

What Should the Next American President Do About China?

Thursday, October 4, 2012
Washington, D.C.

Welcome:

Jessica Mathews,
President of Carnegie Endowment for International Peace

Moderator:

Robert Lustig,
Presenter,
BBC “The World Tonight”

Debaters:

Elizabeth Economy,
C.V. Starr Senior Fellow and Director for Asia Studies at CFR

Chas. W. Freeman, Jr.,
Chairman of Projects International

J. Stapleton Roy,
Director of Kissinger Institute on China and the United States, Wilson Center

Yan Xuetong,
President of Carnegie-Tsinghua Management Board
Carnegie-Tsinghua Center for Global Policy

Transcript by Federal News Service
Washington, D.C.

JESSICA MATHEWS: Good afternoon. Jessica Mathews, president of the Carnegie Endowment for International Peace. It's a great pleasure to welcome you to the third in a series of pre-election debates, which we've been holding. The first was on Iran, the second on America's role in the world. And today we're taking up, I would say, the other of the top three issues, we think, in the foreign policy firmament, which is the United States' relationship with China.

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As many of you may know, the Carnegie Endowment has Asia program both here in Washington and in Beijing at Tsinghua University, and we're joined by our partners from Tsinghua today. We're also joined and really honored to have with us an old friend of Carnegie, the BBC's Robin Lustig, who has, in 20 years of distinguished career in journalism, hosted BBC's "World News Tonight" and "Newshour." And we've been lucky enough to have him on several previous occasions. I think all of you know him for both his piercing analysis and his wonderful voice and his deft handling of debaters. We were also lucky enough to recruit four of the very best – best-informed, most knowledgeable people on this subject.

So let me turn to Robin, and it's over to you.

ROBIN LUSTIG: Jessica, thank you very much. Good afternoon, everybody, and welcome. Thanks for coming to join us on this occasion. It's always a huge pleasure to be here at the Carnegie to do these events, because they're always very interesting and very successful.

I'd like to just explain a little bit about what we're going to be doing over the next hour and a half or so, because this is, yes, a debate, but it is also a radio show. It will be broadcast in the U.K. later on this afternoon, 5:00 p.m. Eastern, 10:00 p.m. London time. It will also be broadcast on the BBC World Service over the weekend in a shortened form. That explains why I'm going to have to do a few bits and pieces before we get under way, which will make absolutely no sense to you, but which, when they are edited into the final show, I hope at least to our listeners at home will make some sense.

[00:03:05]

The format of the show will be a bit like this. We will open it, I will introduce the theme, I will then introduce the members of the panel and I'll ask them each to say a few words. We will then hear a taped report, which I have prepared over the last few days with my colleagues from Illinois, and you will, when you hear that, understand what the purpose of that is.

We'll then go into the debate proper, which will be divided into three broad themes, which I will introduce as we go. And in each theme I will ask you to participate by asking questions if you feel so inclined. There are roving microphones. Obviously wait for a microphone to reach you, and it would be enormously helpful if you identified yourself both by name and by institution if you are affiliated to one so that our listeners have some idea who you are and where you're coming from.

If you wish to make your agreement or disagreement known audibly during the course of the show with anything that is said from here, please feel free to do so, because it's radio and not TV. The only way our listeners will know that you even exist is if they hear you.

So there we are. I now need to ask each of our panelists to say a few words into their microphone to ensure that they all work. So let us start on my extreme left. Ambassador Roy, a few words, please.

[00:04:28]

J. STAPLETON ROY: Are they supposed to be relevant words, or –

MR. LUSTIG: No, absolutely irrelevant words. (Laughter.) The more irrelevant the better.

MR. ROY: In that case, I'm glad to see such a large turnout here today, and I hope that we can stir up some interest in the topic.

MR. LUSTIG: Professor Yan.

YAN XUETONG: It's a great pleasure to join you here. Thank you very much.

MR. LUSTIG: Elizabeth Economy.

ELIZABETH ECONOMY: I just thank Jessica and the BBC as well for having me here. I'm looking forward to it.

MR. LUSTIG: Chas Freeman.

[00:04:54]

CHAS FREEMAN: Fee, fi, fo, fum, I smell the – (laughter).

MR. LUSTIG: The microphones work. (Laughter.)

I should introduce my colleagues who are at the back of the hall keeping a beady eye on what I am up to, telling me what to do if I go badly off – (inaudible). The editor of “The World Tonight,” Alistair Burnett, my producer, Dan Isaacs and our sound engineer who has made all this work, Phil Zentner – they are at the back.

Right. I now am going to do my bits and pieces. You can sit quietly and think beautiful thoughts while I do it, because your involvement is not required. So Phil, if you give me a thumbs up – OK, I'll do them.

And this is Robin Lustig in Washington, where I'll be discussing the often difficult relationship between the world's two biggest economies, the U.S. and China, with a distinguished panel of guests.

Coming up in the next 30 minutes on “Newshour,” the future relationship between the U.S. and China. Are the world's two biggest economies on a collision course, or can they learn to work together?

You're listening to "Newshour" from the BBC World Service. I'm Robin Lustig in Washington at the foreign policy think tank, the Carnegie Endowment for International Peace, from where, for the rest of the program, we'll be discussing the often fraught relationship between the U.S. and China.

[00:06:08]

And there, I'm afraid, we must stop, so my thanks to all the members of our panel, to Yan Xuetong, Elizabeth Economy, Chas Freeman and Stapleton Roy, to the Carnegie Endowment for International Peace for hosting this debate and to our audience. Thanks for listening. I'm Robin Lustig in Washington. This has been "Newshour" from the BBC World Service.

And it's over. It's done. (Laughter.) That was the easy bit.

Right. If we are all ready, we can get on with the meat of the show, I think. We hope to go on for about an hour and a half, 90 minutes, something like that. If it's more interesting, we'll do more. If it's less interesting, we'll do less. Are we happy, guys at the back? OK.

It's 10:00. This is a special recorded edition of "The World Tonight" with Robin Lustig in Washington.

You're listening to a special recorded edition of "The World Tonight" coming from the Carnegie Endowment for International Peace in Washington. We're devoting all of tonight's program to a debate about one of the biggest issues facing global politics: how the world's two most powerful economies, the U.S. and China, should handle each other.

[00:07:19]

Here in America, it's become one of the dominant issues in the presidential election campaign. Just a few days ago, President Obama blocked the proposed purchase of a wind farm in Oregon by a Chinese company on the grounds that it could damage America's national security interests. Now the company is suing the U.S. government. So what should the next U.S. president do about China?

I'm at the leading foreign policy think tank, the Carnegie Endowment for International Peace, here in Washington, with a panel of experts and an audience who, I'm sure, will have plenty of questions of their own. We'll hear from them in a moment, but first, back to London for the BBC news from Chris Aldridge.

BBC news, BBC news, BBC news. (Laughter.)

Thank you, Chris. You're listening to a special recorded edition of "The World Tonight" with Robin Lustig in Washington. We're at the Carnegie Endowment for International Peace, and tonight's program forms one of a series of debates that they're hosting on major foreign policy issues.

So what should the next U.S. president do about China? The Republican candidate, Mitt Romney, says that he – if he – so what should the next U.S. president do about China? The

Republican candidate, Mitt Romney, says that if he wins the election next month, the first thing he'll do after he takes office is label China a currency manipulator, which could spark a nasty bout of trade hostilities between the world's two economic superpowers.

[00:08:39]

Millions of Americans blame China for stealing American jobs with low pay, unsafe working conditions and unfair currency exchange rates. There are suspicions that China is becoming more aggressive militarily in the waters off its coast, and that's worrying America's allies in the region, Japan, Taiwan, the Philippines.

In a recent poll, U.S. voters identified China as the biggest potential threat to America. Both presidential candidates have been running TV ads tapping into those fears. This is one from the Romney campaign:

(Ad playing.)

MR. : Fewer Americans are working today than when President Obama took office. It doesn't have to be this way if Obama would stand up to China. China is stealing American ideas and technology, everything from computers to fighter jets. Seven times, Obama could have taken action. Seven times, he said no. His policies cost us 2 million jobs. Obama had years to stand up to China. We can't afford four more.

MITT ROMNEY: I'm Mitt Romney, and I approved this message.

(End of ad.)

MR. LUSTIG: This was the reply from the Obama campaign:

(Ad playing.)

MR. : Day one, President Romney stands up to China.

MR. : But would he? The Washington Post has just revealed that Romney's companies were pioneers of shipping U.S. jobs overseas, investing in firms that specialized in relocating jobs done by American workers to new facilities in low-wage countries like China. Romney's never stood up to China. All he's ever done is send them our jobs.

(End of ad.)

MR. LUSTIG: A flavor from the presidential campaign and how they've been talking about China.

[00:10:16]

So let me now introduce our panel here in Washington. Yan Xuetong is dean of the Institute of Modern International Relations at Tsinghua University in Beijing and editor in chief of the Chinese Journal of International Politics; Elizabeth Economy is director for Asia Studies at the

Council on Foreign Relations; Chas Freeman is a former U.S. assistant defense secretary for international security affairs, and he acted as President Nixon's principal interpreter during their groundbreaking visit to China in 1972; and Stapleton Roy, director of the Kissinger Institute on China and the United States and a former U.S. ambassador to China.

I want to ask each of you here on the panel, first of all, for your thoughts about how this whole issue of U.S.-China relations has been handled during the presidential election campaign so far. Let me start with you, Elizabeth Economy.

[00:11:04]

MS. ECONOMY: Thanks very much, Robin. I think certainly to date, the presidential campaign has not engaged China in a serious or substantive manner. I mean, both presidential candidates have targeted China as a scapegoat for our country's economic ills and have made China a target of some pretty – what I consider to be – ineffectual political rhetoric, as we just heard in those clips. I don't think this is terribly surprising. This is what happens during presidential campaigns. They're filled with this kind of rhetoric. Nonetheless, it really doesn't help to elevate the debate.

What should they be talking about? I think the issues that we're going to discuss today, namely, how can the U.S. enhance its economic position vis-à-vis China and the bilateral relationship? Are there opportunities for the United States and China to cooperate more on global issues? And does the U.S. have it right when it comes to the pivot or rebalancing, as I guess it's now called more broadly within Asia? So my advice to everybody, frankly, is not to pay too much attention to what the candidates are saying now over the next four weeks, because I think they really – these words have very little relevance for what any president will do once he gets into office.

MR. LUSTIG: Yan Xuetong, I know you've only been in town for a few days, but I'm sure you've picked up a flavor of how this whole issue has been discussed here during the campaign. What do you make of it?

MR. YAN: I think the debate is – especially on the China-U.S. relationship, specified about the jobs, it's very negative. It's not only have a negative impact on China-U.S. relations and undermine the cooperation between two countries, I think it's also make the people and the government here and do not work hard enough to create jobs for themselves. And even – (inaudible) – find they lost their job, being stolen by others, that means unknowingly disappear their job, that – what it means – you have to create jobs – (inaudible) – the U.S. and the people, the government try to steal jobs from other countries. So I can – I think the definition of the stealing jobs is wrong.

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MR. LUSTIG: Stapleton Roy, what do you think?

MR. ROY: I agree with Liz. I think the candidates, both candidates, are making two fundamental mistakes in dealing with China in the campaign. First of all, the issue is not currency manipulation. China's current account has been declining sharply. Its accumulation of foreign exchange reserves has slowed markedly, and its currency has appreciated over 30 percent since 2005,

and it's continuing to appreciate. The issues in terms of China do involve intellectual property protection, investment conditions in China and national treatment. These are the issues that concern our business community.

[00:13:45]

The second mistake is when you're trying to manage a difficult relationship, you don't make it more difficult. We are trying to have a constructive, strong relationship with China, and the candidates are talking about China in ways that undermine public support for the concept of a strong, cooperative relationship with China.

MR. LUSTIG: But Chas Freeman, surely during an election campaign you're not going to get reasoned argument about these issues. These are guys who want to win an election.

MR. FREEMAN: Yes, if God had meant us to have choices, he would have given us serious candidates and some electoral process – (laughter) – that produced a discussion. We've come to expect very little from this sort of season in our politics, and I don't think there's any reason that China should be an exception to the general proposition. These are occasions for people to strike postures and hurl invective at each other, not to reason, as you said.

MR. LUSTIG: OK, we'll come back to you all in just a moment, of course, but what I want to do is just explain how we're going to organize this debate. We're going to divide it into three broad themes. I'm going to ask our audience here to get involved as we go along. But before we do that, I want you to hear from some people in the city of Rockford in Illinois, where I've just been, because there they have a rather different take from the one that we just heard in those campaign ads.

[00:15:06]

(Begin video segment.)

PIN NI: One out of every three vehicle made in the United States in 2010 used Wanxiang USA-made product. So we're very proud of that.

MR. LUSTIG: This is Pen Ni. He's president of Wanxiang America, a Chinese company that employs thousands of Americans here in Illinois, making components for the car industry. To him, all that matters is not what the politicians say, but whether his business is profitable.

MR. NI: There is a lot of different voices talking about Chinese steal American technology, job, U.S. taxpayers' money got into Chinese's pocket. And at the end, I really – you know, tell you the truth, we don't really feel that. Obviously when you open the newspaper you will see that. You know what you do? Don't look at it.

MR. LUSTIG: Well, this is one of the companies that Wanxiang bought. It makes sensors that stop airbags deploying if a baby's in the front seat of a car. It was started more than 20 years ago by Tony Urban and his father. And when the time came for them to sell the company, they looked at the options and chose Chinese.

TONY URBAN: We chose Wanxiang because their values lined up with ours. The fact that they have a lot of cash didn't hurt. (Chuckles.) And the relationship's been wonderful. The perception of Chinese owning your company and sending jobs to China has – it's not a reality, at least in our case. They've lived up to everything they've said they were going to do since the sale.

MR. LUSTIG: To many Americans, China represents a country that steals jobs from Americans. Have you laid anybody off here? Have you downsized at all since the Chinese took over?

[00:16:51]

MR. URBAN: Zero. There was – needless to say, there was some concern that after the sale, throughout my organization, that there might be some job loss but that wasn't the case. That perception hasn't been true.

MR. LUSTIG: Well, the man who's done more than most to bring Chinese investment here to Rockford is the city's mayor, Larry Morrissey. He's been mayor now for nearly eight years. He makes frequent visits to China to drum up business. So I've come now to city hall in the center of town to meet him, to hear why he's so enthusiastic.

MAYOR LARRY MORRISSEY: You know, I think if any city is open to it, like we are, there's opportunities all over the world for investment. The Chinese certainly are getting more aggressive at looking at foreign direct investment opportunities. We're very focused on bridging the gaps of understanding and identifying appropriate partners who are willing to invest for the right reasons in our local community.

MR. LUSTIG: Meet the Rockford Rage Women's Roller Derby or darby team. It's practice night at the local community center and they're racing around an indoor track on roller skates wearing helmets and elbow and knee protectors because this is a sport that puts a premium on crashing into your opponents and knocking them to the floor. These women are tough, but they've been hurt by the economic crisis and by rising unemployment. As they take a break from their training I talk to three of them – Lindsey (sp), Ursula (sp), and Arianna.

MS. : Both Ursula (sp) and I were out of work for –

MS. : I missed two years.

MS. : I was over a year and I finally found a job about six months ago. And I have a lot of management experience. I never had a hard time finding a job before in my life until this past time.

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MR. LUSTIG: One of the interesting things about this part of the country is that there are some Chinese companies that have opened up. They are employing American workers; they are investing. What do you make of that? I mean, do you think it's a good thing? Does it worry you? How do you feel about that?

MS. : I would say it's – whatever's best for the economy. I mean, I'm all for, you know, American, you know, made in America, all that. But I mean, if these companies want to come from other countries and bring us more work, then I say, hey, that's great.

MS. : And that still is made in America, right? So that's –

MS. : Right?

[00:19:00]

MR. LUSTIG: Would you be happy to work for a Chinese company?

MS. : I don't have a problem with it at all. Their country seems to be doing pretty good compared to ours. (Laughs.) You know, so I think's great.

MR. LUSTIG: They must be doing something right, in other words?

MS. : Exactly.

MR. : It's tempered glass so if hail or sticks hit it, it won't break.

MR. LUSTIG: Here's another one of Wanxiang's factories out by Rockford's airport. This one isn't making money yet. It's only got 13 employees. But it is looking to the future when renewable energy might be as important to Illinois as car components are now.

BRENT ANDERSON: I am Brent Anderson. I'm the operations manager for Wanxiang New Energy. I run the solar panel manufacturing.

MR. LUSTIG: China produces, I think, more solar panels than any other country in the world. Why is a Chinese company producing solar panels in the United States?

MR. ANDERSON: This facility – they wanted to bring it into America, possibly get some of the American-made benefits from the government when we can sell some panels. But this facility in Rockford, Illinois, will handle all of North and South America.

MR. LUSTIG: So when you're selling – when you're advertising, marketing, do you actually say: solar panels, made in America?

MR. ANDERSON: You bet. Absolutely – by Americans.

[00:20:10]

MR. LUSTIG: So back to city hall and Rockford's mayor, Larry Morrissey. He recognizes that welcoming Chinese investment isn't risk free, although he doesn't want to talk about President Obama's decision to block a Chinese wind farm purchase on the other side of the country.

MAYOR MORRISSEY: American businesses are fully capable of identifying the risks of investing with the Chinese, just like an American city, such as ours. Remember, we're not talking

about us investing in jobs off-shoring to China; we're talking about the Chinese hiring Rockford citizens, Americans, to go to work in our local community. We need to be wise not foolish. We can't paint with broad strokes. We need to paint with detail and understand that there are incredible opportunities to support one another in business growth and development and to achieve a win-win in the situation.

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MR. LUSTIG: Is there anything you would not like to see Chinese companies get involved in Rockford?

MAYOR MORRISSEY: Well, you know, I look at it this way – the same sort of hysteria that we at times have painted the Chinese with, not too long ago we were doing with the Japanese and we've done with the Koreans and others. You know, we have a great strength in the United States of being historically open, very diverse. And that's been, you know, the importation of talent and new generations of immigrants to our country has always been our strength. And as long as we believe we're going to be a thriving, prosperous city, that's all I'm concerned about.

(End video segment.)

MR. LUSTIG: That is the mayor of Rockford, Larry Morrissey. So back now to our panel here in Washington and our first question. Should the next U.S. president be more suspicious of China's economic ambitions?

Chas Freeman, I'll turn to you first. Those people in Rockford sounded pretty positive.

MR. FREEMAN: Well, it's a good thing to get – have the money come back here rather than stay in the vaults of the People's Bank of China. And if the Chinese are willing to invest here, that's great. I think the United States doesn't have a China problem. I think we have an overall competitiveness problem that's caused by many factors: disinvestment in infrastructure; overburdened debt, we're borrowing 11 percent of our GDP from the government at the moment; the question of tax system that directs investment, business investment and personal investment, to – in unproductive ways; a system of regulations that is strangling small business. There are many problems here. And if the Chinese are willing to come here and risk their money and produce things here, I think that's great.

Mr. LUSTIG: But are you suspicious of their ambitions?

[00:22:43]

I think the issue is a broader one. The United States became the world's largest economy in 1880 – that's 140 years ago, roughly, and – 130-some years ago, anyway. And China will overtake us in the next few years, most people say. This will be the first time that any living American has lived in a country that wasn't number one. And I think we have a psychological adjustment to make that we haven't yet begun to make. We need to relearn how to take foreign best practices and put them to work here. And I think bringing people in from outside – whether they're from China or elsewhere – to create jobs here is one very good way to do that.

MR. LUSTIG: Yan Xuetong, We talk about China's economic ambitions. From your perspective, what are they and would Americans be justified in being suspicious of them?

[00:23:34]

MR. YAN: I think American policymakers must have a clear definition about the term of globalization. No matter you like it or not, globalization is a reality. That means that economically all of the nations get interdependent on each other. And even yesterday – last night, Romney said that his first approach to increase – create jobs in this country, to increase the interdependency in North America. So for his logic that the interdependency will help to create the jobs rather than less.

MR. LUSTIG: But there's a difference between interdependence and dependence, isn't there? And many Americans, I think, fear that America is becoming too dependent on China.

MR. YAN: OK. Some people talking about that and the U.S. is dependent on money to survive and – (inaudible) – from the government, but how about this concept of interdependence of the relationship – economic relationship between the U.S. and Canada and Mexico? And when you have the interdependence with weak powers, and definitely they – these two countries will regard it Americans trying to steal jobs from them.

So that's the reality. When the country has a better economy it definitely will create more jobs. When the country has a poor economy – or the problem with their economy they have less jobs. The problem is that their domestic policy is not interdependent.

MR. LUSTIG: Elizabeth Economy, are you suspicious of China's economic ambitions?

MS. ECONOMY: I don't think perhaps asking whether one is suspicious of China's economic ambitions is exactly the right question. I think the question is, you know, what are the challenges that we face in dealing with this global economic power, right? And how can we make the economic relationship perhaps work a little better for us?

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And I think the Rockford story is a great one – inspiring in fact. And my hope is that that kind of story can be replicated throughout the U.S. But I think there are –

MR. LUSTIG: You have no fears about Chinese companies coming to America, buying up American companies, keeping them going, yes, but inevitably keeping them going for their head office's interests?

MS. ECONOMY: That is – as Yan Xuetong said, that is what globalization is about. That's not my concern. My concern really are – is a set of different issues. For example, the challenge that we face in dealing with an ever evolving set of laws and regulations in China's economy, right? That makes it very difficult for U.S. businesses to know what's coming down the pike, what investment is going to be welcome and what investment is not going to be welcome.

The issue of cyberespionage and industrial espionage is a significant one when it comes to China. We can't simply ignore it. And it is different from some challenges that we face with other countries. Intellectual property rights protection that Stape mentioned earlier. Again, a very significant problem when it comes, in particular, to China. So I think there are a range of issues that we have to be prepared to address. And I don't think that we should shy away from them under the guise of the fact that, yes, we need to do better at home – absolutely. Yes, we need to welcome globalization, but there are specific issues with regard to China we have to take care of.

MR. LUSTIG: Stapleton Roy, would you say to whoever the next U.S. president is that they need to sup with a long spoon, as the old phrase has it, when it comes to dealings with China – just be wary of what their ambitions are?

MR. ROY: Well, now you've broadened the question out to ambitions in general.

MR. LUSTIG: Economic ambitions.

[00:26:49]

MR. ROY: In terms of economic ambitions, I think suspicious is the wrong word. And I would tell the president that. China's declared economic ambition is to raise the per capita income of the Chinese people to that of a middling European country by 2030. If China's economic growth goes into living the raising standards of the Chinese people, we should not be suspicious; we should be supportive. But if it goes into excessive military spending, then obviously we need to keep our powder dry. That's a different question.

But let me make one other point. China's economic growth is basically good for jobs in the United States. It supports vibrant U.S. exports to China. President Obama set a goal of increasing our exports by 15 percent. Only in the case of China did we reach that target. Secondly, there are 435 congressional districts in the United States. In 420 of them our exports to China exceeded our exports to any other foreign market.

MR. LUSTIG: But you would not deny, would you, that many, many American jobs have been lost, in part at least, because of China's economic growth and because of manufacturing activities that were carried out in this country that are now being done more cheaply, perhaps even more efficiently in China.

MR. ROY: We have been losing jobs for 50 years as our economy has shifted from being a manufacturing economy to increasingly a service-oriented economy. We haven't just lost jobs to China. We have lost jobs to a host of other countries. So we've also gained jobs. For example, we were highly suspicious of Japanese exports to the United States 30 years ago. Now 20 percent of our foreign investment comes from Japan and Japan has created hundreds of thousands of American jobs in America. Chinese investment can do the same thing.

[00:28:32]

MR. LUSTIG: Professor Yan, you wanted to say something.

MR. YAN: Well, I think this is really strange, when the whole world facing the problem of unemployment, and we only heard the U.S. blame China and – for them losing their jobs. And how about the other countries? And every country lose jobs, and who – it's – (inaudible) – that they can find. And actually, from my understanding here, and the people cannot make their economy good and then they need an excuse. And especially from the government and policymakers who say, this is not my fault. It's someone's fault. And so these things happen very often.

In my country, we did the same before. In 1950s we blamed the Soviet Union for our poor economy, but then we learned from that. We know that's a mistake. Now no longer how many problems we have with unemployment, we never excuse others whether that's our problem. So here I think this attitude is really a big problem. If they always try to find the excuse from around and never blame themselves, I don't think that they could adopt the right policy to save themselves.

[00:29:33]

MS. LUSTIG: But, Chas Freeman, it's more than an excuse, isn't there? I mean, surely American workers, and indeed American political leaders, do have some reasons to suspect some of what China is doing in the economic sphere?

MR. FREEMAN: Well, of course. China's a country in transition. It wasn't a market economy. It's now a highly marketized economy with a very, very competitive internal economic system. But in many respects, it differs from the models elsewhere that we've been used to. Intellectual property rights, as both Stape and Liz mentioned, are a major issue in this connection. That's not unusual, by the way. I mentioned the U.S. becoming the world's largest economy in 1880; we were also the world's largest theft – thief of intellectual property in those years. We did not take that issue seriously until 1898, when we became a net exporter of intellectual property. We've seen this problem with every developing economy. It has to be addressed, but it isn't – it isn't unique to China.

And I wanted to just say one other thing. And that is everybody loses jobs. At the moment, China's exporting jobs to Vietnam and Bangladesh because labor costs in China have gone up to the extent that China's no longer competitive in some low labor markets. The China market, which was the largest in the world until 1850, is coming back as the largest in the world. And we ought to be trying to take advantage of that and figuring out how to compete in it, not complaining about it.

MR. LUSTIG: Elizabeth Economy, let's just take up this idea that many Americans alive today are going to have to get used to the idea that they will not be living in the world's economic superpower number one for very much longer. America's political leaders have to react to that, don't they? They have to adapt to that. If that is indeed inevitable, they have to talk to American people about why that isn't the end of the world.

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MS. ECONOMY: Well, I don't think it's going to be that difficult for the American people to adjust, because they already think that China has the largest economy in the world, based on some polls of the Americans recently. So I don't – I don't think that the challenge is really explaining to the American people that the Chinese economy is going to be larger than the U.S. economy in five years or 10 years. I think the issue is really, you know, what's happening on the home front here,

and how are our people prospering? And you know, do we have a good educational system? Do we have adequate health care? I think China in many respects becomes immaterial, frankly, if the United States is thriving. I think it's only in times when we feel under stress on the home front that, as Yan Xuetong suggested, we kind of look for an excuse.

MR. LUSTIG: Let me then open this up to our audience here at the Carnegie Endowment. Let me have a show of hands from people who'd like to contribute to this segment of our discussion about China's economic ambitions and the changing economic relationship between the U.S. and China. Anybody got any thoughts on that?

[00:32:31]

Yes, there's a gentleman down here. If you'd just wait for the microphone to reach you – third row back from here. If you'd just identify yourself.

Q: I'm Dan Lieberman. I'm editor of a website, "Alternative Insight." And what comes to mind is if the Chinese feel it's beneficial to establish a factory here to improve their transportation and distribution costs, why can't an American industry do the same? Is there anything in the tax laws or labor laws or something unions that benefit the Chinese over the U.S. in establishing these factories in Rockville?

MR. LUSTIG: Stapleton Roy, would you like to tackle that?

MR. ROY: No, I think Chinese obviously invest in the United States for self-interest reasons, but American firms do so also. I mean, most of the investment in the United States comes from American firms. I don't think that we only invest abroad and the Chinese and other foreign firms are investing here. It's a question of comparative advantage. Every company that I've worked with – and I've worked with a great many over the course of the years – is interested in finding the most favorable circumstances to maximize profits for the company. This is the way companies succeed.

And therefore they look at where they can reduce costs and where they can reduce transportation costs, and that leads to a variety of decisions. To manufacture in Mexico is four times more costly than in China. But if there's a longshoremen strike on the West Coast, we can't get goods in from China, whereas from Mexico they come in readily. And so therefore I know companies that invest partly in Mexico and partly in China in order to protect themselves against the vagaries of the market system and the way it operates.

[00:34:16]

MR. LUSTIG: Yan Xuetong, is there a deliberate, concerted Chinese policy of investing more now in American industry rather than in American Treasury bonds, in American property?

MR. YAN: Well, first of all, I think that the policy to buy American bonds is a – is a kind of a trust in the money. They believe this money can maintain the basic value and at this moment is still the – it can be the international reserve for quite a long time. So if we – our prediction that the American – the bill can no longer serve as the international reserve, and I think – (inaudible) –

abandoned. So I think the policy indicating Chinese government still have confidence in Americans' economy and Americans' financial status.

The second thing is that – and I don't think – and China has any purpose try to (invest ?) U.S. only. And I think the company acts are driven by the profits rather than by policy. And they will run after money rather than – (inaudible) – any political conspiracy. And so the company – you know, it's hardly (sic; hard) to control – to tell them that, OK, go to do something and at the – at the cost of your money, and then do something to serve the country as part of the purpose. It's impossible. No one listen to you.

[00:35:36]

MR. LUSTIG: So it really does make more sense for some Chinese companies at least to invest in the U.S. rather than putting their money into activities in China?

MR. YAN: Well, I think – except – investing in the U.S., we invest in a lot of – in many, many countries. And certainly I should say, the most money we invested at home. And the government actually at this moment strongly encourage people invested it – invested it domestically and enlarge the domestic consumption and to save the economy. But unfortunately we have too much – (foreign) – reserves. The money must spend abroad; we cannot spend on the market. That's a problem.

MR. LUSTIG: Chas Freeman – oh, yeah, Elizabeth Economy. Yeah.

MS. ECONOMY: I just – no, I just wanted to note that there is, though, I think, a government policy. As China's trying to move from being a manufacturing nation to becoming an innovation nation, there actually is a government directive that companies should go out and seek access to foreign technology and to buy that technology on the open market. So if that technology happens to be in the United States or in the EU, there is a government policy, backed by government money, to go out and do that as it transitions to becoming its own innovation center.

MR. LUSTIG: Chas Freeman.

MR. FREEMAN: There is a problem in the United States with finance for small and medium-sized business: The banks don't lend. And it happens that this comes about at a moment when Chinese companies are flush with cash, under instruction to go abroad, and have developed a global mentality as a – as a result of being completely integrated into the global economy.

[00:37:10]

MR. LUSTIG: Well, we just heard the man in Rockford, didn't we –

MR. FREEMAN: Yes, exactly.

MR. LUSTIG: – say that one of the attractions of the Chinese company was that they had cash.

MR. FREEMAN: Exactly. So this is the sort of transaction that you would expect and I should think we would welcome.

MR. LUSTIG: But does it worry you that, for example, the solar panel company that we heard from in Rockford – they're making solar panels; it's a Chinese company making them. But they're marketing them as made in America by Americans. They don't say, bracket, by a Chinese company.

[00:37:25]

MR. FREEMAN: I think this is the normal way that businesses do business. Washing machines made by hire in the Chinese company in Germany are marketed as German-made machines because they are made by Germans in Germany. And they're very competitive.

MR. LUSTIG: Yan Xuetong.

MR. YAN: Yeah, I just want to add one thing. First is about this – the so-called – the buying American. And that's actually just a – kind of a repetition about the Japanese buying America in 1980s. And when they have money, they – (inaudible) – buy something because American – (inaudible) – afford this market, so they come to – products, and they are going to buy. The second thing about technology: I do not deny the fact that the state-owned business – and actually sometimes they run for the high tax, and they spend money to get – to buy technology. But then the private companies I doubt. And the private company are purely run by the monetary concern rather than the technology.

MR. LUSTIG: Any more questions from the floor? Yes, lady right here in the front row.

Q: Shannon Tiezzi, the U.S.-China Policy Foundation. A lot of the concerns that I think Congress especially has with Chinese investment is that it's occurring in sensitive industries such as telecommunications, infrastructure and now, we've just seen, even a nonsensitive industry that's located in a sensitive place.

MR. LUSTIG: This is the Oregon wind farm next to a U.S. military facility.

Q: Yes. Yes. Do you think that there are real political and security concerns to prevent Chinese investment in certain industries?

[00:38:59]

MR. LUSTIG: Chas Freeman.

MR. FREEMAN: Well, I think the Chinese think there are sensitive industries in China that they reserve for Chinese owners and don't allow foreigners to participate in. And they happen to be in many of the same areas that you mentioned. So this is hardly unusual. Frankly, I think it's a bit overblown on both sides. I'd like to see the China market more open to American investment in telecommunications and other key sectors of the economy, and I think we should be more open here. We need the investment.

MR. LUSTIG: Elizabeth Economy, this –

MR. ROY: Could I – could I weigh in on that as well?

MR. LUSTIG: Yeah, sure. Stapleton Roy.

[00:39:33]

MR. ROY: We have real security concerns about foreign investment in the United States. And we have a Committee on Foreign Investment in the United States called CFIUS, which screens foreign investments from every country in terms of security concerns. It turns out that less than 5 percent of the foreign investment in the United States is a ground for concern, and that includes China as well. We have Chinese investment in, what, over 35 of our states. And it's growing, but from a small base, because most of the states are actively seeking to welcome foreign investment in. In Washington, you would think that our only concern about foreign investment has to do with security. Well, that's already handled by a functional, well-performing organization. So in my judgment, this issue is blown way out of proportion.

MR. LUSTIG: Yan Xuetong, this Oregon wind farm story is quite an instructive one, isn't it? Here we had a Chinese proposal – a Chinese company wanted to buy a wind farm in Oregon. It was situated close to a U.S. military facility where, I read, they were developing unmanned drone technology. We're in the middle of a presidential election campaign. President Obama, the first president for more than 20 years, blocks the sale. Do you understand the reasoning? Do you think it's unjustified? What are your thoughts on that?

MR. YAN: OK. I think America have to keep the balance between the security and the making money or creating jobs. And then if you block all of this investment – foreign investment for the sake of security, and the country becomes secure but has less jobs. And the second thing on that – if they concern the farm is a kind of threat or the farm is a kind of American strategic interest, and this concept of strategic interest will spread all to – into many, many fields, and American can no longer do business with foreigners. And I – from my understanding, for – even from my own country, I don't think our government should do it, to define farming as the strategic interest. I think this really is hardly (sic; hard) to understand. When you talking about close to the military base, all of the military base must be bounded with something. If you think anything bounded with the military is a security issue, and then you can never buy – can do anything.

[00:41:47]

MR. LUSTIG: The activity wasn't the issue, it seems to me. It was the location that was the sensitive issue; it was next to a military facility. Now, do you understand that there are – do you acknowledge that there may well be legitimate security concerns that the Americans are indeed entitled to take into account – (inaudible)?

MR. YAN: That's really up to American themselves – to the government, to the people. But in China, if my government make decision and block any foreign company to buy a farm because it close – next to the military base, I would tell them that you are stupid. I can never believe any farm – foreign ownership of farm will hurt our security. I cannot believe it.

MR. LUSTIG: Elizabeth Economy.

[00:42:25]

MS. ECONOMY: I mean, this is a wind farm – not that that’s relevant, but it is a wind farm. So one could imagine –

MR. LUSTIG: In other words, wind turbines – (inaudible).

MS. ECONOMY: – one could imagine the turbines not moving and little cameras posted – no, I’m just joking. But – (laughter) – I guess my point is – my point here is I think that, as Chas mentioned earlier, clearly, if we were looking at this in China, there’s no way it would even have gotten this far, right? There’s no way that the United States would have been – a U.S. company would have been able to purchase a wind farm that close to a Chinese military base.

OK, putting that aside, I think it does raise the question – how this was handled does raise the question of the CFIUS review process, whether there needs to be a little more transparency, why somehow along the way better signals were not sent to this Chinese company that this was unlikely to go through. And I think that’s a reasonable thing to ask about – like, can we make this process move in a – in a more effective way? But certainly, at least on the face of it, I don’t think, in terms of reciprocity, the Chinese would ever have let something like this go forward.

MR. LUSTIG: Chas Freeman, just briefly because we’ve got to move on.

MR. FREEMAN: I just – I confess I don’t share Stape’s high regard for CFIUS. I think they make mistakes. They do it on a fairly routine basis. And they reflect, as Stape suggested, a fair amount of paranoia within the Beltway that’s quite contradicted by attitudes in the country at large.

[00:43:48]

MR. LUSTIG: That does, in fact, take us very neatly onto the second theme of this discussion, which is to do with security and military matters. The question really is should the next U.S. president do more to contain China militarily? And I suppose what we have in mind when we talk about that largely is what’s happening in the Asia-Pacific region, in the South and East China Seas, where tensions do seem to be rising quite quickly.

Stapleton Roy, would you like to see the next U.S. president, whoever he may be, doing more to contain China militarily?

MR. ROY: I think contain is the wrong word to use in talking about this concept with China. The United States has a national interest in making sure that our military is strong enough so that we can defend vital U.S. national interests and provide the support that our allies expect. China has a legitimate interest in being able to protect its own territory. During much of the last 150 years, China has been unable to protect its own territory. And therefore, clearly, they’re using their expanding economy to increase their military budget and build up their military.

MR. LUSTIG: Very substantially.

MR. ROY: The question is how much is enough? I think the next American president and the current American president have a responsibility to try to bring an unconstrained competition over military capabilities between the Chinese military and the U.S. military under control. Otherwise we are going to pour trillions of dollars into a competition which is not driven by the reality of the differences that we have with China, that simply don't justify that high level of spending.

[00:45:37]

MR. LUSTIG: Is it not the case, though, that there are real strategic interests at stake and that the interests of the U.S. and China are irreconcilable?

MR. ROY: No, I don't think they're irreconcilable at all. I think that you have – it's asymmetrical. China has borders with 14 countries, at least four or five of which have nuclear weapons capabilities. We are isolated by two oceans and have Canada and Mexico as neighbors, as opposed to some of China's neighbors that I would not select if I – if it were left up to me. So I think that China is going to have to develop defense capabilities that are suited to its circumstances, and the United States similarly needs to do so. China, for example, doesn't have alliance responsibilities to countries in far parts of the world; the United States does.

MR. LUSTIG: Yan Xuetong, the Chinese government already thinks that the U.S. is doing too much to seek to contain it militarily, doesn't it – particularly when it comes to its interests in the East and South China Seas. What do you envisage the next U.S. president is likely to do in this regard?

MR. YAN: Well, I cannot make any prediction about the next presidency of the U.S. policy toward China. But at this moment, I think this – the pivot policy, actually, already clear defined by American government and rebalance –

MR. LUSTIG: Just to explain the pivot policy, this was the idea that the U.S. was going to shift from having a largely European security strategy to one that was concentrated on the Asia-Pacific.

MR. YAN: Yes. And so when they shift that this – when they shift the energy or the priority to Asia-Pacific, it makes sense – because from my understanding, East Asia is going to replace Europe, become the world center. So the U.S. certainly should give more attention and the first priority to the center, rather than the periphery area. That makes sense; that's reasonable. But when they talking the pivot strategy – not only defined it as shifting the center to the – geographically, to Asia-Pacific, to East Asia, but it also means a rebalancing. The term is rebalancing.

[00:47:53]

Now, with the question is: Rebalance whom? So, I don't think rebalance Japan, rebalance the Soviet – Russia, rebalance the North Korea. It's so obvious. So that's why, I think no matter how the American government is playing, the policy is not a target of China, it's hardly (ph) to make the Chinese people to believe that true.

MR. LUSTIG: Elizabeth Economy, the issue, surely, is to do with guaranteeing international trade routes through those seas, having an interest in – for the U.S., at least – supporting its allies – Japan, Taiwan and so on – there are mineral resources, there are huge fish stocks, there are important economic interests at stake.

MS. ECONOMY: Hi. I think, you know, the pivot addresses a number of issues. It addresses concerns over North Korea, it addresses concerns not only about rising China, but a rising India, and the potential for, you know, power imbalances to be occurring that are independent of the United States. And clearly, as we've seen a number of localized conflicts emerge in the past year, so – in the East China Sea and the South China Sea – there is a potential for conflict to flare up in the region.

[00:49:00]

My feeling is that in reality, this has everything to do with the uncertainty right now inherent in China's foreign policy transition, right? This is not simply about the United States coming in, this is about countries in the region being concerned about what they see as a shift from what had been a Chinese foreign policy that was sort of win-win, peaceful development, rising tide lifts all boats, to a far more assertive Chinese foreign policy, one where you have the Chinese foreign minister telling the Singaporean foreign secretary that, you know, we are a big country, you are a small country, and that's a fact; I think, you know, talking about moving from a near-seas to a far-coastal defense, something that had been on the books for decades, but now was materializing.

So I think that there's been a shift in the Chinese foreign policy that has raised some alarm bells in the region. And it's unclear to the region, and I think to people in the United States as well, what direction China is planning to take its foreign policy.

MR. LUSTIG: I'll be interested to hear from Professor Yan on that in a moment.

But first of all, Chas Freeman, the U.S. expenditure on military is going down. The Chinese expenditure is going up, very substantially. The next U.S. president – should he seek to reverse that? Should he be worried about it?

MR. FREEMAN: Well, I think the fundamental problem, the reason for rebalancing the tension, as Professor Yan said, it's actually not military, it's China and East Asia becoming the global economic center of gravity. The pivot is a military response to a problem that isn't basically military, and it's also, I think, very problematic in other ways. It's entirely reasonable for countries in the region to be concerned about China's growing power. I don't think it's China's assertiveness so much as its growing power that is their concern.

MR. LUSTIG: Military power? Economic –

[00:50:51]

MR. FREEMAN: Military, economic – they're all integrated into a Sino-centric order. Now, China is the center of the economies in East Asia, and to a greater – to a great extent, the rest of Asia. That's just a fact, but yes, they're concerned. It's normal for them to seek reassurance. It's appropriate for the United States to provide that. What is not appropriate is for the United States to

get between them and China with respect to trivial territorial claims in which the United States has no intrinsic interest, and which we have always, historically, been very careful to keep our distance from. And what we have done with this move, this misapplication of rebalancing, if you will, is we have emboldened claimants against China, we've infuriated the Chinese, and the result is a general rise in tensions in the area that's quite dangerous.

MR. LUSTIG: Yan Xuetong, we're talking about a possible change of leadership here in Washington. There is also, of course, a change of leadership about to take place in China. Now, do you anticipate that there will be a shift, a discernible shift, in Chinese foreign policy, both as regards relations with the U.S., and as regards relations with its neighbors in the Asia-Pacific, once that change has taken place?

[00:52:09]

MR. YAN: Well, I think this year, we do have more security conflicts occurring in this region – as Elizabeth raised. And actually, I think this situation is part of the (causes) and this – some countries in this region, thinking about both China and the U.S., and they take the advantage of the U.S. election year, that the government have to take a tough policy toward China, and meanwhile they take the – trying the advantage of China, and during the transition of power, China, general speaking, take a moderate policy toward neighbors. So they believe this opportunity, they can use this historical chance to take – provoke something here. So from my understanding, this is part of the reason.

How to deal with this situation, especially, like you said, after the – when the transition of the power implemented by the March of next year, I think the situation will become stabilized. And because the new leadership will have more energy, spend it on the foreign relations rather than focus on the power transitions, that will find the rational way to solve the problem.

[0053:13]

MR. LUSTIG: You know who these new leaders are likely to be. You know what their positions are likely to be. From your own knowledge, would you anticipate that they will change China's attitudes towards the U.S. or towards its neighbors?

MR. YAN: OK. I think the transition – the power transition in China is much certain than here, and last night, it was, you know, after the debate, with the polls show – (laughs) –

MR. LUSTIG: The U.S. presidential debate?

MR. YAN: Yeah, the president debate. And they had the two candidates, kind of, quite the same, 47, 49, something like that, so it's hard to make the prediction about the next American's president's policy toward China. But in China, I think it's quite certain that new leader is already selected and is, from my understanding, will peacefully, success to power, and then will continue to manage the country. And the policy, if – according to – according to what we know, and I think the policy that gave the first priority, tried to create a new type of relationship for the major powers. The term is a new type of relationship between major powers.

MR. LUSTIG: And can you –

MR. YAN: So I think that term coined – is especially coined for a China-U.S. relationship.

MR. LUSTIG: Now, a new type of relationship could mean almost anything.

[00:54:30]

MR. YAN: Well, anyhow, new type doesn't mean bad. New type doesn't mean something good. (Laughter.) At least, I think it's better.

MR. LUSTIG: Right.

Yeah, Chas Freeman.

MR. FREEMAN: I think we have to go back to the changing economic balance between the two countries. China has been very deferential to U.S. leadership over the past four decades. It's been good for China, and it's enabled it to integrate completely into the world order that the United States created and led. It's simply unimaginable that when China is larger than the United States economically, it will continue to defer to American leadership, even if such leadership is unoffered, to the extent that it did.

So inevitably, this relationship is going to become more competitive, and there are going to be difficult transitions on both sides as the Chinese learn to deal with the fact that they're no longer powerless, they have power, and as we learn to deal with the fact that we're not as omnipotent as we once were. So I think we're in for a new type of relationship, regardless of whether that's the slogan. One way or another, we're going to have a more complex, more equal, more competitive relationship than we've had.

MR. LUSTIG: If I were an American citizen, Elizabeth Economy, I don't think I would find this phrase – a new type of relationship – find it very reassuring, because it does seem to imply from what both Professor Yan has said, and from what Chas Freeman has just said, that Americans will have to get used to the idea that China will become more assertive, more determined to be listened to, than perhaps has been the case in the past.

[00:56:10]

MS. ECONOMY: OK. I guess – first of all, I'd be interested to know whether, in fact, Yan Xuetong, you are the one who coined the phrase, so maybe you could define it better for us. But putting that aside for the moment, I guess I don't see China as having not been – as having been quite so deferential to U.S. interests. I think if you look across the full spectrum of issues, whether we're talking about the economy, or we're talking about military, or as we're going to talk about global challenges, looking at China's position on Syria, or what they did with Libya or any range, any number of issues – I don't see that China deferred to the United States. I think the United States and China have – you know – basically have an accord, that we want to have a peaceful and stable relationship, and we want to have a prosperous economic relationship. But when you look across almost any particular issue area, you find that our priorities, and our policy approaches and our values differ. And we mostly have friction. So I guess I see it a little bit differently.

MR. FREEMAN: I think China is beginning to object to American efforts at order setting. Syria is a case in point, and this sort of argument is going to become more frequent in the future. China has accepted the world order the United States created. It will not allow that order to be unilaterally altered by the United States in the future.

[00:57:27]

MR. LUSTIG: Professor Yan, can I have one more go at getting you to define a new type of relationship? In your mind, what does it mean?

MR. YAN: Well, I think nowadays, with people talking about the China-U.S. relationship, just always remind us the relationship between U.S. and Soviet Union during the Cold War. People worry about that, and the relationship will just go back to the Cold War, and that means a repeat of the history between the U.S. and Soviet Union. Actually, new type of relationship of – between major powers means we do not want to have that kind of relationship during the Cold War between Soviet Union and the U.S. What we want, we want more cooperative. We want to make our competition more healthy. That means the competition make us become – both of us become more capable, and no war. That means a peaceful competition and health – peaceful competition means no walk outs, competition means we can benefit from competition, just as two companies compete each other, and let the customer take benefit from the price. And if China and the U.S. are competing in that way, I think the rest of the world will benefit from us.

MR. LUSTIG: Let me say that – (cross talk).

MR. ROY: Let me weigh in – OK, so let me weigh in on this subject, because of – Professor Yan has made many innovative contributions to international relations, but the concept of a new relationship is not one of them. Secretary Clinton, on March 7th, gave a speech on U.S.-China relations in which she called for a new type of relationship between the United States and China that could manage the traditional problem of rising powers and established powers. State Councilor Dai Bingguo, who is the top foreign policy official in China, has used identical language in calling for a new type of relationship between the United States and China that can prevent the iron law of history that rising powers get into conflict with established powers.

[00:59:15]

So the purpose of the new type of relationship is to try to deal with the problems that we have been talking about. China's going to become a different sort of country. It may have a larger economy than the United States, it will have more powerful military, and the United States is fighting against that. If we don't contain that, then history is going to repeat itself, and we know what happens to countries that let history repeat itself when history is bad. So I think the new type of relationship is a reflection of the challenge that the new president of the United States is going to face.

MR. LUSTIG: Let me throw this idea out to our audience here. This new type of relationship, Americans want it, the Chinese want it, do they want the same thing? Do they want different things? Let's have some thoughts and questions from you. Any thoughts on this?

[00:59:59]

Yes, gentleman down here?

Q: Jeffrey Stacey, formerly with the State Department but now visiting at SAIS. And on the question of the military competition, you all seem to agree that the U.S. should not contain China militarily, but others in Washington and around this country think that it should. So the question really seems to be is the U.S. already making containment moves to China? More importantly, does China perceive the U.S. to be doing this? And lastly, if it does so and continues to, and a Rubicon gets crossed and miscalculation and misperception ensue, could then conflict that need not otherwise be the case actually occur?

[01:00:47]

MR. LUSTIG: Chas Freeman.

MR. FREEMAN: I think we need to ditch the word “containment.” This was a concept invented in 1946 by George Kennan; it became policy in 1947. Its basic premise was that if we did not allow the Soviet Union to expand, the infirmities and defects of its own system would eventually bring it down, and that happened. By the time it happened, we had actually forgotten why we were containing the Soviet Union, but that’s another issue.

So China doesn’t fit those criteria. It is not a system that is infirm and defective and falling apart, and it is not going to be contained. It is fully integrated into a globalized economy. In fact, we are highly interdependent with China in many respects, and we recognize also in this world that there are a huge number of problems, whether they’re climate change or the financial system internationally or whatever they are, which simply can’t be addressed without Chinese cooperation.

[01:01:51]

So we’re not talking about containment under any circumstances. What we are talking about is allowing China’s neighbors to have the time and the flexibility to accommodate the rise of China in ways that they find congenial. And that is where the United States can be helpful.

Now there are people in this city, as you say, who are one-trick ponies who learned about containment and have never learned any other approach to dealing with great power relationships, and that, I think, is the essence of this notion of a different sort of great power relationship.

Perhaps we will not be able to accept that, in which case, I think, to answer your final question, we will find ourselves not in a regional conflict with China, but in a global conflict with an economy and a country whose resources dwarf ours, potentially. This is not the U.S.-Soviet competition, or if it is like the U.S.-Soviet competition, it is we, not China, that’s in the unfortunate position of being outspent over the long run.

MR. LUSTIG: That seems to me, professor, yeah, to be exactly the opposite of what you were just saying. You said no conflict.

MR. YAN: No, I said there’s a conflict between China and the U.S., and possibly we are going to have more. That’s why we need this. So I agree with Ambassador Roy that we need the

new type of major power relationship to deal with the coming – more coming conflicts around that – other things. And actually, when people are talking about a competition between China and the U.S. in terms of military, I think that's wrong. China is – the power gap between China and the U.S. is far from even, and how can we compete each other? In Olympic Game you cannot have a person to compete – a champion run very slow.

[01:03:46]

So at this moment, though, I think if we are talking about an economic competition, it may make sense, because China's GDP already accounts for 50 percent of the U.S., and be – China's population is four times of the U.S. As soon as – as long as we get our GDP per capita to 50 percent of U.S., we are same. And if we are over the 50 percent, then we are larger than the U.S. That means competition. When U.S. has 11 aircraft carrier and China has just one, how can we compete? I don't think there's a competition.

MR. FREEMAN: Technically, you don't even have one yet. (Laughter.)

MR. LUSTIG: There was a gentleman down here, I think, who had a question. Yeah, a microphone down here in the front, please.

Q: My name Jeremy Wu, and I'm a retiree and a member of the Committee of 100. Fifty years ago, U.S. and Japan signed a joint defense treaty in the middle of the Cold War. Fifty years later, we're not in the Cold War anymore, and yet the treaty may draw the U.S., willingly, unwillingly, into a military conflict. Do you think that treaty is still relevant? Should it be reconsidered, and what role should it play?

[01:04:55]

MR. LUSTIG: Stapleton Roy?

MR. ROY: I think the treaty is still relevant even though the nature of the threat that gave rise to the treaty originally has changed markedly. The purpose of the treaty was to try to preserve peace and stability in East Asia. That is still the purpose of the treaty, and implied in your question was whether the dispute over the Diaoyu-Senkaku issue could pull the United States in – (inaudible)

MR. LUSTIG: Just to explain, these are the disputed islands which are claimed both by Japan and China.

MR. ROY: These are the disputed islands in the East China Sea that have been a source of great tension between China and Japan recently, and where the U.S. treaty with Japan has relevance, because we recognize that Japan administers the islands in question even though we don't take a position on the conflicting claims.

So the U.S. interest is peace and stability, and yesterday, secretary of – Deputy Secretary of Defense Carter specifically addressed this question: What is the U.S. position on this dispute? And he basically said, we don't take a position on the claims. We have an interest in two areas, which is freedom of navigation and peaceful resolution. That is our interest in the mutual defense treaty with

Japan. We want to use our relationship with Japan to contribute to preserving peace and stability in the region, and if we think that Japan is behaving in ways that will contribute to a breakdown of peace and stability, our national interest is to communicate with our good friends and allies in Japan and indicate that our interest is in preserving peace and stability.

[01:06:43]

MR. LUSTIG: Elizabeth Economy, just on this question of U.S. relations with its allies in the region, what effect that may have on its relations with China, do you see a case for a future U.S. president seeking to recalibrate the relationship with its allies in the region?

MS. ECONOMY: Well, I think already we've had a slight recalibration by President Obama, and frankly, I think it's a smart recalibration. You know, I look forward to the day when China is truly a responsible regional power, but I think that day has yet to come. And I think, actually, the case in point, this case of Japan and how China has reacted in the face of, you know, what was a provocative action, certainly, on the part of Ishihara in Japan, but how China has reacted, I think, suggests that there's still room to grow. You know, first of all, allowing these demonstrations to turn violent so that Japanese stores were trashed and Japanese factories were trashed –

MR. LUSTIG: These are demonstrations in China?

MS. ECONOMY: In China. And people were – people were attacked and beaten for owning Japanese cars. Then, beginning to pull back from all diplomatic engagements with the Japanese, and now announcing that all the Chinese central banks are not going to attend the IMF World-Bank meeting that's going to be hold in Tokyo, the annual meeting, next week. I think that this not sort of the appropriate response of a real regional leader.

[01:08:05]

MR. LUSTIG: I want to move on to our third and final question now, which is, should the next president be more prepared to compromise with China to try to solve global crises such as Syria, North Korea or climate change?

Stapleton Roy, do you see the case for the U.S. being more prepared to listen to Chinese concerns, to compromise with China on issues like this?

MR. ROY: I don't like the term "compromise" because it's too easy to interpret it as appeasement or yielding to China, and I don't think that describes the nature of the relationship with China. I don't like the term G-2 either, because the word "G" has a sense of a rule-setting body, you know, whether it's the G-7 or the G-20, these are the groups that sort of set the international ground rules –

MR. LUSTIG: And the G-2 would just be the U.S. and China and forget everybody else?

MR. ROY: Just – that's right. But think about the EU as the world. In the EU, nothing gets done if Germany and France aren't able to cooperate together to get it done, and yet nobody refers to them as the G-2 of the European Union, because there are great big powers like Italy and Great Britain that aren't part of that core that has to agree for things to happen.

There are a host of international issues, whether it's climate change, whether it's the North Korean nuclear problem, whether it's the Iran nuclear problem, whether it's Syria, to a significant degree, where if the United States and China aren't working together, it's much more difficult to handle the issue. So it's not an issue of compromising with China; it's an issue of trying to find linkages in our national interests which enable us to make a constructive contribution to resolving the problems.

MR. LUSTIG: Yan Xuetong, do you see a potential for more cooperation? I take it from what you were saying earlier that you do, but on issues like, for example, Syria, where there has been a diametric division between the U.S. and China in the Security Council, do you see any possibility of a coming together?

[01:10:17]

MR. YAN: I think it's very possible. And first, the nuclear weapons make these two powers dare not go to the war against each other directly, and secondly, economic interdependence and -- these two countries have to work with each other, because the two powers are so selfish that they don't want to hurt themselves. The third that I think the two nations are very rational. They know what their interests. They know what they can benefit from, cooperation, and what they are going to have to pay for the competition or the confrontation. So for their only interest from understanding people -- human beings so selfish, the self-interest will drive to work with each other.

[01:10:56]

Second, I think they -- now there is actually -- we need to understand why there is a conflicts between us, and the main reason is because the power gap is narrowing and the China's capability is growing, and that will have more problems and with each other, but I don't think that's my fault we make our country stronger than before. And so for the other countries also, that if, you cannot make your country growing faster and you have to look at yourself problems rather than find others -- take others as excuse.

So third -- last I want to say -- and actually, even we looking for the preventative cooperation, and it developed during the Cold War between Soviet Union and the U.S., and they're not -- there's some positive part of it. We can learn -- we can borrow from managing the competitions between China and the U.S.

MR. LUSTIG: Isn't that, though, Chas Freeman, the nub of where we now are? I mean, the essence of being a global superpower is that you get your way. If there are going to be two global superpowers, which has not been the case since 1989 at least, then the world has changed and a new U.S. president is going to have to get used to that.

MR. FREEMAN: I don't think the Cold War bipolar order is particularly relevant to the U.S.-China relationship. I think Stape's analogy of the German and French relationship within the EU is far more relevant. But the point is this: the United States, up until the end of the Cold War, when the Soviet Union blocked use of the United Nations and the international system, was deferential to that system. The Gulf War to liberate Kuwait was a product of Security Council action, united action by the international community. Since then, in Bosnia, when the U.N. declined to act, and in Iraq, and more recently through the stretching of a humanitarian resolution on Libya

well beyond the breaking point, and now with respect to Syria, the American reaction to disagreement in the Security Council is to ignore the Security Council and work around it.

[01:13:11]

And the Chinese, I think, like the Russians and others, don't find this an acceptable approach. So what we have to do – we're going through a transition. The end of this transition, I believe, we will have restored a measure of comity, mutual respect and cooperation between the great powers, or we won't manage to get anything to done. You know, people are being killed in Syria in large numbers, and they're being killed in part because we cannot work together under current circumstances. So we need to find a way, and I agree with Professor Yan. We're all essentially very selfish; that's a good thing, because in this case, it will drive us to work together.

MR. LUSTIG: I wonder, though, Elizabeth Economy, whether being selfish may not necessarily lead countries to work together, because part of selfish national interest is to be seen to be top dog, and normally, you can only have one of them.

[01:14:10]

MS. ECONOMY: Again, I guess I don't see U.S.-China cooperation or lack thereof on global issues as resulting from a competition between the two to be top dog. I think there are fundamental differences that, yes, in many cases, arise from selfishness about our priorities, right, and about our policy approaches and about our values.

I mean, if you look at climate change, right, those negotiations began far in advance of, sort of, any discussion of China becoming top dog over the United States, and yet we have been at odds with China over climate change for two decades now; we've had challenges. We've managed to come together to try to work together. You know, we have an accord most recently that looked like it was going to stick, and now China and the other basic countries have stepped out and said, actually, we want to hold fast to the old way of doing business. So, you know, who knows what's going to happen there.

But I think we've always had these kinds of challenges with China. And I also think that it's a mistake – and I think Stape alluded to this – to put too much pressure on the U.S.-China bilateral relationship. I don't think it's strong enough – right? – to be responsible for resolving all the global challenges of the world. And in many respects, it doesn't require the United States and China to work together to solve every single issue. We can work in parallel, we can undertake different kinds of efforts that may lead to slightly different results, but both of which could be positive, and there are many other countries in this world that need to play a part. And in some instances, the European Union can lead, as in the climate change. So I just – I feel as though we're focused so heavily on this U.S.-China relationship, but I don't think it's strong enough to bear this kind of pressure at this point in time.

MR. LUSTIG: It is true, though, isn't it, Yan Xuetong, that certainly if you look at the U.N. Security Council, if America and China don't agree, or if America and Russia and China don't agree, then nothing's going to happen.

MR. YAN: Well, I think that's really a good question. And I think we (must not concern ?) this relationship between China and the U.S. is very special. Both sides have already defined our bilateral relationship as the most important bilateral relationship in the world. So that means that no any bilateral relationship can have the influence on the global interest than China and the U.S. So I think it's a special – (inaudible). Actually – (inaudible) – very differently from what we started about the other major (powers of ?) relationship.

[01:16:34]

So just now, I think Chas and Ambassador Roy had mentioned about the relationship between France and Germany in the EU. I think that's very different from China and the U.S. The reason is that the power gap between German and France is getting larger and larger; they increase. But the China and the U.S. relationship is that we have the – (inaudible). It's to the other direction. So in that way, for me, I think that's why we should be very – (inaudible) – to consider how to handle the relationship between China and the U.S.

And for this case, I think – from my understanding, I definitely – I hundred percent believe China and the U.S. will handle our relationship much better than you did with -- (inaudible).

MR. LUSTIG: Stape – well, that's encouraging at least. (Laughter.)

Stapleton Roy, let's take the example of North Korea, where the U.S. and China have been part of a process with other countries, trying to work together to resolve what could be an extremely dangerous issue. Might that be a template for a future U.S. president, for a future U.S. policy?

[01:17:41]

MR. ROY: I think it illustrates that China and the United States can work together effectively when we have a strong common interest in a common goal. In this particular case, we failed. We were not able to restrain North Korea's nuclear weapons development, and we're now having more difficulty managing Korean issues in part because of our mutual frustration over our inability to have that as the core of our cooperative approach to the Korean Peninsula.

[01:18:16]

MS. LUSTIG: So not such a great example, in other words?

MR. ROY: Well, let's reverse it, though. If we had been successful, then we had the potential to create a stabilizing structure in Northeast Asia among the six participating entities that actually could have played a very constructive role, and my sense was that China was willing to consider that as an outcome and certainly we were looking at it as a potential outcome. The problem is, we didn't succeed. And as you correctly noted, North Korea with nuclear weapons is an incredibly destabilizing factor not simply in the region but in the world because of its impact on proliferation.

MR. LUSTIG: Chas Freeman, next U.S. president, whether it's Mr. Obama or Governor Romney, comes to you and says, I want to find an issue on which the U.S. and China can agree on a way forward. I would like to find some way in which we could work together. Find one for me.

MR. FREEMAN: Well, you've got to give me a minute on that.

MR. LUSTIG: OK. (Laughter.) The minute starts now.

MR. FREEMAN: No, I think actually there are quite a number of things on which we could work. And I'm concerned, particularly in the military relationship, that we haven't even posed to ourselves the question that you're asking.

We have, for example, stumbled into a kind of cooperation against piracy off of the Somalia coast, but it's not very effective. We could engage in more – much more effective cooperation against terrorism, except for some hang-ups on our side. We don't recognize the Uighur terrorists as being terrorists. I think people who blow up buildings for political point – to make a political point are terrorists, but that's just me, I suppose.

[01:20:03]

Anyway, we could find a series of ways to cooperate on minor issues. There's not going to be any grand bargain between the U.S. and China. What we will do, if we are wise, is address issues as they arise, with full awareness of the consequences for the overall relationship and of the consequences for our relationship for the world and for the region. So we will have to deal with your question issue by issue as it comes up, and I don't think we can prescribe – certainly I can't on the spur of the moment – say, well, we should find a way to cooperate particularly on the security of the Persian Gulf. Although it might be argued that as China is now the largest beneficiary of security in the Persian Gulf, it should play a role and bear its burden.

MR. LUSTIG: Professor Yan, the White House calls while you're in town. We want some help on finding something that you and we can agree on, that we can work together on. Help us here.

[01:21:07]

MR. YAN: Well, outer space is a very wide place, provide a huge room for us to cooperate with each other. And at this moment, from my understanding, White House are still very reluctant to cooperate with China on the (astronomy?). Right? So we have to establish our own space.

MR. LUSTIG: But don't both countries have military interests in space technology?

MR. YAN: Well, if you can cooperate with the Russians, why not cannot cooperate with China? And you already have the joint program on the – on the space lab, and then why we cannot do other things like that?

And except, actually, from where I'm standing nowadays, the people take all of the cooperations between China and the U.S. for granted and ignore all of these things and then looking for the conflicts. For instance, we buy American bonds, and that's a greater cooperation with the U.S. And when the White House need the money to solve their problems and we provide the cash, right? And so – (inaudible) – I know that some Americans say, tell me that – no, no, no, that's another kind of cooperation because you have nothing to buy. You have to buy our bonds. And no other government bonds is a better – (inaudible) – than ours. So you make that decision for your self-interest. Every country make a policy for their interest. The question is that how much you can benefit from other's policies.

And beside space, actually, I think at this moment, be serious, I think – (inaudible) – U.S. Navy and the Chinese Navy should develop some kind of an agreement to manage our relationship over the South China Sea.

MR. LUSTIG: And do you think that could happen?

MR. YAN: I strongly suggest that.

MR. LUSTIG: Elizabeth Economy, do you think it can happen?

MS. ECONOMY: I think that our military has been pushing very hard to advance mil-to-mil cooperation with the Chinese on a whole range of issues, including developing a kind of code of conduct for the regional seas around China. So I think it's up to the Chinese to accept the U.S. overtures. It takes two to tango, I think, on this issue.

[01:23:11]

MR. LUSTIG: Are you prepared to dance, Professor Yan?

MR. YAN: Yeah, I think that's true. And I also heard that the Pentagon is a very positive to this kind of suggestion. And then the obstacle between this – (inaudible) – how can we make both sides stand in equal footing. And militarily, in terms of a mature capability, there's a big gap. But politically, we need to stand in equal footing. But if U.S. take that kind of a superior attitudes toward the Chinese Navy, I think there is a – (inaudible).

MR. LUSTIG: Stapleton Roy, the most fruitful avenue for the two governments to explore in the coming months and years, if they're looking for ways to cooperate?

MR. ROY: Well, we need a conceptual framework for the cooperation. We can define the U.S.-China relationship in terms of the competitive aspects, in which case it reminds me of two political parties competing for top-dog status and prepared to let the country go over a fiscal cliff rather than work together to solve their deficit problems. I don't know where that example could come from. (Laughter.)

MR. LUSTIG: I can't imagine what you're referring to.

MR. ROY: But it seems to me that if China and the United States have that type of relationship, we're both in danger of going over fiscal and other types of cliffs.

[01:24:35]

But let's think of it differently. Liz put her finger on it in a word that she sneaked into one of her comments about responsible behavior. If the U.S. goal is to have – not to hold down China but to have China as a much stronger country, behaving responsibly in the global environment, then the United States will not have difficulty dealing with China. And I think it's a fundamental American principle that the best way to induce responsible behavior on the part of others is to behave responsibly yourself. In other words, the United States has to mind our own P's and Q's, that we don't use our powers in a way that set a bad example for China. We did when we rose to great power status. We were the dominant power in the Western Hemisphere, we fought an unnecessary war, we annexed territories, we seized colonies. This was un-American behavior, and we were not balanced.

[01:25:35]

But geography matters. We don't have to deal with a rising China by ourselves. China is surrounded by great big powers. And we need to constantly bear that in mind. This is not a U.S. task. This is a cooperative task, and it's in China's own interest. If China destabilizes East Asia, then China is one of the victims of that destabilization.

So what are the dynamics right now in East Asia? If China behaves badly, I won't define what that means – but if it behaves badly, the countries around China show solidarity with the United States, and that's not in China's interests to have the – its neighbors all turning to the United States. But if China behaves responsibly, then none of the neighbors around China is prepared to engage in a containment strategy against China, because they're benefiting from China's rise. So therefore, our leaders, our strategy should be geared to having China behave responsibly, and that requires us to behave responsibly in our own terms, and then we will find there are a host of common interests that we can work on cooperatively together.

MR. RUSTIG: Yan Xuetong, you're smiling. Is that because you agree or because you disagree?

MR. YAN: No, I partially – I totally agree with Ambassador Roy, but then I get different conclusion. (Laughter.) And –

MR. RUSTIG: That's an interesting definition of agreement.

MR. YAN: I agree about his description and the logic, and then the result is that we are going to compete each with the other for the friendship with our other surrounding countries of China. And so the competition for friends, completion for partners and – (inaudible) – new conflicts between China and the U.S. So for me, I think now we can define – we concretely define the term of the new type of – new type of relationship – (inaudible).

MR. RUSTIG: That's what (I've been trying ?) to do.

MR. YAN: So that means a competition for friendship. (Laughter.)

MR. RUSTIG: Let's throw it open to the audience and see what you can make.

Jessica, down in the front.

[01:17:39]

MS. MATHEWS: Thanks. Jessica Mathews from Carnegie. I think there's one issue that covers all three of the themes you've talked about, and that's the question of cybersecurity, and in particular the gigantic losses that we are suffering – and commercially, especially – from both cyberthreat and then cyberespionage – and it's also the classic global issue, and it's obviously a deep security issue.

So question: How does the U.S. and China go about beginning to tackle this issue in a way that doesn't dominate the entire relationship?

MR. RUSTIG: Elizabeth Economy?

MS. ECONOMY: Chas has an idea.

MR. RUSTIG: Oh, Chas – all right. All right.

MS. ECONOMY: (Inaudible.)

MR. RUSTIG: OK, pass it to Chas.

[01:18:26]

MR. FREEMAN: I think this get – has to be addressed in a broader context. And the Chinese have been fond of saying – and I think they're right – that they need a peaceful international environment in which to develop. I think the United States needs a peaceful international environment at this point, to solve various problems. If we can agree on that and if we can develop the sort of relationship that Stape was outlining, then we have a better chance of dealing with the cybersecurity issue.

Otherwise, while I'm very concerned – and I don't like being hacked, and I have been hacked; nobody likes that, and especially don't like it when it comes from abroad. But – and IPR, intellectual property issues, really are very serious; I agree.

But the bigger issue here is the asymmetry in the military rivalry. Now, China is not building a much larger nuclear strike force because it believes it can incapacitate the United States with a cyberattack if we attack it. So if you think about cybersecurity purely in terms of your own inconvenience or the problems of your company, you are missing the larger context, which is that this is a domain through which a foreign country can reach out, shut down the electrical system, destroy the Internet, can interfere with command and control mechanisms and the food distribution system and generally reap (sic; wreak) havoc of the sort that only bombing campaigns were able to do in the past. So if we can't deal with the broad issue of developing a relationship that is more cooperative than hostile, then this issue is going to become more, not less, serious.

MR. LUSTIG: Yan Xuetong, just a few days ago the White House said that it believed it had been hacked. Didn't actually, I don't think, utter the word China, but everybody heard that word. Do you acknowledge that there is an issue here that needs to be dealt with?

MR. YAN: I think on the website and the Chinese people can always get this kind of allegation, but I don't – I don't know why there – (inaudible) – belief or not, but for me, I think this so frequently have this kind of allegation that people doubt about – (inaudible) –

MR. LUSTIG: Allegations which are unfounded?

MR. YAN: There's no any evidence to show to it. (Scattered laughter.)

[01:30:50]

MR. FREEMAN: I would say – I would say, by the way, that the United States did something exceptionally stupid, even for us, when we released Stuxnet, because we have set the precedent –

MR. LUSTIG: That was the little computer programming that the Iranian – (inaudible) –

[01:31:05]

MR. FREEMAN: In Iran, yes. We have set a precedent. We followed up with additional attacks, apparently, on Iran. This has set a precedent for others doing the same to us, and I think there are a series of issues arising with this, with drones, with other matters where we really need to consider whether the Golden Rule might be a better approach than the one we're taking.

MR. LUSTIG: Elizabeth Economy.

MS. ECONOMY: I think, in fact, Jessica, we have raised this issue with the Chinese at the most recent Strategic and Economic Dialogue. We are trying very hard to push the cyber issue as a new area of potential cooperation with the Chinese. I think the Chinese have been somewhat reluctant to embrace it. And it – it seems to me, it's potentially, in part, because they're not sure how to manage the issue at home. In other words, you know, there's a proliferation of issues, of global issues, that China must now address. It's not always the case that institutionally they are well-organized to address these issues, that they know exactly who should be spearheading a negotiation. Do they have the substantive expertise; do they have the diplomatic expertise to bring to bear? I think there are probably a combination of issues here where the Chinese are somewhat reluctant to engage fully.

MR. LUSTIG: Professor Yan.

MR. YAN: Ok, my response is like this. Actually, I think China is ready to cooperate with the U.S. on the cybersecurity. And for instance, at the – (inaudible) – forum we set a special panel on the issue. We invited the people from the Chinese – some think tanks and from military – military people to talk about this issue. They are very willing to talk about cooperation with U.S. on the cybersecurities – cybersecurity issue.

The problem is that – and now we have a different concept about the censor and what we can censor, what we cannot. And this is a political issue; this not technical issue. It's not security issue. So actually we – if both sides reach a political agreement on this, and I don't think that there is a problem.

MR. LUSTIG: Stapleton Roy.

[01:33:08]

MR. ROY: Just a few brief points. Jessica, this is a very important issue of growing importance. It's one in which there is no international regime for dealing with it. This is – the cyberworld has emerged recently. We don't have any ground rules as to what is responsible international behavior in this area. And we have not so far taken the lead in trying to establish such a thing because of the aspects involving freedom of speech and exchange of information which are involved.

But think of it this way. China and the United States are the two countries in the world who are most heavily dependent on information systems, and that's going to grow. There are more

Internet users in China than there are in the United States. China and the United States are the two principal sources of cyberattacks on other countries in the world today.

[01:34:04]

Do we really think – my computer is so loaded with security protection systems I barely have room for the games that I like to play. (Laughter.) Do we really think that China’s computer systems are more secure than American computer systems? In other words, the attacks that are bothering us are potentially attacks to which China’s institutions are also highly vulnerable. And if China wants a modernized society, it’s going to have to use information systems to protect it.

So there is a common interest. And the fact that Professor Yan says that this is an area that China is beginning to realize it has to cooperate with the United States, what we need to do is establish ground rules. When do you – governments have to clamp down on private activities in their countries, or when do – are they accountable for government activities that begin to interfere with the proper functioning of societies? Those types of behaviors, whether by governments or individuals, should be unacceptable. And if we don’t want to accept that, then we’re going to become the rogue state in this issue as opposed to other states. So I think this is an area that we can make progress on, but we’ve been too slow in recognizing that the only way to deal with it is through setting up a cooperative set of ground rules over how you can behave and when you have to sanction improper behavior.

[01:35:29]

MR. LUSTIG: That, I think, is a good – that, I think, is a good note for us to end on. So my thanks to all the members of our panel, to Yan Xuetong, to Elizabeth Economy, Chas Freeman, Stapleton Roy, to the Carnegie Endowment for International Peace for having hosted the debate and, of course, to our audience.

That’s “The World Tonight.” This is Robin Lustig in Washington. But now from me, goodnight. (Applause.)

(END)