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Transcript

CHINA IN THE WORLD PODCAST

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Panelists: **Paul Haenle, Yukon Huang, Yan Xuetong, Sun Xuefeng**

Episode 24: One Year After Sunnylands:
Assessing the U.S.-China Relationship
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Perkovich: Good morning. My name is George Perkovich. I'm the vice president for studies here at the Carnegie Endowment and it's my pleasure to welcome you here this morning. We have an outstanding panel, which we're delighted to present to you. The topic of the discussion we're going to have is: "One Year After Sunnylands: Assessing the U.S.-China Relationship." I'm going to ask a couple of questions to our panel and then we will open it up to a discussion.

But in a preliminary way, I want to say that we are right now at the fourth anniversary of Carnegie's collaboration in Beijing with Tsinghua University, and we have just been delighted and extremely pleased by this collaboration. It made sense in a lot of ways. The two institutions are about the same age, which is older than all of us here in this room. It's pretty near a hundred years, and obviously [this is the] leading university in China and the oldest think tank on foreign policy in the United States. But I'd have to say that the collaboration has [even] exceeded our expectations from four years ago and one of the reasons is Dr. Zhang and the role that he has played, and our colleagues. So we have two of our colleagues from Tsinghua here today, and the Director of the Center Paul Haenle. I thought it might be useful for each to say a couple of words about the collaboration and its value as each of you see it. Then we'll turn to the issue of post-Sunnylands and U.S.-China relations.

Yan: Good morning everyone. Thank you very much for coming for this joint program. Actually, [since] Tsinghua University and the Carnegie Endowment set up this joint center, we have [made] a big progress in Beijing. The very first year we [had] a seminar [that] was reported in the *People's Daily*. [Did] you know that? It's not easy to be reported by the *People's Daily*. When you have some international discussion, certainly it's easy to [publish it] on your website, or get it on the Internet, but not in the *People's Daily*, so we think this is very positive. In the last three years, we have organized almost a hundred panel discussions. It's gaining momentum. I think this is the first time for our two institutions to have a joint program at Carnegie. So we hope today, we can [make] this discussion as successful as what we did in Beijing.

Haenle: First, I just want to welcome everyone for coming today, and especially welcome our Chinese guests, Dr. Yan Xuetong and D. Sun Xuefeng, who are our partners, as George mentioned, in Beijing. We just completed a 4th year as partners, and frankly, I personally have been surprised at the extent that we have been able to make progress. I came to the Carnegie endowment after serving five years at the National Security Council as China director under both President Bush and President Obama, and one of the things that was very clear to me during my time in government was that the number of issues where we needed to find ways to cooperate with China grew and grew over that time period. I remember writing memos for the president, [starting] out maybe this long (gesture), and after several years, you know, they're this long (gesture), because the person in the NSC who works on climate change wants something in the memo, the person working on Iran wants something in the memo. The list of areas where we have the possibility to cooperate with China is a long list.

I think I personally saw this effort as a way to figure out how the United States and China could really begin to try to realize that cooperation. I don't think we have done it to the extent that is possible yet. But I think that our platform that we created in Beijing is working towards that goal, and I often say that if, at the macro-level the U.S. and Chinese governments could accomplish what we've accomplished at the micro-level, then I think we would be in a better position today. [Although] we don't always agree on the substance of issues as you'll see probably

today, when we talk about U.S.-China relations, but we have figured out a way to achieve our common objectives in a way that works for our Tsinghua partners, and in a way that works for our Carnegie partners. I think that sort of model of cooperation, actually—a lot could be learned from it. It has taken a lot of relationship-building—getting to know each other, getting to understand each other's views and positions, not sugar-coating things or throwing punches, but being honest in a respectful way, and in an effort, really, to try to find constructive solutions to today's common global challenges where China has a stake, the United States has a stake, and the international community has a stake. So I want to thank our Tsinghua partners for coming today, and for the partnership that we've managed to achieve over the last four years.

Perkovich: Thanks Paul. We're going to turn now to the policy issues but before doing that, and you have the bios of each of the four panelists, but I want to just continue down the line just to introduce Yukon Huang, who's here in Washington with us. [He] provides invaluable perspective, especially on the Chinese economy, where he was a director of the World Bank's office in Beijing—the country director for the Bank in China—and then with the same job in Russia and the former Soviet Central Asian republics. [He] writes very trenchantly and provocatively on the Chinese economy. For those of you who follow them you'll appreciate that, and those who don't can begin to follow them. Then, Dr. Sun Xuefeng, who's from Tsinghua Center as well and doing a lot of work on perceptions of China's rise both in the region and globally, so that will be some of the topic that will be discussed as we go through this morning.

Let me just start with a broad question, and ask Dr. Yan. It's [been] 35 years since the normalization of relations, one year since the Sunnylands summit, which as people remember was informal and it was to be signaling a new relationship. After that year, how would you describe the dynamic now—in terms of the interest in building cooperation, but also there's a fair sense of competition still out there, and rivalry. Describe to us the drivers of the relationship as you see them now.

Yan: Well, I think at least now we move into a new stage. We started to work together to establish a new type of relationship between China and the United States and both sides, from my understanding, still lack experience on how to make that happen. What kind of relationship can [we] really have? Although his idea initiated from the Chinese and at the beginning the American government and the Obama administration [had] doubts [and] suspicions about it, then, in my understanding, from last year, this idea [has been] moving forward. So we remember that by the end of last year, Susan Rice delivered a speech at Georgetown University with this term, a 'new model of the major powers.' But then, after that, and from my understand, this kind of effort still [move] ahead. But in the last two months, it seems to me [to] have become bumpy. That means we are going to have new problems between China and the United States. I think it's very normal because each side still [does] not have experience about this new relationship between a rising power and a status power. We won't have a kind of relationship [that is] different from what we know from history. That means we won't crave something we [have] never known.

This is really a new thing, that's why it's difficult. From my understanding the most positive part is that the leaders on both sides are quite positive on this idea and generally-speaking, from my understanding, they agree with each other, they regard it as very necessary for preventing confrontation between China and the United States and, from my understanding, [it] seems to me there's more problems at the working, bureaucratic level rather than at the political leadership level. So I think in the coming months possibly—we're going to have SED in July—so I think that

meeting will provide a new opportunity for both sides to sit together to discuss how we can substantialize this relationship.

Perkovich: Does anyone want to add anything to that broader question. If you're looking out over the next couple of years on the relationship, notwithstanding the desire to have a new model relationship—new could be good new could bad, new could be peaceful new could be bumpy—so how do you guys look at that too?

Haenle: Well George, I'm glad you started out by asking to look at the relationship over a 35-year period because I think, you know, as you look at the newspapers, you could easily come to the conclusion that the relationship is spiraling out of control and is in a rapid deterioration, and we are moving towards inevitable conflict or confrontation. We certainly have problems. We've always had problems in the U.S.-China relationship with things on the positive side and things on the negative side. But if you look at the thirty-five-year context of this relationship, which started out normalizing in 1979 after a 30-year period of virtually no relationship whatsoever, and to remember when Kissinger took his secret trip to China, he couldn't communicate with Chinese officials, he had to go through Pakistan officials to communicate with China. So if you look at it from that context, I think the trajectory of our relationship has been on an upward curve.

Now, if you look at it in a short-term context, where we are today one year out from Sunnylands, I think we have a number of problems that we need to address—serious problems whether it's cyber, or maritime issues, or Mil to Mil relations. There are a number of issues that we can talk about today which we need to find way to manage. But I think the concern that I have today is, one year out of Sunnylands, I saw that as a good starting point, and I hope to see more meetings between our two presidents, in an informal, no neck-tie kind of format where the two leaders can get to know each other. We don't have a sort of "Sunnylands 2" scheduled, we only have a few meetings between our two presidents, and they've taken place on the margins of larger events, and you can't get a lot of work done and you can't build a relationship that way.

I also think that the problem we have today in the relationship is that the problem we have in the relationship are beginning to define the relationship, and there is not enough good to talk about. I think we, [and] leaders at the highest levels in China and the United States, need to begin to address that and begin to figure out if we are going to move towards this "new type of great-power relations" concept that China put forward. How is it that our two countries are going to enhance cooperation on areas where we both have common stakes? We haven't really done that yet, and I think it'll take a lot of energy and a lot of thinking on both sides and I think it will take ideas from the Chinese side as to where we can cooperate. We're very good in the U.S. government of coming to the Chinese with long lists of where we can cooperate, and we think about this by examining our own interests and examining also at the same [time] where we think China's interests are, and we do our own calculations of where they coincide and we got to the Chinese and say: 'Here's where we think we can cooperate.' But I fear that our Chinese partners have taken that as, 'Here's where the United States needs help from China as a sub-partner in the process in an area where we really only help the United States and not China.' And I think the only way around that obstacle is for the Chinese leadership to begin to put more ideas forward on the table for consideration on where we can cooperate. Vice Foreign Minister Wang Yi at the press conference at the National People's Congress in March said that China will begin to play a larger role internationally and will do so by putting Chinese ideas on how global crises and international issues can be solved. I think that will help us as we begin to think through how we

can work better together, and then that, I think, can provide a better context for the relationship that will allow us to work on those areas where we have disagreements.

Perkovich: Yukon, when you think about the economies of both countries and then the economic relationship between both countries, do you see that as more conducive to cooperation or to conflict?

Huang: The hope is that if you focus on economic issues, you'll get into a set of concerns which will be mutually beneficial [on] both sides, and therefore it will lower what I call the security and political tensions. But this is not going to be easy, it's difficult. Here you have the largest two economies, two largest trading nations. If I had to describe their economic relationships, I would describe it as underdeveloped, unbalanced, and politically fragile. And this is going to be very difficult to work with. You have two major geo-economic initiatives out there: for the United States it's the pivot or the rebalancing, but for the China side it's seen as containment. From the China side, the major geographical focus is actually not to look east, but to look west, so you have the revival of the Silk Route, the land route through Central Asia to Europe, revival through a maritime route through Singapore, South Asia to the Middle East. That hopes to find a more productive interaction. But that's not particularly good because there's no productive interaction between the United States and China in that context.

Then you have what I would call the four acronyms: two trade relationships, the TPP—Trans Pacific Partnership—and RCEP—the Regional Comprehensive Economic Partnership. Now the problem with these two trade relationships is that they exclude each other. China is not in one, the United States is not in the other. That doesn't make sense. You have two other acronyms which I think have potential: you have the BIT—the Bilateral Investment Treaty. There's great potential, but very difficult issues such as cyber security, SOEs, dominate the agenda. It's hard to see how the world's major technological superpower—the United States—could forge an understanding with a country whose per capita GDP is number 99 and its institutions reflect that standing. How could they reach an agreement on this? Now very recently the fourth acronym came up, and this is the... I have to remember this one... the FTAAP—Free Trade Agreement for Asia-Pacific under APEC hospices. It has the potential of bringing both the United States and China into a discussion, but it has not received much warm support by other partners. So I think this is a real difficult issue. Can you find agreements which actually bring both sides into what I call a more harmonious discussion rather than drawing them into more sensitive issues?

Perkovich: Thank you Yukon. Dr. Sun, when you think about this question from your studies of regional reactions to China's rise, how do you think about the future going forward: cooperation versus conflict?

Sun: Ok, my point will be very simple. I fully agree with Professor Yan and Paul that [between] China and the United States, the bilateral relation has so many problems and so [much] competition, but what I want to argue is what is the most important problem, or the issues between the two countries—China and the United States. In terms of regional security, or in terms of the security issues, I argue that it's the most important problem. It's not the bilateral issues. It's how China and the United States and its alliance network can manage all relations; that is, how China manages its relations with the United States and the Japan alliance, and how China manages its relations with the United States and the Philippines alliance. I think that's a very important

problem. Why? Because we do not have enough international relations knowledge to understand this kind of phenomena. We have enough knowledge to understand the great-power competition between [the] UK and Germany, and between maybe France and the UK. And we also have enough knowledge about those two groups, those two blocs—Soviet Union and the United States—and the PACS treaty organization and NATO. But we do not have enough knowledge to understand the current problem between China and the United States, that the United States has established an alliance network in East Asia, but China is a lonely rising power, just like Paul in Beijing. Paul was a lonely rising power, and Paul had to face the faculty members in the department. Yes, I think that's the key problem for the new major-power relations between China and the United States.

Perkovich: I'm glad you raised that and I want to come back to it cause as somebody who works a lot on nuclear issues and the issue of extended deterrence, which is in part what you're talking about with these alliance relations. It's an extremely hard dynamic and actually for which there's relatively little theory. Even if the theories were good, there's relatively little of it. So it will [be]—and is—a key challenge. Rather than my asking more questions, my guess is that everybody here would've thought of the questions I would ask and would frame them better, so I want to open it up to a discussion, and I assume we're going to get into some of the issues that each of the panelists have raised, including the cyber and the territorial questions. So raise your hand and then when I call on you, one of our colleagues will bring a microphone and then please, identify yourself, even those of you who, like Ambassador Sullivan, don't need introductions, you should go ahead and still do that. So we'll start over there, and then here, and then we'll come back this way.

Audience question: Facing U.S. sanctions, Russia is going to the East, going to China. How could you comment the tremendous contract—gas contract—with China and actually, what do you feel could Russia be a rising partner for lonely rising power—China?

Perkovich: And if you know what the price was, please tell us. Does anybody want to comment on that? Dr. Yan?

Yan: Ok. Well, actually, no one knows about that at this moment. I don't think even the negotiators know what the final price will be, and one thing is clear. The contract signed between China and Russia will release the pressure on Russia, [especially] facing the potential sanctions imposed by the West. Strategically, I think this treaty will lay a new political condition for China and Russia to strengthen their strategic cooperation. So, from my understanding, this contract is more political than economic. The second thing is about whether Russia is a rising power or not. For me, I don't think Russia is a rising power. I think at this moment, Russia is still a declining power. In my latest book, published last year, I argued that in history, you never have a superpower, or an empire, resume their traditional position within ten years after they start to decline. So, all of the historical cases show that [for] major powers, when they decline, usually the continuity, the "inertia of history," I call it, will continue for [centuries]. And so, I don't think Russia has the chance to resume superpower position within my [lifetime]. I think it is quite difficult. The reality is that even for the case in Ukraine, both the western media and Chinese media—although they do not agree with each other in terms of political positions—share the same view of analysis. They all regard Russia as gaining the upper hand on this issue and Putin [as]

smart enough to expand Russia's influence. For me, I think the media analysis is wrong. If you look at the situation, Ukraine used to be Russia's ally. Even today, even [if] Ukraine was split into two countries—the west and the east—at least the western part will join Europe. So generally-speaking, if we look at this issue from a historical perspective, you find that the Russian influence is shrinking rather than expanding.

Haenle: I'll just add one thing. I agree there's a political element to the decision. I also frankly think there's an economic and commercial element and the Chinese are very good at negotiating, and I'm sure they saw Russia in a very weakened position, desperate for a deal. Now, the details of the arrangements were quite opaque so, as George said, we don't really know what the price was. I understand it's roughly equivalent, perhaps, to what the EU is paying, but I also understand there's a lot of sweeteners thrown into the deal. So I think the Chinese saw an opportunity to finally conclude a deal that was advantageous on their part. And I think also, China sees it in its benefit to let the United States and the West know it has strategic options if things don't go well in its relationship with the West. So I think there's both probably economic aspects and political aspects mixed together.

Audience question 2: There's an interesting colloquy developing here in the United States in places like the Nelson report, which I think a lot of you are familiar with, but so far it's only been with Americans, and since we have two very well-informed Chinese scholars here, I'd like to get their take. It's basically over the question of what is the ultimate Chinese aim vis-à-vis the United States? Is it to share power in the Pacific, Asia-Pacific, or is it to displace American power? And the fact that I used two different terms expresses some parts of the debate. The United States tends to talk about "Asia-Pacific," China tends to talk more about "Asia."

Perkovich: I know Dr. Yan has no views on this topic.

Yan: I [answer] and then others?

Perkovich: No, go ahead, you start and then [we'll invite other panelists].

Yan: Ok, I'll try to be brief. Actually, when we talk about the final goals, it's hard to define. For me, including in my last book, I usually talk about things within ten years. No matter what the motivation our government has, the question is, what [can we achieve] within ten years? Within the next ten years, I don't think we have any capability to replace the United States in this region, including East Asia. Second, the term "Asia" is very murky. When we are talking about Asia, it could be the geographical area from Israel to Japan. It could also be only China, Japan and South Korea—those three countries. So this concept is very confusing, and I think your question actually is targeted at the very recent meeting held in Beijing and [the discussants were] talking about the Asians should be responsible for Asian security, right? I think that's what you're talking about. And from my understanding, people ignore one thing, and it's the principle, also stated by Xi Jinping, that our policy is open. The security cooperation is open—it's not regionally-bounded. So from my understanding, the concept of Asian security concept is about the mentality. It's not talking about the policy. The Asian security concept actually referred to shows that we have a different view from the traditional, so-called Cold War mentality, or the Euro-centric mentality, or something like that. I think that's talking about the mentality rather than the policy.

Perkovich: And that goes to something Dr. Sun referred to about alliances in the sense that some of the agencies have alliances that bring in other powers so they're Asian states but they make choices to relate to outside powers that complicate it. Do you want to add anything to that? You don't have to, but if you want to add anything to this question.

Sun: I just want to add a few words to Professor Yan's response. Asia, the concept of Asia, is so weak. It's hard to define. "Asia-Pacific" is the term coined by the United States. I think that it's more meaningful for the Chinese scholars and for the Chinese that we talk about the surrounding areas. Surrounding areas can maybe be divided into three parts: northeast Asia, or southeast Asia now together called east Asia; then central Asia; and then south Asia. So I think that we need to understand how China understands its surrounding areas rather than just "Asia" or "Asia-Pacific." [We have always understood] the regional context as three surrounding areas: east Asia, dominated by the United States; central Asia, dominated by Russia; and south Asia, where there's a balance of power, maybe between India and Pakistan.

Perkovich: The lady in the back, there.

Audience question: Thank you. My question is, do you think the nature of cyber war actually requires a new way of thinking in terms of cooperation between the United States and China? Do you think the way of "trust, but verify" can be a way forward? How could trust be built between the two nations in terms of cyber cooperation? Thank you.

Perkovich: Thanks. Good question. Anybody on cyber?

Haenle: Well, I think obviously this is a major issue that the United States and China need to come to terms with. Obviously we've seen the United States over the last couple of year gradually build up its concern on one specific aspect, and that is cyber theft. It's had a difficult time making its case both to the Chinese and internationally, because of Snowden. However, I think it's important, you know, to point out that today, what Snowden is talking about is cyber espionage. I think this is something, as all of you know in this room, that all countries do—the United States does it. In fact, you know, I was a diplomat in China, I'm well-aware that the Chinese have very good capabilities in this regard. We do not, however, have the 'Chinese Snowden' that has stepped forward yet, but if we ever do, I'm sure we're going to learn about how good the Chinese espionage capabilities are.

But the administration is trying to make a different point and that is a very specific point about cyber theft of intellectual property from U.S. companies. It's having a very difficult time doing that and I think you can see last week, the indictment of 5 PLA officers from this [hacking] unit in Shanghai, was [the United States's] latest attempt to be heard. I think the United States knew that China would come back with its own measures to counter the indictments and that should give you a sense of the level of frustration on the U.S. government. It knew that the Chinese government would do something to retaliate, but it made the indictments nevertheless. And I think this is symbolic, but it is also an effort by the U.S. administration to say, 'we really want to talk about this issue, it's affecting American businesses, you're talking estimates between 50 billion and 200 billion dollars in losses of U.S. companies,' and there's a lot of pressure on the U.S. government by U.S. businesses to bring this issue forward. I guess one of my biggest

concerns in this regard is the U.S. business community. Across the spectrum of the U.S.-China relationship, [it] has always been very constructive voice. When times have been tough between the United States and China, it's the business community that stepped forward and said, 'we need to think about the long-term nature of our relationship and how can we get this back in a better place?' But I worry that the U.S. business community is actually becoming very frustrated with what's happening to its own businesses in China. So I think this particular issue is one that the administration would like to put on the table and try to find a way to resolve.

Perkovich: But doesn't that cut multiple ways? I mean, in other words, business communities are also frustrated that the NSA and others use flaws in American business software to then penetrate other countries without getting the permission of those companies and then they may close off markets because potential customers are saying, wait, we don't want to be buying products that are allowing you to exploit and penetrate into our country. So the business arguments work both ways. This leads to another question, as does what you very rightly said: the U.S. argument, which is 'espionage is what countries do, so get used to it, we all do it, but stealing from private companies is wrong, whereas we'll steal from state-owned companies in the same sector, but they're state-owned and therefore it's ok, it's not a private company'...

Haenle: Well, I'm not sure we've stolen. I mean we may have stolen from state-owned enterprises but I don't know. Huawei, as I know, was an effort to go in to figure out what the ties were to the PLA. I think that was also part of an effort to figure out how to deal with Huawei in the United States. But I don't think that the United States government has gone in and stolen IPR from Huawei, and given it to Cisco and IBM. I may be wrong, but I don't think so.

Perkovich: I think what the U.S. government said, or what they were saying anyway as it was reported, is that it's not so much that it's given to private companies but that knowledge is then used in trade negotiations for the benefit of a sector, if not for a company. I guess where I'm going though, is with a question, because I think it's super important. One, does anybody think the potential for agreeing on rules—some code of conduct or rules—that that potential could be reached without everybody willing to put their stuff on the table? In other words, you can't say, 'what's mine is mine, what's yours, well, let's negotiate over them.' You'll have to talk about some parity, but also that it can't be done just with the United States and China. In other words, it would have to be a broader discussion, a broader effort. Are those two premises wrong, is there some other way to do this?

Haenle: Well, first, I think you're right, I agree with you that this distinction the United States is trying to make is going to be a very hard case for the United States to do, because of the grey areas that you point out. Nevertheless, U.S. businesses do feel their IPR is stolen. And it's an issue, so the U.S. government wants to put it on the table. The harder issue obviously, as you point out, is what kind of framework do we put together between the United States and China—or broader—that can work to alleviate these concerns? The distinction the United States is trying to make, let's be clear, is not one that it recognized in China and, I think, also throughout the international community. So the United States has a very difficult challenge ahead of it, but nevertheless I think it felt it has to do something. I also worry that if we're not able to resolve this to some degree, to the U.S. business community's satisfaction, you will see this gradual buildup continue and ultimately, we will have a situation, potentially, where we have offensive operations going back

and forth between China and the United States, and I think this is not in either of our interests, or [in] the interests of the international community.

Yan: Well, I think this is a very good question and the reason is that cyber security is not a bilateral issue, it's a global issue. And now the internet is something like electricity and running water—all humans beings live on that. So cyber security is a very serious issue, not [just] for the government, [but also] for ordinary people. So, whenever we need norms to govern this kind of global issues, we definitely need multilateral regulations, not bilateral. But, before we have multilateral agreements, we need to start from the major powers. And at this moment, and I doubt any country can be so bold to claim that they have more cyber espionage capability than the United States. Like Paul said, the Chinese are very capable. I hope we are more capable than the United States. But I doubt our market computer engineers agree with that. So, from my understanding, the United States needs to take a lead to do something and if possible, China and the United States can work together to work out something, or at least a draft for the world. That will be positive. And so, from my understanding... generally-speaking, if you look at all these internal norms, most of them started from the negotiations between the major powers. After they developed some agreements, then they were practiced by a few major powers, followed by a majority of countries, and then it becomes international norm. So I think the process requires the United States gives serious consideration about the negotiation with China on the cyber security issues.

Perkovich: Procedurally, how can you imagine a bilateral discussion on that taking off? Cause I know there've been attempts, but at what level would that have to be?

Yan: There's a working group. Unfortunately, due to the current U.S. initiative to sue the Chinese five PLA soldiers, this working group stopped. Actually, according to my understanding, this working group [hasn't made any major achievements] because of several reasons. The first reason is that it's [been running for too short a period of time]. It just worked for a few months. Then they had no chance to continue. The second [reason is], it seems to me both sides didn't start from the easy issues, and in most cases, they heavily focused on the governments' interests, rather than focusing on the civilians' interests. Actually, from my understanding, if they'd started [by] talking about corporations or the regulations on the civilian issues, this [would] be much easier than talking about government secrets.

Perkovich: I don't want to overdo it, but any questions on this issue, on cyber? Anybody on this question? And don't lie. Ok, so you're going to be the test case, if you lie, that's it.

Audience question: Well, you be the judge. I want to go back to something Paul said about the retaliation the Chinese government's pursuing in response to the indictments from last week. One element of that has been an effort to accelerate a move by Chinese state-owned banks and perhaps other enterprises to move away from doing business with U.S. technology companies, and consultants and possibly others. And I'd be interested in everyone's assessment of how real and extensive this is likely to be. It is just for show? Will the banks perhaps study the option of moving away from IBM, but not ultimately do it, or is this presaging a broader move away from U.S. companies?

Perkovich: Thank you. You kept your word, you're a man of honor. [Does] anybody want to try to [answer this question]?

Haenle: I'll just [respond] very briefly. I think this is not new, frankly. If you talk to IBM, you know their profits have been dwindling in China for quite a long time and so I think, [number] one, it is symbolic. It is retaliatory to say, 'we have options, and we're going to strike back.' And I think that there's a desire on their end to use their national companies to do the work that IBM and Cisco and others have been doing. I think, realistically, it will take a long time, because, you know, government agencies, state-owned enterprises, companies, are all using IBM's software, and other companies'—American companies'—technology. So this will take a long time to do, but I think it checks a lot of boxes on the agenda of China: it supports their national companies, it is symbolic in terms of retaliating and now, I think, this latest [event] with Boston Consulting Group and McKinsey [further fits into this scenario]. This is a new one, and I don't know how that will play out, but [Chinese leaders] have announced that state-owned enterprises should not do work with Boston Consulting Group, McKinsey, others of this sort. I have not heard whether or not that has actually sort of taken shape and how it's unfolding—but that's a new one. But IBM and Cisco and others, I think, they have seen an impact on their business over the last several years. [For them] this is not new.

Audience question: Question, because we're talking about Sunnylands: would you give a general, overall assessment a year later? Are we moving a step forward, or a step backward towards that vision? I mean, given, it seems, all the trouble that we have just been adding more obstacle to the goal. And we're talking about indictment, I mean, to me, watching TV channels on both sides, I think the Chinese and Americans are talking about bypassing each other. The Chinese are still talking about U.S. containment, I mean, you are based in Beijing, certainly you are aware of that. [On the U.S. side] every step China makes is considered a threat, China is the, you know, 'trouble maker,' it's going to 'rock the boat.' So are we going to move [towards solving issues]? Even on the cyber thing, is this indictment actually a smart move, I mean, towards solving issues—in your words, in 'making the U.S. voice heard'?

Yan: Actually, from my understanding, I think this situation in the last three months is a little bit [of a] step back and the momentum stopped. From my understanding, this mainly comes from [the fact that] both sides are not very satisfied with these achievements. From my understanding, the reason—that's my analysis—is because both sides defined this kind of relationship as mainly for cooperation, and regarded cooperation as the goal. And from my understanding, if both sides change their understanding about this relationship, and cooperation is regarded as a method, an approach and the way, or the means, to achieve a new goal—the goal that is to prevent confrontation, to prevent conflicts from escalating into confrontation—then the situation will be changed. Because both sides are talking about cooperation so much, when they cannot develop cooperation... people blame [it on a] lack of mutual trust. When you talk about mutual trust as the basis for cooperation between the two countries, then as soon as you cannot develop a new cooperation, you say: 'he's not my friend, we cannot trust him, because we never trust each other.' [But] we [can] think about things in the other way, ignore the concept of trust: why [can't we] develop cooperation without trust?

We do not need trust. We saw that the Soviet Union, the UK and the United States cooperated during World War II without any mutual trust. When Mao Zedong shook hands with

Nixon, there wasn't any trust. When Nixon in China had dinner with Jiang Zemin, there was not any trust. The fact is that, if we change our view about how to establish the new relationship between our two countries, then we find that there [can be] a different approach to that goal. So, from my understanding, nowadays [there is] too much problem [in the China-U.S. relationship] because the expectations for cooperation [are too high]. They didn't regard cooperation as an approach or the means, and so when they cannot achieve that cooperation, they say, 'you're lying to me; you promised to cooperate with me but you didn't cooperate with me on this issue.' And so when both sides blame each other and are not satisfied with the other's response, then we have a setback. So that's my understanding, we need to—both sides need to—have a common definition of the new relationship.

Perkovich: Premised on the realism of distrust to begin with, how [can we] solve problems [nonetheless]?

Yan: I think the precondition is that we should be very frank with each other, to admit that there's no trust between us. And so the question is that how can we develop cooperation without trust? Let's forget the trust. If we have trust, fine. Without trust, we can still survive. Without trust, we still can cooperate. And without trust, maybe we [can] cooperate better.

Perkovich: I think he's absolutely right. That's an excellent way to turn to the distinguished Ambassador Sullivan, your question.

Audience question: I see a fundamental *maodun* (矛盾), a contradiction in China's approach to the world. On the one hand, [there is] the peaceful rise theme, the need to focus on economic development. China's fundamental security problem is internal stability with the millions of people whose standards of living have been raised, and the concern that economic problems will put these people out of work, so one major theme, and maybe the dominant one, is to maintain stability and good economic relations. But that perspective is really in contradiction with what we've seen more recently in China's aggressive approach on these territorial disputes, its posture on cyber and other issues, which are creating this real tension. And I think the point was made by Mr. Haenle that the problems are beginning to define the character of the relationship. Now how do you resolve this *maodun* (矛盾), this contradiction?

That is, in many ways, the big problem. Now, China talks about a 'new pattern of major-power relations.' There's various ways of describing it, but I think the underlying conception in China's mind is, 'we have our way of managing our relations, you have your way of managing your affairs, you do it your way, and maybe, as was just said, we can collaborate in some areas even though we distrust each other.' For example, the Chinese Communist Party is very concerned about the degree to which the United States pushes forward on values issues—human rights, and all the other issues. It has this internal directive about the *qigebu* (七个不), the seven no areas. So that's a fundamental issue for China in terms of stability. How do you resolve this tension? China talks about a multipolar world and the question really is where their military is developing the ability to counter or push us out of their front yard. Can you really resolve this contradiction on the basis with elements we've described?

Yan: My response, very [briefly]. I think in China, a lot of people argue in this way. They think that they find that there's a contradiction between China's rhetorical [narratives] or propaganda and its reaction in the last two years. Actually the peaceful rise [theme] hasn't been carried out for a long time, and the "new model of great-power relationship" started from the last two years. Let's ignore the Sunnylands issue [for a moment]. Before that, when China's behavior was not so assertive like the Western media says, did we have a good relationship? Did our relationship stabilize? Could the United States not feel that China was a threat? The China threat started from 1993. Before people [started talking] about [China's assertiveness], still the media in [the United States] felt China is a threat.

So from my understanding, no matter what we do, and because China is not a member of the Western club, you're always a threat, no matter what you do. And the second thing is, look at history. I like Paul's analysis from the historical perspective: if we look at history from the end of the Cold War, and we have the EP3 accident, we have the bombing of the Chinese embassy, but even this happened, China is still regarded as a threat. And why? The Chinese haven't been involved in any war since 1984. And even when Japan sent troops to the war in Iraq, China was the only major power that wasn't involved in a war in the world—and for 25 years. Then, why is China still more threatening than all of the major powers that fight wars? So from my understanding, it's not [about how] China behaves, it's whether China joins this club or not.

Perkovich: We would've welcomed China in the Gulf War but...

Yan: I doubt it [audience laughter].

Haenle: I agree very much with what you said [on] this contradiction, and you see it in a number of places. I would add that the new type of power relationship that is one of the things desired on the Chinese side. I hear from my Chinese friends that China wants more respect on the international stage, that it has risen, and that it wants more respect. But I think the question is, ultimately, what kind of power is China going to be? That question is unanswered for outside observers. But it's also, I think, unanswered within China. I think Yan Xuetong alluded to that. And I think this creates all sorts of anxiety, if you look at the Asia-Pacific for example you see a very contradictory approach. Xi Jinping went to Central Asia in the fall of last year in an effort to improve relations and to convince countries in Central Asia that China's rise will benefit those countries—[he] talked about billions of dollars' worth of trade deals. Xi Jinping and Li Keqiang then went to South China Sea and Southeast Asia in the backdrop of President Obama not being able to go and did a very good job of moving a long a charm offensive to try to convince countries that its rise will benefit them as well. But then, I think, largely, there is I think, you know, a sense in China that it's been held down for a hundred or more years. It's been a victim to abuse by outside powers, and so it also feels a need to stand up to countries in the region. You see this on the maritime territorial issues, and China's behavior in this regard is creating real anxiety and uncertainty, and it's undercutting its other approach at trying to charm the countries in the region and convince the countries in the region that its rise will benefit them.

So I think countries are left with a question of, what kind of power are we going to see China become? And that's where, I think, you see hedging strategies come in, which then lead Chinese observers to believe that the United States is trying to contain it, when I think the United States actually has a policy of engagement. If we were trying to contain China—if that was our strategy—then one could conclude that we have been failing miserably, because China certainly

has not been contained. China's a great economic power, but the question is what will it do, I think, to contribute to the international community and the public goods, in a way that is constructive? It complains that it doesn't like western domination of multilateral and international organizations, but it needs to explain how it wants that to be modified or adjusted. That I have not heard yet. It complains about western approaches to solving crises in Syria, in Afghanistan, and other places, but I don't think it has been in a position to put forward its own constructive solutions yet, and I think it needs to begin to do that if it wants to gain the respect that it wants through this "new type of great-power relationship" concept.

Audience question: I'm very glad that you were actually leading to my question because I wanted to ask a question about South Asia and Central Asia, because I think too much discussion has been focused on East Asia in the discussion about Sino-U.S. relationship, so when we look at South Asia, and especially when President Obama yesterday announced the steps to withdraw from Afghanistan. So, my first question is does China has a strategy on Afghanistan, because china has become a major investor in this country and in the past there's been much complaint about China being a free-rider of U.S. provision of security in this region. So does China have a strategy? Now, the United States is going to withdraw from Afghanistan. And also, I want to ask counter-terrorism. Can counter-terrorism become a new driver of the bilateral relationship between China and the United States in South Asia and perhaps also in Central Asia? Thank you.

Perkovich: Thank you. Anybody on those questions? Afghanistan, China and its strategy in Afghanistan and counter-terrorism.

Yan: Actually, I think that the United States has talked with China for years [about] whether it's possible for China to take over the responsibility for the security situation in Afghanistan. And the question is that, if the United States and NATO were not able to implement that duty, how can China implement that duty by itself? I don't think we have that kind of mentoring capability, [that is] stronger than the whole [of] NATO, right? So firstly it's the [question of] capability. The second thing is that we have to ask the question, why can't the U.S. strategy in this country achieve the goal? That means, if we follow America's strategy [continuously], we still [will not be able to] stabilize that country. America failed in Afghanistan, NATO failed in Afghanistan. If we repeat that, that just means we repeat failure. It's meaningless to repeat a failure. The last point is that China definitely [should be greatly concerned] about this situation. We should do a serious study about what will happen to Afghanistan after U.S. withdrawal from the region: will the situation become better in this country, or getting even worse? And from my understanding, the general judgment is that the situation was getting worse.

For us, we understand the question [not in terms of] whether the situation is getting worse in that country [*per se*, but] it's about the impact of this worsened situation on China. You all know that terrorist problems became worse and worse in the Xinjiang province and so the linkage is a big issue. So from my understanding, the Chinese government has prepared to deal with this issue, but I don't think that issue is part of America's general plan to get troops to withdraw ... It is certainly not as simple as the United States getting troops out of Afghanistan and China purely getting troops in. So from my understanding, China will need its own way to deal with Afghanistan. But that will be very different from United States' strategy and U.S. military operations.

Perkovich: Yes, the sir right here, and then we'll come over here.

Audience question: Paul referred to the fact that the U.S. business community, particularly the big multinationals, have long been a stabilizing factor in the relationship and I share the assessment that over the last five or six years, while they continue to play their role, maybe their enthusiasm has declined a little bit as they become more concerned about some developments in China. Cyber is I think indeed a part of that, but more broadly is the question of economic reform and opening in China, and the sense that the Chinese government, over the last six or eight years, has interfered more through industrial policies and I guess that the question I would ask, and maybe Yukon first and others, [is the following]. There's some sense, I think, growing among the business community that although the vision of the third plenum on economic reform was very broad and impressive, that the implementation is going slowly and in fact that may be economic reformers are feeling that they're facing more opposition than they felt. This will be a key element, in my view, in U.S.-China relations going forward, because of the important role that U.S. companies play in the relationship. So I guess I'd be interested in an assessment of economic reform, how things are going so far, and how we think things will go.

Perkovich: Good question. Yukon, [do you want to answer]?

Huang: Just some general comments. China's proceeding very rapidly on liberalizing the financial system, opening up its capital flows and the markets. This will not make China a more secure country. It actually will become less secure, because it's going to be subject to the vagaries of the global economy and its forces and exchanges rates. As capital moves in and out, there's less control of the economy. So do not think that reform actually will make China more confident in tackling either political or other issues. It's going to be more vulnerable in many aspects. The second point I would basically add is China's entering what I call a very delicate stage in its developing process. It's an upper-middle income country, easy go to high income status. For that to occur, it has to be through innovation, technological upgrading, rather than low-cost exporting or investments. So the conflict between America with the highest technology and the best standards and the aspiring middle-income country which needs to go up the innovation ladder is going to be more tense rather than less tense. That's why American companies feel this kind of pressure. China does not need American money. China's got too much money. China basically wants stronger institutions and technology. Does it get it by buying it, copying it, or just stealing it, this is the reason why the United States is [feeling] that kind of tension.

So we should not predict or think that this particular kind of relationship is going to get easier, it's going to get harder. If you look throughout East Asia, the only countries that go on from upper middle income to high [have been] South Korea, Taiwan, Japan. And ultimately they did it through what I would call 'indigenous innovation.' They didn't do it through FDI or multinational roles, that's what characterizes these few countries. So China's sitting there watching, 'what should I do?'—and frankly, they're a bit stuck, because they're running against these international standards, the concerns of the political agenda and the international relationships. But [China] also asks the question 'how do I get to the next bound?' So my argument to you is, reform is not going to actually make it easier, it's going to actually create more stresses. This is going to be a very difficult period.

Audience question: In lieu of the contradictions that we've already discussed, do these contradictions indicate some kind of disconnect among policy-makers in China over who's running the show, who's making these decisions?

Yan: What's the contradiction?

Perkovich: I think he's talking about what Ambassador Sullivan was talking about, between kind of foreign policy and domestic tensions and insecurity, and being confrontational or seeming confrontational outside of what you're trying to [achieve].

Audience member: We have a rising, peaceful China on one hand, and then you have policies that have alienated the Philippines...

Perkovich: The neighbors, right...

Audience member: ... Japan, Indonesia, and the American business community. So, who calls the shots on making these decisions that reap that situation?

Yan: Well, I think that we are just scholars—we don't know details about who is making policies. But one thing is clear, I think, all of the policies should be made by the Chinese government and you cannot say this policy is made by any individual who's not in the policy-making circle, right? This would be a very serious issue. Second, people [are] concerned that the wording 'peaceful rise' is different from China's foreign policy. I'm still confused about this [confusion]—why they regard this as a contradiction between the action and the rhetorical principle? Peace, for me, means [the] opposite phenomena of war. If there's not war, why do you regard all of these actions as not peace? [The] East Asia region has enjoyed peace since 1991, and the peace is more durable than the situation in Europe. After the end of the Cold War, Europe has experienced two wars: the war in Kosovo and then the war in Georgia. There's not any war in East Asia. There's some minor conflicts, and clashes between North Korea and South Korea, but that's not war. So even today, this region, from my understanding, is still very peaceful. There's no danger of war in this region. People say 'there may be some incidents' but I don't rule out that possibility—it's possible—but can military incidents be regarded as war? It's too different. So from my understanding, as long as China and the United States maintain an asymmetric nuclear deterrence between each other, so China is at the weak side, America is the at the strong side, and we still can keep the general peace in this region.

Perkovich: I just want to make sure, if China then had a more symmetric nuclear capability then they wouldn't keep the peace, then it would be war?

Yan: No, actually, the symmetric nuclear deterrence [did] maintain the peace between the United States and the Soviet Union. The asymmetric deterrence between China and the United States maintains the general peace in this region. If China develops its nuclear capability the narrowed gap [with the United States] become symmetric, that means this effect, the impact, will be more solid. That means the peace in this region will get more guaranteed.

Heanle: (to the audience) Can I just ask, are you a rising lonely power in Guangzhou as well? And if you are, we should come together, it would enhance our [situations].

(to the panelists) On that, I will say very quickly, I would argue it's the same set of leaders obviously making those decisions. I think you have, again, you know, a contradiction—there's a lot of contradictions in China as we know. Right now, many describe the policy approach in China as a *jingyou zhengzuo* (经右政左)—it's moving the economy to the right, moving politically, however, to the left. Xi Jinping early on talked quite a bit about his views on the collapse of the Soviet Union and what happened and one of the great lessons learned, in his view and others in China, is that the people in the Soviet Union lost the fervor of the ideology, and Xi Jinping is not going to let that happen in China. And so on the political side, you see national rejuvenation, you see political re-indoctrination, all sorts of efforts to strengthen the party and to bring pride back to the Chinese people after a hundred and fifty years of humiliation. Now this side of the policy, I think, is often manifested in ways that create anxiety outside of China, and leave people wondering, again, what kind of power is China going to be? On the economic side, you see more liberally-oriented market economy, you see policies towards integrating more with the international community, and a recognition that for China to continue to develop its economy and to grow its economy, sustain its economic growth, it needs an international environment that's conducive to that. And so, it will try to implement a set of policies internationally that support that, that makes it seem more friendly to the international community; but on the other side of the equation, I think it leaves people wondering what kind of power is China going to be?

Sun: Just one quick point about contradictions. Many Chinese scholars [think] that the United States policies and foreign policy also suffer from similar contradictions. For example in Kosovo the United States said human rights are more important. In Ukraine, state sovereignty is more important. And in East Asia, many Chinese scholars said Obama and many high level officers say many good words to China, but also do many things that China [isn't] happy to see... so I think... the key question is, why [do] China and the United States view each other [as suffering from] contradictions?

I think, according to Professor Yan's theory—the superficial friendship—[contradictions] will result from the goal for our bilateral relations. From my understanding, we also suffer another constraint: that's the structural constraint that China is a lone rising power, and that we are facing the constraint exerted by the United States and with our neighbors. I give you an example: when China adopts a reassurance policy towards neighbors, United States worry [that] 'China will finalize my East Asian allies; when China adopts a reassurance policy towards the United States, all regional neighbors will worry: 'the United States will betray us.' I think that's the big problem: how can we manage this kind of structural pressures on both China and the United States?

Huang: I just wanted to point out that the concept of peaceful rise goes back much further than the pressure points you're talking about, worrying about today. China is different from Russia, for example, in that its success depends upon opening good relationships with neighboring and global countries as a trading country. It's got the biggest trading nation. It's got maybe as much as a billion dollars a year that's going to be coming out of China in the future that needs to move, so it needs what I call 'good open collaborative relationships' to continue to prosper. And that's the concept of peaceful rise.

Now the concept of peaceful rise, which has existed for a long time, does not mean that China had what I call a 'flexible position' vis-à-vis for example Taiwan—that's a territorial issue. The islands are territorial issues. Basically, the position on territorial issues is that they are political security concerns. It's not similar, or part of, what I call a peaceful rise concept. In global public opinion, however, they're intermeshed. And I would say of course China cannot wind the hearts and the minds of the global community as long as it has a very firm position on its territorial issues. It's just going to come across and be seen as aggressive. There are some ways, in public opinion, that are fundamentally not compatible. But in the minds, I would say, of the China leadership, these are seen as two separate kind of tracks.

Perkovich: Yes, this gentleman back here.

Audience question: Maybe I would address this to Yukon Huang actually, but I was surprised recently to hear about several policy experts here in D.C., and also government officials, sort of taunting the concept of financial warfare and this is a way that the United States can achieve aims without getting into a shooting war. A good example going historically points to the sanctions against the North Korean banks, and so forth and so on, and now we, of course, have the Iran sanctions. So I don't have to go through the whole history of this thing.

I would be interesting to know, number one, whether this growing financial warfare that's going is going to throw a factor into these projections for Chinese economic development that hasn't maybe [been] considered from the World Bank perspective. And I'd be interested from the Chinese guests to know, it seems to me the Chinese response to this is schizophrenic because one the one hand, they are very strongly condemn the types of sanctions that the United States is putting against say Russian banks, or [other cases]. But on the other hand, they seem to put a lot of pressure on U.S. companies, for instance this thing about Bloomberg terminals, and the fact that they said ... possibly punishing them for future reporting by refusing to let them sell their cash cow in China, which is their terminals. So it seems this schizophrenic policy. They are doing it themselves, but at the same time they don't like the idea. So where is this all going to lead?

Perkovich: Can I just make one plea, which is—because I think language is important, [and we run the risk of] running off on metaphors—to not call it economic warfare because partly it's coercion, but there's a big difference between warfare and sanctions and if we can find...

Audience comment: That's what the people in D.C. are calling it, that's why I'm saying it, as you know...

Perkovich: ...and I think the use of language in D.C. is often problematic as well. I know where that train is going and it becomes dangerous.

Yan: I would like to support this question. I like this question very much, and actually in China [there was] a very popular book, titled *Financial Warfare*. In both China and the United States, among the media, conspiracy analyses are very popular, and people like [them]. They enjoy it, like entertainment, and so, from my understanding, the media in both cases, worsen our relationship rather than [helping] to improve our relationship. This book was so popular in China because there were so many reports by the media about this [author being] so smart. He said he discovered [the strategy of financial warfare] and because the book was published before the 2008, [it seemed that]

this guy could foretell the financial crisis, which was caused by Americans' financial warfare. [But] actually, people never asked the question, if America launched the financial warfare against the rest of the world, why didn't they stop it when America was hurt by the warfare? I argued it in my own way a hundred times, but no one wants to listen to it. People enjoyed the book. The book is still at the airports and people like it. So I think this is human nature. Because we are human, we don't know nature very much, so we are concerned about conspiracy [theories] and that we owe something to a power beyond human beings. Besides God, the only thing [left] is a conspiracy.

Perkovich: I'm tempted to make a quick [comment] about that but I will get in trouble. Anybody else on that?

Huang: No, I'll just make one observation. The more the major economies are interlinked, trade-wise, financial-wise, any kind of financial warfare, or sanctions would basically be waged both ways. You'd basically be more likely to lose more than you can gain. So I don't actually see this as a serious kind of weapon that could be utilize in any particular way.

Perkovich: Well, but I worked a while on Iran, and ...

Huang: ...against each other. Against other countries is a different issue.

Perkovich: Right, and that's why I was objecting to warfare in a sense, because if you have international norms, you have international rules, you have international interests, and when somebody's violating them in clear ways—I'm not talking about China in this case—then the question is, what kind of responses there are, from the international community that also take into account the humanitarian interests and the interests of civilians and so on? I mean, warfare often doesn't do that very well, so then you look for alternatives and use sanctions as an [alternative]. I think a broader issue in U.S.-China relations is, what are the international instruments for the security council and so on is, as one moves forward in time, and as China's power grows, and this questions of its global role, and what are the instruments to reinforce global agreements and global norms and so on. It's an interesting issue and we do have differences and somehow we need to figure how to work them out. I think that's the topic for another discussion.

Are we out of time, or running out of time? We're running out of time, so I'm going to take just one question. I'm sorry his hand was up first, and then if you guys have any brief last comments you want to make, go ahead after this question.

Audience question: Two questions. First, going back to the whole issue of the Russia-China thing, and Paul Haenle mentioned the issue of China's economic interests. Is the emergence of shale oil and shale gas as a potentially comparative advantage for the United States, does that play a role in China's decision-making? Are the Chinese looking at that down the road as something they have to take out an insurance against by this deal with the Russians to have their resource of gas to sort of counteract that potential advantage by the United States?

The second question is, going back to the whole Sunnylands thing, a few years back the United States surfaced the idea ... Robert Zoellick had the idea that we were essentially strategic partners, I forget the exact word that he used, but we tried to use a concept and push that on the China to describe our relationship. Similarly this time, the Chinese used the... somebody else is going to remember what the words are... 'responsible stakeholders'... so we used that 'responsible

stakeholders' term which the Chinese never accepted. This time the Chinese use this theory of 'great power relations' as Ambassador Sullivan said, and I think a lot of us still don't understand, which I don't think the expression was really accepted in Sunnyslands. But is there a danger in this trying to condensed this relationship into a short kind of phrase like this, a short kind of policy? As easy as it may be that it papers over all the complexities that you all were putting out, and every time we do it we actually make things worse? A question for anybody.

Perkovich: Take that question as an opportunity to then weave in any closing thoughts you have as well.

Haenle: Sure. Thanks for the question, it's good to see you. I'll take the second part of that question and then let others talk about shale. You know, I think that, you know, there's this new type of great power relations concept, [which] has left many Americans wondering, again as I said, is this just the Chinese attempt to number one get respect internationally? And certainly we respect China's economic development. But the question is, is it also an attempt by China, some wonder, to get the United States to conceded on China's core interests? And are those the only two things that are part of what this is really about? And as you allude to the United States as being careful in how it responds to this, President Obama said he was interested in new models of cooperation, [he] didn't use the specific phrase. I was in China at the time and got many questions from Chinese, 'why didn't President Obama object or discard President Xi Jinping's proposal for a new type of great power relationship?' and I argued that, at the time, you know, he didn't object to anything, he just [said] the United States doesn't really understand, you know, what it means. I think the United States—the administration at least—appreciates what underlies the concept, which is an attempt to ... you know, there are historical cases, there was a study at Harvard since 1500, 15 cases of a rising power and an established power—out of those 15 cases, 9 have resulted in some sort of conflict. And so the idea is, how can we move to a new type of great power relations to try to avoid that?

Susan Rice in November then made a statement that said the administration is interested in exploring how to operationalize the new type of great power relations, and I think the word operationalize is really key here, from the U.S. standpoint, which is the United States is interested in enhancing cooperation with China, as I said at the beginning, and has been very enthusiastic and aggressive in trying to propose ideas to do so. But it is not just interested in a new definition of the relationship, or a new bumper sticker for the relationship; and in fact, there are political problems with that in the United States, to accept, as you have referred to, a new definition for the relationship without actually showing concretely how the relationship has changed to support that.

So in conclusion of the remarks today, I would say I think it is very important, as I said at the beginning, that our leaders on both sides put as much energy into the differences and the areas of tension that we have, that we put as much energy into figuring out how we can cooperate and move on a positive agenda. I teach a course at Tsinghua to Chinese undergraduates, and I, for their final exam, gave them a question: what can the United States and China do together that would constitute a headline initiative, that is to say an issue that would make the headlines in a positive way, and not a negative way? And these Tsinghua students are very bright, and they had all sorts of great ideas. You know, one of them said to eradicate a childhood disease, my former boss Steve Hadley talked about that on his trip to China in October. Another student said the United States and China should do a joint mission to Mars. But I think our two leaderships...

Perkovich: We'll use Chinese money for that. (audience laughter)

Haenle: ... you know these kids had great ideas on ways we can work together and begin to convince our publics that the relationship isn't only defined by these areas of tension—problem areas—but also defined by the United States and China working together for the greater good. And I think we have got to figure out a way to get there, otherwise potentially, I think, we may be in trouble.

Perkovich: Maybe the conclusion...

Huang: I'll just [add] one brief suggestion. What I really worry about is that you have two major trade negotiations, one excludes China, one excludes the United States, covering the Asia region—doesn't make any sense. And it creates a sense of confrontation, or containment, [and] in fact provides no platform for peaceful discussion. There's a very simple fix actually. The simple fix is that both of these should have the other, the excluded party as observer. These issues have to be brought down together somewhere down the line. The earlier you get both parties to understand what the issues are, and how they're being approached, the more likely you are to be able to get to what I call a 'uniform conclusion' a few years from now.

Perkovich: Thanks. Dr. Sun, then Dr. Yan.

Sun: Ok. I fully agree with you, that's more important that we manage our competition relations. That's more important than coining a new concept—'stakeholder,' or 'strategic reassurance,' or the 'new type of power relations'... But I still want to argue that now the China-U.S. relation still faces similar problems [as] Paul in Beijing, that is how China manages its relationship with the United States and its allies in the regional level and the global level. I think that's the true challenge for both the United States and China.

Perkovich: Dr. Yan, last words

Yan: Ok, very brief. I think the American shale gas is a very positive actor. China will need a lot of energy for the next ten years, and American shale gas [has] helped reduce the price of energy globally. Someday, when the United States becomes exporter of natural gas and China will be [a] good market for the United States, and also China will be happy to import cheap gas from the United States. The second thing about the short term—I think that's a big problem. Linguistic problems sometimes turn into political troubles. Because the short term [is] always misleading, people can give any kind of interpretation or definition for their terms and so this kind of diversities of different definitions about the short term [have] caused some troubles. Final thing, I think this is a really new thing. In my latest book, I suggest that China and South Korea should improve our military relationship and China should consider developing a military alliance with South Korea. Last week, I had a meeting there talking about this issue, and then, American colleagues warn me that, 'you should be careful, and don't finalize our allies. That's dangerous.' In my book, I said that I strongly support the government to isolate Japan, and they said 'this is dangerous. Japan is our ally, you cannot isolate it.' We really don't know, [do] you want us to have good relationship with neighbors—your allies—or bad relations with [them]?

Perkovich: Not too good, not too good.

Haenle: And not too bad.

Perkovich: Thank you. I want to all of you for coming and especially thank our panelists for a great discussion.