

## China 2025: Panel II: China Goes Global

**Panelists:** Michael A. Levi, Senior Fellow for Energy and the Environment and Director of the Program on Energy Security and Climate Change, Council on Foreign Relations  
Adam Segal, Maurice R. Greenberg Senior Fellow for China Studies, Council on Foreign Relations  
David Shinn, Adjunct Professor, George Washington University  
Evan A. Feigenbaum, Senior Fellow for East, Central, and South Asia, Council on Foreign Relations

**President:** Sheila A. Smith, Senior Fellow for Japan Studies, Council on Foreign Relations

*October 19, 2009, Washington D.C.  
Council on Foreign Relations*

For event videos, please visit <http://www.youtube.com/Project2049Institute>

---

SHEILA A. SMITH: Welcome, everyone. This is our second panel discussion. Good morning, and I am delighted to be here with four China experts, China observers. We have a lot of ground to cover in this panel, so I'm going to try not to speak too much and just introduce everyone here who has an awful lot to share with you this morning.

I am just back, literally last night, from Tokyo, where Richard Haass and I spent the week with Japan's new government talking to them about global issues and also about the rise of China. It's a particularly interesting moment to sit in Tokyo and look at the region and look at China. The new Hatoyama government is quite energized in its diplomacy towards Asia, and I think it sees the rise of China as one of its fundamental challenges over the next decade.

We can certainly talk more about Japan, but this panel is about global issues and how China today is not just Asia's leading power, it is one of the world's leading powers. And no matter what issue we discuss, we have to think diplomatically about where China stands on that issue and also where China is going to make decisions.

So to help us understand some of the fundamental decisions, I'm going to start first of all in the functional areas. First with climate change with Michael Levi, and then on economic competitiveness in technological innovation with Adam Segal. And then we'll move over to some of the regional implications.

Some of the areas in which the United States doesn't often think of having to contend with China. Ambassador Shinn will help us understand China's engagement in Africa, and then we'll wrap up with Evan Feigenbaum talking about Central Asia, but also the other peripheral areas in which China's choices matter greatly to the United States.

So without further ado, I'm going to ask our speakers to spend seven minutes. I know it's going to be very hard, but I will try and keep them to that limit.

Michael, you first.

MICHAEL A. LEVI: Well, thanks, Sheila.

It's good to see so many people here this morning. I'm going to make five basic points about China and climate change both to understand what they're doing at home and how that relates to how they engage with the rest of the world.

The first, I think, is obvious to everyone here. There's no solution to climate change without China. China is responsible for about 20 percent of global greenhouse gas emissions. It is projected to account for about half of the increase in global emissions through 2030. It was 10 percent of global emissions in 1990, it's about 20 percent today, like I said. It's projected to be 30 percent, if it goes along business as usual, by 2030.

It's also essential to a global solution because of concerns about competitiveness. If emissions are reduced, if emissions are regulated in much of the world but not in China, some emissions-creating activities will relocate to China -- that's an overstated claim sometimes, but there is some truth to it. And regardless of the substantive truth, it's widely believed, which means that to -- for emission cutting efforts in developed countries to be politically sustainable there need to be strong and visible efforts from China as well.

The second basic point is that China is doing considerably more than a lot of people in this country assume or believe when it comes to climate change. They released their first national plan for dealing with climate change in 2007. It was a serious plan, it was a comprehensive plan, and it was a useful foundation for discussing the issues. Without a basic idea of a broad strategy, it's very difficult to engage a country on this issue.

We've seen that for example with India where there isn't a particularly coherent national climate strategy, so it's been difficult to have particularly substantive discussions. I won't go through all the things that were in that, but there are some basics that are important. They set a goal -- the goal was set earlier and reiterated there of cutting emissions and energy intensity -- energy used to produce a unit of GDP -- by 20 percent during the 11th five-year plan. They won't make that goal, but they'll come a considerable way.

It's backed by a series of specific policies, for example promoting more efficient coal plants, increasing vehicle fuel efficiency, removing fuel subsidies -- some of these policies have been developed over time -- and financial incentives for efficiency in heavy industry. So really, a range of different policies.

The other important thing is that even though there is a climate strategy there, it wasn't done for the sake of climate. It was done because there are a series of incentives that exist in China that aren't about climate but that quite frequently do line up with steps that are good for climate change. There are public health considerations. The need to reduce local air pollution.

There are economic incentives, particularly on the efficiency front -- increasing the efficiency of industry, of power generation, of vehicles -- but also on the economic front when it comes to creating an environment for developing advanced technologies that might be exported, and also

in shifting away from some of the heavy industry -- export-oriented heavy industry which is very capital intensive but not very labor intensive and for a government that cares about employment, it is not necessarily the most useful thing.

There's a third place where the incentives sometimes align and that's on security, particularly in moving away from foreign oil and to some extent reducing reliance on imported gas.

So I've just tried to explain a bit about why China is doing more than a lot of people believe. Now, let me tell you why China is doing less than a lot of people claim as well.

Firstly, targets are targets, they're not outcomes, and while they're useful for guidance, in a lot of cases China has great difficulty both getting the policies in place to meet those targets, but also following through on those policies, especially when they need strong administrative or enforcement capacity to follow up.

I can tick off a whole host of areas, for example, efficiency in buildings. I can look at another area that gives -- where there's really solid evidence on environmental fronts. China has been very successful at getting power plants to install scrubbing equipment, but not very successful in getting them to actually operate it and ultimately it doesn't have much of an impact if you have one but not the other.

There's also a lot of hype about how China is eating our lunch on clean technology, and by the way I describe that, you can see something about what I think of it. I think there are a few misunderstandings underlying it.

Firstly, it confuses their production of equipment with their use of it. Just because you're producing solar panels does not mean that you are using them. It also is due in part to us being a bit overwowed by big numbers. All numbers in China are big, so when China is making a lot of wind farms, a lot of solar panels, a lot of this and that -- it doesn't necessarily mean that it's up to the task that we need to have met.

And the other is on the innovation front. A lot of the time where China is really moving is on the manufacturing side. They are producing a lot, but if you look at the innovation side, if you look at patents, for example, in a lot of clean technology areas, they are not in China. They are not being produced in China and so there is still that divide.

Let me say a couple of quick words now about how this intersects with the international level, because I've talked about the domestic front in China and there's a reason for that, because I think that's the locus of where most of the action is going to be coming from.

Todd Stern, the U.S. climate envoy, likes to say that the Chinese and several other developing countries are willing to do considerably more than they are willing to agree to do. I think that's absolutely right, and this is an important frame to keep in mind when you think about China on this issue.

If you look at the Chinese stance for example in UN climate negotiations, you'd be hard pressed to understand exactly what they are doing on the issue because there's a real disconnect. They

seemed to have made a fundamental decision that their alignment is still with the G77 in that area. They focus on things like extracting cuts of 40 percent of emissions from developed countries, getting those countries to put up 1 percent of their GDP for climate assistance, things that aren't going to happen, but that look good to their friends in the developing world.

And, again, I contrast that with India's move more recently. The Indian Environment minister coming over the weekend, not intentionally, but saying their lot lies with the G20, not the G77 in the international climate negotiations. China seems to have cast its lot with the G77. They'd be more constructive in a bilateral setting with the EU in increasing with the U.S., but ultimately there are limits to what can be done in those forums.

The last basic point, which has come up as a theme throughout here. For China, climate is at least as much an issue of governance and of regulatory capacity as it is of interest and ambition. I talk a bit about how the interest often aligns, but that does not mean that they can necessarily execute. If you look at projections of what it would take for them to meet the goals of the world's needs, they could probably do them at roughly net zero cost, but with a considerable amount of effort, they need to move capital flows around domestically, to move investment patterns, things that are challenging and difficult for them to pull off.

This is not just a matter of technical capacity. It's a matter of legal capacity. It's a matter of governance, political systems that allow you to actually have environmental laws passed and enforced and followed through on, and it's also an issue of central versus provincial and city control.

We have this image often as China as having a very strong central government that makes all these different things happen. On energy, that's really not the case. There is a trend toward a little bit more central control, but ultimately decisions are made at a decentralized level, which makes it very difficult for China to engage at the international level.

SMITH: Perfect, Michael. Thank you so much for setting the pace very well. Thank you.

So can China innovate is one of the big questions we have to think about, and, Adam for that.

ADAM SEGAL: Thank you very much.

So if I'm going to summarize the next seven minutes in a bumper sticker, it is: "China has embraced the global science and technology system. It is not set to make profound changes on the kind of global innovation system, but it is clearly shaping it in important ways."

So embrace, shape, but not profoundly change. China, along with the United States and India, has been e the biggest winners with the globalization of science and technology. If you look at foreign direct investment it has been the primary source of technology transfer since the mid '90s, more important than technology licenses. China has taken advantage of the disaggregation of production and research and development that has shaped the multi- national.

So you look at the growth of multinational R&D units in Beijing and Shanghai and other places, and now China can take advantage of the haigui - the returnees, Chinese ex-pats who spent 10

or 15 years at Intel or 10 or 15 years at Yale and have decided to go back and either set up their own labs or set up their own companies and the venture capital is following all of that. So money is beginning to go there.

So China has clearly managed to leverage this new global disaggregated system of research and development. I don't think it is poised to become a technology super power within the next two decades. As Michael mentioned their numbers are massive. Spending on R&D has gone from 0.5 percent of GDP in 1995 to 1.5 percent now, to a goal of 2.5 percent in 2020. Massive investments in nano-technology, biotech, clean energy, other areas that the Chinese think are going to be key competitive areas, and the Chinese have the advantage of a massive market and increasingly sophisticated consumers, especially in areas like cell phones or semi-conductors.

All of that said, innovation is more than just spending, and what the Chinese lack now is the social and political systems required to move an idea from the lab to the marketplace. The Chinese realize this. They're looking at university and industry cooperation. They're looking at how you support venture capital, how you support small start-ups, how do you deal with the coherence of scientific data, but these things all take time and these are more social and political decisions than they are actually economic decisions.

They are clearly, though, shaping the international and science technology system and they're doing that primarily in four ways. The first is in intellectual property rights and clearly China is still a major problem in the protection of IPR, but the Chinese are also moving up in their own patents. If you look at the WIPO, the World International Patent Office, the Chinese have moved into the top ten incredibly rapidly.

The second area is Chinese companies "Going Out". They are increasingly competitive in certain acquisitions sectors and they will be focusing more on mergers and acquisitions in technology sectors. Right now, the Chinese are driven primarily by resources. We've seen some type of allocations in Huawei and Lenovo -- but that is going to happen more because this is a very quick way for the Chinese to develop capabilities and marketing in other areas.

The third area is espionage or cyber espionage, that the Chinese are clearly sucking up a lot of technology in the west in many ways. Some of it legal. Many of it illegal through spying, through cyber espionage, and that clearly shapes the global S&T (science & technology) system.

And the final way is the Chinese have embraced a very open system of technology development, but their ultimate goals still remains techno nationalist. These focus on what the Chinese call indigenous innovation. Chinese companies in the driver's seats; Chinese companies want to own the intellectual property rights and they continue to experiment with different ways of how do you make sure that it's Chinese companies that own this IPR. We saw this in standards for WAPI, for Wi-Fi. We saw it in the use of taxation for semi-conductors. The anti-monopoly bill is being used probably against technology companies, so still a very sharp focus on the Chinese ownership of technology.

So just to repeat my bumper sticker, embrace, not profoundly change, but profoundly shape.

SMITH: Thank you, Adam.

I think we'll shift gears a little bit now and move from some of these functional areas into regions or the world where Chinese activism or Chinese decisions are really fundamentally challenging U.S. options as well.

On that position, David, start in Africa please.

DAVID H. SHINN: Thank you very much.

I'm going to look at this from the standpoint of an Africanist, not a Sinologist, although I've had to learn something about China in the last five years.

There are essentially four Chinese interests in Africa today, and because interests by definition are either medium term or long term, I would suggest that all four of these are trends that you're going to see well into the future in terms of the China/Africa relationship.

The first is access to natural resources: oil, minerals, timber, some other lesser commodities. China is very much interested in these for purposes of continuing to fuel its rapidly growing economy. The second is the need for political support of governments around the world, and in the case of Africa, 53 of them. That's more than one quarter of the membership of the United Nations.

The Africans have frequently been supportive of China in international fora, going back many decades.

The third is a related one, and that is to eliminate Taiwan's diplomatic presence in Africa. We often forget about this. There are only four countries out of the 53 in Africa which still recognize Taiwan, but China spends an inordinate amount of effort to remove those last four. It may cooperate economically with Taiwan interests in Africa, but politically they want that terminated because of the One China policy.

And fourth is more of a potential than an actual interest, and that is the desire to export more to Africa. Today, Africa constitutes only three percent of China's global trade, not very much. For China that's not huge. For Africa it's quite large; it's a much higher percentage. But the goal is as the Africans become richer to try to export more Chinese goods to Africa, and China's doing quite well already. China is the second-most important trade partner of Africa today after the United States, and it will probably surpass the United States next year.

Now in terms of looking to the future, I want to look at some of the changes that China faces. Before doing that just extrapolate a couple of issues that flow from Chinese interests. One is the continued emphasis by China on emphasizing state sovereignty and what that implies in terms of international relationships. China uses a state- to-state focus in its relationships, very good relations with the governments of Africa and much less concern about all the other elements of society in these African countries. And I think that's probably true around the world. I see this trend continuing in the case, certainly, of Africa.

Another is probably not paying an awful lot of attention to human rights issues and democratization issues. That's not China's forte; it's not going to be seen as a key part of their

policy in Africa. China by and large puts that in the state sovereignty category; it tries to ignore those kinds of issues. Another issue that I think is going to loom in the future is the full desire for greater naval security, particularly in the Persian Gulf and the Western Indian Ocean area. You have very important oil and mineral resources traveling along those routes. The Chinese are subject to American naval protection now, and I think you're going to see an increased interest in extending Chinese naval ability into these areas all the way to the East African coast and including a number of the African countries in the Western Indian Ocean.

Looking at the challenges: In some cases you're seeing progress, and in some cases you're not. Civil society is more developed in some African countries than it is in China. This is an area for concern by China, as it deals with the African countries. It has to figure out a better way to deal with those African countries that have strong civil societies, like South Africa, Kenya, Botswana. There is a fairly lengthy list of them actually. It's struggling with this. It understands that it needs to do better and it really is trying. It's interesting to see China learn in the African context, but it still is struggling because it just doesn't have that much experience with its own civil society in terms of how to deal with it in a collaborative way. So it's an issue to watch.

A similar kind of issue is corporate social responsibility. This is not a strength in China, obviously, but they're learning that some of the African countries have stronger interests in corporate social responsibility than Chinese companies are used to. They're having to grapple with it, and they're struggling with that one too. But again you're seeing them grow in the job, as it were, and improving their situation in terms of more attention to corporate social responsibility. Related to that are issues like worker safety, paying the African minimum wage, issues that are not all that important in China.

So when the Chinese go overseas and their state companies or private companies grappling with the same kinds of issues, they often run into problems with poor worker safety standards, like the explosion at a Chinese mine in Zambia just due to negligence. This causes an awful lot of outrage among those people who are affected in Africa. The Chinese understand, again, that they have to improve on this score, but it's going to be a long slog for them in order to get up to the standard of even a few of the more progressive African countries.

The Chinese, obviously, are not strong in dealing with opposition political parties and labor unions. Labor unions are not that strong throughout Africa, but they are strong in some countries. If you haven't figured out how to deal with labor unions in your own country, you're obviously going to have a problem dealing with them in the African countries.

The Chinese again understand, particularly as a result of a major flap over textile exports globally, but particularly to Africa in undercutting the African textile industry, that they got into an awful lot of trouble in a number of African countries, particularly South Africa. They have to figure out a way to deal with that and the influence of labor unions.

Dealing with opposition political parties is another challenge. Again, it is not a strength of China. Not all African countries have opposition political parties. Many of them don't, but some do. If you have important opposition political parties you need to figure out how to grapple with them, and China is working its way through that. In some cases they have made some progress on interacting with opposition political parties.

So the list is a fairly lengthy one and I'm probably running out of time. I'll just mention a couple of other items. One would be the sale of faulty products, adulterated medicine, and lead-painted toys. If it happens in the United States you can be assured that it happens big time in Africa. How do you deal with these kinds of things? What is one doing about it? There are a whole series of issues out there that China has to deal with.

SMITH: Thank you very much.

Last, but certainly not least, Evan, who's going to talk to us not only about Central Asia, but about China's relationship with other countries on its periphery.

EVAN A. FEIGENBAUM: Okay. So shifting to another region of the world. There's so much debate these days about China as a maritime power. But we need to remember that China has, for centuries, been a continental power as well. And, I guess, since Adam gave you a bumper sticker I'll give you a bumper sticker too. So the bumper sticker for Central and South Asia, which is another way of saying China's continental periphery, is that China, kind of like an aircraft carrier, is having this huge displacement effect. It's introducing all kinds of new dynamics in these regions.

But it's also, frankly, having to make choices in its own foreign policy because of contradictions in these regions that it didn't have to make 10 or 15 years ago, and I'll try and illustrate that as I just give you a little tour of China's periphery. I'll start in Central Asia, then I'll do "AfPak" very quickly, and then I'll do India.

On Central Asia, up until 1991, of course, these countries were part of the Soviet Union. So China's relationships in this part of the world were defined very much by its larger relationship with the Soviet Union. And its objectives there were a function of that larger relationship.

That has changed utterly since 1991 because independence has made possible cross-border linkages that were simply impossible before 1991. So China's interests in this region, you know them well: It's to tamp down dissidence in Xinjiang, in part through cross-border alliances with governments in Central Asia that share China's objectives. There's an energy dimension. And then there's a notion of anchoring Xinjiang into a web of cross-border economic reform.

But if you really want to understand the way in which China has become a player in this region, you have to look at it not from a Chinese perspective, but from a Central Asian perspective and flip it. Because until the 17th century this part of the world was integral to what really passed for a global economy. We all know about the Silk Road. We think of the great caravan trade. After the 17th century, the marginal cost of maritime trade dropped below the marginal cost of continental trade, and in many ways it's been very difficult economically for this part of the world ever since.

And many of the problems that we see in Central Asia today, whether it's poverty or it's underdevelopment or it's dependence on a single point of transit, are a function of that really unfortunate geography. And so China becoming a part of the equation after 1991 had a very powerful effect because it began, in important ways, to reduce Central Asia's dependence on a single point of transit.



So instead of just shipping energy through Russian pipelines controlled by Gazprom and Transneft, you could now ship gas or oil from pipelines in Turkmenistan and Kazakhstan to China. You can do trade across those borders. You can have economic opportunities that were simply unthinkable prior to 1991, and as a result, really bolster the options and opportunities for Central Asian countries themselves.

So I have to tell you, there's a lot of distrust of China in Central Asia, for a lot of historical and other reasons. But in very, very interesting ways, Central Asians like China because it is the geographically proximate counterweight to the power that has been the traditional external power that really has dominated Central Asian life for the last 200 to 300 years. And it's created another point of transit that really has reduced their dependence, frankly, on Russia, in ways that were not the case before.

And so actually, in an inadvertent way -- the Chinese would never define their interests the way the United States defines its interests in the region -- but the United States has very tangible interests in bolstering Central Asian sovereignty and independence and reducing dependence on a single point of transit. And so, in that sense, China is doing things in the region that are very consistent with American objectives, and we can talk about that if you'd like.

Just moving, since we don't have too much time, to Afghanistan and Pakistan -- so moving south.

China has some traditional interests here too and we tend to forget, especially in all the debate about "AfPak" now -- that phrase, "AfPak" -- how long-standing China's relationship, particularly with Pakistan, is. It is a very unique and special external relationship for China.

You know, the interests here are similar to the interests in Central Asia. They flow from the borders; they flow from problems of security and stability.

China with Pakistan, though, of course, has had a secondary interest, which touches its strategic -- I don't want to say competition, but its larger strategic relationship with India. And so China and Pakistan have had complementary objectives that their close relationship has allowed them to pursue vis-a-vis India.

Putting Afghanistan aside for a second, I think Pakistan has been the much more interesting and important place to watch China's relationships in this region for the United States, because China is so well-established there politically, strategically -- its military relationships, economically and otherwise. And I guess the questions that occurred to me are these --

First, we need to remember that the U.S. and China actually have a pretty good history of cooperation, especially in the last decade, in both Afghanistan and Pakistan. On Afghanistan, we remember that it was in the 6 plus 2 -- China was part of the 6 plus 2. After 9/11, China's support for Resolutions 1368 and 1373. Participation in the Tokyo Donors' Conference, the London Donors' Conference, the more recent Hague Donors' Conference. There's a history there. Likewise with Pakistan, the United States and China have talked about Pakistan for a long time. If you remember Kissinger's secret visit to China -- remember he snuck out through Islamabad. So a longstanding relationship, but remember that China is Pakistan's closest security

partner alongside the United States. These are the two closest external security partners for Pakistan. So at a time when the administration is really focused not just on Afghanistan but the larger situation in this region, three questions really occur to me.

The first is, does China share American threat assessments of Pakistan, particularly as American threat assessments have shifted over the last several years from Pakistan's external orientation vis-a-vis, say, the Soviet threat, to the strength and stability of domestic and institutional development in Pakistan. It's my sense, in talking to Chinese, that they really don't share the sense of threat that you hear in the United States. And partly that's a function of close relationships with the Pakistani military, partly it's just the sense I have that they're much more relaxed about the situation in Pakistan.

Second, there's a history of the United States and China talking about developments in Pakistan, whether it's infiltration across the Line of Control, whether it's Indo-Pak competition and military balances and otherwise. But certainly my experience in government was that China frequently water-carried American messages rather than sending complementary Chinese messages. And so one question I have is, as the administration tries to pursue its discussion with China about AfPak but especially about Pakistan, does China see its own objectives in that country in parallel to the way, say, Ambassador Holbrooke defines American objectives? And to the extent that we coordinate, is China simply going to Islamabad and saying, "Here's what the Americans are thinking; here's what the Americans are concerned with," as opposed to, "This is what we're concerned with"? That's going to be a question going forward, and it's been an open question, at least for me, in the past.

And then the third question is, we need to remember that the United States has developed a very special strategic relationship with India over the last few years -- and we can talk about this, if you'd like, as well. And so any time you talk about American-Chinese condominiums in Pakistan or U.S.-Pakistan-Chinese understandings, we need to remember how and in what ways it touches India's equities and our larger strategic relationship with India.

So to conclude, just moving to India.

I think on this we need to -- you've read some of the press lately -- we need to remember, I think, that for India, China in many ways is a first-tier security priority. But for China, India is a second- if not third-tier security priority, as I think of China's hierarchy of security priorities. And that's important because it explains, I think, some of the differential that you see in terms of the Indian press talking so much about China vis-a-vis the Chinese press talking a little bit less about India.

The economic relationship is going like gangbusters. I think if you throw services in, the United States is still India's number one trading partner. But in goods, China's now number one. And so there's a huge explosion in the economic relationship, but an enormous amount of mutual, well, strategic, mistrust on both sides. And the manifestations of that on the Indian side are a sense that China essentially has decided that, to the extent that the next century is an Asian century, it ain't going to be big enough for more than one. And so there is a sense in India that China seeks to tamp down India's aspirations. And we can talk about whether that's true or not, but that is a very tangible perception on the Indian side. And it manifests itself, first, in the way in which China is increasingly moving to the center of India's defense planning, replacing Pakistan, in

these debates in India about the reliability of India's strategic deterrent, whether India needs to test again, what a CTBT would mean for the reliability of India's deterrent.

On the Chinese side, the way it manifests itself really is concern with the U.S.-India relationship. Because to put this very, very crudely -- and I'm going to put this very crudely -- since 1962, I think Chinese strategists have basically decided that they can deal with India on their own terms. But when you introduce the United States into that equation, it introduces all kinds of uncertainties into Chinese planning. And so the U.S.-India relationship has introduced a lot of uncertainties.

So just to conclude: You know, I think we're in for a period of India-China tension. There are things that are ratcheting up on the border a little bit, but I think broadly are tamped down within limits that are set by the political leaderships on both sides. The logic of a settlement on the border is pretty clear, but the political mathematics aren't in place, especially in India, but not in China either. But on both sides, I think, the political leaderships want to keep this within certain limits.

So I'll stop there.

SMITH: All right, Evan. Thank you very much.

If you came into this conference thinking that the rise of China was a one-dimensional phenomenon, certainly this panel should dissuade you of that.

I know we have a much more sophisticated audience than that. So I think rather than me speaking too much up here, I would like to open the floor when I can.

But let me just add a couple of broad comments from each of our speakers. It seems to me that China's capacity to engage globally -- be it functionally or geographically -- will be ultimately determined by its own domestic capacities. And I think each of our speakers highlighted some of the fundamental internal challenges China has in moving forward here.

And I think one of the key issues our conference organizers set forth for us to think about today is not where China is today, but where China is going to be in a decade or a decade-and-a-half from now. So I think with those two suggestions for our conversation, I'd like to open the floor. Please, when you raise your hand, I'll identify you. But if you could identify yourself to the audience as well we would appreciate that.

The gentleman right here in the front, please.

QUESTIONER: Thank you. I'm Tom Reckford with the World Affairs Council in Washington and the Malaysia-America Society.

A question for Professor Shinn on Africa: You could argue that for many African countries, China was welcomed as a new investor because it wasn't a colonial power -- it wasn't Britain, it wasn't France, it wasn't even the U.S.

Is there some backlash developing now against Chinese investment as China repeats a lot of the mistakes that foreign investors from Europe and the U.S. have made in Africa?

SHINN: It's important to keep in mind that Chinese investment in Africa has not come with governance whereas colonialism, obviously, came with governance, which is a very different situation.

There has not been a backlash against Chinese investment per se. There has been, however, criticism about some of the auxiliary kinds of things that come along with investment. A lot of the Chinese investment in Africa -- particularly the major investments -- \$13 billion in Angola, \$9 billion in the Congo, just recently announced some \$9 billion in minerals in Guinea, \$5 billion in Niger -- are big deals. They're all based on low-interest, long-term loans varying anywhere from 1.5 percent to 2 percent repayment terms. So they are very competitive with the IDA window at the World Bank. But they're often predicated upon being paid down by developing either oil or minerals in these countries and then shipping those oil or minerals to China at market prices, and paying down the loans with the export of those items.

Then you have to ask: what do these countries do with all of the money they're getting in these loans? They're mainly building infrastructure -- roads, railways, dams, basketball courts, palaces, every conceivable kind of infrastructure. Who is building those projects? Chinese state companies are building those projects and they're often using, when they can, significant quantities of Chinese labor -- not always. You have to take it country by country. There isn't that much Chinese labor in some African countries.

When you start getting into those kinds of auxiliary issues, you obviously get some negative reaction from the African side. Why are Chinese unskilled laborers coming to do the work when the Africans can do their own digging and unskilled labor? That is causing a problem.

The other side of the problem, which is not related so much to these large loans, are Chinese traders moving into the African market. Small traders, not sent by the government of China, but arriving on their own -- maybe not even coming from China, coming from a third country -- and effectively putting out of business some of the African traders. That is also causing a problem.

So yes, there are challenges for China, but it's not due to the investment per se.

FEIGENBAUM: Can I add something to that for a sec? Because there's a parallel, I think, for instance in the Central Asian case. But it's very interesting, because China's going to have to make some choices that it didn't have to make a few years ago. To wit, when I was working on Central Asia at the State Department, the World Bank was trying to negotiate a loan with Tajikistan, which is the ninth poorest country in the world and, goodness knows, needs the money -- and needs the infrastructure, by the way. And the Chinese chose that moment to drop a \$630-plus million soft loan, very much on the kinds of terms that you're describing, David, into the country. So the Bank has some competition.

And the difference is that, we all know the way the Bank and the Fund, for instance, do conditionality. China has its own version of conditionality, but it's very different than the Bank's version of conditionality. So a country like Tajikistan really needs to get their macroeconomic

fundamentals right. And a lot of the Bank's kind of conditionality has those kinds of conditions built into it. China's didn't.

And so, it's not what the Chinese loan buys. It's the way the Chinese are doing their lending.

And I mean, for instance, in Tajikistan, those highways, that infrastructure -- a lot of that stuff is going to connect northern and southern parts of the country that have never been connected. And when the snow would come you couldn't even move around the country. The loans buy really good infrastructure. The problem is that China is, what, a 4 percent voting shareholder? Literally, a stakeholder in the World Bank. And I think, as a result of the G-20 decisions in Pittsburgh, those voting shares are now going to be revised upward. So ask yourself: If you've got a 4-plus percent voting share in the Bank, but you're pursuing lending policies that in many ways complicate the Bank's ability to lend in the way it traditionally has, how do you reconcile those two roles for yourself?

That's the kind of thing I think China's going to have to do. It's going to have to reconcile its bilateral lending policies with its multilateral posture and its role as a stakeholder in, for instance, the Bank. And that will very tangibly affect the economic futures of some of the countries in which you see Chinese economic activity.

SMITH: Thank you.

Right here in the front again, please.

QUESTIONER: Thank you. David Continugy with the Natural Resources Defense Council.

I have a question for Michael Levi: Climate talks have raised some questions about the competitiveness issue and the implications of competitiveness for the United States -- especially if the United States were to implement a climate bill. Border adjustments, free carbon allocations for U.S. companies have been some of the measures that have been raised as potential solutions to that problem.

But at the same time, some people have been raising questions about these measures to the extent that they are, I guess you could say, political as opposed to metric based. Some of these issues would be cited by the Office of the President as opposed to government administration. And it seems that these new measures could give rise to some new and complex diplomatic and potentially trade- related tensions between the U.S. and China.

And so I'd like to ask, could you please comment on the competitiveness and, you know, trade implications for the future of U.S. and China relationships in the context of climate mitigation?

LEVI: Sure. For the privilege of the folks here who don't follow the climate bill quite so closely as you do, as I said, there is a concern about the competitiveness impacts of uneven greenhouse gas regulation. There are two ways that Congress has looked at dealing with this, beyond trying to get China to take commensurate steps. One is to put tariffs at the border -- they're not called tariffs, but they essentially are tariffs -- at the border on imports from countries like China if they

don't take sufficient steps to regulate their emissions. That would essentially equalize the costs - at least in principle -- for domestic firms and for firms importing into the United States.

The second approach would be to take it from a domestic side: instead of putting a cost on imports, rebating some of the compliance costs to domestic companies so they could then compete on a level playing field. These aren't exactly equivalent, but they're similar to each other.

Now, there have been challenges that all these could be considered illegal under WTO. The tariffs could be if they weren't part of an international agreement; the domestic rebates could be considered illegal subsidies, even if there was still a net cost to the companies involved.

In practice, the tariffs are likely to be much more politically contentious than rebates would be, regardless of the legal details there. So I tend to think that we should focus -- I'd rather that we have neither and that we have even international action, -- but better to focus on domestic rebates than on trying to impose tariffs at the border.

There's another problem when you do tariffs at the border, which is it's very hard to figure out what those tariffs should be. China is going to be taking steps to control its emissions. They will take different forms from U.S. steps. Someone is going to have to make a judgment as to what that differential is. That is very much a judgment call. On top of that, you'll need to know roughly what the emissions are that are entailed in particular production processes in China. It's not clear how we get that insight into China -- particularly if they know we're going to be using it to administer tariffs against them. So you know, they may not want to cooperate entirely with that approach.

Again, ultimately, you have to have some kind of fairly uniformed global approach to this. But at a minimum, we should probably try to come to some explicit understanding on what's acceptable and what's not. A good proposal that's out there is that we essentially agree to defer tariffs indefinitely and other countries agree to not challenge the rebates at the WTO indefinitely as part of a trade. I think that would be a good deal to me.

SMITH: The gentleman right there, please.

QUESTIONER: David Ron from Siscam.

I have a question for Professor Levi: What's the impact of domestic politics on China's making of a policy in the area of environmental pollution and climate change? What sort of non-state people are involved in the process, who has more influence; is public opinion a factor?

LEVI: My colleague Liz here is the real expert on that issue. I say it's largely driven by government, whether central or provincial or local governments. There is a flourishing of environmental NGOs in China. They have a range of -- different levels of influence. They clearly are not able to affect the implementation of policy at the same level as environmental NGOs are, for example, in the United States.

There's also a sort of more diffuse relationship between government activity and public opinion -- particularly in the middle to upper class folks around cities where local air pollution and this sort of problem becomes a concern. I think that is a genuine driver for Chinese policy that incidentally reduces emissions, but is really aimed at dealing with local pollution and particulate emissions as well.

SMITH: Yes. Gentleman right there, please.

QUESTIONER: Parris Chang. Professor emeritus at Penn State University.

When we talk about China goes global, nothing -- (inaudible) -- have been said about China's expansion into U.S. back yard -- Latin America. And also, when we talk about China's Pakistan relation, somehow China's role in the Middle East has not been focused.

And in more recent years, of course, energy has been such a very important factor in China's policy for the Middle East. Those of us who watch China's role in the Middle East have noticed that since the 1980s, China has used arms transfer, whether to Iran, or Syria, or other countries to expand its relations. And in more recent years, energy has been a much more important factor in China's policy because of the Middle East. Sanctions by the West, forcing the oil companies from the West to pull out; China moved in to fill the vacuum. And also we noticed that China's economic expansion in the Middle East, selling the -- well, very cheap, inexpensive goods to, whether Syria, or Iran, or other Middle Eastern countries, causing considerable local industries bankrupt, and all that resentment by the local people, also very interesting factor.

Now, United States has an expanding -- expecting China to be a international, responsible international stakeholder. (Inaudible) -- see that China would cooperate with the United States with regard to Iran's nuclear arms; because, over the decades, China has been opposed to sanctions by the U.N., United States on Iran. And now, well, it's a new ball game. Do you see China play such a major role of a international -- responsible international stakeholder helping the West to deal with the nuclear arms of Iran? Thank you.

SMITH: Thank you, sir.

There were actually three or four questions in that question. And it's an important question. It's a question of whether or not China is going to be a responsible stakeholder. It goes beyond some of the issues that we have represented here on this panel, but we have expertise on the panel that can extend into the areas of nonproliferation as well.

I think what I'd like to do is start at the functional area of nonproliferation in Iran with Michael Levi, who's written on this issue; and then we'll come back to our regional experts to talk a little bit about whether Beijing sees its regional policies or interactions as part of a larger global approach.

LEVI: China clearly isn't stepping up to the plate on Iran the way a lot of us would like them to, and the energy piece of the equation is fundamental to that.

That said, the Iranians clearly see some potential for Chinese movement on this. If you look at what's happened in the last, over the last several weeks -- with Iran deciding, at least provisionally, to ship abroad the bulk of its low-enriched uranium, it would not have done that unless it felt significant pressure from the outside world, and a significant chance of really meaningfully increased U.N. Security Council sanctions that needs Chinese participation to happen.

Now, will the Iranian action stick? It's not clear. And part of the reason it's not clear is because it's not clear whether the palpable threat of sanctions, including the Chinese, will stick as well.

So there's been, I think, a little bit of movement. The Chinese aren't -- you know, they ultimately don't put the Iranian nuclear issue way up the ladder, but at the same time they don't like it when particularly egregious things happen, like the secret Iranian enrichment facility that was revealed a few weeks ago.

But, bottom line, I think you're right in saying that this is not something -- that other things will come first for China, in the Middle East, ahead of nonproliferation in Iran.

SMITH: A question on energy -- Middle East. If either of you would like to comment on that?

SHINN: I might just comment briefly on both the Middle East and Latin America. These are not areas that I follow that carefully, but I think it's important to put them into perspective.

What you're seeing, particularly with Latin America, is fairly similar but on a smaller scale, for the most part, with what you're seeing in terms of the China-Africa relationship, with the exception that I believe China-Latin America trade is bigger than China-Africa trade.

In 2008, it was \$108 billion for China-Africa trade. I don't know what the figure is for Latin America, but I believe Latin America is higher than that. You're also seeing in Latin America -- which is, as you say, the back door of the United States, and therefore the Chinese have tended to walk a little gingerly, not wanting to alienate the United States in its own backyard -- they've focused on trade and investment. The Chinese are getting involved in it big time in countries like Venezuela, which has oil. That's one of the major relationships, but you're starting to see Chinese activity throughout Latin America now.

In terms of the Middle East, my impression is that the focus has been largely in the energy sector, maybe increasingly on some political issues in the Middle East. But the Middle East has always been very much behind Africa in terms of China's overall interests, with the exception of energy. Whether that's going to change in the out-years, I don't know, but so far Africa looms much larger than the Middle East does in terms of China's interests.

SMITH: Thank you.

Questions?

QUESTIONER: Hi. Chris Thomas, from Intel. This is for Mr. Segal.



Chinese policy in any place, but especially in technology policy, is not monolithic, right. And oftentimes the same ministry can hold diametrically contradictory positions, based on where two ministers went to school and the rivalry from 30 years ago. If you take a look at technology policy, there is this techno-nationalism. But the technology industry in China is highly pragmatic -- extraordinarily pragmatic, and those two things are often in competition against each other and they play out on the front page of the newspaper.

Going forward, which do you think will maybe have the upper hand? Do you think that techno-nationalism, which today has really been a bit of a "paper tiger" -- not really impacting the industry, will actually take hold and drive it? Or do you think that it may perhaps be more pragmatic, accepting global standards of global technology when that's best?

SEGAL: You're exactly right. And, you know, clearly Intel knows, from the case of WAPI and WiFi, that Chinese producers were pretty divided about the whole -- about the whole standard, because there were already Chinese producers that were tapped into global networks and saw themselves being cut off from international markets, and they weren't particularly happy with the whole way that WAPI came about.

I'm not sure I would call techno-nationalism a global -- a "paper tiger," though, in the sense that there's a lot of money that's going behind it. It may not be the main driver of innovation in China right now, because top-down has not been particularly effective, but there's clearly a lot of resources focused on it.

I don't know which wins out. I think even the Chinese companies which are pragmatic, they see 'moving up the value chain' as a competitive strategy, and they clearly don't want to be locked into producing other people's technologies. And so they are going to, I think, also compete and try to move up. I hope it is a more, kind of, "techno-globalist" way that they do it, but I think the government is still going to continue to raise a heavy hand.

The interesting thing about the Chinese case is that they can, I think, often pursue techno-nationalist strategies through more open policies. And so the ultimate goal, I think, is still to reduce dependence on the United States, and Japan in particular, but they will try to do it, in many cases, through open policies and more competitive policies. So I think you're going to continue to see the tension.

Long term? I don't know. I think long-term -- you know, there are many Chinese businesses who tell the, who tell the Chinese government, 'this is not an effective strategy, and just let us go out there and compete.' But they've had, you know, 150 years where they've thought that they need to make sure that they do it on their own time schedule.

SMITH: Adam, help us, if you can -- for somebody who's not from your area, what does a techno-globalist China look like? What would that strategy for them look like?

SEGAL: Well, I think, you know, we see it -- I mean, when you have massive foreign investment; you have a great deal of R&D that's going on in China; you see widespread science and technology collaboration, not only between corporations but between the American and Chinese governments and universities.

I think the difference is a kind of time -- a timeline. And so a techno-globalist kind of timeline would be, 'well, yes, eventually we're going to work our way up there,' and it'll be based on companies slowly working their way up on the product chains. More techno-nationalists are still going to have a heavily government, state-owned focus, but is going to also be, 'we need to do this, you know, by 2020 or 2030 when they say we're going to be, you know, among the world's technology powers.'

SMITH: Thank you.

Questions? The two gentlemen in the back.

Would you like to go first, sir?

QUESTIONER: Ted Kassinger, with O'Melveny & Myers.

So tell us, what did you learn in Japan?

SMITH: Oh. (Laughs.) All right, very briefly.

I learned in Japan that the government is going through its transition. It's a transition that looks a little bit like our transition -- there are new personalities, new policy teams. They don't talk to each other yet. They're not quite sure whose bureaucracy is going to come first.

But I think the larger question for Japan is really the altering of the policymaking process that this party has suggested as its first priority. You've got a regime in transition, if you will, and I think the DPJ wants to change fundamentally the way policy is made in Japan.

So that should make it more transparent. It'll come out of the party into the Diet. I think this is also, in the foreign policy realm, a government that understands that its relationship with Washington is as important as its relationship with Beijing and other neighbors. And that balancing act, I think, for Tokyo -- you can already read it in some of our commentary here, is going to be a difficult to proceed with.

Hatoyama himself -- in visiting with Chinese leaders, in his meetings with Hu Jintao in New York - - has made it very clear to the Chinese that East Asia will be his foreign policy emphasis. And to the extent that will compromise the relationship with Washington, I don't think that's going to happen. But it certainly has alerted us that there's a new set of priorities, I think, in Tokyo today. That's in a nutshell.

The gentleman behind?

QUESTIONER: Isa Cardin.

I wonder if I could ask Dr. Feigenbaum to expand a bit on the point about China in Pakistan, specifically that -- relative to the United States, they are somewhat less concerned. I wonder what sorts of developments you could envision, that would cause them to revise that concern upwards? And specifically, how does what seems like increasing friction between China and the

Muslim world, particularly comments by al Qaeda leaders and increased tensions in Xinjiang play into that?

FEIGENBAUM: I guess, you know, China has very -- as I said, they have a very longstanding relationship with Pakistan. And that relationship tends to particularly involve the Pakistani military, and so that tends to be their window into a lot of what's happening in Islamabad. And I think that the Chinese have been, frankly, comfortable with those kinds of governments.

I guess the kinds of things I would watch are the extent to which Chinese interests, in a very direct sense, come under threat, as a result of domestic developments in Pakistan. And I would look at things here like the killings of Chinese workers that we've seen -- we saw a few Chinese engineers that were killed. To what extent does that begin to ratchet up Chinese concern about domestic and institutional challenges in Pakistan? To what extent does that begin to persuade the Chinese that they need to change their focus a little bit?

Second, I'd watch the way in which the Chinese interact -- the Chinese have a very sophisticated understanding of the Pakistani domestic situation, at least in my experience talking to them, and I know much more about India than about Pakistan, because I never worked directly on Pakistan -- but it'll be interesting to watch the relationship between, say, President Zardari and China, as it develops over time. How is China doing, at a time when there are so many power centers in Pakistan -- the military, civilian parties, religious parties, and so on? How does China operate to protect its interests and advance its interests in that kind of political situation in Pakistan?

And then the third thing I'd watch is the China-India relationship, because, at the end of the day, as things are deteriorating between China and India, Indians are still watching very closely what's happening between Beijing and Islamabad. And I think, you know, we've gone through a period in which China has had this very unique relationship with Pakistan, but has tried -- there've been efforts on both sides, over about a decade now, to develop a relatively stable China-India relationship, and you see the payoff of that in the economic area. But as that relationship is becoming more fraught with difficulty, and with tension, and with different kinds of problems -- whether it's on the border, or it's in the media -- what does that mean for China's relationship with Pakistan? What does it mean for the rhetoric that you see?

On the larger Muslim world, I wouldn't want to generalize. The Muslim world is too complicated, and China has too many different kinds of relationships with too many Muslim countries. I mean, they have an interesting history with Indonesia. They have an interesting history with Pakistan. They have -- you asked about the Middle East, I'm not an expert on the Middle East, but they have energy and other interests in the Middle East. There are a lot of things happening economically between China and, say, the Gulf countries that are, I mean, incidentally a function of the fact that those countries are Muslim. I mean, it has a lot to do with a lot of money sloshing around in Gulf economies, sovereign wealth funds, and that's been very much to mutual benefit. I wouldn't want to generalize, except to say that, you know, I think as recent events have shown, the Chinese ought to be concerned about the views of their Uighur minority out in the west. I mean, they clearly -- there are elements of Chinese policy that have clearly not produced a situation there in which everybody is invested in a -- in the Chinese vision of reform, and so on, and how things are developing.

So I think, you know, I would just -- I would just kind of watch Xinjiang policy very closely too, because I think it'll bear on China's larger relationships in the region, including some of those cross-border relationships that I mentioned. Not a very neat answer to your question, but --

SMITH: Thank you, Evan.

Yes, this side over here. (Inaudible) -- so the gentleman in the back, yes.

QUESTIONER: Hi, Jon Colby.

I'd be interested in the panel's view on -- what about North Korea, and how constructive or non-constructive will the Chinese likely to be?

SMITH: Well, I'm happy to comment on that, but -- (laughs) -- let's go to panelists first.

Michael, did you want to?

LEVI: China, ultimately I think, would prefer a denuclearized Korean Peninsula, but it's not, again, its priority there. Its priority is preventing instability on the peninsula, and that's going to drive its policy.

Chinese leverage is also limited. Unless it's going to go very far, it can't make a huge difference, because North Korea really has dug its heels in. So it's going to help in getting the, you know, negotiations, and talks, and whatnot, going again, but it's not going to fundamentally change the situation on the peninsula. I think we're in for a long period of trying to manage the situation in North Korea. And as long as its goal is just to manage it, rather than to effect fundamental change, China plays a limited role.

SEGAL: I would just say that the recent visit suggests, and the increased investment in North Korea suggests, as Michael said, that either they're being too clever by half in, you know, saying, 'we are strengthening relations with North Korea, so we can bring them back to the table and they feel secure,' and then they can negotiate; but I think that they have decided that they can play this game for a long time and that they can stretch it out.

SMITH: While in Tokyo -- we have a Northeast Asia security architecture project here at the council that is wrapping up, and Chinese, South Korean, Japanese and American regional experts came together, and, of course, the big topic of conversation, as you know Jon, was North Korea.

This recent iteration in Tokyo, it was striking to me that the Chinese experts started out in November, 2007 with the idea that instability on the peninsula was anathema to them, and that was their priority. They then walked themselves through the rationale for cooperation, globally, on nonproliferation, and with the United States and other partners in the Six-Party talks. They have now walked themselves right back out to the position -- what we heard in Tokyo last week was, 'Wen Jiabao's visit to Pyongyang is consistent with China's long-term strategic interests.'

And whether it's, you know, playing the game for the long-term, or whether it's just coming back to where they began, I don't know. But I certainly sense, in the Chinese, that this is not something that they see being involved in today or tomorrow.

The gentleman there, please. Thank you.

QUESTIONER: Hi. Rodney Faraon, Crumpton Group.

My question -- really directed to Ambassador Shinn, which is I've heard stories about Chinese manufacturing tycoons, because of increasingly squeezed margins at home, may be seeking to outsource their manufacturing base on low-tech goods to Africa, possibly with government support.

The question is, is that true? Second, how receptive would African countries be to that kind of a new direction in terms of economic cooperation and, thirdly, how achievable is that? Thank you.

SHINN: I can't respond to the question as to whether there's any government support behind these kinds of activities. I've certainly heard some of these same stories, that there has been some "dumping" of products in Africa. My guess is these are probably overstated. I think there's less of this than, in fact, is the case, but at the same time some of it is going on.

The real critical issue for the Africans, on the negative side, is that you have these relatively cheap products coming into Africa and the quality is okay. The quality of Chinese products varies enormously. You can get good quality, you can get medium quality, you can get lousy quality, and all three of those qualities are going in to Africa in one way or another. Africans, generally, are not wealthy people so they tend to prefer the lower end of the quality spectrum.

The African consumer is generally satisfied with this because they're getting products that are about as good as what would be produced in similar exporting nations like Indonesia, Pakistan, India, et cetera or locally in Africa for lower cost. If the Chinese cost is lower, the African consumers are happy with that. But the other side of the issue concerns those people who are not happy with this. This includes local African industry that's being squeezed by this influx of cheap Chinese goods that they cannot compete with because their costs are actually higher in some cases. Their labor costs are sometimes higher and their production costs are surprisingly higher.

Then you have the issue I mentioned earlier of the Chinese traders coming in, importing the cheap Chinese goods and squeezing local African traders out of the market. Obviously those African traders are unhappy, too, because they're losing their way of life. So you've got all sorts of interesting things going on with these cheaper products.

We're confining this discussion to China. I should add that the same argument applies to Indian, Indonesian, and Pakistani products. It's not just China that's playing this game, but because China is the biggest actor, it takes most of the hits for the negative side of what is going on in Africa today.

The role of the Chinese government, as far as I can tell, is not terribly significant. I don't think it in many cases even knows how to get a handle on it except something like textiles, where it can put quotas into effect.

QUESTIONER: Thank you. My name is Yiqing Chen. I graduated from the University of Maryland, Baltimore County, and now I work for U.S. China Business and Cultural Exchange Center. I have a question to Ms. Smith. I want to know the general opinion of the Chinese government on the U.S. military impact on East Asia because there is an opinion that if Japan acts itself, it would put more stress to its neighbors than Japan allied with the United States. So, do you think from the perspective of Chinese government, a Japan allied with the United States is more favorable than Japan itself?

SMITH: Well, because I'm not a China expert, I would like to defer to somebody else. Adam, do you want to answer that? I'm happy to comment after the experts talk, but --

SEGAL: I think for a long time we assumed that there was this kind of narrative that the Chinese would say, you know, yes, we're glad you're in the region because you are keeping the cork in the bottle of Japanese militarism and then if the U.S.-Japan alliance were to be weakened, then we were afraid that the Japanese would somehow break out. I think that plays less of a role in their thinking now. I think that, you know, they are clearly focused, as Professor Friedberg laid out this morning very clearly is how they project power in East Asia and how they push further out.

Japan clearly is thinking that plays a role in the thing and that U.S.-Japan alliance plays a role in their thinking about that, but I think they are operating at kind of a series of points that they are maneuvering, not thinking, "well, the alliance is critical to maintaining this system. I think they see the system in flow and that they're going to push at all those points at the same time."

SMITH: I think for somebody who's not a China expert but who watches Chinese behavior from Tokyo, specifically from that side, it's interesting to me that, just as Adam said, this idea of U.S.-Japan alliance is a cork in the bottle. There's a containment of Japanese militarism. It doesn't seem to be the way that things are discussed anymore.

If you look at the regional conversation about the Chinese military, for example, the Chinese are much more willing to talk about tri-lateral - U.S./Japan/China - that would include issues such as climate change and other kinds of issues but that would also talk about military transparency and the regional military balance of power, so I think there's a little bit more flexibility that I hear coming from Beijing, not only about the alliance but about the construction of regional opportunities, to talk about some of the core security concerns in the region.

Now, strategy or real interest in these dialogues, I can't tell, but I do think you see at least presented towards Northeast Asia a very different Chinese voice on some of these issues. The gentleman right there.

QUESTIONER: My name is Dan Burton with Salesforce.com. Twenty years ago had we had this meeting we would have been talking about the rise of Japan. There was huge trade imbalances, they had taken over the U.S. auto industry, the flat panel display was a chokehold for the new

economy, and how were we going to accommodate Japan in the global world order. We don't have any of those conversations anymore. I mean, it's sort of a fait accompli, and I think very much they have an accepted role.

Is China a different phenomenon? Is it a different order of magnitude? Is it the rise of a different super power or are the kinds of issues we're talking today -- and I'm focused primarily on economic ones. Are they similar and if we had this conference in 20 years, is it possible that there would be such a tremendous change in perception about China's role in the world economy, U.S. relationship to China, the economic threats that they pose to us?

SMITH: Fabulous conversation. It would elicit another two-hour panel, I think. I'm going to ask our speakers to conclude with the fundamental premise of your question, which is -- is China's rise any different than other countries' rise and, Mike, we'll start with you.

LEVI: Certainly it's possible that climate will be something of a non-issue with China in 20 years in the sense that everything is going swell, but I wouldn't put my bets on that. Climate is a different kind of economic issue from other ones we faced with Japan, and I'm not a Japan expert. Part of the reason that that's subsided as a big concern was Japanese economic weakness. With climate, it's not an issue of strength versus weakness.

If China becomes slightly weaker economically, it doesn't fix our climate problem and it can actually make it tougher. We need them to have the capacity to deal internally with that problem, so the correlation between all these other measures of strength that we might think of - military strength, economic strength -- is not so tight with their ability to deal with the climate problem. That suggests to me that we're going to be stuck with this as a major challenge for decades in the future.

SMITH: Adam, in the economic realm?

SEGAL: I would say we're going to be still talking about China but for different reasons, so I think the comparison with Japan, it's so different. One, because of scale just given that China is so much larger. Two, I think the international system is completely different. If we're looking at technology and economic competitiveness, the global system of scientific technology and of innovation has completely changed the game, and China has been very good at leveraging that.

Three, the Chinese are -- this goes back to scale, but the Chinese are assuming they can do everything, so the Japanese had a model that we misjudged. The Chinese can run three or four models at the same time and one of the models that they're running is our model, right? So try to recreate Silicon Valley locally, have small start-ups, have venture capital and then still have also this state of enterprises and still have a top down, so they can do all of those things at the same time, which I think makes them a larger -- they will have a more dramatic kind of change.

That said, I take your larger point that 20 years from now we're not going to be talking about China as a technology super power; we will still be talking about potential.

SHINN: I'll look at that just from the standpoint of Africa, which I acknowledge is sort of looking at the question through a soda straw. Having said that, I've watched Japanese involvement in

Africa over my career, which goes back to the early 1960s in terms of Africa. It's a fascinating question because you're quite right. Even in Africa, the Japanese economic role was very significant if you go back 20 years, and it still is important.

Japan has not been thrown out of Africa by any matter or means, but China has so surpassed the Japanese role in Africa today that it really does raise all sorts of interesting questions. More importantly, I never saw Japan showing much political interest in Africa. It was always just economic. China has a major economic and political interest in Africa.

China is a member of the Security Council. Japan is an aspirant to the Security Council. China has long engaged in supporting African liberation movements going back to the late 1950s and continues to be engaged very politically on the continent. There are daily high level meetings between African military leaders and Chinese military leaders. The Japanese never did much of that.

You can just go down the line in terms of where the Chinese have been involved in Africa and where the Japanese were largely confined to economic issues. It's just a very dramatic difference in my view. I think that you are going to see China 20 years from now as being a pretty major player in Africa, in fact the major player in many countries.

SMITH: Evan, very briefly, please.

FEIGENBAUM: I guess I'd say very briefly:

One, I don't think China and Japan are comparable because, among other things, Japan was in a security alliance with the United States. So unless you think that's irrelevant, which I don't, they're not comparable, notwithstanding the economic competition.

Second, you framed the question very broadly. You know, is China's rise comparable to other powers? You know, Aaron Friedberg and lots of people have been debating this question for years. I guess my view is that, you know, China's rise is going to be somewhat unique because China's not the same country it was 30 years ago -- and because the international system is not the same as it was 50, 100, 150, 200 years ago.

China in the 1970s was promoting revolution, as you said, from Bolivia to North Borneo, was opposed to every institution of the international system that we think of as characterizing the world that we live in, didn't share our view of globalization. That's not China today.

I mean, is China integrated into the international system? Structurally, yeah. They're in the P-5, they're in the WTO, they're in every protocol on everything from ozone to chemical weapons. So China's a different country.

And the international system isn't the way it was in 1848 either. We're not struggling for colonies, for ideologies.

So the question for me ultimately -- and this is the last point. I mean, no country, frankly, has benefited more over the last 30 years from the prevailing international system than China.



When we talk about China going global, who's done better? I mean, they've, what, quadrupled their economy? They're on track to quadruple it again.

And the question for me is not to use all sorts of historical analogies -- whether it's to Japan or otherwise. But to just say, you know, does China, now that it has a seat at the table, define its interests over time as supporting, sustaining and adapting the prevailing international system that's enabled its success?

And if the answer to that is basically "yes" -- whether we agree, Parris, on everything or not -- we'll basically have a recipe for a fairly stable relationship.

And if the answer to that is "no," then you'll have something that looks more like a non-status quo China, and that raises all sorts of interesting questions about the future.

SMITH: Thank you. It's an impossible question to answer very briefly at the conclusion of such a fascinating panel. I think much of Japan's experience was conditioned, in fact, by the international response and so I think part of what we're trying to grapple with here is not only Chinese behavior and Chinese experience, but also how the rest of us respond to it globally.

And so I want you to help me thank our panelists for an extraordinarily interesting conversation. (Applause.) Thank you very much.

*The Project 2049 Institute would also like to thank CFR.org for their generous assistance with the event transcript.*

(C) COPYRIGHT 2009, FEDERAL NEWS SERVICE, INC., 1000 VERMONT AVE.

NW; 5TH FLOOR; WASHINGTON, DC - 20005, USA. ALL RIGHTS RESERVED. ANY REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION IS EXPRESSLY PROHIBITED.

UNAUTHORIZED REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION CONSTITUTES A MISAPPROPRIATION UNDER APPLICABLE UNFAIR COMPETITION LAW, AND FEDERAL NEWS SERVICE, INC. RESERVES THE RIGHT TO PURSUE ALL REMEDIES AVAILABLE TO IT IN RESPECT TO SUCH MISAPPROPRIATION.

FEDERAL NEWS SERVICE, INC. IS A PRIVATE FIRM AND IS NOT AFFILIATED WITH THE FEDERAL GOVERNMENT. NO COPYRIGHT IS CLAIMED AS TO ANY PART OF THE ORIGINAL WORK PREPARED BY A UNITED STATES GOVERNMENT OFFICER OR EMPLOYEE AS PART OF THAT PERSON'S OFFICIAL DUTIES.

FOR INFORMATION ON SUBSCRIBING TO FNS, PLEASE CALL CARINA NYBERG AT 202-347-1400.