

## TRANSCRIPT

### Transatlantic Approaches to China: Political and Economic Challenges

**Discussants:** Dr. François Godement, President, Asia Centre  
Dr. Robert Kagan, Senior Associate, Carnegie Endowment  
for International Peace, and Transatlantic Fellow, The German Marshall Fund  
of the United States  
Dr. Eckhard Rohkamm, Chairman, German Asia-Pacific Business Association  
Mr. Robert B. Zoellick, Vice Chairman, International, Goldman Sachs

**Moderator:** Mr. John Pomfret, Editor of the Outlook Section, *The Washington Post*

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JOHN POMFRET, EDITOR, OUTLOOK SECTION, WASHINGTON POST: Great. It's wonderful to be here today. Thanks for coming. The rise of China, perhaps, is one of the most compelling stories of the late years of the 20th century and the early years of this century.

As a country it has seen its GDP quadruple in about 30 years, and has yanked more people out of poverty faster than any country in the history of the world. China now today possesses \$1 trillion in U.S. debt, and its appetites for copper, iron ore and oil rock world markets on almost a daily basis.

Today we have assembled four gentlemen, a panel of four gentlemen who's collective experience represent decades of dealing with China, both as diplomats, as businessmen and as scholars.

The first question I'd like to pose to is to Bob Zoellick, former Deputy Secretary of State to the United States and U.S. Trade Representative. The question I'd like to pose to you is, how does China's rise challenge the United States both politically, strategically, militarily and economically?

And also a second part of that question is, is it possible that we are overestimating China's rise, much like Americans overestimated Japan's rise, or the threat from the Soviet Union in the 1970s?

ROBERT B. ZOELLICK, VICE CHAIRMAN, INTERNATIONAL GOLDMAN SACHS: Before I begin, and this will embarrass John a little bit, but he's written an excellent book, which I read over the holidays of his experiences going back to the early 80s in China, tracing a group of Chinese, that I highly commend you and it's short, too.



It's one of those books you could read quickly. So we've got as a moderator somebody who really knows the subject very well. Every time I go to China, and I was just mentioning this to John, I come away just so fascinated because I was there for the first time briefly in 1980, and as his opening comment suggested, the course of China's development has really been absolutely extraordinary.

And to connect your two questions a little bit, there is still huge internal challenges that people, you know, need to be aware with. I won't go into them in depth here, but if you're Wen Jiabao, and you wake up in the morning, you certainly must have a staggering sense of what is ahead of you.

And because of that I think going to the challenge to the United States and Europe, the Chinese are basically looking for a benign external environment, why they deal with these challenges. But there's an irony which is at the same time that want to focus on internal development. They affect the world in such a significant way that they have to figure out how to engage with it.

From our point of view, and I would imagine from Europe's as well, I think there's a need for some reassessment because over the past 30 years, and this has been a bipartisan policy in the United States, the goal has been to integrate China into the system.

And yet if you step back and you look at currency, or commodities, or counterfeiting, or clothing, or any other thing, you can't help but recognize that China is integrated. It affects all these markets. So the logical question is integrated to what end? What's the purpose?

It's a fascinating time in dealing with China because they've come together where the Chinese realize this. And so they've started to come up with a phrase at first called "China's Peaceful Rise" to explain how they're going to integrate in the world. Then they edited that because "Peaceful Rise" looked a little too threatening, so now it's "China's Peaceful Development."

The idea that we came up with was China as a responsible stakeholder, the notion that China has benefited from the international system and we want to try to integrate it effectively because it has interests in this system of system, just as the United States and Europe were both the beneficiaries and creators of this over the past 40 or 50 years.

And so I think there's a challenge now for the United States, Europe and China to sort of see how these come together, while it's important to recognize the Chinese are very much focused on their internal development.

So when you pose the question of challenge, the way I partly look at it, John, is to say if I think of any problem in the world today, whether it be Iran, North Korea, Sudan, energy and the environment, capital markets, and I ask myself is it going to be easier or harder if you're



working effectively with China, it's clearly easier if you're working with China. But that doesn't preordain it.

And in my experience the Chinese are as focused on national interest as any country I've ever dealt with in a very hard headed way. But they are at an open point where their willing to consider a broader sense of these national interests if you work with them on it.

But the last tension and I'll close on this is that anytime you have a rise in power like this, and this is sort of a Kagan thesis, whether or not, you have the issue of how do you integrate that rising power effectively in the system and that's fundamentally what we're talking about.

So the Chinese know they will create anxieties depending on how they deal with this. On the other hand is an interesting part we touched on this yesterday in the foreign policy election discussion.

United States is an unusual dominant power in the system because we keep trying to change the status quo, and the Chinese are very aware of that and they feel some threat in that process. So I think for U.S. and Europe together on this, there's a vitally important opportunity other than dealing with Islamic radicalism, this is the big issue to me for the next 10 or 20 years.

And I don't see it so much as teaming against China, I see it more as working with China to identify these mutual interest and recognizing that underneath it there is going to be a difference which is there is a fundamentally different attitude on political value system which still creates a tension throughout this.

POMFRET: Thank you. President Godement do you think that there is a difference in how the Americans view China versus as how the Europeans view China? For example, the Europeans, several nations have wanted to lift the arms embargo with China that was imposed in 1989, whereas the Americans opposed that.

Do you think Europeans have a more sanguine view of China as a strategic competitor even though they might share American concerns of China as an economic competitor?

FRANCOIS GODEMENT, PRESIDENT ASIA CENTER: No I think the debate on the embargo was a sideshow compared to what Europe's basic problems with China are. But it is true that Europe's basic problem with China also have to do with the relationship between the U.S. and China.

As I think Bob Zoellick has started to show but I would put it in other words. The U.S. has a symbiosis or symbiotic relationship with China. It may be uneasy in all families there are some quarrels, but it's almost like a family if you look at the trade and financial and monetary implication of the U.S. economy with the Chinese.



Economy of course it has to do with the U.S. market being open before the European market was. The Europeans have a relationship which is something different with China. And I suspect that what is happening today between the U.S. and China must push Europeans first to think about the benefits of having a federal (INAUDIBLE).

Having more unity of decision, having better coordination to deal with such a rising economy and such a rising power as China is. In 1985 the Commission (INAUDIBLE) forward looking initiative which was to create elements of business trading in China, to help China diminish it's trade deficit with Europe, that was 1985.

Today of course we have a trade deficit which is not so far unscathed depending on which figures you choose to use. But really not so far from the U.S. trade deficits. But we don't have the symbiosis and other sides. Particularly the service sector and financial side and that I think is a problem, is the root I would sell many interrogations within Europe.

You have people who maybe tempted today to go on the protectionist root or at least to try and get what I would get reciprocity from the Chinese on a number of areas where it's harder for Europeans to obtain reciprocity than it is for our American friends.

You have others who may have attempted in the recent past to go the political root towards China to play a card so to speak. I don't think this has gone very far in recent times. And I think Europe must now be in a state of interrogation on how best to establish its relationship with China.

POMFRET: So on one hand we have symbiosis with the United States, a relationship with China, and Eckhard Rohkamm as a business man who has had many years of experience in dealing with the Chinese from the perspective of trade, how would you instruct or advise the West or Western companies to deal with the challenge posed by China?

And also second part of that question is, among many Western businessmen there's almost, a very interesting view that says trade if you will, will help China an engagement with Western business will China reform it's political system.

Do you agree with that perspective and do you think through engagement and becoming a stakeholder in the West and in doing business with the West that the Chinese will help to transform their political structure and their political values as well?

ECKHARD ROHKAMM, CHAIRMAN, GERMAN ASIA-PACIFIC BUSINESS: Well first of all I would advise any Western businessman to see China as a challenge and an opportunity. Over the past two decades from German industry, we have seen China purely as an opportunity in this market, and we now suddenly see – well, not really suddenly, but be now see more and more that China also becomes a competitor.



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But that's absolutely all right. If we can't stand up to the competition then anyway we have a problem. But I think we can take care of that problem I'm not afraid of that. I think, in general, we, just as Bob Zoellick said, we can take one thing for granted, the Chinese are only interested in one thing, that's their own advantage.

And so far, it's not very easy to deal with them because you can be damn sure that they will look after themselves. And everybody who goes there in the highest spirit of motivation will basically play only in their hands.

On the other hand, it doesn't make sense to try to seal them off. They are a coming power and from a European perspective, I actually feel that they will consider themselves, at least in the short to medium term on a par with the U.S. and I'm not sure whether they will consider us on the same level at all.

But still, for the business community, China is a huge, huge chance and for example, for German industry it can be fairly stated that 80 percent of our investment in China is not driven by cost aspects, but by market aspects.

And this will be also the tune for the future so I'm not afraid, on the other hand, corporate policies and political strategies are quite different worlds and as a businessman, I would not try to advise policymakers on a political level because at the end of the day, in the corporate world, everyone of us has to make his own decisions.

And whether the policymakers like it or not, OK they've set a certain framework, but how to deal with that framework and make the best out of it that framework, that's really the issue for the individual corporations and their managers at the top level.

POMFRET: Bob Kagan, a question to you is there is a lot of talk in the west about how Europe and America will help to manage China's rise. Do you think that that's hubristic, if you will, do you think it's possible to manage to help manage the rise of a country of 1.4 billion when it itself is having great difficulty managing that rise?

ROBERT KAGAN, TRANSATLANTIC FELLOW, GERMAN MARSHALL FUND OF UNITED STATES, SENIOR ASSOCIATE, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE: Well, I mean, far be it from me to denounce hubristic foreign policies, but I think that – but, you know, I think that we have a wrong way of looking at the world, in a certain sense, when we talk about managing the rise of China because the implication of that statement, and I think this is this has been very common – and I want to second something that Bob Zoellick just said, which is the implication of that is we're all standing still and China is moving.



We're the status quo and now we have to adjust in some way to the fact that China is rising. The United States is not a status quo power. The United States has been pushing outward for centuries, and particularly since the end of the Cold War, the United States is not a status quo power. Europe may be a status quo power, but Europe also wants to see changes in the international system.

So at the very least, what we have is a situation we are trying to manage China's rise, China's trying to manage the U.S., China's trying to manage Europe, Europe's trying to manage China, we're all managing each other and that's – it seems to me we have to think about a world that is in flux, not a world where things are standing still except for this one chap who is rising.

The second thing I'd like to introduce into the conversation because we tend to have in our modern political science and international relations theory world a view of nations acting in pursuit of concrete, measurable interests.

China will try to solve its economic problems. China has a set of interests that it will pursue very seriously, but we have to add the human element and the human element that expresses itself in nationalism and has for all nations throughout history and I'd like to introduce a word, ambition.

I think China has ambition. Not just ambition to be wealthy, not just ambition to be secure, but ambition to be great by however it chooses to define its own greatness. It has a history, a memory of greatness and I think it has a desire for greatness. And that desire is something that we can't manage so easily. That's not that's an independent variable that is that in fact trying to manage it we can only feed it in a certain sense. And I think it's dealing with accepting and dealing with and understanding, the fact that human beings have ambitions, and that we're dealing with a country that sees it as the center, at least of Asian culture, sees itself as eventually going to be a power on par with other great powers in the world including the United States and that is going to drive a lot of its foreign policy.

It certainly is having some affect on its military buildup, which is not as everyone agrees, derived from a perception of immediate threat or even an intermediate threat. It's really derived by a sense that it ought to be playing a larger role in the role and it has to back that up in a traditional way.

POMFRET: Indeed the Chinese talk about the 21st Century as being the Chinese century versus the 20th Century being the American Century. I'd like to open up now to questions from the audience to get you involved in this really fascinating dialogue on China. Ronnie Chang.



RONNIE CHAN, HANG LUNG PROPERTIES: I am here John. Allow me to comment on one thing that has been brought up by at least two of the four speakers, that is, China cares for its own self interest just like anybody else.

I submit that that is a great thing, because that makes China very predictable. There are some other parts of the world that is total unpredictable. And if China is only caring for its own interest, including how Dr. Kagan defines how, what a (INAUDIBLE) needs.

Nonetheless, I want you to understand that I think China is a very predictable place, which is easy to deal with. Allow me to just present a comment or two for the panel's consideration. First of all, I think China is no doubt a great power eventually quantitatively.

But I submit to you if you were to look into China, including its universities, research institutions, its social infrastructures, China is really qualitatively a very, very weak power. Another point is China doesn't want to be dependent altogether just on the United States for technology, for market and what have you.

I think that really gives the European business of a huge advantage. The only thing is the Europeans don't seem to be as eager to attack the Chinese market as the American counterparts. And finally, I'd just submit to all of you for your consideration one other point, that is, historically China is a people as a national characteristic, if you will, that they like to be perhaps along with Dr. Kagan says, they like to be respected.

And hence, they would respond much better to a soft approach rather than the hard approach. If you're hard against the Chinese, they will be hard against you. You're soft against them, they will give you a lot, and it's a lot easier to deal with the Chinese given the national characteristic.

So I think I just want to submit those for your consideration. And by the way, Bob, if every American is as sensible, tough sometimes, but sensible as Bob Zoellick is, I think US-China relationship will be a lot better place.

POMFRET: Thank you, now hold that thought, we'll get a couple more questions. Sir?

UNIDENTIFIED PARTICIPANT: I'm just wondering to what extent, whether the panel thinks that there is maybe another independent variable at play when we talk about China's rise alongside ambition and that is the whole question of ideology.

Because in many ways China, outside of China, if you go around the rest of the world, is seen not just as a great power with a large economy and a set of interests, but it does stand for a different way of thinking about world order.



And when people talk about the Chinese model, it is often seen as an alternative to the model of the flat world, which has dominated the last few years and which has seen this sort of retreat of this state in retreat of control, the retreat of the state from the economy as markets have moved forward and privatization has pushed the state out of the economy, out into the political sphere where we've had sort of a third way of democratization in the human rights revolution, which has pushed states out.

In the foreign policy realm, we've increasingly been talking about kind of non-state, actors and terrorists and electronic hoards and various other things. In China, there seems to have an attempt to turn back the clock in all spheres in the economic realm, profits, and everything. Markets and capital are used to further political goals as much as simply to make money. In the political realm, I think there is an interesting attempt to see whether one can create a more responsive, more deliberative form of one party rule through these public consultations and polling and all sorts of other ways of making the government more aware of what is going on.

And in the foreign policy realm, the thing which all think tanks talk about is, are there comprehensive national power, which is kind of opposite of the flat world idea of non-state tactism. What seems to be motivating the Chinese government is an attempt to gain control and reassert control and to re-empower the state for an age of globalization by actually almost turning a lot of the, kind of, flat-world trends on their head.

I mean when you hear Chinese people talk about soft power, about multilateralism and other things like that, they are using these as ways of re-empowering the state. And I just wanted to what extent ideology will be something which defines the rise of China and actually has an impact on world order and to what extent we could see ideological competition returning.

POMFRET: All right thanks, final question and try to keep our questions slightly economic. Sir.

UNIDENTIFIED PARTICIPANT: In the last year China has taken a surprising turn towards economic nationalism, one could argue. Recently there was a rejection or a restatement of a private investment along terms of banking and services that restricted western investment.

There have been indications that this sort of left element in China is resisting foreign direct investment. My question is, how much of this is blip until the 2008 Party Congress and how much of this is actually something we should be concerned about down the road?

POMFRET: Great, who would like to address some of those questions?

UNIDENTIFIED PARTICIPANT: Maybe we should look a little of the hard side of the issues in China. I don't think China is ruled by its economic interests. It is ruled by the Party





and the Party of course has deep attention to its economic interests, but some steps it will not take.

We are now seeing a return, as you mentioned, of economic patriotism. I think the command economy that had completely disappeared. It is now a centrally planned strategic economy in some respect and a market economy in other respects.

As the trade relationship opens up and becomes immense with the number of partners, we have got to ask from China the questions we asked from Japan two decades ago about a level playing field and about reciprocity of rules.

I think that is a concern purely from the economic perspective. It is practically a concern for countries, which do not have as much political leverage as some of us do, as the U.S. to be specific has. So I think this is a problem. Second problem, I don't agree that the concentration of China's policies is completely domestic.

China now reaches far out on almost every continent, and it is true that a lot of it can be explained by domestic interest. But still, if you go to Algeria today on the other side of the Mediterranean you will see in every cities centers of Chinese population. You'll see Chinese interests are big in the construction industry for example.

If you go to Latin America, you would find a strategic gamble by China to gain access and maintain access to natural resources. These are areas in which China was never present. If you go to Lebanon, who would have predicted only five years ago, that you would have 1,600 peacekeepers from China.

They play a very useful role by the way. But this is immense and I think we should look at the complexity of a country that, on the one hand has got to meet the requirements of its main partner, the U.S., on the other hand, is expanding its own influence and sometimes being fairly ambiguous about the future.

PROMFRET: Eckhard.

ROHKMAN: From my observation, one thing is for sure. China is not a market economy. China to a great deal, is still a state controlled economy. But the market part in China grows and my feeling is that the Communist Party of China is not on the offensive.

It is actually on the defensive, and it tries to control the situation and it is like (INAUDIBLE) started a chain reaction and the central government in Beijing debating wonders if it is still in control of the chain reaction and they are definitely not in control any more in many parts of the country. They have set the right targets. They have set the right goals, whether it is environmental issues or whatever.



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But they are not able to transport it down to the ranks and to transport it down to the provinces and to the individual decision makers. And I have personally experienced, specifically from the steel industry, which is just running amok in China.

The central government tries to keep a lid on that, but on the provincial level they say, oh yes, we are aware of what they are deciding in Beijing but we are exempted from that. This is not true for us.

So I think really, the central government, I will not say is desperately but definitely trying to control China, which is a good thing because China is still a very, very underdeveloped country with a tremendous potential. But they have a hard time to get a grip on the situation.

POMFRET: Oh, go ahead, that's fine.

UNIDENTIFIED PARTICIPANT: First point. This, sort of intersection of national interest and ambition, I agree with Bob. I think part of the challenge of this is, there are different ways of viewing national interests and there are different ways of viewing ambition and greatness.

The United States after World War II decided to try to construct an international that would further its interests, further its view of the world, further its values, but it was a participatory one where others would also benefit.

I think one of the challenges with China is to work with the Chinese to recognize that while the 20<sup>th</sup> Century was a pretty bleak period for them with revolutions and massacres and famines and others, the past 20 years have been pretty good and that is because they benefited from this international system.

So there is a way of channeling this I think. The second is, but it also recognizes that, I am sure Bob would make this point, is that they are going to want respect. They are going to want to develop a military that is more influential than others, so one has to figure out how to deal with that.

Second is ideology. Let me divide this between the international and the domestic on the political side. Internationally, what is quite intriguing about their ideological view is, it is non-ideological, where the United States actually shows preferences towards democracies and non.

With China it is, you are a democracy? Fine. If you are not a democracy, fine. We take each on their own terms, so on and so forth. And I think there is a way to affect this at least in the human rights area and we could come back to this in the case of Sudan where I think there is some affect.



I think however, on the domestic side and this goes to the point of their legitimacy in the Party. Right now legitimacy comes from domestic economic growth and it comes from a sense of nationalism, and that is one of the Party's challenges for the future.

On the third point, on the economics, it is a complex picture. If you look at China's economic development versus say Japan at a similar point of time, China is far more open and believe you me, I dealt with Japan a lot and I still have to deal with Japan and it is a much more closed system, OK.

But, as I think some had said here, it is very important, particularly from a business perspective to recognize that while, at least in the United States, but the United States may be the outlier in this sense, markets are seen as the normal course of economic life.

And if there is a problem, you intervene or you subsidize, you regulate. In China, but also in much of the work, markets are seen as a tool. So they are accepted as a tool, but they are related to what the state and public objectives. Now frankly, that may be a little closer to sometimes some of the thought in Europe or in India in our other context.

This means there is a very large state role in this process. If you want to work with them, you have to explain why our business interest helps achieve whatever their objective. I don't find that actually all that hard to do. I think going back...

ZOELLICK: You sometimes find from a security perspective. Economics offers win-win opportunities. It doesn't have to be zero-something. China's growth doesn't have to be bad for the rest of us.

And the challenge is whether in energy and environment and others we could find more of those overlapping mutual interests.

POMFRET: Bob.

KAGAN: It's hard to know exactly, but let me just focus on the question of interest; because I think that's an interesting, a lot of this is revolving around that subject. The thing about interest is, interest, a nation's interests are not fixed. They change. And particularly a nation's perceptions of its interest change.

And they usually change in part because of a sense of growing power. As a nation's power increases, its definition of its interests expands. It's definition of where it should stand in the world changes.

And there's one, I think, interesting of example of this, which is why the subject of interest gets so complicated. China now, conducted a foreign policy to try to secure natural resources. I'm not an economist. Economists told me this doesn't a lot of sense.



They can get oil without having a great relationship with the Sudanese Government. They can get the natural resources that they want without, you know, having cozy relationships and having, you know, special deals with particular dictators.

So why is China doing this? I think that China is moving into a phase after decades of relying – as almost all of Europe does, on America’s protection of sea routes, of openings. A lot of people have been willing to rely and China was at one time, probably unhappily, willing to rely on someone else to provide that security.

As they grow as a power, they want to be more independent. They want to be more capable of defending what they perceive, and correctly, as their interests. The United States went through this same period.

There was a long time when the United States depended on the British navy to provide its security, then at a certain point American’s sense of itself was that we don’t want to depend on the British navy any more. For one thing, our interests are not exactly constant, so we can’t trust them.

And I think that’s where China is today. And so therefore it’s not just a question of if we can identify their interests, and our interests then we can see where they overlap, necessarily. I’m sure they’ll be many areas where that is true.

But in some areas the very definition of China’s sense of itself is going to cause an expansion of its sense of interest, which could lead to more clashes with our existing world order. And let me just say one thing about China and the existing world order.

Of course China has benefited from the world order as it has been, but a nation can go through a transition where having benefited from it, at a certain point it now seems like a bit of a constraint. I mean that is the story of rising powers.

They did benefit from an existing world order, but as they grew more powerful, then that world order which was designed by others for their purposes becomes a constraint. And that’s I think where we are probably heading.

I’m not saying that this means necessarily a clash, but we are heading toward a time when China feels powerful enough to want to reshape that world order in a way that is more consonant with its growing power. Bob, be brief.

ZOELLICK: This is a very important point. I want to draw it out a little bit more for the audience, and then take the energy issue. Not only has the United States had some of the same tendencies that Bob said, but if you look at the Sino case, we continue to, and whether that’s logical in economic terms is a serious question mark. OK?



But coming back to the systematic point, let me tell you the type of discussion that the U.S. Government is also having with the Chinese on an interest basis with energy, to say look, you know, as you say, the Chinese state oil companies say gee, the French are here, or the U.S. are here, we've got to get a piece of the action, so on and so forth.

You try to explain to people its international commodity market, you know, oil's fungible, it doesn't necessarily assure you something. And by the way, you get enough oil in China but we don't have it in the United States in our economy tanks, what happens to your economy? I mean that's the real world of the modern economy.

So instead, and there actually some progress for this, you say to the Chinese, look. We both have an interest in developing more non-oil and gas supplies, whether clean coal technology, nuclear alternatives, so on and so forth, to expand supply.

We both want to expand other oil and gas supplies to multiply. We want to deal with the demand on the efficiency side. We want to deal with strategic petroleum reserves to be able to deal with sort of extreme cases.

And we probably also want to focus on choke points, and here I think you have the point is that are they going to rely solely on the seventh fleet to deal with it. But there is a mutuality of interest in the danger, and this is going to be the tension you see in the United States with China,

I don't know whether it will be with Europe, is, there's a natural hedge. As I said, with the Chinese, look, we all hope you have a peaceful rise but we're not going to bet our future on it. But you have to be careful that hedging doesn't become self-fulfilling.

And this goes a little bit to the point about sort of respect. If we sort of get really suspicious of China, they'll return the suspicion and then we're off to a very dangerous world. So, I agree with a lot of Bob's cautions, but I think we can kind of at least make an effort to try to see whether you can synchronize these most effectively and I'd like to have the Europeans be part of it.

POMFRET: Yes?

MIA DOORNAERT, DE STANAARD, BRUSSELS: Thank you. Mia Doornaert, De Standaard Brussels. Mr. Kagan made a point of nationalist feeling, which exists all over the world which is one of the strongest in Russians, I think. So, as a European I am aware how often nationalist feeling can be a trigger into conflict even if it was it's not planned.

So, my question is Taiwan, how much is that a flashpoint? And do you feel, as Americans, I ask this to Mr. Kagan and Mr. Zoellick, that do you feel that the Europeans are enough aware



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of the flashpoint Taiwan can be, of the role of the Americans and of what their behavior should be?

POMFRET: Thanks. It's down here. Sorry.

ANA MARIA GOMES, MEMBER OF THE EUROPEAN PARLIAMENT: Mr. Zoellick mentioned human rights, and I'd like to ask, actually Mr. Godement about an irritant that has been there in the relations between Europe and China, which is the arms embargo because of Tiananmen there directly linked to human rights.

And this was not lifted earlier, mainly with the last Luxembourg presidency when this was considered, because the European Parliament took a stand preventing it, and actually linking it to Europe making its own code of conduct on the export of weapons (INAUDIBLE).

This is an irritant only because China raises it, otherwise it wouldn't be an irritant because in practice it has not prevented changes of namely transfers of Europe to China and actually from the United States as well. So, how do you see this evolving in the next period?

RADOSLAW SIKORSKI, POLISH SENATE. We've been fighting very deep divisions in the European Union in regards to the suspicion of the arms buying to China. We've also been facing very tough discussions between the European Union and the U.S. government on this issue.

How do you see, is there any common ground in the European Union between the European Union and the U.S. towards China?

POMFRET: And final question from Misha.

MISHA GLENNY: On a recent research trip to China, I observed that European attitudes are perhaps not as static as some people have suggested. If you look at Wal-Mart for example, they spent ten years negotiating with, if you'll forgive the characterization, the Mandarins in Beijing about their allowance to operate in China.

Whilst Carrefour took a rather different approach, which was to go to the provincial leaderships and engage in the local economic culture, which meant handing over large sums of money in paper bags thus getting the allowance to open up provincially, Carrefour all over the place, which you see.

And one of the things that I observed about this is that the American's are constrained to some extent by the Foreign Corrupt Practices Act, which I think is a good thing. But it's also something that the European's ought to take note of, because although we're very concerned about corruption inside Europe, outside of Europe our companies tend to be amongst the most corrupt in the world.



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But the other thing is that we Europeans are unencumbered by the security dimension. We actually don't care about what happens with Taiwan. We don't have any dog in that military equation, as it were, and this is actually a real help for Europe that they are not stressed out by the security implications of China's rise in the South China Sea and the Sea of Japan.

POMFRET: Great, Francois, would you like to answer the questions on Taiwan, human rights the embargo and...

GODEMENT: There are a lot of questions that actually go to the Europeans. But I think at this point we should stop the self castigation process. There are some very good things which Europeans have done.

First of all business firms are extremely active if you look at the investment front in some areas and it's significant that you use Carrefour example. You couldn't do it for life insurance or high tech where the central governments impulse is much larger and therefore the weight of the relationship with the U.S. is also larger.

But in other areas, European companies have had a lot of in roads. At the political level, even though our strategic relationship doesn't run as deep, Europe has made a lot of efforts. For example it has, really if you add it up it has targeted ODA towards addressing many of the social problems of China.

And it is a very significant ODA program in which many of the members participate in. We have had dialogue with China over a number of issues including energy and environment now for example we have co league of action project which others don't have.

So it is not as if Europe had been setting still and not engaging China, Europe and even the figures show it has engaged China a lot. Where things don't work and I come back to the embargo debate, it is extraordinary that we can have on the U.S. side this symbiotic relationship, these notions which have been described by Bob Zoellick of mutual self interest.

But when it comes to these issues, suddenly you run into a wall. Have you noticed the Chinese leaders never come to Washington to complain there's arm embargo which should be lifted when there is one? They come to Europe, and they come to Europe of course because they feel that Europe is slightly weaker in its political relationship and might give in, and the U.S. puts pressure on Europe but then returns to its own symbiotic relationship.

Europe is called on when there are duties are not necessarily part of the boats when there are rewards. And there was a high time in European relations with China, which I think was the latest phase of the WTO trade negotiation, when European negotiators, after it was almost a done deal, between China and the U.S. pushed their own agenda.



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They didn't push it too far. After, I think, eight or nine months they decided in general, for the sake of general interest to subscribe to the text. But Europe has got to pay attention that's its economic interest don't always coincide with U.S. interest. And it should not, you know, fall into a situation where it's called on by the U.S. for political strategic reasons, but left alone or has to fend for itself from a weaker point of view in the economic side.

POMFRET: Bob Zoellick could you address the Taiwan issue? Do you think there is a fundamental difference between how the Americans look at and versus how the Europeans perceive it?

ZOELLICK: Yes, I want to connect some of these points. First off, I think the Europeans have been, done a very good job of watching out after their own commercial interest, and frankly I can give you examples of insurance companies that are doing very well there, some of which I work with, European ones.

So I don't, of course somebody can always do better, but I would actually, the thing I worry about a little bit in your statement is, we generally want to try to have rules based system here. And in general I think there is a strong overlap for the things the Europe and the United States would like to see developed in terms of economic rule of law.

So be a little careful, I hope, the Chinese will love to divide the barbarians here, and if you just try to go after your mercantilist interest, they'll take good advantage of it. And frankly, I can tell you as the trade negotiator the things that we were trying to do had broad based benefit for European companies as well as American companies.

But I do think its changing in the attitudes. I agree with your point. I don't think it's only a commercial interest. But this is where your Taiwan point comes in. There is clearly a case where the United States has a much stronger sense of security responsibilities in the region than Europe does today.

And I think on the specifics of Taiwan what you've seen shift in U.S. policy over the past two years and it's a shift that I think is a good one. Is that where there had been a dual ambiguity policy towards Taiwan saying on the one hand that, well let me say it terms of the clarification.

The point is on the one hand making it very clear that China should not use force against Taiwan, but on the hand making it very clear that Taiwan should not move towards independence which would trigger the force.

The ambiguities in the past had been to leave it a little bit uncertain for both sides so as they wouldn't take the action. I think the Chinese have actually responded





ZOELLICK: I think the Chinese have responded well to that. You do have political whirl winds going on in Taiwan that could make this a bit of a flashpoint and that is where the arms embargo comes in you see, is that, and this kind of draws in a point that Bob is making, is that while look we want to try to strengthen relations with China and improve things.

I guess you will run into a danger in Washington where people feel look you are our allies, ok. You know, we work together. We have been together for 15 years. There are differences but there is still an awful fundamental need in terms of both politics and values and security.

We are no so sure what is going to happen with the Chinese military and what someday may have to come that we will have to deal with. And if European arms are something that are killing American soldiers, sailors, marines and airmen, that won't be so good for our relationship.

So that is, I think, kind of the tension between. Where I would like to take it, again, I think Europe is starting to look at a larger role and I would encourage it within this broader question of how China sees its interests. And again, it is not just a question of Europe. Japan is having to work this out.

You've got tensions here in terms of Japan's position and China's position. In their modern history, they both have a pin in a strong position. The Southeast Asians, the Chinese have been very shrewd in terms of giving the Southeast Asians opportunity.

But the Southeast Asians say we don't only want to be responsible to Beijing. You know, we want these other guys involved. So this goes to Bob's point about, it's a dynamic system.

And I would welcome some European cooperation on this, not only on the economic side but think about the security stability, or take one step further, Iran, which we all have a common interest in. China could play an important role with Iran and I touched on this a little bit yesterday.

I think it's in China's interest to do this, because if Iran develops a nuclear capability, I think we are going to have one hell of a problem in the prime energy producing area of the world, which undercuts their energy security.

So, this is the type of, sort of, thinking out of the box diplomatically and thinking a little bit beyond regions that I think the United States needs to engage in with China and I would welcome the European participation in it.

Pakistan which is a subject I don't know if we have touched on much. Pakistan is a very dangerous place. China and the United States should have an interest. We certainly have historical ties to try to help the modernizer succeed and try to make sure the radical Islamists don't succeed. Wouldn't Europe be part of that to?



ROHKAMM: Just as an add-on as to what Bob said, in regard to Southeast Asia. Two weeks ago Leik Von Due (ph) received a prize from the Australian National University and he was asked by an Australian newspaperman what Singapore and Australia would have in common and he said to keep the Americans here. And, this exactly describes a very, very vital interest of Southeast Asia with regard to China, as a matter of a fact.

POMFRET: The ladies, I am trying to be gender sensitive here.

ESTHER BRIMMER, JOHNS HOPKINS UNIVERSITY: Thank you, (Esther Brimmer, Johns Hopkins University). I want to follow up on some of the issues related to the international human rights regime. By and large, the transatlantic community has generally supported with setbacks at times, an international human rights regime, which has underpinned globalization as well.

One of the concerns with the rise of China is the rise a power, which has less interest in supporting the international human rights regime. And I was wondering if the panel could comment on this type of concern, particularly with reference to Nigeria and Sudan. Thank you.

CHARLES GRANT, CENTER FOR EUROPEAN REFORM: Charles Grant from the Center for European Reform.

POMFRET: Your microphone is not on.

DRAUGHT (ph): OK, OK. Is that working?

POMFRET: Yes.

GRANT: Next year or the year after, China will become the world's biggest emitter of greenhouse gasses. As far as I can gather people in China are very concerned about pollution. They are very concerned about the need to use energy more efficiently because of worries about energy security and they are even increasingly concerned about climate change because, for obvious reasons, a lot of people are living close to low-lying sierra's and so on.

So my question for the panel is what is the best way to try and persuade China to try and take part in some sort of global system for limiting greenhouse emissions, a system that will replace the (INAUDIBLE) Treaty? How can we best persuade them to play a constructive role in that and to what extent if the U.S. is shifting it's line on climate change, to what extent could the EU and the U.S. work together on that?

POMFRET: YES.



MARY ELISE SAROTTE, INSTITUTE FOR ADVANCED STUDY, PRINCETON UNIVERSITY: Hi, Mary Sarotte, Institute for Advanced Study in Princeton. I just wanted to follow up on Misha Glenny's point about the connection between economics and security. On the one hand we've gotten used to the internal contradiction in China and between political oppression and economic openness.

But I'm surprised that the external contradiction that occurred recently hasn't come up yet, between, on the one hand the China that very much wants to welcome the world to the Olympics in Beijing and has all kinds of initiatives against spitting and against queuing and so forth and on the other hand, the China that just blew a satellite out of the sky using a kinetic ASAT weapon with very little advanced notice to anybody who might have been concerned about such things.

Obviously, it wasn't a very big explosion, but it was an important qualitative step in arms racing and arms development, and I'm hoping the panel can help me to understand this contradiction.

POMFRET: Bob, you want to take a crack at that contradiction?

KAGAN: Oh, well, I'm not sure it's a contradiction. You know, it's possible to want to welcome the world to the Olympics and also feel that you need to defend yourselves from a power that is in fact far advanced to you in terms of the control of space and satellite weaponry.

I'm not in favor of the test by the way, but I can certainly understand it from the point of view of the Chinese. I was going to go back to another subject ...

POMFRET: Yes.

KAGAN: ... if that's OK because we have been also talking about the issue of ideology and human rights and what effect this has on our collective relations with China and I think that it's very important, it's a key element and Bob also hit on this.

We have this feeling sometimes that the only ideology that ever existed was communism so if you're not communist anymore if you're not a true Marxist Leninist then you have no ideology.

But, of course, the history of the world is a struggle among different ways of organizing a government and the most basic has been and I guess it's fairly recent unless you want to go back to the Greeks the basic difference has been, you know, roughly liberalism and roughly autocracy and that is where we are now.



The world is divided today between liberals and autocracies of one kind or another and autocracies, liberal governments have certain kinds of interests, autocracies have certain kinds of interests and these interests are likely to clash on the world stage and they are clashing.

And I think it's important to recognize that this is another area where China is in a way the status quo nation and we in the west, we the transatlantic community are the ones asking for change in the international system.

The Chinese, I think, quite understandably say, wait a second, we thought that this was a Westphalian world and that sovereignty is king and that's after all what the UN charter is based on and you in the liberal west are now saying, no-no-no we don't do that anymore.

Now we're going to talk about limited sovereignty and the responsibility of governments to their people and we're going to assume, you know, the right to intervene and put pressure when necessary and now we, therefore, are changing the rules and the Chinese are still sort of scratching their heads and saying I thought we were being a good citizen by respecting these rules.

Now, I don't want to be too kind to the Chinese they have a lot of good reasons for other people not messing in other peoples business, but we need to recognize that we are asking them to move and to change along with us. And that's one area where there is great commonality from the transatlantic relations; we're all in agreement, roughly, that China is behaving badly from our point of view in Africa and elsewhere.

But at least we should know that this is a battle that that is a battle of ideologies in which we are the more revolutionary powers.

POMFRETT: Yes. Eckhard, as a businessman I'm interested in your perspective on the environment, I mean, at one time from one perspective it poses great challenges to western businesses in China but it also poses huge opportunities as well to get back to your...

ROHKAMM: Yes.

POMFRETT: ... dichotomy of challenges opportunities because, for example, Germany is one of the nations with the most and the best green technology in the world and that would obviously be a great point to sell to China as well.

ROHKAMM: Sure, and to sell advanced energy conversion technology to China is one of the biggest emerging markets in the world, that's for sure. And I just want to say that not only the Chinese population, but the Chinese government is fully aware of the problem and of its responsibilities, but they are trying, nearly desperately to find a way to implement it.



And it's a race against time because the growth is so large right now actually, the official growth figures of seven, eight, nine percent nobody takes them serious they are actually far in excess of 10 percent more in the range of 12 to 13 and they just cannot keep a lid on that because in the individual own aspirations economic performance is the benchmark and not environmental protection.

And so far to change that that has been introduced 20 years ago by Deng Xiaoping again, takes a hell of a lot of time. Time actually that even the Chinese don't have and don't let's forget the biggest problem the Chinese are facing besides pollution and so on will be in the next ten year's water supply.

China will be one of the most hard-hit countries to create sufficient clean water supply to their own population, not to speak of the industry. And they're extremely wasteful of water. And the biggest source of water supply – actually the increasing level of wealth.

Because when you build modern living conditions you include a shower, you include a dishwasher, and you include this kind of stuff. And water is extremely cheap in China, so they start turning on the tap and get the water running.

So I think the Chinese are really trying to fight on all fronts simultaneously, which is a hell of a job. We can only support them, and we should not wag a finger, and do something by accusing them, we should do everything to support them in that job. I think this is absolutely essential.

POMFRET: Bob.

ZOELLICK: Just to pick up on this then to go to the question on climate change. I think the starting point is to recognize that if you want to be effective with the Chinese, one needs to understand the tensions they feel in terms of development. If it looks like you're trying to impose something on them at a later stage, they'll just block you.

And again, you know, we've just touched on it. But they need to create 24 million jobs a year. OK? Just think about that as a reference point. I mean that's not much smaller than the size of Canada every year. OK?

The tensions between the provinces that are in the coastal area, the interior area, the urban, the rural, the internal migration, again, I was in one province, Jung Su province where I was talking to the Provincial Party Secretary who has now gone to Shanghai. Population is about 45 million people there. He's got 14 million internal migrants.

And it just stuck in my mind, because we have a big debate in the United States about 11 or 12, you know, illegal migrants. These are huge challenges. So where they do see the interest



and this is where I think you have to fit it in is that they have an interest in energy efficiency, but they also have an interest in energy development.

And just to make this real, is that they're going to be developing a whole bunch of coal-fired electrical plants, you know, huge numbers. So if one can give them some sense of a technology development, and maybe this is something that Western countries may not be able to develop just in the private sector, it may require some government research in terms of the carbon sequestration.

This could be a heck of a way in which you can have a win-win posture. But in general, if you can figure out ways through technology and energy efficiency, I think that's the way to try to get at the greenhouse gas issue, which they recognize, but they feel these other pressures, and then to come back to the human rights question Esther raised.

I've had more experience with this with Sudan than Nigeria. And this goes a little bit to Bob's point, is that, you know, two years when I first started to deal with the Chinese on Sudan I encountered what he described, which is basically they created these state-owned oil companies.

They're out there doing they're business thinking well these are places that, you know, the Americans and the Europeans haven't locked everything, they are to do business. But there's a way to point out, look, you really don't want to be associated with genocide or crimes against humanity. It's kind of bad for your reputation, the United States and Europe.

But beyond that, you want to have a good reputation with the African Union. And keep in mind the African Union has just twice denied Sudan its chairmanship. And even more in your interest, a lot of the energies in the South and the Government of Southern Sudan has a different posture on this than the government in Khartoum does.

So why don't you, you know, why don't we realize that you're not going to do it the way the United States or Europe will necessary do it? You're going to want to keep your points of interest. But use your leverage constructively.

And then at least make a case to them that it's in Khartoum's interest to bring in these peacekeepers because they're not going to get a military solution. It's in Khartoum's interest to try to make one of the peace agreements work. It's a complicated problem, because it's not only the government, by the way, it's the rebels too.

But I think you can find, you know, and we've seen some movement, not necessarily enough on that. But, you know, again, a small side of this is that you've got Chinese peacekeepers trying to, as part of the north-south accord, the comprehensive peace accord. This is a huge change for China.



So even while they're not going to have the same domestic attitude towards human rights, I think you can come up with them to come up with some ideas that again serve their self-interests.

I've worked with a lot of NGOs on this, and just to give you a little flavor, one of the NGOs said, "We're going to suggest that China hold a conference on Darfur, and I'm not sure that's exactly the way I'd do this."

I said but if you go there and you say to the Chinese if you help solve this problem, we'd be pleased to hold a conference and give you credit for it, that may be a little bit more effective.

POMFRET: There's a question right there.

JOHN KORNBLUM, LAZARD & Co. GmbH: My name is John KORNBLUM. All of these discussions of the last 25 or 30 minutes have focused into a question that I had on my mind. And that is the sustainability especially of the American relationship with China. You don't have too old to have gone through several phases of American Chinese relations.

When I was in college, they were considered to be the most hateful country on earth almost, besides after several others. We had phases in the 1920's where we considered them to be all nice, friendly presence who bought our goods and everything.

It's now said that because there's so much mutual investment, someone on the panel talked about a symbiotic relationship. But as we know, if we can also say from this current Administration, we also tend to demonize people if they don't quite fit into our picture.

So how sustainable is this? Is Taiwan, would Chinese military growth, the Pentagon regularly issues warning about Chinese military spending. Is this still a fragile relationship which could in fact turn around on anyone of five or six different flash points?

Or have we crossed some kind of commercial, political bridge which allows us to plan for decades of good relationship or least productive if not good relationship with China?

JOSEF JANNING, BERTELSMANN STIFTUNG: Josef Janning, I wonder how good the United States will be at managing this system which gets back to an earlier point that the panel was raising here.

It seems the U.S. is very good at managing binary relationships. Here is the United States, there is the Soviet Union. Here is the United States, there's China. Now we're getting into a situation which may appear to Washington as serial binarism.

The residual thing with Russia coming up again, then there's China, then there's India, but in reality it is more political polistic (ph) kind of situation. And the last time that this situation



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has been around for the U.S. was in early twentieth century and the U.S. reacted with a universalistic answer to that. Let's get over this system.

Now the twenty-first century may offer an olive (ph) polistic challenge. Not a west failing (ph) one but a Viennese one. How do you deal with the existence of rivalry and cooperation among major powers all of which are far ahead in terms of their resources?

May be also in terms of their ambitions with regard to their immediate environment, but you need them to manage the complexities of a globalized world. And so very old style, maybe European type of managing power relationships on the one hand, but it would be a group of powers and very modern, very post modern type of regime building of rule making, of finding solutions to global issues.

POMFRET: And finally question from in there, third row.

MARTA DASSU, ASPEN INSTITUTE: This is a follow up of my, Marta Dassu from the Aspen Institute. How serious is the possibility of a progressive alignment between Iraq and China because as we discussed yesterday, we are having increasing security tensions with Russia.

And we could have increasing economic tension with China especially in increasing protections is tendency during the electoral campaign in the U.S. et cetera. So in the end, we could end up with a sort of alliance of convenience between these two sustainable voltacas (ph) and this would diminish what Bob was saying at the very beginning, Bob Kagan.

Diminish the Western ability to reshape this system, the international system according to our world values and interests.

POMFRET: Bob would you like to.

KAGAN: You know if the question is how well or badly is the United States going to manage a international problem, historical record suggest badly in most cases. But I don't, I mean I must say when I hear about the brilliance of European power management over the centuries I'm also not exactly blown away by the example.

It's hard is the answer. It's hard to do these things. And I think we are facing one of those kinds of challenges that comes along all too regularly I'm afraid. And I guess since you raised the word post modern, I don't know if Robert Cooper is here, he's the inventor of the distinction.

I think this is one thing where it will be an interesting question for the United States and Europe. Europe is a post modern entity more or less and thinks in a post modern way more or





less. China and the United States have much more in common with each other than either of them do with Europe in this regard.

They're both moderate, which is an insult by the way for the rest of you who don't know that. They both believe in power. They both believe in military power or they both believe in the legitimacy of building it, using it when necessary and they are going to deal with each other, I think, in a more modern style.

And the hope that we are going to create in East Asia for, instance, a new post-modern style of international governance akin to the European Union, I think, is highly unlikely, and that what we are dealing with is a much more tradition, it will differ in a million ways of course from past such conflicts and competitions, but we're dealing with a much more traditional kind of situation.

And I think that, you know, getting to the question of transatlantic issues, if this is relevant to Taiwan, this is relevant to Japan. This is relevant to securities issue in general and is that Europe is going to be looking at these issues through a post-modern lens, and to quote a famous American, "Why can't we all get along?"

But the Americans and Chinese are going to look at and I would predict, and thankfully we have Bob Zoellick to save us from ourselves, but I think that America and China will be viewing this from a much more modern and competitive way. Now being competitive does not mean that you wind up at war and I think that's the critical point.

The United States and Soviet Union were competitive and did not; by the way, I think the United States managed that very well. Now I know in Europe, Europe thinks that it managed the end of the Cold War very well, so we have that disagreement. But I think that we can have a competitive relationship with China for some time to come.

In answer to John's question, it is fragile. I think it's really fragile, but it is also, I mean, if this is not too much of a contradiction, it's also sustainable that we can go on like this and a lot of it have to do with wisdom, the exercise of power and the recognition that we are in this situation which is the first step.

POMFRET: François.

GODEMENT: I find something extraordinary in this panel, it is the prominent European businessmen who reminds us it's a state controlled economy in China, and I may be the only way who will answer questions about military spending or (INAUDIBLE) or even Taiwan to the which there was no answer from the American side.



This is how, (INAUDIBLE) uses, which I described, there are the same times very large mood swings and this is what Ronnie Chan called I think the unpredictability in some ways of the U.S., of at least how it expresses it and reverses itself at times.

It is bewildering for Europeans, whom I want to remind you again, have always kept this engagement policy toward the Chinese in very significant fields. But if we want to look at how actively the Chinese have contributed to bettering the international order, we might ask question about Iran or Sudan as Bob did, but Iran is very far.

Why don't we look at North Korea, which is very close, probably the country in which China could have the deepest influence? Who has changed opinion on North Korea? Did the North Korean change their targets? Until very recently they managed to launch ballistic missiles and to test a nuclear device.

Did China change opinion on North Korea? I rather think that the U.S. had to change policy and opinion and adopt a new pragmatic course which may be more realistic in fact. But I would rather think that the contribution of China to the international order in this particular case has been ensuring that U.S. changes its policy and not the others and not the other way around.

Let's look at the issue of stability and dynamism in the neighborhood of China. We don't mention the Japanese democracy. I don't agree with Bob that it's a practically closed country. I see the Japanese evolving over time in many critical aspects and not only the economy aspect.

I see the South Koreans transforming into a vibrant democracy. I see Taiwan, whatever else it is, is a vibrant democracy. We should not only look at, you know, the Southeast Asians in their tributary system with China, we should look at changes in Asia.

I'm not suggesting that the South Koreans or Japanese or Taiwanese are post-moderns as we are. They live at a different kind of environment. But I think that as allies, and that's people who care about values, we should also take into consideration the existence of these systems which are changing.

And the Chinese as much as they adjust and integrate economically are not yet coming to terms with that kind of balance in the Asia-Pacific system. We don't even need to look at Nigeria or Sudan or to look at the Middle East.

This is to me a concern and I think that in the big screens of U.S. policy, the pendulum, because the U.S. is engaged elsewhere, because it has every problem that we know. The pendulum is ringing back again to acceptance of many of the goals of Chinese diplomacy. It's a strange turn for this administration, but it's happening in the final years.



POMFRET: Bob.

ZOELLICK: First for Joe Janning, I just can't resist. United States didn't do too bad in multilateral diplomacy for German unification. What I recall, a lot of the other countries represented here didn't exactly get it right, but so, I would just so no better, no worse. And that's why it's good to be able to work in concert.

I think John Kornblum's question is one that I have a lot of concern about from both the U.S. side and the Chinese side. On the U.S. side just for the European audience, one of the things that has affected our relations with China for well over a century was that much of our engagement with China originally came from a missionary influence.

And as John said, you have this pendulum of relations, and in short form, in a way we've been trying to convert the Chinese, and then when the Chinese refuse to get converted, we kind of react with the attitude that you do towards the party that you feel has spurned you. And you can take this back, whether Boxer Rebellion, or 49, or others.

And I hope we're kind of moving beyond that, but I'm not totally sure. So that's the problem from the U.S. side. The problem from the Chinese side is that, and I guess it plays into the American politics. I do think that American politics is getting increasingly sensitive on China. And these economic issues create a lot of anxiety in the country at large, in the Midwest, the currency issue, others. And that's going to be a problem to manage politically.

The security issues that Bob talked about, if the Chinese don't get transparent, if we don't figure out ways to deal with that, the NI satellite test, these sort of feed a sense of, you know, what's going with China, and of course it's the human rights issue that people mentioned. So we're going to need some help from the Chinese to be able to steer this in an effective direction.

On the Russia-China point, I think there can be some tactical cooperation as there was with the Shanghai cooperation organization when both perceived that the United States is getting too pushy, and sort of they need to establish multi-polarity.

But there are a lot of tensions in the Chinese-Russian relationship, and part of this is, you know, the fact that you have some sparse populated areas in Russia. So I don't really think that it's foreordained to be a conflict.

But I think that there are some problems there in that relationship. But again, as some others have said here, or I guess Bob was talking about, the modernist politics depending on how the other players including the United States act, you might push the Russian and Chinese in a certain direction.



But on this point about North Korea, I think I agree in this sense, I'm not sure so much it's pulled to the Chinese point of view. I think part of the U.S. logic in dealing with North Korea the way that it is, is a recognition that this is more than a nuclear issue. That's a Korean peninsula issue, and it's a Northeast Asian security issue.

And there's some prospect of using this in a way that tries to build some of the stability among the relationships of those powers together. It may not work, but I think the fallback logic is that if it doesn't work, having the cooperation among the other five parties is the best posture for dealing with North Korea.

So I frankly could tell you, you know, in terms of recent history, I spent a lot of time talking with the Chinese about this, trying to anticipate, you know, various scenarios on the peninsula, and consider various interests. And so I don't think it's quite fair to characterize it as it was driven by a Chinese logic. You know, whether you consider the U.S. position shifted or adjusted is a different call.

POMFRET: Question? We have time for a couple of more questions, then I will ask the panel to sum up.

REINHARD BUETIKOER, BUENDNIS 90/DIE GRUENEN: Reinhard Bütikofer. My question is to the panel; do you believe China could fail? When I hear the Chinese leadership talking about the harmonious society they are going for, I read that also as an expression of uncertainty, as an expression of knowing about contradictions internally, and instabilities.

So if you take just one dimension the environmental dimension that has already been mentioned, the Academy of Sciences has calculated that environmental destruction that they are producing every year roughly equals their yearly a growth rate. That seems to be a very heavy contradiction. Couldn't China fail? And what impact would that have?

POMFRET: There was a question, I guess not.

ROHMANN: I think China will not fail, but whether they will be successful in the long run, that is still an open issue. When you look at what we call the blue banana, which is the region from Beijing down over Shanghai, Hong Kong, this has not failed already.

This is prosperous. But the internal differences actually increase; they don't really decrease as hard as the Chinese government tries. And whether in thirty, forty years China will remain intact as it is today. I think for me it's an open issue. I'm not too sure about that.

POMFRET: François.



GODEMENT: I think we should recognize first that nobody wants China to fail. Not even the neighbors who feel tragically insecure in some aspects would like the Chinese economy to go down and all that political and social problems to go up.

So that I think for the first time in history since Cold War, China finds itself in what is in fact in many ways a benign environments. The second question we should ask is not what would come from failure, but what is the cost of success?

We've talked a lot about the cost of success to others and the implications and the how to better integrate China to rules. We should look at the cost of success to themselves, the environmental destruction. I don't believe that we will make China change its environmental policies from a global perspective.

It will only change when it drowns in its own pollution and in fact this is what historically what others unfortunately have done too. So we should make available to China the engineering, the understanding, the intellectual thinking to revamp some of its policies, but it will make the decision when the policy ultimately is not accepted by its own people.

We should I think be very alert to the divisions, the social divisions which are emerging into China, but most of them in fact points to danger of social regression or political regression. That is in fact the supreme advantage of the Communist party. That it is a party that defends the open door and worried to fold we might, even worse, much worse advocates within the Chinese system.

So the question of success or failure is not a question. The question is pushing the Chinese to accept the consequences of some what they are doing and to keep changing the rules to adopt to an international environment and to reciprocity.

POMFRET: We're running short, Bob is wondering if you might be able to address the whole issue of disaster?

KAGAN: Since I have no idea of what way he mean when we say that, I don't know, I never know what that, how to respond to it. I mean if the question is we would like the Communist party fail? Well yes, I think maybe I would like it to fail. I mean it is possible for countries to go through catastrophic revolutions and the world is a better place for it.

I mean, if I had been a neighbor of the United States in 1861 would I have rooted for a Civil War to put an end to the slave regime even if it meant 500,000 American deaths and a total catastrophe, yes that was good, that turned out well.

From many people's point of view in Europe during World War I, the Russian Revolution was just very timely I mean from and I would imagine from a German point of view that looked like a pretty good deal for a while anyway.



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So it depends what the effect is. What I don't agree with is this constant refrain that it'll be a catastrophe if the Chinese system fails. I don't doubt that it could be, but there might be some positive outcomes about a failure of the present Chinese system.

POMFRET: Other Bob.

ZOELLICK: I agree, I think the greater challenge; the more probable challenge is how you manage the success under any of these scenarios. As I have said so far, there are huge challenges, but I will say that when you look at how the Chinese have managed them so far, they've done pretty well.

I think the biggest issue Bob's addressing a different way is the political party system. There are so many areas when you come into China, for example with rule of law development, you can see the idea of developing the law schools, developing a legal profession, but developing true courts.

But it always runs up against the party and I think this is going to be a huge issue across the gambit of problems. Maybe I'm a little bit more of an evolutionist than Bob is or prefer American style revolutions to French style.

But I'll give you an example to try to break this, again bring it home to practical challenge of working with China, religious freedom. I've, you know, I think, again, part of the role of the United States and I hope Europe, should be not to run away from these issues just because of commercial or security (INAUDIBLE) engage the Chinese.

And I think they're making a mistake by trying to tamp down what is an understandable desire for spiritual association which you see in any country material wealth is not enough. Now the Chinese, of course, get always anxious because they always have the historical connection with Taiping, or the Boxers and so they see this with Falun Gong but I'd say to them look you're making a mistake by making this an opposition to the state as opposed to accepting it in the system.

So that would be perhaps a little bit more of a revolutionary model. As for failure, again, it depends how you define it. The reactions, internally, if we think about China is failure as a state through the 20th century are ones that were troublesome to me in terms of the tens of millions of people get killed either through the fighting or through the famine or other issues.

And I guess I'll close with this point. I continue to think, you know, we talked yesterday a little bit about improvement in poverty in the world a lot of that is China and to a degree, India. So one should not if you care about those issues one should not sort of, ignore the fact that there's been enormous progress and I think that economic growth again I come back to this doesn't have to be a zero sum calculation.



We can all benefit from this progress, but there is an obligation on the Chinese as well as the U.S. and Europeans to try to make sure the systems work so that one party over doesn't get a sense that it is being poorly treated in which case the modern political order will react in a way that people might always not like.

POMFRET: OK. Well, with that we should end the panel. This is a very familiar discussion. Thank you very much. Thank you for your questions as well. Craig has a couple of announcements before I dismiss you, but thanks a lot, again.

KENNEDY: Thank you.

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