

THE BROOKINGS INSTITUTION

U.S.-CHINA RELATIONS:
THE VIEW FROM CITIES AND STATES

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Welcoming Remarks:

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Senior Fellow and Director, John L. Thornton China Center
The Brookings Institution

Keynote Conversation:

JAMES FALLOWS, Moderator
National Correspondent, The Atlantic
Co-Author, "Our Towns: A 100,000-Mile Journey Into the Heart of America"

THE HONORABLE KATE BROWN
Governor of Oregon

THE HONORABLE BOB HOLDEN
Former Governor of Missouri
Chairman and Chief Executive Officer, United States Heartland China Association

Panel Discussion:

RYAN HASS, Moderator
Fellow and Michael H. Armacost Chair, John L. Thornton China Center
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DAVID DOLLAR
Senior Fellow, Foreign Policy, Global Economy and Development,
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Deputy Mayor of International Affairs, City of Los Angeles
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P R O C E E D I N G S

MR. LI: Good morning. I'm Cheng Li, director and senior fellow of the John L. Thornton China Center here at Brookings. It's my pleasure to welcome you to this extraordinary event.

As you all know, U.S.-China relations have become increasingly strained over the past two years. What began with tariffs on solar panels and washing machines in early 2018 has escalated into a full-blown trade war between the world's two largest economies. It is, of course, not just about the trade and economic tensions across the Pacific. This arguably most consequential bilateral relationship in today's world is entering a new era of competition and confrontation.

Sentiment has been mounting in Washington that the United States faces the potential for major conflict with China on all fronts: strategy, diplomacy, security, military, politics, ideology, finance, science, technology, education, and even culture. Similar views are also increasingly prevalent in Beijing. If you follow the Chinese official media, it's getting very disturbing with the rhetoric or anti-American sentiment in China.

The biggest policy challenge will be ensuring that these two superpowers can find a way to prevent their animosity from spinning out of control and leading to catastrophes. I know this is only Monday morning, so I apologize for starting your week with such a grim outlook. (Laughter) But it's important to understand that these sentiments are driving what some have called the "new Washington consensus on China."

In reality, there's a vibrant debate taking place on these issues. Many agree that new ideas, new strategies are needed, but few agree on what those should be. As this debate unfolds one factor that we must keep in mind is that Washington may not be reflective of the entire country, just as Beijing does not represent all of China.

Simply put, U.S.-China relations are too important to be decided exclusively within the Beltway. We need to include as many people as possible in this conversation. And that means involving people from states and cities, which are the staging grounds for

much of U.S.-China relations. Local communities are where new highways are built, new factories and stores are opened, new workers are hired, and new products are developed. They are where students live, study, and forge meaningful friendships for the future. States and cities are where the effects and tariffs and price inflation are felt most strongly. And they are where sister programs and culture exchanges are launched and maintained. And where international partnerships take hold to advance innovation, addressing common challenges.

Now, instead of a Washington consensus, we should strive for an American consensus. That is part of what we hope to accomplish with today's program. We truly could not find a more impressive group with us to start this conversation.

My colleague at Brookings, Ryan Hass, the designer of today's program, will moderate a panel discussion featuring Ambassador Nina Hachigian, the Honorable Reta Jo Lewis, and my Brookings colleague David Dollar. Ryan will introduce these wonderful panelists.

For now, I'm honored to introduce our equally wonderful speakers and moderator. (Laughter) Kate Brown has served as governor of Oregon since 2015. Having won reelection in 2018, she has worked to improve education, grow the Oregon economy, and expand access to healthcare. She was the first governor in the country to take actions to end the use of coal power, putting Oregon at the forefront of the clean energy movement in the nation. The Aspen Institute a few years ago named Brown as one of the 24 rising stars in American politics, recognizing her leadership role in breaking down partisan barriers and exploring the responsibilities of good governance.

Governor Brown, we are so honored to have you with us at Brookings this morning. I know that this is your first talk at Brookings. I hope many are coming and on various subjects. (Applause)

Bob Holden has dedicated his life to public service, including by serving as governor of Missouri from 2001 to 2005. After leaving office he spent 10 years as a professor at Webster University in St. Louis. He now is the chairman and CEO of the United

States Heartland China Association, whose mission is to build better, mutually beneficial relationships between the U.S. heartland region and China's vast inland region.

Governor Holden, thank you for joining us, for sharing your expertise and perspective. (Applause)

My good friend James Fallows will moderate the keynote discussion. Early in Jim's career he worked as the chief White House speechwriter for President Jimmy Carter. Not long after that, he joined *The Atlantic* magazine as a national correspondent. Jim is an expert on both China and local governance in the United States. He and his wife, Deborah, lived in Shanghai, my hometown, from 2006 to 2009. I remember the Brookings delegation had the fortune to have you as a speaker during our visit in Shanghai.

In 2013, they launched, Deborah and Jim launched the American Futures Project, traveling around the United States in a tiny propeller plane to study smaller towns and cities which are often overlooked by national media. Their insights are collected in a fantastic book titled, *Our Towns: A 100,000-Mile Journey Into the Heart of America*, which is available to purchase outside our event today. (Laughter)

Despite spending so much time up in the clouds, Jim is one of the most grounded people I know. (Laughter) We are honored to have him lead today's conversation.

Please join me in giving our keynote participants a very warm round of applause. (Applause)

MR. FALLOWS: Thank you so much, Cheng Li. Thank you, Ryan Hass. Thank you to Brookings and the Thornton Center and all of you for coming today. I can see by the occupancy rate of seats in this auditorium that we have a distinguished crowd here and a very timely subject.

As Cheng Li was saying, we are sort of the warmup panel for what's coming afterwards, so that's why we're just going to remain seated here and have a casual discussion. I personally could not be more delighted than to have the two governors we're

going to hear from in the next few minutes. And I'm going to spend two minutes myself just on what I think is the fascinating setup of the moment in which we're speaking in late July of 2019 as negotiations continue between these two mammothly important countries.

One of the trends, of course, we're aware of is things that have been changing in China and changing for a number of years: the political changes that have been underway there during the time of Xi Jinping; the implications they're having within the country, within places like Hong Kong as we see right now and the periphery of China and its dealings with the United States. Interestingly, there have been these political changes and a long-term economic shift in China, too, wondering whether its basic economic model that's propelled its growth for the last 30 years, whether that requires adjustment. So we have a changing China that we're all confronting.

We have, second, profound changes in relationships between the U.S. and China. I think whoever had won the last presidential election in the United States it's fair to say there would be a recalculation or recalibration on the U.S. side of its ongoing relationship with China, whether the assumptions of the previous 30 years required adjustment of some sort. Because a particular person won the presidential election in 2016, we've seen an even more dramatic – “recalibration” might not be the term, but change in the way the U.S. is approaching all of the aspects of the world's relations, including what it may be trying to attempt in China, working changes in the Chinese economy fundamentally, trying to shift supply chains and all the rest.

So we have changes in China, changes between the U.S. and China, and I think also significant changes within the United States, where the main argument that Deb and I make in our book and our recent writings is that at a time of paralysis in national level politics in the United States, where no matter your political outlook, you cannot feel very confident in the way the U.S. national government of this moment is matching the enormous resources the U.S. has to the enormous challenges the U.S. has.

At that moment, the leverage that promised the renewal, the possibility has

swung to localities and states, where cities, multi-city regions, and states are the people -- are the places where you find innovative things. Whether it's Governor Brown with her environmental sustainability shifts in Oregon, whether it's the deal announced just this past week with California to essentially take the lead in setting emissions standards for the international car industry, we see across the country mayors, governors, and other local leaders saying we are filling the vacuum in sustainability, in educational innovation, and also in international relations, bizarrely, where it is the local units of U.S. Government that seem now to have the most creative and sensitive approach to dealings in the rest of the world.

So we're going to ask these two governors from different parts of the country at different stages of running their states how they view from their perspective the problems, the opportunities, and the future of U.S.-China relations. I'd like to start with an overview-type question for Governor Brown.

You're running a state that is economically and culturally very important for the United States, although its population is not enormous, like California or Texas or New York. But it has a high-value strategic role in the world economy, in trends and other ways. Oregon has also been historically a Pacific-looking state in interactions with Japan and China and the rest of Asia. What is your state government doing now to adapt its own economy and its international relations in the face of this storm at the national level contact between the U.S. and China?

GOVERNOR BROWN: Thank you, Jim. Delighted to be here this morning hosted by the Brookings Institution and really encouraged to see such an enthusiastic crowd here. And thank you to the Brookings Institution for hosting us.

Oregon, as you said, is a very small state, 4.2 million people. We like to think of ourselves as small, but mighty. We are very proud of our activism, progressive public policy trends that we have set for the nation over the last several decades. And at the same time, we think it's important that small states be leaders in progressive public policy, and that's exactly what we've done.

I think the good news about what's happening nationally is it's an opportunity for the states. People say that we are the laboratories of democracy. I like to call us the Petri dishes of progressive public policy. (Laughter) And that's exactly what we are doing.

So from my perspective, trade is so critically important to a state like Oregon. We are, in terms of states, one of the top 10 in terms of our dependency on trade. And we are one of four U.S. states that has China as our largest trading partner. So it's really key for us and we are focused on a couple of things.

One, I'm committed as the Oregon governor to ensure that as a state we are continuing to make investments in a number of arenas that will ensure that we are attractive to foreign investors. So, number one, infrastructure. In 2017, I passed a very aggressive transportation package to invest in our roads and bridges and resiliency.

Number two, this session we just made a significant investment in our education system. And we are trying to move forward on a cap and trade policy. Happy to have that discussion, as well, today.

But we think these investments are key to growing Oregon's economy. We would have one of the fastest job growth rates in the entire country. As many states do, we are -- right now have a very low unemployment rate. So we're going to continue to make investments to grow Oregon's economy.

And then the second arena that I think it's critically important for our states, as well as our cities, to lead on is build relationships. And that's where I am focused, building relationships both with politically, frankly economically, as well as culturally. And I'm committed to doing that. I think it's really key.

MR. FALLOWS: So can I ask you one follow-up before turning to Governor Holden? Has there been a specific way in which the much more cautionary, bellicose, however you want to describe it, U.S. national policy towards China of the past two years compared with its predecessors, have they made any specific differences in what happens

in Oregon, either Chinese investment that's not coming in, sales you are not making, people who are not visiting, or essentially are you operating more or less the way you did two or three years ago?

GOVERNOR BROWN: I would say what is happening nationally has had a chilling effect on commodity prices and our ability to sell goods to China. It's been extremely detrimental, particularly in the agricultural sector, which is a huge driver of the Oregon economy.

And then there's also been sort of relationship pieces. For example, inspection policies that used to take two days, one or two days in China, are now taking a handful of days, which might not matter for certain goods, but for blueberries and cherries, it's a killer. (Laughter) It has a killer impact, so.

MR. FALLOWS: Thank you. So Governor Holden, so if you have --

GOVERNOR HOLDEN: I vote for her. (Laughter)

MR. FALLOWS: So it's been -- you were governor of a major Midwestern state 15 years ago, in the early 2000s. You've been crucially involved recently in trying to forge connections between that region of the country and China. Tell us how you see the recent shift in national level interactions between the two countries affecting your states, your companies, your farmers, your governments there in the region, in the heartland region.

GOVERNOR HOLDEN: First of all, it hasn't helped, to say the least. You know, we are known as, as you refer in your book, to the flyover region of the country. And what's unfortunate about all of that is so much of the economics of our country has really been generated out of this heartland region, whether it be in agriculture or manufacturing, automatic manufacturing particularly. And so we're watching all of that become very, very difficult to manage.

When I was governor of Missouri, I was also chairman of the Midwest Governors Association. And I tried to convince these governors that no longer could we look at ourselves as -- each state as an island, but we had to be a regional approach to activity,

which is very hard to do because you don't get elected and reelected by helping somebody else. You get elected by helping the people in your state. But I think that's the only way we can be competitive in a global economy that we're a part of today.

And you talk about the tariffs. The tariffs hit our region more than anybody else in terms of agriculture and manufacturing. I think of the top 20 states in agriculture that have been affected, 18 of them are in this 20-state region. We watch the automotive manufacturing leave the Midwest in the 1990s, moved to the Southeast, and then start traveling around the world. And that's when I came to the conclusion that Missouri and our region needed to have much greater involvement in a global perspective.

And so we started the process. I'm now chair of an organization that's involved in 20 states, and it's all bipartisan and even bipartisan in terms of how I treat my state versus the other 19 states in that involvement, which is sometimes not particularly popular, but it's important that we make the transition.

And I think to make that transition successfully we've got to focus on three areas. One is those cultural ties. Two are those educational ties. And I think if you lay the foundation with those two, then you can lay the foundation for the business ties and long-proceeding economic growth throughout the entire region. And I think that is so important. If you want to have a peaceful world, you have to have those linkages so that you're working with people you can relate to and understand.

You know, make no mistake about it, there are scoundrels, so to speak, in China; sadly, there's also scoundrels in our own culture. And what we're trying to do is find the best in both, link them together so that it's in everybody's interest to work together in a peaceful world and not a conflict world.

MR. FALLOWS: I had a specific Farm Belt follow-up for you. I spent actually the last couple weeks in South Dakota, seeing a lot of pork producers and soybean producers. And a debate there was whether they felt they had permanently lost the Chinese market for soybeans in particular or whether this was a temporary blip or glitch. What's the

sense among farm producers in the heartland, in the Midwest, about whether they have been moved in the long term away from China's markets?

GOVERNOR HOLDEN: I think they're very scared because if that relationship with China and others disappears from the agriculture community, then you've really lost the foundation of this heartland region, all the way from the Great Lakes down to the Gulf, because it is in soybeans, it is in rice, it is in cotton, it is in corn, all of these different factors. And when somebody -- another country finds another supplier that gives them that product, then they no longer have to rely upon you, what incentive is there for them to come back to you and say, no, we made a mistake or you made a mistake, now let's be friends again and work together?

And so I think it's very, very concerning because particularly in agriculture, if you have a tariff problem you can't put it on the shelf and wait till this goes away so you can sell it, you know. It's gone and so you can't bring that back. And we've had, as you know, very serious flooding situations throughout the entire Midwest again this spring that has destroyed a lot of the -- not just the cotton, but the soybeans and the corn and the rice and those things.

So farming -- and I come from a farm background. My family were farmers. Poor farmers, but we were farmers for generations. But you live from year to year, month to month in that cycle. And if you lose that, the chance of you recovering from that are minimized. And if you lose it say two years in a row, then you can probably cross it off and say you'll never get that opportunity back again.

MR. FALLOWS: I have a question for each of you in your role as a political leader. You were elected to lead states. You know something about mobilizing and judging public opinion. I'm going to offer you a hypothesis which you can agree with or disagree with, and I'll turn to a question.

My hypothesis is it's a really fortunate thing for both China and the United States that given all the structural possibilities for head-on strategic collision between the

countries -- the different political systems, the rise of China through its new economic eminence, et cetera, et cetera -- it's a good thing that person-to-person Chinese-American relations are as affable, as positive, as good as they generally are.

My hypothesis is Americans in China generally end up enjoying it, though going crazy in various ways. And so, too, would Chinese people coming to the United States. That's the premise for -- and then you can think of lots of other national stereotypes, national hostilities that are more poisonous than U.S.-Chinese sort of person-to-person relations. That's the premise for asking you what is the temper of relations and attitudes in your state right now towards China?

From the White House we hear they're cheating, they're stealing, they're bankrupting us. What's the opinion of Oregonians right now about China and Chinese people?

GOVERNOR BROWN: I don't know if I can answer the opinion of Oregonians, but what I can say is that we in Oregon see these relationships as critically important, both on the cultural side and on the educational side. We obviously also see the economic side, too, but in terms of culturally, we're in Portland proud to host I believe the nation's first authentic Suzhou garden. And that is a very important part of our city and place.

We continue to build those relationships through our state-to-province relationships, sister state and sister city relationships. And we continue to build those ties one person by one person.

Educationally, they're critically important, as well. I live -- my home is in Southeast Portland. Two blocks from my home is a little elementary school by the name of Woodstock Elementary. And we have a Mandarin immersion program at that elementary school. And students in Oregon, in Portland, can continue from elementary school through high school in their Mandarin program.

And so we see these relationships as critically important not just for the

short term, but for very much the long term. And so we're going to continue to invest in them and we're going to continue to build them.

MR. FALLOWS: And speaking now for the heartland -- (Laughter) -- which is often stereotyped as the most provincial part of the U.S., but, in fact, is the most internationalized in business operations and all the rest, what is the temper of people's outlook towards China the country and Chinese people now?

GOVERNOR HOLDEN: Well, I think it probably depends on whether your business is doing well or if your business has been hurt. (Laughter)

MR. FALLOWS: Yeah.

GOVERNOR HOLDEN: And I think we're in that stalemate that people don't fully understand, you know, how this can happen to this country. We've been a leader since the 1945 to '50, 1950s. We've had great leadership. We've built alliances all around the world to keep our country safe and us prosperous, and now they're seeing those being unraveled and they're scared. And they don't know what the outcome is, but right now, it's not working.

And the unfortunate thing is I think building these relationships with people like a Harry Truman when he was president, all the way through the Bushes and the Clintons and everybody else, is we laid a very strong foundation for long-term relationships.

I know three or four years ago, when I was teaching at Webster University, I'd always let the students make any comments they wanted to make after I turned in their grades, so nobody had to worry about what may transpire from there. But I had a young lady get up and she said, Governor, I will not go back to China the same person that came to America. Now what better foreign policy can you have for your country?

Three years ago, four years ago, too, I convinced -- I've been active with the American Legion Boys State and Girls State program in our state, which is in 49 of the 50 states. And I convinced them to invite some Chinese students to come and participate, and we sent some students to China to participate. That's the first time in the 80-year history of

that organization that even thought about doing something like that. But they came, we participated.

Two years ago, a young lady got elected governor of Missouri Girls State. Eight hundred and fifty girls from all over the state of Missouri are selected by organizations to say this is going to be a future leader. This young lady got elected being governor of Missouri Girls State. Come to find out, she's not even an American citizen. Her mother had married a gentleman from St. Louis and he had brought them back to the United States and she had started schools there and got picked by her school to participate in the program. That tells me if you build the right culture relationships through your culture, through your education, that we can link these two cultures.

That first trip I made to China as governor and opened Missouri's office, I always would visit a school because education has been extremely important to me. I started out in a one-room schoolhouse. And without teachers and others along the way opening those doors, I wouldn't be sitting with you here today. So I'd always visit a school.

And this one teacher in China came up and she said, Governor, I understand your youngest son is turning 10. Would it be okay if some of our students gave him a little gift? You know, what's a father to say? No, you can't take a gift? No. So one by one each one of those students came up and presented him with a little present. I turned to my wife and I said I can work with these people.

And that's what we've got to do is find the good people in both cultures, build those relationships, and then the rest of it will take care of itself because the politics will react to what the people want done long term.

MR. FALLOWS: So I have one more question myself for each of our governors and then I'll involve the crowd and your own questions, too. And, Governor Holden, I'm going to start with you on this one.

You have been a pioneer in bringing Confucius Institutes to universities in the United States. I have spent a lot of time in Confucius Institutes, at their headquarters in

Beijing and various places in the U.S. As you know, they've been the object of increasing controversy in recent years for the question of whether political values that are keeping with the increasingly rigorous guidance inside China itself are being exported to countries with different political points of view. How do you now think about the Confucius Institutes themselves and generally this question of more and more confidently exported Chinese political values interacting with those in democratic systems?

GOVERNOR HOLDEN: Sure. And I can understand the sensitivity on that issue. But the Chinese students that I've met are very similar to American students that I've dealt with. You may try to convince them of a point of view, but they're going to make up their own mind.

I think the worse thing we can do for really making our relationship with China difficult is close those doors. I think any time you close doors and build walls, you've actually sent a message that you're not in any interest of working together. And I don't think that works in our self interest.

Again, going back to the leaders that we've had since World War II. The reason we got World War I and II is because we didn't have those relationships, we didn't build those connections, and look at the price we paid.

Now, you look at whether it be a Truman, whether it be an Eisenhower, whether it be a Kennedy, whether it be a Johnson, whether a Reagan, on down the line, all of our leaders up to the current time have said in some way we may not always agree, but we'll find out ways that we can work together for the benefit of both.

MR. FALLOWS: Even Jimmy Carter gave some great speeches to that effect. (Laughter)

GOVERNOR HOLDEN: No, no. He had a pretty good writer, too, by the way. (Laughter)

No, but I was down in Atlanta a couple months ago when the Bush Foundation gave a gift to Jimmy Carter for his leadership on this issue, and that's

bipartisanship. That's in America's interest. And that's what we need to have out of our political leaders today is an interest in the country before others.

MR. FALLOWS: So, Governor Brown, from the Oregon perspective, whether it's Confucius Institutes or the Chinese government sort of having extraterritoriality on political points of view that are sensitive to it, but may not apply the same way in the U.S., how does that affect Oregon?

GOVERNOR BROWN: Well, I certainly understand that there are challenges here, but I think it's critically important that we open the doors of our educational institutions to Chinese students and programs. And it's been, frankly, very successful in Oregon in terms of building relationships.

I think it's also very important, frankly, that American students have the opportunity to study abroad. We need to encourage and support these opportunities.

I grew up speaking only one language. When I went to a Spanish school in Mexico, I ended up studying with a number of European students. They were working on their fifth and their sixth and their seventh language. I just think it's important that we open our students' minds and expose them to a plethora of opportunities and ideas. And you build, frankly, you build really good relationships, but I think you also grow really strong leadership and strong young people. So I think we need to encourage it, frankly.

And I just have to point out, I really love being governor. I had the opportunity to meet with President Carter last summer when he came to Oregon. I asked him what his favorite job was in his entire lifetime. He said, of course, being governor.

And one of the reasons why I love being governor is that we have to be pragmatic. We have to work together. And even though we did not serve at the same time, and I don't believe we're on the same party, we agree on a lot. And I think that's really important for not only Americans to see, but for people across the world to see.

MR. FALLOWS: Following up your point about, yes, I agree about -- not having been a governor, but having seen them, it seems like a great job rivaled only by

being mayor. (Laughter)

GOVERNOR HOLDEN: I don't know. I was governor when September 11th happened.

GOVERNOR BROWN: Oh, my gosh.

GOVERNOR HOLDEN: And the economy went in the tank, so it was not the most pleasant of times. But, at the same time, that's when you need leadership.

MR. FALLOWS: And following Governor Brown's point about languages and exposure, I absolutely believe the more languages you know, the better. The more places you've lived, the better. And the more foreign outside people the U.S. can absorb, the better. Which leads to one factual follow-up. In the last two or three years, has there been a change specifically in Chinese student enrollment in state institutions in Oregon, either Oregon State, University of Oregon? Has that gone up, down, or just been constant?

GOVERNOR BROWN: I think it's been relatively constant. I think we need to -- with what's happening nationally, we are going to have to sort of up our game, frankly. And I think that's really important that we do that.

MR. FALLOWS: So we have from a governor from the West Coast and a governor from the heartland, a similar complementary message that what matters is to maintain connections, institutional, cultural, personal, educational, all the rest.

So who is -- it is now the stage for questions, right? How are we going to police these? Is there a microphone? Okay, there is a microphone. Raise your hand and microphones will come to you.

And microphone bearers, I will point out the first person here and then if you can just pick out other people yourself. I'll go to whoever next has the microphone.

GOVERNOR HOLDEN: We have political affiliation over here.

GOVERNOR BROWN: That's very funny. (Laughter)

SPEAKER: This is for you, Mr. Fallows. I recall your statement some time ago that the most important relationship on the planet is that between the United States and

China, specifically because only their cooperation can do something about climate change. It doesn't look like we should be holding our breath on that one. Do you have any change in your views of that possibility happening?

MR. FALLOWS: So the background here, and I will be terse as the moderator as opposed to the governors here, is I think during the years I was living in China, I did a number of articles for *The Atlantic* and a couple of books essentially arguing that China and the United States simply had to work together despite their differences. Because if they did not cooperate on climate issues, there simply was no hope, partly because of their scale, partly because of their technology potential for cooperation, and all the rest.

I will say that in different ways there have been steps backward in each of the countries at the national level in the past two years. The United States for obvious reasons; in China for ones where I think reporting has sort of revealed that progress we thought was happening has not been happening as much as others would have hoped in China. There are people in this room who are more expert than I am on this field.

But I think that it remains the case that, number one, China and the United States need to work together. Number two, all other countries need to do what they can. And number three, the momentum significantly now is the state and local level. When the United States left the Paris Accords a year or two ago, 400+ U.S. mayors and a large number of governors said our jurisdictions are still adhering to these Accords, and that may make a difference. So it would be better if the nations were allied, but you live in a fallen world. That's my answer.

So microphone bearers, I'm putting on you whoever next. So is there one microphone? Okay, so, yes, how about this gentleman here? So somebody raise your hand, catch the eye of our microphone bearer, and she will go to you next.

SPEAKER: Good morning. Certainly very impressive what both governors have said about the progress and friendship between China and the United States, certainly starting from the '70s with Presidents Nixon and Jimmy Carter and so forth. My question is,

in view of all of this, decades of building of all this friendship, how did this recalibration, as Mr. Fallows mentioned, happen so suddenly in the last two or three years?

GOVERNOR HOLDEN: Well, I don't think it happened in the last two or three years. I think you've seen more evidence of it. And I think what you're seeing happen is now people are scared. The potential of losing their jobs, losing opportunity, and those jobs and those opportunities may be going somewhere else, and so this is a reaction to that atmosphere and that fear and that concern.

And I don't think you solve the problem by responding to that fear. I think you respond to the issue by building bridges for the future. And that's the reason we were talking earlier that I think mayors are so extremely important long-term in our success.

Mayors have a defined geographical area they have to represent, and usually you either fix the potholes or you're no longer the mayor whereas governors get torn from one city to another, from one region of their state to another. And so I think the more ways that we can help mayors as well as states be effective cities, then I think we can rebuild relationships.

People that are confident about what they're doing and where they're going usually don't respond in a negative way to somebody else because they've got enough macho that they think they'll live it out and they'll be successful. What I see now is a paranoia within our culture that we are losing a grip on things and we're losing our control, and we've got to get it back. But you get it back by being positive forward, not by reacting.

MR. FALLOWS: I wrote an article in *The Atlantic* two and a half years ago with a cover story trying to address exactly that question, so I can give you the links later on.
(Laughter)

SPEAKER: To follow up, there seems to be a contradiction. At the local level there seems to be all this support, but yet the very same representatives from those local levels when they reach the national level have a totally different view. And that's -- I have -- the last few years have been very difficult to understand.

MR. FALLOWS: Can I horn in with a hypothesis here? There are any number of issues where you find this profound local level versus national split. For example, national rhetoric about immigration has portrayed it as a crisis for the last two or three years. Consistently across the country you find that the only localities that are fearful of immigration are those with no immigrants. The state with the highest level of Build the Wall support and the lowest level of immigration is West Virginia. You do not find Texas or California now or Oregon reacting this way. And so there's some -- across the board there's a way in which national level rhetoric on lots of things has become divisive, tribal, quasi-religious whereas the local level perception of things ranging from China trade to immigration to anything else is different and more sort of realistic.

GOVERNOR BROWN: And I think from a governor's standpoint, and I mentioned earlier Oregon's reliance on trade and the importance for our economy, we're seeing it impact in terms of businesses around the state.

So the gentleman asked about environmental policy. A number of our companies that were doing business with China were through sustainable technology, for example, Stevens Water Monitoring. And they started in China in 2007. And as a result of the tariff battle, frankly, they've lost about three-quarters of their Chinese market and they're concerned it's never going to happen again.

And so from my perspective as a governor it's all about the jobs and the economy, right? But if I can't impact that, and I'm going to do everything I can to impact that side, then I'm going to focus on the relationship piece, the cultural piece because that's a long-term investment. And it may not pay off in my term as governor, but I know it will pay off for the people of Oregon in the years and the decades to come.

GOVERNOR HOLDEN: Yeah, go --

MR. FALLOWS: The mic -- go ahead, yes.

GOVERNOR HOLDEN: No, no. Go back in major businesses in your community and look who founded that business. You will find that most of them started out

immigrants. Two of them that come to mind in St. Louis: Pulitzer and Anheuser, you know. And so really immigrants have been the fuel that's allowed our country to grow and prosper decade after decade after decade because new immigrants were coming in and starting new careers and building new foundations. And we shut that off, we're not hurting other countries, we're hurting ourselves.

MR. FALLOWS: The microphone is back here. Who has the microphone?

Yes.

MR. MAGNIER: Thank you very much. Mark Magnier with the *South China Morning Post*. So I have a question about Hong Kong, but from a couple of different sub-questions.

One would be your reaction. I think it's pretty clear that Beijing is getting more and more nervous about the situation. But two, because Beijing is so effective at economic leverage, and that is often much more effective at the state level where you threaten jobs and you threaten investment and you threaten trade, what happens between principle and economic future for your state when you have to make that decision? Thank you.

MR. FALLOWS: So two of us up here have held public office.

GOVERNOR HOLDEN: That's called passing the buck.

GOVERNOR BROWN: Yeah, exactly. (Laughter)

MR. FALLOWS: So, I mean, I'll put in a thought experiment. Well, if Oregon -- if the crisis in Hong Kong becomes more acute and there's pressure in Oregon to take some principled stand in support of free speech in Hong Kong or whatever, what do you think the state government in Oregon would do?

GOVERNOR BROWN: Look, I have been trained not to answer hypothetical questions, so I am not going to answer that question. (Laughter) I just know that the economic ties are really important. And, you know, just in terms of how we move product, it's absolutely key. And at least for the time being we will continue to support that.

GOVERNOR HOLDEN: I was in Hong Kong a couple weeks, had dinner along with 50 other people by the way with the mayor. And, you know, my sense is it's a no-win situation both for Hong Kong and the People's Republic of China. They're both trying to figure out how they can dance together and stay together, but you've got particularly the young people in Hong Kong watching very carefully that none of the things that over the years Hong Kong has developed in terms of their liberties, that none of those are taken away. And, of course, the People's Republic of China is trying to, now since Hong Kong is part of their country, manage those set of circumstances.

So, I mean, I think it's a very difficult situation for both. And Ryan and a lot of others, the experts here at Brookings discuss this all the time. And I think the key is to keep those lines of communication and dialogue open, talking. And that's the reason I did work with the East-West Institute and went to China a few times with them and they brought delegations here.

You know, I just, as I said, came from Hong Kong. Half of the speakers we had were former military people from the United States talking about the importance of keeping those lines of communication open for the safety of our own culture.

MR. FALLOWS: So this side, microphone, microphone bearer, find somebody who looks pressing to ask a question. Okay, yes, this young woman up here.

SPEAKER: Good morning. I'm just a reporter from the Shenzhen Media Group. So my question is for Mr. Bob.

And so from what you heard from the Missouri corn or soybean farmer, the selection from Donald Trump to them or the trade opportunity with China, so if they have a chance, which is more favorable to them? Thank you.

MR. FALLOWS: So just to clarify what you're asking, so you're asking the attitudes of some of these farmers, the American farmers, towards the Chinese moves? Is that what you're asking the governor? Yeah.

GOVERNOR HOLDEN: Well, being from a farm background, but not being

in the same political party as a lot of farmers, farmers are very self-reliant as long as they are in command of the situation. With the tariff situation it's now out of their control. So on one hand, they look for survival and self-interest. On the other hand, for that survival and self-interest to occur they've got to be selling their soybeans.

And so I think they're really caught. And that's the reason you see so many of the leaders from around the country in Congress not saying a whole lot publicly about what's going on because they don't know and they don't know what the response is going to be.

So I would say farmers are by nature more conservative, but also in self-interest they've got to sell their soybeans and their corn.

MR. FALLOWS: I'll say, also, the South Dakota farmers and pork producers I spoke with recently, every single one of them is following with intense interest the African swine flu, swine fever situation in China now, what that's going to mean for world pork markets.

GOVERNOR BROWN: And I'll just say for a state like Oregon, unlike most of the Midwest states we have a number of commodities. We're over 220. And so the dynamics are challenging and the uncertainty is very concerning.

Our food processes are concerned, as well. We do potatoes and our frozen potato industry lost over \$20 million last year due to tariffs. So the uncertainty is extremely challenging.

As the governor said, our agricultural sector is very strong and very resilient, but it does get challenging and, obviously, folks are concerned.

MR. FALLOWS: The microphone on this side of the room. So yes.

MR. CHURCHILL: Thank you. Owen Churchill with the SCMP. I have a question for Governor Brown, if I may.

There have been concerns raised both by observers and also the administration itself about the nature of some of the Chinese interlocutor organizations that

are facilitating exchanges on the sub-national level. For example, one of the co-hosts of the NGA's U.S.-China Governors Collaboration Summit was the Chinese People's Association for Friendship With Foreign Countries, which is believed to have ties with the United Front, which is, you know, essentially a propaganda or influence wing of the party.

So I just wondered whether you shared any of those concerns about dealing with organizations that have perhaps opaque relationships with the party. And if so, what you're doing to mitigate those risks. Thank you.

GOVERNOR BROWN: So I'm a member of a number of national and regional organizations, including the National Governors Association and, for example, the Western Governors Association. Obviously, we have a variety of folks who are sponsors of those associations. I try and work individually with those associations or not, depending upon their philosophies, and certainly work with my local associations, the Oregon-China Council and the Northwest-China Counsel, as I move forward in terms of building relationships, developing economic ties, and expanding cultural opportunities. Thank you.

MR. FALLOWS: Yes, over on this side. I'll say as the microphone is being passed over, I guess one assumption would be a lot of Chinese organizations have governmental or party backing.

GOVERNOR HOLDEN: Like we do.

MR. FALLOWS: Yeah, but -- sort of. (Laughter) But yes.

MR. Golovin: Hi, Karl Golovin. On September 11, 2001, I was a special agent with U.S. Customs. And my question pertains to the improving of relations between the federal entity and the states, and drawing from three crucial events in 1913: the creation of the Federal Reserve, the privatization of -- the creation of creditor money, and the establishment of the income tax. Because prior to that year, virtually all the federal revenue came from Customs duties, which helped balance trade interests with domestic industry.

But the third event of 1913, the passage of the Seventeenth Amendment, from that point U.S. senators were directly elected by the people whereas prior to that point

the state legislatures appointed or elected the U.S. senators. Should we repeal the Seventeenth Amendment so that the state legislatures will appoint U.S. senators, which will then be more responsive to the states in establishing federal trade and foreign relations policies?

MR. FALLOWS: Talk about a question you had not foreseen, yes.

GOVERNOR HOLDEN: Let me move away.

GOVERNOR BROWN: Oh, my gosh, you're talking to a governor who comes from a very active initiative and referendum state. It was initiated in 1903 and I can't remember what year off the top of my head, I think it's 1905, that we moved to direct election of our U.S. senators. So I would just say from an Oregon perspective hell NO! (Laughter) But, you know, I haven't had that conversation with my constituents. So thank you.

MR. FALLOWS: How about from a Missouri perspective?

GOVERNOR HOLDEN: No, I'll go along with her. (Laughter) That's one you don't want to touch.

MR. FALLOWS: The other perspective is looking at the current Senate, you know, it would be hard to be worse, but that's a whole different discussion. (Laughter) That's just a little joke.

Yes, this side. Yes. I think we have time for one or two more questions.
Yes.

SPEAKER: Thank you for your presentation. I think it's clear from the governor or ex-governor they said there's a lot of fear in the heartland or the West Coast.

MR. FALLOWS: Could you put the microphone up?

SPEAKER: Sorry, there's seems to be a lot of fear, at least we understand, and the fear is an economic fear. And the solutions that you are all suggesting is a secular solution, not a cyclical solution. So if cyclical means short term, secular means long term. And we're trying to fight a cyclical issue with a secular solution. It doesn't mean that you don't have a cyclical solution, then that's why you go to the secular solution, or is it because

that we're not able to explain away that this issue, as the other gentleman was saying, what happened in the last two years?

What happened in the last two years seems pretty clear that we have initiated, rightfully or wrongfully, this more antagonistic discussion and that the people who are most fearful continue to be supportive of that line of discussion, which is really very interesting from a psychological standpoint. And I appreciate your thoughts really talking more about that than to suggest what the secular solutions are. Thank you very much.

MR. FALLOWS: Who would like to lead off there.

GOVERNOR BROWN: Oh, my gosh. Well, I'm well aware this is a nonpartisan organization. I am extremely supportive of putting a new occupant in the White House that would change this national and international conversation and put it in a different direction. That being said, I don't think it's going to be a change in the occupant in the White House that is going to change the I would say hypocritical or sort of interesting dynamics that you have just highlighted.

And so I think that's why the long-term work that we are doing is so critically important. It's probably the work that I am doing in Oregon is not going to change somebody's minds in West Virginia, but, hopefully, the young people that are going to school in Oregon, some of them may end up in other states and may have the opportunity to educate their peers in the future. And so I am relatively hopeful and optimistic that we can do both. We can walk and chew gum at the same time. We can work to change the cyclical and the longer term, so.

MR. FALLOWS: Do you want to add or should we -- go ahead.

GOVERNOR HOLDEN: I'll be real short. I mean, I see two trains of thought. One is economic competition versus national security. I see too many political people using the issue of national security to ask the economic competition issue and we've got to figure out how we can separate those. And the difficulty is with the tremendous innovations that are occurring in technology and information, it's very hard, to begin with, to

separate it out, but our political leaders have conveniently put them all together so that they mask the issues we've got to address.

MR. FALLOWS: We have time for one short question. Microphone, if you can choose somebody, a short question and brief answers, then we'll thank our guests.

SPEAKER: Thank you very much for a great discussion. Recently two tenured professors were fired by Emory University, Chinese professors, for supposedly having connections with China. A Chinese applicant for a position at the National Institutes of Health was pulled out by the police as he was giving a presentation. How does this affect the community of education interaction where there is this sort of attitude?

And the third point is a large number of Chinese students are supporting the public -- coming here and paying for education. So this is a tremendous threat to this exchange that you people are talking about. How are you going to address this?

MR. FALLOWS: So as an active governor now are you seeing this threat in Oregon institutions?

GOVERNOR BROWN: I am not, honestly, but it's certainly concerning to me. Where I'm seeing the challenges is in our business organizations, frankly, our businesses that are doing work globally, and I think it's so important, Tim Boyle, the CEO of Columbia Sportswear, they are being challenged with the national issues in terms of bringing their international workers into Oregon and having the ability to connect and work. And so what I think is so important is for people in different sectors to be speaking out when they are concerned that things aren't right. And I'm really proud of the leadership of folks like CEO Tim Boyle.

I will happen to mention, as well, his mother was an immigrant from Germany. They obviously have been and he has been a leader in talking against some of the issues that are happening nationally.

MR. FALLOWS: And you didn't ask, but my view on this is that the American strategic advantage and conceptual greatness is our openness to an outsized

share of the world's talent. And anything we do to jeopardize that is both self-defeating and wrong, so I think we need to defend it. (Applause)

So with that, please join me in thanking Governors Holden and Brown, and we give the stage to the main panel. (Applause)

MR. HASS: Well, thank you all for being with us this morning. My name is Ryan Hass. I'm a Fellow here at the Brookings Institution. And I am pleased to welcome Ambassador Nina Hachigian, Reta Jo Lewis, and David Dollar to this expert panel on the role of cities and states in the U.S.-China relationship.

Our goal over the next hour or so is to a sober hardnosed look at both the risks and the opportunities presented by deepening subnational ties between the United States and China. And we're fortunate to have people who can help us march through this from the federal level, from the city level, and from the economic perspective as well.

After I briefly introduce our panelists, I will invite each of them to offer a few brief framing comments to help get our conversation launched. I'll follow up with a few questions and be sure to save plenty of time for you all to ask your own questions to our group. I'll also try to reserve a couple of minutes at the end in case any of our panelists would like to make any final comments or parting shots.

But before I turn the floor over to them let me very briefly introduce them to you.

Ambassador Nina Hachigian is the Deputy Mayor of International Affairs for the City of Los Angeles. She'll be speaking from a Los Angeles perspective today.

As the first ever Deputy Mayor Nina and her staff seek to use and expand Los Angeles' global ties to help bring jobs, economic opportunity, culture, visitors, and a successful 2028 Olympics to the city. Before moving to Los Angeles Nina was a colleague of mine, serving as U.S. Ambassador to the Association of Southeast Asian Nations in Jakarta. While there she was a Senior Fellow and Vice President at the Center for American Progress.

Reta Jo Lewis is a Senior Fellow and Director of Congressional Affairs at the German Marshall Fund. At GMF Reta Jo focuses on leadership development, outreach programming, and thought pieces on global engagement strategies to strengthen the next generation of transatlantic leaders.

Importantly for the sake of our discussion today, from 2010 to 2013 she was the State Department's first ever Special Representative for Global Intergovernmental Affairs under Secretaries of State Hillary Clinton and John Kerry. In that role she led the office charged with building strategic peer-to-peer relationships between the U.S. Department of State, U.S. state and local officials, and their foreign counterparts.

And David Dollar -- no stranger to the stage -- is a Senior Fellow with the John L. Thornton China Center at Brookings, and he is also host of the Brookings Trade Podcast, Dollar and Sense.

David Dollar, one of the best names in the business, is a leading expert on China's economy and U.S.-China economic relations.

Prior to joining Brookings, David was a colleague in the U.S. embassy at Beijing as the Treasury Department's economic and financial emissary. Prior to joining the Treasury Department David worked for 20 years for the World Bank, both in Asia and in Washington, DC, where he held numerous senior positions.

With that I'd like to turn it over to you all, starting with Nina. And we welcome your thoughts.

MS. HACHIGIAN: Well, thanks so much for having me. It's great to be here. Let me make clear at the outset that these views are my own only.

So I've spent a chunk of my career as a student of the U.S.-China relationship at the federal level. The last big project I did was a book called "Debating China" with 10 U.S. scholars, some here at Brookings, and 10 Chinese scholars writing letters back and forth to each other about 10 of the critical issues in the relationship. And sad to say, I think that book might not be possible today.

After that I was posted to Jakarta and during my time as U.S. Ambassador to ASEAN I had a cordial relationship with my Chinese counterpart. We were able to get a few things done, but we were contending with issues on which we had very different points of view, like the construction and militarization of artificial islands, the devastation of coral reefs, essential for food supply for ASEAN countries, and the legal weight of the 2016 ruling against China and the Philippines over South China Sea claims.

My current position, though, gives me a chance to see how this relationship plays out on the ground in the United States, the tradeoffs it involves, and how very intertwined we are. LA is home to a huge, varied, and multi generational Chinese-American diaspora community, and the largest population anywhere outside of China of people born in China. Trade between China and California has been going on for hundreds of years. In a way Los Angeles was international before it was national. Spaniards began coastal trade in the 1600s and China was a major importer of silver used for its currency.

Today the Port of LA is the largest in the western hemisphere and the LA customs district is the gateway to North America for China. Trade with China accounts for 60 percent of trade volumes at the port, so the U.S.-China trade relationship matters a great deal to the Los Angeles economy.

Unfortunately, while I agree with the need to curtail China's unfair trading practices, the effects of the administration's trade war are causing considerable pain at the local level, as we heard earlier. Even though LA's industries haven't been targeted by China's retaliatory tariffs, California as other states have, and so exports to China from LA ports are down 25 percent. Fruit, nuts, and wine from California have been hit hard. The disruptions are very costly to manage. At first there was a rapid increase in volume at the port while businesses tried to get their orders through before the tariffs took effect. Then there's been a slow down and lots of fluctuating timelines. And all this unpredictability is very challenging for a port which on average moves 200,000 containers a week, as well as for the many logistics operators, and of course for businesses which import or export.

On investment, there are 240 firms in LA County with Chinese ownership employing around 6,000 people. Los Angeles is still seeing FDI in certain areas, but it's dropping, and restrictions on outbound investments from China, including in entertainment, could become problematic. Tourism is also a big business in Los Angeles, supporting over a half a million jobs in LA County. And we've been investing in China and the Chinese tourist market and it's been paying off. LA Tourism has opened four offices in China over the last 12 years and now LA is the most visited American city by Chinese tourists. In 2018 41 percent of Chinese tourists to the United States stopped in LA County.

So far, tourism from China has continued to increase in Los Angeles, but at a slower pace. Nationwide there was a 6 percent drop in travelers from China to the U.S. in 2018, the first decline since 2003. And we don't know what is going to happen next. In June China issued a travel warning for the United States, citing crime and U.S. interrogation by officials. A precipitous drop in tourists from China would make it harder for us to reach our growth targets in this sector of the LA economy.

And our mayor and our residents take climate change very seriously, which is another reason we think we need to have a working relationship with China. So as James Fallows indicated earlier, when President Trump declared he was pulling out of the U.S. climate accord, it was Mayor Garcetti who said LA was staying in. And he rallied the other 425 mayors representing some 70 million Americans, and they've all committed to upholding the Paris targets.

LA also recently launched its own new green deal with accelerated and aggressive targets, prioritizing equity and jobs and setting us on a path to carbon neutrality by 2050. We're the number one solar city in the United States and we've already created some 35,000 new green jobs. And for context, there are only around 50,000 jobs in the coal industry in the entire country. Mayor Garcetti is deeply involved as well in the C-40, which is an international network of mega cities, a number in China, representing one-quarter of the world's population, and it is dedicated to fighting climate change.

So this is a problem that we can't solve without China, both because China is the largest emitter, but also because Beijing accounts for some 40 percent of the global investment in renewable energy.

So far, overall interactions between LA and Chinese official remains positive despite the bilateral tensions. We also incidentally have very good relationships with Taiwan and President Tsai visited LA last year and met with the Mayor.

So cities and states I think can take advantage of the trade, investment, students, climate change cooperation, culture, and tourism China offers without really having to balance the broader national security, geopolitical, and human rights questions. That is not our role. Although Mayor Garcetti is dedicated to promoting traditional American value of human rights and individual freedoms with our foreign partners in creating a city of belonging for everybody. We need the federal government to give us sensible guidelines that take into account how much this bilateral relationship is woven into our lives at the local level.

And if we really want to compete successfully with China, it is more clear to me than ever that investment in our country with local guidance is essential and the path. Serious investments in infrastructure, training programs for workers, clean energy, higher minimum wage, funding for basic research and education, in addition to humane and sensible immigration policy will ensure that we continue to thrive, both as municipalities and a nation. And closer relationships with Mexico and Canada would also help.

The federal government could also look to the local level for ways to cope with challenging technological and trade landscape. Mayor Garcetti's leadership has made community college free for everybody, he has increased workforce training, raised the minimum wage to \$15 an hour, while cutting business taxes, and his administration has created hundreds of thousands of jobs that can't be outsourced, by investing over the next generation about \$120 billion in public transportation and roads through a measure that taxpayers passed.

And I'll end there. Thank you.

MR. HASS: Thank you.

Reta Jo?

MS. LEWIS: Well, first of all, thank you, Ryan, for giving me the opportunity to be here at Brookings this morning. It was just such an honor to listen to the governors talk about the relationship that they have between the United States and China in their own individual states.

You know, as Ryan had stated, I served as the first Special Envoy at the U.S. State Department working on peer-to-peer relationships between the United States, U.S. state and local officials, and their foreign counterparts. You know, I worked to execute the first ever agreements that solidified subnational cooperation and engagement efforts, primarily at the time focused on the BRICS countries. You might imagine that China was as important as it was then as it is now. I subsequently organized and led delegations of U.S. governors and mayors, including but not limited to the State of California, Georgia, Maryland, and Iowa, to international trade business summits with federal, state, and local governments and business leaders.

Prior to the State Department I had a deep appreciation of working with the U.S. Chamber of Commerce around efforts around women and around small and medium sized enterprises. But throughout my career I have really had the opportunity to witness firsthand the power of engagement between sectors and inclusive leadership practices and the creation of impactful, collaborative, and dynamic local policy.

It has become even more and more important now to see that our U.S.-China subnational doors are really wide open and they're not going to be closed. I think the biggest development has really been to see how significant and consequential the relationships that our governors and our local officials take with their U.S.-China counterparts.

There have been recent events, such as the fifth U.S.-China Governors'

Summit in Kentucky. I believe that underscores the work that had been done in previous time, as well as right now. Right now we have seen our relationships grow, not just from a cultural relationship, but also from an economic and political one. We now have 28 states that have over 32 representative offices that have focused on everything from trade and investment, climate, cutting crime, as well as governance and issues around transparency. But one of the things that really underscores the relationship between U.S. and China, especially from the subnational perspective, is a conversation that takes place when you're with these leaders. To me it has always been, no matter who you're talking to, especially at the local level, whether it's a mayor or governor or county executive or state legislator, there are two words that always come to mind. One is always about the discussion around trust and always another one about mutual respect. That is the foundation of the relationship that we have had with China.

Within this relationship we have been able to see, I believe, over a number of years now, the diversity of interests that have to coexist if we're going to continue to move this relationship forward. The private sector is one to continue to be a major player in this conversation, because as we discuss issues around climate, as we discuss issues around sustainability, education, trade and investment in education, as well as even the conversation about the youth exchanges, it's always going to see that these relationships have to coexist.

The motivation I have seen in the marketplace has always been around jobs. So it did not matter whether I was travelling in the capitals of China or in the capitals of the United States or in the heartlands of the United States and the heartlands of China. One key word always came to play, and it was always around job creation, it was always issues around competition. There is a major absence of the conversation when you start to look at the broader definition of the polarization and the issues that bring forth the tensions in the relationships.

As you can see, our local leaders shy away from those conversations. It's

not that they don't know about them, they are firmly aware. They're firmly aware about the tensions, they're firmly aware about the polarization, because it plays out in the news every single day and it plays out in their local communities.

But the most important thing I have seen for leaders, it is about the business of moving their state forward, moving their state forward around jobs, moving their state forward around prosperity, and making sure that each citizen has an opportunity to participate in their economy.

MR. HASS: Thank you, Reta Jo.

David?

MR. DOLLAR: Okay, thank you very much. It's truly a great pleasure to be here.

So I'm the macroeconomist on the panel and I'm truly going to be brief, because I found the micro stuff from the governors and talking about cities a lot more interesting than macro right now. (Laughter)

So I want to start with an idea that was formalized by Governor Holden, but it was implicit in a number of the comments, that the cultural and educational exchanges lay a foundation and foundation, for among other things, for the business relationships, for investment in trade. And I think that's right. And what I've heard is we've got very deep cultural and educational exchanges, maybe a little bit under threat right now, but we've had very good cultural and educational relations.

So the first point I want to put in the discussion is despite all the tension in the U.S.-China economic relationship, we actually don't have that much economic engagement from a macroeconomic point of view. The U.S. is overwhelmingly the largest investor in the world. China is down somewhere like around number 10 on our list of investment destinations, even though it's -- from our point of view, it's the biggest other economy in the world, but it'd down around number 10 in terms of U.S. investment. There are a lot of reasons there. We invest a lot in Canada and Mexico, which are near neighbors.

But let's be honest, China also has a lot of restrictions in investment, particularly in service sectors, and we are primarily a service economy. So there are sectors like financial services, telecom, obviously social media -- you know, there's a whole bunch of area where it's been difficult for U.S. firms to invest in China. So we have a modest amount of investment there, but not really an overwhelmingly large amount.

China, on the other hand, has emerged as a foreign investor only really in the last few years, and now it's becoming a major foreign investor, major direct investor around the world. And we can anticipate that it will rise up and probably be a foreign investor on par with the United States within a decade or so.

Where is China investing in the United States? Well, I think everyone is familiar with this -- the Chinese are buying a lot of real estate, they've invested it not directly in agriculture, but in agricultural science, we can call it, buying a major agricultural chemical company or Smithfield, the largest pork producer. China has tried to invest in a lot of technology areas in the U.S., but we've often kept out Chinese firms on national security grounds. But still, there's quite a bit of Chinese investment in different technological areas.

So I would say from China's point of view, as of say two years ago, it was emerging as a very significant investor in the world and pretty significant investor in the U.S., but then just in the last year, that Chinese investment has dropped by 90 percent. And part of that is a macroeconomic phenomenon from the Chinese side. You know, they had a large trade surplus for a long time. Actually, their overall trade surplus is largely gone now. It makes it a little bit more difficult for them to invest abroad. So they're global investment has actually declined over the last year or so.

But what's happened with this 90 percent decline in the U.S., that's way beyond macro, that's a reaction to this trade war between the United States and China and toughening up national security restrictions.

So we've got difficult relations between these two biggest economies in the world right now, and, you know, to come back to where I started, I think the educational, the

cultural exchanges, other cooperation between the U.S. and China, has laid a very good foundation for our economic relationship. It would help if China would open up more sectors, which they seem willing to do at this point. But what's happening at the moment is we're getting this decoupling of the U.S. and Chinese economies. We're going to be the two most innovative economies in the world in the next 10-20 years -- that's almost inevitable. So there's a huge mutual benefit from integration, from having Chinese firms invest here, U.S. firms invest in China.

I know I'm mostly dwelling on investment, but I want to also add that trade and investment just go very, very closely together in today's world. About two-thirds of world trade goes in global value chains that cross at least one border during production. So almost all trade in practice is closely tied to investment. So if we don't have cross investment between the U.S. and China, that's naturally going to have a very significant effect on our trading relationship.

So I would argue -- I'll just end by arguing I think there would be huge mutual benefit if we can work out a way for our two economies to compete. There are legitimate national security issues, so the question is can we ring-fence the legitimate national security areas and still have a deep economic relationship of investment in trade between China and the U.S.? And I think that's in our interest.

And just repeat some of the smart things said by both panels, obviously for the U.S. to do well on that competition, we need to be investing in infrastructure, we need to be strengthening education. Everybody emphasized the importance of immigration for keeping the U.S. as a dynamic innovative economy. So there are ways in which we can prosper while having economic integration with China. And then I would argue if we're going the other way of really decoupling and we see these continuing trends in less investment, less trade, that's going to be a less prosperous world, and I believe we're discovering. Holden suggested that probably also going to be a less peaceful world.

MR. HASS: Thank you, David.

Nina, you're one of the few people in the United States that has been both a U.S. ambassador and a leader of a dynamic innovative city. I was wondering if you could sort of reflect on those two experiences and how your views have evolved. Specifically, where do you see cities, states, and private companies playing a more active role in international diplomacy?

MS. HACHIGIAN: I mean in some ways it wasn't a big a transition as I guess I was expecting, and in other ways it's pretty different. What I love about it is how my work does and need to directly benefit this group of people, this 4.1 million, or whatever it is. So in that sense it's pretty different from operating at a level of long-term, big relationships between nations.

But LA, you know, we have some of the largest diaspora communities in the world, so we're like the second largest Mexican city, even including all of Mexico, other than Mexico City. We have the largest Vietnamese population outside of Vietnam, largest Salvadoran, and largest Japanese populations outside of those countries. We have so many different nationalities represented, and we have the fourth busiest airport in the world. So we're very global just in our kind of essence. And we know that ties with foreign partners can bring actual real tangible benefits to our citizens. So whether that's markets for exporters or foreign direct investment that creates jobs -- immigrants and refugees strengthen our community in many ways, you know, both economically and otherwise. We've started a program to send community college students abroad for the first time. So students who've otherwise never had a chance to travel. And some of those trips have been sponsored by foreign governments.

So just to give you a few more examples, you know, we host a fair number of heads of state, we work on kind of technical cooperation with foreign cities, like with Mexico City on earthquake preparedness, we work through networks of cities. So I mentioned the C40 earlier on climate, but there are others on migration, there's now forming a U20, which is to be the kind of urban voice for the G20 -- or that's what it aspires to be.

We are working directly with some national governments on projects, so we've launched this effort with Mexico, called MEXLA, which is kind of a citizens commission, 15 influential Angelinos, 15 influential Mexicans, to talk about different aspects of the relationship. They're going to be meeting for the first time fairly soon, but that's an effort with the foreign ministry of Mexico.

There was a really interesting meeting of mayors, of U.S., Mexican, and some Canadian mayors, also sponsored by the Mexican foreign ministry, which President Obrador came to. We're engaging with the UN on migration, but we're also measuring our progress toward the Sustainable Development Goals, which I assume this room knows about. So we're measuring our progress, we have huge data sets that are now going up on our website. And we coordinate all of this fairly loosely with the State of California as well. Our lieutenant governor now has specific jurisdiction over California foreign policy. She's also a former U.S. Ambassador.

So we're working with national governments, we're working with city governments, we're working through city networks, and with international institutions. So I think that's fairly new. I don't know that there's been that much activity from U.S. cities.

I have to say U.S. cities are really behind our foreign counterparts when it comes to foreign policy. When I visit my counterparts in Tokyo, Buenos Aires, or in China, they have massive foreign policy apparatus, they host a lot. And I think for U.S. cities, we probably have one of the bigger departments and we're like, you know, eight people. (Laughter) So, anyway, we've got some catching up to do, and we need folks in Reta's old job to help us do that.

MR. HASS: So what you've just laid out is an incredibly robust sort of portfolio of activity that is taking place at the city level, that you're reaching out, you're touching international organizations other city governments around the world, other foreign governments. Do you see any scenario whereby that trend line would reverse and cities and states would become less active in international diplomacy? Or do you project this trend line

is going to continue in the direction of activism?

MS. HACHIGIAN: My guess is that it would continue and continue to increase because once you start doing it you realize how important it is. You know, once you assign people to do it and to think about it, there are more and more opportunities and there is more and more reason to do it. It's definitely been propelled forward I think by the Trump Administration and foreign partners looking for someone to talk to like they used to be able to talk to. You know, the federal government.

So if there's a new president in the White House, might it all go back to the way it was? Maybe, but globalization I assume will continue to move forward, and as it does, if you want to create jobs in your city, which as Reta said is the thing, you've got to be internationally engaged.

MR. HASS: That would seem to suggest that there's a need for connectivity between state and local and federal efforts to sort of try to push in a similar direction. And that's something I'd love to come back to in a moment.

But, Reta Jo, let's time travel for a minute. Pretend you're in your old job --

MS. LEWIS: That's a time travel. (Laughter)

MR. HASS: What would you be doing right now, where would you be focusing you and your team's energy, what would your priorities be? In other words, what is it that the absence of a Reta Jo at the State Department -- what are we missing?

MS. LEWIS: Let's talk about an absence of Reta Jo. (Laughter)

I think any envoy would be -- or special representative who has that stature of working for the secretary and working at this at the secretary level, would really be, after learning the lessons from the previous occupant and then studying those lessons, would be really drilling down on leadership in terms of how do you continue to develop relationships. I think we heard from the first panel that at the end of the day it really all revolves around relationships and we have to build those relationships at the provincial level.

You know, I was very fortunate that the very first U.S. ambassador to China

was Governor Huntsman, and Governor Huntsman, who not only spoke fluent Chinese, was exceptionally active in the National Governors Association. And in that work that he did, he was able to work very closely with his governors at that time to try to interest them in order to come to China and to move beyond just going to Beijing and going to Shanghai, but looking at the vibrancy of all of China. Just like we are telling leaders when they come to America, look beyond just going to the U.S. capitol, what's happening in New York, we love California, but also we've got to look across the 50 states and our territories in the U.S.

And so I think after you had ambassadors, whether you had Locke, or you had Senator Baucus, and currently with Ambassador Branstad -- three of them actually have been governors -- and in that they had a clear understanding of what the relationships around would bring to an individual state, but more importantly, what it would bring to a region and therein what it would bring to all of the U.S.

And so I think we would be continuing to work with our foreign service officers, as well as our civil service officers, to talk about how this relationship continues to need to be prioritized. How does the work around some national engagement need to be continued to be prioritized. And in that, if we were time traveling, we would be continuing to support the U.S.-China Strategic and Economic Dialogue. And so doing that, which many of our diplomats have continued to emphasize and continued to support that work, is to understand that in this bilateral engagement it is not a one-shot deal, it's not a one-time deal. It is something that is ongoing.

And so as I think even Governor Brown stated, it's that no matter what's happening at the federal level, the work at the state level is going to be continuing, whether it's starting with our -- continuing in our educational realm or in our cultural realm. And so with work at the -- and becoming a part of the U.S.-China Strategic and Economic Dialogue, if that was the case taking place, if we were back at that time capsule, it would be about deliverables. And we all understand what that means. It's like we would have signed the overarching relationship memorandum of understanding between our countries, but we

would continue to be reaffirming those each and every time in the different type of diplomatic settings that we would be in. And the reason why you want to continue to reaffirm is to show not only in the United States, but also abroad, and specifically in an economy as large as China, with so many visitors that come to the U.S. and so many provincial leaders that were coming to the U.S., is that there was a framework and a framework which says that we can build upon and a framework which is bipartisan, because we did not see or we would not be seeing diplomacy as a partisan issue. It would be one that has to be very much bipartisan and we would be continuing to work with our embassy, continuing to work with our bureau teams, continuing now as what's happening with Congress Ted Lieu in California, which the mayor had a lot to do with the legislation -- HR-3571 that he just introduced along with his bipartisan congressional member, Congressman Wilson from South Carolina, to introduce a bill to make the office permanent. Because it should not be that the importance that is placed on it by a secretary, it should be importance placed on it by our country. And with that, to institutionalize such an office I think would be where we would be spending a great deal of time in Congress, and working with our state and local leaders to showcase the work that they've done, the results that they have been able to get, and also to talk to them and to have them be educating Congress as they come periodically to Washington as to how important the U.S.-China relationship would be, as well as the results that they have been getting in their own communities.

MR. HASS: Thank you.

David, can I ask you two questions on two different time horizons? The first is a near-term time horizon. You talked about investment flows from China to the United States dropping 90 percent over the past year, yet for many people who read the headlines every day, that the stock market is at an all-time high, the unemployment rate is low, economic growth is fairly robust, so is it that big of a deal to the United States that there's been a drop-off?

But over a longer time horizon you also described in your remarks that

China will become an investment power or have investment throw weight similar to the United States. And as the United States and China both become the most significant investment players around the world, what effect will that have on the relationship?

MR. DOLLAR: So on the first question, so I would emphasize that even a few years ago when Chinese and foreign investment in general was booming and Chinese foreign investment to the U.S. was booming, it was a rather modest amount relative to the whole U.S. economy. And even the trade -- our imports from China are down something like about 11 percent over last year. And that's a moderately big number, but it's too small to have a measurable effect on the U.S. economy.

So I don't think it's a short-term cyclical problem for the U.S. economy. It is hard to estimate and predict these things. This is really an unprecedented trade war, so I could very well be wrong, but most of the serious estimates you see from the International Monetary Fund, for example, they're arguing this current level of protection might take quarter of a percentage point off U.S. growth. Now, given now that our growth is definitely going to back down toward 2 percent, maybe taking a quarter percent off is not something we should be sanguine about, but anyone arguing that this is so serious, it's likely to cause a recession, that seems to be a fairly extreme view.

So I would argue that the issue or problem for the U.S. is much more long-term. Even though our economy is doing pretty well at the moment, looking out further we have had this problem of persistent productivity slow down. This is what economists argue about; there are a lot of different theories and ideas. There's not going to be some simple solution. But we definitely need an open competitive world with innovation to have any chance of bolstering our productivity growth.

So I think for us to be cutting ourselves off from what's not just the biggest trading nation, but it's the fastest growing market out there. You know, Chinese growth has slowed down, but it's still around 6 percent. So this is going to be the fastest growing market for the foreseeable future, even if they have some kind of short-term growth recession or blip

looking out over 10 or 20 years. This is a great opportunity, and if we really start separating ourselves from that, that is going to have a measurable effect on the U.S. standard of living.

MR. HASS: Right, right. Well, thank you. And I think that it is also worth bearing in mind, you know, we talk often about at the macro level, we've been talking today at the micro level. And even if GDP isn't shaved by a significant margin, it's clear through the presentations today that there are people in constituencies that are being hammered hard by what's going on in the U.S.-China context.

With that, I'd like to pose a question to the three of you. At the national level there seems to be a hardening of views towards China, at the local level there appears to be continuing activism in terms of developing relationships with China. So which way is the influence going to flow in the coming years? (Laughter) What effect is this tension going to have on the overall U.S.-China relationship? Because we're moving in different directions at the local level and the national level apparently.

MS. HACHIGIAN: I don't see this White House taking its cues from Los Angeles. (Laughter)

MR. HASS: I think that's a safe assumption.

MS. HACHIGIAN: So I'll just leave it at that.

MS. LEWIS: I mean I think that state and local leaders are exceptionally important, as we all know for one thing, as they say, that's where all the votes come from. And I believe if we keep this activism around subnational engagement in a bipartisan way, especially at the state and local level, we have a really great chance of moving the ball forward.

China has not relented one minute from wanting to have relationships with our state and local leaders. The current ambassador of China is the former governor of Iowa, Governor Branstad. Exceptionally important in the relationship at the subnational level. He is doing what previous ambassadors who occupied his role, they are really out there aggressively and in an intense way very low key, moving throughout the provinces and

the cities and the administrative units and working to develop those relationships. I think if we continue to see that, that's what's going to be important.

You look at the current Chinese ambassador, Ambassador Cui, he was the one that we signed the agreement with back then. What did he do when he first came to America? Continued to talk about subnational engagement, continued to now to be out there visiting U.S. states and cities along with people in his embassies. So I think that's where you're going to see that work continue to take place. And we hope that when you have meetings like that was recently held in Kentucky in May with Governor Bevin and Governor Lee and several lieutenant governors and 400 dynamic business communities, leaders and business entrepreneurs and executives, all want to participate in this conversation. But it's not about just a conversation, it's about a deal, it's about coming to an arrangement, about an understanding to push a commitment forward, whether it's one around education, whether it's one around climate, but always around trade and investment.

MR. DOLLAR: Yeah, I would just add that when I talk to Chinese officials and professors, many of them anticipate we're going to have a difficult period that stretches on for some years that prepared for the possibility that President Trump will be reelected. And they also think that even if he isn't reelected, the U.S. relations with China are not going to go back to the very friendly relationships we had a few years ago.

So I see China willing to play a long game, not surprisingly. And I think that's encouraging for keeping up these relationships at the city and state provincial level, because the -- you know, what I've heard from Chinese counterparts is the idea that sooner or later the U.S. is going to have to come back to the relationship because it's impossible to imagine dealing with climate change or having a successful global trade regime or global financial stability. It's just dealing with the next health epidemic. It's impossible to imagine dealing with these global issues if you don't have cooperation between the U.S. and China.

So I think it's encouraging that there is still a kind of well of good will toward the United States in a sense that eventually the two countries are going to have to work

things out. But, as I said, it's a long game. It could very well be 10 years or so of difficulty.

MR. HASS: Yeah.

MS. HACHIGIAN: I said earlier, but can I just put a point on the climate piece? I mean part of the reason that this Administration can go where it is in terms of the China relationship is because it's not really paying attention to climate change. And Californians, to put it mildly, are very much paying attention to and care deeply about this and really, you know, see it as the existential crisis that it's going to be for the planet.

And as many people have said, but I'm just going to say it again, you can't solve that problem without China. I mean they are, I read recently, like exporting some of the worst coal plants to other countries now. So whether it's curbing the not great behavior or taking advantage of the investment and the technology that is making clean buses and electric cars and all that, either way, and because they're the largest emitter, you can't get there without China. And so you have to have a relationship that works.

MS. LEWIS: I think one of the things that we can -- just as we cannot underestimate the relationships at the subnational level with our state and local officials and their counterparts abroad, the people to people exchanges for all of our diplomacy has been the backbone of America's diplomacy. And so with communities that have large diaspora communities within them are going to continue to help being a driving force. People who have invested in the relationships that they have had with their sister counterparts in cities throughout China, I think it's only going to grow.

And so while we go through this period in our federal relationship, the relationships that I would say, you know, that helps us to stand up, the U.S.-China relationship is only going to continue to grow.

MR. HASS: Thank you.

If I could, just to play devil's advocate for a minute, there is a reasonable argument that could be made that China is exploiting the openness of our system to create division, to try to curry support at the local level to try to blunt the pressure at the federal

level.

I guess my two questions are, what do you perceive to be China's motivations for being so interested in subnational relations, and are there areas where we should be more guarded or cognizant of the motivations that they have for their efforts?

MS. LEWIS: I mean I think by nature Americans are always going to be guarded. I mean I think even though as an open society that we are, when it comes to dealing with other we're going to be extra careful. And that's why having someone who can be an advocate for these leaders can only be helpful.

I would have to say that there has never been a U.S. leader that I ever worked with at the state and local level that ever wanted to step beyond in a negative light about America's policy. They may have an opinion, they may disagree, but as they say when they're on foreign soil, or even in the United States, very, very respectful. Because that's not their job to be negotiating the nation to nation agreement, their job is about their state, their job is about their locality, and more importantly, it's about the citizen that elect them. And in that they are the advocates for their communities. And that's why I keep coming back -- when you talk about trade investment, it still boils down to what's happening from a cultural perspective, what's happening from an educational perspective, and more importantly, about jobs and prosperity in the individual communities.

MR. HASS: On that note, do you think that there should be a role for city or local or state level leaders to speak out on issues like Hong Kong Xinjiang, things where the Chinese are doing -- taking actions that challenge our principles or our values? Or is that something that should be left to the sole purview of the federal government?

MS. HACHIGIAN: I mean, you know, Mayor Garcetti certainly is always vocal about human rights. And when he's with an interlocutor that has human rights problems, I think he's probably more vocal than many of our federal officials. But that doesn't necessarily prevent wanting to engage or having relationships.

And to your earlier question, you know, this is not new. Chinese engagement at the subnational level is not new. It's been ongoing. And I think if anything the tensions at the federal level might be curtailing it somewhat. So I think David is right, I think it's the long game.

MR. HASS: Yeah, great.

MS. LEWIS: I mean when American -- I've seen when American leaders talk, we talk about our values. And so of course there's going to always be disagreements and there's going to always be differences. And American leadership has always spoken out about that. I mean that's the beauty of being -- what do you say -- of free speech. But I do think that when we're traveling abroad, it's like they have a job to do, they've will not be sidetracked. We have a mission there, a very large one that serves as the key advisor for any of our leaders when they're traveling from the federal level or the state level.

And so one of the things that we were really very specific about was always try to make sure that we provided to our state and local leaders the ability to be a resource for them, the ability to give them the political and economic landscape, to be able to have people who could serve as a sounding board for them on things that they wanted to do. And it doesn't matter whether it's the government or whether it's the business leaders in the individual communities, because that's what the State Department is all about, to be able to be inside of that embassy there and our consulates throughout China to serve as someone who can help them sidestep those problems or to be able to -- as we say, we don't do -- the governor said, we don't do hypotheticals, governors don't do hypotheticals, elected leaders don't do hypotheticals. And so are they watchful of the fact that someone, that they're a risk -- absolutely. Are they watchful and their eyes are wide open that there are tensions in our relationships -- absolutely. But that's where I think a strong embassy, a strong bureau within the department, strong advocates within the department, can be there to help and serve, as well as organizations. I mean it's not just about what happens inside of a government agency, it is all the supporting organizations that are out there that work in this area, whether

it's the Governors Association, the mayors, the state legislators, the county executives. I mean, you name it. We need all of these entities to be working towards the achievement of one goal, and that is the strengthening and deepening of the bipartisan relationship.

MR. HASS: Good. Please.

MS. HACHIGIAN: I just wanted to emphasize something that Reta said.

You know, we just have learned that Russia was targeting election systems in 50 states, so it's not unheard of, the idea that you could have a foreign actor trying to exploit subnational relationships to do whatever nefarious things they're going to do. But that's why we need connectivity with the State Department. They should be the ones saying, hey, look out for these actors in your city or, you know, this kind of behavior. So I think just again, that I think this liaison would be helpful.

MR. HASS: Yeah, yeah. Can I open it up to you all? If you can, just please introduce yourself with a question, brief questions.

We'll start right here with the lady in the blue dress. We'll take two or three questions at a time.

SPEAKER: Good morning. I just had a quick question. This could go for the whole panel. I don't know which one might like to answer this one.

This has mostly to do with technology investment. So given developments regarding Google, major tech companies, supposedly, allegedly cooperating with the CCP, the Chinese Communist Party, the People's Republic of China, how would one police that potential threat without reducing investment that, as Dr. Dollar mentioned, has mutual benefits for the United States and China? How would you police that and ensure that any investment going on between U.S. and China does not inadvertently fortify the CCP, fortify powers that could put us at risk?

Thank you.

MR. HASS: Okay, if I could, I'll take one or two more questions. This gentleman with the blue shirt and then we'll invite you to answer.

SPEAKER: Yeah, I just wondered, isn't it more of a balancing act? It's not just a matter of going with a smile and a handshake and having relationships that way, but have credible alternatives for trade. That isn't a certain amount of decoupling necessary in developing a long-term relationship with a major emerging power in the sense that you need to have -- you go to negotiate with them, you need to know you have alternatives. Just trying to remember what Professor Shelling taught us about international trade and strategy.

MR. HASS: Thank you. Let's take one more question from the gentleman in the back with the --

SPEAKER: Thank you. Donghui Yu with China Review News Agency of Hong Kong.

U.S.-China senior trade talks resumed today in Shanghai. What can we expect from these trade talks? What is the difference of the situation of now and before May?

Thank you.

MR. HASS: We'll stop there and give our panelists a chance to respond. I think, David, you're probably in the sweet spot for the third question, what to expect in Shanghai.

MS. HACHIGIAN: Maybe the first question. (Laughter)

MR. DOLLAR: I definitely want to hear from you two on the hard ones.

So on the third question, I think in general there's not high expectations for these talks in Shanghai. They're going to be starting probably in the next few hours. I'm hopeful they'll reach what I call a mini deal, where China resumes some agricultural purchases and the U.S. eases up on some of the restrictions on Huawei. That seems to have been implicit in the Trump-Xi meeting in Osaka. But I think a deeper agreement that deals with some of the things I mentioned, market access issues, intellectual property rights protection, that would take a long time to negotiate and there really hasn't been adequate preparation. So it would be very surprising if they reached some kind of deeper agreement.

We may be now just stuck in this status quo. You asked what's different from before -- the U.S. economy is slowing down, they revised the last year numbers, so we now know we shouldn't be as proud as we were about -- you know, we didn't grow at 3 percent last year, we grew at 2.5 percent, plus we slowed down to 2.1 percent in the first quarter and general expectation is we're going to keep slowing down. So I think the Trump Administration will be careful about escalating tariffs, because that's going to be harmful to the U.S. economy, but they also may not think it's in their political interest to roll back the existing tariffs. They may very well be stuck in the status quo for a while.

MS. HACHIGIAN: On technology investment, you know, there's a whole process designed to try to figure that question out, the CFIUS process. And I think it's probably a federal level question more than it is one for the cities and states.

In terms of alternative trading partners, absolutely. I mean we are -- you know, Mexico and Canada are the largest trading partners for California, we have European delegations that come through and Vietnamese. We took a trade trip last year to Japan and Korea as well as Vietnam. We've got good FDI from both Japan and Korea. So yes, we -- I mean we have alternatives, but China is an important player.

MS. LEWIS: I think when Governor Holden was mentioning the fact that when he was in a meeting with a very large U.S. delegation, I think you're going to continue to see that more and more, not only in China, but you're going to see that throughout the trading partners. All you have to do is just to go -- every state is different, every city is different in terms of the focus that the leadership wants to do. I mean you've got to go -- when you're in these trading relationships or in these delegations, you're going to appear ready to do business. And that's what the Chinese come -- when they come to see us. It's not just a Coke and a smile. I mean it is really about how do you develop a relationship that can be long-term and that can survive no matter what bumps there are in the road because the movement toward getting an agreement is not just the one time factor that takes place. It is one that is long-term. And so when you start having these big issues around

technology, leaders, right, those become issues that only the federal government is going to sort out.

And so as an advocate our job would be to make sure that our American state and local leadership and the businesses that travel with them, the universities that travel with them, are aware of what those problems may be in the relationships, and to be able to assist them in guiding through agreements or memorandums of understanding.

I think that we're going to always be not just looking at China. Our U.S. states and cities are -- I mean they are constantly hosting major delegations in Europe, Europeans delegations are constantly coming here to the United States. I think what we're going to be able to see from a futuristic perspective is also how the U.S. and Europe will join together as they go after different types of relationships. And so the conversations that are taking place now between all of our partners is one where we can come together and move an investment forward versus trying to be stagnated.

I think that you're going to see there's an ebb and flow in all of these countries as we do or want to have relationships. At that time, you know, over 10 years ago, we were talking about the BRICS, 10 years later we're now talking about Europe. How do we continue to keep the relationships we have with our allies strong with all the problems that we've had in that relationship over the last several years.

And so I don't think it's an either/or, I think it is one that you will -- it's a ball that's going to constantly be moving and we're going to be moving towards it.

MR. HASS: Great. Maybe we can take one or two more questions very quickly. These two people right here.

SPEAKER: Thank you. This morning we have talked a lot about a local voice from the states and cities. I wonder, so how does the impact to the decision making in Washington, DC? In other words, do those politicians in the White House or the Capitol care about your voice?

Thank you.

MR. HASS: And then the lady sitting right next to --

MS. SCLAFANI Hi, I'm Susan Sclafani.

When I was at the U.S. Department of Education we created the first MOU with China since the opening on education. And I continued it to work with groups in China who are very, very worried about this issue of visas either being delayed or denied. And I know that both the president of Harvard and the president of the University of Chicago have written letters to the Administration.

Is there anything that the local and state level people can do try and end this bottleneck? Because the young people of China still want to come here, they still look to the United States for its value and its culture. And if we continue on this road, they're going to go to Australia, to Britain, to New Zealand and we'll lose great talent.

MR. HASS: So with that, I can throw it to you three. And if you can, and if you have any parting shots or final comments or reflections that you'd like to add into your responses, please feel free to do so.

We'll start with David and work our way down.

MR. DOLLAR: Well, I do think the two questions are more for the other panelists, but I will just -- my perspective as someone who follows the U.S. national policy toward China, I would argue that local voice is quite important. So, for example, a lot of farmers in the United States are unhappy about the tariffs and about the trade war with China, certain companies in the U.S. are unhappy. So it's hard to prove, but I would say the Administration enthusiastically launched the first round of tariffs and then the second round of tariffs, and now they seemed to have lost enthusiasm, even though as I said, the macro data is pretty good.

So I think they're getting word back from a lot of companies and farmers, et cetera. I think it does have an effect on national policy even though it's a very imperfect process.

MS. LEWIS: I think he is absolutely correct. And I think Governor Holden said it best. Every city or state is operating in their own interests. But from a regional perspective, we have been able to see in the work that I've done over the years is that coming together, the power of what that looks like. And so it's not one where states and cities have to compete against each other, but to be able to know that China as a very big market is there and willing and open to do work with our U.S. cities and to drill down in that work.

I think that as we see this relationship continuing to ebb and flow, we're going to see repeatedly how citizen and leaders in our agriculture community, our powerful voices against forces, against isolation, against forces that want to slow down the growth that they have seen that have benefitted their own individual citizens and their own individual communities.

And so I think state and local leaders are exceptionally important right now. It's a moment in time to move aggressively to talk about how we continue to not just have strong relationships between U.S. and China, but with all of our allies who have been very, very strong trading partners for our U.S. states and localities.

And so state and local leaders I think right now have an ability to exert a lot of influence, especially working in conjunction with our educational institutions, working with their private sector partners, and then of course working with their diaspora communities.

So it's going to be I think the creation in our communities of these public-private partnerships that will be I think the ongoing sustaining factor of who we continue to broaden the relationship that we have between the U.S. and China.

MS. HACHIGIAN: We're certainly open to talking to any federal official who would like to talk to us about these issues. We're at a very partisan moment in our history, so I think to the degree that local voices are heard, they probably wouldn't be from a deep blue state like California, or a blue city like Los Angeles. But I hope that word is getting

through from other states. And maybe I'm wrong, I hope to be proven wrong, because I do think our voice is important.

And just in parting, I wanted to say thank you for having this discussion. I think it's really important. And just to let you know that cities and states are still holding the torch for American values of openness and welcoming and valuing importance of our foreign partners.

MR. HASS: Well, thank you.

I really took away three big meta themes from both the first session and this one, which the first is that the trend lines appear to be moving towards greater activism at the city and state level on international issues. I find that interesting. The second is that there is acute sensitivity, particularly around the issue of jobs and investments, as the city and local level that doesn't always pierce through the national narrative on the U.S.-China in particular. And then the third is the benefit that would be had from greater connectivity between local, state, and federal levels to build more of an American consensus and not just a Washington consensus on how most effectively to deal with the real challenges that are being posed by China.

But with that, I want to thank all of you for spending your morning with us. I want to especially thank Zach Balin who is the senior research associate who is going to be leaving soon to go to Nina's hometown of Los Angeles. So, our last chance to recognize him. (Applause) Thank you all.

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CERTIFICATE OF NOTARY PUBLIC

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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