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CGC PAST LIVE EVENTS

TITLE: CHINA - THREAT OR OPPORTUNITY

, PANELISTS: DR. KRAFT BELL, HENRY TANG, DR. JOHN

RUTLEDGE, ALAN TONELSON

MODERATOR: JOHN YEMMA

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BRUCE BOND:

00:00:01;11

My name is Bruce Bond. I am the president of Common Ground Committee. And on behalf of my fellow committee members and our partner, the *Christian Science Monitor*, I'd like to welcome everyone to this event, both those of you who are here in-- Darien, Connecticut at the Darien Town Hall, and also those of you who are viewing this event online. We're delighted to have all of you with us tonight. And I have to say-- this venue itself, if you look around and you see the murals here-- this is really a place that was really meant for discussion-- of-- U.S. national issues. And we're just delighted to be here. We thank the

staff of-- the town hall-- for their support in helping us put this event together here. We really appreciate their assistance.

00:00:48;05

This is our second event for Common Ground Committee. Our first one was last October. This one is entitled, China: Threat or Opportunity? And there are a few housekeeping items I'd like to cover to start with. First of all, if you have a cell phone on you, please turn it off. Secondly-- those of you online-- we'd appreciate it if you would-- go into the little blue box on your screen and register. That's important, because right now we are planning to do this again, October 25th. So mark your calendars. And-- if you register, we will make sure that you get-- the information that you need to make sure you're there for the event.

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And also, those of you here in the audience in Darien-- part of the-- packet, if you will, that you received when you came in, included a little

contact card. We'd be very appreciative if you would fill that out with your contact information. Please print, and if you would, pass that information to-- the center aisle or the left or right aisle, and-- ushers will be along to pick those things up.

00:01:50;24

Speaking of ushers walking up and down the aisle, I want to just quickly review the Q&A mechanism that we're gonna be using tonight. You will see ushers walking up and down the aisles. They will have a card that looks like this in their hand. What you should do is, if you have a question for the panelists, if you would take the question card that you also received when you came in, if you would write the question that you have for the panelists on that card-- that question will get to us. And during the Q&A session of the event, which is near the end of the event-- we will try to get to as many of those questions as we can.

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If you're online, there is a link to send a question in, and we have a laptop running that is capturing those questions. Like I said, we will try to get as many of those questions asked tonight. Forgive us if we're not able to get to all of them. We will do our best.

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Now, to the substance of the matter, those of you who know us know the Common Ground Committee is about bringing light not heat to public discourse. And our mission is really to move the ball forward toward solutions-- to issues of national importance through a constructive and positive dialogue that is in great contrast to much of the-- public discourse that we hear out there today.

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And the panel tonight is charged with that, and we're looking forward to a terrific engagement. Something that we would encourage you to do, however is-- not be bored. If you find that-- there's one of the more passionate and spirited

positions that's gonna come from this debate, and I assure you that's what's gonna happen-- if you'd like to applaud, please feel free to do that. It's-- a common misconception that civility is boring. Civility is full of passion and spirit. And that's what we're gonna experience tonight.

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So what I'd like to do now is introduce you to the folks that are participating. First, I'd like to introduce you to our facilitator, who is the CEO and executive consultant of RKB Strategic Change. He's an expert facilitator who has worked with U.S. presidents, military generals, and Fortune 100 CEOs. Would you please welcome Dr. Kraft Bell. (APPLAUSE) Kraft, do you want to stand up? Okay.

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And to my immediate left, we're very honored tonight-- to have from New York City, the managing partner of Carnegie Towers strategic investment advisory, and a cofounder of the

esteemed Committee of 100, Mr. Henry Tang.

(APPLAUSE) And to Henry's left is the chairman of Rutledge Capital, a principal architect of the Reagan Economic Plan in 1980 and 1981, and a visiting professor at the Chinese Academy of Sciences. Please welcome Dr. John Rutledge.

(APPLAUSE)

00:04:41;13

To John's left, a research fellow at the U.S. Business and Industrial Council on education-- and Education (SIC) Foundation. A gentleman who is outspoken in his positions on U.S. trade policy toward China. Please welcome Mr. Alan Tonelson. (APPLAUSE) And our moderator tonight, joining us again from our first event is the editor of our partner, the Pulitzer Prize winning international daily news publication, the *Christian Science Monitor*. Please welcome Mr. John Yemma. (APPLAUSE)

00:05:19;05

And just as a brief note, you may be wondering why we have a facilitator and a moderator, and

the reason is because the moderator is here to make sure that the ideas that need to be discussed in fact make it to the table, while the facilitator is going to be charged with the responsibility for capturing the positions as they emerge. And that will involve some discussion by the facilitator, so if Kraft speaks up, that's planned. He's not being rude. And with that, let's begin the conversation. John, the floor is yours.

JOHN YEMMA:

00:05:49;05

Thanks Bruce. Thank you very much and thank you all for coming out tonight. It's very generous of you to give your time, and it's very generous for our panelists to come and participate in what I think is an interesting and productive way of having a conversation about a fairly important topic.

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Before we actually, and Kraft and others will help explain how we're gonna go through this. And by the way, it's not gonna be like eating your

spinach. It'll be a lot more fun than that. But before we do that-- we're gonna talk to the *Monitor's* Beijing correspondent, Peter Ford. Peter Ford has been stationed in Beijing for the past five years. He's reported from all parts of that country. He's a veteran correspondent for the *Monitor*. Has been in a number of-- overseas bureaus, so we're going to get him on Skype video. You'll see his image come up in just a minute. And-- should be on the screen soon. See? There's Peter. Hey Peter.

PETER FORD:

00:06:42;15

Good evening. (LAUGH)

JOHN YEMMA:

00:06:43;24

Thanks for saying good evening. (LAUGH) I know it's not evening your time.

PETER FORD:

00:06:48;09

And wipe the sleep from my eyes. (LAUGH)

JOHN YEMMA:

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Peter is-- Peter's gonna just give us a quick overview from the correspondent in the field's point of view of how things are in Beijing, just

to help frame the cor-- the conversation. And the conversation will go in many different directions, but Peter-- you and I talked about this a bit beforehand, and-- I thought maybe you could start, you've been there for five years. You've watched China from the inside. Is there an impression you've formed of the Chinese economy during that time? I mean, is it different from other places you've lived? Is the culture and the economy similar to other important-- countries? Or is it sui generis?

PETER FORD:

00:07:28;10

Well-- well, we all know the-- the figures. The economy has been growing by 10% or more for 30 years-- consecutively now, which is-- which is quite extraordinary. I think one thing that people tend to forget sometimes outside China is that they did start from absolutely nowhere, which means that even with this extraordinary rate of development-- their economy has-- it is still less than half the size of the U.S. economy.

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Nonetheless, to going from nowhere to the second-biggest economy in the world, even if it's only \$6 trillion against America's 15 is a quite astounding achievement. And I think there-- there are two things. I mean, one, it sounds like a cliché, but it-- it is down to the individual effort. And quite extraordinary efforts and energy of-- of-- of the Chinese themselves.

00:08:16;13

It's a cliché to say the Chinese are hardworking, but as a European who came here from France-- where people are used to working 35 hours a week, the-- the energy levels in this country are really very invigorating. And of course, that's paired with a government that-- attaches a tremendous importance to planning the economy.

(THROAT CLEARING)

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This country still works on five-year plans. Most of the economy-- a larger part of the economy than not is still in state hands. And the-- the

government goes to great lengths to-- to really prioritize development over all other priorities, and at any cost. Of course, the-- the biggest cost is-- it tends to be environmental. But economic development is a priority like I've seen in no other country frankly.

JOHN YEMMA:

00:09:02;15

You know, Peter you-- wrote an interesting article in the *Monitor* in a recent-- issue that we had on the growth of the global middle class, in which you interviewed a young Chinese middle class couple. And there's quite a compelling quote in it, in which-- the person you interviewed said, "The bottom line is that people should not challenge power. We've given up the hope of changing the government, but in exchange, we've essentially got a better life." Do you feel as though that's the grand bargain that's gone on in China?

PETER FORD:

00:09:30;24

I think overall it probably is, yes. I mean not everybody-- would-- would be quite as resigned as

the young man and-- and his wife with whom I spoke-- a couple months ago. But I think fundamentally, this is the deal that the Chinese government is offering people.

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They're saying, "We will ensure your prosperity. We will ensure a better life for you. But you-- you keep your mouths shut effectively." We are the ones who can guarantee, the Chinese Communist Party, we're the ones who can guarantee the social stability and the economic development that-- this country needs. And as long as you don't-- rock the boat, as long as you don't try to-- to-- to do anything to unseat us or to make life hard for us, then we can go on in-- insuring that.

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Now whether that will go on being-- a deal that is acceptable to the vast majority of Chinese forever is-- I think an open question. I mean, the point is that, as long as things do keep getting better, I think it will work. But the

risk for the government is that-- should there be an economic downturn, should they not be able to-- to assure the sorts of high rates of growth-- that they have done until now, then if people start seeing their ambitions are not being fulfilled, that their expectations are not being met, then I think we might be into different territory.

JOHN YEMMA:

00:10:49;24

And there-- there are some people who are noting that-- there-- there are stresses and strains within the Chinese economy now. I mean, I've read about-- these famous ghost cities and overcapacity in steel and other industries. Is there any sense within China that there's-- that this rapid ra-- rate of growth may not be continuing forever, and that there may be-- this is maybe either a bubble, or there may be a slowdown on the horizon?

PETER FORD:

00:11:16;24

Well, I think-- yes, most people expect some sort of a slowdown. But I mean, a slowdown from

perhaps 10%, 11% a year growth to-- to 7% or 8% a year-- which by all standards to the rest of the rest of the world is still lightning speed. The problems that you mentioned there, the bubbles, to-- to a large extent, they are a result of the-- the stimulus package that the Chinese government introduced to overcome the-- the 2007-2008 financial economic crisis, in which they encouraged absolutely massive lending-- into all sorts of sectors.

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But they did everything they could to-- to pump the economy up, to stop it slowing down, and-- and falling back into-- into-- recession. Now they're paying the price, because of course, a lot of these loans were pretty dodgy to put the-- to put-- a gloss on it. A lot of them were to build things that frankly weren't really needed and in the future won't be fully used.

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But the-- the-- the overall question, and this comes in the context of-- of the direction of the

economy. Now China has built (THROAT CLEARING) its development and built its growth-- fundamentally on-- on-- on exports-- exports and-- and capital investment here in China. And consumption has been the sort of poor relation, individual consumption. Now that's not good for China in the long run, it's not good for the world economy, because it really has led to a tremendous imbalance.

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And-- the government is aware of that. And it's-- the five-year plan that it introduced a few months ago, boosting domestic consumption is one of its top priorities. Now, this is a very slow business. And I don't expect it to happen overnight. It's like turning around an oil tanker. (THROAT CLEARING) But it is something that the government has set its sights on.

JOHN YEMMA:

00:12:56;13

Uh-huh (AFFIRM). So-- maybe one last question about the-- the climate for American businesses and any other non-Chinese businesses in China. It

used to be said that China-- had a big problem with the ripping off of intellectual property and the counterfeiting of goods. As China's m-- economy has matured, as its-- academic and research universities have gotten better, as its patents have grown, do you sense that there's any change in that? That the Chinese are actually playing fairer in this sense? And-- gra-- I grant you that, you know, it-- it may have been-- a bit of an exaggeration, but you've got a new video camera. Was it-- what kind of a camera was it? Was it-- a knockoff? (LAUGH)

PETER FORD:

00:13:38;17

Judging by the-- the image on my screen, I don't think so. (LAUGH) No, it's-- it's-- it's a Logitech. And I don't know where Logitech comes from originally. The actual piece of-- of hardware that I have sitting on my computer is-- is made in China-- as I imagine almost every Logitech everywhere in the world is.

00:13:56;03

The-- the Chinese do have a problem with

knockoffs, yes. I mean-- less than a mile from my home, there are two enormous, five-story stores where I can buy pretend anythings. You know, fake Levis, fake clothes of all descriptions, fake Louis Vuitton s. I mean, sometimes they're-- they're simply fakes. They're-- they're copies made to look like the real thing.

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Sometimes they are in fact the real thing, but they're still illegal, because companies that were paid to make a hundred tha-- 100,000 pairs of Nikes, for example, once they've made those 100,000 pairs simply don't destroy the molds and go on making them.

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So you're getting the right stuff, but-- (THROAT CLEARING) a lot cheaper. The problem is not just a problem for Louis Vuitton, though. It's-- it really goes to the heart of what it means to be-- a superpower and a major player in the 21st century, which I think hinges on-- on innovation. And you mentioned that the-- the-- the growing

educational levels in-- in China, the-- the growing scientific skills, they are growing, but there is still I think-- and I think a lot of Chinese educationalists believe as well-- a deeper problem, which is that-- Chinese education has traditionally been based on-- on rote learning, on remembering the rules, and on remembering the right answers to things.

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It has not put a premium until now on innovation, which to be honest is why a lot of the better science students-- when they get the chance to go abroad for their MAs or PhDs still do go abroad. I mean, China has some-- some-- some increasingly good universities. But when it comes to being at the cutting edge in a lot of fields-- that cutting edge is not yet in China. And if China is to become the sort of superpower it wants to-- in-- in the next century, it's going to have to get that right.

JOHN YEMMA:

00:15:40;12

Okay. There's a lot more to talk about, Peter,

and-- and if you read Peter in the *Christian Science Monitor*, CSMonitor.com, or in the print *Monitor*, you'll be able to keep up with him. But--
- thanks very much for the time, Peter. And-- go on with your day, we'll go on with our night. And-- we'll sign off. Thank you, sir.

PETER FORD:

00:15:57;16

Oh, well, I hope your night and my day are equally productive.

JOHN YEMMA:

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Okay, very good. Thanks. Take care. (APPLAUSE)
Okay. Just to-- to clarify a little bit about what we're gonna be doing now, we're gonna be moving on to the-- the part of the program where we look at the-- we look at the matrix essentially that Kraft and-- reporters and editors at the *Christian Science Monitor* have helped build, that-- tries to set up the various categories that we want to talk about tonight.

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Now, on one level, again this is a panel discussion, but on another level what we're

trying to do is drive towards some sort of common ground, so that we understand how we might be able to solve problems, rather than just leave them hanging there. And how we might be able to have civil discourse in the process.

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We don't expect our panelists to change their positions. We just want them to concur in a sense on what we think the extreme positions are, or the flanking positions are, and then see where we can move. And-- I would say that's probably enough to get us going. Kraft? Here's the-- here's the first of the slides. This shows you the general categories we thought we would talk about. Now it's just three big categories, two are the most important: Economic competition and trade and currency.

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And then we have a catch-all category at the end that probably has a whole bunch of other-- subcategories to it, in which we'll talk about Chinese differences, culture, and-- transparency

and regulation. There's no reason we can't jump around a little bit, but if we can kind of keep on this order, it'll help us to-- to move through it. So those are the general categories, and then if you just take the first one, economic competition, you can break it down into resources and jobs, and you can see how we've set this up with the threat on the left and the opportunity on the right. And-- Kraft, what do you think? Should we read through them now?

DR. KRAFT BELL:

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Yeah, just-- just to be clear that this work was all done by your people too.

JOHN YEMMA:

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Right. This is just-- we're just basically to-- to frame the issues here. Same with the second-- the second one on trade. Here are two others, and then trade and currency. We look at trade imbalances, the buying of U.S. assets-- and the-- argument that-- China's manipulating its currency.

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So that's the-- and then here's the-- the final category, which is cultural differences. We look at property, value-- values that people have-- shortcuts, lack of transparency, culture and government. Even command and-- the command economy, this curious hybrid of a capitalist economy with a command central planning-- at the heart of it.

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And-- and then we can even move into related categories as they come up, cyber issues-- intellectual property, restrictions on freedom, even, you know, growing military strength as China is asserting itself in its near abroad. So that's the general scope of what we're gonna try to talk about, and maybe we go back to the top category.

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But first just go to each of the panelists and-- starting with Henry, maybe a quick statement of where you think we are in this-- this Chinese-American relationship, and-- how you would-- how

you would see the question of threat,
opportunity-- best case, worst case?

HENRY TANG:

00:19:27;13

Well, there's an old-- Chinese expression, which happens to-- combine with the topic or the name of this group. It's called-- seeking common ground while respecting differences. And I think it is in that theme that we should be having a dialogue.

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And obviously, I am going to be presenting the many opportunities that are go-- that are coming forward as we go forward, and not dwell on what has happened-- in the last-- five years or so that-- that tends to be out there with a lot of dialogue.

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One other aspect of our dialogue this evening is I would sort of like to pull the lens back and-- bring-- and present and introduce some of the ideas and perspectives that-- Chinese people go about-- this experience that they're-- they're--

they're having right now. I mean, if-- if-- imitation and reverse engineering is the highest form of flattery, then-- Americans should be very proud. Because-- Chinese have actually done a pretty good job of reverse engineering the American economy.

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So-- but to look at it from a Chinese perspective, I would like to introduce that-- an idea which in the West does-- has not had much-- presentation. But much of it is looked at from the period of 1840. And that's a long time ago. It's-- what happened in 1840, a quick-- moniker for that was, it was the Opium War. But it was a period that-- destabilized China and basically made it-- led to it not participating in the industrial revolution, whereas Japan did. Japan in 1865 declared itself-- totally Western.

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And it is from that perspective that China is now engaged in what it thinks of itself as a renaissance. An economic, a cultural, and a

growth modernization renaissance. There are many opportunities going forward, both if we look at what China is doing for itself. Everyone's been talking about its 10% growth or 9.5% or whatever. Then also there's China's growth coming, going abroad, going overseas. There is some talk of-- an expectation that China may have as much as \$1 trillion in-- outward investments. Much-- some of it, good part of it here in the United States.

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Last year, for instance, in 2010, it was about \$10 billion. What does-- one-- what does \$1 or \$2 trillion represent? Well, Japan has-- \$1 trillion invested worldwide, and that represents somewhere around 700,000 to about a million jobs. And so it is in that context, I think China-- can become a very good partner.

JOHN YEMMA:

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Great. John?

DR. JOHN RUTLEDGE:

00:22:39;17

Thank you. First of all, nice to be here with you-- both because of the *Christian Science*

Monitor, which I view as one of the last holds-- holdouts of true journalism in America, and-- and-- second because common ground is really a lot of what I spend my energy trying to achieve. If-- if I had a summary (THROAT CLEARING) of what I do, it's based on the philosophy of Chekov's law. Chekov wrote 750 short stories.

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In one of them, he said-- "If you want to know about Bulgarians, you have to go to Bulgaria." And so I've been on airplanes for the last 40 years, including 11 times last year to China. And-- I think that-- as you get to know people, you change your views about them.

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There are a billion and a half people in China nearly. The only thing I know for sure about China is that any simple declarative statement you make about China or Chinese is wrong. It's a very big, very complicated place. And-- with the possible exception of a statement that it's big and getting bigger. The-- so I think that finding

a way to go from talking about China or the Chinese to talking about individual people in China to me is the real goal.

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Because it's very easy to have conflict with people when you just think of them as the other tribe. It's very difficult to do it when you think of them by their names. The common ground here to me tonight is of two kinds. One is-- I think that there's a perception that there are a lot of battles going on between the U.S. and China that in fact are battles going on between some people in America and other people in America.

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And so common ground among Americans would be a useful thing. For example, a lot of the trade dispute is actually a dispute between, what are the rights of the owners of capital in the United States, and what are the rights of the users of that capital? As capital, should it be bottled up? Or should owners have the right to take it

away and move it elsewhere, if they want to?

Ricardo wrote about free trade. A lotta my free trade friends-- make the statement that trade-- free trade is always good.

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The fact is, Ricardo assumed you cannot move capital, so if you move capital out of the country to another country, you can actually lower the income of that country and raise the second one. So free trade is sometimes-- overstated. That maybe the first of our common ground-- ideas we can-- we can come up with. But the-- but the sec-- and this-- the thing Henry talked about. There are a couple of trillion dollars of assets in the hands of various Chinese entities right now that are going to need to find a home.

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And they're going to be spent. They're gonna either be spent on goods or services, or they're gonna be spent on assets. The next wave of fury you're going to see in America is about people

trying to block Chinese investments coming into the U.S., spending the money that they-- earned-- in-- in other ways.

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The second form of common ground-- and CNOOC Unocal is a good example of what I'm talking about. We can talk about that if you want. There're some very interesting things there. The second form of common ground is between U.S. and China per se. Both represent kinds of miracles. The American miracle we all know about-- we-- 'cause we've lived-- we've lived through it.

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America dominates the world today in-- in many, many-- areas. Through most of world history, except the last 100 years, China has dominated the world in many ways. China is about one third the size of the U.S. in official GDP, two third in purchasing power. About one third the size, or about 1/10 the size of per capita incomes, but China's growing 10%, and we're growing 2%. That will change. Last year, I was at a meeting in

China called the Bull-All (PH) Forum where the president of China was there, and we had 15 different presidents or prime ministers of countries in the room at the same time.

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Question to ask yourself is, why were they there? They were there because about a third to a half of global growth in recent years has been driven by China. So if you want to sell oil or copper or aluminum or uranium or-- or wheat or corn or other things, in one way or the other, you're going to come up against-- Chinese in-- in various transactions.

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So my-- my bottom line from all this is that there are going to be two elephants in the room very shortly. Left. Those two elephants can do a lotta damage if they come into conflict. We don't know each other very well, because we were shut off during the Cold War. That's a very, very dangerous situation. We compete for the same resources. It's imperative that we get to know

each other as humans, rather than as icons or as symbols before that competition erupts into-- a conflict.

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I have six kids. I am very, very sure that the most important question for the-- whether they live their lives in peace and whether they live their lives in prosperity is, what will be the nature of U.S.-China relations over the next 50 years? Thanks.

JOHN YEMMA:

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Great. Alan-- some opening thoughts?

ALAN TONELSON:

00:28:00;05

Thanks, John. And I'd like to thank the organizers of this event, who have done a magnificent job, judging by this very, very exceptional turnout. And I'd like to thank all of you for coming too. And this is a clear recognition-- of the final point that John made, and that is-- in fact, one-- one piece of common ground I'm sure we-- we can find is that we would all agree here in this room, and hopefully

everybody out there watching through various-- various new media-- that the U.S.-China relationship today is exceedingly important and is going to become more important.

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And therefore, how the United States handles this relationship is exceedingly important today and will become more important. I must confess that I am not terribly optimistic about America's future capability of-- of handling this responsibility well. And I won't prejudge-- the extent to which we can find common ground tonight. I'll simply reserve judgment right now, but I will say that at this point I am certainly-- more impressed by the threats and challenges that are presently posed by China's behavior-- threats and challenges that I think this country is (THROAT CLEARING) poorly equipped to deal with now.

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And which I think policy mistakes that have been made in recent decades and that keep being made, and that I'm afraid will continue to be made in

the foreseeable future-- will result in this country being even more poorly equipped to handle whatever challenges China preva-- whatever challenges China prev-- China presents.

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And possibly, it will leave us worse equipped to handle any opportunities that-- that-- that China presents. And certainly, there will be a mix-- of both. (NOISE) Maybe I should step back for a moment and just say that-- the worldview from which I'm coming from is one that holds that, whether a country faces challenges or opportunities-- it needs to-- to maintain its own strength and its own wealth.

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Those have to be its first policy priorities, because-- because countries that are richer and stronger are certainly going to have more and much better options on the world stage generally, and toward particular players on that stage than countries that are relatively poor and countries that are relatively weak. I look at the litany of

U.S.-China issues that keeps making news, and it's very difficult for me to avoid the conclusion that we're seeing a string of increasingly dangerous failures.

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And I'll focus on-- on two right now. And actually, the two-- are in some very important ways closely related. The first is, of course the economic front. I look at U.S.-China economic relations, and I see the resurgence in the last two years of exactly the kinds of bilateral imbalances that I think-- that I think one of our speakers referred to previously, I see those economic imbalances becoming worse.

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And what worries me is that, those were exactly the same kinds of economic imbalances that had a very big role in triggering the financial crisis and ensuing recession that we've been suffering from in recent years. I see-- I see in fact, not only the growth of free markets in China, not the expansion of-- entrepreneurship and

individualism, at least on the economic front. I see backsliding. And in fact, it's not just me.

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Every major business group from every major country that does business with China has seen this-- has seen the exact same they-- have seen the same backsliding, principally in the form of higher-- of higher trade barriers and a reassertion of control by the Chinese state over-- over key portions of the-- the Chinese economy.

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These economic failures spill over into the national security field as well. Because tragically, in the last 15 years, the U.S. government has positively enabled and encouraged the transfer of very important, militarily relevant technology to Chinese entities, many of which are either controlled outright or heavily influenced by the Chinese government. These technology transfers have been made to a country that the U.S. Defense Department itself, under two administrations that have-- that have been by

no means hostile to China or even close to it, but this country is seen as-- as a nation that is the greatest potential security threat to the United States. That's how the U.S. Defense Department has described China under the last two administrations.

00:33:18;21

And militarily sensitive technology, vital technology transferred recklessly in wholesale. That can't be good for U.S. national security. Getting back to the economics, I-- I think it needs to be made clear that threats posed by China will affect not only the United States but the entire world, if only because of America's still preeminent position in that-- in-- in that world economy.

00:33:46;03

To put it rather crudely, if predatory Chinese economic practices essentially continue bankrupting America, the goose that has fueled, to mix metaphors horribly-- the goose that has fueled the world's growth for the last 30 and 40

years will be caput. Everybody will suffer. The status quo in U.S.-China relations is not sustainable. Change is urgently needed. I am currently not optimistic that that change will be made in time to arrest these very dangerous trends. But if I was so completely pessimistic, I wouldn't be doing the kind of work that I am doing. Thank you.

JOHN YEMMA:

00:34:30;10

Great. Thank you. (APPLAUSE) You-- you see a cross-section of views here, and-- let's see if we can work on them. Let's start with economic competition, and you all read these, but basically, the threat is that-- there's this power shift I think that-- Alan has been describing that reduces the economic power of the United States and-- challenges both U.S. living standards and national security. That's a pretty succinct statement. And the opportunity--

ALAN TONELSON:

00:35:00;22

You should go into journalism. Oh. (LAUGH)

JOHN YEMMA:

00:35:03;24

Going, some point. The opportunity is that China's rise brings-- growing benefits to its own people, and-- helps drive economic growth-- overall. As John was saying, I think that over the next ten years you expect most of the top-line growth to be in China, right?

00:35:21;19

China increasingly acts as a responsible trade partner, Henry, with the U.S. and a leader on global issues such as climate change and financial stability. As-- as it matures, it-- it moves into those areas. So maybe you all can just take a quick look at that. Tell us do you-- do you think we've framed that up as the yin and the yang of it?

HENRY TANG:

00:35:42;07

I would like to introduce-- an idea that we Americans, and while I am of Chinese heritage, I do speak as an American, as a person with four grandchildren who-- will live and die here, (THROAT CLEARING) as is my-- will happen to

myself. So this is my country as well, as much as everybody else's. And I look at it from an American perspective and see, try to see, what are the opportunities?

00:36:10;09

And to introduce perhaps the idea that we need to modify our perspective, all right. And once again pull the lens back and try to appreciate what is happening. As John mentions here before, it is a large economy. It is growing very rapidly. But clo-- but we must, we should see it in the context of the evolving global economy. We are going from-- 6 billion population world to a 9 billion population world.

00:36:44;05

China is preparing for that-- itself of course, was with a one-child policy will probably have a slowing growth rate. The numbers are right now for population for China right now, 1.3 currently as we speak, but-- moving only to about 1.4 by-- 20-- 40. To put things in perspective, I've been asked many times why China has the wa-- the one-

child policy, isn't that cruel and inhumane?
When-- Chairman Mao took over in 1949, population of China was 450 million people. That's approximately 60 years ago. In that 60 years' time, it's gone from 450 million to 1.3 billion, a threefold increase.

00:37:30;12

Now without the population-- limiting-- practices, agreeing with them or not, would we in the next 50 years want to see 4 billion Chinese people to go three times from here? That was the dilemma that China had, also in the context of its limited resources at the time.

00:37:50;24

As it moves forward now, sure it is a growing economy, but it is a growing economy also participating outside of China, United States being one part of it. Africa, Latin America, other parts of Asia or Australia. We see it every day. These are opportunities for we as Americans with a very, very powerful American economy, very powerful American innovation and technology to

join in partnership. And many times, China is looking for that, except we have in this country-- a little bit of-- a negative vetting process. It's called, you alluded to it in the CNOOC situation with CFIUS.

00:38:32;18

CFIUS is a committee to-- (COUGHS) foreign investment in the U.S. And that is-- that is-- a negative vetting process. We should have a body that does positive vetting. Where can we engage with China, as well as other economies to move on with the global growth? There are new resources that need to be-- discovered and exploited. Much of it perhaps not in the capacity of any one country or company. These are joint venture and partnership opportunities.

00:39:11;06

And we need to look at that, not only outside of China, but also within China. I'd like to also bring out-- the fact-- I go to China four to five times a year, and it was only the last year-- that-- the dr-- the dramatics of-- the high-speed

rail was introduced. We see it on television every once in a while. Next year, by the end of 2012, beginning of 2013, 700 million people will be able to ride the high-speed rails. That's 2-1/2 times the population we have in this country. 700 million out of 1.3 billion, that's half the people.

00:39:55;08

What does high-speed rail mean? I rode it from Beijing to Tianjin, roughly about 100 miles or so. Did it in 45 minutes. Now, we could-- that will-- that will do to the Chinese lifestyle, economy-- and opportunities what the interstate highway did to ours. It will change a lot of things. There will be new industries that will be opening up-- hospitality industries. Something as simple as rent-a-cars, auto rentals. So these are the things I'm sort of pointing out as opportunities--

00:40:28;17

(OVERTALK)

JOHN YEMMA:

00:40:30;10

--modern world development.

HENRY TANG:

00:40:31;04 The-- the-- the-- the normal thinking. And people very, very quickly sort of fall back and say, there's negative developments in all of this.

JOHN YEMMA:

00:40:39;21 Right. Alan?

ALAN TONELSON:

00:40:43;10 The numbers say yes, yes, yes. But the structure of China's economy, and to the extent that one can generalize, but I think one can to some extent, China's economic game plan says, no, no, no. And the reason is that it is not in the chi-- it is not a part of the Chinese business model-- to rely significantly for longer than is absolutely necessary on foreign supplies of anything.

00:41:13;09 In fact, if you look at what-- at what China currently buys from the U.S. and what it has bought recently, a very interesting pattern emerges, and it's-- a pattern that you only see with a small handful of other countries. Korea's

one of them, strangely enough, or maybe not so strangely. The Chinese mainly buy things that they can't make yet.

00:41:41;05

If the Chinese make it, from what we can see, from U.S.-China trade flows, the Chinese are not interested in actually buying it. And it's actually perfectly rational from their standpoint where 1.3 billion people, those yes, yes, yes numbers.

JOHN YEMMA:

00:41:57;19

Okay, can I stop you for a second? If you look, you moved into the second item here, and we'll come to that in a second. I'd like to go back just one second and just see if I can summarize what I've heard so far-- the-- the positive part. (LAUGH) There's some-- some, an element on the negative I haven't gotten down yet.

00:42:15;19

First one there is, the U.S. and China relationship is crucial to the future global economy. If we didn't share that and have that in

common, then that would really af-- negatively affect U.S. policy. The second thing I heard you saying was that, without mutual understanding, this relationship could sour. That if we don't find a way to-- to break through, and--

ALAN TONELSON:

00:42:37;00

I'm not sure about that one.

JOHN YEMMA:

00:42:38;09

Okay, on their side, you know, what-- what-- part of what we're hearing is, mutual understanding will help that. And I think that what I was trying to figure out was-- mutual understanding is not enough is your point, is that there are certain barriers and things, which we'll get to later.

00:42:53;23

But, you know, so we'll-- we'll say that the first one's agreed to, and the second one we'll come back to. All right, I just didn't want to lose those thoughts, 'cause we're trying to-- these things are so obvious to you, 'cause you work on 'em all the time. But imagine if when you

sat down in the U.S. Congress and you had before you, here are the key things that we are talking about.

00:43:12;03

This relationship is important, 'cause some people are sitting there saying, it's not important. We-- we don't need to deal with it. We can just, you know, be arbitrary about it. So it-- it's a perspective thing. So-- so let's go onto your second point you were making is-- is-- here on item two. If you look at the left side, I think this is your point you were making.

00:43:30;24

(OVERTALK)

JOHN YEMMA:

00:43:32;23

Can you just see if there is something you would add to that based on, 'cause you were basically saying, they want to lock up the resource for raw materials, become the source of political (UNINTEL) tension, potential conflict. How-- what would you add to that to get the tone that you had there? Just--

ALAN TONELSON:

00:43:45;04

I'm-- I'm-- I'm somewhat worried about raw materials, but the phrase raw materials never slipped my-- my lips, so I'm-- I'm not sure that I-- that I would really-- really want to focus on that point yet. I do think it's very important to put perspective on thi-- on this boundless opportunity point. There is in theory boundless opportunity. My point is, from everything we've seen with China's actual behavior for years and years, they're not interested.

00:44:10;04

The second major point is, it is true again in theory that Chinese investment into the U.S.-- into the U.S. economy could produce major benefits. But there are significant issues that we have to think about, which is why processes like CFIUS are not only important, they are vital.

00:44:29;19

And the main question is, given the nature of China's political system, given the nature of

China's economic system, which is not a free market economy. It is a very interesting, unusual public-private, as we might call it, s-- heavily state-influenced, often state-controlled hybrid. Do we want representatives of that economy to have a greater presence and more influence in the U.S. economy?

00:44:55;04

I don't think the answer to that question is so all-fired (?) obvious frankly. And so I would take a very go slow, very cautious approach to welcoming Chinese investment into the U.S. I'm not sure that I want that political system owning more of this country.

JOHN YEMMA:

00:45:12;13

To what extent John, let-- let me see if I can just split the difference. I don't know if it-- it's possible. To what extent are we dealing-- you-- you study physics, to what extent are we dealing with a kind of-- a model of China going from a rapidly developing country to some other type of country?

00:45:30;07

In other words, the stresses and strains that Alan's talking about, and even some of the opportunities that Henry's talking about may have been a manifestation of that rapid growth period. And the rapid growth's still going on, but it's probably going to slow. Once that happens, does-- does a new dynamic come into play? Does China, if it's playing unfair in some ways, does it-- does it begin to play more fairly?

DR. JOHN RUTLEDGE:

00:45:52;24

I-- I think that it's very important to realize that China's history matters for how they think and how be-- they behave today. For example, between-- middle 1960s, the middle 1970s was a period called the Cultural Revolution, during which period most universities in China were closed.

00:46:13;03

And academics and other intellectuals were punished. Most people in power today in China grew up during that period. And so they lived

through that, which is a little bit like our-- my parents growing up in the Great Depression. So those memories carry with them for a very long time.

00:46:31;24

If you talk with an official today who's more than 50 years old in China, you're talking either in Chinese or through an interpreter, because they were-- they grew up before the period when Western education was-- allowable or popular in China. If you talk to a 30-year-old or a 20-year-old in China, it's a black and white difference.

00:46:51;24

Because after the opening of China-- education came back alive, and if I could, if-- if I can make a generality, it's that that 20 or 30-year-old person is living in order to try and find a way to almost heal the damage done to their parents during--

JOHN YEMMA:

00:47:14;24

That's common ground.

DR. JOHN RUTLEDGE:

00:47:15;13

--during that earlier time, which is very much like 1950s kids here trying to save their families from World War II, Great Depression issues. So there's a timing issue here (THROAT CLEARING) of how long it takes before the Soviet-educated, older, non-Westernized leaders of today age out, and the young leaders come in, who have a very different Western-- positive-- towards America viewpoint. And that history is a very important thing. The-- part of-- part of what Alan said I think is-- I agree with, and Mel Brooks said it before either one of us.

MALE VOICE, UNIDENTIFIED:

00:47:59;01

Oh, that's good.

DR. JOHN RUTLEDGE:

00:47:59;16

He said, "It's good to be king." (LAUGH) And-- you know, it's good to be rich. We're the richest people in the world today. I dearly would love to stay the richest people in the world. I would love my children and grandchildren to be the richest people in the world. So-- so where I--

partly where that argument pushes me is in the direction of then, well, let's get the hell going and grow. There are many, many, many issues that are homegrown here that are retarding our growth. (THROAT CLEARING) And it is not only China that's doing it.

00:48:30;22

It has to do with education and tax policy and regulatory policy, and-- and many, many other-- issues that we're-- we're groping with. I don't think it's quite so easy to-- (COUGH) to-- define-- a Chinese business model or a Chinese economic model, 'cause there's a great deal of variety in the place. Yet--

JOHN YEMMA:

00:48:53;10

Can-- can we-- can we stick with resources for a second? 'Cause you-- you're moving to the next topic. We'll get there. When you look at resources and you look at, we talk about the threat, we've talked about, you're talking about some of the timing issues. If you look at the opportunity there, and what that cooperation

could lead to, I guess the question here then is, one thing you said is, you need to take into account the timing issues, the new Chinese-- has an impact. So that's one thought, you know, do-- of taking something into account. But the question is, if you're trying to move from the threat to the opportunity on resources, what should the U.S. policy be? How should we think about this in a way that's going to move us from the threat towards the opportunity?

DR. JOHN RUTLEDGE:

00:49:33;20

All right. Let me-- let me give you a brief answer to that, one word, rationally we be the-- my answer. And I'll tell you a short anecdote. I was at CNOOC. CNOOC attempted to buy Unocal-- 19-- in 2007--

ALAN TONELSON:

00:49:46;14

2005.

DR. JOHN RUTLEDGE:

00:49:47;02

'05? They tried to buy Unocal. The American media and political establishment threw up on the idea. They were driven away. Chevron ended up with the

prize. I was at CNOOC after that, two years after that-- having lunch. The story that emerged, or what really happened is-- CNOOC is the arm of the Chinese energy industry that is charged with acquiring enough oil assets outside the country for future needs.

00:50:18;21

They were about to make an investment in a ch-- in an African country that I won't name. They ran it by the U.S. embassy-- as a courtesy. The U.S. embassy checked back with Washington, and was told by the White House, please-- ask them to make an investment in a U.S. company instead, because that would not be in our interest to do that. They made a bid for Unocal. The U.S. political establishment in Congress, remember we have two governments here. We have the White House and we have the Congress.

00:50:49;24

Congress blew up over it, because it's a perfectly good xenophobe issue. They were driven-- off the deal. Chevron bought the company. There

are two interesting factoids in this. One is that, what they were trying to buy was management expertise, because they had done joint ventures with chevro-- with Unocal before, and they respected them.

00:51:11;16

Second, they were trying to buy Unocal's natural gas assets, which were in Indonesia, not in America at all. The old Natomas gas assets that Diamond Shamrock developed. So this whole thing erupted over Indonesian gas. And the second-- interesting-- factoid is, on the day that I was there having lunch learning this interesting story, on another floor in the building were the representatives from Chevron who were there to make a long-term supply agreement to sell the gas from Indonesia to CNOOC for Chinese use.

00:51:45;24

So the market will get where it needs to get-- regardless of the meddling of the political establishment. But that's why I said, rationally none of that story makes any sense. It's just

that the political establishment and the business establishment did not understand each other. If Unocal had split itself into two parts before the deal was announced foreign assets and domestic assets, the whole deal could have been done. Everybody woulda been happy. But people just didn't know how to do it.

JOHN YEMMA:

00:52:16;09 Alan, you know there's a lot of irrationality in-
- business and economics and politics.

ALAN TONELSON:

00:52:20;12 Yeah, in fact, here's something else we can all agree on. There's lots of incompetence in U.S.-China policymaking. (LAUGHTER) I don't think we'll get any argument (THROAT CLEARING) from anybody in this room, unless you work for the State Department, and even then, you might-- you might fully agree.

00:52:34;24 Let-- let me also state that-- that wherever the assets, wherever the raw materials are located, I have no doubt that there is a much greater chance

that their use will be determined by free market forces if they are owned by a U.S. company wherever they're located, than if they're owned by a Chinese company. There are fundamental differences here, and I think it does nobody any good to shy away from them.

00:53:02;24

There's also a kind of interesting historical point to keep in mind-- when we're talking about, how do we get from here to there? How do we get from that threat phase to that opportunity phase? And it's-- it's a big simplification, but you know, sometimes you have to simplify. If you look at history, there are only a couple of kinds of situations in which countries that were adversaries become something less antagonistic.

00:53:33;08

Either country A beats country B militarily, and we see-- we saw that happen after World War II. Or country A and country B decide that country 3 is a greater threat to each of their interests than each of them is to each other's interests. I

don't see that set of circumstances emerging to affect-- I-- I don't see either set of circumstances emerging to affect U.S.-China relations in the near future.

00:54:00;09

So I do think we have to remain open to the possibility that it may not happen. We certainly shouldn't assume it will happen. I think it is never-- a source of wise policymaking to assume the best. You work toward the best, but you don't assume the best, and you hedge like crazy. And in international affairs, that's about the only choice you have.

HENRY TANG:

00:54:28;12

I-- long time ago I guess, I learned-- that we can only go forward in time. No way to go backwards, so far. Even no matter how many semiconductor chips and software programs are out there. And-- as John mentions-- there-- there is so much that is happening-- out there, and a best way to illustrate this I think.

00:54:58;11

I'll tell-- an old war story, go back in time a little bit. The year is 1984, and Margaret Thatcher is in Hong Kong and Beijing-- talking to-- Deng Xiaoping. Remember Deng Xiaoping? Actually, he started all of this, because Deng Xiaoping in 1979 wore a ten-gallon hat and stood in-- in-- I think it was Texas somewhere on a railroad platform.

00:55:21;22

And he admonished his handlers and said, "This country's only 200 years old, and we have 5,000-year history. Look at this. Look at all the buildings, the factories and so forth, what they have done in 200 years, and we-- what we haven't done in 5,000 years." So basically, it was, get with the program and find a way to do it. We sort of have to go back and understand what it is.

00:55:49;22

Now the shoe is sort of on the other foot these last 30 years. How did they do in 30 years what causes us to keep still with about a 1.5%, 2% GDP? We need to understand those things. Go back

to Maggie Thatcher. Maggie Thatcher-- in 1984 was in-- Beijing, but after stopping off in Hong Kong, because the 1997-- handover was coming. It was 13 years away, but they were planning a transition. Deng Xiaoping, now that you know who he is, made an offer to Maggie Thatcher and said, you know, you folks have been running this place since 1840 and done a pretty good job. And we really don't know how to run this place.

00:56:32;24

I mean, after all, we are a Socialist economy, and this is a capitalist free-for-all. You do it so well, you do it, can probably do it much better than we. Like to make you a proposal. We in 1997 will nominally and (UNINTEL)-- and sovereigntally-- take back Hong Kong. But you folks, why don't you continue to run it and manage it?

00:56:58;18

Long story short, you can imagine what happened. She said, "No." Margaret Thatcher said, "No." It was, she was basically playing all or none. And

of course, China said, "No, we can't do that." I think in the next 13 years it forced them to roll up their sleeves and learn how to manage a capitalist economy. I often sit back and think, what would have happened had Maggie Thatcher said, "Yes?"

00:57:24;07

We're trying to be as emboldened as it is today. Of course, since Hong Kong, they-- Westernized Shanghai, Beijing, Shenzhen, and all that. I don't know if there was some data that was shown about 100 cities with n-- 1 million people in China, but that's the s-- the story today. But the-- the lesson to be learned here is that, when these offers come, maybe perhaps we need to think of it in a different context. I think the U.K. and Britain would have a different position in China, had they accepted that offer and not held their ground. And might be the-- the people with the-- the inside track, (COUGH) so to speak.

00:58:13;24

So I think we are at such a crossroad today. We

are being presented with many offers, opportunities-- for joint ventures, joint projects. I think China wants to access a lot of our technology, as you say. That's true. And when that happens, and even if we find that they are parroting, that spells an opportunity for us to say, you know, we understand a few of your people, and by the way, it's not sort of centrally controlled by-- by-- by-- by Zhongnanhai, which is, like, the White House of-- of Beijing.

00:58:52;21

It's not controlled there. There are a lot of free agents running around doing pirating. So it's-- it's not controlled in as many people like to sort of interpret it. So when that happens, I think it's an opportunity to say-- you want this, we have it, we can cut a deal.

JOHN YEMMA:

00:59:16;06

Okay. (LAUGH)

ALAN TONELSON:

00:59:19;04

John, if I may, that-- that-- that-- that last

point about central control raises a really interesting question that I hadn't thought of before. If there's not a lotta central control, it becomes a really difficult country to deal with. Who do you call? Who's in charge?

HENRY TANG:

00:59:39;10 It-- it isn't central-- everything doesn't--

ALAN TONELSON:

00:59:40;19 And I know it's not black and white.

HENRY TANG:

00:59:41;10 It's a little bit like I-- as-- as I said before, you know, China's done a very good job of reengineering its country to be like the U.S. If there's something here-- happening here in Greenwich or up in Hartford, it doesn't always go to Washington. Doesn't need to.

ALAN TONELSON:

00:59:56;11 That's because our system is a federal system with very clearly delineated responsibilities. China, what you are describing sounds very confusing--

01:00:04;02

(OVERTALK)

DR. JOHN RUTLEDGE:

01:00:07;01

And I'm wondering, gee, maybe we just can't deal with it, because who do we call? And-- and-- and I also hope we don't fall into the trap of excusing every instance of Chinese misbehavior, which is by the way, a word that I think completely trivializes the problems that we face.

01:00:23;15

But I certainly hope we don't fall into the intellectual trap of excusing every instance of Chinese misbehavior as, "Well, the central government didn't really know." They had no control. What could they do? That's really convenient and I think very dangerous.

DR. JOHN RUTLEDGE:

01:00:37;02

One of your points, Alan and that runs along the line of piracy, do you know what products are pirated most in China? Chinese products. It's not only Gucci watches and-- and-- and-- and-- Hermes ties. Chinese products, Chinese-- there is more piracy of Chinese products in China than any others. Yes, the-- it needs to have a better form

of control, no disagreement there, all right.

01:01:07;05

And it perhaps is because we are-- it is a 1.3 billion population, and therefore its control systems, if you will, are not as well in place as the one we have had-- for in 200 years of history. Deng Xiaoping was sorta right. Their his-- their history and their systems are barely 30 years, not even. Some of them are five and ten years in place, for monitoring and administration. Let's use that term, rather than control.

JOHN YEMMA:

01:01:36;22

So one of the-- one of the topics you switched to here is to-- do China's differences matter? In other words, in terms of culture and government, you have-- the Chinese-- I'm sorry, the-- Communist Party's monopoly on power and command, control, some of those kinds of things. And-- Chinese workers have acquiesced. You talked about this earlier.

01:01:57;01

And then on the other hand, 20 years ago in the United States, Japan was considered a threat similar to China, and now U.S. economic model remains innovative. Some of you talked about some of those characteristics. So let-- let's talk about this. Is-- does this matter? And if so, is this something where you throw up your hands and say, "Well, they're the way they are, and we're the way we are, and we can't work together?" Or what is the common ground in working on this problem?

HENRY TANG:

01:02:22;24

We have to go forward to work together. We have no choice. Because China's going to continue to grow its economy at 7%, 8%, 9%, 10% rate, while we are at 1% and 2%, and everyone is going to continue to go forward. Next year I believe is 2012. The year after that is 2013. It is not going back to 2010 or 1999. (COUGHS)

JOHN YEMMA:

01:02:44;15

So what-- what should the policy be with respect to that difference? Does the difference in the

way the governments function not matter? 'Cause earlier we were talking about some of those differences. So I guess that's-- that's one of the pivotal differences I hear.

DR. JOHN RUTLEDGE:

01:02:57;04

Let me give you a short answer to that, which is that, if you're going to deal with a person who has another frame of reference or another governing structure, if you want to be successful, you need to understand how they do it. In other words, you know how you'd do it.

01:03:14;24

The-- the-- the thing that was interesting to me about the Unocal story I told you is that the managers of the Chinese company were shocked that the U.S. government would give them an instruction, and then the U.S. government would object to it. No one here would be surprised by that, because (LAUGHTER) the White House and the Congress fight with each other all the time. We have a chaotic structure of-- of-- of government, which is very, very stable d-- over-- over longer

periods of time. But you have to understand the other guy. And there's no way you're gonna understand the other guy out of a book. You have to spend time, you have to go there, you have to engage, you have to do business, you have to do all these things.

01:03:59;24

And-- there are risks in every time you engage with another person. You can catch a virus from the other person. (LAUGH) But-- if the dif-- if the choices are engage and understand the other person, whether you-- he ends up being your enemy or your friend. Or not engage with that person and just play it from my own viewpoints. The first one is much less risky than the second one.

JOHN YEMMA:

01:04:24;21

But-- but-- Alan, if I-- just to-- just to try to hone in on your point. I th-- it seems to me that you're asking not to not engage. You're asking for a kind of a more heads-up, muscular, eyes wide open engagement on a part of the United States.

DR. JOHN RUTLEDGE:

01:04:38;23 Smarter.

JOHN YEMMA:

01:04:39;24 A smarter. What-- what--

DR. JOHN RUTLEDGE:

01:04:40;13 Smarter-- or-- or smart--

JOHN YEMMA:

01:04:41;24 From-- from a policy point of view, when you have-- granted, Henry, you know, the Chinese government is not this monolithic central planning every decision there. However, it is still a, you know, par-- one party state, and there's quite a large government apparatus that is involved in-- in a lot of what goes on in the government.

01:05:00;01 The U.S. government doesn't work in the same way. It's this more chaotic-- system that John just described. Is it-- is there anything the U.S. can do to engage with this other that's organized in a different way, so that it can-- it can actually have-- a fair bargain in your eyes?

DR. JOHN RUTLEDGE:

01:05:17;18

Well, I think actually the notion of old-fashioned bargaining may be the very best thing of all. But we do need to enter into this process with-- with eyes wide open, and I'm afraid that our eyes are not only very, very, very tightly closed, we enter this process with major delusions.

01:05:36;17

And one of these is that we-- and this is very important when you're doing business. The Chinese economic system, the chi-- and the Chinese political system not only have no rule of law. They actively reject this concept. They don't want it. They want no part of it. This poses immense difficulties for American businesses. It has to. The Chinese political system also places-- al-- also not only places no premium whatever on transparency or on accountability, it's actively rejected. In fact, transparency is actively rejected.

01:06:17;18

Do you know why? Because transparency means you let the foreigner know what you know. And knowledge is power. You don't want him to know the rules. You don't want him to know how things are really done, because he can then game the system in theory as well as any Chinese actor.

01:06:37;04

That's not the-- the game plan. That's not what the Chinese have in mind. And like I said, in theory, yes, 1.3 billion consumers, et cetera, et cetera. But Chinese are not interested in relying on foreign supplies of anything for a moment longer than they absolutely have to. The attitude is, we're an immense country. We're an enormous population. We really have a very s-- a very substantial capacity to be self-sufficient. And there are big advantages in being self-sufficient.

01:07:07;07

We don't have to rely on the Westerners for anything. That's a great position to be in. The Chinese are not there yet, but please don't doubt

for a moment that's the intent. We either play into their hands, or we don't. We either look out for our own interests or we don't. We go into this relationship with eyes wide open and be prepared not only to be smart, and-- and again, it's not a matter of being smarter. We've never even been remotely smart.

01:07:34;09

We have to get up to that point. Smart and agile and clever, and even a little devious maybe, even a little bit Machiavellian. That's gonna be a real difficult transition for American diplomats to actually engage in. But I think you're right. We have to think outside of that box, but we are so far from there yet, that I really worry (COUGH) that truly mutual, beneficial economic engagement at this stage, it's-- it's-- it's hard to see that it's really possible.

HENRY TANG:

01:08:02;13

I would like to introduce a point. (APPLAUSE)
Would like to introduce a point here-- as a potential solution. As how we can go forward.

According to the last-- census, which was 2010, there are 5% of the population in this country were Asian. So that would make it about 15 million people. Of that, 3.8 million of them are the Chinese in America.

01:08:41;23

And I would daresay that out of the 3.8 million easily 10% or 20% are very, very bilingual and bicultural. The real number's probably even closer to 40%, if I had to estimate. Out of that number, we're talking about 3,000-- 4,000 to three quarters of a million people who have the capacity and ability-- and ability to help in this effort.

01:09:07;24

From my being part of this space professionally for 30 or more years-- they are not part of the effort overall, for the American economic effort. These are people who are your neighbors, and they're your colleagues inside your companies. They should be called on. Sometimes for-- an assignment like what Alan's talking about, the

perfect person may be working in the controller's office 100 miles away, but this is what I mean by thinking outside the box. We have a certain unique resource in this country that hasn't been called on.

01:09:47;02

And I'm not putting in a plug, I'm not looking for a job. So (LAUGH) but there is this pool of people, and sometimes they're-- so many of them are only in research in development, or some of them are, as I say, tucked away in controller's offices or doing H.R. work or whatever-- that they're not part of this effort.

JOHN YEMMA:

01:10:07;20

Do you mean to-- so since you represent-- into government somehow or to?

DR. JOHN RUTLEDGE:

01:10:10;24

Pardon me?

JOHN YEMMA:

01:10:11;24

To-- to bring them into government or to create some--

DR. JOHN RUTLEDGE:

01:10:13;12

No, bring them into what Alan needs. What Alan is saying that basically, there's no way to communicate-- properly, and not-- or to understand each other. Now this is only part of the solution. I will agree with you, Alan, there are challenges. I'm-- I-- I speak as an American and I feel for you. I feel for us, all right. But I do propose that all of corporate America take a look inside their very own halls and cubicles for people who might be able to help you in the solution. (APPLAUSE)

JOHN YEMMA:

01:10:50;09

Could be, could be.

ALAN TONELSON:

01:10:55;15

We need an-- an, what you might call, an-- an-- excuse me, an-- SOB corps. We need a corps of diplomats-- and businessmen that can treat the Chinese as ruthlessly and as self-interestedly as they treat us. We need an SOB corps. Maybe that's what we're really calling for. (APPLAUSE)

HENRY TANG:

01:11:25;11 We need--

JOHN YEMMA:

01:11:27;24 We'll come up with a different name. (LAUGH) It's
Common Ground.

HENRY TANG:

01:11:31;24 We need people who might you say, can say
understand-- and perhaps sometimes are cut from
the same cloth as well.

JOHN YEMMA:

01:11:40;23 So we've been-- we've been moving around a bit,
Kraft, and-- Bruce. We've covered a lot of
different points, not necessarily in order, but
we've hit 'em. Do you want to go to questions
now? Or do you want to-- audience questions? What
would be best? Okay. We want to engage you all,
because I-- I hear a lot of applause and a lot of
laughing, so that's good. And you can tell there
are a lot of opinions up here too.

DR. KRAFT BELL:

01:12:04;24 Can you tell me which category it's in if you've
got it?

BRUCE BOND:

01:12:08;11

All right, well, we have-- s-- way too many questions than we can possibly answer in the next-- 365-day period. So-- we're gonna try to focus on a few of 'em. The first one is-- really about this notion about-- mistakes that have been made by the U.S. dealing with China. And Alan, you're the primary-- proponent of that position.

01:12:35;05

The-- the-- coupla questions came up here about, you know, so what were those specific things? What-- what were the-- if, you know, there were two or three big items that you think were, you know, serious errors that were made here? Could you articulate those a little bit and just tell us your-- your thoughts on that quickly?

ALAN TONELSON:

01:12:55;07

Well, the-- I think I hinted at-- at-- at one of them. U.S. technology transfer policy, U.S. export control policy, which is meant to tightly regulate the-- the-- the transfer of militarily sensitive technology to what are called

"countries of concern," i.e., countries that are not only not our friends but a little bit worse than that, has turned into a sieve.

01:13:21;24

There is very little monitoring, there is very little enforcement. That has to change, if we take the Chinese national security threat seriously. Maybe we don't, but we should decide that. We should not pretend to take that threat seriously and literally fall over ourselves to enrich and to empower a country that again, even our own defense department has identified as a major potential adversary.

01:13:48;11

Mistake number two. We let China into the World Trade Organization. What that meant was that-- was that U.S. companies and U.S. workers could no longer rely on U.S. trade law to respond to various pred-- to various instances of predatory Chinese trade practices like sl-- like subsidization, like dumping, and actually like currency manipulation.

01:14:15;24

These cases now have to go to the World Trade Organization. Guess what? The World Trade Organization is not like the simple court-- the simple U.S. style court of law that we were told it was. It's an international organization where the U.S. very often is in a very distinctly minority position.

01:14:32;17

It's been a dreadful failure in promoting and protecting U.S. economic interests. Mistake number three, we have lied down and died in the face of Chinese currency manipulation. Which is one of the most flagrant examples of mercantilist, protectionist policies (COUGH) that this world has seen since the 1930s.

01:14:53;24

It would be nice to think that a global consensus against this practice is actually emerging. There are precious few signs of that, and if the United States does not lead by example, does not act unilaterally, does not in fact, act like a

superpower and lead, this problem is not gonna get solved. Global economic imbalances will continue to worsen, and the world is going to-- to start once again to build up and inflate exactly the same kind of economic bubble that burst so disastrously in 2008. And PS, the Federal Reserve is outta bullets.

BRUCE BOND:

01:15:33;24

Okay, all right, very good. One of the things that-- we-- we see in the questions, it's a theme, is this conflict or-- really the-- the different pressures associated with a centrally controlled economy and, if you will, a free market economy.

01:15:48;24

We see that in a lotta the questions. Sorta the-- the-- the root cause behind the question, how do those things interact? One of them here was-- had to do with why we think the centrally planned economy-- particularly the one in China has been so successful compared to-- those that have been centrally planned throughout history. I mean, the

argument here is that-- this is an unprecedented success for this type of economy, which historically has proven to not be successful over a long period of time. So what's different?

JOHN YEMMA:

01:16:21;17

John, from a historical point of view-- that-- that's actually a pretty good point. When you look at some of the images of the Soviet Union in the post-War years, it looked like it was a robust economy. You look at Japan during the, you know, Japan is number one period.

01:16:36;14

There is more central planning in Japan, not as much as in China, but there's more central planning and industrial policy. Is there something, after a while are there inherent tensions in central planning that cause it to break down? Or can you continue with central planning and success indefinitely?

DR. JOHN RUTLEDGE:

01:16:53;02

I mean, more than one question there. The-- the question you asked at the end, the answer is to

read Friedrich Hayek in 1935 through 1945, who explained that in a market economy, information about what's scarce and what's plentiful and what's needed is transmitted through these little capsules we call prices.

01:17:14;22

It's especially efficient at doing that. So a price system is an information network that is extraordinarily effective, and more effective than others that have been invented to date. I worked in the Reagan White House. That was the philosophy that-- that and the deflation that destroyed their commodity markets were the philosophies that actually destroyed the Soviet Union. They were a centrally planned economy.

01:17:42;22

But I'll tell you, if you are an American or an economist, and you've not been to China, and you come there today, when you get off the plane, the first thing you'll say is, holy cow, this should be impossible. As-- as an American economist that lived through the Cold War with the Soviet Union,

I was thoroughly convinced that it would not be possible for the government of China to do what the Soviet Union could not. And you know what the answer is? That is not what happened. Starting in 1978, Deng Xiaoping started conducting a series of market experiments. They were small, controlled experiments. They're still going on today.

HENRY TANG:

01:18:20;24 Shenzhen.

DR. JOHN RUTLEDGE:

01:18:21;14 Today 70% of Chinese GDP does not come from state-controlled companies. It comes from private companies. There are 10 million privately owned businesses. All job growth in China comes from small private companies. They call 'em SMEs. All tax revenue growth in China comes from those things.

01:18:40;09 There are problems, there are a host of problems associated with it, all the way from water and air and-- and-- how do they get working capital

financed to the SMEs, and state-owned companies borrowing money from the big banks and so forth? But the fact is, for many of the folks in China today, China is a more free market, more competitive economy than the U.S. is. That, if you go there physically with your own eyes is what you'll walk away seeing. There is one party that's in power. It's a party that operates under strong consensus.

01:19:19;17

It's not one person, it's a countable number of people that are-- that have made an enormous increase in living standards in the last 30 years. For-- taken a half a billion people out of poverty. The per capita income in China today is \$4,700. Unofficial numbers are \$7,500 purchasing power adjusted. Here it's \$47,000. They got a long way to go. So if you talk to a Chinese official, and I-- I know these folks, if you talk to them, the only que-- the only word that comes up in every conversation you have with a Chinese official is stability.

01:19:58;04

Because to get from where they are today to living standards that-- that look like the rest of the world, (COUGH) even at high growth rates is another 30 to 50-year job, and I don't think anyone believes that these 10% growth rates can be maintained for-- for a very, very long time. Because they use the same copper and aluminum and steel and oil and natural gas everyone-- everyone else does.

01:20:23;21

So one of our problems I think, I had this problem before I went there, is that I had a picture in my head of the Chinese economy and the Chinese politics and Chinese society that was a grey jacket, a red book, and a bicycle and Mao Tse Tung. That picture folks is wrong. It is just not what's goin' on there today.

01:20:47;13

They're-- they're different than us. You may not like their government. I don't especially like their government. But-- the fact is, there's a

billion and a half of 'em, and they're conducting policies to try and make something continue on for some period of time-- measured in decades, not in weeks, months, or-- or years.

01:21:07;14

So in that extent, where can I find a way to agree? I-- I can agree that they have a tribe that's different than my tribe. Right? There's a huge amount of anthropology research that says that people have survived because of their tribes and are immensely loyal because of it. People get in fights over it and they have wars over it. So tribes are really important. They're not-- they're not me, but the-- the fact is, they're not goin' away either. And so I have to find a way to understand them well enough to deal with our relations so that my children and their children can grow up and sn-- not only survive but-- prosper at the same time.

01:21:51;24

And I think it's very important to do that, to have a very clear, granular picture of what's

really going on, and not generalities. Any time I hear any statement, (COUGHS) whether it's about, you know, this is what Arabs are like. I remember the-- I've been 100 times to the Persian Gulf. People-- people told me what-- what Arabs are like. Well, there aren't Arabs. There's Mohammed. He's a guy, right? Chinese are the same. You don't-- there isn't a Chinese, there isn't a China.

HENRY TANG:

01:22:21;11 There's a billion of 'em.

DR. JOHN RUTLEDGE:

01:22:22;07 Yeah, there's-- there's--

01:22:23;08 (OVERTALK)

JOHN YEMMA:

01:22:25;07 Best way to think about that is to just say, what do Americans think?

DR. JOHN RUTLEDGE:

01:22:30;20 Right.

JOHN YEMMA:

01:22:32;06 You never know, right?

DR. JOHN RUTLEDGE:

01:22:33;05 They think lots of things, right--

JOHN YEMMA:

01:22:33;19 None of us would accept Americans think a certain way.

HENRY TANG:

01:22:36;08 But the one aspect of it, and-- I'll engage in a little sociology here for (UNINTEL) John is, one aspect of-- of Chinese existence that's very, very important is the preservation of the unit. The unit may be family, it may be community, it may be-- a province, or it may be country and state. And that is the invisible glue, preservation of the unit.

01:23:06;18 With-- question was asked here, what is it that causes all-- all the-- the-- the disparate people, 1.3 billion of 'em to march in the same direction? It is because going back to that 1840 concept, it is because people are focused as a unit on a common goal. And that is what China possesses.

BRUCE BOND:

01:23:29;10

Well, one of the themes that we've been-- we've been hearing here is this sort of notion that the challenges that we've got-- w-- w-- we need to get better at the understanding game. And so when we understand each other better, then we're able to play the game, to your point Alan about being able to say, okay, we need the people that can, you know, play by the same rules, if we're gonna be successful, and vice versa.

01:23:50;09

But, so there's the relationship aspect to it. But then there's basic economic principles in play here. And-- and there's a large p-- growing view that this tremendous economy that has been booming all along is headed for a collapse, because the basic laws of economics dictate that one cannot prop up an economy-- as it has been held up at this point. So my-- my question that--

HENRY TANG:

01:24:15;24

Are you talking about ours or theirs?

BRUCE BOND:

01:24:17;06 Theirs. (LAUGH)

JOHN YEMMA:

01:24:18;15 We've already found ours doesn't stand up too well. (LAUGHTER)

BRUCE BOND:

01:24:21;24 The-- so the-- the question here is, let's assume that happens for a minute, you know, and-- and what is going to-- and there are a number questions along these, that basically went to this point. You know, what's gonna happen as a result? And there are a few categories.

01:24:36;14 So one of 'em is, you know, the obvious economic impact. The second is, what does that-- what kind of impact does that have on things like human rights and the environment, right? The notion that while things are going along, there's an opportunity to engage and improve those areas, but once we have real trouble in China do, you know, the wheels come off the bus and we revert to a situation where there's actually a military

problem, maybe a threat to Taiwan or something along those lines. What do we need to worry about, if in fact, this bubble bursts?

HENRY TANG:

01:25:08;10

There's another aspect of cooperation and opportunity. For the last two hours, we've concentrated on the economy and the future of Chinese businesses and American businesses. But there's an opportunity here for partnership in-- the areas of terrorism, maritime par-- piracy, the environment.

01:25:31;20

All of these other noneconomic joint venture projects really would make it much easier for us, and they are very, very costly to our economy. And ultimately, one day maybe even-- an opportunity to not worry so much about military needs just in case something happens in China--

JOHN YEMMA:

01:25:53;16

But what are the-- can you give us three or four examples? So the non-- economic joint venture projects like?

HENRY TANG:

01:26:00;06 Like the environment, like pollution, like--
terrorism, anti-terrorism.

DR. JOHN RUTLEDGE:

01:26:06;21 Energy. Energy is a big one--

HENRY TANG:

01:26:07;23 Energy savings, et cetera. There is a whole
plethora of joint venture projects, some of which
may have economic benefits-- indirectly. But that
is also in front of us, so we must engage
ourselves in joint partnerships. Not only with
China. Before we talked about the world's
population going from 6 to 9 billion. There's not
gonna be another 3 billion Chinese. But there
will be from the Middle East, from Africa, and
various other places. And so we-- we need to be
able to refine our toolkit-- to do this--

JOHN YEMMA:

01:26:42;01 A good example of your cooperation would be the--
the-- North Korean cooperation two years ago--

HENRY TANG:

01:26:48;24 Exactly, right.

ALAN TONELSON:

01:26:49;24 And yet, that's a great example of where I think the evidence is clear. We received absolutely nothing from China. Absolutely nothing. (COUGHS) We've seen North Korea go nuclear, and the Chinese seem to think, hey, it's not our problem, it's your problem America. We're not gonna do a darn thing.

DR. JOHN RUTLEDGE:

01:27:09;24 That's-- that's a pretty high-level view. I mean, can I get more granular with that?

ALAN TONELSON:

01:27:14;10 Well, okay, you get more granular, and I may stay high level, and we'll meet some place maybe in between.

DR. JOHN RUTLEDGE:

01:27:19;17 Okay. There are some facts here, right.

ALAN TONELSON:

01:27:22;05 There are indeed.

DR. JOHN RUTLEDGE:

01:27:23;01 Summer before last, the-- there were talks going on in Beijing. At those talks-- China took the

role of securing the energy documents, the nuclear documents from North Korea. Why did they play that role? In Chinese history, Kim Jong-Il's father fought in the Revolution alongside Mao Tse Tung. He is a historical hero in Chinese-- in Chinese history.

HENRY TANG:

01:27:50;15

Folklore.

DR. JOHN RUTLEDGE:

01:27:50;24

There's a bond there that's very difficult to-- to-- that has to be dealt with. That put them in a position to try and actually make an advance in these negotiations. They ultimately got the information. And that summer actually, a cooling tower was brought down to great fanfare from the military, or excuse me, from the media.

01:28:13;07

That same summer (THROAT CLEARING) that was in June of that summer. That, later that summer-- Kim Jong-Il actually was taken out by-- a stroke. He had-- he had serious medical issues. One of them is diabetes. He had a stroke. Doctors were

brought in to try and deal with it. During the period he was out of action, the country was run by his brother-in-law. I know the-- I was there, I know these guys, right. His brother-in-law is the brother of the leader of the Army. The-- there was a very near positive opportunity for the military to take over the government from Kim Jong-Il and his thugs. It failed, because he-- he got back up again. I was there--

ALAN TONELSON:

01:28:59;24

John, you've-- I think you've-- you've got a much clearer picture of what's going on inside North Korean ruling circles than our own CIA. But-- but be that as it may-- let's get a little bit less granular, and let's point out, North Korea--

DR. JOHN RUTLEDGE:

01:29:12;19

I don't-- I don't understand-- what you mean--

ALAN TONELSON:

01:29:13;20

--has got nuclear weapons. They-- they-- they have got nuclear weapons. There is no progress toward a denuclearizing North Korea. China has decisive influence over North Korea's economy.

And China has barely lifted a finger. So I don't see a heck of a lot of U.S.-- of U.S.-China-- cooperation here. I mean, I'm looking at th-- at the bottom line more important than that grain of sand that I think you're-- that I think you're focusing on.

DR. JOHN RUTLEDGE:

01:29:39;06 You're-- you're looking for a solution to be driven by China in a short period of time--

ALAN TONELSON:

01:29:45;12 It's been a while-- it's been a while-- it's been a while--

DR. JOHN RUTLEDGE:

01:29:46;06 --to your expectations. What I'm suggesting is--

ALAN TONELSON:

01:29:48;11 Well, it's actually the whole region that--

DR. JOHN RUTLEDGE:

01:29:49;22 --there's history-- there's history in the expectations--

JOHN YEMMA:

01:29:52;24 John?

ALAN TONELSON:

01:29:53;16 And I'm in the--

01:29:54;21 (OVERTALK)

JOHN YEMMA:

01:29:57;07 Why don't we go one at a time. Maybe North Korea is a little bit of a different.

01:30:00;18 (OVERTALK)

JOHN YEMMA:

01:30:01;23 It's-- it's important, but it's-- it's an entire topic--

DR. JOHN RUTLEDGE:

01:30:02;23 But-- but it's-- but it's an illus-- it's an illustrative issue, because there are many legitimate differences of needs, desires and objectives between the U.S. and China. This is in-- this is one of 'em. And in those, we-- we have to find ways to solve those too.

01:30:20;00 And the energy supplies is-- is one of those-- examples that we're gonna confront increasingly in years-- in years upcoming. Those solutions are not gonna happen fast. They're not gonna happen

when we want them to happen. They're not gonna happen for our satisfaction. But China's in a position where they can and on occasion do things that actually help us with some-- with some of these situations. And North Korea is one--

ALAN TONELSON:

01:30:46;20 John, while we'll talking North Korea, I don't think time is on our side.

BRUCE BOND:

01:30:49;17 I'd like to co-- we have time for one more question, and I'd like to, if we can, direct this to Henry. The question here is about-- there were-- there are a lotta questions about human rights in China. And-- and really-- it-- there's an expression, different-- different views of how serious the problem is.

01:31:08;24 And from your perspective, what are-- what is the Chinese government at this point, what is the priority, if you will, in their view as to-- addressing this issue? And what is your hope for--
- improvement in this area over the next, say,

five to seven years?

HENRY TANG:

01:31:28;16

First of all-- as I mentioned before, I speak from an American perspective. And share the concerns and empathize with the struggles of some of the human rights questions. Once again, I'm not a sociologist, but I-- I need to make these reference points.

01:31:47;11

Ask everyone to pull back the lens. We in the West, especially here in America, see freedom of speech and-- freedom of expression as paramount, which is as it should be. But going back to what I mentioned just a moment ago, in China and Asia, but especially in China, the yu-- we need to examine it, understand it, observe it, not necessarily so-- of course not necessarily so we'd be in agreement with it. But in China, the unit, the importance of the unit-- you can get sociologic while you ask a lot of-- not many Chinese divorces out there.

01:32:34;00

But it's because of the unit. It's not because that they're so exceptional in their-- in the-- in their marriage relations. And if you take something as simple as that, and-- and-- and-- and expand it nationally, then you understand the Chinese-- perspective of the unit and unity. Some of the people who've spoken out, some of them have household names. We won't get into them. But-- they have made some interesting points.

01:33:07;23

I personally have family with Hong Kong roots. A lot of it was there. It was during the turnover, there was a lot of it at that time as well. Continues to be. And some of it is-- is valid. But however, from the authorities, it is seen as disturbing the unit. Because of that common vision of where they want to go in this renaissance modernization. And that is what it is about now. Beyond that-- talking about it, as I've mentioned to other people, it's a little bit like talking about atheism. There is probably no final answer to it.

JOHN YEMMA:

01:33:48;09

But just-- just to-- John had earlier talked about-- the generational differences. In the younger generations, maybe Henry, you can address this too. In younger generations, do you find the same sort of reverence for the unit and the feeling that-- dissent and freedom of speech and artistic freedom-- as we've just seen, that-- that those are held in the same regard as say, with older generations?

HENRY TANG:

01:34:15;16

These are-- are expressions of, we would call them on a lower level, dissenting opinions, good, interesting points of disagreement. Agree to disagree. These protests are not intended to attack the unit. And therefore, we in the West need to sort of understand and appreciate that.

01:34:36;24

We do spend a lot of-- of our energy trying to understand China in that context. And I would say almost of all of the protest movements out there, none of them, maybe with a small percentage

possibility-- at the Tiananmen incident in 1989, but none of them were attacks on the unit or the unity. They were just personal expressions of disagreement with whoever, an authority figure, a ruling or a policy.

JOHN YEMMA:

01:35:14;13

But yeah, but well, on the other hand, China's-- China's government still doesn't want to tolerate them. It arrests people and puts away dissidents. And so whether it's a small protest (COUGH) that isn't really attacking the unit or not, there're still people who are taken to prison exerg--

HENRY TANG:

01:35:31;07

I'm not here to defend what China does. I'm just explaining the perspective that people look at it, all right.

DR. JOHN RUTLEDGE:

01:35:39;20

Can I speak to that as well? Which-- which says basically, these cultures are somewhat different. There's a Confucian tradition that you're-- that you're describing. We-- we hear about human rights issues in-- in sort of two ways here. One

of them is the-- Chinese government censors the internet. Isn't that a terrible thing?

01:35:57;17

They-- Chinese leaders, if you sit in-- in a private room with them, would love to control information flows in China, because stability, stability, stability is all that matters, and they don't want anything to mess with that. The fact is that, there are 500 million mobile phones in China, all of which text message, and there are somewhere between 20,000 and 50,000 people in the government trying to control the information. So do the math, you know?

01:36:24;06

What happened-- four years ago, there was an oil-- there-- there was a toxic chemical spill in Harbin, which is up against the Soviet border. It was the-- the joke was coming down the river on the way to Russia. The local official covered the story up, because the local official doesn't want to get punished by the Beijing government.

01:36:42;15 The kids along the levees along the side of the river broke the story with text messages, which got outside to the media, came back into Beijing, got them to Harbin, and got the official fired. So I don't-- I would not want to have the job of trying to control information flows in China. They're gonna lose-- they're gonna lose that war over a period--

HENRY TANG:

01:37:05;16 What was that? That was a complaint against an incompetent official, all right?

DR. JOHN RUTLEDGE:

01:37:11;07 Ec-- ec-- and a dangerous situation.

HENRY TANG:

01:37:12;20 It was not an attack on unity.

DR. JOHN RUTLEDGE:

01:37:14;24 No I-- I-- that's not what I-- that's not what I--
-

HENRY TANG:

01:37:16;18 No, but I'm-- I'm-- I'm going back to that basic point. When you analyze each one of these incidences, there is a protest (COUGH) against

someone--

DR. JOHN RUTLEDGE:

01:37:25;10

But there's another form of human rights issue that's different than that one that we don't hear much about. In-- in China, the link between the central government and the city governments is not very tightly formed. And there's an enormous amount--

HENRY TANG:

01:37:39;24

They're competing-- they're competing oftentimes.

DR. JOHN RUTLEDGE:

01:37:41;09

They-- ab-- absolutely. They-- there's an enormous amount of local government corruption. That corruption itself is a source of instability, so you see a lot out of the Beijing leaders trying to su-- stop it or suppress it, but it's there.

01:37:55;22

The 100,000 disturbances last year recorded by our State Department in China were almost all-- disturbances of people protesting local governments stealing things from them. Land and

other kinds of resources. And there are worse human rights abuses than that, having to do with medical industry and so forth. So I wouldn't want to defend that in any way. I--

JOHN YEMMA:

01:38:16;20 Tainted milk, all that sort of thing.

DR. JOHN RUTLEDGE:

01:38:18;04 Absolutely, but-- but the-- the-- the mobile phones are in the hands of half of a billion children in-- in China, which is a great-- great way, some of that information can--

HENRY TANG:

01:38:29;18 It's a leveler. It causes these maladies to be addressed.

DR. JOHN RUTLEDGE:

01:38:33;24 It helps.

JOHN YEMMA:

01:38:34;15 One small-- one small redirect from Alan, and then I think we'll have to wrap it up.

ALAN TONELSON:

01:38:38;15 Right, the reason you haven't heard-- heard a lot from me about human rights tonight is because I

would much rather American policy focus on various areas of the U.S.-China relationship that we can hope to control and that we need to control, than areas where we have very little influence-- and where U.S. vital interests are really not at stake.

BRUCE BOND:

01:39:00;15

Very good. Well, we could talk about this topic for a long time. So-- at this point, I'd like-- Kraft and John, do you have some closing comments you'd like to make?

JOHN YEMMA:

01:39:09;10

You know, what-- what I would say, I think Kraft, and Kraft's gonna be working on this matrix. We're gonna be posting it, and so you'll be able to go to the Common Ground Committee site, CommonGroundCommittee.org, and see this in a more finalized form. And then we're gonna try to-- review this afterwards and extract some meaning out of it. And-- see if we can take it-- to another place. What do you think, Kraft? (THROAT CLEARING)

DR. KRAFT BELL:

01:39:33;16

It sounds to me like a lot of what we've been working through here is, if informing U.S. policy a coupla things happen. One is, there's not a good understanding of each other. So the exchange kinda things that people talk about are not just superficial. They're-- they're personal, they're relevant.

01:39:51;20

And so there's-- a piece of this puzzle that has to do with Americans who are in this country in charge, the voters, that they need to be informed, aware, have contact, understand some of these things. It doesn't mean they're going to agree. It doesn't mean that they're gonna buy into it. It means that when they hear things, they'll understand it in its proper perspective, and so then when you have politicians who take them outta context and then use 'em to demagogue, you have an informed population that can-- can better focus on it.

01:40:22;17

So it sounds to me like a number of the things you talk about is how to get that rational dialogue, how to get the sharing of information, and at the same time, having-- you know, we keep talking about the adult relationship with the United States. I mean, that's part of what we're talking about here is that, instead of me dealing with a caricature of what a Chinese-- what Chinese policy is, we deal with what's really there, and we get the people who can negotiate understanding it. And that was your idea of getting people, Chinese Americans more involved.

01:40:50;24

But there are things that we can do that can-- can make these crucial issues that have to be dealt with, you know-- I remember Reagan used to talk about the accountability, you know, when he went to Reykjavík and all of it, that you really do not only have to stand firm, but you have to hold accountability and you have to check and make sure that what you're agreeing to is in fact in our best interest. So I think there are a

lotta points there that-- that I bet--

JOHN YEMMA:

01:41:14;05

That's a good syn-- I-- I think that's a great synthesis of it, Kraft. That's excellent.

HENRY TANG:

01:41:17;18

To-- help-- the American public-- understand China better, I've been having in my hand this book-- during the evening, and I recommend it. I have no financial interest. I didn't write it, unfortunately. But it's titled, *China In The 21st Century: What Everyone Needs to Know*, by Jeffrey wanis-- Wasserstrom. It's a series about two th-- about 300 questions, and it starts with, who is Confucius, going all the way to the last question, what will happen with the state of U.S. relations with China? And I recommend it very highly--

ALAN TONELSON:

01:41:49;00

I'm glad you (UNINTEL). (LAUGH)

JOHN YEMMA:

01:41:50;14

Good recommendation.

BRUCE BOND:

01:41:51;12 Wow, well that's very good--

JOHN YEMMA:

01:41:52;19 Bruce, any last? (APPLAUSE)

BRUCE BOND:

01:41:53;22 Yeah, so just a couple close-- first of all, I think in the synthesis, we got an idea about the-- the principle of understanding that's fundamental to finding positions of common ground. That's what we were attempting to-- get to tonight. I think we were successful in some ways, less so in others. That's the nature of this process.

01:42:10;05 We'd like to thank all of you for joining us tonight, attending. Those of you who would like to, in fact, all of you, we'd very much like you to make sure you set, you give us your contact cards, 'cause we'd like to invite you to our next event in October. Thank you so much for coming out tonight, those on the web, thank you for tuning in, and we'll see you all next time.

JOHN YEMMA:

01:42:29;02

Thank you. (APPLAUSE)

* * *END OF TRANSCRIPT* * *