major firms became more trusting in the market.

And I think we’re watching the same thing with China today. They went into Sudan, they went into some other places, special relationship with Iran. And they’re discovering that these have political burdens and they are often human resource costs that China cannot meet, because they don’t have the talented people to work in these complicated environments. And they’re – and we saw recently in Iraq, where oil rights were given for
drilling, that China joined with an international consortium of big oil companies that have a high technology and the deep resources to do a good job of extraction of that oil.

So I think China is also learning the market and how to cooperate in the international market. What we do have to worry about is what Professor Mao fears, and the most pressing of those concerns is a potential conflict over Iran, which would really disrupt international oil markets.

[01:27:24]

MR. TU: This will be today’s last question.

Q: I'm Wei Hongxia. I come from the Institute of American Studies, CASS, the institute where Mr. Mao (ever ?) worked. And now I'm a visiting scholar at Carnegie. My question’s for both professors. At the beginning of Obama administration, China got a signal of partnership that was a very good beginning. At the end of his term, but now distrust is highlighted and bilateral relations is bumpy again. And could you give some reasons of what happens between the two countries now? And could you predict, if Obama re-elected, what about another beginning? Thank you.

MR. PAAL: What about another?

Q: Another beginning.

INTERPRETER: (In Mandarin.)

MR. MAO: (In Mandarin.)

INTERPRETER: (In Mandarin.)

[01:28:51]

MR. MAO: The facts is China and the U.S. are very big country. And as they have so many relationship to the – to be there with. So whatever your policy, you have to face these kind of relationship problem. You have to follow a policy to solve these questions. So I think President Obama will follow the policy to getting better for this relationship between these two countries. I think the future of the Chinese politics could be getting better. So the ideologic (ph) contradiction between these two country might be getting better, might be declining. So the future, I believe, would be bright.

MR. TU: Now, Mr. Mao, on behalf of the Carnegie Endowment, I'd like to present you three books. These three books are about Mr. Carnegie and also his endowment. I wish you not only bring these book back to China, but also bring the universal value of international peace –

MR. MAO: Yes.

MR. TU: -- back to China.
MR. MAO: Thank you very much.

MR. TU: Yes, thank you very much. (Applause.) (Inaudible) – thank you very much.

(END)