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CHINA IN 2020: A NEW TYPE OF SUPERPOWER

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P R O C E E D I N G S

MR. LIEBERTHAL: We're delighted to have you here today. I'm Ken Lieberthal and I'm Director of the John L. Thornton China Center at Brookings. It's a particular pleasure to introduce this event today in part because I've known Professor Hu Angang for many years and it's just a joy to be able to welcome him here to my place for him to give a presentation, but also because Brookings is all about doing high-quality research, research that has an impact in the real world. This is actually the first of three book events we're putting on here in a one-week period, this one today with Professor Hu, and then one for Jonathan Pollock who did a wonderful book on North Korea that will be this Friday, and then next Wednesday afternoon that I wrote on Managing the China Challenge. Each of those provides an opportunity to hear from the author and then hear commentators and then ask questions of all of them. It's the kind of thing we love to do, and to have three in one week is really a great pleasure on our end.

We've got a terrific program today. Professor Hu Angang is one of China's most wide-ranging and influential intellectuals. It is remarkably true to say that, and I've noticed this over many years, what he says is often not the conventional wisdom, but if you wait 5 to 10 years, it is mainstream policy in China. He has had a remarkable ability to raise issues that are ahead of the curve and take 5 to 10 years before they move to the center of what China is doing. So I've always paid great attention to what he says about the future, and his book that he'll be discussing today is about China in 2020.

Dr. Hu is the Director of the Center for Chinese Studies and Professor at the School of Public Policy and Management at Tsinghua University. His book on China in 2020, by the way, copies are outside for purchase if you didn't notice on the way on, his book is the second in a series that the Thornton China Center is publishing under the direction of Cheng Li who is one of our commentators today. The idea of the series is to

bring the writings of some of China's most important public intellectuals into an English platform where they can be widely understood by English audiences. The first of these was by Professor Yu Keping called "On Democracy." I knew I had gotten that wrong. It's "Democracy is a Good Thing" and it's a good thing you were here to correct me. Professor Hu's book is the second and we have the third and fourth books already lined up so that this is an ongoing series and it's terrific to be able to do this event around this book today.

Professor Hu is a prolific writer. In fact, for those of you who have the book, if you turn to the final five pages of the book, the final pages are simply a list of the books that he has published. My list of books fits on one page quite nicely. This book is remarkably comprehensive in scope and assessing China's future; in that way very reflective of the multidisciplinary approach that Dr. Hu has taken over the years. We therefore have two commentators who will approach it from distinctly different disciplinary backgrounds.

It's a real honor to welcome Nicholas Lardy from across the street at the Peterson Institute. Nick is certainly -- I'll be diplomatic, one of America's foremost economists dealing with China. Secondly, Cheng Li. Cheng is a Senior Fellow at Brookings and Director of Research at the Thornton China Center. Dr. Hu will take about 30 minutes for his remarks. Each of our commentators will take 10 to 15 minutes. We'll then have I suspect 30 minutes or a little more than that for Q and A from the audience. I'll ask each of the speakers to simply come up in turn. When it comes time for Q and A I'll remind you of this, but please keep in mind when you're recognized state your name and your affiliation, and a question that ends in a question mark and please when you're recognized first of all wait for our roving microphone to come to you and then do all of that so that everyone can hear you. The one last comment I'd make is that I want to thank Professor Hu for agreeing in advance to make all of his slides available. We will

have them on our website at Brookings under the Thornton Center within a very short period of time after this presentation. With that, Professor Hu, welcome.

MR. HU: Brookings invited me to give a brief introduction for my book. The title is "China in 2020: A New Type of Superpower." I prepared for the PowerPoint more than four pages. I quickly gave -- today we need to address some of the questions, not only the China interest in, but also -- even the word very interesting. I quickly will give -- my presentation. Firstly, I discuss how China is an emerging superpower. Economic development, demographic challenges are problems. Even education and human resources. Science, technology and innovation. Climate change, even sustainable growth. This covers all the China problems even the -- last point givemy ideas by 2020, what are China's development goals? What's the grand strategy we have to achieve them?

Firstly, I gave the talk -- China emerging superpower. I consider that China in the last 60 years --has rapidly increased since 1978. China quite ascends into the rank of the greater power not only after achieving the expectation of the international community but also far surpassed the Chinese government's own expectations, even including my expectations.

How to analyze China's rising of the modern China? Based on the national development life cycle. First stage I call the preparation for the modern economic stage. The second stage I call the high-speed growth stage. That means the takeoff. This is the ideas of 20 years ago they recall that after 1980 China will be taking off. The third stage that means from 2020 to 2050, even 2060 and so on. We call that like -- the growth stage. This occurs based on -- Maddison's database describe China unique -- they call experiencing the U curve since 1820 that China --the death rate declined too until 1950. After then the increase especially the last 30 years even based on the -- forecast by 2030 that China will be take over the U.S. even Western Europe.

This is based on Maddison's analysis. This is my analysis sources of economic growth including the capital stock, employment, human capital and -- total -- productivities.

I think that China has the potential for future economic growth. This is including what I call international catch up and the domestic catch up. That means between the coastline and the interior like the rich areas, like Shanghai or Beijing and -- this is will be we can use the catch-up effect. Secondly, the high domestic savings, even the high investment rate including FDI. Third, expected increase of human capital -- the growth of the non-agricultural sectors stated increase the total factor productivity -- and maintain 3 percent, even 4 percent. This is my estimate in my book where I describe China how to catch up, even to take over the U.S. This is by the last year my estimate.

This year I added new information. This is describing China creates 50 years of economic growth—the golden age. That means since 1978 to 2030. This is the new result. That means that the last 30 years that China maintained 9.9 annual growth. Next 20 years will reach 7.5 percent. The 50 years will reach to 9.0 percent for annual growth. This is will break the American record, even the Japan record if based on constant price like 1978 is one 1.00 from the growth index to look at. In 2010 China's GDP over 20 times. By 2020 it will be over than 40 times. That means that China takes 42 years since 1978 to 2020 that GDP will growth more than 40 times. If that continues next 10 years after 2020, China's GDP will be more than eight times. This describes what I call the catch up index of GDP. Like the U.S. is 100, this is based on Maddison's data. By 2020, China will be about 1.7 times that of the U.S. By 2030, more than two times. This is long-term trends I put this information. This describes the catch up index in terms of GDP per capita. We find that China now is about one-third of that of the U.S. based on PPP. By 2030 will be reached nearly half of that of the U.S.

If one looks at an exchange rate approach based on current U.S. dollars, we find that in the last 10 years China quickly narrowed -- between U.S. and China and

between Japan and China from this time declines too last year. Especially as you know, the international financial crisis reduced to 2.5. If -- including three factors. One is China's real growth will be reached to nearly 8 percent, between 8 to 9 percent. The second factor we call our nominal GDP reflects the deflator. The third is exchange rate appreciation rate is about 4 percent. By 2020, China will take over the U.S. This is based on the exchange rate mentioned. But the conclusion that my book said that China will take over the U.S. in terms of GDP regardless of how it is calculated is inevitable. I call this the last term describing how China catches up and even to take over U.S. since 2000. We need to take not only 10 to 20 years, even more years. This is the first time to recognize China's economic transition and influence.

Secondly, as you know the demographic challenge -- published the national census. We find that China needs to respond to the aging society even -- children -- very important information from my book mentions about it. Urbanization is the main driving force for future development. I call that this is on my book's calculations. Since our new population census of last years, in red color I describe. But last year, China's urban population reached to over 600 million. Based on this slide, we forecast that by 2020 that China will reach more than 800 million. By 2030 we will reach to 1 billion. That means that China's share of the urban population in world total will be from now 19 percent and reach to 22 percent. If we look at health, China has faced a lot of challenges. In my book there is some information. Quickly to mention about it, another indicator like the HDI, the human development index, was -- of China's building up a xiaokang society, a well-off society based on the HDI. In 1950, China belonged to extremely low group of the HDI. In 1980, China entered the low-middle level of HDI. In 2010, China nearly reached what I call the high HDI level. By 2020, China will increase its HDI. These are the indicators including life the expectancy index, education and even GDP. This is actually why -- 5-year program -- introduced. Here are some indicators of

some very important quantity indicators. This is related to what is the meaning of the xiaokang society.

My estimate of China's human resources are the results -- added new -- last year -- China average education, year for -- reached to 9 years. I estimate that by 2030 that China will reach 11 years. This is what is called the catch-up index of China with the U.S. In 1950, China just only equal to U.S. 12 percent, but last year very quickly to catch up. By 2030 will be narrowed between China and the U.S., even between China and the developing countries' human capital development.

This describes how China can become a global human resource. I gave a definition of the human resources. That means population age from 15 to 64 years time average years of education to calculate China's and other countries' share of the world's total. Education, not only education, need to understand even -- science and technology -- this is based on my book gave very clear ideas how to give a quantitative analysis calculation, make even an international comparison. This is our estimate last year. We're finding the gap between the U.S. and China, between Japan and China, that rapidly declined.

Today I introduce my new research this year -- I correct it. I always correct my original research. This table describes how do matter of science and technology -- I trust the indicators including scientists and engineering engaging in R&D expenditures based on PPP International Paper published. This is based on the World Bank, even emphasized by Thomson Reuters did base tighten application high tech as part. This is the five indicators we calculate -- I'm very surprised that China quickly narrowed the gap between the U.S. and China from 6.4 times in 1980 -- now decline to -- quickly reduced to 1.2. This table tells us that China quickly -- I use my five major indicators to take over the U.S. This describes that China was the driving force of China

rising in science and technology. I give detailed information in my book including the economic and science and technology globalization.

The business now take a very important role for R&D expenditures, even innovation and so on -- and to promote sustainable high-speed economic growth, China will realize the government's target by 2020 as China an innovative country, something I call four quantity indicators. China will face big challenges I call climate change and sustainable development because --China is an important country. I have another special book published in 1997 that analyzes natural disasters and China's economic development. Now China quickly becomes number one, even a superpower in greenhouse gas emissions that China needs to shift their own pattern or model. I call how to from -- black cat shift to -- green cat. We call the second generation of the cat-- they need to initial or precipitate a green industry revolution to promote innovation in green technology, to promote green demand or green consumption even green energy -- remark -- this is the --first time the 12th Five year plan accepted green development and these new ideas. It's a very important policy for the next 5 years, even the next 20 or 30 years.

So what's the goal of the development and grand strategy in the next 10 years and even in the future? I call we need to address four basic principles. These ideas come from not only from my research, even some other colleagues, even the leaders' ideas, I combine what I call the socialist modernization by 2030. We gave some quantitative indicators to to design the roadmap to reach the 2020 target. This is a long roadmap.

The last question we need to understand, if China becomes a superpower, what kind of new type of superpower? I'll address several points. Firstly, China should not be a superpower. That takes hegemony and domination. Secondly, China's rise has been defined by peaceful development. The third should be resources,

efficiency, environmentally friendly superpower. That means they promote green development, create a new pattern of the production, consumption, even -- China should be a superpower with high human development levels. That means catch up with U.S. education levels, even the university. And the small between the rich and poor, that China should also be a superpower with a significant soft power resources, that China must be neutral and responsibility more and more to supply I call not only regional public goods, even global public goods.

So we are thinking about the China dream. Even Chairman Mao in 1956, even Hu Jintao in 2007, talked a lot of China's dream. I think -- is China's -- most economic and trade contribution as well as poverty reduction, contribution for the last 30 years. But in the future China needs to contribution in four other key areas. Firstly what we call human development. Secondly, science and technology, even the knowledge contribution. The third, a green moment or green contribution. The last one is cultural contribution. These four contributions would represent China's modern renaissance with domestic and international significance. Given that China has become one of the largest stakeholders in world affairs today, it is incumbent upon it not only to follow its own interests and the interests of development countries, but also develop an efficient, consistent with the rest of the developing countries. Thank you very much.

MR. LARDY: I'm delighted to join this program to celebrate the publication of Hu Angang's book. I think it's fairly clear if you've had a chance to look at the book or if you're familiar with his work that he's really moved -- unlike the specialization that we see in modern economics certainly in the U.S. and many other places, he's working in the fields of demography, public health, income distribution, environmental studies and climate change, science, technology and innovation and many, many others. He's really a renaissance man rather than a narrow specialist.

What I want to talk about today is this view that China is currently in this stage of high-speed growth that Angang dates starting roughly in 1980 and will continue for about another decade. Certainly the first two decades have been a huge success at least measured in terms of the headline growth numbers that we've seen over the last two decades. What I want to talk about is what I see as the greatest challenge to sustaining this growth path for the next decade so that China can get to the stage that starts in 2020 which I believe he calls the steady state growth which is still fairly rapid by global standards but a somewhat slower pace of growth than we would have seen in the first three decades from the beginning of economic reform roughly in 1980.

The thing that I think is the challenge is something that economists call financial repression and I'm going to talk first about what is this, I'm going to talk secondly about what the consequences are and then I'm going to talk about the implications for the prospects that China will continue this high-speed growth over the next decade.

Financial repression can be measured in a lot of different ways, but I think the most important is that financial repression is an economic system that is characterized by what I would call ultralow interest rates and ultralow interest rates have many, many important implications, but among the most important are that it transfers income and wealth from savers to borrowers so that they're transferring wealth from the household sector which is the big depositor into the banking system to the corporate sector which is the biggest borrower from the banking system, and equally important these very low interest rates transfer income from households to banks because very low deposit rates provide banks with a very cheap source of funding and allow them to be potentially quite profitable.

To put some numbers on it, if we look at this from the point of view of deposit rates before 2004, and I date the onset of financial repression roughly from the beginning of 2004, prior to 2004 for a period of 7 or 8 years the average real interest rate

on a 1-year deposit was about 3 percent. That is, if you took the nominal interest rate and then adjusted it for consumer price inflation, if you'd put your money consistently into 1-year CDs, you would have earned 3 percent after inflation. Since the beginning of 2004 over the 7-year period, the real interest rate on 1-year deposits on average has been minus 0.3 so that households are not earning anything from the money they put in the bank, they're getting taxed at a very significant rate. It's important to note that these low interest rates are not a function of the recent environment where we have ultralow interest rates because many governments are trying to promote expansion of the economy to come out of the global recession, this has been a fairly consistent pattern in China even during the supercharged growth rates that China had in say 2005, 2006 and 2007.

We can also look at it from the point of view of borrowers. If you're going to borrow money from the banking system, how much does it really cost, and I'm going to do this from the corporate perspective, so the lending rate is the nominal rate minus the prices of machinery and equipment, the kinds of things that a corporate borrower is going to use the money for. Prior to 2004, the average 1-year real lending rate was about 6.8 percent. Since the beginning of 2004 on average it has been 1.7 percent. So if you're a borrower in the corporate sector, money has become very cheap. That's what financial repression is, and this has been achieved because the Central Bank of course sets the interest rates on both the deposit side and the lending side that this isn't determined by the supply and demand in the money market but is directly determined by the Central Bank.

The second question is what are the consequences when you have financial repression? I think it's fairly easy to anticipate that the first thing you have is that investment will rise as a share of GDP. I think that the Chinese economy is pretty much a market economy and that borrowers are looking at the rate of return on projects that

they can undertake and they're not going to borrow a lot of money if the return on the potential projects is substantially less than it's going to cost them to borrow the money so that when you can borrow for 1.7 instead of 6.8, you're going to do a lot more borrowing and the rate of investment is going to go up in the economy, and that's what happened in China.

Prior to 2004, the average rate of investment, this is in capital formation as a share of GDP, was roughly in the mid-30 percent range which is pretty high compared to many emerging markets but not really very high compared to the newly industrialized countries in East Asia in their high-growth periods, countries like Japan from the mid-1950s to the mid-1980s, Taiwan from the late-1960s and so forth, Korea, they also had investment rates that were in the mid-30 percent on average. But since 2004 China's investment rate has averaged 44 percent and has been rising fairly persistently over this period, and reached 49 percent last year which is absolutely unprecedented in global economic history. So when you have cheap capital, the investment rate goes up and we've seen a substantial increase in manufacturing investment, and essentially capital is being subsidized, and when you subsidize something you get more of it. So the predictable result is that we have gotten more goods of the type that use capital intensively, and what that means in China is that the manufacturing share of GDP has risen since 2004 and is now very, very high compared to other countries at comparable levels of economic development. China is at about 33 percent on manufacturing narrow defined, and the average according to the World Bank for a comparable set of countries is about 21 percent. So you've gotten a very outsized manufacturing establishment that has been financed with the cheap capital that has emerged since 2004.

The second reason that we have gotten a bit increase in investment as a share of GDP is the actions of the household sector. As I mentioned, the household

sector when it puts money in the bank has been seeing it diminish in real terms since 2004 and the response to that has been for households to put more and more of their money into residential investment. Property prices have been averaging an increase of close to double digits over the last decade, so in the earlier period you got a positive return on your money and you kept quite a bit of your assets in bank deposits. More recently people have put more and more of their money into housing. Prior to 2004, China was investing about 3-1/2 percent of GDP in residential housing. Since 2004 up to the present, it's gone up to an average of about 7 percent and it's still rising. It was 9 percent last year.

The reason households do this of course is in part some of the other features of the highly repressed financial system. It not only means low interest rates, but it also means that you have a very shall we say underdeveloped financial sector with no capital account convertibility, in other words, a very narrow range of financial assets, no capital account convertibility so that you can't put your money abroad. So households are faced with the choice of putting their money in the bank or putting their money into real assets which in China of course increasingly has meant housing. The first consequence of the financial repression that has emerged since 2004 is the sharply rising rate of investment into unprecedented territory, a sharp increase in the manufacturing share of GDP to a very elevated level compared to peer group type countries and a very substantial increase in investment in residential housing.

Another consequence is that there has been a slowdown in the expansion of the nonagricultural labor force. In the 7 or 8 years before 2004, the nonagricultural labor force, by which I mean is the modern sector labor force, was growing at about 3 percent per year. Beginning in 2004 up to the present it's been growing at about 2.7 percent per year. This is because investment has been tilted into manufacturing, manufacturing is less labor intensive than services, investment has

moved away from the service sector, that's why it has become relatively small, the service share in China is about 40 percent of GDP, in the peer group countries it's about 54 percent of GDP. So China's manufacturing sector has become unusually large, its service sector is unusually small, and the most important thing is that the wage share of GDP as opposed to the share of GDP accruing to the corporate sector or to the government has gone down not because real wages haven't been going up, I think real wages in recent years, and not just in recent years but for at least a decade, have been going up by around 8 or 9 percent per year, but the growth of the labor force has slowed down so that the wage share of GDP has grown more slowly. So I think the consequences of financial repression, there are some others that we could talk about, but the consequences of financial repression are this rising share of investment, more of it going into housing, the slowdown in the growth of employment, the development of an outsized manufacturing sector and an underdeveloped service sector.

What are the implications for China? Angang makes a very eloquent argument in his book for what he calls Chinese exceptionalism, but he is talking purely in geopolitical terms that China's rise will be different from some of the experiences we've seen in earlier decades and centuries and I tend to think that's a very good argument. But as an economist, I am of the view that there is not going to be exceptionalism. I think the consequences of having this highly elevated level of investment will be adverse for China in the long-run because it's really not sustainable and the transition to less investment necessarily involves investment growing at a slower rate than the underlying economy and that transition will be extremely challenging. We've seen other countries that have been grappling with that, countries like Japan in the 1990s and even in the past decade. I think the risk of slowdown of investment will be initiated in the property sector where we've had substantial overinvestment. When the price correction comes we will have a substantial negative wealth effect that will have a big effect on economic

development in China. The share of household wealth represented by housing for urban households has more than doubled over the last 10 years, most of the increase occurring since 2004, and as housing prices decline there will be a negative effect on household wealth, which will have a negative effect on household consumption. So the risk is of a substantial, prolonged slowdown in GDP growth as part of the transition to moving toward a more sustainable level and share of investment in China's underlying economy. I'm not forecasting that this will happen, I think it's uncertain, but I think this is the biggest challenge that I think remains to China sustaining the kind of high-speed growth that Angang is talking about for the remainder of this decade. Thank you.

MR. CHENG: H.G. Wells, the brilliant science fiction novelist once said, "History is a race between education and catastrophe." This is particularly true for the 21st century in which we confront many potentially global catastrophes and some of which can be the result of dreadful misunderstanding and misperception.

This is a time when education, vision and international thinking are greatly needed. We are delighted to have Professor Hu Angang, a great educator a Chinese visionary and a strategic thinker to share his perspectives and his insights. I've felt particularly privileged over the past year also to closely work with Professor Hu and also today to discuss the book with you, Ken, Nick and our audience.

As Ken mentioned earlier, Professor Hu's Book "China in 2020" is part of the Brookings Institution's Thornton's Chinese book series initiated by an American visionary who happens to be Brookings' Board Chair, John Thornton, and with the intellectual guidance of Ken Lieberthal. The project or book series has been motivated by the fact that English-language studies of present-day China have not adequately informed the Western audience of the dynamism of the debate within China and the diversity of views concerning its own future. In such a sharply changing or rapidly changing and complex world, it will be enormously helpful or valuable for decision-

makers of foreign policy and analysis in the outside world to broaden our perspectives by developing a more sophisticated knowledge and understanding of how Chinese intellectuals perceive and debate about their own future. I hope that readers will find as I do that Hu Angang's -- rich in empirical data -- explanation of indigenous Chinese concepts and thought-provoking arguments concerning China's rises make it invaluable for understanding China's important role in our world.

As a discussant I would like to make two sets of comments on what I believe are the two themes that emerge in the volume. The first is what I call Chinese optimism, and the second is Chinese exceptionalism. On the first, Professor Hu holds his characteristically optimistic view that China will continue its high-speed economic growth in the next decade and beyond due to a combination of factors. These factors include the country's solid industrial foundation, newly built world-class infrastructure, high rates of investment savings and foreign investment, a large domestic market, human resources advantages and last but certainly not least, the country's commitment to transitioning toward a domestic demand-driven and environmentally friendly mode of economic growth.

As Professor Hu argues, by 2020 China will likely not only surpass the United States as the largest economy in the world, but also because of its accomplishments in education, innovation and clean energy, will emerge as a mature, responsible and attractive superpower. These are the three adjectives he used, mature, responsible and attractive superpower. For his second major theme, Professor Hu acknowledged that the prevailing wisdom in Western literature or Western scholarship on international relations holds the view that an emerging superpower will destabilize the existing international system due to zero-sum competition with the existing superpower over spheres of influence, natural resources, market access and military superiority. But

Professor Hu believes that China's rise to superpower status will be an exception rather than the norm or exception rather than the rule.

What he meant by this means that China will be a new type of superpower. Professor Hu observes that in an increasingly interdependent world, China has neither the resources nor the intention to replace the United States and become the sole leader in the world. Rather, China needs to cooperate with the United States in order to cope with global challenges in economics, politics, energy and the environment. Let me directly comment on these two themes and specifically to highlight my reservations about Hu Angang's optimistic thinking about China's economic future and also my view of why we should take Hu Angang's Chinese exceptionalism very seriously. But first and more critical for a second I think that we should think very, very seriously.

First, my reservation about Chinese optimism which is strongly by Professor Hu's book, I understand the various reasons for which Professor Hu has been optimistic about China's economic future. There is a long list of reasons, and Professor Hu's optimism certainly is strengthened by the fact that a pessimistic assessments of China have repeatedly proved to be wrong during the past two decades as numerous -- pessimistic forecasts.

For example, this year marks the tenth anniversary of China's accession to the WTO. Only a few years ago many Western analysts believed that China's accession to the WTO would inevitably cause a major upheaval to its state-owned enterprises including its state-owned commercial banks. This cynical view was understandable because 10 years ago bad bank loans accounted for 40 percent of China's state-owned commercial banks as Hu's book also mentions. Ten years later in 2009, however, the percentage of the bad loans was reduced to 2 to 3 percent. Most interestingly, of the top 10 banks in the world in terms of market capitalization in 2009, of these 10 top banks, four of them are Chinese banks including number one, number two

and number three -- 2009, of the world's largest container ports, six were located in the PRC including Shanghai, Hong Kong, Sensen, Wongzo, Nimbo and Chingdow. Two decades earlier in 1989, none of the PRC's ports was among the top 20. These examples show China's growing power as a financial, trade and transportation giant at the present and in its future.

Yet I have a number of reservations with Professor Hu's optimistic thinking about China's economy.

Lately, I've been disturbed by the widely shared sentiment in China among many Chinese intellectuals that sounds like China's growth could continue for a long time. Never realized or fully appreciate or understand that no country's rise is really linear. Could go down. And this kind of sentiment really bothers me.

And also, in fact, I deeply worry about the three major issues problem in the Chinese economy, mainly the property bubble, inflation, and also state monopoly. But my main concern, actually, does not lie in the economic arena, but it lies in the political bottleneck. Now Hu Angang rightly argues that China should make a transition toward a domestic and demand driven and environmentally friendly mode of economic growth, which differs profoundly from the cheap labor, high energy consumption, high environment cost mode of growth, which dominated China's growth for the past three decades.

Now, if we read Professor Hu's book, you will see three phrases frequently appear: one is technological innovation; the second is the service sector, the importance of service sector; the third is soft power. But in my view, technological innovation requires political freedom more than anything else. It requires a sense of openness and it requires the political tolerance and creativity and heterogeneity.

Now, service sector, also, as Nick mentioned, that really has some troubles that differ from the manufacturer development because service sector requires

more trust, requires more rule of law which, in my view, are also quite weak. And finally, the softer power -- and I believe that, ultimately, based on a mature, civil society which in my view, during the past two or three years, China really not promoting that area. So I think that political bottleneck will prevent China's next phase of economic growth in a profound way.

Besides, there will be some other political challenges, you know, in the wake of leadership succession next year.

Now, my secondary comment on Hu Angang's Chinese exceptionalism. Foreign observers of China will, of course, not be so naïve to take Professor Hu's arguments at their face value. Many of Professor Hu's propositions reflect on an ideal rather than reality. And they are probably understood to be well-intended aspirations and promises, rather than predetermined conditions or inevitable prospects. Chinese exceptionalism exists like Chinese optimism has a large number of domestic critics in China. Actually, my introductory chapter really outlines the criticisms of Hu Angang's, in both accounts, within China.

Now it is important to know that the Chinese assessments of the PRC's quest for superpower status and its implication for peace and prosperity in the world are as diverse, or as controversial, in China as elsewhere. But foreign analysts or foreign decision makers should not be too quickly to discount the significance of Professor Hu's arguments or analysis.

In a way, Professor Hu actually proposes a comprehensive strategy framework for Chinese decision makers to guide the next stage of China's rise, seeking to maximize the country's positive impact on the world and minimize the inactive effects of its rapid development, which he believes also serves the best interests for China.

Now, Professor Hu believes that the Chinese leadership's emphasis on domestic development will likely continue as the country puts priority on policies that

address economic disparities, the lack of public health care, energy efficiency, and ecological challenges. Now this domestic-centric approach will prevent the country from pursuing an aggressive foreign policy, according to Professor Hu. The development of human resources has been the most important impetus of China's rise. For the same reason, China's superpower status ultimately depends on what Professor Hu calls, I quote, "a transition from a knowledge closed nation into a knowledge open nation."

Now the age of the knowledge economy, as Professor Hu characterized it, should be defined less by competition than by cooperation. Now, from the perspective of the outside world, I believe that Professor Hu's argument about a positive and engaging role of China in world affairs is very much in line with American interests in virtually every important area of world affairs today. United States and the international community need China to play a proactive and constructive role, ranging from rebalancing the global economy to combating climate change, from North Korea to Iran, from Pakistan to Afghanistan, from energy security to environmental protection. From counterterrorism to cybersecurity.

Global peace and prosperity in the 21st century, of course, depends on many factors. Due to China's growing prominence in the world, I would argue that to a certain extent it depends on whether China is treated as, or acts like a solution to a problem. Now this also raises an important question about the future political and economical trajectory of this country. Should we, the United States, worry about China's failure or worry about China's success?

A failed China is everyone's nightmare. Just imagine profound chaos in this most populous nation, civil wars and ethnic fighting, environmental ecological degradation, epidemic, and the largest scale health crisis, a huge outflow of migration, and the so-called angry youth -- the generation of young Chinese people from single-child families who are angry about the West or so-called Western arrogance and the

China bashing, and, at the same time, some of them themselves become increasingly arrogant.

Now, a successful China, in my view, can prevent these worst-case scenarios, but the problem is that the West, especially the United States, may not be ready to welcome China's success. Secretary Clinton said a couple of years ago that the United States and China can benefit from and contribute to the success of each other, but this view is hardly shared by the U.S. media and the U.S. Congress.

Now, these are the fundamental and the imminent issues that we China watchers overseas should address in the future. They have a strong academic and policy implications.

I want to conclude by congratulating Professor Hu Angang for your thought-provoking work from the prospective of the other side of Pacific. As a leading proponent of Chinese optimism and Chinese exceptionalism you help increase our knowledge and enhance understanding of the pressing issues and the long-term challenges that face China.

Considered from an even broader context or perspective, your forward-looking book may also contribute to a growing international recognition that in the new global environment we all must find novel ways to think about power and responsibility. Thank you very much. (Applause)

MR. LIEBERTHAL: While everyone is getting miked up, I've decided to stand up so that I can see people as they raise their hands in back. Let me remind you, first of all, as you can see Professor Hu Angang's slides are very data rich and they will be posted on our website very quickly.

Secondly, this meeting is on the record, so when you stand up, please do identify yourself -- your name and your affiliation -- and then hopefully state a question succinctly. Feel free to direct it to any person up here except the translator. (Laughter)

And please wait for a roving mic before you ask your question.

I'm going to take the prerogative of the chair just to ask one opening question and then we'll open it up to the audience. My question plays off, a little bit, what Cheng Li talked about, which is, Professor Hu, your analysis is extraordinarily wide-ranging, very multifaceted, but what I did not see in there was any conditionality you would attach based on evolution of the Chinese political system. In other words, is there -- do you have any particular assumptions built in about necessary developments at a political level in China, in order for the rest of your analysis to play out as you have laid it out? For example, development of rule of law or whatever it may be.

So, my question is, is there a political component -- and when I say "political," I don't mean democracy or not; that's up to you -- but, I mean, is there a political component to China's capacity to become a superpower by the year 2020?

MR. HU: In 1997, I published an article, the title is "The China's Reform Pursue the Economic Development." And now if, like me, writing again, I will be mentioning about China's political reform for a harmonious society. That means I gave us some -- through some parts, firstly how to elect the leader from a new -- from an older generation to the newer generation based on institutionalization. This is very successful in 2002. I gave a positive evaluation.

Secondly, that means how to -- elect leader -- to open learning, open innovation, especially to create more and more ideas like Deng Xiaoping. This is very important. An example, in 2003 I suggested, hold a conference by the Premier Wen. I said they need a new conception of development, not based on GDP, based on people center.

As you know, the leader quickly to learn a lot of lessons from such crisis. They developed what I called second generation of the development conception, as you know, the scientific development.

The third very important, we need to promote a reform mechanism for the making decision. I involved in the 11th Five-Year Program. Even this time, 12th Five-Year Program. We found at least they take 11 times attempts, more and more a democracy. More and more, like I've related, even the common people involved in to produce this Five-Year Program. This is a good case. I published a new article in our university journal last month that gave detailed information.

The last one, I think China need to set up adaptive, flexible, making them learn to deal with like a foreigner, even the international affair. Like U.S. reach Japan flexible, this mechanism is not, how to say, combining the principle and the flexible. This is our need to reform. Very soon reform in China, especially for the China to quickly to respond to the challenge, like a financial crisis, earthquake, and so on.

MR. LIEBERTHAL: Thank you very much. Feel free to direct your questions to any of the individuals up here, or all of them, as you wish. So why don't we start off over here and I'll work my way around the room? This gentleman in front? Yes?

MR. WARREN: This is a question for Mr. Lardy. Rob Warren, from DOTCorps. Martin Wolf wrote an article today in the *Financial Times*, which I think reinforces your argument. He concluded saying that China's in for a bumpy road. That the adjustment from a high investment to a now more consumption is going to be a difficult transition.

MR. LARDY: Well, I agree with Martin's column very much and I think that's why I identified this financial -- he didn't bring up the whole issue of financial repression. I'm trying to look at the underlying cause, why did China come to have such a super elevated level of investment? I think financial repression is part of the story.

I think the lack of, you know, an underdeveloped financial system is part of the reason, but I certainly agree with the conclusion. And that is a transition away from where they are today to where they need to be, will be extremely challenging and I think

will be -- as I said in my remarks, I think the most difficult challenge that China faces -- and it's precisely because the only substitute for more -- if you want to generate growth, if investment declines, is to generate more consumption.

And I don't think it's going to be very easy to generate more consumption expenditure if you have a big decline in housing prices.

MR. LIEBERTHAL: Let's see. Yes, back there? Yes?

MR. CHIBA: Thank you very much. Jakira Chiba from Japan. I have yet to read Professor Hu's book, but the impression I get from listening to his presentation is that we're arguing basically about China, which will live up to its size, both in geographical, as well as demographical terms, which is not necessarily news to us. Probably what we want to hear more is about China's contribution to the world. And I'm very happy that Cheng Li has mentioned political freedom, but because if China is to become the world's largest democracy, that is going to be a tremendous contribution to the world.

It's going to be a game changer of the whole situation in East Asia. But my question to Professor Hu concerns something much more myopic. It's about the GDP indicator that he used because we all know that there are a lot of Japanese and American companies investing in China and producing in China. And if the end product is made in China, then it's counted as China's GDP. And I am not aware of the size of the proportion of foreign investment in China that contributes to Chinese GDP. But I do have the impression that all the big GDPs elsewhere are producing -- how should I say -- homegrown products that is not for an investment.

So how do you foresee China's future -- the future of Chinese industry of shifting from foreign investment to its own homegrown industries?

MR. HU: I think the China take 30 years quickly from closed economy, closed market, closed society become more and more open society of an economy. So

we welcome the FDI into the China, even the take more and more good role, positive role.

So the thing about the FDI as a domestic enterprises. Even the FDI's innovation we called the domestic. This is important. So, the State Bureau of Statistics are not published GNP or GDP for they don't know what's between them -- the gap. I think not too much.

Secondly, I think the Statistics Bureau cannot publish the FDI's share of GDP. It only published some data we can calculate FDI's share of the industry sector. That's the only, how to say, (inaudible) enterprises. So they don't know exactly this ratio, but we continue to hope that our side -- all the country invest in China. Meanwhile, China needs to invest in the global world. This I called the two legs for our policies.

MR. LIEBERTHAL: Thank you. Nick, did you want to add anything to that or are you fine? Okay. Over on the right hand side here. Yes, sir?

MR. DOYLE: I'm Randall Doyle. I work at the State Department in the Bureau of Democracy, Human Rights, and Labor. Professor Hu, you mentioned two of the key points being principle and flexibility, but Professor Cheng Li mentions the fact that any future progress or significant progress -- technologically, science-wise -- you're going to have to have a freer society to allow people to work and to experiment.

Since the 2008 Olympics, though, China has been increasingly cracking down on dissidents and the younger generation, of course, hungers to connect itself more and more to the world. Now have the recent -- the last couple of years, the crackdowns on various religious groups, intellectuals, is this just a periodic thing because of the upcoming transition of power to Xi Jinping or is this becoming increasingly a new Chinese policy towards those who want to open up their society even more?

MR. HU: I think the, as I mentioned, the China very quickly towards the top, cleared the institutionalization of the leader from old generation to the new

generation. Ten years -- not 10 years -- 2002 was first time. But I think in this year they will be a second time. I believe in the China this reflects the China more and more transparency, more and more stabilization for the leaders group. This is the very key for the China in the future.

Not only this institutionalization, but also how to institutional like the leader comment officials, even the cross-labeled officials to listen to the people's voice. And example, like this time, 12th Five-Year Program, NDRC set up that Internet to accept the people, common people's suggesting, complaining, and other some ideas. Nearly the bold and the 60,000 suggestions are mostly reflect some like a (inaudible) mention about the price of the rent increase, very difficult to purchase a house and so on.

So, the government quickly to respond in this Five-Year Program. So I think the China, how to regulate them step by step to save (inaudible) democracy system, even if democracy (inaudible) or practice, this is very important.

MR. LIEBERTHAL: Thank you. Miss, over here? Yeah, in the middle here.

MS. TIAN: Ke Tian from the Institute for Policy Studies, and I would like to direct a question to Professor Hu. So you mentioned China as a superpower with significant soft power, so I was wondering what's your definition of soft power? And what falls into that category? Is it a mature, civil society that Mr. Cheng Li talked about? And a relative question would be would China's increase of soft power be considered a power projection or a threat by other nations? Thank you.

MR. HU: As you know, different scholars have different definitions of the soft power. As you know, the first time definition by Joseph Nye -- from the China side perspective, I think soft power are really term, to. I call it the harder power, right? Even if you make a calculation, the comprehensive national power, including the eight kinds of the resources, 23rd indicators, mostly they call them hard.

The soft are -- we want to try to -- not only gave it definition, try to calculate, like some indicators like published books, like a newspaper, like a medium -- even the sum of science tech knowledge are (inaudible) and so on. We want to give a classified. This is the ideas that means like culture or knowledge because I know this is the type of global public growth that gave us place over other person, other countries. Not a threat other countries. This is the revive that the China needs, too. Contribution, knowledge contribution, culture contribution, and so on.

So very general or broadly this is my definition or calculator of some ideas. Okay. (Laughter)

MR. LIEBERTHAL: Your questions -- your answers are generating a lot of questions. (Laughter)

We'll turn to economics, I think, here, if we're lucky, with this question.

MR. BOTTELIER: I'm Pieter Bottelier. I'm with Johns Hopkins SAIS. A question for Hu Angang. In one of the features of the very benign picture of China as a superpower with special characteristics in 2030 there's a small gap between the rich and the poor. If that objective is to be realized, we need a big and early reversal of recent trends. Income and wealth inequality in China have become very unequal in the last two decades. And even though the government has made the reversal of that a priority in the 12th Five-Year Plan, we don't see the beginnings of a reversal yet. How and when do you expect this projection to begin to be true?

MR. HU: I'm an expert on the China regional disparity. We founded the China regional disparity based on like -- a different indicator has a different pictures or conclusion. Like based on per capita GDP, a constant price. This occurred coefficient since the reform decline until 1990. After then increase continued to the 2004, but now we found since 2004 a continued decline. We hope, by 2020 or 2030, they'll be continued. This is the first step, an indicator.

Second, indicator is (inaudible) for the region, for the urban and the rural area we found that since the reform continued converting this. We don't endorse the per capita income or per capita expenditure. Why (inaudible) consider us, as you know, a different region, different urban and the rural area have different price. So, how to understand it.

Our third indicator, they called the heirs -- like a life expectancy -- continue our convergences, even the little bit at the rural area. Another they call the education, based on the average school year for the adults, different the region. Even a little bit on the rural area continue convergences.

But, as you know, there is a problem. Equality is very important, very tough. We need to take the next 10 years, even the next 20 years to deal with this problem.

MR. LI: Yeah, I have a question. I'm sorry if that's (inaudible).

(Laughter)

MR. LIEBERTHAL: Oh, I thought you wanted to comment on this. You're sort of jumping the queue on the questions.

MR. LI: Oh, sure, connected with it. Always inspired by Pieter.

(Laughter)

And as Ken mentioned at the beginning that you are always ahead of time and to detecting the problems that China faced, earlier than most of the people, like us. And also you have been involved, as you mentioned, at the, specifically, policy-making process. Now, with a new generation of leadership coming, and I would ask you that what suggestions you would give them? What serious problems you think they should view with, you know, a very serious way?

Now, let me mention several areas. One is the political area. Do you think anti-corruption is very important and what mechanisms should we introduce? How

to deal with a state monopoly, there's some wide corruption by the (inaudible) company or state enterprises. This is on the political front.

On the economic area, how to -- what do you think the major challenges the country should face? Whether you should have a tax for the property? How to deal with the possible property bubble? And if you think there is a bubble?

MR. LIEBERTHAL: Okay, I'm going to ask to cut this off. (Laughter)

MR. HU: I try to answer. In this, my book, last chapter, I gave --

MR. LIEBERTHAL: In other words, read the book.

MR. HU: -- some target, some ideas -- even a target. Look, when the (inaudible) suggestion, not only for the current leaders, even for the next leaders, next generation leaders. Recently, we not only stopped in 2020, we are going to go ahead in 2030.

MR. LI: What about now? The problems, seriously? (Laughter)

MR. HU: Okay, you are -- I need to distinguish between the short term, the medium term, and the long term, okay? This is very important.

So the short term, I think, of the 12th Five-Year Program gave a very clear answer. If you need help to read it, you'll find some answer, okay? Very general, so we don't talk, but you mentioned about a very important problem, like corruption, I think a very serious problem. As I mentioned, big challenge -- the political challenge for the leaders. This is, safe to say, the biggest challenge.

As you know, they have more than 68 years for a ruling party. The biggest challenge -- the biggest series, how to say, (speaks Chinese) -- a mass, okay?

MR. LI: (inaudible)

MR. HU: Yeah. So this is not only Chairman Mao faced this problem, but also next generation, same problem. That means the "how to" I called the control. Some of the official corruption, how to let them play more in the more hand for the

(inaudible) people?

This is, as you know, not only for the China, but also the global -- the same problem. They need to further practice. Okay.

MR. LIEBERTHAL: Thank you. Back there?

MR. YU: Thank you, Deng Quoiyu with *China Press*. My question is for Professor Hu and Mr. Lardy. And in the past couple of days some American experts, like Lobinny and Soros, expecting that China may have a hard landing because China has lost the opportunity -- has lost the window of opportunity to control the inflation. What's your explanation about that?

And my second question is for --

MR. LIEBERTHAL: I'm sorry, I'm going to limit each person to one question because we have a lot of people who have been putting up hands, okay? Thank you.

MR YU: Thank you.

MR. LIEBERTHAL: So, the issue is, has China lost its window of opportunity to control inflation and therefore is it potentially facing a hard landing?

MR HU: I have for the last 30 years to analyze China's not only economical growth, but also economical fluctuation. At this time, I think, if compared to 1994 and 1988, you don't worry about it. China has come to have a good capacity towards control. They have the capacity for the stabilization -- micro-economy. So, this the why -- recently, they don't analyze this. Even the research is a problem. I believe the leader can do it. Even the best example are like 2009. G20 are -- most of the relevant countries, do not take a growth. There's only China, India, and Indonesia. The China reached the 9.2 percent. This is the perfect example. So I believe in the Chinese leader to quickly, to flexible, to deal with this serious short-term problem or challenges.

MR. LIEBERTHAL: Nick, do you --

MR. LARDY: Let me just add to that. I think I basically agree with Angang. I completely disagree with what Mr. Soros said yesterday. I think he's completely wrong. China has been gradually tightening monetary policy for more than a year and a half. I think it's been relatively successful. They now have the rate of growth of broad money down to 15 percent, which has been in the past consistent with a fairly rapid rate of economic growth and price stability.

Furthermore, if you look at the headline, 5.5 percent inflation that was reported yesterday, it's 11-point-something -- I think, 11.7 for food and 2-point-something, close to 3, but under 3 for non-food items, so this is a very -- inflation that has been generated in recent months, or since starting late last year, has been generated primarily in the food sector. Part of that reflects global food inflation, but I think in China -- we've seen in the past -- when food inflation ticks up, you get a very rapid supply response. Farmers start producing more. More food comes to market. I think it's very, very likely by the third quarter that inflation will be below 5 percent and by the end of the year will be heading down to probably something closer to 4.

So I think the hard-landing scenario is a very low probability because China has been gradually, gradually bringing monetary growth under control, slowing it down, as I say, for more than a year and a half.

MR. LIEBERTHAL: Thank you. Sir, over here? Second row. Right.

MR. DIPESH: I am Biril Dipesh, a retired civil servant from India. And my one point that I want to make is that if you had another scenario in your analysis where the instance of the growth rate meets 7.5, which appears to be rather optimistic. If it was 5 percent, what would be the situation? I think that would be of great interest to us.

But having said that, not wanting to throw cold water on optimism or exceptionalism, what I want to ask you is, post 2030, if your analysis works out, are you looking at a bipolar world? This is a political question -- because India is interested in

that -- or are you imagining something close to working for creating a world government?

Because unless --

MR. LIEBERTHAL: I'm sorry, what?

MR. DIPESH: -- unless an institution --

MR. LIEBERTHAL: A what?

MR. DIPESH: A world government.

MR. LIEBERTHAL: A world government?

MR. DIPESH: A world government, because --

SPEAKER: World government.

MR. LIEBERTHAL: A world government.

MR. DIPESH: -- if the world is to be divided in two powers, then that's one situation. But if you are -- since you are talking about cooperation, I'm also wondering whether this cooperation comes from Buddhism or Confucianism or Maoism?
(Laughter)

MR. LIEBERTHAL: Excuse me, we've got to move on to this, so if he can answer your question.

MR. DIPESH: So, my question is this: that without conceptualizing a world government, do you think the world is going to be divided between the United States and China?

MR. LIEBERTHAL: Yeah, okay. So the question is--is this leading to a bipolar world -- let me put it in terms that we're more familiar with here -- or a multi-polar world?

MR. HU: I think that in the 21st century there'll be more and more integration for the region, for the global, but it's difficult to produce a world government. So the China like to contribution -- human participant -- actively participating in the global commerce. Like this time, the Chinese leaders to participate in the G20 conference

summit to support how to -- like the world economy and the growth -- even the investment quickly to recovery. This is a good example. So we need to continue to go ahead to promote international cooperation.

MR. LIEBERTHAL: Thank you. This lady in the back row, I think, or second to last row over here?

MS. BEESON: Yes, Sarah Beeson with Stimson Center. My question is with the issue of resources and how the Chinese optimalism -- resources is key to that and allowing for that high-speed growth to continue. And so China has been reaching out for rights and access to minerals and other energy sources in Latin America, Africa, and even Afghanistan. And many within the international community are uncomfortable with this aggressive policy and tendency. How do you foreshadow the outcome of that interaction and how that would have an impact on the Chinese optimalism that you (inaudible) ?

MR. HU: This time, the 12th Five-Year Program originally want to introduce very important indicators of an energy efficiency. That means not only energy efficiency, resources efficiency, including twelve of the major resources, including coal and (inaudible), and so on. Plus a very important quantitative indicators promote -- they are efficiency, these major resources.

Are they, in fact, the provincial label cannot collect these indicators because these indicators not only including the local produce, local consumption, including the importer as part. So from China's side, we need to address even the continued (inaudible) resources saving society. This is the very important, basic policy or strategy.

Secondly, we need to utilize the international resources based on international price. This is to reflect, the China resources prices -- domestic will be step by step convergences to the international price. This is the reflect the China step, how to

say, saving resources. Even the same as some other resources.

MR. LIEBERTHAL: Thank you. Here, this way. Sorry, I know that some of you have had your hands up waving avidly, but a lot of you have, so I'm jumping around and I'm sorry if I don't get to everybody. Please?

MS. CHIN: So, hi, my name is Shirin Chin and I'm a student at Swarthmore College and also a research intern and (inaudible) for policy studies, and so I actually have two questions for Dr. Hu, but since time is limited, so please feel free to comment on either one of them.

So, my first question is, as China rises quickly, how does China deal with the security dilemma engendered in its neighboring countries? And my second question is, how about the challenges posed by the skewed male-to-female sex ratio in China? Thanks.

MR. LIEBERTHAL: I used to teach at Swarthmore College and let me say, this is -- I would have known she was from Swarthmore. (Laughter)

MR. HU: Hopefully the China not only evolves from the society, but also evolved (inaudible) nation. So this is the very important principle for us. I called the China needs to utilize the *tianshidili* and the *renhe*. The *dili* means the type of very important framework that deal with neighbor country -- or neighbor, how to say, economy.

I find economy -- I find neighbor economy, including 24, including the Hong Kong core. China now quickly become number one or number two or number three trader, even the U.S. (inaudible). So this is how to have a mutual (inaudible) again very important now.

The last question, yeah, this is a big problem for the China. But if based on the World Bank database, UNDP database, you'll find it -- the China very successful for the education, health, and so on. But, in fact, we need to continue to deal with this problem.

MR. LIEBERTHAL: Thank you. Back here, sir?

MR. JONES: Yeah, Bill Jones from *Executive Intelligence Review*.

Professor Hu, I haven't read your books, I'm just taking it from the graphs that you showed. It seemed like it was a very smooth development, a very linear development over the next 20 or 30 years, but the world we're living in is far from smooth. The economy is much more like the weather. We're getting tornados in areas where they never appeared before, we're getting earthquakes much larger than anybody ever imagined. Now, China's been able to work its way through the latest jolt in 2007, thanks to the reserves that had been accumulated during the period when they were the low labor -- or the producer --

MR. LIEBERTHAL: I'm sorry, we're almost out of time, I'm going to ask for your question, please?

MR. JONES: And was able to maintain some kind of a smooth -- relatively smooth growth period. But if something happens, like if the dollar loses in value, if it goes through the tank, if Greece has to default on its debt causing this, what possibility does China have dealing with this situation alone? It seems to me that they would have to create something with the other nations to create a new situation for the world rather than have the capability themselves of mastering this crisis in the way that they did in 2007. Have you taken that into consideration?

MR. HU: I think you are right. An example like China last five years, communally import (inaudible) trading US dollars. With our conservative estimate there would be create a job for the global, for the other countries, more than 40 million jobs. Okay?

But the next five years, a conservative estimate, at least more than \$10 trillion U.S. in part, economically. There will be created at least 100 million jobs. This is our contribution to promote the (speaks Chinese). Even China now, number two

importer, perhaps in the next three years or four years, the China quickly becomes number one importer. This is I call the China market contribution. Even the China market creates jobs, including in the U.S.

MR. LIEBERTHAL: Thank you. Way in back, the far back corner over there.

MR. COLLERINA: Thank you, Rob Collerina, AIAC Investments. The question is more on the commercial side for the professor and then for Nick.

With respect to things like standards, if you're going to be a superpower, things like standards -- product quality, transparency, I think some of this recent with these IPOs, how important is that for the sea level executives and board members? Are they -- is this next generation really taking that into account?

MR. HU: As you know, the China is coming to pay attention recently for the growth of products -- even the export -- safe. There's a problem. The next five years, based on the 12th Five-Years, they address this, some monetary examination and so on. So I think the China needs to pursue the quantity of the economical growth to the quality of the economical growth.

So, I believe the China is plenty smart thinking about this. This is the -- not only for the business interests, but also to have true care with the social contribution, social responsibility.

DR. LARDY: I mean, my brief answer is, I think that 20 or 30 years ago there was a huge gap between standards in China and standards in international business and the gap is closing. It's still there. In some areas it's maybe gotten worse, but I think in general the trajectory is good.

But it can take a long time to converge and you see it in domestic issues, on issues like food quality, you see it in financial markets. But if you look overall, I think I would argue that in financial markets they've come a long way to, you know, moving their

regulatory standards to those that are consistent with global standards. They're participating in the (inaudible) process. Bank capital (inaudible) standards are going up. The provisioning standards are going up. The risk weighting is being adjusted in a more conservative way, just as we're doing in the U.S. and most of the rest of the world.

So I think it's, on balance, a positive story.

MR. LIEBERTHAL: I know there are a lot more questions. We, unfortunately, are out of time. I want to thank both of our commentators, Li Cheng and Nick Lardy, and especially Professor Hu Angang, both for providing us with this great book and for coming all the way to the United States to participate in this event this afternoon. Please join me in thanking them.

(Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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