

China 2025: Panel I: Challenges From Within: Emerging Domestic Challenges

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Yanzhong Huang, Associate Professor And Director, Center For Global Health Studies, Seton Hall University
Kelley Currie, Non-Resident Fellow, Project 2049 Institute
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From left to right: Minxin Pei, Yanzhong Huang, John Pomfret, Kelley Currie & Ole Schell

JOHN POMFRET: Thanks a lot, Randy.

It's wonderful to be here. It's an honor to be introducing this great panel and to be kicking off the day today.

I'll talk a little bit about the panel and then I will disappear into the background unless the panel overstays their welcome. We're basically trying to limit our comments to seven minutes each. We'll see if we can do that.

Our panel -- the first panel is an assemblage of creative skeptics, I would call them, on China who have spent their careers trying to understand China more, how it really is and how they would want it to be. It's more China in the raw or China uncut than aspirational China.

Minxin Pei is a recent refugee from Washington. He has left us to go west to become a professor of government at Claremont McKenna College outside of Los Angeles. Washington's loss definitely was Claremont's gain. Minxin is one of the leading sinologists of his generation. He's the author of numerous articles on China.

His most recent book, "China's Trapped Transition," I think is an extremely important work on China. It was published in 2006. And it looks at some of the constraints to China's development that Minxin argues are hard-wired into China's political structure and its culture.

Yanzhong Huang is an expert on global health in China. He's the associate professor at Seton Hall University. Professor Huang developed the first academic concentration that explicitly addresses security and foreign-policy aspects of health issues, which is very important in China. He has published extensively about China's age problems, its gender imbalances, the limits on its soft power, and also China's reaction to SARS and the avian flu.

Kelley Currie is now a fellow at Project 2049, where she looks at democracy and human-rights issues. From 2007 until January of this year, she was special assistant to the undersecretary for democracy and global affairs and special coordinator for Tibetan issues at the U.S. Department of State. She's also published numerous pieces on the op- ed page of The Wall Street Journal about Tibet, Burma and other issues.

Finally, Ole Schell is a documentary film director. And it makes sense to me that a guy whose first film was on the cutthroat, dog-eat- dog world of modeling agencies, called "Picture Me," would do his second documentary on the cutthroat, dog-eat-dog world of the Chinese entrepreneurial competition. "Win In China" is a look at a hit TV show on entrepreneurs on the mainland and sort of kind of "Survivor" meets Horatio Alger.

With that, we'll kick it off with Dr. Pei.

MINXIN PEI: Thank you so much, John, for this generous introduction. I also want to thank Liz and Randy for having me here today. It's always great to be back to Washington.

The trend I'm going to talk about in China is what I call the China puzzle of 2009: how to explain this mixture of confidence, if not cockiness, on the one hand, and then deeply embedded insecurity on the other hand. You can see behavioral patterns of both trends in Chinese domestic policy behavior and also in foreign policy behavior as well. Today I focus on domestic politics in this context.

So on the confidence side, you look at the October 1st parade, how the Chinese government dealt with economic crisis, and all this talk about soft power. These are really a sign of confidence about, a feeling of success about China's accomplishments.

But at the same time, you see the Chinese government probably at the same time continuing to impose quite strict restrictions on civil society, on the media, and dealing with dissent in perhaps a little bit more subtle but nevertheless quite repressive ways. And then you look at around October the kind of very tough security measures taken to make sure the big party went off without a hitch.

And also my favorite sign of this insecurity, this deeply embedded insecurity, is there's a huge market in China for conspiracy theories. If you are really secure about yourself, you don't dabble in conspiracy theories. The trouble in Tibet and Xinjiang is widely thought, in China, as a result of the meddling by foreign influence. I'm not talking about the man on the street. I'm talking about quite well-educated people, very serious people, normally people I would believe, who believe in this kind of conspiracy theories.

And then, in the middle of this financial crisis, one of the bestselling books in China is something called "The Currency Wars," again, a book which is a classic example of conspiracy theories. And I've heard that even Politburo members have read the book and instructed that the book be widely read.

So how do you explain this strange combination of insecurity and confidence? To do that, I think we need to look at the deeper fissures in the Chinese polity-- and I point to three problems China faces domestically; that is, this is a country which has what I call stability at the macro level, but at the same time, enormous instability at the micro level. And for the people inside China, the leadership actually sees and feels the problems at the micro level.

At the macro level, you look at what the communist party faces -- no organized opposition, no external threat, and a reasonably good economic growth prospect. But if you look at the micro level, then it's a very different picture -- riots, ethnic conflicts, pollution, unsafe food, and accidents.

Let me just give you some very interesting data I put together early this morning: On a daily basis, 300 riots a day, 300 traffic deaths a day, about 20 mining deaths a day, 400 Communist Party members found guilty of corruption every day, including eight county-level officials convicted of corruption every day. And every three days there is a major water-pollution incident.

Just think about that kind of micro-level instability and then you understand why the leadership can be cocky and insecure at the same time.

And second, another source of insecurity is really, for the elites, they don't see the future of the system. It might be a strange proposition to make, but if you engage them and ask them, "What do you see 10, 15 years from now, what the country will look like? Where will the communist party be?" I doubt they're going to give you an honest answer.

If they give you an honest answer, they'll say, "I have seen the future, and the future is now, because I don't want today's status quo to change. It's a party that does not have any ideas, or ideology, and it does not know what the CCP stands for. We all know what it stands for today.

It does not stand for the communist party of China. It stands for the Chinese capitalist party, because the party has been completely transformed.

And finally, I would say that the party also understands that what made it successful in the last 20 years since Tiananmen was a set of strategies that evolved after the Tiananmen crisis. But that strategy is no longer effective. It is certainly not effective in dealing with the new problems that emerged in the wake of Tiananmen.

So if you put these things together, I think you have a clue why, I think, as Chinese leadership you feel very good about what you've done, but then if you're looking at the future and if you look deeper into your system, you are also so unsure about the future.

POMFRET: You get a gold star. You came in at six minutes. Thank you very much.

Professor Huang, please.

YANZHONG HUANG: Again, I would like to thank Liz and Randy for the invitation. It's good to be here in the CFR new building in Washington, D.C.

I'm going to talk about the future of China's public health. I noticed that on the eve of the 60th anniversary of the founding of the PRC, the Ministry of Health released a report claiming that China's average life expectancy has increased from 35 years in 1949 to 73 in 2009.

A 2007 report released by the influential Chinese Academy of Sciences predicted that the Chinese average life expectancy will jump to 85 years by the middle of this century. So, reasoning along this line, we could expect that by 2025 China's average life expectancy would be about the same level as the United States today, which is 77.9 in 2009.

What the government report didn't say, that over the past three decades reform of and opening up were only associated with six years of improvement in the average life expectancy, so 80 percent of the gains were actually achieved under Chairman Mao.

So if economic development does not trickle down, you know, one wonders whether a great leap forward in people's health status is a plausible scenario. Indeed, if we take a look at Chinese disease burden, there seem to be few reasons to justify a healthy dose of optimism.

As a result of epidemiological transition in China beginning in the 1980s, chronic diseases such as cancer and cardiovascular diseases are now the leading killers in China. I'll give you some numbers. Today an estimated 177 million people, or 13.6 percent of the population, have hypertension. Every 21 seconds, a Chinese dies of stroke.

The disease burden continues to increase, given the rapidly aging society and the increasingly unhealthy diet habits or lifestyle among the Chinese people. In addition, the country is facing all kinds of infectious-disease challenges, including HIV/AIDS, sexually transmitted diseases, TB, cholera, viral hepatitis, endemic schistosomiasis, and so on. Believe it or not, China accounts for 37 to 50 percent of the hepatitis B virus related deaths worldwide.

There's no denying that, drawing lessons from the 2003 SARS, China has made considerable progress in strengthening the capacity of dealing with major public-health challenges. That was evidenced in the recent H1N1 flu pandemic. The government, in sharp contrast to the initial response to the SARS outbreak, actually has become highly sensitive, responsive to public-health emergencies.

But a more in-depth analysis of the government capacities in this area reveals some intractable problems. I'm going to name a few. First, in responding to public-health challenges, more attention, more resources are concentrated in those high-profile (sexy ?) diseases such as HIV/AIDS, H1N1, rather than those equally if not more dangerous diseases such as TB or chronic conditions.

Second, a central-local capacity gap remains a major challenge the Chinese leaders have to come to grips with in capacity-building. My study of China's response to H5N1, H1N1, suggests that the problems of cover-up, misinformation, inaction continue to characterize the local response to the infectious disease outbreaks.

And last, but not least, despite the government acknowledgement of the role of civil society in disease prevention and control, as Minxin also pointed out, the government continues to suppress the growth of health-promoting NGOs or community-based organizations and continues to harass, prosecute, even persecute the NGO leaders and the rights-promoting lawyers. So, as a result, China's health-promoting NGOs remain weak, small, and competition of limited resources led to infighting and conflict among the organizations, that only provide more excuse for government manipulation and suppression.

While the disease burden continues to increase, the government has indeed -- we have to admit that it has geared up its support for health care. We know a new wave of health-care reform was launched in 2006. And actually, by the end of 2008, the national health-insurance coverage rate reached 86 percent. That is actually slightly higher than the U.S. level, believe it or not.

Earlier this year, Beijing also promised to pump 850 billion yuan -- that is, about 139 billion U.S. dollars -- into the health-care system by 2011. The objective is similar to, though not as ambitious as, Obama's; that is, to build a basic medical health-care system by 2020 to provide, quote-unquote, "safe, effective, convenient and affordable health services to everyone in China."

So clearly the government is playing an increasingly important role in the health sector. However, in view of China's mammoth population, the per capita government spending on health care is still far from substantial. Since the central government only shoulders 40 percent of the promised mass funding, whether the government's financial support would be materialized still depends on the cooperation of local governments, which we know continue to make health care a backburner issue in its pursuit of GDP. And despite the growing coverage, the benefit level remains low.

Actually, the so-called universal health care, in a sense, legitimized the huge urban-rural gap in health-care access. For example, based on the government formula, urban workers would eventually be reimbursed up to 26,000 U.S. dollars, compared to only \$4,200 for a farmer. Last

year a young farmer in Beijing with severe anemia conducted robbery and was happy to be sentenced 18 years in prison. His intention? To stay in jail long enough to enjoy free medical care, which he could not afford.

It is also worth noting a major portion of the government funding is being used to strengthen grassroots health institutions, but no effective rules or regulations are in place to prevent it from being misused or abused by corrupt government officials or health providers.

So in that sense, China faces similar challenges -- challenges similar to the United States in health-care administration; that is, how to expand the coverage while at the same time improve significantly the efficiency in delivering health care.

I realize my time is up, so I will quickly summarize. There has been growing government attention on and commitment to the public health since 2003, and that reflects an ongoing national agenda shift towards so-called scientific development in order to create a so-called harmonious society. And indeed, impressive gains have been achieved in this area. But many of the major public-health challenges cannot be effectively addressed with only increased government funding or policy support.

To significantly improve Chinese health status in the next decade or two, the government will have to make more fundamental changes in public financing, in state-society relations, and in bureaucratic incentive structure.

So I will stop here.

POMFRET: Thank you very much, Professor Huang.

Kelley Currie.

KELLEY CURRIE: Thank you.

I guess I'm going to follow up on some of themes that Minxin started out with, talking about the stable macro situation versus the unstable micro situation when you think about ethnic minorities in China. The recent events in China over the past two years in Tibet and Xinjiang have been a rude reminder to most Chinese that they do, in fact, live in a multiethnic society.

You know, in talking about ethnic communities in China, I have to make some caveats to begin. The Chinese talk about 56 ethnic nationalities in China. I'm going to focus my remarks on what you would think of as the four small stars in the Chinese flag -- the Tibetans, the Uighurs, the Mongols and Manchu, who are the communities that, if you can put it this way -- and I have to use gross generalizations because of the time limits here -- but the communities that have kind of a legitimate claim to some independence from the Chinese state; pre-existing nationhood, if you will, before 1949.

In talking about these communities and their relationship with the Chinese state, you are looking at very divergent narratives here to frame the policy as it exists. The Chinese

government talks about their relationships with these ethnic groups in a very paternalistic way, and the policies are quite paternalistic even in the most positive light.

They discuss all the things that they're doing for these ethnic minorities, the benefits that they provide them, the subsidies that go into their areas, the protective policies that have been put in place. This is the narrative of the Chinese state, both at home to the domestic audience and abroad when talking about their ethnic communities.

The same narrative, when heard through the ears of the ethnic minorities, on the other hand, is one of colonialization, assimilation. And you can look at three kind of distinct areas of the policy as it exists as examples that highlight this divergence of the narrative, if you will.

When you look at the government -- a good example of it is you go and look on the Xinhua website right now, the new white paper on ethnic minorities policies that the Chinese government has just released.

It barely mentions, if at all, the recent unrest in Tibet and Xinjiang. It's all about the statistics and the numbers of all of the money and indicators that the Chinese government looks at to show that its ethnic minorities policy is working. And they really seem to believe and internalize this idea that their policies are working, despite what most people would look at as prima facie evidence to the contrary in light of the unrest.

The minorities themselves obviously have a very different point of view. When you talk about, like I said, three particular incidents -- Han migration into Tibet and Xinjiang is a good example. The Chinese government sees this as a way of helping these backward areas to develop, bringing in skilled labor, bringing in people to populate these sparsely populated areas.

They see this as a beneficial policy to the ethnic minorities. Of course there are benefits to the Chinese state project as well but we're not going to really talk about those. But when you look at it from the ethnic perspective, this is a colonial type of policy, bringing in settlers to swamp them demographically. And so, you know, one policy, two very different narratives on it.

Economic development, it's the same situation. The Develop the West Initiative that the Chinese government touts as improving the livelihoods of ethnic minorities -- and they talk about the GDP gains in these areas, the national average being 8 or 9 percent; the average in Xinjiang and Tibet being 14 or 15 percent economic growth.

And they look at this as how they're benefiting these ethnic communities. On the ethnic communities side they see it where the benefits are not coming to their communities; they're going to the settlers that are coming in, the Han Chinese and Hui that are moving in, and to the government itself.

And the infrastructure projects are not seen as really necessarily benefiting the ethnic communities but more for the benefit of the state-building project. And they also see the economic damage -- or the environmental damage that this economic development is causing their communities as a major problem. In Tibet this is a very serious issue.

Educational benefits are another area where you would think that the educational benefits that are provided by the state -- they give extra points to ethnic minorities on the state entrance exam into universities, and there are a whole range of affirmative action activities that the state provides to the ethnic minorities -- they talk about these, again, in their domestic propaganda and how they discuss the ethnic issue domestically inside China as benefits to the ethnic communities.

The ethnic communities, again, have a very different point of view about these. They see this as part of the assimilation and sinicization effort of the state towards their communities. And even those members of the elite or those ethnic individuals that are able to take advantage of these benefits, they find themselves unable to get jobs after university because they're competing against Han Chinese in a job marketplace where they're competing against less-educated people but they lack these kind of cultural linguistic advantages that even a less-educated Chinese person has in competing for even menial jobs.

So these benefits tend to be illusory for the ethnic communities whereas the state touts them as a burden that it seems to willingly take on to help these communities. So you see this divergence of narrative when you're talking about the policies, and this has some really corrosive effects within Chinese society, and these get magnified through the propaganda efforts that the government undertakes, both domestically and internationally.

When you're looking at how they talk about -- again, internally how they talk about ethnic issues, as Minxin alluded, blaming outsiders for creating unrest -- when they do talk about the unrest, they blame outsiders, blame bad apples or instigators: the Dalai Lama, Rebiya Kadeer being targeted as terrorists and splittists, trying to split the Chinese nation.

The way that the state talks about these people, the kind of demonizing, divisive language that it uses talk about them is very offensive to their ethnic communities and creates further resentment, whereas with the Han Chinese communities that are receiving this propaganda it creates a very different response.

When you talk about the incidence of violence across China and 300 protests a day in China, if you look at that and look at what's happening in Tibet and Xinjiang, Tibet and Xinjiang are probably the safest places in China today, but you would never know that if you read a Chinese newspaper or talked to Chinese people about their perceptions of how dangerous Xinjiang and Tibet are to them. But the incidence of violence in these two areas is actually quite low compared to the incidence of violence in other parts of China.

You also have these images in the Han Chinese mind of Tibetans and Uighurs as very violent, and attacking Han Chinese. They're fed by state media, which in recent events has focused nearly exclusively in its media coverage on the violence against Han Chinese. There is, of course, no discussion in the state media about the underlying causes of Uighur or Tibetan resentment against the Chinese state. These topics are not brought out. So, again, you see this divergence on the narrative, also with the narrative in the West of media coverage about these events.

These are difficult issues to deal with in any context, but the authoritarianism of the Chinese state makes them even more complicated because of the lack of space for critical thinking. So,

going forward, looking at the future, the trend lines are not good. The Chinese government is doubling down on these bad policies and the poor implementation of them, and the likely result will be a situation where it becomes harder to manage rather than easier.

You see these communities becoming a permanent disadvantaged underclass in China that is more and more resentful. You see increased Han resentment about the state-provided benefits to these communities, which are becoming a budgetary burden on provincial governments, and people are starting to complain about this. And you'll see increased violence, I think, looking forward, if the policies remain unchanged.

There are a few bright spots. I want to try to end on bright spots here because it's such a depressing picture when you look at it.

There are initiatives such as the Open Constitution Initiative, which has written a report -- this is a Han NGO of lawyers and academics - it's written a report calling for changes in policies in Tibet after the events last year. And you have a petition that they circulated online that, before it was shut down by the government, attracted about 350 signatures, mostly Chinese people, calling for changes in the government's policy.

And you have people looking at the environment in Tibet -- Chinese looking at the environment in Tibet as a flashpoint. And Chinese, who are looking for spirituality and some connection with something deeper than their current situation allows them, are gravitating towards Tibetan Buddhism.

These micro trends, if you will, have some promise to make the situation better. Also increased freedom of expression, which will create space for critical thinking and a broader discussion about these issues, a more honest discussion about them, are trends that if they continue to expand, could change the dynamic of this overall very bleak situation. But it would require some substantial changes at the macro level in terms of the government structure to allow them to grow and develop in a way that will affect the underlying attitudes that most Chinese have towards the situation today.

POMFRET: Thank you very much. Ole?

OLE SCHELL: Thank you. Well, thanks, Liz and Randy, for inviting us down to such a great event. I'll try and be brief because we're going to show a clip from our film.

I first went to China in the late '80s with my dad, who is a journalist. And he took me out of my little league and brought me to Beijing. And I spent a lot of time with my new stepmother's -- who was Chinese -- father, who had lived in Beijing and Shanghai his whole life. And we rode bicycles around Beijing, and he was wearing a Mao suit, a Mao hat with the red star. I too got the hat with the star. We were riding around.

And China at that point, as a kid, felt very closed to the rest of the world. There was very little sort of Western media influence. You know, there was no sports pages to be read. There were very few Western movies. I remember we took a boat up the Yangtze River for five days and they had one movie that they played on a loop, and that was "Urban Cowboy" with John

Travolta -- (laughter) -- that they played off a betamax player. I must have watched it a thousand times.

So, fast forward to the present day. I hadn't been back to China since the late '80s. It was just before Tiananmen Square so it was sort of an interesting time. I got a call from a woman named Wang Li Fen, who was a producer and host on Chinese Central Television, and she was setting out to do something quite extraordinary, which was to create a television show called "Win in China," which many people described as the Chinese version of "The Apprentice," but in fact I think it was a bit deeper than that.

Instead of having one Donald Trump they had a panel of five of the biggest businessmen in China. And businessmen in China now are sort of the new icons. The images of them, you can see them on billboards on the side of any highway. They sort of replace the imagery of the heroic worker. It's now the heroic businessman, and they really are rock stars.

So it was these businessmen's job to screen 120,000 aspiring entrepreneurs who applied and some of them came to Beijing with business plans in hand. And it was their dream to get funding to create or fund their existing businesses, and it was these businessmen's job to decide who would get the funding. So they quizzed them live on the air, asked them about their business plans, and if they weren't up to snuff they would cut them and fire them like Donald Trump would do.

And the point of the show, which is really what was the most interesting to me, was to instill and spread an entrepreneurial spirit in the Chinese people, which, okay, that sounds interesting but isn't it supposed to be a communist country? So that, to me, was like a great contradiction that we wanted to explore.

So we chose to explore not just the creation of the show but the historical context. What does it mean that an ostensibly communist government on state-run television would sanction such a show and give away \$5 million in venture capital to start businesses? And the idea was they wanted to create jobs for the middle class, that is growing quickly, quickly every day.

So, again, it's the Chinese "capitalist party," I think you would say. But in China, you know -- in China, everything has got an undercurrent and sort of a surface thing, so you can't admit that it's capitalism. So they would do it under the guise of bettering China under social responsibility is how they would really explain it.

So we also wanted to look at not only the creation of the show but what was the environment in the country? How had it changed since the late '80s when I'd been there? What was the brew that made it possible for a show like this to exist? We explored all kinds of other youth culture -- Chinese rappers, Chinese punk rockers, Ferrari salesmen -- and a lot of people in the West aren't really aware that those freedoms exist; that you can go buy a Ferrari, that you can become a rapper, that anybody cares if there's a rapper, that you can go to a punk rock show.

So what I found was that as long as you're not criticizing the government -- which they should be criticized, in my view -- but as long as you're not doing that you have a lot of sort of freedom in the country.

So we have a couple of clips from the film. There's a lot of crazy entrepreneurs who applied to be on this show. This entrepreneur is a guy named Zhou Yu, who is an aspiring lingerie baron out of Weifeng, China. And he was such a bad-ass businessman that he had a nickname called the Wolf. And he lied and cheated his way through the show to the finals. So we'll show you a little bit about his -- in his lingerie factory, and then it will be followed by a short trailer for the film.

(Pause.)

(Cross talk, laughter.)

(Video plays.)

POMFRET: Fortunately for us, we're not televised. But I wanted to --

ELIZABETH ECONOMY: Yes, we are.

POMFRET: Oh, we are? Indeed. Well, this revolution is televised. (Laughter.)

I wanted to kick off the question and answer period because I'm sitting up here -- I have the prerogative; I have a mike -- for asking the first question. And maybe to the group in general but I'd first like to ask it to Minxin.

I mean, people have been saying since 1989 that the wheels were about to fall off the system, remember? There was a great book by the BBC correspondent called "China in Disarray," which was published in 1992. David Schlessinger, the late, great UPI correspondent, used to say the Communist Party had one foot in the gutter and one foot on the banana peel. (Laughter.)

So these sort of predictions that everything was about to fall apart have been sort of an undercurrent -- part of an undercurrent of looking at China for a while. So there's two currents. One is saying the grass is going to keep on growing forever and the other is saying there's imminent danger ahead.

You're more on the imminent danger ahead line. How do you sort of justify, when the Chinese keep on seemingly defying the odds -- they have -- I mean, they're going to grow 8 percent this year. Now, you can say, well, okay, it's all sort of Keynesian, sort of market stimulation, whatever, but nonetheless, I mean, they have defied the odds significantly. Wouldn't you agree? And if you don't agree, please take me to task for that. But sort of explain to me why you really think that this is not a sustainable model that they have.

PEI: Well, I think, first of all, we have to agree that China has done very well since Tiananmen but the underlying risks have not gone away. I often joke that pessimists are always wrong in timing and right in terms of substance. So unless the underlying risks have been removed, we should not be optimistic. I think I'm not one of those who predict imminent danger; I'm the sort of cautiously pessimistic types. (Laughter.)

I'm not saying the wheels are going to fall off, because China has great potential. Probably they could have done better had they addressed these problems, and maybe the costs are being pushed way into the future because the current government is so present-oriented. It does not want to solve the tough problems today. If you look at environmental problems, ethnic problems, the underlying fiscal financial problems, they're all being pushed into the future.

POMFRET: Please identify yourself when you ask a question.

QUESTIONER: (Off mike.) I would like to note two long-term trends in China. One is urbanization, which is said to take the country to about 60 percent urban by 2025. And the other is the government's push to expand tertiary education, and I was surprised at Brookings recently to hear that the goal is to have 50 percent of the population go through tertiary education by about this time.

What are the implications of these two trends for political stability in China, and what would the panelists say about the capacity of the Communist Party to manage and stay on top of these trends? Thank you.

POMFRET: Professor Huang.

HUANG: Okay, I will try. Actually, I think in terms of the impact of the urbanization and also the government policy of mass education - education Great Leap Forward, if you may, I think one of the major risks here, in terms of impact on political stability is that you have so many people, the young people, getting a higher education but after graduating they are unable to find jobs. Actually, a large percentage of the young student graduates were unable to find jobs. I think that presents a major danger to the Chinese "capitalist party," if you may.

Well, this again reflects this mentality of the Chinese, the government. That is, they always want to postpone the crises, because in 2004, actually, I believe, the suggestion was that, you know, they want to solve the problems of unemployment, so why not just putting those kids through the college, so they would have four more years in college? And we're going to solve the problem by then. But it turns out the problem is getting bigger and bigger and even harder to address. Maybe Minxin could add something on that.

PEI: Well, I think urbanization is definitely a welcome trend for China in terms of its future political liberalization. The current system deals very well with a peasant society, or with a largely agrarian society, but when urbanization reaches 65, 70 percent, just imagine how difficult it will be to control political activism in urban centers because the Communist Party really cannot deal with organized social groups emerging in these urban centers in the future.

CURRIE: And I think also, when you have a more educated population, a more urbanized population, they're going to have to release some of the constraints on freedom of expression, freedom of association that are currently holding the Chinese people back from fully expressing themselves, fully being able to organize themselves. And I think that that will feed into the point that Minxin makes. I think it does push the trend towards political liberalization, and I'm not sure that they're fully prepared to deal with that.

PEI: That's why they see into the future and don't like what they see.

POMFRET: Sir?

QUESTIONER: Thank you. I'm Tom Reckford with the World Affairs Council. A question for Professor Huang.

A few years ago I had an experience to see the best hospital in Beijing close up and was shocked by how backward it was in terms of its equipment, in terms of the knowledge of its top doctors. Has there been improvement in the last few years, and what about the hospitals in other parts of the country that have not been so favored?

HUANG: Thank you. I think it depends on what hospital you visited. For most of those urban health centers, I think the hardware actually is very advanced, very sophisticated; the doctors, the health workers very well trained. It's just that accessing the health care -- I mean, the software is the big problem. You know, if you go to any -- I believe that's still the case in urban health centers. If you don't have the *guanxi*, the connections, you have to be waiting in a very long line just to get seen by a doctor.

And, actually, you need also to be in a queue even to wait for the elevator. And for many of the people who want to get hospitalized, usually they have to wait for a couple of weeks in order to get a hospital bed. So, you know, on the one hand you've seen some very significant progress being made in terms of updating the facilities, but on the other hand, you've seen still these lingering problems in accessing health care on the demand side.

PEI: There's one story I can't resist telling. I read in an official publication that because of this problem with access and long queues, seven directors of Beijing's main hospitals did undercover work. They lined up from beginning to end. They calculated it took them seven to eight hours to get to the appointment and they were seen by the doctor for only seven minutes. And so that gives you an idea of some access issues.

CURRIE: And if you think about the number of people that they're planning to bring into the health system in the next 10 years, I mean, it's going to be -- you think that we have a problem with access; it's going to pale in comparison to what China is looking at.

QUESTIONER: Steven Kramer, National Defense University. Could you comment on the demographic problems that China faces, above all aging population and the impact of the one-child policy in terms of decline in, eventually, number of working people?

HUANG: I guess that question is addressed to me. I was actually thinking of including the population policy in the talk, but I only have seven minutes.

I think the demographic issue is another big challenge China has to come to grips with, simply because on the one hand you have actually more people getting old. You know, China is formally an aged society because China has this different criteria, that if you exceed this 10 percent threshold of the percent of people more than 60, so China now is formally an aged society.

That of course caused a lot of problems. One of the big challenges is these chronic conditions -- cardiovascular diseases, cancer, diabetes. Actually that will increase the disease burden, especially also for the Chinese health-care system.

And, of course, you know, that change of the demographic structures are in part caused by the Chinese one-child policy. Actually, as a result what we're seeing is that the elderly people keep increasing but the younger population as a percentage of the total population decreased.

That also is going to increase the aged dependency ratio. That is, you have more elderly people but less young -- fewer young people to support those elderly population. So that leads to the prediction that China might get older before getting rich.

CURRIE: You also have a situation where the elderly are concentrated in the countryside and the young people are urbanizing. So you have a potential for vast villages and a countryside full of old people who are not being cared for, being left behind.

And then the other issue with the demographic situation and the one-child policy is the missing female population and the potential for social instability there. I'm just starting to do some research on this, actually, and trying to look at where this is going.

It's a very complicated picture and some people are predicting very dire consequences as a result of this social instability because of 100 million missing female children that just weren't born during the period of the one-child policy's strict enforcement, and the potential for not being able to find wives, and young men who can't make families and who can't become stable members of society.

SHELL: Actually, I have an experience with the one-child policy. I was living in Beijing to make this film and I was walking around the San Li Tun neighborhood where I lived, and I kept seeing the same girl over and over again trying to sell me DVDs -- one day DVDs, the next day trying to get me to go to a karaoke club where she would get a percent of whatever I spent there if I had chosen to go, which I did not.

But I kept seeing her around and kind of befriended her. And she was so sweet. One day I said, hey, let's go get a beer. So I wanted to hear her life story a little bit. She was 19 years old. She had grown up in Shandong, and she had been taken out of school when she was 14 and sent to Beijing to work to send back to her parents to pay the fine for having more than one child. It was -- at that time I think it was a 10,000 RMB fine for having more than one child.

And she spoke perfect English but was totally uneducated and was stuck on the street corner. And she had all kinds of terrible jobs. She had been a, for lack of a better term, recruiter for a brothel. She had been in DVD sales, you know, on the street. And that sort of really hit home, you know. You talk about statistics and everything but when you really meet somebody whose life has really been affected by it, sort of you take it in a different way.

We were able to -- I still stay in contact with her. We were able to actually get her off that and to actually send her to school. For \$200 we were able to send her to school for a semester to

perfect her English and to learn computers. So it certainly is something that does affect families. And she hadn't seen her family in four years.

POMFRET: That said, there actually has been discussion China about the necessity to reform the one-child policy. I mean, every six months or so a relatively senior official will come out and say, we're thinking about this, and then someone of course from the State Planning Commission is saying there's no change whatsoever.

But in the countryside as well, I mean, if your first child was a boy -- first child was a girl, and you have the possibility of having a second child -- and in some areas -- they knock down houses, of course, but in many areas they don't and the fines aren't as high as they used to be. So, I mean-

(Cross talk.)

SHELL: I mean, the wealthier people can pay it. They don't care. You know, it's not a lot of money for them.

POMFRET: Yeah, it's a fluid situation right now.

HUANG: The bureaucratic resistance is becoming increasingly a big hurdle for any meaningful policy change, and we're seeing that in the population policy area. We're seeing that also in the ethnic policy area, while you have people calling for change of the Stalinist nationality policy, you also have the Ministry of Civil Affairs people coming out saying, no, well, the policy is successful; there is no need to change.

CURRIE: But this gets back to this lack of critical thinking that's just inherent in the authoritarian system. So these are just symptoms of the root problem.

QUESTIONER: I'm Tim Kane with the Kauffman Foundation. Ms. Currie, I wanted to address this to you.

It's interesting; I just last night realized it's the 20-year anniversary of the change in government in East Germany. And talk about the fallen authoritarian systems, I remember being impressed when Francis Fukuyama wrote about VCRs being important in spreading ideas. Twenty years later we have Twitter and the Internet and all that and we've already seen the impact of new media.

What's the media impact of new media on these minority groups in China? How do they spread the message and what's the trend line over the next 10 years for that?

CURRIE: Well, they have markedly less access to the new media than the rest of China. And if you think that the media is restricted in China -- and the Chinese government does periodically cut off Twitter and Facebook and Google for the mainland, but it has been blacked out in Xinjiang for four months now.

And there are still constraints on Internet access in Tibet today, since March. And it was always less available even before March 2008, but it has been extremely restricted since. Cell phone communication has been intermittently blacked out in Tibet and in Xinjiang.

The Chinese government is trying very hard to manage the situation through repressive means, and it's had an economic impact on these areas, which puts them even further behind where they already were, which was very far behind the rest of China, economically, and it will continue to do so.

And their kind of gut instinct and their immediate response is repression and denial, and their reaction to new media is no different. And they have coupled this with an increase in traditional propaganda.

What they are doing is using cell phones to send out messages. They're doing push-out messages. When cell phone availability is up, they're pushing out messages through the Chinese providers using the cell phones to control and send out warnings, using them to send out "wanted" messages to try to identify and capture people that they're looking for who have been involved in incidents.

So they're trying to use it to their advantage while restricting availability, and it's a very, very difficult problem for them, one that they're managing through repression basically.

QUESTIONER: Bill Gertz from the Washington Times. My question is about democracy. What are the prospects for democratic political reform in China? We've seen -- the arguments have been made that economic reform will lead to political reform -- middle class and political reform. We haven't seen that. And then within that question, is the Charter 08 movement a real nascent opposition movement?

PEI: Well, Charter 08, the good news is that it is not being totally repressed. I think except for one person, Liu Xiaobo who has been arrested, the rest of the signatories appear to be safe.

As far as the prospect for democracy in China is concerned, so far the liberal theory has not panned out, but it does not mean that it will not pan out. I think what we do not know is the process, whether it will come in a convulsive process or it will come in a very peaceful, gradual way.

I can make a case for either, but I'm personally inclined toward a much more dramatic, much more high-risk type of transition because, frankly, the post-Tiananmen strategy has been so successful, and the result of the success of the post-Tiananmen strategy is that the government has stunted the growth of the politically influential forces that would have helped China evolve gradually toward a more open political system. So, in the future when there is political crisis, the risks of some kind of convulsion are much bigger.

SHELL: Or they've released the pressure in a different way, right, by giving people economic freedom?

PEI: Yeah, well, basically it's what I call the bread and circus strategy. That is, you encourage that kind of money-making culture, entertainment -- all you need to do is to visit the Xinhua website and you'll be stunned by the tabloid-like nature of China's official presence. The stories in Xinhua are about beauty contests, about some sex scandals, and it's unbecoming of the country's preeminent official news source.

SHELL: When I interviewed Jack Ma, who was the -- for those of you who don't know, Jack Ma, the founder of Alibaba and the chairman of China Yahoo! -- he was a judge on "Win in China," and he was a firm believer that the more people who practice business, the more transparent the country would become because people have become more Westward-leaning. The more money they got, the more things they would want to get and the more traveling they would want to do, the more they would turn to the Internet.

And I found in China, aside from having my Facebook cut out from time to time or my Tibetan coverage being limited on CNN -- I mean, you can basically -- you can get most of the news you want there. Maybe it's a little bit slower, and you certainly can't research Tiananmen Square, or if you do, it's just about tours and whatnot, you know. Go the nearest Starbucks.

POMFRET: On the entrepreneurial question, I think that -- one thing that I've felt and heard over the last five years is the state has moved actually a little farther away from supporting small and medium enterprises towards backing up sort of the real win-in- China strategy, which is supporting national leaders when what they want to do is creating global leaders.

And so small, private, middle-size and small-size enterprises are having actually a more difficult time competing with state-run companies in terms of being forced and forcibly merged, et cetera. So it's -- I don't think it's -- I really wouldn't call it the Chinese "capitalist party." I mean, it has a more statist type of a feel to it, especially over the last five years or so as the state seems to have embraced its state-owned enterprises.

PEI: All right, let's call it Chinese "bureaucratic capitalist party."

(Laughter.)

CURRIE: Well, which makes it be Chinese "fascist party." (Laughter.) And I know I'm being quite provocative in saying that, but if you look also at the stimulus package, the Chinese stimulus package, it reinforces this trend. It's heavily infrastructure-based. It's really, you know, investing in the state sector. It's not pushing funds out to the small and medium-sized businesses. It's not pushing money back into the pockets of individual people.

POMFRET: In the back?

QUESTIONER: Caylin Ford. I'm a graduate student at the George Washington University. My question was, I guess, to any of the panelists who want to answer. The state has had, you could say, a complicated relationship with popular religion over the past few decades, characterized by these sort of conflicting tendencies of fong and show, sometimes sort of tacitly encouraging or openly encouraging, sometimes co-opting, and at other times being very repressive.

What do you see as the future of this relationship between the state and religions, and what do you think the role of popular religions could as sort of a civil society group in the future?

HUANG: I happen to have some personal experience in terms of state relationship with religion. I think you're right that the government, while -- this religious freedom is still a dream to many people in China, it is interesting if you notice that in this country you have -- they have the freedom of being superstitious, I would say. (Laughter.)

You know, you have seen those temples everywhere, and actually temples become more sort of commercialized in that you have these entrepreneurial monks, you know, that are very popular in China, and government officials that now also, especially corrupted government officials, they are more easily to get converted to especially Buddhism.

Rumor has it that, former Premier Li Peng has become a Buddhist. And I don't mean that he's corrupt.

(Laughter.)

CURRIE: I'll bet he is.

PEI: He is not corrupt; I can assure you.

(Laughter.)

HUANG: But also, I mean, despite the crackdown on religious freedom, we've seen this tacit support of the people, for example, building the churches. Even some of the underground churches also receive some tacit support.

But if you look at the composition of the Christians in China, especially in the countryside, a majority of them are elderly people, the people who are sick, the people who need help, you know, basically, you know, there are few young people who actually are attending churches on a regular basis. This is something I found very unique in China.

PEI: I have a friend who has done enormous work on underground churches. What he says is that it's much bigger than official statistics. And another thing that he said that was interesting was the local officials now found that the underground religious movement is simply too large for them to deal with, so they leave the underground churches alone most of the time.

CURRIE: And I think, you know, it is a very complicated relationship. That's a very diplomatic way to put it. You see them allowing expressions of religious faith at the local level and in the way that the party feels is pretty non-threatening to them, but the minute that anything steps over the line -- and this is largely where the faith community has links outside of China -- that is a big red line for the Chinese state. They tend to look very unfavorably on those things. And that goes for Tibetan Buddhism as well as Catholicism or any of the other faiths that you're talking about.

And I had a very interesting experience last year. This is a big propaganda point for the Chinese too, to send out delegations of local religious leaders from China and Chinese religious leaders out to talk about how religious freedom is flourishing in China. We met last year -- when I was in the State Department -- met with a delegation of religious leaders, talking about how wonderful everything is in China and how there is so much freedom of religion.

And they're really, you know, trying to play a very tricky game here with religion. There is a tremendous spiritual hunger in China. I think you see this. People are really looking for something and they're finding it in these faith outlets. And so it's something that the state has to deal with, and they're negotiating it very, very skillfully so far, but there are limits. There are always limits to what an authoritarian state can do because it's just not that nimble, at the end of the day.

(Off mike conversation.)

POMFRET: Sure.

SHELL: Well, a lot of things surprise me, so keep in mind I went in the late '80s when I was a little boy and then went back recently.

It's just an explosion of anything you can imagine, an explosion of night clubs, an explosion of music. And actually, believe it or not, the freedom that you can experience there -- maybe I'm a westerner there. But if you are sort of a part of a certain class there, maybe an educated class who's Internet savvy, there are a lot of freedoms you can experience there.

Again, it's not political freedom but it's economic freedom, complete economic freedom, you know, to do just about anything you want. Then also it was the way these businessmen were treated, again like these guys were icons. You see these guys mobbed like literally like rock stars. Some of the big guys there that I met who the people that first hedge fund they ever started -- had ever been started in China was sort of legendary, you know. I mean they have their pictures on billboards.

This guy, Pan Shiyi is like a real estate baron over there. You know, he's been in movies. He's become an actor. His blog was huge a couple years ago with billboards with him everywhere. And so people, like we said before, the pressure valve was released after Tiananmen Square by not giving these people political freedom but by giving them economic freedom. Deng Xiaoping I think went down to Shenzhen to say, okay, this reform is going to continue. And so that's where people went.

You know, I remember 1989. I was watching it with my dad and my step-mom, and everybody thought this could be the end. You know, this could be the end of the government, but it wasn't. And everything that kind of like cut that and put a dam up there on political freedom and let all that pressure go that way.

And so everybody there is an entrepreneur. I met somebody whose job it was is to collect, forgive me, but his job is to collect urine from urinals in restaurants so she would take and process and sell to a pharmaceutical company. You know, you hear stories of another guy

whose job was to work on a weigh station on a trucking route, a coal route. And every time he's weigh a truck, a couple of pieces of coal would fall down. He would take it and sell it. You know, he had -- (chuckles) -- a big old crate of coal, and he would go sell it and that's how he would accumulate his own economy if you will. (Chuckles.)

QUESTIONER: Ted Roosevelt, Barclays Capital. Could the panel respond to the both economic and political challenges that China is likely to face from environmental issues -- lack of water, lack of clean air, lack of potable water, et cetera. What kind of challenges will that represent for the government?

(Cross talk, laughter.)

QUESTIONER: I know, but I want to hear what you guys think.

(Cross talk, laughter.)

CURRIE: From a perspective of the ethnic groups, I will touch on it just a little bit, but Liz is the expert and there's going to be a whole big discussion. It's a very sensitive issue in Tibet particularly. There's just been a discovery of -- I don't know the terminology on this -- this frozen methane in Tibet. There's huge reserves of this potentially very valuable source of energy from the Tibetan plateau, but it's also very unstable. And it's either going to cause the Tibetan plateau to literally explode - literally light on fire and burn -- or it's going to be the source of energy for China for the next millennium. And they don't really know which one it is and how they handle it, and it's a huge environmental issue. It's got the potential to make the situation in Tibet even more volatile. You could have the Niger Delta in Tibet in 10 years. It's -- you know, it's a mess.

And the way that they've been conducting resource extraction in Tibet and Xinjiang has been incredibly environmentally irresponsible. It's done tremendous damage. You know, the permafrost in Tibet -- again, this is so not my field and I'm way out of my depth here - is very delicate. It's a serious problem there, and you have downstream effects on India and Southeast Asia. They're doing damming on the Brahmaputra and on other rivers that have their head waters in Tibetan areas. There are tremendous political instabilities inherent in some of the environmental issues on the Tibetan plateau that get almost no attention from policymakers but have huge regional impacts and huge international impacts.

SHELL: I see -- Elizabeth knows about this. My father's at the Asia Society. They're doing a whole thing on the glaciers in the Himalayas and the glaciers. They're taking pictures that were taken 60 or 80 years ago of the glaciers and they sent people there to take pictures now and they compare them. And the glaciers are now at 50 (percent) or 40 percent of what they were, and they're going to disappear in the next 30 years altogether and they supply a great proportion of the world's population with water, you know.

And now it's really affecting the people in the Tibetan plateau. There's too much water in places. So their fields are getting destroyed by too much water. And then there's drought in other places, and their livestock -- they can't have as much livestock. They can't have as many yaks or as many yak, I'm not sure what the plural is. (Scattered laughter.) So I guess if

anybody's interested in that, you can go to the Asia Society website and China Green and click on that and there's a lot of short zones and sort of interactive media there.

HUANG: While I agree that China faces this daunting challenge in environmental protection. Actually I think we have also to recognize the huge potential and also the progress China has made in this area.

A couple weeks ago, I was in San Francisco meeting those NGO leaders and also people involved in helping China promoting energy efficiency in the private sector. And I found it very interesting that China's energy efficiency technology actually is one of the best in the world, believe it or not. I also met Li Lu, the Tiananmen leader who is now a very successful business person who helped broker the deal between Warren Buffett and the BYD, the auto battery maker in China, and he told me his business is expanding very rapidly. And I was told by another business leader that their technology, the technology of BYD is now the best in the world.

POMFRET: It's fallen on me, I think we're about to be ready to wrap up, but it's fallen on me to wrap this up since I'm, I guess, the sole journalist among the bunch.

It seems to me that today we've talked about a series of challenges that really can be sort of focused on significant issues of governance in China. For example, the challenges the Chinese state is facing as it increases its education will be how can it move up the value chain, the necessity of building sort of higher value jobs in a country that has been for many years the factory of the world.

The challenges of urbanization, the unintended consequences of urbanization will probably be political activism in a system that is not really apparently ready for significant political reform.

The challenges in the ethnic areas of allowing hand migration creates the potential for more attention, the potential for violence, the potential actually for increased violence. And then, for example, on the health care sector, the challenge of as you increase your hardware, you also have to increase or improve your software. But that involves potentially the political ramifications.

And also as you have an increasingly aging society, how to bring all those people into a healthcare system that will give them the care that they need. The challenges of the one child policy have created the unintended consequences that China's going to be probably the first country that grows old before it gets rich.

And finally, sort of the challenges of the success of the last 20 years since the Tiananmen Square crackdown have created in a way a lot of opposition or just blockages to creative thinking that Kelley was talking about or the necessity for looking -- embracing a new model for China's future. I think many people within the structure and you probably would agree understand China's problems in many ways a lot more deeply than we do. But there also seems to be to get back to the governance issue just bureaucratic impasses and impediments to change that are sort of hard wired into the system.

So with that, thank you very much for coming. We're almost on time. So I appreciate it. (Applause.)

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