

COMMON GROUND COMMITTEE PUBLIC FORUM: June 07, 2011

China: Threat or Opportunity? Impacts and Policy Implications for the US

Panelists Rethink US Relationship and Policy with China

KEY AREAS 1-3	<i>China: Threat or Opportunity for the US?</i>		
	THREAT	COMMON GROUND	OPPORTUNITY
1. Economic Competition: Resources, jobs, knowledge transfer, rapid growth			
2. Trade & Currency: Imbalance, buying US Assets, currency manipulation			
3. Do China's Differences Matter? Culture & government: values, lack of transparency and regulation, industrial policy			

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KEY AREA 1. Economics	THREAT	COMMON GROUND	OPPORTUNITY
1. Economic Competition :	<ul style="list-style-type: none"> China's rise represents a great power shift in its favor, reducing the economic power of the United States -- a challenge both to living standards and to national security. 	<p>Therefore, agreement that US Policy should recognize</p> <ul style="list-style-type: none"> US and China relationship is crucial to the future global economy Without mutual understanding this relationship could sour. 	<ul style="list-style-type: none"> China's rise brings growing benefits to its own people and helps drive global economic growth. China increasingly acts as a responsible trade partner with the US and a leader on global issues such as climate change and financial stability.
Resources	<ul style="list-style-type: none"> China's rush to lock up sources for raw materials becomes a source of political and military tension and potential conflict with the US, while also pulling many developing nations into China's geopolitical orbit. China is interested in only that which they cannot produce Cultural revolution impacts (anti-education) older Chinese thinking 	<p>Therefore, recognition US Policy should</p> <ul style="list-style-type: none"> Take into account the timing issue as newer Chinese thinking has an impact Rational consideration without politicization by business and government Work through differing models for managing economies, some of these differences matter Learning can be two way 	<ul style="list-style-type: none"> Cooperating with the US, China and other nations maintain free markets in resources, meeting the needs of large consumer nations while also benefitting developing nations that have minerals, oil, or arable land. There may be valid offers out there worth considering
Jobs	<ul style="list-style-type: none"> Outsourcing of 		<ul style="list-style-type: none"> Even as China and

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KEY AREA 1. Economics	THREAT	COMMON GROUND	OPPORTUNITY
	<p>US jobs to China and other nations continues as a major trend, increasingly affecting white-collar professions.</p>		<p>emerging nations develop, the US thrives with jobs that emphasize proximity to the customer. A growing global economy is not a zero-sum game; China's rise gives US firms the chance to sell more there. China is a crucial part of the supply chain of successful American companies with global reach (e.g., Walmart, Apple).</p>
<p>Knowledge</p>	<ul style="list-style-type: none"> China uses mix of investment, theft, and market leverage to gain both advanced technologies and research capability, often at the expense of US companies. Once it gains the skills, its vast population and lower labor costs give it a compelling edge in innovation. 		<ul style="list-style-type: none"> Rising innovation in China has positive spillover effects, fueling faster productivity growth worldwide. Even as China gains, the US remains even more advanced because of its entrepreneurial culture.
<p>Growth</p>	<ul style="list-style-type: none"> China's expansion ends badly with a real estate and banking bust, coupled with social unrest. The result is a slower global economy and political instability in Asia. 		<ul style="list-style-type: none"> China navigates its economic risks, transitions toward growth led by domestic consumers, and thrives. Despite concerns about China's growing power, the US helps Beijing feel secure in a multi-polar world.

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KEY AREA 1. Economics	THREAT	COMMON GROUND	OPPORTUNITY

KEY AREA 2. Trade	THREAT	COMMON GROUND	OPPORTUNITY
2. Trade & Currency:	<ul style="list-style-type: none"> Imbalanced trade patterns persist, harming both the US and China— opening the door to a dollar crisis, as US trading partners worry about unsustainable increase in America's foreign debts. 		<ul style="list-style-type: none"> The imbalances are gradually diminished as China relies less on exports for growth, and more on its domestic economy. US exports also rise as it climbs out of deep recession. This decreases trade tension and improves foreign exchange balance.
Trade Imbalance	<ul style="list-style-type: none"> Imbalances persist, with US imports from China fueling a rise in US debt. Or, worse, a trade war of protectionist policies erupts, rippling beyond US-China relations to dampen trade worldwide. 		<ul style="list-style-type: none"> Trade tensions de-escalate as the two sides work through differences on issues such as intellectual property rights, open markets, subsidies, technology transfer, and currency. The interreliant economies— “Chinamerica”—have too much to lose to allow trade wars.
China Buying USA assets	<ul style="list-style-type: none"> Xenophobia rises as China invests in top US brands and landmarks (and in other nations). The mergers help Chinese companies acquire know-how to leapfrog to the top 		<ul style="list-style-type: none"> Americans learn to tolerate increasing Chinese investment, while putting occasional restrictions in place for national security. Prudent policies help the US reduce government debt as a share of GDP.

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KEY AREA 2. Trade	THREAT	COMMON GROUND	OPPORTUNITY
	<p>tier as a high-tech innovator. Chinese purchases of US Treasury bonds mean key creditor China has rising leverage over US fiscal policies.</p>		<p>Investment flows from each nation to the other lead to greater bilateral trust.</p>
<p>Currency Manipulation</p>	<ul style="list-style-type: none"> • An artificially weak yuan persists, helping to boost Chinese exports but also amplifying the big imbalances in bilateral trade. Spillover effects: China's central bank has trouble countering inflationary pressures, and • US foreign debts mount. • US has not confronted this issue 		<ul style="list-style-type: none"> • The yuan and other Asian currencies rise and the dollar declines. The shifts are orderly, and the dollar remains respected but without the burden of being the world's only "reserve currency."

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KEY AREA 3. Differences	THREAT	COMMON GROUND	OPPORTUNITY
<p>3. Do China's Differences Matter?"</p> <p>Culture & Government :</p>	<ul style="list-style-type: none"> • The Communist Party's monopoly on power and command of the economy enables it to take shortcuts to protect home markets and compete internationally. Chinese workers have acquiesced, trading affluence for accountability. 	<p>Therefore, US Policy should be based on</p> <ul style="list-style-type: none"> • The US understanding how China really works, and vice versa, which requires direct involvement and engagement • Smart US policy would involve "eyes" open, without delusions, to focus on "fair" bargaining • Transparency is one place to start • "Out of the box" thinking • Take advantage of Chinese Americans who are a unique resource to help work through these issues • Core of diplomats who can negotiate from a self-interested, yet informed, perspective 	<ul style="list-style-type: none"> • Twenty years ago, Japan was considered a threat similar to China now. The US economic model remains innovative and resilient over the long run. Checks and balances, competing interests, majority rule, and bottom-up free enterprise help minimize risk. Inevitably, middle-class Chinese will want this model as well.

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KEY AREA 3. Differences	THREAT	COMMON GROUND	OPPORTUNITY
China's Property & People Values	<ul style="list-style-type: none"> • Chinese businesses cut corners in industrial safety, consumer protection, and environmental abuse in ways that gives their goods and services a competitive advantage on the international market. • China 1 child policy 		<ul style="list-style-type: none"> • NIMBY is not a word in Chinese, where government-mandated infrastructure speeds development. The US might do this as well. • US companies take advantage of cheap costs in China to outsource all or part of their supply chain, cutting costs for consumers and becoming more competitive. • Global human rights
China Shortcuts & Lack of Transparency	<ul style="list-style-type: none"> • Chinese state industries do not have shareholder accountability. This lets them act quickly when spotting an opportunity. Massive development projects are launched with little critical review. 		<ul style="list-style-type: none"> • The Western model of accountability may slow down business at times, but it is the only way a self-governing society can function. If the Communist Party loses control in China, the economic and political system will not have a means of responding.
China's Lack of Regulation	<ul style="list-style-type: none"> • Lower standards for environmental, consumer, and worker protection help Chinese companies keep costs low, an 		<ul style="list-style-type: none"> • Government and industry standards ensure quality. Consumers who are not shopping only for the lowest price are drawn to that.

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	<p>American competitive disadvantage.</p> <ul style="list-style-type: none"> • US supported bringing China into world trade organization 		
<p>China's Command and Control Industrial Policy</p> <p>Audience Question: Why has this worked in China? Progress appears to be impossible vs. Soviet Union failure.</p>	<ul style="list-style-type: none"> • China government is filled with engineers and other specialists who run the economy like a massive business. This is not just a powerful competitive advantage but provides more intelligence and continuity than a system where novices constantly have to learn to govern. • Key cultural characteristic: "Unit" preservation (invisible glue) on a common goal • Market experiments (70% of GDP) comes from SME (small companies) • Aspects of the 	<p>Therefore, US Policy should</p> <ul style="list-style-type: none"> • Recognize Chinese tribe is different, but learn how to confront our relationship based on clear knowledge (not generalities or characterizations , alone) • Engage in joint partnerships • Cooperation, such as on North Korea, bonds got key information • Legitimate differences exist, but we need to focus on resolving them over time 	<ul style="list-style-type: none"> • Most human capital in the US is in the private sector. That makes the US attractive to the best and brightest from everywhere in the world, including China. Rotation in office keeps self-dealing and misappropriation of public assets to a minimum. • Non-economic, joint venture projects, like environment, pollution, terrorism,

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KEY AREA 3. Differences	THREAT	COMMON GROUND	OPPORTUNITY
	<p>Chinese economy is more free enterprise than the US (not understood in the US)</p> <ul style="list-style-type: none"> Chinese leaders know that stability is crucial to their future What if the Chinese economy falters—the bubble bursts 		

OTHER CONCERNS	THREAT	COMMON GROUND	OPPORTUNITY
Power & Politics	<ul style="list-style-type: none"> China's growing military power and tight control over dissent threaten its neighbors and undermine human rights everywhere. China's economic success tempts others to follow its repressive lead. 		<ul style="list-style-type: none"> China's military cannot project itself globally as the US can. Its interest seems to be concentrated in east and south Asia. A more global role would divert resources from China's economic growth. And as the Chinese people prosper, they will demand a more open, less-repressive society.
Military Strength	<ul style="list-style-type: none"> China's military strength makes it increasingly threatening to US allies such as Taiwan. As regional clout grows, China can 		<ul style="list-style-type: none"> Even China benefits from the global policeman role of the US military. And China's neighbors avoid an arms race with the mainland because of the US umbrella.

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OTHER CONCERNS	THREAT	COMMON GROUND	OPPORTUNITY
	<p>expand its zone of influence in east and south Asia.</p>		
<p>Cyber Issues</p>	<ul style="list-style-type: none"> China has shows prowess penetrating US cyber defenses. Both a national-security and competitive threat to businesses such as natural resources. 		<ul style="list-style-type: none"> Cyber security is a concern for all parties. A cyber Cold War could force China to spend billions on computer defenses.
<p>Restrictions on Freedom</p> <p>Audience Questions: Why about the obvious human rights violations in China?</p>	<ul style="list-style-type: none"> A massive state security system watches and regulates public discourse – in the media, on the Internet, in public spaces. Dissidents are quickly arrested and isolated. This is not a free society –a dangerous model for autocracies. 	<p>Therefore, US Policy be based on recognition of how these came about, without excusing or condoning them in any way by:</p> <ul style="list-style-type: none"> One child reflected narrow view on overpopulation potential Understanding the Chinese “unit” and unity 	<ul style="list-style-type: none"> The attractiveness of Western society is rooted in openness, even when it is unpleasant to those in power. Human rights and free speech are concepts that are slowly gaining force in China. Mobile phones change information availability

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OTHER CONCERNS	THREAT	COMMON GROUND	OPPORTUNITY
Resistance & Intolerance?		<p>perspective, as well as generational differences, in terms of a context for how to work through this in terms of these human rights issues.</p> <ul style="list-style-type: none"> • Understanding the weak link between central and local governments (often corrupt), which are not centrally controlled 	

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Background for Public Session Researched by the Christian Science Monitor

KEY AREA			<i>China: Threat or Opportunity for the US?</i>	
1. Economics		THREAT	OPPORTUNITY	
1. Economic Competition:	<ul style="list-style-type: none"> China's rise represents a great power shift in its favor, reducing the economic power of the United States -- a challenge both to living standards and to national security. 	<ul style="list-style-type: none"> China's rise brings growing benefits to its own people and helps drive global economic growth. China increasingly acts as a responsible trade partner with the US and a leader on global issues such as climate change and financial stability. 		
Resources	<ul style="list-style-type: none"> China's rush to lock up sources for raw materials becomes a source of political and military tension and potential conflict with the US, while also pulling many developing nations into China's geopolitical orbit. 	<ul style="list-style-type: none"> Cooperating with the US, China and other nations maintain free markets in resources, meeting the needs of large consumer nations while also benefitting developing nations that have minerals, oil, or arable land. 		
Jobs	<ul style="list-style-type: none"> Outsourcing of US jobs to China and other nations continues as a major trend, increasingly affecting white-collar professions. 	<ul style="list-style-type: none"> Even as China and emerging nations develop, the US thrives with jobs that emphasize proximity to the customer. A growing global economy is not a zero-sum game; China's rise gives US firms the chance to sell more there. China is a crucial part of the supply chain of successful American companies with global reach (e.g., Walmart, Apple). 		
Knowledge	<ul style="list-style-type: none"> China uses mix of investment, theft, and market leverage to gain both advanced technologies and research capability, often at the expense of US companies. Once it gains the skills, its vast population and lower labor costs give it a compelling edge in innovation. 	<ul style="list-style-type: none"> Rising innovation in China has positive spillover effects, fueling faster productivity growth worldwide. Even as China gains, the US remains even more advanced because of its entrepreneurial culture. 		
Growth	<ul style="list-style-type: none"> China's expansion ends badly with a real estate and banking 	<ul style="list-style-type: none"> China navigates its economic risks, transitions toward growth 		

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KEY AREA	THREAT	OPPORTUNITY
1. Economics	<p>bust, coupled with social unrest. The result is a slower global economy and political instability in Asia.</p>	<p>led by domestic consumers, and thrives. Despite concerns about China's growing power, the US helps Beijing feel secure in a multi-polar world.</p>

China: Threat or Opportunity for the US?		
KEY AREA	THREAT	OPPORTUNITY
2. Trade		
2. Trade & Currency:	<ul style="list-style-type: none"> Imbalanced trade patterns persist, harming both the US and China—opening the door to a dollar crisis, as US trading partners worry about unsustainable increase in America's foreign debts. 	<ul style="list-style-type: none"> The imbalances are gradually diminished as China relies less on exports for growth, and more on its domestic economy. US exports also rise as it climbs out of deep recession. This decreases trade tension and improves foreign exchange balance.
Trade Imbalance	<ul style="list-style-type: none"> Imbalances persist, with US imports from China fueling a rise in US debt. Or, worse, a trade war of protectionist policies erupts, rippling beyond US-China relations to dampen trade worldwide. 	<ul style="list-style-type: none"> Trade tensions de-escalate as the two sides work through differences on issues such as intellectual property rights, open markets, subsidies, technology transfer, and currency. The interreliant economies “Chinamerica”—have too much to lose to allow trade wars.
China Buying USA assets	<ul style="list-style-type: none"> Xenophobia rises as China invests in top US brands and landmarks (and in other nations). The mergers help Chinese companies acquire know-how to leapfrog to the top tier as a high-tech innovator. China purchases of US Treasury bonds mean key creditor China has rising leverage over US fiscal policies. 	<ul style="list-style-type: none"> Americans learn to tolerate increasing Chinese investment, while putting occasional restrictions in place for national security. Prudent policies help the US reduce government debt as a share of GDP. Investment flows from each nation to the other lead to greater bilateral trust.
Currency Manipulation	<ul style="list-style-type: none"> An artificially weak yuan persists, helping to boost Chinese exports 	<ul style="list-style-type: none"> The yuan and other Asian currencies rise and the dollar declines. The shifts are orderly,

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2. Trade	THREAT		OPPORTUNITY	
	<p>but also amplifying the big imbalances in bilateral trade. Spillover effects: China's central bank has trouble countering inflationary pressures, and</p> <ul style="list-style-type: none">• US foreign debts mount.		<p>and the dollar remains respected but without the burden of being the world's only "reserve currency."</p>	

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KEY AREA	THREAT	OPPORTUNITY
3. Differences		
3. Do China's Differences Matter?" Culture & Government :	<ul style="list-style-type: none"> The Communist Party's monopoly on power and command of the economy enables it to take shortcuts to protect home markets and compete internationally. Chinese workers have acquiesced, trading affluence for accountability. 	<ul style="list-style-type: none"> Twenty years ago, Japan was considered a threat similar to China now. The US economic model remains innovative and resilient over the long run. Checks and balances, competing interests, majority rule, and bottom-up free enterprise help minimize risk. Inevitably, middle-class Chinese will want this model as well.
China's Property & People Values	<ul style="list-style-type: none"> Chinese businesses cut corners in industrial safety, consumer protection, and environmental abuse in ways that gives their goods and services a competitive advantage on the international market. 	<ul style="list-style-type: none"> NIMBY is not a word in Chinese, where government-mandated infrastructure speeds development. The US might do this as well. US companies take advantage of cheap costs in China to outsource all or part of their supply chain, cutting costs for consumers & becoming more competitive.
China Shortcuts & Lack of Transparency	<ul style="list-style-type: none"> Chinese state industries do not have shareholder accountability. This lets them act quickly when spotting an opportunity. Massive development projects are launched with little critical review. 	<ul style="list-style-type: none"> The Western model of accountability may slow down business at times, but it is the only way a self-governing society can function. If the Communist Party loses control in China, the economic and political system will not have a means of responding.
China's Lack of Regulation	<ul style="list-style-type: none"> Lower standards for environmental, consumer, and worker protection help Chinese companies keep costs low, an American competitive disadvantage. 	<ul style="list-style-type: none"> Government and industry standards ensure quality. Consumers who are not shopping only for the lowest price are drawn to that.
China's Command and Control Industrial Policy	<ul style="list-style-type: none"> China government is filled with engineers and other specialists who run the economy like a massive business. This is not just a powerful competitive advantage but provides 	<ul style="list-style-type: none"> Most human capital in the US is in the private sector. That makes the US attractive to the best and brightest from everywhere in the world, including China. Rotation in office keeps self-dealing and misappropriation of public assets

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<i>China: Threat or Opportunity for the US?</i>		
KEY AREA	THREAT	OPPORTUNITY
3. Differences	<ul style="list-style-type: none"> more intelligence and continuity than a system where novices constantly have to learn to govern. 	<ul style="list-style-type: none"> to a minimum.

Additional Concerns:

- Power & Politics
- Military Strength
- Cyber Issues
- Restrictions on Freedom

<i>China: Threat or Opportunity for the US</i>		
Other Concerns	THREAT	OPPORTUNITY
Power & Politics	<ul style="list-style-type: none"> China's growing military power and tight control over dissent threaten its neighbors and undermine human rights everywhere. China's economic success tempts others to follow its repressive lead. 	<ul style="list-style-type: none"> China's military cannot project itself globally as the US can. Its interest seems to be concentrated in east and south Asia. A more global role would divert resources from China's economic growth. And as the Chinese people prosper, they will demand a more open, less-repressive society.
Military Strength	<ul style="list-style-type: none"> China's military strength makes it increasingly threatening to US allies such as Taiwan. As regional clout grows, China can expand its zone of influence in east and south Asia. 	<ul style="list-style-type: none"> Even China benefits from the global policeman role of the US military. And China's neighbors avoid an arms race with the mainland because of the US umbrella.
Cyber Issues	<ul style="list-style-type: none"> China has shows prowess penetrating US cyber defenses. Both a national-security and competitive threat to businesses such as natural resources. 	<ul style="list-style-type: none"> Cyber security is a concern for all parties. A cyber Cold War could force China to spend billions on computer defenses.
Restrictions	<ul style="list-style-type: none"> A massive state security 	<ul style="list-style-type: none"> The attractiveness of Western

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Other Concerns	THREAT	OPPORTUNITY
on Freedom	system watches and regulates public discourse – in the media, on the Internet, in public spaces. Dissidents are quickly arrested and isolated. This is not a free society –a dangerous model for autocracies.	society is rooted in openness, even when it is unpleasant to those in power. Human rights and free speech are concepts that are slowly gaining force in China.

**Chinese Expression:
Seeking Common Ground while Respecting Differences**

**Chinese Symbol:
Threat / Opportunity are Two Sides**